

TITLE II:
MAIN CORPORATE
GOVERNANCE ASPECTS,
PRINCIPLES AND
PRACTICE AT
RED ELÉCTRICA



CHAPTER I.- BASIC CORPORATE GOVERNANCE PRINCIPLES AND PRACTICE AT RED ELÉCTRICA

Corporate Governance principles: Corporate Governance Policy

The Board of Directors Meeting held on 25 November 2014 approved Red Eléctrica's Corporate Governance Policy. This Policy gathers the principles behind Red Eléctrica's Corporate Governance Policy, used as a reference in the Company's relations with its stakeholders, indicated below:

- >> To consolidate, develop and promote symmetrical devices 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 General Shareholders Meetings.
 - >> 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 its Internal 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 amongst Board members when performing their task.
- >> To consolidate its commitment with diverse knowledge, experience and gender in Board and Committee composition.
 - >> To establish adequate devices to define the duties and responsibilities of directors, and to disclose and resolve any potential conflicts of interest between directors and the Company.
 - >> To consolidate a remuneration policy for the Board of Directors, based on moderation, effective dedication and alignment with long-term strategies and interests of the Company and its shareholders.
 - >> To consolidate the practice of presenting to the General Shareholders Meeting, 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 Company's chief executive 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 chief executive, guaranteeing continuity and sustainability in the Company.
 - >> To establish the necessary devices and instruments to ensure that the Company identifies, analyses and adopts, as necessary, the best practice, 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 our Corporate Governance Policy, both internationally in the organization itself, and externally amongst all stakeholders.

Basic practice conducted by Red Eléctrica in Corporate Governance matters

One of Red Eléctrica's main challenges is to make its best effort to adopt the Corporate Governance practice demanded by its national and international shareholding, proxy advisors and international bodies- such as the OECD- and national bodies- Unified Good Governance Code.

The Corporate Governance Policy recently approved by the Company, in addition to analysing the foregoing principles, gathers the practice followed by the company or which it has undertaken to adopt further to such principles and which, overall, 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 practice followed by the Company in relation to its Corporate Governance Policy principles, without prejudice to the relevant section (TITLE IV) describing, amongst other issues, some of the commitments contained in this Policy, as part of Red Eléctrica's roadmap on the matter.

- >> Regarding the Company shareholders:

> Engagement.

Further to the *principle of consolidating, developing and encouraging symmetrical devices for dialogue and commitment 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.

> General Shareholders Meeting.

Further to the *principle of promoting the informed participation of shareholders at General Shareholders 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 devices and adopts measures to enable the performance of tasks and competences entrusted at all times, by law and best corporate governance practice, to the General Shareholders Meeting.

>> 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, amongst 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.

> **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 its members are non-executive directors.

The structure of Red Eléctrica's Board of Directors includes a lead independent director, approved by the General Shareholders Meeting 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.

The Board of Directors is reserved a broad catalogue of non-delegable powers in its Regulations, and there is a commitment to permanently examine other possible additional measures to outweigh excessive powers and responsibilities on the Board, particularly when the office of Chairman of the Board of Directors and CEO is held by the same person.

> **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 Governance and Corporate Responsibility Committee plays a relevant role in the process.

> **Directors' responsibilities.**

Further to the *principle obligating the Company to establish adequate devices 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.

As explained in Chapter I above, following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act 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 devices 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 whilst 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 General Shareholders Meeting, 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 Ordinary General Shareholders Meetings.

> **Diversity on the Board of Directors.**

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

> Assessment of the Board of Directors.

For years now, Red Eléctrica is applying the *principle of conducting an annual assessment of operation and performance of the Board of Directors, Chairman of the Board and chief executive of the Company and 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 management of the Governance and Corporate Responsibility Committee, along with the lead independent director, and a summary of its main conclusions is voluntarily included in this Report.

> Directors' training and information plan.

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

> Chief executive Succession Plan.

Further to the principle of guaranteeing an orderly succession of the Company's chief executive, ensuring business continuity and sustainability in the long term, the Company has undertaken to arrange the orderly succession of its chief executive. To do this, the Company has a Succession Plan for the chief executive, which is periodically updated.

> Secretary of the Board of Directors.

Further to the principle undertaken by Red Eléctrica, to establish the necessary devices and instruments to ensure that the Company identifies, analyses and adopts, if necessary, the best practice, principles and recommendations in good corporate governance matters, the Secretary of the Board of Directors, further to the duties entrusted in the Corporate By-laws and Board Regulations, has provided the Board of Directors and its Committees with the necessary devices and instruments to identify, analyse and, if necessary, propose the adoption of the best practice, principles and recommendations in good corporate governance matters, allowing the Company to follow up on practice performance and to adequately disseminate the same amongst 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 specialised consultants and auditors.

Some of the foregoing practice, gathered in the Corporate Governance Policy, are described below, in matters related to the shareholders, Board of Directors and its Committees, and relations with the external auditor:

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 2014 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 practice conducted in 2014 in Corporate Governance matters, focusing on shareholder dialogue and commitment, is described below:

- >> Update and continuous improvement, under international standards, of the information contained on the corporate website in relation to Corporate Governance.
- >> Participation in forums and international initiatives on Corporate Governance (ICGN, 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 holds a prominent position as the first Spanish listed company to join the world organization for Corporate Governance, the International Corporate Governance Network (ICGN), which gathers foreign institutional investors, large corporations, regulators, academics, proxy advisors and other specialists in the matter; its participation is gradually consolidated itself with positive results.

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 Senior Management, 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 2014 and 2015, as in previous years, the Company has launched a visiting plan to investors and proxy advisors in order to receive relevant and updated information, and to also directly explain the practice and actions taken in Corporate Governance matters by the Company. The idea is to consolidate adequate devices to regularly exchange information with national and foreign institutional investors and with outstanding proxy advisors, thereby adjusting to the latest international standards in Corporate Governance.

In no case will the Company provide institutional shareholders with information that may place them in a privileged or advantageous situation with respect to the other shareholders; public information is always exchanged.

The Board of Directors

- >> Low number of directors.

 - >> A participative and proactive board.

 - >> A percentage of independent directors (64%) greater than the international requirements.

 - >> A single chief executive.

 - >> The essential responsibilities for management of the Company, detailed in Article 5 of the Regulations of the Board of Directors, are expressly reserved for the Board of Directors in plenary session and cannot be delegated (a reservation that was extended in 2013 when amending the Regulations of the Board of Directors and which will be again amended in 2015 to conform to recently approved Articles 249. bis) and 529.ter) of the Capital Companies Act, increasing the number of powers that the Board of Directors may not delegate in any case).

 - >> The responsibilities that cannot be delegated cannot be carried out by the executive director or the Board Committees.

 - >> 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 (45.5% of the total), are women. This puts the Company in a leading position among the 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.
- >> The Board Chairman is also the chief executive of the Company, by express decision of the Board of Directors and of the General Shareholders Meeting, pursuant to Article 25 of the Corporate By-laws. Nevertheless, the By-laws stipulate that one or more CEOs may be appointed.

 - >> The powers and responsibilities of the chief executive are limited by:
 - > The legal reservation of non-delegable responsibilities to the Board of Directors, 64% of which consists of independent directors.
 - > Effective immediate control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the CEO.
 - > Effective immediate control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the CEO.
 - > The functions and responsibilities attributed to the Board Committees in the Corporate By-laws and in the Regulations of the Board of Directors, 75% of which consist of independent directors.
 - > The responsibilities of the lead independent director.
 - > A 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 lead independent director

- >> Appointed by the Board of Directors from among the independent directors, at the proposal of the Corporate Responsibility and Governance Committee.
- >> Their main task is to coordinate the shared positions of the independent directors and to serve as a channel for dialogue between such positions before the Chairman of the Board of Directors, the Board and its Committees.
- >> The term of office 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 chief executive 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 Article 25.bis) of the By-laws and have been implemented in Article 9.bis) of the Regulations of the Board of Directors.

The Board Committees

- >> Committees formed 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.
- >> Comprising qualified professionals occupying important posts in other institutions and/or corporations outside the Company.
- >> These consist entirely of non-executive directors.
- >> Financial year 2013 saw the formal adaptation, under the Regulations of the Board of Directors, of the composition of the Committees to the demands of shareholders, in order to strengthen their independence. It introduced the requirement that there be a majority of independent directors on both Committees.
- >> On 23 December 2014, the Board of Directors increased the members of both Board Committees, from 3 to 4, 3 of whom are independent directors. Following this increase, women represent 50% of the Auditing Committee members and 75% of the Governance and Corporate Responsibility Committee. Furthermore, 2 women are chairing both Board Committees. By increasing the number of Committee members their independence has been reinforced, as well as the presence of women.
- >> Chaired by independent directors, as envisaged in the Corporate By-laws and the Regulations of the Board of Directors, which are limited to three years, after which term they may not be re-elected until at least one year has elapsed from the date of their termination.
- >> No directors belong to both Committees, which ensures 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 office of all Committee members is three years; members may be re-elected.
- >> The functions and responsibilities of the Committees are established in the Corporate By-laws and in the Regulations of the Board of Directors, which confer a stable legal framework thereto.

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

- >> Reiterated practice followed by Red Eléctrica: Approval by the Ordinary General Shareholders Meeting as a separate point of the agenda.

Since 2010, Red Eléctrica voluntarily presents the annual report on directors remuneration and, since 2007, the annual remuneration of the Board of Directors, to the Ordinary General Shareholders Meeting, for approval, as separate and independent points of the General Meeting agenda. Consequently, all proposals and opinions on these matters have never been presented to the shareholders on a consultative basis.

During 2015, this same line of action is expected to continue, presenting the remuneration of the Board of Directors for 2015, directors remuneration policy and the annual report on directors remuneration, to the approval/binding vote of the shareholders, as three separate and independent points of the General Meeting agenda. In this way, Red Eléctrica Corporación S.A. continues to align itself with the best corporate governance practice, endowing the shareholders with independence and self-sufficiency to be able to individually and

separately vote on each different resolution entrusted to the General Shareholders Meeting.

Furthermore, the idea is to present to the General Meeting, in a separate and independent manner from the annual report on directors remuneration, a directors remuneration policy with 3-year validity, pursuant to the terms of Article 529.19 LSCC and the best international practice in this field, to particularly include the Draft European Directive on Shareholder Rights and current legislation in the United Kingdom.

>> Remuneration policy principles.

The Company's directors remuneration policy is based on the following general principles:

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

As regards remuneration for the CEO, the following principles will be included:

- > Alignment of the CEO's remuneration policy 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.

Regarding the remuneration of non-executive directors, the following principles will be included:

- > Relationship with effective dedication;
- > Linked to responsibility and performance of tasks as directors.
- > Absence of variable components in remuneration in order to ensure their complete independence with respect to the remuneration paid to the CEO and management team.
- > Acting as an incentive, without the amount conditioning their independence.

The Governance and Corporate Responsibility Committee deems it appropriate to periodically review the remuneration policy 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 what is generally established for capital companies in new Article 217.4 of the Capital Companies Act, on adequacy to each company's size and relevance,

economic position, comparability, profitability and sustainability; and not excessively assuming risks or rewarding 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 directors remuneration policy and proposed resolutions on the annual remuneration of the Board of Directors in 2015, which is expected to be presented for approval to the Ordinary General Shareholders Meeting of Red Eléctrica held in 2015, as separate points of the agenda.

Independence of the External Auditor

In 2012, at its Annual General Meeting held on 19 April 2012, the Company adapted its Corporate By-laws in order, among others, to align them with the aforementioned Act 12/2010, which aims to reinforce the competences of the Auditing Committee in verifying the independence of the External Auditor. The amendment in question is reflected in Article 14 of the Regulations of the Board of Directors, which was approved by the Board of Directors at its meeting held on 13 March 2013.

The responsibilities of the Auditing Committee, as set out in the said regulatory provision, are those of receiving information on the services provided to the Company and the Group by the External Auditor, other than those related to the external audit services (which are reported regularly to the markets through the relevant sections of the ACGR, Official Annex, according to the standard form of Annex I of Circular 5/2013, paragraph C.1.37). Nevertheless, the general approach taken by the Company is not to contract the External Auditor for these types of services from the date on which it is appointed by the General Shareholders Meeting, unless there are exceptional reasons to justify contracting these services from it, which must be adequately explained

in the Company's annual public reporting. The intended purpose, as provided in Article 45.3 of the Regulations of the Board of Directors, is to seek to minimize the contracting of these services to the extent possible.

If it is considered necessary to hire an external auditor for these non-auditing services, the Auditing Committee will present a proposal to the Board of Directors, which is competent to approve the same (Article 5.5.a).xii) of the Board of Directors Regulations).

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 its appointment.

Further to Red Eléctrica Group's internal policy, which recommends a periodic change of external auditor in line with the best international practice in Corporate Governance, to guarantee its independence and autonomy, the latest change of external auditor took place at the Ordinary General Shareholders meeting of 18 April 2013, at the proposal of the Board of Directors, which appointed the company KPMG Auditores, S.L. as the new external auditor of the Company and its Group, for a minimum statutory term of 3-years, which will continue in the 2015 financial year, since the previous auditor, PriceWaterhouseCoopers (PwC), had occupied the role of external auditor of Red Eléctrica Corporación, S.A. and its Consolidated Group for the past seven years and a change was advisable.

CHAPTER II.- SHAREHOLDER STRUCTURE

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

At 31 December 2014, the Sociedad Estatal de Participaciones Industriales or "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 Article 4 of the Securities Market Act, in accordance with Article 42 of the Commercial Code.

The equity of the Company is comprised of 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, worthy of note is the high percentage of foreign shareholders, in particular, of institutional investors, who at 31 December 2014, represented almost 70% of the share capital (of which around 60% are located in the UK and USA), which explains the importance that the Board of Directors attaches to 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-a-vis all other electricity sector activities and agents, given that the activities developed 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 generation or marketing functions. Royal Decree-Law 13/2012, of 30 March, amended the second paragraph of the twenty-third additional provision and Article 34.1 of Act 54/1997, of 27 November. An additional provision that 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 Articles 5 and 14 and the sole additional provision of the Corporate By-laws, and in Article 6.3 of the Regulations of the Company's General Shareholders Meeting.

Act 1/2012, of 22 June, on the simplification of the reporting and documentation obligations for mergers and spin-offs of capital companies, redrafts certain aspects of the Capital Companies Act (Article 257, which was not been amended in the recent LSC reform), affecting, among others, the possibility of introducing by-law restrictions on voting rights, after these were expressly prohibited for listed companies by Act 12/2010, of 30 June. This does not affect the Company directly, as it sets out a general regime for listed companies, whereas the Company is subject to the special limitations set out in the aforementioned Act 54/1997, of 27 November, and Act 24/2013, of 26 December.

Corporate website

This year we have included within the chapter devoted to the Shareholders' Equity, a special section referring to a basic and common tool for communicating with shareholders: 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; in this sense it included in the Annual Corporate Governance Report for 2012, approved by the Board of Directors on 26 February 2013, the desirability of strengthening, according to international standards, the information contained on its Corporate Governance website, and of introducing improvements for its easier identification, understanding and use by international shareholders and investors (Title IV of the ACGR 2012, "Prospects for 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 that they face in analysing effectively the information relating to the Corporate

Governance structure that is made available on the corporate websites of Spanish listed companies.

In view of the opportunity for improvement, in 2013 the Company has 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; furthermore, within the framework of this project, it has also undertaken an analysis of the Corporate Governance sections of the website, in order to incorporate leading international standards in terms of structure and content. The publication of the new web page, with its new structure and design, took place 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 spread out and sometimes difficult to locate and understand.

The 2013 ACGR, approved by the Company's Board of Directors in 2014, expressly included amongst the most relevant Corporate Governance projects a "Permanent analysis, update and improvement, under international standards, of the information contained on the Company's website in Corporate Governance matters" (TITLE V). The new 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 2014, sections have been reviewed, contents improved and information completed, as deemed appropriate.

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; this is why it has kept this priority in Title IV herein (Red Eléctrica's prospects in Corporate Governance matters).

CHAPTER III.- THE GENERAL SHAREHOLDERS MEETING

The General Shareholders 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 Regulations of the General Shareholders Meeting and the Corporate By-laws, are binding on all shareholders, without prejudice to their legal right to separation. The Shareholders Meeting shall have 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 Corporate By-laws.
- >> Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the Capital Companies Act.
- >> Approving operations whose effect would be equivalent to the modification of the Company's corporate purpose.

As indicated above, following the amendment approved by Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, the Act has increased the number of matters entrusted to the Meeting, which generally cover the acquisition, disposal or contribution to another company of essential assets (Art. 260.f) LSC) and, specifically in relation to listed companies, the transfer to dependent entities of essential activities until then executed by the company itself, operations that are ultimately equivalent to liquidation of the Company, and approval of the directors remuneration policy (Art. 511. bis) LSC).

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 (granting instructions to the management body or presenting for its authorisation the adoption of decisions or resolutions on certain management matters).

The rules on the organization and functioning of the General Shareholders Meeting are contained in the Corporate By-laws (Articles 11 through 18) and in the Regulations of the General Shareholders meeting.

For some time now, resolution proposals have been published in full, in Spanish and in English, upon the call of the Shareholders 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 Shareholders Meetings.
- >> Information relating to the right of attendance and procedures for granting proxies for General Shareholders Meetings, in accordance with the provisions of the Corporate By-laws and the Regulations of the General Shareholders Meeting.
- >> Information on electronic voting and proxies.
- >> Information on issuances of securities.
- >> Information on the rating granted by credit rating agencies.
- >> Increased information on the shareholding, 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 Shareholders Meeting. Despite the fact that, in large part, such

information was already published on the website of the Company, the Ordinary General Shareholders meeting held on 19 April 2012, approved the modification of the Regulations of the General Shareholders Meeting to incorporate the content required under the Act into the appropriate Articles.

The said General Shareholders meeting held on 19 April 2012 ratified the creation of the corporate website of the Company at the domain "www.ree.es", for the purposes of the provisions of Article 11 bis of the Revised Capital Companies Act.

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 Capital Companies Act), 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 and 2014.

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 Shareholders 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 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 Agenda of the General Shareholders Meeting is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- >> The annual reports on the activities of the Auditing Committee and of the Corporate Responsibility and Governance 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 Auditing Committee is available to all shareholders during Shareholders Meetings to deal with any matters falling within his jurisdiction that may arise, communicating this to the shareholders during the Shareholders Meeting.
- >> At the Ordinary General Shareholders Meeting held in 2014, both chairpersons of the Board Committees participated to present a summary of Committee activities during the past year.
- >> The items included on the agenda for the Shareholders 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.

- >> For several years now, an independent consultant (Deloitte) has conducted an audit on the management processes of the Ordinary General Shareholders Meeting, to improve the guarantee of shareholder rights at the Meeting. The auditor's reports are published on the website on the same day as the holding of the General Meeting. As a novelty at the Ordinary General Shareholders Meeting held in 2014 the shareholders were given the possibility of requesting a certification confirming their vote, verified by the external auditor of the Meeting (Deloitte).

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

Right to information

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws and Article 8 of the Regulations of the Shareholders Meeting. The said article 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 Company 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 Shareholders 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 audit reports relating to 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 Remunerations and Remuneration Policy of the Board of Directors.
- >> The environmental report.

>> The procedures regulating the remote voting system at the Ordinary General Shareholders Meeting.

>> The Operating Rules of the Shareholder E-Forum.

>> Any other report whose inclusion is obligatory or may be determined by the Board of Directors.

Act 31/2014, of 3 December, amending the Capital Companies Act, 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).

>> It is foreseen that all valid requests for information, clarifications or questions, made in writing, and replies provided in writing by directors, will be included on the company website.

>> If the information requested by shareholders was made 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).

At the Ordinary General Shareholders Meeting held in 2015, the relevant proposals will be made to amend the Corporate By-laws and Regulations of the General Shareholders Meeting, in order to fully adjust to the LSC reform, with respect to those issues not materially gathered in such corporate rules.

Right to attend

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

To this effect, Article 15 of the Corporate By-laws and Article 10 of the Regulations of the Shareholders Meeting provide that shareholders with the right to attend may be represented at the Shareholders Meeting by any other person, in the manner established in the Capital Companies Act. 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 Shareholders 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 Shareholders meeting (application of the "one share, one vote" principle).

Company directors and executives are required to attend General Shareholders Meetings.

As a general rule and in order for the proceedings of meetings and the resolutions adopted to reach the widest audience, the media are allowed

access to Shareholders Meetings and Meetings are broadcast in an audiovisual format, with simultaneous translation into English.

Right to participate and new technologies

The Regulations of the Shareholders Meeting 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 Regulations of the Shareholders Meeting 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 organisation and functioning of the Shareholders Meeting, and the current Capital Companies Act, 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 Shareholders Meeting, which justified the adaptation thereto of the Regulations of the General Shareholders Meeting and the By-laws, at the General Shareholders Meeting held on 19 April 2012.

The Regulations of the Shareholders Meeting thus provide that shareholders owning 5% of the share capital may request that the Board, prior to issuing the call, include any item on the Agenda at the next Shareholders Meeting (following the reform of the Capital Companies Act, this has been reduced to 3% for listed companies, which is why the Regulations should be adapted at the next Ordinary General Shareholders Meeting of the Company). 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 Shareholders 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 Shareholders Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.

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

In line with the use by the shareholders of advanced electronic channels to exercise their rights, the Board of Directors, at its meeting of 2 April 2014, approved a set of rules on remote voting and proxies and the exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting held on 9 May 2014. The results were satisfactory, given that 289 shareholders holding 77,150 shares exercised their right to vote or delegate electronically. This meant that 7.9% of the 3,659 shareholders present in person or by proxy at the Meeting participated in the Meeting by electronic means.

Furthermore, both the General Shareholders Meeting and presentations to analysts are transmitted in real time via the website of the Company. The presentations are available on the Company website. The General Shareholders Meeting has been broadcast live since 2006, by means of the "video webcast" system, while a simultaneous translation into English was also provided. Furthermore, at the Ordinary General Shareholders Meeting held on 9 May 2014, in order to facilitate the participation and following of the Meeting to persons with hearing difficulties, for the first time the meeting was interpreted into sign language.

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 Regulations of the General Shareholders Meeting, via Article 8.4, by means of a resolution adopted by the General Shareholders Meeting of 13 April 2011. Thus, we have included the regulatory requirements of Article 539 of the Capital Companies Act. The Forum has been made available, since it was created, at all General Shareholders Meetings held by the Company to date.

The Company has continued using social networks (Facebook and Twitter) over 2014 to publicize and provide information about the Ordinary General Shareholders Meeting.

CHAPTER IV.- THE BOARD OF DIRECTORS

Organization and powers

As of 31 December 2014, the Board of Directors was composed of 11 directors (1 CEO, 3 proprietary directors and 7 independent directors- including a vacancy for the position of independent director-).

The Board of Directors governs and represents the Company with the support of the Auditing Committee and the Corporate Responsibility and Governance Committee.

Further to the latest recommendations made by the International Integrated Reporting Council (IIRC), below we describe the strategic decision-making processes of the Board of Directors.

The rules on the organization and functioning of the Board are contained in the Corporate By-laws (Articles 19 to 26, inclusive) and in the Regulations of the Board of Directors (Articles 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 Corporate By-laws and the Regulations of the Board of Directors, 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, in the Corporate By-laws and in the Regulations of the Board of Directors.

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.

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

In this regard, among the measures to counterbalance the concentration of power in the chief executive and chairman of the Board of Directors of the Company, held by the same person, adopted in 2013 when the Regulations of the Board of Directors were amended, worthy of note is the amendment to Article 5 to broaden the express reservation by the Board of Directors of certain powers and faculties which, for reasons of urgency, had previously been delegated to the Chairman of the Board.

Following the amendment of the said provision, the responsibilities expressly reserved by the Board are:

- a) Approval of the general policies and strategies of the Company and 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 financing 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 regarding remuneration and evaluation 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 materialise.
- 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 Shareholders Meeting of dividend and treasury stock policies, and in particular, the limits thereof.
- xiv) Those specifically foreseen in the Regulations.

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 deemed to be strategic by virtue of their amount or special characteristics, unless their approval corresponds to the Shareholders Meeting.
- 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) Authorisation 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 Auditing 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 Chairman and the Chief Executive of his functions, on the basis of the report of the Corporate Responsibility and Governance Committee, in coordination, where appropriate, with the lead independent director.
- ii) The functioning of its Committees, based on the report submitted by the Corporate Responsibility and Governance Committee in coordination, where appropriate, with the lead independent director.

As already indicated above, the Capital Companies Act, following its recent amendment, has extended the number of powers that the Board of Directors may not delegate in any case (Articles 249.bis) and 529.ter) LSC). Consequently, although practically all the new responsibilities have already been included in the current Regulations of the Board of Directors, Article 5 of the Regulations of the Board will be reviewed soon in order to fully adjust it to the new law.

Tax responsibilities

Of interest is the new content of Article 529.ter) LSC, which includes the following non-delegable powers in tax matters entrusted to the Board of Directors:

- >> Determination of the risk control and management policy, including tax risks, and the supervision of internal reporting and control systems (Art. 529 ter.1.b).
- >> Approval of all types of investments or operations which, due to the large amount or special characteristics involved, are strategic or entail a special tax risk, unless the need to be approved by the General Meeting (Art. 529 ter.1.f).
- >> Approval of creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any other similar transactions or operations which, due to their complexity, could be detrimental to the transparency of the Company and its Group (Art. 529 ter.1.g).
- >> Determination of the Company's tax strategy (Art. 529 ter.1.i).

The Auditing Committee, as a new express responsibility, has also been entrusted with supervising the Company's "tax" risk management systems.

Furthermore, the LSC has added as a novelty to be included in the ACGR, the obligation to expressly report on "tax" risk control systems.

Red Eléctrica Group's tax policy is based on the principles of transparency, good governance and responsibility.

The tax policy is part of the general principles and guidelines established for the Economic-Financial Management of the Red Eléctrica Group. These general principles and guidelines for Economic-Financial Management in tax matters include:

- >> To promote best practice in management matters, through continuous improvement.
- >> To manage the Company's activity by adequately appraising the tax risks, establishing adequate devices to cover, prevent and reduce the same.
- >> To draw up tax information for internal management and compliance with external requirements, in order to provide support in decision-making, providing, with the utmost transparency, the necessary information to financial markets and other stakeholders, and comply with legal and tax requirements.

In order to offer more transparent tax information for its various stakeholders, the Red Eléctrica Group has calculated its Total Tax Contribution, in order to highlight the economic and social function derived from the Group's tax payments.

In order to calculate its total tax payments, the Red Eléctrica Group has followed PwC's Total Tax Contribution (TTC), 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 various Administrations, directly or indirectly, as a result of Red Eléctrica Group's economic activity.

The Total Tax Contribution of the Red Eléctrica Group is described in the 2014 Corporate Social Responsibility Report.

According to the Regulations of the Board of Directors- Article 5.5.b). iii) and iv)-, the matters directly reserved to the Board of Directors, on a non-delegable basis, include the following:

- >> Decisions on any type of investment or operation which, due to its large amount or special characteristics, is strategic, unless it needs to be approved by the General Meeting.
- >> Decisions on creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group's transparency.

In relation to the foregoing decisions and operations, and whenever an opportunity arises of interest for the Group, the Board of Directors will analyse and take into account, amongst others, the main aspects and tax risks involved.

The Auditing Committee's tasks, foreseen in the Regulations of the Board (Art. 14.6.b)), include reporting to the Board on any unique investment operations, upon request and, in any case, when creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group's transparency.

Consequently, should this type of operation arise, the Auditing Committee will analyse and inform the Board about the main aspects and economic-financial risks involved, to include any tax issues and risks.

The Code of Ethics of the Red Eléctrica Group establishes a commitment to not incorporate enterprises in order to evade tax in territories considered tax havens.

The Red Eléctrica Group has an Integrated Risk Management System that covers any relevant fiscal risks for the Company. Nevertheless, in order to fulfil the provisions of Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary steps are being taken in the System with respect to tax risks.

Red Eléctrica's processes are integrated into systems structured according to international standards of reference (ISO 9001, ISO 14001 and OHSAS18001), and their layout has included controlling measures to mitigate or reduce the main risks related thereto.

In addition to these processes, there is a specific internal control system for financial information (ICSFI), which includes fiscal data and processes, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology. These processes and systems are systematically subject to internal and external audits.

In 2014, inspection activities on basic Spanish taxes have ended, for the 2008, 2009 and 2010 financial years. As a result, all Certificates have been signed In Conformity, reflecting the adequate statement, in the Inspectorate's opinion, of all the Company's taxes; said Certificates are final, as they cover verification and investigation activities on all components of the Company's tax obligations.

Composition

At 31 December 2014 the Board of Directors had 11 members (including an independent director vacancy).

Pursuant to the Corporate By-laws, the directors hold office for a term of 4 years.

The limit of the term of office of the independent directors, in accordance with the recommendations of the UCGG², was set out in the Regulations of the Board at twelve years (a limit that was incorporated to the Regulations of the Board in January 2010). All other types of director

may be reappointed indefinitely by the Shareholders Meeting. Act 31/2014, of 3 December, reforming the LSC, has expressly gathered this limit, thereby acquiring the status of an Act (Art. 529.12 LSC).

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

At 31 December 2014, the Board of Directors of Red Eléctrica had the following members:

Name of Director	First Appointment	Last Appointment	Position on the Board	Type of Director	Appointment procedure	Board Committee Membership
José Folgado Blanco	22/05/08	19/04/12	Chairman	Executive	General Meeting	---
María Ángeles Amador Millán	26/05/05	18/04/13	Member	External Independent	General Meeting	Audit (member)
Francisco Ruiz Jiménez	19/04/12	19/04/12	Member	External Proprietary (SEPI)	General Meeting	----
Fernando Fernández Méndez de Andrés	19/04/12	19/04/12	Member	External Proprietary (SEPI)	General Meeting	Audit (member)
Paloma Sendín de Cáceres	19/04/12	19/04/12	Member	External Independent	General Meeting	Auditing (chairwoman)
Carmen Gómez de Barreda Tous de Monsalve	19/04/12	19/04/12	Member	External Independent	General Meeting	Corporate Responsibility and Governance (member)
María José García Beato	29/11/12	18/04/13	Member	External Independent	General Meeting	Corporate Responsibility and Governance (member)
Socorro Fernández Larrea	09/05/14	09/05/14	Member	External Independent	General Meeting	Corporate Responsibility and Governance (member)
Antonio Gómez Ciria	09/05/14	09/05/14	Member	External Independent	General Meeting	Auditing (member)
Santiago Lanzuela Marina	29/07/14	29/07/14	Member	External Proprietary (SEPI)	Co-optation	---
(Vacancy) Independent Director ³	-	-	Member	External Independent	-	-

(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 Limited Companies, savings banks and other entities issuing securities admitted to trading on official securities markets, has incorporated into the legislation the said prohibition.

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

Professional profiles of the directors

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 2014⁴:

.....
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE
.....

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.

(4) The professional profile of independent director Mr. José Luis Feito Higuera, appointed by the Board of Directors at its meeting held on 13 February 2015, is available on the corporate website and will be published amongst the documentation necessary for the forthcoming Ordinary General Shareholders Meeting of the Company, once it is called.

EXTERNAL INDEPENDENT DIRECTOR

María Angeles 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.

**EXTERNAL PROPRIETARY DIRECTOR PROPOSED
BY SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)**

Francisco Ruiz Jiménez, born 26 January 1975.
Graduate in law from the Universidad Pontificia de Comillas (ICADE E-1).
Diploma in Company Consultancy from the Universidad Pontificia de Comillas (ICADE E-1).
Auditor. Real estate agent.

Currently:

General Manager of Sociedad Estatal de Participaciones Industriales (SEPI).

Formerly:

Worked with the legal chambers of Ignacio Izquierdo del Valle.
Employed by Caja de Ahorros y Pensiones de Barcelona, "La Caixa".
Credit Institutions Inspector attached to the Directorate General for Supervision of the Bank of Spain, responsible for various functions, from 2003 to 2012.
Lecturer in Accounting and the Spanish Financial System at the Centro de Estudios Financieros.
Lecturer in finance and accountancy on a number of postgraduate courses at the Centro de Estudios Financieros.
Conference speaker on issues relating to the financial system.

**EXTERNAL PROPRIETARY DIRECTOR PROPOSED
BY SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)**

Fernando Fernández Méndez de Andés, born 10 February 1956.
Doctorate in Economics, Universidad Autónoma de Madrid.
Lecturer in Economics and Director of the International Financial System Chair at the 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 economic commentator and columnist in the media.
Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.
Independent Director of Bankia, S.A.
Independent Director of BFA Tenedora de Acciones, S.A.U.

Formerly:

Member of the Expert Committee for Tax Reform, 2013-2014.
Member of the Bruegel Evaluation Committee, 2013.
Principal Economist at the International Monetary Fund.
Chief Economist and Director of the Research Department of Banco Central Hispano (BCH) and Banco Santander.
Vice-Chancellor of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.
Director of the European Business Programme.

EXTERNAL INDEPENDENT DIRECTOR

Paloma Sendín de Cáceres, born 19 September, 1951.
Graduate in Economics and Business Science, Universidad Autónoma de Madrid.
Trade Expert and State 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.
Director General of Administration and International Relations for the
Organisation of Ibero-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.
Managing Director of Promotion at ICEX.
Member and representative of Spain on various EC committees and workgroups.
Member of the Organising Committee of the European Union Conference on
Stakeholders.
Member of the Organising Committee of the 2nd Forum on the Implications
of the New Recommendations of the International Commission on Radiological
Protection.

Director of Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000).
Director, Hulleras del Norte (HUNOSA).
Director, Banco Exterior de España.
Director, Compañía Logística de Hidrocarburos (CLH).
Director, FOCOEX.
Director, 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.

EXTERNAL INDEPENDENT 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).

EXTERNAL INDEPENDENT DIRECTOR

María José García Beato, born 27 May 1965.
Law Degree, Universidad de Córdoba. State attorney.

Currently:

Non-director vice-secretary of the Board of Directors of Banco Urquijo, S.A.
General Secretary and member of the Management Committee of Banco Sabadell, S.A.
Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).
Secretary of the Trustees of the Fundación de Estudios de Economía Aplicada (FEDEA).
Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.
Trustee of the Fundación Wolters Kluwer.
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.

EXTERNAL INDEPENDENT DIRECTOR

Mr. Antonio Gómez Ciria, born 25 March 1957.
Degree in Economics and Business Studies, Universidad Complutense de Madrid.
Degree in Mathematics, Universidad Complutense de Madrid.
Masters in Business Administration & Management (Executive MBA), IESE.

Currently:

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

Formerly

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC (2009-2014).
Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations (2009-2014).
General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC (2006-2009).
Head of Internal Auditing, Grupo FCC (2005-2006).
Member of the Advisory Council, Institute of Internal Auditors (2011-2013) and Member of the Executive Committee (2006-2009).
General Technical Secretary of InverCaixa, investments management company of Grupo La Caixa (2000-2005).
Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC (1996-2000).
Director, Empresa Nacional de Uranio, S.A. (1996-2000).
Director, Empresa Nacional de Autopistas, S.A. (1998-2000).
Director, Tabacalera, S.A. (1996-1998).

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid (1989-1996).
Deputy Manager for Studies and Budgetary Planning, Radio Televisión Española (1987-1989).
Head of the Auditing and Accounting Department, Banco de Crédito Agrícola (1984-1987).
Auditor/Inspector, General State Inspectorate (1981-1984).

Other:

Member of the CNMV Work Group to prepare a "Management report guide for listed entities" (2012-2013).
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.

EXTERNAL INDEPENDENT DIRECTOR

Ms. Socorro Fernández Larrea, born 7 April 1965.
Civil Engineer, Universidad Politécnica de Madrid.

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 Director of SEG, S.A., involved in executing engineering work in civil and construction projects.
Member of the Management Board of Asociación Española de Directivos and President of its Internationalization Committee.
Member of the Board of Directors, ACR (construction company).

Formerly:

General Manager, COPISA Constructora Pirenaica S.A. (2007-2013).
Vice President, ANCI, Asociación de Constructores Independientes (2008-2013).
Member of the Governing Council, Association of Civil Engineers (2004-2012).
General Deputy Manager, COPISA, Constructora Pirenaica S.A. (2006-2007).
Regional Manager, Seop, Obras y Proyectos, S.A. (2005-2006).
National Representative, Ferrovial Conservación, S.A. (2002-2005).
Representative in Castilla-La Mancha, Ferrovial-Agroman, S.A. (1999-2002).
Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A. (1995-1999).
General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha (1993-1995).
Works manager, Ferrovial, S.A., in Castilla-La Mancha (1992-1993).

Other:

Member of IWF, International Women Forum, and member of the Management Board (chapter on Spain).
Member of the Business Council for Latin America, member of the Management Board (chapter on the Iberian Peninsula).

EXTERNAL PROPRIETARY DIRECTOR, ON BEHALF OF SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (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 representing the Autonomous Community of Aragón, Chairman of the Economics and Tax Commission on the Senate (1999-2000).
Congressman, President of the Economics and Tax Commission in Congress (2000-2004).
Congressman, Member of the Permanent Council, Vice Chairman of the Committee for Foreign Affairs and Member of the Development Committee (2004-2008).
Member of the Territorial Management Committee. Sponsor of the "Deputy Committee to analyse Spain's energy strategy for the next 25 years" (2008-2011).
Congressman, President of the Economics and Competition Commission, Member of the Committee for Foreign Affairs, Member of the Development Committee, and member of the Spanish Delegation in the Parliamentary Assembly to Organize Security and Cooperation in Europe-OSCE (2011-28.7.2014).

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.

Attendance at Board 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 Auditing and Corporate Responsibility and Governance Committees in 2014.

Board of Directors

Of the thirteen (13) Board meetings held in 2014, there were 6 proxy attendances and no absence, bringing the number of personal attendances to 133, representing an attendance rate of 95.68%.

ATTENDANCE AT BOARD OF DIRECTORS MEETINGS

Director	Present	Represented
José Folgado Blanco	13	0
María Angeles Amador Millán	13	0
Miguel Boyer Salvador	5	0
Rui Manuel Janes Cartaxo	2	3 ⁵
Fernando Fernández Méndez de Andrés	13	0
Francisco Ruiz Jiménez	10	3 ⁶
Paloma Sendín de Cáceres	13	0
Carmen Gómez de Barreda Tous de Monsalve	13	0
María José García Beato	13	0
Juan Irazo Martín	10	0
José Ángel Partearroyo Martín	8	0
Antonio Gómez Ciria	8	0
Socorro Fernández Larrea	8	0
Santiago Lanzuela Marina	4	0

⁽⁵⁾ Two ordinary meetings and one extraordinary meeting included.

⁽⁶⁾ Two ordinary meetings and one extraordinary meeting included.

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

With respect to the number of attendances, please note that some directors have not held their office during 2014, specifically the following:

- >> Mr. José Ángel Partearroyo Martín was appointed proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), at the Board of Directors Meeting of 25 February 2014; he resigned at the Board of Directors Meeting of 29 July 2014.
- >> Mr. Miguel Boyer Salvador and Mr. Rui Manuel Janes Cartaxo have held office as independent directors until the Ordinary General Shareholders Meeting of Red Eléctrica Corporación, S.A., held on 9 May 2014.
- >> Mr. Antonio Gómez Ciria and Ms. Socorro Fernández Larrea were appointed independent directors of Red Eléctrica Corporación, S.A. at the Ordinary General Shareholders Meeting held on 9 May 2014.
- >> Mr. Juan Irazo Martín resigned from his post as independent director of Red Eléctrica Corporación, S.A. on 13 October 2014.
- >> Mr. Santiago Lanzuela Marina was appointed proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), by co-optation, at the Board of Directors Meeting of 29 July 2014.

Auditing Committee

Of the eleven (11) Auditing Committee meetings held in 2014, no Directors failed to attend.

Corporate Responsibility and Governance Committee

Of the twelve (17) Corporate Responsibility and Governance Committee meetings held in 2014, there have been 2 proxies and 1 absence.

Chairman of the Board and Chief Executive

At Red Eléctrica the Chairman of the Board of Directors is also the Chairman of the Company, and currently holds the position of Chief Executive thereof. He is responsible for ensuring that the resolutions of the Board of Directors are implemented, which he represents on a permanent basis.

Notwithstanding the above, in the Regulations of the Board of Directors, the Board of Directors has reserved, on a non-delegable basis, the responsibilities and powers that it considers to be strategic, which were broadened in 2013 as a result of amending the Regulations, as described in this Chapter. The non-delegable responsibilities cannot be exercised by the Chief Executive or the Board Committees.

The Chief Executive is subject to specific checks on his responsibilities by the Board of Directors, from which he must request subsequent ratification regarding urgent decisions that he has had to adopt or, as the case may be, request the prior authorisation thereof.

The independent directors, who represent 64% of the Board of Directors, together with the Board Committees (which have been assigned specific competences), contribute to the balance of power on the Board.

Nevertheless, in keeping with international recommendations on Corporate Governance, given that a single person at Red Eléctrica holds the offices of Chairman of the Board and Chief Executive, in 2013 we have taken further counterbalancing measures, by modifying the Regulations of the Board and the Corporate By-laws.

In this regard, the amendments to the Regulations of the Board of Directors on 13 March 2013, were:

- >> The possibility of creating the post of lead independent director and a procedure for appointing, removing and regulating their powers and responsibilities (a role that was appointed in May 2013).
- >> The introduction of specific measures for the personal separation of the posts of Chief Executive 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 chief executive of the Company, the independent directors should constitute a majority of the total number of directors.

The General Shareholders meeting held on 18 April 2013, amended the Corporate By-laws by introducing counterbalancing measures similar to those introduced in the Regulations of the Board of Directors, in cases in which the Chairman is also the chief executive of Company (regulating the role of lead independent director) and other measures that allow the separation of the two offices.

In this regard, in view of the new corporate legal regime approved in 2013, it is possible for the Board Chairman at Red Eléctrica not to be the chief executive of the Company, or even for one or more chief executives to be appointed other than the Chairman; issues that are currently being examined by the Corporate Responsibility and Governance Committee and by the Board of Directors. Steps are expected to be taken in 2015 on the matter, by these corporate bodies.

Another counterbalancing measure was approved by the Company's Board of Directors at its meeting held on 23 December 2014, following a proposal from the Chairman of the Board of Directors and subject to a prior report from the Governance and Corporate Liability Committee, consisting of increasing the number of members on each Board Committee- Auditing Committee and Governance and Corporate Responsibility Committee- from three (3) members to four (4). This measure has reinforced the presence of independent directors on the Board Committees, given that an independent director has been included on each Committee amend both Committees have three (3) independent directors and one (1) proprietary director.

CEO's ESG-Environmental, Social and Governance commitment

The CEO, as evidence of his firm personal commitment to social responsibility and the best practice in good corporate governance, has given instructions so that the Company, for and on his behalf, may make monetary donations to certain foundations, for an amount representing his total remuneration in 2014 under the 2009-2013 long-term remuneration plan.

Said donations have been made in favour of the ADECCO Foundation and the Comillas-ICAI University Foundation. The first donation, as part of ADECCO Foundation's activities to encourage collaboration towards creating employment and supporting social responsibility projects

(entrepreneurs, groups with difficulties to access the job market, etc.), has been assigned to the MUJER 2020 Project. The second donation has been used to finance final-year university projects in matters related to the promotion of training, research, innovation and investment in human and technical capital and in the energy field.

Directors' duties and responsibilities

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 Regulations of the Board, adopted in 2013, has sought to reflect the systems and terminology employed in a recent amendment to the Capital Companies Act (introduced by Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Capital Companies Act, 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 devices in order to act against potential infringements of Corporate Governance rules on the part of directors.

As stated in Chapter I above, following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, novelties have been introduced in relation to directors' duties; when the Board Regulations are reviewed to fully conform to the changes derived from the LSC reform, the necessary formal adjustments will be carried out.

The main novelties introduced in the Capital Companies Act, with respect to duties, are described below:

>> 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 judgment, 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 Regulations of the Board of Directors.

- Use of the name of the Company and status as a director

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 Corporate Responsibility and Governance Committee.

- Conflicts of interest

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 director involved shall abstain from voting on resolutions or decisions relating to the transaction affected by the conflict.

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 office 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 also communicate any direct or indirect interest that they and their related parties may hold in the capital of a company with the same, a similar or a complementary activity to the activity constituting the corporate purpose, and shall also notify the positions or functions they hold therein.

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 Shareholders Meeting, for which purpose they must make the notification

provided in the previous article. At the request of any shareholder, the General Shareholders 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 on 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.

Resignations

Article 22 of the Regulations of the Board of Directors provides that the Directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders 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 office to the Board of Directors and formalise, if the latter deems it appropriate, their resignation.

In 2014, the following removals, resignations and other circumstances took place:

- The Board of Directors Meeting of 28 January 2014 accepted the resignation presented by Mr. Alfredo Parra García-Moliner, from his post as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI).
- In light of the notice provided by the Chairman of the Board of Directors, Mr. José Folgado Blanco, to the Governance and Corporate Responsibility Committee, before reaching the age of 70 years (which took place on 3 April 2014), where he formally handed over his post to the Board of Directors, pursuant to Article 22.2.a) of the Board Regulations, and based on the opinion issued by the Governance and Corporate Responsibility Committee, at its meeting held on 16 January 2014, in the sense that his resignation as director was not necessary, the Board of Directors, at a meeting held on 28 January 2014, unanimously agreed to ratify his position as director and chairman of the Board of Directors; clearly, Mr. Folgado is fully capable and capacitated to perform his duties on the Board of Directors of Red Eléctrica Corporación, S.A., as evidenced by the value he has been providing to the Company as its chairman. Consequently, Mr. Folgado's office as director, approved by the General Shareholders Meeting, was extended until 19 April 2016.
- At the Ordinary General Shareholders Meeting held on 9 May 2014, the term expired to which the directors Mr. Rui Manuel Janes Cartaxo and Mr. Miguel Boyer Salvador had been appointed.
- The Board of Directors Meeting of 29 July 2014 accepted the resignation presented by Mr. José Angel Partearroyo Martín, as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI).

- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting of 28 October 2014, accepted the resignation presented by Mr. Juan Iranzo Martín in a letter dated 13 October 2014, from office as independent director.

Director's Portal

The Directors' Portal is a project that began 5 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.

The content of the portal is divided into various sections, distinguishing between documents for Board meetings, documents for the two Committees, other documents of special interest prepared by the Board, various sections within the corporate information of the Company, the main legislation affecting the activities of the Company, all the corporate information of interest to the directors in the exercise of their duties, information on the activities and functioning of the various organizational areas of the Company, information in the press affecting the Company and other information which may be useful for Directors to gain a better understanding of the activity and functioning of the Company and the exercise of their duties as Directors.

The content of the Directors' Portal has been extended several times; we have included information on Corporate Responsibility, developed the corporate documentation and made technical improvements, with it being 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, a new update of the Portal is expected to materialize: in light of the relevant progress made in IT over the last few years and based on reasonable experience in Portal use, it has been deemed appropriate to conduct a structural and functional review of the Director's Portal, in order to introduce technical improvements (software modernization, compatibility with new mobile electronic devices and navigators, etc.), resulting in a more modern and efficient application.

Evaluation of the Board

For a number of years, the self-evaluation process of RED ELÉCTRICA'S Board of Directors has involved external consultants specialising in the field, which provides the Board with a more objective and independent view on the issues discussed.

The self-evaluation process for the 2013 financial year, which focused on the Board of Directors and its Committees, including the Chairman, lead independent director and Secretary of the Board, was assisted for the first time by (PwC), given that KPMG, current external auditor of the Red Eléctrica Group, had been in charge for several years. This decision was adopted by the Board of Directors, further to a proposal from the Governance and Corporate Responsibility Committee.

The self-evaluation process was based on interviews to the Company directors by PwC managers, under the supervision and coordination of the Governance and Corporate Responsibility Committee and 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 Management Bodies.

Furthermore, those directors who also belonged to the Auditing Committee or Governance and Corporate Responsibility Committee 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 2013 self-evaluation process was approved by the Board of Directors Meeting of 29 July 2014.

Further to PwC's self-evaluation, based on interviews with directors, it was ascertained that the efficiency and adequate operation of the Company's Management Bodies have constituted solid features in its performance over 2013, obtaining a very positive valuation on the operation of its various Management Bodies. The directors coincided on the opinion that 2013 has been a year of consolidated cohesion of both the Board of Directors and other bodies.

Furthermore, a positive valuation was made by most directors in relation to formal aspects of these bodies, particularly with respect to availability, professionalism and preparation of the meetings and the quality of discussions.

A high score was also obtained by the performance of duties entrusted to the various Management Bodies. The directors positively highlighted the link amongst the members of the Management Bodies and the Senior Management. Furthermore, the 2013 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. This practice is related to:

- The presentation of the Board of Directors remuneration and Annual Report on directors' remuneration to a binding vote, as separate points of the General Meeting Agenda.

- Evaluation of the Management Bodies by an independent expert.
- Creation of the role of "lead independent director".
- The level of gender diversity within the Board of Directors.
- The level of transparency of the Annual Corporate Governance Report.

Furthermore, as a result of the 2013 self-evaluation process, several steps have been identified, carried out within the Board over the past year, which will continue to be reflected upon in 2014 and successive years, in order for RED ELÉCTRICA to continue moving forward towards good governance:

- To continue examining alternatives that enable a balance of power in the Board's composition, as a result of accumulation of the posts of chairman and chief executive, following the steps taken in 2013 (appointment of the lead independent director, consolidated role of Board Committees, etc.).
- To continue working towards the refreshment of directors' knowledge, particularly in matters related to corporate governance, the energy sector and international markets, allowing them to continue reinforcing the Board's capacities.
- To continue reinforcing the role of Lead Independent Director (LID), given that companies are gradually acquiring better knowledge and experience about the relevance of this figure and it is expected that corporate governance matters will remain a priority for companies over the next few years.

The self-evaluation process for 2014, which is currently underway, again includes an evaluation of the Board and its committees, to include the chairman, lead independent director and secretary of the Board. As was the case in 2013, 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 2014. 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 analysing 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 type of member directors.
- Another positive aspect is adequate operation of the Board of Directors, efficient decision-making and the generation of a good level of discussion on the Board, highlighting the chairman's role in this field.
- Furthermore, directors have highlighted reinforced capacities in the Board's composition, as a result of incorporating new profiles in the appointment of new directors over the past year.
- There is great satisfaction with the good interaction between the Board of Directors and Senior Management, particularly due to the readiness of company executives, their professionalism and preparation of their hearings.
- The chairman has received a very high score both as regards his role as chairman and as chief executive, and the development of the areas of responsibility entrusted.
- Directors are very satisfied with the internal operation and formal aspects of both the Auditing Committee and Government and Corporate Responsibility Committee- another issue to be highlighted.
- Directors are in favour of the existence of a lead independent director, whose responsibilities will continue to be make progress over the next few years.

- Finally, after several years during which it was one of the first IBEX companies to present its Annual Report on Directors Remuneration to the binding vote of the General Meeting, most directors have highlighted the high level of transparency and information achieved in disseminating the design, structure and content of the Remuneration Policy amongst the shareholders.

Furthermore, a series of challenges have been set for the Management Bodies of Red Eléctrica for the coming year:

- To continue making progress in matters related to the company's strategy and investments, given them more prominence in Board meetings.
- Given the relevance this year of all matters related to Corporate Governance and the new model implemented in Spain, there is a new focus on this issue, strengthening the training of directors in this field and in everything related to directors' responsibility.
- To continue developing the relationship between the Management Bodies and investors and proxy advisors, analysing and determining the interaction and involvement of the Board in these stakeholders.
- To analyse the impact of new regulatory requirements foreseen in the reform of the Capital Companies Act on the company's governance model.

Finally, please note that Act 31/2014, of 3 December, reforming the LSC, has included the obligation of listed companies to annually conduct a self-evaluation of their Board of Directors, incorporating an Action Plan as a result of this process (Art. 529.9), which Red Eléctrica has been fulfilling for some years now.

Remuneration Policy for the Board of Directors

The main elements and aspects of the Remuneration Policy for the Board of Directors have been described in Chapter I of this Title II, to which readers are referred to avoid unnecessary repetitions.

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 Corporate By-laws and the Regulations of the Board of Directors, the Company has two Board committees: the Auditing Committee and the Corporate Responsibility and Governance Committee. The functions and responsibilities of the Committees are established in the Corporate By-laws and in the Regulations of the Board of Directors, which are adapted to current legislation and recommendations in Corporate Governance matters.

In 2013, as already expressed in this report, the Corporate By-laws and Regulations of the Board of Directors have been adapted to include the latest international practices and recommendations in matters of Corporate Governance. Of particular note here is the adaptation of the statutory and regulatory composition of the Committees of the Board of Directors to the requirements demanded by shareholders, strengthening their independence through a mandatory majority of independent directors, a circumstance which already existed *de facto*. Advantage was also taken to carry out adaptations to current legislation and to include certain functions that both Committees were in reality already providing.

Following the reform of the Capital Companies Act (Act 31/2014), the latest international practice and recommendations has been consolidated as regards Committee composition, independence and qualifications of their members. The main aspects of this reform do not affect the corporate regulations of Red Eléctrica because, as indicated

above, these had already been included when the By-laws and Board Regulations were amended, as approved in 2013, and given that the vast majority of these were already being *de facto* fulfilled prior to the amendment. Nevertheless, these corporate rules are being reviewed to ensure that they fully adapt in 2015 to the new Act.

The main novelties related to Board Committees (introduced by Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance) are:

- > It is now necessary to establish one Committee or two separate Committees, along with the Auditing Committee, for Appointments and Remuneration.
- > Both the Auditing Committee and Appointments and Remuneration Committee should fully consist of non-executive directors, two of whom should at least be independent.
- > The chairman of each Committee will be designated from amongst independent directors.
- > The minimum competences of both Committees are established.

The Company's Board of Directors, at a meeting held on 23 December 2014, further to a proposal made by the chairman of the Board of Directors and subject to a prior opinion from the Government and Corporate Responsibility Committee, agreed to increase the number of members on each Board Committee- the Auditing Committee and Governance and Corporate Responsibility Committee- from three (3) to four(4) members. With this counterweight, the presence of independent directors has been reinforced on the Board Committees, given that each Committee has included an independent director, resulting in both Committees consisting of three (3) independent directors (75% of their members) and one (1) proprietary director.

Following this increase, on the Auditing Committee two (2) of its four (4) members are women (50%) and on the Governance and Corporate Responsibility Committee three (3) of its four (4) members are women (75%). Furthermore, at 31 December 2014, both Board Committees are chaired by a female independent director. In addition to reinforcing the independence of Board Committees, female membership has been reinforced.

For greater detail, as usual, Chapter IV, Title III herein includes a copy of the Annual Activity Report of both Board Committees, for the 2014 financial year.

1. Auditing Committee

As indicated above, since 23 December 2014 the Auditing Committee is comprised of four members, pursuant to Article 23 of the Corporate By-laws and Article 13 of the Board of Directors Regulations, which establish a minimum of three and a maximum of five members, all of whom are external directors and with the majority being independent directors, and appointed for a three-year term. As a result of this increase, the independent director Mr. Antonio Gómez Ciria has been appointed member of the Auditing Committee for a three-year term, based on his outstanding knowledge and accredited experience in accounting and auditing matters, as may be seen in the professional profile included in this Report.

The Chairman of the Committee is elected by its members from among the Independent Directors who sit on the Committee, and the Committee Secretary is the Secretary of the Board of Directors.

Throughout 2014, the Committee was exclusively comprised of External Directors, with a majority of Independent Directors. The composition of the Company's Auditing Committee at 31 December 2014, and on the date of approval of this report, is:

Director	Position	Type of Director
Paloma Sendín de Cáceres	Chairwoman	External independent
M ^a Ángeles Amador Millán	Member	External independent
Fernando Fernández Méndez de Andés	Member	External proprietary (SEPI)
Antonio Gómez Ciria	Member	External independent

The Directors on the Committee are particularly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside Red Eléctrica, in functions related to those entrusted to the Committee. The professional profiles of the members indicate knowledge and experience in accounting or auditing matters, or both, taken into account in their appointment, as foreseen in Article 13.1 of the Regulations of the Board of Directors, following its amendment in 2013.

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

Luis Villafuela Arranz, Corporate Director of Regulation and Global Risk Control, and Juan Lasala Bernad, Corporate Director of Economics & Finance, have also regularly attended Committee meetings to report on various matters falling within the areas of the Committee's responsibility.

In 2014, regarding an audit of the Annual Accounts of the Company and its Group for the 2013 financial year, the external auditor of the Company and its Group has explained the auditing process conducted and the final opinion of the auditors. The Committee decided to endorse the 2013 Annual Accounts.

>> Functions

Under Article 23 of the Corporate By-laws and Article 14 of the Regulations of the Board of Directors, the functions of the Auditing 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 Regulations of the Board of Directors approved in March 2013, encompasses the requirements of Additional Provision 18 of the Securities Market Act, adapts it to Article 23.1 of the Corporate By-laws and to the best international practices of Corporate Governance and also includes certain functions being undertaken, *de facto*, by the Committee.

The recent reform of the Capital Companies Act to improve corporate governance has introduced minimum competences of the Auditing Committee, which is why the Corporate By-laws and Board Regulations will be subject to a forthcoming review in order to fully adapt to the new Act. Although the idea will be to fully adjust to the LSC reform the tasks assigned to the Auditing Committee, most of which are already materially reflected in the Corporate By-laws and Regulations of the Board of Directors currently in force, of interest and relevance is the express assignment of a duty to supervise the "task" risk management system.

Of these groups of powers entrusted to the Auditing Committee, in the current Regulations of the Board of Directors, 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, reelecting 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 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- To establish the corresponding relations with the External Auditors in order to receive information about any issues that may jeopardize their independence, for assessment by the Committee, and any other issues related to the audit process, as well as any other communications envisaged in the audit legislation and 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 Article 23 of the Corporate By-laws.

- 4- In relation to compliance with legal provisions and internal rules, the Regulations establish an obligation on the Auditing Committee to supervise compliance with the Internal Code of Conduct on the Securities Market and with the functions of the Monitoring Body provided in that Code, periodically informing the Corporate Responsibility and Governance 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 on 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.

- 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 Shareholders 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 Shareholders 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 on the Securities Market for monitoring functions relating to the Company's treasury stock operations.

2. Corporate Responsibility and Governance Committee

Act 31/2014, of 3 December, has established 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 totally made up of non-executive directors. It has also gathered minimum competences in appointment and remuneration matters. At Red Eléctrica, The Committee that has been executing all these duties and responsibilities for years now is the Governance and Corporate Responsibility Committee. Both the composition and duties of the Governance and Corporate Responsibility Committee materially fulfil the requirements of the LSC reform (Art. 529.15 LSC), although the necessary adjustment will be necessary to the Corporate By-laws and Regulations of the Board of Directors in 2015 to ensure its full conformity to the LSC.

The Regulations of the Board of Directors provide that the Corporate Responsibility and Governance Committee will be as determined by the Board of Directors and comprise a minimum of three and a maximum of five members, from among the External Directors, and with the majority being Independent Directors.

This provision incorporates the best Corporate Government practices included in the LSC, which recommend the non-participation of executive directors on this Committee and that the majority of members be Independent Directors.

Of note here is the decision adopted in 2012 by the Board of Directors, which took place even before the modification of the Regulations of the Board of Directors in 2013, to adjust the composition of the Corporate Responsibility and Governance Committee and, for the first time, to have no participation by the Company's CEO.

The Committee Chairman shall be an Independent Director elected from among its members and the Secretary shall be Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors at the proposal of the Chairman of the Board. Committee members shall hold office for a period not exceeding three years, may be reelected and shall resign when they do so in their capacity as Directors or when the Board of Directors so decides, following a report from by the Corporate Responsibility and Governance Committee. The Chairman shall be replaced every three years and may be reelected after one year has elapsed since his dismissal.

During 2014, several changes have taken place in the composition of the Governance and Corporate Responsibility Committee:

- > The Board of Directors, at its meeting of 25 February 2014, has appointed Mr. Francisco Ruiz Jiménez as proprietary director, representing Sociedad Estatal de Participaciones Industriales (SEPI), as member of the Governance and Corporate Responsibility Committee, for the three-year term foreseen in the Board Regulations, in order to cover the vacancy arising on the Committee as a result of Mr. Alfredo Parra García-Moliner's resignation from his post of proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), which was accepted by the Company's Board of Directors at its meeting held on 28 January 2014.
- > On 13 October 2014, Mr. Juan Iranzo Martín resigned as independent director and Chairman of the Committee; said resignation was accepted by the Board of Directors on 28 October 2014. Following his resignation, the Board of Directors Meeting designated the independent director, Ms. M^a José García Beato, as members of the Governance and Corporate Responsibility Committee, for a three-year term, following a proposal made by the Chairman of the Board

of Directors and after receiving a report from the Governance and Corporate Responsibility Committee. Furthermore, the Governance and Corporate Responsibility Committee, at a meeting held on 6 November 2014, appointed the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve, Chairperson of the Committee, also for a three-year term. Ms. Gómez de Barreda is currently acting as lead independent director since her designation by the Board of Directors, at a meeting held on 28 May 2013, as proposed by the Committee.

- > After increasing the number of Committee members, as agreed by the Board of Directors Meeting of 23 December 2014, the Governance and Corporate Responsibility Committee now has four members instead of three, three of whom are independent external directors (75%) and one a proprietary director. As a result of this increase, Ms. Socorro Fernández Larrea, independent director, has been appointed member of the Governance and Corporate Responsibility Committee for a three-year term.

At the end of the 2014 financial year and at the date of approval of this Report, the Committee has the following composition:

Director	Post	Type of director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent & external
Francisco Ruiz Jiménez	Member	Proprietary & external (SEPI)
María José García Beato	Member	Independent & external
Socorro Fernández Larrea	Member	Independent & external

The Committee members have been appointed by the Board of Directors further to a proposal from the chairman, for a three-year term, subject to a prior report from the Governance and Corporate Responsibility Committee.

All Committee members have proven capacity to perform the tasks entrusted to the Commission, based on their long-term experience and knowledge.

Independent directors represent a voting majority (75%) on the Governance and Corporate Responsibility of the Committee, and the chairman must necessarily be an independent director.

>> Functions

The basic responsibilities of the Governance and Corporate Responsibility Committee, according to Article 24 of the Corporate By-laws, are provided below:

- a) For independent directors, to report on and propose, in advance, any proposals made by the Board of Directors to the General Meeting for the designation or removal of directors, even in co-optation situations. To propose to the Board the appointment of a lead independent director.
- b) To propose to the Board of Directors a remuneration policy for directors and senior executives, and to ensure its compliance.
- c) To perform duties of reporting, supervision and proposal in Corporate Governance matters, as determined by the Board of Directors.

The foregoing basic responsibilities have been specified further in Article 16 of the Regulations of the Board of Directors.

With the modification to the Regulations of the Board of Directors in March 2013, the functions of this Committee have been adapted to the best international practices of Corporate Governance; certain

legal provisions have been introduced, such as the reference to the Annual Board of Directors' Remuneration Report, regulated in Article 61 ter of the Securities Market Act, and also includes specific functions which were being undertaken by the Committee, but which had not been included in the Regulations.

The main functions of the Committee, after the modification of the Regulations, are as follows:

- 1- In relation to appointments, discharge of functions 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 Shareholders 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 Ordinary General Shareholders Meeting which must appoint or ratify their appointment, and for the recording of the appointment in the Annual Corporate Governance Report.

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 Corporate Responsibility and Governance 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.

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 Article 47 of these Regulations.

e) To ensure that the Annual Report on Directors' Compensation 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 authorise 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 Auditing Committee on the modification of the Internal Code of Conduct on 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 Shareholders meeting.

e) To direct the Board's assessment process and, in particular, regarding the Board Chairman and the Company's chief executive, 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 Auditing 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 analyse the actions and proposals made or resolved on in the area of Corporate Responsibility by the organisational 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.

CHAPTER VI.- THE LEAD INDEPENDENT DIRECTOR

1. Introduction

In accordance with international standards of Corporate Government, it is recommended that listed companies separate the posts of Chief Executive Officer (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 roles 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 separation of the posts of CEO and Chairman, the main foreign international investors and the major international proxy advisors, have accepted as an alternative temporary measure, the creation of a Lead independent director (LID-) within the Board of Directors to act as an additional counterweight to the concentration of power in the hands of the CEO-Chairman.

This measure has been included in the reform of the Capital Companies Act, which came into force on 24 December 2014 (Art. 529.7 LSC), which provides that where the Chairman is also the CEO, the Board of Directors, with the abstention of the CEO, should name a lead independent director from among the Independent Directors, who will have the special powers to request a meeting of the Board of Directors or to include new items on the agenda of a Board meeting already called, to coordinate and call meetings with Non-Executive Directors, and to lead, where appropriate, the periodic evaluation of the Chairman of the Board of Directors.

The Board of Directors of Red Eléctrica, at its meeting held on 13 March 2013, resolved to create the post of lead independent director, as proposed by the Corporate Responsibility and Governance Committee. The Ordinary General Shareholders Meeting of 18 April 2013, proceeded to amend the Corporate By-laws in this regard. The Board Meeting held on 28 May 2013, appointed Carmen Gómez de Barreda Tous de Monsalve as lead independent director, for a period of three years.

2. Functions

The essential responsibility of the Lead independent director of Red Eléctrica, further to Article 25.bis) of the Corporate By-laws, which must be taken into account for carrying out the other functions described in the Regulations of the Board of Directors, of organising the common positions of the independent directors and being the communicator or spokesperson of those common positions with respect to the Chairman of the Board of Directors, the Board itself and the Board's Committees.

Pursuant to the provisions of Article 9 bis of the Regulations of the Board of Directors, and without prejudice to the other functions which they may have expressly assigned in the Regulations of the Board of Directors, the lead independent director shall have the following powers:

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) 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) Take part in drawing up the annual timetable of the Board of Directors meetings, in coordination with the Chairman, the Board secretary and the Corporate Responsibility and Governance Committee.

e) To participate in the Board's self-assessment process and, in particular, regarding the Board Chairman and Company's senior executive, in coordination with the Corporate Responsibility and Governance Committee.

f) To carry out other responsibilities that the Board of Directors attributes expressly to him, where applicable.

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 role of the lead independent director has broad responsibilities acknowledged in the Corporate By-laws and Regulations of the Company's Board of Directors, in 2015 it is expected that these will be reviewed further to the review of the Regulations of the Board of Directors, to full conform to the LSC.

The lead independent director has arranged various meetings with independent directors in 2014, to find out their opinions and coordinate common position, on various matters discussed by the Board of Directors.

Article 16 of the Regulations of the Board of Directors establishes, among the basic responsibilities of the Corporate Responsibility and Governance 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.

In its organisational structure, the aforementioned directors report directly to the chief executive and chairman of the Company.

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.

The Annual Reports on Remuneration and Board of Directors Remuneration Policy, approved by the Board of Directors and by the Ordinary General Shareholders Meeting, present information on the total remuneration paid to these executives.

As regards remuneration for financial year 2014 for these executives, please see the Annual Reports on Remuneration and Board of Directors Remuneration Policy, approved by the Board of Directors in February 2015, which includes information on Senior Executives, as well as the information contained in the Company's 2014 Annual Accounts.

CHAPTER VII.- SENIOR MANAGEMENT

The persons holding Senior Management positions at the Company at 31 December 2014, excluding the CEO, were as follows:

Name	Position
Carlos Collantes Pérez-Ardá	Director General of Transmission
Andrés Seco García	Director General of Operation

CHAPTER VIII.- RISK POLICY AND INTERNAL CONTROL SYSTEMS

1. Scope of the Company's Risk Management System

Red Eléctrica Group has operated a Risk Management System since 2002, the Company having developed its first Risk Map in 2003.

The Risk Management System implemented by the Company is integrated and continuous; with this management being consolidated by each business unit, subsidiary and support areas at corporate level.

The purpose of this Risk Management System is to ensure that the risks that may affect the strategies and objectives of Red Eléctrica Group are systematically identified, analysed, assessed, managed and controlled, applying uniform criteria, within the established risk limits, so that the strategies and objectives of the Red Eléctrica Group can be fulfilled.

In accordance with the Spanish Unified Good Governance Code (Unified Good Governance Code of Listed Companies, published on 19 May 2006) and the Regulations of the Board of Directors of Red Eléctrica, it is the Board of Directors itself that should approve the Risk Control and Management Policy. This policy identifies the different kinds of risk, sets the level of risk the Company deems to be acceptable, and the necessary measures to mitigate the impact of these risks.

Within the internal regulatory framework of Red Eléctrica Group, the above-mentioned manifests as:

- > Integrated Risk Management Policy⁽⁷⁾.
- > General Procedure of Integrated Risk Control and Management⁽⁸⁾.

⁽⁷⁾ The existing policy is the 4th edition, approved by the Board of Directors on 25/11/2014.

⁽⁸⁾ The existing procedure is the 4th edition and was approved by the Management Committee on 17/01/2013.

As part of the internal policy of continuous improvement of processes, 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 any relevant tax risks for the Company. Nevertheless, in order to cover the provisions established in Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary action is being taken in the system with respect to tax risks.

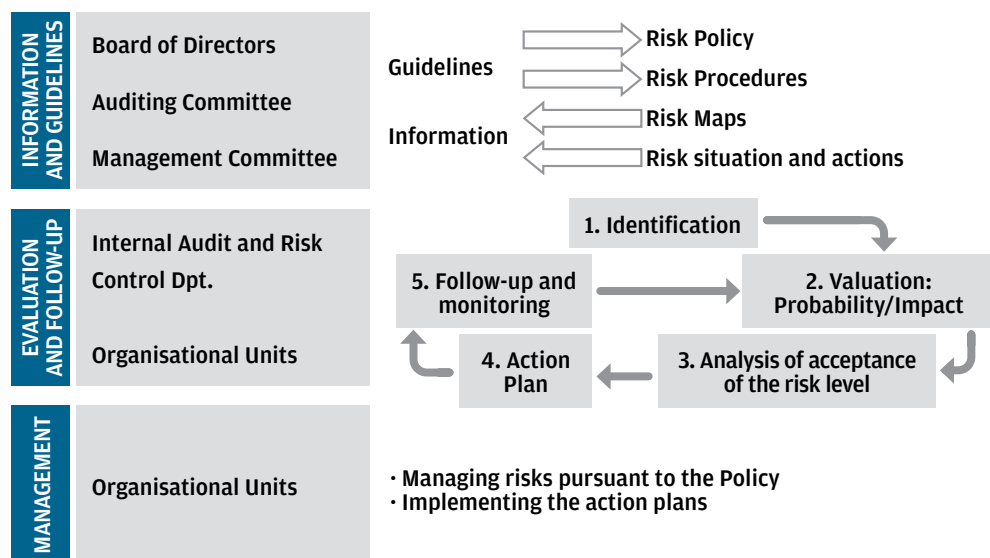
An update of the Integrated Risk Management Policy, approved by the Board of Directors in November 2014, was aimed at maintaining it fully updated in relation to the Group's Strategic Plan at all times. This Policy is available on the corporate website, under “Corporate Governance”.

2. Company Bodies responsible for the preparation and implementation of the Risk Management System

As previously stated, the Risk Management System is integrated in nature, in so far as all of the Group's business units participate in it, along with the various governing bodies, within a systematised management process, which conforms to the criteria and guidelines established in the Policy and General Procedure of Integrated Risk Control and Management.

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

INTEGRATED RISK MANAGEMENT MODEL



As expressly recognised in the Regulations of the **Board of Directors**, the Board of Directors is responsible for approval of the Integrated Risk Management Policy of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.

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

The **Auditing Committee** has been given the powers to periodically supervise the risk management system, to ensure that the main 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 **Global Risk Control And Regulation Department**, which reports to the Office of the Chairman, is, through the **Internal Auditing and Risk Control Department**, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports for the Management Committee, Auditing Committee and the Board of Directors. Amongst 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 **organisational 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.

3. Main risks that could affect the achievement of the business objectives

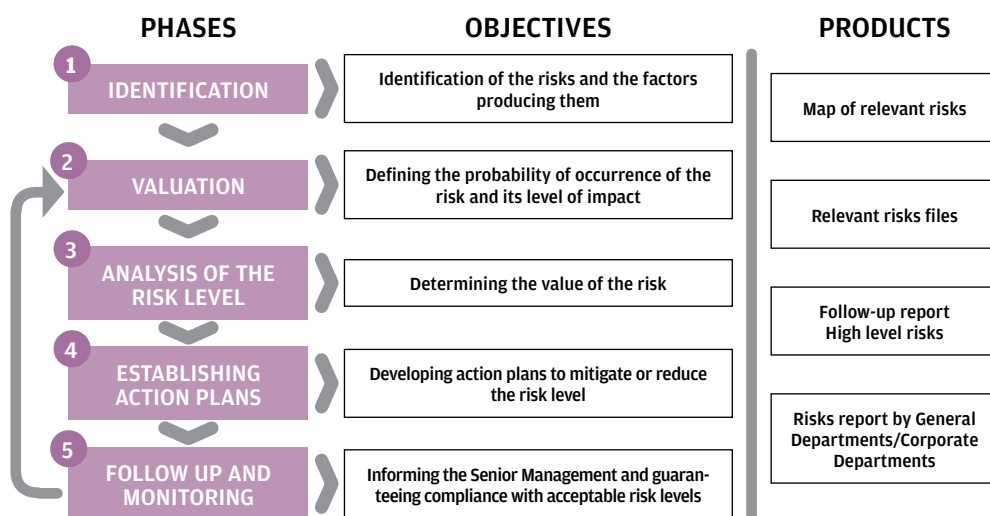
The principal business of the Red Eléctrica de España Group is the transmission of electricity and operation of the electricity system in Spain, which are regulated activities, in so far as they are critical to the security and continuity of electricity supply and are carried out on an exclusive basis.

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

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 deriving from the inadequacy or failure of processes, personnel, internal equipment or systems or due to external events. Although this type of risk is common in all kinds of economic activity, the critical nature of the functions carried out by Red Eléctrica Group mean that this type of risk could have a wider social and economic importance, for which reason it is necessary to pay them special attention.

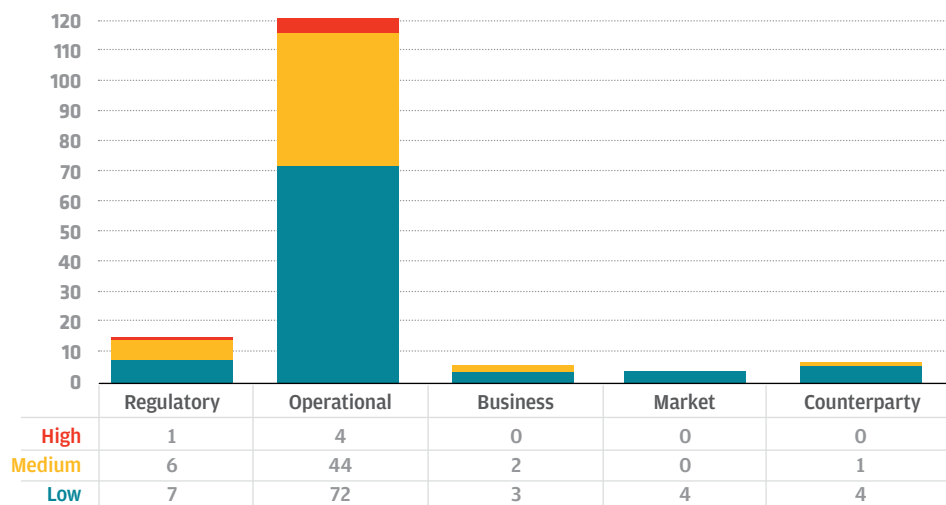
EVALUATION AND MONITORING OF RISKS



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

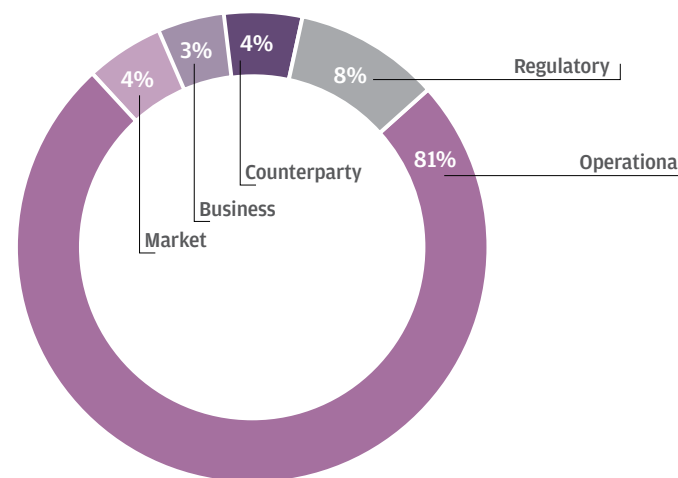
- > Market risks
- > Business risks outside the electricity system
- > Counterparty risk

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest Risks Map produced, 148 risks are identified, the distribution of which, in function of the typologies defined above, is shown in the graph below.



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

Risk distribution by category is shown below:



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.

In 2015 it is expected to include in the Risk Map those risks related to a breach by the Company of the Criminal Code, further to the Criminal Risk Prevention Programme.

4. Level of risk tolerance

The Risk Management System of Red Eléctrica Group sets out a methodology to determine the acceptable level of risk and the level of tolerance, as a result all identified risks are classified into three categories:

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

To establish the level of a risk, two parameters are used: the probability of the risk occurring and the impact it would have on the company if it did materialise.

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

- > Very high.
- > High.
- > Medium.
- > Low.

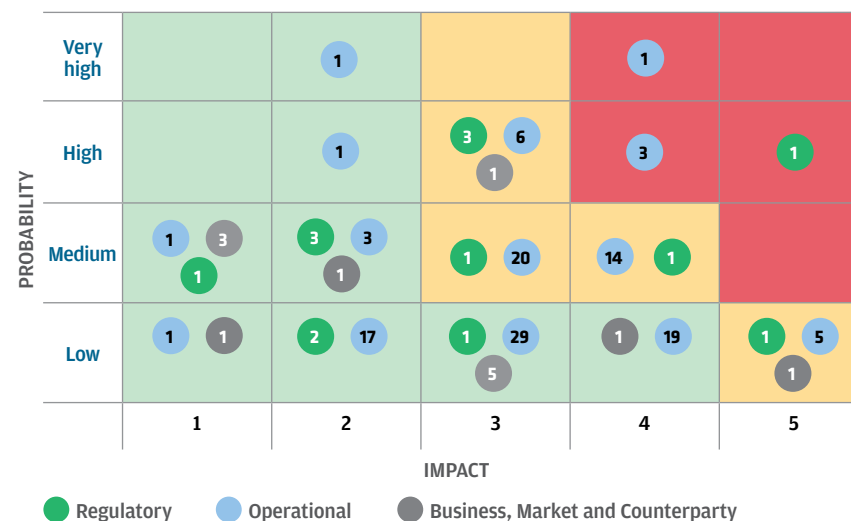
In relation to their impact, risks are rated on the basis of the effect that their materialisation could have on four key elements of the business:

- > The supply of electricity. Measured by the Energy Not Supplied (ENS) as a result of the possible event.
- > The achievement of basic strategies. Degree of impact on the achievement of basic strategies.
- > Reputation. Degree of impact on reputation (geographical scope, duration and reparability).
- > The income statement. Impact on the income statement, before Corporate Income Tax.

For each of these four elements, Red Eléctrica Group has produced a table showing 5 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.

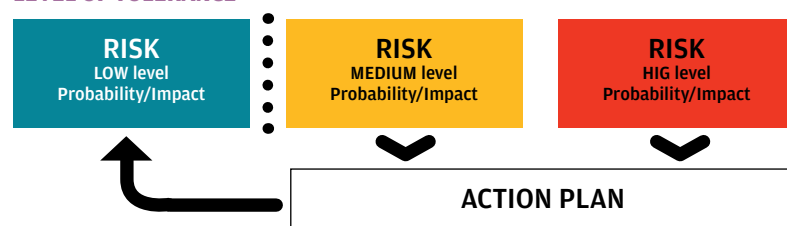
The position on the probability/impact matrix, which depends on the probability of occurrence and the level of impact of each risk, automatically determines the level of risk (red box = high risk, orange box = medium risk and green box = low risk).

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.

LEVEL OF TOLERANCE



5. Materialised risks in 2014

There were no materialised risks of note in the 2014 fiscal year (However, please see the information in Section E.5 of Annex I Standard Form of Circular 5/2013, of 12 June, of the National Securities Market Commission, which is included as an Official Annex of this report).

6. Response and Supervision Plans for the Group's principal risks Prevention of risks in the design and functioning of Red Eléctrica Group processes

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

Action and Supervision of Risks Plans

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.

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.
- > Determine 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.

- > Establish the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- > Relate the specific contingency plans that exist at Red Eléctrica for each type of event.

Furthermore, it should be noted that in 2007 Red Eléctrica embarked on a project to align, review and improve its System for Internal Control over Financial Reporting (ICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, with the early and voluntary adoption of international best practices.

This ICFR is fully detailed in the “SECTION F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF FINANCIAL REPORTING (ICFR)”, of Official Annex of this report, in accordance with Annex I Standard Form of Circular 5/2013, of 12 June, of the National Securities Market Commission.

CHAPTER IX.- RELATED-PARTY TRANSACTIONS

Pursuant to article 5.5 of the Regulations of the Board of Directors, the Board of Directors has direct responsibilities that cannot be delegated for authorisation 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 Auditing Committee.

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 Auditing Committee is responsible for reporting in advance to the Board of Directors on related-party transactions requiring authorisation from the Board pursuant to the aforementioned article 5.5 that it considers the Board should be aware of, even where authorisation from the Board is not required.

Pursuant to articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010, the Board of Directors, at the proposal of the Auditing Committee, approved a policy on controlling related-party transactions and defined objective parameters for the control of related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions and must obligatorily be reported to the securities markets. The Auditing Committee monitors this policy annually and reports to the Board of Directors.

In accordance with the provisions of Article 39 of the Regulations of the Board of Directors, 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 Shareholders meeting.

Pursuant to article 32 of the Regulations of the Board of Directors, 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 article 32 of the Regulations of the Board of Directors, 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 Capital Companies Act 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 Auditing Committee in relation to director-related operations. The LSC reform, amongst others, will require a review of Articles 5, 14 and 32 of the Board Regulations in order to accordingly adjust them to current law.

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

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

In addition, Article 2 of the Internal Code of Conduct on 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.

Under Article 7 of the Internal Code of Conduct on 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 Subarticle, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate By-laws and in the Regulations of the Board of Directors, 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 Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Directorate-General of Administration and Finance (following the Company's internal reorganisation, now the Corporate Economic and Financial Department), which will act in collaboration with the Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to article 13 of the Internal Regulations on Securities Market Conduct, the Auditing 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 Auditing Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Corporate Responsibility and Governance 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, Article 2.1.3 of the Internal Code of Conduct on 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. Article 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.

At the same time as the Regulations of the Board of Directors are reviewed, it will be examined in 2015 whether the LSC reform entails adjustments in the Internal Regulations on Securities Market Conduct, particularly as regards related-party operations.