



RED
ELÉCTRICA
CORPORACIÓN

Audit Committee

20 February 2017

Activity Report of the Audit Committee
for the year 2016

1. Introduction

In the Audit Committee's Annual Action Plan for the year 2017, it is envisaged the elaboration of a Report of the Committee's Activities performed throughout the year 2016, 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 of Directors 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 Companies Act (*Ley de Sociedades de Capital*) to improve corporate governance, resulted in an adaptation of the company's By-laws at the Annual General Meeting of Shareholders held on 15 April 2015. In the same way, the Board of Directors Regulations were also amended on 20 December 2016, to fully adapt the same to the recent reforms of the Corporate Enterprises Act, the Code for Good Governance of Listed Companies, and to introduce improvements in the organisation and operation of the Board's Committees, to adapt them, among other aspects, to the new organisational structure.

After the latest reforms of the Spanish Companies Act, the latest international recommendation and practices have been consolidated with regard to the composition of the Committees, the independence and qualification of their members. The main aspects had already been incorpo-



rated in the amendment of the By-laws (Article 23) and the Board Regulations, which was approved in 2013. However, such corporate rules have been reviewed to achieve the full adaptation of their contents to the new Act.

Act 22/2015, of 20 July, on Account Auditing, has amended Article 529 *quater-decies* of the Spanish Companies Act and, accordingly, Articles 13 and 14 (currently Articles 15 and 16) of the Board of Directors Regulations regarding the composition, operation and functions of the Audit Committee, which have been amended for the purpose of, among others, adapting the same to the new Act.

2.2 Structure and functions:

Article 23 of the By-laws and Articles 15 and 16 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 and risk management systems, supervision of relationships with External Auditors, compliance with legal provisions and internal rules, and relationship with the company's shareholders, with regard to matters within its competence.

The Committee meets on a regular basis for the successful development of its functions. In any case, it must meet at least quarterly, and 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 raising of proposals.

Article 15.4 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 15.6 of the Board Regulations provides 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 of the directors attending the meeting, either in person or by proxy, which must be included in the minutes at the end of the meeting. To better comply with its functions, the Committee may 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 composition of the Audit Committee is regulated in article 23.1 of the By-laws and in article 15 of the new Board of Directors Regulations. The latter article provides that the Audit Committee shall be formed by five members, designated among non-executive directors, the majority of its members being independent directors. The chairman 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 period not exceeding three years, 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 chairman will be replaced every three years and may be re-elected after the lapse of one year since his/her removal.

There have been the following changes in the composition of the Audit Committee during the year 2016:

- Ms Paloma Sendín de Cáceres has ceased being a member of the Audit Committee, upon the expiration of her position as independent director of the Company at the Annual General Meeting of Shareholders held on 15 April 2016.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 26 April 2016, has appointed the independent director Ms M^a José García Beato as member of the Audit Committee of Red Eléctrica Corporación, S.A., for the three-year term provided for in the Board Regulations, to fill the vacancy in the Audit Committee left by Ms Sendín de Cáceres, upon removing Ms García Beato as member of the Appointments and Remuneration Committee.



The composition of the Committee, as of 31 December 2016, was the following:

Director	Position	Type of Director
Mr José Luis Feito Higuera	Chairman	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)
Ms María José García Beato	Member	External independent

The Directors on the Committee are highly qualified to hold their positions, with extensive professional experience, having held positions of the highest responsibility outside Red Eléctrica, in functions related to those entrusted to the Committee. The members' professional profiles are noteworthy for their knowledge and expertise in accounting or audit matters, or both, which have been taken into account for their appointment, as provided for in article 529 *quaterdecies* of the Spanish Companies Act, and in Recommendation 39 of the Code for Good Governance of Listed Companies. As an innovation, article 15.2 of the new Board of Directors Regulations provides that in addition to considering the knowledge and expertise in matters of accounting and auditing, when appointing the members of the Audit Committee and, especially, its chairman, his/her knowledge and expertise in matters of risk management will be taken into account.

The chairman of the Committee is elected by its members among the independent directors that are members of the same, and the secretary is the one of the Board of Directors.

The secretary of the Committee is Mr Rafael García de Diego Barber, Secretary of the company's Board of Directors.

Below is a brief summary of the professional career of its members, as of 31 December 2016, who have knowledge and expertise in accounting, auditing and/or risk management 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 and General Manager 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.

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

Among other positions, 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 of the International Monetary Fund; Chief Economist and Head of Research of Banco Central Hispano (BCH) and Banco Santander; Rector of the European University of Madrid and Universidad Antonio de Nebrija;

At present, he is an international consultant on macroeconomic, regulatory and financial topics; 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 and BSc in Mathematics from the Universidad Complutense in Madrid. Executive MBA from the IESE. Certified Expert Accountant - AECA.



He has held, among other positions, 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 and member of the Board of Directors of Mapfre España and Mapfre Global Risks.

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

He has held, among other positions, 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 Chairman of the Ibero-American Cooperation Institute; Head of the National Heritage Inspection Service; Founder and Chairman 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; Chairman 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; Chairman of the Economy and Inland Revenue Committee; 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.

-Ms María José García Beato is a Law Graduate from the University of Córdoba and State Attorney.



She has held positions in the legal areas of the State Administration. Among other positions, she has been Head of the Legal Department of the Data Protection Agency, Sub-secretary of Justice, State Attorney in the Consultative Services Office of the State Legal Department, Spanish representative in the Consultative Committee of the Council of Europe in matters of data protection, and State Attorney at the Secretary General's Office for Communications of the Ministry of Public Works. Within the scope of the Administration of Justice, she has held the positions of State Attorney in the High Court of Justice of Madrid, General Director of the Cabinet of the Ministry of Justice and State Attorney at the Legal Department of the Spanish National Court of Appeals. She has been a director of the State-owned Company for the Real Estate Management of Heritage and Infoinvest, director of the Spanish Post Office and Telegraph Service State-owned company and of the State-owned company for International Exhibitions.

In the banking and financial industry, she has been General Counsel for Banco Sabadell, S.A., secretary of the Board of Directors of Banco Urquijo, S.A., and board member of Banco Guipuzcoano, S.A., Banco CAM, S.A. and Banco Gallego, S.A.

At present, she holds the positions of vice secretary of the Board of Directors, secretary general and member of the Steering Committee of Banco Sabadell, S.A., secretary of the Board of Sabadell United Bank (Miami), trustee of the Fundació Privada Banc Sabadell, trustee of the Fundación Española de Banca para Estudios Financieros, Member of the Advisory Committee for the publishing company Wolters Kluwer España, S.A. and member of the Advisory Committee of Fundación Cajasur.

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

Throughout the year 2016, the Committee's meetings have been regularly attended by Mr Carlos Méndez-Trelles García, Director of Audit and Risk Control, and by Ms Teresa Quirós Álvarez, Corporate Director of Economics-Finance, to inform about different matters related to the areas within the Committee's scope of responsibility. Other persons of the above and other Departments have joined, when called, to inform about the matters within their scope of responsibilities.

In the year 2016, regarding the review of the Annual Accounts of the Company and its Group for the year 2015, 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 2015. 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 2016

On 21 December 2015, the Audit Committee approved its Annual Action Plan for the year 2016, considering 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 website, the documentation for the meetings and copy of the minutes of the same.

The Audit Committee has met eleven (11) times during the year 2016, 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 2016 have been the following:

3.1 Regarding economic-financial information:

- Review and favourable report of the Annual Accounts for the year 2015 of the company and its Consolidated Group and Report by the external auditor.
- Analysis of the closing forecast for the year 2015 of the Red Eléctrica Group, as well as the approval of the accounting and tax criteria adopted to carry out the same.
- Analysis and favourable report regarding the updating of the 2014-2019 Strategic Plan and analysis of its follow-up report.
- Analysis of proposed distribution of profits and dividends of Red Eléctrica Corporación, S.A. for the year 2015 and issuing of favourable report.
- Analysis of the six monthly and annual financial information for the market supervisory bodies and issuance of favourable report.
- Analysis and favourable report of the monthly Economic-Financial Reports.
- Analysis and favourable report of the proposal for a split of the company's shares to be submitted by the Board of Directors to the shareholders at the General Meeting of Shareholders.
- Supervision of the subsections of the company's Annual Corporate Governance Report for the year 2015, 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 and favourable report submitted to the Board of Directors regarding the proposal for the authorisation of recurring transactions.



- Analysis and favourable report regarding the renewal 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 2016.
- Approval of the schedule for the economic closing of the year 2016.
- Analysis of the proposed distribution of interim dividends for the year 2016 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 and favourable report by the Board of Directors of the Budget for the years 2016 and 2017.

3.2 Regarding the internal control and risk management systems:

- Analysis of a follow-up report of the 2015 Action Plan for the Comprehensive Risk Management System.
- Analysis of the report on the System for Internal Control of Financial Information (SCIIF) for the year 2015.
- Analysis of a report made by the external auditor, KPMG, regarding the audit of the Group's System for Internal Control of Financial Information (SCIIF) for the year 2015.
- Analysis of the report on Internal Control within the international framework of internal control COSO, and its implementation in Red Eléctrica.
- Analysis of the Report on the Company's Map of Risks, as of 31 December 2015.
- Analysis of the report regarding risk indicators and its update.
- Analysis and favourable report submitted to the Board of Directors concerning the proposed Acceptable Level of Risk.
- Analysis and approval of the proposal to update the individual risk assessment parameters in the Comprehensive Risk Management System.
- Analysis and favourable report submitted to the Board of Directors of the Annual Report on Criminal Risk Prevention for the year 2015.
- Analysis of the Report on the status of the Criminal Risk Prevention Programme for the first semester of the year 2016.
- Analysis of the report on the review of the high-level risk situation of the Comprehensive Risk Management System.
- Analysis of the evolution of Key Risk Indicators (KRIs)



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- Analysis and favourable report submitted to the Board of Directors regarding the proposal to update the Comprehensive Risk Management Policy.
 - Approval of the Annual Activity Plan for the Comprehensive Risk Management System for the year 2017.

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 compliance with the 2015 Audits Plan.
- Analysis of quarterly reports of internal audits performed.
- Analysis of the Internal Audit Report on the Financial Information Internal Control System (SCIIF).
- Analysis of the quarterly reports on compliance with the Internal Audit recommendations.
- Approval of the budget, means and resources of the Internal Audit department for the year 2017.
- Approval of the Annual Internal Audit Plan for the year 2017.

3.4 Regarding the external auditors:

- Analysis of the reports by the external auditor regarding the annual accounts for the year 2015 and the External audit preliminary report for the year 2016.
- Analysis of the report on the independence of the external auditor issued by KPMG Auditores, S.L., and issuing of a report regarding such independence, pursuant to that provided for in Recommendation no. 6 of the Code of Good Governance of Listed Companies.
- Analysis of status report on the external auditor and favourable report of the proposal to re-elect the External Auditor for the company and its Consolidated Group.
- Review of the policy for the engagement of the external auditor for services other than auditing, and analysis of additional services engaged in the year 2015 and forecast for 2016.

3.5 Regarding compliance with the legal provisions and internal rules:

- Analysis of the status of internal rules.
- Analysis of the report on the Internal rules corporate management system.



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- Analysis of the report on the annual evaluation of compliance with the Internal Conduct Regulations of the Securities Market.
 - Review of the monthly reports and the Annual Report on Occupational Health and Safety for the year 2015.
 - Analysis of the Annual Management Report covering the Ethics Code.
 - Analysis of the proposal to update the Board of Directors Regulations within the scope of the Audit Committee's responsibilities.

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 2015, 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 2017.
- Approval of the Committee's Action Plan for the year 2017.

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 2016



At this meeting, in which the Committee's activity report for the year 2016 has been approved, the Audit Committee has proceeded, in connection with the financial year 2016:

- To review the Annual Accounts for the year 2016 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.

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

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