

03

CORPORATE
GOVERNANCE

CONNECTED
TO CORPORATE
GOVERNANCE
BEST
PRACTICES



GOVERNANCE OF THE RED ELÉCTRICA GROUP [G4-34, G4-38]

CORPORATE GOVERNANCE STRUCTURE OF THE ORGANISATION



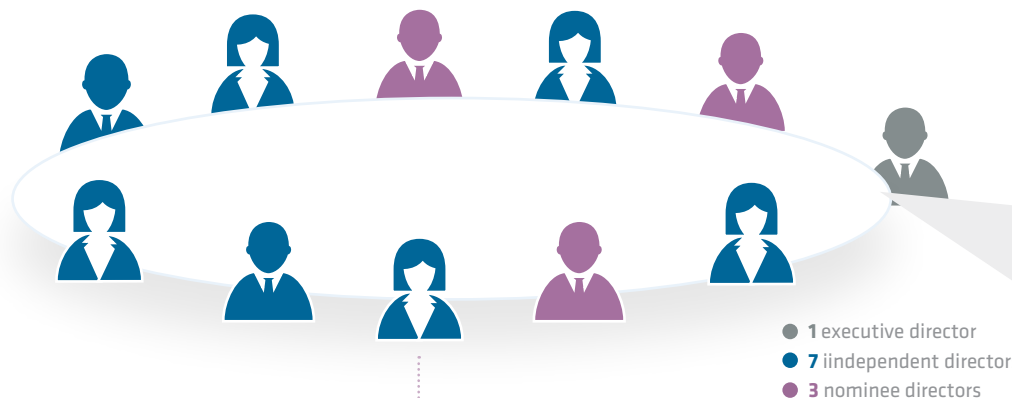
BOARD OF DIRECTORS

64%

Independent directors

45.5%

Women



COMPETENCIES ⁽¹⁾

- >> Approval of the general policies and strategies of the Company and the Group.
- >> Risk control of the Group.
- >> Effective supervision of the management team.
- >> Annual assessment of the quality and efficiency of the Board and the functioning of its Committees.

AUDIT COMMITTEE

75% Independent directors
50% Women
Chairperson: Female independent director

COMPETENCIES IN REGARD TO: ⁽²⁾

- >> Monitoring of the drafting process regarding the Company's financial/economic information.

- >> Monitoring of the internal control and risk management systems.
- >> The independence of the external auditor.
- >> Compliance with laws and internal regulations.
- >> Those concerning the relationship with shareholders

LEAD INDEPENDENT DIRECTOR

The primary role of this post is to organise the common positions of the independent directors and serve as a communicator or spokesperson regarding said common positions before the Chairman of the Board, the Board itself and its Committees. The post is granted extensive powers which act as a counterbalance of the powers conferred to the Chairman of the Board.

CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE

75% Independent directors
75% Women
Chairperson: Female Lead Independent Director

COMPETENCIES IN REGARD TO: ⁽²⁾

- >> The appointment and removal of directors.
- >> The Remuneration policy of the Board and senior management.

- >> The fulfilment of the duties of the administrators.
- >> The management of the evaluation process of the Board.
- >> Information, monitoring and proposals on governance and corporate responsibility.
- >> Drafting the Gender Diversity Report that is submitted to the Board for approval at the Shareholders' Meeting.

(1) + Regulations of the General Shareholders' Meeting (2) + Corporate By-laws + Regulations of the Board of Directors

GOOD GOVERNANCE

FROM THE OUTSET, Red Eléctrica has maintained a constant and firm commitment to adopting corporate governance best practices.

This is made possible not only through compliance with the applicable legal standards and the most widespread national and international recommendations on the subject, but also through the voluntary

implementation of a series of measures and initiatives geared towards the core of the most relevant issues regarding the good governance of the Company; issues that are not only those of most concern to shareholders, investors and markets, but are also those that receive more requests for information.

INTERNAL GOVERNANCE RULES

(As at 31 December 2014)

- >> Code of Ethics
- >> Corporate By-laws
- >> Regulations of the General Shareholders' Meeting
- >> Regulations of the Board of Directors
- >> Internal Code of Conduct on the Securities Market
- >> Procedure on proxies, voting and information by remote means

- >> Operating Rules of the Shareholder Electronic Forum
- >> Succession Plan for the Chairman of the Company
- >> Corporate Governance Policy

NOTEWORTHY ACTIONS IN 2014

- >> Approval of a Corporate Governance policy by the Board: detailed content of the principles and practices of the Company.
- >> Progress in gender diversity on the Board: leading position in IBEX 35 with 50% of external directors who are women.
- >> Improvements in the structure of the remuneration policy of the Board and its external reporting (Annual Remuneration Report).
- >> Publication of an analysis of how corporate governance has evolved in Red Eléctrica since becoming a listed company.
- >> Consolidation of the audit process of the General Shareholders' Meeting.
- >> Involvement of the chairs of the Board's Committees at the General Shareholders' Meeting.
- >> Improvement of information on corporate governance on the website: continual updating of information on Corporate Governance and publication of Corporate Governance indicators for the Socially Responsible Investor.
- >> Dissemination of the Company's roadmap regarding corporate governance: Governance Story (background), Annual

Corporate Governance Report (Section V, outlook) and inclusion in the corporate website.

- >> Corporate governance included as a strategic course of action in the Company's Corporate Responsibility Plan 2014-2016.

IN 2014, PROGRESS WAS MADE REGARDING THE POLICY OF GENDER DIVERSITY on the Board, with the Company having 50% of external directors being women, placing the Company in a leading position among IBEX 35 companies.

CORPORATE SHAREHOLDING STRUCTURE

ON 31 DECEMBER 2014, the Company's capital was comprised of 135,270,000 fully subscribed and paid-up shares belonging to a single class and series, each with a par value of 2 euro, represented by book entries and listed on the four Spanish stock exchanges.

The entry into force of Law 17/2007, of 4 July, introduced a series of legal limitations on participation and voting rights applicable to the Company's shareholders, with the aim to guarantee the independence of the Company vis-a-vis all other electricity sector activities and agents. In this regard, the following equity limits were established:

- >> 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.
- >> 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.

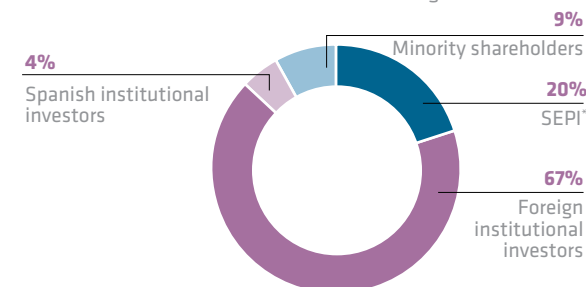
- >> The special regime for the State Industrial Holding Company (SEPI) is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

The equity of the Company is comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float distributed as follows: 67% foreign institutional investors, 4% national institutional investors and 9% minority shareholders.

RED ELÉCTRICA
FORMS PART
OF THE IBEX 35
and its shareholding
is comprised
of a 20% ownership
by SEPI and 80%
free float

CORPORATE SHAREHOLDING STRUCTURE [G4-EC4]

Data from the 2014 General Shareholders' Meeting



*SEPI: State Industrial Holding Company.

GENERAL SHAREHOLDERS' MEETING

THE GENERAL SHAREHOLDERS' MEETING represents all of the shareholders. The rules on the organisation and functioning of the General Shareholders' Meeting

are contained in the Corporate By-laws (Articles 11 through 18 inclusive) and in the Regulations of the General Shareholders' Meeting.



More information in the 'General Shareholders' Meeting' subsection of the 'Corporate Governance' section of the corporate website.

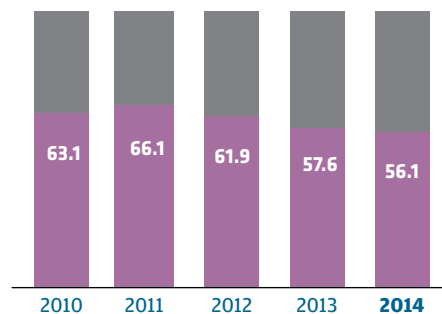
GUARANTEES AND RIGHTS OF ATTENDANCE

THESE ARE REGULATED in Red Eléctrica's Corporate By-laws and in the Regulations of the General Shareholders' Meeting. The most relevant aspects related to guarantees, transparency and the participation rights of shareholders are the following:

>> No minimum number of shares required to attend the Meeting.

- >> Representation at the Meeting by any person, without having to be a shareholder.
- >> Separate voting on each matter submitted for approval at the Meeting.
- >> External audit of the management processes of the Meeting.
- >> Vote certification.

PERCENTAGE OF ATTENDEES AT THE GENERAL SHAREHOLDERS' MEETING (% over share capital)



TRANSPARENCY AND PARTICIPATION

THE COMPANY pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws and in the Regulations of the Shareholders' Meeting, which also facilitates the maximum participation of shareholders. Some of the key mechanisms are:

- >> Implementation of the electronic voting system at the Shareholders' Meeting since 2005.
- >> Section on the corporate website with complete information regarding the Meeting

- >> Live broadcast of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- >> Shareholders' Electronic Forum
- >> Dissemination via social networks.
- >> Shareholders and investors office.

RED ELÉCTRICA PAYS SPECIAL ATTENTION to the right to information, the guarantees and rights of attendance and the participation of shareholders

BOARD OF DIRECTORS

THE BOARD of Directors administers, manages and represents the Company, without prejudice to the powers that correspond to the General Shareholders'

Meeting. It carries out its activity according to the rules of organization and operation contained in the Corporate By-laws and the Regulations of the Board.

BALANCE OF POWERS

RED ELÉCTRICA establishes in its Corporate Governance Policy the essential principle 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 impartiality, pursuing the interest of the Company and its shareholders, as well as the Company's sustainability.

The Board Chairman is also the Chief Executive of

the Company, by express decision of the Board of Directors and of the General Shareholders Meeting, pursuant to Article 25 of the Corporate By-laws. Nevertheless, the By-laws stipulate that one or more executive directors may be appointed. [G4-39]

The Board of Directors, at a meeting held on 13 February 2015 and further to a proposal made by the Corporate Responsibility and Governance Committee, has decided to appoint as independent director of the Company, by co-optation, Mr. José Luis Feito Higuera, to cover the vacancy left as a result of resignation from office as independent director of Mr. Juan Iranzo Martín on 13 October 2014, accepted by the Board of Directors at its meeting of 28 October 2014.

BOARD OF DIRECTORS AS AT 31 DECEMBER 2014

EXECUTIVE CHAIRMAN



José Folgado Blanco

EXTERNAL NOMINEE DIRECTORS PROPOSED BY SEPI



Francisco Ruiz Jiménez
Member of the Corporate Responsibility and Governance Committee.



Fernando Fernández Méndez de Andés
Member of the Audit Committee.



Santiago Lanzuela Marina

GENERAL COUNSEL AND SECRETARY OF THE BOARD



Rafael García de Diego Barber
Non-board member

DEPUTY SECRETARY OF THE BOARD



Fernando Frías Montejo
Non-board member

LEAD INDEPENDENT DIRECTOR



Carmen Gómez de Barreda Tous de Monsalve
Chairwoman of the Corporate Responsibility and Governance Committee.

EXTERNAL INDEPENDENT DIRECTORS



María de los Ángeles Amador Millán
Member of the Audit Committee.



Socorro Fernández Larrea
Member of the Corporate Responsibility and Governance Committee.



Antonio Gómez Ciria
Member of the Audit Committee.



Paloma Sendín de Cáceres
Chairwoman of the Audit Committee.



María José García Beato
Member of the Corporate Responsibility and Governance Committee.



More information regarding the Company's governance structure and composition in the 2014 Corporate Governance Report and in the 'Corporate Governance' section of the website.

DELEGATION OF ECONOMIC, SOCIAL AND ENVIRONMENTAL MATTERS [G4-35, G4-36, G4-42]

THE POLICY of the Board is to delegate the general management of the Company and of Red Eléctrica de España, S.A.U., to the executive bodies and the management team of the Company and of Red Eléctrica de Spain, S.A.U., and focuses its activity on the general supervision and approval of the key guidelines for action.

On this basis, the Corporate Economics and Finance Division is conferred overall responsibility for economic matters, while responsibilities regarding social issues are distributed among the Corporate Affairs and Institutional Relationship Division and that of the Corporate Responsibility and Communication Division. Meanwhile, the environmental responsibilities are conferred to the Transmission Division.

The directors of these divisions are part of the Management Committee, headed by Chairman of the Company, ensuring direct dialogue with the Board. Also, they regularly appear before the Board to report on issues within the scope of their responsibilities.

RED ELÉCTRICA, IN ACCORDANCE WITH ITS CORPORATE GOVERNANCE POLICY tries to consolidate and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders

DIALOGUE BETWEEN STAKEHOLDERS AND THE HIGHEST GOVERNANCE BODY [G4-37, G4-49, G4-50]

ONE OF THE PRINCIPLES underlying the Corporate Governance Policy of Red Eléctrica and that serves as a benchmark for the performance of the Company in its relations with its stakeholders is: to consolidate, develop and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders to improve relationships, increase commitment and strengthen their confidence.

Also, in application of this principle, Red Eléctrica tries to fulfil the needs of institutional shareholders, given their large presence in the Company's shareholding,

as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by other shareholders.

Also, in application of this principle, Red Eléctrica is committed to providing its shareholders homogeneous and systematised information that communicates the corporate environmental, social and good governance objectives that are part of the Company's social interest.

Besides the direct communication channels indicated in the Transparency and Participation section, on page 23 of this report, and detailed in the Corporate Governance Report and in

the Regulations of the Board (Articles 42-47), the highest governance body has access to other consultation mechanisms with stakeholders among which the following are noteworthy:

- >> Enquiry and claim/complaint system of the Code of Ethics.
- >> DÍGAME Service.
- >> Social Representation/committees.
- >> Stakeholder satisfaction reports.

During 2014, there have not been any relevant issues in the management reports regarding the management of said channels that would require submission to the Board.

SELECTION OF BOARD DIRECTORS [G4-40]

THE SYSTEM used for the selection, appointment and re-election of members of the Board of Directors is expressly governed by the Corporate By-laws and the Regulations of the Board.

Red Eléctrica applies the principle of ensuring that appropriate procedures exist to select Board directors, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks.

Therefore, when assessing candidates participating in the selection process, the procedure shall 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 Corporate Responsibility and Governance Committee plays a relevant role in the process.

The appointment and removal of directors and ratifying, where appropriate, the appointment by co-optation, corresponds to the General Shareholders' Meeting.

RED ELÉCTRICA CONDUCTS AN ANNUAL assessment of the operation and performance of the Board of Directors, the Chairman and Chief Executive of the Company and of the Board's Committees

ASSESSMENT OF THE COMPETENCIES AND PERFORMANCE OF THE BOARD [G4-43, G4-44]

FOR YEARS NOW, Red Eléctrica has been applying the principle of conducting an annual assessment of the operation and performance of the Board of Directors, the Chairman of the Board and Chief Executive of the Company and the Board's Committees, ensuring that support is received from independent external advisors. The process is carried out under the management of the Corporate Responsibility and

CONFLICTS OF INTEREST [G4-41]

REGARDING Board members, Article 32 of the Regulations of the Board establishes the possible conflicts of interest and procedures to be followed in such conflicts. Furthermore, the Corpo-

rate Governance Annual Report 2014 details the mechanisms put in place to detect and resolve possible conflicts of interest between Red Eléctrica and its Board directors, managers and relevant shareholders.

Governance Committee, in coordination with the lead independent director, and a summary of its main conclusions is voluntarily included in the Annual Corporate Governance Report.

In terms of knowledge development, Article 24 of the Regulations of the Board establishes that the Company will have an information fast-track programme that

provides new directors sufficient knowledge about the Company and its corporate governance rules, and shall also offer programmes for directors to update their knowledge when circumstances deem it necessary.

Periodically, internal information programmes on national and international trends in corporate governance may be established.

One of the tools that has contributed to increasing the efficiency of the Board and its Committees has been the Director Portal, in which relevant information is published, such as the meeting minutes of the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental matters.

REMUNERATION OF THE BOARD [G4-51, G4-52, G4-53]

THE COMPANY applies the principle of maintaining a remuneration policy for the Board of Directors based on moderation, effective dedication, alignment with the long-term strategies and interests of the Company and its shareholders and other stakeholders, to act as a financial incentive whilst not affecting a director's impartiality due to the amount of the same.

To this end, it makes comparative analyses with similar companies and keeps permanent contact with its shareholders and proxy advisors. As a result of these analyses and a market study conducted by the Company with the support of an international consultant, in 2014 a new remuneration structure that replaces the variable portion of remuneration for fixed

remuneration, eliminating the variable component of the remuneration of the Board. Only the remuneration of the executive director also includes variable remuneration elements in the short and long term linked and aligned with the key objectives of the Company.

Key aspects of the remuneration policy are:

- >> Transparency in the remuneration received by each board member. Individualised information.
- >> Maximum statutory limit for the remuneration of board members.

The Annual Report on Board of Directors Remuneration and Compensation Policy is published and subjected to the

approval of the General Shareholders' Meeting as a separate item on the agenda.

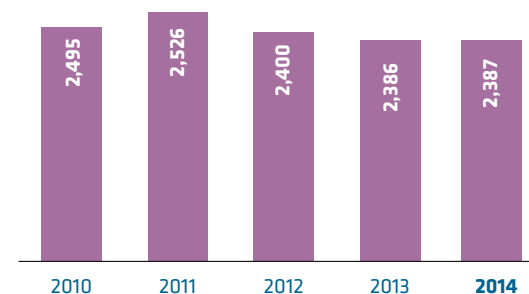
- >> Remuneration aligned with the long-term interests of the Company and shareholders.
- >> The remuneration of board members is fixed aiming to take into account criteria and parameters relating to the administration and management of risks to the Company and the Group, and also environmental and social aspects and Good Governance (Environmental, Social & Governance-ESG-).

The Board's remuneration was approved by a majority vote at the General Shareholder's Meeting 2014 and consists only of elements of a fixed nature. The total amount of remuneration of the Board in 2014 remained at 2007 levels.

On the other hand, it is worth noting that the remuneration of the Chairman is in percentile levels of 10% compared with a panel of comparable companies, and is in the minimum values of the market compared with the Ibex 35, as determined by the analysis of the international benchmarking applied to the Board's remuneration plan and CEO of Red Eléctrica, together with the consultancy firm Towers Watson

REMUNERATION OF BOARD MEMBERS

Thousands of euros



Detailed information on the remuneration of the Board can be found in the 2014 Annual Report on the Board's remuneration and compensation policy and 2014 Corporate Governance Report, both available in the 'Corporate Governance' subsection of the section regarding the General Shareholders' Meeting to be held in April 2015.

NEW ASPECTS OF NOTE REGARDING THE REMUNERATION OF THE BOARD

Red Eléctrica Corporación will submit for approval at the next General Shareholders' Meeting a remuneration policy of the Board for three years, in accordance with current legislation and best practices in corporate governance.

Red Eléctrica Corporación will include detailed information in its Annual Remuneration Report 2014 and 2015 with respect to the executive director and non-executive directors. This report will also be submitted for approval at the General Shareholders' Meeting and will be adapted to the current legislation and best practices in corporate governance.

From 2015, Red Eléctrica Corporación shall incorporate ECG criteria (environmental, social and good corporate governance) for the calculation of the annual and multi-year variable remuneration of the Chairman and senior executives.

RISK MANAGEMENT [G4-14]

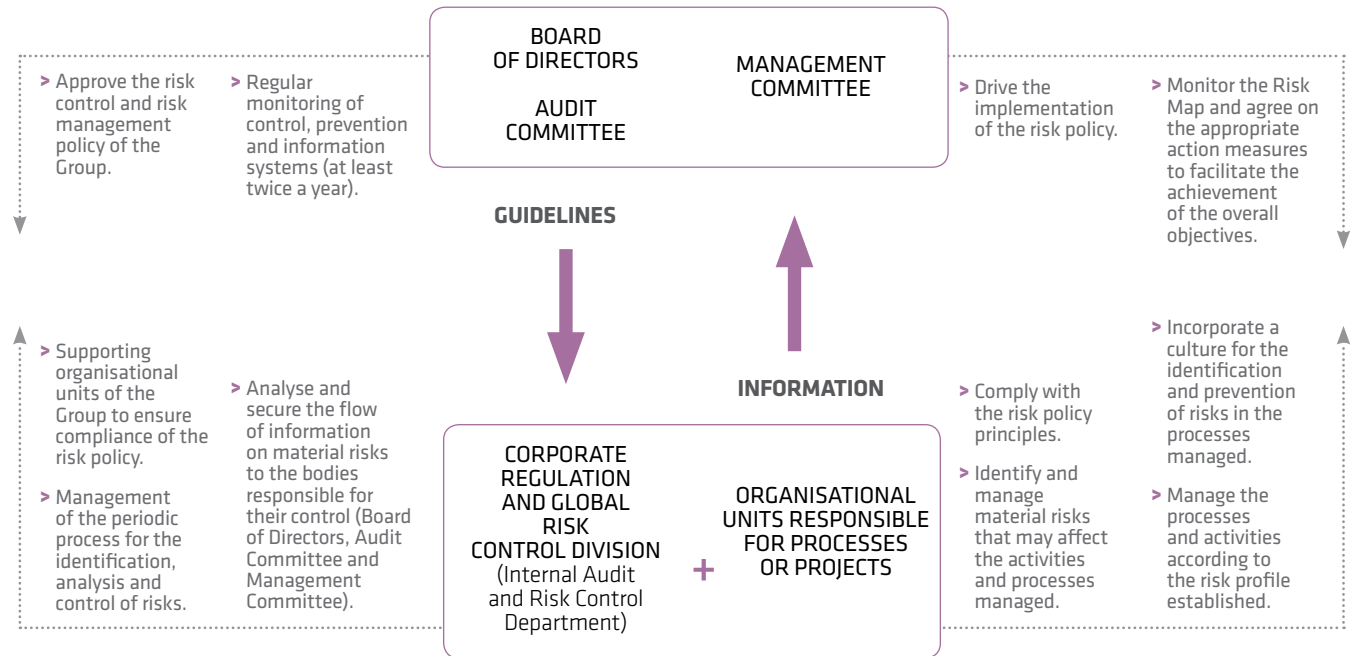
RED ELÉCTRICA has a risk policy that sets out the necessary directives for ensuring that material risks, which could affect the strategies and objectives of the Red Eléctrica Group, are systematically identified, assessed, managed and controlled with standardised criteria and within the established risk limits.

To do this, it has a risk management system covering both the risks of internal processes and

those of the environment in which the activities of the Company are carried out. The system conforms to the ISO 31000 standard on the principles and guidelines on risk management.

The different responsibilities of the governing bodies and of each organisational units, as well as information flows and activities to be undertaken by the various bodies, are defined in the risk policy and specific procedures. (see organisational scheme)

RISK MANAGEMENT ORGANISATIONAL SCHEME [G4-45, G4-46, G4-47]



MANAGEMENT SYSTEM

THE RISK MANAGEMENT SYSTEM of the Red Eléctrica Group defines a methodology for determining the level of acceptable risk and the tolerance level. Thus all risks are assessed in terms of two parameters: the probability of the risk occurring and the impact on the Company in the event the risk materialises. The combination of these two parameters automatically determines the level of risk.

In the process of identification, analysis, evaluation and control of risks, referred to above, the actions required are established to reduce the degree of risk to an acceptable level.

In accordance with risk policy, all risks above this acceptable level must be subjected to actions in order to achieve this value, as long as the risk is manageable and the costs of this management are proportionate to the effect of the risk avoided.

For the monitoring of risks, the current risk management system includes the monitoring of over 500 action plans aimed at reducing the level of risk, and more than 300 indicators to monitor their progress.

In addition, Red Eléctrica has several contingency plans that regulate crisis situations that could occur in the case of electrical in-

cidents (to ensure security of supply), or any other incident that may affect the environment, people, the operation of the Company, business results, or any other events that could impact the Company's reputation.

On the other hand, Red Eléctrica Group's processes have been designed to incorporate elements to mitigate or reduce related 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

TO REDUCE
THE RISK LEVEL,
the current risk
management
system includes
the monitoring of
over 500 action plans



More information in the 'Risk management' subsection of the 'Corporate Governance' section of the website

RISK STRUCTURE [G4-2]

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 under a regime of exclusivity.

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. In this context it is important to highlight the following two risks due to their importance and relevance:

> **Regulatory risks**
Possible changes to the legal framework regulating the business, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the operation of the business.

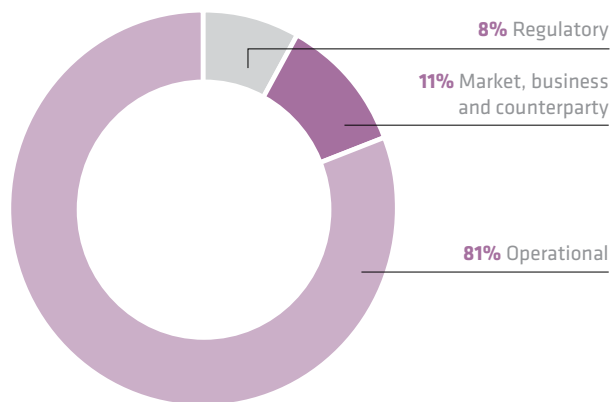
> **Operational risks**
Risks deriving from the inadequacy or failure of processes, personnel, internal equipment or systems or due to external events. Although this type of risk is common in all kinds of economic activity, the critical nature of the functions carried out by Red Eléctrica mean that this type of risk could have a wider

social and economic importance, for which reason it is necessary to pay them special attention. An example of this are those related to cybersecurity, which are very important due to the type of activity carried out by the Company and the systems it uses. These risks are given special attention in the risk

management system. In addition to the above-mentioned specific risks, Red Eléctrica also faces other types of common risks in the carrying out of economic and business activities, and which include:

- > **Market risks**
- > **Business risks outside the electricity system**
- > **Counterparty risk**

RISK STRUCTURE



MATERIALIZED RISKS IN 2014

THE FACILITIES of the transmission grid are exposed, permanently, to operational events that may affect the continuity and security of the electricity supply.

During 2014 there have been events whose consequences have been power

cuts of less importance. In general, these events are caused by third parties and by extreme weather conditions.

Given these events, the control systems worked properly, as evidenced by the transmission grid availability rate which

in 2014 was of 98.20% (provisional figure), the same as the rate obtained in 2013 (98.20% - final data).

The Company also has insurance policies that limit the potential impact of these events on the income statement.

OBJETIVES 2014

- >> Implementation of recommendations for improvement identified by the consulting company that performed the assessment of the risk management system.
- >> Improvement in the analysis of the risks monitoring plans.

RESULTS 2014

- >> An analysis of mitigation plans of the most relevant risks of the Group has been carried out using the new methodology drafted.
- >> The risks associated to the new activities of the Group have been assessed and the corresponding mitigation plans have been established.
- >> Actions were carried out to classify by categories risks to the Group for easy aggregation and monitoring as well as to aid in more specifically determining the acceptable levels of risk.
- >> Project for improvement of the Integrated Risk Management System (IRMS) that has allowed the identification of improvement actions to be undertaken in the period 2014-2016.

CHALLENGES 2015-2016

- >> Execution of improvement actions included within the project for improvement of the IRMS, whose main milestones to be achieved in 2015 will be to improve the definition of risk appetite for different categories of risk and from a global perspective, as well as the development of a new risk indicator dashboard.
- >> Updating the analysis of criminal risks of the legal entity, in compliance with the Criminal Risk Prevention Programme.
- >> Identify, analyse and assess the risks associated to the construction and management of pumped storage facilities granted by Law to Red Eléctrica in the Canary Islands.

MAIN RISKS OF THE RED ELÉCTRICA GROUP [G4-45]

REGULATORY RISKS

Risk	Description	Management
> Risk of regulatory changes.	> Risk of regulatory changes occurring that could negatively impact the transmission facilities and/or the system operation activity.	> Dialogue with the Regulator. > Presentation of proposals to the Regulator.

OPERATIONAL RISKS

Risk	Description	Management
> Risk of power outages and of evacuation of generation	> Risk of a breakdown/fault occurring in the facilities that may significantly impact on the electricity system, causing power outages on the Spanish peninsula or the islands.	> Emergency equipment and procedures. > Periodic inspections of equipment and systems. > Preventative and predictive maintenance programmes. > Renovation and improvement plans for facilities. > Improvement of grid meshing and increase in the construction of facilities to deal with the Electricity Infrastructures Plan approved by the State. > Contracting insurance policies to cover possible damages that can be derived from an incident. > Contingency plan.
> Environmental risks	> Impact on flora. > Impact on fauna. > Contamination of soil. > Impact on archaeological heritage. > Risk of fires. > New environmental legislation applicable.	> Application of strict environmental criteria in all phases of planning, development and maintenance of facilities. > Environmental supervision of works. > Strategy and actions for biodiversity. > Development of research projects and fire prevention plans. > Projects for birdlife conservation. > Environmental training courses for field staff. > Establishment of collaboration agreements in the field of environmental protection with the Autonomous Communities. > Fire protection plans. > Contingency plans.

Risk	Description	Management
<p>> Risks derived from climate change. [G4-EC2]</p>	<p>> Reduction in rainfall. > Increase in temperatures. > Changes in wind currents. > Impacts on structural elements due to wind, ice, electrical discharges (lightening) etc. > Alteration in the properties of the conductors. > Erosion around foundations of facilities and of the towers.</p>	<p>> Climate change strategy. > Development of system operation tools (CECRE). > Construction of new transmission lines for the evacuation of renewable energy. > Strengthening of international interconnections. > Development of demand-side management initiatives (interruptibility service, measures to achieve a more efficient consumption profile, and initiatives for the implementation of the electric vehicle). > Development of research and innovation projects: new technologies and technical solutions for efficient system management, new tools for emergency situations, smart demand-side management, energy storage. > Voluntary agreement with the Ministry of the Environment and entities of the electricity sector for the reduction of SF₆ emissions.</p>
<p>> Risks associated with the operation of the systema.</p>	<p>> Human errors, coordination, or equipment configuration. > Malfunction of telecommunications. > Failure of computer systems that support the activity.</p>	<p>> Strengthening of the transmission grid in certain areas where the situation is precarious. > Power service restoration plans. > Renovation and improvement of facilities plan. > Improvement of the telecommunication systems. > Implementation of security mechanisms in the IT information systems used. > Continuous training of operators. > Contingency plans.</p>
<p>> Risks related to management and employees</p>	<p>> Lack of motivation and competencies of staff to reach the Company objectives. > Fraud and corruption. > Workplace accident rate. > Adaptation of occupational health and safety risk prevention.</p>	<p>> Development programmes for specialists and directors. > Work-life balance policy and implementation of a management system. > Hiring of young employees with potential. > Maintenance and improvement of the structured risk prevention system in accordance with the OHSAS 18001 standard. > SA8000, EFR1000 certifications and internal audits. > Implementation of the Code of Ethics, the claims/complaints reporting system and the auditing system. > Applying the staff appraisal system.</p>

Risk	Description	Management
> Risk related to cyber security.	<ul style="list-style-type: none"> > Non-availability of systems > Unauthorised access to specific IT applications 	<ul style="list-style-type: none"> > Fire walls and anti-intrusion systems. > Antivirus systems. > Securing access requirements. > Improvement of the security system regarding access requirements. > Software updates. > Hacking simulations.

MARKET RISKS

Risk	Description	Management
> Risk of increased costs of equipment and raw materials.	> The control of the price of equipment and raw materials is a key part of the management of the construction and maintenance activities.	<ul style="list-style-type: none"> > Promote competition. > Increase normalisation and standardisation. > Drafting of turnkey contracts. > Using hedging mechanisms.
> Risk of increase in the interest rates.	> Risk of occurrence of shifts in interest rates that could vary from those contemplated in the Strategic Plans of the Company.	<ul style="list-style-type: none"> > Periodic reviews of the interest rates and their impact on the accounts. > Maintenance of the fixed/variable percentages of the financial structure. > Development of a financial risk policy and tools for its management and control.
> Unfavourable change in exchange rates.	> Although the part of the business managed in non-euro currencies is not very significant, unfavourable variations in exchange rates may cause a negative impact.	<ul style="list-style-type: none"> > Establishing hedging mechanisms for transactions performed in non-euro currencies. > Development of a financial risk policy and instruments for its management and control.
> Risk of tightening of the conditions regarding the access to financial markets.	> Negative development of different macroeconomic variables, affecting financial markets, status of the euro and sovereign debt rating.	<ul style="list-style-type: none"> > Contracting of long-term financing with public funding institutions. > Establishment of new financing mechanisms. > Monitoring of possible situations that may imply a reduction in the rating of the Company.

BUSINESS RISKS

Risk	Description	Management
> Risks to foreign subsidiaries.	> The various political and economic situations that the subsidiaries are exposed to, make it necessary that possible losses of the subsidiaries be considered as a risk.	<ul style="list-style-type: none"> > Maintaining good relationships with agencies and organisations where the subsidiaries are located. > High quality standards in the services offered. > Monitoring of regulatory developments and economic evolution.

ETHICS AND TRANSPARENCY [G4-56, G4-57]

RED ELÉCTRICA considers ethics and transparency as essential pillars for the smooth running of the business. This means acting with the utmost responsibility in fulfilling the duties and functions entrusted to the Company, as well as maintain and demonstrate at all times an ethical, honest and transparent conduct in

the relationships with and commitments to its stakeholders.

To do this, Red Eléctrica approaches its management model based on the Code of Ethics, and various policies, procedures and specific tools designed to achieve better compliance with the ethical duties of the Company.

CODE OF ETHICS

THE CODE OF ETHICS of the Red Eléctrica Group aims to provide an ethical guide for people of the companies of the Red Eléctrica Group, setting out the values and commitments that should govern the performance of their activity within the Company.

This code is applicable to all persons working in the Red Eléctrica Group, and that shall be understood as its Board of Directors,

its managers and other employees in the performance of their duties and responsibilities, making it necessary for everyone to know, to understand and to undertake it.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors on 28 May, 2013 with the aim of taking on board the requirements of stakeholders and the

recommendations of the international organisations of repute in this field, among which the following are noteworthy: United Nations Organization, the European Union, the Organization for Economic Cooperation and Development and international organisations such as Transparency International or the ÉTNOR Foundation, amongst others.

In addition, with the latest modifications introduced, the Company seeks to incorporate the necessary changes resulting from the experience gained since the entry into force of the original Code of Ethics, adjust the scope and content of the aspects covered in the Code of Ethics and adapt the ethical management system to the contents of the latest version of the Criminal Code.

Plan to encourage awareness

IN THE CONSULTATIONS conducted during the drafting of the latest edition of the Code of Ethics, it became evident that there was a manifest interest on behalf of the participants on issues regarding business ethics and the mechanisms for resolving

ethical dilemmas arising for the performance of the activity of the Red Eléctrica Group. As part of its Plan to encourage awareness regarding ethical management, approved by the Company's Corporate Responsibility Committee, and as result of this

process, during 2014 (to continue throughout 2015) a set of presentations and debate sessions are being held at all the Company's work centres. These are being held to improve knowledge of the ethics management system, reflecting on the values and

commitments undertaken by the organisation and examining the role and tasks of the Company's Ethics Manager. These meetings have been attended by the Ethics Manager and ombudsman for Red Eléctrica's stakeholders. [G4-S04]

THE CURRENT EDITION OF THE CODE OF ETHICS OF THE RED ELÉCTRICA GROUP was approved by the Board of Directors on 28 May 2013 in order to undertake the requirements demanded by stakeholders



More information in the 'Ethics and Transparency' subsection of the 'Corporate Governance' section of the corporate website.

Supplier Code of Conduct

FOR THE RED ELÉCTRICA Group the responsible monitoring of the management of its suppliers is especially relevant, and as such the Company has a specific Code of conduct for its suppliers. This Code puts a lot of emphasis on monitoring the compliance of its suppliers on matters related to human rights, equality and integration of people with disabilities, as well as the fulfilment of the occu-

pational health safety and environmental requirements, in the manufacturing of products or the provision of services required by the Company, whether these are carried out directly or indirectly through other companies.



More information on the 'Supplier Code of Conduct' subsection in the 'Suppliers' section of the corporate website.

Ethics Manager

RED ELÉCTRICA has appointed an Ethics Manager and Stakeholder Ombudsman to manage the ethical questions that may be posed and to collate, analyse and resolve the various complaints and claims received. The person appointed is Rafael García de Diego Barber, General Counsel and Secretary of the Board of Directors of Red Eléctrica. This figure, with a direct relationship to the Chairman and the Board of Directors, is also responsible for maintaining the confidentiality of the processes, the development, consolidation and continuous improvement of the ethics management in Red Eléctrica. The Ethics Manager can count on the support of the

Company's organisational units that he/she deems necessary to carry out the designated responsibilities.

The responsibilities of the Ethics Manager are the following:

- >> Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
- >> Institute proceedings regarding claims/complaints through the verification and investigation of the conduct of those employees or organisational units reported.

- >> Develop action plans to resolve the claims/complaints and submit them for approval by the Chairman of Red Eléctrica Group or the Chairperson of the Audit Committee or, where appropriate, the Chairperson of the Corporate Responsibility and Governance Committee if it affects any member of the Management Committee or the Board of Directors.
- >> Keep an updated record on the process (enquiries, claims/complaints, procedures and communications with interested parties).
- >> Keep claimant abreast on the status and resolution of enquiries or claims/complaints, when required.

- >> Draft a periodic report on the review of the reporting system and propose actions to improve the management system.
- >> Maintain at all times the confidentiality of the claimant, unless legally required to disclose this information.
- >> Carry out the functions assigned under the principles of independence, rigour and fairness.

RED ELÉCTRICA HAS APPOINTED AN ETHICS MANAGER and Stakeholder Ombudsman to manage the ethical questions that may be posed and for the collation, analyses and resolution of the different complaints and claims received

Whistle-blowing Channel [G4-58, G4-HR12]

TO PROMOTE the implementation of the Code of Ethics, Red Eléctrica has a whistle-blowing channel, available on the corporate website, through which enquiries, claims/complaints or suggestions can be conveyed to the Ethics

Manager. This channel has been audited and guarantees the confidentiality of users.

In addition, Red Eléctrica has another channel for reporting non-compliance, claims/complaints, en-

quiries and suggestions regarding ethical matters through its stakeholder attention centre DÍGAME, in order to provide a reporting channel for requests from external stakeholders who are not aware of the aforementioned channels.

This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

In 2014, thirty-two consultations/enquiries were received by the Ethics Manager through the Ethics

Channel, with a maximum resolution period of 10 days. Consultations received have referred to the following areas of conduct:

>> responsible monitoring of the management of suppliers,

>> protection and use of facilities and equipment of the Organisation,

>> limitation on the acceptance of gifts, loans or invitations and

>> respect, integrity, accountability and transparency within the organisation.

In 2014, no breach of the Code of Ethics was registered. [G4-LA16, G4-S05]

Criminal risk prevention

THE CRIMINAL RISK PREVENTION PROGRAMME, was approved by the Board of Directors at its meeting of 24 November 2011

RED ELÉCTRICA has a Criminal Risk Prevention Programme that aims to identify the rules, procedures and tools established within the Group to avoid the breaching of the legal rules that carry criminal implications applicable to the Company and its staff, and to adapt it to the new

regulatory environment. Therefore, in addition to the already existing risk control exercised by the Red Eléctrica Group, the scope now incorporates the management and prevention of criminal risks that could affect the Company according to their activity and business sector, in compliance with

Organic Law 5/2010, of 22 June, amending the Spanish Penal Code.

This programme was approved by the Board of Directors of the Red Eléctrica Group at its meeting on 24 November 2011, following a favourable report of its Corporate Responsibility and Governance Committee. ▶

◀ The Criminal Risk Prevention Programme requires, for its effectiveness, that a control body monitors its compliance and undertakes specific measures to ensure it is adequately updated and implemented.

To do this, Red Eléctrica has put in place the Control and Supervision Body, which has among its responsibilities the regular monitoring of the criminal risk control

and prevention systems, with the aim of ensuring that the main risks are identified, managed and disclosed properly. This body is composed of the following members:

- >> The Ethics Manager.
- >> A representative of the Internal Audit and Risk Management Department.

>> A representative of the Human Resources Organisation and Planning Department.

>> A representative of the Legal Department.

This body reports to the Internal Audit and Risk Management Department, responsible for monitoring compliance of the control measures regarding criminal risk, as well as to the Legal Department.

Similarly, the Ethics Manager informs the Control and Supervision Body about claims/complaints received, that may have possible implications of a criminal nature. This body ensures the confidentiality of all information received in the same way as the Ethics Manager does.

The Control and Supervision Body of the Criminal Risk Prevention Programme has among its du-

ties the following responsibilities: the monitoring, compliance and updating of the programme, as well as reporting regularly to the Audit Committee on actions implemented, proposed improvements, updates implemented, measures agreed, and any other aspect considered relevant in the performance of its functions.

RED ELÉCTRICA HAS PUT IN PLACE THE CONTROL AND SUPERVISION BODY, which has among its responsibilities the regular monitoring of the criminal risk control and prevention systems



More information in the 'Ethics and Transparency' subsection of the 'Corporate Governance' section of the corporate website

Corruption and fraud

THE CODE OF ETHICS

and the corresponding management system for consultations and formal claims established by the Company constitutes an effective mechanism for the detection and addressing of the possible cases of fraud and corruption. The governing bodies, employees and suppliers of Red Eléctrica, accept the Code of Ethics Code and, where appropriate, the Code of Conduct for suppliers who provide goods and services to the organisation, as a whole, which includes aspects related to the fight against corruption within the organisation, as well as the management and reporting systems in relation to the aforementioned risk. [\[G4-S04\]](#)

During 2014, no formal complaints regarding

fraud and corruption were reported through this channel.

Those processes considered susceptible to risk of fraud and corruption are controlled periodically by means of an internal audit of the fraud risk prevention and the criminal risk prevention programmes, which incorporate specific controls regarding these risks. In 2014, 100% of the divisions/departments of Red Eléctrica de España (24 organisational units) have been audited concerning the various risks related to corruption; no incidents were identified in said audits. [\[G4-S03, G4-S05\]](#)

Additionally, the processes of Red Eléctrica are integrated in structured systems in compliance with the international reference standards (ISO 9001, ISO 14001 and OHSAS 18001)

and their design includes controls to mitigate or reduce the main risks associated thereto.

In addition to these processes, the Company has an internal control over financial reporting (ICFR) system in place, which includes controls over the risks regarding inappropriate use of assets and intentional errors in the financial statements), whose independent assurance report is included in the annex to this Report.

In 2014, in accordance with the guidelines on conduct contained in the Code of Ethics, in which the contribution to political parties or organisations is prohibited, no donations, grants or loans to political parties have been provided on behalf of the Group.

Human Rights

THE ACTIVITIES of Red Eléctrica are carried out in conformance with the principles and guidelines contained in its Corporate Social Responsibility Policy and in a manner compatible with the values and commitments established in the Code of Ethics.

When drafting the Corporate Social Responsibility Policy, Red Eléctrica has kept in mind the OECD Guidelines for Multinational Enterprises, as well as the Tripartite declaration of principles concerning multinational enterprises and social policy drafted by the ILO. In this manner, the Corporate Social Responsibility Policy has an explicit commitment to Human Rights.

Likewise, the Code of Ethics, which determines the guidelines for behaviour to be followed by all employees, establishes respect for human rights as an inalienable principle.

It should also be noted that since 2002, Red Eléctrica has been a founding member of the Spanish Network of the UN Global Compact, which implies drafting an annual progress report that sets out and details the actions that represent advances in the company's commitment to the Ten Principles.

The company has performed an internal assessment of the degree of alignment of its practices with the U.N. Guiding Principles on Business and Human Rights. In order to delve further into the aspects that were detected in this assessment and may require action, the Company is working on developing an action plan.

For example, in 2014 the first social audits of Red Eléctrica's suppliers were performed, in order to

evaluate the degree of their compliance with the requirements of the Supplier Code of Conduct for suppliers, which includes a commitment to fundamental human rights.

Likewise, the performance level of Red Eléctrica is audited according to standards which contain aspects related to the respect to Human Rights in companies (such as SA8000, IQNet SR10 and EFR), and the corresponding certifications were again renewed following the 2014 audits.

In 2014, audits were performed at the head offices and in the building of Tres Cantos (two of the four work centres in which system operation activity carried out, representing 50% of the total) and in four of the eight regional head offices (representing 50% of total). [\[G4-HR9\]](#)