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Chapter I

Red Eléctrica's principles and practices in corporate governance matters

CORPORATE GOVERNANCE PRINCIPLES: THE CORPORATE GOVERNANCE POLICY

The Board of Directors meeting held on 25 November 2014 approved Red Eléctrica's Corporate Governance Policy. Red Eléctrica's Corporate Governance Policy 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 commitment with shareholders, investors and leading stakeholders in order to improve relations, strengthen commitment and reinforce their trust.
- To promote the informed participation of company shareholders at Annual General Meetings of Shareholders.
- To adopt the necessary measures guaranteeing the adequate exercise of shareholder rights at General Meetings.
- To exert the necessary control and supervision in the company's most critical and relevant areas, with the Board of Directors directly undertaking responsibilities, as non-delegable powers 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 impartiality, pursuing the interest of the company and its shareholders, as well as the company's sustainability.
- To ensure that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity among Board members when performing their task.
- To consolidate its commitment with diverse 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.



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- To consolidate a remuneration policy for the Board of Directors, based on moderation, effective dedication and alignment with long-term strategies and interests of the company and its shareholders.
- To consolidate the practice of presenting to the Annual General Meeting of Shareholders, for approval, a remuneration policy, annual remuneration and annual remuneration report for the Board of Directors.
- To guarantee quality and efficiency in operation and performance of the Board of Directors, Chairman of the Board and the company's CEO 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 CEO, guaranteeing continuity and sustainability in the company.
- To establish the necessary mechanisms and instruments to ensure that the company identifies, analyzes and adopts, as necessary, the best practices, principles and recommendations in good corporate governance matters, following the principle of excellence in its actions, adopted by the company.

- 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 review, update and improve, on a permanent basis and further to international standards, the content and structure of the corporate website.
- To encourage awareness of the principles and values behind the company's Corporate Governance Policy, both internally within the organization 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 (CGGLC).

Besides analyzing the foregoing principles, the company's Corporate Governance Policy states the practices the company follows or has undertaken to adopt in compliance with those principles, which, taken together, constitute Red Eléctrica's Corporate Governance Policy.

Following the latest recommendations established by the **International Integrated Reporting Council (IIRC)**, below is a summary of the best practices followed by the company in relation to its Corporate Governance Policy principles, without prejudice to the relevant section

[TITLE IV] describing, among other issues, some of the commitments contained in this policy, as part of Red Eléctrica's roadmap on the matter.

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 relevant proxy advisors and other stakeholders, in order to improve its relations, increase commitment and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by other shareholders.

> Annual General Meeting of Shareholders

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

Furthermore, in relation to the principle of guaranteeing the adequate exercise of shareholder rights at 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 Annual General Meeting of Shareholders.

Regarding the Board of Directors and its committees

> Basic tasks and operation of the Board

In order to apply the principle of exerting the necessary control and supervision in the company's most critical and relevant areas, the Board has been entrusted with the following basic tasks, among other direct and non-delegable responsibilities:

- To approve the basic action guidelines and general policies and strategies of the company and its group, to include the strategic or business plan of the company and its group, its investment and financing policy, corporate governance policy, corporate responsibility policy, remuneration policy and assessment of senior executive performance.
- Likewise, to approve a policy to control and manage the main risks of the company and its group, periodically supervising all internal control, prevention and information systems.
- To effectively supervise the management team.

In order to perform its direct responsibilities, and other tasks and responsibilities, the Board of Directors ordinarily convenes once a month and, at least, once a quarter. 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 this is requested by the lead independent director or three directors.

The Board will draw up an annual schedule of ordinary meetings and has a formal catalogue of the matters to be discussed.



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> 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 interest of the company and of its shareholders, as well as sustainability of the company. To do this, it preserves an adequate balance and proportionality in the powers entrusted to Board members.

Red Eléctrica is required to have a majority of independent directors on the Board.

The principle of effective majority of independent directors on the committees, derived from the principle of majority independent directors on the Board, is applied to all Board committees irrespective of legal or regulatory name and typology. 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 Annual General Meeting of Shareholders and regulated in its corporate rules, who is entrusted with organizing possible common positions adopted by independent directors and who acts as a channel for interlocution or as a spokesman of such common positions before the Board Chairman, the Board itself and its committees. The tasks entrusted to the lead independent director include the power to call Board of Directors meetings, for duly justified reasons, if this request has not been fulfilled by the Board Chairman.

Under the Board Regulations, the Board of Directors has a wide range of reserved responsibilities that cannot be delegated and there is a commitment to permanently examine 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 CEO are held by the same person, although in 2015 the shareholders in Extraordinary General Meeting voted to commence a process of splitting of the two positions).

> 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. 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 a relevant role in the process.

> Directors' responsibilities

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



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As explained in Chapter I above, following the entry into force of Act 31/2014, of 3 December, amending the LSC to improve corporate governance, the duty of care and loyalty has been amended, which is why the company's corporate rules are being reviewed in order to adjust directors' duties to the new regulations, to particularly include the Board of Directors Regulations.

> Conflicts of interest

Further to the principle establishing adequate mechanisms to disclose and resolve potential conflicts of interest between directors and the company, the company has control mechanisms and measures preventing any potentially affected director from participating in matters where he may directly or indirectly hold a personal interest, in any case prioritizing the corporate interest.

> Remuneration policy of the Board of Directors

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 an incentive while not affecting a director's impartiality in terms of amount. Consequently, it makes comparative analyses with other comparable companies and keeps permanent contact with its shareholders and proxy advisors.

Further to the principle to subject annual remuneration, a report and remuneration policy for the Board of Directors to the Annual General Meeting of Shareholders, for approval, the company for several years now has been following the practice of presenting these matters, respectively, as separate points of the agenda at 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 CEO 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,



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informative meetings are held prior to ordinary Board meetings, and arranged visits are also made to Red Eléctrica centres or facilities, in order to obtain direct and actual awareness of the same.

> CEO succession plan

Further to the principle of guaranteeing an orderly succession of the company's CEO, ensuring business continuity and sustainability in the long term, the company has undertaken to arrange the orderly succession of its CEO. To do this, the company has a CEO succession plan, which is periodically updated. As mentioned in Chapter II of Title I above, the plan is due to be reviewed in 2016 once the splitting of the positions of Chairman of the Board of Directors and Chief Executive Officer has been completed.

> Secretary of the Board of Directors

Further to the principle undertaken by Red Eléctrica, to establish the necessary mechanisms and instruments to ensure that the company identifies, analyzes and adopts, if necessary, the best practices, principles and recommendations in good corporate governance matters, the Secretary of the Board of Directors, further to the duties entrusted in the By-laws and Board Regulations, has provided the Board of Directors and its committees with the necessary mechanisms and instruments to identify, analyze and, if necessary, propose the adoption of the best practices, principles and recommendations in good corporate governance matters, allowing the company to monitor developments in best practices and adequately disseminate them among its stakeholders.

Regarding the principles of informative 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 its stakeholders, improving accessibility, operation and the quality of information.

As regards annual corporate information, it undertakes to prepare it according to outstanding international standards and, if deemed appropriate, to conduct external verifications by specialized consultants and auditors.

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 splitting positions submitted for approval by the Extraordinary General Meeting in July 2015.



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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 reached.

Consequently Red Eléctrica, in addition to keeping the market regularly informed during 2015 by sending the relevant market memos and describing its activities with institutional investors, has included all relevant information and communications on its corporate website.

The best practices followed in 2015 in corporate governance matters, focusing on shareholder dialogue and commitment, 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 international corporate governance forums 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.

Since 2013, the company has steadily consolidated its position as a member of the world organization 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.

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-line 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 2015 and 2016, as in previous years, the company launched a programme of 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



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national and foreign institutional investors and the most prominent proxy advisors, thereby adjusting to the latest international standards in corporate governance.

Under no circumstances will the company provide institutional shareholders with information that may place them in a privileged or advantageous situation with respect to the other shareholders; it will only ever provide public information.

In 2016, in line with the main good governance recommendations, a policy on communication with shareholders and proxy advisors will be prepared and published on the corporate website.

THE PROCESS OF SPLITTING POSITIONS OF CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO (CHIEF EXECUTIVE OFFICER) 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 process of splitting positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) of the company', which assesses the benefits of this organizational model for Red Eléctrica and its shareholders, with a view to improving the company's existing corporate

governance structure. The Extraordinary General Meeting held on 17 July 2015 analyzed the 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 Chief Executive Officer of the company.

The reasons that led the Board of Directors to approve the splitting of positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) are 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 splitting of positions, 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 split positions of Chairman of the Board of Directors and CEO, 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 CEO, 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.





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- The accumulation of power in the hands of a Chairman/ CEO could cause distortions in the performance of the functions of the Board (guided by its Chairman) and the Senior Management team (led by the CEO), which could give 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 have 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 split the two positions within a reasonable period. What initially was merely a recommendation to split 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, whose foreign shareholders hold around 70% of the share capital.
- Added to the demands of shareholders and proxy advisors are those of recognised international bodies and institutions, such as the RobecoSam Dow Jones Sustainability World Index (DJSI), which annually assesses 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 split the positions of Chairman and CEO, as was the case of Red Eléctrica.

- In Spain there is a growing movement among Ibex 35 companies in favour of separating the two positions, as can be seen in the latest 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 have implemented the splitting.

The key aspects of the process of splitting the positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) of the company are described below.

The plan provides for a transitional period of between six and nine months, culminating in the 2016 Annual General Meeting, when the splitting of functions between the Chairman of the Board and the Chief Executive Officer will be completed. From the 2016 Annual General Meeting onward, the Chairman of the Board of Directors will have exclusively the responsibilities attached to the position of Chairman.



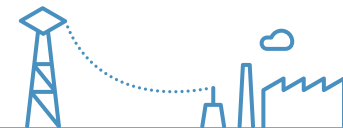
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Transitional period

► Until the 2016 Annual General Meeting, the Chairman of the Board will continue to have all his current 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 [art. 529 sexies], the By-laws [art. 20, 21 and 25] and the Board of Directors Regulations [art. 9], the Chairman will also have 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, the Chairman of the Board will focus on the management, oversight and supervision of the transfer of powers and the effective exercise of executive responsibilities by the new CEO, so that both processes take place in a rational and orderly fashion during this transitional phase.

For the duration of the transitional period, the Chairman of the Board will retain the necessary powers to ensure that the organizational unit of Red Eléctrica de España, S.A.U. that acts as electricity system operator has the necessary operational autonomy in the functions in which such autonomy is required, in accordance with applicable regulations. During that period, consideration will be given to the functions that by their nature can be transferred directly to the CEO.

- The CEO, for his part, will assume the functions of his position, which will be governed by the Chairman of the Board, who will retain executive authority for that purpose throughout the transitional period. Thus, during the transition, the Chairman will govern the Management Committee and will share the task of supervising and directing the members of the Management Committee with the CEO.

The powers of the CEO are 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.



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- ▶ 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 developments 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.

- ▶ Following the Extraordinary General Meeting, the Board of Directors appointed the new executive director as CEO of the company and approved the delegation of executive authority and responsibilities to the CEO, thus initiating the process that will ensure stability in the transition to the new organizational model.

- ▶ The formal transfer of executive responsibilities to the new CEO will be completed when the current Chairman of the Board ceases to be executive director, which will be at the 2016 Annual General Meeting.

At the end of the transitional period, at the 2016 Annual General Meeting, the Board of Directors will adopt the necessary resolutions for the new distribution of responsibilities and functions between the two positions in the terms indicated earlier.

BOARD OF DIRECTORS

- ▶ Small number of directors [12 members following the Extraordinary General Meeting held on 17 July 2015, which resolved to increase the number of directors by one and appoint a new executive director, who was appointed CEO of the company by the Board of Directors at its meeting on 28 July 2015].

- ▶ Two executive directors (until the 2016 Annual General Meeting), one of whom is the CEO.
- ▶ Following the appointment of the CEO, the Chairman of the Board of Directors retains all his executive powers, along with the responsibilities and functions of the position, until the 2016 Annual General Meeting.
- ▶ The CEO assumes the functions of his position, under the supervision of the Chairman of the Board, who retains executive authority for that purpose until the 2016 Annual General Meeting.
- ▶ The powers and responsibilities of executive directors are limited by:
 - ▶ The legal reservation of non-delegable responsibilities to the Board of Directors, 58% of which consists of independent directors.
 - ▶ 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 directors.
 - ▶ The functions and responsibilities assigned to the Board committees, 75% of whose members are independent directors, by the By-laws and Board of Directors Regulations.
 - ▶ The responsibilities of the lead independent director.



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- The core responsibilities for the administration of the company specified in art. 5 of the Board of Directors Regulations have been expressly reserved to the full Board of Directors and cannot be delegated [a reservation that was broadened in 2013 when the Board of Directors Regulations were amended and will be broadened again after the review of the Board of Directors Regulations currently under way with a view to adapting them to art. 249 bis and 529 ter of the LSC as recently amended, which extend the powers that the Board of Directors is not permitted to delegate under any circumstances].
- The non-delegable responsibilities cannot be exercised by the executive directors or the Board committees.
- The percentage of independent directors (58%) is greater than required under international standards.
- The Board of Directors has taken on board the best practice recommendations in the area of gender diversity. Five of its members, representing 50% of the company's non-executive directors (41.7% of the total), are women. This puts the company in a leading position 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 percentage of attendance and dedication to the exercise of their responsibilities on the part of the directors.

- Use of new technologies to facilitate the operation of the Board and provide directors with information and documentation, through the Director's Portal, which is currently being reviewed and updated.

THE CHIEF EXECUTIVE OFFICER

- The Board of Directors, at the proposal of the Appointments and Remuneration Committee, may appoint one or more Chief Executive Officers from among its members.
- The Chief Executive Officer or Officers 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 CEO will act as the company's CEO and will be responsible for the day-to-day conduct and effective management of the company's businesses, always in accordance with the decisions and criteria set by the General Meeting and the Board of Directors, each within its remit.
- The regulations governing the position of CEO and the delegation of authority are established in art. 22 to 25 of the By-laws and the responsibilities of the CEO, once the positions of Chairman of the Board and CEO have been split, will be specified in the Board of Directors Regulations, currently under review.



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- Following the appointment of Mr. Juan Francisco Lasala Bernad as executive director of the company by the 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 CEO of the company.
- Currently, until the end of the transitional period for the splitting of positions of Chairman of the Board of Directors and CEO, both have authority delegated by the Board of Directors.

LEAD INDEPENDENT DIRECTOR

- Appointed by the Board of Directors from among the independent directors, at the proposal of the Appointments and Remuneration Committee.
- The lead director's main task is to organize the common positions of the non-executive directors and to serve as a channel for representing those positions to the Chairman of the Board of Directors, the Board and its committees.
- The term of the position is three years and is subject to reappointment.
- This role currently lies with the independent director Carmen Gómez de Barreda Tous de Monsalve, by resolution of the Board of Directors on 28 May 2013.
- It serves as a counterweight to the concentration of power in the hands of the Chairman of the Board of Directors when the latter is also the CEO of the company.

- The lead independent director convenes and chairs the meetings of the independent directors; this task was actively executed in 2014.
- The roles and responsibilities of the lead independent director are set forth in art. 25 bis of the By-laws and have been implemented in art. 9 bis of the Board of Directors Regulations.
- It has been considered appropriate to maintain this position even after the positions of Chairman of the Board and executive director of the company have been split, because it helps maintain the checks and balances within the Board of Directors in favour of the independent directors and because it is a decision that has been very well received by the 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 occupying important posts in other institutions or corporations outside the company.
- All their members are non-executive directors.



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- 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.
- As stipulated by the By-laws and the Board of Directors Regulations, the committees are chaired by independent directors, whose term of position is limited to three years, after which they may not be re-elected until after at least one year's break in service.
- On 24 November 2015, the Board of Directors agreed to increase the number of members of the Audit Committee and the Appointments and Remuneration Committee, both of which went from four to five members. At the date of approval of this Annual Corporate Governance Report, three of the five members of the Audit Committee and four of the Appointments and Remuneration Committee's members are independent directors. Four of the five members of the Appointments and Remuneration Committee are women and the members of the Audit Committee include one woman.
- No directors belong to both committees, thus ensuring their total independence.
- The committees hold regular monthly meetings and are genuine specialist technical bodies that provide immense added value to the Board.
- The term of position of all committee members is three years; members may be re-elected.
- The roles and responsibilities of the committees are established in the By-laws and further specified in the Board of Directors Regulations.
- Following the reform of the LSC and the approval of the CGGLC, the company has amended its By-laws and is reviewing the Board of Directors Regulations so as to adapt them more completely to the new rules and recommendations on matters that were not previously covered in these corporate regulations. The most important changes to the abovementioned internal regulations concern the powers and functions of the committees, with the aim of adapting them to the new art. 529 quaterdecies and art. 529 quidecies of the LSC. In the case of the Board of Directors Regulations, the review also offers an opportunity to make improvements to the organization and functioning of the Board of Directors and its committees, based on the experience acquired in recent years.

DIRECTORS REMUNERATION POLICY (NON-EXECUTIVE AND EXECUTIVE DIRECTORS)

Reiterated practice followed by Red Eléctrica: Approval by the Annual General Meeting as a separate point of the agenda

Since 2010, Red Eléctrica voluntarily submits the annual report on directors remuneration and, since 2007, the annual remuneration of the Board of Directors to the Annual General Meeting for approval, as separate and independent points on the General Meeting agenda.



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Consequently, all proposals and opinions on these matters have never been presented to the shareholders on a consultative basis.

In 2015 further steps were taken in this direction, with the submission of the directors' remuneration for 2015, the directors' remuneration policy and the Annual Directors' Remuneration Report to the shareholders for approval (in a binding vote), as three separate and independent points on the 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 General Meeting resolutions individually and separately.

Remuneration policy principles

The directors' remuneration policy, which was approved by the 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 General Meeting's 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.

The Appointments and Remuneration Committee deems it appropriate to periodically review the policy on remuneration of the Board of Directors and CEO, 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 art. 217.4 of the LSC, regarding the need for remuneration to be appropriate to a company's size and importance, economic position, comparability, profitability and sustainability, and the need not to encourage excessive risk taking or reward unfavourable results.

For more information, please refer to the Annual Report on Directors' Remuneration, as soon as it is available and published on the corporate website, as well as the proposed amendment to the directors' remuneration policy and the proposed resolutions on annual remuneration of the Board of Directors in 2016, which is due to be presented for approval to the 2016 Annual General Meeting of Red Eléctrica, as separate items on the agenda.

INDEPENDENCE IN RELATIONS WITH THE EXTERNAL AUDITOR

In 2012, at its Annual General Meeting held on 19 April 2012, the company amended its By-laws in order, among other things, to bring them into line with Act 12/2010, which was intended to reinforce the powers of the Audit

Committee to verify the independence of the external auditor. The amendment in question was reflected in art. 14 of the Board of Directors Regulations, which was approved by the Board of Directors at its meeting held on 13 March 2013.

As already mentioned, the 2015 Annual General Meeting, held on 15 April, approved an amendment to the By-laws. One of the articles that was amended was art. 23, so as to adapt the powers of the Audit Committee to the demands of the new art. 529 quaterdecies of the LSC, although many of them were already regulated in art. 23 previously. Certain powers concerning the independence of the external auditor were reinforced in sections iv) and v) of the abovementioned art. 23 of the By-laws. The Board of Directors Regulations are being reviewed, among other things so as to adapt them to the LSC, along the same lines as the By-laws. The aspects concerning the auditor's independence, in particular, will be reviewed.

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



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services are reported regularly to the markets through the relevant sections of the Annual Corporate Governance Report, Official Annex, according to the standard form of Annex I of CNMV Circular 7/2015, paragraph C.1.37]. Nevertheless, the general approach taken by the company is not to use the external auditor for non-audit services from the date on which it is appointed by the General Meeting, unless there are exceptional reasons for doing so, which must be adequately explained in the company's annual public reporting. The intended purpose, as provided in art. 45.3 of the Board of Directors Regulations, is to minimize the contracting of these services to the extent possible.

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, when there are contractual obligations between the company and the external auditor that were acquired prior to its appointment, the Annual Corporate Governance Report explains the prior origin of these obligations that will still generate payments by the company following the date of the auditor's appointment.

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.

Following the Red Eléctrica Group's internal policy, which recommends changing external auditor at regular intervals, in line with international corporate governance best practices, so as to ensure the auditor's independence and autonomy, the most recent change of external auditor was at the 2013 Annual General Meeting, held on 18 April, at the proposal of the Board of Directors, which approved the appointment of KPMG Auditores, S.L. as new external auditor for the company and its group for the minimum legal term of three years, until 2015, inclusive.

Given that the term of the appointment of KPMG Auditores, S.L. is about to expire, a vote will be taken at the 2015 Annual General Meeting to either appoint or re-elect the company's and the group's external auditor.

Chapter II

The shareholder structure

The company's share capital is made up of 135,270,000 fully subscribed and paid-up shares belonging to a single class and series, each with a par value of 2 euros, represented by book entries and listed on the four Spanish stock exchanges.

At 31 December 2015, Sociedad Estatal de Participaciones Industriales (SEPI) directly owned a significant stake in the company, holding 27,054,000 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 art. 5 of the Securities Market Act, in accordance with art. 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 at July 2015 accounted for almost 70% of the share capital (of which around 60% is located in the UK and 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, among them, Directive 2009/72, of 13 July, which stipulates 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, incorporating a number of additional restrictions on companies that perform



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generation or marketing functions. Royal Decree-Law 13/2012, of 30 March, amended the second paragraph of the twenty-third additional provision and art. 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:

- 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 art. 5 and 14 and the sole additional provision of the By-laws, and in art. 6.3 of the company's General Meeting Regulations.

THE CORPORATE WEBSITE

This year, the Shareholder Structure chapter once again 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, approved by the Board of Directors on 26 February 2013, 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 [Title IV of the 2012 Annual Corporate Governance Report, 'Future Plans in respect of Corporate Governance at Red Eléctrica'].

Red Eléctrica's international consultants in the area of corporate governance 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, have highlighted the difficulty they face in effectively analyzing the information relating to the corporate governance structure that is made available on the corporate websites of Spanish listed companies.



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In view of the 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, in order 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.

Worthy of note is the creation of the new 'Corporate Governance' section, located towards the top of the home page menu, in which the most important sections for the company are located. The improvement of the corporate governance aspects focused on its structure and the way in which the information is presented, rather than expanding the content of the information published on the website, which was already very extensive but dispersed and sometimes difficult to locate and understand.

The 2013 Annual Corporate Governance Report, approved by the company's Board of Directors in 2014, expressly included among the most relevant corporate governance projects a 'Permanent analysis, update and improvement, under international standards, of the corporate governance information contained on the company's website' [Title V]. The Corporate Governance Policy approved by the Board of Directors on 25 November 2014 also gathers the principle of permanently reviewing, updating and improving, under

international standards, the content and structure of the corporate website, improving its accessibility, operation and quality of information.

In practice, this principle has been effectively applied throughout the year. As a result, in 2015, sections have been reviewed, contents improved and information completed, 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. The 'General Meeting' subsection of the corporate governance section includes a new entry, 'Right to information', which provides information about the channels of communication between the company and its shareholders and explains how shareholders may exercise their right to information.

It should also be noted that in compliance with the commitment to provide more information to investors about the company's progress and the corporate governance initiatives adopted each year, the company is close to completing a project aimed at publishing the history of the company's corporate governance since its IPO in 1999 on the corporate website. The project is due to be completed and the content published on the website in the first quarter of 2016.

The company firmly intends to continue to improve and adapt the corporate website on a permanent basis, as a channel for communication, dialogue and engagement with shareholders, further to its Corporate Governance Policy, which is why it has kept this priority in Title IV of this report ['Red Eléctrica's future plans in respect of corporate governance matters'].

Chapter III

The General Meeting

The 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 General Meeting Regulations and the By-laws, are binding on all shareholders, without prejudice to their legal right to separation. The 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 By-laws.
- 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 has increased the number of matters reserved to the General Meeting, which include, on a general basis, the acquisition, disposal or contribution of essential assets to another company [art. 260.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 [art. 511 bis LSC].



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Furthermore, all capital companies will be governed by the rule contained in art. 161 LSC, previously reserved to limited liability companies, whereby the 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).

The rules on the organization and functioning of the General Meeting are contained in the By-laws [art. 11 through 18] and in the General Meeting Regulations.

For some time now, resolution proposals have been published in full, in Spanish and in English, together with the Notice of 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 to 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 General Meetings.
- Information relating to the right of attendance and procedures for granting proxies for General Meetings, in accordance with the provisions of the By-laws and the 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 General Meeting. Despite the fact that, in large part, such information was already published on the company's website, the Annual General Meeting held on 19 April 2012 approved an amendment to the relevant article of the General Meeting Regulations to incorporate the content required under the Act.

The said 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 art. 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 amendment of the LSC), which determines the content and structure of the Annual Corporate Governance Report, the annual report on remuneration 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 and 2015.

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 to information of the shareholders at the 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 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 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.
- 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 General Meetings to deal with any matters falling within his remit that may arise, communicating this to the shareholders during the General Meeting.
- At the 2015 Annual General Meeting, both chairpersons of the Board committees participated to present a summary of their committees’ activities during the past year.
- The items included on the agenda for the 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 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 will all be published in time for the Annual General Meeting, all this in accordance with Recommendation no. 6 of the CGGLC.

► For several years now, an independent consultant (Deloitte) has conducted an audit of the Annual General Meeting management processes, with a view to improving the protection of shareholder rights in General Meetings. The auditor's reports are published on the website on the same day as the holding of the General Meeting. Since the 2014 Annual General Meeting, shareholders have been offered the possibility of requesting a certificate confirming their vote, verified by the General Meeting's external auditor, Deloitte. At the Annual General Meeting held in April 2015 and the Extraordinary General Meeting held on 17 July 2015, Deloitte carried out an audit of the General Meeting management processes and offered shareholders the option of requesting a certificate confirming their vote, verified by Deloitte.

The rights of shareholders are regulated in art. 15 of the By-laws, which refers specifically to the right to information and attendance at the General Meeting, and in art. 6 to 10 of the General Meeting Regulations. Specifically, the rights are as follows:

RIGHT TO INFORMATION

The company pays special attention to the right to information, as reflected in art. 15 of the By-laws and art. 8 of the General Meeting Regulations. Art. 8 of the General Meeting Regulations establishes the obligation 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, free-flowing 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 General Meeting, containing the proposed resolutions and the corresponding reports by the Board of Directors.
- The company's individual and consolidated management reports for the year, and the proposed allocation of results.
- The company's individual and consolidated Management Report for the year.
- The audit reports on the company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report [now referred to as a Global Sustainability Report].
- The Annual Report on Remuneration and Remuneration Policy of the Board of Directors.
- The environmental report.
- The procedures regulating the remote voting system at the 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, has introduced novelties in relation to the right of information. The main ones, applicable to listed companies, are described below:

- It is made clear that all proposed resolutions on each and every point of the agenda will be continuously available on the company website following publication of the call. It is also clarified that a report will be drawn up and published on the website on any points of the agenda that are informative only.
- In particular, there is now a duty to include on the website detailed information on the reports and proposed appointment, ratification or re-election of directors since the meeting was called, and on the Directors Remuneration Policy.
- The term available to shareholders to request information and clarifications is extended until the fifth day prior to the date scheduled for the meeting [before, the term was until the seventh preceding day].



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➤ Valid requests for information or clarification or questions submitted in writing, and the directors' written answers, will be posted on the company's website.

➤ If the information requested by shareholders is available on the company website in Q&A form, the directors may limit the reply by referring to the information provided in this format [previously, directors were allowed to not reply to this type of question].

As already explained in Chapter II of Title I above, the Annual General Meeting held on 15 April 2015 approved the amendments to the By-laws and the 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.

RIGHT OF ATTENDANCE

Shareholders may attend the 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, art. 15 of the By-laws and art. 10 of the General Meeting Regulations provide that shareholders with the right to attend may be represented at the 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 General Meeting held on 19 April 2012.

There is no By-law restriction requiring a minimum number of shares to be held in order to attend the General Meeting [application of the 'one share, one vote' principle].

Company directors and executives are required to attend 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 General Meetings and the General Meeting proceedings are broadcast in an audiovisual format, with simultaneous translation into English.

RIGHT OF PARTICIPATION AND NEW TECHNOLOGIES

The 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 well-known recommendations in this area, the General Meeting Regulations are in keeping with the regime established by Act 26/2003, of 17 July 2003, regarding the development of shareholder rights and the rules regarding the organization and functioning of the 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 General Meeting, which justified the adaptation thereto of the General Meeting Regulations and the By-laws, at the General Meeting held on 19 April 2012.



Under the General Meeting Regulations (following their adaptation to the LSC at the 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 General Meeting, to have particular items included in the General Meeting agenda. The Board of Directors must include the items requested in the manner that best suits the company's interests, provided that they refer to matters falling within the scope of the powers of the 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 its view, should be discussed at the 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 General Meetings.

In line with this use by shareholders of advanced electronic means to exercise their rights, at its meeting on 10 March 2015 the Board of Directors approved the procedure on remote voting, proxy appointment and exercise of the right to information for the Annual General Meeting held on 15 April 2015. The results were satisfactory, given that 309 shareholders holding 75,282 shares exercised their right to vote or appoint a proxy electronically. This meant that 7.5% of the 4,132 shareholders present in person or by proxy at the meeting participated in the meeting by electronic means.

Again for the Extraordinary General Meeting held on 17 July 2015, the Board of Directors, at its meeting on 12 June 2015, approved a procedure on remote voting, proxy appointment and exercise of the right to information. Considering that it was an Extraordinary General Meeting to be held in July, the results were again satisfactory, given that 71 shareholders, holding 21,235 shares, exercised their right to vote or appoint a proxy electronically. This meant that 4.2% of the 1,710 shareholders present in person or by proxy at the meeting participated in the meeting by electronic means.

Furthermore, both the Annual General Meeting and the Extraordinary General Meeting held in 2015 and the presentations to analysts were broadcast live via the company's website. The presentations are available on the corporate website. The General Meeting has been



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broadcast by live webcast since 2006, with simultaneous translation into English. Also, to enable people with hearing difficulties to follow and participate in the proceedings, a sign language interpreter was present at both the Annual General Meeting and the Extraordinary General Meeting.

In 2011 we launched the Shareholder E-Forum to facilitate communication between the shareholders of Red Eléctrica in order to be able to publish proposals to supplement the agenda in the General Meeting call notice, issue requests for support of such proposals, present initiatives to achieve the percentage necessary to exercise a minority right as provided by law or make offers or solicitations of voluntary representation.

This tool was incorporated into the General Meeting Regulations, via art. 8.4, by means of a resolution adopted by the General Meeting of 13 April 2011. Thus, we have included the regulatory requirements of art. 539 of the LSC. The Forum has been made available, since it was created, at all General Meetings held by the company to date.

In 2015 the company continued to use social networks [Facebook and Twitter] to publicize and provide information about the Annual General Meeting and the Extraordinary General Meeting.

In accordance with CNMV Circular 3/2015 of 23 June, a 'Right to information' page has been added to the '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 to information.



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Chapter IV

The board of directors

ORGANIZATION AND COMPETENCES

At 31 December 2015 the Board of Directors was made up of 12 directors (two executive, three proprietary and seven independent).

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 organization and functioning of the Board are contained in the By-laws [art. 19 to 26, inclusive] and in the Board of Directors Regulations [art. 5 to 12, inclusive].

The Board approves the annual meeting calendar at the end of the preceding year and recognises the right of directors to make amendments to the agenda of each meeting, provided sufficiently in advance (in practice, at least six days beforehand), together with the call notice and meeting documentation.

Pursuant to the By-laws and the Board of Directors Regulations, the principle guiding the Board's actions at all times is the defence of the viability and value of the company in the long term, and the protection and promotion of the company's general interests.

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 By-laws 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 on decisions that are highly relevant to the interests of the company.



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In particular, the Board has expressly reserved (art. 5 of the Board of Directors Regulations), on a non-delegable basis, certain direct responsibilities to be exercised only by it:

- a) Approval of the general policies and strategies of the company and the group, in particular:
- I. Approval of the strategic or business plan of the company and its group, as well as the annual budget and management objectives, and monitoring of the degree of compliance therewith throughout the year.
 - II. Approval of the investment and funding policy.
 - III. Approval of the definition of the structure of the corporate group.
 - IV. Approval of the Corporate Governance Policy.
 - V. Approval of the Corporate Responsibility Policy.
 - VI. Approval of the policy on the remuneration and assessment of senior executives.
 - VII. Approval of the policy for control and management of the principal risks of the company and of the group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.

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

- ▶ The various types of risk (operational, technological, financial, legal and reputational, among others) that the company and the group face, including, among financial and economic risks, contingent liabilities and other off-balance sheet risks.
 - ▶ The setting of the level of risk that 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.
- VIII. Approval of the policy of dialogue with investors and shareholders.
 - IX. Approval of the policy regarding appointments and the evaluation of candidates to the Board of Directors.
 - X. Approval of the policy regarding the performance evaluation of the Board and its directors.
 - XI. Approval of the policy regarding the dissemination of the corporate governance, corporate responsibility, remuneration and risk management practices.
 - XII. Approval of the policy regarding the contracting of non-auditing services with the external auditor.
 - XIII. Approval and, if applicable, proposal to the General Meeting of dividend and treasury stock policies, and in particular, the limits thereof.
 - XIV. Those specifically provided for in the Regulations.



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b) The following decisions:

- I. Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contractual conditions.
- II. The financial reporting which, due to its status as a listed company, the company must periodically make to the public, or which it submit to the regulatory or market supervision bodies for publication.
- III. Investments or transactions considered strategic by virtue of their amount or special characteristics, except where the approval of the shareholders in General Meeting is required.
- IV. The creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions and operations that could impair the transparency of the group.

c) Authorization of related-party transactions, as defined by the legislation in force from time to time, that are material or outside the ordinary course of business of the company and must be reported obligatorily to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.

Where a related-party transaction involves a director, in addition to not exercising or delegating his right to vote, the director shall leave the meeting while the Board of Directors deliberates and votes on the transaction, after having informed the Board of the transaction.

d) The annual evaluation of:

- I. The quality and efficiency of the functioning of the Board and the performance by the company's Chairman and the CEO of their functions, based on the report of the Appointments and Remuneration Committee, in coordination, where appropriate, with the lead independent director.
- II. The functioning of its committees, based on the report submitted by the Appointments and Remuneration Committee, in coordination, where appropriate, with the lead independent director.

As mentioned earlier in this report, the LSC, following its amendment, has broadened the range of powers which the Board of Directors is not permitted to delegate under any circumstances (art. 249 bis and 529 ter LSC), so although substantially all the new responsibilities are already included in the current Board of Directors Regulations, the Regulations are being reviewed in order to adapt them more completely to the new legislation, among other things.

TAX RESPONSIBILITIES

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

Following the reform of the LSC, in listed companies, responsibility for setting tax strategy, formulating policy on tax risk control and management 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 complied with the LSC and has implemented a series of voluntary measures 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 Integrated 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 entail special tax risk.
- Reporting on the tax policies applied in the annual corporate income tax return for 2014. This was done before the annual tax filing, at the Audit Committee meeting held on 24 June 2015.
- Approval by the Board of Directors of the Red Eléctrica Group's adherence 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 year 2015. This was done in the Audit Committee meeting on 21 January 2016, before the financial statements for 2015 were 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.



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In order to calculate its total tax payments, the Red Eléctrica Group uses PwC'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 2015 is published in the 2015 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 tax strategy's vision 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 Integrated 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 order to evade tax in countries considered tax havens.

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.

COMPOSITION

At 31 December 2015 the Board of Directors was made up of twelve members.

Pursuant to the By-laws, the directors hold position for a term of four years.

The 12-year limit on the term of position of independent directors, following the recommendations of the Unified Code on Good Corporate Governance, [2] was incorporated in the Board of Directors Regulations in January 2010. All other types of director may be reappointed indefinitely by the General Meeting. Act 31/2014, of 3 December, reforming the LSC, expressly specifies this limit, thus giving it legal status

[2] 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 public companies, savings banks and other entities issuing securities admitted to trading on official securities markets, has incorporated into the legislation the said prohibition.



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[art. 529.12 LSC]. As the limit is now required by law, the new CGGLC 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 position for which they were appointed, except where there is sufficient cause, subject to a report by the Appointments and Remuneration Committee.

At 31 December 2015, the Board of Directors of Red Eléctrica had the following members:

| <i>Name of director</i> | <i>First appointed</i> | <i>Last appointed</i> | <i>Position on the Board</i> | <i>Type of director</i> | <i>Election procedure</i> | <i>Board committee membership</i> |
|--|-------------------------------|------------------------------|-------------------------------------|----------------------------------|----------------------------------|---|
| José Folgado Blanco | 22.05.08 | 19.04.12 | Chairman | Executive | General Meeting | - |
| Juan Francisco Lasala Bernad | 17.07.15 | 17.07.15 | CEO | Executive | General Meeting | - |
| María Ángeles Amador Millán | 26.05.05 | 18.04.13 | Member | Independent non-executive | General Meeting | Appointments and Remuneration General Meeting |
| Fernando Fernández Méndez de Andrés | 19.04.12 | 19.04.12 | Member | Proprietary non-executive (SEPI) | General Meeting | Auditing General Meeting |
| Paloma Sendín de Cáceres | 19.04.12 | 19.04.12 | Member | Independent non-executive | General Meeting | Auditing General Meeting |
| Carmen Gómez de Barreda Tous de Monsalve | 19.04.12 | 19.04.12 | Member | Independent non-executive | General Meeting | Appointments and Remuneration (chair) |
| María José García Beato | 29.11.12 | 18.04.13 | Member | Independent non-executive | General Meeting | Appointments and Remuneration (member) |
| Socorro Fernández Larrea | 09.05.14 | 9.05.14 | Member | Independent non-executive | General Meeting | Appointments and Remuneration (member) |
| Antonio Gómez Ciria | 09.05.14 | 9.5.14 | Member | Independent non-executive | General Meeting | Audit (Member) |
| Santiago Lanzuela Marina | 29.07.14 | 15.04.15 | Member | Proprietary non-executive (SEPI) | General Meeting | Audit (Member) |
| José Luis Feito Higuera | 13.02.15 | 15.04.15 | Member | Independent non-executive | General Meeting | Audit (chairman) |
| José Ángel Partearroyo Martín [3] | 22.12.15 | 22.12.15 | Member | Proprietary non-executive (SEPI) | Co-optation | - |

[3] At its meeting on 26 January 2016, the Board of Directors appointed Mr. José Ángel Partearroyo Martín, a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), to be a member of the Appointments and Remuneration Committee for a three-year term, in order to fill the vacancy arising in the Appointments and Remuneration Committee as a result of the resignation of the proprietary director Mr. Francisco Ruiz Jiménez.

DIRECTORS' PROFESSIONAL PROFILES

The company's directors are professionals of high standing with broad professional experience. Their contribution to the management of the company is the experience and knowledge necessary to meet the company's needs.

Set out below are the principal activities pursued by Board members outside the company at 31 December 2015:

CHAIRMAN OF THE BOARD AND CEO



José Folgado Blanco, born 3 April 1944. 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 organizations.
- 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.

CHIEF EXECUTIVE OFFICER



Juan Francisco Lasala Bernad, born 25 February 1967. Degree in Business Studies, Universidad Complutense de Madrid.

Currently:

- Chief Executive Officer 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.



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INDEPENDENT NON-EXECUTIVE DIRECTOR



María Ángeles Amador Millán, born 10 October, 1949.
Law Degree, Universidad Complutense de Madrid.

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 Parliament for Segovia.
- Member of Parliament for Madrid.
- Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

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.
- Chairman of Pividal Consultores.
- External Advisor to the Strategy Committee of the Grupo Financiero Arcano.
- Collaborator with the Fundación de Estudios Financieros.
- 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.

INDEPENDENT NON-EXECUTIVE DIRECTOR



Paloma Sendín de Cáceres, born 19 September, 1951. Graduate in Economics and Business Studies, Universidad Autónoma de Madrid. State Trade Expert and Economist. State Diploma in Trade.

Currently:

- Member of the Advisory Board of the Technical School of Mines and Energy of Madrid.
- Advisory Committee Member of the Fundación para Estudios sobre la Energía.

Formerly:

- Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.
- General Manager for Administration and International Relations, Organization of Latin American States for Education, Science and Culture (OEI).
- Member of the Nuclear Safety Board (CSN) and member of a number of national and international committees, representing the CSN before the OECD and other bodies.
- Director General of Mines.

- President of the National Mining Safety Commission.
- Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.
- General Manager of Promotion at ICEX.
- Member and representative of Spain on various EC committees and workgroups.
- Member of the Organizing Committee of the European Union Conference on Stakeholders.
- Member of the Organizing Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.
- Director of SEPI (1997-2000).
- Director, Hulleras del Norte (HUNOSA).
- Director, Banco Exterior de España.
- Director, Compañía Logística de Hidrocarburos (CLH).
- Director, FOCOEX.
- Director of Tabacos de Filipinas.
- Director, SIRECOX.
- Director, Centro para el Desarrollo Tecnológico Industrial (CDTI).
- Director, Fábrica Nacional de Moneda y Timbre (FNMT).
- Director, Tabatrade.
- Director, Banco Exterior de España, UK branch.
- Author of numerous articles and publications related to her professional activity.
- Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.



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INDEPENDENT NON-EXECUTIVE DIRECTOR (LEAD INDEPENDENT DIRECTOR)



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



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INDEPENDENT NON-EXECUTIVE DIRECTOR



María José García Beato, born 27 May 1965. Law Degree, Universidad de Cordoba. 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).
- Secretary of the Board of Trustees of Fundación de Estudios de Economía Aplicada (FEDEA).
- 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.



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INDEPENDENT NON-EXECUTIVE DIRECTOR



D. 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.

Currently:

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

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.

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.



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INDEPENDENT NON-EXECUTIVE DIRECTOR



Ms. Socorro Fernández Larrea, born 7 April 1965. Civil Engineer, Universidad Politécnica de Madrid, and Senior Management Program, IESE.

Currently:

- CEO of the consultancy firm JustNow, S.L., providing advise 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:

- CEO 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' Organization, and member of the executive committee of the Eurolatam chapter
- Member of IWF, International Women's Forum.



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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 analyze 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. Mr. Feito holds a degree in Economics and Business from Universidad Complutense de Madrid. State Trade Expert and Economist. Ambassador of Spain.

Currently:

- Chairman 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.
- 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).



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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 in the Communication Division of SEPI.
- Senior Associate at BIRD & BIRD (Spain) LLP.
- Senior Lawyer at Ramón y Cajal Abogados (in alliance with Mayer Brown).
- Associate Lawyer at Goñi y Cajigas Abogados, S.L.
- Associate Lawyer at KPMG Abogados, S.L.
- 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-I).

Currently:

- Member of the Madrid Bar Association, and Head of the Corporate Governance Legal 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.



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ATTENDANCE AT BOARD OF DIRECTORS AND COMMITTEE MEETINGS

Set out below are the data on the company directors' attendance and failures to attend the meetings of the Board of Directors and of the Audit and Appointments and Remuneration Committees in 2015.

> Board of Directors: Of the fourteen [14] Board meetings held in 2015, there were two proxy attendances and no absence, bringing the number of personal attendances to 154, representing an attendance rate of 98.08%.

Attendance at Board of Directors meetings:

| <i>Director</i> | <i>Present</i> | <i>Represented</i> |
|--|----------------|--------------------|
| José Folgado Blanco | 13 | 0 |
| Juan Francisco Lasala Bernad | 5 | 0 |
| María Ángeles Amador Millán | 14 | 0 |
| José Luís Feito Higuera | 12 | 0 |
| Fernando Fernández Méndez de Andrés | 14 | 0 |
| Francisco Ruiz Jiménez | 12 | 1 |
| Paloma Sendín de Cáceres | 14 | 0 |
| Carmen Gómez de Barreda Tous de Monsalve | 14 | 0 |
| María José García Beato | 14 | 0 |
| José Ángel Partearroyo Martín | 1 | 0 |
| Antonio Gómez Ciria | 14 | 0 |
| Socorro Fernández Larrea | 13 | 1 |
| Santiago Lanzuela Marina | 14 | 0 |

With respect to the number of attendances, please note that some directors did not hold their position throughout the whole of 2015, specifically the following:

- **Mr. José Luis Feito Higuera** was co-opted to the Board of Red Eléctrica Corporación, S.A. as an independent director at the Board of Directors meeting held on 13 February 2015.
- **Mr. Francisco Ruiz Jiménez** submitted his resignation as proprietary director of Red Eléctrica Corporación, S.A. on behalf of SEPI at the Board of Directors meeting held on 24 November 2015.
- **Mr. José Ángel Partearroyo Martín** was appointed proprietary director of Red Eléctrica Corporación, S.A. on behalf of SEPI at the Board of Directors meeting held on 22 December 2015.

> Audit Committee: Of the eleven [11] Audit Committee meetings held in 2015, no directors failed to attend.

> Appointments and Remuneration Committee: The Appointments and Remuneration Committee held fourteen [14] meetings in 2015, with no non-attendances.



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CHAIRMAN OF THE BOARD

At Red Eléctrica the Chairman of the Board of Directors is also the chairman of the company and is responsible for ensuring that the resolutions of the Board of Directors, which he represents on a permanent basis, are implemented.

However, under the Board of Directors Regulations, certain responsibilities and competencies that are considered strategic are reserved to the Board of Directors and cannot be delegated. These reserved responsibilities and competencies were extended in 2013, when the Board of Directors Regulations were amended, and will be reviewed in the near future, when the Board Regulations are reviewed in order to adapt them to Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. The reserved responsibilities cannot be assumed by Chairman of the Board, the CEO or the Board committees.

Art. 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, regulates 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 By-laws 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 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 Annual General Meeting held on 15 April 2015 approved amendments to the By-laws aimed at fully adapting them to the LSC, specifically art. 25, which specifies the powers established in the abovementioned art. 529 sexies of the LSC.

Art. 20 and 21 of the company's By-laws make the Chairman of the Board responsible for 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 16 of the new CGGLC 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 CEO.
- 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.

Art. 9 of the company's Board of Directors Regulations assigns certain functions to the Chairman of the Board that correspond to those recently added to the LSC, although the Board Regulations are being reviewed so as to adapt them to the amended LSC, the new CGGLC, any new corporate governance practices that may be included in the CGGLC and the changes in its own organization and functioning arising from the splitting of positions of Chairman of the Board and CEO, among other things.

Under art. 12 of the company's current General Meeting Regulations, the Chairman of the Board of Directors is responsible for chairing the General Meeting, in line with the new legal provision introduced with the recent reform of the LSC.

Until the 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 CEO 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 may have 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 By-laws.

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 splitting of positions of CEO 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 CEO of the company, the independent directors should constitute a majority of the total number of directors.



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The General Meeting held on 18 April 2013, amended the By-laws by introducing counterbalancing measures similar to those introduced in the Board of Directors Regulations, in cases in which the Chairman is also the CEO of the company (regulating the role of lead independent director) and other measures that allow the splitting of the two positions.

The corporate legal regime approved in 2013 allowed the de facto splitting of the positions of Chairman of the Board and CEO of the company and even allowed the appointment of one or more Chief Executive Officers besides the Chairman. All these matters were resolved at the Extraordinary General Meeting held on 17 July 2015. At that meeting, having received the report on the splitting of positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) of the company, which had previously been approved by the Board of Directors, the shareholders agreed to increase the number of directors by one, setting the total at twelve, and appointed a new executive director (who subsequently was appointed CEO 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 CEO of the company. That appointment marked the start of a transitional period, in which the

company has two executive directors (the Chairman of the Board and the CEO) and which will be brought to a conclusion at the 2016 Annual General Meeting. For further details we refer the reader to the section on "The process of splitting positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) of the company" in Chapter I, Title II of this report.

DIRECTORS' RESPONSIBILITIES AND DUTIES

The internal corporate governance rules of Red Eléctrica have established strict and complete rules on the responsibility and duties of the directors; the amendment to the Board Regulations, adopted in 2013, has sought to reflect the systems and terminology employed in a recent amendment to the LSC (introduced by Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the LSC, which, in short, and deriving from the power in the seventh provision of Act 3/2009, revised -by regulating, clarifying and harmonizing- the Joint Stock Companies Act, Limited Liability Companies Act, Title X of the Securities Market Act and the provisions of the Commercial Code relating to partnerships limited by shares) which has led to changes that are more formal in nature than content-based.

The Board of Directors Regulations provides mechanisms in order to act against potential infringements of corporate governance rules on the part of directors.



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As explained in Chapter I, Title II of this report, following the entry into force of Act 31/2014 of 3 December there have been changes to the duties of directors, so the necessary formal amendments will be made to the Board of Directors Regulations in the review being carried out in order to fully adapt the Regulations to the changes introduced by the reform of the LSC.

The main changes to the LSC as regards the duties of directors are as follows:

- The duty of care of directors is described and specified.
- Obligations are redrafted, derived from directors' duty of loyalty [such as the duty of secrecy or to refrain in a conflict of interest] and are now mandatory, as well as the consequences of a breach; other new obligations are added, such as the obligation of directors to act according to their free judgement, without accepting instructions or commitments with third parties; and, in general, the need to adopt the necessary measures to avoid any potential conflict of interest with the company.
- Further details are provided on obligations derived from the duty to avoid conflicts of interest, redrafting some of the current obligations derived from the duty of loyalty, already regulated in several provisions of the LSC.

- Situations are regulated where directors may be released from the need to fulfil their obligations derived from the duty of loyalty and 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].

Without prejudice to the foregoing, the duties that are currently gathered in the Board of Directors Regulations, applicable insofar as they do not conflict with Act 31/2014, of 3 December, are provided below:

➤ Duty of diligent management

The director shall act with the duty of care of a prudent businessman, and shall diligently report on the progress of the company.

➤ Duty of loyalty

The directors shall serve in their position as loyal representatives in defence of the corporate interest, which is understood as the interest of the company, and shall comply with the duties imposed by law, the By-laws and the Board of Directors Regulations.

➤ Use of the company's name and their status as directors

Directors may not use the name of the company or their position as directors thereof for conducting proprietary trading or trading for related parties.

➤ Ban on using business opportunities

Directors may not, whether directly or indirectly, for their own benefit, or for the benefit of related parties, or a third party, make use of a business opportunity of the company or Group companies, unless it has previously been offered to the company and the latter has waived the





opportunity presented, and provided the opportunity has been authorized by the Board, subject to a report by the Appointments and Remuneration Committee.

> Conflict of interest situations

The directors must notify the Board of any direct or indirect conflict with the interests of the company in which they may be involved, via the Chairman or Secretary. The affected director shall refrain from attending and participating in the resolutions or decisions regarding the transaction to which the conflict of interest refers.

It shall be deemed that no conflict of interest exists in transactions within the ordinary course of business of the company with which the director has an employment or professional relationship, or in which he holds an executive position or a significant shareholding, provided that he did not obtain knowledge thereof from the exercise of his position or function, and without prejudice to the obligation to refrain from attending and participating in the resolutions or decisions relating to the transaction.

Directors must likewise notify the direct or indirect stakes that they or persons related to them may have in the capital of a company with the same, analogous or supplementary type of activity to the corporate purpose, and must also notify the positions or functions exercised at them.

Proprietary directors must disclose to the Board any conflict of interest between the company and the shareholder that proposed their appointment, where the conflict of interest relates to matters submitted to the Board, and must refrain from participating in the adoption of the corresponding resolutions.

The conflicts of interest set forth in the preceding paragraphs shall be included in the annual report.

> Prohibition on competition

Without prejudice to the stipulations of the Regulations of the Board regarding conflicts of interest, the directors may not, whether on a self-employed basis or as an employee, conduct identical, similar or complementary activities to those which constitute the corporate purpose of the company and/or any of its group companies, unless authorized by the company through a resolution of the General Meeting, for which purpose they must make the notification provided in the previous article. At the request of any shareholder, the General Meeting shall decide on the removal of directors who may also be directors of another competing company. This excludes positions held in group companies.

Before accepting any executive position at another company that may pose a conflict of interests or affect their dedication, directors must consult the Board of Directors..

> Duty of secrecy

Even after they cease to hold office, directors must keep secret the confidential information, data, reports or records of which they may have become aware as a result of the performance of their duties, and may not disclose them to third parties or disseminate them if such disclosure or dissemination could entail consequences that are detrimental to the corporate interest. An exception is made for instances in which the laws permit communication or disclosure thereof to third parties or where they are requested or required to send such information or data to the respective supervisory authorities, in which case, the release of such information must comply with the legislation.

Proprietary directors shall be entitled to inform the shareholder they represent of any issues discussed on the Board and its committees, provided the disclosure of such information does not adversely affect the corporate interest, and provided that such shareholder ensures the full confidentiality of the information received.

> Non-public information

Directors may not use non-public information of the company and/or companies of its group for private purposes, except with the prior approval of the Board of Directors.

Directors must 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 applicable in each case in the Internal Code of Conduct in the Securities Market.

> Indirect transactions

The director will have breached his loyalty to the company and/or group companies if, while having prior knowledge of it, he allows or does not disclose the existence of transactions conducted by his relatives or by companies in which he holds an executive position [or in which he has a significant holding], or by other related parties, which have not been subjected to the conditions and controls provided for in the preceding articles.

REMOVALS

Art. 22 of the Board of Directors Regulations provides that the directors shall cease to hold position when the term for which they were appointed expires, or when so resolved by the shareholders at the General Meeting in the exercise of the powers legally granted to them.

Furthermore, a list was also drawn up describing the cases in which the directors must hand over their position to the Board of Directors and formalize, if the latter deems it appropriate, their resignation.

In this respect, the proprietary director representing SEPI, Mr. Francisco Ruiz Jiménez, submitted his resignation in 2015, which was accepted by the company's Board of Directors at its meeting held on 24 November 2015.

DIRECTORS' PORTAL

The Directors' Portal is a project that began six 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.

This application seeks to place the most modern electronic means at the disposal of the directors to enhance efficiency in the functioning of the Board of Directors and its committees. The portal has been designed with the aims of making current processes more efficient and ensuring the security of information.



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The content of the portal is divided into various 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 organizational areas, press information concerning the company and other information which may be useful for directors to gain a better understanding of the company's activity and functioning and the exercise 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 2015 the portal was subject to a thorough review: in light of the relevant progress made in IT over the last few years and based on reasonable experience in portal use, a structural and functional review of the Director's Portal was carried out in order to introduce technical improvements

[software modernization, compatibility with new mobile electronic devices and browsers, etc.], resulting in a more modern and efficient application. The new tool is scheduled to be available in the first quarter of 2016.

ASSESSMENT OF THE BOARD

In recent years, Red Eléctrica has continuously adapted its legal regime so as to incorporate best corporate governance practices and provide greater information transparency to investors and other stakeholders.

The new business and regulatory environment poses new challenges for companies, which in recent years have shown a growing interest in corporate governance. Practice in this area is constantly evolving under the influence of increased stakeholder activism and closer market scrutiny and evaluation of good governance practices.

In recent years, Red Eléctrica has conducted a Board of Directors self-assessment, in collaboration with specialized external advisors. This self-assessment gives the Board a more objective, more independent view of the matters included in the assessment, thus following the recommendations of the LSC, the CGGLC and the Green Paper on the EU corporate governance framework.



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The self-assessment for 2014, which focused on the Board of Directors and its committees, the performance of the functions of the Board's governing bodies (including the Chairman, the lead independent director and the secretary of the Board) and other areas such as the role of shareholders and investors and the company's remuneration policy, was assisted for the second year running by PwC, after several years working with KPMG, the Red Eléctrica Group's current external auditor.

The self-assessment was carried out during January and February, through interviews conducted by PwC consultants with the company's 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 a series of questions related to quality and efficiency in the operation and performance of the Board and other governing bodies. The directors who sat on the Audit Committee or the Appointments and Remuneration Committee also replied to a set of specific questions about these bodies, in order to obtain more details of how they operate.

The final Report on the conclusions obtained in the 2014 self-assessment process was approved by the Board of Directors Meeting of 26 May 2015.

As in the previous year, the results of the self-assessment carried out by PwC through interviews with the directors 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.

Due to the renewal of certain Board positions in 2014, it is worth noting that most of the directors express a high opinion of the formal aspects of the governing bodies, particularly as regards availability, the rigour and preparation of meetings and the quality of debate.

The directors also give a very positive assessment of the performance of the functions assigned to the various governing bodies, in particular the interaction between the Board of Directors and Senior Management and the effectiveness and level of debate in relation to decision making, especially when there was a difference of opinion among their members.

Furthermore, the 2014 self-evaluation revealed that the company is well ahead in corporate governance matters, as it has implemented various practices that exceed the legal requirements in force at the date of the self-evaluation.

These practices are related to:

- The submission of directors' remuneration and the annual report on directors' remuneration to a binding vote, as separate points of the General Meeting agenda.
- The transparency and level of information achieved in relation to the design, structure and content of the directors' remuneration policy.
- Assessment of the governing bodies by an independent expert.
- Creation of the role of lead independent director.
- The level of gender diversity within the Board of Directors, with women representing 50% of the total number of members.
- The level of transparency of the Annual Corporate Governance Report.

On the other hand, besides conducting the annual assessment of Board and committee performance, in line with the LSC the Board of Directors also proposed an action plan based on the results of the assessment, specifying the areas for improvement.

Thus, after analyzing the results of the 2014 self-assessment, a number of possible improvements to the Board were identified and were the subject of further reflection in 2015, with a view to ensuring that Red Eléctrica continues to advance along the path of good governance, as follows:

- Continue to adapt Red Eléctrica's internal regulations to the changes introduced by the LSC, where the changes have not already been implemented. Specifically, the By-laws, the General Meeting Regulations and the Board of Directors Regulations of Red Eléctrica may have to be amended or updated.
- Continue to expand and develop the monitoring of strategic issues in Board of Directors meetings, although a broad majority of the directors considered these issues to have received good attention during the year.
- Continue to put effort into the continuing professional development of the directors in areas relating to Board accountability and corporate governance, in response to the changes made to the LSC and the updating of the CGGLC, with special emphasis on the members of the Appointments and Remuneration Committee.
- Continue to reinforce the model for managing the relationship 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.



- Carry out an in-depth analysis of the new recommendations introduced by the CGGLC and their impact on Red Eléctrica's current corporate governance model, with a view to implementing during 2015 the necessary actions to ensure compliance.

The 2015 self-assessment, currently in progress, once again includes an assessment of the Board of Directors and its committees; the performance of the functions of the Board's governing bodies, including the Chairman, the CEO, the lead independent director and the secretary of the Board; as well as other areas related to the new trends and regulatory requirements in matters of good governance that have arisen in the last financial year, with special consideration of the changes introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and the new CGGLC of February 2015.

As was the case in 2014, support is being provided by an independent firm, PwC. Below we describe the preliminary results of the evaluation process conducted on the quality and efficient operation and performance of the management bodies of Red Eléctrica over 2015. The evaluation process has been based on interviews to Red Eléctrica directors in order to gather opinion on various matters related to how the company's management bodies work.

After analyzing the preliminary conclusions, below we highlight those issues that have been very positively appraised by directors or have improved with respect to previous years:

- Regarding the structure and composition of the Board of Directors, most directors agree on the fact that it is adequate, both in terms of size and in terms of the relative proportion of the different types of member directors.
- As regards the internal functioning of the Board of Directors, most of the directors consider the frequency and convening of meetings, the information and documentation provided and the level of attendance and duration of Board meetings to be very good.
- In relation to the functioning and effectiveness of the Board of Directors, the directors give a favourable assessment of the planning of the annual schedule of meetings, the preparation on the agenda and the most important items of business, the encouragement of debate, the active participation of the directors and the efficiency of the decision-making process.
- New this year is the positive assessment of the periodic information received regarding changes in shareholders and the opinions of the most important shareholders, investors and rating agencies regarding Red Eléctrica. The participation of the lead director in meetings with proxy advisors is also considered a good thing.



- The directors consider the periodic training programmes they took part in last year to have made a positive contribution to their supervisory tasks.
- They declare themselves very satisfied with the level of interaction between the Board of Directors and Senior Management, especially as regards the availability of the company's senior executives, the rigour and preparation of the executives' appearances at Board meetings and the executives' willingness to accept the Board's guidance and supervision. Looking to 2016, with the appointment of the new CEO, they believe that the participation and interaction of other senior managers with the Board and its committees needs to be made more systematic, so that it can be maintained and even increased in this new stage.
- As regards the reorganization of the Senior Management of Red Eléctrica and the design and approval of the Strategic Plan, a majority of the directors believe that the Board's involvement in both processes has been adequate.
- A majority of the directors approve of the Board's performance of its reserved responsibilities, as defined in Red Eléctrica's internal regulations and other applicable laws and regulations.
- The Board's involvement and the performance in the process of splitting positions of Chairman of the Board of Directors and CEO of the company is viewed positively or very positively by a majority of the directors.
- The assessment of the Chairman's performance of his Board responsibilities is highly favourable.
- A majority of the directors give a positive assessment of the Chief Executive Officer's performance of his duties, especially as regards his role in driving the development of the company's business areas and overseeing the execution and accomplishment of the Strategic Plan.
- The directors express a positive opinion regarding the creation of the lead director role and the lead director's performance of his duties. The lead director's involvement was important in many of the extraordinary issues the Board had to deal with in 2015. There is a consensus that the role of the lead director should be maintained in Red Eléctrica over the next few years, despite the fact that it is no longer strictly necessary from the point of view of the corporate governance framework, as it is expected that from the next General Meeting onward the Chairman will be a non-executive.
- The directors express a favourable opinion of the Board Secretary's performance, particularly as regards ensuring that the Board takes the recommendations of the CGGLC into account in its actions and decisions.
- It is worth noting this year that the directors are very satisfied with the internal functioning and formal aspects of both the Audit Committee and the Appointments and Remuneration Committee.



As regards the role of shareholders and investors and proxy advisors, a majority of the directors consider that the role and involvement of the governing bodies improved in the last financial year, especially as a result of relationship-building between the Board and proxy advisors and the significant increase in communication with shareholders and investors.

A majority of the directors recognise the high level of transparency and information achieved in disclosing the design, structure and content of the remuneration policy to shareholders.

A majority of the directors approve of the publication of relevant information and documentation on the Red Eléctrica website, where it is available to stakeholders.

Lastly, as regards the governing bodies' responsibilities in relation to corporate social responsibility, most of the directors agree that Red Eléctrica has performed very well in exercising these responsibilities.

Red Eléctrica's governing bodies have set themselves a series of challenges for the year ahead:

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

Continue to develop and reinforce the governing bodies' relations with investors and proxy advisors, analyzing and deciding how the Board should interact and engage with these stakeholders and fostering the adoption of new best practices.

Continue to explore strategy and risk management-related issues that could affect the company.

Consider including new subjects relating to taxation, risk management and specific energy sector knowledge in the Board training programmes.

Taking into account the recent reorganization of the company's governance and management model, the Board must continue to monitor effective implementation of this model.

If Mr. José Folgado is re-elected and becomes a non-executive director, maintaining the lead director role may require reviewing the lead director's functions and adapting them to the company's new governance model.

BOARD REMUNERATION POLICY

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



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Chapter V

Board committees

The committees have been set up by the Board of Directors, with a highly technical profile, to support it in the performance of its responsibilities, designed to achieve greater efficiency and transparency.

Pursuant to the By-laws 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 By-laws, which at the 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 are also being reviewed to fully adapt them to the abovementioned reform of the LSC and to implement, as far as possible, the recommendations of the new CGGLC.

Following the reform 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 aspects of this reform do not affect Red Eléctrica's internal regulations because they were taken into account when the By-laws and Board Regulations were amended in 2013 and the great majority of them were already taken into account prior to the amendment. Nevertheless, these corporate regulations are being reviewed to ensure that they are fully adapted to the new legislation.

The main changes regarding the Board committees [introduced by Act 31/2014 of 3 December] are as follows:

- Companies are now required to establish, along with the Audit Committee, either a single Appointments and Remuneration Committee or two separate committees for Appointments and Remuneration.
- Both the Audit Committee and the Appointments and Remuneration Committee should consist entirely of non-executive directors, at least two of whom should be independent.



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- The chairman of each committee will be designated from among the independent directors.
- The minimum competences of both committees are established.

At its meeting on 24 December 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). This measure gives the Appointments and Remuneration Committee greater independence in the exercise of its functions [art. 24.3 of the By-laws], as the independent directors [four out of five members] are more strongly represented [equivalent to 80%] and carry more weight in decision making. The presence of women on the Appointments and Remuneration Committee [four out of five members] has also been increased, in compliance with the obligation established in art. 16.I. i) of the Board of Directors Regulations to take gender diversity into account when filling vacancies, in line with international corporate governance best practices. 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 art. 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 CGGLC, 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 support the committee's independence in the exercise of its functions [art. 23.3 of the By-laws], given that the independent directors [three out of five members] continue to have more weight in decision making. 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 art. 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 CGGLC, 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 2015, 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 2015 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

As the term of position of certain members of the Audit Committee was due to expire, at its meeting on 26 May 2015, after consideration of a report by the Appointments and Remuneration Committee, the company's Board of Directors agreed to re-elect Ms Paloma Sendín de Cáceres [independent non-executive director] and Mr. Fernando Fernández Méndez de Andés [proprietary director] and to appoint Mr. José Luis Feito Higuera [independent director] as members of the Audit Committee for a period of three years.

Subsequently, at its meeting on 24 June 2015, the Audit Committee appointed the independent director Mr. José

Luis Feito Higuera as chairman for a period of three years, in accordance with art. 23 of the By-laws and art. 13 of the Board of Directors Regulations.

As indicated above, since 24 December 2015 the Audit Committee has had four members, as provided in art. 23 of the By-laws and art. 13 of the Board of Directors Regulations, which establish a minimum of three and a maximum of five members, all of whom must be non-executive directors and a majority independent directors, who are appointed for a three-year term. As a result of this expansion, the proprietary director Mr. Santiago Lanzuela Marina was appointed a member of the Audit Committee for a period of three years, taking into consideration his extensive professional experience in the economic and financial sphere, in which he has occupied very important positions. He has also acquired considerable knowledge of risk management in the government departments in which he has worked in the course of his career, thus satisfying the requirements of Recommendation 39 of the CGGCLC, as can be seen in his professional profile, which is included in this report.

Throughout 2015, the committee was made up exclusively of non-executive directors, with a majority of independent directors. The composition of the company's Audit Committee at 31 December 2015 and at the date of approval of this report is as follows:

| <i>Director</i> | <i>Position</i> | <i>Type of Director</i> |
|------------------------------------|-----------------|----------------------------------|
| José Luis Feito Higuera | Chairman | Independent non-executive |
| Paloma Sendín de Cáceres | Member | 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) |

The directors belonging to the committee are particularly well qualified for position and offer long-term professional experience; they have held highly demanding positions outside Red Eléctrica, performing tasks related to those entrusted to the committee. Their professional profiles show their considerable knowledge and experience in matters of accounting, auditing or both, which has been taken into account in their appointment, as established in art. 529 *quaterdecies* of the LSC, art. 13.1 of the Board of Directors Regulations and Recommendation 39 of the CGGLC.

The chairman of the committee is chosen by its members from among the independent directors who belong to the same, and the Secretary is the Board of Directors' Secretary.

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

In the course of 2015, the meetings of the Audit Committee were regularly attended by Mr. Luis Villafruela Arranz, Corporate Director of Regulation and Global Risk Control, and Mr. Juan Lasala Bernad, Corporate Director of Economics & Finance, to report on various matters falling within the committee's remit. Following the appointment of Mr. Juan Francisco Lasala Bernad as CEO in July 2015, the committee's meetings have also been attended by the new Corporate Business and Financial Director, Ms. María Teresa Quirós Álvarez.

In 2015, in connection with the review of the company's and the group's financial statements for 2014, 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 2014 Annual Accounts.

Functions

Under art. 23 of the By-laws and art. 14 of the Board of Directors Regulations, the functions of the Audit Committee include the provision of support to the Board of Directors in its function of supervision of the process of preparing economic and financial information, the internal control of the company, the independence of the external auditor, compliance with statutory provisions and internal regulations, provisions relating to the company's shareholders and any powers expressly attributed to it by the Board of Directors.

The latest modification to the Board of Directors Regulations, approved in March 2013, encompasses the requirements of Additional Provision 18 of the Securities Market Act, adapts the Regulations to art. 23.1 of the By-laws and to international corporate governance best practices and also includes certain functions being undertaken, de facto, by the committee.

The recent reform of the LSC to improve corporate governance has introduced minimum competences of the Audit Committee, which is why the By-laws and Board Regulations have been subject to a forthcoming review in order to fully adapt them to the new Act. The Annual General Meeting held on 15 April 2015 approved an amendment to the By-laws, 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 By-laws. Of particular interest and importance is the express assignment of responsibility for supervision of the system for managing tax risks.



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In its new wording, art. 23.2 of the By-laws provides as follows:

- I. Report to the Annual General Meeting of Shareholders on issues raised in relation to matters that fall within the committee's remit.
- II. Supervise the effectiveness of the company's internal control, internal audit and risk management systems, including tax risk management, and discuss with the external auditor any significant weaknesses in the internal control system detected in the course of the audit.
- III. Supervise the preparation and presentation of the statutory financial statements.
- IV. Refer to the Board of Directors any proposals regarding the selection, appointment, re-election and replacement of the external auditors and the terms of their engagement, regularly gather information from the external auditors about the audit plan and its execution and take steps to preserve the external auditors' independence in the exercise of their functions.
- V. Establish the necessary relations with the external auditors in order to receive, for examination by the committee, information on any matter that might put the auditors' independence at risk and any other matter relating to the audit process, and conduct any other communications provided for in audit law and auditing standards. The committee will also receive an annual statement from the external auditors certifying their independence in relation to the company or entities directly or indirectly related to it, as well as information about any additional services of any kind provided and the fees received from these entities by the external auditors, or by individuals or entities related to them, in accordance with applicable laws on auditing.
- VI. Issue each year, prior to the issue of the auditors' report, a report expressing an opinion on the independence of the external auditors. This report will contain an assessment of any additional non-audit services provided, as referred to in the previous section, considered individually and in the aggregate, in relation to the auditors' independence and compliance with auditing standards.
- VII. Report to the Board of Directors, in advance of its meetings, on all matters provided for by law, the By-laws and the Board of Directors Regulations, in particular regarding:
 1. The financial information the company must publish periodically.
 2. The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories classified as tax havens.
 3. Transactions with related parties.



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VIII. Any other duty assigned to it by the Board or more generally in its internal regulations, or as a particular assignment.

The provisions of paragraphs iv), v) and vi) above will be without prejudice to audit regulations.

The Board of Directors Regulations are still being reviewed in order to fully adapt them to the reform of the LSC, along the same lines as the By-laws, and also, insofar as the Board of Directors considers it appropriate, to the CGGLC. The functions of the Audit Committee are also scheduled for review.

Of these groups of powers entrusted to the Audit Committee, in the current Board of Directors Regulations (art. 14), the following are of particular note:

> 1. In relation to economic / financial information, the responsibility to supervise the preparation and presentation process and the integrity of the financial information of the company and, as the case may be, of the group, ensuring that it is in line with the legal requirements, the suitable definition of the perimeter of consolidation, correct application of the applicable accounting principles and criteria.

In addition, a need to review and inform the Board in advance of the economic/financial information which the company is to make public and forward to the supervisory bodies of the market has also been established. In line with standard practice, the committee must ensure that the

monthly, quarterly and half-yearly financial statements are prepared using the same accounting criteria as those used to prepare the annual financial statements and, whenever it deems appropriate, may request a limited review by the external auditor. The functions of supervising the investments, the annual budget, and timetable for the financial year economic close in order to submit them to the Board, and periodically monitoring the company's treasury stock operations, have now been added.

> 2. In relation to internal control and risk management systems, supervise the internal audit function to ensure the correct functioning of the reporting and internal control systems; the Auditing Committee has also been assigned to ensure the independence and efficiency of the internal audit function, to supervise and control the process for selecting, appointing, re-electing and removing the person in charge of the internal audit service, as well as such service's action plans; to supervise and control the means and resources allocated to the internal audit service and, inter alia, its budget; to receive periodic information on its activities; and to check that Senior Management of the company and of its group has regard to the conclusions and recommendations of its reports.

The person in charge of internal audit must submit his annual work plan to the committee, report directly any incidents arising during its performance and submit an activity report at the end of each year. In addition, they must supervise and control the budget of the internal audit function each year.

In addition, the committee must periodically supervise the efficacy of the internal control and risk management systems, in order to identify and manage the main



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risks, and make them suitably known, and in particular, now included in the Regulations, the responsibility to supervise the systems regarding the financial information issuing process; to discuss with the external auditors the significant weaknesses of the internal control systems detected during the audit; and the periodic supervision of the company and its group's Corporate Insurance Programme. A final important function, already included in the Regulations, is to supervise the procedure established by the Board to enable employees to report any potentially significant irregularities, particularly financial or accounting irregularities, they may detect at the company.

- > 3. Establish the necessary relations with the external auditors in order to receive, for examination by the committee, information on any matter that might put the auditors' independence at risk and any other matter relating to the audit process, and conduct any other communications provided for in audit law and auditing standards. In any case, they must annually receive from the external auditors a written confirmation of their independence with respect to the company or to entities related to it directly or indirectly, and also issue a report expressing an opinion on the independence of the external auditors making a pronouncement, in all cases, on the provision of non-audit services; particularly noteworthy is the responsibility for ensuring that the company discloses any change of auditor to the CNMV as a material event and, if applicable, any disagreements with the outgoing auditor, and also for ensuring that the company, within the scope of its responsibilities, complies with the legislation in force on the provision of services other than audit services, the limits on the concentration of the auditor's business and, in general, the other provisions stipulated to ensure the auditor's independence. In the event of resignation of the external auditor, it must examine the circumstances

that may have led to its renounce, and verify that Senior Management of the company and of Red Eléctrica de España, S.A.U. is acting on the recommendations of the external auditor. The changes in these functions in the Regulations have been made to adapt them to the wording of art. 23 of the By-laws.

- > 4. In relation to compliance with legal provisions and internal rules, the Regulations establish an obligation on the Audit Committee to supervise compliance with the Internal Code of Conduct in the Securities Market and with the functions of the Monitoring Body provided in that code, periodically informing the Appointments and Remuneration Committee of the degree of compliance with the code and of any incidents that may arise; to annually evaluate compliance with the rules of the Internal Code of Conduct in the Securities Market; and to review compliance with the actions and measures resulting from reports or inspections by the supervisory and control authorities of the securities market. Finally, and as a recent addition to the Regulations, the committee must supervise the Corporate Criminal Risk Prevention Programme, submit to the Board of Directors any proposals for improvement it considers appropriate, and, prior to its submission to the Board of Directors, supervise the preparation of the annual compliance report by the Programme's control and supervisory body.



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➤ 5. In relation to the company's shareholders, the committee is responsible to be aware of and, where relevant, respond to any initiatives, suggestions or complaints raised by the shareholders within the scope of its functions and for reporting to the General Meeting, as applicable, on any issues falling within its powers. Furthermore, the requirement to submit to the Board of Directors the proposed resolutions and reports, within its powers, to be subsequently presented to the Annual General Meeting, has now also been included.

➤ 6. In the section on Other responsibilities, the following duties of the committee, which have been adapted to functions that it already undertakes in practice, are of particular note:

Produce an Annual Activities Report, which will be included in the Annual Corporate Governance Report; approve an action plan and meeting timetable for each financial year, and report to the Board of Directors on any related-party transactions and any transactions creating or acquiring interests in special purpose vehicles or entities with their registered office in countries or territories that are considered tax havens, and also on any transactions and operations that could be detrimental to the group's transparency. It is also responsible under the provisions of the Internal Code of Conduct in the Securities Market for monitoring functions relating to the company's treasury stock operations.

2. THE APPOINTMENTS AND REMUNERATION COMMITTEE

Act 31/2014 of 3 December establishes the obligation of listed companies to create an Appointments and Remuneration Committee, chaired by an independent director, consisting of at least two independent directors and made up exclusively of non-executive directors. The Act also establishes 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 (formerly known as the Corporate Responsibility and Governance Committee). Both in its composition and in its functions, the Appointments and Remuneration Committee substantially meets the requirements of the amended LSC (art. 529 *quindecies* LSC), although at the 2015 Annual General Meeting the By-laws were amended to bring them more fully into line with the LSC.

The Board of Directors Regulations provide that the Appointments and Remuneration Committee will be made up of a number of members to be decided by the Board of Directors, between a minimum of three and a maximum of five, appointed from among the non-executive directors, the majority to be independent directors.

These specifications are in line with the corporate governance best practices included in the LSC, which recommend that no executive directors be included in this committee 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 committee's chairman is an independent director chosen from among its members and its secretary is the Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors, at the proposal of the Board Chairman. Committee members will hold position for a three-year term and may be re-elected, and will abandon their position if they lose director status or if this is 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 following changes in the composition of the Appointments and Remuneration Committee took place during 2015:

- With the expiry of the term of position of Ms. Carmen Gómez de Barreda Tous de Monsalve [independent non-executive director] as a member of the Appointments and Remuneration Committee,

at its meeting on 26 May 2015 the company's Board of Directors decided, after considering a report by the Appointments and Remuneration Committee, to re-elect her as a member of the Appointments and Remuneration Committee for a period of three years.

- Mr. Francisco Ruiz Jiménez was a member of the Appointments and Remuneration Committee until 24 November 2015, when he submitted his resignation as a proprietary director of Red Eléctrica Corporación, S.A., representing SEPI. His resignation was accepted by the company's Board of Directors at the meeting held on that date, giving rise to a vacancy on the Appointments and Remuneration Committee.
- As explained earlier, at its meeting on 24 November 2015 the company's Board of Directors, at the proposal of its chairman and after considering a report by the Appointments and Remuneration Committee, agreed to increase the number of members of the Appointments and Remuneration Committee from four [4] to five [5] and appointed Ms. María Angeles Amador Millán as a new member of the Appointments and Remuneration Committee.

The members of the committee at year end 2015 are as follows:

| Director | Position | Type of director |
|--|-----------------|---------------------------|
| Carmen Gómez de Barreda Tous de Monsalve | Chairperson | Independent non-executive |
| María José García Beato | Member | Independent non-executive |
| Socorro Fernández Larrea | Member | Independent non-executive |
| María Ángeles Amador Millán | Member | Independent non-executive |
| Vacante [4] | Member | - |

[4] At its meeting on 26 January 2016, the Board of Directors appointed Mr. José Ángel Partearroyo Martín, a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), to be a member of the Appointments and Remuneration Committee, in order to fill the vacancy arising in said committee as a result of the resignation of the proprietary director Mr. Francisco Ruiz Jiménez, which took place at the Board meeting held on 24 November 2015.

The committee's members have been appointed by the Board of Directors at the proposal of the 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 2015, 100% of the members of the Appointments and Remuneration Committee are women, including its chairperson. At that same date, independent directors represented 100% of the voting rights on the Appointments and Remuneration Committee and the chairperson was an independent non-executive director.

Functions

The minimum functions of the Appointments and Remuneration Committee are regulated in art. 24.2 of the By-laws, following the amendment approved at the 2015 Annual General Meeting to fully adapt them to the reform of the LSC. Specifically, they are as follows:

Without prejudice to any other functions attributed to it by law, the By-laws or the Board of Directors Regulations, the Appointments and Remuneration Committee has at least the following functions:

- a) Assess the competencies, knowledge and experience required on the Board of Directors. For this purpose, it shall define the functions and aptitudes required of candidates for each vacancy and shall assess the time and commitment required of them in order to be able to perform their duties effectively.
- b) Set a target for the representation of the gender that is less well represented on the Board of Directors and develop guidelines on how to achieve that target.
- c) Make recommendations to the Board of Directors for the appointment of independent directors, whether through co-option by the Board or for submission to the General Meeting, and for the re-election or removal of such directors by the General Meeting.
- d) Report on proposals for the appointment of the other directors, whether through co-option by the Board or for submission to the Annual General Meeting of Shareholders, and on proposals for the re-election or removal of such other directors by the Annual General Meeting of Shareholders.
- e) Report on proposals for the appointment or removal of senior managers and the basic terms of their contracts.
- f) Examine and organize the succession of the Chairman of the Board of Directors and the CEO of the company and, where appropriate, make recommendations to the Board of Directors to ensure that the succession is orderly and planned.



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g) Propose to the Board of Directors the compensation policy for directors and general managers or those performing senior management functions under the direct supervision of the Board, executive committees or Chief Executive Officers, as well as the individual compensation and other contractual conditions of inside directors, ensuring compliance therewith.

h) Propose to the Board the appointment of a lead independent director.

i) Assume the functions of reporting, supervising and submitting proposals on matters of corporate governance and corporate responsibility, as decided by the Board of Directors, so long as no ad hoc committee is created to perform these functions.

The committee's functions are specified in more detail in art. 16 of the Board of Directors Regulations. As mentioned earlier, during 2015 the Board of Directors Regulations were reviewed so as to adapt them to the amended LSC (bearing in mind that the main points were already covered in the existing Regulations) and, to the extent the Board considers it appropriate, the CGGLC. As with the Audit Committee, the intention is to review the functions assigned to the Appointments and Remuneration Committee in the current Board of Directors Regulations.

The most recent amendment to the Board of Directors Regulations, approved in 2013, adapted the functions of the Appointments and Remuneration Committee to international corporate governance best practices,

acknowledged certain legal requirements, such as the annual report on directors' remuneration (regulated in art. 61 *ter* of the Securities Market Act), and specified important functions which the committee was already performing but which were not expressly stated in the regulations.

The main functions of the committee, following the amendment of the Board Regulations, are as follows:

1. In relation to appointments, performance and removals

- a) To submit for the Board of Directors' approval and implement, where applicable, the policy for appointing and assessing candidates (new function introduced with the changes to the Regulations).
- b) To report –and propose, in the case of independent directors– in advance, on all proposals submitted by the Board of Directors to the Annual General Meeting for the designation or removal of directors; and report and propose –in the case of independent directors– the appointments of the directors by co-optation approved by the Board.
- c) To report, prior to their submission to the Board of Directors, on proposals for the appointment or removal of all positions on the Board of Directors and its committees.
- d) To draft an independence statement form, to be submitted to the Board of Directors, which must be signed and delivered annually by the Independent Directors.
- e) To verify each director's status for the purposes of the pertinent explanations from the Board of Directors at the Annual General Meeting of Shareholders which must appoint or ratify their appointment, and for the recording of the appointment in the Annual Corporate Governance Report.



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- f) To propose to the Board of Directors, the appointment of the lead independent director.
- g) To ensure that the candidates for vacancies on the Board meet all of the requirements of the legal provisions and the provisions of these Regulations.
- h) Evaluate the competence, knowledge and experience necessary on the Board and, as a result, to define the functions and aptitudes necessary in the candidates who are to cover each vacancy, within the policy approved for such purpose.
- i) To evaluate the time and dedication necessary for directors to discharge their duties with due clarity and efficiency, valuing, for such purposes, compatibility with membership on other management bodies of companies.
- j) To report on appointments and removals of Senior Managers of the company and of Red Eléctrica de España, S.A.U. proposed by the Chairman to the Board of Directors.
- k) To examine or organize, as deemed suitable, the succession of the Chairman and, if appropriate, to make proposals to the Board for such succession to occur in any orderly and well-planned way.

- l) To ensure a sufficient balance of men and women when covering new vacancies.

2. In relation to remuneration:

- a) To propose to the Board:
 - I. The remuneration policy applicable to the Board of Directors and, where applicable, the Senior Management of the company and of Red Eléctrica de España, S.A.U.
 - II. The annual remuneration for the Board of Directors, which shall include the part corresponding to the fixed remuneration and the variable remuneration linked to compliance with the predetermined and quantifiable strategies and objectives established by the Board, at the proposal of the Appointments and Remuneration Committee, before the start of each financial year and linked to actions envisaged in the company's Strategic Plan.
 - III. The individual contractual remuneration for executive directors and the other terms of their contracts.
 - IV. The basic terms of the contracts of senior managers of the company and of Red Eléctrica de España, S.A.U.
- b) To consult the Chairman of the company, especially where dealing with matters relating to CEOs and Senior Managers of the company and of Red Eléctrica de España, S.A.U.



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c) To ensure compliance with the approved Remuneration Policy applicable to the Board of Directors, CEOs, and, where appropriate, Senior Management and the rest of the management team of the company and Red Eléctrica de España, S.A.U. and, in particular, to periodically supervise compliance with the predetermined and quantifiable objectives, in line with the Strategic Plan, which must be assessed to determine the final amount of the annual and, where applicable, multi-year variable remuneration applicable to them.

d) To submit to the Board the proposed Annual Report on Directors' Remuneration, in accordance with art. 47 of these Regulations.

e) To ensure that the Annual Report on Directors' Remuneration is in line with the international standards on this issue.

3. In relation to discharge of directors' duties:

a) To ensure that directors perform the obligations stipulated in these Regulations, to report to the Board on their performance, to issue the appropriate reports and proposals and, as the case may be, any on the measures to be taken in the event of breach.

b) To authorize directors to use corporate assets.

4. In relation to rules and actions on corporate governance:

a) To supervise compliance with the rules of corporate governance, making proposals for improvement to the Board of Directors, to receive information in this connection and, if appropriate, to issue and submit annually to the Board a report on the measures to be taken.

b) To submit to the Board of Directors the proposals of the Audit Committee on the modification of the Internal Code of Conduct in the Securities Markets.

c) To approve the proposed Annual Corporate Governance Report to be submitted to the Board of Directors.

d) To submit to the Board of Directors the proposed resolutions and reports within its powers to be submitted to the Annual General Meeting of Shareholders.

e) To direct the Board's assessment process and, in particular, regarding the Board Chairman and the company's CEO, in coordination with the lead independent director.

f) To approve an annual improvement programme on corporate governance and periodically assess its compliance.

g) To periodically review the company's Corporate Criminal Risk Prevention Program, in coordination with the powers attributed to the Audit Committee.

h) To submit to the Board of Directors a Knowledge and Information Programme Proposal for directors.

5. In relation to corporate responsibility:

- a) To propose and promote the company's Corporate Responsibility Policy.
- b) To report on, supervise and analyze the actions and proposals made or resolved on in the area of corporate responsibility by the organizational units responsible and, as the case may be, to issue and submit to the Board the corresponding report.
- c) To periodically assess the advances and results obtained by the company in corporate responsibility.
- d) Approve an Annual Report on Corporate Responsibility Management, which will shall be submitted to the Board of Directors.
- e) Approve an annual report on the management of Corporate Ethics, which shall be submitted to the Board of Directors.

6. Other functions:

- a) To keep the Board of Directors informed of its activities and to draw up an annual report on activities which must be included in the Annual Corporate Governance Report, and approve a guiding action plan timetable for each financial year.
- b) To propose and report on any other matter relating to the foregoing which may be requested by the Chairman or by the Board of Directors or which because of its nature is included within its powers.
- c) Any other power conferred on it by the Board.



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Chapter VI

Lead independent director

1. INTRODUCTION

In accordance with international standards of Corporate Government, it is recommended that listed companies splitting positions of CEO 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 one single person, who at the same time performs the positions of both Chairman of the Board of Directors and CEO of the listed company, which could prevent or impede both the Board of Directors and Senior Management from adequately carrying out, with the necessary independence, those functions they have been given.

As an alternative to the splitting positions of CEO and Chairman of the Board, the main foreign international investors and the major international proxy advisors have previously accepted the creation of a lead independent director within the

Board of Directors, as an alternative temporary measure, to act as an additional counterweight to the concentration of power in the hands of the CEO-Chairman.

This measure was included in the most recent amendment to the LSC [art. 529 *septies* LSC], which establishes that if the chairman is an executive director, the Board of Directors, with the abstention of the executive directors, must necessarily appoint a lead director from among the independent directors, who will be especially empowered to request a meeting of the Board of Directors or the inclusion of new items in the agenda of a Board meeting that has already been convened, coordinate and unite the non-executive directors and, where applicable, direct the periodic assessment of the Chairman of the Board of Directors.

At its meeting on 13 March 2013, the company's Board of Directors agreed to create the position of lead independent director, as proposed by the Appointments and Remuneration Committee. The By-laws were amended accordingly at the Annual General Meeting of shareholders 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.



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In the report on the splitting positions of Chairman of the Board of Directors and CEO of the company that was submitted to the 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 director on the Board of Directors of Red Eléctrica Corporación, S.A. should be maintained even after the positions of Chairman and CEO have been separated.

The reasons for this conclusion are as follows:

- ▶ Having a lead director is an effective corporate governance practice, as the shareholders and proxy advisors have acknowledged: they consider the lead director an important element of the current Board structure and composition, one that helps ensure a proper balance of powers and responsibilities.
- ▶ Following the reform of the LSC in December 2014, having a lead director is obligatory in listed companies in Spain in which the Chairman of the Board of Directors is an executive director [art. 529 *septies* LSC]. The powers and responsibilities of the lead director have been reinforced in the new CGGLC, which explicitly assigns to the lead director functions such as chairing Board meetings in the Chairman's absence, having contact with shareholders and investors and overseeing the Chairman's succession plan.
- ▶ In its 2014 self-assessment, the company's Board of Directors expressed a positive opinion regarding the lead director, who was considered to have helped improve the functioning of the Board, and considered it a role that should be reinforced in future years.
- ▶ As to whether the role of lead director should be maintained beyond the 2016 Annual General Meeting, it should be borne in mind that if Mr. Folgado Blanco is re-elected as director at that General Meeting, he will qualify as a non-executive director but cannot be considered an independent director for at least five years, because of a prohibition provided by law [art. 529 *duodecies*, section 4.a) LSC] and regulation [art. 7.2 c) of the Board of Directors Regulations]. It would therefore seem advisable to maintain the figure of the lead director.
- ▶ It should also be pointed out that although independent directors are still a majority on the Board and have sufficient presence, with the appointment of the new executive director the proportion drops from 64% to 58%. For all these reasons it is considered that maintaining the figure of the lead director, even after the splitting has been completed, will help to preserve the checks and balances within the Board of Directors in favour of the independent directors and will be a decision that will be welcomed by the shareholders and proxy advisors, as they have recently conveyed to the company.



- Moreover, most of the Ibx 35 companies that have already split positions of Chairman and CEO have opted to maintain the position of lead director even after the splitting.

Lastly, it is worth noting the important role the current independent lead director has played in the design, planning and implementation of the process of splitting positions.

2. FUNCTIONS

The core responsibility of Red Eléctrica's lead independent director, as established in art. 25 *bis* of the By-laws, following the amendment adopted at the 2014 Annual General Meeting to adapt 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 spokesperson for such common positions to the Chairman of the Board of Directors, the Board itself and the Board committees. This core responsibility must be taken into account in the performance of the other functions provided for by law, the By-laws and the Board of Directors Regulations.

Pursuant to the provisions of art. 9 *bis* of the Board of Directors Regulations, and without prejudice to any other functions expressly assigned in the Board of Directors Regulations, the lead independent director shall have the following functions:

1. With respect to the Board of Directors:

- a) To propose, to the Chairman of the Board of Directors, items to be included on the agenda for each meeting.
- b) To chair the Board of Directors meetings when the Chairman is absent or is in a conflict of interest and subsequently evaluate with the Chairman the issues that were dealt with.
- c) To convene ordinary or extraordinary meetings of the Board of Directors for duly justified reasons which must be attached to the meeting announcement, when such a request has not been dealt with by the Board Chairman.
- d) To take part in drawing up the annual timetable of the Board of Directors meetings, in coordination with the Chairman, the Board secretary and the Appointments and Remuneration Committee.
- e) To participate in the Board's self-assessment process, particularly regarding the Board Chairman and the company's senior executive, in coordination with the Appointments and Remuneration Committee.
- f) To carry out any other responsibilities that the Board of Directors may attribute expressly to him, where applicable.



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2. In respect of the independent directors:

To convene and chair, at his own initiative or at the initiative of another independent director, at least once a year, formal or informal meetings of independent directors, define the items to be dealt with, which can include, among others, the basic responsibilities of the Board of Directors and Senior Management, with the possibility of requesting the presence of the management at such meetings.

3. In respect of the Shareholders:

To be at the disposal of the shareholders for any queries or direct communication with them.

Although the lead director has broad responsibilities under the By-laws and the Board of Directors Regulations, the functions of the role were reviewed in 2015 within the framework of the review of the Board of Directors Regulations aimed at fully adapting them to the LSC and, where appropriate, the CGGLC.

In 2015 the lead independent director held various meetings with independent directors to learn their opinions and coordinate common positions on various matters discussed by the Board of Directors, chaired a meeting of the Board of Directors in the Chairman's absence and took part in the road show with proxy advisors organized by the company in January 2016. Also, as already mentioned, the lead director has played a prominent role in coordinating and driving the process of separating the positions of Chairman of the Board of Directors and CEO.



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Chapter VII

The CEO

The Extraordinary General Meeting held on 17 July 2015 which approved the splitting of the positions of Chairman of the Board of Directors and CEO of the company also resolved to increase the number of directors by one and appointed Mr. Juan Francisco Lasala Bernad an executive director of the company. Subsequently, at its meeting on 28 July 2015, the company's Board of Directors appointed the new executive director, Mr. Juan Francisco Lasala Bernad, Chief Executive Officer (CEO) of the company.

Without prejudice to any other powers and responsibilities that may be assigned to him, in accordance with the "Process of splitting the positions of Chairman of the Board of Directors and CEO of the company", the main responsibilities of the Chief Executive Officer, as CEO of the company, are as follows:

a) To direct, coordinate and drive the management of the company's and the group's business areas;

- b) To lead, drive and guide the execution and implementation of the company's and the group's Strategic Plan;
- c) To oversee the efficient implementation and correct operation of the risk control system approved by the Board of Directors in the company and the group;
- d) To regularly report 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 is able to adequately and effectively exercise its general oversight and control function.

Current legislation, the company's internal regulations and the new CGGLC scarcely mention the functions to be performed by the CEO.

Neither the LSC [art. 249 and 529 *septies*] nor the company's By-laws [art. 22 and 25] nor the Board of Directors Regulations currently specify the duties and responsibilities of the company's CEO; instead, they focus on the appointment procedure, the possible splitting of positions of Chairman of the Board and CEO, the appointment of the lead director and the possibility of there being more than one CEO.



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The LSC does, however, establish a set of responsibilities that are reserved to the Board of Directors [art. 249 *bis* and 529 *ter*] and so does the company's Board of Directors Regulations [art. 5].

The company's By-laws [art. 25] mention that the power to represent the company, in and out of court, may be assigned not only to the Board of Directors and its chairman but also to the Chief Executive Officer or Officers.

The CGGLC adds nothing new as regards the responsibilities of the CEO, either in its description of the functions of the Chairman of the Board [Recommendation 33] or in its statements concerning the splitting of positions of Chairman and CEO [Principle 16] or the figure of the lead director.

Both the company's By-laws [art. 22] and the Companies Register Regulations [art. 149] confine themselves to stating that if the Board of Directors appoints one or more Chief Executive Officers, it must specify the powers it delegates or else indicate that it delegates all the powers that can be delegated by law and under the By-laws; and that if there is more than one Chief Executive Officer, the Board must indicate which powers they are to exercise jointly and which severally or, where applicable, whether all the powers delegated to them are to be exercised in one way or the other. The LSC [art. 249] also allows the possibility of the Board's appointing one or more Chief Executive Officers and requires the Board to establish the content, limits and types of delegation.

Wherever applicable, the current review and update of the Board of Directors Regulations will take into account the core duties and responsibilities of the CEO and the Chief Executive Officer's relationship with the Board of Directors and its chairman.

The Chairman of the Board of Directors, Mr. Folgado Blanco, and the CEO, Mr. Juan Francisco Lasala Bernad, have delegated to them all the powers of the Board of Directors that the law and the By-laws allow to be delegated, pursuant to the Board of Directors resolutions dated 26 April 2012 and 28 July 2015, respectively.

However, since the appointment of the CEO on 28 July 2015, a transitional period has started, in which those functions of the Chairman of the Board of Directors that by their nature can be exercised directly by the CEO will be analyzed.

The formal transfer of executive responsibilities to the new CEO will be completed when the current Chairman of the Board ceases to be an executive director, which will be at the 2016 Annual General Meeting.

For further details we refer the reader to the section on "The process of splitting positions of Chairman of the Board of Directors and Chief Executive Officer [CEO] of the company" in Chapter I, Title II of this report.



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Chapter VIII

Senior management

The persons holding senior management positions at the company at 31 December 2015, excluding the executive director and the CEO, are as follows:

| <i>Name</i> | <i>Position</i> |
|----------------------------------|-----------------------------|
| Ms. Eva Pagán Díaz | General Manager, Transport |
| Mr. Miguel Rafael Duvison García | General Manager, Operations |
| Mr. Carlos Collantes Pérez Ardá | General Manager attached |

Art. 16 of the Board of Directors Regulations establishes, among the basic responsibilities of the Appointments and Remuneration Committee, that of informing about any appointments and removals of senior executives of the company and of Red Eléctrica de España, S.A.U. that the Chairman proposes to the Board of Directors.

Following the established procedure, on 26 November 2015 Ms. Eva Pagán García and Mr. Miguel Rafael Duvison García were appointed General Manager, Transport and General Manager, Operations, respectively, replacing Mr. Carlos Collantes Pérez-Ardá [who on that same date was appointed General Manager attached to the CEO] and Mr. Andrés Seco García.

In the new organizational structure, the abovementioned general managers report directly to the company's CEO.

The remuneration policy applicable to these executives aims to promote the achievement of the strategic objectives of value creation at the company by attracting, retaining and motivating the best talent available in the market.

Remuneration for the company's senior executives is based on the principles of moderation, actual dedication and linkage to the performance of the company.

Information on the total remuneration paid to these executives is provided in the annual reports on directors remuneration, which are submitted to the Board of Directors and the Annual General Meeting for approval.

Information on the remuneration of these executives for financial year 2015 is given in the annual report on directors remuneration approved by the Board of Directors in February 2016, which includes information on senior managers, along with the information contained in the company's annual accounts for 2015.



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Chapter IX

Risk policy and internal control systems

1. SCOPE OF THE COMPANY'S RISK MANAGEMENT SYSTEM, INCLUDING FOR 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 organization 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 that may affect the Red Eléctrica Group's strategies and objectives are systematically identified, analyzed, assessed, managed and controlled, applying uniform criteria, within the established risk limits, so that the group's strategies and objectives can be accomplished.

According to the Regulations of the Board of Directors 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 mitigate risk.

Within the Red Eléctrica Group's internal regulatory framework, the abovementioned policy objectives translate into:

> The Integrated Risk Management Policy

This policy [4th edition], which was approved by the Board of Directors in November 2014, identifies the different types of risks, sets the level of risk the company considers acceptable and sets out action guidelines for managing and mitigating those risks.

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.



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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, although the inclusion of the tax risk policy is still pending.

> General Integrated Risk Control and Management Procedure

This procedure [4th edition], which was ratified by the Management Committee in January 2013, establishes the purpose, responsibilities, activities and tasks of the system.

The General Integrated Risk Control and Management Procedure regulates the identification, assessment and management of the relevant risks faced by the group. The risk identification, assessment and management process

is designed to ensure that managers at all levels within the group are aware and have an assessment of the risks that threaten the group's activities, processes and projects, take those risks into account in their activities and ensure that the risks remain within the established tolerance limits.

As part of the internal policy of continuous process improvement, in 2012, the audit firm Ernst & Young carried out a review contrasting the system of Risk Management at Red Eléctrica Group with the international standard ISO 31000, concluding that:

"As a result of our review, we can conclude that the design of the risk management system of Red Eléctrica Corporación applicable to its different activities is in line with the principles established in the ISO 31000 Standard on Principles and Guidelines."

The Integrated Risk Management System includes the tax risks that affect the Red Eléctrica Group. On 29 September 2015, the Board of Directors approved the Red Eléctrica Group's tax risk control and management policy and its inclusion in the Integrated Risk Management Policy.



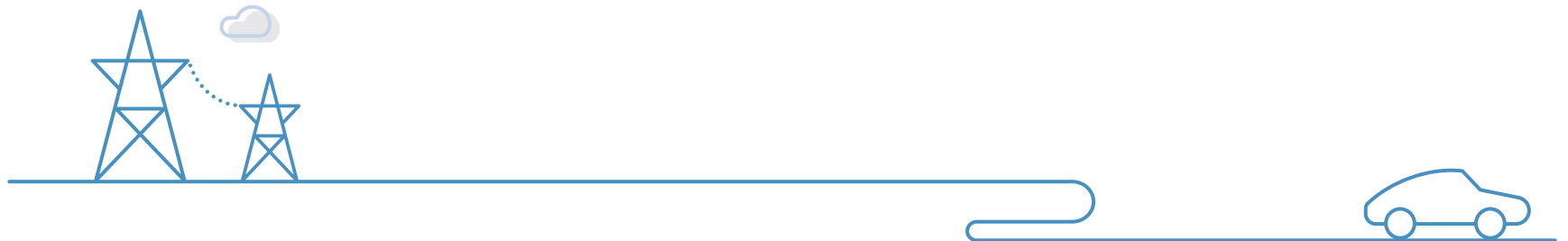
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The tax risk control and management policy sets out the group's tax strategy, as approved by the Board of Directors on 30 June 2015. On 29 September 2015, the Board of Directors decided that the group should subscribe to the Code of Best Tax Practices, which identifies practices that help to reduce significant tax risks and prevent behaviours liable to create such risks.

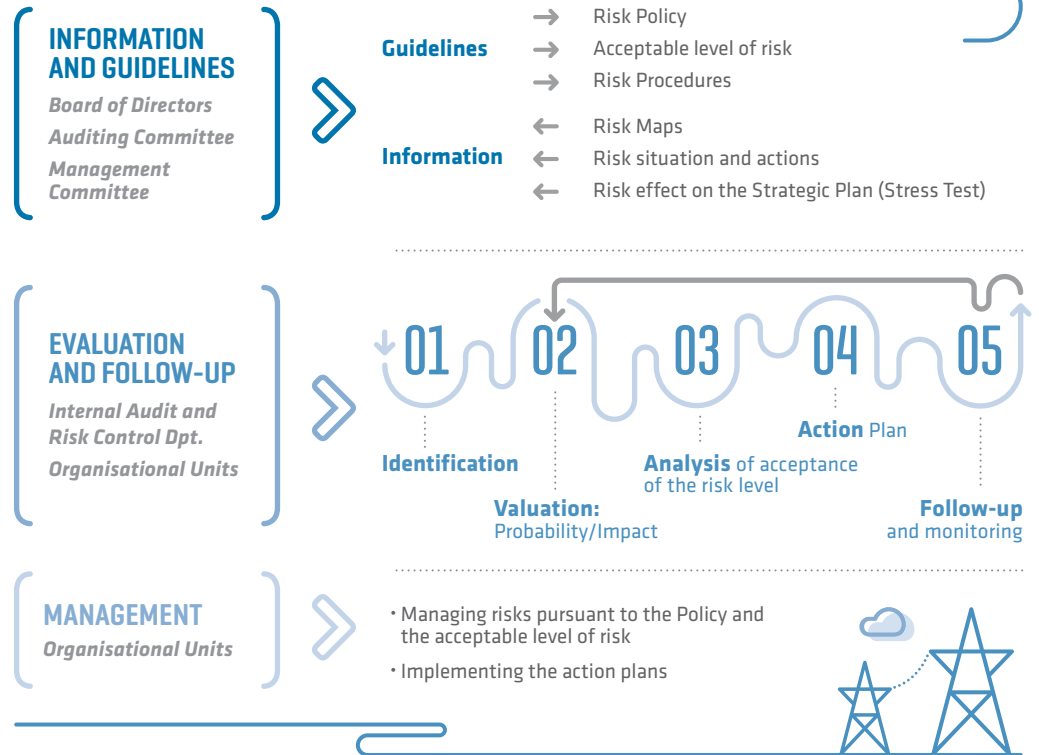
2. COMPANY BODIES RESPONSIBLE FOR THE PREPARATION AND IMPLEMENTATION OF THE RISK MANAGEMENT SYSTEM (INCLUDING FOR TAX RISKS)

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 Integrated Risk Control and Management Policy and Procedure.

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.

As expressly recognised in **the Board of Directors** Regulations, the Board of Directors is responsible for approval of the

INTEGRATED RISK MANAGEMENT MODEL



company's and the group's Integrated Risk Management Policy and must be informed of and periodically monitor 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 the committee.

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The **Audit Committee** has been given the powers to periodically supervise the risk management system to ensure that the main risks, including tax risks, are adequately identified, managed and disclosed.

The **Management Committee**, comprised of executives from the key strategic areas of the company, is responsible for:

- ▶ Promoting implementation of the Integrated Risk Management Policy.
- ▶ Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate the achievement of the global objectives.

The **Internal Audit and Risk Control Directorate**, reporting to the Chairman's Office, is responsible for managing the identification, analysis, assessment and periodic control of risks. This department provides reports for the Management Committee, Audit Committee and the Board of Directors. Among the information provided, the following is of particular note:

- ▶ Material risks map.
- ▶ Material risks files.
- ▶ High-level risks monitoring report.
- ▶ Risk reports by general management and corporate governance departments.

The **organizational units** are involved in the risk management system within the process of identification, analysis and evaluation, together with the **Internal Auditing 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.

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 de España 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.

In this context it is important to highlight the following for 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 resulting from inadequate or failed internal processes, people and systems or from external events. Although operational risks affect all kinds of economic activity, they have a wider social and economic significance in the Red Eléctrica Group, given the criticality of the functions the group performs, and so require special attention. Operational risks include cyber security risks, which are very important, considering the company's activity and the systems it uses. The risk management system pays special attention to these risks.

Besides the specific risks just mentioned, the Red Eléctrica Group also faces other types of risk that are common to many economic and business activities, including:

- **Market risks.**
- **Non-electricity business risks.**
- **Counterparty risks.**

As already mentioned, the Red Eléctrica Group's tax risk control and management policy was added to the Integrated Risk Management Policy in September 2015, setting out particular action guidelines for managing tax risks.



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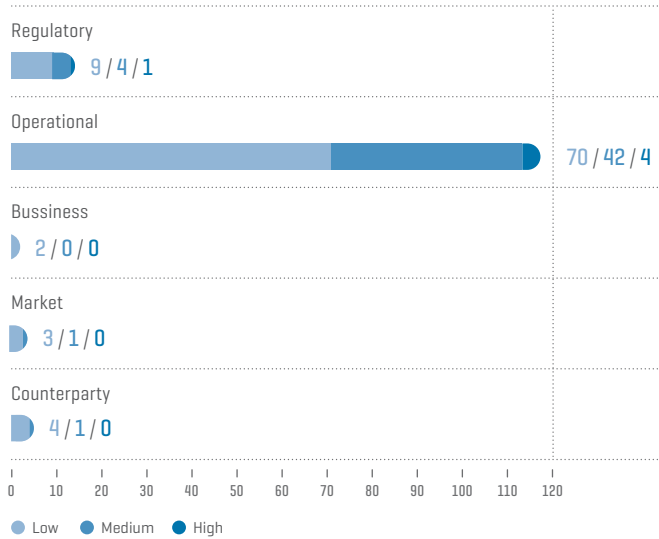
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Following the risk analysis performed by the Red Eléctrica Group, the latest **Risk Map** identifies 141 risks, distributed by risk type as shown in the following chart.



The next Risk Map will provide a more detailed breakdown of the risks, as follows:

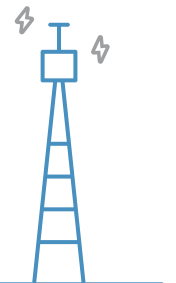
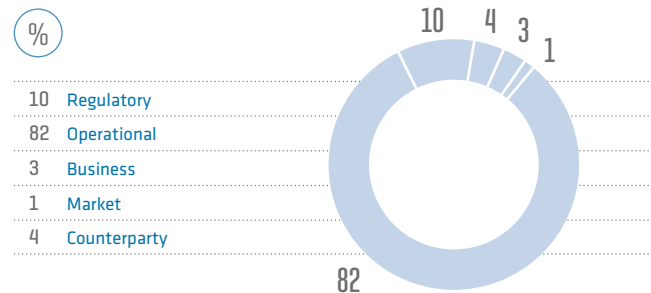
- ▶ Regulatory risks as Spanish TSO.
- ▶ Other regulatory risks, including tax risks
- ▶ Operational risks that may affect the Spanish electricity system.
- ▶ Integral security risks.
- ▶ Environmental and personal security risks.

- ▶ Other operational risks, including criminal liability risks.
- ▶ Financial and counterparty risks.
- ▶ Risks associated with the telecommunications business.
- ▶ Foreign business risks.

Equally, in the graph above, and in accordance with the valuation model developed by Red Eléctrica Group, which is analyzed in the following section, the classification of risks in accordance with the three established levels (high, medium and low) can be seen.

The distribution of the risks by category is as follows:

For the monitoring of risks, the current risk management system includes the supervision of 561 action plans, aimed at reducing the level of risk, and 317 indicators to control their performance.





4. RISK TOLERANCE LEVEL (INCLUDING TAX RISKS)

The risk level the Red Eléctrica Group is willing to accept is established for individual risks and in aggregate (acceptable overall risk level).

Acceptable risk level for an individual risk

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

The probability of occurrence is classified into four levels in accordance with a specific probability distribution for each type of risk:

- ▶ Very high.
- ▶ High.
- ▶ Medium.
- ▶ Low.

In relation to their impact, risks are rated on the basis of the effect that their materialization could have on four key elements of the business:

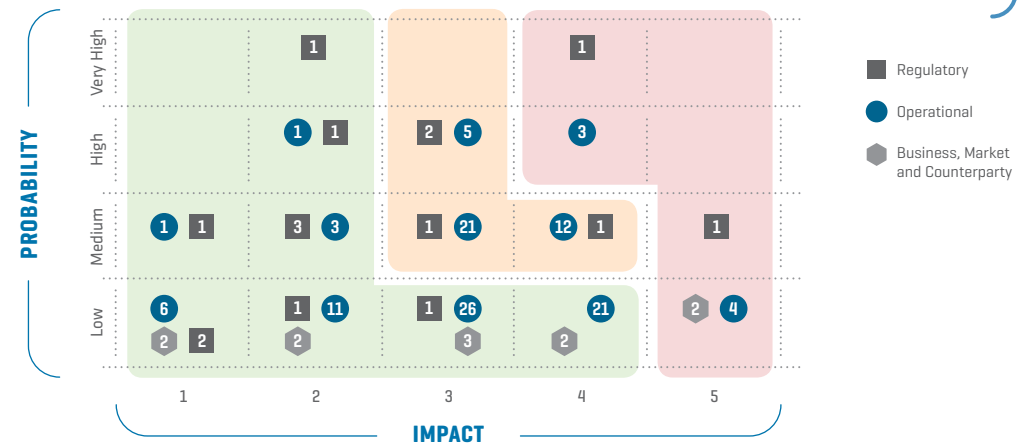
- ▶ The supply of electricity. Measured by the Energy Not Supplied (ENS) as a result of the possible event.

- ▶ 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 Corporate Income 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).

RISK MATRIX



The level of risk tolerance, as defined by Red Eléctrica Group, only considers acceptable those risks which are classified as "low" on the matrix above. In accordance with risk policy, all risks above this acceptable level must be subjected to actions in order to achieve this "low" rating, as long as the risk is manageable and the costs of this management are proportionate to the effect of the risk avoided. Any acceptable risk level is subject to measures to maintain it in such risk level.



Overall acceptable risk level:

Since 2015 the company has been working on setting an overall risk level the group is willing to accept for each of the four types of impact mentioned:

- Impact on the electricity supply.
- Impact on the group's strategies.
- Impact on reputation.
- Impact on results.

A methodology for aggregating risks, so as to determine the overall risk level based on the assessment of individual risks, is currently being developed.

In the near future this overall acceptable risk level will be subjected to back testing before being presented to the Board of Directors for approval.

5. RISKS (INCLUDING TAX RISKS) THAT MATERIALIZED IN 2015

There were no materialized risks of note in the 2015 financial year. [However, please see the information in Section E.5 of the standard form based on Annex I to CNMV Circular 7/2015, of 22 December, which is included as an Official Annex to this report].

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 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.

Risk (including tax risk) action and supervision plans

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 down to the acceptable level, as well as to maintain it in such level.

On a six-monthly basis for high-level risks and annually for the other levels of risk, the Internal Audit and Risk Management Department, which is integrated into the Global Risk Regulation and Control Department, along with the management units, reviews the performance and impact of the action plans established to reduce risk.

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 whatever other event that could impact on the company's reputation.

This procedure:

- Establishes the way in which this crisis 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 impact on people, the environment, efficiency and/or reputation.
- Establishes the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- Relates the specific contingency plans that exist at Red Eléctrica for each type of event.



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Red Eléctrica also has an action guide, “Cyber Incident Management”, which establishes the criteria and guidelines for the management of any cyber incident, independently of where it occurs.

Furthermore, it should be noted that in 2007 Red Eléctrica embarked on a project to align, review and improve its system of Internal Control over Financial Reporting [ICFR], with the basic aim of improving the efficiency and security of the processes for preparing economic and financial information about the company, through early, voluntary adoption of international best practices. The ICFR system includes Red Eléctrica’s tax information and processes and the associated controls.

It 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.

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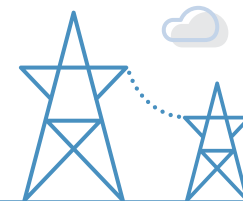
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Chapter X

Related-Party Transactions

Pursuant to art. 5.5 of the Board of Directors Regulations, the Board of Directors has direct responsibilities that cannot be delegated for authorization of related-party transactions, as defined by the legislation in force at any given time, that are significant or outside the normal business operations of the company and must obligatorily be reported to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee [art. 14.6].

Pursuant to this article, if a related-party transaction involves a director, the director shall refrain from exercising or delegating his right to vote and shall leave the meeting while the Board is deliberating and voting on the transaction, after having informed the Board of the transaction.

The Audit Committee is responsible for reporting to the Board of Directors, in advance, on any related-party transactions that under art. 5.5 of the Board Regulations require Board authorization; and for reporting on related-party transactions

that do not require authorization but that the committee considers the Board should be aware of.

In May 2010, pursuant to art. 5.5 and 14.6 of the Board of Directors Regulations and at the proposal of the Audit Committee, the Board of Directors approved a related-party transaction control policy and set objective parameters [relevant or not relevant] for the control of related-party transactions, 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.

The Audit Committee's Annual Report on Related-Party Transactions for 2015 will be published on the corporate website in 2016, in accordance with Recommendation 6 of the CGGLC.

In accordance with the provisions of art. 39 of the Board of Directors Regulations, the Board of Directors formally reserves the right to be informed of any material transaction between the company and a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the General Meeting.



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Pursuant to art. 32 of the Board of Directors Regulations, directors must communicate to the Board, via the Chairman or Secretary, any direct or indirect conflicts of interest that they may have with the company's interest. The affected director shall refrain from attending and participating in the resolutions or decisions regarding the transaction to which the conflict of interest refers.

Directors must likewise notify the direct or indirect stakes that they or persons related to them may have in the capital of a company with the same, analogous or supplementary type of activity to the corporate purpose, and must also notify the positions or functions exercised at them.

Pursuant to art. 32 of the Board of Directors Regulations, proprietary directors must disclose to the Board any situation of conflict of interests between the company and the shareholder who proposed their appointment, when it affects the issues submitted to the Board, and must refrain from participating in the adoption of the related resolutions.

By virtue of Act 31/2014, of 3 December, amending the LSC to improve corporate governance, further details are provided on the obligations derived from the duty to avoid conflicts of interest, reformulating some of the obligations derived from the duty of loyalty that were already regulated in the LSC prior to this reform. Furthermore, details are provided on the competences of the Board of Directors and Audit Committee in relation to director-related operations. The LSC reform, among others, will require a review of art. 5, 14 and 32 of the Board Regulations in order to accordingly adjust them to current law.

For the purposes established in the Board of Directors Regulations, related parties are those determined by the regulations in force at any given time (art. 37 of the Board of Directors Regulations).

The conflicts of interest described in this section are stated in the notes to the financial statements.

In addition, art. 2 of the 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 the persons expressly designated by the Oversight Body created pursuant to the Code.



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Under art. 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 from 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 of 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. Without prejudice to the obligations established in the preceding sub-article, as regards conflicts of interest, Board Members must comply with the conditions and requirements contained in the company's By-laws and Board of Directors Regulations, and, in general, with all such conditions and requirements as may derive from the corporate/commercial legislation applicable to public limited companies.

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

It should be noted that for the above purposes, in accordance with art. 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 reorganization, 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 on any incidents that may occur.

Pursuant to art. 13 of the Internal Regulations on Securities Market Conduct, the Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by Obligated Parties or Temporarily Obligated Parties as may be submitted to the committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its

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optimum implementation and improvement. It is also responsible for proposing to the Appointments and Remuneration Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's commitment to update it constantly, and adopt the best corporate governance practices in the area, and of the applicable legislation.

In relation to company executives, art. 2.1.3 of the Internal Code of Conduct in the Securities Market establishes that company executives, as defined in Chapter 1, are deemed to be subject to the code and, accordingly, will be subject to potential conflicts of interest. Art. 5.2. of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the code, on a temporary basis, any persons participating in

a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

In 2015, alongside the review of the Board of Directors Regulations, a study was carried out to determine whether the LSC reform would require adjustments to the Internal Code of Conduct in the Securities Market, particularly as regards related-party transactions.

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