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# TITLE I

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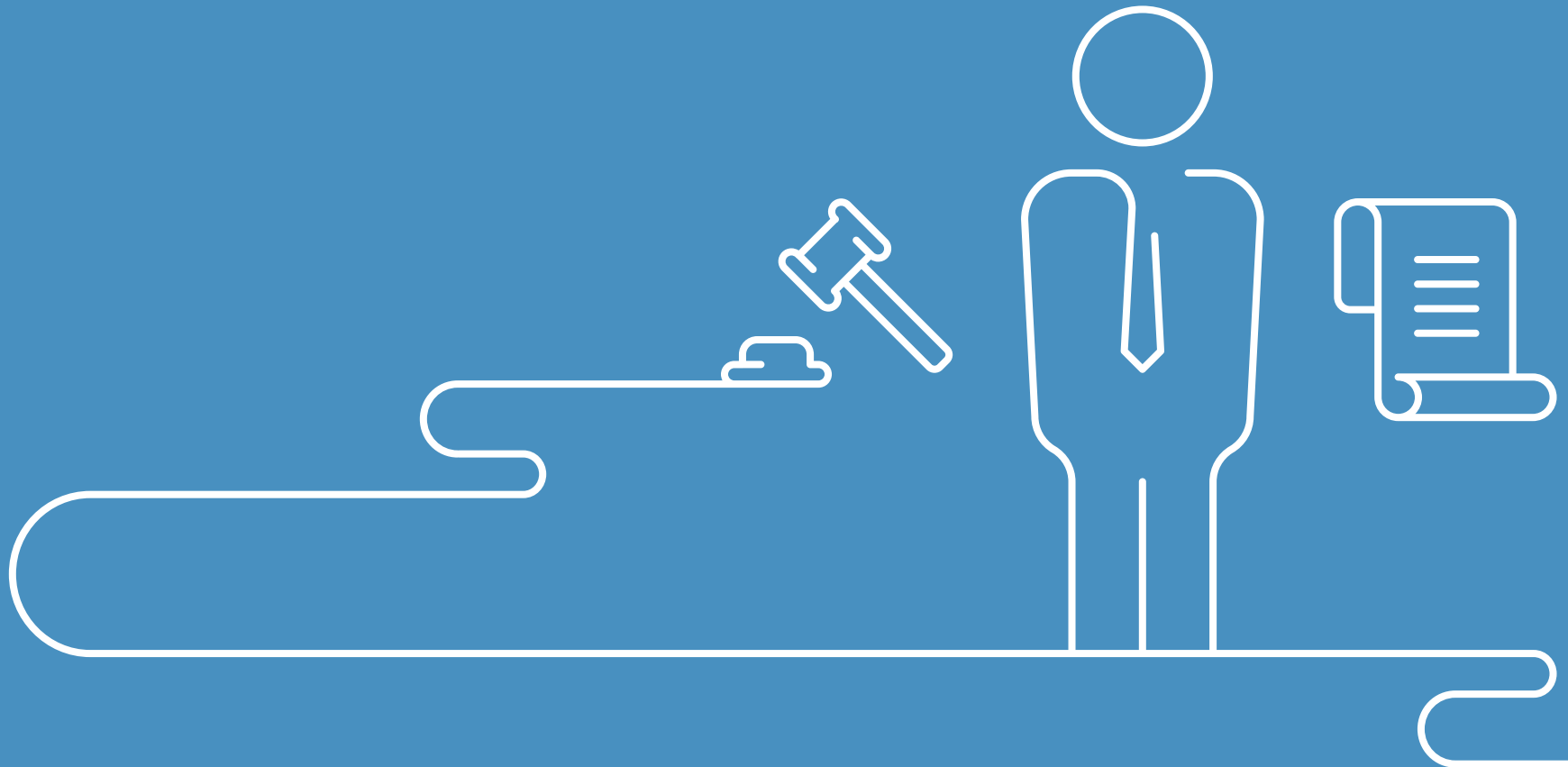
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Annual Corporate Governance Report of Red Eléctrica Corporación, S.A. 2015 <sup>[1]</sup> financial year

# Chapter I

## External framework



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**In accordance with** the requirements of applicable legislation (initially under art. 116 of the Securities Market Act [LMV], introduced by Act 26/2003, known as the Transparency Act, and the Board of Directors Regulations [art. 46], the Board of Directors of Red Eléctrica Corporación, S.A. [hereinafter, Red Eléctrica or the company] has been complying, in its capacity as a listed company, with the obligation to prepare and approve an Annual Corporate Governance Report, which must be notified to the Spanish stock market regulator, Comisión Nacional del Mercado de Valores [CNMV], as a material event and published on the company's website, and which is attached as an Annex to the company's annual Management Report.

The amendment to the regulatory framework in this area, approved in 2011, reaffirmed the obligation of companies both to approve an Annual Corporate Governance Report [art. 61 bis of the Securities Market Act, introduced by the fifth final provision of Act 2/2011, of 4 March,

on Sustainable Economy] and to incorporate the Annual Corporate Governance Report into the Management Report, in a separate section [art. 538 of the Spanish Corporate Enterprises Act, the "LSC"], approved by Royal Legislative Decree 1/2010 of 2 July, as amended by Act 25/2011 of 1 August).

Act 31/2014, of 3 December, amending the LSC to improve corporate governance, added a new article [art. 540 LSC], specifying the minimum content of the Annual Corporate Governance Report, previously established in art. 61 bis of the LMV, which was expressly repealed as a result of said Act. Following the amendment, the Annual Corporate Governance Report must include information on any 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. Furthermore, a reference is made to tax risks in risk control systems. Art. 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 by the CNMV, if expressly authorized.

[1] Unless another date is expressly indicated in this report, the reference date is 31 December 2015.



Accordingly, on 30 December 2015 the Official State 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 answers 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 [CGGLC], approved by resolution of the Board of the CNMV on 18 February 2015.

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

- Some sections that referred to old recommendations of the Unified Code which have become binding rules following the entry into force of Act 31/2014 of 3 December have been eliminated.

- Some sections have been amended to include the new requirements of Act 31/2014 of 3 December, notably the inclusion of information on the various committees the entity has created [Section C.2], the inclusion of certain information on the Board of Directors assessment process [Section C.1.20 bis and the inclusion of tax risks [Section E].
- The new recommendations of the CGGLC have been 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 corporate governance aspects of Spanish joint stock companies has undergone relevant changes over the last year, 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. This Act prompted a review of the company’s basic corporate rules, in order to adapt to the new law, which was carried out in 2015.

The review of the recommendations included in the Unified Code on Good Corporate Governance carried out by the Committee of Experts led by the CNMV led to the approval of the CGGLC, 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 CGGLC, which are subject to the “comply or explain” principle.



The new corporate governance code [CGGLC] is made up of 64 recommendations, divided into three large blocks, relating to general aspects [Recommendations 1 to 5], the General Meeting [Recommendations 6 to 11] and the Board of Directors [Recommendations 12 to 64].



The main changes are:

- a) The principles that give rise to the recommendations are identified.
- b) Old recommendations that have already been incorporated into law have been removed.
- c) Specific recommendations on corporate social responsibility have been added.

In Section G of the Official Annex to this Annual Corporate Governance Report, the company reports on its compliance with the recommendations of the new CGGLC.





## Chapter II

# Internal framework



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The **internal corporate** rules governing Red Eléctrica are continuously amended to incorporate into the company the best corporate governance practices, and to ensure greater informative transparency for its shareholders. At present, the company is governed in corporate governance matters by the corporate rules and procedures listed below, the individual legal system of which goes beyond the requirements of applicable law.

These rules, as of 31 December 2015, consisted of:

- Corporate By-laws.
- The Annual General Meeting of Shareholders Regulations.
- The Board of Directors Regulations.
- The Company Chairman Succession Plan.
- The Internal Code of Conduct in the Securities Market.
- The Code of Ethics.
- The Corporate Governance Policy.
- The Procedure for proxies, voting and distance information at the Annual General Meeting of Shareholders [relating to the 2015 Annual General Meeting and the Extraordinary General Meeting held in July 2015].

- The Operating Rules of the Shareholder E-Forum [relating to the 2015 Annual General Meeting and the Extraordinary General Meeting held in July 2015].

### CORPORATE BY-LAWS

The company's By-laws 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 Annual General Meeting.

The Annual General Meeting held on 15 April 2015 approved an amendment to the By-laws to adapt them to the latest 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 "General Meeting", 12 "Types of General Meeting", 13 "Notice of General Meeting", 15 "Right of information and attendance at 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 Chairman", 25 bis "The Independent Lead Director" and 26 "The Secretary of the Board".



## ANNUAL GENERAL MEETING OF SHAREHOLDERS REGULATIONS

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

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

As in the case of the By-laws, the Annual General Meeting held on 15 April 2015 approved an amendment to the Annual General Meeting of Shareholders Regulations, aimed at adapting them to the latest 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 Annual General Meeting of Shareholders Regulations. Specifically, the following articles were amended: 3 ["Competencies of the General Meeting"], 5 ["Notice of General Meeting"], 6 ["Shareholder's rights"], 7 ["Shareholder's right to participate"], 8 ["Shareholder's right to information"], 10 ["Proxies"] and 15 ["Constitution, deliberation and adoption of resolutions"].

## BOARD OF DIRECTORS REGULATIONS

As indicated in art. 22 of the By-laws, the main purpose of the Board of Directors Regulations is to establish the basic rules for the organization 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 its directors, placing the interests of the company and its shareholders above the directors' own personal interests, while upholding the law, the By-laws and corporate governance principles.

The latest amendment to the Board Regulations was approved at the Board of Directors meeting held on 13 March 2013. The most relevant aspect of this latest amendment was the company's adjustment to outstanding practices in corporate governance matters, particularly internationally, and the introduction of improvements in the organization and operation of the Board of Directors and its committees.

The Board considered the adoption of measures to counterbalance the concentration of power in the hands of the CEO and Chairman of the company's Board of Directors and other measures such as specific provisions enabling the splitting of the positions of CEO and Chairman and the express reservation to the Board of Directors of certain powers and responsibilities which, for reasons of urgency, had previously been entrusted to the Board's chairman. Another novelty was the formalization of certain practices that had been previously conducted in the company, such as an annual assessment of the Board of Directors, its committees and Chairman, by an independent expert. As a



novelty, the composition of Board committees was adapted to investor requirements, strengthening their impartiality, by demanding a majority of independent directors, and the principle of transparency was gathered in relation to the remuneration policy applied to the Board and Senior Management, including new components and remuneration structures recently recommended by investors and proxy advisors.

Like the By-laws and the General Meeting Regulations, the Board of Directors Regulations are currently under review, mainly with a view to adapting them to Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and to the extent the Board of Directors considers it pertinent, to the new corporate governance recommendations included in the new CGGLC.

Apart from being necessary because of the recent amendments to the LSC and advisable following the publication of the new CGGLC, the review of the Board Regulations is also an opportunity to make improvements to the organization and functioning of the Board of Directors and its committees based on recent years' experience, to include specific provisions regulating the positions and responsibilities of the CEO separately from those of the Chairman of the Board and to make some corrections of form, style or order.

## COMPANY CHAIRMAN SUCCESSION PLAN

At a meeting held on 27 October 2011, the Board of Directors approved the Succession Plan for the Company Chairman, following a corporate governance practice that is becoming increasingly common worldwide, involving the preparation and approval by listed companies of succession plans for their CEO or most senior executive, in order to minimize the impact of the handover on the organization, and aiming to determine a model profile for the candidates and ensure the continuity of the business, thereby reducing as far as possible the possible risks or negative effects of the appointment of a new chairman, until he or she has fully settled into the role. The plan established a succession procedure that is split into several phases, assigning functions to the managing bodies involved, all with a view to creating an environment in which the appointment of a new chairman may be carried out in an orderly and efficient manner that does not affect the company's ordinary operations.

It was possible to apply this plan for the first time in 2012, when Mr. Luis Atienza Serna stepped down as Executive Chairman 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, which facilitated the handover to the new chairman, whose independent judgement, knowledge of the company and the industry, as well as his prior experience, leadership and capacity for dialogue with the energy regulator, were notable qualities.



Bearing in mind that the succession plan was approved in 2011 and that the Board of Directors Regulations were amended in 2013 and are currently under review, in 2016 the succession plan will be reviewed to keep it fully up to date and in line with the company's Corporate Governance Policy and the reform of the LSC and to ensure that the functions of the lead director are included and the succession of both the Chairman of the Board and the Chief Executive Officer (CEO) are taken into account, following the splitting of these two positions agreed at the Extraordinary General Meeting held in July 2015.

## INTERNAL CODE OF CONDUCT IN THE SECURITIES MARKET

This code of conduct 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 the Internal Code of Conduct in the Securities Market to the new corporate structure of the group, and to record 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 on these results are prohibited from trading in the company's securities. Finally, on 24 June 2014, the Board of Directors approved another update of the code, basically 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 will be updated, as necessary, in line with the latest changes in the law, the LSC and the new CGGLC.

## CODE OF ETHICS

The purpose of the Code of Ethics of the Red Eléctrica Group is to provide an ethics guide for the people who work in Red Eléctrica Group companies, determining 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.

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, notably the United Nations Organization, the European Union, the Organization





for Economic Cooperation and Development and international bodies such as Transparency International and Fundación Étnor. The latest amendments are intended to take account of the accumulated experience since the original Code of Ethics came into force, adjust the scope and content of the code and adapt the ethics management system to the latest changes in the law.

The Code of Ethics concerns all the people in the group, including directors, managers and employees, in the performance of their duties and responsibilities. It is a regulatory instrument for establishing, in general terms, the conduct guidelines in the different professional spheres in which the employees of the Red Eléctrica Group are active. It is intended to serve as a general guideline when making decisions 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.

Red Eléctrica has appointed an Ethics Officer to handle any doubts that may arise and to gather, analyze and resolve any complaints that may be received. The person appointed to this position is Rafael García de Diego Barber, General Secretary and Secretary to the Board of Directors of Red Eléctrica Corporación. Reporting directly to the Chairman and the Board of Directors, the Ethics Officer is responsible not only for maintaining the confidentiality of business processes but also for the development, consolidation and continuous improvement of ethics management in Red Eléctrica. The Ethics Officer has all the support he may require from the company's organizational units in order to perform his role.

The Annual Code of Ethics Report for 2014, which was approved on 29 September 2015, gives details of events that occurred concerning the corporate ethics management system: the functioning of the ethical consultation and reporting channel; awareness-building actions; recognition obtained; and measures to be followed through. The report for 2015 is currently in preparation.

During 2014 and continuing in 2015, as part of its plan to encourage awareness of ethical management, which was approved by the company's Corporate Responsibility Committee, a set of presentations were made at all the group companies' work centres aimed at building awareness of the ethics management system, reflecting on the values and commitments acquired by the organization and examining the role and tasks of the Ethics Officer. These sessions are attended by Red Eléctrica's Ethics Officer and stakeholder ombudsman.



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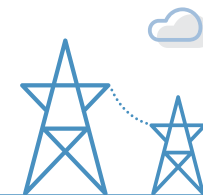
A highly visible and easily accessible channel has been available on the group website throughout 2015 to allow employees to confidentially submit consultations and report complaints to the Ethics Officer. Following international best practices, more detailed information about the company's ethical management has been published on the corporate website, including a list of indicators of application of the Code of Ethics. The purpose of this is to contribute relevant information that will allow socially responsible investors to form the necessary ethical judgement when making investment decisions, as a supplement to the traditional economic and financial criteria.

As a consequence of Red Eléctrica's commitment to prohibit all forms of corruption, bribery and facilitating payments, 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 model of integrity. 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 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 managing those risks.

Further progress was made during 2015 in implementing the new Compliance Programme and creating the Compliance Unit, putting into practice the commitment, stated as a rule of conduct in the Code of Ethics, to have in place an adequate system for controlling legal compliance, in line with the values of reliability and accountability established in the code.

As regards external recognition, Red Eléctrica was awarded the highest score (100 out of 100 points) in the Code of Ethics/Compliance/Corruption and Bribery section of the 2015 Dow Jones Sustainability Index. It was included in the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120, Global 120), which select the companies that show excellent 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 has also retained its position in business ethics indices such as Ethibel Sustainability Index (ESI) Excellence Europe, as well as in Ethibel Excellence.





## CORPORATE GOVERNANCE POLICY

The Board of Directors, at its meeting held on 25 November 2014, approved the company's Corporate Governance Policy. The policy provides that its foundations are the corporate values governing its relationship with various stakeholders, helping achieve the company's strategies and sustainably maximizing its value. These values are reflected in the principles governing the group's Corporate Governance Policy. Briefly, the policy describes 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 been voluntarily undertaking since it was listed on the stock market in 1999. These principles included are expected to remain in the long term in the organization, given that without prejudice to their continuous update along with future commitments, 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 promoting a value shared by all, incorporating economic, social, environmental and good governance criteria, thereby contributing not only to the company's sustainability, solvency and good reputation among 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 included in the company's Corporate Governance Policy. This policy is available on the corporate website, under Corporate Governance, "Our Commitment".

## THE PROCEDURE FOR REMOTE VOTING AND PROXY APPOINTMENT AND THE PROVISION OF INFORMATION BY ELECTRONIC MEANS AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

At its meeting on 10 April 2015, the Board of Directors approved the rules on remote voting, proxy appointment and exercise of the right to information by electronic means for the Annual General Meeting held on 15 May 2015.

As in previous years, the procedure produced satisfactory results: 309 shareholders, holding 75,282 shares, voted or appointed a proxy by electronic means, resulting in 7.5% of the 4,132 shareholders present at the meeting, in person or by proxy, participating by remote means.

At its meeting held on 12 June 2015, the Board of Directors approved the rules on remote voting, proxy appointment and exercise of the right to information by electronic means for the Extraordinary General Meeting held on 17 July 2015.

Again, considering that it was an Extraordinary Meeting, the results were satisfactory, given that 71 shareholders, holding 21,235 shares, exercised their right to vote or appoint a proxy electronically. This means that 4.2% of the 1,710 shareholders present in person or by proxy at the meeting participated in the meeting 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 10 March 2015 for the Annual General Meeting held on 15 April 2015, and at its meeting on 12 June 2015 for the Extraordinary General Meeting held on 17 July 2015, in both cases on the same terms and conditions (subject to minor formal adjustments) 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](http://www.ree.es) on the occasion of its General Meetings responds to the requirement established in the last paragraph of art. 117.2 of the Securities Market Act, introduced by Act 12/2010 of 30 June and art. 539.2 of the revised text of the LSC, approved by Royal Legislative Decree 1/2010 of 2 July, which has not been amended by Act 31/2014, reforming the LSC.

The Shareholder E-Forum aims 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 company's General Meetings. Shareholders have the possibility of sending, for publication on the Forum, communications in accordance with the law, together with their contact details, thereby enabling the shareholders to communicate with each other.

