

RED ELÉCTRICA
CORPORACIÓN

Annual Corporate Governance Report 2016

<u>Title I. Legal framework applicable to Red Eléctrica</u>	3
Chapter I. External Framework	3
Chapter II. Internal Framework	5
- Bylaws	
- Shareholders' General Meeting Regulations	
- Board of Directors Regulations	
- Succession Plan for the Company's Board Chairman	
- Internal Code of Conduct in the Securities Markets	
- Code of Ethics	
- Corporate Governance Policy	
- Procedure for proxies, voting and distance information at Shareholders' General Meetings	
- Operating rules of the Shareholders' E-Forum	
<u>Title II. Main aspects of corporate governance at Red Eléctrica and related principles and practices</u>	13
Chapter I. Principles and practices of Red Eléctrica in matters of corporate governance	13
- Principles of corporate governance: Corporate Governance Policy	
- Main practices of Red Eléctrica in matters of corporate governance	
- Relations with shareholders and institutional investors	
- Separation of the positions of Chairman of the Board of Directors and Managing director of the Company.	
- The Board of Directors	
- The Managing director	
- The Lead Independent director	
- Board committees	
- Directors' remuneration policy (non-executive and executive directors)	
- Independence in relations with the external auditor	
Chapter II. Shareholder structure	29
- The corporate website	
Chapter III. The Shareholders' Annual General Meeting	32
- Right of information	
- Right of attendance	
- Right of participation and new technologies	
Chapter IV. The Board of Directors	38
- Organisation and responsibilities	
- Responsibility in tax matters	
- Composition	
- Directors' professional profiles	
- Attendance at Board of Directors and committee meetings	
- Chairman of the Board	
- Directors' responsibilities and duties	
- Removals	
- Directors' Portal	
- Board assessment	
- Board remuneration policy	
Chapter V. Board committees	64

- The Audit Committee	
- The Appointments and Remuneration Committee	
Chapter VI. The Lead Independent director	69
- Introduction	
- Functions	
Chapter VII. The Managing director	70
Chapter VIII. Senior management.....	71
Chapter IX. Risk policy and internal control systems	72
- Scope of the Company's risk management system	
- Company bodies responsible for establishing and operating the risk management system	
- Main risks that may affect the achievement of business objectives	
- Risk tolerance level	
- Risks that materialized in 2015	
- Risk response and supervision plans for the Company's main risks.	
Chapter X. Related-party transactions	81
<u>Title III. The year 2016 in Red Eléctrica</u>	83
Chapter I. Main corporate resolutions.....	83
Chapter II. Main external recognitions	85
Chapter III. Relevant Events disclosed to the markets	86
Chapter IV. Annual activity reports of the committees	89
- Appointments and Remuneration Committee Activity Report for 2016	
- Audit Committee Activity Report for 2016	
<u>Title IV. Future plans of Red Eléctrica in matters of corporate governance.....</u>	110
OFFICIAL ANNEX: STANDARD FORM OF ANNEX I TO SPANISH SECURITIES MARKET COMMISSION (CNMV) CIRCULAR 7/2015 OF 22 DECEMBER	112

ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A.

2016 FINANCIAL YEAR¹

TITLE I – LEGAL FRAMEWORK APPLICABLE TO RED ELÉCTRICA

CHAPTER I.- EXTERNAL FRAMEWORK

The Board of Directors of Red Eléctrica Corporación, S.A. (hereinafter “Red Eléctrica” or “the Company”), as the Board of a listed company, complies with the requirements of the laws applicable to listed companies. The minimum content of the Annual Corporate Governance Report is established in Article 540 of the Spanish Companies Act (Ley de Sociedades de Capital, hereinafter “LSC”), following the reform introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. Under the amended LSC, the Annual Corporate Governance Report must include information on measures adopted to ensure that the Board of Directors includes a sufficient number of female members to maintain a balance between men and women, as well as any measures agreed upon by the Appointments and Remuneration Committee. In addition, the required information on risk control systems was expanded to include a reference to tax risks. Article 540 LSC provides that the content and structure of the Annual Corporate Governance Report will be determined by the Ministry of Economy and Competitiveness or, if expressly authorized, by the National Securities Market Commission (Comisión Nacional del Mercado de Valores, hereinafter “CNMV”).

Accordingly, on 30 December 2015 the Spanish Official Gazette (BOE) published CNMV Circular 7/2015 of 22 December, amending Circular 5/2013 of 12 June establishing the standard forms for the Annual Corporate Governance Report of public companies, savings banks and other entities that issue securities which are traded on official securities markets, and CNMV Circular 4/2013 of 12 June establishing the standard forms for the annual report on the remuneration of the directors of public companies and the members of the Boards of Directors and Control Committees of savings banks that issue securities which are traded on official securities markets.

CNMV Circular 7/2015 answered the need to amend the standard form for the Annual Corporate Governance Report as a result of the approval of Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and the Code of Good Governance of Listed Companies (Código de Buen Gobierno de las Sociedades Cotizadas, hereinafter “CBGSC”), approved by resolution of the Board of the CNMV on 18 February 2015.

The main changes made by CNMV Circular 7/2015 to the standard form for the Annual Corporate Governance Report of public companies were as follows:

- Some sections that referred to old recommendations of the CNMV’s Unified Code on Good Governance (Código Unificado de Buen Gobierno) which have become binding rules following the entry into force of Act 31/2014 of 3 December were eliminated.
- Some sections were amended to include the new requirements of Act 31/2014 of 3 December, notably the inclusion of information on the various committees each entity has created (Section C.2), the inclusion of certain information on the Board

¹ Unless another date is expressly indicated in this report, the reference date is 31 December 2016.

of Directors assessment process (Section C.1.20 *bis*) and the inclusion of tax risks (Section E).

- The new recommendations of the CBGSC were included in section G (“Degree of compliance with corporate governance recommendations”).

The changes made by CNMV Circular 7/2015 of 22 December are included in the Official Annex to this Annual Corporate Governance Report, which has been completed in accordance with the abovementioned standard form.

At the same time, the legal framework affecting various aspects of the corporate governance of Spanish public companies underwent relevant changes in 2015, particularly as a result of the entry into force of said Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. In 2015 and 2016 the Company’s basic corporate rules were reviewed so as to adapt them to the new legislation.

The review of the recommendations included in the Unified Code on Good Governance carried out by the Committee of Experts, under the guidance of the CNMV, led to the approval of the CBGSC, which was approved by resolution of the Board of the CNMV on 18 February 2015.

The activity of the Committee of Experts in corporate governance matters consisted of identifying, on the one hand, the legal obligations stated in the recent LSC, as amended by Act 31/2014 of 3 December and, on the other, the voluntary recommendations contained in the CBGSC, which are subject to the “comply or explain” principle.

The CBGSC is made up of 64 recommendations, divided into three large blocks, relating to general aspects (Recommendations 1 to 5), the Shareholders' General Meeting (Recommendations 6 to 11) and the Board of Directors (Recommendations 12 to 64).

In Section G of the Official Annex to this Annual Corporate Governance Report, the Company must report on its compliance with the recommendations of the new CBGSC.

Act 22/2015 of 20 July (the Audit Act) amends Article 529 *quaterdecies* LSC, relating to the Audit Committee, as follows:

(i) The members of the Audit Committee are required to have pertinent technical knowledge of the sector to which the audited entity belongs.

(ii) The committee’s minimum functions include the following:

(a) Report, in particular, on the result of the audit, explaining how the audit has contributed to the integrity of the financial information and the role the committee has played in the audit process.

(b) Present timely recommendations and proposals to the governing body on: (i) the Company’s internal control, internal audit and risk management systems and (ii) how to safeguard the integrity of the statutory financial reporting process.

(c) Be responsible for the external auditor selection process, in accordance with Article 16.2, 16.3 and 16.5 and Article 17.5 of Regulation (EU) No 537/2014 of 16 April.

(d) Obtain the necessary information from the external auditor, when required, for authorization of the provision of services other than those prohibited under Articles 5.4 and 6.2.b) of Regulation (EU) No 537/2014 of 16 April and section 3 of Chapter IV of Title I of Act 22/2015.

Most of the amendments introduced by Act 22/2015 of 20 July came into effect on 17 June 2016 and affected Articles 15 and 16 of the current Board of Directors Regulations, which have been amended, among other things, to bring them into line with the abovementioned act.

CHAPTER II.- INTERNAL FRAMEWORK

The internal corporate rules governing Red Eléctrica are continuously amended in order to continue to adopt corporate governance best practices and ensure greater information transparency for the Company's shareholders. At present, the Company is governed, in corporate governance matters, by the corporate rules and procedures listed below, which, on a voluntary basis, go beyond the requirements of applicable law.

At 31 December 2016, these internal corporate regulations consisted of:

- The Bylaws
- The Shareholders' General Meeting Regulations
- The Board of Directors Regulations
- The Succession Plan for the Company's Board Chairman
- The Internal Code of Conduct in the Securities Market
- The Code of Ethics
- The Corporate Governance Policy
- The Criteria for communication with shareholders, institutional investors and proxy advisors
- The Procedure for proxies, voting and distance information at the Shareholders' General Meeting (relating to the 2016 Shareholders' Annual General Meeting)
- The Operating Rules of the Shareholder E-Forum (relating to the 2016 Annual General Meeting)

➤ **Bylaws**

The Company's Bylaws are constantly being adapted, so as to align them not only with legislation but also with best practices and principles in the corporate governance area, and have been repeatedly amended by the Company's Shareholders' Annual General Meeting.

The most recent amendments to the Bylaws, approved in financial years 2015 and 2016, were as follows:

- The Shareholders' Annual General Meeting held on 15 April 2015 approved an amendment to the Bylaws to adapt them to the legislative reforms introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. Specifically, the following articles were amended: 11 "Shareholders' General Meeting", 12 "Types of Shareholders' General Meeting", 13 "Notice of Shareholders' General Meeting", 15 "Right of information and attendance at Shareholders' General Meetings", 17 "Constitution of the presiding committee, manner of deliberation", 20 "The Board of Directors", 21 "Functioning of the Board of Directors", 22 "Board committees and delegation of authority", 23 "The Audit Committee", 24 "The Corporate Responsibility and Governance Committee", 25 "The Company's Board Chairman", 25 *bis* "The Lead Independent director" and 26 "The Secretary of the Board".
- The Shareholders' Annual General Meeting of the Company held on 15 April 2016 resolved on a share split that increased the number of the Company's

shares, reducing their par value from two euros to fifty euro cents per share, and consequently resolved to amend section 1 of Article 5 of the Bylaws.

➤ **The Shareholders' General Meeting Regulations**

The Shareholders' General Meeting Regulations were initially approved by the Shareholders' Meeting of 17 July 2003 and have been amended on numerous occasions.

These regulations are the rules that protect shareholders of Red Eléctrica, in keeping in line with best practices in the corporate governance area, and include all the new means of shareholder protection and participation, with a view to recognizing, promoting and strengthening shareholder rights at the Company to the greatest extent possible.

The latest amendments to these Regulations, aimed at adapting them to the legislative reforms introduced by Act 31/2014 of 3 December and other amendments of style or order designed to give greater clarity to the text of the Shareholders' General Meeting Regulations, were approved by the Shareholders' Annual General Meeting held on 15 April 2015. Specifically, the following articles were amended: 3 ("Competencies of the Shareholders' General Meeting"), 5 ("Notice of Shareholders' General Meeting"), 6 ("Shareholder's rights"), 7 ("Shareholder's right to participate"), 8 ("Shareholder's right of information"), 10 ("Proxies") and 15 ("Constitution, deliberation and adoption of resolutions").

➤ **The Board of Directors Regulations**

As indicated in Article 22 of the Bylaws, the main purpose of the Board of Directors Regulations is to establish the basic rules for the organisation and functioning of the Board of Directors and its committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its committees, with a view to ensuring the highest standards of professionalism and efficacy in their actions. This is achieved by encouraging the active participation of directors and placing the interests of the Company and its shareholders above the directors' own personal interests, while upholding the law, the Bylaws and corporate governance principles.

The latest amendments to the Board Regulations were approved at the Board of Directors meeting held on 20 March 2016. The purpose of these amendments was to update the content of the regulations in the light of certain legislative reforms that have recently affected the rules governing public companies, in line with the reforms of the Bylaws and the Shareholders' General Meeting Regulations approved by the Shareholders' Annual General Meeting of 15 April 2015; make certain adaptations to best practices, especially international best practices, in corporate governance; make improvements to the organisation and functioning of the Board of Directors and its committees; and adapt the regulations to the current organisation of the Red Eléctrica Group. Specifically, the main objective of the reform was to adapt the regulations to the provisions of Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and the new CBGSC, which was approved by the CNMV on 24 February 2015. The initiative for the reform came from the Appointments and Remuneration Committee, which is one of the bodies with the power to initiate reforms under Article 3 of the current regulations. The committee prepared the appropriate proposal, together with the Memorandum setting out the grounds for the proposal provided for in the abovementioned article.

The main purposes of the amendments were to:

- Adapt the functions of the Board of Directors (broadening the reserved functions) and the two Board committees (Audit Committee and Appointments and

Remuneration Committee) to the latest reforms of the LSC and to the CBGSC, while also including organisational and functional improvements.

- Add a specific article (Article 11) to regulate the functions and responsibilities of the Managing director separately from those of the Chairman of the Board of Directors (Article 9), whose roles and responsibilities have also been changed as the Chairman no longer has executive authority, following completion of the separation of the positions of Chairman and Managing director at the Shareholders' Annual General Meeting held on 15 April 2016.
- Adapt the functions of the Lead Independent director (Article 10, formerly Article 9 *bis*) to the LSC and the CBGSC and strengthen those functions by incorporating the function of coordinating the preparation of the Succession Plan for the Managing director and, where applicable, for the Managing director and maintaining contacts with investors and shareholders in order to form an opinion as to their concerns in relation to corporate governance.
- Strengthen the independence of the external auditor by adapting the regulations to the LSC and the CBGSC; give the Audit Committee the task of receiving from the external auditor each year a statement to the effect that they have no criminal convictions (Article 16.3 c); and include the obligation of the external auditor of the Company and, where applicable, the Group to tender their resignation to the Board of Directors and, if the Board so decides, to resign if a court finds them guilty on a criminal charge (Article 42.5).

➤ **Succession Plan for the Company's Board Chairman.**

At the Shareholders' Meeting held on 27 October 2011, following an increasingly widespread international corporate governance practice, the Board of Directors approved a Succession Plan for the Company's Board Chairman, who at that time still had executive functions. The reason for adopting this practice was to minimize the impact that the handover from one Chairman to another could have on the organisation and establish a model profile for candidates, so as to ensure business continuity and minimize the risks or adverse effects when a new Chairman was appointed, until the new one had fully settled into the role. The Plan established a succession procedure, which was split into several phases, with different functions being assigned to the managing bodies involved – all this with a view to creating an environment in which the appointment of a new Chairman could be carried out in an orderly and efficient manner, without adversely affecting the Company's activities.

This plan was applied for the first time in 2012, when Mr. Luis Atienza Serna stepped down as Chairman and Managing director of the Company, in favour of Mr. José Folgado Blanco, who had already been sitting on the Board of Directors as an independent director since 2008. The new Chairman's independent judgement, knowledge of the Company and its industry, prior experience, leadership qualities and capacity for dialogue with the energy regulator greatly facilitated the handover.

Given that the Succession Plan was approved in 2011, that there were major changes in the Company and its organisation in 2015 and 2016, following the separation of the positions of Chairman of the Board and Managing director, and that the Board of Directors Regulations were adapted to the new situation in December 2016, the Succession Plan is also being reviewed, with the support of an international outside consultant. The purpose of this Succession Plan review is, first, to keep the plan fully up to date and aligned with the Company's Corporate Governance Policy, the reforms of the LSC and the new wording of the Board of Directors Regulations and, in particular, to adapt it to the new situation, where the Chairman of the Board of Directors has no executive functions; and, second, to prepare a new specific succession plan for the

Managing director, following the completion of the separation of the two positions approved at the Shareholders' Annual General Meeting held in April 2016.

➤ **The Internal Code of Conduct in the Securities Market.**

The Company approved its first Internal Code of Conduct in the Securities Market on 7 February 1994 and has updated it on various occasions since then. The current code was approved by the Board of Directors on 25 June 2009. At a meeting held on 30 June 2011 the Board of Directors approved an update to the code in order to adapt it to the new corporate structure of the Group and reflect the change of name of what used to be known as the Corporate Responsibility and Governance Committee. At its meeting on 26 July 2012, the Board of Directors approved a further change to the Internal Code of Conduct in the Securities Market in order to expressly set out certain periods prior to the presentation of the Group's results during which certain persons with access to information about those results are prohibited from trading in the Company's securities. Finally, on 24 June 2014, the Board of Directors approved another update to the code to adjust it to best practices in treasury stock matters, with particular emphasis on the CNMV's recommendations issued in July 2013 regarding volume, pricing and trading time.

The Code is currently being reviewed in order to adapt it to the latest changes to laws and regulations and, in particular, to Regulation EU No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, which, among other things, introduces a new definition of "person closely associated" and new obligations for listed companies.

Various amendments are expected to be made to the Spanish legislation affected by the abovementioned EU regulation, which will have to be taken into account in updating the Company's Internal Code of Conduct in the Securities Market.

➤ **The Code of Ethics.**

The purpose of the Company's Code of Ethics is to provide an ethics guide for the people who work in Red Eléctrica Group companies, specifying the values and commitments that must govern their activity in their company.

Many of these values and commitments have accompanied Red Eléctrica since 1987, when it published its first shared value system, under the title "Basic principles of action". In 2007, Red Eléctrica's ethical commitment was reinforced with the approval of the "Code of Ethics and Corporate Values", the implementation of the ethical consultation and reporting channel and the creation of the Ethics Officer role.

The current version of the Red Eléctrica Group's Code of Ethics was approved by the Board of Directors of the Group's parent company on 28 May 2013, responding to the demands of stakeholders and the recommendations of advocacy bodies.

The Code of Ethics is binding on all the people in the Group, who are understood to include employees, the Board of Directors and senior managers, in the exercise of their functions and responsibilities. It is a regulatory instrument for establishing, in general terms, the rules of conduct and guidelines in regard to the values embodied in the Code of Ethics in the different professional spheres in which the employees of the Red Eléctrica Group are active. It is intended to serve as a general guide for making decisions in line with the abovementioned values in certain situations in which the professionals of the Red Eléctrica Group may find themselves.

It applies to Group companies, that is to say, subsidiaries, regardless of their geographical location or the countries in which they happen to be carrying out their

activities, providing professional services or engaging in any other activity related to the Group.

The Annual Code of Ethics Report for 2015, which is published on the corporate website, describes the events that occurred during the year in relation to the corporate ethics management system: the functioning of the ethical consultation and reporting channel; awareness-building actions; recognitions obtained; and measures to be followed through. The report for 2016 is in preparation and will likewise be published on the corporate website, once it has been approved.

- The Ethics Officer

To ensure that the Ethics Code is known and applied and is complied with, Red Eléctrica appointed Rafael García de Diego, General Secretary and secretary to the Board of Directors, as Ethics Officer and stakeholder ombudsman.

The responsibilities of the Ethics Officer are as follows:

- Respond to inquiries and advise all stakeholders on any doubts regarding the values and commitments set forth in the Code of Ethics.
- Investigate complaints by examining and inquiring into the conduct of the employees or organisational units concerned.
- Prepare action plans to resolve complaints and submit them to the Chairman of the Red Eléctrica Group for approval, or to the Chairman of the Audit Committee if the complaint concerns a member of the Management Committee.
- Keep an up-to-date record of activity (inquiries, complaints, actions taken and notifications to interested parties).
- Keep claimants informed of the status and resolution of their inquiry or complaint, when so requested.
- Prepare a final report reviewing the system and proposing improvements to the complaints management system.
- Keep the identity of the claimant confidential at all times, unless legally obliged to disclose it.
- Perform the functions of the position with independence, rigour and equanimity.

- Ethical channel

To encourage application of the Ethics Code, the Red Eléctrica Group has established an inquiries and complaints management procedure. This procedure, which has been computerized and audited, ensures the confidentiality of reporting persons.

An ethical channel is available on the corporate website through which users can submit inquiries, report wrongdoing and make suggestions to the Ethics Officer.

Red Eléctrica also has another channel for receiving reports of non-compliance, complaints, inquiries and ethical suggestions, namely, the "Dígame" telephone hotline, which is available to external stakeholders, who may be unaware of the channel mentioned earlier. This service refers inquiries to the Ethics Officer, preserving confidentiality.

The management of the inquiries and reports received by the Ethics Officer through the ethics channel (system for recording, processing, resolving and communicating information) has recently been improved, with the implementation of a computer application that has been valued positively in internal and external audit reports on corporate social responsibility and good governance.

- The Compliance System

During 2016 a new Compliance System was implemented, in fulfilment of the commitment (stated as a rule of conduct in the Ethics Code) to have an effective legal compliance control system, based on the values of reliability and responsibility.

The new Compliance System is aligned with best practices in this field, so as to ensure that the organisation properly respects the obligations established and undertakings given and so develops a culture in which compliance risks are managed proactively.

The steps taken in this field in 2016 include the preparation of a preliminary compliance map and the preparation of preliminary criteria for reporting and relations between the Compliance Unit and the Company's functional areas and governing bodies.

Also, continuing the ethics management awareness plan that has been in effect since 2013, a plan to build awareness and understanding of the Compliance System was started in the last quarter of 2016 and will continue in 2017.

Awareness and training are key factors in developing a culture of compliance within the organisation. Participation in the awareness-building actions and compliance training is mandatory for all persons concerned in the organisation. The content of these actions must be adapted to the needs and responsibilities of the functional areas and other affected areas of the Red Eléctrica Group.

The Compliance Unit is responsible for creating an enterprise-wide awareness and understanding of the importance and strategic role of the Red Eléctrica Group's Compliance System within the organisation's corporate culture.

- Integrity and transparency

The Code of Ethics and the related inquiries and complaints management system, which also includes the fight against corruption, is an effective mechanism for the detection and treatment of possible cases of corruption and fraud. The governing bodies, senior managers and employees of Red Eléctrica must accept the content of the Ethics Code and suppliers must accept the Code of Conduct for suppliers.

One of the rules to be followed by Red Eléctrica Group employees in the exercise of their functions and responsibilities, in all the professional spheres in which they represent the Company, is that of establishing irreproachable commercial relationships. The commitments assumed in this respect mean that all forms of corruption, bribery or facilitating payments are prohibited, whether active or passive, by act or omission, or through the creation or maintenance of discriminatory or irregular situations.

In order to put Red Eléctrica's commitment to prevent any practice related to corruption, bribery or facilitating payments into effect, on 22 December 2015 the parent company's Board of Directors approved the "Guide for the prevention of corruption: zero tolerance", as a key element of the Red Eléctrica Group's integrity model. This initiative was included in the Company's 2015 Corporate Responsibility Programme. Its goal is to provide guidance on the prevention of corruption for all Red Eléctrica Group professionals, setting out the commitments and action criteria that must govern their professional activity in that respect within the Group. Its purpose is to give the members of the Red Eléctrica Group an analysis of the circumstances and risks they face in relation to corruption and to build awareness of the criteria and instruments the Company has at its disposal for eradicating those risks.

- Ethical management indicators

Red Eléctrica achieved a leading position in the Code of Ethics/ Compliance/ Corruption and bribery section of the 2016 Dow Jones Sustainability Index. For the second year running it was awarded the highest score (100 out of 100 points) in that section, 28 points above the average for the companies in its industry that are included in the index, having also reached the highest percentile (100) in the assessment.

It was included for the first time in the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120, Global 120), which select the companies that show outstanding performance in areas such as environmental protection, ethics and contribution to the economic and social development of the communities in which they operate.

Red Eléctrica also continues to be included in business ethics indices such as the Ethibel Sustainability Index (ESI) Excellence Europe (for the second year running) and Ethibel Excellence (since it was first included in 2009).

Lastly, Red Eléctrica received recognition in 2015 in the EXTEL – IRRI study on socially responsible investment, prepared directly by the analyst community and socially responsible investors from around the world, who placed Red Eléctrica among the nine companies in the world that best address the issues of good governance and sustainability in carrying out their activities.

- Actions in progress

The following ethical management issues are currently in progress or under consideration:

- Adaptation of the Ethics Code to the steps taken to prevent compliance risks.
- New actions to build awareness of the Company's ethical management and integrity model, having regard to the results of the awareness-building plan completed in 2016 and the improvements made to the Company's integrity model.
- Review of the Company's system of ethical management indicators to improve management monitoring by the Company's internal and external stakeholders.
- Possibility of implementing some kind of recognition for behaviours, within the Company, that are particularly relevant and aligned with the Company's ethical values.
- Reinforcement of awareness-building initiatives and measures to adapt the ethical management system in each of the Red Eléctrica Group's subsidiaries.
- Forging of new alliances with the organisation's stakeholders to promote ethical business management.

➤ **The Corporate Governance Policy.**

The Board of Directors, at its meeting held on 25 November 2014, approved the Company's Corporate Governance Policy. The policy establishes that it is based on the corporate values, which govern the Company's relationship with the different stakeholders and help to achieve the Company's strategies and sustainably maximize its value. These values are reflected in the principles governing the Group's Corporate Governance Policy. The policy describes, in summary form, the catalogue of principles evidencing not only the Company's compliance with applicable regulations but also its

alignment with national and international recommendations and trends in corporate governance matters, which the Company has adopted voluntarily since it was listed on the stock market in 1999. These principles have been adopted with a view to making them part of the organisation; continuously updated and enlarged; they constitute the corporate governance culture of Red Eléctrica. The Corporate Governance Policy is intended to align the interests of the Company with those of its shareholders and other stakeholders by protecting and fostering a value that is shared by all, a value that incorporates economic, social, environmental and good governance criteria, thereby contributing not only to the Company's sustainability, solvency and good reputation amongst its shareholders and other stakeholders but also reinforcing trust, stability, progress and the social and economic development of society.

Title II below provides a detailed description of the principles and practices that make up the Company's Corporate Governance Policy. This policy is available on the corporate website (www.ree.es), under Corporate Governance, "Our Commitment".

➤ **The Criteria for communication with shareholders, institutional investors and proxy advisors.**

At its meeting on 25 October 2016, at the proposal of the Appointments and Remuneration Committee, the Board of Directors approved the Criteria for communication with shareholders, institutional investors and proxy advisors.

This document contains the policy on communication with the abovementioned stakeholders and is intended to fulfil the Board of Directors' undertaking to comply with Recommendation no. 4 of the Code of Good Governance of Listed Companies. It sets out the principles and guidelines for communication with the abovementioned stakeholders, so as to enable them to exercise their rights, protect their interests and promote engagement with them through open, transparent and sustainable dialogue. The Board of Directors is responsible for reviewing and approving any amendments to the criteria and also for monitoring compliance.

The Criteria for communication with shareholders, institutional investors and proxy advisors are published on the Company's website (www.ree.es), in the "Our Commitment" subsection of the Corporate Governance section.

➤ **The procedure for remote voting and proxy appointment and the provision of information by electronic means at the General Meeting**

At its meeting on 23 February 2016, the Board of Directors approved the rules on remote voting, proxy appointment and exercise of the right of information by electronic means for the Shareholders' Annual General Meeting held on 15 April 2016.

At that Shareholders' General Meeting a total of 280 shareholders, holding 59,022 shares, exercised their right to vote or appoint a proxy electronically, which means that 6.6% of the 4,226 shareholders present at the meeting in person or by proxy took part by electronic means.

➤ **Operating Rules of the Shareholder E-Forum.**

The Operating Rules of the Shareholder E-Forum were approved by the Board of Directors at its meeting on 23 February 2016 for the Shareholders' Annual General Meeting held on 15 April 2016 on the same terms and conditions as were approved by the Board of Directors in previous years.

The Shareholder E-Forum deployed by Red Eléctrica on its website (www.ree.es) on the occasion of its Shareholders' General Meetings lives up to the requirement established in Article 539.2 of the revised text of the LSC, approved by Royal Legislative Decree

1/2010 of 2 July (which was not amended by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance).

The Shareholder E-Forum is intended to facilitate communication between the Company's shareholders (individual shareholders, be they natural or legal persons, and any voluntary shareholder associations) on the occasion of the Shareholders' General Meetings. Shareholders can communicate with one another by posting on the Forum and giving their contact details, in accordance with the law.

TITLE II- MAIN ASPECTS OF CORPORATE GOVERNANCE AT RED ELÉCTRICA AND RELATED PRINCIPLES AND PRACTICES.

CHAPTER I.- PRINCIPLES AND PRACTICES OF RED ELÉCTRICA IN MATTERS OF CORPORATE GOVERNANCE.

- **Principles of corporate governance: The Corporate Governance Policy.**

At its meeting on 25 November 2014, the Board of Directors approved Red Eléctrica's Corporate Governance Policy, which states the principles that must govern its relations with stakeholders. Those principles are as follows:

- To consolidate, develop and promote symmetrical mechanisms for dialogue and engagement with shareholders, investors and leading stakeholders in order to improve relations, strengthen commitment and reinforce trust.
- To promote the informed participation of company shareholders at Shareholders' General Meetings.
- To adopt the necessary measures to ensure the proper exercise of shareholder rights at Shareholders' General Meetings.
- To exert the necessary control and supervision in the areas that are most critical and relevant to the Company, with certain responsibilities being reserved to the Board of Directors under the Board Regulations.
- To preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and independence of judgement, pursuing the interests of the Company and its shareholders, as well as the Company's sustainability.
- To ensure that appropriate procedures exist to select directors, ensuring a reasonable balance and diversity among Board members when performing their task.
- To strengthen the Company's commitment to diversity of knowledge, experience and gender in Board and committee composition.
- To establish adequate mechanisms to define the duties and responsibilities of directors and to disclose and resolve any potential conflicts of interest between directors and the Company.

- To consolidate a remuneration policy for the Board of Directors, based on moderation, effective dedication and alignment with the long-term strategies and interests of the Company and its shareholders.
- To consolidate the practice of presenting the policy on directors' remuneration, the directors' remuneration for the year and the annual directors' remuneration report to the Shareholders' General Meeting for approval.
- To guarantee quality and efficiency in operation and performance of the Board of Directors, the Chairman of the Board and the Company's Managing director and Board committees, through an annual assessment, ensuring that support and assistance is received from independent external advisors.
- To arrange continuous training for directors in various fields and activities of the Company, through an annual training and information plan.
- To guarantee an orderly succession of the Company's Managing director, so as to ensure continuity and sustainability in the Company.
- To establish the necessary mechanisms and instruments to ensure that the Company identifies, analyses and adopts, as necessary, the best practices, principles and recommendations in corporate governance matters, following the Company's adopted principle of excellence in action.
- To guarantee transparency and utmost quality in information, in such a way that the Company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders.
- To continuously review, update and improve the content and structure of the corporate website, applying international standards.
- To encourage awareness of the principles and values behind the Company's Corporate Governance Policy, both internally within the organisation and externally among all stakeholders.
- **Red Eléctrica's main corporate governance practices.**

One of Red Eléctrica's main challenges is to implement the corporate governance practices demanded by its shareholders, in Spain and worldwide, proxy advisors and other bodies, both international (such as the OECD and the International Corporate Governance Network) and national (CBGSC).

Besides analysing the principles set out above, the Company's Corporate Governance Policy also states the practices the Company follows or has undertaken to adopt in compliance with those principles. Taken together, these principles and practices constitute Red Eléctrica's Corporate Governance Policy.

The best practices followed by the Company in relation to its Corporate Governance Policy principles are summarized below, although some of the commitments contained in this policy, which are part of Red Eléctrica's corporate governance roadmap, are described in more detail in a later section (Title IV).

-In relation to the Company's shareholders:

- Engagement.

Further to the *principle of consolidating, developing and encouraging symmetrical mechanisms for dialogue and engagement with shareholders and investors*, Red Eléctrica tries to fulfil the needs of foreign institutional shareholders, given their large presence in the Company's shareholding, as well as the most important proxy advisors and other stakeholders, in order to improve its relations, increase engagement and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by other shareholders.

It should be briefly noted here (more detailed information is provided later) that in October 2016 the Board of Directors approved a document setting out the Criteria for communication with shareholders and proxy advisors, which are designed to make the communication more effective and more transparent.

- Shareholders' General Meeting.

Further to the *principle of promoting the informed participation of shareholders at their General Meetings*, the Company publishes and makes available to its shareholders, sufficiently in advance, all documentation related to the various points included in Shareholders' General Meeting agendas.

Furthermore, in relation to the *principle of guaranteeing the adequate exercise of shareholder rights at their General Meetings*, the Company implements mechanisms and adopts measures to enable the performance of tasks and competences entrusted at all times, by law and best corporate governance practices, to the Shareholders' General Meeting.

-Regarding the Board of Directors and its committees:

- Basic tasks and operation of the Board.

In order to apply the principle of *exercising the necessary control and supervision in the areas that are most critical and relevant to the Company*, the Board has been entrusted with the following basic tasks, among other direct and reserved responsibilities (some of which are extended in the amendment to the Board of Directors Regulations approved on 20 December 2016):

-To approve the basic action guidelines and general policies and strategies of the Company and its Group, in particular the tax strategy and including, among others, the strategic or business plan of the Company and its Group, the investment and financing policy, the corporate governance policy of the Company and the Group of which it is the controlling company, the corporate responsibility policy, the remuneration policy for senior managers who report directly to the Board, the Chairman or the Managing director, the policy on the performance assessment of the Board and directors, and the policy on communication and contact with shareholders, institutional investors and proxy advisors.

-Likewise, to approve a policy to control and manage the main risks of the Company and its Group and to supervise all internal control, prevention and information systems.

-To effectively supervise the senior management team.

In order to perform its direct responsibilities and other tasks and responsibilities, the Board of Directors ordinarily convenes once a month and no less than eight times a year. Furthermore, at the Chairman's request, it may meet as many times this is deemed appropriate for the Company's adequate operation.

Likewise, it will meet whenever a meeting is requested by the Lead Independent director or three directors.

The Board draws up an annual schedule of ordinary meetings and prepares its agenda in accordance with a structured list of matters to be discussed.

- Balance of powers in the structure and composition of the Board of Directors.

The Board carries out its tasks further to the *principle of action with unity of purpose and impartiality, pursuing the interests of the Company and of its shareholders, as well as the sustainability of the Company*. To do this, it preserves an adequate balance and proportionality in the powers entrusted to Board members.

The main counterbalancing measure in the composition of the Company's Board of Directors is the separation of the positions of Chairman of the Board (non-executive) and Managing director, following the separation of the two positions initiated at the Shareholders' Extraordinary General Meeting held on 17 July 2015 and completed at the Shareholders' Annual General Meeting of 15 April 2016.

In addition, Red Eléctrica imposes a requirement on itself to have a majority of independent directors on the Board. The principle of having an effective majority of independent directors on Board committees, which is derived from the principle of having a majority of independent directors on the Board, applies to all Board committees, irrespective of their legal or regulatory name and type. Furthermore, each committee is chaired by an independent director and all the members are non-executive directors.

The structure of Red Eléctrica's Board of Directors includes a Lead Independent director, approved by the Shareholders' General Meeting and regulated in its corporate rules. The Lead Independent director is entrusted with organizing possible common positions adopted by non-executive directors and acts as a channel for interlocution or as a spokesman of such common positions before the Board Chairman, the Board itself and its committees. One of the functions of the Lead Independent director is that of calling Board of Directors meetings, for properly justified reasons, if the request for a meeting has not been met by the Board Chairman.

Under the Board Regulations, the Board of Directors also has a wide range of reserved responsibilities, which cannot be delegated, and the Company is committed to permanently examining other possible additional measures to ensure a proper balance of powers and responsibilities on the Board. (This applies particularly when the positions of Chairman of the Board and Managing director are held by the same person, although currently they are separated).

- Appointment of directors.

Red Eléctrica applies the *principle of ensuring that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks*. Accordingly, when assessing candidates in the selection process, the competences, experience, professionalism, suitability, independence of judgement, knowledge, qualities, abilities and availability of the members of the Board of Directors are taken into account at all times.

- Directors' responsibilities.

Further to the *principle* obligating the Company to *establish adequate mechanisms to define directors' duties and responsibilities* in general, and the duties of care and loyalty in particular, complete internal regulations have been established in accordance with the provisions of current law at all times.

Following the entry into force of Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, the duties of care and loyalty have been amended, which is why in December 2016 the Board of Directors Regulations were adapted to the new rules on directors' duties.

- Conflicts of interest.

Further to the *principle of establishing adequate mechanisms to disclose and resolve potential conflicts of interest between directors and the Company*, the Company has control mechanisms and measures in place to prevent any potentially affected director from participating in matters in which he or she may directly or indirectly have a personal interest, giving priority to the corporate interest at all times.

- Remuneration policy of the Board of Directors.

The Company applies the *principle of setting a remuneration policy for the Board of Directors based on moderation, effective dedication and alignment with the long-term strategies and interests of the Company and its shareholders* and other stakeholders, so that the remuneration is sufficient to act as an incentive without compromising the directors' independence. To do this, it conducts comparative analyses with other comparable companies and keeps permanent contact with its shareholders and proxy advisors.

Further to the *principle of submitting the annual remuneration, the remuneration report and the remuneration policy for the Board of Directors to the Shareholders' General Meeting for approval*, the Company for several years now has been following the practice of bindingly submitting these matters as separate items on the agenda at Shareholders' Annual General Meetings.

- Diversity on the Board of Directors.

The Company applies the *principle of promoting diversity in knowledge, experience and gender among Board and committee members*, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective.

- Assessment of the Board of Directors.

For many years Red Eléctrica has applied the *principle of conducting an annual assessment of the functioning and performance of the Board of Directors, the Chairman of the Board and the Managing director and the Board committees, ensuring that support is received from independent external advisors* (as has been the case in the last three years). The process is carried out under the supervision of the Appointments and Remuneration Committee, in coordination with the Lead Independent director, and a summary of the conclusions is published voluntarily in this report.

- Directors' training and information plan.

Further to the *principle of arranging continuous training of directors on the Company's various fields and activities*, the Company has undertaken to keep an updated Annual Training and Information Plan for Directors, enabling them to expand their knowledge of the Company's various fields and activities, particularly those that are predominantly technical. For years now, informative meetings are held prior to ordinary Board meetings and arranged visits are made to Red Eléctrica centres and facilities, so that directors have direct knowledge and experience of the Company's activities.

- Succession Plan for the Company's Board Chairman.

Following the *principle of ensuring an orderly succession of the Company's Chief Executive*, so as to preserve long-term business continuity and sustainability, the Company is committed to arranging an orderly succession of its Board Chairman. To do this, the Company has a Succession Plan for the Board Chairman, which is periodically updated. As mentioned in Chapter II of Title I above, a review of the Succession Plan was started in 2016, with the support of an international outside consultant, with a view to keeping the plan up to date and in line with the Company's Corporate Governance Policy, the reforms of the LSC and the abovementioned amendments to the Board of Directors Regulations and, in particular, to adapt it to the new non-executive role of the Chairman of the Board of Directors; and also with a view to preparing a specific new succession plan for the managing director, following completion of the separation of the two positions approved at the Shareholders' Annual General Meeting held in April 2016 and the attribution of new functions to each position.

- Secretary of the Board of Directors.

Further to the principle, adopted by Red Eléctrica, of establishing the necessary mechanisms and instruments to ensure that the Company identifies, analyses and adopts the relevant best practices, principles and recommendations in good corporate governance matters, the secretary of the Board of Directors, further to the duties entrusted in the Bylaws and Board Regulations, provides the Board of Directors and its committees with the necessary mechanisms and instruments to identify, analyse and, where appropriate, propose the adoption of corporate governance best practices, principles and recommendations, allowing the Company to monitor developments in those practices and adequately disseminate them among its stakeholders.

-Regarding the principles of information transparency and dissemination of corporate governance policy:

The starting point is the principle of guaranteeing transparency and utmost quality in information, in such a way that the Company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders, undertaking a commitment to encourage awareness of Corporate Governance Policy principles and values.

Further to the principle establishing a commitment to *review, update and permanently improve the content and structure of the corporate website*, international standards are taken into account in order to include the most relevant information for the Company's stakeholders, improving the accessibility, functioning and information quality of the website.

The Company undertakes to prepare the annual corporate information in accordance with the main international standards and, where there is no audit obligation, considers the possibility of having external audits conducted by specialized consultants and auditors.

In 2016 the Company published on the corporate website a brief history of its Corporate Governance since the 1999 IPO, further details of which will be provided later in this report.

Some of the foregoing practices, set out in the Corporate Governance Policy, are described below as they relate to shareholders, the Board of Directors and its committees and relations with the external auditor, with a special section on the process of separation of positions, which was completed at the Shareholders' Annual General Meeting held in April 2016.

- **Relations with shareholders and institutional investors.**

Over the last few years, Red Eléctrica has significantly progressed in transparency and good governance matters. Good governance requires that its stakeholders have regular and prompt access to relevant, sufficient and reliable information, both in relation to the rules and governance of the Company and the results obtained.

Consequently, in addition to keeping the market regularly informed during 2016 by sending the relevant market memos and organizing activities with institutional investors, Red Eléctrica has included all relevant information and communications on its corporate website.

The best practices followed in 2016 in corporate governance matters, focusing on dialogue and engagement with shareholders, are described below:

- Update and continuous improvement, under international standards, of the information contained on the corporate website in relation to corporate governance.
- Participation in national and international corporate governance forums, working groups and initiatives (International Corporate Governance Network, Institute of Directors, Spanish Issuers, etc.).
- Roadshows with foreign shareholders and proxy advisors on corporate governance.
- International external advice in corporate governance matters.
- Self-assessment of the Board, with specialized external support.

In 2013 the Company became a member of the world organisation for corporate governance, the International Corporate Governance Network, which brings together foreign institutional investors, large corporations, regulators, academics, proxy advisors and other corporate governance specialists. It considers its growing participation in this organisation to have been very positive.

The Company's relations with its shareholders and institutional investors are generic, not particularly or specifically held with any of these.

The Company also ordinarily arranges roadshows presented by the Company's top-level managers, on leading financial markets in Spain and abroad, with a larger presence of institutional investors, in order to provide information on its activities and business development, trying to thus approach this specific group of investors.

In light of the high percentage of foreign institutional shareholders (close to 70%), in January and February 2016 and 2017, as in previous years, the Company launched a programme of contacts with and visits to investors and proxy advisors in order to gather relevant and up-to-date information and also to directly explain the Company's practices and actions in corporate governance matters. The aim is to consolidate adequate mechanisms for regular exchange of information with national and foreign institutional investors and the most prominent proxy advisors, thereby adjusting to the latest international standards in corporate governance.

Under no circumstances does the Company provide institutional shareholders with information that is liable to place them in a privileged or advantageous situation with

respect to other shareholders; the information it provides is always public information, presented in a rational and ordered form.

On 25 October 2016, at the proposal of the Appointments and Remuneration Committee and in fulfilment of its commitment to implement Recommendation 4 of the Code of Good Governance of Listed Companies, the Board of Directors approved the Criteria for communication with shareholders, institutional investors and proxy advisors.

This document contains the policy on communication with the abovementioned stakeholders and includes principles and guidelines to ensure that they are able to exercise their rights, protect their interests and promote engagement with them through open, transparent and sustainable dialogue.

The Criteria for communication with shareholders, institutional investors and proxy advisors are published on the Company's website (www.ree.es).

- **Separation of the positions of Chairman of the Board of Directors and Managing director (Chief Executive) of the Company.**

At its meeting on 12 June 2015, at the proposal of its Chairman, the Company's Board of Directors approved the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company", which assesses the benefits of this organisational model for Red Eléctrica and its shareholders, with a view to improving the Company's existing corporate governance structure. The Shareholders' Extraordinary General Meeting held on 17 July 2015 analysed the separation process and, in order to put it into effect, agreed to increase the number of directors by one (setting the total at twelve) and appointed Mr. Juan Francisco Lasala Bernad as an executive director of the Company. At its meeting on 28 July 2015, the Board of Directors appointed the new executive director to be Managing director of the Company.

The reasons that led the Board of Directors to approve the separation of the positions of Chairman of the Board of Directors and Managing director were as follows:

- The Company had been taking steps and implementing new measures in its corporate governance structure since 2012 and, in 2015, considered that the time had come to define and implement a clear, transparent process for transitioning to the new model of separation of roles, which would improve on previous experience and had the backing of its shareholders.
- A growing international current of opinion in the corporate governance field, especially in Europe, recommends that listed companies separate the positions of Chairman of the Board of Directors and Chief Executive (Managing director), so that each is held by a different person.
- The basic aim is to prevent an excessive concentration of power in the hands of a single person who is both Chairman of the Board of Directors and Managing director, as this could prevent the Board of Directors and the senior management team from performing their supervisory and management functions properly, with the necessary independence and objectivity.
- The accumulation of power in the hands of a Chairman/Managing director could cause distortions in the performance of the functions of the Board (guided by its Chairman) and the senior management team (led by the Managing director), giving rise to conflicts of interest which, if not properly resolved, might lead to destruction of shareholder value.

- Although the proxy advisors of the most important international investors and prominent institutional shareholders accepted the temporary adoption of counterbalancing measures to mitigate the excessive accumulation of power, such measures were justified only as a temporary solution, combined with a commitment to formally separate the two roles within a reasonable period. What initially was merely a recommendation to separate the positions has de facto become a demand of institutional shareholders and is gradually being adopted by most listed companies that have a significant proportion of foreign shareholders, as is the case of Red Eléctrica, around 70% of whose share capital is held by foreign shareholders.
- Added to the demands of shareholders and proxy advisors are those of recognized international bodies and institutions, such as the RobecoSam Dow Jones Sustainability World Index (DJSI), which annually assess the corporate social responsibility practices adopted by large international groups and industrial corporations and listed companies, penalizing in their corporate governance scores and classifications those companies that have failed to effectively separate the positions of Chairman and Managing director, as was the case of Red Eléctrica.
- At the time the separation was approved, there was in Spain a growing movement among Ibex 35 companies in favour of separating the two roles, as can be seen in the report published by the CNMV on the “Corporate Governance Reports of Issuers of Securities Admitted to Trading on Official Secondary Markets” for 2014, which shows that approximately 40% of Ibex 35 companies had implemented the separation.

The plan provided for a transitional period, which started at the Shareholders' Annual General Meetings held on 17 July 2015 and ended at the Shareholders' Annual General Meeting held on 15 April 2016, when the separation of positions between the Chairman of the Board and the Managing director was completed. Since the 2016 Shareholders' Annual General Meeting, the Chairman of the Board of Directors has had exclusively the responsibilities attached to the position of Chairman.

Transitional period:

- During the transitional period the Chairman of the Board continued to have his executive powers and status as Chairman of the Board of Directors, with the responsibilities and functions pertaining to that position

As Chairman of the Board, besides the powers established in the LSC (Article 529 *sexies*), the Bylaws (Article 20, 21 and 25) and the Board of Directors Regulations (Article 9), the Chairman also had the following basic powers:

-Power to direct and steer the Board's general oversight function.

-Power to guide and steer the approval by the Board of Directors of the Company's and the Group's Strategic Plan and proper supervision of its execution.

-Power to direct and coordinate the approval by the Board of Directors of the Company's and the Group's risk control and management system and the necessary supervision of its implementation and proper functioning.

-Power to guide the Board's actions in relation to proposals for the appointment and removal of senior managers and to direct and steer the supervision of senior management by the Board.

As regards the executive functions during the transitional period, the Chairman of the Board focused on the management, oversight and supervision of the transfer of powers and the effective exercise of executive responsibilities by the Managing director, so that both processes took place in a rational and orderly fashion.

For the duration of the transitional period, the Chairman of the Board retained the necessary powers to ensure that the organisational unit Red Eléctrica de España, S.A.U., which acts as electricity system operator, had the necessary operational autonomy in the required functions, in accordance with applicable regulations. During that period, consideration was given to the functions that by their nature were transferred directly to the Managing director.

- In July 2015, following the Shareholders' Extraordinary General Meeting, the Board of Directors appointed the new executive director as Managing director of the Company and approved the delegation of executive authority and responsibilities to the Managing director, thus initiating the process that should ensure stability in the transition to the new organisational model.
- The Managing director, for his part, assumed the functions of his position, which were governed by the Chairman of the Board, who retained executive authority for that purpose throughout the transitional period.

The powers of the Managing director were focused on:

-Executive management, coordinating and driving the management of the Company's and the Group's business areas.

-Leadership, initiative and guidance of the execution and implementation of the Company's and the Group's Strategic Plan.

-Efficient implementation of the risk control system approved by the Board of Directors in the Company and the Group and proper oversight of its functioning.

-Regular reporting to the Board of Directors on the degree of execution and implementation of the Strategic Plan, the functioning of the risk management system and progress in the management of the Group's business areas, so that the Board was able to adequately and effectively exercise its general oversight and control function.

Completion of the process:

- The transfer of executive functions and responsibilities to the new Managing director was completed at the Shareholders' Annual General Meeting held on 15 April 2016, which approved the re-election of Mr. José Folgado Blanco, Chairman of the Company's Board of Directors, as an "other external" director for a period of four years. Mr. Folgado thus ceased to be an executive director.
- Following said Shareholders' General Meeting, as a result of the final transfer of the Chairman's executive functions to the Managing director, the Board of Directors adopted the necessary resolutions for the distribution of responsibilities and functions between the two positions on the terms approved in the separation process. In particular, it resolved to revoke the Board authority delegated to the Chairman and the authorities currently granted to the Chairman, given the eminently executive nature of those authorities, and maintained the delegation of all the authorities to the Managing director.

- In addition, the Board of Directors granted new authorities and powers to the non-executive Chairman of the Board of Directors, in accordance with the responsibilities of the position.
- **The Board of Directors.**
 - Small number of directors (12² members following the Shareholders' Extraordinary General Meeting held on 17 July 2015, which resolved to increase the number of directors by one and appoint a new executive director).
 - One executive director (since the Shareholders' Annual General Meeting held on 15 April 2016, which resolved to re-elect Mr. José Folgado Blanco as a director in the "other external" category, so that he lost his status as an executive director). As already mentioned, before that Shareholders' General Meeting and ever since the Shareholders' Extraordinary General Meeting held on 17 July 2015, there had been temporarily two executive directors. The executive director is the Managing director. The authorities and responsibilities of the executive director are limited by:
 - The responsibilities reserved to the Board of Directors, 58.3% of which consists of independent directors (counting the independent director vacancy existing at 31 December, following the resignation of Mr. Agustín Conde Bajén in November 2016).
 - The effective control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the executive directors.
 - The immediate effective control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the executive director.
 - The functions and responsibilities assigned to the Board committees, a majority of whose members are independent directors, under the Bylaws and Board of Directors Regulations.
 - The responsibilities of the Lead Independent director.
 - The core responsibilities for the administration of the Company are expressly reserved to the full Board of Directors. These responsibilities, which are listed in Article 5 of the Board of Directors Regulations, were expanded following the amendment to the Board of Directors Regulations passed on 20 December 2016, which adapted that article, mainly in line with Articles 249 *bis* and 529 *ter* of the LSC. The reserved responsibilities cannot be exercised either by the executive director or by the Board committees.
 - The percentage of independent directors (58.3%) is greater than required by international standards.
 - The Board of Directors has for many years been committed to gender diversity targets. Four of its eleven members, who at 31 December 2016 represent 36.4%

² As of 31 December 2016, the Board of Directors was made up of 11 members, as an independent director position was left vacant by the resignation of the Independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors on 29 November 2016.

At its meeting on 31 January 2017, the Board of Directors appointed Mr. Arsenio Fernández de Mesa y Díaz del Río, an independent director, to fill that vacancy until the next Shareholders' Annual General Meeting.

of the Board, are women. This puts the Company in one of the leading positions among IBEX 35 companies. The Board of Directors prepares and approves an annual gender diversity report, which this year has been made available on the Company's website.

- A participative and proactive Board.
- A very high rate of attendance and dedication to the exercise of their responsibilities on the part of the directors.
- Use of new technologies to facilitate the work of the Board and provide directors with information and documentation, through the Director's Portal, which was reviewed and updated during 2016.

- **The Managing director**

- Under the Company's corporate regulations, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may appoint one or more Managing directors from among its members.
- Under the Company's corporate regulations, the Managing director or directors may be directors other than the Chairman of the Board of Directors and may have such authority delegated to them as is deemed appropriate, although with the necessary scope for the day-to-day conduct and effective management of the Company's business lines, always specifying the content, limits and types of delegated authority.
- Without prejudice to the powers belonging to the Chairman of the Board, the Managing director will act as the Company's Chief Executive and will be responsible for the day-to-day conduct and effective management of the organisation and of the Company's businesses, always in accordance with the decisions and criteria set by the Shareholders' General Meeting and the Board of Directors, each within its remit.
- The position of Managing director and the related delegation of authority is regulated in Articles 22 to 25 of the Bylaws and the responsibilities of the position are regulated in the new Article 11 of the Board of Directors Regulations, following the amendment passed on 20 December 2016.
- Following the appointment of Mr. Juan Francisco Lasala Bernad as executive director of the Company by the Shareholders' Extraordinary General Meeting held on 17 July 2015, the Company's Board of Directors, at its meeting on 28 July 2015, appointed Mr. Juan Francisco Lasala Bernad as Managing director of the Company, a position he continues to hold at the date of this Annual Corporate Governance Report.
- At its meeting on 31 May 2016 the Board of Directors resolved to revoke the authority granted to Mr. José Folgado Blanco on the grounds that he had ceased to be an executive director at the Shareholders' Annual General Meeting held on 15 April 2016.

- **The Lead Independent director.**

- The Lead Independent director is appointed by the Board of Directors from among the independent directors, at the proposal of the Appointments and Remuneration Committee.

- The Lead Independent director's main task is to organize any common positions of the non-executive directors and to serve as a channel or spokesperson for those positions to the Chairman of the Board of Directors, the Board and its committees.
 - The term of office is three years and the position holder may be reappointed.
 - The Lead Independent director role is currently held by the independent director Carmen Gómez de Barreda Tous de Monsalve, who was reappointed for a further three-year term by resolution of the Board of Directors on 31 May 2016.
 - The Lead Independent director convenes and chairs meetings of the independent directors, a role that was exercised in 2016.
 - The roles and responsibilities of the Lead Independent director are set forth in Article 25 *bis* of the Bylaws and are implemented in the new Article 10 (formerly Article 9 *bis*) of the Board of Directors Regulations, as amended on 20 December 2016. The amendment of that article of the Board of Directors Regulations consisted mainly of adapting it to Articles 529 *sexies*, para. 2 and 529 *septies*, para. 2 of the LSC, as well as to Recommendation 34 of the CBGSC.
 - Following completion of the separation of the positions of Chairman of the Board and Managing director of the Company, it has been considered appropriate to maintain this role because, among other things, the Lead Independent director helps maintain the checks and balances within the Board of Directors in favour of the independent directors and because it is a role that has been very well received by shareholders and proxy advisors.
- **Board committees.**
 - Formed by the Board of Directors to assist in highly technical matters and provide greater efficiency and transparency, the Board committees support the Board in the performance of its duties.
 - They are made up of qualified professionals who have exercised important responsibilities in other institutions or corporations outside the Company.
 - All their members are non-executive directors.
 - In 2013, the composition of the committees, as specified in the Board of Directors Regulations, was formally adapted to the demands of shareholders, so as to reinforce the committees' independence. A requirement that both committees have a majority of independent directors was introduced.
 - In December 2016, the functions of the Board committees, as set out in the Board of Directors Regulations, were adapted to the latest reforms of the LSC and the CBGSC and certain adjustments were made to help the committees operate more effectively.
 - The committees are chaired by independent directors, as stipulated by the Bylaws and the Board of Directors Regulations. The committee chairperson's term of office is limited to three years, after which a director may not be re-elected as chairperson until after at least one year's break in service.
 - Since 24 November 2015, each of the two Board committees (Audit Committee and Appointments and Remuneration Committee) has five members. At 31 December 2016, three of the five members of the Audit Committee were

independent directors and three of the four members of the Appointments and Remuneration Committee were independent directors (following the resignation of an independent director in November 2016, there was a vacancy on the committee).

- No directors belong to both committees, thus ensuring their total independence.
- The committees have monthly meetings, although sometimes, when circumstances so require, they hold extraordinary sessions and are truly specialized technical bodies of great value to the Board.
- The term of office of all committee members is three years; members may be re-elected.
- The roles and responsibilities of the committees are established in the Bylaws and further specified in the Board of Directors Regulations.
- Following the reform of the LSC and the approval of the CBGSC, the Company amended its Bylaws in 2015 and the Board of Directors Regulations in 2016, so as to adapt them more completely to the new rules and recommendations on matters that were not previously covered in these corporate regulations. Among the matters that were reviewed in the abovementioned internal regulations are the powers and functions of the committees; and the Board of Directors Regulations were also adapted to improve the organisation and functioning of the committees and the Board itself and to adapt them to the current organisation of the Red Eléctrica Group.

- **Directors' remuneration policy (non-executive and executive directors).**

-Reiterated practice followed by Red Eléctrica: Binding approval by the Annual General Meeting as a separate item on the agenda.

Since 2010, Red Eléctrica voluntarily submits the Annual Directors' Remuneration Report and, since 2007, the annual remuneration of the Board of Directors to the Shareholders' Annual General Meeting for approval, as separate and independent items on the Shareholders' General Meeting agenda. Consequently, all proposals and opinions on these matters have never been presented to the shareholders on a consultative basis.

This practice continued in 2016, with the submission of the directors' remuneration for 2016, an amendment to the Directors' Remuneration Policy and the Annual Directors' Remuneration Report to the shareholders for approval (in a binding vote), as three separate and independent items on the Shareholders' Annual General Meeting agenda. Red Eléctrica Corporación S.A. thus continues to align itself with corporate governance best practices, giving shareholders the necessary autonomy and independence of opinion to be able to vote on each Shareholders' General Meeting resolution individually and separately.

-Remuneration policy principles.

The Directors' Remuneration Policy, which was approved by the Shareholders' Annual General Meeting held on 15 April 2015, is based on the following general principles:

- Balance and moderation.
- Alignment with the practices demanded by shareholders and investors.
- Transparency.
- Voluntary presentation of any decision related to directors' remuneration to the Shareholders' General Meeting for approval.

As regards the remuneration of executive directors, the following principles have been established:

- Alignment of the executive director's remuneration with the Company's strategy.
- Maintaining a reasonable balance between the various components of (short-term) fixed remuneration and (annual and long-term) variable remuneration, reflecting an adequate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value.
- Alignment with the remuneration established by comparable companies.

As regards the remuneration of non-executive directors, the following principles have been established:

- Linked to effective time commitment.
- Linked to responsibility and performance of their tasks as directors.
- Absence of variable components in remuneration in order to ensure their complete independence with respect to the remuneration paid to the executive director and management team.
- Sufficient to act as an incentive, without limiting their independence.

On conclusion of the separation of the positions of Chairman and Managing director, the Shareholders' Annual General Meeting held on 15 April 2016 approved an amendment to the Directors' Remuneration Policy. Both the Directors' Remuneration Policy approved in 2015 and the amendment to that policy approved in 2016 are published on the corporate website.

The Appointments and Remuneration Committee deems it appropriate to periodically review the policy on remuneration of the Board of Directors, including in this review process a comparison with reference companies, selecting groups of comparable companies, and maintaining permanent contact with its shareholders and proxy advisors, in order to check the adequacy and moderation of the remuneration paid to directors and executive director in market terms.

All of the foregoing principles conform to the Company's Corporate Governance Policy, approved by the Board of Directors at its meeting of 25 November 2014 and published on the corporate website.

Moreover, said remuneration principles comply with the general rules laid down for capital companies in Article 217.4 of the LSC, regarding the need for remuneration to be commensurate with a company's size and importance, economic position, comparability, profitability and sustainability; and the need not to encourage excessive risk taking and not to reward adverse results.

For more information, please refer to the Annual Directors' Remuneration Report, as soon as it is available and published on the corporate website, and the resolutions on annual remuneration of the Board of Directors for 2017, which are due to be presented for approval to the 2017 Shareholders' Annual General Meeting of Red Eléctrica, as separate items on the agenda.

- **Independence in relations with the external auditor.**

The Shareholders' Annual General Meeting held on 15 April 2015 approved an amendment to the Bylaws. One of the articles that was amended was Article 23, so as to adapt the powers of the Audit Committee to the requirements of the new Article 529 *quaterdecies* of the LSC, although many of these requirements were already addressed in Article 23 previously. Certain powers concerning the independence of the external

auditor were reinforced in sections iv) and v) of the abovementioned Article 23 of the Bylaws. The Board of Directors Regulations have also been amended along the same lines as the Bylaws. In particular, in order to reinforce the independence of the external auditor, the new Article 16.3 of the Board of Directors Regulations was amended to adapt it, above all, to Article 529 *quaterdecies* LSC (amended by Act 22/2015 of 20 July on Auditing) and Recommendation 42 CBGSC. Also, the new Article 16.3 c) of the Board of Directors Regulations establishes that the Audit Committee must each year receive from the external auditor a statement that neither the audit firm nor any of its partners have been convicted of criminal charges linked to the performance of their audit functions.

Similarly, the new Article 42 of the Board of Directors Regulations has been adapted, among other things, to Recommendation 8 of the CBGSC and now imposes an obligation on the external auditor of the Company and, where applicable, of the Group to tender its resignation to the Board of Directors and, if the Board so decides, to resign as auditor if either the audit firm or any of its partners are convicted of criminal offences in relation to the provision of their audit services to the Company or any other party.

The responsibilities of the Audit Committee, as set out in the Board Regulations, include that of receiving information on any non-audit services provided to the Company and the Group by the external auditor (the audit services are reported regularly to the markets through the relevant sections of the Annual Corporate Governance Report, Official Annex, in the form of Annex I of CNMV Circular 7/2015, paragraph C.1.37). Nevertheless, the general rule adopted by the Company, guided by the Audit Committee, is not to use the external auditor for non-audit services from the date on which the auditor is appointed as such by the Shareholders' General Meeting, unless there are exceptional reasons for doing so, which must be adequately explained in the Company's annual public reporting. The purpose of this rule, as stated in Article 42.3 of the current Board of Directors Regulations (formerly Article 45.3), is to minimize the use of the external auditor for non-audit services.

If it were considered necessary to engage the external auditor to provide non-audit services, the engagement would have to be expressly authorized by the Audit Committee.

Also, where there are contractual obligations between the Company and the external auditor that were acquired before the auditor was appointed as auditor, the reason for any payments to be made by the Company after the date of appointment must be explained in the Annual Corporate Governance Report.

In any case, the requirements and limitations regarding the provision of non-audit services established by Act 22/2015 of 20 July on auditing, in relation to Regulation (EU) No 537/2014 of 16 April, must always be taken into account.

In January 2016, the Company's Audit Committee issued the report on the independence of the external auditor in relation to financial year 2015.

In January 2017, the Company's Audit Committee issued the report on the independence of the external auditor in relation to the financial year commenced 1 January 2016. The report will be published on the Company's corporate website well in advance of the Shareholders' Annual General Meeting of financial year 2016, in accordance with Recommendation 6 of the CBGSC.

As provided in the Audit Act, said report gave an assessment of the non-audit services, taken individually and as a whole, provided by the abovementioned auditors or persons or entities linked to them, in relation to the rules on auditors' independence and other audit regulations. The report was published on the Company's corporate website.

As the term of the initial appointment had expired, the Shareholders' Annual General Meeting held on 15 April 2016, at the proposal of the Board of Directors, resolved to reappoint KPMG Auditores, S.L. as the auditors of the parent company, Red Eléctrica Corporación, S.A., and its Consolidated Group for a further period of three years, comprising financial years 2016, 2017 and 2018, in accordance with Article 264 of the current LSC.

CHAPTER II.- THE SHAREHOLDER STRUCTURE.

At the proposal of the Board of Directors, the Shareholders' Annual General Meeting of shareholders of the Company held on 15 April 2016 resolved on a share split that increased the number of the Company's shares by reducing their par value from two euros (€2) to fifty euro cents (€0.50) per share, in the proportion of four new shares for each old share, with no change in the amount of share capital. Consequently, a resolution was passed to amend Article 5.1 of the Bylaws. Following the split, the Company's share capital amounts to 270,540,000 euros, represented by 541,080,000 shares, all of the same class and series, with a par value of fifty euro cents (€0.50) per share, fully subscribed and paid, and represented by book entries. The share split resolution was executed on 11 July 2016.

At 31 December 2016, Sociedad Estatal de Participaciones Industriales (SEPI) directly owned a significant stake in the Company, holding 108,216,000 shares, representing 20% of the capital.

There are no individuals or legal entities that exercise or may exercise control over the Company, as provided in Article 5 of the Securities Market Act, in accordance with Article 42 of the Commercial Code.

The equity of the Company includes a 20% shareholding owned by SEPI, with the remaining 80% being free float, although, as explained below, no other shareholder may own a stake larger than 5%.

Within the free float, there is a high percentage of foreign shareholders, especially of institutional investors, which as of April 2016 accounted for almost 70% of the share capital (of which around 55% is located in the United Kingdom and the USA), which is why the Board of Directors attaches such importance to the international corporate governance practices and recommendations demanded by its shareholders.

The entry into force of Act 17/2007 of 4 July introduced various changes affecting the Company's shareholders. These amendments had, among other aims, that of guaranteeing the independence of the Company vis-à-vis all other electricity sector activities and agents, given that the activities carried on by Red Eléctrica (transport of electricity and operation of the electricity system) are considered by legislators to be an essential service. Royal Decree-Law 13/2012 of 30 March, transposing a number of directives, including Directive 2009/72 of 13 July, stipulating the mandatory independence of distributors and operators of European electricity systems, endorses the legal limitations on shareholdings and political rights applicable to the Company's shareholders and imposes a number of additional restrictions on companies that perform generation or marketing functions. Royal Decree-Law 13/2012 of 30 March amended the second paragraph of the twenty-third additional provision and Article 34.1 of Act 54/1997 of 27 November. Said additional provision remains in effect pursuant to the express stipulation of the repealing provision of Act 24/2013 of 26 December on the Electricity Sector.

The equity limits stated in the twenty-third additional provision of Act 54/1997 of 27 November are as follows:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than 3% of the voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of the voting rights in the parent company.
- The special regime for SEPI is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in Articles 5 and 14 and in the sole additional provision of the Bylaws, and in Article 6.3 of the Company's General Meeting Regulations.

- **The corporate website.**

Once again, the Shareholder Structure chapter of this report includes a special section on a basic modern tool for communicating with shareholders, namely, the corporate website.

Apart from the legal and regulatory requirements regarding the website, which are addressed in other sections of this report, it should be highlighted here how important it is for Red Eléctrica to continue to adapt and evolve in the area of corporate governance. The Annual Corporate Governance Report for 2012 emphasized the desirability of enhancing the corporate governance information provided on the Company's website, in line with international standards, and making the information easier for international shareholders and investors to find, understand and use.

The international corporate governance consultants hired by Red Eléctrica have confirmed that foreign institutional investors, which are so important to the Company, in places such as the UK, France, Holland, Germany and the United States, emphasise the difficulty they face in effectively analysing the information relating to the corporate governance structure that is made available on the corporate websites of Spanish listed companies.

Seeing this opportunity for improvement, in 2013 the Company implemented a project to update and improve the corporate website, in order to incorporate the latest practices at enterprise level, also taking into account the requirements and recommendations of the regulatory environment applicable to listed companies. Within the framework of this project, it also conducted an analysis of the corporate governance sections of the website, so as to incorporate leading international standards in terms of structure and content. The new website, with its new structure and design, was launched in October 2013.

The new corporate website most notably included a "Corporate Governance" section, at the top level of the home page menu, which shows the content sections that are most important to the Company. The improvements to the corporate governance section focused on the structure of the information and the way it was presented, rather than expanding the content published on the website, which was already very extensive but dispersed and sometimes difficult to locate and understand.

The most important corporate governance-related plans for the future listed in the 2013 Annual Corporate Governance Report included a plan to “Continuously analyse, update and improve the corporate governance information contained on the Company’s website in line with international standards”.

The Corporate Governance Policy approved by the Board of Directors on 25 November 2014 also includes the principle of continuously reviewing, updating and improving the content and structure of the corporate website in line with international standards, so as to improve its accessibility, functioning and information quality.

In practice, this principle was effectively applied throughout the year and was applied in 2015: website sections were reviewed, content was improved and additional information was provided, as deemed appropriate.

The “Corporate Governance” and “Shareholders and Investors” sections of the corporate website were also reviewed in 2015, in accordance with CNMV Circular 3/2015 of 23 June. A new entry, “Right of information”, was added to the “General Meeting” subsection of the Corporate Governance section, providing information about the channels of communication between the Company and its shareholders and explaining how shareholders can exercise their right of information.

The steps taken in 2016 to improve the information contained on the corporate website include the following:

- In order to meet the Company’s commitment to greater transparency in relations with its shareholders and investors and provide more information on the Company’s track record and progress in corporate governance, Red Eléctrica has published on its website an interactive section presenting a very visual and easy-access history of the Company’s corporate governance, since its IPO in 1999.

This is a completely new practice among companies in Spain and Europe and testifies to the Board of Directors’ firm commitment to the implementation and continuous improvement of good governance within the organisation over this period.

- The Company has also published on its website the “Criteria for communication with shareholders, institutional investors and proxy advisors”, which were approved by the Board of Directors on 25 October 2016. These criteria state the principles and guidelines governing the Company’s communication with these stakeholders, so as to ensure that they are able to exercise their rights, protect their interests and promote an understanding with shareholders through open, transparent and sustainable dialogue.
- Lastly, a new section has been created called “Recommendation No. 6 of the Spanish Code of Good Governance”, containing all the specific annual reports which that recommendation suggests should be published before the date of the Shareholders’ Annual General Meeting.

In summary, the Company is committed to continuously improving and adapting the corporate website as a channel for communication, dialogue and engagement with shareholders, in accordance with its Corporate Governance Policy, and for that reason has maintained that priority in Title IV of this report (“Future plans of Red Eléctrica in matters of corporate governance”).

CHAPTER III.- THE SHAREHOLDERS' GENERAL MEETING

The Shareholders' General Meeting, duly called and legally convened, represents all of the shareholders and exercises the functions corresponding to it within the Company.

Its resolutions, adopted pursuant to the Shareholders' General Meeting Regulations and the Bylaws, are binding on all shareholders, without prejudice to their legal right of withdrawal. The Shareholders' General Meeting has the power to adopt all resolutions specific to its status as the Company's sovereign body. In particular, and without limitation, it is responsible for:

- Approving the Company's individual and consolidated financial statements, its management by the Board of Directors, and the proposed allocation of profits.
- Appointing and removing directors, ratifying, as necessary, their appointment by co-optation, and appointing and reappointing the auditors.
- Approving plans or authorizing transactions involving treasury stock.
- Approving the establishment of remuneration systems linked to the share price for directors.
- Resolving to issue debentures, increase or reduce share capital, change the legal form, merge, spin off or wind up the Company, and make any amendment to the Bylaws.
- Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the LSC.
- Approving operations whose effect would be equivalent to the modification of the Company's corporate purpose.

Following the amendment approved by Act 31/2014 of 3 December, the LSC increased the number of matters reserved to the Shareholders' General Meeting, which include, on a general basis, the acquisition, disposal or contribution of essential assets to another company (Article 160.f) LSC) and, in the specific case of listed companies, the transfer to subsidiaries of essential activities previously carried out by the Company itself; transactions whose effect is equivalent to the liquidation of the Company; and approval of the Directors' Remuneration Policy (Article 511 *bis* LSC).

Furthermore, the rule contained in Article 161 LSC, previously reserved to limited liability companies, whereby the Shareholders' General Meeting may participate in management matters (giving instructions to the management body or presenting for its authorization the adoption of decisions or resolutions on certain management matters), was extended to all capital companies.

The rules on the organisation and functioning of the Shareholders' General Meeting are contained in the Bylaws (Article 11 through 18) and in the Shareholders' General Meeting Regulations.

For some time now, resolution proposals have been published in full, in Spanish and in English, together with the Notice of Shareholders' General Meeting, with all the relevant information for shareholders being posted on the Company website, which is designed to make it easier for shareholders to exercise their right of information. The Company's website is a suitable mechanism for communicating with shareholders and investors, given that the following information, among others, is posted on it:

- The quorum requirement and the result of the votes on each of the resolutions approved by previous Shareholders' General Meetings.

- Information relating to the right of attendance and procedures for granting proxies for Shareholders' General Meetings, in accordance with the provisions of the Bylaws and the Shareholders' General Meeting Regulations.
- Information on electronic voting and proxies.
- Information on issuances of securities.
- Information on the ratings granted by credit rating agencies.
- Increased information about the Company's shareholders, with greater detail on significant holdings, treasury stock and shareholder agreements.

Act 25/2011 of 1 August introduced a number of changes relating to the website content of listed companies; in particular, as regards the information that must be published on the website when calling a Shareholders' General Meeting. Despite the fact that, in large part, such information was already published on the Company's website, the Shareholders' Annual General Meeting held on 19 April 2012 approved an amendment to the relevant article of the Shareholders' General Meeting Regulations to incorporate the content required under the Act.

The said Shareholders' General Meeting held on 19 April 2012 ratified the creation of the corporate website of the Company at the domain "www.ree.es", for the purposes of the provisions of Article 11 *bis* of the revised LSC.

Order ECC/461/2013 of 20 March (which is currently in force, as it was not repealed with the approval of the latest amendments to the LSC), which determines the content and structure of the Annual Corporate Governance Report, the annual remuneration report and other reporting documents of listed companies, describes the relevant information to be included on the websites of listed companies; however, the current corporate website not only contains all the information identified in the said Order, but it has also been expanded and improved in 2013, 2014, 2015 and 2016.

By voluntarily creating the "Corporate Governance" section in 2013, the quality of shareholder information was improved.

Furthermore, also worthy of note are the following actions conducted by Red Eléctrica to facilitate the exercise of the right of information of the shareholders at the Shareholders' General Meeting:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Shareholders' General Meeting and especially the financial statements and the Annual Corporate Governance Report, are made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- An entire section of the Shareholders' General Meeting agenda is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Audit Committee and the Appointments and Remuneration Committee are made available to all shareholders in the Annual Corporate Governance Report and are published on the corporate website.

- A Shareholder Bulletin is published quarterly, containing the main news regarding the Company.
- The chairman of the Audit Committee is available to all shareholders during Shareholders' General Meetings to deal with any matters falling within his remit that may arise, a fact which is communicated to the shareholders during the Shareholders' General Meeting.
- The items included on the agenda for the Shareholders' General Meeting are provided in as much detail as possible.
- Separate voting on each item is permitted, including remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to a vote.
- The Shareholder Information Office specifically deals with requests made by company shareholders. Shareholders may also submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.
- In 2016, the Annual Report on Related-Party Transactions, the Annual Corporate Responsibility Report (which has been published for several years already) and the Report on the Independence of the external auditor were published on the corporate website in time for the Shareholders' Annual General Meeting, all this in accordance with Recommendation No. 6 of the CBGSC.
- For several years now, an independent consultant (Deloitte) has conducted an audit of the Shareholders' Annual General Meeting management processes with a view to improving the protection of shareholder rights in their General Meetings. The auditor's reports are published on the website from the date of the Shareholders' General Meeting. Since the 2014 Shareholders' Annual General Meeting, shareholders have been offered the possibility of requesting a certificate confirming their vote, verified by the external auditor of the Shareholders' General Meeting. Once again at the Shareholders' Annual General Meeting held in April 2016, the General Meeting management processes were audited and shareholders were offered the possibility of requesting a certificate confirming their vote, verified by the external auditor.

The rights of shareholders are regulated in Article 15 of the Bylaws, which refers specifically to the right of information and attendance at the Shareholders' General Meeting, and in Article 6 to 10 of the Shareholders' General Meeting Regulations. Specifically, the rights are as follows:

- **Right of information.**

The Company pays special attention to the right of information, as reflected in Article 15 of the Bylaws and Article 8 of the Shareholders' General Meeting Regulations. Article 8 of the Shareholders' General Meeting Regulations establishes the obligation for the Company to make documentation and information relating to the agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the corporate website.

In addition, during the meeting, shareholders may orally request any reports or clarification they deem appropriate regarding the items on the agenda. If such requests cannot be satisfied at the time, the Board of Directors must provide the information in writing within seven days of the meeting.

The Company maintains an open, fluid and accessible dialogue with shareholders. Communications are made with the utmost transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.

A specific Shareholder Information Office is in place to deal with any inquiries from minority shareholders.

The Company undertakes to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the Company website, including:

- The call notice of the Shareholders' General Meeting, containing the proposed resolutions and the related reports by the Board of Directors.
- The Company's individual and consolidated management reports for the year, and the proposed allocation of results.
- The separate and consolidated management report for the year, of the Company.
- The audit reports on the Company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Annual Corporate Responsibility Report.
- The Annual Directors' Remuneration Report.
- The environmental report.
- The Procedures regulating the remote voting system at the Shareholders' Annual General Meeting.
- The Operating Rules of the Shareholder E-Forum.
- Any other report whose inclusion is obligatory or is decided by the Board of Directors.

Act 31/2014 of 3 December, amending the LSC, brought some changes that affect the right of information. The most important changes applicable to listed companies are as follows:

-Clarification that all proposed resolutions on each and every item on the agenda must be continuously available on the Company website from the time of publication of the notice of Shareholders' General Meeting to the date of the meeting. Clarification that a report must be drawn up and published on the website on any items on the agenda that are informative only.

-In particular, establishment of a duty to include on the website, from the moment the meeting is called, detailed information on the reports and proposed appointment, ratification or re-election of directors and on the Directors' Remuneration Policy.

-Extension of the period in which shareholders may request information and clarifications until the fifth day prior to the date scheduled for the meeting (before, the period ended on the seventh day before the meeting).

-Obligation to post valid requests for information or clarification and questions submitted in writing, together with the directors' written answers, on the Company's website.

-When information is requested by shareholders that is already available on the Company website in Q&A form, directors may refer the inquirer to the information provided in that format (previously, directors were allowed not to reply to this type of question).

As already explained in Chapter II of Title I above, the Shareholders' Annual General Meeting held on 15 April 2015 approved the amendments to the Bylaws and the Shareholders' General Meeting Regulations aimed at fully adapting them to the amended LSC with regard to the matters that were not previously covered by these corporate regulations.

At the 2016 Shareholders' Annual General Meeting there were amendments to the shareholders' right of information.

- **Right of attendance.**

Shareholders may attend the Shareholders' General Meeting if they are up to date in the payment of capital calls and evidence their share ownership, by way of a certificate made out in their name in the accounting register of book entries five days before the meeting is due to be held.

To this effect, Article 15 of the Bylaws and Article 10 of the Shareholders' General Meeting Regulations provide that shareholders with the right to attend may be represented at the Shareholders' General Meeting by any other person, in the manner established in the LSC. The condition that the proxy must be a company shareholder has been withdrawn, following the approval of the adaptation of its content to Act 25/2011, of 1 August, by the Shareholders' General Meeting held on 19 April 2012.

There is no Bylaw restriction requiring a minimum number of shares to be held in order to attend the Shareholders' General Meeting (the "one share, one vote" principle applies).

Directors and senior managers are required to attend Shareholders' General Meetings.

As a general rule and in order for the proceedings of meetings and the resolutions adopted to reach the widest audience, the media are allowed access to Shareholders' General Meetings and their proceedings are broadcast in an audio-visual format, with simultaneous interpreting into sign language and into English.

- **Right of participation and new technologies.**

The Shareholders' General Meeting Regulations allow shareholders to participate to the fullest extent in matters of interest to them (right to attend, meeting calls, inclusion of items and proposals on the agenda, inquiries and requests for information, and voting).

In line with the most widely acknowledged recommendations in this area, the Shareholders' General Meeting Regulations are in keeping with the regime established by Act 26/2003, of 17 July, regarding the implementation of shareholder rights and the rules regarding the organisation and functioning of the Shareholders' General Meeting, and the current LSC, following the reforms introduced by Act 25/2011 of 1 August. This Act introduced certain adjustments and provisions aimed at strengthening the right of shareholders to participate at the Shareholders' General Meeting, which justified the

adaptation thereto of the Shareholders' General Meeting Regulations and the Bylaws, at the Shareholders' General Meeting held on 19 April 2012.

Under the Shareholders' General Meeting Regulations (following their adaptation to the LSC at the Shareholders' Annual General Meeting of 15 April 2015), shareholders holding more than 3% of the share capital may apply to the Board, prior to the notice of Shareholders' General Meeting, to have particular items included in the Shareholders' General Meeting agenda. The Board of Directors must include the items requested in the manner that best suits the Company's interests, provided the items refer to matters falling within the scope of the powers of the Shareholders' General Meeting.

Shareholders may also submit proposals in relation to the matters on the agenda, in addition to making suggestions on the activities and interests of the Company which, in their view, should be discussed at the Shareholders' General Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.

Red Eléctrica introduced an electronic voting system in 2005. It was one of the pioneers of this system, which allows shareholders to exercise their voting rights electronically via the Company website, www.ree.es. Since then, the Company has allowed shareholders to exercise their voting rights electronically at all Shareholders' General Meetings.

In line with this use by shareholders of advanced electronic means to exercise their rights, at its meeting on 23 February 2016 the Board of Directors approved the procedure on remote voting, proxy appointment and exercise of the right of information for the Shareholders' Annual General Meeting to be held on 15 April 2016. A total of 280 shareholders, holding 59,022 shares, exercised their right to vote or appoint a proxy electronically. This meant that 6.6% of the 4,226 shareholders present at the meeting in person or by proxy participated in the meeting by electronic means.

Furthermore, both the 2016 Shareholders' Annual General Meeting and the presentations to analysts were broadcast live via the Company's website. The presentations are available on the corporate website. The Shareholders' General Meeting has been broadcast by live webcast since 2006, with simultaneous interpretation into English. A sign language interpreter is also present at Shareholders' General Meetings to allow people with hearing difficulties to follow and participate in the proceedings.

In 2011 the Company launched the Shareholder E-Forum to facilitate communication between the shareholders of Red Eléctrica with a view to publishing proposals to supplement the agenda in the Shareholders' General Meeting call notice, issuing requests for support of such proposals, presenting initiatives to achieve the percentage needed in order to be able to exercise a minority right as provided by law or making offers or solicitations of voluntary representation.

This tool was incorporated into Article 8.4 of the Shareholders' General Meeting Regulations by means of a resolution adopted by the Shareholders' General Meeting of 13 April 2011. Consequently, the regulatory requirements of Article 539.2 of the LSC were met. The Forum has been available at all the Shareholders' General Meetings held by the Company since the Forum was created.

In 2016, the Company continued to use social networks (*Facebook* and *Twitter*) to publicize and provide information about the Shareholders' Annual General Meeting and the Shareholders' Extraordinary General Meeting.

In accordance with CNMV Circular 3/2015 of 23 June, in 2015 a "Right of information" page was added to the "Shareholders' General Meeting" section of the corporate

website, with information about channels of communication between the Company and its shareholders and explanations on how to exercise the right of information.

CHAPTER IV.- THE BOARD OF DIRECTORS

- **Organisation and responsibilities.**

At 31 December 2016, the Board of Directors was made up of 123 directors (1 executive, 3 proprietary, 7 independent⁴ and 1 in the “other external” category).

With the support of the Audit Committee and the Appointments and Remuneration Committee, the Board of Directors governs and represents the Company.

The Board’s strategic decision-making processes are described below.

The rules on the organisation and functioning of the Board are contained in the Bylaws (Articles 19 to 26, inclusive) and the current Board of Directors Regulations (Articles 5 to 14, inclusive, and Articles 19 and 20). The amendment to the Board of Directors Regulations approved on 20 December 2016 extended the scope of the core responsibilities for the administration of the Company that are reserved expressly to the full Board of Directors, as specified in Article 5 of the Board of Directors Regulations, mainly in order to adapt those regulations to Articles 249 *bis* and 529 *ter* of the LSC.

Before the start of the year, at the proposal of its Chairman, the Board of Directors approves an indicative schedule of meetings for the year. Each director individually may propose other items not initially included in the agenda of each meeting, which is made available well in advance, together with the notice of the meeting and the related documentation.

Pursuant to the Bylaws and the Board of Directors Regulations, the principle guiding the Board’s actions at all times is the corporate interest, understood as the Company’s long-term profitability and sustainability, which enables the Company’s long-term survival and the maximization of its value (article 6 of the Board of Directors Regulations).

Specifically, the Board holds all powers to manage and represent the Company, both in and out of court, exercising such powers directly, via delegation or pursuant to a power of attorney in the terms established by law, the Bylaws and the Board of Directors Regulations.

The Board’s policy is to delegate the ordinary management of the Company to the executive bodies and the management team and to concentrate on its general supervisory function, the approval of basic operating guidelines and strategies, and the decisions that are most relevant to the Company’s interests.

In particular, the Board has expressly reserved to itself (Article 5 of the Board of Directors Regulations), and is not permitted to delegate, certain responsibilities that it must exercise directly, namely:

³As of 31 December 2016, the Board of Directors had 11 members, as an Independent director position was vacant following the resignation of the independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors on 29 November 2016.

At its meeting on 31 January 2017, the Board of Directors appointed Mr. Arsenio Fernández de Mesa y Díaz del Río, an independent director, to fill that vacancy until the next Shareholders’ Annual General Meeting.

⁴ Counting the independent director vacancy as of 31 December 2016.

- a) Approve the general policies and strategies of the Company and the Group, specifically including:
- i) The policies and strategies relating to the organisation and functioning of the Board and, in particular, the policies on the approval of and amendments to these Regulations.
 - ii) Approve the Strategic or Business Plan of the Company and its Group, as well as the annual budget and management objectives, and monitor compliance with the plan throughout the year.
 - iii) Determine the Company's general policies and strategies and, in particular, its tax strategy.
 - iv) Approve the investment and funding policy.
 - v) Approve the definition of the basic structure of the Group of companies of which the Company is the controlling company.
 - vi) Approve the Corporate Governance Policy of the Company and the Group of which it is the controlling company.
 - vii) Approve the Corporate Responsibility Policy.
 - viii) Approve the policy on remuneration of senior managers who report directly to the Board, the Chairman or the Managing director.
 - ix) Approve the main risk control and management policy of the Company and the Group and receive reports on and supervise the internal control, risk prevention and reporting systems.

The risk control and management policy must identify at least the following:

- The different types of risk (operational, technological, financial, legal and reputational, among others) that the Company and the Group face, including, among the financial and economic risks, any contingent liabilities and other off-balance sheet risks.
 - The level of risk the Company deems acceptable.
 - Planned measures to mitigate the impact of identified risks, in the event that they materialize.
 - The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.
- x) Approve the policy on communication and contacts with shareholders, institutional investors and proxy advisors.
 - xi) Approve the policy on the appointment and assessment of candidates to the Board of Directors.
 - xii) Approve the policy on the performance evaluation of the Board and the directors.

- xiii) Approve the policy on the dissemination of corporate governance, corporate responsibility, remuneration and risk management practices.
 - xiv) Approve the policy on the provision of non-audit services by the external auditor, without prejudice to the authority belonging to the Audit Committee.
 - xv) Approve and, where applicable, propose the dividend and treasury stock policies, especially the limits on treasury stock, to the General Meeting.
 - xvi) Other responsibilities specifically provided for in these regulations.
- b) The following decisions:
- i) Appointment and removal of the Company's Managing directors and the terms of their contract.
 - ii) Appointment and removal of senior managers of the Company who report directly to the Board or any of its members and the basic terms of their contracts, including their remuneration.
 - iii) The remuneration of directors, within the framework set by the Bylaws and the remuneration policy approved by the Shareholders' General Meeting, and in the case of executive directors, the additional remuneration for their executive functions and any other terms that must be included in their contracts.
 - iv) Authorization of activities prohibited by, or waiver of the obligations arising from, the duty of loyalty, as provided in Article 230 of the LSC.
 - v) The financial reports which, as a listed company, the Company must publish periodically or which it submits to the regulatory or market supervisory bodies for publication by them.
 - vi) Investments or transactions of any kind carried out by the Company or the Group which because of their amount or special characteristics are considered strategic, according to the criteria established by the Board of Directors, or which entail special tax risk, unless the approval of the General Meeting is required.
 - vii) The creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens and any other similar transactions or operations which, on account of their complexity, could impair the transparency of the Company and the Group.
- c) Subject to a report by the Audit Committee, the approval of any transactions which the Company or any Group company may enter into with directors, in accordance with the LSC, or with shareholders who, individually or in concert with others, hold a significant interest, including shareholders represented on the Board of Directors of the Company or other Group companies, or with people associated with them. The directors affected, or those who represent or are associated with the shareholders affected, must refrain from participating in the deliberations and voting on the resolution in question. Only transactions that meet all of the following three criteria do not require such approval:
- They are carried out under contracts the conditions of which are standardized and apply *en masse* to a large number of customers.

- They are carried out at prices or rates set on a general basis by the person supplying the good or service concerned.

- Their amount does not exceed 1% of the Company's annual revenue.

- d) Authorization of the financial statements and presentation to the Shareholders' General Meeting.
- e) Calling of Shareholders' General Meetings and drafting of the agenda and proposals for resolutions.
- f) Delegation of any authority the Shareholders' General Meeting may have delegated to the Board of Directors, unless expressly authorized by the Shareholders' General Meeting to sub-delegate.
- g) The preparation of any kind of report required of the Board of Directors by law provided the operation to which the report refers cannot be delegated.
- h) Annual assessment of:
 - i) The quality and efficiency of the functioning of the Board, the diversity of its composition and competencies, the performance of their functions by the Chairman of the Board and the Company's Managing director and, where applicable, the performance and contribution of each director, paying special attention to the chairpersons of the different committees, all this based on the report submitted to the Board by the Appointments and Remuneration Committee in coordination with the Lead Independent director, if any, or the Chairman, as the case may be.
 - ii) The composition and functioning of the Board's committees and of any other delegated body that may have been created, based on the report submitted to the Board by the Appointments and Remuneration Committee in coordination with the Lead Independent director or the Chairman, as the case may be.

The result of these assessments will be recorded in the minutes of the meeting or will be included in the minutes as an annex. Furthermore, based on the result of these assessments, the Board will prepare and present an action plan aimed at correcting any deficiencies and addressing any areas for improvement detected. The assessment process and the areas assessed will be described in the Annual Corporate Governance Report.

At least every two years, the Board of Directors will be assisted in carrying out the assessment by an outside consultant, whose independence will be verified by the Appointments and Remuneration Committee. Any business relationships the consultant or any company in its group may have with the Company or any Group company must be disclosed in the Annual Corporate Governance Report.

The Board must periodically review the general aspects of the assessment methodology used, the overall results of the assessment and any corrective measures adopted.

- **Tax responsibilities of the Board.**

Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, made important changes to the responsibilities of the Board of Directors of listed companies in relation to tax matters.

Following the reform of the LSC, in listed companies, the responsibility for setting tax strategy, formulating policy on tax risk management and control, and approving investments or transactions which because of their amount or special characteristics are considered strategic or which entail particular tax risk is reserved to the Board of Directors and cannot be delegated, thus reinforcing the strategic role of Boards of Directors in tax matters, in line with the trend in other countries in our environment in this respect.

In accordance with the action plan in tax matters presented to the Audit Committee on 18 February 2015, the Company has acted in compliance with the LSC and a series of voluntary measures have been implemented in order to improve and develop best tax practices, which are listed below:

- ✓ Approval by the Board of Directors of the Red Eléctrica Group's tax strategy at its meeting held on 30 June 2015.
- ✓ Approval by the Board of Directors, at its meeting held on 29 September 2015, of the Red Eléctrica Group's tax risk management and control policy and the inclusion of this policy in the Company's Enterprise Risk Management Policy.
- ✓ Approval by the Board of Directors of the tax aspects of investments or transactions which because of their amount or special characteristics are considered strategic or which entail special tax risk.
- ✓ Reporting on the tax policies applied in the annual corporate income tax return for 2014 and 2015. This was done before the annual tax filing, at the Audit Committee meetings held on 24 June 2015 and on 22 June 2016, respectively.
- ✓ Approval by the Board of Directors of the Red Eléctrica Group's becoming a signatory to the Code of Best Tax Practices, at its meeting on 29 September 2015.
- ✓ Reporting on the tax policies applied in the close of accounts for financial years 2015 and 2016. This was done in the Audit Committee meetings on 21 January 2016 and on 26 January 2017, respectively, before the financial statements for 2015 and 2016 were in turn authorized for issue.

Additionally, with a view to providing greater tax information transparency for its stakeholders, in 2015, for the first time, the Red Eléctrica Group published (in the 2014 Corporate Responsibility Report) its 2014 total tax contribution, demonstrating the important economic and social role the Red Eléctrica Group plays, through its tax contribution, in the various countries in which it operates.

In order to calculate its total tax payments, the Red Eléctrica Group uses PricewaterhouseCoopers's Total Tax Contribution (TTC) framework, which measures the total impact derived from a company's payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to the different tax authorities, directly or indirectly, as a result of the Red Eléctrica Group's economic activity.

The Red Eléctrica Group's total tax contribution for 2016 is published in the 2016 Corporate Social Responsibility Report.

The Red Eléctrica Group's tax strategy, which reflects the Group's vision and goals in tax matters, is based on the three fundamental values of transparency, good governance and accountability.

The vision driving the tax strategy can be summed up as follows:

“Manage tax matters proactively, acting responsibly and transparently towards all stakeholders and in such a way as to comply with tax legislation and minimize reputational risk, making compliance compatible with protection of shareholder value.”

In 2015 the Board of Directors approved the Red Eléctrica Group's tax risk control and management policy and its integration in the enterprise risk management policy. The tax risk control and management systems are described in section E of this Report.

The Red Eléctrica Group's Code of Ethics and tax strategy establish a commitment not to create companies in countries considered tax havens in order to evade tax.

Furthermore, at its meeting on 29 September 2015, the Board of Directors of Red Eléctrica Corporación, S.A. approved a resolution requiring the Red Eléctrica Group to subscribe to the Code of Best Tax Practices adopted by the Spanish Tax Agency within the framework of the Large Businesses Forum.

In 2016 there were no changes affecting the regime described above.

- **Composition**

At 31 December 2016 the Board of Directors was made up of 12 members, with one vacancy for an independent director, following the resignation of the Independent director Mr. Agustín Conde Bajén in November 2016.

Pursuant to the Bylaws, directors hold office for a term of four years.

A 12-year limit on the term of office of Independent directors was incorporated voluntarily in the Board of Directors Regulations several years ago (in 2010), following the recommendations of the Unified Code on Good Governance⁵. All other types of director may be reappointed indefinitely by the Shareholders' General Meeting. Act 31/2014, of 3 December, reforming the LSC, expressly specifies this limit, thus giving it legal status (Article 529 *duodecies* LSC). As the limit is now required by law, the new CBGSC no longer includes it among its recommendations.

Proposals for the removal of independent directors should not be made before the end of the statutory term of office for which they were appointed, except where there is sufficient cause, subject to a report by the Appointments and Remuneration Committee.

At 31 December 2016, the Board of Directors of Red Eléctrica had the following members:

Name of director	First appointed	Last appointed	Position on the Board	Type of director	Election procedure	Board committee membership
José Folgado Blanco	22/05/2008	15/04/16	Chairman	Other external	Shareholders' General Meeting	---
Juan Francisco Lasala Bernad	17/07/15	17/07/15	Managing director	Executive	Shareholders' General Meeting	---

⁵ Order ECC/461/2013 of 20 March, which determines the content and structure of the Annual Corporate Governance Report, the annual remuneration report and other reporting instruments of listed companies, savings banks and other entities issuing securities admitted to trading on official securities markets, incorporated said prohibition into law.

María Angeles Amador Millán	26/05/2005	18/04/2013	Member	Independent non-executive	Shareholders' General Meeting	Appointments and Remuneration General Meeting
Fernando Fernández Méndez de Andés	19/04/2012	15/04/16	Member	Proprietary non-executive (SEPI)	Shareholders' General Meeting	Audit General Meeting
Carmen Gómez de Barreda Tous de Monsalve	19/04/2012	15/04/16	Member	Independent non-executive	Shareholders' General Meeting	Appointments and Remuneration (chair)
María José García Beato	29/11/2012	18/04/2013	Member	Independent non-executive	Shareholders' General Meeting	Audit (member)
Socorro Fernández Larrea	9/5/14	9/05/14	Member	Independent non-executive	Shareholders' General Meeting	Appointments and Remuneration (member)
Antonio Gómez Ciria	9/5/14	9/5/14	Member	Independent non-executive	Shareholders' General Meeting	Audit (member)
Santiago Lanzuela Marina	29/07/14	15/04/15	Member	Proprietary non-executive (SEPI)	Shareholders' General Meeting	Audit (member)
José Luis Feito Higuera	13/02/15	15/04/15	Member	Independent non-executive	Shareholders' General Meeting	Audit (chairman)
José Ángel Partearroyo Martín	22/12/15	15/04/16	Member	Proprietary non-executive (SEPI)	Shareholders' General Meeting	Appointments and Remuneration General Meeting
Vacancy ⁶			Member	Independent non-executive		

- **Directors' professional profiles.**

The Company's directors are professionals of high standing, with broad professional experience. They bring to their task the necessary experience and knowledge to enable the Company to carry on its activities effectively and efficiently.

Set out below are the principal activities pursued by Board members outside the Company at 31 December 2016:

Chairman of the Board and Managing director

José Folgado Blanco, born 3 April 1944.

⁶ At its meeting on 31 January 2017 the Board of Directors appointed Mr. Arsenio Fernández de Mesa y Díaz del Río as an independent director to fill the vacancy arising from the resignation of Mr. Agustín Conde Bajén, which was accepted by the Board of Directors on 29 November 2016.

Degree in Economics. Final-year award with special distinction.
Doctorate in Economics, Universidad Autónoma de Madrid.

Currently:

Member of the Social Board, Universidad Autónoma de Madrid.
Chairman of the Board of Directors of Red Eléctrica Corporación, S.A.

Formerly:

Tenured Professor of Public Finance and Tax Systems, Universidad Autónoma de Madrid.

Head of the Economics Department of the CEOE.

Member of the Economic and Social Board representing business organisations.

Secretary of State for Budgets and Expenditure. Ministry of Economy and Finance, from May 1996.

Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, from April 2000.

Secretary of State for Energy, Industrial Development and Small and Medium-Sized Enterprises. Ministry of Economy, since July 2002.

Member of the Spanish Parliament representing the province of Zamora and Vice-Chairman of the Finance Committee since March 2004.

Mayor of Tres Cantos (Madrid) since June 2007.

Managing director

Juan Francisco Lasala Bernad, born 25 February 1967

Degree in Business Studies, Universidad Complutense de Madrid.

Currently:

Managing director of Red Eléctrica Corporación, S.A.

Formerly:

A member of the Company since 2001, he has performed executive functions in the international area and in the Telecommunications area and has held the position of director of Planning and Control and corporate Finance Director.

Director of Planning and Control of the Avanzit group and group CFO for Spain.

CFO of Midas, Spain.

Assistant CFO at Burger King, Spain.

Auditor at KPMG Peat Marwick.

Independent non-executive director

María Angeles Amador Millán, born 10 October, 1949.

Law Degree, Universidad Complutense de Madrid

Diploma in Human Rights, Institut International des Droits de l'Homme of Strasbourg.

Research study on Industrial Property Law, Harvard Law School (Cambridge, Massachusetts).

Currently:

Practising lawyer.

Formerly:

Technical General Secretary, Ministry of Public Works and Urban Development.

Deputy Secretary, Ministry of Health and Consumer Affairs.

Minister for Health and Consumer Affairs.

Member of the Spanish Parliament.

Member of the Governing Council of the Madrid Bar Association.

Proprietary non-executive director proposed by SEPI)

Fernando Fernández Méndez de Andés, born 10 February 1956.

Doctorate in Economics, Universidad Autónoma de Madrid.

Professor of Economics, IE Business School.

Currently:

International Consultant on macroeconomic, financial and regulatory issues.

Collaborator with the Fundación de Estudios Financieros.

Economic columnist and commentator in various media.

Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.

Independent director of Bankia, S.A.

Formerly:

Member of the Expert Committee for Tax Reform, 2013-2014

Member of the Bruegel Evaluation Committee, 2013.

Principal Economist at the International Monetary Fund.

Chief Economist and Director of the Research Department of Banco Central Hispano (BCH) and Banco Santander

Vice-Chancellor of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.

Director of the European Business Programme.

Independent non-executive director (Lead Independent director)

Carmen Gómez de Barreda Tous de Monsalve, born 20 May 1968.

Degree in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).

Master in Business from the IESE (Executive MBA), University of Navarra.

Currently:

Director General of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)

Formerly:

Head of the Cogeneration Department, Business Management, Enagás.

Head of the International, Petrochemical and Marketing Departments of Repsol.

Director of Services Development at Union Fenosa.

Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).

Institutional Relations and Communications Manager for BP Oil España.

Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).

Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER).

Professor at lectures and/or presentations on different Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

Independent non-executive director

María José García Beato, born 27 May 1965.

Law Degree, Universidad de Córdoba. State attorney.

Currently:

Non-director Vice-Secretary of the Board of Directors of Banco Urquijo, S.A.

General Secretary and member of the Management Committee of Banco Sabadell, S.A.

Secretary of the Board of Directors of Sabadell United Bank (Miami).

Trustee of Fundació Privada Banc Sabadell.

Trustee of Fundación Española de Banca para Estudios Financieros (FEBEF).

Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.

Member of the Advisory Board of Fundación Cajasur.

Formerly:

State Attorney at the High Court of Justice in Madrid.

Head of the Legal Services Department of the Data Protection Agency.

Spanish representative on the Advisory Board of the European Committee on Data Protection.

Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.

State Attorney in the Sub-division of the State Legal Services Division.

State Attorney in the Communications Secretariat at the Ministry of Development.

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.,

Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA),

Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI),

Director, Sociedad Estatal Correos y Telégrafos, S.A.,

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Deputy Secretary for Justice.

State Attorney in the Audiencia Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.

Secretary of the Board of Directors of Retevisión, S.A.

Secretary of the Board of Directors of Banco Urquijo, S.A.

Director, Banco Gallego S.A.

Independent non-executive director

Mr. Antonio Gómez Ciria, born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Masters in Business Administration & Management (Executive MBA), IESE.

Accredited Accounting Expert – AECA.

Currently:

Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

Member of the Board of Directors of Mapfre Spain and of Mapfre Global Risks.

Formerly:

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC.

Representative of Grupo FCC at the Large Businesses Forum, Ministry of Finance and Public Administrations.

Among other positions, he is General Manager for Administration and IT and belongs to the Management Committee of Grupo FCC.

Head of Internal Audit of the FCC group.

Member of the Advisory Council of the Internal Auditors Institute and a Member of its Executive Committee.

General Technical Secretary of InverCaixa, investments management company of La Caixa Group.

Chairman of 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.

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid.

Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española.

Head of the Auditing and Accounting Department of Banco de Crédito Agrícola.

Auditor/Inspector of the General State Inspectorate.

Other:

Member of the CNMV Work Group to prepare a "Management report guide for listed entities".

Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

Independent non-executive director

Ms. Socorro Fernández Larrea, born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid, and Senior Management Program, IESE

Currently:

MANAGING DIRECTOR of the consultancy firm JustNow, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

Member of the Board of Directors of the Spanish engineering firm SEG, S.A.

Member of the Board of Directors of the Spanish construction and real estate firm ACR.

Member of the advisory board of the Mexican engineering firm CAL Y MAYOR

Member of the advisory board of the real estate firm ZELTEX, with activity in Senegal

Formerly:

MANAGING DIRECTOR at COPISA Constructora Pirenáica, S.A.

Vice-Chairman of ANCI, the association of independent builders.

Member of the governing council of the Civil Engineers Association.

Regional Manager of the construction firm Seop, Obras y Proyectos, S.A.

National representative, Ferrovial Conservación, S.A.

Representative for Castilla-La Mancha, Ferrovial-Agroman, S.A..

Representative for Castilla-La Mancha, Agroman Empresa Constructora, S.A.

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha.

Site manager, Ferrovial, S.A.

Other:

Member of the advisory board of the daily newspaper Expansión

Member of WCD, Women Corporate Directors, and co-chairman of the Spain chapter

Member of AED, Asociación Española de Directivos, and member of its Executive Committee

Member of CEAL, Consejo Empresarial de América Latina, and member of the Executive Committee of the Iberian chapter.

Member of WPO-YPO, Young Presidents' Organisation, and member of the executive committee of the Eurolatam chapter.

Member of IWF, International Women's Forum.

Proprietary non-executive director, on behalf of SEPI

Santiago Lanzuela Marina, born 27 September 1948.

Degree in Economics & Trade.

Civil servant of the State.

Formerly:

Adjunct Professor, Faculty of Economics and Business Studies, Universidad de Valencia (1971-1973).

Head of the Spanish Mission for Technical Cooperation in Nicaragua (1974-1976).

Head of International Technical Cooperation Programmes, Ministry of Employment (1976-1981).

Advisor to the President of Instituto de Cooperación Iberoamericana (1982).

Head of the National Heritage Inspection Service (1987).

Regional Councillor of Economy and Finance, Government of Aragón (1989-1993).

Founder and Chairman of Instituto aragonés de Fomento (1990).

President of Centro Europeo de Empresas e Innovación de Aragón (1992).

Parliamentary Member for Aragón (1991-1999).

President of the Autonomous Community of Aragón (1995-1999).

Senator for the Autonomous Community of Aragón. Chairman of the Senate Economy and Finance Committee (1999-2000).

Congressman, President of the Economics and Tax Commission in Congress (2000-2004).

Congressman, Member of the Permanent Council, Vice-Chairman of the Committee for Foreign Affairs and Member of the Development Committee (2004-2008).

Member of the Territorial Management Committee. Sponsor of the "Deputy Committee to analyse Spain's energy strategy for the next 25 years" (2008-2011).

Congressman, President of the Economics and Competition Commission, Member of the Committee for Foreign Affairs, Member of the Development Committee, and member of the Spanish Delegation in the Parliamentary Assembly to Organize Security and Cooperation in Europe-OSCE (2011-28/7/2014).

Independent non-executive director

José Luis Feito Higuera, born on 13 April 1952.

Degree in Economics and Business Studies, Universidad Complutense de Madrid.

State Trade Expert and Economist.

Ambassador of Spain.

Currently:

Chairman and General Manager of IEE (Instituto de Estudios Económicos) since 2009.

Chairman of the Economic and Financial Policy Committee of the Spanish employers confederation CEOE and member of its Executive Committee and Management Board since 2001.

Member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012.

Member of the editorial board of the daily newspaper Expansión since 2001.

Formerly:

Chairman of the concessionaires association ASETA, Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).

Ambassador of Spain to the OECD in Paris (1996-2000).

Partner and Member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), where he has been Chief Economist and head of various investment banking areas (1986-1996).

Head of international financial institutions at the Banco de España, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Economic Community in Basel (1984-1986).

Technical Advisor and Executive Director of the International Monetary Fund in Washington (1980-1984).

Head of the Foreign Sector Research and Data Processing Service of the Ministry of Economy and Finance in Madrid (1978-1980).

Programmer, analyst and IT executive at Seresco, S.A. and Entel-Ibermática, S.A. in Madrid (1967-1978).

Proprietary non-executive director, on behalf of SEPI

José Ángel Partearroyo Martín, born 16 February 1974.

Law degree from Universidad de Salamanca.

Master's degree in Business Legal Advice (LLM) from Instituto de Empresa. Public service exams to qualify as a judge and public prosecutor.

Currently:

General Manager of SEPI.

Formerly:

Head of Investees of the Communication Division of SEPI.

Associate Lawyer at KPMG Abogados, S.L.

Associate Lawyer at Goñi y Cajigas Abogados, S.L.

Senior Lawyer as Ramón y Cajal Abogados (in alliance with Mayer Brown).

Senior Associate at BIRD & BIRD (Spain) LLP.

Associate Professor of Company Law in the Law Faculty of the Colegio Universitario Cardenal Cisneros (attached to Universidad Complutense de Madrid).

Associate Professor of Company Law in the Law Faculty of Universidad Rey Juan Carlos I.

Non-director Secretary of the Board of Directors

Rafael García de Diego Barber, born 27 July 1951.

He was appointed Secretary of the Board of Directors and legal advisor at the Board meeting held on 4 May 1995.

Law degree, Universidad Complutense, Master's Degree in Tax Counselling for Businesses, Instituto de Empresa.

Currently:

Secretary General and of the Board of Directors of Red Eléctrica de España, S.A., Member of the Madrid Bar Association, Director of the Dutch company Red Eléctrica de España Finance B.V., Joint Director of Red Eléctrica Financiaciones, S.A.U. and Director of the Luxembourg company REDCOR Reaseguros, S.A.

Formerly:

Lawyer, Loss Department, Zurich, S.A., Lawyer and Secretary of the Boards of Directors of companies in the Inmobiliario Pradisa Group, Lawyer and tax advisor of Ageco, Sociedad de Gestión Financiera and a tax manager of Banco Internacional de Comercio, S.A., Lawyer of the Legal Department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX), Lawyer of the Legal Department, Head of the Legal Department and Director responsible for Legal Affairs at Red Eléctrica de España, S.A.

Non-director Vice-Secretary of the Board of Directors

Fernando Frías Montejo, born 11 March 1965.

He was appointed Vice-Secretary of the Board of Directors at the meeting held on 21 April 2005.

Degree in Law and Certificate in Business Studies, Universidad Pontificia de **Comillas (ICADE-E-1)**.

Currently:

Member of the Madrid Bar Association, and Head of the Corporate Governance and Compliance Department of Red Eléctrica de España, S.A.

Formerly:

Lawyer in the Legal Department of Red Eléctrica de España, S.A. since 1990 and Secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., Red de Alta Tensión, S.A. and Tenedora de Acciones de Redesur, S.A.

- **Attendance at Board of Directors and committee meetings.**

Set out below are data on the Company directors' attendance and non-attendance of meetings of the Board of Directors and the Audit and Appointments and Remuneration Committees in 2016.

- **Board of Directors:**

Of the eleven (11) Board meetings held in 2016, there was one absence and two proxy attendances, bringing the number of attendances in person to 127, representing an attendance rate of 97.7%.

Attendance at Board of Directors meetings		
Director	Present	Represented
José Folgado Blanco	11	0
Juan Francisco Lasala Bernad	11	0
María Angeles Amador Millán	10	1
José Luis Feito Higuera	11	0
Fernando Fernández Méndez de Andrés	10	1
Paloma Sendín de Cáceres	3	0
Carmen Gómez de Barreda Tous de Monsalve	11	0
María José García Beato	11	0
José Ángel Partearroyo Martín	11	0
Antonio Gómez Ciria	11	0
Socorro Fernández Larrea	10	0
Santiago Lanzuela Marina	11	0
Agustín Conde Bajén	6	0

With respect to the number of attendances, it should be noted that some directors did not hold their office throughout the whole of 2016, specifically the following:

-Mr. Agustín Conde Bajén was appointed independent director of Red Eléctrica Corporación, S.A. by the Shareholders' Annual General Meeting held on 15 April 2016 and at its meeting on 29 November 2016 the Board of Directors accepted his resignation, which he tendered on being appointed Deputy Minister of Defence.

-Ms. Paloma Sendín de Cáceres held the position of independent non-executive director of Red Eléctrica Corporación, S.A. until the Shareholders' Annual General Meeting of the Company held on 15 April 2016, when her term of office expired and she was not reappointed.

- Audit Committee:

Of the eleven (11) Audit Committee meetings held in 2016, no directors failed to attend.

- Appointments and Remuneration Committee:

The Appointments and Remuneration Committee held thirteen (13) meetings in 2016, with three (3) non-attendances.

- **Chairman of the Board.**

Since 8 March 2012 the position of Chairman of the Board of Directors of the Company has been held by Mr. José Folgado Blanco. Since the Shareholders' Annual General Meeting held on 15 April 2016 the Chairman of the Board has had no executive powers.

Until the Shareholders' Extraordinary General Meeting held on 17 July 2015, the Board of Directors included only one executive director, who was also the Company's Chairman. However, there were numerous checks and balances that helped maintain a balance of powers on the Board. The Managing director was subject to specific controls of his responsibilities by the Board of Directors, from which he had to request subsequent ratification regarding any urgent decisions he had to adopt or, as the case may be, request prior authorization for such decisions. The independent directors, who until July 2015 represented 64% of the Board of Directors, and the Board committees, which had specific powers, also contributed to that balance of powers. In this respect, the most important measures were approved in 2013, following international corporate governance recommendations, with the corresponding amendments to the Board of Directors Regulations and the Bylaws.

The relevant amendments made to the Board of Directors Regulations on 13 March 2013 were as follows:

-The possibility of creating the position of Lead Independent director and a procedure for appointing, removing and regulating the lead director's powers and responsibilities (a role that was appointed in May 2013).

-The introduction of specific measures for the separation of the positions of Managing director and Chairman of the Board of Directors.

-Express reservation to the Board of Directors of certain competences and powers which, for reasons of urgency, had previously been delegated to the Chairman of the Board of Directors.

-Provision requiring that the number of Independent directors must represent at least half of the total number of directors. When the Chairman of the Board is also the Managing directors of the Company, the independent directors should constitute a majority of the total number of directors.

The Shareholders' General Meeting held on 18 April 2013 amended the Bylaws by introducing counterbalancing measures similar to those introduced in the Board of Directors Regulations, in cases in which the Chairman is also the Managing director of the Company (regulating the role of Lead Independent director) and other measures that allowed the separation of the two offices.

The corporate legal regime approved in 2013 allowed the de facto separation of the positions of Chairman of the Board and Managing director of the Company and even allowed the appointment of one or more managing directors besides the Chairman. All these matters were resolved at the Shareholders' Extraordinary General Meeting held on 17 July 2015. At that meeting, having received the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company", which had previously been approved by the Board of Directors, the shareholders resolved to increase the number of directors by one, setting the total at twelve, and appointed a new executive director (who subsequently was appointed Managing director by the Board of Directors). Subsequently, at its meeting on 28 July 2015, the Company's Board of Directors appointed the new executive director, Mr. Juan Francisco Lasala Bernad, to be Managing director of the Company. That appointment marked the start of a transitional period, in which the Company had two executive directors (the Chairman of the Board and the Managing director) and which came to a conclusion at the Shareholders' Annual General Meeting held on 15 April 2016. At that meeting the Company's Chairman was re-elected as a director in the "other external" category, thus losing his status as an executive director.

In Red Eléctrica the Chairman of the Board of Directors is chosen from among the Board's members, after consideration of a report by the Appointments and Remuneration Committee, and is the person responsible for leading the Board of Directors and ensuring that it functions effectively. Under the corporate regulations, if the position of Chairman falls upon an executive director, the appointment will require the vote in favour of two-thirds of the members of the Board of Directors.

Under the Board of Directors Regulations, the Board of Directors has reserved to itself, and is not permitted to delegate, the responsibilities and competencies it considers strategic, which in December 2016 were expanded with the approval of the amendment to the Board of Directors Regulations. The reserved responsibilities cannot be assumed by the Chairman of the Board, the Managing director or the Board committees.

Article 529 *sexies* of the LSC, which was added following the reform enacted by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, regulated the powers of the Chairman of the Board for the first time, naming the Chairman as the person ultimately responsible for the effective functioning of the Board of Directors. Besides the functions specified in law, the Bylaws and the Board of Directors Regulations, the LSC also gives the Chairman the following responsibilities:

- Convene and chair Board meetings, setting the agenda and conducting the discussions and deliberations.
- Chair the Shareholders' General Meeting.
- Ensure that directors receive sufficient information in advance to be able to deliberate on the business of the meeting.
- Stimulate debate and active participation by directors during Board meetings, safeguarding their freedom to take positions and express opinions.

The Shareholders' Annual General Meeting held on 15 April 2015 approved amendments to the Bylaws aimed at fully adapting them to the LSC and specifically amended Article 25 of the Bylaws to include the powers assigned to the Chairman of the Board in Article 529 *sexies* of the LSC.

Articles 20 and 21 of the Company's Bylaws assign to the Chairman of the Board the functions of representing the Board of Directors on a permanent basis, calling a vote on Board matters once they have been sufficiently debated and ensuring that Board resolutions are complied with.

Additionally, Recommendation 33 of the new CBGSC extends the powers of the Chairman of the Board to include the following:

- Prepare and submit to the Board a schedule of meeting dates and items of business to be transacted.
- Organize and coordinate the periodic assessments of the Board and, where applicable, the Managing director.
- Guide the Board and be responsible for its effective functioning.
- Ensure that sufficient time is given to discussion of strategic matters.
- Agree upon and review the Board members' professional development programmes.

Article 9 of the Company's Board of Directors Regulations assigns certain functions to the Chairman of the Board and, following its recent amendment, has been adapted to the content of Article 529 *sexies* of the LSC, the abovementioned Recommendation 33 CBGSC and the changes in the Board's organisation and functioning resulting from completion of the separation of the positions of Chairman of the Board and Managing director, among other things.

Under Article 12 of the Company's Shareholders' General Meeting Regulations, the Chairman of the Board of Directors has for many years been responsible for chairing the Shareholders' General Meeting, anticipating the new legal provision introduced with the recent reform of the LSC.

- **Directors' responsibilities and duties.**

The Board of Directors Regulations provides mechanisms in order to act against potential infringements of corporate governance rules on the part of directors. As explained in Chapter I of Title I of this report, following the entry into force of Act 31/2014 of 3 December, there have been some changes to directors' duties, which have prompted amendments to the Board of Directors Regulations to adapt them to the LSC.

The main changes introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, as regards the duties of directors were as follows:

- The duty of care of directors was described and specified.
- Obligations arising from directors' duty of loyalty (such as the duty of secrecy and the duty to abstain where there is a conflict of interest), which became mandatory, and the consequences of non-compliance were reformulated; other new obligations were added, such as the obligation of directors to act according to their free judgement, without accepting instructions from or ties with third

parties; and, in general, the duty to adopt the necessary measures to avoid any potential conflict of interest with the Company.

-Further details were provided on obligations arising from the duty to avoid conflicts of interest, reformulating some of the current obligations arising from the duty of loyalty, which were already regulated in various provisions of the LSC.

-The cases where directors may be released from compliance with the obligations arising from the duty of loyalty and the duty to avoid conflicts of interest (such as transactions executed with the Company, taking advantage of a business opportunity or the possibility of competing with the Company) were regulated.

Through the amendment approved on 20 December 2016, the Board of Directors Regulations were adapted to the LSC, mainly to Articles 225, 227, 228, 229, 230, 529 *ter* and *quater*. The directors' duties regulated in Articles 30 to 38 of the Board Regulations are now as follows:

-General duty of care

Directors must exercise their office and perform the duties imposed by law with the care of prudent businessmen, in line with the nature of their office and the functions assigned to each one of them. In particular, they have an obligation to:

- a) Be properly informed and prepared for meetings of the Board and any committees of which they are members. For this purpose, directors have a duty to demand, and a right to receive, the information they need from the Company in order to be able to perform their obligations.
- b) Devote the necessary time and take the necessary steps to ensure that the Company is properly supervised and controlled. In particular, they must devote enough time to be able to perform their functions effectively and know the Company's business and rules of governance, taking part in any professional development programmes the Company may organize, as provided by Article 26 of the Board of Directors Regulations.
- c) Attend in person the meetings of the Board and any committees of which they are members and take active part in the deliberations, so as to make an effective contribution, with their judgment, to Board decision making.

If they are unable, for good reason, to attend a meeting to which they have been called, they must give instructions to the director who is to represent them, in accordance with Article 20 of the Board Regulations. Non-executive directors may only appoint another non-executive director to represent them and executive directors must try to appoint another executive director, if possible.

Non-attendances will be reported in the Annual Corporate Governance Report.

- d) Perform any specific task assigned to them by the Board of Directors that is reasonably within their time commitment.
- e) Sponsor the investigation of any irregularity in the management of the Company or any Group company that may come to their notice and the surveillance of any risk situation.
- f) Call on persons with the necessary authority to call an extraordinary meeting of the Board of Directors or of a Committee when they consider there to be matters

that require discussion, or to add such matters to the agenda of the next meeting that is to be held.

- g) Have at their disposal and gather the information they need in order to perform their functions effectively and regularly monitor any issues arising out of the Company's activity, it being their responsibility to identify and request such information from the Chairman or the Secretary of the Board.
- h) Oppose any resolutions that are contrary to the law, the Bylaws or the corporate interest, expressing their opposition clearly. In particular, independent directors and those unaffected by any potential conflict of interest must oppose resolutions that may be contrary to the interests of shareholders who are not represented on the Board. This obligation also applies to the Secretary of the Board, even if not a director. If the Board adopts significant or reiterated decisions about which a director or the Secretary has serious doubts, they must draw the necessary conclusions and, if they opt to resign, must explain the reasons as provided in Article 24.4 of the Board Regulations.

-Duty of loyalty

Directors must carry out their duties with the loyalty of a faithful representative, acting in good faith and in the best interests of the Company, and must comply with the duties imposed by law, the Bylaws and the Board of Directors Regulations.

In particular, the duty of loyalty obliges directors to:

- a) Not use their authority for any purposes other than those for which it has been granted.
- b) Keep secret all information, data, reports or records to which they may have access in the performance of their duties, even after they have left office, except where permitted or required by law.
- c) Refrain from deliberating or voting on resolutions or decisions in which they, or persons related to them, have a direct or indirect conflict of interest. Resolutions or decisions that affect a director as such, such as those concerning a director's appointment to or removal from positions on the Board of Directors or other such decisions, are excluded from the abovementioned obligation to refrain.
- d) Carry out their duties in accordance with the principle of personal responsibility, exercising their own judgment, independently of any instructions from or ties to third parties.
- e) Take the necessary steps to avoid situations in which their activities, whether for their own account or on behalf of others, conflict with the interests of the Company and their duties to the Company.

-Duty to avoid conflict of interest situations

The duty to prevent conflicts of interest referred to in paragraph e) of the previous section obliges directors to refrain, in particular, from:

- a) Entering into transactions with the Company, except for small-scale, ordinary transactions carried out on the standard terms for customers, that is to say, transactions that do not need to be reported in order to give a true and fair view of the Company's assets and liabilities, financial position and results of operations.

- b) Using the Company's name or their status as directors to unlawfully influence the execution of private transactions.
- c) Using the Company's assets, including confidential information, for private ends.
- d) Exploiting the Company's business opportunities for their own benefit.
- e) Seeking advantages or remuneration from parties other than the Company or the Group for the performance of their duties, unless the advantages or remuneration consist of mere business courtesies.
- f) Carrying on activities for their own account or on behalf of others that actually or potentially bring them into competition with the Company or that in any other way place them in permanent conflict with the interests of the Company.

The above provisions will also apply if the beneficiary of the prohibited actions or activities is a person related to a director, within the meaning of applicable laws and regulations.

In any case, directors must notify the Board of Directors of any direct or indirect conflict that may exist between their own interests, or those of persons related to them, and the interests of the Company.

Any conflicts of interest directors may have will be reported in the notes to the financial statements.

-Non-public information

Directors must also refrain from performing, or suggest that anyone perform, a transaction involving securities of the Company or its subsidiaries, associates or related parties, on the basis of information obtained from their office, or insider or reserved information, as long as this continues to be non-public information.

This is without prejudice to the rules of the Internal Code of Conduct in the Securities Market that may be applicable in each case.

-Directors' duty of disclosure

Directors must disclose to the Company any interests they may have in the Company and any options on shares or derivatives linked to the value of the shares, whether held directly or through companies in which they have a significant interest. This disclosure will include any changes to such interests or associated rights, independently of compliance with securities market regulations.

Directors must also disclose to the Company their other professional obligations, in case those other obligations could interfere with their obligations as directors of the Company. In particular, they must disclose all the positions they hold and all the activities they carry out in other companies or entities whose business is the same, analogous or complementary to that of the Company or any Group company, or that are in any way competitors of the Company; as well as any ownership interest in such companies and, in general, any other circumstance or situation that could be relevant to their performance of their duties or their independence of judgment as directors of the Company.

Directors must notify the Company of any material change in their situation which affects the characteristic or condition that was the basis for their appointment as directors or which might entail a conflict of interest.

Director must disclose to the Company any proceedings brought against them in court, through administrative channels or in any other form that are of sufficient importance to have the potential to harm the Company's name and reputation, in particular any criminal proceedings in which they are the subject of investigation, as well as the progress and outcome of such proceedings.

- **Removals.**

Article 24 of the Board of Directors Regulations provides that the directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the Shareholders' General Meeting in the exercise of the powers legally granted to them.

Furthermore, a list was drawn up describing the cases in which the directors must tender their resignation to the Board of Directors and, if the Board so decides, resign.

In 2016 the independent director Mr. Agustín Conde Bajén gave notice that he had been appointed Deputy Minister of Defence and tendered his resignation, which was accepted by the Company's Board of Directors at its meeting on 29 November 2016, in compliance with the provisions of the former Article 22.4 (currently 24.4) of the Board of Directors Regulations. This resignation was reported to the CNMV as a Relevant Event on 29 November 2016.

- **Directors' Portal.**

The Directors' Portal is a project that began seven years ago, with a view to applying new technologies in the day-to-day work of the members of the Board of Directors and its committees.

The portal places the most modern electronic means at the disposal of the directors, so as to enhance efficiency in the functioning of the Board of Directors and its committees. The portal was designed to make the existing processes more efficient and ensure security of information.

The content of the portal is divided into sections, distinguishing between documentation relating to Board meetings, documentation relating to the Board's two committees and other documents of special interest to the Board. It also includes various sections with corporate information about the Company, the main legislation affecting the Company's activities, all the corporate information of interest to the directors in the exercise of their duties, information on the activities and functioning of the Company's various organisational areas, press information concerning the Company and other information which may help the directors gain a better understanding of the Company's activity and functioning and assist them in the performance of their duties as directors.

The content of the Directors' Portal has been extended several times to include information on corporate responsibility, expand the corporate documentation and make technical improvements, making it a highly-valued tool by the directors.

The Director's Portal is constantly reviewed to ensure it is always up to date and that all possible improvements are made.

In 2016, following a thorough review of the portal, a new tool was implemented: in view of the considerable advances in information technology in recent years and building on the experience acquired to date, the portal was subjected to a structural and functional review, with the aim of implementing technical improvements (software modernization, compatibility with new mobile electronic devices and browsers, etc.) that would make it more modern and more efficient.

- **Board assessment.**

In recent years, Red Eléctrica has been making large efforts in corporate governance by adopting applicable best practices, aiming to provide greater information transparency to investors and other stakeholders.

Red Eléctrica has been one of the first companies to implement a voluntary assessment of its governing body. For the last years it has used external advisers to bring a more objective, more independent point of view to bear on the Board's self-assessments, following the recommendations established by recent amendments to legislation and the good practices applicable in the field of corporate governance.

The self-assessment for 2015, which focused on the Board of Directors and its committees, addressed areas such as the performance of the functions of the governing bodies, the relations with shareholders and investors, and the Board of Directors' remuneration policy. In carrying out the assessment Red Eléctrica had the assistance, for the third time, of PricewaterhouseCoopers (PwC).

The self-assessment was carried out through interviews conducted by PwC with the directors, under the supervision and coordination of the Appointments and Remuneration Committee and the Lead Independent director. During the interviews, the directors gave their opinion on the topics that were raised.

The final report on the conclusions was approved by the Board of Directors at its meeting on 28 June 2016, after a long period of debate and reflection.

As in previous years, the results of the self-assessment show that Red Eléctrica's governing bodies are highly efficient and work well, receiving very positive assessments for their internal structure and functioning and fulfilment of their assigned responsibilities.

It is worth noting that most of the directors have a good opinion regarding the involvement of the Board of Directors in the Strategic Plan approval processes and the separation of the positions of Chairman of the Board and Managing director of the Company, assessing the advantages of said organisation model for Red Eléctrica and its shareholders.

The performance of the functions assigned to the various governing bodies was also very positively regarded, highlighting the interaction between the Board of Directors and senior management, in particular the willingness of the Company's executives to make themselves available, the rigour and careful preparation of their appearances before the Board and their acceptance of the Board's guidance and supervision.

The 2015 self-assessment showed that the Company is advanced in terms of corporate governance and is currently in line with substantially all the recommendations of the new CBGSC, as approved by the CNMV at the beginning of 2015. Most of the directors are of the opinion that, generally speaking, the changes introduced by the reform of the LSC and the new CBGSC will require some slight adaptation but do not substantially affect the functioning of the Company.

As required by the LSC, the Board of Directors proposed an action plan specifying areas for improvement.

Once the results of the self-assessment had been analysed, the progress made to date and the areas for improvement were identified. The main challenges to be addressed in

the short and medium term in order to continue improving in the matter of corporate governance are as follows:

-Continue to develop good practices within the Company's governance model, looking beyond the new regulatory requirements contained in the LSC.

-Continue to implement professional development programmes for directors on subjects related to the energy sector, taxation, innovation and technology, risk management and corporate governance, and other matters of interest for the proper functioning of the Board.

-Continue to develop and strengthen the model of relations between Red Eléctrica's governing bodies and investors and proxy advisors, as well as the policy for communication and contacts with institutional investors and proxy advisors.

-Continue to organize and structure the relations and interactions between the Board of Directors and/or its committees and the Company's senior management.

-Monitor effective implementation of, among others, the following:

- Reflect on the Board of Directors' performance of its supervisory functions and senior management's performance of its executive functions, seeking to clearly separate responsibilities in each area, so as to prevent possible dysfunctions and align expectations.
- Review the functions of the Lead Independent director and their appropriateness to the new Company's governance structure.
- A more precise description of the responsibilities of the Appointments and Remuneration Committee in relation to the appointment of the Company's senior managers.
- Review the scope of the Board of Directors' self-assessment.

-Take further steps to design and put in place a succession plan that establishes the guiding principles and mechanisms of succession, with a special focus on the positions of Chairman and Managing director.

The firm of consultants that has assisted with the assessment of the Company's Board has other business relationships with the Company and companies in its Group. The fees earned by the consultants for the services provided in the assessment of the Company's Board of Directors represent 14.14% of the total fees for services provided by the firm to the Company and companies in its Group.

The assessment for 2016, currently under way, is being carried out with the help of a new external consultant, bringing a different point of view to the new self-assessment process, with the aim of continuously improving the functioning of the Board of Directors and its committees.

- **Board remuneration policy.**

The main elements and aspects of the policy on directors' remuneration are described in Chapter I of this Title II, to which readers are referred to avoid unnecessary repetition.

CHAPTER V.- BOARD COMMITTEES

The committees created by the Board of Directors to support it in its duties are eminently specialized and are designed for efficiency and transparency.

Pursuant to the Bylaws and the Board of Directors Regulations, the Company has two Board committees: the Audit Committee and the Appointments and Remuneration Committee. The roles and responsibilities of these committees are established in the Bylaws, which at the Shareholders' Annual General Meeting held on 15 April 2015 were amended to bring them into line with the new rules introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. The Board of Directors Regulations was also amended, on 20 December 2016, to fully adapt them to the recent reforms of the LSC and the CBGSC and improve the organisation and functioning of Board committees in line with the new organisational structure, among other things.

Following the recent reforms of the LSC, the latest international practices and recommendations regarding the composition and independence of the committees and the qualifications of their members have been consolidated. The main points were already covered in the amendments to the Bylaws and the Board of Directors Regulations approved in 2013. Nevertheless, these corporate regulations have been reviewed to fully adapt their content to the new act and to incorporate amendments required by Act 22/2015, of 20 July (the Audit Act)..

As regards committee composition, at its meeting on 24 November 2015, further to a proposal made by the Chairman of the Board of Directors and subject to a prior opinion from the Appointments and Remuneration Committee, the Company's Board of Directors agreed to increase the number of members of each Board committee (the Audit Committee and the Appointments and Remuneration Committee) from four (4) to five (5). The Board of Directors Regulations, which were amended on 20 December 2016, sets the number of members of Board committees at five (previously the number was set at no fewer than three and no more than five).

This measure gives the Appointments and Remuneration Committee greater independence in the exercise of its functions (Article 24.3 of the Bylaws and the new Article 17 of the Board of Directors Regulations), as the independent directors (three out of five members, including the independent director vacancy) are more strongly represented (equivalent to 80%) and carry more weight in decision making. The presence of women on the Appointments and Remuneration Committee has also been increased (three out of four members, not counting the abovementioned vacancy), in compliance with the obligation established in the new Article 18.1. n) of the Board of Directors Regulations to ensure that gender diversity is taken into account when filling new vacancies by setting a target for the representation of the less well represented gender and preparing guidelines on how to achieve that goal. The increase in the number of members of the Appointments and Remuneration Committee from four to five, all of them non-executive directors and a majority of them independent, also meets the demands of Article 529 *quindecies* of the LSC, which establishes that "the Appointments and Remuneration Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, at least two of whom shall be independent directors", and reinforces compliance with Recommendation 47 of the CBGSC, which recommends that a majority of the members of said committee be independent directors, given that the proportion of independent directors on the committee has increased.

With the increase in the size of the Audit Committee from four to five members and the inclusion of a proprietary director, the Company continues to comply with the rule that the committee be made up of a majority of independent directors and continues to maintain the committee's independence in the exercise of its functions (Article 23.3 of the Bylaws and the new Article 15 of the Board of Directors Regulations), given that the independent directors (three out of five members) continue to have more weight in decision making. One of the five members of the Audit Committee is a woman. The expansion of the Audit Committee to five members, all of them non-executive directors

and a majority of them independent, meets the demands of Article 529 *quaterdecies* of the LSC, which establishes that “the Audit Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, at least two of whom shall be independent directors and one of whom shall be appointed based on his knowledge and experience in matters of accounting, auditing or both”, and Recommendation 39 of the CBGSC, which recommends that the members of the Audit Committee, especially its chairman, be appointed having regard to their knowledge and experience in matters of accounting, auditing or risk management and that a majority of the members of the committee be independent directors.

At 31 December 2016, both Board committees were chaired by independent directors and the chairman of the Appointments and Remuneration Committee was a woman.

For more details, as usual, a copy of the annual activity report of both committees for 2016 is included in Chapter IV, Title III of this report. Both reports are due to be published, separately, on the corporate website.

1. Audit Committee

The Audit Committee is made up of five members, as provided in Article 23 of the Bylaws and Article 15 of the current Board of Directors Regulations, all of them appointed from among the non-executive directors and a majority of them being independent directors, for a term of no more than three years.

Throughout 2016, the committee was made up exclusively of non-executive external directors, with a majority of independent directors. The composition of the Company’s Audit Committee at 31 December 2016 was as follows:

Director	Position	Type of Director
José Luis Feito Higuera	Chairman	Independent non-executive
Fernando Fernández Méndez de Andés	Member	Proprietary non-executive (SEPI)
Antonio Gómez Ciria	Member	Independent non-executive
Santiago Lanzuela Marina	Member	Proprietary non-executive (SEPI)
María José García Beato	Member	Independent non-executive

The changes in the composition of the Audit Committee during 2016 were as follows:

- Ms. Paloma Sendín de Cáceres ceased to be a member of the Audit Committee when her term of office as an independent director of the Company expired at the Shareholders' Annual General Meeting held on 15 April 2016.
- At its meeting on 26 April 2016, the Board of Directors of Red Eléctrica appointed the independent director Ms. M^a José García Beato as a member of the Audit Committee for the three-year term specified in the Board of Directors Regulations, so as to fill the vacancy on the Audit Committee, following her removal as a member of the Appointments and Remuneration Committee.

The directors who make up the Audit Committee are particularly well qualified for office and have extensive professional experience, having held senior positions outside Red Eléctrica in functions related to those entrusted to the committee. Their professional profiles show their considerable knowledge and experience in accounting, auditing or both, which has been taken into account in their appointment, in accordance with Article

529 *quaterdecies* of the LSC and Recommendation 39 of the CBGSC. Article 15.2 of the new Board of Directors Regulations introduces an additional criterion: in assessing candidates for positions on the Audit Committee, especially the position of chairperson, the candidates' knowledge and experience of risk management must also be taken into consideration, as well as their knowledge and experience in the fields of accounting and auditing.

The committee's chairman is chosen by its members from among the independent directors on the committee and its secretary is the Secretary of the Board of Directors.

The secretary of the Audit Committee is the Secretary of the Company's Board of Directors.

During 2016, the Director of Audit and Risk Control, and the Corporate Director of Economics & Finance regularly attended meetings of the Audit Committee to report on various matters falling within the committee's remit.

In 2016, in connection with the review of the financial statements for 2015 of the Company and the Group, the external auditor of the Company and its Group explained the audit process and the final audit opinion, which is entirely clean and unqualified, distributing a report with the conclusions of the audit and responding to questions raised by the members of the committee. The committee agreed to issue a favourable opinion on the 2015 Annual Accounts.

➤ **Functions**

Under Article 23 of the Bylaws and the recently amended Article 16 (formerly art.14) of the Board of Directors Regulations, the functions of the Audit Committee include those of providing support to the Board of Directors in its task of supervising the financial reporting process, monitoring the Company's internal control, verifying the independence of the external auditor, overseeing compliance with the law and with internal regulations and the rules governing relations with the Company's shareholders, and any other responsibilities expressly assigned to it by the Board of Directors.

Following the latest reforms of the LSC for the improvement of corporate governance, the minimum responsibilities of the Audit Committee are now regulated by law, which is why the Bylaws and Board Regulations have been amended in order to fully adapt them to the new LSC. The Shareholders' Annual General Meeting held on 15 April 2015 approved an amendment to the Bylaws, aimed at fully adapting the functions attributed to the Audit Committee to the new requirements of the LSC, most of which were already met by the Bylaws. A particularly relevant and important change is the express assignment of responsibility for supervision of the system for managing tax risks.

At its meeting on 20 December 2016, the Board of Directors approved a set of amendments to the Board of Directors Regulations in order to fully adapt them to the latest reforms of the LSC and the CBGSC, among other things.

2. The Appointments and Remuneration Committee

Act 31/2014 of 3 December introduced the obligation for listed companies to create an Appointments and Remuneration Committee, chaired by an independent director and made up exclusively of non-executive directors, including at least two independent directors. The Act also established certain minimum duties in relation to appointments and remuneration. In Red Eléctrica, the committee that for many years has performed all these functions and responsibilities is the Appointments and Remuneration Committee. Both in its composition and in its functions, the Appointments and

Remuneration Committee substantially meets the requirements of the amended LSC (Article 529 *quindecies* LSC), although at the Annual General Meeting held on 15 April 2015 the Bylaws were amended to bring them more fully into line with the LSC. The changes made to the Board of Directors Regulations on 20 December 2016 to adapt them to the latest legislative reforms, in line with the amendments to the Bylaws, also included some improvements to the organisation and functioning of this committee.

According to Article 24 of the Bylaws and Article 17 of the new Board of Directors Regulations, the Appointments and Remuneration Committee is composed of five members appointed from among the non-executive directors and a majority of its members are independent directors.

This composition is in line with the corporate governance best practices included in the LSC, which recommends that the committee have no executive members and that the majority of its members be independent directors.

It is worth noting that already in 2012, even before the Board of Directors Regulations were amended in 2013, the Board of Directors decided to adjust the composition of the Corporate Responsibility and Governance Committee so that, for the first time, it did not include the Company's Executive Chairman.

The chairman of the Appointments and Remuneration Committee is an independent director chosen from among its members and its secretary is the Secretary of the Board of Directors.

The secretary of the Appointments and Remuneration Committee is the Secretary of the Company's Board of Directors.

Committee members are appointed and removed by the Board of Directors, at the proposal of the Board Chairman. They hold office for a term of no more than three years and may be reappointed. They are removed from their position when they lose director status or when so agreed by the Board of Directors, further to a report issued by the Appointments and Remuneration Committee. The committee's chairman is appointed for a three-year period and may be re-elected after a one-year break in service.

The changes in the composition of the Appointments and Remuneration Committee during 2016 were as follows:

-At its meeting on 26 January 2016, the Board of Directors of Red Eléctrica Corporación, S.A. appointed Mr. José Ángel Partearroyo Martín, a proprietary director representing SEPI, to be a member of the Appointments and Remuneration Committee for a three-year term, in order to fill the vacancy arising on the committee as a result of the resignation of the proprietary director Mr. Francisco Ruiz Jiménez.

-At its meeting on 26 January 2016, the Board of Directors of Red Eléctrica Corporación, S.A. appointed Mr. Agustín Conde Bajén to be a member of the Appointments and Remuneration Committee for a three-year term, in order to fill the vacancy arising on that committee as a result of the resignation of M^a José García Beato, who was appointed a member of the Audit Committee.

-At its meeting on 29 November 2016, the Board of Directors accepted the resignation of Mr. Agustín Conde Bajén, who had given notice of his appointment as Deputy Minister of Defence, giving rise to a vacancy on the Board of Directors and the Appointments and Remuneration Committee.

The members of the Appointments and Remuneration Committee at year-end 2016 were as follows:

Director	Position	Type of director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent non-executive
Socorro Fernández Larrea	Member	Independent non-executive
María Angeles Amador Millán	Member	Independent non-executive
José Ángel Partearroyo Martín	Member	External Proprietary
Vacancy ⁷	Member	Independent non-executive

The committee's members have been appointed by the Board of Directors at the proposal of its Chairman for a three-year term, subject to a prior report from the Appointments and Remuneration Committee.

All the committee members have a proven capacity to perform the tasks entrusted to the committee, based on their extensive experience and knowledge.

At 31 December 2016, given four members (not counting the vacancy), 75% of the committee's members were women, including its Chairperson. At that same date, independent directors (counting the vacancy for one independent director), accounted for 80% of the committee's members and the Chairperson was an independent non-executive director.

➤ **Functions**

The minimum functions of the Appointments and Remuneration Committee are regulated in Article 24.2 of the Bylaws, following the amendment approved at the Shareholders' Annual General Meeting held on 15 April 2015 to fully adapt them to the reform of the LSC.

The committee's functions are specified in Article 18 of the recently amended Board of Directors Regulations. As already stated, during 2016 the Board of Directors Regulations were reviewed and adapted to the latest reforms of the LSC (bearing in mind that the main points of the reforms were already covered in the regulations) and the CBGSC and improvements were made to the organisation and functioning of the committee, among other things. As with the Audit Committee, the functions assigned to the Appointments and Remuneration Committee in the Board of Directors Regulations were amended.

CHAPTER VI.- THE LEAD INDEPENDENT DIRECTOR

1. Introduction

⁷The vacancy on the Appointments and Remuneration Committee arose following the resignation of the independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors at its meeting on 29 November 2016.

In accordance with international standards of corporate governance, it is recommended that listed companies separate the positions of Managing director and Chairman of the Board of Directors.

The basic principle of this requirement is to avoid the risk of concentrating too much power in the hands of a single person, who performs both roles (Chairman and Managing director) at the same time, which could prevent or impede both the Board of Directors and senior management from performing their assigned functions appropriately and with the necessary independence.

At the proposal of the Appointments and Remuneration Committee, the Company's Board of Directors resolved to create the position of Lead Independent director. The Bylaws were amended accordingly at the Shareholders' Annual General Meeting held on 18 April 2013. At its meeting on 28 May 2013, the Board of Directors appointed Ms. Carmen Gómez de Barreda Tous de Monsalve as lead independent director for a period of three years. At its meeting on 31 May 2016, the re-election for a further three-year term of Ms. Gómez de Barreda was agreed.

In the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company" that was submitted to the Shareholders' Extraordinary General Meeting on 17 July 2015, the Appointments and Remuneration Committee and the Company's Board of Directors concluded that the role of Lead Independent director on the Board of Directors of Red Eléctrica Corporación, S.A. should be maintained even after the separation of roles was completed.

It is worth noting that the current Lead Independent director played an important role in the design, planning and implementation of the process of separation of positions.

Lastly, the Lead Independent director has been contributing in the annual Board self-assessment and the ongoing preparation and updating of the Succession Plans for the Chairman of the Board of Directors and the Managing director.

2. Functions

The core responsibility of Red Eléctrica's Lead Independent director, as established in Article 25 *bis* of the Bylaws, following the amendment adopted at the Shareholders' Annual General Meeting held on 15 April 2015 aimed at adapting them to the reform of the LSC, is to organize any common positions of the non-executive directors, in particular the independent non-executive directors, and to serve as a channel of communication or as spokesperson for such common positions to the Chairman of the Board of Directors, the Board as a whole and the Board committees.

The term of office of the Lead Independent director is three years and the position holder may be reappointed for further terms. The appointment will be terminated when the Lead Independent director ceases to be a director or loses his or her independent status or when the Board of Directors, at the proposal of the Appointments and Remuneration Committee, so decides.

In 2016 the Lead Independent director held various meetings with independent directors to hear their concerns and organize common positions on various matters discussed by the Board of Directors and took part in the road shows with proxy advisors organized by the Company in January 2016 and 2017.

CHAPTER VII.- THE MANAGING DIRECTOR

The Shareholders' Extraordinary General Meeting held on 17 July 2015 that approved the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company" also resolved to increase the number of directors by one and appointed Mr. Juan Francisco Lasala Bernad as executive director of the Company. Subsequently, at its meeting on 28 July 2015, the Company's Board of Directors appointed the executive director, Mr. Juan Francisco Lasala Bernad, to be Managing director of the Company.

According to the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company" and the provisions of the new Article 11 of the Board of Directors Regulations, the responsibilities of the Managing director, as Chief Executive of the Company, are as follows:

- a) Supervise, coordinate and drive the management of the organisation and business areas of the Company and the Group;
- b) Lead, drive and guide the execution and implementation of the Strategic Plan of the Company and the Group;
- c) Ensure efficient implementation of the risk control system approved by the Board of Directors in the Company and the Group and effective oversight of its operation;
- d) Regularly report to the Board of Directors on the degree of execution and completion of the Strategic Plan and the Budget, the functioning of the risk management system and the progress achieved in the management of the Group's business areas, so that the Board is able to adequately and effectively exercise its general oversight and control function.

The Board of Directors Regulations as amended on 20 December 2016 set out the basic responsibilities and powers of the Managing director. In particular, the responsibilities of the Managing director specified in the "Report on the separation of the positions of Chairman of the Board of Directors and Managing director of the Company", indicated earlier in this section, were transferred to the new Article 11 of the Board of Directors Regulations.

That article also establishes that the Managing director will act as Chief Executive of the Company and will be responsible for the day-to-day running and effective management of the organisation and business areas of the Company and the Group, always in accordance with the decisions and criteria set by the Shareholders' General Meeting and the Board of Directors, each within the scope of its powers.

The managing director, Mr. Juan Francisco Lasala Bernad, has all the powers the Board of Directors is permitted by law and the Bylaws to delegate to the Managing director, pursuant to the Board of Directors resolution adopted on 28 July 2015.

The LSC sets forth a list of reserved responsibilities of the Board of Directors (arts. 249 *bis* and 529 *ter*) and the Company's Board Regulations provide likewise (art. 5, recently amended).

Following the separation of the positions of Chairman and Managing director and the transfer of executive functions to the latter, which was completed at the Shareholders' Annual General Meeting held on 15 April 2016, Mr. José Folgado Blanco was re-elected as a director in the "other external" category. Consequently, at its meeting on 31 May 2016 the Board of Directors resolved to revoke the authority granted to him pursuant to the Board of Directors resolution adopted on 26 April 2012.

CHAPTER VIII.- SENIOR MANAGEMENT.

The persons holding senior management positions at the Company at 31 December 2016, excluding the Managing director, are as follows:

Name	Position
Ms. Eva Pagán Díaz	General Manager, Transport
Mr. Miguel Rafael Duvison García	General Manager, Operations

Article 18.1 of the new Board of Directors Regulations establishes that one of the basic responsibilities of the Appointments and Remuneration Committee is to “Report on the appointment (based on ability, trust and, as far as possible, internal promotion) and removal of senior managers who report directly to the Board, the Chairman or the Managing director, and the basic terms of their contracts”.

In the new organisational structure the senior managers named in the above table report directly to the Company’s Managing director.

The remuneration policy applicable to these senior managers is intended to promote the achievement of the Company’s strategic objectives of value creation by attracting, retaining and motivating the best talent available in the market. Under Article 5.5.a) viii) of the new Board of Directors Regulations it is a reserved responsibility of the Board of Directors to approve the policy on remuneration of senior managers who report directly to the Board, the Chairman or the Managing director.

Remuneration for the Company’s senior managers is based on the principles of moderation, actual time commitment and linkage to the Company’s results.

Information on the total remuneration paid to these senior managers is provided in the annual directors’ remuneration reports, which are submitted to the Board of Directors and the Shareholders’ Annual General Meeting for approval, and the Company’s annual report.

Information on the remuneration of these senior managers for financial year 2016 is given in the annual directors’ remuneration report approved by the Board of Directors in February 2017, which includes information on senior managers, along with the information contained in the Company’s annual accounts for 2016.

CHAPTER IX.- RISK MANAGEMENT POLICY AND INTERNAL CONTROL SYSTEMS.

1. Scope of the Company’s risk management system, including the system for managing financial risks.

A risk management system has been in place since 2002 and the Company developed its first Risk Map in 2003.

The risk management system operates across the entire organisation and as an integrated whole and is consolidated at corporate level by business unit, subsidiary and support area.

The purpose of this integrated risk management system is to ensure that any risks affecting the Red Eléctrica Group's strategies and objectives are systematically identified, analysed, assessed, managed and controlled, applying uniform criteria, within the established risk limits, so that the Group's strategies and objectives can be accomplished.

The Red Eléctrica Group has an integrated risk management policy and a general procedure for enterprise risk management and control, based on the COSO II Integrated Framework for Enterprise Risk Management (Committee of Sponsoring Organisations of the Treadway Commission). Both the policy and the procedure were updated at the end of 2016

- Integrated risk management policy.

According to the Board of Directors Regulations of Red Eléctrica Corporación, approving the risk control and management policy is the responsibility of the Board of Directors.

The risk control and management policy identifies the different types of risk, sets the level of risk the Company considers acceptable and sets out action guidelines to manage and mitigate risk.

In September 2015 this policy was expanded to include the tax risk control and management policy and the action guidelines for managing and mitigating tax risks.

The tax risk control and management policy sets out the Group's tax strategy, as approved by the Board of Directors on 30 June 2015. In 2015, the Board of Directors decided that the Group should become a signatory to the Code of Best Tax Practices, which identifies practices that help to reduce significant tax risks and prevent behaviours liable to create such risks.

The updated version of this policy (5th edition) was approved by the Board of Directors in December 2016.

The integrated risk management policy is fully aligned with the Group's current Strategic Plan and is available in the "Corporate Governance" section of the corporate website.

- General procedure for integrated risk management and control.

This procedure regulates the identification, analysis, assessment and control of the material risks faced by the Group. It establishes the purpose, responsibilities, activities and tasks of the integrated risk management system.

The procedure is intended to ensure that managers at all levels within the Group are aware of and assess the risks that threaten the Group's strategies and objectives, take those risks into account in their activities and keep them within the set levels of acceptable risk.

The updated version of this procedure (5th edition), which was approved by the Management Committee in November 2016, establishes the purpose, responsibilities, activities and tasks of the system.

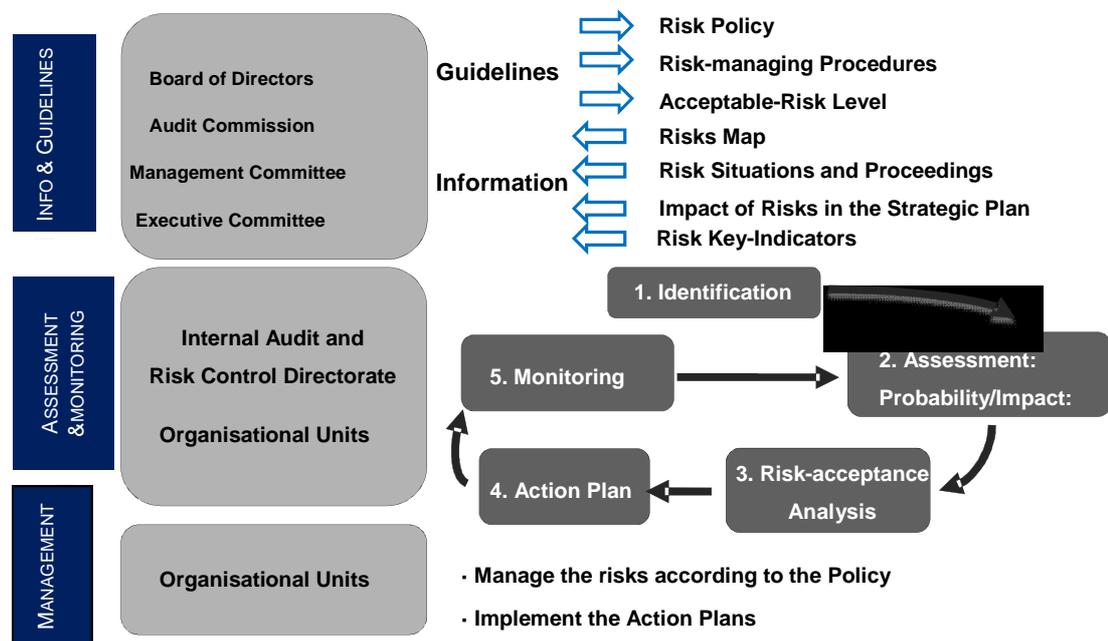
In 2015 work started on a gradual review of the compliance of the five components of internal control, in accordance with the COSO Integrated Framework, May 2013. At the end of 2015 the audit firm Ernst & Young reviewed the first of these components (“control environment”) and in November 2016, the second (“risk assessment”). In both reviews the auditors came to the conclusion that the elements and activities relating to the control environment are formally structured and in place in all areas/operations of the organisation and that, furthermore, in many cases the best practices in this field have been implemented.

2. Company bodies responsible for the preparation and implementation of the risk management system (including the system for managing tax risks)

As previously stated, the risk management system is integrated in nature, insofar as all of the Group’s business units participate in it, along with the various governing bodies, within a systematized management process, in line with the criteria and guidelines established in the General Policy and Procedure for Enterprise Risk Management and Control.

The policy and the procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group and also the information flows and activities to be carried out, in accordance with the model that appears in the graph below.

Integrated risk management model



The Board of Directors Regulations expressly give the **Board of Directors** responsibility for approving the integrated risk management policy of the Company and the Group.

This includes setting the level of acceptable risk and receiving reports on, and periodically monitoring, the internal control, prevention and reporting systems.

The Board reviews the risk control system and material risks, including tax risks, at least twice a year, notwithstanding the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by that committee.

The **Audit Committee** is responsible for periodically supervising the effectiveness of the integrated risk management system (including tax risk) to ensure that material risks are identified, are kept within the established acceptable risk levels and are properly reported.

The **Management Committee**, made up of senior managers from the most important and strategic areas of the Company, is responsible for:

- Monitoring the material risks map.
- Ensuring that the risks classified as “high” and other especially important risks, as well as the critical action plans to mitigate those risks, are properly controlled and monitored.

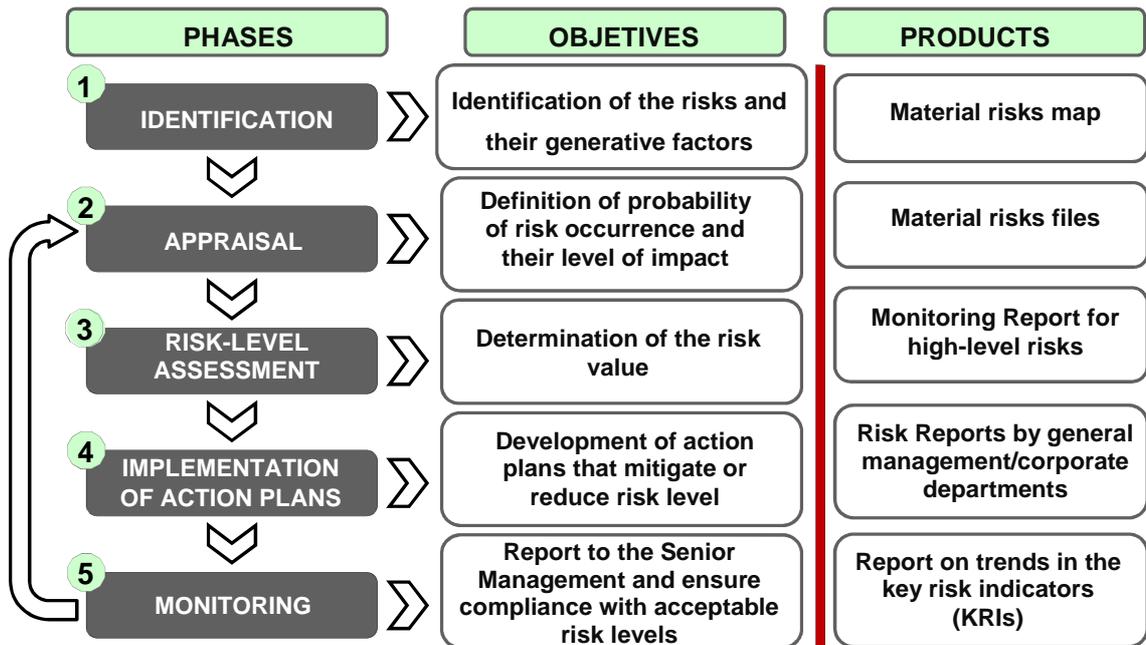
The **Internal Audit and Risk Control Directorate**, reporting to the Company's Chairman's Office, is responsible for coordinating and supporting the risk identification, analysis and assessment process and periodically controlling risks. This directorate submits the appropriate reports to the Management Committee, the Audit Committee and the Board of Directors. The information reported includes the following:

- Material risks map
- Material risks files
- Monitoring report for high-level risks and other especially important risks
- Risk reports by general management and corporate departments
- Report on trends in the key risk indicators (KRIs)

The **organisational units** are involved in the risk management system through the risk identification, analysis and assessment process, together with the **Internal Audit and Risk Control Directorate**, and also in the implementation of action plans.

Along with the responsibilities assigned to the Group's various units and control bodies, the risk management system establishes the necessary information flows, the actions to ensure systematic risk monitoring and control through a series of activities and deliverables, and the specific methodology for measuring the level of risk.

Risk assessment and monitoring



3. Main risks (including tax risks) that could affect the achievement of business objectives.

The principal business of the Red Eléctrica Group is the transmission of electricity and the operation of the electricity system in Spain, which are regulated activities, insofar as they are critical to the security and continuity of electricity supply and are carried out on an exclusive basis.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which it has to undertake its principal activities.

The types of risks the Red Eléctrica Group faces in its efforts to achieve its strategies and objectives can be classified as follows:

Operational risks:

- Operational risks that may affect the electricity system. Risks related to the correct functioning of the transmission network and system operation.
- Environmental and personal safety risks. Risks relating mainly to the environment in which the Group carries on its activities and the safety of the people involved in those activities.
- General security risks. This category groups together the risks related to physical security and cybersecurity.
- Other operational risks. Operational risks not included in the previous categories.

Regulatory risks:

- Regulatory risks as Spanish TSO. Risks associated with the regulations to which the Group is subject in its role as Spanish TSO.
- Other regulatory risks arising from regulations other than those indicated above.

These specifically include tax risks. Tax risks: risks arising from the application of tax regulations, difficulties of interpreting those regulations or amendments to those regulations, and the impact the Company's management of its tax affairs could have on its reputation.

Financial and counterparty risks:

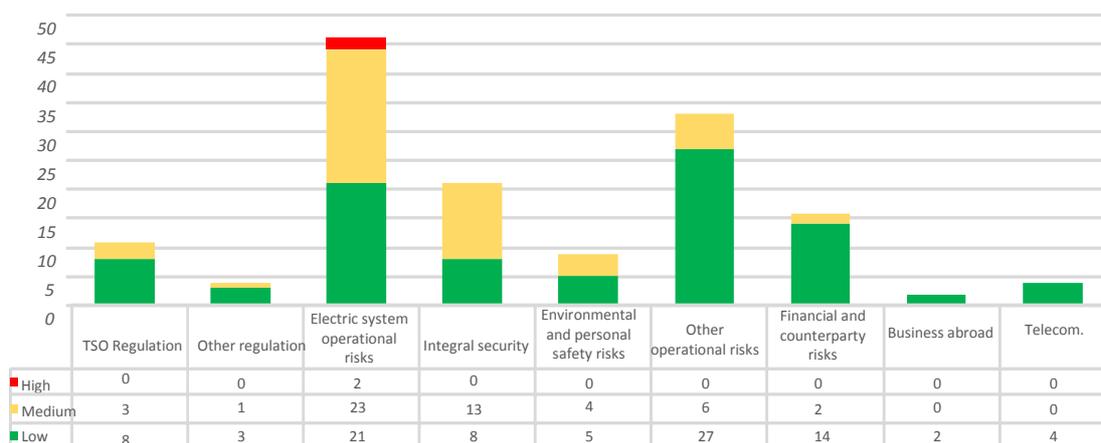
- Financial and counterparty risks. Financial risks, market risks and risks arising from the failure of counterparties to perform their contractual obligations.

Business diversification risks:

- Risks associated with the telecommunications business.
- Foreign business risks. Groups together the risks arising in the activities carried out by the Group through its foreign subsidiaries.

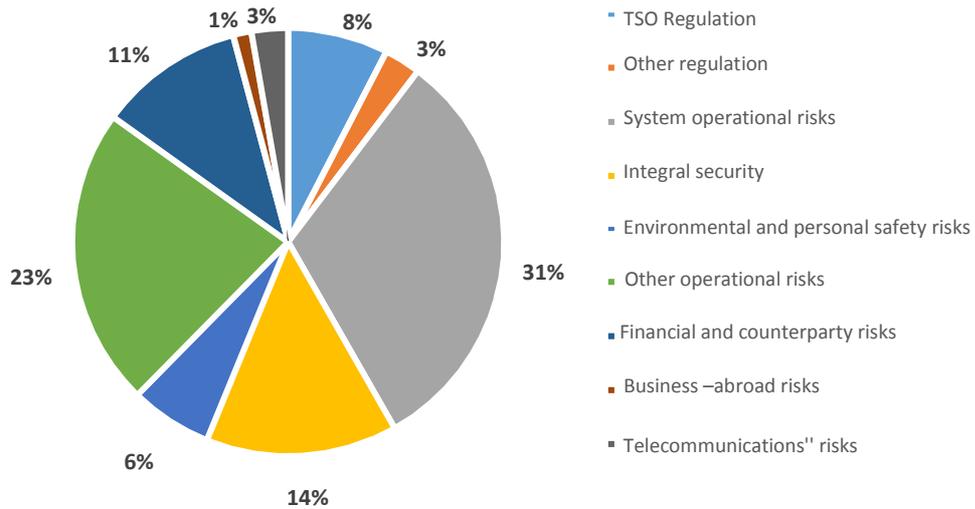
As already mentioned, the Red Eléctrica Group's tax risk control and management policy was included in the integrated risk management policy in September 2015 and specific guidelines for managing tax risks were established.

Following the risk analysis performed by the Red Eléctrica Group, the latest **Risk Map** identifies 146 risks, distributed by risk type as shown in the following chart.



As in the previous chart, in accordance with the Red Eléctrica Group's risk assessment model (which is analysed in the following section), the risks are classified in three levels (high, medium and low).

The distribution of the risks by category is as follows:



The current risk management system monitors risk by organizing the surveillance of more than 500 action plans, aimed at reducing the level of risk, and monitoring the level of approximately 300 indicators.

4. Risk tolerance level (including tax risks)

The level of risk the Red Eléctrica Group is willing to accept is set for risks individually and for risks in aggregate (overall acceptable risk level)

Acceptable risk level for individual risks:

The Red Eléctrica Group's risk management system defines a methodology for setting the acceptable level of risk. All identified risks are thus classified in three categories:

- High-level risks
- Medium-level risks
- Low-level risks

Two parameters are used to classify risks in these categories: the probability of the risk occurring and the impact it would have on the Company if it did occur.

The probability of occurrence is classified into five levels, based on a specific probability distribution for each type of risk.

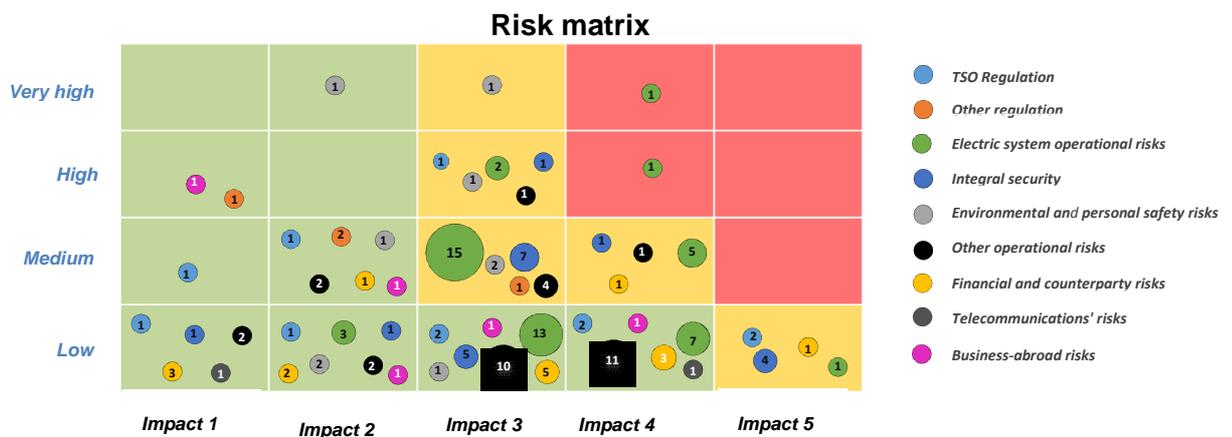
The impact is rated on the basis of the effect a risk could have on four key elements of the business:

- The electricity supply. Measured by Energy Not Supplied (ENS) as a result of the risk event.
- The achievement of basic strategies. Degree of impact on the achievement of basic strategies.

- Reputation. Degree of impact on reputation (geographical scope, duration and reparability).
- The income statement. Impact on the income statement before corporate income tax.

For each of these four elements, Red Eléctrica Group has produced a table showing five levels of effect or impact. For the electricity supply and the income statement, the measurement is quantitative (MWh and Euros), whereas for the achievement of basic strategies and reputation it is qualitative.

A risk's position in the probability/impact matrix, which depends on the probability of occurrence and the level of impact, automatically determines the level (red = high, orange = medium and green = low).

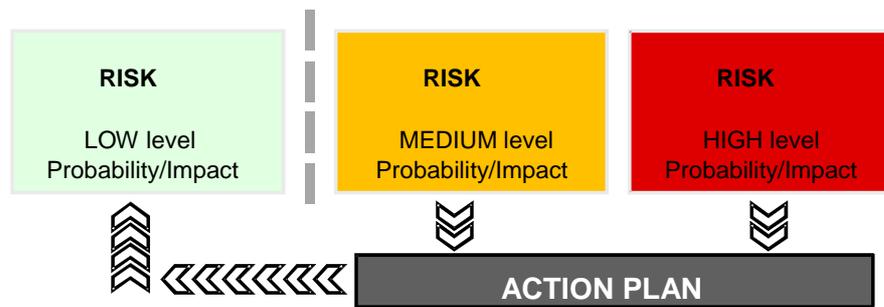


This matrix reflects the distribution of the risks based on the year-end 2015 risk assessment. In 2016 the qualitative scale of probability (low, medium, high and very high) was replaced by a percent distribution in five levels, as indicated earlier. The risks will be distributed in the matrix using the new probability scale when the next Risk Map is prepared.

Individual acceptable risk:

The only risks considered acceptable according to the individual acceptable risk level defined by Red Eléctrica Group are those classified as “low” in the above matrix. Under the risk policy, any risk that exceeds the acceptable level must be managed so as bring it below that level, insofar as it can be managed and the cost of the mitigating measures is justified by the impact the risk could have on the Group if it were to materialize. Every risk classified as acceptable is managed so as to maintain it at that level.

Tolerance level



Overall acceptable risk:

In 2016 the Board of Directors approved the Group’s overall acceptable risk level for each of the four types of impacts envisaged in the integrated risk management system.

- Impact on the electricity supply
- Impact on the Group’s strategies
- Impact on reputation
- Impact on results

As a general risk management rule, the Group’s overall risk level, calculated by statistically aggregating the individual risks, must not exceed the overall acceptable risk level.

5. Risks (including tax risks) that materialized in 2016

None of the risks that materialized in 2016 were significant.

The transmission network facilities are permanently exposed to operational events that may affect the continuity and security of the electricity supply.

During 2016 there were events that resulted in minor power cuts. These events are generally caused by third parties and meteorological phenomena.

The control systems responded appropriately to these events, as evidenced by the availability index of the peninsular transmission network, which in 2016 was 98.33% (provisional figure), close to the 97.93% recorded in 2015.

The Company also has insurance policies in place that limit the potential impact such events may have on the income statement

6. Risk response and supervision plans for the Company’s main risks.

Prevention of risks in the design and functioning of Red Eléctrica Group processes.

The Red Eléctrica Group’s processes have been designed to incorporate elements to mitigate or reduce the abovementioned risks, including tax risks. These processes have been integrated into structured management systems based on international standards (ISO 9001, ISO 14001 and OHSAS 18001, among others). These systems are subject to systematic internal and external audits of the adequacy of their design and compliance and include mechanisms for controlling the objectives they must meet.

Risk response and supervision plans (including tax risks).

The risk identification, analysis, assessment and control process referred to above establishes the actions that must be taken in order to bring the level of risk down to the acceptable level and maintain it at that level.

Once every six months for high-level risks and once a year for other risks, the Internal Audit and Risk Management Department works with the management units to review the performance and impact of the pre-established action plans to reduce risk.

Contingency plans

Red Eléctrica has a general procedure – “Crisis management (pre-alert, alert and emergency)” – for managing any crisis situations that could occur in the event of:

- An electrical incident that could affect the security of supply (Peninsula, islands or Ceuta and Melilla).
- A non-electrical incident that could affect the environment, people, the Company’s ability to operate or its results, or any other event that could affect the Company’s reputation.

CHALLENGES FOR 2017

- Identify short, medium and long-term lines of improvement for Red Eléctrica’s integrated risk management system, following best practices.
- Evolve and improve integrated risk reporting.
- Develop the risk identification and assessment methodology by improving the data acquisition process.

The crisis management procedure:

- Establishes in general terms the way in which crises are to be managed.
- Determines the pre-alert, alert and emergency phases for each type of risk that could affect the operation of, or the transmission of electricity through, the electricity system or that could affect people, the environment or the Company’s ability to operate or its reputation.
- Establishes the composition of the committees responsible for managing each type of crisis and the roles and responsibilities of their members.
- Lists the specific contingency plans in place at Red Eléctrica for each type of event.

Red Eléctrica also has an Action Guide, “Cyber Incident Management”, which establishes the criteria and guidelines for managing cyber incidents, regardless of where they occur.

In addition, Red Eléctrica has a system of Internal Control over Financial Reporting (ICFR), whose purpose is to improve the efficiency and security of the processes involved in preparing financial reports about the Company, including early, voluntary adoption of international best practices. The ICFR system includes Red Eléctrica’s tax information and processes and the associated controls.

The ICFR system is described in detail in "SECTION F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF FINANCIAL REPORTING (ICFR)", of the *Official Annex to this report, drafted according to the standard form provided in Annex I to CNMV Circular 7/2015 of 22 December* in force at the date of approval of this report.

CHAPTER X.- RELATED-PARTY TRANSACTIONS

As a result of the amendments to the LSC implemented by Act 31/2014 of 3 December, the obligations arising from the duty to avoid conflicts of interest have been specified in more detail and some of the obligations arising from the duty of loyalty that were already regulated in the LSC prior to the reform have been reformulated. The responsibilities of the Board of Directors and the Audit Committee in relation to transactions with directors have also been regulated in more detail. Following the reform of the LSC, on 20 December 2016 Articles 5, 14 (currently, Article 16) and 32 of the Board of Directors Regulations were amended to adapt them to the current state of the law.

Under the amended Article 5.5 c) of the Board of Directors Regulations, the Board of Directors has a direct responsibility, which cannot be delegated, for approving, subject to a report from the Audit Committee, any transactions the Company or any Group company may enter into with directors, as specified in the LSC, or with shareholders who individually or in concert with others hold a significant interest, including shareholders represented on the Board of Directors of the Company or any Group company and persons related to them. The directors affected, or those who represent or are associated with the shareholders affected, must refrain from participating in the deliberations and voting on the resolution in question. Only transactions that meet all of the following three criteria do not require such approval:

- They are carried out under contracts the conditions of which are standardized and apply *en masse* to a large number of customers.
- They are carried out at prices or rates set on a general basis by the person supplying the good or service concerned.
- Their amount does not exceed 1% of the Company's annual revenue.

Under the current Article 16.6 c) of the Board of Directors Regulations, the Audit Committee is responsible for reporting to the Board on proposed transactions with related parties.

In May 2010, at the proposal of the Audit Committee, the Board of Directors approved a related-party transaction control policy and set objective parameters for controlling related-party transactions (whether material or non-material), annual recurring related-party transactions and transactions that must be disclosed to the markets. The Audit Committee monitors this policy annually and reports to the Board of Directors.

In 2016, the Audit Committee's Annual Report on Related-Party Transactions for 2015 was published for the first time on the corporate website (www.ree.es), in compliance with Recommendation 6 of the CBGSC.

In accordance with the new Article 36 of the Board of Directors Regulations, the Board of Directors has formally reserved the right to approve, subject to a report from the Audit Committee, any material transaction of the Company with significant shareholders, including shareholders represented on the Board of the Company or any Group company, and persons related to them, unless the nature and conditions of the transaction are such that, under Article 5.5 c) of said regulations, it requires the approval of the Shareholders' General Meeting.

Under the new Article 31 e) of the Board of Directors Regulations directors must take the necessary steps to avoid situations in which their activities, whether for their own account or on behalf of others, conflict with the interests of the Company and their duties to the Company and the new Article 32 of the Board of Directors Regulations specifies the duty

to avoid conflicts of interest referred to in Article 31 e) by stating the situations which directors' must refrain from incurring.

In any case, directors must notify the Board of Directors of any direct or indirect conflict that may exist between their own interests, or those of persons related to them, and the interests of the Company.

Any conflicts of interest directors may have will be reported in the notes to the financial statements.

In addition, Article 2 of the Company's Internal Code of Conduct in the Securities Market includes within its scope of application directors, the secretary and deputy secretary of the Company's Board of Directors, executives (as defined in Chapter I of the Code) and any persons expressly designated by the Oversight Body created pursuant to the Code.

Under Article 7 of the Internal Code of Conduct in the Securities Market, Obligated Parties and Temporarily Obligated Parties must generally endeavour to avoid situations of direct conflict of interest or conflicts of interest concerning Related Persons and must notify the Oversight Body of any situations of conflict of interest that may reasonably arise within fifteen (15) days of such situations coming to their attention, so that the Oversight Body may adopt the appropriate decisions in advance. In the case of directors, they shall notify the situations described in the preceding paragraph through the Office of the Secretary to the Board of Directors.

Obligated Parties and Temporarily Obligated Parties must keep up to date the information on notified conflicts of interest, reporting all changes as and when they occur.

The Oversight Body must keep up to date an itemised register of any conflicts of interest notified by the various obligated parties and temporarily obligated parties and must adopt adequate security measures for its safekeeping and storage. In any event, access to the register will be restricted.

It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct in the Securities Market, the Oversight Body is the Directorate-General of Administration and Finance (following the Company's internal reorganisation, now the Corporate Economic and Financial Department), which will act in collaboration with the secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Audit Committee on the degree of compliance with the Code and any incidents that may have occurred.

In relation to the Company's senior managers, Article 2.1.3 of the Internal Code of Conduct in the Securities Market establishes that executives, as defined in said Code, are Obligated Parties.

Following the amendment to the Board of Directors Regulations on 20 December 2016 and the entry into force of the new Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, the adaptation of the Internal Code of Conduct in the Securities Market is being carried out.

TITLE III- THE YEAR 2016 IN RED ELÉCTRICA

CHAPTER I.- MAIN SHAREHOLDER AGREEMENTS.

The main shareholder agreements on corporate governance adopted by the Company during financial year 2016 are as follows:

1. At its meeting on 26 January 2016, the Company's Board of Directors appointed Mr. José Ángel Partearroyo Martín as a member of the Appointments and Remuneration Committee for a period of three (3) years.
2. At its meeting on 23 February 2016, after considering a favourable report from the Appointments and Remuneration Committee, the Board of Directors approved the Company's Annual Corporate Governance Report for 2015 and authorized the Financial Statements and Management Report for 2015 for issue.
3. At its meeting on 23 February 2016, the Board of Directors resolved to make recommendations to the Shareholders' Annual General Meeting for the re-election of Mr. José Folgado Blanco as a director in the "other external" category, the re-election of Mr. Fernando Fernández Méndez de Andés as a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), the ratification and appointment of Mr. José Ángel Partearroyo Martín as a proprietary director representing SEPI, the re-election of Ms. Carmen Gómez de Barreda Tous de Monsalve as an independent non-executive director and the appointment of Mr. Agustín Conde Bajén as an independent director of the Company, all of them for the four-year term specified in the Bylaws.
4. Also at its meeting on 23 April 2016, the Board of Directors approved all the proposed resolutions and reports to be brought before the 2015 Shareholders' Annual General Meeting, which was then called.
5. At the Shareholders' Annual General Meeting held on 15 April 2016, the following resolutions were adopted as separate and independent items on the agenda:
 - Approve the Annual Accounts (Balance Sheet, Income Statement, Consolidated Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements) and the Management Report of Red Eléctrica Corporación, S.A. for the financial year ending 31 December 2015.
 - Approve the Consolidated Annual Accounts (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements) and the Consolidated Management Report of the Red Eléctrica Group for the financial year ending 31 December 2015.
 - Approve the allocation of results proposed by the Board of Directors at its meeting of 23 February 2016 and, consequently, distribute the profit for the 2015 financial year.
 - Approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2015 financial year.
 - Re-elect Mr. José Folgado Blanco, as an "other external" director of Red Eléctrica Corporación, S.A., for the term of four years fixed in the Bylaws, in accordance with the provisions of Article 529 *decies* of the LSC.

- Re-elect Mr. Fernando Fernández Méndez de Andrés as an “other external” director of Red Eléctrica Corporación, S.A., representing Sociedad Estatal de Participaciones Industriales (SEPI), for the term of four years fixed in the Bylaws, in accordance with the provisions of Article 529 *decies* of the LSC.
- Ratify the appointment of Mr. Santiago Lanzuela Marina as proprietary director of Red Eléctrica Corporación, S.A., representing SEPI, as agreed by the Board of Directors at its meeting on 22 July 2015, and so appoint him as proprietary director of Red Eléctrica Corporación, S.A., representing SEPI, for the four-year term specified in the Bylaws, in accordance with Article 529 *decies* of the LSC and the reports issued by the Board of Directors and the Appointments and Remuneration Committee.
- Re-elect Ms. Carmen Gómez de Barreda Tous de Monsalve, at the proposal of the Appointments and Remuneration Committee, as an independent director of Red Eléctrica Corporación, S.A., for the term of four years set in the Bylaws, in accordance with the provisions of Article 529 *decies* of the LSC.
- Appoint Mr. Agustín Conde Bajén, at the proposal of the Appointments and Remuneration Committee, as an independent director of Red Eléctrica Corporación, S.A. for the four-year term specified in the Bylaws, to replace the independent non-executive director Ms. Paloma Sendín de Cáceres, in accordance with Article 529 *decies* of the LSC.
- Reappoint KPMG Auditores, S.L., with Tax ID No. (NIF) B-78510153, with registered office at Paseo de la Castellana, 95, C.P. 28046 Madrid, registered with the Madrid Mercantile Registry (Volume 11,961, Sheet 90, Section 8, Page number M-188,007, Entry 9) and with the Official Registry of Auditors (Registro Oficial de Auditores de Cuentas, or ROAC) under number S0702, as auditors of the parent company, Red Eléctrica Corporación, S.A., and its consolidated group, for a term of three (3) years covering the 2016, 2017 and 2018 financial years, in accordance with the provisions of Article 264 of the current LSC.
- Split the shares of the Company by reducing their par value from two euros (€2) to fifty euro cents (€0.50) per share, at the ratio of four new shares for each old share, with no change in the amount of share capital, amending Article 5.1 of the Bylaws accordingly.
- In relation to the remuneration of the Board of Directors:
 - Approve the Directors’ Remuneration Policy of Red Eléctrica Corporación, S.A.
 - Approve the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for 2016.
 - Approve the Annual Directors’ Remuneration Report of Red Eléctrica Corporación, S.A.
- Partially amend the resolution approving a Remuneration Plan for employees, executive directors and senior managers of the Company and companies belonging to the Red Eléctrica Group in Spain, passed by the Shareholders’ Annual General Meeting of the Company held on 15 April 2015 (item 10.2 on the agenda of that meeting).
- Grant authority to execute the resolutions adopted by the 2015 Shareholders’ Annual General Meeting.

- Report to the Shareholders' General Meeting on Red Eléctrica's Annual Corporate Governance Report for 2015.
6. At its meeting on 26 April 2016, the Board of Directors of Red Eléctrica Corporación, S.A. appointed Ms. M^a José García Beato as a member of the Audit Committee for a three-year term and Mr. Agustín Conde Bajén as a member of the Appointments and Remuneration Committee for the same three-year term, following the removal of Ms. M^a José García Beato as a member of the latter committee.
 7. At its meeting on 31 May 2015, the Board of Directors approved the re-election of Ms. Carmen Gómez de Barreda Tous de Monsalve as Lead Independent director for a three-year term.
 8. At its meeting on 28 June 2016, the Board of Directors approved the Report on the Self-Assessment of the Board of Directors for 2015, prepared with external advice from PwC.
 9. At its meeting on 25 October 2016, the Board of Directors approved the Criteria for communication with shareholders, institutional investors and proxy advisors.
 10. At its meeting on 29 November 2016, the Board of Directors accepted the resignation of the independent director, Mr. Agustín Conde Bajén.
 11. At its meeting on 20 December 2016, the Board of Directors approved the amendment to the Board of Directors Regulations.
 12. At the same meeting on 20 December 2016, the Board of Directors approved the amendment of the Integrated Risk Management Policy.
 13. At that same meeting on 20 October 2016, the Board of Directors approved the Report on Gender Diversity and Equality Policy for 2015.

CHAPTER II.- MAIN EXTERNAL RECOGNITIONS.

Below are the main external recognitions awarded to the Company in 2016 in relation to corporate governance. Although some of them were obtained as part of a corporate responsibility award, corporate governance aspects were an important consideration.

1. Recognition as best European utility as regards corporate governance in 2016 by the respected English publication "Ethical Boardroom Magazine".
2. "Silver Class" award in the 2017 Sustainability Yearbook, which each year analyses the sustainability of more than 2,000 companies in 60 industries worldwide and recognises those that have shown leadership in sustainability.
3. Inclusion in the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index, reaching a corporate governance score of 82 points out of 100.
4. Constituent of FTSE4Good sustainability index ever since the Company was first included in 2008. This index includes listed companies all over the world that meet the index requirements.

5. Constituent of the MSCI ESG indices (MSCI Global Sustainability Indexes, MSCI Socially Responsible Indexes, MSCI Global Climate Index and MSCI Global Environmental Index) ever since it was first included in 2014. The companies included in these indices are the ones with the best ESG (Environmental, Social and Governance) performance in their sector.
6. Constituent, following initial inclusion in 2014, of the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120, World 120), which include the 120 most advanced companies in terms of corporate, social and environmental governance.
7. Constituent of the Ethibel Sustainability Index Excellence Europe family of indices ever since it was first included in 2009.
8. Renewed inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers. Selection by the ETHIBEL Forum indicates that the Company can be described as an industry leader in Corporate Social Responsibility (CSR).
9. Renewed inclusion in the ECPI index family, following initial inclusion in 2007.
10. Constituent of the STOXX Global ESG Leaders index family, which offers a representation of the leading global companies in terms of environmental, social and governance criteria, since 2011.
11. Red Eléctrica renewed its Sello Excelencia Europea 500+ excellence award, according to the EFQM model, granted by Club Excelencia en Gestión, obtaining more than 700 points

CHAPTER III.- RELEVANT EVENTS DISCLOSED TO THE MARKETS.

The Company files the notice of Shareholders' General Meeting, the proposed resolutions and other Shareholders' General Meeting-related documents with the CNMV and publishes them on its website as soon as they have been approved by the Board of Directors.

On the day of the Shareholders' General Meeting or on the immediately following business day, the Company also submits the full text of all the resolutions adopted to the CNMV by filing a Relevant Event report.

Once the resolutions been notified to the CNMV, the text of all the resolutions adopted is also made available on the corporate website.

To allow shareholders of the Company resident outside Spain, who make up approximately 70% of the shareholders, to exercise the right of information, all the documents presented for approval and for information at the meeting, including the Annual Corporate Governance Report, are translated into English and published, in English, on the corporate website on the same day as the Relevant Event reports and related documentation are published.

During 2016, the following Relevant Events were reported to the CNMV:

1. Composition of the Board of Directors.

On 26 January 2016 the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on that date, had appointed the proprietary director representing Sociedad Estatal de Participaciones Industriales

(SEPI), Mr. José Ángel Partearroyo Martín, as a member of the Appointments Committee for a term of three (3) years.

2. Other corporate governance items.

On 23 February 2016 the Company reported the home Member State of Red Eléctrica Financiaciones, S.A., Unipersonal

3. Information on dividends.

On 25 February 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 23 February 2016, had agreed to recommend to the Shareholders' General Meeting a gross dividend of 3.2100 euros per share to be paid to the holders of shares that carry dividend rights.

4. Information on results.

On 25 February 2016 the Company reported the results of Red Eléctrica Corporación, S.A. for financial year 2015.

5. Interim financial information.

On 25 February 2016, the Company submitted information on its results for the second half of 2015.

6. Annual Corporate Governance Report.

On 25 February 2016, the Company submitted the Annual Corporate Governance Report for 2015.

7. Annual Directors' Remuneration Report.

On 25 February 2016, the Company submitted the Annual Directors' Remuneration Report for 2015.

8. Strategic plans, forecasts and presentations.

On 25 February 2016, Red Eléctrica submitted the presentation of results for 2015 and strategy for 2014-2019.

9. General Meeting notices and resolutions.

On 26 February 2016, the Company published the notice of Shareholders' Annual General Meeting and the proposed resolutions.

10. Issues of fixed income securities.

On 7 April 2016 the Company reported that Red Eléctrica Corporación, S.A., through its subsidiary Red Eléctrica Financiaciones, S.A.U., had issued three hundred (300) million euros of Notes in the Euromarket.

11. General Meeting notices and resolutions.- Remuneration systems.

On 15 April 2016, the Company published the full text of the resolutions adopted by the Shareholders' Annual General Meeting of the Company held on that date.

12. Composition of other management and control bodies.

On 26 April 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on that date, had appointed Ms. M^a José García Beato as a member of the Audit Committee for a term of three (3) years and Mr. Agustín Conde Bajén as a member of the Appointments and Remuneration Committee, also for a term of three (3) years, Ms. M^a José García Beato having ceased to be a member of the latter committee.

13. Information on results.

On 27 April 2016, the Company reported its results for the first quarter of 2016.

14. Interim financial information.

On 27 April 2016, the Company submitted information about its results for the first quarter of 2016.

15. Ratings.

On 30 May 2016, the Company reported that the rating agency Fitch Ratings had upgraded the long-term rating of Red Eléctrica Corporación, S.A. from 'A-' to 'A', with a stable outlook.

16. Other corporate governance items.

On 1 June 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting on 31 May 2016, had agreed to re-elect Ms. Carmen Gómez de Barreda Tous de Monsalve as Lead Independent director of the Company for a term of three (3) years.

17. Share split.

On 28 June 2016, the Company notified the date of the start of trading of the new shares following the execution of the share split.

18. Information on results.

On 28 July 2016, the Company reported its results for the first half of 2016.

19. Interim financial information.

On 28 July 2016, the Company submitted information on its results for the first half of 2016.

20. Information on results.

On 28 July 2016, the Company submitted the presentation of its results for the first half of 2016.

21. Ratings.

On 3 August 2016, the Company reported that the rating agency Standard & Poor's had issued a new report on the Company, affirming the level and outlook of the Company's rating.

22. Information on results.

On 26 October 2016, the Company reported that it had presented its results for the third quarter of 2016.

23. Interim financial information.

On 26 October 2016, the Company submitted information on its results for the third quarter of 2016.

24. Composition of the Board of Directors.

On 29 November 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on that date, had accepted the resignation of Mr. Agustín Conde Bajén as an independent director.

25. Information on dividends.

On 20 December 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on that date, had resolved to distribute a gross interim dividend of €0.2382 per share out of profit for 2016.

26. Other corporate governance items.

On 21 December 2016, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A., at its meeting on 20 December 2016, had resolved to amend the Board of Directors Regulations.

CHAPTER IV.- ANNUAL ACTIVITY REPORTS OF THE BOARD COMMITTEES.

The annual activity reports of the Appointments and Remuneration Committee and the Audit Committee for financial year 2016 are reproduced in full below.

APPOINTMENTS AND REMUNERATION COMMITTEE ACTIVITY REPORT FOR 2016.

1 Introduction

The Action Plan of the Committee for the 2017 fiscal year, as provided in Article 18.6 a) of the Board Regulations, contemplates the preparation of an annual activities report, in this case for the 2016 fiscal year, which must be included in the Annual Corporate Governance Report, which is the subject matter of this document.

2 Legal background, structure, functions and composition

1.1 Legal background.

The Board of Directors of the company, at a meeting held on 13 March 2013, resolved to amend the Board Regulations to adjust their content to the legislative amendments affecting public limited companies, to adapt to best practices regarding corporate governance, especially in the international sphere, and to introduce improvements in the organisation and functioning of the Board of Directors and its Committees.

As a result, the Shareholders' Annual General Meeting, held on 18 April 2013, approved the amendment of the Articles of Association, to adapt, inter alia, the regulation of the Audit Committee and the Corporate Governance and Responsibility Committee (currently called the Appointments and Remuneration Committee) in the Articles of Association of the company, to the principal international practices and recommendations regarding good corporate governance. Notable in this regard is the articles provision to the effect that the majority of members of both committees must be independent directors.

Act 31/2014 of 3 December 2014, which modified the Spanish Companies Act to improve corporate governance, caused an adaptation of the Articles of Association of the company at the Shareholders' Annual General Meeting held on 15 April 2015. The Board of Directors Regulations also were modified in the same sense on 20 December 2016, for their full adaptation to the most recent amendments of the Spanish Companies Act, to the Code of Good Governance of Listed Companies and to introduce improvements in the organisation and functioning of the Board Committees to adapt them to the new organisational structure, among other matters.

Following the most recent amendments of the Spanish Companies Act, the latest international practices and recommendations have been adopted as regards to the composition and independence of committees and qualifications of their members. The main elements had already been incorporated in the amendment of the Articles of Association and the Board Regulations approved in 2013. Nevertheless, these corporate

rules have been reviewed to ensure that they are fully adapted to the content of the new Act.

1.2 Structure and functions.

Articles 24.2 of the Articles of Association and 17 and 18 of the Board of Directors Regulations regulate the structure, composition and functions of the Appointments and Remuneration Committee.

The Committee is given authority, inter alia, in relation to appointments, performance and removals of directors and senior managers, their remuneration, compliance with the duties of the directors, the rules and actions regarding Corporate Governance and regarding Corporate Responsibility and Sustainability.

The Committee meets as often as required for proper performance of its duties. In any event, it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its Chairman requests that a report be issued or proposals be referred.

In Article 17.5 of the Board of Directors Regulations it is provided that the call of the meetings, with the documentation associated therewith, may be made by telematic means guaranteeing the due security and confidentiality of the call and the corresponding documentation.

That call, which is to include the agenda, will be sent by the chairman or secretary of the Committee to each of its members, at least three days before the date indicated for the meeting, unless the meeting needs to be called earlier for emergency reasons.

Article 17.7 of the Board Regulations establishes the possibility that, by reason of urgency and on an exceptional basis, meetings of the Committee may be held by conference call, videoconference or any other means of remote communication that allows the meeting to be held, provided that all of the members of the Committee so agree.

There is a quorum for a Committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by absolute majority votes of the directors attending the meeting, in person or by proxy, reflecting said decisions and recommendations in the minutes at the end of the meeting. In order to better perform its duties, the Committee may receive advice from independent professionals and may access any type of information or documentation of the company that is required to perform its duties.

1.3 Composition.

The composition of the Appointments and Remuneration Committee is governed by Article 24.1 of the Articles of Association and Article 17 of the new Board of Directors

Regulations. The latter article provides that the Committee will be composed of five members, appointed from among the non-executive directors, with the majority of its members being independent directors. The chairman of the Committee will be an independent director appointed from amongst its members and the secretary will be the secretary of the Board of Directors.

The appointment and removal of Committee members is carried out by the Board of Directors on proposal of the Chairman of the Board of Directors, following a report from the Appointments and Remuneration Committee. Committee members will hold their position for a term of not more than three years and may be re-elected, and will cease to be members of the Committee if they lose their director status or when agreed by the Board of Directors, following a report of the Appointments and Remuneration Committee. The chairman will be replaced every three years, and may be re-elected once one year has elapsed since he ceased to be a member.

Regarding the composition of the Appointments and Remuneration Committee, during the 2016 fiscal year the following occurred:

- The Board of Directors of Red Eléctrica Corporación, S.A., at the meeting of 26 January 2016, appointed the proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), Mr. José Ángel Partearroyo Martín, as a member of the Appointments and Remuneration Committee for a term of three years, to fill the vacancy existing on the Appointments and Remuneration Committee as a result of the resignation of the proprietary director Mr. Francisco Ruiz Jiménez.
- The Board of Directors of Red Eléctrica Corporación, S.A., at the meeting held on 26 April 2016, appointed the independent director Mr. Agustín Conde Bajén as a member of the Appointments and Remuneration Committee of the company, for a term of 3 years, to fill the vacancy arising on the Appointments and Remuneration Committee as a result of the resignation of Ms. M^a José García Beato as a member of the aforesaid Committee to become a part of the Audit Committee.
- The Board of Directors at the meeting held on 29 November 2016 accepted the resignation presented by Mr. Agustín Conde Bajén, and as a result there was a vacancy on the Board of Directors and on the Appointments and Remuneration Committee.

At 31 December 2016 the composition of the Committee was as follows:

Director	Position	Type of Director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent Director
Socorro Fernández Larrea	Member	Independent Director
María Ángeles Amador Millán	Member	Independent Director
José Ángel Partearroyo Martín	Member	Proprietary Director
Vacant ⁸	Member	Independent Director

All of the members of the Committee have demonstrated capacity to perform the functions of the Committee, due to their broad experience, skills and knowledge

Set forth below are summaries of the professional careers of the members at 31 December 2016:

- Carmen Gómez de Barreda Tous de Monsalve has a degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE) and a master's degree in Business Administration from IESE (Executive MBA), Universidad de Navarra.

She is currently General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES).

She has served, inter alia, as the head of the cogeneration area of the Marketing Department of Enagás, the head of the international, petrochemical and marketing areas of Repsol, Services Development Manager of Unión Fenosa, Deputy Director of Petroleum Markets with the National Energy Commission (Comisión Nacional de Energía, or "CNE"), Institutional Relations and Communications Manager of BP Oil España, representative of the Spanish delegation on the Emergency Matters Group and the Markets Group of the International Energy Agency (Agencia Internacional de la Energía, or "AIE").

⁸The vacancy on the Appointments and Remuneration Committee arose upon resignation of the independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors at the meeting held on 29 November 2016. At the date of approval of this report that vacancy remains unfilled.

- Socorro Fernández Larrea is a Canals and Ports Engineer with a degree from the Universidad Politécnica de Madrid and holds an IESE Senior Management Programme (PADE) diploma.

Currently she is an executive director of the consulting firm JUSTNOW, S.L., a member of the Board of Directors of AMPER, S.A. as a proprietary director representing Emilanteos, S.L. She is a member of the Board of Directors of the Spanish engineering firm SEG, S.A., a member of the Board of Directors of the Spanish construction and real estate company ACR, a member of the advisory board of the Mexican engineering firm CAL Y MAYOR end of the real estate company ZELTEX, with activity in Senegal.

In the private sector, amongst other positions, she has worked as General Manager of COPISA Constructora Pirenaica S.A., Vice-President of ANCI, Asociación de Constructores Independientes, Regional Manager of the construction company Seop, Obras y Proyectos, S.A., National Representative of Ferrovial Conservación, S.A., and Representative in Castilla-La Mancha of Ferrovial-Agroman, S.A. In the public sector, she held the position of General Manager of Roads, Hydraulic Works and Transport, Regional Council of Public Works, Autonomous Community Board of Castilla-La Mancha.

- María Ángeles Amador Millán holds a law degree from the Universidad Complutense de Madrid.

She has served, among other positions, as Technical Secretary General of the Ministry of Public Works and Urban Development, Undersecretary of the Ministry of Health and Consumer Affairs, Minister of Health and Consumer Affairs and Vicepresident of the Constitutional Commission of the Congress. She also has served as the president of the Corporate Governance and Responsibility Committee (currently known as the Appointments and Remuneration Committee) of the Company, which she joined as a director in May of 2005. Currently she is a practicing attorney.

- José Ángel Partearroyo Martín holds a law degree from the Universidad de Salamanca. Master's Degree in Business Law (LLM) from the Instituto de Empresa. Studied for the public examinations to access the judicial and prosecutor career.

Currently, he is the General Manager of Sociedad Estatal de Participaciones Industriales (SEPI).

Among other positions, he has been Director of Investee Companies in the Communications Division of Sociedad Estatal de Participaciones Industriales (SEPI), an Associate Attorney with KPMG Abogados, S. L., a Senior Attorney with RAMÓN Y CAJAL ABOGADOS (in alliance with Mayer Brown), Senior Associate with BIRD & BIRD (Spain) LLP, Adjunct Professor of Commercial Law on the Law Faculty of the Colegio Universitario Cardenal Cisneros (a part of the

Universidad Complutense de Madrid) and on the Law Faculty of the Universidad Rey Juan Carlos I.

3 Activities during 2016

The Board of Directors has been informed of the matters dealt with at meetings of the Committee through the Director Portal (the Board intranet), making the documents dealt with by the Committee available to the Board, and at the immediately following meetings of the Board of Directors, and copies of the minutes of the Committee have been made available to all directors once approved.

The most significant actions of the Appointments and Remuneration Committee during the 2016 fiscal year were the following:

3.1 In relation to appointments, performance and removals:

- Favourable report and proposals to the Board of Directors in relation to the appointment by co-option of a proprietary director.
- Favourable report to the Board of Directors, for referral to the Shareholders' General Meeting regarding the proposed re-election of a director in the "other outside" category.
- Favourable report to the Board of Directors, for referral to the Shareholders' General Meeting, regarding the proposed re-election of a proprietary director.
- Favourable report to the Board of Directors, for referral to the Shareholders' General Meeting, regarding the proposed ratification and appointment of a proprietary director.
- Favourable report and proposal to the Board of Directors, for referral to the Shareholders' General Meeting, of the proposed re-election of an independent director.
- Favourable report and proposal to the Board of Directors, for referral to the Shareholders' General Meeting, of the proposed appointment of an independent director.
- Evaluation of the criteria to be taken into account when filling vacancies occurring on the Board of Directors and its Committees, and analysis of the profile of candidates proposed in the process of selection thereof.
- Analysis of the replacement of the positions of the Chairman of the Board of Directors in other companies of the Group and revocation of powers of attorney held by the Chairman of the Board of Directors in those companies after completion of the process of separation of the positions of Chairman of the Board of Directors and

managing director and the acquisition of executive authority by the managing director.

- Analysis of the proposed replacement of the individual representative of the Sole Director of Red Eléctrica de España, S.A.U., as a result of completion of the process of separation of the positions of Chairman of the Board of Directors and chief executive of the company.
- Analysis of the proposed revocation of delegated authority and powers of attorney of the Chairman of the Board of Directors and grant of new authority thereto after the loss of his status as an executive director.
- Favourable report on the Chairman of the Board of Directors' proposals for the appointment of an independent female director as a member of the Audit Committee and an independent director as a member of the Appointments and Remuneration Committee.
- Approval of the Board of Directors' proposal for the re-election of the lead independent director.
- Analysis of reports on the compatibility of positions of independent directors of Red Eléctrica Corporación S.A. with their possible appointment as directors of other companies.

3.2 In relation to remuneration:

- Analysis and favourable report to the Board of Directors of the proposed annual Programme for delivery of shares for employees, members of management and executive directors of the group companies.
- Favourable report to the Board of Directors regarding the proposed remuneration of the Board of Directors for the 2016 fiscal year, the Annual Report on Remuneration of directors for the 2015 fiscal year, and the proposed amendment of the Policy on remuneration of directors, for referral to the Shareholders' Annual General Meeting.
- Approval of the proposed evaluation of achievement of Business, Managerial and Management Committee objectives for 2015.
- Analysis of the report on the remuneration of the management team in 2016.
- Approval of the definition of business, managerial and Executive Committee objectives for 2016.
- Approval of the Framework for action regarding remuneration and contractual aspects of the Chairman of the Board of Directors and managing director deriving from the close of the transitional period of the process of separation of positions.
- Analysis of the report justifying and quantifying the variable long-term remuneration of the executive Chairman of the Board of Directors, as a result of the Long-Term

Variable Remuneration Plan and the process of separation of the positions of Chairman of the Board and managing director.

- Analysis of the monitoring of the business, managerial and Executive Committee objectives for 2016.
- Analysis of the proposal for the remuneration of the Board of Directors for the 2017 fiscal year.

3.3 In relation to the Corporate Governance rules and actions:

- Analysis and referral to the Board of Directors of the proposed amendment of the Board of Directors Regulations.
- Analysis and favourable report on the proposed doubling of the par value of the shares and corresponding amendment of the Articles of Association.
- Analysis and favourable report to the Board of Directors on the proposed criteria for communication with shareholders, institutional investors and proxy advisors.
- Approval of the proposed Annual Corporate Governance Report for the 2015 fiscal year, for referral to the Board of Directors.
- Analysis of the call and agenda, and approval of proposed resolutions and reports to be presented to the Board of Directors, in relation to the 2015 Shareholders' Annual General Meeting.
- Analysis of the self-assessment report of the Board, the conclusions and recommendations of the process of external evaluation of the Board of Directors, its Committees and the Chairman of the Board of Directors corresponding to the 2015 fiscal year, prepared with the assistance of PricewaterhouseCoopers (PwC).
- Analysis of the design of the process for self-evaluation of the Board, for the 2016 fiscal year, for referral to the Board of Directors.
- Analysis of the Management Team Evaluation Report for the 2015 fiscal year.
- Analysis and favourable report to the Board of Directors of the Annual Gender Diversity and Equality Policy Report corresponding to the 2015 fiscal year.
- Analysis and referral to the Board of Directors of the Annual Criminal Risk Prevention Report corresponding to the 2015 fiscal year.

3.4 In relation to Corporate Responsibility:

- Analysis of the 2016 Corporate Responsibility Programme.
- Analysis and referral to the Board of the Annual Corporate Responsibility Report for the 2015 fiscal year.

- Analysis and referral to the Board of the Annual Corporate Responsibility Management Report for the 2015 fiscal year.
- Analysis of the periodic information on Corporate Responsibility.
- Analysis and referral to the Board of Directors of the Annual Code of Ethics Management Report corresponding to the 2015 fiscal year.
- Analysis of the reports on the results obtained by the company regarding Corporate Responsibility.

3.5 Other actions:

- Approval of the Committee's annual activity report for the 2015 fiscal year, for inclusion in the Annual Corporate Governance Report for that year.
- Approval of the Committee's Action Plan for the 2017 fiscal year.
- Approval of the Committee's schedule of meetings for the 2017 fiscal year.

4 Director attendance at meetings.

In 2016 there were thirteen (13) meetings of the Appointments and Remuneration Committee, with three (3) absences of directors.

AUDIT COMMITTEE ACTIVITY REPORT FOR 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 Shareholders' Annual General Meeting 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 Shareholders' Annual General Meeting 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 incorporated 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 Shareholders' Annual General Meeting 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 Andés, 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 their General Meeting.
- 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)
- 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.
- 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 Shareholders' Annual General Meeting 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.

TITLE IV- FUTURE PLANS OF RED ELÉCTRICA IN MATTERS OF CORPORATE GOVERNANCE.

In the Annual Corporate Governance Report for this financial year, as in previous years, a section is dedicated to Red Eléctrica's future plans in matters of corporate governance, due to the relevance it has for current shareholders and potential investors, as well as third parties interested in the future of Red Eléctrica.

The statements made in this Title IV do not, per se, constitute any commitment or formal obligation for the Company, enforceable by third parties; they are merely possible steps and measures to be taken in 2017 and subsequent years, following Red Eléctrica's custom of continually adopting the best corporate governance practices, in response to changes in shareholders' requirements and its own commitment to corporate governance.

During 2016, the Board of Directors used the following basic tools, among others, to analyse corporate governance best practices, with a view to their adoption by Red Eléctrica: an annual self-assessment of the Board, which for several years has been carried out with the support of external advisors; annual planning of corporate governance improvements, driven by the Appointments and Remuneration Committee, with advice from specialized consultants; an annual schedule of visits to institutional investors and proxy advisors; an external audit of the processes for managing the Shareholders' General Meeting to help identify possible improvements; and an analysis of the new Code of Good Governance of Listed Companies, which helped to identify certain improvement opportunities for 2016 and following years.

Membership of the International Corporate Governance Network (ICGN), the world's leading organisation in the field of corporate governance, once again provided the Company with first-hand knowledge of the most relevant international trends and new developments in corporate governance, allowing it to carry out an early analysis and implementation.

In the Corporate Governance Policy that was approved by the Board of Directors in November 2014, the Company assumed certain commitments to good corporate governance which it will have to gradually put into effect, or consolidate, by adopting certain principles and practices (summarized in Title II above), which will be monitored periodically over the year to ensure compliance.

Issues currently being analysed, or due to be discussed, by the Board of Directors and its committees include the need to:

- Review and develop the Company's commitments to its shareholders, so as to build a lasting relationship that will keep the Company's interests aligned with those of its shareholders in the medium and long term, creating mutual trust.
- Review and update the Succession Plan for the Chairman of the Board of Directors and prepare a specific new Succession Plan for the Managing director, following the completion of the separation of the two positions approved at the Annual General Meeting held in April 2016 and the assignment of new functions to each position.
- Develop the Board of Directors annual self-assessment process with the support of a new external consultant, in order to improve the functioning of the Board and its committees.
- Put the new Board of Directors Regulations into effect, following the amendments and improvements introduced by the Board in December 2016.

- Strengthen the internal control and risk management functions in certain areas of the Company's activity and improve the quality of publicly available information on risk management.
- Implement the Company's new regulatory compliance system and the plan to build awareness and understanding of that system.
- Adapt the Code of Ethics to the steps taken to prevent compliance risks.
- Continuously analyse, update and improve the corporate governance information published on the corporate website to meet international standards.
- Monitor and improve the process by which the annual corporate information for shareholders and other stakeholders is prepared and published, based on the principles of quality, clarity, integrity and simplicity of information.



RED ELÉCTRICA
CORPORACIÓN

OFFICIAL ANNEX

STANDARD FORM OF ANNEX I TO CNMV CIRCULAR 7/2015 OF 22 JUNE.

ANNEX 1

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED PUBLIC LIMITED COMPANIES

PARTICULARS OF ISSUER

ENDING DATE OF REFERENCE PERIOD

31/12/2016

C.I.F. (TAX IDENTIFICATION CODE)

A-78003662

CORPORATE NAME

RED ELECTRICA CORPORACION, S.A.

REGISTERED OFFICE

PASEO DEL CONDE DE LOS GAITANES, 177, (LA MORALEJA-ALCOBENDAS) MADRID

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED PUBLIC LIMITED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
11/07/2016	270,540,000.00	541,080,000	541,080,000

State whether there are multiple classes of shares with different related rights:

Yes No

A.2 Give details of the direct and indirect owners of significant shareholdings in your company at the fiscal year end, excluding directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")	108,216,000	0	20.00%
CAPITAL RESEARCH AND MANAGEMENT COMPANY	0	16,367,670	3.02%
FIDELITY INTERNACIONAL LIMITED	0	5,513,605	1.02%

Name of indirect holder of the shares	Through: Name of direct holder of the shares	Number of voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	CAPITAL RESEARCH AND MANAGEMENT COMPANY	16,367,670
FIDELITY INTERNACIONAL LIMITED	FIDELITY INTERNACIONAL LIMITED	5,513,605

Indicate the most significant movements in the shareholder structure that took place during the fiscal year:

Name of shareholder	Date of transaction	Description of transaction
CAPITAL RESEARCH AND MANAGEMENT COMPANY	15/02/2016	It now holds less than 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	04/03/2016	It now holds more than 3% of share capital

A.3 Complete the following tables on members of the company's board of directors who hold rights to vote shares of the company:

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN	40	0	0.00%
MR. JOSÉ FOLGADO BLANCO	4,796	0	0.00%
MS. MARIA DE LOS ÁNGELES AMADOR MILLÁN	0	0	0.00%
MR. ANTONIO GÓMEZ CIRIA	0	0	0.00%
MR. SANTIAGO LANZUELA MARINA	16	0	0.00%
MR. JUAN FRANCISCO LASALA BERNAD	2,428	0	0.00%

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. MARÍA JOSÉ GARCÍA BEATO	20	0	0.00%
MS. SOCORRO FERNÁNDEZ LARREA	0	0	0.00%
MR. JOSÉ LUIS FEITO HIGUERUELA	0	0	0.00%
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0.00%

% of total voting rights controlled by board of directors	0.00%
---	-------

Complete the following tables on members of the company's board of directors who hold rights over company stock:

A.4 Give details of any relationships of a family, commercial, contractual or corporate nature, known to the company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the ordinary course of business:

A.5 Give details of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and the company and/or its group, unless the relationships are negligible or arise in the ordinary course of business:

A.6 State whether shareholder agreements affecting the company have been notified to it as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe them and list the shareholders bound by the agreement:

Yes No

State whether the company is aware of the existence of concerted actions among its shareholders. If there are, briefly describe them.

Yes No

If any of the above agreements or concerted actions have been modified or terminated during the fiscal year, expressly so state:

At the closing date of the 2016 fiscal year, there is no record in the company of any shareholder agreements or covenants requiring concerted exercise of their voting rights, or of a common policy in company management, with the aim of significantly influencing the company.

A.7 Indicate if there is any individual or legal entity that exercises or may exercise control over the company, within the meaning of article 4 of the Securities Market Act. If so, identify it:

Yes No

Comments

A.8 Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
1,966,332	0	0.36%

(*) Held through:

Give details, as required under Royal Decree 1362/2007, of any significant changes that have taken place during the fiscal year:

A.9 State the conditions and term given by the shareholders meeting to the Board of Directors to issue, repurchase or transfer treasury shares.

The Capital Companies Act strengthened the legal scheme applicable to treasury shares of companies as established in Act 3/2009 of 3 April 2009 on Structural Modifications of Commercial Companies. Since then there have been no relevant changes in that scheme. At the Ordinary General Meeting of Shareholders held on 15 April 2015, authorisation relative to delivery of treasury shares of the Company, as remuneration, to employees thereof and of the Red Eléctrica Group, for a term of 5 years from the date of the aforesaid General Meeting, was submitted for approval. Therefore it remains in effect, with a partial modification approved at the Ordinary General Meeting of Shareholders held on 15 April 2016. At the Ordinary General Meeting of Shareholders held in 2015, as a separate point on the agenda, a remuneration plan was established for employees, members of management and executive directors of Red Eléctrica Corporación, S.A., also extendable to the same groups within the companies in its consolidated group in Spain, allowing a part of their annual remuneration to be paid by delivery of shares of the company, from treasury shares, always within the annual maximum legal limit of 12,000 euros per participant, allowing enjoyment of certain tax advantages. Approval of the aforesaid plan requires a resolution with certain legally-established conditions. The Ordinary General Meeting of Shareholders of the company held on 15 April 2015 authorised the Board of Directors, in accordance with the provisions of article 146 and related provisions of the Capital Companies Act and other applicable rules, to engage in derivative acquisition of treasury shares of Red Eléctrica Corporación, S.A. by the company itself and by companies in the Red Eléctrica Group, directly or indirectly, to the extent determined by the Board of Directors to be advisable under the circumstances, provided that the following conditions are satisfied:

- The maximum number of shares to be acquired will not exceed the established legal limit, all of the foregoing provided that the other applicable legal requirements may also be fulfilled.
- The acquisition may not be made at a price greater than the price of the shares on the stock exchange at the time of the acquisition, or at a price less than 50% of the exchange price at that time.
- The form of acquisition may be a purchase, exchange, or any other transaction, with or without consideration, as the circumstances may warrant. In the event of acquisition without consideration, as provided in article 146.4 of the Capital Companies Act, the acquired shares may be partially paid up.
- In accordance with the provisions of article 146.1 b) of the Capital Companies Act, the acquisition, including such shares as the Company may have acquired previously and hold as treasury shares, may not result in net worth being less than the amount of share capital plus the legal reserve and those reserves that the Articles of association designate as restricted reserves.

The Company's Board of Directors, as provided in the third paragraph of article 146.1 a) of the Capital Companies Act, may use all or a part of the treasury shares acquired by virtue of the aforesaid authorisation and those already owned by the Company at the date of approval of the resolution, for implementation of remuneration programmes the purpose of which is direct delivery of shares to employees, members of management and executive directors of the Company and the companies in the Red Eléctrica Group in Spain. For all of the foregoing the Board of Directors has been authorised, in the broadest sense necessary, to request as many authorisations and to adopt as many resolutions as necessary or appropriate to comply with current legal provisions, and to successfully implement the resolution. The Ordinary Meeting of Shareholders held on 15 April 2016 approved a partial modification of the resolution adopted by the Ordinary General Meeting of the Company of 15 April 2015, under point 10.2 of the Agenda, on Approval of a Remuneration Plan addressed to employees, executive directors and members of the management of the Company and the companies in the Red Eléctrica Group in Spain, consisting of the possibility that payment of a part of their remuneration may be made by delivery of shares of the Company coming from treasury shares, and consequently it was resolved to introduce the following partial changes therein:

- Maximum: The maximum amount of remuneration to be received in shares, per year, in the case of the managing director of the Company, will be the amount resulting from the remuneration policy for executive directors that is applicable from time to time over the term of the Plan, with a maximum limit in any event of 120,000 euros.
- Number of shares to be received by the beneficiary: It will be the number depending on the price of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.
- Maximum number of shares authorised: The maximum total number of shares to be delivered will be the number depending on the value of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.

The aforesaid resolution will remain in full effect in relation to the other matters that have not been modified, in particular including the duration thereof.

A.9.bis Estimated floating capital:

	%
Estimated Floating Capital	80.00

A.10 State whether there is any restriction on transferability of securities and/or any restriction on voting rights. In particular, state the existence of any kind of restrictions that could present obstacles to the takeover of the company by means of share purchases on the market.

Yes No

Description of the restrictions

Maximum percentage of voting rights that may be exercised by a shareholder by reason of special legal restriction (Act 54/1997 of 27 November 1997, additional provision twenty-three): 3% (general) and 1% (electricity sector).

Maximum percentage of voting rights that may be exercised by a shareholder under an Articles restriction: 3% (general) and 1% (electricity sector).

The limits are established in additional provision twenty-three of Act 54/1997 of 27 November 1997 (which remains in effect by virtue of the sole repealing provision of Electricity Sector Act 24/2013 of 26 December 2013), after its amendment by Royal Decree Law 13/2012 of 30 March 2012, which incorporated certain additional restrictions in respect of companies undertaking generation or marketing functions. The special system for the SEPI is maintained, whereby it in any case must hold at least a ten percent (10%) interest in share capital. These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and in the sole additional provision of the Articles of Association, and in article 6.3 of the Regulations of the General Meeting of Shareholders of the Company, the content of which is available on the corporate website www.ree.es. There are no additional Articles restrictions other than purely legal ones.

A.11 State whether the general meeting has resolved to adopt anti-takeover measures in the event of a public tender offer by virtue of the provisions of Act 6/2007.

Yes No

If so, explain the measures approved and the circumstances under which the restrictions would prove to be ineffective.

A.12 State whether the company has issued securities that are not traded on a Community regulated market.

Yes No

If so, state the various classes of shares and, for each class of shares, the rights and obligations given thereby.

B GENERAL MEETING

B.1 State whether there are, and if so describe, departures from the minimums contemplated in the Capital Companies Act (*Ley de Sociedades de Capital*, or "LSC") regarding the quorum for holding the general meeting.

Yes No

B.2 State whether there are, and if so describe, departures from the scheme contemplated in the Capital Companies Act (LSC) for adopting corporate resolutions:

Yes No

Describe how they differ from the provisions of the LSC.

B.3 State the rules applicable to amendment of the company's Articles. In particular, state the majorities contemplated for amendment of the Articles and, if applicable, the rules contemplated for protection of shareholder rights in the amendment of the Articles.

The scheme for amendment of the Articles does not differ from the provisions of article 285 and following of the LSC, which require approval by the General Meeting of Shareholders, with the majorities set forth in articles 194 and 201 of the aforesaid Act. Act 31/2014 of 3 December 2014, amending the Capital Companies Act for the improvement of corporate governance, introduced certain changes in the scheme of majorities (article 201 of the LSC). In particular, it is clarified that resolutions will be adopted by a simple majority of votes, in the sense that the resolution obtains more votes in favour than against from the capital present in person or by proxy. For resolutions amending the Articles and the like (article 194 of the LSC) an "absolute majority" is required if the quorum is greater than 50% of capital, and two thirds of the capital present in person or by proxy when the quorum on second call does not reach 50% of capital. An immediate consequence of the reform of the LSC was amendment of the Articles of Association and the Company's Meeting Regulations at the Ordinary General Meeting of Shareholders held on 15 April 2015. The Articles of Association that were in effect at the time of holding

the aforesaid Meeting and were applied thereto were not different from the provisions in article 285 and following of the LSC, requiring approval by the General Meeting of Shareholders, with the majorities that were set forth in articles 194 and 201 of the LSC in effect at the time of holding the aforesaid General Meeting. article 14 of the aforesaid Articles provides that, in order for an Ordinary or Extraordinary General Meeting to be duly called, and for a valid resolution to increase or decrease capital, and any other amendment of the Articles of Association, on first call the attendance of shareholders, in person or by proxy, holding at least 50% of the subscribed share capital with voting rights will be required, and on second call the attendance of 25% of the aforesaid subscribed capital with voting rights will be sufficient. In addition, the Board of Directors, in compliance with the provisions of article 286 of the LSC, will be required to draft the full text of the proposed amendment and a written report explaining it. Also, as provided in article 287 of the LSC, the announcement of the call of the General Meeting must, with due clarity, state the matters that are to be amended and the right of all shareholders to examine the full text of the proposed amendment and the report thereon at the registered office, and to request delivery or mailing without charge of the aforesaid documents. For several years proposals of resolutions have been published in full, in Spanish and English, together with the call of the General Meeting, thus making all information relevant to shareholders available to them through the corporate website, designed to facilitate the exercise of the information right of the shareholders. The Company's website is an appropriate means of communication with shareholders and investors. In addition, the following actions to facilitate the exercise of the information right of the shareholders at the General Meeting are notable:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Meeting is made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- A Shareholder Bulletin is published quarterly, containing the main news regarding the Company.
- The items included on the agenda for the Shareholders Meeting are provided in as much detail as possible.
- Matters are voted on separately, even by way of remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each matter submitted to vote.
- The Shareholder Information Office specifically deals with requests made by Company shareholders. Shareholders may also submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.

The most recent amendment of the company's Articles of Association was approved by the Ordinary General Meeting of Shareholders held on 15 April 2016, which resolved to amend article 5 of the aforesaid Articles, to allow a doubling of the number of shares of the company, complying with the contemplated majorities and procedure. As in prior years, in 2016 Deloitte audited the processes of management of the aforesaid General Meeting, seeking improvement of the guarantees of the rights of shareholders in the Meetings. The auditor's report was published on the website on the same day as the holding of the aforesaid General Meeting.

B.4 Give figures for attendance at the General Meetings held in the fiscal year to which this report refers and the prior year:

Date of general meeting	Attendance data				
	% attendance in person	% by proxies	% remote voting		Total
			Electronic voting	Other	
15/04/2015	22.29%	34.96%	0.05%	0.00%	57.30%
17/07/2015	22.72%	35.62%	0.01%	0.00%	58.35%
15/04/2016	21.79%	38.65%	0.04%	0.00%	60.48%

B.5 State whether there is an Articles restriction establishing a minimum number of shares necessary to attend the general meeting.

Yes No

B.6 Repealed section.

B.7 State the address of and manner of access to the company's website for information on corporate governance and other information on general meetings that must be made available to shareholders by way of the Company's website.

Article 2 of the General Meeting Regulations establishes the content of the corporate website, the purpose of which is to serve as an instrument to ensure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the company. The company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation. Act 25/2011 of 1 August 2011 gave greater prominence to the company's website, since it introduced a new article 11 bis in the Capital Companies Act, which governs the electronic headquarters or corporate website. That article established the duty of capital companies to have a website, approved by the General Meeting of Shareholders and registered in the Commercial Registry. For this reason the Ordinary General Meeting of Shareholders held on 19 April 2012 ratified the creation of the Red Eléctrica website, which was registered in the Commercial Registry. In addition the aforesaid Act incorporated

into article 516 of the LSC the obligation of listed companies to use the website to disseminate the announcement of call of the General Meeting, something that Red Eléctrica Corporación, S.A. has been doing for years. The company's website (www.ree.es), which was redesigned in 2013 after exhaustive international benchmarking for the purpose of improving the channels of communication with shareholders, includes a section accessible from the homepage dedicated to "Corporate Governance" matters, which contains all information regarding this matter that is of interest to shareholders. The aforesaid website also includes a specific area, accessible from the homepage, for "Shareholders and Investors". In 2015 the Corporate Governance and Shareholders and Investors sections of the corporate website were revised in accordance with Circular 3/2015 of 23 June 2015 of the National Securities Market Commission. In the General Meeting of Shareholders subsection of the Corporate Governance section there is a link called "Information Right", containing the information related to the existing channels of communication between the company and its shareholders, and pertinent explanations for the exercise of the information right. Publicity of the resolutions approved by the General Meeting is regulated in article 17 of the Meeting Regulations. Regarding publicity, during 2016 the following actions, among others, are notable: The live broadcast, simultaneously in Spanish and English, of the Ordinary General Meeting of Shareholders, held on 15 April 2016, and of the presentations of results at the close of the 2015 fiscal year and the first semester of 2016, publication in English of the announcement of call, from the day it was published, and of the proposed resolutions submitted to approval of the Meeting, in addition to all documentation related thereto, including the Annual Corporate Governance Report. In 2016, as in prior years, the Shareholder Electronic Forum for the Ordinary General Meeting was instituted. The aforesaid Forum, created by Red Eléctrica Corporación, S.A. on its website (www.ree.es) for the holding of its General Meetings, is in response to the requirement established in article 539.2 of the LSC. The aforesaid tool was included in article 8.4 of the Regulations of the General Meeting of Shareholders, after approval by the General Meeting of Shareholders held on 13 April 2011. The purpose of this Forum is to facilitate communication among the shareholders of Red Eléctrica, in order to publish proposals and supplement the agenda in the call of the Meeting, issue requests for support of such proposals, present initiatives for reaching the percentage required to exercise a minority right as contemplated by law, or make offers of or requests for voluntary proxies. In 2016, within the actions improving the information contained on the corporate website, it is worth noting the following:

-Publication of an interactive section, very visual and easily consulted, on the corporate governance history of the company, since its listing in 1999. This is a completely innovative practice within the national and international business world, showing the firm commitment of the Board of Directors to implementation and continuous improvement of good governance within the organisation in these years.

-Publication of the "Criteria for Communication with Shareholders, Institutional Investors and Proxy Advisors", approved by the Board of Directors on 25 October 2016, setting forth the principles and guidelines regarding the company's communication with these stakeholders, guaranteeing appropriate exercise of their rights and interests and encouraging the commitment to and relationship with them by way of open, transparent and sustainable dialogue.

The company has a strong commitment to improving and adapting the corporate website on an ongoing basis, as a living instrument of communication, dialogue and commitment to shareholders, in application of its Corporate Governance Policy.

C STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of directors

C.1.1 Maximum and minimum number of directors under the Articles of Association:

Maximum number of directors	13
Minimum number of directors	9

C.1.2 Complete the following table regarding the board members:

Name of director	Representative	Category of the director	Office on the board	Date of First appt.	Date of Last appt.	Election procedure
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Independent	DIRECTOR	19/04/2012	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN		Proprietary	DIRECTOR	22/12/2015	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JOSÉ FOLGADO BLANCO		Other Outside	CHAIRMAN:	22/05/2008	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. MARIA DE LOS ÁNGELES AMADOR MILLÁN		Independent	DIRECTOR	26/05/2005	18/04/2013	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

MR. ANTONIO GÓMEZ CIRIA		Independent	DIRECTOR	09/05/2014	09/05/2014	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. SANTIAGO LANZUELA MARINA		Proprietary	DIRECTOR	29/07/2014	15/04/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JUAN FRANCISCO LASALA BERNAD		Inside	MANAGING DIRECTOR	17/07/2015	17/07/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. MARÍA JOSÉ GARCÍA BEATO		Independent	DIRECTOR	29/11/2012	18/04/2013	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. SOCORRO FERNÁNDEZ LARREA		Independent	DIRECTOR	09/05/2014	09/05/2014	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JOSÉ LUIS FEITO HIGUERUELA		Independent	DIRECTOR	13/02/2015	15/04/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS		Proprietary	DIRECTOR	19/04/2012	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Total number of directors	11
----------------------------------	----

Give details of the directors who left the board of directors during the reporting period:

Name of director	Category of the director at time of departure	Departure date
MR. AGUSTÍN CONDE BAJÉN	Independent	29/11/2016

C.1.3 Complete the following tables on the board members and their individual category:

EXECUTIVE DIRECTORS

Name of director	Office in the company
MR. JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR

Total number of executive directors	1
% of the total board	9.09%

PROPRIETARY OUTSIDE DIRECTORS

Name of director	Name of significant shareholder represented or that nominated the director
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN	STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")
MR. SANTIAGO LANZUELA MARINA	STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")

Total number of proprietary directors	3
% of the total board	27.27%

INDEPENDENT OUTSIDE DIRECTORS

Name of director:

MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

Background:

Born on 20 May 1968.

Degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE).
Master's in Business Administration from the IESE (Executive MBA), Universidad de Navarra.

Currently:

General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)

Formerly:

Head of the Cogeneration Department, Business Management, Enagás.
Head of the International, Petrochemical and Marketing Departments of Repsol.
Director of Services Development at Union Fenosa.
Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).
Institutional Relations and Communications Manager for BP Oil España.
Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).
Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER).
Professor at lectures and/or presentations on different Masters Courses (Universidad de Barcelona, ICAI, Cesma, Club Español de la Energía).

Name of director:

MS. MARIA DE LOS ÁNGELES AMADOR MILLÁN

Background:

Degree in Law from the Universidad Complutense de Madrid.
Degree (diplomatura) in Human Rights for the Institut International des Droits de l'Homme de Strasbourg.
Research work about Industrial Property Law for Harvard Law School (Cambridge, Massachusetts).

Currently:

Practising attorney.

Formerly:

General Technical Secretary, Ministry of Public Works and Urban Development.
Assistant Secretary of the Ministry of Health and Consumer Affairs.
Minister of Health and Consumer Affairs.
Member of Congress
Representative of the Governing Board of the Madrid Bar Association.

Name of director:

MR. ANTONIO GÓMEZ CIRIA

Background:

Born on 25 March 1957.

Degree in Economics and Business, Universidad Complutense de Madrid
Degree in Mathematics, Universidad Complutense de Madrid.
Master's in Business Administration (Executive MBA), IESE.
Accredited Accounting Expert – AECA.

Currently:

Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

Member of the Boards of Directors de Mapfre España and Mapfre Global Risks.

Formerly:

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC. Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations.

General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC.

Head of Internal Auditing, Grupo FCC.

Member of the Advisory Board of the Internal Auditors Institute and a Member of its Executive Committee.

General Technical Secretary of InverCaixa, an investment management company in the La Caixa Group.

Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC.

Director, Empresa Nacional de Uranio, S.A.

Director, Empresa Nacional de Autopistas, S.A.

Director, Tabacalera, S.A.

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid.

Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española.

Head of the Auditing and Accounting Department of Banco de Crédito Agrícola.

Auditor/Inspector of the General State Inspectorate.

Other information of interest:

Member of the CNMV Work Group to prepare a "Management report guide for listed entities".

Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

Name of director:

MS. MARÍA JOSÉ GARCÍA BEATO

Background:

Born on 27 May 1965.

Law Degree, Universidad de Cordoba. State Attorney.

Currently:

Non-director Assistant Secretary of the Board of Directors of Banco Sabadell, S.A.

General Secretary and member of the Management Committee of Banco Sabadell, S.A.

Secretary of the Board of Directors of Sabadell United Bank (Miami).

Trustee of the Fundació Privada Banc Sabadell.

Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF). Member of the Advisory Board of the publisher Wolters Kluwer España, S.A. Member of the Advisory Board of the Fundación Cajasur.

Formerly:

State Attorney at the High Court of Justice in Madrid.

Head of the Legal Services Department of the Data Protection Agency.

Spanish representative on the Advisory Board of the European Committee on Data Protection.

Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.

State Attorney in the Sub-division of the State Legal Services Division.

State Attorney in the Communications Secretariat at the Ministry of Development.

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.

Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA).

Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI).

Director, Sociedad Estatal Correos y Telégrafos, S.A.

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Deputy Secretary for Justice.

State Attorney in the Audiencia Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.
Secretary of the Board of Directors of Retevisión, S.A.
Secretary of the Board of Directors of Banco Urquijo, S.A.
Director, Banco Gallego S.A.

Name of director:

MS. SOCORRO FERNÁNDEZ LARREA

Background:

Born on 7 April 1965.

Roads, Canals and Ports Engineer with a degree from the Universidad Politécnica de Madrid and participated in an IESE Senior Management Programme (PADE).

Currently:

CEO of the consultancy firm JUSTNOW, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

Board Member of the Spanish engineering firm SEG, S.A.

Member of the Board of Directors, ACR (Spanish construction and real estate company)-

Member of the advisory board of the Mexican engineering firm CAL Y MAYOR

Member of the advisory board of the real estate company ZELTEX, with activity in Senegal

Formerly:

General Manager, COPISA Constructora Pirenaica S.A.

Vice Chairman of ANCI, Asociación de Constructores Independientes.

Member of the Governing Council, Association of Civil Engineers.

Regional Manager, Seop, Obras y Proyectos, S.A.

National Representative, Ferrovial Conservación, S.A.

Representative in Castilla-La Mancha, Ferrovial-Agroman, S.A.

Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A.

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works,

Autonomous Community Board of Castilla-La Mancha.

Construction manager of Ferrovial, S.A.

Other information of interest:

Member of the advisory board of the newspaper EXPANSION

Member of WCD, Women Corporate Directors and cochair of the Spanish chapter

Member of AED, Asociación Española de Directivos, and a member of its Board of Directors

Member of the Business Council for Latin America (CEAL), member of the Management Board of the Iberian Peninsula chapter.

Member of WPO-YPO, Young Presidents' Organisation, and member of the executive committee of the Eurolatam chapter

Member of IWF, International Women Forum.

Name of director:

MR. JOSÉ LUIS FEITO HIGUERUELA

Background:

Born on 13 April 1952.

Mr. Feito holds a degree in Economics and Business from Universidad Complutense de Madrid.

Trade Expert and State Economist.

Ambassador of Spain.

Currently:

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 Board of Directors since 2001.

Member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012.

Member of the Editorial Board of the newspaper Expansion since 2001.

Formerly:

Chairman of ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).

Ambassador of Spain to the OECD (Organisation for Economic Cooperation and Development) in Paris (1996-2000).

Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), in which entity he was "Chief Economist", responsible for management of various areas in Investment Banking (1986-1996).

Head of International Financial Institutions of the Bank of Spain, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Union in Basel (1984-1986).

Technical Adviser and Executive Director in Washington of the International Monetary Fund (1980-1984).

Head of the Foreign Research and Data Processing Service of the Ministry of Economy and Finance, in Madrid (1978-1980).

Programmer, analyst and IT manager with Seresco, S.A. and Entel-Ibermática, S.A., in Madrid (1967-1978).

Total number of independent directors	6
% of total board	54.55%

State whether any independent director receives from the company, or its group, any amount or benefit other than director remuneration, maintains or over the most recent fiscal year has maintained a business relationship with the company or any company in its group, whether in the director's own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained that relationship.

During 2016, Grupo Mapfre (Mr. Antonio Gómez Ciria being a director of Mapfre Global Risks Internacional de Seguros y Reaseguros, S.A. and of Mapfre España, Compañía de Seguros y Reaseguros, S.A.) received 15.26 million euros from the Red Eléctrica Group.

If applicable, include a board explanation of the reasons it believes that director can perform as an independent director.

OTHER OUTSIDE DIRECTORS

Identify the other outside directors and state the reasons they cannot be deemed to be proprietary or independent and their relationships, whether with the company or its directors or its shareholders.

Name of director:

MR. JOSÉ FOLGADO BLANCO

Company, manager or shareholder with which the relationship is maintained:

RED ELÉCTRICA CORPORACIÓN, S.A.

Reasons:

Mr. José Folgado Blanco was re-elected as an "other outside" director at the Ordinary General Meeting of Shareholders held on 15 April 2016. In the report of the Appointments and Remuneration Committee on the proposed re-election of the director, and in the report and proposal of the Board of Directors that analysed the category of the director, it was concluded that he could not be re-elected as an "inside" director, based on the commitment established in the aforesaid "report on the process of separation of the positions of Chairman of the Board of Directors and Managing Director of the Company", submitted to the Extraordinary General Meeting of Shareholders of the company held on 17 July 2015. Nor could he be re-elected as an "independent" director, in view of the express legal prohibition contained in article 529 duodecies.4. a) of the LSC, and in article 7.2.c) i) of the company's Board Regulations, which provide that, in order for executive directors to be appointed as independent directors, a term of 3 years must have elapsed after the termination of that relationship.

Total number of outside directors	1
% of total board	9.09%

Give details of any changes in the category of each director during the period:

Name of director	Date of change	Prior category	Current category
MR. JOSÉ FOLGADO BLANCO	15/04/2016	Inside	Other Outside

C.1.4 Complete the following table with the information related to the number of female directors over the last 4 years, as well as the category of such female directors:

	Number of female directors				% of total directors of each type			
	F/Y 2016	F/Y 2015	F/Y 2014	F/Y 2013	F/Y 2016	F/Y 2015	F/Y 2014	F/Y 2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	5	5	4	36.36%	41.67%	50.00%	36.36%
Other Outside	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	4	5	5	4	36.36%	41.67%	50.00%	36.36%

C.1.5 Explain the measures, if any, adopted to foster inclusion on the board of directors of a number of women allowing reaching a balanced presence of women and men.

Explanation of the measures

In line with the content of Recommendation 15 of the former CUBG (*Código Unificado de Buen Gobierno*, the Uniform Code of Good Governance), and the most recent international recommendations, Red Eléctrica has been adding women with the appropriate profile for the position of a director. Thus, in 2008, for the first time three women were added to the Board of Directors. In the 2009 and 2010 fiscal years, the company held first place in the IBEX 35, with 27.3% women, maintaining the percentage of female directors on the Board. In 2012, an independent female director was added. At the end of the 2013 fiscal year, four of its members (36.36%), representing 40% of the outside directors of the Company, were women. This again put the company at the head of the IBEX 35. In 2014 a woman was appointed as a new independent female director, replacing another independent director. That appointment resulted in 5 of the 11 members of the Board of Directors being women. With regard to outside directors the percentage of women in 2014 was 50%, by comparison with 40% at the close of the 2013 fiscal year, again in first place in the IBEX 35. In 2016, four of its 11 members (after the resignation of an independent director in November of 2016), representing 36.36% of the total, were women. Thus Red Eléctrica continued to be among the leading companies in the IBEX 35, meeting the objective of 30% established in the new Recommendation 14 of the CBGSC (*Código de Buen Gobierno de las Sociedades Cotizadas*, the Code of Good Governance of Listed Companies) for 2020. In addition, the Board of Directors, within the framework of the commitment to ongoing adoption of best practices regarding Corporate Governance, assumed the obligation to approve an annual report on gender diversity matters, on proposal of the Appointments and Remuneration Committee, which report was approved for the first time at the end of 2008, commitment that has been maintained every year to date. The Board of Directors, at the meeting held on 20 December 2016, approved the Gender Diversity and Equality Policy Report that was referred to it by the Appointments and Remuneration Committee. For the fourth consecutive year a single report was presented, grouping the information regarding gender diversity on the Board with the information on the equality policy of the Red Eléctrica Group within the organisation. Thus there now is a report combining all of the information in this regard. This report again was published on the Company's website. The commitment of the Board of Directors to increase the presence of qualified women is an objective within the scope of the Good Corporate Governance policies, both within the Board of Directors and within Management of the rest of the organisation of the principal companies of the Red Eléctrica Group. Application thereof cannot be considered to have been completed, the intent being to have a responsible corporate management model based, among other criteria, on active management of the principles of equality and non-discrimination and management of talent in the entire organisation, promoting and retaining it in positions of maximum responsibility. On the other hand, it should be noted that, in 2013, the Board of Directors resolved to create the position of lead independent director (*consejero independiente coordinador*, or "CIC"), which was approved by the General Meeting of Shareholders held on 18 April 2013, in order to strengthen the balance of power on the Board of Directors, in which the positions of executive director and chairman of the Board were held by the same person. On 25 May 2013 a woman, Ms. Carmen Gómez de Barreda Tous de Mosalve, also was appointed as the lead independent director. The Board of Directors, on proposal of the Appointments and Remuneration Committee, at the meeting held on 31 May 2016, approved re-election of Mrs. Gómez de Barreda as the lead independent director, for a term of 3 years.

C.1.6 Explain the measures, if any, that have been agreed by the appointments committee in order for selection procedures to have no implicit bias preventing

selection of female directors, and for the company to deliberately seek and include women having the professional experience sought within the potential candidates:

Explanation of the measures

As has been stated in the previous section, the actions put in place by the company years ago have the objective of actively promoting the selection of qualified women and their inclusion on the Board of Directors, on the terms contemplated in Recommendation 14 of the former CUBG, and as established in article 18.1 of the Board of Directors Regulations, among the responsibilities of the Appointments and Remuneration Committee.

The Board of Directors has adopted the best practice recommendations in the area of gender diversity. At the end of the 2016 fiscal year, four of its members (36.36%) are women. Red Eléctrica thus continues to comply with the 30% objective established in Recommendation 14 of the new CBGSC, both objectives for the year 2020.

On 25 May 2013 a woman was appointed lead independent director by the Board of Directors, on proposal of the Appointments and Remuneration Committee (formerly called the Corporate Governance and Responsibility Committee). The Board of Directors, on proposal of the Appointments and Remuneration Committee, at the meeting held on 31 May 2016 approved re-election of Mrs. Gómez de Barreda as lead independent director.

Regarding the Board Committees, as indicated above, it should be noted that during the entire 2016 fiscal year, the Appointments and Remuneration Committee was chaired by a woman, and after the increase in the number of its members, at 31 December 2016, 3 of its 4 members (without taking account of the independent director vacancy after the resignation of Mr. Agustín Conde Bajén) were women. On the Audit Committee one of the 5 members is a woman. In conclusion, all of the proposals of appointments of female directors and addition of female directors as members of the Board Committees have been approved, or proposals or reports of the Appointments and Remuneration Committee have been made, and approved by the Board of Directors, always considering the intention to add female talent.

When despite such measures as may have been adopted, there are few female directors, or none, explain the reasons:

Explanation of the reasons

Not applicable

C.1.6 bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. And in particular, regarding how that policy is promoting the objective that in 2020 the number of female directors will represent at least 30% of the total members of the board of directors.

Explanation of the conclusions

Regarding selection of directors the Appointments and Remuneration Committee uses a general matrix of skills that sets forth the criteria defining the profile and the requirements that are considered to be appropriate in order to serve as a director of the company, and analyses the qualities, skills and experience an ideal director should have in order to hold the position, independently of the category.

In each candidate selection process, the Appointments and Remuneration Committee analyses the experience of the candidates and evaluates whether it is in accordance with the profile of those suitable to hold positions as directors of the type the position of which is vacant at that time

When doing so the Appointments and Remuneration Committee complies with the basic responsibilities established in article 18.1, subsections h), i) and k) of the Board of Directors Regulations, pursuant to which the Committee must:

-Ensure that the candidates for vacancies on the Board meet all of the requirements of the legal provisions and the provisions of these Regulations.

-Evaluate the competence, knowledge and experience necessary on the Board and, as a result, define the functions and aptitudes necessary in the candidates who are to fill each vacancy, within the policy approved for such purpose.

-Evaluate the time and dedication necessary in order for directors to effectively perform their tasks, for these purposes evaluating whether it is compatible with membership on other management bodies of companies, and ensuring that they have sufficient time available for proper performance of their duties.

In addition, in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014 and published on the website, it is established that "Red Eléctrica applies the principle of ensuring the existence of appropriate procedures for the selection of directors, which guarantee reasonable balance and diversity within the Board of Directors for proper discharge of its mission. To do this, when assessing the candidates participating in the selection process, the procedure will take into account any competences, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at all times, and the Appointments and Remuneration Committee plays an important role in the process".

All of the foregoing was taken into account by the Appointments and Remuneration Committee and the Board of Directors when analysing the reports and proposals to fill the vacancies existing on the Board of Directors during 2016, as may be seen on the corporate website (www.ree.es) within the documentation that Red Eléctrica made available to shareholders for the Ordinary General Meeting held on 15 April 2016.

Regarding the concern of the Board of Directors for addition of female talent to the Board of Directors, article 18.1 n) of the Board of Directors Regulations establishes, as one of the basic responsibilities of the Appointments and Remuneration Committee, seeing to it that gender diversity is taken into account when filling new vacancies,

establishing an objective for female representation and giving guidelines regarding how to reach that objective. In the same way, in the Corporate Governance Policy approved by the company on 25 November 2014 it is established that "the company applies the principle of promoting diversity in knowledge, experience and gender amongst Board and Committee members, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective". As already has been explained in sections C.1.5 and C.1.6 above, the company has 4 female directors and meets the 30% objective established in new Recommendation 14 of the CBGSC for 2020. For more information we remit to the Gender Diversity and Equality Policy Report approved by the Board of Directors on 20 December 2016, which is published on the corporate website (www.ree.es).

C.1.7 Explain the form of representation on the board of shareholders with significant shareholdings.

In accordance with the provisions of article 20 of the Articles of Association, the composition of the capital structure of the company is taken into account in the election of directors. Also, it must be ensured that outside directors represent a large majority. In any event, the Board's composition will be determined in such a way as to ensure the most adequate representativeness of the share capital.

As provided in article 7 of the Board of Directors Regulations, the following are considered to be proprietary directors:

- i) Those whose shareholdings are not less than the shareholding legally considered to be significant or who have been appointed due to their position as shareholders, even if the shareholding does not reach that level.
- ii) Those representing the shareholders indicated in the preceding paragraph.

For these purposes, a director will be deemed to represent a shareholder when:

- i) The director has been appointed in exercise of the shareholder's right of representation.
- ii) He or she is a director, senior manager, employee or non-occasional service provider of said shareholder or the companies belonging to its group.
- iii) Company records show that the shareholder acknowledges the director as its appointee or representative.
- iv) The director is the spouse of or maintains an analogous affective relationship with or is a close relative of a significant shareholder.

Proprietary directors may not serve simultaneously as directors of more than five (5) listed companies.

The composition of the Board of Directors is governed by the principle of proportionality; in this regard the Board of Directors Regulations establish in their article 7 that among outside directors, the ratio of proprietary directors to independent directors reflects the ratio of the Company's capital represented by proprietary directors and the remainder of the Company's capital; this strict proportionality principle may be relaxed in such manner that the weight of proprietary directors is greater than what would correspond to them based on the total percentage of capital they represent:

- i) In the case of high capitalisation in which there are few or no shareholdings legally considered to be significant.
- ii) Where there is a plurality of shareholders represented on the board but not otherwise related.

In addition the number of independent directors must represent at least half of the total number of directors. When the chairman of the Board is also the chief executive of the Company, the independent directors should constitute a majority of the total number of directors. These provisions were included in the Board Regulations in March of 2013, to reflect best international corporate governance practices, and maintained with practically no change in the Regulations approved in December of 2016.

In accordance with the authorisation contained in article 24.2 of the Articles of Association, within the authority of the Appointments and Remuneration Committee is that of reporting to the Board of Directors, for referral to the General Meeting, on the appointment or re-election of the proprietary directors proposed by the majority shareholder.

In any event, proprietary directors must advise the Board any conflict of interest between the company and the shareholders proposing their appointment, when this affects matters submitted to the board, refraining from participating in the adoption of the corresponding resolutions. In addition it should be noted that, among the circumstances in which directors are required to resign, article 24.2 g) of the Board of Directors Regulations provides that a proprietary director must resign when the shareholder the interests of which it represents on the Board transfers its entire interest in the Company, or reduces it to a level requiring reduction of the number of its proprietary directors.

In the adaptation of the Board of Directors Regulations approved in March of 2013, a provision was introduced regarding proprietary directors, to the effect that they cannot serve simultaneously in the position of a director for

more than (5) listed companies. This rule is maintained in the update of the aforesaid Regulations approved in December of 2016.

In Red Eléctrica, the State Industrial Ownership Corporation (Sociedad Estatal de Participaciones Industriales, or "SEPI") at 31 December 2016 is the direct owner of a significant interest, holding 108,216,000 shares, which represent 20% of share capital. In addition, there are three proprietary directors representing SEPI on the Board of Directors, Mr. Fernando Fernández Méndez de Andés, Mr. Santiago Lanzuela Marina and Mr. José Ángel Partearroyo Martín, representing 27.27% of all directors (without counting the independent director vacancy at 31 December 2016).

Apart from the SEPI, there is no individual or legal person that exercises or could exercise control over the company in accordance with the provisions of article 5 of Royal Legislative Decree 4/2015 of 23 October 2015, approving the recast text of the Securities Market Act.

C.1.8 If applicable, explain the reasons proprietary directors have been appointed at the request of shareholders whose share interests are less than 3% of capital:

State whether any formal requests for membership on the board have not been honoured for shareholders whose share interests are not less than those of others upon whose request proprietary directors have been appointed. If applicable, explain the reasons the requests have not been honoured:

Yes No

C.1.9 State whether any director has resigned his position before the end of his term of office, whether that director explained his reasons to the board and if so in what way, and, if he did so in writing to the entire board, below explain at least the reasons given by that director:

Name of director:

MR. AGUSTÍN CONDE BAJÉN

Reason for resignation:

The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 29 November 2016, resolved to accept the resignation presented by Mr. Agustín Conde Bajén, as an independent director of the company, having communicated his appointment as Secretary of State for Defence.

C.1.10 State the powers, if any, delegated to the managing director(s):

Name of director:

MR. JUAN FRANCISCO LASALA BERNAD

Brief description:

The Board of Directors of the company in a meeting held on 28 July 2015 unanimously resolved: "To delegate, jointly, severally and indistinctly, to the managing director of Red Eléctrica Corporation, S.A., Mr. Juan Francisco Lasala Bernad, under and in accordance with the provisions of article 249 of the current Capital Companies Act, 149 of the Commercial Registry Regulations, 22 of the Articles of Association and 5 of the Board of Directors Regulations, all authority of the Board of Directors that may be delegated by law and pursuant to the Articles of Association".

C.1.11 Identify any members of the board who hold the position of director or manager in other companies belonging to the group of the listed company:

Name of director	Name of group entity	Position	Has managing functions?
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INTERNACIONAL, S.A.U.	JOINT ADMINISTRATOR	YES
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DE ESPAÑA, S.A.U.	INDIVIDUAL REPRESENTATIVE OF THE	YES

		SOLE ADMINISTRATOR, RED ELÉCTRICA CORPORACIÓN, S.A.	
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INFRAESTRUCTURAS DE TELECOMUNICACIÓN, S.A.U.	JOINT (BUT NOT SEVERAL) ADMINISTRATOR	YES
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INFRAESTRUCTURAS EN CANARIAS, S.A.U.	JOINT (BUT NOT SEVERAL) ADMINISTRATOR	NO
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA FINANCIACIONES, S.A.U.	JOINT (BUT NOT SEVERAL) ADMINISTRATOR	YES
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA CHILE, SPA	CHAIRMAN OF THE BOARD OF DIRECTORS	NO
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DEL SUR, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS	NO
MR. JUAN FRANCISCO LASALA BERNAD	TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	MEMBER OF THE BOARD OF DIRECTORS (DIRECTOR)	NO

C.1.12 Name the directors of your Company who are known by your Company to be directors of other companies listed on stock exchanges other than companies in your Group:

Name of director	Name of group entity	Position
MS. SOCORRO FERNÁNDEZ LARREA	AMPER, S.A.	DIRECTOR
MR. JOSÉ LUIS FEITO HIGUERUELA	BANKIA, S.A.	DIRECTOR
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	BANKIA, S.A.	DIRECTOR

C.1.13 State and if applicable explain whether the company has established rules regarding the number of committees of which its directors may be members:

Yes No

Explanation of the rules

Article 18.1 k) of the Board of Directors Regulations establishes, among the basic responsibilities of the Appointments and Remuneration Committee in relation to appointments and removals, that of evaluating the time and dedication necessary in order for directors to effectively perform their duties, for these purposes evaluating compatibility thereof with membership on other management bodies of companies, and ensuring that they have sufficient time available for proper performance of their duties.

In this regard, the Appointments and Remuneration Committee has the authority to analyse and, if applicable, propose to the Board that members of the Board of Directors of Red Eléctrica be authorised to join boards of directors of other companies.

Article 7.3 of the Board Regulations limits the number of boards of other listed companies of which an independent director of the company may be a member to a maximum of two (2), absent an express exception approved by the Board, on proposal of the Appointments and Remuneration Committee.

In addition, under article 7.2 b) of the Board of Directors Regulations, proprietary directors may not simultaneously serve as directors of more than five (5) listed companies. And under article 7.2 a) of the aforesaid Regulations, executive directors may only serve as directors on one (1) Board of Directors of another company, with the exception of positions on Boards of Directors of subsidiaries or investees of the Company.

C.1.14 Repealed section.

C.1.15 State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	3,143
Amount of accrued pension rights of current directors (thousands of euros)	0
Amount of accrued pension rights of former directors (thousands of euros)	0

C.1.16 Name the members of senior management who are not executive directors, and state the total remuneration they earned during the fiscal year:

Name	Position
------	----------

MR. MIGUEL RAFAEL DUVISON GARCÍA	GENERAL MANAGER, OPERATIONS
MS. EVA PAGÁN DÍAZ	GENERAL MANAGER OF TRANSMISSION
MR. CARLOS COLLANTES PÉREZ-ARDÁ	GENERAL MANAGER OF TRANSMISSION (See section H.1)

Total senior management remuneration (in thousands of euros)	731
---	-----

C.1.17 Give details of the directors, if any, who are also directors of companies that are significant shareholders and/or entities in their group:

Name of director	Name of significant shareholder	Position
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN	STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")	DIRECTOR

Give details of any significant relationships, other than those disclosed in the preceding paragraph, between members of the Board of Directors and companies owning significant shareholdings in the reporting company and/or other companies in its group:

Name of related director:

MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN

Name of related significant shareholder:

STATE INDUSTRIAL OWNERSHIP CORPORATION (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, or "SEPI")

Description of relationship:

GENERAL MANAGER

C.1.18 State whether there was any amendment of the board regulations during the fiscal year:

Yes No

Description of amendments

The most recent amendment of these Regulations was recently approved by the Board of Directors, at a meeting held on 20 December 2016 for the purpose of updating the content thereof in light of certain legislative reforms that, recently, have affected public limited companies, in line with the reforms of the Articles of Association and the Regulations of the General Meeting of Shareholders approved by the Ordinary General Meeting of Shareholders of 15 April 2015, making some adjustments to certain corporate governance practices, especially in the international context, introducing improvements in the organisation and functioning of the Board of Directors and its Committees and adapting them to the new reality of the organisation of the Red Eléctrica Group. Specifically, the principal purpose of the reform was to adapt the Regulations to the provisions of Act 31/2014 of 3 December 2014, amending the Capital Companies Act to improve corporate governance, as well as the new Code of Good Governance of Listed Companies, which was approved by the National Securities Market Commission ("CNMV") on 24 February 2015. The reform initiative started with the Appointments and Remuneration Committee, which is one of the bodies contemplated for that purpose in article 3 of the current Regulations. The Committee prepared the corresponding proposal, together with the explanatory report contemplated in the aforesaid article.

The most relevant parts of the aforesaid modification were as follows:

-Adaptation of the functions of the Board of Directors (expanding non-delegable functions) and of the two Board of Directors Committees (Audit Committee and Appointments and Remuneration Committee) to the most recent reforms of the LSC and the CBGSC, also including improvements of organisation and functioning.

-Incorporation of a specific article (article 11) regulating the functions and responsibilities of the managing director, separately from those of the Chairman of the Board of Directors (article 9), which also have been modified as the chairman ceases to be an executive director, after completion of the process of separation of the positions of chairman and managing director at the Ordinary General Meeting of Shareholders held on 15 April 2016.

-Adaptation of the functions of the lead independent director (article 10, formerly 9 bis) to the LSC and the CBGSC, and strengthening of those functions by adding the function of coordinating the preparation of the Succession Plan for the chairman and, if applicable, for the managing director, and maintaining contact with investors and shareholders in order to form an opinion regarding their concerns as regards corporate governance.

-Strengthening of the independence of the Outside Auditor by adapting to the LSC and the CBGSC, and including as a function of the Audit Committee that of annual receipt from the Outside Auditors of a declaration of there being no criminal convictions (article 16.3 c), and including the obligation of the Outside Auditor of the company and, if applicable, of the Group to tender its position to the Board of Directors and, if the latter considers it to be appropriate, formalise its resignation and removal as such, in those cases in which it is convicted by a final judgment (article 42.5).

C.1.19 Describe the procedures for the selection appointment, re-election, evaluation and removal of directors. Specify the competent bodies, the formal steps to be taken and the criteria to be used in each procedure.

1. Appointment and re-election. Art. 21 of the Board Regulations provides that directors will be appointed by the General Meeting or, in the event of an early vacancy, by the Board of Directors by co-option. The proposal of appointment (including by way of co-option) or re-election of directors will be made on proposal of the Appointments and Remuneration Committee, in the case of independent directors, and by the Board itself, in the case of other directors. The Board within the scope of its authority will see to it that the candidates selected are persons of recognised solvency, competence and experience, guaranteeing gender diversity, experience and knowledge within the Board, following the policy of appointment and evaluation of candidates approved by the Board itself, even being entitled to use outside advisors when considered to be necessary, in accordance with art. 22 of the aforesaid Regulations. Under art. 23 of the Regulations, directors will serve for the term contemplated in the Articles of Association. Art. 20 of the aforesaid Articles sets the term of service as a director at four years. As established in art. 7 of the Board Regulations, independent directors may not serve as such for a consecutive period of more than twelve years. In 2011 the Board of Directors approved a Succession Plan for the chairman. Taking into account the fact that the Board Regulations were modified in 2016, in parallel with revision and approval of the aforesaid Regulations, revision of the Succession Plan was initiated, with support of an outside advisor, to keep it fully updated in accordance with the Corporate Governance Policy of the company, with the reforms of the LSC and the aforesaid modification of the Regulations and, in particular, to update the process of succession of the chairman and prepare a specific succession plan for the managing director after completion of the process of separation of the two positions approved in 2016 and the attribution of new functions to each of them. 2. Evaluation of directors. Article 5 of the Board Regulations establishes that, at least every two years, the Board will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the Appointments and Remuneration Committee. The Board annually undertakes an evaluation of its own functioning, that of the Committees and its chairman, and that annual process includes specialised outside advice. In particular, the Board has expressly reserved (art. 5 of the Regulations), on a non-delegable basis, among other responsibilities, the annual evaluation of: i) The quality and efficiency of the functioning of the Board, the diversity of its composition and abilities, the performance of their functions by the chairman of the Board and the chief executive of the Company and, if applicable, the performance and contribution of each director, with special attention to the responsibilities of the various Committees, all of the foregoing based on the report submitted to it by the Appointments and Remuneration Committee, if applicable in coordination with the lead independent director or the chairman, as may be the case. ii) The composition and effective functioning of its Committees and any other delegated body that has been formed, based on the report submitted to it by the Appointments and Remuneration Committee in coordination with the lead independent director or the chairman, as applicable. The self-evaluation process for 2015 was undertaken with the assistance of the independent firm PricewaterhouseCoopers (PwC) and the 2016 process (currently underway) is being undertaken with the assistance of a new outside advisor. 3. Removal. Art. 24.1 of the Board Regulations establishes that directors will leave office when the period for which they were appointed has elapsed, or when so decided by the General Meeting in use of the authority conferred on it by law or the Articles. The Board of Directors may not propose removal of independent directors before the end of the Articles period for which they were appointed, unless there is just cause found by the Board after a report from the Appointments and Remuneration Committee. In particular, just cause will be understood to exist when the director comes to occupy new positions or contracts new obligations that prevent it from dedicating the necessary time to performance of the duties of the position of a director, breaches the duties inherent in the position or is in any of the circumstances described in art. 7.2 c) of the Board Regulations, preventing classification thereof as independent. Removal of an independent director also may be proposed as a result of takeover bids, mergers or other similar corporate transactions that result in a change in the capital structure of the Company, when those changes in the structure of the Board are motivated by the proportionality criterion indicated in art. 7.1 c) of the aforesaid Regulations. Also, directors must tender their positions to the Board of Directors and, if it considers it to be appropriate, formalise the corresponding resignation in the cases contemplated in art. 24.2 of the Board Regulations, which are stated in section C.1.21 below. Art. 24.3 of the aforesaid Regulations provides that members of the Committees will leave office when they do so as regards their positions as directors. When a director leaves office before the end of the term of appointment, whether by reason of resignation or otherwise, it will explain the reasons in a letter that it will send to all members of the Board. Without prejudice to the resignation being disclosed to the market as established by current law, the reasons therefor will be stated in the annual corporate governance report, in accordance with art. 24.4 of the aforesaid Regulations.

C.1.20 Explain to what extent the annual evaluation of the board has resulted in significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

The annual evaluation of the Board of Directors for the 2015 fiscal year resulted, inter alia, in the following changes in the internal organisation:

- Completion of the process of separation of the positions of Chairman of the Board of Directors and managing director of the company.
- Maintenance of the position of Lead Independent Director (*Consejero Independiente Coordinador*, or "CIC") after the aforesaid separation.
- Reorganisation of the company so that the management areas responsible for the business report to the managing director and other areas report the chairman.
- Strengthening of the model for the relationship of the Board of Directors with investors and proxy advisors.
- Progress in relationships of the Board and the Committees with Senior Management of the company.

For more information, see the Annual Corporate Governance Report voluntarily prepared by the company, which is available on the corporate website (www.ree.es).

C.1.20.bis Describe the process of evaluation and the areas evaluated undertaken by the board of directors with the assistance, if applicable, of an outside consultant, regarding diversity of its composition and abilities, the functioning and composition of its committees, the performance of the Chairman of the Board of Directors and the chief executive of the company and the performance and contribution of each director.

The process of self-evaluation for the 2015 fiscal year, which focused on the Board of Directors and its Committees, addressed areas such as development of the functions of the Governance Bodies, the role of shareholders and investors, and the company's Remuneration Policy. In this process, Red Eléctrica had the participation, for the third consecutive year, of PricewaterhouseCoopers (PwC).

The self-evaluation process was undertaken, based on interviews with the directors of the company by PwC personnel, under the supervision and coordination of the Appointments and Remuneration Committee and the Lead Independent Director. During the interviews, the directors gave their opinion on a series of questions asked.

The final report of conclusions was approved by the Board of Directors, after a long period of debate and reflection, at the meeting held on 28 June 2016.

As in prior years, the result of the self-evaluation process that was undertaken shows that the Management Bodies of Red Eléctrica enjoy a high degree of efficiency and proper functioning, obtaining very positive evaluations as to the internal functioning and structure of the various Management Bodies, and as regards fulfilment of the responsibilities assigned to each of these Bodies.

It is worth noting the favourable opinion of the majority of the directors regarding involvement of the Board of Directors in the processes of approval of the Strategic Plan and the separation of the positions of chairman of the Board and chief executive evaluating the benefits of that organisational model for Red Eléctrica and its shareholders..

Also evaluated very positively was the performance of the functions attributed to the various Management Bodies, the directors positively viewing the level of interaction of the Board of Directors and Senior Management, especially the availability of the managers of the company, the rigor of and preparation for presentations and the positive acceptance of the guidance and supervision role of the Board of Directors.

The self-evaluation for 2015 shows that the company is in a very advanced position as regards corporate governance, performing in accordance with practically all of the recommendations introduced by the new CBGSC of the National Securities Market Commission approved at the beginning of 2015. In this sense, the majority of the directors are in agreement that, in general terms, the innovations introduced by both the reform of the LSC and the new CBGSC, although they will require some adaptation, will not significantly affect the functioning of the company.

In accordance with the provisions of the LSC, the Board of Directors proposed an action plan with areas for improvement to be considered. After analysing the results obtained in the self-evaluation process, various areas of progress achieved and potential areas for improvement were identified. The main matters to be considered in the short and medium terms to remain in the vanguard regarding Corporate Governance are the following:

- Continue to develop good practices within the Company's governance model, looking beyond the new regulatory requirements contained in the LSC.
- Continue to implement professional development programmes for directors on subjects related to the energy sector, taxation, innovation and technology, risk management and corporate governance, and other matters of interest for the proper functioning of the Board.
- Continue to develop and strengthen the model of relations between Red Eléctrica's governing bodies and investors and proxy advisors, as well as the policy for communication and contacts with institutional investors and proxy advisors. Continue to organize and structure the relations and interactions between the Board of Directors and/or its committees and the Company's senior management.
- Continue to monitor effective implementation of the following:
 - Reflect on the Board of Directors' performance of its supervisory functions and senior management's performance of its managing functions, seeking to clearly separate responsibilities in each area, so as to prevent possible dysfunctions and align expectations.
 - Review the functions of the lead independent director and their appropriateness to the new governance model.
 - Define more precisely the responsibilities of the Appointments and Remuneration Committee in relation to the appointment of the Company's senior managers.

- o Review the scope of the Board of Directors' self-assessment.
- o Take further steps to design and put in place a succession policy or plan that establishes the guiding principles and mechanisms of succession, with a special focus on the positions of chairman, managing director, secretary of the Board and senior management team.

Regarding the process of evaluation for the 2016 fiscal year, currently underway, the process was initiated with the participation of a new outside consultant, which allows a different view of the new process of self-evaluation of the Board, facilitating continuous improvement of the functioning of the Board of Directors and its Committees.

C.1.20.ter If applicable, provide details of the business relationships maintained by the consultant or any company in its group with the company or any company in its group.

The consultant that participated in the evaluation process maintains other business relationships with the company and the companies in its group. The fees earned by the consultant for the services rendered for evaluation of the Board of Directors of the company amount to 14.14% of all services provided to the company and the companies in its group.

C.1.21 State the circumstances in which directors are required to resign.

Article 24.2 of the Board Regulations contemplates that directors will place their positions at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignations, in the following cases:

- "a) When they reach 70 years of age.
- b) When they are subject to any of the grounds of incompatibility or prohibition contemplated by law.
- c) When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.
- d) When they have seriously breached their obligations as directors.
- e) When they leave the management positions with which their appointments as directors were associated.
- f) When their continued presence on the Board endangers the Company's interests, and the Board so finds with the favourable vote of two thirds of its members.

If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.

- g) In the case of a proprietary director, when the shareholder the shareholding interests of which it represents on the Board transfers all of its interest in the Company, or reduces it to a level requiring reduction of the number of its proprietary directors.
- h) On request of the Board of Directors by a majority of two thirds of its members, when there are repeated absences from meetings of the Board.
- i) When any circumstance occurs that prevents or significantly limits their participation in and dedication to the meetings of the Board and exercise of their duties and responsibilities as directors."

C.1.22 Repealed section.

C.1.23 Are supermajorities, other than the statutory majorities, required for any kind of decision?

Yes No

If so, describe the differences.

Description of the differences

Any resolution. Quorum: Half plus one of its members present in person or by proxy (art. 20 of the Regulations); Type of majority: Absolute.

Amendment of the Board Regulations as provided in article 3.4 of the Regulations. Quorum: Same as for any resolution; Type of majority: Two thirds.

Removal of directors when their continued presence on the Board endangers the company's interests, in particular in respect of section 38.4 of the Regulations, and the Board so finds with the favourable vote of two thirds of its members, pursuant to art. 24.2 f) of the Regulations. Quorum: Same as for any resolution; Type of majority: Two thirds.

Removal of director on request of the Board of Directors, when there are repeated absences from meetings of the Board. Request by two thirds majority (art. 24.2 h) of the Regulations).

As a new provision, in accordance with art. 529 septies of the LSC, in the update of the Board of Directors Regulations it is established that if the position of chairman is held by an executive director, appointment thereof will require the favourable vote of two thirds of the members of the Board of Directors (art. 9 of the Regulations).

There are no provisions for resolutions that require a supermajority for their adoption, apart from the specific ones contemplated in the applicable law and the cases referred to above.

Except in cases where other quorums for attendance have been specifically established, the board will be validly constituted with the attendance of at least half plus one of its members, present either in person or by proxy. If there is an odd number of directors, then a quorum will be present with the attendance of the whole number of directors immediately over half.

In accordance with the provisions of article 21 of the Articles of Association, any director may grant a proxy to another director, in writing and specially for each meeting, to represent and vote for it at meetings of the Board of Directors. Such proxy must be given to a director of the same type as the grantor of the proxy (articles 30.2 c) and 20 of the Board Regulations) (article 529 quater of the LSC only allows outside directors to grant proxies to another outside director, which provision has been included in art. 21 of the Articles of Association and art. 30.2 c) of the Regulations).

The chairman will organise the discussion, ensuring and encouraging the participation of all directors in the deliberations of the body, and will submit the matters for vote when he deems them to have been sufficiently debated. Each director, present in person or by proxy, will have one vote.

Both the Articles of Association (article 21) and article 20 of the Board Regulations provide that resolutions will be adopted by absolute majority of votes of the directors attending the meeting, in person or by proxy, except in those cases in which the law requires that resolutions be adopted by a greater majority, with the exceptions already discussed that are contemplated in the Board of Directors Regulations.

C.1.24 State if there are any specific requirements other than those relating to directors, to be appointed Chairman of the Board of Directors.

Yes No

Description of requirements

Article 9 of the Board of Directors Regulations, after its update and adaptation to article 529 septies of the LSC, provides that if the position of chairman is held by an executive director, appointment thereof will require the favourable vote of two thirds of the members of the Board of Directors.
--

C.1.25 Indicate if the chairman has a casting vote:

Yes No

Matters on which there is a casting vote
--

In the event of a tie vote, the chairman will have the casting vote and will settle the issue, regardless of the subject matter of the resolution being voted on (article 21 of the Articles of Association and article 20.3 of the Board Regulations).

C.1.26 Indicate if the Articles or board regulations establish any age limit for directors:

Yes No

Age limit for chairman:

Age limit for managing director:

Age limit for director: 70 years old

C.1.27 Indicate if the Articles or board regulations set a limit on the term of office of independent directors, other than as established by law:

Yes No

C.1.28 Indicate whether the Articles or board of directors regulations establish specific rules for the granting of proxies within the board of directors, the manner of doing so and, in particular, the maximum number of proxies a director may hold, as well as whether any limitation has been established regarding the categories within which it is possible to grant proxies, beyond the limitations imposed by law. If so, briefly describe those rules.

Each director may extend a proxy to another director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors. It is so provided in article 21 of the Articles of Association. Outside directors may do so only to another outside director.

If a director cannot, for justified cause, attend a board meeting that has been called, he must give instructions to the director that will represent him, seeing to it that he is represented by a director of the same category as provided in article 30.2 c) and article 20 of the Board Regulations. In addition the provisions of new Art. 529 quater of the LSC must be applied for outside directors, as already set forth in the Articles of Association and the Board of Directors Regulations.

C.1.29 Indicate the number of meetings held by the board of directors during the period. State also how many times, if any, the board met without the chairman being present. The figures treat proxies with specific instructions as being in attendance.

Number of board meetings	11
Number of board meetings without the chairman being present	0

If the chairman is an executive director, indicate the number of meetings held without attendance or representation of any executive director, and under the chairmanship of the lead director

Number of meetings	0
---------------------------	---

State the number of meetings the various board committees have held during the fiscal year:

Committee	No. of Meetings
AUDIT COMMITTEE.	11
APPOINTMENTS AND REMUNERATION COMMITTEE	13

C.1.30 State the number of meetings held by the board of directors during the fiscal year with the attendance of all of its members. The figures treat proxies with specific instructions as being in attendance:

Number of meetings with the attendance of all directors	8
Those in attendance as a percentage of total number of votes during the fiscal year	97.70%

C.1.31 Indicate if the individual and consolidated annual financial statements submitted for board approval are previously certified:

Yes No

If so, state the person(s) who has/have certified the Company's individual and consolidated annual accounts for preparation by the Board:

C.1.32 Give details of any mechanisms the board of directors has established to avoid the individual and consolidated financial statements prepared by it being presented to the general meeting with qualifications in the audit report.

As expressly indicated in article 42 of the Board Regulations, the Board of Directors will definitively formulate the accounts, after review by the Audit Committee pursuant to its functions as established in the Regulations, seeing to it that there are no qualifications by the auditor. However, when the board concludes that its position should be maintained, it will publicly explain the substance and scope of the disagreement.

In this regard, the Audit Committee is particularly important, as it continuously monitors the process of reporting economic and financial information to the market supervisory bodies, thereby increasing the possibility of absence of qualifications in the annual audit reports.

Since it was incorporated in 1985, the Company has not been subject to any audit qualifications regarding its Annual Accounts, which attests to the accuracy, reliability and sufficiency of the Annual Accounts of the company and of its consolidated Group throughout its life, guaranteeing at all times the highest informational transparency.

C.1.33 Does the secretary of the board hold a directorship?

Yes No

If the secretary does not hold a directorship complete the following table:

Name of the secretary	Representative
MR. RAFAEL GARCIA DE DIEGO BARBER	

C.1.34 Repealed section.

C.1.35 Indicate any mechanisms established by the company to safeguard the independence of the outside auditors, financial analysts, investment banks and rating agencies.

Approval of the policy for engagement of non-audit services from the Outside Auditor is reserved on a nondelegable basis to the Board of Directors in its internal Regulations (art. 5.5 a) xiv).

In 2012, at its Ordinary General Meeting of Shareholders held on 19 April 2012, the Company adapted its Articles of Association in order, among others, to align them with the aforementioned Act 12/2010 of 30 June 2010, which seeks to strengthen the authority of the Audit Committee in verifying the independence of the outside auditor. The amendment in question is reflected in the former version of article 14.3 of the Regulations of the Board of Directors, which was approved by the Board of Directors in 2013.

The Ordinary General Meeting of Shareholders held on 15 April 2015 approved an amendment of the Articles of Association, to adapt them to the most recent legislative reforms introduced by Act 31/2014 of 3 December 2014, amending the Capital Companies Act to improve corporate governance. Among other articles, there was an amendment of article 23.2 of the Articles related to the authority of the Audit Committee, incorporating minimum adjustments in relation to the Outside Auditors.

The Audit Committee is the body under the Board of Directors that is responsible for the relationship with outside auditors. In this regard the Audit Committee assists the Board of Directors in ensuring independence of the company's outside auditor.

In article 16.3 b) of the current Board of Directors Regulations, in relation to the independence of outside auditors, within the functions of the Audit Committee, the function of establishing direct relationships with the Outside Auditors is included, with that committee regularly to collect and receive information from the auditor regarding the audit plan, the process of development thereof and its implementation, and regarding such matters as may result in a threat to their independence, including the matter related to the report from the Outside Auditor of neither it nor any of its partners having been convicted by a final judgment, in criminal proceedings related to the performance of its audit functions, for examination by the Committee, and any others related to the process of development of the audit of accounts. To authorise, when it considers it to be appropriate, services of the Outside Auditors other than those that are prohibited, on the terms contemplated in the applicable legislation on audit of accounts. In addition, article 16.3 h) of the aforesaid Regulations includes the Audit Committee function of issuing, annually prior to the issue of the audit report, a report stating an opinion as to whether the independence of the Outside Auditors or audit companies has been compromised.

In this regard the Audit Committee must ensure that the company (i) makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with the departing auditor, and (ii) complies with the applicable rules regarding non-audit services, limits on the concentration of the auditor's business and, in general, the other rules established to ensure independence of the auditors. Also, in the case of resignation of the auditor, the Audit Committee must examine the underlying circumstances.

Further, pursuant to the terms of article 42 of the Board of Directors Regulations, the board will refrain from engaging audit firms whose anticipated fees in all categories are projected to surpass ten percent of total income during the last fiscal year.

In addition, the aforesaid article 42 of the aforesaid Regulations requires the Board of Directors to report, annually, on the overall fees that have been paid to the outside audit company for services other than auditing, seeking to minimise the engagement of such services to the extent possible.

Without prejudice to the obligation established in the aforesaid regulatory rule, to report to the Audit Committee on the services provided to the company and the Group by the outside auditor, other than those related to the

outside audit (services that are regularly reported to the markets by way of heading C.1.37 of this report), the approach followed by the company is not to engage this kind of services from the Outside Auditor from the date it has been appointed by the General Meeting of Shareholders, unless there are exceptional reasons justifying the engagement of such services therefrom, which are to be appropriately explained in the annual public reporting of the company. In any case, the engagement of such services must be authorised by the Audit Committee. Since 2016, in compliance with Recommendation 4 of the CBGSC, the company publishes the Audit Committee Report on the independence of the Outside Auditor on the corporate website, duly in advance of the date of holding the Ordinary General Shareholders Meeting. The company makes frequent presentations to financial analysts and investment banks to report the key economic and financial figures of the group, and to review its business performance.

Said presentations are regularly attended by the most important professionals and specialists in the sector. After making the foregoing presentations, all participants are offered the opportunity to be included in a list of entities that periodically receive the most important information regarding the company of interest to them.

Presentations to analysts are first sent to the CNMV so that they are known by the markets through its website. These presentations are then immediately posted on the company's website.

The principal purpose of the "Investor Relations" Department, under the company's Corporate Economic and Financial Office, is to serve as a channel for communications with financial professionals and institutional investors and respond to their inquiries.

C.1.36 State whether the company changed outside auditors during the fiscal year. Is so identify the new and departing auditors:

Yes No

If there were disagreements with the departing auditor, describe the substance:

C.1.37 Indicate if the audit firm provides any non-audit services to the company and/or group. If so, state the auditor's fees for such services in absolute terms and as a percentage of the total fees invoiced to the company and/or its group:

Yes No

	Company	Group	Total
Fees for non-audit services (thousands of euros)	0	73	73
Fees for non-audit services / Total fees invoiced by the auditor (%)	0.00%	19.95%	19.95%

C.1.38 State whether the audit report on the financial statements for the prior fiscal year contains reservations or qualifications. If applicable, state the explanation given by the chairman of the audit committee of the substance and scope of the reservations or qualifications.

Yes No

C.1.39 Indicate the number of consecutive fiscal years the current audit firm has audited the company's and/or group's financial statements. Also state how long the current audit firm has audited the company's financial statements as a percentage of the total number of fiscal years for which the company's financial statements have been audited:

	Company	Group
Number of consecutive fiscal years	4	4
No. of fiscal years audited by current audit firm / No. of fiscal years the company has been audited (as a %)	13.00%	25.00%

**C.1.40 Is there a procedure to allow directors to take independent professional advice?
If so, give details.**

Yes No

Describe the procedure

A specific procedure exists within the company in order for directors to obtain outside advice.

To receive assistance in exercising their functions, article 28 of the Board Regulations provides in this regard that directors may request that the Board of Directors engage legal, accounting, financial or other expert consultants, at the expense of the company.

This engagement must necessarily refer to specific problems of a certain significance and complexity that arise in the performance of their duties.

The request to engage such consultants must be made to the chairman. It may be rejected by the Board of Directors if it is shown that:

- a) It is not necessary for the proper performance of the functions assigned to the directors.
- b) The cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company, or
- c) The technical assistance sought may be adequately provided by experts or technicians of the Company, or has been entrusted to other outside experts.

In respect of the Audit Committee and the Appointments and Remuneration Committee, articles 15.8 and 17.9, respectively, of the Board Regulations state that the committees may propose that the Board of Directors seek independent professional advice.

Furthermore, said Committees may have access to any type of information or documentation of the Company that is necessary to better carry out their duties, pursuant to the provisions established in the foregoing articles of the Board Regulations.

**C.1.41 Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for board and board committee meetings in good time.
If so, give details.**

Yes No

Describe the procedure

Board of Directors meetings are called at least six days in advance and all the relevant information is sent together with the call. The call always includes the agenda for the meeting and, as a general rule, the relevant information is attached, duly summarised and prepared.

Notwithstanding the foregoing, article 19.5 of the Board Regulations establishes that the call of the board will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the board may be called by telephone and the prior notice period will not apply when, in the chairman's opinion, the circumstances so require. The urgent reasons will be explained in the minutes of the meeting as provided in article 19.6 of the Regulations.

Article 27.1 of the Board Regulations provides that a director has the broadest rights to collect information regarding any matter affecting the Company. In this regard a director may examine the books, records, documents and other background of corporate transactions, and inspect all of its facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with article 27.3 of the Board Regulations, in order not to interfere with ordinary management of the company, exercise of information rights is channelled through the Chairman of the Board of Directors and/or the managing director. They will respond to director inquiries by providing the information directly, making the appropriate spokesmen at the appropriate level within the organisation available, or arranging for requested on-site review and inspection.

Article 27.4 of the Board Regulations provides that the chairman may restrict access to certain information on an exceptional and temporary basis, informing the Board of Directors of the decision during its next meeting.

Also, both the Audit Committee and the Appointments and Remuneration Committee may access any kind of information or documentation of the Company that they need for better performance of their duties, as indicated in section C.1.40 above.

C.1.42 State whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may prejudice the credit and reputation of the company, and if so give details:

Yes No

Explain the rules

Article 35 of the Board Regulations, among the disclosure obligations of a director, provides that a director must advise the company of all judicial, administrative and other claims that by reason of their significance may jeopardise the credit and reputation of the company. In particular he must advise of criminal proceedings in which he appears as a target, and of the progress of the trial.

Also, as indicated in article 24.2 f) of the Board Regulations, directors must tender their positions to the board of directors and formalise the corresponding resignation when remaining on the Board endangers the interests of the company, as discussed above, if so ordered by the Board by a vote of two thirds of its members.

If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.

C.1.43 State whether any member of the board of directors has reported to the company that he has been indicted or tried for any of the crimes stated in article 213 of the Capital Companies Act:

Yes No

State whether the board of directors has reviewed the case. If so, explain the decision taken as to whether it is or is not appropriate for the director to remain in office or, if applicable, state the actions taken by the board of directors up to the date of this report or the actions it contemplates taking.

C.1.44 Give details of significant agreements that have been entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer, and the effects thereof.

There are no agreements entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer for its shares.

C.1.45 Identify on an aggregate basis and describe in detail agreements between the company and its directors and managers or employees that contain indemnification, guarantee or golden parachute clauses, when they resign or are improperly dismissed, or if the contractual relationship concludes by reason of a public tender offer or other transaction.

Number of beneficiaries: 4

Type of beneficiary

Chairman, Managing Director and top-level Managers

Description of Agreement:

The contract of the Chairman was proposed by the Corporate Governance and Responsibility Committee (currently, Appointments and Remuneration Committee) and approved by the Board of Directors of the Company in March of 2012. On proposal of the Appointments and Remuneration Committee, after approval of the Board of Directors on 23 February 2016, that contract was modified to reflect the new conditions as the outside Chairman of the Company. Also, at the date of the end of the transitional period as executive Chairman, indemnification corresponding to one year of remuneration has accrued in his favour, as contemplated in the executive Chairman contract. That indemnification will be due when he ceases to be a Director of the Company.

The contract of the Managing Director was proposed by the Appointments and Remuneration Committee and approved by the Company's board of directors on 28 July 2015. On proposal of the Appointments and Remuneration Committee, after approval of the Board of Directors on 23 February 2016, that contract was updated to reflect the new conditions due to assumption of full managing functions.

This contract, following the customary market practices, contemplates indemnification equivalent to one year's remuneration in the event of termination of the commercial relationship by reason of dismissal or change of control. In addition, as is customary in these cases, as a result of his appointment as Managing Director, the pre-existing employment contract is suspended. If it were to be extinguished, it would in terms of indemnification accrue the remuneration existing at the date of the suspension, for the appropriate purposes based on his seniority with the Company at the date of his appointment as Managing Director (14 years), in accordance with the current labour legislation.

Top-level Managers: There are no guarantee or golden parachute clauses for dismissals in favour of top-level Managers currently serving within the Group. If the employment relationship is extinguished, the indemnification corresponding to those Managers would be calculated in accordance with the applicable labour laws. The contracts of these Managers were approved by the Appointments and Remuneration Committee and they were duly notified to the Board of Directors.

The top-level Managers providing services within the Group at 31 December 2016 are included in the Structural Management Plan put in place by the Company in 2015.

During 2016 expenses have been recognised associated with the departure, during the year, of a top-level Manager, in an amount of 823,000 euros.

State whether such clauses must be notified to and/or approved by the management bodies of the company or its group:

	Board of directors	General meeting
Body authorising the clauses	Yes	No

	Yes	No
Is the general meeting informed of the clauses?	X	

C.2 Board of directors committees

C.2.1 Give details of all committees of the board of directors, their members and the proportions of inside, proprietary, independent and other outside directors that are members thereof:

AUDIT COMMITTEE.

Name	Position	Category
MR. JOSÉ LUIS FEITO HIGUERUELA	CHAIRMAN	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	MEMBER	Proprietary
MR. ANTONIO GÓMEZ CIRIA	MEMBER	Independent
MR. SANTIAGO LANZUELA MARINA	MEMBER	Proprietary
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Independent

% of proprietary directors	40.00%
% of independent directors	60.00%
% of other outside	0.00%

Explain the functions assigned to this committee, describe its procedures and rules of organisation and functioning and summarise its most important actions during the year.

The functions, procedures and rules of organisation and functioning of the Audit Committee are set forth in articles 23 of the Articles of Association and 15 and 16 of the Board of Directors Regulations.

The most important actions of the Audit Committee are included in the Annual Activities Report of the aforesaid Committee for the 2016 fiscal year, which is incorporated in the Annual Corporate Governance Report voluntarily prepared by the company, and is available on the corporate website (www.ree.es). In addition it is contemplated that the aforesaid report will be separately published on the aforesaid corporate website.

Identify the director that is a member of the audit committee that has been appointed taking account of his knowledge and experience regarding accounting, auditing or both, and state the number of years the Chairman of this committee has been in the position.

Name of the director with experience	MR. JOSÉ LUIS FEITO HIGUERUELA
No. of years the chairman has held the position	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	CHAIRMAN	Independent
MS. SOCORRO FERNÁNDEZ LARREA	MEMBER	Independent
MS. MARIA DE LOS ÁNGELES AMADOR MILLÁN	MEMBER	Independent
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN	MEMBER	Proprietary

% of proprietary directors	25.00%
% of independent directors	75.00%
% of other outside	0.00%

Explain the functions assigned to this committee, describe its procedures and rules of organisation and functioning and summarise its most important actions during the year.

The functions, procedures and rules of organisation and functioning of the Appointments and Remuneration Committee are set forth in articles 24 of the Articles of Association and 17 and 18 of the Board Regulations.

The most important actions of the Appointments and Remuneration Committee are included in the Annual Activities Report of the aforesaid Committee for the 2016 fiscal year, which is incorporated in the Annual Corporate Governance Report voluntarily prepared by the company, and is available on the corporate website (www.ree.es). In addition it is contemplated that the aforesaid report will be separately published on the aforesaid corporate website.

C.2.2 Complete the following table with information regarding the number of female directors that have been members of the committees of the board of directors over the last four fiscal years:

	Number of female directors							
	F/Y 2016		F/Y 2015		F/Y 2014		F/Y 2013	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE.	1	20.00%	1	20.00%	2	50.00%	2	66.66%
APPOINTMENTS AND REMUNERATION COMMITTEE	3	75.00%	4	100.00%	3	75.00%	1	33.33%

C.2.3 Repealed section

C.2.4 Repealed section.

C.2.5 State whether there is any regulation of board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

The Board of Directors Regulations of the company regulate the structure, composition and functioning of the Audit Committee and the Appointments and Remuneration Committee in accordance with the principal international recommendations and practices regarding corporate governance, introducing improvements in the organisation and functioning.

The company opted for comprehensive regulation in the Board of Directors Regulations without establishing specific internal regulations for the Committees.

The functions and responsibilities of the Committees are based on the Articles of Association, which were adapted in this regard to the innovations introduced by Act 31/2014 of 3 December 2014, amending the Capital Companies Act to improve corporate governance, at the Ordinary General Meeting of Shareholders held on 15 April 2015.

The Board of Directors Regulations also were amended in the same sense on 20 December 2016, for full adaptation to the most recent reforms of the Capital Companies Act, to the Code of Good Governance of Listed Companies and to introduce improvements in the organisation and functioning of the Board Committees to adapt them to the new organisational structure, among other matters.

Following the most recent reforms of the Capital Companies Act, the latest international practices and recommendations have been adopted as regards composition and independence of committees and qualifications of their members. The principal matters had already been included in the amendment of the Articles and of the Board Regulations approved in 2013. Nevertheless, these corporate rules have been reviewed to ensure that they are fully adapted to the new Act.

The current Board of Directors Regulations may be viewed on the company's website, www.ree.es, in the Corporate Governance section, without prejudice to their being registered, and therefore available to the shareholders and any interested person, at the CNMV and the Madrid Commercial Registry. The Board Committees annually make various reports on their activities, which are fully included in the Annual Corporate Governance Report, voluntarily prepared in appropriate format by the company, and may be consulted on the company's website. In 2016, in accordance with Recommendation 6 of the CBGSC, the activities reports of the Committees for the 2015 fiscal year were separately published on the corporate website. It is contemplated that the activities reports of the Committees for 2016 also will be published in the same manner on the corporate website (www.ree.es).

C.2.6 Repealed section.

D RELATED PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain the procedure, if any, for approval of related party and intragroup transactions.

Procedure for reporting approval of related party transactions

Pursuant to articles 5.5 and 14.6 (currently 16.6) of the Board Regulations, in May 2010 the Board of Directors, on proposal of the Audit Committee, approved a policy on controlling related-party transactions and defined objective parameters for the control of related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions that must obligatorily be reported to the securities markets. The Audit Committee monitors this policy annually and reports to the Board of Directors. As was done in 2016 in compliance with Recommendation 6 of the CBGSC, in 2017 it is contemplated that the Annual Report of the Audit Committee on related party transactions for 2016 will be published on the corporate website.

The Board of Directors, in accordance with the provisions to that effect in article 36 of the Board Regulations, formally reserves approval, after a report from the Audit Committee, of any relevant transaction of the Company with a significant shareholder, including shareholders represented on the Board of the Company or other companies in the Group or with persons related thereto, unless by reason of their nature and conditions they are within the authority of the General Meeting, in accordance with the provisions of article 5.5, letter c) of the Board of Directors Regulations.

- D.2 Describe those transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the Company or entities in its group and the significant shareholders of the company:
- D.3 Describe the transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the Company or entities in its group and the directors or managers of the company:
- D.4 Give details of any significant transactions entered into by the company with other entities belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, as regards their subject matter and terms, are part of the ordinary course of the company's business.

In any event, any intragroup transaction entered into with entities established in countries or territories considered to be tax havens is to be reported:

Name of group company:

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

Amount (thousands of euros): 2

Brief description of the transaction:

Leases.

Name of group company:

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

Amount (thousands of euros): 32,172

Brief description of the transaction:

Financing agreements: loans and capital contributions (lender)

Name of group company:

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

Amount (thousands of euros): 4,389

Brief description of the transaction:

Financial income on the loan.

D.5 State the amount of transactions entered into with other related parties.

16,628 (€ 000s)

D.6 Give details of the mechanisms in place to detect, determine and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, managers or significant shareholders, on the other.

In accordance with new art. 31 e) of the Board Regulations a director must take the measures necessary to avoid being involved in situations in which its interests, whether for itself or a third party, may be in conflict with the corporate interest and its duties to the Company. New art. 32 of the aforesaid Regulations develops the duty to avoid conflict of interest situations as referred to art. 31 e) specifying it by stating those in which the director must abstain. In any case, the directors should communicate to the Board of Directors any situation of conflict, either direct or indirect, with either themselves or relative to persons related thereto, could have with the corporate interest. The conflict of interest situations in which the directors are subject to will be informed in the annual accounts memory. On the other hand, art. 2 of the Internal Regulations for Conduct in the Securities Market (*Reglamento Interno de Conducta en el Mercado de Valores*, or "RICMV") of the company, within its subjective scope of application, includes directors, the secretary, the assistant secretary of the Board of Directors of the company, managers (as defined in chapter I of those Regulations) and the persons expressly designated by the Oversight Body created by the Regulations themselves. In accordance with art. 7 of the RICMV, those Subject or Temporarily Subject thereto generally are to seek to avoid the occurrence of situations of conflict of interest, direct or relative to persons related thereto, being required to advise the Oversight Body within the term of 15 days after they learn of such situations of conflict of interest as may reasonably arise, so that the aforesaid unit may adopt the corresponding decisions in advance. In the case of directors, they are to advise of the situations described above through the office of the Secretary of the Board of Directors. Those Subject or Temporarily Subject to the rules must keep the information related to such conflicts of interest as have been notified up to date, reporting such modifications as they occur. The Oversight Body will maintain an updated and individualised record of the situations of conflict of interest notified by the various persons Subject or Temporarily Subject to the rules, and will adopt appropriate security measures for the custody and filing thereof, which in any event will be of restricted access. It must be noted that, for the aforesaid purposes, in accordance with art. 11 of the RICMV, the Oversight Body is the Corporate Economic-Financial Office, with the cooperation of the Office of the Secretary of the Board of Directors for such legal questions as may derive from application or interpretation thereof. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, recording, disseminating and monitoring compliance with the obligations and duties established in the aforesaid Regulations. The Oversight Body will have the authority necessary to undertake the functions assigned by the aforesaid RICMV and will be required to report periodically to the Audit Committee regarding the degree of compliance with the aforesaid Regulations and such issues, if any, as may arise. In relation with the managers of the company, it should be noted that art. 2.1.3 of the RICMV provides that managers as defined in chapter I are considered to be subject to the rules and, therefore, will be subject to application of the aforesaid Regulations. The Board of Directors has formally reserved the approval, after a report from the Audit Committee, of any relevant transaction of the Company with a significant shareholder, including the shareholders represented on the Board of the Company or other companies of the Group, or with persons related thereto, unless by reason of their nature and conditions they are within the authority of the General Meeting (art. 36 of the Board Regulations).

After the update of the Board Regulations, last 20 December 2016 and the entry into force of the new Regulation (EU) nº596/2014 of the European Parliament and the Council, dated 16 April 2014, about market abuse, the Internal Regulations for Conduct in the Securities Market are being updated.

D.7 Is more than one group company listed in Spain?

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiary

State whether the type of business they engage in, and any business dealings between them, as well as between the subsidiary and other group companies, have been publicly disclosed;

Describe any business relationships between the parent company and the listed subsidiary, and between it and other group companies

Describe the mechanisms contemplated for resolving any conflicts of interest between the listed company and other group companies:

Mechanisms to resolve any conflicts of interest.

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the Risk Management System of the company, including tax risks.

Since 2002 there has been a Risk Management System, the company having developed its first Risk Map in 2003.

The implemented Risk Management System is comprehensive and ongoing; with such management being implemented by business unit, subsidiary and support area at the corporate level.

The purpose of this Comprehensive Risk Management System is to ensure that the risks that may affect the strategies and objectives of Red Eléctrica Group, including those of a tax nature, are systematically identified, analysed, assessed, managed and controlled, applying uniform criteria, within the established risk limits, so that the strategies and objectives of the Red Eléctrica Group can be fulfilled.

The Red Eléctrica Group has a comprehensive risk management policy and a comprehensive general risk management and control procedure, based on the COSO II (Committee of Sponsoring Organisations of the Treadway Commission) Comprehensive Corporate Risk Management Framework. Both the Policy and the Procedure have been updated to the end of 2016.

- The Comprehensive Risk Management Policy.
According to the Board of Directors Regulations of Red Eléctrica Corporation, it is the Board of Directors itself that approves the risk control and management policy.

The various types of risks are identified in it, the risk level the Company considers to be acceptable is fixed, and guidelines are established for management and mitigation of those risks.

In September of 2015 the Policy for Control and Management of Tax Risks was included within this policy, incorporating the guidelines for management and mitigation of this type of risk.

The Policy for Control and Management of Tax Risks develops the Tax Strategy of the Group approved by the Board of Directors on 30 June 2015. Also in 2015, the Board of Directors approved adherence to the Code of Good Tax Practices, which establishes all those practices that lead to reduction of significant tax risks and prevention of conduct susceptible of generating such risks.

The update to this Policy (5th edition) was approved by the Board of Directors in December of 2016.

This policy is fully aligned with the current Strategic Plan of the Group, and is available on the corporate website in the Corporate Governance section.

- The General Procedure for Comprehensive Risk Control and Management.
This procedure regulates the identification, analysis, assessment and control of the management of relevant risks to which the Group is exposed.

It establishes the purpose, responsibilities, activities and tasks of the Comprehensive Risk Management System.

This process is undertaken for the purpose of ensuring that the various levels of responsibility within the Group are aware of and evaluate the risks threatening the strategies and objectives of the Group, and that the management performed by them takes account of and is effectuated within the established acceptable risk levels.

The update of this procedure (5th edition) was approved by the Executive Committee in November of 2016. In it the purpose, responsibilities, activities and tasks of the system are established.

In 2015 progressive revision of compliance with the five components of internal control began, according to the COSO Comprehensive Framework of May 2013. The Ernst & Young audit firm at the end of 2015 undertook review of the first of these components, "Control Environment", and in November 2016 review of the second component, "Risk Evaluation". In both reviews it concluded that the elements and activities related to the control environment are formalised and present in all areas/operations of the Organisation and, furthermore, in many cases reference best practices in this area have been implemented.

E.2 Identify the company bodies responsible for the preparation and implementation of the Risk Management System, including tax risks.

As previously stated, the Risk Management System is comprehensive in nature, in so far as all of the Group's business units participate in it, along with the various governing bodies, within a systematised management process, which conforms to the criteria and guidelines established in the Policy and General Procedure of Comprehensive Risk Control and Management. The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out.

As expressly recognised in the Regulations of the Board of Directors, the Board of Directors is responsible for approval of the Comprehensive Risk Management Policy of the Company and of the Group, which includes definition of the acceptable risk level, and review and periodic monitoring of internal control, prevention and reporting systems.

The Board reviews the risk control system and material risks, including tax risks, at least twice a year, without prejudice to the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The Audit Committee has authority for regular monitoring of the effectiveness of the comprehensive risk management system, including tax risks, so that the relevant risks are identified, managed within the established acceptable risk levels and appropriately reported.

The Management Committee, composed of managers from the key strategic areas of the Company, is responsible for:

- Monitoring the relevant Risk Maps.
- Ensuring appropriate control and monitoring of the management of high-level risks and others of special relevance, and the action plans critical to their mitigation.

The Internal Audit and Risk Control Department, reporting to the office of the chairman, is responsible for coordinating and supporting the process of identification, analysis and evaluation, and undertaking the periodic review of risks. This department provides reports for the Management Committee, Audit Committee and Board of Directors. Amongst the information provided, the following is of particular note:

- Relevant risks map
- Relevant risks files
- High-level and particularly relevant risks monitoring report
- Risk reports by general management and corporate governance departments
- Periodic report on evolution of key risk indicators (KRIs)

The organisational units are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the Internal Audit and Risk Control Department, and in the implementation of action plans.

Along with the responsibilities assigned to the Group's various units and control bodies, the Risk Management System establishes the information flows, the actions guaranteeing the systematic monitoring and control of risks through a series of activities and products, and the specific methodology to measure the level of risk.

E.3 Identify the principal risks, including tax risks, that may affect achievement of the business objectives.

The principal business of the Red Eléctrica Group is the transmission of electricity and operation of the electricity system in Spain, which are regulated activities, in so far as they are critical to the security and continuity of electricity supply and are carried out on an exclusive basis.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which it has to undertake its principal activities.

The types of risks faced by the Red Eléctrica Group in the achievement of its strategies and objectives may be classified as follows:

Operating risks:

- Operating risks that may affect the electricity system. Those risks that may affect the electricity system related to proper functioning of the Transmission Network and System Operation.
- Environmental and human risks. These risks are related principally to the environment in which the activities are undertaken and the safety of the persons working therein.
- Comprehensive security risks. This combines the risks related to physical security and cyber security
- Other operating risks. Those of an operating nature not included in the foregoing types.

Regulatory risks:

- Regulatory risks as the Spanish TSO (transmission system operator). Those risks that are related to the regulation affecting the Group in its activity as the Spanish TSO.
- Other regulatory risks, deriving from regulation other than as indicated above. It in particular includes tax risks. Tax risks: those produced by application of the tax rules, interpretive complexity or amendments to the aforesaid rules and the possible impact on reputation resulting from the management of tax matters.

Financial and counterparty risks:

- Financial and counterparty risks. This corresponds to financial and market risks and those related to counterparty breach of their contractual obligations.

Business diversification risks:

- Risks associated with the telecommunications business.
- Foreign business risks. This includes the risks of activities engaged in by the Group through its subsidiaries abroad.

As stated above, in September 2015 the matters related to the Tax Risks Management and Control Policy of the Red Eléctrica Group were included in the Comprehensive Risk Management Policy, establishing the specific guidelines for management of such risks.

As a result of the risk analysis performed within the Red Eléctrica Group in the most recently presented Risks Map 146 risks were identified.

In accordance with the valuation model developed by Red Eléctrica Group, which is analysed in the following section, the classification of risks in accordance with the three established levels (high, medium and low) can be seen. For the monitoring of risks, the current Risk Management System includes the monitoring of more than 500 action plans, aimed at reducing the level of risk, and approximately 300 indicators to review their evolution.

E.4 State whether the entity has a risk tolerance level, including tax risk.

The risk level the Red Eléctrica Group is willing to accept is established both for individual risks, and for aggregate risk (Overall Acceptable Risk Level).

Acceptable risk level for an individual risk:

The Risk Management System of Red Eléctrica Group sets out a methodology to determine the acceptable level of risk. As a result all identified risks are classified into three categories:

- High-level risks
- Medium-level risks
- Low-level risks

To establish the level of a risk, two parameters are used: the probability of the risk occurring and the impact it would have on the company if it did materialise.

The probability of occurrence is classified into five levels in accordance with a specific probability distribution.

In relation to their impact, risks are rated on the basis of the effect that their materialisation could have on four key elements of the business:

- The supply of electricity. Measured by the Energy Not Supplied (ENS) as a result of the possible event.
- The achievement of basic strategies. Degree of impact on the achievement of basic strategies.
- Reputation. Degree of impact on reputation (geographical scope, duration and reparability).
- The income statement. Impact on the income statement, before Companies Tax.

For each of these four elements, Red Eléctrica Group has produced a table showing five levels of effect or impact. In the cases of electricity supply and the income statement, the measurement is quantitative in nature (MWh and euros) whereas for basic strategies and reputation it is qualitative.

The position on the probability/impact matrix, which depends on the probability of occurrence and the level of impact of each risk, automatically determines the level of risk (red box = high risk, orange box = medium risk and green box = low risk).

This matrix reflects the distribution of risks based on their assessment at the close of 2015. In 2016 the qualitative scale of probability it shows (low, high, medium and very high) was replaced by a percentage distribution at five levels, as was indicated above. Distribution of the risks in the matrix using the new probability scale will proceed with preparation of the next Risks Map.

Acceptable risk at the individual level:

The individual level of acceptable risk, as defined by Red Eléctrica Group, only considers acceptable those risks that are classified as "low" on the aforesaid matrix. In accordance with the risk policy, all risks above this acceptable level will have to be subjected to actions in order to achieve this "low" rating, to the extent that the risk is manageable and the cost of the measures to mitigate it is justified by the effect that materialisation of the risk could have on the Group. Every acceptable risk level is subject to actions to maintain it at that level.

Acceptable risk on an overall level:

In 2016 the Board of Directors approved the determination of the overall acceptable risk level that the Group is willing to assume for each of the four types of impact contemplated in the Comprehensive Risk Management System, as already mentioned:

- Impact on the supply of electricity.
- Impact on the strategies of the Group.
- Impact on reputation.
- Impact on results.

As a general risk management approach, the overall aggregate risk level of the Group, determined as the result of statistically combining the individual risks, must not exceed this acceptable risk level on an overall basis.

E.5 Indicate what risks, including tax risks, have materialised during the fiscal year.

No risks of note materialised during 2016.

The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of the supply of electricity.

During 2016 there were events the consequences of which were outages of minor importance. Generally these events are caused by third parties and meteorological phenomena.

For these events, the control systems have functioned appropriately, as shown by the availability index of the peninsular transmission network, which in 2016 was 98.33% (provisional), close to the 97.93% achieved in 2015. The Company also has insurance policies limiting the potential impact of these events on the income statement.

E.6 Explain the plans for response to and monitoring of the principal risks of the entity, including tax risks.

Prevention of risks in the design and functioning of Red Eléctrica Group processes.

The Red Eléctrica Group's processes have been designed to incorporate elements to mitigate or reduce related risks, including tax risks. These processes have been integrated into structured management systems based on international standards (ISO 9001, ISO 14001 and OHSAS 18001, among others). These are subject to systematic internal and external audits of the adequacy of their design and compliance, and include mechanisms for controlling the objectives that they must meet.

Action and supervision of risks plans, including tax risks.

In the process of identification, analysis, evaluation and control of risks, referred to above, the actions required to reduce the degree of risk to the acceptable level, and maintain it at that level, are established.

On a semi-annual basis for high-level risks and others of special importance, and annually for the other levels of risk, and when circumstances make it advisable as to specific risks, the Internal Audit and Risk Control Department, together with the management units, reviews the performance and impact of the action plans previously established to reduce risk.

The challenges for 2017 are the following:

- Identification of lines for improvement in the short, medium and long terms for the Comprehensive Risk Management System of Red Eléctrica using best practices.
- Evolution and improvement of comprehensive risk reporting.
- Development of the methodology for identification and assessment of risks, improving the process of capturing information.

Contingency plans.

Red Eléctrica has a General Procedure: "Crisis management (pre-alert, alert and emergency)", to regulate crisis situations that could occur in cases of:

- Electrical incident, that could affect the security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incident, that could affect the environment, people, the efficiency of the Company, business results or any other matter that could have an impact on the company's reputation.

This procedure:

- Establishes the way in which such crises should be managed in general.
- Determines the phases of pre-alert, alert and emergency for each type of risk that could affect the operation or transmission of energy through the electricity system or that might affect people, the environment, efficiency and/or reputation.
- Establishes the composition of the committees responsible for managing each type of crisis, and the authority and responsibilities of its members.
- Identifies the specific contingency plans that exist at Red Eléctrica for each type of event

Red Eléctrica also has an Action Guide: Management of Cyber Incidents, which establishes the approach and guidelines for management of any cyber incident, regardless of the area in which it occurs.

Furthermore, it should be noted that Red Eléctrica has a System for Internal Control of Financial Reporting (SICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, with the early and voluntary adoption of international best practices. The SICFR includes the tax information and processes of Red Eléctrica and the controls associated therewith.

The SICFR is described in detail in "SECTION F. INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)".

F INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)

Describe the mechanisms comprising the systems for control and management of risks in relation to the process of financial information reporting (SICFR) of your entity.

F.1 Control environment of the entity

State, indicating the main features, at least:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an appropriate and effective SICFR; (ii) its implementation; and (iii) its monitoring.

The model of responsibilities of the System for Internal Control of Financial Reporting (hereinafter "SICFR") of the Company is structured by way of the following special Bodies, Offices and organisational units, which develop, maintain and monitor the process of preparation of financial information:

- The Board of Directors has the ultimate responsibility for the existence and maintenance of an appropriate and effective SICFR. For these purposes, the Board of Directors Regulations of the Company, in their article 5, section a) point ix) provide that among the nondelegable authority thereof is "approval of the policy for control and management of the principal risks of the Company and the group, and review and periodic follow-up regarding the systems for internal control, prevention and reporting".

- The Corporate Economic and Financial Office, as the level implementing the guidelines issued by the Board of Directors, has given responsibility for the design, implementation, functioning and coherence of the SICFR to the Economic Office, since within its responsibilities, as indicated in the Internal Control Manual, is that of "establishing an appropriate control structure to ensure the effectiveness of the Internal Control system".

- The Audit Committee is responsible for supervision of the SICFR. In accordance with article 16 of the Board of Directors Regulations, the Audit Committee will exercise the functions of "supervising the process of preparation and the integrity of the financial information of the Company and, if applicable, the Group, seeing to proper attention to the regulatory requirements, appropriate delimitation of the perimeter of consolidation, and proper application of accounting principles and criteria, as applicable thereto" and "supervising the internal audit services, which will see to proper functioning of the information and internal control systems". For performance of these functions the Audit Committee has the Internal Audit and Risk Control Department, and the Outside Auditors.

- The organisational units of the Group are jointly responsible for the controls defined in their areas of responsibility, ensuring the design and operation thereof.

In addition to the foregoing, in November of 2016 the EY firm evaluated the second component of COSO (Risk Evaluation) of the Red Eléctrica Group, concluding that the Group is mature and in alignment with the best advanced practices of the market.

F.1.2. If they exist, particularly as regards the process of preparation of financial information, describe the following:

- Departments and/or mechanisms responsible: (i) for design and review of the organisational structure; (ii) for clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) that there are sufficient procedures for proper dissemination thereof within the entity.

The Corporate Resources Office, as the level implementing the guidelines issued by the Board of Directors, through the Human Resources Office of the Group, is responsible for determining the basic structure of the organisation, determining the various levels of authority and the resulting levels of responsibility. All of the foregoing is intended to maintain an organisational structure design that is implemented, reviewed and updated on an ongoing basis.

The internal mechanisms used by this office for clear definition of the lines of responsibility and determination of the general framework of the organisational structure are documented as follows:

- Recast Text of the Articles of Association,
- Internal Regulations for Conduct in the Securities Market,
- Corporate Responsibility Manual
- Code of ethics and corporate values

The details of the scope of lines of responsibility and authority of the SICFR are regulated by way of the SICFR Action Guide, which details the functions of maintenance, updating and supervision of the SICFR at each of the various levels of responsibility that are described. It should be noted that the Corporate Economic and Financial Office has delegated some of the tasks to the Economic Office, and the latter has delegated them to the Accounting Information and Administration Department. This SICFR Action Guide is part of the Group rules and is available to employees on the Intranet.

Dissemination of the organisational structure is accomplished by way of the Intranet, with an updated organisation chart being available to employees.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether there are specific references to the transactions ledger and preparation of financial information), body responsible for analysing noncompliance and proposing corrective actions and sanctions.

The Group has an appropriate conduct framework, stating values and specific guidelines for action, strengthening the bases for achieving the objectives of reliable and transparent financial information.

At this level are the following documents aligned with the corporate policies of the Group:

- Code of Ethics:

The current "Code of Ethics: Values and Commitments" was approved by the Board of Directors of the Company, in effect from 28 May 2013 until a new update is approved or it is repealed.

This code is the reference framework to ensure responsible management and ethical behaviour of the members of the organisation in the performance of their duties. The Code contains the corporate values and guidelines for behaviour to be followed, formulated by way of principles and commitments, and constitutes a firm commitment of the company to ethical and transparent management, applicable to all people in the Group. Together with the appropriate training, in person or remotely, it is provided to the employees of the Group, in addition to being available to them on a permanent basis both in the internal rules and on the corporate website.

This Code of Ethics is reviewed regularly to adjust its requirements to the needs of the company and its relationship to the environment and with stakeholders. The current version adopts the requirements and recommendations regarding management of ethics of the most respected international agencies, among them the United Nations (UN), the European Union, the Organisation for Economic Cooperation and Development (OECD) and international organisations such as Transparency International and the Etnor Foundation, among others.

Regarding economic and financial information, it includes the following matters, among others, within the description of the Corporate Values:

- "Reliability", commitment to preparation of reliable, rigorous and realistic information, particularly financial information.

- "Responsibility", all decisions and actions taken must respect the legal system and be the result of a process of reflection in which the possible consequences that may derive therefrom are assessed.

- "Leadership and Creativity", the commitment to excellence in management relies on efficient systems and processes, a valued element being participation and pride of belonging, on the systematic search for improvement, and on the identification and application of best practices. Transparent external and internal communication is an important element of the strengthening of business leadership.

The body responsible for analysing noncompliance and proposing corrective actions and sanctions is the Ethics Manager and defender of stakeholders, with the cooperation of the chairman of Red Eléctrica Group and the chairman of the Audit and Appointments and Remuneration Committees.

- Internal Regulations for Conduct in the Securities Market

The "Internal Regulations for Conduct in the Securities Market" were approved by the Board of Directors, initially on 25 June 2009, and thereafter various articles were partially updated.

The aforesaid regulations establish the rules for action in the securities markets and the required records, in relation to the following:

- Inside and Material Information
- Conflicts of Interest
- Related Parties
- Rules on the free formation of prices

- Treasury shares

These regulations apply to those subject thereto as specified in articles 2 and 3, that is the Directors, the Secretary and the Assistant Secretary of the Company's Board, as well as those persons whose customary functions are related to the securities markets and are expressly specified by the Oversight Body.

In this regard the persons subject thereto will receive a copy of the regulations, being required to sign a declaration confirming receipt thereof and understanding of the obligations to which they are subject as stated in point 2.2 of article 2.

For purposes of the aforesaid Regulations, the Oversight Body, as specified in article 11, is the Corporate Economic and Financial Office, which may seek the cooperation of the Office of the Secretary of the Board of Directors for such legal questions as may arise as to their application or interpretation.

The "Internal Regulations for Conduct in the Securities Market" are reviewed regularly to adjust their requirements to the needs of the company and its relationship to the environment and with stakeholders. The most recent update was in June of 2014. In this new version the companies comprising the Group are updated.

- Corporate Responsibility Policy

The purpose of this policy is to establish the general principles and guidelines so that all companies in the Red Eléctrica Group undertake sustainable, ethical and responsible business management in the performance of their duties.

- Complaint channel, allowing communication to the audit committee of irregularities of a financial and accounting nature, in addition to possible noncompliance with the code of conduct and irregular activities in the organisation, stating if applicable that it is of a confidential nature.

The code of ethics, in the section on "Systems for detection and processing of possible noncompliance, complaints, inquiries and suggestions" contemplates a system for receipt and processing of possible noncompliance by reason of ethical, commercial, financial, accounting and other violations, and complaints about the code. Any interested party may report alleged noncompliance.

Complaints preferably are to be made electronically. On the website of each company there will be an easily viewed and accessible channel, by way of which, confidentially, complaints will be transmitted electronically to the Ethics Manager. The system will ensure confidentiality and non-reprisal in all of its phases. The Ethics Manager must assume a commitment of total confidentiality in the performance of his duties, which commitment will extend to those providing internal support thereto.

Also, there is another means of sending reports of noncompliance, complaints, inquiries and suggestions regarding ethical matters, by way of the DIGAME (TELL ME) service, to receive requests from outside stakeholders that are not aware of the aforesaid channels.

- Regular programmes of training and updating for personnel involved in the preparation and review of financial information, as well as evaluation of the SICFR, which cover at least accounting standards, audit, internal control and risk management.

The Human Resources Office, based on the training prepared by the Offices involved in the preparation and review of financial information, manages and plans the educational programmes related to specific training in this area. In this regard, the Corporate Economic and Financial Office, as the level implementing and having responsibility for the design, implementation, functioning and coherence of the SICFR, proposes training programmes to the Human Resources Office to ensure that the training programmes are updated for all personnel involved in the preparation and review of the financial information, as well as evaluation of the SICFR.

F.2 Evaluation of financial reporting risks

State, at least:

F.2.1. The principal features of the risk identification process, including risks of error or fraud, in terms of:

- Whether the process exists and is documented.

The Company bases its process for identification of risks of error or fraud in the financial information on the COSO (Committee of Sponsoring Organisations for the Commissions of the Treadway Commission) methodology, implementing practices aimed at designing and maintaining an internal control system that allows providing reasonable security in respect of the reliability of the regulated financial reporting.

The process of evaluation of risks of information reporting is documented in the Group's Manual for the System for Internal Control of Financial Reporting. That procedure is available within the Company's SICFR management tool, to which the managers involved have access.

- Whether the process covers all of the financial reporting objectives (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), whether it is updated and with what frequency.

For the significant accounts and breakdowns the key processes and subprocesses associated therewith have been defined, and the risks that may generate errors and/or fraud in the financial information have been identified, covering all of the objectives of financial reporting (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), updated annually.

- The existence of a process of identification of the perimeter of consolidation, taking account, inter alia, of the possible existence of complex corporate structures, holding companies or special-purpose companies.

The Audit Committee is responsible for supervision of the perimeter of consolidation.

The procedure for review and authorisation of the financial information is formalised monthly by way of internal review at the level of the Corporate Economic and Financial Office, and concludes with presentation to the Audit Committee, and subsequently to the Board of Directors. In these reviews, among other matters, the perimeter of consolidation, as well as any other complex corporate structure, holding company or special-purpose company, are subject to approval.

- Whether the process takes account of the effects of other types of risks (operational, technological, financial, legal, reputation, environmental, etc.) to the extent affecting the financial statements.

The Internal Audit and Risk Management Office is responsible for providing support to the Audit Committee in the evaluation of risks, in close collaboration with the various units that control each of the aforesaid risks (Information Technology Department, Financial, Legal, Tax, Environmental, etc.).

- Which governance body of the entity supervises the process.

The Audit Committee supervises the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.

F.3 Control activities

State, indicating their principal features, whether there are at least:

- F.3.1. Procedures for review and authorisation of financial information and the description of the SICFR, to be disclosed to the securities markets, indicating those responsible, as well as documentation describing the flow of activities and controls (including those related to risk of fraud) of the various types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of the relevant judgments, estimates, valuations and projections.

The financial information that is prepared is regularly reviewed, as is the description of the SICFR, by various levels of responsibility, with the objective of ensuring the quality of the information.

The Accounting Information and Administration Department, which organisationally reports to the Group's Economic Office, on a monthly basis reviews and formally validates the financial information prepared and reported to the Corporate Economic and Financial Manager in order to ensure its reliability.

The procedure for review and authorisation of the financial information is formalised monthly by way of internal review at the level of the Corporate Economic and Financial Office, and concludes with presentation to the Audit Committee, and subsequently to the Board of Directors. In these reviews the perimeter of consolidation, accounting and tax criteria, and relevant judgments, estimates and projections used in preparation of the Financial Statements are subject to approval by the Audit Committee.

Among the tasks of the Corporate Economic and Financial Office are supervision of the process of design, implementation, functioning and coherence of the SICFR, and keeping the Audit Committee timely informed in that regard, which functions have been delegated to the Economic Office.

For its part, the Economic Office must ensure the proper design and implementation of the SICFR, and see to its functioning and coherence.

The Internal Audit and Risk Management Department is responsible for supporting the Audit Committee in its supervision and evaluation of the SICFR, by way of conducting the audits included in its annual plan and reporting the results.

The units participating in the preparation of the financial information must see to compliance with and updating and maintenance of the SICFR within their areas of responsibility.

The SICFR implemented within the Company involves the entire Organisation by way of implementation and regular monitoring of the functioning of the various controls in the area of generation of financial information. This SICFR originated in 2008 as a part of a voluntary project. Since 2008 it has been adapted to all of the regulatory requirements and reviewed by an independent third party.

The key processes/subprocesses identified as being material are documented annually by way of flowcharts. These processes/subprocesses cover the various types of transactions that may materially affect the financial statements, as well as all of those affected by relevant judgments, estimates, valuations and projections.

All of the documentation is known to the managers of each cycle/subcycle and has been validated by those responsible for the controls documented in the control and risk matrix of the SICFR, by way of a formal flow of approval, and is disseminated among all participants.

The documentation describing the flows of activities and controls (including those related to the risk of fraud) include:

- Details of the internal rules and procedures, which govern everything from general controls to subprocesses.
- Details of the organisational structures.
- Details of the significant cycles.
- Flowcharts of each of the subprocesses.
- A description of the process, the specific risk covered, incoming information prior to application of the control and outgoing information after application of the control, regularity, objective pursued, potential errors mitigated, coverage of fraud and type thereof, as well as the department responsible for implementation.
- Details of the information systems affecting automatic and/or semi-automatic processes.

Among the principal transactions seeking to guarantee the reliability and transparency of the process of preparation of the financial information, the following are notable:

- Review of the processes of estimates and provisions (at the level of revenue and expenses).
 - Review of impairment associated with recorded assets (mainly referring to assets).
 - Review of the commissioning of assets and the processes for fixing associated values (capitalisable items, monitoring of administrative approvals, technical commissioning conditions, etc.).
 - Renew using specific mandatory procedures and/or instructions of:
 - Accounting records and/or entries
 - One-off transactions (evaluation at the Senior Management level of the economic and financial, corporate and legal implications that may derive from such transactions).
 - Closing of Financial Statements, and preparation of the individual and consolidated Annual Accounts.
- The internal reference rules governing these matters are set forth in the following:
- (i) "Manual of Accounting Policies and Chart of Accounts of the Group" (which includes the accounting policies that are to govern the Group's making of accounting allocations in the information systems, as well as in the preparation of the Financial Statements and the Annual Accounts, in order to guarantee an accurate image of the assets and liabilities, financial situation, results of operations, changes in net worth and cash flows)
 - (ii) "Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts", in which it is established that "the process of closing annual accounts is a process that occurs twice each fiscal year (at the close of the fiscal year and at the midpoint of the year with preparation of the semi-annual interim information), the purpose of which is obtaining annual accounts that reflect the economic situation of the Company. This process affects all companies in the group that must prepare their own annual accounts following the local rules in their countries".
- Preparation and publication of financial information (includes matters related to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, communications to the National Securities Market Commission, official communications, etc.). The principal internal rules governing these matters are set forth in the following:
- (i) "Internal Regulations for Conduct in the Securities Market"
 - (ii) "Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts". At this specific level of closing information and, if applicable, subsequent publication, the Investor Relations Office, the Corporate Economic/Financial Office, the General Secretariat, the Board of Directors and the office of the Chairman play a fundamental role.

F.3.2. Policies and procedures for internal control of information systems (inter alia regarding secure access, control of changes, operation thereof, operational continuity and separation of functions) that support the relevant processes of the entity in relation to preparation and publication of financial information.

The Group has established a Protocol for conduct and use of computer and communications systems, the preparation of which is the responsibility of the Corporate Information Systems and Technologies Office.

This document establishes the principal rules to govern use of computer and telecommunications resources that the Group makes available to its workers (equipment, applications, Internet access and electronic messaging services).

In addition, the Group maintains a procedure regarding the security of the corporate information systems, to regulate the principal activities for management of security in the information systems environment, a responsibility of the Corporate Information Systems and Technologies Office.

The following controls and measures exist to provide the Group with reasonable assurance regarding the internal control of the information systems:

-Annually there is analysis of the security risks of the information in the Corporate Information Systems (*Sistemas de Información Corporativos*, or "SIC"), which allows obtaining a list of the most significant risks, with assessment thereof, and establishing the actions and measures to reduce or maintain the level of risk of those considered to be most important.

-The security rules are reviewed annually, or whenever there are significant changes, in order to assure maintenance of their suitability, adequacy and effectiveness.

-An inventory is maintained of all assets (equipment, software, applications and information) that are a part of the SIC. Each asset must have an assigned responsible organisational unit.

-General measures are established to protect the information, depending on the category in which it is classified. In addition, the responsible unit may define specific measures complementing the general measures. -Security documentation addressed to employees and outside collaborators is prepared and published. -The heads of the Units are to verify that new employees and outside collaborators are aware of the published information security documentation. Furthermore, they are to see to it that these persons comply with the content of the documentation.

-The Human Resources Office is to report to the Information Technologies and Systems Department on all movements of personnel, internal and external (hires, departures, transfers and changes of position) in order for it to apply the corresponding changes in rights of access to the information systems.

-All employees and collaborators must return the computer equipment in their possession at the end of the employment, contract or relationship with the company, and may not appropriate information.

-A risk evaluation will be conducted to determine the security implications deriving from the process of participation of outside collaborators in business processes, and appropriate controls will be defined and implemented.

-The Human Resources Office will define and implement the physical security measures to protect the facilities in which the information systems are housed against damage caused by fire, flood and other forms of natural or man-made disasters. In addition, it will establish appropriate controls of entrance into restricted access areas, to ensure that only authorised personnel are allowed access.

-The Information Technologies and Systems Department will ensure proper and secure operation of the information systems for which it is responsible, by preparation and implementation of appropriate operating procedures. These procedures will contemplate separation of duties to reduce the risk of negligence or deliberate misuse of the system. In the case of provision of computer services by third parties, the Information Technologies and Systems Department must verify that the agreed security controls and service levels have been implemented and are maintained by the third parties.

-The Information Technologies and Systems Department is responsible for defining rules and procedures for management of access (authentication and authorisation) by users to the information systems.

-Formal communications procedures will be established to ensure that information security incidents and weaknesses associated with the information systems are communicated to it in a manner allowing timely corrective action.

-An Informatics Contingency Plan (*Plan de Contingencias Informáticas*, or "PCI") is prepared for the information systems, so that in the event of a disaster destroying them or making them unavailable resumption of service may be accomplished at a time consistent with their level of criticality.

F.3.3. Internal control policies and procedures to monitor the management of activity subcontracted to third parties, as well as such matters of evaluation, calculation or valuation as may be entrusted to independent experts, which may materially affect the financial statements.

The Group is particularly concerned with operations undertaken by third parties (in order to ensure that, in key processes that may be outsourced, there is a maximum guarantee of control, in relation to the standards the Group requires at the level of its processes).

In all cases, outsourcing of such activities is based on a services agreement, which clearly indicates the services to be rendered and the resources the third party is to provide to perform such services. There is exhaustive control of such subcontracted activities, and there is evidence of that control.

The Group also has a Code of Conduct for suppliers, the objective of which is to make its suppliers aware of the general principles for their working and professional conduct within their different areas of activity. The Group sees to the ongoing application of these principles by the suppliers.

F.4 Information and communication

State, indicating their principal features, whether there are at least:

- F.4.1. A specific function responsible for defining and updating accounting policies (an accounting policy department or area) and resolving doubts or conflicts deriving from their interpretation, maintaining fluid communication with those responsible for the operations within the organisation, and an updated accounting policies manual communicated to the units through which the entity operates.

The Accounting Information and Administration Department, located within the Economic Office, assumes responsibility for defining and resolving any matter related to the interpretation of the accounting policies, covering any area of the various companies. The Economic Office organisationally is located within the Corporate Economic and Financial Office, which in turn reports to the Managing Director.

The Group has a "Manual of Accounting Policies and Chart of Accounts of the Group" which serves as a reference to set the guidelines and actions in the field of accounting records, and is appropriately communicated to the employees to which it is applicable (any action is to be taken taking the provisions of the aforesaid manual into account). This manual is updated regularly, at least annually, the last update being in 2016. In the update process it is verified that the accounting policies are within the regulatory framework applicable to the Company, as established in the Commercial Code, General Accounting Plan and other commercial legislation, as well as the International Financial Reporting Standards adopted by the European Union.

- F.4.2. Mechanisms for capture and preparation of financial information in standardised format, applicable to and used by all units of the entity of the group, supporting the principal financial statements and the notes, as well as the information specified regarding the SICFR.

The Group has formal processes for closing and preparation of the information associated with the Financial Statements and the Annual Accounts. In both cases, the procedures for closing of the Financial Statements and preparation of the Annual Accounts contain guides for action and supervision that are implemented when obtaining, analysing and thereafter preparing the information for final approval.

The system supporting the operations of the Group is principally SAP. The companies that do not use SAP are required to apply the criteria fixed by the group to ensure uniformity in those processes by way of a reporting package prepared for that purpose which includes all breakdowns needed for preparation of the Financial Statements and notes. In the process of preparation of the consolidated financial information and the breakdowns thereof a computer application is used that ensures the uniformity, standardisation and validity of the information.

The SICFR is supported by a corporate tool that is managed centrally, from which the information specified in the SICFR is drawn.

In addition there is a specific mechanism for the entire process of formulation of the Annual Accounts, in which the Audit Committee is of particular relevance. Functionally it reports to the Board of Directors, and is responsible for seeing to a maximum guarantee of the entire process of preparation (among other matters, both at the level of the work supervising Internal Audit and by the outside auditor), as a step prior to formulation by the Board of Directors.

In an effort to provide outside agents with reliable and truthful information on the status of its net worth, financial position and results of operations, the "Internal Regulations for Conduct in the Securities Market" regulate these matters, both as to submissions to supervisory and/or regulatory agencies, and at the level of communications media.

F.5 Supervision of the functioning of the system

State, indicating the main features, at least:

- F.5.1. The SICFR supervision activities undertaken by the audit committee, and whether the entity has an internal audit function that within its authority supports the committee in its supervision of the internal control system, including the SICFR. Also state the scope of the evaluation of the SICFR undertaken during the fiscal year and the procedure whereby the one responsible for performing the evaluation communicates the results thereof, whether the entity has an action plan specifying the possible corrective measures, and whether the impact thereof on financial information has been considered.

Supervision of the financial information is a responsibility entrusted to the audit committee that includes approval of the accounting principles to be used in preparation of the annual accounts of the Company and its consolidated Group, supervision of the process of preparation and presentation, as well as the integrity of the financial information of the Company and, if applicable, the Group, seeing to it that the

regulatory requirements are observed, the perimeter of consolidation is properly delimited, and the applicable accounting principles and criteria are properly applied.

In addition the Audit Committee regularly monitors the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed, in particular the systems related to the process of issuing financial information, among which is the SICFR. The objective of the SICFR is to provide reasonable assurance of the reliability of the financial information.

For the performance of these functions the Audit Committee has the support of the Internal Audit and Risk Control Department, hierarchically reporting to the Chairman of the Company, and functionally to the Audit Committee. The Audit Committee sees to the independence and effectiveness of the internal audit function, supervises and controls the process of selection, appointment, re-election and removal of the head of the audit function, controls the resources assigned to the internal audit function and, inter alia, its budget, receives periodic information regarding its activities, and verifies that the Senior Management of the Company and the Group is acting on the conclusions and recommendations in its reports.

The head of internal audit must present an annual work programme to the Audit Committee, report to it directly on any issues arising during its implementation and submit an activities report at the end of each fiscal year. Regarding the SICFR, the internal audit work plan contemplates covering the entire SICFR in periods of 3 years. Internal Audit designs and executes a testing plan on the control environment, general controls, area level controls and established procedures, and on a selective basis verifies compliance with the designed flowcharts. Once fieldwork is completed, Internal Audit prepares and issues the SICFR audit reports, based on the provisions of the annual work plan approved by the Audit Committee, and verifies proper implementation of the SICFR corrective actions.

In addition to the audit work performed by Internal Audit in relation to the SICFR, on an annual basis there is an audit of the SICFR to confirm reasonable assurance of the design and effective application thereof. This audit of the SICFR by outside auditors has been performed since the 2008 fiscal year.

The Committee is timely informed of the reviews performed by Internal Audit, the review by the outside auditor, other SICFR tasks performed, and the evolution of the action plan regarding recommendations for improvement identified in the audits. These recommendations for improvement are classified among high, medium and low priority and those associated with risk of fraud are broken out.

In the 2016 fiscal year no significant deficiencies were identified in the Group's SICFR, and the outside auditor concluded that the Group maintains an effective SICFR.

F.5.2. Whether there is a procedure for discussion whereby the auditor (in accordance with the provisions of the NTA (*Normas Técnicas de Auditoría*, the Technical Audit Standards)), the internal audit function and other experts may advise senior management and the audit committee or directors of the entity of significant weaknesses in internal control identified during the processes of review of the annual accounts or such others as may have been entrusted to them. Also, state whether there is an action plan seeking to correct or mitigate the weaknesses identified.

In relation to the outside auditors, the Board of Directors Regulations provide that it is regularly (at least once each year) to request them to provide an evaluation of the quality of the group's internal control procedures.

With regard to the Company's Audit Committee, as regards supervision of the functioning of the System, they provide that among other objectives is ensuring that the outside auditor, the Internal Audit function and other experts may advise the Board of Directors of the significant weaknesses in internal control identified during the process of review the annual accounts, or such others as may have been entrusted to them. In this regard, the communications are to be sent for each review when it is completed, always prior to formulation of the financial statements by the Board of Directors.

F.6 Other relevant information

-

F.7 Outside auditor's report

State:

F.7.1. Whether the SICFR information transmitted to the markets has been reviewed by the outside auditor, in which case the entity must include the corresponding report as an annex. If not, it must state the reasons.

Since 2008 the Group has voluntarily submitted to review of its SICFR. These reviews were performed by Deloitte, S.L. until 31 December 2012; by PriceWaterhouseCoopers from 1 January 2013 until 31 December 2014, and by KPMG, S.L. from 1 January 2015.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the company's degree of compliance with the recommendations of the Code of Good Governance of Listed Companies.

If any recommendation is not complied with or is complied with partially, a detailed explanation of the reasons must be included so the shareholders, investors and market in general have sufficient information to evaluate the actions of the company. General explanations will not be acceptable.

1. The Articles of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.

Complies Explain

2. When the parent company and a subsidiary are stock market listed the two should provide detailed disclosure on:

- a) The type of activity they engage in, and any business dealings between them, we well as between the subsidiary and other group companies.
b) The mechanisms in place to resolve possible conflicts of interest.

Complies Partially complies Explain Not applicable

3. During the holding of the ordinary general meeting, as a supplement to written dissemination of the annual corporate governance report, the Chairman of the Board of Directors should verbally advise the shareholders, in sufficient detail, of the most relevant corporate governance matters of the company, in particular:

- c) The changes occurring since the prior ordinary general meeting.
d) The specific reasons the company does not comply with the recommendations in the Code of Corporate Governance and the alternative rules, if any, applied in this regard.

Complies Partially complies Explain

4. The company should define and promote a policy of communication and contacts with shareholders, institutional investors and voting advisors that is fully consistent with the rules against market abuse and give similar treatment to shareholders that are in the same position.

The company should make that policy public by way of its website, including information regarding the manner in which it has been put into practice, and identifying the spokesmen or those responsible for carrying it out.

Complies Partially complies Explain

5. The board of directors should not refer to the general meeting any proposed delegation of authority to issue shares or convertible securities excluding the right of pre-emption in an amount greater than 20% of the capital at the time of the delegation.

And when the board of directors approves an issue of shares or convertible securities with exclusion of the right of pre-emption, the company on its website should immediately publish the reports regarding that exclusion referred to in the commercial legislation.

Complies Partially complies Explain

6. Listed companies that prepare the reports identified below, whether mandatorily or voluntarily, should publish them on their websites sufficiently in advance of the holding of the ordinary general meeting, even if dissemination thereof is not mandatory:

- a) Report on independence of the auditor.
- b) Reports on the functioning of the audit and appointments and remuneration committees.
- c) Audit committee report on related party transactions.
- d) Report on corporate social responsibility policy.

Complies Partially complies Explain

7. The company should provide live broadcasts of the holding of general meetings of shareholders by way of its website.

Complies Partially complies Explain

8. The Audit Committee should ensure that the board of directors presents the financial statements to the general meeting of shareholders without limitations or qualifications in the audit report. Should such qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of the scope and content of such limitations or qualifications.

Complies Partially complies Explain

9. The company on its website, on a permanent basis, should publish the requirements and procedures it will accept to evidence ownership of shares, the right of attending the general meeting of shareholders and the exercise or delegation of voting rights.

And the aforesaid requirements and procedures should promote attendance and the exercise of shareholder rights and be applied in a non-discriminatory manner.

Complies Partially complies Explain

10. When any shareholder entitled to do so, prior to the holding of the general meeting of shareholders, exercises the right to supplement the agenda or present new proposed resolutions, the company should:

- a) Immediately disseminate those supplementary points and new proposed resolutions.
- b) Make the attendance card, proxy or remote voting form public, with the changes required for voting on the new points on the agenda and alternative proposed resolutions, on the same terms as for proposals by the board of directors.
- c) Submit all such points or alternative proposals to vote and apply the same voting rules thereto as those formulated by the board of directors, in particular including the presumptions or inferences regarding the sense of the vote.
- d) Subsequent to the general meeting of shareholders, communicate the breakdown of the vote on such supplementary points or alternative proposals.

Complies Partially complies Explain Not applicable

11. If the company contemplates paying attendance allowances for the general meeting of shareholders, it should establish a general policy regarding such allowances in advance, and that policy should be stable.

Complies Partially complies Explain Not applicable

12. The board of directors should carry out its functions with unity of purpose and independence of judgment, give the same treatment to all shareholders that are in the same position and be guided by the corporate interest, that being understood to be achievement of a profitable business sustainable in the long term, promoting its continuity and maximising the economic value of the company.

And in pursuit of the corporate interest, in addition to respecting the laws and regulations and behaving based on good faith, ethics and respect for commonly accepted best practices and uses, it should seek to reconcile the corporate interest, as applicable, with the legitimate interests of its employees, suppliers, customers and other stakeholders that may be affected, and the impact of the activities of the company in the community as a whole and in the environment.

Complies Partially complies Explain

13. The board of directors should be of the size necessary to achieve effective and participatory functioning, which makes it advisable for it to have between five and fifteen members.

Complies Explain

14. The board of directors should approve a director selection policy that:

- a) Is specific and verifiable.
- b) Ensures that the proposals for appointment or re-election are based on prior analysis of the needs of the board of directors.
- c) Promote diversity of knowledge, experience and gender.

The results of the prior analysis of the needs of the board of directors should be set forth in the explanatory report of the appointments committee that is published upon call of the general meeting of shareholders to which the ratification, appointment or re-election of each director is submitted.

And the director selection policy should promote the objective that in the year 2020 the number of female directors will represent at least 30% of the total members of the board of directors.

The appointments committee annually will verify compliance with the director selection policy, and will report thereon in the annual corporate governance report.

Complies Partially complies Explain

Regarding selection of directors the Appointments and Remuneration Committee uses a general matrix of skills that sets forth the criteria defining the profile and the requirements that are considered to be appropriate in order to serve as a director of the company, and analyses the qualities, skills and experience an ideal director should have in order to hold the position, independently of the category.

In each candidate selection process, the Appointments and Remuneration Committee analyses the experience of the candidates and evaluates whether it is in accordance with the profile of those suitable to hold positions as directors of the type of director the position of which is vacant in the company. When doing so the Appointments and Remuneration Committee complies with the basic responsibilities established in article 18.1, subsections g), h), i) and n) of the Board of Directors Regulations.

In addition, in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014, the following practices are established:

-The company applies the principle of ensuring that appropriate procedures exist to select directors, guaranteeing reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks. To do this, when assessing the candidates participating in the selection process, the procedure will take into account the skills, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at that time, the Appointments and Remuneration Committee playing an important role in the process.

- The company applies the principle of promoting diversity of knowledge, experience and gender amongst Board and Committee members, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective.

All of the foregoing has been taken into account by the Appointments and Remuneration Committee and the Board of Directors in the reports and proposals prepared to fill the vacancies existing on the Board of Directors during the 2016 fiscal year, as may be verified on the corporate website (www.ree.es), in relation to the Ordinary General Meeting of Shareholders.

Since the 2016 fiscal year the company has had 4 female directors (36.4%) and satisfies the 30% objective established in Recommendation 14 of the CBGSC for 2020. For several years the company has been in first place among the IBEX 35 companies with the greatest percentage of women on the Board of Directors. For more information we remit to the Gender Diversity and Equality Policy Report approved by the Board of Directors on 20 December 2016, which is published on the corporate website (www.ree.es).

15. Proprietary and independent directors should constitute an ample majority of board of directors positions, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the percentage ownership interest they hold in the company.

Complies Partially complies Explain

16. Proprietary directors as a percentage of outside directors should not be greater than the capital of the company represented by those directors as a percentage of the remainder of capital. This criterion may be eased:

a) In companies of high capitalisation in which there are few shareholdings legally considered to be significant.

b) In companies with a plurality of shareholders represented on the board of directors but not otherwise related.

Complies Explain

17. The number of independent directors should represent at least one half of all directors.

However, when the company is not of high capitalisation or, when it is, it has a shareholder or multiple shareholders acting in concert, which control more than 30% of the share capital, the number of independent directors should represent at least one third of the total number of directors.

Complies Explain

18. Companies should post the following director particulars on their websites, and keep them updated:

a) Professional experience and background.

b) Other boards of directors to which they belong, whether or not the companies are listed, as well as the other compensated activities they engage in, whatever their nature.

c) Indication of the category to which the director belongs, in the case of proprietary directors indicating the shareholder represented or with which the director has ties.

d) The date of their first and subsequent appointments as a company director, and subsequent re-elections.

e) Shares held in the company and any options thereon held thereby.

Complies Partially complies Explain

The company on its website (www.ree.es) publishes and updates all information regarding directors that is listed in Recommendation 18, with the exception of the other compensated activities referred to in the last subsection of section (b) of that Recommendation. The company does not publish that information for reasons of confidentiality, since disclosure of that information could conflict with the protection of the right of privacy of the directors.

19. In the annual corporate governance report, after verification by the appointments committee, the reasons for the appointment of proprietary directors proposed by shareholders with share interests less than 3% of capital should be explained, as should the reasons for any rejection

of a formal request for a board position from shareholders whose share interest is not less than that of others successfully applying for a proprietary directorship.

Complies Partially complies Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent fully transfer their shareholdings. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies Partially complies Explain Not applicable

21. The board of directors should not propose the removal of any independent director before the expiry of that director's tenure as mandated by the Articles, except where just cause is found by the board of directors, after a report from the appointments committee. In particular, just cause is understood to exist when the director comes to occupy new positions or assumes new obligations that prevent its dedicating the time necessary for performance of the functions inherent in the position of a director, breaches the duties inherent in the position or is in any of the circumstances resulting in loss of independent status, in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the capital structure of the company, in order to meet the proportionality criterion indicated in recommendation 16.

Complies Explain

22. Companies should establish rules requiring directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

And if a director is indicted or tried for any of the crimes indicated in the corporate law, the board of directors should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not the director should be called on to resign. And the board of directors should report and explain all such determinations in the annual corporate governance report.

Complies Partially complies Explain

23. All directors should express clear opposition when they feel a proposal submitted for the approval of the board of directors might harm the corporate interest. In particular, independents and other directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking board of directors representation.

When the board of directors makes significant or reiterated decisions about which a director has expressed serious reservations, he should draw the pertinent conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the board of directors, whether or not a director.

Complies Partially complies Explain Not applicable

24. Directors who give up their positions before their tenure expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the board of

directors. Regardless of whether such departure is reported as a material disclosure, the reasons should be explained in the annual corporate governance report.

Complies Partially complies Explain Not applicable

25. The appointments committee should ensure that outside directors have sufficient time available for proper performance of their duties.

And the board regulations should establish the maximum number of boards of companies of which their directors may be members.

Complies Partially complies Explain

26. That the board of directors should meet with the frequency necessary to properly perform its duties, at least eight times per year, in accordance with a schedule of dates and agendas established at the beginning of the year, each director individually being entitled to add other agenda items.

Complies Partially complies Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And when they must occur, proxies should be granted with instructions.

Complies Partially complies Explain

28. When directors or the secretary express concerns about any proposal or, in the case of directors, about the company's performance, and such concerns are not resolved in the board of directors meeting, the member expressing them should be entitled to request that they be noted in the minutes.

29. The company should establish appropriate channels for directors to obtain the advice necessary for performance of their duties including, if so required by the circumstances, outside advice at the expense of the company.

Complies Partially complies Explain

30. Independently of the knowledge required of directors for performance of their duties, companies should also offer directors refresher courses when circumstances so warrant.

Complies Explain Not applicable

31. Agendas for meetings should clearly indicate those points in respect of which the board of directors must adopt a decision or resolution, so that the directors may, in advance, study or collect the information necessary for adoption thereof.

When, exceptionally, by reason of urgency, the chairman wishes to submit decisions or resolutions not appearing on the agenda for approval of the board of directors, express prior consent of the majority of the directors present will be required, with that consent to be reflected in the minutes.

Complies Partially complies Explain

32. The directors should be regularly advised of movements in shareholdings and the opinions held by significant shareholders, investors and rating agencies regarding the company and its group.

Complies Partially complies Explain

33. The chairman, as the one responsible for effective functioning of the board of directors, in addition to exercising the functions attributed thereto by law and the Articles, should prepare and submit to the board of directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the board and, if applicable, the chief executive of the company; be responsible for direction the board and the effectiveness of its functioning; see to it that sufficient time is devoted to discussion of strategic matters, and order and review the refresher programmes for each director, when circumstances so warrant.

Complies Partially complies Explain

34. When there is a lead director, in addition to the authority corresponding to it by law, the Articles or the board of directors regulations should give the lead director the following authority: chairing the board of directors in the absence of the chairman and the vice chairmen, if any; stating the concerns of the outside directors; maintaining contact with investors and shareholders to learn of their points of view for purposes of forming an opinion regarding their concerns, in particular in relation to the corporate governance of the company; and coordinating the succession plan for the chairman.

Complies Partially complies Explain Not applicable

35. The Secretary of the board of directors in particular should see to it that the board of directors, in its actions and decisions, takes account of such corporate good governance recommendations contained in this Good Governance Code as may be applicable to the company.

Complies Explain

36. The full board of directors annually should evaluate and, if applicable, adopt an action plan correcting deficiencies identified in respect of:

- a) The quality and efficiency of the functioning of the board of directors.
- b) The functioning and composition of its committees.
- c) Diversity in the composition and authority of the board of directors.
- d) The performance of the Chairman of the Board of Directors and, if applicable, the company's chief executive.
- e) The performance and contribution of each director, paying special attention to the heads of the various committees of the board.

Evaluation of the various committees will start from the report they submit to the board of directors. Evaluation of the board of directors will start from the report submitted by the appointments committee.

Every three years the board of directors will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the appointments committee.

The business relationships maintained by the consultant or any company in its group with the company or any company in its group must be itemised in the annual corporate governance report.

The process and the areas evaluated will be described in the annual corporate governance report.

Complies Partially complies Explain

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board of directors should also act as secretary of the executive committee.

Complies Partially complies Explain Not applicable

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee and all members of the board of directors should receive copies of the minutes of the meetings of the executive committee

Complies Partially complies Explain Not applicable

39. The members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing or risk management matters, and the majority of those members should be independent directors.

Complies Partially complies Explain

40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function, seeing to the proper functioning of the internal control and information systems, and functionally reporting to the outside director that chairs the board or the audit committee.

Complies Partially complies Explain

41. The head of the unit that assumes the internal audit function should present its annual work programme to the audit committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies Partially complies Explain Not applicable

42. In addition to those contemplated by law, the audit committee should have the following functions:

1. As regards internal reporting and control systems:

- a) Monitoring the preparation and the integrity of the financial information on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles.
- b) Ensuring the independence of the unit that assumes the internal audit function, proposing the selection, appointment, re-election and removal of the head of the internal audit service; proposing the budget of this service; approving its orientation and work plans, ensuring that its activity is principally focused on the relevant risks of the company; receiving periodic information regarding its activities; and verifying that senior management takes account of the conclusions and recommendations in its reports.
- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if possible and considered to be appropriate, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications.

2. As regards the outside auditor:

- a) Investigating the circumstances giving rise to the resignation of any outside auditor.
- b) Seeing to it that the remuneration of the outside auditor for its work does not compromise its quality or independence.
- c) Seeing to it that the company notifies any change of auditor to the CNMV as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.

- d) Ensuring that the outside auditor annually has a meeting with the full board of directors to report to it on the work performed and the evolution of the accounting and risk situation of the company.
- e) Ensuring that the company and the outside auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations of the independence of auditors.

Complies Partially complies Explain

43. The audit committee should have authority to meet with any company employee or manager, even ordering their appearance without the presence of another manager.

Complies Partially complies Explain

44. The audit committee should be informed of structural and corporate modification transactions expected to be implemented by the company, for analysis thereof and prior report to the board of directors on the economic conditions thereof and their accounting impact, in particular, if applicable, on the proposed exchange ratio.

Complies Partially complies Explain Not applicable

45. The risk control and management policy should identify at least the following:

- a) The various kinds of risk, financial and nonfinancial (inter alia operating, technological, legal, social, environmental, political and reputation) to which the company is exposed, including contingent liabilities and other off-balance-sheet risks within financial or economic risks.
- b) The setting of the level of risk that the company deems acceptable.
- c) The measures contemplated for mitigating the impact of the identified risks, should they materialise.
- d) The internal reporting and control systems to be used to control and manage the aforesaid risks, including contingent liabilities and off-balance-sheet risks.

Complies Partially complies Explain

46. Under the direct supervision of the audit committee or, if applicable, a specialised committee of the board of directors, there should be an internal risk management and control function exercised by a unit or internal department of the company that is expressly given the following functions:

- a) Ensuring the good functioning of the risk control and management systems, in particular that all important risks affecting the company are appropriately identified, managed and quantified.
- b) Actively participating in the preparation of the risk strategy and in important decisions regarding the management thereof.
- c) Seeing to it that the risk control and management systems adequately mitigate the risks within the context of the policy defined by the board of directors.

Complies Partially complies Explain

47. The members of the appointments and remuneration committee (or of the appointments committee and the remuneration committee, if they are separate) should be designated in a manner ensuring that they have the knowledge, skills and experience appropriate to the functions they are called on to perform, and the majority of those members should be independent directors.

Complies Partially complies Explain

48. High capitalisation companies should have an appointments committee and a separate remuneration committee.

Complies Explain Not applicable

The company does not believe it is desirable to have an Appointments Committee and a separate Remuneration Committee for the following reasons:

-By reason of the small size of the Board of Directors (composed of 12 members, one of them being an executive director) by comparison with other high capitalisation companies.

-Because based on the subject matter, separate appointments and remuneration committees would not have sufficient matters to consider during the fiscal year to justify the separation.

-By reason of the independence of the outside directors, taking account of the fact that currently all of them are members of one of the two Board of Directors Committees of the company, the creation of the new Committee would result in directors simultaneously belonging to multiple committees, which would have information from one of the other two Committees, to the detriment of their full autonomy in the performance of their duties.

49. The appointments committee should consult with the Chairman of the Board of Directors and the company's chief executive, especially on matters relating to executive directors. And any director should be entitled to request of the appointments committee that it consider potential candidates to fill director vacancies, if in its judgment they are suitable.

Complies Partially complies Explain

50. The remuneration committee should exercise its functions independently, and in addition to those given to it by law, it should have the following functions:

- a) Proposing to the board of directors the standard conditions for senior manager contracts.
- b) Verifying that the remuneration policy established by the company is observed.
- c) Periodically reviewing the remuneration policy applied to directors and senior managers, including share-based remuneration schemes and application thereof, as well as ensuring that individual remuneration is proportionate to that paid to other directors and senior managers of the company.
- d) Seeing to it that possible conflicts of interests do not compromise the independence of the outside advice provided to the committee.
- e) Verifying the information on remuneration of directors and senior managers contained in the various corporate documents, including the annual report on remuneration of directors.

Complies Partially complies Explain

51. The remuneration committee should consult with the chairman and chief executive of the company, especially on matters relating to executive directors and senior managers.

Complies Partially complies Explain

52. The rules for the composition and functioning of the supervision and control committees should appear in the board of directors regulations, and should be consistent with those applicable to the committees mandated by law in accordance with the foregoing recommendations, including:

- a) They should be composed exclusively of outside directors, with a majority of independent directors.
- b) Committees should be chaired by independent directors.
- c) The board of directors should appoint the members of such committees based on the knowledge, skills and experience of the directors and the tasks of each committee, discuss their proposals and reports, and they should render accounts, at the first full meeting of the board of directors subsequent to their meetings, of their activities and take responsibility for the work performed.
- d) The committees should be entitled to engage outside advisors, when they feel this is necessary for the discharge of their duties.

e) Minutes of the meeting should be prepared, and made available to all directors.

Complies Partially complies Explain Not applicable

53. Supervision of compliance with the corporate governance rules, the internal codes of conduct and the corporate social responsibility policy should be attributed to one committee or shared among multiple committees of the board of directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if any, or a specialised committee that the board of directors, in exercise of its self-organisation authority, decides to create for that purpose, to which the following minimum functions should be specifically attributed:

- a) Supervising compliance with the internal codes of conduct and the corporate governance rules of the company.
- b) Supervising the shareholder and investor communications and relationships strategy, including small and medium-sized shareholders.
- c) Periodically evaluating the adequacy of company's corporate governance system in order for it to fulfil its mission of promoting the interests of society and, as applicable, taking account of the legitimate interests of the other stakeholders.
- d) Reviewing the company's corporate responsibility policy, seeing to it that it is aimed at creation of value.
- e) Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance therewith.
- f) Monitoring and evaluating the processes of relationships with the various stakeholders.
- g) Evaluating everything related to nonfinancial risks of the company, including operating, technological, legal, social, environmental, political and reputation risk.
- h) Coordinating the process of reporting nonfinancial and diversity information, in accordance with applicable regulations and reference international standards.

Complies Partially complies Explain

54. The corporate social responsibility policy should include the principles or commitments the company assumes voluntarily in relation to the various stakeholders, and identify at least:

- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social matters.
- c) The specific practices regarding questions related to: shareholders, employees, customers, suppliers, social questions, environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of application of the specific practices indicated above, the associated risks and management thereof.
- e) The mechanisms for supervision of nonfinancial risk, ethics and business conduct.
- f) The channels for communication with, participation of and dialogue with stakeholders.
- g) The responsible communication practices that avoid manipulation of information and protect integrity and honour.

Complies Partially complies Explain

55. In a separate document or in the management report, the company should report on the matters related to corporate social responsibility, for that purpose using any of the internationally accepted methodologies.

Complies Partially complies Explain

56. The remuneration of directors should be such remuneration as is necessary to attract and retain directors of the desired profile and compensate the dedication, qualification and responsibility the position requires, but not so high as to compromise the independence of judgment of the outside directors.

Complies Explain

57. Variable remuneration tied to the performance of the company and personal performance, and remuneration in the form of delivery of shares, options or rights on shares or instruments indexed to the value of the share and long-term savings systems such as pension plans, retirement systems or other social security systems should be limited to executive directors.

The delivery of shares as remuneration to outside directors may be contemplated when it is conditioned on their holding them until they cease to be directors. The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.

Complies Partially complies Explain

58. In the case of variable remuneration, the remuneration policies should include the limits and technical safeguards necessary to ensure that such remuneration reflects the professional performance of the beneficiaries and not solely the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind. In particular, it should be ensured that the variable components of remuneration:

- a) Are tied to performance criteria that are predetermined and measurable, and those criteria take account of risk assumed in order to obtain a result.
- b) Promote sustainability of the company and include nonfinancial criteria that are appropriate for the creation of long-term value, as well as being in compliance with the internal procedures and rules of the company and its policies for the control and management of risk.
- c) Are configured on the basis of balance among achievement of short, medium and long-term objectives, allowing remuneration of ongoing performance over a period of time sufficient to assess the contribution to sustainable creation of value, in such manner that the elements of measurement of such performance do not depend solely on one-off, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

59. Payment of a significant part of the variable components of remuneration should be deferred for a minimum period of time sufficient to verify that the previously established conditions of performance have been satisfied.

Complies Partially complies Explain Not applicable

60. In the case of remuneration linked to company earnings, account should be taken of any qualifications stated in the outside auditor's report that reduce those earnings.

Complies Partially complies Explain Not applicable

61.

62. A significant percentage of the variable remuneration of executive directors should be tied to delivery of shares or financial instruments indexed to their value.

Complies Partially complies Explain Not applicable

63. Once the shares or options or rights on shares corresponding to the remuneration systems have been awarded, the directors should not be entitled to transfer ownership of a number of shares equivalent to two times their annual fixed remuneration, or exercise the options or rights until a term of at least three years has elapsed after they are awarded.

The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.

Complies Partially complies Explain Not applicable

The managing director has assumed a commitment to the company to maintain ownership of the shares received as annual variable remuneration for each fiscal year for at least five years. After a period of five years, if 100% fulfilment of objectives is achieved, the managing director will have received a number of shares approximately equivalent to one year of fixed remuneration. The aforesaid element of remuneration is stated in the annual report on remuneration of directors of the company, approved by the Board of Directors at its meeting of 22 February 2017, and communicated as a material disclosure to the CNMV.

64. The contractual arrangements should include a clause allowing the company to claim repayment of the variable components of remuneration when the payment is not in accordance with the performance conditions, or when the remuneration has been paid based on information later shown to be inaccurate.

Complies Partially complies Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If there is any relevant aspect of corporate governance within the company or the entities in the group that has not been included in the other sections of this report, but that it is necessary to include in order to set forth more complete and reasoned information regarding the governance practices in the entity or its group, briefly explain.
2. This section also may be used to supply any additional information, clarification or qualification relating to foregoing sections of this report, provided such additional information is relevant and not repetitious.

In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is required to disclose that is not required in this report.

3. The company also may indicate if it has voluntarily adhered to other codes of ethical principles or best practices, international, sectoral or otherwise. If applicable, identify the code in question and the date of adhesion.

1. The company for years has voluntarily prepared an Annual Corporate Governance Report, available on the corporate website, with its own form, structure and content, which seeks to respond appropriately to the requirements and recommendations of its shareholders, to which we remit for any third party that may consider it to be of interest. This report, prepared in accordance with the Model in Annex I of Circular 7/2015 of the CNMV, has been incorporated as an Official Annex to the aforesaid Annual Corporate Governance Report of the company.

2. The company is subject to Spanish law as regards corporate governance. Set forth below is additional information regarding the following sections.

C.1.2: At 31 December 2016, the Board of Directors is composed of 11 members, as there is an independent director vacancy following the resignation of the independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors on 29 November 2016.

C.1.3: The 27.27% percentage of proprietary directors was calculated at 31 December 2016 using 11 directors, without taking account of the independent director vacancy at that date.

The Board of Directors, at the meeting of 31 January 2017, appointed Mr. Arsenio Fernández de Mesa y Díaz del Río as an independent director, to fill that vacancy, until the next Ordinary General Meeting of Shareholders.

C.1.11: For purposes of this section they are considered to have executive functions when powers of attorney have been granted in their favour by each company.

C.1.16: Mr. Carlos Collantes Pérez-Ardá from 26 November 2015 to 31 March 2016 filled the position of Assistant General Manager, on which date he left the Group.

C.1.17: In relation to the information requested in this section Mr. José Ángel Partearroyo Martín is a director of S.E. Correos y Telégrafos, S.A., with C.I.F. (tax identification code) 183052407, which is a part of the group of the significant shareholder Sociedad Estatal de Participaciones Industriales (SEPI), but he is not a director of that significant shareholder (in SEPI he only serves as General Manager).

C.1.26: Article 24 of the Board of Directors Regulations: Departure from office is not automatic. Rather directors must tender their positions to the Board of Directors and, if it considers it to be appropriate, formalise the corresponding resignation when they reach the age of 70.

C.2.1: The percentages related to the composition of the Appointments and Remuneration Committee were calculated based on its composition at 31 December 2016, that is, without taking account of the independent director vacancy at that date.

D.4: In any event, any intragroup transaction entered into with entities established in countries or territories considered to be tax havens are to be reported.

G.4: The Board of Directors at its meeting of 25 October 2016 approved the Criteria for communication with shareholders, institutional investors and proxy advisors, on proposal of the Appointments and Remuneration Committee.

This document contains the policy for communications with the aforesaid stakeholders and is in response to the commitment of the Board of Directors to comply with Recommendation 4 of the Code of Good Governance of Listed Companies. The document includes the principles and guidelines regarding communication with the aforesaid stakeholders, guaranteeing appropriate exercise of their rights and interests and promoting the commitment to shareholders by way of open, transparent and sustainable dialogue. The Board of Directors is the body responsible for reviewing it and approving any modification, and also has supervision of compliance therewith.

The Criteria for communication with shareholders, institutional investors and proxy holders is published on the website of the company (www.ree.es), in the Corporate Governance section, "Our Commitment" subsection.

3. . The Board of Directors of Red Eléctrica Corporación, S.A. in its meeting of 29 September 2015 approved adherence of the Red Eléctrica Group to the Code of Best Tax Practices, which had been approved by the Forum of Large Companies in the version proposed by the State Tax Administration Agency (*Agencia Estatal de Administración Tributaria*, or "AEAT"). The content thereof was complied with during the 2016 fiscal year. The adherence to the Code of Best Tax Practices by the Red Eléctrica Group occurred on 23 October 2015, in accordance with the adherence procedure established therein.

This annual corporate governance report was approved unanimously by the board of directors of the company at its meeting of 22/02/2017.

State whether there are any directors who voted against or abstained from voting to approve this Report.

Yes No



KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on
the System of Internal Control over Financial Reporting

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of
Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (*Sistema de Control Interno sobre la Información Financiera*, hereinafter "SCIIF") of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the Red Electrica consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2016. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Board of Directors of the Company and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content of and preparing the accompanying information concerning SCIIF. Our responsibility is to express an opinion on the effectiveness of the Group's System of Internal Control over Financial Reporting based on our examination.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's System of Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

We apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Due to the limitations inherent in any internal control system, there is always a possibility that SCIIF may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2016, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the information concerning SCIIF included in note F of the Group's Annual Corporate Governance Report at 31 December 2016 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015, with respect to the description of the System of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 23 February 2017 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2016, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Ana Fernández Poderós

23 February 2017