



RED
ELÉCTRICA
CORPORACIÓN

Audit Committee

18 February 2016

Activity Report of the Audit Committee
for the year 2015

Table of contents

1. Introduction	2
<hr/>	
2. Structure, functions and composition	2
<hr/>	
2.1. Legal background	
2.2. Structure and functions.	
2.3. Composition.	
3. Activities developed during the year 2015	9
<hr/>	
3.1. Regarding the economic-financial information.	
3.2. Regarding the internal control and risk management systems.	
3.3. Regarding the internal audit services.	
3.4. Regarding the external auditors.	
3.5. Regarding compliance with the legal provisions and internal rules.	
3.6. Regarding the company's shareholders.	
3.7. Other activities.	
4. Attendance of directors to the meetings	13
<hr/>	
5. Review of the annual accounts for the year 2015	13
<hr/>	



1. Introduction

The Audit Committee's Annual Action Plan for the year 2016 provides that a Report shall be prepared describing the Committee's Activities developed throughout the year 2015, which shall be incorporated into the company's Annual Corporate Governance Report, and which is the object of this document.

2. Legal background, structure, functions and composition

2.1 Legal background:

The company's Board of Directors, at its meeting held on 13 March 2013, resolved to amend the Board Regulations for the purpose of updating their content with the legislative amendments that have affected the regime of public limited companies (*sociedades anónimas*), adapting to notable practices in connection with corporate governance, particularly in the international scope, and introducing improvements in the organisation and operation of the Board of Directors and its Committees.

Accordingly, at the Annual General Meeting of Shareholders held on 18 April 2013, the shareholders approved the amendment of the By-laws to adapt, among other aspects, the regulation of the Audit Committee and the Corporate Responsibility and Governance Committee (now called the Appointments and Remuneration Committee) contained in the company's By-laws, to the main international recommendations and practices in matters of good corporate governance. To such effect, the requirement provided for in the By-laws must be highlighted, which establishes that the majority of the members of both Committees shall be independent directors.

Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital* (LSC)) to improve corporate governance, has introduced in its article 529 quaterdecies certain rules regarding the composition and functions of the Audit Committee. Both regarding its composition and its functions, the Audit Committee complies substantially with the requirements of the LSC amendment, although specific amendments of the By-laws (article 23) to fully adapt the same to the LSC, have been approved at the Annual General Meeting of Shareholders held on 15 April 2015. The express incorporation, among the functions of the Audit Committee, of the supervision of the "tax risk" management system, may be highlighted.

In the same way as the By-laws, the Board of Directors Regulations are currently being reviewed, mainly to adapt the same to Act 31/2014, of 3 December and, to the extent that the



Board of Directors considers it appropriate, to the new recommendations in matters of governance set out in the new Code for Good Governance of Listed Companies.

2.2 Structure and functions:

Articles 23 of the By-laws and, 13 and 14 of the Board of Directors Regulations, regulate the structure, composition and functions of the Audit Committee.

The Audit Committee has been assigned, among other functions, to support the Board of Directors in supervising the process for the elaboration of the company's economic-financial information, internal control, risk control management, external auditor's independence, compliance with legal provisions and internal rules, and relationship with the company's shareholders.

The Committee meets on a regular basis for the successful development of its functions. In any case, it must meet at least quarterly, when called by the chairman or requested by two of its members and, likewise, every time the Board of Directors or its chairman requests the issue of a report or the adoption of proposals.

Article 13.4 of the Board of Directors Regulations establishes that the notice of the meetings, with all documentation associated to the same, may be made by electronic means that guarantee the due security and confidentiality of the notice and relevant documentation.

Such notice, which shall include the agenda, shall be sent by the chairman or secretary of the Committee to each one of its members at least three days prior to the date scheduled for the meeting, unless shorter notice is required due to urgency reasons.

Article 13.4 of the Board Regulations provide the possibility that, due to reasons of urgency and in an exceptional manner, the Committee meetings may be held via conference call, videoconference or any other remote communication means permitting to hold the same, provided that all the members of the Committee give their consent.

The Committee will be set up with the attendance of the majority of its members and adopt decisions or recommendations by an absolute majority of the votes, which must be included in the minutes at the end of the meeting. To better comply with its functions, the Commission may propose to the Board of Directors to obtain advice from independent professionals, and may access any type of information or documentation of the company it needs to perform its functions.



2.3 Composition:

The Board of Directors Regulations provide in article 13.1 that the Audit Committee shall be formed by the number of directors fixed by the Board of Directors, between a minimum of three and a maximum of five, among external directors, the majority of its members being independent directors. In article 23.1 of the By-laws, already adapted to the reform of the Spanish Corporate Enterprises Act, it has been provided that the members of the Committee shall be designated among the non-executive directors, that being one of the formal adjustments that will be incorporated into the Board of Directors Regulations after the review that is being carried out at the moment.

The chairperson of the Committee shall be an independent director elected from among its members, and the secretary shall be the one of the Board of Directors.

The appointment and removal of the members of the Committee shall be carried out by the Board of Directors at the proposal of the chairman of the Board. The members of the Committee shall hold their position for a three-year period, and may be re-elected, and shall be removed when removed as directors or when so resolved by the Board of Directors, after obtaining a report from the Appointments and Remuneration Committee. The chairperson will be replaced every three years and may be re-elected after the lapse of one year since his/her removal.

Regarding the composition of the Audit Committee during the year 2015, the following actions have occurred:

- As a result of the expiration of the term of Ms Paloma Sendín de Cáceres' position (independent director) as member of the Audit Committee, the company's Board of Directors, at the meeting held on 26 May 2015 resolved to re-elect her as member of the Audit Committee for a three-year term, after obtaining the report from the Appointments and Remuneration Committee.
- As a result of the expiration of the term of Ms M^a Ángeles Amador Millán's position (independent director) as member of the Audit Committee, the Board of Directors of the company, at the meeting held on 26 May 2015, resolved to appoint Mr José Luis Feito Higuera as a member of the Audit Committee for a three-year term, after obtaining the report from the Appointments and Remuneration Committee.

The Committee agreed to appoint Mr Feito Higuera as chairman of the Audit Committee, in its meeting held on 24 June 2015 for a three-year period.



- Upon expiration of the term of Mr Fernando Fernández Méndez de Andés' position (proprietary director) as member of the Audit Committee, the company's Board of Directors, at the meeting held on 26 May 2015, resolved to re-elect him as member of the Audit Committee for a three-year term, upon obtaining the report from the Appointments and Remuneration Committee.
- The company's Board of Directors, at the meeting held on 24 November 2015, at the proposal of the chairman of the Board of Directors and upon obtaining a report from the Appointments and Remuneration Committee, resolved to increase the number of members of the Appointments and Remuneration Committee, from four (4) to five (5) members and appointed Mr Santiago Lanzuela Marina as new member of the Audit Committee.

The composition of the Committee, as of 31 December 2015, was the following:

Director	Position	Type of Director
Mr José Luis Feito Higuera	Chairman	External independent
Ms Paloma Sendín de Cáceres	Member	External independent
Mr Fernando Fernández Méndez de Andés	Member	External proprietary (SEPI)
Mr Antonio Gómez Ciria	Member	External independent
Mr Santiago Lanzuela Marina	Member	External proprietary (SEPI)

The Directors on the Committee are highly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside Red Eléctrica, in functions related to those entrusted to the Committee.

In this regard, Article 13.1 of the Board of Directors Regulations provides that the Committee shall be formed by a majority of Independent Directors, all of whom shall be appointed on the basis of their knowledge and expertise in accounting and/or auditing.



Below is a brief summary of the professional career of its members, as of 31 December 2015, who have knowledge and expertise in accounting and auditing matters:

- Mr José Luis Feito Higuera: BSc in Business and Economic Science from the Universidad Complutense de Madrid. Commercial Expert and State Economist. Spanish Ambassador.

He has held, among others, the following positions, Chairman of the ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (Spanish Association of Spanish Companies holding Highway, Tunnel, Bridge and Toll Road concessions); Spanish Ambassador before the OECD-Organisation for Economic Cooperation and Development - in Paris; Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley); Head of International Financial Entities of the Bank of Spain, member of the European Monetary Committee (Brussels) and the Council of Governors of Central Banks of the European Union in Basel; Technical Advisor and Executive Director of the International Monetary Fund in Washington; Head of Department of Studies of the Foreign Sector and Data Processes, of the Spanish Ministry of Economy and Finance. At present, he is the Chairman of the IEE (Instituto de Estudios Económicos) since 2009; Chairman of the Economic and Financial Policy Committee of the CEOE and member of its Executive Committee and Governing Council since 2001; member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012, and member of the Editorial Board of the newspaper Expansión, since 2001.

- Ms Paloma Sendín de Cáceres: BSc in Business and Economics from the Universidad Autónoma de Madrid. Commercial Expert and State Economist. Commercial Diploma by the State.

She has held, among others, the following offices: Chief Trade Counsellor of the Economic and Commercial Office of the Spanish Embassy in Dublin; Director General for Administration and International Relations of the Organization of Ibero-American States for Education, Science and Culture (OIAS); Member of the Spanish Nuclear Safety Board (CSN); Director General for Mines; Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, of the Spanish Ministry of Industry and Energy; Director General of Promotion of the Spanish Foreign Trade Institute (ICEX) and Member of the Board of Directors in several entities. At present, she is a member of the Advisory Committee of the Escuela Técnica Superior de Ingenieros de Minas y Energía (Higher Technical School of Mining and Energy Engineering) in Madrid and a member of the Advisory Committee of the Fundación para Estudios sobre la Energía (Foundation for Energy Studies).



-Mr Fernando Fernández Méndez de Andés, PhD in Economic Science. Professor of Economics at the IE Business School.

Among other offices, he has been a member of the Expert Committee for the Tax Reform, 2013-2014; a member of the Bruegel Evaluation Committee, 2013; Senior Economist, International Monetary Fund: Chief Economist and Head of Research, Banco Central Hispano (BCH) and Banco Santander; Rector, European University, Madrid and Universidad Antonio de Nebrija; At present, he is an international consultant on macroeconomic, regulatory and financial topics; Chairman of Pividal Consultores; External Advisor to the Strategy Committee of Arcano Financial Group; Collaborator of Fundación de Estudios Financieros (Financial Research Foundation); regular lecturer at international conferences and symposia related to his professional and academic activity, and author of numerous articles and publications about the same, and independent director of Bankia, S.A.

-Mr Antonio Gómez Ciria: BSc in Economics and Business Studies. BSc in Mathematics from the Universidad Complutense in Madrid. Executive MBA from the IESE.

He has held, among other offices, the following: General Manager of Administration and Information Technology and member of the Management Committee of the FCC Group; General Manager for Internal Auditing and member of the Management Committee of the FCC Group; member of the Advisory Board of the Institute of Internal Auditors and member of the Management Committee; General Technical Secretary of InverCaixa, investment management company belonging to the La Caixa Group; Chairman of the Instituto de Contabilidad y Auditoría de Cuentas, ICAC; Director of Empresa Nacional de Uranio, S.A.; Director of Empresa Nacional de Autopistas, S.A.; Director of Tabacalera, S.A.; Market Inspection Manager for the Governing company of the Madrid Stock Exchange; Deputy Manager for Research and Budget Planning of Radio Televisión Española; Manager of the Controlling and Accounting Department of Banco de Crédito Agrícola; Comptroller and Auditor for the Comptroller General's Office. At present, he is a member of the Advisory Board of Experts in Accounting and Financial Information (*Consejo Consultivo de Expertos en Contabilidad e Información Financiera*) (ECIF) of the General Board of Professional Association of Economists.

-Mr Santiago Lanzuela Marina: BSc in Economics and Trade. State Civil Servant.

He has held, among other offices, the following: Head of the Spanish Technical Cooperation Mission in Nicaragua; Director of International Technical Cooperation Programs of the Ministry of Labour; Advisor to the President of the Ibero-American Cooperation Institute; Head of the National Heritage Inspection Service; Founder and President of the Public Works Institute of



Aragón; Chairman of the European Business and Innovation Centre of Aragón; Member of Parliament of Aragón; Minister for Economy and Inland Revenue of the Government of Aragón President of the Autonomous Community of Aragón. Member of the Senate for the Autonomous Community of Aragón; Chairman of the Economy and Inland Revenue Commission in the Senate; Member of Congress and Chairman of the Economy and Inland Revenue Commission; Member of the Permanent Council of Congress; Vice-chairman of the Foreign Affairs Committee of Congress, Member of the Public Works Committee and Member of the Committee for Territorial Administration; Promoter of the "Subcommittee for the analysis of Spanish energy strategy for the next 25 years"; Chairman of the Economy and Competitiveness Committee in Congress and Member of the Spanish delegation to the Parliamentary Assembly of the Organisation for Security and Cooperation in Europe -OSCE.

The secretary of the Committee is Mr Rafael García de Diego Barber, Secretary General and of the Board of Directors of the Company.

The Committee's meetings have been regularly attended by Mr Luis Villafruela Arranz, Corporate Director of Regulation and Global Risk Control during 2015, and Mr Juan Lasala Bernad and Ms Teresa Quirós Álvarez, as corporate directors of economics-finance, in the periods during which they have respectively held such offices during 2015, to inform about different matters related to the areas within their scope of responsibility. Other persons of the above and other Departments have joined, when called, to inform about the matters within their scope of responsibility.

In the year 2015, regarding the review of the Annual Accounts of the Company and its Group for the year 2014, the external auditor for the company and its Group explained to the Committee the audit processes carried out in the Group. The Committee resolved to give a favourable opinion with regard to the Annual Accounts for the year 2014. Likewise, the Committee has met several times with the external auditor to analyse matters within its scope of responsibilities.

3. Activities developed during the year 2015

On 17 December 2014, the Audit Committee approved its Annual Action Plan for the year 2015, regarding the responsibilities attributed to the same in the By-laws and in the Board of Directors Regulations.

The Audit Committee has informed the Board of Directors about its activities in the meetings of the latter immediately following each meeting of the Committee, and has made available to all



the directors, through the directors portal, the documentation for the meetings and copy of the minutes of the same.

The Audit Committee has met eleven (11) times during the year 2015, informing the Board of Directors the same number of times about the activities carried out by the Committee.

The main tasks that the Committee has developed during the year 2015 have been the following:

3.1 Regarding economic-financial information:

- Review of the Annual Accounts for the year 2014 of the company and its Consolidated Group, and Report by the external auditor.
- Analysis of the closing forecast for the year 2014 of the Red Eléctrica Group, as well as the criteria adopted to carry out the same.
- Analysis of proposed distribution of profits and dividends of Red Eléctrica Corporación, S.A. for the year 2014 and issuing of favourable report.
- Review of financial information for the market supervisory bodies.
- Supervision of the subsections of the company's Annual Corporate Governance Report for the year 2014, within the scope of the Committee's responsibilities.
- Follow-up of the monthly reports on treasury stock.
- Follow-up of the quarterly reports on transactions with related parties.
- Analysis of the Report on transactions made between companies belonging to the Red Eléctrica Group as of 31 December 2015.
- Approval of the Annual European Commercial Paper (ECP) Programme.
- Analysis of the proposal to renew the Annual plan for EMTNs and submission of favourable report to the Board.
- Analysis of the external auditor's report on the consolidated financial statements for the first half of 2015.
- Analysis of the Reports on the issues of notes made during the year 2015.



-
- Analysis of the proposed distribution of interim dividends for the year 2015 and submission of the favourable report to the Board.
 - Analysis of certain proposals for authorisation to cover the funding needs and issuing of favourable reports.
 - Analysis of 2016 Budget and issuing of favourable report.

3.2 Regarding the internal control and risk management systems:

- Analysis of a report made by the external auditor, KPMG, regarding the quality of the Group's internal control systems with regard to the annual accounts for the year 2014.
- Analysis of the report on the System for Internal Control of Financial Information (SCIIF) for the year 2014.
- Analysis of the report on Internal Control within the international framework, issued by COSO, and its implementation in Red Eléctrica.
- Analysis of the Report on the Company's Map of Risks, as of 31 December 2014.
- Analysis of the quarterly and half-yearly status reports regarding high-level risks.
- Analysis of the report on the integration of Tax Risks into the Comprehensive Risk Management Policy of the Red Eléctrica Group, and submission of a favourable report to the Board.
- Review of the Annual Report for the year 2014 of the Control and Supervisory Body of the Criminal Risk Prevention Programme.
- Analysis of the proposed Guide for the prevention of corruption.

3.3 Regarding the internal audit services:

- Analysis of the Report on internal audits carried out in the year 2015 and the results of each of such audits.
- Analysis of the report on means and resources allocated to the Internal Audit department.
- Analysis of the report on the status and main developments in the internal rules.



-
- Analysis of the quarterly reports on compliance with the recommendations contained in the reports from the Internal Audit department.
 - Approval of the budgets, means and resources of the Internal Audit department.
 - Approval of the Internal Audit Plan for the year 2016.
 - Review of the Annual Activity Plan in the Comprehensive Risk Management System for the year 2016.
 - Supervision of the procedure to appoint the person in charge of internal audit.

3.4 Regarding the external auditors:

- Analysis of the reports by the external auditor regarding the annual accounts for the year 2014 and the External audit preliminary report for the year 2015.
- Analysis of the reports on the independence of the external auditor issued by KPMG Auditores, S.L., pursuant to Act 12/2010, of 30 June.
- Analysis of the report on the External Audit Plan for the year 2015 prepared by KPMG.
- Approval of the criteria on the engagement of the external auditor, for services other than auditing.

3.5 Regarding compliance with the legal provisions and internal rules:

- Analysis of the half-year reports and the annual report on the follow-up of internal rules, as of 31 December 2014.
- Analysis of the status and follow-up of the company's rules and procedures.
- Analysis of the report on the evolution of the management of internal rules.
- Analysis of the report on the annual evaluation of compliance with the Internal Conduct Regulations of the Securities Market.
- Review of the Annual Report on Occupational Health and Safety for the year 2014.
- Analysis of the Annual Management Report covering the Ethics Code.



-
- Analysis of the tax implications resulting from the amendment of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*).
 - Analysis of the recommendations of the Code for Good Governance of Listed Companies affecting the Audit Committee.

3.6 Regarding the company's shareholders:

- Analysis of the Board's proposed resolutions for the Annual General Meeting of Shareholders on matters within their scope of responsibility.
- Follow-up of potential initiatives, suggestions and complaints raised by the shareholders throughout the year.
- During the year 2015 no initiatives, complaints or suggestions have been received from the company's shareholders.

3.7 Other activities:

- Approval of the Audit Committee's Activity Report for the year 2014, to be incorporated into the company's Annual Report on Corporate Governance for such year.
- Analysis of the reports on the renewals of the Red Eléctrica Corporate Insurance Programme.
- Approval of the meetings schedule for the year 2016.
- Approval of the Committee's Action Plan for the year 2016.
- Analysis and reports for the Board of Directors regarding relevant investment transactions (setting up a subsidiary for the activity of constructing energy storage facilities, acquisition of 50% of Transmisora Eléctrica del Norte, S.A. (TEN) in Chile, process of investing in transmission facilities, tender proposals for new projects in Latin America, among others).
- Analysis of the Report on the corporate adaptation of the Telecommunications and International Businesses and issue of favourable report.
- Analysis of the report on total tax contribution of the Red Eléctrica Group in the year 2014.
- Analysis of the proposed tax strategy for the Group and issuing of favourable report.



-
- Analysis of the proposal to adhere to the Good Tax Practices Code and issuing of favourable report.

4. Attendance of directors to the meetings

No absence or delegation by the members has occurred throughout the eleven (11) meetings held.

5. Review of the annual accounts for the year 2015

At this meeting, in which the Committee's activity report for the year 2015 has been approved, the Audit Committee has proceeded, in connection with the financial year 2015:

To review the Annual Accounts for the year 2015 of the company and its Consolidated Group and the External Auditor's Report.

To analyse the relevant proposals for the allocation of profits and distribution of dividends in Red Eléctrica Corporación, S.A.

It has assisted, as usual, the external auditor of the company and its Group for the mentioned year, KPMG, to offer the Committee the appropriate clarifications and explanations.

In both cases, the Committee has issued a favourable report on such proposals.

Additionally, the Audit Committee has issued a favourable report to the Board of Directors regarding the proposal to re-elect the external auditor, which shall be submitted to the shareholders at the upcoming Annual General Meeting of Shareholders, for a three-year term.