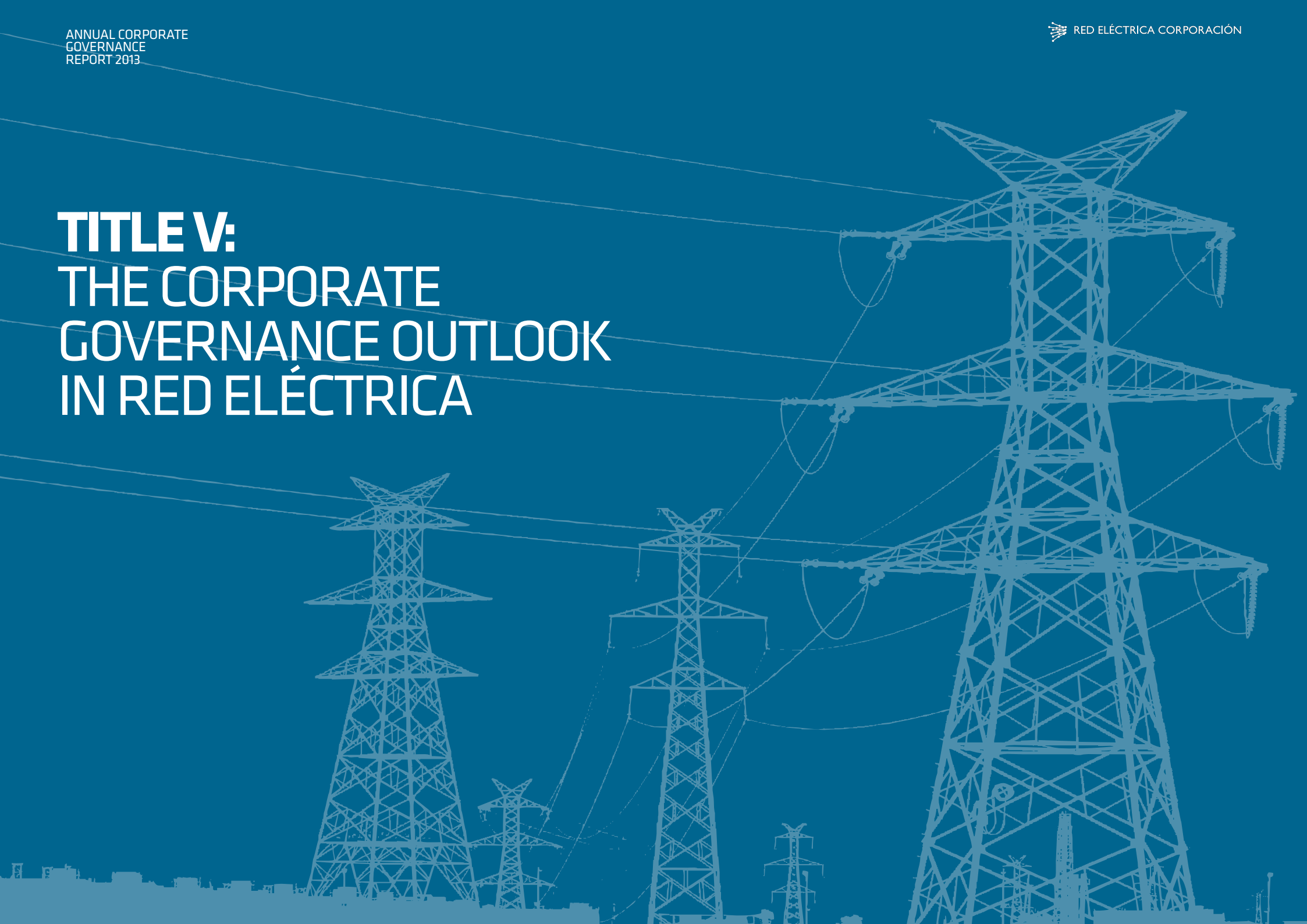


TITLE V: THE CORPORATE GOVERNANCE OUTLOOK IN RED ELÉCTRICA



As was the case in 2012, this year's Annual Corporate Governance Report includes a title dedicated to the outlook at Red Eléctrica in matters of Corporate Governance, as it may interest current shareholders, potential investors and other stakeholders in the future of Red Eléctrica, in particular, foreign shareholders, who own around 70% of the Company's share capital.

The statements in this Title do not in themselves represent either formal commitments or obligations for the Company that may be required by others. Rather these are potential steps and actions that may be taken in 2014 and future years as decided by the Board of Directors of Red Eléctrica. The Company is committed to incorporating international Corporate Governance best practices, and must continue projecting and consolidating its position every year in response to the requirements of its shareholders.

In 2013, the Board of Directors has employed the following basic analytical tools with regard to the Company's Corporate Governance practices: The annual assessment of the Board of Directors (supported by an external advisor for a number of years); a Corporate Governance improvement plan, driven by the the Corporate Responsibility and Governance Committee with advice from specialist consultants and a visits programme for institutional investors and proxy advisors and the external audit of the management procedures of the Annual General Shareholders' Meeting, which helps to identify certain aspects in need of improvement.

This year, as mentioned at the start of this report, we have gone a step further in improving our dialogue with and commitment to shareholders, with Red Eléctrica becoming a member of the world's leading Corporate Governance organisation, International Corporate Governance Network (ICGN); the first Spanish listed company to do so. This initiative will serve as a new mechanism to discover at first hand the most important international trends in Corporate Governance and any changes and advances in them, and enable rapid analysis and implementation of them.

As also mentioned earlier, in 2013, the Company updated and improved its corporate website, with the aim of adapting it to the latest and best international practices and standards. As part of this project, it undertook an analysis of the Corporate Governance sections of its website, which were very disperse and difficult to access, or, in some cases, did not exist. As a result of this, a complete restructuring and updating of its contents has taken place, with the objective of improving the quality of the information available, standardising it, and making it easier to access and understand. The new "internationalised" corporate website, which is constantly being revised and updated, aims to serve as a link with the Company's shareholders: improving communication and social transparency, and facilitating dialogue with and commitment to them.

The most relevant of these issues, and the ones that will be analysed or debated in the near future in the Board of Directors and its Committees, include:

- >> Review of and progress in the commitments that the Company has made to its shareholders, particularly foreign institutional investors, in order to consolidate a permanent relationship that will align the interests of the Company with those of its shareholders over the medium and long term.
- >> Definition and approval of a formal Corporate Governance Policy by the Board of Directors.
- >> A deeper analysis of the alternatives in the adoption of new measures to counterbalance the powers and responsibilities of the CEO and Chairman of the Board of Directors.
- >> Consolidating the practice of an external audit of the management procedures of the Annual General Shareholders' Meeting, with the possibility of expanding its scope to include other aspects of Corporate Governance, so as to increase the rights, guarantees and legal security of shareholders.
- >> Analysis, updating and constant improvement, under international standards, of the information on Corporate Governance on the Company's website.
- >> Strengthening of the functions of internal control and management of risks in certain areas of the Company's activities and an improvement in the quality of publicly available information in this regard.
- >> Establishment and start up of a new Regulatory Compliance Plan at the Company and the creation of an independent compliance unit.
- >> Review and constant improvement of the structure and remunerative policy of the Board of Directors, and of the information on Board remuneration included in the Annual Report on Directors' Remuneration, in accordance with the best international practices of Corporate Governance.
- >> Refinement and updating of the procedures for selecting and assessing candidates for the Board of Directors.
- >> Moving the internal analysis process towards Integrated Reporting.