

RED ELÉCTRICA
DE ESPAÑA

Board of Directors

17 April 2008

**Annual Corporate Governance Report
2007 Fiscal Year**



For Red Eléctrica implementing best corporate governance principles and practices is a strategic objective of the highest order. It is an essential requirement for recognition of a business undertaking that aspires to excellence and the creation of value on a continuing basis, for the benefit of shareholders and electricity consumers.

Currently Red Eléctrica believes, on a voluntary, convinced and continuing basis, that using best corporate governance principles and practices furthermore is one of the key elements in implementation of the Company's social responsibility policy. Therefore within Red Eléctrica corporate governance is linked to the Company's vision, the commitments it has assumed and relationships with shareholders, consumers, markets and society and, therefore, is a part of our corporate culture.

This Annual Corporate Governance Report for the 2007 fiscal year reflects the daily work of all of those in Red Eléctrica to incorporate corporate governance principles and practices into our daily organisational routine, both as regards the structure and functioning of governing bodies and our commitments and responsibilities to our shareholders and stakeholders.

Contributing to sustainable development is one of the principles guiding the daily activities of Red Eléctrica. To the extent that corporate governance principles and practices continue to advance within our Company, the sustainability model in accordance with which we wish to conduct our business shall be strengthened, at all times resulting in economic, social and environmental benefits in balance with these principles and practices.

This is our principal challenge regarding corporate governance for a socially responsible future that already exists.

Signed. Luis M^a Atienza Serna
Chairman of the Board of Directors.



INTRODUCTION

1. Purpose of Report.

RED ELÉCTRICA DE ESPAÑA, S.A. (hereinafter without distinction referred to as RED ELÉCTRICA, the Corporation, the Company or the Parent Company) has, since its inception, had a firm, decided and priority concern to adopt better corporate governance practices, beyond the strict fulfilment of current regulations and domestic and international recommendations on the matter.

Thus, since it was listed on the stock exchange in 1999 the Company has been voluntarily adopting a whole series of practices, measures and procedures in this regard, aimed at achieving greater efficiency, transparency, independence, representativeness, security and quality when exercising the duties of the Company's management bodies.

The purpose of the Annual Corporate Governance Report for the 2007 fiscal year, as has become customary, is not limited to meeting the requirements established by the legal system, basically contained in Act 26/2003 of 17 July 2003, Ministry of Economy Order 3772/2003 of 26 December 2003, and CNMV (Comisión Nacional del Mercado de Valores - National Securities Market Commission) Circular 4/2007 of 27 December 2007. The report is intended to reflect, fully and in a detailed manner, the ownership and management structure of the Company, the obligations of board members, and, generally, such matters as shareholders, investors and the markets may deem to be relevant to better understanding of the Company.

The report attempts to reflect, for one more year, the constant effort of those today comprising RED ELÉCTRICA to achieve business excellence and maintain the Company's notable position regarding implementation of corporate governance principles and practices of listed companies.

The information in this report is complemented by the information continuously posted on the Company's website (www.ree.es).

2. Methodology.

As in prior years, to facilitate use and better understanding by shareholders, investors, analysts and the markets, the report is structured into two clearly differentiated parts. In the first part under the heading "*Corporate governance principles and practices within RED ELÉCTRICA*" we briefly state the principal aspects of the matter by discussing the following questions:

1. In the first place a beginning chapter is dedicated to discussion of corporate governance principles and practices related to the Company's governing and management bodies. This is accomplished by analysing the principal characteristics of the internal legal framework, the General Shareholders Meeting, the shareholding structure, the Board of Directors and Red Eléctrica's Senior Management.
2. In the second place, without prejudice to preparation apart from this document of a corporate responsibility report, special attention is given to examination of inclusion of the Company's social responsibility policy as a fundamental pillar of corporate



governance principles and practices. Thus, the basic principles of the various policies that the Company is employing in this regard regarding social responsibility, disclosure to markets, the environment and risks are analysed.

3. In the third place, we discuss the principal corporate governance resolutions adopted during the 2007 fiscal year.

The second part of the document sets forth the Company's Annual Corporate Governance Report for the 2007 fiscal year, in accordance with and in the format established in Annex I of CNMV Circular 4/2007 of 27 December 2007.

For this purpose, we have followed the guidelines established in the Circular regarding: ownership structure (section a); the structure of the Company's management (section b); related party transactions (section c); risk control (section d); the General Meeting (section e); the degree of compliance with corporate governance recommendations (section f); and other information of interest (section g). This section includes the reports on activities of the Audit and Nominating, Compensation and Corporate Governance Committees for the 2007 fiscal year, and the list of notifications and material disclosures to the CNMV during 2007.

3. Outline of the report.

For more ready consultation of the document, below is an outline of this report:

FIRST PART: CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES WITHIN RED ELÉCTRICA

I. GOVERNING AND MANAGEMENT BODIES

1. INTERNAL LEGAL FRAMEWORK.

- 1.1. Introduction.
- 1.2. Bylaws.
- 1.3. Board of Directors Regulations.
- 1.4. General Shareholders Meeting Regulations.
- 1.5. Internal Regulations for Conduct in the Securities Market
- 1.6. Independent Director's Statute.
- 1.7. Procedures for remote proxies, voting and information at General Shareholders Meetings.
- 1.8. Code of Ethics.
- 1.9. Constant adaptation and modification of rules.

2. ORDINARY GENERAL SHAREHOLDERS MEETING.

- 2.1. Organisation, authority and composition.
- 2.2. Current composition of Company's shareholdings.
- 2.3. The special legal status of Red Eléctrica and limitations imposed on shareholdings therein.
- 2.4. Shareholder rights.
- 2.5. Best corporate governance practices in respect of General Shareholders Meeting and shareholder rights.



3. BOARD OF DIRECTORS

- 3.1. Organisation, authority and composition.
- 3.2. Experience.
- 3.3. Committees.
- 3.4. Attendance at and failure to attend board of directors and committee meetings.
- 3.5. Self-evaluation.
- 3.6. Compensation policy
- 3.7. Best corporate governance practices within the Board of Directors.

4. SENIOR MANAGEMENT.

- 4.1. Experience
- 4.2. Compensation policy

II. CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY WITHIN RED ELÉCTRICA.

1. SOCIAL RESPONSIBILITY POLICY AS AN ELEMENT OF CORPORATE GOVERNANCE.
2. SOCIAL RESPONSIBILITY POLICY PRINCIPLES WITHIN RED ELÉCTRICA.
3. MARKET DISCLOSURE POLICY.
4. ENVIRONMENTAL POLICY.
5. RISK POLICY.
6. RECOGNITION OF THE COMPANY.

III. PRINCIPAL RESOLUTIONS OF THE 2007 FISCAL YEAR RELATED TO CORPORATE GOVERNANCE.

SECOND PART: MODEL OF ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED CORPORATIONS FOR THE 2007 FISCAL YEAR, IN ACCORDANCE WITH CNMV CIRCULAR 4/2007.

1. OWNERSHIP STRUCTURE (SECTION A);
2. STRUCTURE OF THE COMPANY'S MANAGEMENT (SECTION B);
3. RELATED PARTY TRANSACTIONS (SECTION C);
4. RISK CONTROL SYSTEM (SECTION D);
5. GENERAL MEETING (SECTION E);
6. DEGREE OF COMPLIANCE WITH RECOMMENDATIONS (SECTION F)
7. OTHER INFORMATION OF INTEREST (SECTION G).
 - 7.1. Audit Committee Report for 2007 fiscal year.
 - 7.2. Nominating, Compensation and Corporate Governance Committee Report for 2007 fiscal year.
 - 7.3. List of notifications and material disclosures to the CNMV during 2007.



FIRST PART: CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES WITHIN RED ELÉCTRICA

I. GOVERNING AND MANAGEMENT BODIES

1. INTERNAL LEGAL FRAMEWORK.

1.1. Introduction.

Within the actions aimed at achieving business excellence regarding corporate governance, RED ELÉCTRICA's principal concerns have included voluntary implementation of a whole series of rules and procedures in addition to the applicable legal requirements. The objective is to achieve greater effectiveness and transparency in the Company's corporate governance.

These rules can always be consulted on the website (www.ree.es). They are contained in the following documents:

- The Bylaws.
- The Board of Directors Regulations.
- The General Shareholders Meeting Regulations.
- The Internal Regulations for Conduct in the Securities Market
- The Independent Director's Statute.
- The Procedures for remote proxies, voting and information for General Shareholders Meetings.
- The Code of Ethics.

1.2. Bylaws.

They are subject to constant adaptation to best corporate governance practices and principles. For that purpose they have been successively amended by the Company's Ordinary General Meeting during the 2003, 2004, 2005, 2006 and 2007 fiscal years.

The amendments have been notified to the CNMV and registered with the Commercial Register.

1.3. Board of Directors Regulations

They were approved by the Company's Board of Directors on 20 December 2007, amending the prior text of 18 November 2003.

As indicated in article 22 of the Bylaws, the principal purpose is to establish the basic rules of organisation and procedure of the Board of Directors and its committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its committees, to achieve the greatest professionalism and effectiveness in its actions. All of this is carried out by encouraging the active participation of its members, giving priority to the interests of the Company and of its shareholders over their own interests, and upholding the law, bylaws and corporate governance principles.

They have been notified to the CNMV and recorded with the Commercial Register.



1.4. General Shareholders Meeting Regulations

They were approved by the General Shareholders Meeting of 17 July 2003 and were amended during the 2007 fiscal year.

The Regulations incorporate the basic principles of shareholder rights within Red Eléctrica, in line with best corporate governance practices. They include all of the new forms of shareholder protection and participation, the objective being to recognise, encourage and strengthen their rights within the Company to the maximum extent possible.

They have been notified to the CNMV and recorded with the Commercial Register.

1.5. Internal Regulations for Conduct in the Securities Market

They were approved by the Board of Directors on 20 July 2006, and replace the prior texts regarding the matter approved in 1994 and 2003.

The Regulations go beyond the strict legal requirements, being characterised by the Company's constant objective to implement best corporate governance practices. The Regulations are particularly notable by reason of their adaptation to the rules regarding market abuse, processing of material privileged information and obligations to disclose shareholdings of directors and executives to the CNMV, as well as approval of a whole series of procedures in respect of transactions in its own shares (treasury share transactions).

They have been registered with the CNMV.

1.6. Independent Director's Statute.

It was approved by the Board of Directors at its meeting held on 27 May 2004.

Its principal purpose is to establish certain criteria in respect of independent Directors, and to incorporate them in a consistent manner with the operating criteria established in the Bylaws, thereby continuing with the permanent adaptation to the best corporate governance practice that is followed by the Company.

The Statute contains a whole series of criteria to provide better definition and transparency in the election of potential independent directors, and detailed provisions on their requirements and incompatibilities, in order to strengthen the role of these directors and protect minority shareholders.

It was voluntarily prepared by the Company, and has been notified to the CNMV.

1.7. Procedures for remote proxies, voting and information at General Shareholders Meetings.

The Company's Board of Directors for the first time adopted a procedure for electronic voting at the Ordinary General Shareholders Meeting held on 26 May 2005. The Company was one of the first listed companies to successfully implement electronic voting for its shareholders.

Following the Company's policy to adopt best domestic and international practices, with practical, technical and legal uncertainties having been overcome, and based on the



positive experience of other listed companies, on 23 March 2006 the Board of Directors established a procedure that, in addition to electronic voting, as its principal innovation regulated the use of remote proxies, the option of voting by mail and issuing duplicates of attendance, proxy and voting cards, as well as the possibility of requesting information by electronic means, all in accordance with the provisions of the Bylaws and the General Meeting Regulations.

This procedure proved to be satisfactory, having been used by 164 shareholders, the holders of 27,825 shares. They voted and/or gave proxies electronically for the Company's Ordinary General Shareholders Meeting held on 26 May 2006. This placed the Company in the forefront in encouragement of shareholder rights to participate online. Specifically, RED ELÉCTRICA is in fourth place in this regard, within the selective IBEX-35 stockmarket index (see Revista Consejeros, no. 15, March 2007, year 3, page 33).

Based on all the foregoing, continuing on the line of providing its shareholders with advanced online means of exercising their rights, the Board of Directors on 25 April 2007 approved the rules regarding remote voting and proxies and the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2006 fiscal year. The procedure again was a success. 322 shareholders, the holders of 53,186 shares, voted and/or gave proxies electronically.

1.8. Code of Ethics.

It was approved at the Board of Directors meeting of 26 July 2007, after an extensive process of public disclosure during which more than a hundred comments were received from all employees of the Group.

The Code reflects the corporate identity and commitments to the business community and various stakeholders affected by the activities of the Red Eléctrica Group. The Code contains the fundamental principles that must guide all members of the Board of Directors, the management bodies and the employees of the Red Eléctrica Group. In addition it can be invoked by the stakeholders. Particularly notable is the Code's internal procedure for management of inquiries and complaints, to assure the proper response. This procedure is already in operation.

It was voluntarily prepared by the Company, and has been disseminated to all Red Eléctrica Group personnel.

1.9. Constant adaptation and modification of rules.

The Company's corporate governance rules are constantly amended to improve shareholder information rights and lend greater transparency to the information.

During the 2007 fiscal year there were amendments to the Bylaws, the General Shareholders Meeting Regulations, the Board of Directors Regulations and the procedures for remote proxies, voting and information. And a Code of Ethics was approved that applies to all members of the Board of Directors, management bodies and Red Eléctrica Group employees.

The principal purpose of the amendments was to incorporate, prior to their effectiveness, the recommendations contained in the Uniform Good Governance Code of Listed Companies ("CUBG" or "Conthe Code"), approved on 19 May 2006 by the Special Working Group advising the CNMV on standardisation and updating of



recommendations in the Olivencia and Aldama Reports on good governance of listed companies.

Although the Company complied with the majority of the recommendations contained in the CUBG and it was suggested therein by the Special Group that the recommendations not be made mandatory by the CNMV until the presentation in 2008 of the Annual Corporate Governance Reports corresponding to the 2007 fiscal year, RED ELÉCTRICA concluded that it was appropriate to voluntarily and gradually adopt the recommendations contained in the CUBG.

Also, shareholder rights as regards information and attendance at General Meetings have been expanded (right of attendance, call, inclusion of points and proposals on the agenda, inquiries and requests for information, proxies and voting). And requesting and obtaining information have been simplified, both online and by mail, also encouraging participation of shareholders at Meetings, improving the possibilities of use of electronic media.

2. ORDINARY GENERAL SHAREHOLDERS MEETING.

2.1. Organisation, authority and composition.

The General Meeting, duly called and legally constituted, represents all the shareholders and exercises its corresponding powers and duties in the Company.

Its resolutions, adopted pursuant to the Meeting Regulations and the Bylaws, shall bind all shareholders, notwithstanding their legal right of withdrawal. The General Meeting shall have authority to adopt all resolutions inherent in its status as the Company's sovereign body. In particular, by way of example, it has the following authority:

- To approve the financial statements of RED ELÉCTRICA and of its subsidiaries, the management performance of the Board of Directors, and the proposed allocation of profits.
- To appoint and remove Directors, to ratify or revoke their appointment by cooption and to appoint and re-elect auditors of accounts.
- To establish programmes for or authorise transactions in treasury shares.
- To approve the establishment of compensation systems tied to share value in favour of Directors.
- To resolve to issue debentures, increase or decrease capital, transform, merge, spin off or dissolve the Company, and make any amendment of the Bylaws.
- To authorise the Board of Directors to increase capital pursuant to the provisions of the Corporations Act (Ley de Sociedades Anónimas - LSA).
- To approve transactions the effect of which is equivalent to changing the Company's corporate purpose.

The Board's organisational and procedural rules are included in the Bylaws (articles 11 to 18, both inclusive) and in the General Shareholders Meeting Regulations.

2.2. Current composition of shareholdings in the Company.

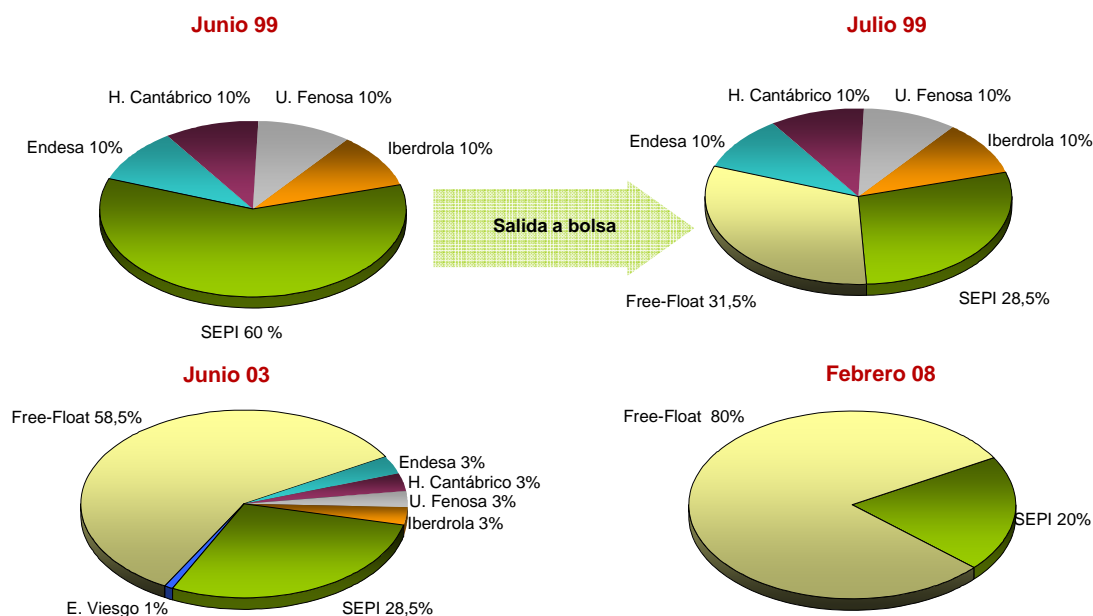


Pursuant to the provisions established in Royal Decree 1362/2007 of 19 October 2007 on the reporting of significant shareholdings in listed companies and on the acquisition by the latter of treasury shares, it is noted that the State Industrial Ownership Corporation (SEPI), at 31 December 2007, directly held a significant interest in the Company by owning 27,054,000 shares, representing 20% of capital.

There is no other individual or legal entity that exercises or may exercise control over the Company as provided in article 4 of the Securities Market Act.

Set forth below is a series of graphs summarising the evolution of the Company's shareholding structure ("*Evolución del Accionariado*" corresponding to June 1999, July 1999 –Listing of the Company-, June 2003 and February 2008):

Evolución del Accionariado



2.3. The special legal status of Red Eléctrica and limitations imposed on shareholdings therein.

Various amendments affecting shareholders of the Company have been introduced by Act 17/2007 of 4 July 2007, amending Electricity Sector Act 54/1997 of 27 November 1997 to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity.

The purpose of these amendments is, inter alia, to guarantee the Company's independence as regards the other activities and participants in the electricity sector, since the business conducted by Red Eléctrica is considered by the national legislature to be an essential service. Specifically, the second section of the third additional provision of Act 17/2007 of 4 July 2007 establishes new maximum limits on shareholdings in the Company, which are summarised below:



- Any individual or legal person may hold shares in the Company, provided that the sum of its direct and indirect interests in the Company is not more than five percent (5%) of share capital. Nor can it exercise more than three percent (3%) of voting rights. These shares may not be pooled for any purpose whatsoever.
- Those engaging in business in the electricity sector, and the individuals or legal persons that directly or indirectly hold greater than five percent (5%) interests therein, may not exercise more than one percent (1%) of the voting rights in the Company.
- The special system for the State Industrial Ownership Corporation (SEPI) is maintained, whereby it in any case must hold at least a ten percent (10%) interest.

The legal provisions regarding the general and special shareholding systems are set forth in articles 5 and 14 of the sole additional provision and the second transitory provision of the Company's bylaws. In order to adapt them to the provisions of Act 17/2007 of 4 July 2007, described above, they shall be amended at the Ordinary General Shareholders Meeting to be held next May 2008.

2.4. Shareholder rights.

RED ELÉCTRICA's effort in recent years to respond to expectations of its shareholders and investors, beyond the requirements established by law, has led to its public recognition by the Markets, institutions and specialists in the sector.

Shareholder rights are regulated in article 15 of the Bylaws, which expressly refers to the information right and right to attend General Meetings, and in articles 6 to 10 of the Meeting Regulations.

Right to information

The Company is especially attentive to the right to information, as reflected in article 15 of the Bylaws and article 8 of the Meeting Regulations. Article 8 of the Meeting Regulations establishes an obligation to place at the disposal of shareholders, free of charge, both through the Shareholders Office and on the corporate website, documentation and information related to the agenda of the Meeting

In addition, shareholders during the Meeting can verbally request such reports or clarifications as they consider appropriate regarding matters included on the agenda. If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting.

Right of attendance

Shareholders may attend the General Shareholders Meeting if they are current in payment of capital contributions and demonstrate ownership by certification in their names in the accounting register of book entries five days before the day the Meeting is to be held. Board members and officers of the Company must attend the General Meetings.

As a general rule, to promote the broadest dissemination of information regarding meetings and the resolutions adopted, the communications media are given access to the General Meeting. To this effect, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend (which all



shareholders enjoy as indicated below, because there is no requirement regarding a minimum number of shares to attend the Meetings) may be represented in the General Meeting by another shareholder with the right to attend, as established in the Corporations Act.

Right to participate and new technologies

The Meeting Regulations also facilitate as far as possible participation of shareholders in matters of interest (right to attend, call, inclusion of points and proposals on the agenda, questions and requests for information and voting).

The Meeting Regulations provide that shareholders owning 5% of share capital may request that the Board, prior to the call, include any point on the agenda for the next General Meeting. The Board of Directors shall include the matters requested in the form that best suits the Company's interest, whenever they refer to matters within the powers of the General Meeting. Shareholders may also formulate proposals regarding matters included on the agenda, and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting. In both cases, shareholders may make the proposals and suggestions through the Shareholders Office.

RED ELÉCTRICA in 2005 for the first time used the electronic voting system. It was one of the pioneering companies in use of the system. Through the corporate website, www.ree.es, it allowed shareholders to exercise their voting rights electronically.

Pursuant to the constant process of providing its shareholders with advanced online means of exercising their rights, the Board of Directors on 25 April 2007 approved the rules regarding remote voting and proxies, and exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2006 fiscal year. The procedure again was a resounding success. 322 shareholders, the holders of 53,186 shares, voted and/or gave proxies electronically.

In addition, as specifically referred to below, General Shareholders Meetings and the principal presentations regarding the Company are directly retransmitted on the Internet and simultaneously translated to English.

2.5 Best corporate practices in respect of the General Shareholders Meeting and shareholder rights.

Proposed resolutions.

- For some time proposed resolutions have been fully published upon call of the General Meeting. All information relevant to shareholders is made available on the corporate website, which is designed to facilitate the shareholder information right.

Annual reports.

- All documentation submitted for approval of the Board, particularly the Annual Corporate Governance Report, is made available to all shareholders.
- A full section of the General Shareholders Meeting agenda is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee are made available to all shareholders.



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- A Shareholder Bulletin is published quarterly. It covers the principal news regarding the Company.

Presence of Audit Committee Chairman.

- The Chairman of the Audit Committee is available to all shareholders during General Meetings, to deal with such matters within his competence as may be presented.

Separate voting on matters.

- The agenda for the General Meeting is as detailed as possible.
- Separate voting is permitted for independent matters or points. This is even true of remote voting. The point is that, by requiring voting on an individual basis, each shareholder has full decision-making freedom and independence in respect of each matter submitted to a vote.

Electronic voting and new technologies.

- RED ELÉCTRICA in 2005 for the first time used the electronic voting system. It was one of the pioneering companies in use of the system. Through the corporate website, www.ree.es, it allowed shareholders to exercise their voting rights electronically.
- During 2006 and 2007 new improvements were introduced to facilitate online participation of all shareholders in the Meeting. These measures consisted of:
 - the possibility of remote issuance of proxies and voting. It is particularly notable that for the Ordinary General Meeting held in 2007 322 shareholders, the holders of 53,186 shares, voted electronically;
 - the possibility of obtaining duplicates of attendance cards electronically; and
 - the option of electronically requesting information regarding matters on the agenda for the Meeting.

The Company's website.

- Strengthening the content of the Company's website as a means of communication with shareholders and investors by taking the following actions:
 - the inclusion of the quorum requirement and result of the votes on each of the proposals made to the General Meetings held in the past year.
 - the addition of information relating to the right of attendance and proxy appointment procedures for General Meetings, in accordance with the Bylaws and General Meeting Regulations.
 - the creation of a specific section regarding electronic voting and proxies.
 - the creation of a section relating to outstanding securities issues.



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- the creation of a section relating to the rating given by credit rating agencies.
 - the expansion of information regarding shareholdings, with greater detail regarding significant interests, treasury shares and shareholders agreements.

Publication of resolutions.

- On the same day that a Meeting is held, or on the immediately following working day, the Company sends the texts of approved resolutions to the CNMV by means of the appropriate material disclosures.
- The texts of the resolutions also are available on the Company website, after they are disclosed to the CNMV.

Retransmission on the Internet. Simultaneous translation.

- Retransmission in real time of presentations to analysts and General Shareholders Meetings on the Company's website. Archived availability of the presentations on the website.
- In 2006 and 2007 the General Meeting was directly retransmitted, as a video webcast, with simultaneous translation to the English language.
- All documentation submitted for the information and approval of the Meeting is translated to English, including the Annual Corporate Governance Report.

Right to participate.

- shareholders owning 5% of share capital may request that the Board, prior to the call, include any point on the agenda for the next General Meeting.
- shareholders may formulate proposals regarding matters included on the agenda and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting.
- In both cases, they may make these proposals and suggestions through the Shareholders Office.

Right to information.

- Maintaining an open, free-flowing and accessible dialogue with shareholders. Communications are conducted with maximum transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.
- Service to minority shareholders, by maintaining a Shareholders Office to respond to any inquiry they wish to make.
- Obligation to make documentation and information related to the agenda of the meeting available to shareholders, free of charge, both through the Shareholders Office and on the corporate website, including the following documentation:
 - The call of the General Meeting with proposed resolutions and the corresponding reports of the Board of Directors.



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- Financial Statements of the Company, Consolidated Financial Statements and proposal for allocation of profits of the fiscal year.
 - Corporate Management Report and Consolidated Management Report for the fiscal year.
 - Audit Report for the Consolidated Financial Statements and the Company's Financial Statements.
 - Annual Corporate Governance Report.
 - f) Social Report (now called the Corporate Responsibility Report).
 - Environmental report.
 - Any other report required, or as determined by the Board of Directors.

Request for information.

- Shareholders may request pertinent documentation, reports or clarifications from the Company regarding matters included on the agenda, as well as information, clarifications or questions regarding information provided by the Company to the CNMV since the date of the last General Meeting.
- Shareholders during the Meeting may verbally request such reports or clarifications as they consider appropriate regarding matters included on the agenda.
- If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting, except in those cases in which, in the judgment of the chairman, publicising the requested information would be harmful to the Company's interests.

Shareholders Office.

- The Shareholders Office deals with requests presented by shareholders of the Company.
- Shareholders may also state questions in writing regarding information accessible to the public or that has been communicated to the competent authorities and make inquiries through that Office.

Right of attendance.

- No bylaws restriction of any kind in this regard, for which reason no minimum number of shares is required in order to attend the General Meeting (one share, one vote).
- Board members and officers of the Company are required to attend the General Meetings.
- As a general rule, to promote the broadest dissemination of information regarding meetings and the resolutions adopted, the communications media are given access to the General Meeting and audiovisual recordings thereof are allowed.



3. BOARD OF DIRECTORS.

3.1. Organisation, authority and composition.

The Company acts through a small, active and efficient board of directors (11 members) that governs and represents the Company with the support of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee.

The organisational and procedural rules of the Board are set forth in the Bylaws (articles 19 to 26, both inclusive) and in the Board of Directors Regulations, recently approved on 20 December 2007, replacing the prior 2003 text, to adapt them to best corporate governance practices and principles.

Pursuant to the Bylaws and the Board of Directors Regulations, the criterion prevailing at all times in the Board's activity is to ensure Company viability and value in the long term, and to protect and foster the Company's general interests.

The Board specifically has all powers to manage and represent the Company, in and out of court, exercising said powers either directly or through their delegation, substitution or a power of attorney as allowed by law, the Bylaws and Board Regulations.

The Board's policy is to delegate ordinary Company management to the management bodies and management team and to concentrate its work on the general supervisory function, approval of strategies and basic guidelines for operations and decisions highly significant to the interests of the Company.

The identity of the Directors, the dates of their first and last appointment, position on the Board and type of director, election procedure and Board committee membership, at 31 December 2007, are as follows:

Director's Name	First appointment	Last appointment	Position on the Board	Type of Director	Election procedure	Board committee memberships
Mr. Luis M ^a Atienza Serna	08.07.04	26.05.05	Executive	Chairman	General Meeting	Nominating, Compensation and Corporate Governance (Member)
Pedro Rivero Torre	29.01.85	17.07.03	Member	Independent	General Meeting	Audit (Member)
Juan Gurbindo Gutiérrez	03.02.98	17.07.03	Member	Nominee (SEPI)	General Meeting	Nominating, Compensation and Corporate Governance (Member)
Antonio Garamendi Lecanda	20.07.99	17.07.03	Member	Independent	General Meeting	Nominating, Compensation and Corporate Governance (Member)
Manuel Alves Torres	26.10.99	17.07.03	Member	Nominee (SEPI)	General Meeting	Audit (Member)
José Riva Francos	22.04.03	17.07.03	Member	Independent	General Meeting	---
José Manuel Serra Peris	17.07.03	17.07.03	Member	Independent	General Meeting	---
Rafael Suñol	16.12.04	26.05.05	Member	Nominee (SEPI)	General	---



Trepal					Meeting	
M ^a Ángeles Amador Millán	26.05.05	26.05.05	Member	Independent	General Meeting	Nominating, Compensation and Corporate Governance (Chairwoman)
Martín Gallego Málaga	28.06.05	26.05.06	Member	Independent	General Meeting	---
Francisco Javier Salas Collantes	28.06.05	26.05.06	Member	Independent	General Meeting	Audit (Chairman)

3.2. Experience.

Identified below are the principal activities of the Board members outside the Company at 31 December 2007:

	<p>Chairman, Executive Director</p> <p>Luis M^a Atienza Serna, born 30 August 1957. He was appointed as a member of the Board of Directors and as Chairman of the Board and of the Company at the board meeting held on 8 July 2004, after the pertinent report of the Company's Nominating and Compensation Committee, the appointment thereafter being ratified by the Company's General Shareholders Meeting held on 26 May 2005.</p> <p><i>Degree in Economics and Business, Universidad de Deusto; Certificate in Advanced European Studies, Universidad de Nancy (France), Centre for Advanced European Studies; Certificate in Development Economics (D.E.A.), Universidad de Nancy, School of Law and Economics.</i></p> <p><i>Formerly Minister of Agriculture, Fisheries and Food. General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy. Chairman, Institute for Energy Savings and Diversification (IDAE). Chairman, Spain Geomining Technological Institute. Chairman, Centre for Energy, Environmental and Technological Research (CIEMAT). General Secretary, Agrarian Structures, Ministry of Agriculture, Fisheries and Food. Economic Councillor, Basque Government. Member of the Basque Parliament. Professor, School of Economics and Business and International Business Administration Institute and Institute for European Studies, Universidad de Deusto. Member of the Boards of Directors of Instituto Nacional de Hidrocarburos (INH), Corporación Logística de Hidrocarburos (CLH) Ente Vasco de la Energía (EVE). He has given many courses, seminars and lectures, and has published articles on economic, energy and agrarian policy and European research in economic and general publications, including working documents for university institutes and research centres.</i></p> <p><i>Currently he is Chairman of Fundación Doñana 21, for Sustainable Development of the Doñana Environment, and a Director of Redes Energéticas Nacionales, SGPS, S.A.</i></p>
	<p>Independent director</p>



	<p>Pedro Rivero Torre, born 30 November 1938. He was appointed a member of the Board of Directors (at that time there was no Nominating and Compensation Committee) at its meeting of 29 January 1985. He was re-elected at the Extraordinary General Meeting of 17 July 2003.</p> <p><i>Doctorate in Economics and Business, Universidad Complutense de Madrid. Honorary Doctorate, Universidad de Castilla-La Mancha. Member, Real Academia de Doctores.</i></p> <p><i>Currently Professor of Financial Economics and Business Accounting. Chartered Accountant (on leave of absence). Chairman, UNESA. Member, Economic and Social Council. Member, Social Council of Universidad de Castilla-La Mancha. Member, Electricity Advisory Board, CNE. Board member, CIEMAT. Chairman, Corporate Social Responsibility Committee, AECA. Director, Omel (Operador del Mercado Ibérico de Energía – Polo Español, S.A.)</i></p>
	<p>Nominee director proposed by State Industrial Ownership Corporation (SEPI)</p> <p>Juan Gurbindo Gutiérrez, born 18 September 1947. He was appointed a member of the Board of Directors (at that time there was no Nominating and Compensation Committee) at its meeting of 3 February 1998. He was re-elected at the Extraordinary General Meeting of 17 July 2003.</p> <p><i>Industrial Engineer, Universidad Politécnica de Madrid. Masters in Business Administration, Industrial Organisation School (EOI) of Madrid, and Manchester Business Administration School.</i></p> <p><i>Former manager of energy generation projects, Initec. Head of electric sector companies, SEPI. Manager of the Office of the Chairman, SEPI. Member of SEPI's Management Committee. Member of the Boards of Directors of Iberia, Austral, Aerolíneas Argentinas, Aviaco, Banco Árabe-Español, Endesa and Electra de Viesgo, Agencia Efe and Clínica Castelló (Chairman).</i></p> <p><i>Currently Manager of Administration and Resources of SEPI and a member of its Management Committee. Member of the Liquidating Committee of IZAR, Construcciones Navales en Liquidación, S.A. Member of the Liquidating Committee of Ente Público RTVE. Chairman of SEPI's Employment Foundation. Member of the SEPI Foundation Board.</i></p>
	<p>Independent director</p> <p>Antonio Garamendi Lecanda, born 8 February 1958. He was appointed a member of the Board of Directors (at that time there was no Nominating and Compensation Committee) at its meeting of 20 July 1999. He was re-elected at the Extraordinary General Meeting of 17 July 2003.</p> <p><i>Entrepreneur. Law degree, Universidad de Valencia.</i></p> <p><i>Former General Delegate of Equitativa, S.A. in Vizcaya. Managing Director of Bankoa, S.A. Insurance Brokerage Company. Chairman, Handyman, S.L. Chairman of the "Negocios de Comunicación" Group (La</i></p>



	<p><i>Gaceta de los Negocios, Dinero magazine, Intereconomía Radio and OTR News Agency). Director, Babcock & Wilcox Española, S.A. Director, Albura, S.A. (Red Eléctrica de Telecomunicaciones). Director, Tubos Reunidos, S.A. Member, Strategic Committee, Grupo Alta Gestión, S.A. Chairman, Spanish Confederation of Young Entrepreneurs (CEAJE). Chairman, Business Creation Commission, CEOE. Member, Property Association of Vizcaya</i></p> <p><i>Currently Chairman, Galea Empresarial, S.L. Chairman, Palacio de Moronati, S.L., Sole Administrator, Otokkar Eder, S.L., Vice-Chairman, Entel Ibai, S.A. Managing Director, Iniciativas de Comunicación Económica, S.A. (ICESA). Insurance Broker. Willis Iberia, S.A. Member of the Strategic Committee of Sodexho Pass, S.A. Group Chairman, Energy Committee, CEOE. Director, CEOE. Member and Treasurer of Confemetal and the Formetal Foundation. Committee Member of the Institute for Economic Studies-IEE. Director, Confederación Empresarial de Vizcaya (CEBEK). Member, Executive Committee, Vizcaya Federation of Metal Companies. Member, Chamber of Commerce of Vizcaya</i></p>
	<p>Nominee director proposed by State Industrial Ownership Corporation (SEPI)</p> <p>Manuel Alves Torres, born 18 March 1954. He was appointed a member of the Board of Directors at its meeting of 26 October 1999. He was re-elected at the Extraordinary General Meeting of 17 July 2003.</p> <p><i>Degree in Economics and Business.</i></p> <p><i>Former Head of Budgeting, Standard Eléctrica, S.A. Advanced Technician, Assistant Manager of Companies, Corporate Sub-Manager, INI. Manager of Planning and Supervision, Teneo. Member, Boards of Directors of Potasas de Subiza, Potasas de Suria, Grupo Ence, Grupo Inespal, Enatcar, Clínica Castelló, Minas de Almagrera, Agencia Efe, Binter Canarias, Hipódromo de la Zarzuela and Sedettur.</i></p> <p><i>Currently Manager of Planning and Control, SEPI. Member, Management Committee, SEPI. Board Member, SEPI Foundation (formerly Public Company Foundation) and SEPI Employment Foundation. Director, Tragsa.</i></p>
	<p>Independent director</p> <p>José Riva Francos, born 12 July 1953. He was appointed as a member of the Board of Directors at the Board meeting held on 22 April 2003, after the pertinent report of the Company's Nominating and Compensation Committee, the appointment thereafter being ratified by the Company's General Shareholders Meeting held on 17 July 2003.</p> <p><i>Architect, E.T.S.A. Madrid. Specialty: Urban Development. Architect in Madrid</i></p>



	<p>1981: Visit to Minoru Yamasaki Studio, collaborating in the Project to build Torre Picasso, Madrid. 1981/1986: Architect in Madrid, own studio. Estudio Arco, architecture and construction, various works for private clients and for the Patronato de Casas del Aire (Air Force Ministry).</p> <p>Currently Vice Chairman, Managing Director of all companies in the Suardfáz Group with headquarters in Madrid and branches in the 12 principal ports on the Peninsula and in the Canary Islands. Chairman of Oligsa and Ventastur. Chairman and Managing Director of Ayala 6, S.A. and Camajuani. Board Member of Almacenes La Estrella, Logista and Enagás.</p>
	<p>Independent director</p> <p>José Manuel Serra Peris, born 31 August 1959. He was appointed as a member of the Board of Directors at the General Shareholders Meeting of the Company held on 17 July 2003, after the pertinent report of the Company's Nominating and Compensation Committee, on proposal of the Board of Directors.</p> <p>Law Degree, Universidad de Valencia. Member of the State Attorneys Corps.</p> <p>Former State Attorney in the Treasury Department of Valencia and High Court of Justice of the Autonomous Community of Valencia. General Technical Secretary of the Ministry of Industry and Energy. Assistant Secretary of the Ministry of Industry and Energy. Secretary of State for Industry and Energy. Chairman of the Spanish Patent and Trademark Office. Chairman, Centre for Technological and Industrial Development (CDTI), Chairman, Foundation of the Industrial Organisation School, Chairman, Institute for Energy Diversification and Conservation (IDAE). Chairman, Institute for Restructuring of Coal Mining and Alternative Development of Mining Regions, and Chairman, Centre for Energy, Environmental and Technological Research (CIEMAT). Board Member of the State Industrial Ownership Corporation (SEPI) and of the State Asset Ownership Corporation (SEPPA). Board Member of Iberia, Líneas Aéreas de España, S.A, and member of the Endesa Board of Directors and Executive Committee.</p> <p>Currently, Attorney and Consultant. Board Member of Grupo Empresarial Ence, S.A., Uralita, S.A., Natraceutical, S.A. and Martinsa-Fadesa, S.A.</p>
	<p>Nominee director proposed by State Industrial Ownership Corporation (SEPI)</p> <p>Rafael Suñol Trepas, born 4 July 1944. He was appointed as a member of the Board of Directors at the Board meeting held on 16 December 2004, after the pertinent report of the Company's Nominating and Compensation Committee, the appointment thereafter being ratified by the Company's General Shareholders Meeting held on 26 May 2005.</p> <p>Degree in Economics and Business, E-1969, ADE-ESADE 1980, PADE-IESE 1999.</p> <p>Former Managing Director of Aurica, SCR, S.A., partner of Socios</p>



	<p><i>Financieros and Chairman of Activa Ventures. Director and Vice Chairman of Fecsa and Director of Endesa. Managing Director of Banco de Fomento. Chairman of Banco de Crédito Industrial and Director of ICO. Assistant General Manager of GDS, Caja de Barcelona, after working for Banco Urquijo, Barcelona. Chairman of Crédito & Docks and of Dinvergestión, and Director of companies related to Banco Central. Director of Ericsson España, Frida Alimentaria and Visual Tools, and Chairman of Cobrhi.</i></p> <p><i>Currently Executive Vice Chairman, Catalana de Iniciatives SCR, Director, Abantia, Peugeot España, Inypsa, Telstar and Serveis Funeraris de Barcelona.</i></p>
	<p>Independent director</p> <p>M^a Ángeles Amador Millán, born 10 October 1949. She was appointed as a member of the Board of Directors at the General Shareholders Meeting of the Company held on 26 May 2005, after the pertinent report of the Company's Nominating and Compensation Committee, on proposal of the Board of Directors.</p> <p><i>Law Degree, Universidad Complutense de Madrid.</i></p> <p><i>Former General Technical Secretary, Ministry of Public Works and Urban Development. Assistant Secretary of the Ministry of Health and Consumer Affairs. Minister of Health and Consumer Affairs. Member of Congress representing Segovia. Spokeswoman for Health Matters in Parliament for Grupo Parlamentario Socialista. Member of Congress representing Madrid. Vice Chairman of the Constitutional Commission of Congress.</i></p> <p><i>Currently a practicing attorney and member of the Governing Board of the Madrid Bar Association.</i></p>
	<p>Independent director</p> <p>Martín Gallego Málaga, born 19 June 1940. He was appointed as a member of the Board of Directors at the Board meeting held on 28 June 2005, after the pertinent report of the Company's Nominating and Compensation Committee, the appointment thereafter being ratified by the Company's General Shareholders Meeting held on 26 May 2006.</p> <p><i>Doctorate in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid. Degree in Economics, Universidad Complutense de Madrid. Certificate in Industrial Project Assessment, World Bank, Washington D.C. Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.</i></p> <p><i>Former General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy. Chairman, Nuclear Energy Board (currently CIEMAT), Institute for Energy Diversification and Conservation (IDAE), Spanish Geological and Mining Institute (ITGM) and Coordinating Committee of Energy Sector Research Offices. Chairman, Hidroastur, S.A. and Grupo Minero de Wolframio La Parrilla, S.A. Consultant, Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa</i></p>



	<p><i>and Ofico. Expert and Consultant, European Communities Commission (Brussels) and World Bank (Washington). General Corporate Manager for International Trade and Diversification, Grupo Endesa. Member of following Boards of Directors: Instituto Nacional de Hidrocarburos, CAMPSA, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisió de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Aguas de Barcelona, Internacional del Agua, S.A. Managing Director, Endesa Desarrollo, S.A. and Grupo Eléctrico de Telecomunicaciones, S.A. Expert Director of the Spanish Economic and Social Council. Director for Industry and Energy, Spanish Embassy in Washington.</i></p> <p><i>Currently Coordinator, Foundation for Energy Studies. Consultant in the School of Industrial Organisation. Member of the Governing Council, CIEMAT.</i></p>
	<p>Independent director</p> <p>Francisco Javier Salas Collantes, born 6 March 1948. He was appointed as a member of the Board of Directors at the Board meeting held on 28 June 2005, after the pertinent report of the Company's Nominating and Compensation Committee, the appointment thereafter being ratified by the Company's General Shareholders Meeting held on 26 May 2006.</p> <p><i>Degree in Economics, specialising in Business Economics</i></p> <p><i>Formerly, 1972 – 1973: Manufacturers Hanover Trust CO. (New York). Specialising in credit analysis in the International Division. 1973 – 1983: Empresa Nacional del Uranio (ENUSA). Various positions in the Company's financial area. 1975 – 1978: Financial Planning Manager. 1978 – 1983: Chief Financial Officer. 1983-1988: Instituto Nacional Industria (I.N.I.), Chief Financial Officer. 1988 – 1990: I.N.I., General Corporate Manager, responsible for the following offices: Finance, Planning and Control, Technology and Investment. 1990 – 1996: Chairman, I.N.I. and Teneo. 1993 – 1995: Chairman, IBERIA, Líneas Aéreas España, while also Chairman, I.N.I. and Teneo.</i></p> <p><i>Currently Founding Member and Manager of Saga Servicios Financieros (Management and M&A Consultants). Chairman, Asociación Profesional de Empresas de Limpieza (ASPEL), sponsoring the Spanish cleaning sector. Director of the following companies: I&F Ingeniería and Fachadas Holding Group, S.L. (Chairman), Telvent and Chairman of the Audit Committee, Ged Capital Development, S.A., Sgecr, Ged Iberian Private Equity, S.A., Sgecr and Prointec, S.A. Member of the Advisory Board (Spain) of Banco Privado Portugués and of Grupo Fcb/Tabsa. Chairman of Fundación Entorno, Empresa y Medioambiente. Sponsor of Instituto de Cuestiones Internacionales y Política Exterior (Incipe). Sponsor of the Apmib Foundation (Vice Chairman).</i></p>
	<p>Non-director Secretary of the Board of Directors</p> <p>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 of 4 May 1995.</p>



	<p><i>Law degree, Universidad Complutense, Master's degree in Business Tax Advice, Instituto de Empresa</i></p> <p><i>Formerly legal advisor to the Loss Department, Zurich, S.A., legal advisor and secretary of boards of directors of companies in the Inmobiliario Pradisa Group. Legal and tax advisor of Ageco, a financial and tax management company of Banco Internacional de Comercio, S.A. Attorney in legal department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX). Attorney in legal department and General Counsel of Red Eléctrica de España, S.A.</i></p> <p><i>Currently he is a member of the Madrid Bar Association, General Counsel of Red Eléctrica de España, S.A. and a director of Red Eléctrica de España Finance B.V.</i></p>
	<p>Non-director Assistant Secretary of the Board of Directors</p> <p>Fernando Frías Montejo, born 11 March 1965. He was appointed Assistant Secretary of the Board of Directors at its meeting of 21 April 2005.</p> <p><i>Law degree and Certificate in Business, Universidad Pontifica de Comillas (ICADE-E-I).</i></p> <p><i>Formerly, starting in 1990, attorney in legal department , Red Eléctrica de España, S.A., and Secretary of Board of Directors, Infraestructuras de Alta Tensión, S.A. and Red de Alta Tensión, S.A.</i></p> <p><i>Currently, Secretary of the Board of Directors of Tenedora de Acciones de Redesur, S.A., member of Madrid Bar Association and member, legal department of Red Eléctrica de España, S.A.</i></p>

3.3. Committees.

Audit Committee.

The authority, organisation and procedure of the Audit Committee are governed by the Bylaws and by the new Board of Directors Regulations of RED ELÉCTRICA, adapted to current commercial legislation and the recommendations in the Conthe Code.

Throughout 2007 the Committee was comprised of only external directors, with a majority of independent directors. The composition of the Company's Audit Committee at 31 December 2007 was as follows:

Director	Position	Type of Director
Francisco Javier Salas Collantes	Chairman	Independent
Manuel Alves Torres	Member	Nominee (SEPI)
Pedro Rivero Torre	Member	Independent



Section G) of part II of this report attaches the annual report of the Committee's activities corresponding to the 2007 fiscal year.

Nominating, Compensation and Corporate Governance Committee

In accordance with best corporate governance practices, particularly those indicated in the Conthe Code, during the 2007 fiscal year the Company's Board of Directors changed the name of the Committee. It became the Nominating, Compensation and Corporate Governance Committee, and its authority was expanded. Of the authority expressly given to it, particularly notable is the authority related to Corporate Governance as provided in the bylaws amendments introduced by the General Shareholders Meeting held on 31 May 2007.

At the close of the 2007 fiscal year, and at the date of approval of this report, in compliance with the Bylaws and the Board Regulations, the Nominating, Compensation and Corporate Governance Committee is comprised of four directors, three of whom are external directors and one an executive director. Of the external directors, two are independent, and one of them is the chairman of the committee, holding a casting vote regarding all matters. This gives the majority of votes to Committee members who are independent directors.

During 2007, as a result of expiration of the term for which they had been appointed, the Company's Board of Directors, at its meeting held on 26 April 2007, re-elected Mr. Antonio Garamendi Lecanda and Mr. Juan Gurbindo Gutiérrez and appointed Ms. M^a Ángeles Amador Millán as members of the committee. The latter member was appointed chairwoman of the committee.

At the date of approval of this report, the committee's composition is as follows:

Director	Position	Type of Director
M ^a Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Juan Gurbindo Gutiérrez	Member	Nominee
Luis M ^a Atienza Serna	Member	Inside

The executive director and Chairman of the Company Mr. Luis M^a Atienza Serna, is a member of the committee by unanimous decision of the Board of Directors, which believes it is of special interest for him to be present therein, without prejudice to his abstaining regarding all matters that could affect him personally or be susceptible of giving rise to a conflict of interest.

Section G) of part II of this Report attaches the annual report of the Committee's activities corresponding to the 2007 fiscal year.

3.4. Attendance at and failure to attend board of directors and committee meetings.

In accordance with best corporate governance practices, and without prejudice to the provisions of section II of this report, specified below are the presence or absence of directors of the Company at meetings of the Board of Directors and the Audit and Nominating, Compensation and Corporate Governance Committees, throughout the 2007 fiscal year.



Board of Directors.

During 2007 there were eleven (11) meetings of the Board of Directors, with 96.69% attendance of directors.

Audit Committee.

Percentage attendance of members of the Audit Committee at its ten (10) meetings held during the 2007 fiscal year was 96.66%.

Nominating, Compensation and Corporate Governance Committee

During the 2007 fiscal year there were eleven (11) meetings of the Nominating, Compensation and Corporate Governance Committee. Director attendance was 95.05%.

3.5. Self-evaluation.

During the 2006 fiscal year, through what was then called the Nominating and Compensation Committee, the Company's Board of Directors initiated a process of self-evaluation of its internal operation, and operations of the two committees (the Audit Committee and the Nominating and Compensation Committee), the Chairman of the Board of Directors and the directors.

During 2007 this self-evaluation process was carried out in light of the recommendations in the Uniform Good Governance Code of Listed Companies ("Conthe Code").

The process was developed with the assistance of an outside consultant (Seeliger&Conde) by personally interviewing each of the directors, committee members and the chairman. All of the foregoing was under the sponsorship of the Nominating, Compensation and Corporate Governance Committee.

The Board of Directors, at its meeting held on 22 March 2007, after noting the high degree of uniformity in the answers of its members, issued an overall positive evaluation regarding observance of the recommendations of the Conthe Code. Only a limited number of the recommendations have not been followed, and it has been agreed to commence a process of reflection and continuous adaptation of the internal regulatory framework, in order to continue maintaining high levels of transparency and corporate governance.

Currently the Company is undertaking an annual process of self-evaluation of the functioning of the board of directors, its committees and the Chairman of the Board. In light of the experience acquired by the Company, in this instance it has been deemed to be appropriate for the self-evaluation process to be undertaken by the board itself.

The Chairwoman of the Nominating, Compensation and Corporate Governance Committee is coordinating the process, with the active participation of the Chairman of the Board of Directors and the Chairman of the Audit Committee. All members of the board are actively cooperating in the process.

The process is revealing marked improvement in the already high degree of compliance with the recommendations in the Conthe Code.



3.6. Compensation policy.

During the 2007 and 2006 fiscal years, the total compensation of the members of the Board of Directors of the Parent Company, as a result of belonging to the boards of both the Company and the companies in its group, amounted to 2,479 thousand and 2,374 thousand euros, respectively. These amounts include both an estimate of the compensation tied to results and the salaries of those board members who are also employees.

The breakdown of this compensation is as follows:

➤ Compensation from the Parent Company:

	Thousands of euros	
	<u>2007</u>	<u>2006</u>
Compensation:		
Fixed compensation:	391	396
Variable compensation:	1,269	1,232
Diems:	808	746
Life insurance:		
Pension plans:	11	-
	-----	-----
Total compensations:	<u>2,479</u>	<u>2,374</u>
	=====	=====

➤ The total compensation by type of director is as follows:

	Thousands of euros	
	<u>By the Parent Company</u>	
	<u>2007</u>	<u>2006</u>
Type of director:		
Executives	772	755
Nominees	517	490
Independents	1.190	1.129
	-----	-----
Total compensations	<u>2,479</u>	<u>2,374</u>
	=====	=====

Total compensation of members of the Board of Directors of Red Eléctrica during the 2007 fiscal year, broken down by director, is as follows:



Thousands of euros

From the Parent Company:

	<u>Fixed compensation</u>	<u>Variable compensation</u>	<u>Per diems</u>	<u>Life Insurance and Pension Plan</u>
Mr. Luis M ^a Atienza Serna	391	289	81	11
Mr. Pedro Rivero Torre	--	98	90	--
Mr. Juan Gurbindo Gutiérrez ⁽²⁾	--	98	81	--
Mr. Antonio Garamendi Lecanda	--	98	91	--
Mr. Manuel Alves Torres ⁽²⁾	--	98	81	--
Mr. José Riva Francos	--	98	54	--
Mr. José Manuel Serra Peris	--	98	58	--
Mr. Rafael Suñol Trepas	--	98	61	--
Ms. Ángeles Amador Millán	--	98	72	--
Mr. Francisco Javier Salas Collantes	--	98	81	--
Mr. Martín Gallego Málaga	--	98	58	--
	-----	-----	-----	-----
Total Compensation	391	1,269	808	11
	=====	=====	=====	=====

The Company also has established a compensation plan for executives (including the executive director) tied to meeting three-year objectives that, if applicable, shall be paid at the end of the 2008 fiscal year.

There are guarantee or indemnification clauses in favour of the executive director to cover dismissal or change of control. This contract was approved by the Nominating and Compensation Committee and the Board of Directors of the Parent Company has been duly notified. Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless applicable regulations provide for a higher amount.

At 31 December 2007 and 2006 the Consolidated Balance Sheet reflected no loans, advances or guarantees established by the Company in favour of members of the

¹ In addition, in his capacity as a member of the Board of Directors of REN, he has received the amount of 23 thousand euros. At the request of Mr. Atienza Serna, this amount has been deducted from his fixed annual compensation.

² Amounts received from the State Industrial Ownership Corporation (SEPI).



Board of Directors. Nor at those dates were there any pension liabilities incurred vis-à-vis members of the Board of Directors.

During the 2007 and 2006 fiscal years the members of the Board of Directors have not engaged in any transactions with the Company or Group companies, directly or through persons acting on their behalf, outside the ordinary course of business or not effectuated on normal market conditions.

3.7. Best corporate governance practices within the Board of Directors.

Composition of the Board.

- The Company has a small, active and efficient Board of Directors composed of eleven (11) members, instead of opting for a larger board that operates with the support of an executive committee.
- At present, the board is comprised of seven independent Directors, three nominee Directors and one executive director, reflecting the current shareholder base of the Company and the corporate governance recommendations.

Board Committees.

- Under the Board Regulations and Bylaws there is a specific committee for corporate governance. It is called the Nominating, Compensation and Corporate Governance Committee.
- Financial statements and economic and financial information of the Company since 1999 have been prepared under the supervision and oversight of the Audit Committee, allowing improved transparency and reliability.

Functioning of the Board.

- The Board approves, sufficiently in advance, the annual schedule of meetings, with their respective agendas, and recognises the right of directors to introduce changes therein

Self-Evaluation of the Board.

- There is an annual self-evaluation of all board members, committee members and the Chairman of the Board of Directors

Compensation of Directors and Senior Management.

- There is maximum transparency and publicity of the compensation of individual directors.
- There is a bylaws maximum on director compensation.
- Compensation policy is subject to approval of the General Meeting as a separate and independent point on its agenda.



Experience and term of office of directors.

- They are professionals of high standing with broad professional experience. They provide corporate management with the experience and knowledge necessary to meet the Company's needs.
- The term of office of independent directors, like that of other directors, is four (4) years.
- No proposal is to be made to remove a nominee or independent director prior to completion of the term of office specified in the Bylaws for which the director was appointed, except for sufficient cause and after a report from the Nominating and Compensation Committee.

Chairman of the Board.

- The Chairman of the Board heads the Company, as its chief executive officer responsible for senior management, for administration and for full representation of the Company, acting with authority delegated by the Board.
- He is subject to specific control by the Board of Directors, to which he must report after the fact or, if applicable, request authorisation. Furthermore, the committees effectively control the corporate management within the scope of their respective authority.

Director Liability.

- Red Eléctrica embraces a strengthened principle of market security, bearing with it a stricter regulation of directors' liability in general and especially their duties of diligence and loyalty.
- They must act with due diligence, being required to play a proactive role within the board and on its committees.

Principle of security and duty of loyalty.

- The Board Regulations establish, inter alia, the following obligations of directors:
 - To appropriately review and prepare for meetings of the Board and its committees to which they belong, and regularly attend them.
 - To actively participate in deliberations so that their judgment effectively contributes to decision-making, and to perform any specific tasks assigned to them by the board of directors.
 - To promote investigation of any irregularity in management of the Company of which they have notice, and the monitoring of any risk situation.
 - If applicable to call extraordinary board meetings and collect the information necessary for efficient exercise of their authority.
 - To oppose resolutions contrary to law, the bylaws or the corporate interest.



Conflicts of interest.

- Directors must refrain from attending and participating in deliberations affecting matters in which they have a personal interest, either direct or indirect.
- Directors must report any conflict of interest they may have with the Company, and in case of conflict shall refrain from participating in the transaction to which the conflict of interest relates.
- Nominee directors shall disclose to the Board any conflict of interest between the Company and the shareholders proposing their appointment, when this affects matters submitted to the Board, refraining from participating in the adoption of the corresponding resolutions

Duty of loyalty.

- Any director who, with prior knowledge, allows or does not disclose the existence of transactions effectuated by members of his family or other related persons or corporations in which he holds a management position or significant holding, which are not submitted to the conditions and controls set forth in the foregoing articles, violates his duty of loyalty to the Company.

Confidentiality.

- The directors must maintain secrecy regarding deliberations of the board of directors and the committees of which they are members.
- Directors must refrain from disclosing information, data, reports or background information to which they have had access in the performance of their duties, even when they are no longer directors.

Noncompetition.

- The directors may not engage in activities that may result in competition with the Company.
- The directors may not provide their professional services to companies that have corporate purposes that are fully or partially similar to that of the Company, which may result in a conflict of interest between them.
- The directors are required to consult with the board of directors before accepting any directorship with another company or entity.
- Directors are required to report any Interest they may have in any Company engaged in any business identical, analogous or complementary to that of the Company, or that represents some degree of competition, as well as positions or functions exercised therein and activities on their own account or for others, outside the Company, that are analogous or complementary to the activities included in the corporate purpose.

Use of corporate assets and name.

- Directors may not use the assets of the Company or use their position in the Company to obtain an economic advantage, unless appropriate compensation is paid.



- Directors may not use the name of the Company or invoke their status as directors thereof when entering into any transactions on their own behalf or for related persons.

Private information.

- Directors may not use Company information that is not available to the public for private purposes, except with the prior approval of the Board of Directors.

Business opportunities.

- Directors may not, either directly or indirectly, for their own benefit or that of related persons or third parties, take advantage of any business opportunity of the Company, unless said opportunity is previously offered to the Company and the Company declines to use it and authorises the Director to do so, after a report from the Nominating, Compensation and Corporate Governance Committee.

4. SENIOR MANAGEMENT.

4.1. Experience.

The members of the Company’s Senior Management, at 31 December 2007, are as follows³:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transport
Esther M ^a Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations

	<p>General Manager of Transport</p> <p>Carlos Collantes Pérez-Ardá, born 23 July 1954.</p> <p><i>Industrial Engineer, specialty obtained from E.T.S.I. Industriales de Navarra</i></p> <p><i>Formerly Services Manager of Operations Studies Department, Fenosa, S.A. Head of Research Department, Unión Fenosa, S.A. Head of Shipping Department, North Area, Unión Fenosa S.A. Deputy Regional Manager for the Northeast, Red Eléctrica de España, S.A. Deputy Manager of Operating Systems, Red Eléctrica de España, S.A. Territorial Coordination Manager, Red Eléctrica de España, S.A.</i></p>
	<p>General Manager of Operations</p> <p>Alberto Carbajo Josa, born 8 August 1949.</p>

³ Exclusively for the purposes of CNMV Circular 4/2007 of 27 December 2007, this refers to those individuals who manage the Company at the highest level and, consequently, separately from their legal employment relationship with the Company.



	<p><i>Mining Engineer, Universidad Politécnica de Madrid. Degree in Economics, Universidad Autónoma de Madrid. Masters in European Communities, Escuela Diplomática de Madrid.</i></p> <p><i>Formerly General Manager of OFICO (Oficina de Compensación de la Energía Eléctrica). General Manager for Mining and Construction Industries, Ministry of Industry and Energy. Director of the National Electricity System Commission. International Regulations Manager of Unión Fenosa, S.A.</i></p>
	<p>General Manager of Administration and Finance</p> <p>Esther María Rituerto Martínez, born 16 February 1954.</p> <p><i>Degree in Physical Sciences, specialising in Automated Calculation, Universidad Complutense de Madrid. MBA from Escuela de Organización Industrial.</i></p> <p><i>Formerly Risk Manager, Bankinter. Manager of Planning and Control, INI; Manager of Planning and Control, Teneo, S.A.; and Manager of Planning and Control, State Industrial Ownership Corporation (SEPI). Member of SEPI's Executive and Management Committees. Managing Director of Izar Construcciones Navales, S.A. Member of following Boards of Directors: Endesa, Iberia Líneas Aéreas de España, Indra, Construcciones Aeronáuticas, Izar, Agencia Efe, Patronato Fundación Empresa Pública, Ensidesa, Altos Hornos de Vizcaya, Compañía Transatlántica Española, Binter Canarias and Endiasa.</i></p>

4.2. Compensation policy.

During the 2007 fiscal year short term compensation and contributions to life insurance and pension plans for top-level executives amounted to 872 thousand euros and 27 thousand euros, respectively (1,357 thousand euros and 29 thousand euros in 2006). They were recorded as personnel expenses in the consolidated income statement.

The Company also has established a compensation plan for these executives tied to meeting three-year objectives which, if applicable, shall be paid at the end of the 2008 fiscal year.

At 31 December 2007 and 2006 there were no loans or advances to these executives.

There are guarantee or indemnification clauses for dismissal of these executives. These clauses follow standard market practice and cover termination of the employment relationship, providing indemnification of up to two years' salary, unless applicable regulations establish a higher amount.

The agreements containing these clauses were approved at the time by the then Nominating and Compensation Committee. The Board of Directors was notified.



II. CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY WITHIN RED ELÉCTRICA.

1. SOCIAL RESPONSIBILITY POLICY AS AN ELEMENT OF CORPORATE GOVERNANCE.

The key element in development and strengthening of Red Eléctrica's business is the constant search for excellence in management of its processes, activities, resources and facilities, consistent with responsible management. Responsible in corporate governance practices, responsible in preservation of and respect for the environment, responsible in outside and inside social actions, with particular support and respect for human rights, and responsible in economic management.

Consistent with best practices, the Company's board of directors treats all shareholders equally, and is guided by the interest of Red Eléctrica, that being understood to be sustained maximisation of the Company's economic value.

For Red Eléctrica corporate governance and social responsibility are related terms and concepts. They share two fundamental characteristics: voluntarism and multiple focus, with particular reference to stakeholders. Red Eléctrica understands that social responsibility drives corporate governance, because the capacity to recognise the consequences of an event and respond to it as regards society and *stakeholders* is in tune with the Company's natural concern for implementing best corporate governance practices and principles.

Red Eléctrica explicitly assumes the importance of taking the various stakeholders into account in achieving the Company's principal objective. It also recognises creation of value for stakeholders as an objective. Thus the Board of Directors Regulations provide that Red Eléctrica's social responsibility policy is to be approved by the Board of Directors, and is one of the Company's principal policies and strategies. The Company also has a Social Responsibility Management Committee, comprised of a large number of the Company's highest executives.

Further, within Red Eléctrica the corporate governance policy recognises value creation for all interested parties as an objective. In this regard, the Board of Directors sees to it that in its relationships with its stakeholders the Company respects the legal system; performs its obligations and agreements in good faith; respects the uses and good practices of the sectors and territories where it conducts business and observes the additional social responsibility principles that it has voluntarily accepted.

Red Eléctrica has established transfer of the values assumed regarding social responsibility to the supplier chain as an essential and indispensable value, thus guaranteeing, by involving them in the social responsibility management system, that they share the same values and contribute equally and directly to sustainable development.

The Red Eléctrica social responsibility management system in 2005 was certified under the SA8000 Standard in recognition of its commitment to respect for human and employee rights and ethical treatment of persons. Red Eléctrica's interest in maintaining this certification in 2007 required a follow-up audit. The final report of the audit company reveals the effective and active social responsibility management system that Red Eléctrica has developed, with which it maintains unquestioned leadership in the Spanish business community.



2. SOCIAL RESPONSIBILITY POLICY PRINCIPLES WITHIN RED ELÉCTRICA.

The basic principles of the Company's social responsibility policy, approved by the board of directors, within its constant search for and implementation of best corporate governance practices and principles, are as follows:

- Promoting best corporate governance practices in management, ensuring compliance with legislation, transparency, business ethics and appropriate risk management.
- Orienting the Red Eléctrica Group's actions to defence of its viability and short, medium and long term value for all stakeholders, offering services that assure its image and reputation.
- Creating an open communications channel with stakeholders that allows both understanding the requirements and expectations in order to better satisfy them, and reporting regarding business activities and results in a truthful manner, at all times guaranteeing maximum transparency and honest interchange of information.
- Encouraging support for the development of society, by participating in projects of general and corporate interest, educational, cultural and scientific programmes, with particular attention to the communities where the Group does business.
- Understanding the development and satisfaction of individuals as an element essential to achieving the Red Eléctrica Group's objectives. Special attention shall be paid to attitudes and conduct, non-discrimination (sex, race, nationality, sexual orientation, age, disability, language, religion or politics), the search for equity (compensation, work schedule, development and evaluation), professional development, employment safety and health, the work environment, integrating individuals and balancing of personal and professional life. Any disciplinary measure is in accordance with applicable legislation.
- Ensuring fulfilment of basic human rights, freedom to unionise, the right to collective bargaining, no work by minors, elimination of "forced" labour and any other practice that violates individual or group dignity. This shall result in compliance with the articles in international declarations and treaties regarding employment rights.
- Maintaining a firm and preventive commitment in environmental protection and rational use of resources. Environmental protection shall be included in the Company's strategy, guiding activities to initiatives that promote environmental improvement and use of technologies respecting the environment.
- Scrupulously respecting applicable legislation in the areas of business and countries in which the Red Eléctrica Group participates, avoiding involvement in any kind of corruption, including extortion and bribery.

3. MARKET DISCLOSURE POLICY.

The relations between the Company and institutional investors are general in nature and are not specific or special for any of them. On a regular basis RED ELÉCTRICA organises informational meetings or road shows at the principal financial centres in Spain and abroad where there is a higher concentration of institutional investors, in



order to inform them of its activities and its business performance in an attempt to bring the Company closer the various groups of investors.

Information available regarding the Company is disclosed simultaneously to the entire market, with presentations to analysts and investors being retransmitted on the corporate website. In no case does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders. The Company does not receive any information flowing inversely, i.e. from the institutional investor, apart from such specific information as the investors may disclose in informational meetings (road shows) and to the markets.

During 2007, the CNMV was sent a total of fifteen (15) material disclosures and other notifications of interest on various significant market matters, which were immediately posted on the Company's website. A list of these disclosures and notifications is in section G of the Annual Corporate Governance Report (section III).

4. ENVIRONMENTAL POLICY.

The Red Eléctrica Board of Directors has assumed an ongoing commitment to protect the environment and encourage each person in the Group to perform daily work with greatest respect for the environment, by continuous improvement in performing their responsibilities and functions.

The objectives pursued by the environmental policy, the guidelines for which are approved by the highest governance and management bodies in the Company, are as follows:

- Guiding the group to sustainable development, achieving appropriate balance of respect for the environment, the promotion of progress and social welfare and economic interests, in order to create value on a continuing basis by including those elements in corporate governance principles and practices.
- Seeking leadership regarding environmental matters for the group companies in their fields of business, and ensuring compliance with the environmental legislation, regulations and standards applicable to the businesses in which they engage.
- Encouraging research, development and use of new technologies and processes, in order to avoid or minimise environmental impact and include the environmental variable in the design and development of new plans and projects for facilities and activities, or the change of existing ones.
- Including environmental requirements in selection and evaluation of suppliers and contractors.
- Preparing and implementing ongoing training, sensitivity and motivation actions regarding environmental protection to achieve more active employee participation.
- Developing means of communication and communications channels to inform interested parties of environmental actions and maintain dialogue with them in that regard.

5. RISK POLICY.



Notable among the functions of the Company's Audit Committee is supervision of the most important aspects of the overall risk management policy of Red Eléctrica and its group.

The Board of Directors Regulations charge the committee with approval of the policy for control and management of the principal risks of the Company and the group, and with review and periodic follow-up regarding the systems for internal control, prevention and reporting. In this regard, the risk control and management policy shall identify at least the following:

- The various kinds of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.
- If applicable, setting the risk level the Company deems to be acceptable.
- The measures contemplated for mitigating the impact of the identified risks, should they materialise.
- The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.

The Office of the Chairman of the Company prepares a risk map for the Company and its group, in collaboration with the Company's various organisational units, and evaluates the probability of occurrence of each of the risks identified and the possible impact on the electricity system, the Company's strategies, reputation and the income statements of both the Company and the group. As a result of that analysis, an action plan is established to reduce the probability of occurrence and/or the impact of each of the identified risks.

The Office of the Chairman of Red Eléctrica periodically supervises the actions taken in respect of the referenced plan, reviews the most significant risk indicators and, at least once each year, re-evaluates the risk map for the Company and the group. The Audit Committee, which actively participates in management of this process, and the Board of Directors are timely informed of the progress thereof.

6. RECOGNITION OF THE COMPANY.

The principal elements of recognition of Red Eléctrica over recent fiscal years by various organisations regarding corporate responsibility and corporate governance are as follows:

- Red Eléctrica has strengthened its position in the Dow Jones sustainability indexes. The score for this fiscal year was 76 out of 100, improving the score for the second consecutive year and approaching the best in the sector in Europe (78) and the best worldwide (81).
- Prize in the X Edición del Príncipe Felipe de la Excelencia Empresarial in the industrial quality category.
- The *Thomson Excel* ranking places RED ELÉCTRICA as the seventh best IBEX Company in investor relations.



- RED ELÉCTRICA since 2005 has been on the list of the 100 Spanish companies with the highest reputations in accordance with the Spanish Monitor of Corporate Reputation (Monitor Español de Reputación Corporativa - MERCO). For 2007 it was in 61st place, an advance of 10 positions since it was included
- The MERCO Persons study put the Company in 36th place in the global ranking, and 4th in the energy sector.
- In the Best Companies to Work For ranking of the magazine Actualidad Económica, RED ELÉCTRICA is included in the group of excellent companies, in 18th place worldwide. In the sector, RED ELÉCTRICA is in first place.
- The corporate responsibility report for the third consecutive year was a finalist for the “Best Sustainability Report” award given by the Institute of Chartered Accountants in Spain (Instituto de Censores Jurados de Cuentas de España - ICJCE) and the Spanish Association of Accounting and Business Administration (Asociación Española de Contabilidad y Administración de Empresas - AECA).
- The Company has obtained the European Seal of Excellence +500 points given by the Management Excellence Club.
- It also has been chosen as the best IBEX 35 corporate website based on the study by the European search Company *Seekport*.
- Finally we note the positions obtained by Red Eléctrica in studies promoted by the Ministry of Labour and Social Affairs, with the participation of union officials, academics and experts in corporate responsibility and good corporate governance. In the study of Observatorio de la Responsabilidad Social Corporativa, “*Responsabilidad Social Corporativa en las Memorias Anuales de las Empresas del IBEX 35*”, Red Eléctrica for the second consecutive year was in first place. And in the 2007 study of Observatorio RSE, “*Cultura, Políticas y Prácticas de Responsabilidad de las Empresas del IBEX 35*”, it achieved second position.

In addition, at the date of approval of this report, Red Eléctrica had just obtained the 2008 CECRE European environmental prize, and was included in the well-known worldwide index, FTSE4Good.

III. PRINCIPAL RESOLUTIONS OF THE 2007 FISCAL YEAR RELATED TO CORPORATE GOVERNANCE.

The principal corporate governance resolutions adopted by the Company in the 2007 fiscal year were as follows:

1. At the Board of Directors meeting held on 22 March 2007 a resolution was adopted regarding conclusions of the self-evaluation process for the Board of Directors and its committees, undertaken with the cooperation of outside advisors.
2. The following resolutions were adopted at the Board of Directors meeting held on 26 April 2007:
 - The Company’s Annual Corporate Governance Report for the 2006 fiscal year was unanimously approved.



-
- The procedure for remote proxies, voting and information for the Ordinary General Shareholders Meeting for the 2006 fiscal year was approved.
3. The following resolutions were separately adopted at the Ordinary General Shareholders Meeting held on 31 May 2007:
- Under the fifth point of the agenda (items 5.1, 5.2 and 5.3, respectively, amendments of articles 11 (General Shareholders Meeting); 22 (Board committees and delegation of authority), 23 (Audit Committee) and 24 (Nominating and Compensation Committee); and 26 (Secretary of the Board) were approved, voting separately on each of them, to adapt them to the recommendations introduced by the Conthe Code.
 - Under the sixth point of the agenda, items 6.1, 6.2 and 6.3, respectively, amendments of articles 3 (Authority of Meetings); 5 (Call) and 15.8 (Voting) of the General Shareholders Meeting Regulations were amended, voting separately on each of them, consistently and in accordance with the amendment of the bylaws referenced above.
 - Re the seventh point the agenda, the Board of Directors resolutions fixing their compensation for the 2006 fiscal year were ratified.
 - The three resolutions proposed in points 9.1, 9.2 and 9.3 of the agenda to authorise the Board of Directors to make market acquisitions of treasury shares were approved, voting separately on each of them.
 - Under the tenth point of the agenda, the Annual Corporate Governance Report for the 2006 fiscal year was submitted, in summary form, as a point of information.
4. The Board of Directors at its meeting of 26 July 2007 approved the Code of Ethics for the Company's employees, executives and board members.
5. At its meeting of 20 December 2007, the Board of Directors approved amendment of the Board of Directors Regulations to adapt them to the recommendations of the Conthe Code.



**SECOND PART: MODEL OF ANNUAL CORPORATE
GOVERNANCE REPORT FOR LISTED CORPORATIONS FOR
THE 2007 FISCAL YEAR, IN ACCORDANCE WITH CNMV
CIRCULAR 4/2007⁴**

ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED CORPORATIONS

PARTICULARS OF ISSUER

FISCAL YEAR **2007**

C.I.F. (Tax

Company Name:

RED ELÉCTRICA DE ESPAÑA, S.A.

Registered Address:

Pº Conde de los Gaitanes, 177
La Moraleja – Alcobendas
28109 MADRID

A OWNERSHIP STRUCTURE

A.1. Complete the following table on the company's capital:

⁴ Unless another date is expressly indicated in this report, the content thereof is deemed to refer to 31 December 2007.



Date of last change	Capital (€)	Number of shares	Number of voting rights
17-05-1999	270,540,000	135,270,000	135,270,000

State whether there are multiple classes of shares with different related rights:

YES NO

Class	Number of shares	Par value per share	Number of voting rights per share	Other rights
--	--	--	--	--

All the shares belong to the same class and series and confer the same rights to their owners.

A.2. Give details of the direct and indirect owners of significant shareholdings in your company at the fiscal year end, excluding directors:

Name of shareholder (individual or corporate)	Number of direct voting rights	Number of indirect voting rights(*)	% of total voting rights
State Industrial Ownership Corporation (SEPI)	27,054,000	--	20%

(*) Through:

Name of direct holder of the shares	Number of direct voting rights	% of total voting rights
--	--	--

Indicate the most relevant movements in the shareholder structure that took place during the fiscal year:

Name of shareholder (individual or corporate)	Date of transaction	Description of transaction
--	--	--

A.3. Complete the following tables on the members of the company's board of directors who hold company shares:

At 31 December 2007, the direct and indirect shareholding of directors in RED ELÉCTRICA's capital, both in individual and aggregate terms, is provided below:

Name of director	Number of direct voting	Number of indirect voting	% of total voting rights
------------------	-------------------------	---------------------------	--------------------------



	rights	rights (*)	
Luis M ^a Atienza Serna	20,105	--	0.01486
Pedro Rivero Torre	0	--	0
Juan Gurbindo Gutiérrez	0	--	0
Antonio Garamendi Lecanda	6,710	--	0.0050
Manuel Alves Torres	10	--	0.00000
José Riva Francos	552	--	0.0004
José Manuel Serra Peris	0	--	0
Rafael Suñol Trepas	20	--	0.00000
M ^a Ángeles Amador Millán	0	--	0
Martín Gallego Málaga	20	--	0.00000
Francisco Javier Salas Collantes	20	--	0.00000

(*) Through:

Name of direct holder of the shares	Number of direct voting rights	% of total voting rights
--	--	--

% total of voting rights controlled by board of directors

Complete the following tables on members of the company's board of directors who hold rights over company stock:

Name of director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total voting rights
--	--	--	--	--

A.4. Give details of any relationships of a family, commercial, contractual or corporate nature, known to the company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--

A.5. Give details of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and



the company, unless the relationships are negligible or arise in the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--

The significant shareholder of the Company, the State Industrial Ownership Corporation (SEPI), does not have any significant relationship with the Company and/or its group, or which is outside the Company's ordinary business of a contractual, corporate or business nature.

A.6. State whether shareholders agreements affecting the company have been notified to it as provided in art. 112 of the Securities Market Act. If so, briefly describe them and list the shareholders bound by the agreement:

YES NO

Parties to shareholders agreement	% of share capital affected	Brief description of the agreement
--	--	--

At 31 December 2007, the Company is not aware of any agreements or covenants reached by the shareholders, requiring them to adopt a common policy through the concerted exercise of voting rights at the General Meetings, or which restrict or condition the free transferability of their shares.

State whether the company is aware of the existence of concerted actions among its shareholders. If there are, briefly describe them.

YES NO

At the closing date of the 2007 fiscal year, there is no record in the Company of any shareholder agreements or covenants requiring concerted exercise of their voting rights, or of a common policy in company management, with the aim of significantly influencing the Company.

Participants in concerted action	% of share capital affected	Brief description of the agreement
--	--	--

If any of the above agreements or concerted actions have been modified or terminated during the fiscal year, expressly so state.

A.7. Indicate if there is any individual or legal entity that exercises or may exercise control over the company, within the meaning of article 4 of the Securities Market Act:

YES NO



Name of the individual or corporation
State Industrial Ownership Corporation (SEPI)

Comments
At 31 December 2007 the SEPI is owner of the 20% of the capital stock of the Company (27,054,000 shares). All of the foregoing is for the purposes contemplated in Royal Decree 1362/2007 of 19 October 2007.
There is no other individual or legal entity that exercises or may exercise control over the Company, as provided in article 4 of the Securities Market Act.

A.8. Complete the following tables on the company's treasury shares:

At fiscal year end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
295,165	--	0.218%

(*) Through:

Name of direct holder of the shares	Number of direct shares
--	--
Total:	--

Give details, as required under Royal Decree 1362/2007, of any significant changes that have taken place during the fiscal year:

Date of notice	Total shares acquired directly	Total shares acquired indirectly	Total % of share capital
04/01/2007	1,443,138	--	1.067%
30/04/2007	1,396,316	--	1.032%
10/07/2007	1,365,405	--	1.009%
20/12/2007	1,366,737	--	1.010%

Gain/(Loss) on treasury shares sold during the period	5,453
--	-------

A.9. State the conditions and term given by the company in general meeting to the board of directors to acquire or transfer treasury shares.

The General Shareholders Meeting of the Company held last 31 May 2007 authorised the Board of Directors, as provided in article 75 and related provisions of the Corporations Act, directly or indirectly and to the extent deemed to be advisable under the circumstances, to make market acquisitions of shares of Red Eléctrica de España, S.A. in accordance with the following conditions:



- The term of the referenced authorisation is 18 months starting on that date.
- The maximum number of shares to be acquired shall not exceed the established legal limit, all of the foregoing provided that the other applicable legal requirements may also be fulfilled.
- The acquisition may not be made at a price greater than the price on the stock exchange at the time of the acquisition, or at a price less than 50% of the exchange price at that time.
- The form of acquisition may be a purchase and sale, exchange, or any other business transaction for consideration, as the circumstances may require.
- The Company's Board of Directors may use all or a part of the treasury shares acquired and those already owned by the Company as provided in the third paragraph of article 75 1st of the Corporations Act.

A.10 If applicable, indicate any legal and bylaws restrictions on the exercise of voting rights, as well as the legal restrictions on the acquisition or transfer of equity interests.

State whether there are legal restrictions on the exercise of voting rights:

YES NO

Maximum percentage of voting rights that may be exercised by a shareholder under legal restriction	3% 1% (electricity sector)
---	---------------------------------------

State whether there are bylaws restrictions on exercise of voting rights:

YES NO

Maximum percentage of voting rights that may be exercised by a shareholder under a bylaws restriction	3% 1% (electricity sector)
--	---------------------------------------

Description of legal and bylaws restrictions on exercise of voting rights
<p>Each share gives the right to one vote, any shareholder being entitled to attend the General Meeting, without any required minimum number of shares, as was the case until the Extraordinary General Shareholders Meeting of 17 July 2003, which removed the bylaws requirement of at least 50 shares in order to attend the Meetings.</p> <p>Various amendments of Act 54/1997 affecting restrictions on voting rights have been introduced by Act 17/2007 of 4 July 2007, amending Electricity Sector Act 54/1997 of 27 November 1997, to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of 26</p>



June 2003 concerning common rules for the internal market in electricity.

Specifically, the second section of the third additional provision of Act 17/2007 establishes new maximum limits on exercise of voting rights, in order to guarantee the independence of a Company engaging in regulated activities in the electricity sector that, as provided in Act 54/1997 of 27 November 1997 on the Electricity Sector, constitute an essential service.

Thus, any individual or legal person may hold shares in the Company, provided that the sum of its direct and indirect interests in the Company is not more than five percent of share capital. Nor can it exercise more than three percent of voting rights. These shares may not be syndicated for any purpose whatsoever.

Those engaging in business in the electricity sector, and the individuals or legal persons that directly or indirectly hold greater than five percent interests therein, may not exercise more than one percent of the voting rights in the company responsible for operation of the system.

The special system for the State Industrial Ownership Corporation (SEPI) remains in effect, unchanged. SEPI in any event must hold at least a ten per cent (10%) interest.

The National Energy Commission is authorised to take legal actions aimed at enforcing the referenced legal limitations. Breach of the established shareholding limitations is a very serious violation of the Electricity Sector Act. Liability is imposed on the individuals or legal persons that own the securities or to which the excess interests are attributable..

State whether there are legal restrictions on acquisition or transfer of interests in share capital:

YES NO

Description of legal restrictions on acquisition or transfer of interests in share capital

The transfer of shares representing capital of Red Eléctrica de España, S.A. is free, not subject to any restriction. The electricity sector legislation establishes certain limitations on shareholdings, on the terms discussed above.

As for any other listed entity, acquisition of certain significant interests is subject to notice to the issuer and to the CNMV, as provided in article 53 of Securities Market Act 24/1988 of 28 July 1988, in Royal Decree 1362/2007 of 19 October 2007, and in CNMV Circular 2/2007 of 19 December 2007, which establish the first notice threshold at 3% of capital or voting rights.

A.11 State whether the General Meeting has resolved to adopt neutralisation measures in the event of a public offer for acquisition by virtue of the provisions of Act 6/2007.

YES NO



If so, explain the measures approved and the circumstances under which the restrictions would prove to be ineffective.



B STRUCTURE OF THE COMPANY'S MANAGEMENT

B.1. Board of Directors

B.1.1. Description of the maximum and minimum number of directors under the bylaws:

Maximum number of directors	13
Minimum numbers of directors	9

B.1.2. Complete the following table indicating the board members:

Name of director	Repr.	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Luis M ^a Atienza Serna		Chairman	08.07.04	26.05.05	General Meeting
Pedro Rivero Torre		Member	29.01.85	17.07.03	General Meeting
Juan Gurbindo Gutiérrez		Member	03.02.98	17.07.03	General Meeting
Antonio Garamendi Lecanda		Member	20.07.99	17.07.03	General Meeting
Manuel Alves Torres		Member	26.10.99	17.07.03	General Meeting
José Riva Francos		Member	22.04.03	17.07.03	General Meeting
José Manuel Serra Peris		Member	17.07.03	17.07.03	General Meeting
Rafael Suñol Trepát		Member	16.12.04	26.05.05	General Meeting
M ^a Ángeles Amador Millán		Member	26.05.05	26.05.05	General Meeting
Martín Gallego Málaga		Member	28.06.05	26.05.06	General Meeting
Francisco Javier Salas Collantes		Member	28.06.05	26.05.06	General Meeting

Total Number of Directors	11
----------------------------------	----

Give details of the directors who left the board of directors during the period:

Name of director	Status of departing director	Departure date
--	--	--



B.1.3. Complete the following tables on the board members and their individual status:

EXECUTIVE DIRECTORS

Name of director	Nominated by (committee)	Position in organisation chart of the company
Luis M ^a Atienza Serna	Nominating and Compensation	Chairman

Total number of executive directors	1
% total on Board	9.09%

NOMINEE DIRECTORS

Name of director	Nominated by⁵⁶⁷	Name of significant shareholder represented or that nominated the director
Juan Gurbindo Gutiérrez	Board of Directors since, at the time, the Nominating, Compensation and Corporate Governance Committee did not exist	State Industrial Ownership Corporation (SEPI)
Manuel Alves Torres	Board of Directors since, at the time, the Nominating, Compensation and Corporate Governance Committee did not exist	State Industrial Ownership Corporation (SEPI)
Rafel Suñol Trepal	Nominating and Compensation Committee	State Industrial Ownership Corporation (SEPI)

Total number of nominee directors	3
% total on Board	27.27

INDEPENDENT DIRECTORS



Name of director	Education
Pedro Rivero Torre	<p>Education 30 November 1938 Doctorate in Economics and Business, Universidad Complutense de Madrid. Honorary Doctorate, Universidad de Castilla-La Mancha. Member, Real Academia de Doctores.</p> <p>Professional Career</p> <p><i>At present:</i> Professor of Financial Economics and Company Accounting. Chartered Accountant (on leave of absence). Chairman, UNESA. Member, Economic and Social Council. Member, Social Council of Universidad de Castilla-La Mancha. Member, Electricity Advisory Board, CNE. Board member, CIEMAT. Chairman of the Corporate Social Responsibility Committee, AECA. Director, Omel (Operador del Mercado Ibérico de Energía – Polo Español, S.A.)</p>
Antonio Garamendi Lecanda	<p>Education 8 February 1958 Entrepreneur. Law Degree, Universidad de Valencia.</p> <p>Professional Career</p> <p><i>Formerly:</i> General Delegate of Equitativa, S.A. (Vizcaya). Managing Director of Bankoa, S.A. Insurance Brokerage Company Chairman, Handyman, S.L. Chairman of the “Negocios de Comunicación” Group (La Gaceta de los Negocios, Dinero magazine, Intereconomía Radio</p>



	<p>and OTR News Agency). Director, Babcock & Wilcox Española, S.A. Director, Albura, S.A. (Red Eléctrica de Telecomunicaciones) Director, Tubos Reunidos, S.A. Member, Strategic Committee, Grupo Alta Gestión, S.A. Chairman, Spanish Confederation of Young Entrepreneurs (CEAJE) Chairman, Business Creation Commission, CEOE. Member, Property Association of Vizcaya</p> <p><i>At present:</i> Chairman, Galea Empresarial, S.L. Chairman, Palacio de Moronati, S.L. Sole Administrator, Otokkar Eder, S.L. Vice Chairman, Entel Ibai, S.A. Managing Director of Iniciativas de Comunicación Económica, S.A. (ICESA) Insurance Broker. Willis Iberia, S.A. Member of the Strategic Committee of Sodexo Pass, S.A. Group Chairman, Energy Committee, CEOE. Director, CEOE Member and Treasurer, Confemetal and the Formetal Foundation. Committee Member, Institute for Economic Studies (IEE) Member, Board of Directors, Empresarial de Vizcaya (CEBEK) Member of the Executive Committee of the Vizcaya Federation of Metal Companies. Member, Chamber of Commerce of Vizcaya</p>
José Riva Francos	<p>Education 12 July 1953 Architect, E.T.S.A. Madrid. Specialty: Urban Development. Architect in Madrid</p>



	<p>Professional Career</p> <p><i>Formerly:</i> 1981: Visit to Minoru Yamasaki Studio, collaborating in the Project to build Torre Picasso, Madrid. 1981/1986: Architect in Madrid, own studio. Estudio Arco, architecture and construction: various work for private clients and for the Patronato de Casas del Aire (Air Force Ministry).</p> <p><i>Currently:</i> Vice Chairman, Managing Director of all companies in the Suardiaz Group with headquarters in Madrid and branches in the 12 principal ports on the Peninsula and in the Canary Islands. Chairman of Oligsa and Ventastur. Chairman and Managing Director, Ayala 6, S.A. and Camajuani. Board Member of Almacenes La Estrella, Logista and Enagás.</p>
José Manuel Serra Peris	<p>Education 31 August 1959 Law Degree, Universidad de Valencia. Member of the State Attorneys Corps.</p> <p>Professional Career</p> <p><i>Formerly:</i> State Attorney in the Treasury Department of Valencia and High Court of Justice of the Autonomous Community of Valencia. General Technical Secretary of the Ministry of Industry and Energy. Assistant Secretary of the Ministry of Industry and Energy. Secretary of State for Industry and Energy. Chairman of the Spanish Patent and Trademark Office.</p>



	<p>Chairman, Centre for Technological and Industrial Development (CDTI), Chairman, Foundation of the Industrial Organisation School, Chairman, Institute for Energy Diversification and Conservation (IDAE).</p> <p>Chairman, Institute for Restructuring of Coal Mining and Alternative Development of Mining Regions, and Chairman, Centre for Energy, Environmental and Technological Research (CIEMAT).</p> <p>Board Member, State Industrial Ownership Corporation (SEPI) and State Asset Ownership Corporation (SEPPA).</p> <p>Board member, Iberia, Líneas Aéreas de España, S.A, and member of the Board of Directors and Executive Committee of Endesa.</p> <p><i>Currently:</i> Lawyer and consultant. Board Member of Grupo Empresarial Ence, S.A., Uralita, S.A. and Martinsa-Fadesa, S.A.</p>
Ma Ángeles Amador Millán	<p>Education 10 October 1949 Law Degree, Universidad Complutense de Madrid</p> <p>Professional Career</p> <p><i>Formerly:</i> General Technical Secretary, Ministry of Public Works and Urban Development. Assistant Secretary of the Ministry of Health and Consumer Affairs. Minister of Health and Consumer Affairs. Member of Congress representing Segovia. Spokesman for Health Matters in Congress, Grupo Parlamentario Socialista. Member of Congress representing Madrid.</p>



	<p>Vice Chairman of the Constitutional Commission of Congress.</p> <p><i>At present:</i> Practising attorney. Member of the Governing Board of the Madrid Bar Association.</p>
Martín Gallego Málaga	<p>Education</p> <p>19 June 1940 Doctorate in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid. Degree in Economics, Universidad Complutense de Madrid. Certificate in Industrial Project Assessment, World Bank, Washington D.C. Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.</p> <p>Professional Career</p> <p><i>Formerly:</i></p> <p>General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy. Chairman, Nuclear Energy Board (currently CIEMAT), Institute for Energy Diversification and Conservation (IDAE), Spanish Geological and Mining Institute (ITGM) and Coordinating Committee of Energy Sector Research Offices. Chairman of Hidroastur, S.A. and Grupo Minero de Wolframio La Parrilla, S.A. Consultant for Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa and Ofico. Expert and Consultant for the European Communities Commission (Brussels) and the World Bank (Washington). General Corporate Manager for</p>



	<p>International Trade and Diversification, Grupo Endesa. Member of following Boards of Directors: Instituto Nacional de Hidrocarburos, Campsa, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisió de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Aguas de Barcelona, Internacional del Agua, S.A. Managing Director, Endesa Desarrollo, S.A. and Grupo Eléctrico de Telecomunicaciones, S.A. Expert Director of the Spanish Economic and Social Council. Director for Industry and Energy, Spanish Embassy in Washington.</p> <p><i>At present:</i></p> <p>Coordinator, Foundation for Energy Studies Consultant in the School of Industrial Organisation Member of the Governing Council, CIEMAT</p>
Francisco Javier Salas Collantes	<p>Education 6 March 1948 Degree in Economics, specialising in Business Economics</p> <p>Professional Career</p> <p><i>Formerly:</i></p> <p>1972 – 1973 Manufacturers Hanover Trust CO. (New York). Specialising in credit analysis in the International Division.</p> <p>1973 – 1983 Empresa Nacional del Uranio (ENUSA). Various positions in the Company's financial area: - 1975 - 1978. Financial</p>



	<p>Planning Manager. - 1978 - 1983. Chief Financial Officer.</p> <p>1983 - 1988 Instituto Nacional Industria (I.N.I.), Chief Financial Officer.</p> <p>1988 – 1990 I.N.I. General Corporate Manager, responsible for the following offices: Finance, Planning and Control, Technology and Investment.</p> <p>1990 – 1996 Chairman, I.N.I. and Teneo.</p> <p>1993 – 1995 Chairman, Iberia, Líneas Aéreas España, while also Chairman, I.N.I. and Teneo.</p> <p><i>Currently:</i></p> <p>Founding member and manager of Saga Servicios Financieros (Management and M&A Consultants). Chairman, Asociación Profesional de Empresas de Limpieza (ASPEL), sponsoring the Spanish cleaning sector. Director of the following companies: I&F Ingeniería and Fachadas Holding Group, S.L. (Chairman), Telvent and Chairman of the Audit Committee, Ged Capital Development, S.A., Sgecr, Ged Iberian Private Equity, S.A., Sgecr and Prointec, S.A. Chairman of Fundación Entorno, Empresa y Medioambiente. Sponsor of Instituto de Cuestiones Internacionales y Política Exterior (Incipe). Sponsor of the APMIB Foundation (Vice Chairman).</p>
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Total number of independent directors	7
% total on Board	63.63%

OTHER EXTERNAL DIRECTORS

Name of director	Nominated by
--	--

Total number of external directors	--
% total on Board	--

State the reasons they cannot be deemed to be nominee or independent and their relationships, whether with the company or its directors or with its shareholders:

Name of director	Reasons	Company, executive or shareholder with which the relationship is maintained
--	--	--

Indicate any changes occurring in the period in the type of each director:

Name of director	Date of change	Prior classification	Current classification
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B.1.4. If applicable, explain the reasons nominee directors have been appointed at the request of shareholders whose share interests are less than 5% of share capital:

Name of shareholder	Justification
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State whether any formal requests for membership on the board have not been honoured for shareholders whose share interests are not less than those of others upon whose request nominee directors have been appointed. If applicable, explain the reasons the requests have not been honoured:

YES NO



Name of director	Explanation
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B.1.5. State whether any director has resigned his position before the end of his term of office, whether that director explained his reasons to the board and if so in what way, and, if he did so in writing to the entire board, below explain at least the reasons given by that director:

Name of director	Reason for resignation
--	--

B.1.6. Indicate the powers, if any, entrusted to the managing director(s):

Name of director	Brief description
Luis M ^a Atienza Serna	The meeting of the Company's Board of Directors held on 29 July 2004 unanimously resolved, as proposed by the Nominating and Compensation Committee: <i>"To delegate to the Chairman of the Board of Directors, under and in accordance with the provisions of articles 141 of the current Corporations Act, 149 of the Commercial Register Regulations, 22 of the Bylaws and 5 of the Board of Directors Regulations, all authority of the Board of Directors that may be delegated by law and pursuant to the bylaws".</i>

B.1.7. Identify any members of the board who hold the position of director or executive in other companies belonging to the group of the listed company:

Name of director	Name of the group entity	Position
Luis M ^a Atienza Serna	Red Eléctrica Internacional, S.A.U.	Joint Administrator
Luis M ^a Atienza Serna	Red Eléctrica del Sur, S.A. (REDESUR)	Chairman of the Board of Directors
Luis M ^a Atienza Serna	Transportadora de Electricidad, S.A. (TDE)	Chairman of the Board of Directors

B.1.8. Describe any Company directors who are members of the boards of directors of other companies other than in your group listed on official Spanish securities markets, of which the company has been notified:



Name of director	Name of listed entity	Position
Mr. José Riva Francos	Compañía de Distribución Integral Logista, S.A. Enagás, S.A.	Director Director Director
Mr. José Manuel Serra Peris	Grupo Empresarial Ence, S.A. Uralita, S.A. Natraceutical, S.A. Martinsa-Fadesa, S.A.	Director Director Director Director
Mr. Rafael Suñol Trepal	INYPESA Informes y Proyectos, S.A.	Director

B.1.9. State and if applicable explain whether the company has established rules regarding the number of committees of which its directors may be members:

YES NO

Explanation of the rules
<p>Article 16.1 e) of the Board of Directors Regulations, as a part of the basic responsibilities of the Nominating, Compensation and Corporate Governance Committee in respect of appointments and departures of directors, provides for the evaluation of the time and dedication necessary for directors to perform their task with appropriate quality and efficiency, also evaluating whether a position as a director is compatible with serving on other management bodies of listed companies</p> <p>In this regard, the Nominating, Compensation and Corporate Governance Committee, if applicable, analyses and authorises the members of the Board of Directors of Red Eléctrica to join boards of directors of other companies.</p> <p>During the 2007 fiscal year the Nominating, Compensation and Corporate Governance Committee authorised two directors to join other boards of directors.</p>

B.1.10. Regarding recommendation number 8 of the Uniform Code, state the general policies and strategies of the company that the full board has reserved for its approval:

	Yes	No
Investment and financing policy	X	
Setting the structure of the group of companies	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plan, as well as annual management objectives and budget	X	
Policy regarding compensation and evaluation of performance of senior management	X	
Risk control and management policy, as well as periodic follow-up of internal reporting and	X	



control systems		
Dividend policy, as well as treasury shares and, in particular, limits thereon	X	

B.1.11. Complete the following tables on the aggregate compensation of directors during the fiscal year.

a) Compensation earned as director of the reporting company:

Category of compensation	In thousands of euros
Fixed compensation	391
Variable compensation	1,269
Per diems	808
Amounts per bylaws	
Options over shares and/or other financial instruments	--
Other	--
Total	2,468

Other benefits	In thousands of euros
Advances	--
Loans granted	--
Pension Funds and Plans: Contributions	11
Pension Funds and Plans: Liabilities incurred	--
Life insurance premiums	--
Guarantees established by the company in favour of directors	--
Total	11

b) Compensation earned as a director and/or senior executive of other companies within the Group:

Category of compensation	In thousands of euros
Fixed compensation	--
Variable compensation	--
Per diems	--
Amounts per bylaws	--
Options over shares and/or other financial instruments	--
Other	--
Total	--

Other benefits	In
----------------	----



	thousands of euros
Advances	--
Loans granted	--
Pension Funds and Plans: Contributions	--
Pension Funds and Plans: Liabilities incurred	--
Life insurance premiums	--
Guarantees established by the company in favour of directors	--
	--

c) Total compensation by type of director:

Type of director	By company	By group
Inside	772	--
Nominee	517	--
Independent	1,190	--
Other External		--
Total	2,479	--

d) Directors' compensation based on profit attributable to the parent company⁸:

Total directors' compensation (in thousands of euros)	2,479
Total directors' compensation / profits allocated to controlling Company (as a %)	1.020

B.1.12. Name the members of senior management who are not executive directors, and state the total compensation they earned during the fiscal year⁹:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transport
Esther M ^a Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations

Total senior management compensation (in thousands of euros)	899
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⁸ The profits obtained by the RED ELÉCTRICA Group and allocated to the Parent Company, in the 2007 fiscal year, amounted to 243,049 thousand euros (200,154 thousand euros in 2006).

⁹ Exclusively for the purposes of CNMV Circular 4/2007 of 27 March 2007, this refers to those individuals who manage the company at the highest level and, consequently, separately from any employment or legal relationship with the company.



B.1.13. State in overall terms whether there are any guarantee or golden parachute clauses in favour of senior managers, including executive directors, of the company or its group in the event of dismissal or a change of ownership. State whether such clauses must be notified to and/or approved by the management bodies of the company or its group:

Number of beneficiaries	3
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	Board of Directors	General Meeting
Body authorising the clauses	X	

	YES	NO
Was the General Meeting informed of the clauses?	X ¹⁰	

There are guarantee or indemnification clauses in favour of the executive director to cover dismissals or changes of control. This contract was approved by the then Nominating and Compensation Committee and the Board of Directors of the Company has been duly notified.

Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless applicable regulations provide for a higher amount.

In addition, there are guarantee or indemnification clauses in favour of members of Senior Management in the event of dismissal. These agreements were approved by the Nominating and Compensation Committee, duly notifying the Board of Directors.

The contracts affect two senior managers. Said clauses follow standard market practice and cover termination of the employment relationship, providing indemnities of up to two years' salary, unless applicable regulations establish a higher amount.

B.1.14. Describe the process for setting directors' compensation and cite the relevant clauses of the bylaws.

Process for setting directors' compensation and bylaws clauses
Provisions regarding compensation of the members of the Board of Directors are established in article 20 and in the Single Additional Provision of the Bylaws, as well as in article 27 of the Board

¹⁰ Reference is made to the clause applicable to the inside director of the Company and to members of the Senior Management whose contracts contemplate this type of provision.



Regulations. These provisions are set forth below:

I. Bylaws:

Article 20:

“...The compensation of the Board of Directors shall consist of a fixed monthly amount, per diems for attendance at the meetings of the management bodies and a share in the profits obtained by the Company. The aggregate yearly compensation for the entire Board and for the above categories shall be 1.5 per cent of the net profits of the Company, approved by the General Meeting. The above compensation is in any event the maximum amount that may be paid to the Board, which shall distribute such amount among the above categories and among the directors, in the manner, at the time and in the proportion it may freely establish. Pursuant to article 130 of the Corporations Act, compensation in the form of profit sharing may only be received by the directors after the mandatory reserve and the reserve established by the bylaws have been covered and after a minimum dividend of 4% has been paid to the shareholders.

Compensation consisting of the delivery of shares or options on shares or indexed to the value of the shares shall require a General Shareholders Meeting resolution, stating the number of shares that are delivered, the exercise price of the options, the value of the shares taken as a reference and the term of such compensation system.

The compensation contemplated in this article shall be compatible with and independent from the salaries, compensation, indemnification, pension or compensation of any kind established in general or specifically for those members of the Board of Directors who hold an employment (ordinary or special senior executive) or service relation with the Company, which relations shall be compatible with the status of member of the Board of Directors...”.

Sole additional provision, second paragraph:

“When a director, being a natural person, holds his office representing the shareholder contemplated in the Ninth Transitional Provision relating to article 34.1 of the Electricity Sector Act, his compensation shall be established as provided in the applicable rules on the events of incompatibility for the public sector; notwithstanding the compensation that may be owing to such public shareholder, either because he has been appointed directly as a member of the Board of Directors or because of the services provided to the Board or its executive committees by the individuals representing such public holder of shares of the capital of the Company, and which exceed those to which they may be personally entitled under such legislation, all the foregoing while, under the Ninth Transitional Provision, such ownership situation is maintained”.



II. Board Regulations (article 27):

“1. Directors shall be entitled to obtain such compensation as is established by the General Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these regulations

2. The compensation policy, as approved by the board, should specify at least the following points:

a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to,

b) Variable components, in particular:

i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed compensation categories.

ii) Performance evaluation criteria used to calculate entitlement to any compensation.

iii) The main parameters of and basis for any system of annual bonuses or other non-cash benefits.

iv) An estimate of the sum total of variable payments arising from the compensation policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

They also should include technical safeguards to ensure variable compensation reflects the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector, or other circumstances of this kind.

c) The principal characteristics of pension systems, with an estimate of their amount or annual equivalent cost.

d) Conditions that must be included in contracts of those exercising senior management functions as executive directors, including term, notice terms and any other clauses regarding signing bonuses, as well as indemnification for early termination of the contractual relationship between the Company and the executive director.

3. Compensation in the form of Company shares, on the terms authorised by the General Meeting, variable compensation tied to Company earnings and pension systems should be limited to executive directors.



4. *In the case of compensation tied to Company earnings, deductions should be made for any qualifications stated in the external auditor's report that decrease those earnings.*
5. *Directors' compensation shall be transparent. To this end, the Nominating, Compensation and Corporate Governance Committee shall prepare an annual report on director compensation, including:*
- a) *A breakdown of the compensation obtained by each director, to include where appropriate:
 - i) *Participation and attendance fees and other fixed director payments.*
 - ii) *Additional compensation for acting as a member of a board committee;*
 - iii) *Any payments made under profit-sharing or bonus plans, and the reason they were granted.*
 - iv) *Contributions on behalf of executive directors to defined-contribution pension plans, or any increase in the vested rights of executive directors in the case of contributions to defined-benefit plans.*
 - v) *Any severance packages agreed or paid.*
 - vi) *Any compensation they receive as directors of other companies in the group.*
 - vii) *The compensation executive directors receive in respect of their senior management positions.*
 - viii) *Any category of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be considered a related party transaction or when its omission would detract from a true and fair view of the compensation received by the director.**
 - b) *An individual breakdown of deliveries to executive directors of shares, on the terms authorised by the General Meeting*
 - c) *Information on the ratio in that prior fiscal year of the compensation obtained by executive directors to the Company's profits, or some other measure of enterprise results.*

Indicate whether the following decisions are reserved to the full board:

	YES	NO
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On the proposal of the company's chief executive, the appointment and removal of senior officers and their indemnity clauses	X	
Directors' compensation and, in the case of executive directors, the additional consideration for their management duties and other contract conditions	X	

B.1.15. State whether the board of directors approves a detailed compensation policy and specifies the matters addressed by it:

YES

NO

	YES	NO
The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to	X	
Variable components of compensation	X	
The principal characteristics of pension systems, with an estimate of their amount or annual equivalent cost	X	
The conditions to apply to the contracts of executive directors exercising senior management functions. Among them	X	

B.1.16. State whether the board submits a report on the directors' compensation policy to the advisory vote of the General Shareholders Meeting, as a separate point on the agenda. If applicable, explain the elements of the report regarding the compensation policy approved by the board for future years, the most significant changes in that policy by comparison with the policy applied during the fiscal year, and an overall summary of how the compensation policy was applied during the fiscal year. Describe the role of the Compensation Committee and, if outside advisors have been used, identify the outside consultants engaged:

YES

NO

Matters addressed by the compensation policy report
Red Eléctrica's compensation policy report was prepared following the recommendations of the Conthe Code, section 40, and the European Recommendation of 14 December 2004.
The report first describes the bylaws and regulatory framework governing board compensation, as indicated in section B.1.14 above. and where the following compensation components and criteria are established:
1. Fixed per diems for attendance and service on the board.



2. A part of compensation is tied to the Company's annual profits.
3. Compensation for service on board committees.
4. Overall annual bylaws limit on compensation for the entire board to 1.5% of net profits of the Company as approved by the General Meeting.
5. Within the established legal, bylaws and regulatory limits, it is up to the board of directors to distribute the amount of its annual compensation among the foregoing components and among directors, in the manner, at the time and in the proportion it determines. This decision is adopted by the board on proposal of the Nominating and Compensation Committee.
6. Possibility of compensation plans including delivery of Company shares. Although it has not been used since the 2006 fiscal year except in the case of executive directors in amounts similar to those applicable to the rest of the management team, the bylaws contemplate the possibility of such compensation with an annual limit of 12,000 euros.

In the second place the report establishes the guiding principles for compensation of the Company's board of directors. It is characterised by its moderation, consistency with the customary practices of listed companies, tie to the Company's earnings and transparency.

It also makes particular reference to compensation of external directors. Red Eléctrica intends that it bear a relationship to their actual service, excluding the pension systems applicable only to executive directors, incentivising their service, but without affecting their independence (particularly in the case of independent directors), compatible with but independent of the customary risk coverage established by the Company for the directors' attendance at meetings and performance of their duties

It also is reported that the Company has established a compensation plan for executives (including the executive director) tied to meeting three-year objectives which, if applicable, shall be paid at the end of the 2008 fiscal year. The report discusses the resolution adopted by the board of directors on 1 February 2007, fixing compensation for the 2007 fiscal year within the bylaws limits, with an increase of 5 percent (5%) over the compensation for the 2006 fiscal year.

From the report it appears that compensation components for 2007 are not changed by comparison with those established for 2006 (per diems for attending board meetings, amounts for service on board committees, and compensation tied to annual net profits of the Company), and that all components of compensation amount to 0.91% of the Company's net profits, below the maximum limit of 1.5% established in the bylaws.



The report also covers the possibility that senior officers and board members may request payment of a part of their compensation, up to a maximum of 12,000 euros per annum, in the form of delivery of Company shares. Extension of this possibility for a new term of 18 months is submitted for approval of this General Shareholders Meeting, by way of the corresponding proposal included in the meeting agenda.

Regarding forecasts for future years, the report states that no changes are contemplated in the criteria that have been used to set the compensation of the board of directors. This is based, as already stated, on moderation and an increase less than the forecast growth of corporate profits over coming fiscal years.

Role of Compensation Committee

The policy stated in the report was proposed by the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors.

The policy was established by that committee based on in-depth analysis of the recommendations in the Conthe Code starting in 2006. The purpose was to adjust the director compensation system to best corporate governance practices.

During the 2007 fiscal year the committee met 11 times. In large part it addressed compensation matters for the Company's board and senior management, as indicated in section G of this report.

	YES	NO
Has outside advice been used?		x
Identity of outside consultants		x

B.1.17. Give details of the directors, if any, who are also directors, executives or employees of companies that own significant shareholdings in the listed company and/or other companies in its group, as applicable.

Name of director	Name of significant shareholder	Position
Juan Gurbindo Gutiérrez	State Industrial Ownership Corporation (SEPI)	Manager of Administration and Resources and a member of its Management Committee
Manuel Alves Torres	State Industrial Ownership Corporation (SEPI)	Manager of Planning and Control and a member of its Management Committee

Give details of any significant relationships, other than those contemplated in the preceding paragraph, between members of the board of directors and companies owning significant shareholdings in the reporting company and/or companies in its group:



Name of related director	Name of related significant shareholder	Description of relationship
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B.1.18.State whether there was any amendment of the board regulations during the fiscal year:

YES

NO

Description of amendments
<p>At the board meeting of 20 December 2007 it was resolved to amend the Board of Directors Regulations to adjust them to the recommendations introduced by the Uniform Good Governance Code, approved by the CNMV on 19 May 2006. The reform initiative started with the full board, being one of the items specified for consideration by the full board in article 3 of the indicated regulations.</p> <p>The process of reform and adaptation of the board regulations was guided by: (i) incorporation of the new content of the Conthe Code, (ii) elimination of contradictions and superfluous requirements; and (iii) technical refinement of the distribution of authority among the various bodies within the Company and, as a result, the governing documents reflecting them.</p> <p>Specifically, the following articles have been amended: article 3. <i>Amendment</i>, article 4. <i>Dissemination</i>, article 5. <i>General supervisory function</i>, article 6. <i>Institutional guidelines</i>, article 7. <i>Qualitative composition</i>, article 9. <i>Chairman of the Board</i>, article 10. <i>Secretary of the Board</i>, article 11. <i>Assistant Secretary of the Board</i>, article 12. <i>Board of Directors Committees</i>, article 13. <i>Composition and Functioning</i>, article 14. <i>Functions of Audit Committee</i>, article 15. <i>Composition and Functioning</i>, article 16. <i>Functions of the Nominating, Compensation and Corporate Governance Committee</i>, article 19. <i>Nomination of directors</i>, article 20. <i>Appointment of external directors</i>, article 21. <i>Term of office</i>, article 22. <i>Removal of directors</i>, article 24. <i>Orientation and refresher programmes</i>, article 27. <i>Director compensation</i>, article 28. <i>Director duty of diligence</i>, article 29. <i>Direct or duty of loyalty</i>, article 30. <i>Director duty of disclosure</i>, and article 31. <i>Transactions with significant shareholders</i></p> <p>The literal text of the amendments of the Board Regulations is as follows:</p> <p>Article 3. Amendment</p> <p>1. <i>These regulations may be amended at the initiative of the Chairman, one third of the acting directors or the Nominating, Compensation and Corporate Governance Committee, or the Audit Committee, which must include a supporting memorandum with its</i></p>



proposal.

2. *The Nominating, Compensation and Corporate Governance Committee in all cases must report on proposed amendments.*
3. *The text of the proposal, the supporting memorandum of its authors and, if applicable, the report of the Nominating, Compensation and Corporate Governance Committee must be attached to the call of the Board meeting that is to consider it. The call must be made at least fifteen (15) days in advance.*
4. *In order to be valid the amendment of the Regulations must be adopted by a two thirds majority of the directors in attendance.*

Article 4. Dissemination

1. *Directors and senior officers must be familiar, comply and cause compliance with these regulations. To that end, the Board secretary shall provide all of them with copies hereof.*
2. *The Board of Directors shall adopt such measures as may be necessary in order for the Regulations to be appropriately disseminated among shareholders and the general investing public. In particular the Board shall give notice of these regulations to the National Securities Market Commission, shall publish them on the Company's website, and shall report to the General Shareholders Meeting regarding any amendment hereof, as provided by law. Once such notice has been given, they shall be registered with the Commercial Register.*

Article 5. General supervisory function

1. *The Board of Directors administers, governs and represents the Company, without prejudice to the authority of the General Shareholders Meeting. The Board has all powers to manage and represent the Company, in and out of court, exercising said powers either directly or through their delegation, substitution or a power of attorney as allowed by law, the bylaws and these regulations. The Board shall have competence for all such matters as are not reserved to the General Shareholders Meeting.*
2. *The Board's policy is to delegate ordinary Company management to the management bodies and management team and to concentrate its work on the general supervisory function and approval of basic guidelines for operations.*
3. *The Board's delegation of authority within the limits provided by law shall not deprive it of that authority.*
4. *Such authority as is legally or institutionally reserved for direct handling by the Board, and such other authority as may be necessary for responsible exercise of the general supervisory function, may not be delegated.*
5. *Throughout the fiscal year the Board must review the degree of compliance with the budget and the strategic plan, and the financial statements the Company must provide to the market regulatory or supervisory bodies for publication.*
6. *In particular, direct exercise of the following authority is reserved to the Board, on a non-delegable basis, except for the authority contemplated in letters b) and c) below, which in the event of urgency be exercised by the Company's chairman, thereafter to be ratified by the Board, without prejudice to the validity of the acts as against third parties by virtue of the provisions of article 129 of the Corporations Act:*
 - a) *Approval of the general policies and strategies of the Company, in particular:*



- *Approval of the Strategic or Business Plan for the Company and its group, as well as the annual budget and management objectives.*
 - *Approval of investment and financing policy.*
 - *Approval of the structure of the group of companies.*
 - *Approval of corporate governance policy.*
 - *Approval of corporate social responsibility policy.*
 - *Approval of policy regarding compensation and evaluation of performance of senior management.*
 - *Approval of the policy for control and management of the principal risks of the Company and the group, and review and periodic follow-up regarding the systems for internal control, prevention and reporting.*
 - *The risk control and management policy shall identify at least the following:*
 - *The various kinds of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.*
 - *If applicable, setting the risk level the Company deems to be acceptable.*
 - *The measures contemplated for mitigating the impact of the identified risks, should they materialise.*
 - *The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.*
 - *Approval and, if applicable, proposal to the Shareholders Meeting of the dividend policy and the treasury share policy, in particular the limits thereof.*
 - *The authority specifically contemplated in these regulations.*
- b) *The following decisions:*
- *Directors' compensation and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.*
 - *The financial information listed companies must periodically disclose.*
 - *Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting.*
 - *The creation or acquisition of interests in special purpose vehicles or entities resident in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the group's transparency.*
- c) *Related party transactions, in accordance with the regulations in effect from time to time, after a report from the Nominating, Compensation and Corporate Governance Committee.*
If the related party transaction involves a director, in addition to not exercising or delegating its right to vote, the director shall leave the meeting while the Board of Directors deliberates and votes on it, after having reported to the Board regarding the transaction.
Board of Directors authorisation shall not be required for transactions excluded or excepted under applicable regulations.
- d) *Annual evaluation of:*
- i) *The quality and efficiency of the Board's operations and the chairman's performance of his duties, based on a report from the Nominating, Compensation and Corporate*



Governance Committee.

- ii) *The performance of its committees, based on reports furnished by them.*

Article 6. Institutional guidelines

1. *The Board of Directors shall perform its duties with unity of purpose and independent judgment.*
2. *The criterion that at all times must govern the activities of the Board of Directors is the corporate interest, that is, ensuring the Company's long term viability and value, and protecting and promoting the Company's general interests.*
3. *Within the scope of corporate organisation, the Board shall adopt the measures necessary to ensure that:*
 - a) *The Company's management seeks to fulfil the corporate interest, and has the proper means and incentives to do so.*
 - b) *The Company's management is under effective supervision of the Board.*
 - c) *No individual or small group of persons has unchecked and uncontrolled decision-making authority.*
 - d) *No shareholder is treated better than others.*
 - e) *In its relationships with stakeholders the Company respects the laws and regulations; performs its obligations and agreements in good faith; respects the uses and good practices of the sectors and territories where it conducts business; and observes the additional social responsibility principles that it has voluntarily accepted.*

Article 7. Qualitative composition

1. *The Board of Directors, in the exercise of its authority to make recommendations to the General Meeting and itself to fill vacancies on the Board, shall see to it that the composition of that body is such that:*
 - a) *external directors are a significant majority of the Board.*
 - b) *the number of executive directors is the minimum required, considering the complexity of the corporate group and the percentage interests of the Company's capital held by executive directors.*
 - c) *among external directors, the ratio of nominee directors to independent directors reflects the ratio of the Company's capital represented by nominee directors and the remainder of the Company's capital; this strict proportionality criterion may be relaxed in such manner that the weight of nominee directors is greater than what would correspond to them based on the total percentage of capital they represent:*
 - i) *In large cap companies where few or no share interests attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.*
 - ii) *Where there is a plurality of shareholders represented on the board but not otherwise related.*
 - d) *The number of independent directors should represent at least one third of all board members.*
2. *For these purposes the following definitions apply:*
 - a) *Executive Directors:*
Directors who are senior officers or employees of the Company or its group.
Directors who are entrusted with special duties by the General Meeting or Board of Directors, by way of delegation, authorisation or a power of attorney for a specific act, shall not be considered to be executive directors.



- b) *Nominee Directors:*
- i) *Directors who hold a share interest above or equal to the legally determined threshold for significant holdings, or are otherwise appointed due to their status as shareholders.*
 - ii) *Those representing the shareholders indicated in the preceding paragraph.*
For these purposes, a director shall be deemed to represent a shareholder when:
 - o *He has been appointed in exercise of the shareholder's right of representation.*
 - o *He is a director, senior officer, employee or regular service supplier of that shareholder, or of companies within the same group.*
 - o *o*
 - o *He is the spouse or maintains an analogous affective relationship or is a close relative of a significant shareholder.*
- c) *Independent Directors:*
Directors appointed for their personal or professional qualities who are in a position to perform their duties without being influenced by any connection with the Company, its shareholders or its management.
The following may not be classified as independent directors:
- i) *Past employees or executive directors of group companies, unless 3 or 5 years have elapsed, respectively, from the end of the relation.*
 - ii) *Those who have received some payment or other form of compensation from the Company or its group on top of their directors' fees, unless the amount involved is not significant.*
Dividends or pension supplements received by a director for prior employment or professional services shall not count for the purposes of this section, provided such supplements are non contingent, i.e. the paying company has no discretionary power to suspend, modify or revoke their payment, and by doing so would be in breach of its obligations.
 - iii) *Partners, now or on the past 3 years, of the external auditor or the firm responsible for the audit report, during the said period, of the listed company or any other within its group.*
 - iv) *Executive directors or senior officers of another company where an executive director or senior officer of the Company is an external director.*
 - v) *Those having material business dealings with the Company or another company in its group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings.*
Business dealings shall include the provision of goods or services, including financial services, as well as advisory or consultancy relationships.
 - vi) *Significant shareholders, executive directors or senior officers of an entity that receives significant donations from the Company or its group, or has done so in the past 3 years.*
 - vii) *This provision shall not apply to those who are merely trustees of a foundation receiving donations.*
 - viii) *Spouses, partners maintaining an analogous affective*



relationship or close relatives of one of the Company's executive directors or senior officers.

- ix) Any person not proposed for appointment or re-appointment by the Nominating, Compensation and Corporate Governance Committee.
- x) Those standing in any of the situations listed in paragraphs i), v) or vii) of this section in respect of a significant shareholder or a shareholder with board representation. In the case of the family relations specified in paragraph vii), the limitation shall apply not only in connection with the shareholder but also with his nominee directors in the investee company.

Nominee directors disqualified as such and required to resign due to the sale of shares by the shareholder they represent may only be re-elected as independent directors once the said shareholder has sold all of its shares in the Company.

A director with shares in the Company may qualify as independent, provided he meets all the conditions stated in this section and the holding in question is not significant.

Independent directors may not remain as such for a continuous period of more than twelve years.

- 3. Proposals for appointment or reappointment of directors sent by the Board to the General Meeting, as well as appointments by the Board itself, shall be approved by it:
 - a) On the proposal of the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors.
 - b) Subject to a report from the Nominating, Compensation and Corporate Governance Committee in all other cases.

Article 9. Chairman of the Board

- 1. The chairman of the Board of Directors shall be elected from among its members and shall be the chief executive of the Company. All authority delegable by law and under the bylaws and these regulations shall be delegated to the chairman, who shall have effective management of the Company's business, always in accordance with the decisions of and criteria established by the General Shareholders Meeting and the Board of Directors within the scope of their respective authority.
- 2. The appointment and removal of the chairman shall require the favourable vote of two thirds of the board members.
- 3. The chairman or the person acting on his behalf shall have the ordinary authority to call meetings of the Board of Directors, prepare the agenda and chair the debates.
For those purposes, the chairman shall ensure that directors receive sufficient prior information and shall encourage debate and active participation of directors during board meetings, seeing to it that they may freely adopt positions and express opinions.
- 4. The chairman of the Board of Directors shall have a casting vote in the event of tied votes.
- 5. The chairman shall coordinate the board's periodic evaluation of committees with the chairmen thereof.

Article 10. Secretary of the Board

- 1. The secretary of the Board of Directors, who must be an attorney, need not be a director.
- 2. Without prejudice to the other authority contemplated in the Company's bylaws, the secretary shall assist the chairman in his work and must provide for the proper functioning of the board. In



particular he shall provide the directors with the necessary advice and information, maintain the corporate documentation, duly enter meetings in the minutes book and certify the resolutions of the board.

3. The secretary shall ensure:
 - a) that the actions of the Board of Directors are consistent with the letter and spirit of the laws and regulations, and the rulings issued by regulatory authorities.
 - b) that the Board of Directors and its committees abide by the Bylaws, the General Shareholders Meeting and Board of Directors Regulations and the Company's other corporate governance standards.
 - c) that the Company's corporate governance rules and the actions of the Board of Directors respect the recommendations on good corporate governance in effect from time to time.
4. The Nominating, Compensation and Corporate Governance Committee, prior to their submission to the Board, shall report on proposals for appointment and removal of the secretary of the Board of Directors.

Article 11. Assistant Secretary of the Board

1. The Board of Directors may appoint an assistant secretary, who need not be a director, to assist the secretary of the Board of Directors or replace him in the event of absence in performing that function, both for the Board of Directors and for its committees. The assistant secretary must be an attorney.
In the absence of both the functions of the secretary shall be performed by the youngest director.
2. Unless otherwise decided by the Board of Directors, the assistant secretary may attend its meetings to assist the secretary in drafting the minutes of the meeting.
3. The Nominating, Compensation and Corporate Governance Committee, prior to their submission to the Board, shall report on proposals for appointment and removal of the assistant secretary of the Board of Directors.

ARTICLE 12. Committees of the Board of Directors

1. Without prejudice to delegations of authority made on an individual basis, the Board of Directors may appoint one or more managing directors and establish committees to provide the board with decisions regarding specified matters. As provided in the bylaws and applicable legal provisions, the board in any event shall establish an Audit Committee and a Nominating, Compensation and Corporate Governance Committee.
In addition, the board, based on the corporate governance recommendations in effect from time to time, may establish such other committees as it deems to be appropriate for better organisation and operation of the Company. The board shall appoint the members of the committees based on the knowledge, capability and experience of the directors and the functions of each committee.
2. The committees shall regulate their own operations as provided in the bylaws and these regulations. The secretary of the board, and in his absence the assistant secretary, shall act as secretary for the committees. The committees shall meet on call of their respective chairmen. Annually the committees shall prepare an action plan,



which shall be given to the board. they shall report periodically to the board on the progress of the plans. If not otherwise specifically provided, the operating rules established in these regulations in respect of the board shall be used, provided that they are consistent with the nature and function of the committees.

3. The committees shall prepare minutes of resolutions adopted at their meetings, on the terms contemplated for the Board of Directors. Copies shall be sent to all members of the board, and the actions taken shall be reported to the board at its next following meeting.

Article 13. Composition and Functioning

1. The Audit Committee shall be comprised of a number of members to be determined by the Board of Directors, from a minimum of three to a maximum of five, all external directors.

The chairman of the committee shall be elected by its members from among the independent directors who are members thereof, and the secretary shall be the secretary of the Board of Directors.

2. The appointment, re-election and removal of members of the committee shall be undertaken by the Board of Directors on proposal of its chairman, after a report from the Nominating, Compensation and Corporate Governance Committee. Such appointment shall be based on their knowledge and experience regarding accounting, auditing or risk management.

The members of the committee shall serve for a term of not more than three years. They may be re-elected and shall cease to be members of the committee when they cease to be directors, or when so resolved by the Board of Directors. The chairman shall be replaced every three years, and may be re-elected once one year has passed since he ceased to be a member.

3. The committee shall meet with the regularity determined by it, which must be at least quarterly, whenever called by its chairman or requested by two of its members, and whenever the board or its chairman requests the issuance of a report.

4. The call of the meetings, including the agenda, shall be sent by the chairman or secretary of the committee to each of its members, at least three days before the date indicated for the meeting, unless the meeting needs to be convened earlier for emergency reasons.

The committee may validly meet with the presence of a majority of its members, and shall adopt its decisions or recommendations by majority vote.

The members of the management team or Company personnel specified by the chairman shall be required to attend meetings of the Audit Committee. They must cooperate and allow access to the information available to them in respect of the matters in question.

5. In order to better fulfil its duties, the committee may propose to the Board of Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 14. Functions of Audit Committee

Without prejudice to the functions established by law and the bylaws, the committee shall assist the board in overseeing the economic and financial processes and the independence of the external auditor, and internal control of the Company. Pursuant to the authorisation contemplated in article 23.2 of the bylaws, the Audit Committee has authority to:

- 14.1 As regards financial information:



- a) *Approve the accounting principles and criteria to be used in the preparation of the financial statements of the Company and of its consolidated group, and verify their correctness, reliability and sufficiency.*
- b) *Monitor the preparation and integrity of the financial information of the Company and, where appropriate, the group, seeing to it that regulatory requirements are respected, the scope of consolidation is appropriately defined, and the applicable accounting principles and criteria are properly applied.*
- c) *Review and report to the board in advance regarding economic and financial information the Company must disclose and send to market supervision agencies. The committee should ensure that interim statements are prepared under the same accounting principles as annual statements and, if it considers it to be appropriate, may ask the external auditor of accounts to conduct a limited review.*

14.2 *As regards internal control and risk management systems:*

- a) *Approve the internal control procedures of the Company in respect of expenditure and investment, making, where necessary, the appropriate modifications.*
- b) *Supervise the internal audit function, which shall ensure proper functioning of information and internal control systems and address requests for information from the Audit Committee in the performance of its duties.*
- c) *Ensure the independence and effectiveness of the internal audit function; supervise and control the process of selection, appointment, re-election and removal of the head of the internal audit function, and the action plans thereof; supervise and control the resources assigned to the internal audit function and, inter alia, its budget; receive periodic information regarding its activities; and confirm that senior management is acting on the conclusions and recommendations in its reports.*
The head of internal audit should present an annual work programme to the audit committee, report to it directly on any incidents arising during its implementation and submit an activities report at the end of each fiscal year.
- d) *Periodically supervise the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.*
- e) *Supervise the procedure established by the board whereby staff can report any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.*
The persons in charge of internal control must inform the Committee when they identify irregularities or breaches that may significantly impact or harm the net worth, results or to image of the Company or its group.

14.3 *As regards external auditors:*

- a) *Propose to the Board of Directors the appointment of external auditors for the submission thereof to the General Shareholders Meeting, seeing to it that it is the same audit firm for all the companies in the group, as well as the terms of the audit contract, the scope of the professional engagement and the extension or termination thereof.*
- b) *Establish procedures to ensure the independence and professionalism of the external auditors and receive information regarding issues that might jeopardise it. To that*



end:

- i) *It shall ensure that any change of auditor and any disagreement with a departing auditor is notified to the CNMV as a material disclosure.*
 - ii) *It shall ensure that the Company, within the scope of its responsibilities, complies with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.*
 - iii) *The Committee shall investigate the issues giving rise to the resignation of any external auditor.*
 - c) *Receive any relevant information regarding the Audit Plan, the process of performance and results thereof, as well as any other information contemplated in the accounting rules.*
 - d) *Act as a communications channel between the board and the external auditor; evaluate the results of each audit and verify that senior management is acting on its recommendations, mediating in the event of disputes between the former and the latter in respect of the principles and criteria applicable in the preparation of the financial statements.*
 - e) *Supervise the performance of the audit contract, seeking to ensure that the principal contents of the audit report are drafted clearly and precisely.*
 - f) *Review the relevant situations identified by the external auditor, in the same way as information from the internal control systems is received, which might adversely affect the net worth, results, or image of the group.*
 - g) *Regularly request from the external auditors, at least once a year, an appraisal of the quality of the group's internal control procedures.*
- 14.4 *As regards compliance with legal provisions and internal regulations:*
- a) *Supervise observance of the Code of Conduct in the Securities Market and, in general, the procedures for reporting financial and accounting irregularities and adjusting related party transactions to the Company's interest, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue a report on the measures to be implemented*
 - b) *Review observance of actions and measures that are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.*
- 14.5 *As regards the Company's shareholders:*
- a) *Review and, if applicable, respond to the initiatives, suggestions or complaints that may be made by shareholders in respect of the scope of authority of this committee.*
 - b) *If appropriate, report to the Shareholders Meeting on issues raised at the meeting by shareholders on issues falling within its authority.*
- 14.6 *Miscellaneous:*
- a) *Keep the Board of Directors duly informed of its activities and prepare an annual report to be included in the Annual Corporate Governance Report and an Action Plan for each fiscal year.*
 - b) *Report to the board on extraordinary investment transactions when it so requests and, in any event, on transactions creating or acquiring interests in special-purpose vehicles or entities*



domiciled in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the group's transparency.

- c) Report in advance to the board on related party transactions.
- d) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.
- e) Any other authority conferred on it by the board.

Article 15. Composition and Functioning

1. The Nominating, Compensation and Corporate Governance Committee shall be comprised of a number of directors fixed by the Board of Directors, from a minimum of three to a maximum of five, the majority being external directors, and at least half being independent directors.

The chairman of the committee shall be an independent director elected from among its members, and the secretary shall be the secretary of the Board of Directors.

2. The appointment, re-election and removal of committee members shall be carried out by the Board of Directors on the proposal of the chairman of the Board of Directors.

The members of the committee shall serve for a term of not more than three years. They may be re-elected and shall cease to be members of the committee when they cease to be directors, or when so resolved by the Board of Directors, after a report from the Nominating, Compensation and Corporate Governance Committee. The chairman may be re-elected after a year has elapsed after leaving office.

3. The committee must consider the suggestions of the chairman, the members of the committee, and the Company executives or shareholders, in matters affecting the appointment of directors, including managing or executive directors, or compliance with corporate governance principles, the bylaws and these regulations.

4. The Committee shall meet as often as necessary for proper performance of its duties, in any event on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be adopted.

5. Calls of the meetings, including the agenda, shall be sent by the chairman or secretary of the Committee to each of its members, at least three days before the date indicated for the meeting, unless the meeting needs to be called earlier for emergency reasons.

The committee may validly meet with the presence of a majority of its members, and shall adopt its decisions or recommendations by majority vote.

6. In order to better fulfil its duties, the Committee may propose to the Board of Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 16. Functions of the Nominating, Compensation and Corporate Governance Committee

Pursuant to the authorisation in article 24.2 of the Company's Bylaws, the Nominating, Compensation and Corporate Governance Committee shall have the following basic responsibilities:

- 16.1 As regards appointments and removals:

- a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal



- of directors, including in cases of cooption.*
- b) Report prior to their submission to the Board of Directors on proposals for appointment or removal of the secretary of the Board of Directors and the assistant secretary thereof.*
 - c) Propose to the Board of Directors the system for selecting independent directors.*
 - d) Evaluate the balance of skills, knowledge and experience on the board and based thereon define the roles and capabilities required of the candidates to fill each vacancy.*
 - e) Evaluate the time and dedication necessary for directors to perform their duties with due quality and efficiency, for these purposes evaluating whether they are compatible with membership on other management bodies of listed companies.*
 - f) Report on the senior officer appointments and removals that the chairman proposes to the Board of Directors.*
 - g) Examine or organise, in appropriate form, the succession of the chairman, making recommendations to the board so the transfer proceeds in a planned and orderly manner.*
 - h) Ensure that gender diversity is respected when filling vacancies.*
 - i) Consult with the chairman, particularly when dealing with matters related to executive directors.*
- 16.2** *As regards compensation:*
- a) Propose to the Board:*
 - i) the compensation policy for directors and senior officers.*
 - ii) the individual compensation and other contractual conditions of executive directors.*
 - iii) the standard conditions for senior officer employment contracts.*
 - b) Consult with the chairman of the Company, particularly when dealing with matters related to executive directors and senior officers.*
 - c) Oversee compliance with the compensation policy set by the Company.*
- 16.3** *As regards discharge of the directors' duties:*
- a) Ensure fulfilment by the directors of the obligations established in these regulations, report to the Board on their performance, and issue the appropriate reports and proposals as well as, as applicable, on the measures to be adopted in the event of breach.*
 - b) Authorise the directors to use corporate assets.*
- 16.4** *As regards corporate governance rules: Supervise observance of the corporate governance rules, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue an annual report on the measures to be implemented and send it to the board.*
- 16.5** *Other functions:*
- a) Keep the board informed of its activities and prepare an annual report to be included in the management report, as well as an action plan for each fiscal year.*
 - b) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.*
 - c) Report to the board on performance of their duties by the chairman and the full committee.*
 - d) Verify the category of each director, for purposes of the pertinent board explanations to the General Shareholders Meeting that is to make or ratify the appointment of that*



director, and reflect it in the Annual Corporate Governance Report.

- e) Any other authority conferred on it by the board.

Article 19. Nomination of directors

1. Directors shall be appointed by the General Meeting or by the Board of Directors as provided in the Corporations Act, the Company bylaws and these regulations.
2. Proposals to appoint directors (including by way of cooption) shall be made on proposal of the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors, and after a report from that Committee, in the case of other directors.

Article 20. Appointment of external directors

The Board of Directors shall endeavour, within the scope of its authority, to ensure that the candidates elected are people of high solvency, competence and experience.

Article 21. Term of office

1. Directors shall serve for the term contemplated in the bylaws. Proposals for appointment or re-election of directors sent by the board to the General Shareholders Meeting, as well as provisional appointments by the board itself, shall be approved by it:
 - i) On proposal of the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors.
 - ii) Subject to a report from the Nominating, Compensation and Corporate Governance Committee in all other cases.
2. Directors appointed by cooption shall serve until the date of the first following General Meeting.
3. Any director who completes his term or who, for any other reason, leaves his position, may not work for another company that engages in a business that may be in conflict with that of the Company, for a term of two years.

Article 22. Removal of directors

1. Directors shall relinquish their directorships at the ends of the terms for which they were appointed or when so decided by the General Meeting in exercise of the authority conferred upon the General Meeting by law or the bylaws.

The Board of Directors may not propose the removal of an independent director prior to completion of the term of office specified in the bylaws for which the director was appointed, except for just cause and after a report from the Nominating, Compensation and Corporate Governance Committee. In particular, just cause shall be presumed when a director is in breach of his duties as a director or is affected by any of the circumstances described in article 7.2 c) resulting in loss of his independent status. The removal of independent directors may also be proposed by reason of corporate transactions that result in changes in the capital structure of the Company to meet the proportionality criterion specified in article 7.1.c) of these regulations.
2. Directors shall place their directorships at the disposal of the Board of Directors and formally tender their resignations, if the Board deems it desirable, in the following circumstances:



- a) *When they reach 70 years of age.*
- b) *When they are subject to any of the grounds of incompatibility or prohibition provided for by law.*
- c) *When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) *When they have seriously breached their obligations as directors.*
- e) *When they leave executive positions with which their appointment as director was associated.*
- f) *When their continued presence on the board endangers the Company's interests, in particular in respect of section 30.4 of these regulations, and the board so finds with the favourable vote of two thirds of its members.*

If a director is indicted or tried for any of the crimes referred to in article 124 of the Corporations Act, the Board shall review the matter as soon as possible, and in light of the particular circumstances shall decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All of the foregoing shall be covered by the Annual Corporate Governance Report.

- g) *In the case of a nominee director, when the shareholder whose shareholding interest he represents on the board disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such.*
3. *Committee members shall leave office when they relinquish their directorships.*
 4. *When a director ceases to serve before the end of his term of office, by reason of resignation or otherwise, he shall explain the reasons in a letter sent to all members of the Board, the matter being covered by the Annual Corporate Governance Report.*

Article 24. Orientation and refresher programmes

The Company shall have an information programme giving directors rapid and sufficient knowledge of the Company and its corporate governance rules. It also shall offer refresher courses to directors when circumstances so dictate.

Article 27. Director compensation

1. *Directors shall be entitled to obtain such compensation as is established by the Shareholders Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these regulations*
2. *The compensation policy, as approved by its Board of Directors, should specify at least the following points:*
 - a) *The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to,*
 - b) *Variable components, in particular:*
 - i) *The types of directors they apply to, with an explanation of the relative weight of variable to fixed compensation items.*
 - ii) *Performance evaluation criteria used to calculate entitlement to any compensation.*
 - iii) *The main parameters and basis for any system of annual bonuses or other non-cash benefits.*
 - iv) *An estimate of the sum total of variable payments arising from*



the compensation policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

They also should include technical safeguards to ensure variable compensation reflects the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector, or other circumstances of this kind.

- c) The principal characteristics of pension systems, with an estimate of their amount or annual equivalent cost.*
 - d) Conditions that must be included in contracts of those exercising senior management functions as executive directors, including term, notice terms and any other clauses regarding signing bonuses, as well as indemnification for early termination of the contractual relationship between the Company and the executive director.*
- 3. Compensation in the form of Company shares, on the terms authorised by the General Meeting, variable compensation tied to Company earnings and pension systems should be limited to executive directors.*
 - 4. In the case of compensation linked to Company earnings, deductions should be computed for any qualifications stated in the external auditor's report.*
 - 5. Directors' compensation shall be transparent. To this end, the Nominating, Compensation and Corporate Governance Committee shall prepare an annual report on director compensation, including:*
 - a) A breakdown of the compensation obtained by each Company director, to include where appropriate:*
 - i) Participation and attendance fees and other fixed director payments.*
 - ii) Additional compensation for acting as chairman or member of a board committee;*
 - iii) Any payments made under profit-sharing or bonus plans, and the reason they were granted.*
 - iv) Contributions on behalf of executive directors to defined-contribution pension plans, or any increase in the vested rights of executive directors in the case of contributions to defined-benefit plans.*
 - v) Any severance packages agreed or paid.*
 - vi) Any compensation they receive as directors of other companies in the group.*
 - vii) The compensation executive directors receive in respect of their senior management positions.*
 - viii) Any category of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be considered a related party transaction or when its omission would detract from a true and fair view of the compensation received by the director.*
 - b) An individual breakdown of deliveries to executive directors of shares, on the terms authorised by the General Meeting.*
 - c) Information on the ratio in that prior fiscal year of the compensation obtained by executive directors to the Company's profits, or some other measure of enterprise results.*

Article 28. Director duty of diligence

- 1. As provided in articles 5 and 6, the function of a director is to guide and control management of the Company in order to fulfil the Company's interest.*
- 2. In the performance of his duties a director shall act with the*



diligence of an orderly businessmen and loyal representative, and must diligently review the progress of the Company. In particular a director is required:

- a) *To appropriately review and prepare for meetings of the board and its committees to which he belongs.*
- b) *To attend the meetings of the board and the committees of which he is a member and actively participate in the deliberations so that his judgment effectively contributes to decision-making.*

If a director, for just cause, cannot attend a board meeting that has been called, he must give instructions to the director that shall represent him, arranging for that representative to be a director in the same category.

The number of absences shall be stated in the Annual Corporate Governance Report.

- c) *To perform any specific task assigned to him by the Board of Directors reasonably within his commitment of time.*
- d) *To promote investigation of any irregularity in management of the Company of which he has notice, and the monitoring of any risk situation.*
- e) *To ask those having authority to do so to call an extraordinary meeting of the board or of a committee to deal with the matters he deems to be appropriate, or include them on the agenda of the next meeting to be held.*
- f) *To gather such information as may be necessary for efficient performance of his duties, and regularly monitor the questions he poses to the Company's management, it being his responsibility to identify and request that information from the chairman or the secretary of the board.*
- g) *To oppose resolutions contrary to law and the bylaws.*
- h) *To oppose resolutions contrary to the corporate interest. In particular, independent directors and those not affected by the potential conflict of interest must oppose resolutions that may be harmful to shareholders not represented on the board. This obligation also applies to the secretary of the board, director or otherwise.*

Article 29. Director duty of loyalty

Directors must perform their duties imposed by law, the bylaws and these regulations loyally in the interest of the Company.

29.1 Director duty of confidentiality

- a) *The director shall keep the deliberations of the Board of Directors and committees of which he is a member secret, and in any event refrain from disclosing the information, data, reports or background to which he may have access as a result of his position.*
- b) *The confidentiality obligation survives departure from office.*

29.2 Obligation not to compete

- a) *Without prejudice to the provisions in these regulations regarding conflicts of interest, no director may act in a manner that may result in competition with the Company.*
- b) *Independent directors may not provide their professional services to companies that have corporate purposes that are fully or partially similar to that of the Company. Positions with group companies are not subject to this prohibition. The independent director shall first consult with the Board of Directors prior to accepting any administrative position in another company or entity that may represent a conflict of interest or affect his dedication.*



- c) *Directors shall report any equity holding they may have in any company with a business identical, analogous or complementary to that of the Company, or that represents some degree of competition, as well as positions or functions exercised therein and activities on their own account or for others, external the Company, that are analogous or complementary to the business that constitutes the corporate purpose.*
- 29.3 *Conflicts of interest*
- a) *A director shall refrain from attending and participating in deliberations affecting matters in which he has a personal interest, either direct or indirect, or those having the appearance of a conflict of interest.*
A personal interest shall also be considered to exist when the matter affects a person related to the director or to a Company with which he has an employment or professional relationship, or in which he holds a management position or significant shareholding.
For the purposes of the preceding paragraph related persons are those defined as such from time to time in the applicable regulations.
- b) *Nominee directors shall disclose to the Board any conflict of interest between the Company and the shareholders proposing his nomination when this affects matters submitted to the board, refraining from participating in the adoption of the corresponding resolutions*
- 29.4 *Use of corporate assets*
- a) *A director may not use the Company's assets or use his position therein to obtain an economic advantage, unless he gives sufficient consideration and is authorised by the Nominating, Compensation and Corporate Governance Committee.*
- b) *By way of exception the director may be exempted from the obligation to give consideration, but in this case the economic advantage shall be treated as indirect compensation and must be authorised by the Nominating, Compensation and Corporate Governance Committee.*
If the advantage is received in his capacity as a shareholder, it shall only be allowed if the principal of equality of shareholders is respected.
- 29.5 *Private information*
- a) *Directors cannot use Company information that is not available to the public for private purposes, except with the prior approval of the Board of Directors.*
Directors must refrain from engaging or suggesting that any person engage in a transaction in securities of the Company itself or subsidiary, affiliate or related companies in respect of which they, by reason of their positions, have privileged or secret information, until it is publicly disclosed.
- b) *The foregoing is without prejudice to the rules applicable in each case in the Regulations for Conduct in the Securities Markets.*
- 29.6 *Business opportunities*
- a) *Directors cannot use, either directly or indirectly, for their own benefit or that of related persons or third parties, any business opportunity of the Company, unless said opportunity is previously offered to the Company, the Company declines to use it, and the board authorises the director to do so, after a report from the Nominating, Compensation and Corporate Governance Committee.*



b) For purposes of the preceding sections a business opportunity is any possibility of making an investment or engaging in a commercial transaction that has arisen or been discovered in connection with the exercise of the director's duties, or through the use of Company resources and information, or under circumstances making it reasonable to believe that the offer of the third party in fact was addressed to the Company.

29.7 Indirect transactions

Any director who, with prior knowledge, allows or does not disclose the existence of transactions effectuated by members of his family or companies in which he holds a management position or significant interest or other related parties, and which are not submitted to the conditions and controls set forth in the foregoing articles, violates his duty of loyalty to the Company.

29.8 Use of name

Directors may not use the name of the Company or invoke their status as directors thereof in effectuating any transactions on their own behalf or for related persons.

Article 30. Director duty of disclosure

1. A director must report to the Company on his interest in its capital, as well as options on shares or derivatives based on the share value, whether this interest is direct or through companies in which the director holds a significant interest. This information shall also include changes in the share interests or related rights, independently of compliance with securities market rules.
2. The director also must report to the Company on his other professional obligations, if they may interfere with the commitment required by his position. In particular he must report all positions he holds and activities he engages in with other companies or entities engaged in any business of a nature that is the same as or analogous or complementary to the Company's business or that, in any way, compete with it. He must also report interests in the share capital thereof and, in general, any other fact or situation that could be relevant to his actions or the independence of his judgment as a director of the Company.
3. A director must notify the Company of significant changes in his situation that affect the character or condition by virtue of which he was appointed a director, or that could involve a conflict of interest.
4. A director must advise the Company of all judicial, administrative and other claims that by reason of their significance may jeopardise the credit and reputation of the Company. In particular he must advise of criminal actions in which he appears as an accused, and of the progress of the trial.

Article 31. Transactions with significant shareholders

The Board of Directors formally reserves jurisdiction of any relevant transaction of the Company with a significant shareholder, unless by its nature and conditions it is within the jurisdiction of the General Meeting.

B.1.19. Describe the procedures for the appointment, re-election, evaluation and removal of directors. Specify the competent bodies, the formal steps to be taken and the criteria to be used in each procedure.



1. Appointment and re-election.

Article 19 of the Board Regulations provides that directors are to be appointed by the General Meeting or by the Board of Directors by way of cooption. The Nominating, Compensation and Corporate Governance Committee must report in advance on proposed appointments of directors, including by way of cooption. The Board of Directors shall endeavour, within the scope of its authority, to ensure that the candidates elected are people of high solvency, competence and experience, as provided in article 20 of the Regulations.

As provided in article 21 of the Regulations, directors shall serve for the term contemplated in the Bylaws. Proposals for appointment or re-election of directors sent by the Board to the General Shareholders Meeting, as well as provisional appointments by the Board itself, shall be approved by it:

- iii) On proposal of the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors.
- ii) Subject to a report from the Nominating, Compensation and Corporate Governance Committee in all other cases.

Article 20 of the bylaws establishes a four-year term of office for directors. They may be re-elected. As provided in article 7 of the Board Regulations, independent directors may not remain as such for a continuous period of more than twelve years.

2. Evaluation of directors.

During the 2006 fiscal year, through what was then called the Nominating and Compensation Committee, the Company's Board of Directors initiated a process of self-evaluation of its internal operation, and operations of the two committees, the chairman of the Board of Directors and the directors.

During 2007 this self-evaluation process was carried out in light of the recommendations in the Uniform Good Governance Code of Listed Companies ("Conthe Code"). The process was carried out with the assistance of an outside consultant (Seeliger & Conde) by personally interviewing each of the directors, committee members and the chairman. The process was implemented under the sponsorship of the current Nominating, Compensation and Corporate Governance Committee.

The Board of Directors, at its meeting held on 22 March 2007, after noting the high degree of uniformity in the answers of its members, issued an overall positive evaluation regarding observance of the recommendations of the Conthe Code. Only a limited number of the recommendations have not been followed, and it has been agreed to commence a process of reflection and continuous adaptation of the internal regulatory framework, in order to continue maintaining high levels of transparency and corporate governance.



Currently the Company is undertaking an annual process of self-evaluation of the functioning of the board of directors, its committees and the Chairman of the Board. In light of the experience acquired by the Company, in this instance it has been deemed to be appropriate for the self-evaluation process to be undertaken by the board itself.

The Chairwoman of the Nominating, Compensation and Corporate Governance Committee is coordinating the process with the active participation of the Chairman of the Board of Directors and the Chairman of the Audit Committee. All members of the board are actively cooperating in the process.

The process is revealing marked improvement in the already high degree of compliance with the recommendations in the Conthe Code.

3. Removal.

Article 22 of the Board Regulations provides that directors shall relinquish their directorships at the ends of the terms for which they were appointed or when so decided by the General Meeting in exercise of the authority conferred upon the General Meeting by law or the bylaws. The Board of Directors may not propose the removal of an independent director prior to completion of the term of office specified in the bylaws for which the director was appointed, except for just cause and after a report from the Nominating, Compensation and Corporate Governance Committee.

Also, the directors must tender their positions to the Board of Directors and, if it deems it to be appropriate, resign, in the cases contemplated in article 22.2 of the Board Regulations that are listed in section B.1.20 below

Article 22. 3 of the Board Regulations provides that committee members shall leave office when they relinquish their directorships.

When a director ceases to serve before the end of his term of office, by reason of resignation or otherwise, he shall explain the reasons in a letter sent to all members of the Board, the matter being covered by the Annual Corporate Governance Report, as provided in article 22.4 of the Board Regulations.

B.1.20. Indicate any events in which directors are forced to resign.

Article 22.2 of the Board Regulations contemplates that directors shall place their positions at the disposal of the Board of Directors and shall, if the Board deems appropriate, tender their formal resignations, in the following cases:

- “a) When they reach 70 years of age.*
- b) When they are subject to any of the grounds of incompatibility or prohibition provided for by law.*



- c) *When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) *When they have seriously breached their obligations as directors.*
- e) *When they leave executive positions with which their appointment as director was associated.*
- f) *When their continued presence on the Board endangers the Company's interests, in particular in respect of section 30.4 of these regulations, and the Board so finds with the favourable vote of two thirds of its members.*

If a director is indicted or tried for any of the crimes referred to in article 124 of the Corporations Act, the Board shall review the matter as soon as possible, and in light of the particular circumstances shall decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All of the foregoing shall be covered by the Annual Corporate Governance Report.

- g) *In the case of a nominee director, when the shareholder whose shareholding interest he represents on the board disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such".*

B.1.21. Explain if the functions of chief executive officer and chairman of the board of directors are performed by the same individual. If so, describe the measures taken to limit the risks deriving from the concentration of power in the hands of one person.

YES NO

Measures taken to limit risks
<p>Article 25 of the Bylaws states that the Chairman of the Board is the Chairman of the Company and of its governing and management bodies.</p> <p>Furthermore, he is the person responsible for senior management as well as fully representing it in all matters, further to powers delegated from the board.</p> <p>The chairman has the power to adopt such emergency measures as he deems appropriate to the interests of the Company. But the chairman must immediately report such measures to the Board of Directors. All of the foregoing is without prejudice to regular reporting to the board at ordinary meetings of the management carried on in different areas of the Company, requesting, as pertinent, approvals of the resolutions presented.</p> <p>In particular, under the provisions of article 5.6 of the Board of</p>



Directors Regulations, the board retains “*direct exercise of the following responsibilities on a nondelegable basis, except for those contemplated in letters b) and c) below, which may be adopted in the event of urgency by the chairman of the Company, thereafter to be ratified by the board, without prejudice to the validity of the actions as against third parties by virtue the provisions of article 129 of the Corporations Act;*

a) *Approval of the general policies and strategies of the Company, in particular:*

i) *Approval of the strategic or business plan for the Company and its group, as well as the annual budget and management objectives.*

ii) *Approval of investment and financing policy.*

ii) *Approval of the structure of the group of companies.*

iv) *Approval of corporate governance policy.*

iv) *Approval of corporate social responsibility policy.*

vi) *Approval of policy regarding compensation and evaluation of performance of senior management.*

vii) *Approval of the policy for control and management of the principal risks of the Company and the group, and review and periodic follow-up regarding the systems for internal control, prevention and reporting.*

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

- *The various kinds of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.*

- *If applicable, setting the risk level the Company deems to be acceptable.*

- *The measures contemplated for mitigating the impact of the identified risks, should they materialise.*

- *The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.*

viii) *Approval and, if applicable, proposal to the Shareholders Meeting of the dividend policy and the treasury share policy, in particular the limits thereof.*

ix) *The authority specifically contemplated in these regulations.*



- f) *The following decisions:*
- i) *Directors' compensation and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.*
 - ii) *The financial information listed companies must periodically disclose.*
 - iii) *Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting.*
 - iv) *The creation or acquisition of interests in special purpose vehicles or entities resident in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the transparency of the group.*
- g) *Related party transactions, in accordance with the regulations in effect from time to time, after a report from the Nominating, Compensation and Corporate Governance Committee.*
- If the 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 it, after having reported to the board regarding the transaction.*
- Board of Directors authorisation shall not be required for transactions excluded or excepted under applicable regulations.*
- h) *Annual evaluation of:*
- iii) *The quality and efficiency of the board's operations and the chairman's performance of his duties, based on a report from the Nominating, Compensation and Corporate Governance Committee.*
 - iv) *The performance of its committees on the basis of the reports furnished by them".*

The creation of the Audit and Nominating and Compensation Committees in 1999, entirely composed of members of the Board of Directors specialised in matters within their sphere of responsibility, reinforces the specific control exercised over the basic and strategic responsibilities of the Company, which in no event shall be performed exclusively by the chairman.

State, and if so explain, whether rules have been established allowing an independent director to request the call of board meetings or the inclusion of new points on the agenda to coordinate and give voice to the concerns of external directors and to lead evaluation by the Board of Directors

YES NO



Explanation of the rules

Notwithstanding the foregoing, it is the customary practice that directors may without limitation request that new points be included on the agenda of board meetings. In this regard, under article 17 of the Board Regulations three directors may call a board meeting.

Therefore, any director may request the call of a board meeting, and if jointly requested in writing by three directors, independently of their category, the Bylaws and the Board Regulations provide that the board must meet. Thus greater flexibility is given to the call of board meetings.

Also, leading the evaluation process is expressly delegated to the Nominating, Compensation and Corporate Governance Committee.

B.1.22. Are supermajorities, other than the statutory majorities, required for any kind of decision?

YES NO

Article 3.4 of the Board of Directors Regulations provides that, to be valid, any amendment of said Regulations shall require approval by a two thirds majority of the Directors attending.

Describe how resolutions of the Board of Directors are adopted, stating at least the minimum quorum and the type of majority required for the adoption of resolutions:

Adoption of resolutions		
Type of resolution	Quorum	Type of Majority
Any resolution, with the exception of amendment of the Board Regulations	One half plus one of directors present personally or by proxy	Simple

There are no provisions for resolutions that require a supermajority for their adoption, apart from the specific ones contemplated in the applicable law and in the event of amendment of the Board Regulations.

Except in cases where other quorums for attendance have been specifically established, the board shall be validly constituted with the attendance of at least half plus one of its members, present either personally or by proxy. If there is an odd number of directors, then a quorum shall be present with the attendance of the whole number of directors immediately over half.

Article 21 of the Bylaws establishes that each director may give a proxy to another director, in writing and specifically for each meeting,



so that he may be present and vote for him in the meetings of the Board of Directors.

The chairman shall organise the discussion, ensuring and encouraging the participation of all directors in the deliberations of the body, and shall submit the matters for vote when he deems them to have been sufficiently debated. Each director, present personally or by proxy, shall have one vote.

Article 21 of the Bylaws and article 18 of the Board Regulations establish that resolutions shall be adopted by majority vote, unless the law requires that resolutions be adopted by a higher majority or in the aforesaid case of amendment of the Board of Directors Regulations, as specified in article 3.4 thereof.

B.1.23.State if there are any specific requirements other than those relating to directors, to be appointed chairman.

YES NO

Description of requirements
--

B.1.24.Indicate if the chairman has a casting vote:

YES NO

Matters on which there is a casting vote
In the event of a tie vote, the Chairman shall have the casting vote and shall settle the issue, regardless of the subject matter of the resolution being voted on (article 21 of the Bylaws and article 18.3 of the Board Regulations).

B.1.25 Indicate if the bylaws or regulations for the board of directors establish any age limit for directors:

YES NO

Age limit for chairman

Age limit for managing director

Age limit for director

Article 22 of the Board Regulations contemplates that directors shall place their positions at the disposal of the Board of Directors and shall, if the Board deems appropriate, tender their formal resignations, when they reach seventy (70) years of age.



B.1.26. Indicate if the bylaws or board regulations set a limit to the term of office of independent directors:

YES NO

Maximum number of years in office	4
--	---

Independent directors shall have a term of office of four years, the same as all other directors, and may be re-elected.

Notwithstanding the foregoing, as provided in article 7.2 c) *in fine* of the Board of Directors Regulations, independent directors may not remain as such for a continuous period of more than twelve years.

As already indicated in Section B.1.19 above, unless there is sufficient cause and a prior report is issued by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors may not propose the removal of any external directors before they complete the terms for which they were appointed.

B.1.27. If there are few female directors, or none, explain the reasons and the initiatives adopted to correct that situation.

Explanation of reasons and initiatives
<p>Currently the Board is comprised of one woman and ten men. When filling vacancies on the Board the Company shall apply the Code recommendation no. 15, as provided in article 75 of Organic Act 3/2007 of 22 March 2007 on effective equality of men and women.</p> <p>In its policy for selecting directors Red Eléctrica, through the Nominating, Compensation and Corporate Governance Committee, shall apply selection processes avoiding any condition or bias that may result in any limitation on women's access to board positions, actively encouraging selection of female directors and their incorporation into the Board of Directors, on the terms contemplated in the Code recommendation no. 15.</p>

In particular, state whether the Nominating and Compensation Committee has established procedures so that selection processes do not suffer from implicit bias preventing selection of women and consciously seek candidates meeting the requirements:

YES NO

Identify the principal procedures
As has been stated, the actions implemented by the Company consist of imposing no condition that may limit access of women to the board, actively encouraging selection of female directors and



incorporating them into the Board of Directors, on the terms contemplated in Conthe Code recommendation no. 15.

B.1.28.State whether there are formal procedures for delegating votes at board of directors meetings. If there are, give brief details.

Each Director may extend a proxy to another Director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors. It is so provided in article 21 of the bylaws.

If a Director cannot, for justified cause, attend a Board meeting that has been called, he must give instructions to the director that shall represent him, endeavouring that he be represented by a director of the same category as provided in article 28.2 b) of the Board Regulations.

B.1.29.Indicate the number of meetings held by the board of directors during the period. Also state, if appropriate, the number of times the board has met without the presence of the chairman:

Number of board meetings	11
Number of board meetings without the chairman being present	0

State the number of meetings the various board committees have held during the fiscal year:

Number of meetings of the Executive or Delegate Committee	--
Number of meetings of the Audit Committee	10
Number of meetings of the Nominating and Compensation Committee	11
Number of meetings of the Nominating Committee	--
Number of meetings of the Compensation Committee	--

B. 1.30. State the number of meetings held by the board of directors during the fiscal year without the attendance of all of its members. The figures treat attendance of proxies without specific instructions as absences:

Number of absences of directors during the fiscal year	4
Absences as a percentage of total number of votes during the fiscal year	3.31%

B. 1.31. Indicate if the individual and consolidated financial statements submitted for board approval are previously certified:

YES NO



Identify, if applicable, the person/people certifying the individual and consolidated financial statements of the company, for formulation by the board:

Name	Position
--	--

B.1.32. Give details of any mechanisms the board of directors has established to avoid having the individual and consolidated financial statements presented to the general meeting with qualifications in the auditors' report.

The Board Regulations expressly establish that the Board of Directors of the Company shall formulate the final financial statements, striving to ensure that there are no auditor qualifications. Nevertheless, when the Board considers that it must maintain its position, then it shall publicly state the content and scope of the disagreement.

In this regard, the Audit Committee is particularly important, as it continuously monitors the process of reporting economic and financial information to the market supervisory bodies, thereby increasing the possibility of absence of qualifications in the annual audit reports.

The Company, since its incorporation, has not been subject to qualifications in the audits of its financial statements. This demonstrates the high degree of accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated group throughout its life, at all times guaranteeing the maximum reporting transparency.

B.1.33. Does the secretary of the board hold a directorship?

YES NO

B.1.34. Explain the procedures for appointment and removal of the secretary of the board, indicating whether the nominating committee has reported thereon and the full board has approved.

Procedure for appointment and removal
As provided in article 10.4 of the Board Regulations, the Nominating, Compensation and Corporate Governance Committee, prior to their submission to the Board, shall report on proposals for appointment and removal of the secretary of the Board of Directors.
The current Secretary of the Board of Directors is Mr. Rafael García de Diego Barber, a member of the Madrid Bar Association. He is not a director of the Company. He has served since 4 May 1995. For that reason the Nominating Committee could not report on his appointment, since on that date it did not exist.



	YES	NO
Does the nominating committee report on the appointment?	X	
Does the nominating committee report on removal?	X	
Does the full board approve the appointment?	X	
Does the full board approve the removal?	X	

Is the secretary of the board specifically charged with monitoring good governance recommendations?

YES NO

Comments
<p>As provided in articles 26 e) of the Bylaws and 10.3 b) of the Board Regulations, the authority of the Secretary of the Board of Directors includes overseeing compliance by the Board of Directors and its committees with the Bylaws, the General Shareholders Meeting Regulations and the Board of Directors Regulations, and other corporate governance rules of the Company.</p> <p>In addition, letter f) of the indicated article 26 of the Bylaws and corresponding article 10.3 c) of the Board Regulations provide that the Secretary of the Board of Directors is to <i>“see to it that the Company's corporate governance rules and the actions of the Board of Directors respect the good governance recommendations in effect from time to time”</i>.</p>

B.1.35. Indicate any mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

The Audit Committee is the body under the Board of Directors that is responsible for the relationship with external auditors. In this regard the Audit Committee assists the Board of Directors in ensuring independence of the Company's external auditor.

In exercise of the authority contemplated in article 23.2 of the Bylaws, article 14.3 b) of the Board of Directors Regulations, in respect of the independence of external auditors, charges the Audit Committee with establishing procedures to ensure the independence and professionalism of the external auditors of accounts and receiving information regarding matters that might endanger them.

In this regard the Audit Committee must ensure that the Company (i) makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with the departing auditor, and (ii) complies with the applicable rules regarding non-audit services, limits on the concentration of the auditor's business and, in general, the other rules established to ensure independence of the auditors. In addition, in the event of resignation of an auditor, the Audit Committee must examine the underlying circumstances.



Further, pursuant to the terms of article 38 of the Board of Directors Regulations, the board shall refrain from engaging audit firms whose anticipated fees in all categories are projected to surpass 10% of total income during the last fiscal year.

In addition, article 38 of the Regulations requires the Board of Directors to provide yearly information on the overall fees paid by the Company to the audit firm for non-audit services. The Corporation makes frequent presentations to financial analysts and investment banks to report the key economic and financial figures of the group, and to review its business performance.

Said presentations are regularly attended by the most important professionals and specialists in the sector. After making the foregoing presentations, all participants are offered the opportunity to be included in a list of entities that periodically receive the most important information regarding the Company of interest to them.

Presentations to analysts are first sent to the CNMV so that they are known by the markets through its website, and are then immediately posted on the Company website.

Since 1999, the Company has also had an "Investor Relations" Department reporting to the General Administration and Finance Office, responsible for acting as a communications channel with financial professionals and for answering their questions.

B.1.36. State whether the company changed external auditors during the fiscal year. Is so identify the new and departing auditors:

YES NO

Departing auditor	New auditor
--	--

If there were disagreements with the departing auditor, describe the substance:

YES NO

Description of disagreements
--

B.1.37. Indicate if the audit firm provides any non-audit services to the Company and/or group. If so, state the auditor's fees for such services in absolute terms and as a percentage of the total fees invoiced to the company and/or its group.

YES NO

	Company	Group	Total



Fees for non-audit services (thousands of euros)	7	1	8
Fees for non-audit services / Total fees invoiced by the auditor (as a %)	6.4%	0.9%	7.3%

B.1.38. State whether the audit report on the financial statements for the prior fiscal year contains reservations or qualifications. If applicable, state the explanation given by the chairman of the audit committee of the substance and scope of the reservations or qualifications.

YES NO

Explanation
--

B.1.39. Indicate the number of consecutive years the current audit firm has audited the company's and/or group's financial statements. Also state how long the current audit firm has audited the company's financial statements as a percentage of the total number of years for which the company's financial statements have been audited:

	Company	Group
Number of consecutive years	2	2

	Company	Group
No. of years audited by current audit firm / No. of years the company has been audited (as a %)	9%	28.6%

B.1.40. Give details of directors' shareholdings, as disclosed to the company, in companies whose business is similar, analogous or complementary to the business constituting the company's corporate purpose or that of the group to which it belongs. State also any offices or functions the named directors hold or perform in those companies:

Name of director	Name of company in which shares are held	% shareholding	Office or function
José Riva Francos	Iberdrola, S.A.	0.0001	---
José Manuel Serra Peris	Iberdrola, S.A.	0.0004	--
	Gas Natural, S.A.	0.0010	--



B.1.41. Is there a procedure to allow directors to take independent professional advice? If so, give details.

YES NO

Describe procedure
<p>A specific procedure exists within the Company in order for directors to obtain outside advice.</p> <p>To receive assistance in exercising their functions, article 26 of the Board Regulations establishes that external directors may request that the Board of Directors engage legal, accounting, financial or other expert consultants, at the expense of the Company.</p> <p>The task entrusted to them shall deal only with specific problems with a degree of magnitude and complexity arising in carrying out their responsibilities.</p> <p>The request must be presented to the chairman. It may be rejected by the Board of Directors if it concludes that:</p> <ul style="list-style-type: none">a) It is not necessary for proper performance of the functions entrusted to the external directors;b) The cost thereof is not reasonable in view of the importance of the problem and the assets and income of the Company; orc) The technical assistance sought may be adequately provided by experts or technicians of the Company, or has been entrusted to other outside experts. <p>In respect of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee, articles 13.5 and 15.6, respectively, of the Board Regulations state that the committees may propose that the Board of Directors seek independent professional advice.</p> <p>Furthermore, said committees may have access to any type of information or documentation of the Company that is necessary to better carry out their duties, pursuant to the provisions established in the foregoing articles of the Board Regulations.</p>

B.1.42. Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for board and board committee meetings in good time:

YES NO

Describe procedure
<p>Board of Directors meetings are called at least six (6) days in advance and all the relevant information is sent together with the</p>



call. The call always includes the agenda of the meeting and, in general, except when it is not possible, the relevant information, duly summarised and prepared.

Notwithstanding the foregoing, article 17.3 of the Board Regulations establishes that the call of the board shall be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the board may be called by telephone and the prior notice period shall not apply when, in the chairman's opinion, the circumstances so require. The emergency reasons shall be explained in the minutes of the meeting.

Article 25 of the Board Regulations provides that a director has the broadest rights to information regarding and to review any matter affecting the Company. In this regard the board at any time may examine the books, records, documents and other background of corporate transactions, and even inspect all of its facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with said article 25 of the Board Regulations and in order to not disturb the ordinary management of the Company, exercise of rights to information shall be channelled through the chairman of the Board of Directors, who shall deal with all requests of the director, directly providing the information, offering the appropriate contact person at the proper level within the organisation or making arrangements to allow the director to conduct the desired examination and inspection *in situ*.

Article 25 of the Board Regulations provides that the chairman of the Company may restrict access to certain information on an exceptional and temporary basis, informing the Board of Directors of the decision during its next meeting.

Also, both the Audit Committee and the Nominating, Compensation and Corporate Governance Committee may access any kind of information or documentation of the Company that they need for better performance of their duties, as indicated in section B.1.41 above.

B.1.43.State whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may prejudice the credit and reputation of that Company, and if so give details:

YES NO

Explain the rules
Article 30 of the Board Regulations, among the disclosure obligations of a director, provides that a director must advise the Company of all judicial, administrative and other claims that by reason of their significance may jeopardise the credit and reputation of the Company. In particular he must advise of criminal actions in which he appears as an accused, and of the progress of the trial.



Also, as indicated in article 22.2 of the Board Regulations, directors must tender their positions to the board of directors and formalise the corresponding resignation when remaining on the Board endangers the interests of the Company, as discussed above, if so ordered by the Board by a vote of two thirds of its members.

Also, if a director is indicted or tried for any of the crimes referred to in article 124 of the Corporations Act, the Board shall review the matter as soon as possible, and in light of the particular circumstances shall decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All of the foregoing shall be covered by the Annual Corporate Governance Report.

B.1.44. State whether any member of the board of directors has reported to the company that he has been indicted or tried for any of the crimes stated in article 124 of the Corporations Act:

YES NO

Name of Director	Criminal case	Comments
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State whether the Board of Directors has reviewed the case. If yes, give a reasoned explanation of the decision adopted as to whether the director should remain in office.

YES NO

Decision adopted	Reasoned explanation
Should/Should not remain in office	



B.2. Committees of the Board of Directors

B.2.1. List all committees of the board of directors and their members:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
--	--	--

AUDIT COMMITTEE

Name	Position	Type
Francisco Javier Salas Collantes	Chairman	Independent
Pedro Rivero Torre	Member	Independent
Manuel Alves Torres	Member	Nominee

NOMINATING AND COMPENSATION COMMITTEE

Name	Position	Type
M ^a Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Juan Gurbindo Gutiérrez	Member	Nominee
Luis M ^a Atienza Serna	Member	Inside

NOMINATING COMMITTEE

Name	Position	Type
--	--	--

COMPENSATION COMMITTEE

Name	Position	Type
--	--	--

_____ COMMITTEE

Name	Position	Type
--	--	--

B.2.2. State whether the audit committee performs the following functions



	YES	NO
Monitor the preparation and the integrity of the financial information on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles	X	
Periodically review the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed	X	
Monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations in its reports	X	
Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm	X	
Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement	X	
Receive regular information from the external auditor on the progress and findings of the audit programme, and verify that senior management is acting on its recommendations	X	
Ensure the independence of the external auditor	X	
In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies.	X	

B.2.3. Describe the rules of organisation and procedure of each board committee, and the responsibilities assigned to each one.



I. AUDIT COMMITTEE.

a) Background

The Board of Directors of Red Eléctrica at its meeting held on 18 November 2003 established the Audit Committee, which replaced the former Audit and Compliance Committee, under the provisions of article 23 of the Bylaws and in Chapter V, articles 15 and 16 of the new Board of Directors Regulations, approved at that meeting. The foregoing was also consistent with the provisions of article 47 of Act 44/2002 of 22 November 2002 on Measures to Reform the Financial System.

Specifically, the Company's Audit Committee was created by a resolution adopted by the Board of Directors of Red Eléctrica on 30 November 1999, referred to as the Audit and Compliance Committee. This Committee was the result of the process of adapting the Company's governance rules to the new situation derived from the IPO launched by the State Industrial Ownership Corporation (SEPI) and from the Company's listing on the stock markets on 7 July 1999.

The Ordinary General Shareholders Meeting of the Company on 31 May 2007 approved an amendment of the Bylaws to adapt them to the Sole Corporate Governance Recommendations Document, called the Uniform Good Governance Code, approved by the CNMV by Resolution of 19 May 2006.

In respect of the Audit Committee, that Meeting amended article 23 of the Bylaws to adapt it to recommendation no. 22 of the referenced Uniform Good Governance Code, regarding composition of the committee, and changed the name of the Audit Committee from "Comité de Auditoría" to "Comisión de Auditoría", more in accordance with commercial practice.

b) Composition

Article 13 of the Board Regulations provides that the committee shall be comprised of a number of members to be determined by the Board of Directors, from a minimum of three (3) to a maximum of five (5), the majority being external directors, appointed by the Board of Directors and reasonably reflecting the composition of the Board.

As already mentioned, the directors belonging to the Committee are particularly qualified to hold their positions, with broad professional experience in positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions similar to those entrusted to them. Below is a brief description of each member's career (further details are provided in Section B.1.3 above):

- Mr. Francisco Javier Salas Collantes has a degree in Economics, specialising in Business Economics, and throughout his career has held relevant professional positions in economic and financial areas, as well as positions of the highest corporate responsibility; among other positions, he has been Director of Banco Exterior de España, of Argentaria and of Infoleasing, he is



a founding member and manager of SAGA Servicios Financieros and is a member of the Advisory Committee for Spain of Banco Privado Portugués; he has acted as Chairman of INI, TENEO and IBERIA and, among other positions, now is a Director of Telvent and Chairman of its Audit Committee.

- Mr. Manuel Alves Torres has a degree in Economics and Business. Currently he is the head of planning and control and a member of the management committee of the State Industrial Ownership Corporation (SEPI). He has been a director, among other companies, of Grupo Ence, Enatcar, Grupo Inespal, Minas de Almagrera and Agencia EFE. He is currently a director, among other companies, of Tragsa.
- Mr. Pedro Rivero Torre is Professor of Financial Economics and Corporate Accounting at Universidad Complutense de Madrid, a Chartered Accountant (on leave of absence) and holds, among others, the position of Chairman of UNESA and belongs to the Economic and Social Council.

The members of the committee serve for a term of not more than three years. They may be re-elected and cease to be members of the committee at the end of that term, when they cease to be directors, or when so resolved by the Board of Directors, in the latter case after a report from the Nominating, Compensation and Corporate Governance Committee. The chairman of the committee is elected by its members from among the external directors and the secretary of the committee is the secretary of the Board of Directors. The chairman must be replaced every three years and may be re-elected after a year has elapsed since he left office. The appointment and removal of its members is carried out by the Board of Directors on proposal of the board chairman.

c) Organisation and procedure

The committee meets at least on a quarterly basis and any time it is called by the chairman or two of its members so request, and whenever the board or chairman of the board requests that it issue a report.

The call of the meetings, including the agenda, is sent by the chairman or secretary of the committee to each of its members, at least three days before the date specified for the meeting, unless the meeting needs to be called earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote, and are entered in the minutes at the end of the meeting. The meetings of the committee must be attended by members of the management team or of the Company's staff who are required to do so by the chairman. They must collaborate and enable access to any information available in respect of the issues to be discussed.



In order to better perform its duties, the committee may make a proposal to the Board of Directors to receive the advice of independent professionals, and may access any type of information or documentation of the Company it may require.

d) Authority

The minimum authority of the Audit Committee is implemented in article 14 of the Board Regulations, and can be classified in six major groups, i) economic and financial information; ii) internal control and risk management systems; iii) external auditors; iv) compliance with legal provisions and internal rules; v) shareholders of the Company, and vi) other general authority.

The committee, composed entirely of external directors, met formally with the external auditor on various occasions during 2007, whenever considered convenient for the better performance of its duties, and presented the questions, clarifications and comments deemed to be appropriate.

Notable is the procedure for fulfilling responsibilities in respect of the financial statements. Ever since the Audit and Compliance Committee was established in 1999, it has been in charge of reviewing the Company's financial statements, ensuring compliance with legal requirements and proper application of generally accepted accounting principles, and reporting on any modifications of accounting principles and criteria proposed by management.

When that committee became the Audit Committee in November 2003, with authority and responsibilities established by law and the bylaws, it in addition assumed responsibility for approving the accounting principles and criteria to be used in preparation of the Company's financial statements and those of its consolidated group, and verifying their accuracy, reliability and sufficiency.

Also notable is the specific procedure for the committee's supervision of any financial information sent on a periodic or one-time basis to the market supervision bodies. It is also in charge of ensuring compliance with legal accounting rules in the Company's financial statements and, in particular, with any Community recommendations and obligations on electricity company accounting that may be applicable.

All of this results in a more direct control over the preparation of the Company's economic and financial information. As this control is carried out by a collegial body consisting of directors with the highest professional qualifications in respect of the committee's matters, as indicated by the career backgrounds of these directors as described above, the principles of accounting reliability, security, accuracy and sufficiency are strengthened, as is the transparency of the process for preparation of corporate economic information.

Section G of this report includes a summary of the activities of the Audit Committee in 2007.



II. NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

a) Background.

After Red Eléctrica was listed on the stock exchange in 1999, a Nominating Committee was formed within the Board of Directors. It began to act in the area of appointment of directors and senior officers. Following the recommendations of the Aldama Report, dated 18 November 2003, the Company's Board of Directors converted it into the Nominating and Compensation Committee. The committee's initial authority regarding appointments was expanded, and it assumed new responsibilities in respect of compensation of the Board of Directors and the management team of the Company and its group.

In accordance with recommendations regarding corporate governance, particularly those set forth in the Conthe Code, during the 2007 fiscal year, pursuant to amendments introduced by the General Shareholders Meeting on 31 May 2007, the Company's Board of Directors changed the name of the Committee. It became the Nominating, Compensation and Corporate Governance Committee, and its authority was expanded. Notable among the authority expressly given to it is that related to corporate governance.

b) Structure.

Articles 24.2 of the Bylaws and 15 and 16 of the Board of Directors Regulations, in the new version approved by the Board of Directors on 20 December 2007, govern the structure, composition and authority of the Nominating, Compensation and Corporate Governance Committee.

The Committee must examine the suggestions forwarded by the chairman, the members of the committee, and Company executives or shareholders, in matters affecting the appointment of directors, including managing or executive directors, or compliance with corporate governance principles, the Bylaws and the Board of Directors Regulations.

The committee meets as often as required for proper performance of its duties. In any event it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be adopted. The calls of the meetings must include the agenda and are sent by the committee chairman or secretary to each of its members, at least three days prior to the date specified for the meeting, unless the meeting needs to be held earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote and entered in the minutes at the end of the meeting. In order to better perform its duties, the committee may propose to the Board of Directors that advice be requested from



independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 15 of the Board Regulations provides that the Nominating, Compensation and Corporate Governance Committee shall be comprised of a number of directors fixed by the Board of Directors, from a minimum of three to a maximum of five, with a majority of external directors, at least half being independent directors. The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors.

The appointment and removal of committee members is carried out by the Board of Directors on proposal of the board chairman. The committee members hold their positions for a period of three years and may be re-elected; they leave their positions when they give up their directorships or if so resolved by the Board of Directors, after a report from the Audit Committee. The chairman may be re-elected after a year has elapsed since he left office.

c) Composition.

At the end of the 2007 fiscal year and at the date of approval of this report the Nominating, Compensation and Corporate Governance Committee consists of four directors. Three are external directors and one is an executive director. Two of the external Directors are independent, one of them being the chairman of the committee.

During 2007, as a result of expiration of the term for which they had been appointed, the Company's Board of Directors, at its meeting held on 26 April 2007, re-elected Mr. Antonio Garamendi Lecanda and Mr. Juan Gurbindo Gutiérrez and appointed Ms. M^a Ángeles Amador Millán as members of the committee. The latter member was appointed chairwoman of the committee.

At the end of the 2007 fiscal year and at the date of approval of this report the committee's composition was as follows:

Director	Position	Type of Director
M ^a Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Juan Gurbindo Gutiérrez	Member	Nominee
Luis M ^a Atienza Serna	Member	Inside

The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors, Mr. Rafael García de Diego Barber. The appointment and removal of committee members is carried out by the Board of Directors at the proposal of the board chairman.

d) Authority



The basic authority of the Nominating, Compensation and Corporate Governance Committee is specified in articles 24 of the Bylaws and 15 and 16 of the Board Regulations.

Pursuant to the authorisation in article 24.2 of the Company's bylaws, the Nominating, Compensation and Corporate Governance Committee has a series of basic responsibilities regarding appointment and removal, compensation, performance of director duties, corporate governance rules and other general authority.

Section G of this report includes a summary of the activities of the Nominating, Compensation and Corporate Governance Committee in 2007.

B.2.4. Describe the authority of each committee to make recommendations, issue opinions and act on behalf of the Board:

Name of committee	Brief description
<p>Audit</p>	<p>Its basic responsibilities, pursuant to article 23 of the Bylaws, are as follows:</p> <ul style="list-style-type: none"> (i) Reporting to the General Shareholders Meeting regarding such matters within its competence as may be posed to it by the shareholders. (ii) Proposing appointment of external auditors of accounts to the Board of Directors, to be submitted to the General Shareholders Meeting. (iii) Supervising the internal audit function. (iv) Reviewing the financial reporting process and internal control systems of the Company. (v) Maintaining a relationship with the external auditor in order to gather information on matters that may call the auditor's independence into question, as well as any other matters relating to the auditing process, including the other disclosures contemplated in accounting and auditing legislation and auditing standards. (vi) Any other authority conferred on it by the board, whether generally by way of its internal regulations or by specific assignment. <p>The foregoing responsibilities are developed in further detail in article 14 of the Board of Directors Regulations, which provides as follows:</p> <p>As regards economic and financial information:</p> <ul style="list-style-type: none"> a) Approve the accounting principles and criteria to be



used in the preparation of the financial statements of the Company and of its consolidated group, and verify their accuracy, reliability and sufficiency.

- b) Monitor the preparation and integrity of the financial information of the Company and, where appropriate, the group, seeing to it that regulatory requirements are respected, the scope of consolidation is appropriately defined, and the applicable accounting principles and criteria are properly applied.
- c) Review and report to the board in advance regarding economic and financial information the Company must disclose and send to market supervision agencies. The committee should ensure that interim statements are prepared under the same accounting principles as annual statements and, if it considers it to be appropriate, may ask the external auditor of accounts to conduct a limited review.

As regards internal control and risk management systems:

- a) Approve the internal control procedures of the Company in respect of expenditure and investment, making, where necessary, the appropriate modifications.
- b) Supervise the internal audit function, which shall ensure proper functioning of information and internal control systems and address requests for information from the Audit Committee in the performance of its duties.
- c) Ensure the independence and effectiveness of the internal audit function; supervise and control the process of selection, appointment, re-election and removal of the head of the internal audit function, and the action plans thereof; supervise and control the resources assigned to the internal audit function and, inter alia, its budget; receive periodic information regarding its activities; and verify that senior management is acting on the conclusions and recommendations in its reports.

The head of internal audit should present an annual work programme to the audit committee, report to it directly on any incidents arising during its implementation and submit an activities report at the end of each fiscal year.

- d) Periodically supervise the internal control and risk management systems, so that the principal risks



are identified, managed and appropriately disclosed.

- e) Supervise the procedure established by the board whereby staff can report any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

The persons in charge of internal control must inform the Committee when they identify irregularities or breaches that may significantly impact or harm the net worth, results or to image of the Company or its group.

As regards external auditors:

- a) Propose to the Board of Directors the appointment of external auditors for the submission thereof to the General Shareholders Meeting, seeing to it that it is the same audit firm for all the companies in the group, as well as the terms of the audit contract, the scope of the professional engagement and the extension or termination thereof.
- b) Establish procedures to ensure the independence and professionalism of the external auditors and receive information regarding issues that might jeopardise it. To that end:
 - i) It shall ensure that any change of auditor and any disagreement with a departing auditor is notified to the CNMV as a material disclosure.
 - ii) It shall ensure that the Company, within the scope of its responsibilities, complies with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence.
 - iii) The committee shall investigate the issues giving rise to the resignation of any external auditor.
- c) Receive any relevant information regarding the Audit Plan, the process of performance and results thereof, as well as any other information contemplated in the accounting rules.
- d) Act as a communication channel between the Board and the external auditor; evaluate the results of each audit and verify that senior management acts on its recommendations, mediating in the



event of disputes between the former and the latter in respect of the principles and criteria applicable in the preparation of the financial statements.

- e) Supervise the performance of the audit contract, seeking to ensure that the principal content of the audit report is drafted clearly and precisely.
- f) Review the relevant situations identified by the external auditor, in the same way as information from the internal control systems is received, which might adversely affect the net worth, results, or image of the group.
- g) Regularly request from the external auditors, at least once a year, an appraisal of the quality of the group's internal control procedures.

As regards compliance with legal provisions and internal regulations:

- a) Supervise observance of the Code of Conduct in the Securities Market and, in general, the procedures for reporting financial and accounting irregularities and adjusting related party transactions to the Company's interest, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue a report on the measures to be implemented.
- b) Review observance of actions and measures that are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.

As regards the Company's shareholders:

- a) Review and, if applicable, respond to the initiatives, suggestions or complaints that may be made by shareholders in respect of the scope of authority of this committee.
- b) If appropriate, report to the Shareholders Meeting on issues raised at the meeting by shareholders on issues falling within its authority.

Other:

- a) Keep the Board of Directors duly informed of its activities and prepare an annual report to be included in the Annual Corporate Governance Report and an Action Plan for each fiscal year.
- b) Report to the board on extraordinary investment



	<p>transactions when it so requests and, in any event, on transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the group's transparency.</p> <ul style="list-style-type: none">c) Report in advance to the board on related party transactions.d) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.e) Any other authority conferred on it by the board.
Nominating, Compensation and Corporate Governance	<p>Its basic responsibilities, pursuant to article 24 of the Bylaws, are as follows:</p> <ul style="list-style-type: none">a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.b) Proposing the compensation policy for directors and senior officers to the Board of Directors and monitoring its implementation.c) Assuming the reporting, supervision and proposal functions regarding corporate governance as determined by the Board of Directors, for so long as an ad hoc committee is not created for that purpose". <p>The foregoing responsibilities are developed in further detail in article 16 of the Board of Directors Regulations, which provides as follows:</p> <p>As regards appointments and removals:</p> <ul style="list-style-type: none">a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.b) Report prior to their submission to the Board of Directors on proposals for appointment or removal of the secretary of the Board of Directors and the assistant secretary thereof.b) Propose to the Board of Directors a system for selecting independent Directors.



- d) Evaluate the balance of skills, knowledge and experience on the board and based thereon define the roles and capabilities required of the candidates to fill each vacancy.
- e) Evaluate the time and dedication necessary for directors to perform their duties with due quality and efficiency, for these purposes evaluating whether they are compatible with membership on other management bodies of listed companies.
- f) Report on the senior officer appointments and removals that the chairman proposes to the Board of Directors.
- g) Examine or organise, in appropriate form, the succession of the chairman, making recommendations to the board so the transfer proceeds in a planned and orderly manner.
- h) Ensure that gender diversity is respected when filling vacancies.
- i) Consult with the chairman, particularly when dealing with matters related to executive directors.

As regards compensation:

- a) Propose to the Board:
 - the compensation policy for directors and senior officers.
 - the individual compensation and other contractual conditions of executive directors.
 - the standard conditions for senior officer employment contracts.
- b) Consult with the chairman of the Company, particularly when dealing with matters related to executive directors and senior officers.
- c) Oversee compliance with the compensation policy set by the Company.

As regards discharge of the directors' duties:

- a) Ensure fulfilment by the directors of the obligations established in these regulations, report to the Board on their performance, and issue the appropriate reports and proposals as well as, as applicable, on the measures to be adopted in the event of breach.



	<p>b) Authorise the directors to use corporate assets.</p> <p>As regards corporate governance rules:</p> <p>Supervise observance of the corporate governance rules, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue an annual report on the measures to be implemented and send it to the board.</p> <p>Other functions:</p> <p>a) Keep the board informed of its activities and prepare an annual report to be included in the management report, as well as an action plan for each fiscal year.</p> <p>b) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.</p> <p>c) Report to the board on performance of their duties by the chairman and the full committee.</p> <p>d) Verify the category of each director, for purposes of the pertinent board explanations to the General Shareholders Meeting that is to make or ratify the appointment of that director, and reflect it in the Annual Corporate Governance Report.</p> <p>e) Any other authority conferred on it by the board.</p>
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B.2.5. State whether there is any regulation of board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

There are no specific internal regulations for committees. Rather there is complete overall regulation in the Board of Directors Regulations.

Those regulations may be viewed on the Company's website, www.ree.es, in the Shareholders and Investors section, Corporate Governance, without prejudice to their being registered, and therefore available to investors in general, at the CNMV and Madrid Commercial Register.

During the 2007 fiscal year the Board Regulations were reviewed in depth to adapt them to the Conthe Code, as has been discussed in section B.1.18 above.



The Board committees annually prepare various reports regarding the progress of their activities. Copies thereof are attached in section G) of this report.

B.2.6. State whether the composition of the executive committee reflects the proportions of the different types of directors on the Board:

YES NO

If not, describe the composition of the executive committee
Not applicable because there is no executive committee.



C RELATED PARTY TRANSACTIONS

C.1. State whether the full board has reserved approval, after a favourable report from the audit committee or any other committee to which that function has been delegated, of transactions the company engages in with directors, significant shareholders or shareholders represented on the board, or persons related to them:

YES NO

C.2. Give details of any significant transactions involving the transfer of resources or obligations between the company or group entities and the company's significant shareholders

Name of significant shareholder	Name of group company	Nature of relationship	Type of transaction	Amount (thousands of euros)
--	--	--	--	--

There are no material transactions with company managers and directors.

The 31 December 2007 balance sheet included no loans or advances, nor guarantees established by the companies of the group in favour of members of the Board of Directors of the Company. At said date there were no pension liabilities incurred in respect of members of the Board of Directors of the Company.

C.3. Give details of any significant transactions involving the transfer of resources or obligations between the Company or group entities and directors or officers of the Company:

Name of director or officer	Name of group company	Nature of transaction	Type of transaction	Amount (thousands of euros)
--	--	--	--	--

C.4. Give details of any significant transactions entered into by the Company with other companies belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, as regards their subject matter and terms, are part of the ordinary course of the Company's business:

Name of group company	Brief description of the transaction	Amount (thousands of euros)
Red Eléctrica del Sur (REDESUR)	Transactions of no material significance, carried out in the ordinary	749



	course of the business, which are included merely for informational purposes.	
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C.5. State whether the members of the board during the fiscal year had any conflicts of interest, as contemplated in article 127 ter of the Corporations Act.

YES NO

Name of director	Description of conflict of interest
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C.6. Give details of the mechanisms in place to detect, characterize and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, officers or significant shareholders, on the other

Article 29.3 a) of the Board Regulations establishes that directors must refrain from attending and participating in deliberations affecting matters in which they have a direct or indirect personal interest.

A personal interest shall also be deemed to exist when the matter affects a person related to the director or a company with which he has an employment or professional relationship, or in which he holds a management position or significant shareholding. For the foregoing purposes persons related to the director are those defined as such from time to time in the applicable regulations.

In accordance with the provisions of article 29.3 b) of the Board Regulations, nominee directors must disclose to the Board of Directors any conflict of interest between the Company and the shareholder proposing the director's nomination, when said conflict affects matters presented to the board. Furthermore, said director must refrain from participating in the adoption of any of the corresponding resolutions.

In addition, article 2 of the Regulations for Conduct in the Securities Market, approved on 20 July 2006, within its scope of application includes directors, the secretary and assistant secretary of the Company's board of directors, members of the Company's senior management and other directors expressly specified by the Oversight Body.

Under article 7 of the Regulations for Conduct in the Securities Market, persons subject or temporarily subject thereto generally must attempt to avoid situations of direct conflict of interest, or conflicts of persons related thereto. They are required to advise the Oversight Body within a term of fifteen (15) days after learning thereof of conflict of interest situations that may reasonably arise, so that body may make the corresponding decisions on an advance basis. Managers are to give notice of the situations described in the preceding paragraph through the secretary of the Board of Directors.

Those subject or temporarily subject to the rules must update the information regarding conflicts of interest they have disclosed, describing such changes



as may have occurred. Without prejudice to the obligations specified in the preceding paragraph, as regards conflicts of interest directors must comply with the requirements set forth in the Bylaws and the Company's Board of Directors Regulations and, in general, with all requirements under commercial legislation applicable to corporations.

The Oversight Body shall maintain and update a register broken down by the conflict of interest situations disclosed by the various persons subject or temporarily subject to the rules, and shall adopt appropriate security measures for maintaining and filing it. Access to the register in any event shall be restricted.

It should be noted that for the foregoing purposes, in accordance with article 11 of the Regulations for Conduct in the Securities Market, the Oversight Body is the General Manager for Administration and Finance, acting with the cooperation of the secretary of the Board of Directors as regards legal matters deriving from application or interpretation thereof and Finance. In addition, the Oversight Body has been entrusted with the general functions of reviewing, registering, disseminating and monitoring compliance with the obligations and duties established in those regulations. The Oversight Body shall have all authority necessary to perform the duties entrusted to it by the Code of Conduct, and shall periodically report to the Audit Committee on the degree of compliance with said code and any incidents that may occur.

The Audit Committee is responsible for supervision of compliance with the regulations and performance of the Oversight Body, the person responsible for the significant transaction and the office of the secretary of the Board of Directors contemplated therein, as well as internal resolution of such questions and conflicts posed by those subject or temporarily subject to the rules as may be submitted by the Oversight Body. The Audit Committee shall prepare an annual evaluation of compliance with the standards of the referenced Code of Conduct and adopt, as applicable, appropriate measures for better implementation and improvement. It is also responsible for proposing to the board such amendments as it deems to be required in light of the board's commitment to continuous adaptation, as well as adoption of best corporate governance practices regarding the matter under the applicable rules.

In respect of officers of the Company, article 2.1.3 of the Code of Conduct in the Securities Market establishes the possibility of the Oversight Body in each case determining the personnel who permanently should be subject to the regulations and therefore subject to possible conflicts of interest. Article 5.2.2 of the Regulations provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the regulations, on a temporary basis, personnel participating in a significant transaction and having access to privileged information. The parties affected shall be given individual written notice both of their inclusion in and of their exclusion from those lists.

In the same way and in respect of significant shareholders, according to the provisions of article 31.3 of the Board Regulations, nominee directors must disclose to the board any conflict of interest between the Company and the shareholder proposing the Director's nomination, when said conflict affects matters presented to the board. Furthermore, that director must refrain from participating in the adoption of any of the corresponding resolutions.



In accordance with the applicable provisions of article 31 of the Board Regulations, the Board of Directors formally retains authority to review any material transaction of the Company with a significant shareholder, unless by its nature and conditions it is within the jurisdiction of the General Meeting.

C.7. Is more than one group company listed in Spain?

YES NO

Identify the subsidiaries listed in Spain:

Listed subsidiaries
--

State whether the type of business they engage in, and any business dealings between them, as well as between the subsidiary and other group companies, have been publicly disclosed:

YES NO

Describe any business relationships between the parent company and the listed subsidiary, and between it and other group companies
--

Describe the mechanisms contemplated for resolving any conflicts of interest between the listed company and other group companies:

Mechanisms to resolve any conflicts of interest.
--



D RISK CONTROL SYSTEMS

D.1. Give a general description of the company and/or group risk policy, setting out and evaluating the risks covered by the risk control systems and explaining how those systems are appropriate to the nature of each type of risk.

The purpose of the risk policy of the Red Eléctrica Group is to establish principles and guidelines to ensure the identification, analysis, evaluation, management and control of significant risks that may affect the group's objectives and activities, on a systematic basis applying uniform criteria.

Significant risks for the Red Eléctrica Group are considered to be those that may significantly affect its corporate objectives, aimed at the sustained generation of value over time, or the fundamental functions entrusted to it in Spain and in other countries, so that the Company can provide an essential supply of electricity.

The principal guidelines in the risk policy are as follows:

- Risk management must be fundamentally anticipative, directed also at the medium and long term and taking into account possible scenarios in an ever more globalised environment.
- Risk management shall generally be carried out having regard to the relation between the importance of the risk (probability/impact) and investment and measures needed to reduce it.
- Activities related to the electrical system must also take into account the possibility that a risk may present in terms of service quality and security.
- In the case of financial risk management, this shall be directed towards preventing undesired variations in the core value of the group, and not toward obtaining extraordinary profits.

The most important risks to which the group is exposed, the focus of the risk control system, are:

- a) Regulatory, since the principal business activities of the Group are subject to regulation,
- b) Operational, basically deriving from its responsibilities within the electricity system and the requirement of care for and protection of the environment,
- c) Market, because most revenue, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- d) Business and Credit (or counterparty), although to a lesser extent due to the lesser weight of the subsidiaries in the overall group and the existing regulation regarding invoicing and collection for transport and operating activities.



The risk control system covers both risks to internal processes as well as risks to the environment in which it operates, covering all activities carried out by the group, evaluating the impact of each risk on four matters: strategy, the income statement, the electricity system and reputation.

Of all risks monitored by the system, 12% relate to regulatory risks, 76% to operational risks and 12% to business, market or credit risks. These figures are consistent with a group with a Parent Company the mission of which is to ensure the overall functioning of the electricity system, the high degree of regulation and its solvency, reflected by the ratings of international rating agencies.

D.2. State whether any of the various kinds of risk (operating, technology, financial, legal, reputation, tax ...) arose during the fiscal year, affecting the company and/or its group:

YES NO

If so, describe the underlying circumstances and whether the established control systems functioned appropriately.

Risks arising during the fiscal year	Underlying circumstances	Functioning of control systems
<p>The transport network facilities are constantly exposed to operating events that may affect the continuity and security of the supply of electricity.</p> <p>Events of this kind occurred throughout 2007.</p>	<p>On a general basis, these events were caused by third parties and meteorological phenomena.</p>	<p>The control systems functioned appropriately, as shown by the availability index for the transport network. In 2007 it was 98.06% (98.24% in 2006). The average time of interruption was 1.1 minutes (1.817 minutes in 2006).</p> <p>The Company has insurance policies limiting the potential impact of these events on the income statement.</p>

D.3. State whether there is a committee or other management body charged with establishing and supervising those control mechanisms.

YES NO

If so describe its functions.

Name of committee or	Description of functions
----------------------	--------------------------



body	
--	--

The Board of Directors is responsible for approval of the policy for overall management of the risks of the Company and the group, and for review and periodic follow-up regarding the systems for internal control, prevention and reporting.

In this regard, article 5.6 vii) of the Board of Directors Regulations charges the board with approval of the policy for control and management of the principal risks of the Company and the group, and with review and periodic follow-up regarding the systems for internal control, prevention and reporting. This article provides that the risk control and management policy shall address at least the following matters:

- The various kinds of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.
- If applicable, setting the risk level the Company deems to be acceptable.
- The measures contemplated for mitigating the impact of the identified risks, should they materialise.
- The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.

The Audit Committee is responsible for ongoing supervision of the risk management system, so that the principal risks are identified, managed and appropriately disclosed.

The Management Committee, comprised of managers from the key strategic areas of the Company, is responsible for:

- Fostering implementation of the overall risk management policy.
- Proposing the risk profile of the group to the Board of Directors by including it in the Strategic Plan.
- Analysing the monitoring of the risk situation, ordering the appropriate actions.

The risk control function is centred in the Office of the Chairman.

D.4. Identify and describe the processes for compliance with the various regulations that affect your company and/or group.

Processes

The RED ELÉCTRICA Group is constantly designing and implementing processes to ensure compliance with the various regulations and to mitigate or reduce the related risks.



These processes have been integrated into systems structured according to a set of internal standards and procedures based on international standards (ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic audits of the adequacy of design and compliance, and include elements of control for the objectives sought.

Projects

All proposals for projects of significance from an economic or strategic point of view include the corresponding risk analysis, which allows an evaluation of the risks to be carried out when the related decisions are to be made. These decisions are made by the competent body according to the established limits, with more important projects requiring the approval of the Board of Directors.

Verification

The internal standards and procedures, in respect of their design, adaptation to existing regulations and proper compliance, are systematically reviewed by the internal audit and compliance functions. These are part of the Office of the Chairman and, further, the procedures are supervised by the Audit Committee.

Internal standards and compliance are subject to an external audit on a periodic basis, by international ISO and OHSAS standards certification bodies.



E GENERAL MEETING

E.1. State whether there are, and if so describe, departures from the minimums contemplated in the Corporations Act regarding the quorum for holding the General Meeting.

YES NO

	Percentage quorum other than as provided in art. 102 of the Corporations Act for general matters	Percentage quorum other than as provided in art. 103 of the Corporations Act for special matters under art. 103
Quorum required on first call	--	--
Quorum required on second call	--	--

E.2. State whether there are, and if so describe, departures from the system contemplated in the Corporations Act for adopting corporate resolutions:

YES NO

Describe any difference from the provisions of the Corporations Act.

	Supermajority other than as provided in art. 103.2 of the Corporations Act for matters under art. 103.1	Other instances of supermajority
Percentage established by the company for adoption of resolutions	--	--
Describe the differences		
--		

E.3. List any rights of the shareholder in respect of General Meetings that may be different from those established in the Corporations Act.

Shareholder rights in respect of General Meetings are regulated in article 15 of the Bylaws, which expressly refers to the information right and right to attend Meetings, and in articles 6 to 10 of the Meeting Regulations.

In accordance with current legislation, article 6 of the Meeting Regulations states the rights of the shareholders, adding as a principal innovation,



beyond the provisions of the Corporations Act, the right to participate in corporate matters under the terms set out in article 7 of said regulations.

Right to information

The Company is especially interested in the shareholders' right to information, as reflected in article 15 of the Bylaws and article 8 of the Meeting Regulations. Thus, article 8 of the Meeting Regulations establishes an obligation to place at the disposal of shareholders, free of charge, both through the Shareholders Office as well as on the corporate website, documentation and information related to the agenda of the meeting, including the following:

- Call of the General Meeting with proposed resolutions and the corresponding reports of the Board of Directors.
- Financial statements of the Company, consolidated financial statements and proposal for allocation of profits for the fiscal year.
- Corporate Management Report and Consolidated Management Report for the fiscal year.
- Audit reports for the consolidated financial statements and corporate financial statements.
- Annual Corporate Governance Report.
- Corporate Social Responsibility Report.
- Environmental Report.
- Any other report required, or as determined by the Board of Directors.

In order to reinforce the shareholders' right to information, shareholders may request pertinent documentation, reports or clarifications from the Company regarding matters included on the agenda, as well as information, clarifications or questions regarding information provided by the Company to the CNMV since the date of the last General Meeting.

The Shareholders Office deals with requests presented by shareholders of the Company. Shareholders may also state questions in writing regarding information accessible to the public or that has been communicated to the competent authorities and make inquiries through that Office.

In addition, article 15.4 of the Meeting Regulations establishes that shareholders during the Meeting may verbally request reports or clarifications that they consider appropriate regarding matters included on the agenda. If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting.

Right to attend

Article 15 of the Bylaws and article 9 of the Meeting Regulations establish that shareholders who are up to date on payments of capital calls and



evidence their share ownership with a certificate showing they are the owners of record in the book-entry system records at least five days prior to the Meeting have the right to attend.

Board members and officers of the Company must attend the General Meetings. Generally, in order to encourage the widest dissemination of the meetings it holds and the resolutions adopted, the media shall be given access to the General Meeting. To facilitate dissemination meetings may be recorded audiovisually.

The Bylaws and the Meeting Regulations establish specific conditions for the representation of shareholders at Meetings, although there is no specific policy established by the Company regarding proxies for the General Shareholders Meetings.

In this regard, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend (which all shareholders enjoy as indicated below, given that there is no requirement regarding a minimum number of shares to attend the Meetings) may be represented in the General Meeting by another shareholder with the right to attend, as established in articles 106 to 108, both inclusive, of the Corporations Act, as provided in the Bylaws. Proxies must be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitations, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him a right to vote over 3% of share capital. As stated previously in this report (section A. 10).

Act 17/2007 amended article 34 of Electricity Sector Act 54/1997 of 27 November 1997, by establishing various limits on shareholdings. Said Act provides that voting rights for shares in excess of the percentage established by law are held in abeyance until the amount of shareholdings or voting rights is adjusted.

As such, in accordance with article 15 of the Bylaws and article 10 of the Meeting Regulations, except in cases of public proxy solicitations, which are subject to the applicable legal rules, in each case no individual can accumulate proxies that together with his own votes would give the right to vote over 1% of share capital.

Right to participate and new technologies

The Shareholders Meeting Regulations also facilitate as far as possible participation of shareholders in matters of interest (right to attend, call, inclusion of points and proposals on the agenda, questions and requests for information and voting).

The Meeting Regulations, in line with the most well-known recommendations in this area, comply with the system established by Act 26/2003 of 17 July 2003 setting forth the rights of shareholders and rules regarding the organisation and procedure of the General Meeting.

Thus it is provided that shareholders owning 5% of share capital may request that the board, prior to issuing the call, include any point on the agenda for



the next General Meeting. The Board of Directors must include the matters requested in the form that best suits the Company's interest, whenever they refer to matters within the authority of the General Meeting.

Shareholders may also make proposals regarding matters included on the agenda, and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting. In both cases, shareholders may make the proposals and suggestions through the Shareholders Office.

Red Eléctrica in 2005 for the first time used the electronic voting system. It was one of the pioneering companies in use of the system. Through the corporate website, www.ree.es, it allowed shareholders to exercise their voting rights electronically.

During 2006, following the Company's policy of adopting good corporate governance practices, an additional step was taken. New improvements were introduced to facilitate online participation of all shareholders in the Meeting. These measures consisted of:

- the possibility of remote issuance of proxies and votes. It is particularly notable that 164 shareholders, the holders of 27,825 shares, voted and/or gave proxies electronically;
- the possibility of obtaining duplicates of attendance cards electronically; and
- the option of electronically requesting information regarding matters on the agenda for the Meeting.

This procedure proved to be satisfactory, having been used by 164 shareholders, the holders of 27,825 shares. They voted and/or gave proxies electronically for the Company's Ordinary General Shareholders Meeting held on 26 May 2006. This placed the Company in the forefront in exercise and encouragement of shareholder rights to participate online. Specifically, RED ELÉCTRICA is in fourth place in this regard the selective IBEX-35 stockmarket index (see *Revista Consejeros*, no. 15, March 2007, year 3, page 33).

Following the line of providing its shareholders with advanced online means of exercising their rights, the Board of Directors meeting held on 25 April 2007 approved the rules regarding remote voting and proxies, and exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2006 fiscal year. The procedure again was a success. 322 shareholders, the holders of 53,186 shares, voted and/or gave proxies electronically.

E.4. Indicate, if applicable, measures adopted to encourage the participation of shareholders in the general meetings.

The Meeting Regulations specifically provide for the right of participation, developed in article 7 and explained in detail in Section E.3 above, to which we remit.



All of this reflects the Company's particular interest, in line with the best corporate governance practices, in developing new forms of shareholder protection and participation, in order to recognize shareholder rights in the Company to the maximum. Of interest is the implementation of an electronic voting system at the Ordinary General Shareholders Meeting held on 26 May 2005.

E.5. Indicate if the position of chairman of the general meeting coincides with the position of chairman of the board of directors. If so, describe the measures adopted to guarantee the independence and proper functioning of the general meeting:

YES NO

Description of the measures.
<p>As provided in the Company regulations, the position of chairman of the General Meeting coincides with the position of chairman of the Board of Directors.</p>
<p>As indicated in article 12 of the General Shareholders Meeting Regulations, the General Meeting shall be presided by the chairman of the Board of Directors, and in his absence by the vice chairman with highest rank or greatest seniority in the position or, in his absence, by the person appointed by the Board of Directors and, if no appointment has been made, by the director or shareholder freely chosen by the shareholders attending each Meeting.</p>
<p>The secretary or assistant secretary of the Board of Directors, as the case may be, shall act as secretary of the Meeting. If both are absent, the secretary of the Meeting shall be the director or shareholder feely chosen by the shareholders attending each Meeting.</p>
<p>The Chairman shall chair the meeting, establishing the order of deliberations and presentations; he shall decide the method of voting on resolutions; resolve any questions, clarifications or complaints arising in respect of the agenda, the list of attendees, share ownership, delegations or proxies, quorum requirements and requirements for adoption of resolutions by the Meeting, or the bylaws limit on voting rights; he shall recognize shareholders who so request, withdrawing or not giving recognition when he deems the matters in question have been sufficiently deliberated.</p>
<p>Article 5 of the Meeting Regulations establishes a series of measures to ensure the independence and proper functioning of the General Meeting. It provides that General Meetings, both ordinary and extraordinary, shall be called by publication of a notice by the Board of Directors in the Official Gazette of the Commercial Register and in one of the newspapers with widest circulation in Madrid, at least one month prior to the date set for holding of holding the Meeting, without prejudice to calling the meeting with more advance notice than required by law and the bylaws, as is customary practice of the Company, to make it as easy as possible for shareholders to plan their participation.</p>



The notice shall indicate the date of the meeting on first call and the matters included on the agenda. It may also state the date of second call. Between both calls, at least twenty-four hours must elapse. When a second call is not provided for and the General Meeting cannot be held, it shall be announced in the same manner as the first call, within fifteen days after the date on which it was not held, and at least eight days prior to holding the second meeting. In the notice, the board shall state the likely date for the meeting on first or second call.

Meetings may be held at the registered office of the Company or any other location in the city where the head office is located. The call shall announce the place and time where shareholders can consult the documents to be submitted for approval of the Meeting, without prejudice to the ability of any shareholder attending to request and receive these documents free of charge. The call of the Meeting shall also be posted on the Company website and a copy sent to the exchanges on which the Company shares are listed.

The board must call an Extraordinary General Meeting if shareholders owning 5% of share capital submit a reasoned request to that effect, specifying the matters to be dealt with at the meeting, which must be among those for which the General Meeting has authority. In this case, the Meeting shall be called for a date within thirty days following the date the request was made through a notary to the Board of Directors, and the Board shall draft the agenda, including the matters stated in the request in the form that best suits the Company's interest.

If the General Meeting is not called by the Board of Directors despite the requirement that it do so, it may be held, at the request of shareholders and in the presence of the board, by the judge having jurisdiction over the Company's registered office who, if applicable, shall appoint the person to chair it.

The quorum necessary for the General Meeting is established in article 14 of the Bylaws and in article 11 of the Meeting Regulations. The Bylaws and the General Shareholders Meeting Regulations do not contemplate any difference in respect of the provisions established in articles 102 and 103 of the Corporations Act. As indicated below, in 2003 the minimum requirement of shares (50) for attending the General Meetings was eliminated from the bylaws.

Article 15 of the Meeting Regulations contains the rules to be followed for the correct functioning of the General Shareholders Meeting. This article provides that, prior to addressing the matters on the agenda, a list of those attending shall be prepared, stating the status or representation of each and the number of shares represented by them, either personally or by proxy. The number of shareholders present in person or by proxy shall be totalled at the end of said list, as well as the amount of capital owned, by way of summary specifying those corresponding to shareholders with voting rights, all of which shall be verified by the secretary.

Once the meeting has been convened, the secretary shall read the information on the call and attendance based on the attendance list. Based on the list of those attending, the chairman, if appropriate, shall declare the



Meeting to be validly constituted. If a notary is present at the request of the Company to prepare the minutes of the Meeting, he shall ask those attending if there is any objection or protest regarding the shareholder attendance data and capital as stated by the chairman.

In the Ordinary General Meeting the chairman shall report to the Meeting on the most significant matters during the fiscal year and the proposals of the board, or his presentation may be completed by the individuals authorised by him.

The chairman of the Audit Committee shall be available to the Meeting to respond to any questions presented by the shareholders on matters within his authority.

Upon conclusion of all pertinent presentations, the chairman shall recognize the shareholders who so request, directing and coordinating the deliberations, following the agenda established except as allowed by articles 131 and 134 of the Corporations Act.

Article 15.8 of the Meeting Regulations establishes that each share gives the right to one vote as established in the Bylaws, subject to the limits set out therein as required by the Electricity Sector Act.

The chairman shall also decide on the most suitable method for proceeding with a vote in each case, announcing it publicly in the General Meeting with sufficient time prior to proceeding with the vote.

Article 15 of the Meeting Regulations allows the possibility of establishing electronic voting systems, as long as the identity of the voter and his status as shareholder or proxy are shown and the number of shares voted by him is stated clearly and unequivocally, as well as the sense of the vote or abstention, as applicable.

Article 17 of the Bylaws and article 15.9 of the General Shareholders Meeting Regulations do not include any differences from the provisions established in current law, but rather only establish that resolutions shall be adopted by majority vote, except when a higher majority is required by law.

The foregoing is also without prejudice to the rights to information and to attend described in detail in Section E.3 of this Report.

E.6. Indicate, if applicable, modifications made to the general meeting regulations during the fiscal year.

The amendment of the Meeting Regulations approved by the General Shareholders Meeting of 31 May 2007 is intended to keep the Company, as has always been its objective, in the forefront of adoption of best corporate governance practices and principles, in particular those deriving from the Uniform Good Corporate Governance Code approved by the CNMV on 19 May 2006.

When amending the Meeting Regulations, the Board of Directors started from the following premises:



1. Amendment of the Company's corporate governance rules was not required (or even recommended) for the indicated fiscal year, although the Company firmly intended to implement the reform rapidly:
2. The call of the Shareholders Meeting was the appropriate time to initiate the reform. Thus, in a first phase, the amendments necessary to adapt the Company's bylaws and the General Meeting Regulations were adopted by the Shareholders Meeting so that, in a second phase, there would be an appropriate framework and sufficient flexibility to adapt the Company's other corporate governance rules by way of Board of Directors resolutions;
3. The process of reform and adaptation was guided by: (i) incorporation of the new content of the Uniform Code, (ii) elimination of contradictions and superfluous requirements; and (iii) technical refinement of the distribution of authority among the various bodies within the Company and, as a result, the governing documents reflecting them.

Specifically, the amendments of the Meeting Regulations that were approved were as follows:

- 1) Amendment of article 3 regarding authority of the Meeting, to implement recommendation no. 40 of the Conthe Code regarding submission to the General Meeting of an advisory report on the policy for compensation of directors.

“Article 3. Authority of General Shareholders Meeting

The General Meeting, duly called and lawfully constituted, represents all the shareholders and exercises its corresponding powers and duties within the Company. Its resolutions, adopted pursuant to these regulations and the bylaws, shall bind all shareholders, without prejudice to their legal right of withdrawal. The General Meeting shall have authority to adopt all resolutions inherent in its status as the Company's sovereign body. In particular, by way of illustration, it has authority:

- a) *To approve the financial statements of Red Eléctrica de España, S.A. and the consolidated financial statements of Red Eléctrica de España, S.A. and its subsidiaries, the performance of the board of directors, and the proposed allocation of profits.*
- b) *To appoint and remove Directors, to ratify or revoke appointments by cooption and to appoint and re-elect the auditors of accounts.*
- c) *To adopt programmes for or authorise transactions in treasury shares.*
- d) *To approve the establishment of compensation systems tied to share value in favour of directors.*
- e) *To resolve to issue debentures, increase or decrease capital, transform, merge, split up or dissolve the Company, and amend the bylaws in any way.*



-
- f) *To authorise the Board of Directors to increase capital pursuant to the provisions established in the Corporations Act.*
 - g) *To approve transactions the effect of which is equivalent to changing the Company's corporate purpose or liquidating it.*
 - h) *To approve, on an advisory and nonbinding basis, the report on the compensation policy for directors.*

In the exercise of its authority the Meeting shall not interfere with the authority and functions of the Board of Directors.”

- 2) Amendment of article 5, regarding the call of meetings, to implement recommendation no. 4 of the Uniform Code, regarding disclosure at the time of publication of the call of the detailed proposals of resolutions to be adopted at the General Meeting.

“Article 5. Call

General Meetings, both ordinary and extraordinary, shall be called by publication of a notice by the Board of Directors in the Official Gazette of the Commercial Register and in one of the newspapers with widest circulation in the province of Madrid, at least one month prior to the date set for holding the Meeting, without prejudice to calling the meeting with sufficient advance notice to make it as easy as possible for shareholders to plan their participation.

The notice shall indicate the date of the meeting on first call and all matters included on the agenda. It may also set the date of second call. Between both calls, at least twenty-four hours must elapse. When a second call is not provided for and the General Meeting cannot be held, it shall be announced in the same manner as the first call, within fifteen days after the date on which it was not held, and always eight days prior to holding the second meeting. In the notice, the board shall state the likely date for the meeting on first or second call.

Meetings shall be held at the registered office of the Company, unless the call expressly specifies another location in the municipality where the head office is located.

The call shall announce the place and time where shareholders can consult the documents to be submitted for approval of the Meeting, without prejudice to the ability of any shareholder attending to request and receive these documents free of charge. The call of the Meeting shall also be posted on the Company website and a copy shall be sent to the exchanges on which the Company shares are listed.

On the terms indicated in the preceding paragraph the board shall make the full text of resolutions to be adopted at the General Meeting available to the shareholders, when so required by law and, in other cases, provided that unforeseen circumstances do not prevent its doing so. To the extent permitted by law the text may be amended, by decision of the Board of Directors, when supervening circumstances so require, in which case the new text shall be made available to the shareholders in the



same manner or, if that is not possible, shall be explained at the Meeting itself.

The board must call an Extraordinary General Meeting if shareholders owning five percent of share capital submit a request stating the reasons and specifying the matters to be dealt with at the meeting, which must be among those for which the Meeting has authority. In this case, the Meeting shall be called to be held within thirty days following the date the request was made through a notary to the Board of Directors, and the Board shall draft the agenda, including the matters stated in the request in the form that best suits the Company's interest.

Shareholders representing at least five percent of capital may request that a notice complementary to the call of a General Shareholders Meeting be published, including one or more points of the agenda. Exercise of this right must be by certifiable notice, which must be received at the corporate domicile within the five days following publication of the call.

The notice complementary to the call must be published at least fifteen days prior to the date set for holding the Meeting. To the extent that the referenced shareholders include it in their request, the Board shall make the full text of the resolutions proposed therein available to the shareholders on the terms indicated above.

Failure to publish the notice complementary to the call within the term specified by law shall be grounds for nullification of the Meeting.

If the General Meeting is not called by the Board of Directors despite the requirement that it do so, it may be held, at the request of shareholders and in the presence of the board, by the judge having jurisdiction over the Company's registered office who, if applicable, shall appoint the person to chair it.

- 3) Amendment of article 15.8, regarding voting, to implement recommendation no. 5 of the Uniform Code to the effect that, at the General Meeting, there be separate votes for such matters as are substantially independent, so that shareholders may separately exercise their voting preferences, incorporating the two specific cases covered by the recommendation.

"Article 15.8 Voting

Each share gives the right to one vote as established in the bylaws, subject to the limits set out therein as required by the Electricity Sector Act.

The chairman shall submit such matters as are substantially independent for separate voting, so that shareholders may separately exercise their voting preferences. In particular, the following shall be submitted for separate voting:

- (i) Appointment or ratification of directors; and*
- (ii) Amendments of the bylaws, with votes taken on all articles or groups of articles that are substantially independent.*



The chairman shall decide on the most suitable method for proceeding with a vote in each case, announcing it publicly in the General Meeting with sufficient time prior to proceeding with the vote.

Nevertheless the following deductive methods may be used to facilitate voting:

- (i) With the exception of votes against, votes in blank and abstentions expressly stated to the secretary of the Meeting, or if applicable to the notary present thereat, in the manner decided by the chairman, all shares present may be treated as votes in favour of the board proposal on a matter included on the agenda.*
- (ii) With the exception of votes in favour, votes in blank and abstentions expressly stated to the secretary of the Meeting, or if applicable to the notary present thereat, in the manner decided by the chairman, all shares present may be treated as votes against proposed resolutions on matters not included on the agenda, or proposals alternative to those of the board.*

In the two preceding cases the statement to the secretary or, if applicable, notary may be made individually in respect of each of the points of the agenda, or on a joint basis for several or all of them. The secretary shall deliver the list prepared by the scrutineers, together with the notary if one participates, to the chairman with the results of the vote on each proposal. The scrutineers' list must show all votes, stating the identity of the voter, status with which it issues the vote (shareholder or proxy) and the sense of the vote or, if applicable, the abstention. The notary, if any, shall reflect it in the minutes prepared by it.

Shareholders entitled to attend and vote may cast their votes on proposals related to matters included on the agenda by mail, e-mail or any other remote means of communication, provided that the identity of the person exercising the voting right is duly ensured, as provided in the applicable regulations, and in the Bylaws, General Meeting Regulations and rules complementing and implementing those regulations, if applicable approved by the Board of Directors.

Votes by mail shall be cast by sending the Company a document evidencing the vote, accompanied by the attendance card issued by the entity or entities responsible for maintaining the book entry register, or if applicable by the Company.

Votes by e-mail shall be cast using a recognised electronic signature or other form that the Board of Directors concludes shall be suitable to ensure the authenticity and identity of the shareholder exercising the voting right.

Votes cast using any of the means contemplated in the preceding two paragraphs must be received by the Company before midnight (12:00 a.m.) on the day immediately prior to the day contemplated for holding the General Meeting on first call. If not, the votes shall be deemed not to have been cast.



The Board of Directors, on the technical and legal bases making it possible and properly ensuring the identity of the person exercising the voting right, is authorised to implement the foregoing provisions by establishing rules, means and procedures appropriate to the state of the art, in order to implement the casting of votes and extension of proxies by electronic means, if applicable adapting to the regulations issued for that purpose.

In particular the Board of Directors may regulate the use of alternatives to the electronic signature for issuing electronic votes, and reduce the advance term for the Company's receipt of the votes cast by mail, e-mail or any other remote means of communication, as contemplated in the foregoing paragraphs.

In any event the Board of Directors shall adopt the measures necessary to avoid duplicates and ensure that those issuing votes are duly authorised to do so in accordance with the provisions of article 15 of the Bylaws.

The implementing rules adopted by the Board of Directors under the provisions of this article, as well as the means, procedures and forms established for granting proxies and exercising remote voting rights shall be published on the Company's website.

Personal attendance at the General Meeting by the shareholder or proxy shall have the effect of revoking the vote cast by mail, e-mail or any other remote means of communication".

E.7. Indicate attendance data for the general meetings held during the period discussed in this report:

Date of general meeting	Attendance data				Total
	% attendance in person	% attendance by proxy	% remote voting		
			Electronic voting	Other	
31-05-2007	23.17	26.14	0.04	--	49.35

E.8. Briefly state resolutions adopted in the general meetings held during the fiscal year referred to in this report and the percentage of votes for the adoption of each resolution.

Resolutions adopted	In favour	Against	Abstentions
1. Approve the financial statements (balance sheet, profit and loss, notes) and the management report for Red Eléctrica de España, S.A. for the 2006 fiscal year.	98.5562%	0.0331%	1.4107%
2. Approve the financial statements (balance sheet, profit and loss, notes) and the management report for the consolidated group of Red Eléctrica de España, S.A. for the 2006 fiscal year.	98.5562%	0.0331%	1.4107%
3. Approve allocation and distribution of	98.5567%	0.033%	1.4103%



profits for the 2006 fiscal year			
4. Approve the management performance of the Board of Directors of Red Eléctrica de España, S.A. for the 2006 fiscal year.	98.4978%	0.0342%	1.468%
5.1 Amend article 11 (General Shareholders Meeting) of the bylaws.	98.5459%	0.0015%	1.4526%
5.2. Amend articles 22 (Board committees and delegation of authority), 23 (Audit Committee) and 24 (Nominating and Compensation Committee) of the bylaws.	98.5459%	0.002%	1.4521%
5.3. Amend article 25 (Board Secretary) of the bylaws.	98.5457%	0.0015%	1.4528%
6.1 Amend article 3 (Authority of Meeting) of the General Shareholders Meeting Regulations	98.5467%	0.0016%	1.4517%
6.2. Amend article 5 (Call) of the General Shareholders Meeting Regulations.	98.5469%	0.0015%	1.4516%
6.3. Amend article 15.8 (Voting) of the General Shareholders Meeting Regulations.	98.5469%	0.0019%	1.4512%
7. Ratify the Board of Directors resolutions setting their compensation for the 2006 fiscal year.	98.5084%	0.0394%	1.4522%
8.1. Authorise the Company's Board of Directors, directly or indirectly, to the extent deemed advisable under the circumstances, to make market acquisitions of shares of Red Eléctrica de España, S.A.	98.5093%	0.0417%	1.449%
8.2 Approve participation of managers and directors in a compensation system consisting of payment of a part of their compensation in the form of delivery of shares of the Company.	98.3159%	0.0437%	1.6404%
8.3. Revoke prior authorisations.	98.3204%	0.0391%	1.6405%
9. Delegate authority to the Board of Directors to fully implement resolutions adopted at the General Shareholders Meeting.	98.5176%	0.0346%	1.4478%
10. Report to the General Shareholders Meeting on the Annual Corporate Governance Report of Red Eléctrica de España, S.A. for the 2006 fiscal year.	For info.	For info.	For info.

E.9. State whether there is a bylaws restriction establishing a minimum number of shares necessary to attend the General Meeting

YES NO

Number of shares necessary to attend the General Meeting	1
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E.10. State and explain the Company's policies in respect of proxies at General Meetings:



The Company has no specific policy on proxies in General Shareholders Meetings. Notwithstanding the foregoing, the Bylaws and the Meeting Regulations establish specific conditions for proxies at Meetings.

In this regard, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend may appoint another shareholder with the right to attend as a proxy for the General Meeting, in the form established in articles 106 to 108 of the Corporations Act, both inclusive, in respect of the provisions of the Bylaws. Proxies must be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitations, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him a right to vote over 3% of share capital. In addition, shares may not be syndicated for any purpose.

As already discussed in this report (section A), Act 17/2007 amended article 34 of Electricity Sector Act 54/1997 of 27 November 1997. Specifically, the second section of the third additional provision of Act 17/2007 establishes new maximum limits on exercise of voting rights, in order to guarantee the independence of a company engaging in regulated activities in the electricity sector that, as provided in Act 54/1997 of 27 November 1997 on the Electricity Sector, constitute an essential service.

Thus, any individual or legal person may hold shares in the Company, provided that the sum of its direct and indirect interests in the Company is not more than five percent of share capital. Nor can it exercise more than three percent of voting rights. These shares may not be syndicated for any purpose whatsoever.

Those engaging in business in the Electricity Sector, and the individuals or legal persons that directly or indirectly hold greater than five percent interests therein, may not exercise more than one percent of the voting rights in the company responsible for operation of the system.

The special system for the State Industrial Ownership Corporation (SEPI) remains in effect, unchanged. SEPI in any event must hold at least a ten per cent (10%) interest.

As such, in accordance with article 15 of the Bylaws and article 10 of the Meeting Regulations, except in cases of public proxy solicitations, which are subject to the applicable legal rules, in each case no individual can accumulate proxies that together with his own votes would give the right to vote over 3% of the share capital.

Also notable are the provisions of the bylaws and General Meeting Regulations regarding electronic voting and proxies. They have been successfully applied since 2005, and are discussed in detail in section E 3 above.

As already indicated in Section E.5 above, the Company has provided for shareholder use of electronic voting and proxies for the Ordinary General Shareholders Meeting to be held in 2008, after Board of Directors approval of the corresponding procedure at the meeting held on 17 April 2008.



E.11. Indicate if the Company is aware of the policy of institutional investors as to whether or not they participate in Company decisions:

YES

NO

Describe the policy

The relations between the Company and institutional investors are general in nature and are not specific or special for any of them.

On a regular basis, the Company organises informational meetings or road shows at the principal financial centres in Spain and abroad where there is a higher concentration of institutional investors, in order to inform them of its activities and its business performance in an attempt to bring the Company closer to that group of investors.

In no case does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders.

The Company does not receive any information flowing inversely, i.e. from the institutional investor, apart from such specific information as the investors may disclose to the markets.

E.12. Indicate the address and manner of accessing corporate governance content on its website.

Article 2 of the General Meeting Regulations establishes the content of the corporate website, the purpose of which is to serve as an instrument to ensure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the Company. The Company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation in accordance with Act 26/2003, of 17 July.

To this effect, the Company's website (www.ree.es) includes a section that is entered from the home page, dedicated to "shareholders and investors". Said section includes, among other things, a section specifically entitled "Corporate Governance" containing all the information on this matter that may be of interest to the shareholder. Said website includes the following contents, among others, in accordance with the General Shareholders Meeting Regulations:

- The Bylaws.
- Meeting and Board Regulations and other corporate governance provisions.
- Quarterly reports for the fiscal year and annual reports for the past two years, together with reports of the external auditors.



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- Annual Corporate Governance Report prepared by the Board.
 - Composition of the Board and its committees.
 - Shareholders identified with permanent holdings, both direct and indirect, and their representation on the Board, as well as all private agreements between shareholders which have been disclosed to the Company and the market.
 - Shareholdings of each of the members of the Board.
 - Information contained in the presentations made to different market operators and analysts, intermediaries and significant shareholders.
 - Material disclosures to the CNMV.
 - Resolutions adopted at the last General Meeting, including details on the meeting composition and voting results.
 - Current call of the next General Meeting.
 - Information required to be placed at the disposal of shareholders with the call of the General Meeting.
 - Responses to proposals and suggestions made by shareholders.
 - Communication channels between the Company and shareholders and pertinent explanations regarding the exercise of the right to information, indicating e-mail and postal addresses to which shareholders may address their questions.
 - Means and procedures for appointing proxies for General Meetings, as well as means and procedures for casting votes remotely, with the forms approved for that purpose.

In respect of publicity of resolutions approved by the General Meeting, article 17 of the Meeting Regulations specifies that, without prejudice to the recording of said resolutions in the Commercial Register and legal provisions regarding publication of corporate resolutions as may apply, the Company shall provide the text of the resolutions approved and reported to the CNMV as timely material disclosures, on the same day the meeting is held or on the following business day. The text of the resolutions shall also be available on the Company website, after it is reported to the CNMV.

Especially important in the 2007 fiscal year was the continuing improvement of the content of the Company website as a communications instrument with shareholders and investors, and its adaptation to the requirements of Order ECO/3772/2003 of 26 December 2003 and CNMV Circular 4/2007. The following may be highlighted:

- direct retransmission of the Ordinary General Shareholders Meeting held 31 May 2007.
- direct retransmission of the presentations regarding year-end results and the Company's 2007-2011 Strategic Plan.



F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the Company's degree of compliance with the recommendations of the Uniform Good Governance Code.

If the Company does not comply with any recommendation, explain what recommendations, rules, practices or criteria it uses.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the Company by means of share purchases on the market.**

See items A.9, B.1.22, B.1.23 and E.1, E.2.

Complies Explain

- 2. When the parent company and a subsidiary are stock market listed the two should provide detailed disclosure on:**

- a) **The respective businesses they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies:**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

See items C.4 y C.7

Complies Complies partially Explain Not applicable

- 3. Even when not expressly required under commercial law, any decisions involving a structural change should be submitted to the general shareholders meeting for approval or ratification. In particular:**

- a) **The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating to subsidiaries core businesses that were previously conducted by the originating firm, even though the latter retains full control of the former;**
- b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**
- c) **Transactions the effect of which is equivalent to liquidation of the company.**

Complies Complies partially Explain



-
4. Detailed proposals of the resolutions to be adopted at the general meeting, including the information stated in recommendation 28, should be made available at the same time as the publication of the call of the meeting.

Complies Explain

5. Separate votes should be taken at the general shareholders meeting on substantially independent items, so shareholders can express their preferences in each case. This rule shall apply in particular to:
- a) The appointment or ratification of directors, with separate voting on each candidate;
 - b) Changes to the bylaws, with votes taken on all articles or groups of articles that are substantially independent.

See item E.8

Complies Complies partially Explain

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See item E.4

Complies Explain

7. The board should perform its duties with unity of purpose and independent judgment, treat all shareholders equally and be guided by the interest of the company, that being understood to be maximising the economic value of the company on an ongoing basis.

The board also should ensure that in its relationships with stakeholders the company respects the laws and regulations; performs its obligations and agreements in good faith; respects the uses and good practices of the sectors and territories where it conducts business; and observes the additional social responsibility principles that it has voluntarily accepted.

Complies Complies partially Explain

8. The board as the core components of its mission should be responsible for approving the company's strategy and authorising the organisational resources to implement it, and ensuring that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The general policies and strategies of the company, in particular:

- i) The strategic or business plan, as well as annual management objectives and budget;
- ii) The investment and financing policy;
- iii) Establishment of the structure of the group of companies
- iv) The corporate governance policy;
- v) The corporate social responsibility policy;



-
- vi) The policy regarding compensation and evaluation of performance of senior management;
 - vii) The risk control and management policy, as well as periodic follow-up of internal reporting and control systems.
 - viii) Dividend policy, as well as treasury shares and, in particular, limits thereon.

See items B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See item B.1.14

- ii) Directors' compensation and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See item B.1.14

- iii) The financial information listed companies must periodically disclose.

- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the general shareholders meeting;

- v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions that are treated as tax havens, and any other transactions or operations of a comparable nature whose complexity could impair the transparency of the group.

c) Transactions the company enters into with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related party transactions").

However, board authorisation need not be required for related party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
2. They are entered into at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related party transactions should only be approved on the basis of a favourable report from the audit committee or some other committee handling the same function, and that the directors involved should neither exercise nor delegate their votes, and should



withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the executive committee in urgent cases and later ratified by the full board.

See items C.1 and C.6

Complies Complies partially Explain

9. In the interests of maximum effectiveness and participation, the board of directors should ideally be comprised of no fewer than five and no more than fifteen members.

See item B.1.1

Complies Explain

10. External directors, nominee and independent, should occupy an ample majority of board positions, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the percentage ownership interest they hold in the company.

See items A.2, A.3, B.1.3 and B.1.14

Complies Complies partially Explain

11. If any external director can be deemed neither nominee nor independent, the company should disclose this circumstance and the links this person has with the company or its senior officers, or with its shareholders.

See item B.1.3

Complies Explain Not applicable

12. Among external directors, the ratio of nominee directors to independent directors should match the ratio of the capital represented on the board by nominee directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of nominee directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no share interests reach the legal threshold for significant shareholdings, despite the considerable sums actually invested.
2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See items B.1.3, A.2 and A.3

Complies Explain



13. **The number of independent directors should represent at least one third of all directors.**

See item B.1.3

Complies

Explain

14. **The category of each director should be explained by the board to the general shareholders meeting, which shall make or ratify his appointment. Such categorization should subsequently be confirmed or revised annually in the annual corporate governance report, after verification by the nominating committee. The report should also disclose the reasons for the appointment of nominee directors proposed by shareholders with share interests less than 5% of capital; and explain any rejection of a formal request for a board position from shareholders whose share interest is not less than that of others successfully applying for a nominee directorship.**

See items B.1.3 and B.1.4

Complies

Complies partially Explain

15. **When female directors are few or nonexistent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the nominating committee should take steps to ensure that:**

- a) **The process of filling board vacancies has no implicit bias against female candidates:**
- b) **The company makes a conscious effort to include women with the target professional experience among the candidates for board positions.**

See items B.1.2, B.1.27 and B.2.3

Complies

Complies partially

Explain

Not applicable

Currently the Board is comprised of one woman and ten men. When filling vacancies on the board the company shall apply Conthe Code recommendation no. 15, as provided in article 75 of Organic Act 3/2007 of 22 March 2007 on effective equality of men and women.

In its policy for selecting directors, Red Eléctrica, through the Nominating, Compensation and Corporate Governance Committee shall apply selective processes avoiding any condition or bias that may result in any limitation on women's access to board positions, actively encouraging selection of female directors and their incorporation into the Board of Directors, on the terms contemplated in Conthe Code recommendation no. 15.

16. **The chairman, as the person responsible for the proper operation of the board of directors should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their right to freely express and adopt positions; he should**



organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant committees.

See item B.1.42

Complies

Complies partially Explain

- 17. When a company's chairman is also its chief executive, an independent director should be empowered to request the call of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the chairman.**

See item B.1.21

Complies Complies partially Explain Not applicable

Notwithstanding the foregoing, the Board of Directors believes that although the literal recommendation is not expressly included in its corporate governance rules, the spirit and purpose indeed are set forth therein.

Thus, within the Company any director may request call of the board. And if so requested in writing by three directors (regardless of their category), the Bylaws and the Board Regulations provide that the board must meet. For this reason it may be concluded that Red Eléctrica's internal rules not only are consistent with the purpose of the Uniform Code, but give even greater flexibility to calls of the board.

The process of evaluation of the board and its chairman is expressly delegated to the Nominating, Compensation and Corporate Governance Committee.

- 18. The secretary should exercise special care to ensure that the board's actions:**

- a) **Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) **Comply with the company bylaws and the meeting, board and other regulations;**
- c) **Are informed by those good governance recommendations of the Unified Code that the company has accepted.**

In order to safeguard the independence, impartiality and professionalism of the secretary, his appointment and removal should be proposed by the nominating committee and approved by a full board meeting; the relevant appointment and removal procedures should be included in the board regulations.

See item B.1.34



Complies | Complies partially | Explain

19. The board should meet with the frequency necessary to properly perform its duties, in accordance with a schedule of dates and agendas established at the beginning of the year, each director being entitled to add other agenda items.

See item B.1.29

Complies | Complies partially | Explain

20. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. When directors have no choice but to delegate their vote, they should do so with instructions.

See items B.1.28 and B.1.30

Complies | Complies partially | Explain

21. When directors or the secretary express concerns about any proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the member expressing them can request that they be recorded in the minute book.

Complies | Complies partially | Explain | Not applicable

22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Based on the report submitted by the nominating committee, how well the chairman and chief executive have performed their duties.
- c) The performance of its committees on the basis of the reports furnished by them.

See item B.1.19

Complies | Complies partially | Explain

23. All directors should be able to exercise their rights to receive any additional information they require on matters within the board's authority. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.

See item B.1.42

Complies | Explain

24. All directors should be entitled to call on the company for the advice and guidance they need to perform their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to outside advice at the company's expense.

See item B.1.41



Complies

Explain

25. Companies should organise orientation programmes for new directors to supply them rapidly with the information they need on the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so dictate.

Complies

Complies partially Explain

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the nominating committee of any other professional obligations, in case they might detract from the necessary dedication;
- b) Companies should establish rules about the number of directorships their board members can hold.

See items B.1.8, B.1.9 and B.1.17

Complies

Complies partially Explain

27. The proposal for the appointment or re-appointment of directors that the board submits to the general shareholders meeting, as well as provisional appointments by the method of cooption, should be approved by the board:

- a) On the proposal of the nominating committee, in the case of independent directors.
- b) Subject to a report from the nominating committee in all other cases.

See item B.1.2

Complies

Complies partially Explain

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background
- b) Directorships held in other companies, listed or otherwise;
- c) An indication of the director's category as executive, nominee or independent; in the case of nominee directors, stating the shareholder they represent or have links with.
- d) The date of their first and subsequent appointments as a company director, and;
- e) Shares held in the company and any options thereon.

Complies

Complies partially Explain

29. Independent directors should not remain as such for a continuous period of more than 12 years.

See item B.1.2



Complies

Explain

30. **Nominee directors should resign when the shareholders they represent fully dispose of their shareholdings. If such shareholders reduce their shareholdings, thereby losing some of their entitlement to nominee directors, the latter's number should be reduced accordingly.**

See items A.2, A.3 and B.1.2

Complies

Complies partially Explain

31. **The board of directors should not propose the removal of any independent director prior to completion of the term of office specified in the bylaws for which the director was appointed, except when the board finds that there is just cause after a report from the nominating committee. In particular, just cause shall be presumed when a director is in breach of the duties inherent in his position or affected by one of the circumstances described in section III.5 (Definitions) of this Code.**

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the capital structure of the company, in order to meet the proportionality criterion set out in recommendation 12.

See items B.1.2, B.1.5 and B.1.26

Complies

Explain

32. **Companies should establish rules requiring directors to inform the board of any circumstances that might harm the organisation's credit or reputation, tendering their resignations as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

If a director is indicted or tried for any of the crimes indicated in article 124 of the Corporations Act, the board should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not he should be called on to resign. The board should also disclose all such determinations in the annual corporate governance report.

See items B.1.43 and B.1.44

Complies Complies partially Explain

33. **All directors should express clear opposition when they feel a proposal submitted for the board's approval might harm the corporate interest. In particular, independent and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.**

When the board makes material or reiterated decisions about which a director has expressed serious reservations, he must draw the pertinent



conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next recommendation.

This recommendation should also apply to the secretary of the board; director or otherwise.

Complies | Complies partially | Explain | Not applicable

34. Directors who give up their positions before their tenure expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the board. Regardless of whether such resignation is sent as a material disclosure, the reasons must be explained in the annual corporate governance report.

See item B.1.5

Complies | Complies partially | Explain | Not applicable

35. The company's compensation policy, as approved by its board of directors, should cover at least the following matters:

- a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to;
- b) Variable components, in particular:
 - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed compensation items.
 - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related compensation;
 - iii) The main parameters and grounds for any system of annual bonuses or other, non-cash benefits; and
 - iv) An estimate of the sum total of variable payments arising from the compensation policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
- c) The principal characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.
- d) The conditions to apply to the contracts of executive directors exercising senior management functions. Among them:
 - i) Term;
 - ii) Notice periods; and
 - iii) Any other clauses covering hiring bonuses, as well as indemnities or golden parachutes in the event of early termination of the contractual relation between company and the executive director.

See item B.1.15

Complies | Complies partially | Explain



36. Compensation in the form of the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or pension plans should be limited to executive directors.

The delivery of shares is excluded from this limitation when directors are required to retain them until the end of their tenure.

See items **A.3, B.1.3**

Complies Explain

37. External directors' compensation should sufficiently compensate them for the dedication, abilities and responsibilities that the position entails, but should not be so high as to compromise their independence.

Complies Explain

38. In the case of compensation linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report that reduce those earnings.

Complies Not applicable

39. In the case of variable awards, compensation policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Complies Explain Not applicable

40. The board should submit a report on the directors' compensation policy to the advisory vote of the general shareholders meeting, as a separate point on the agenda. This report can be provided to shareholders separately or in the manner each company sees fit.

The report shall focus on the compensation policy the board has approved for the current year with reference, as the case may be, to the policy planned for future years. It shall address all the points referred to in recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It shall also identify and explain the most significant changes in compensation policy by comparison to the prior fiscal year. It also shall include an overall summary of how the policy was applied over the prior fiscal year.

The role of the compensation committee in designing the policy should be reported by the board, along with the identity of any outside advisors engaged.

See item B.1.16

Complies Complies partially Explain



41. The notes to the financial statements should list individual directors' compensation for the fiscal year, including:

- a) **A breakdown of the compensation obtained by each company director, to include where appropriate:**
 - i) **Attendance fees and other fixed director payments;**
 - ii) **Additional compensation for acting as chairman or a member of any board committee;**
 - iii) **Any payments made under profit-sharing or bonus plans, and the reason for their grant;**
 - iv) **Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit plans;**
 - v) **Any severance packages agreed or paid;**
 - vi) **Any compensation they receive as directors of other companies in the group;**
 - vii) **The compensation executive directors receive in respect of their senior management positions;**
 - viii) **Any category of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be considered to be a related party transaction or when its omission would detract from a true and fair view of the total compensation received by the director.**
- b) **An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:**
 - i) **Number of shares or options awarded in the year, and the terms set for their exercise;**
 - ii) **Number of options exercised in the year, specifying the number of shares involved and the exercise price;**
 - iii) **Number of options outstanding at the end of the year, specifying their price, date and other exercise conditions;**
 - iv) **Any change in the year in the exercise terms of previously awarded options.**
- c) **Information on the ratio in the year of the compensation obtained by executive directors to the company's profits, or some other measure of enterprise results.**

Complies

Complies partially Explain

42. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board



itself. The secretary of the board should also act as secretary to the executive committee.

See items B.2.1 and B.2.6

Complies | Complies partially | Explain | Not applicable

43. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies | Explain | Not applicable

44. In addition to the audit committee mandatory under the Securities Market Law, the board of directors should form a committee, or two separate committees, nominating and compensation.

The rules governing the composition and functioning of the audit committee and the committee or committees for nominating and compensation should be set forth in the board regulations, or include the following:

- a) The board of directors should appoint the members of such committees based on the knowledge, aptitudes and experience of its directors and the tasks of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first meeting of the full board following each committee meeting;
- b) These committees should be comprised exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the committees' express invitation.
- c) Committees should be chaired by independent directors.
- d) They may engage outside advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of meetings should be prepared and a copy sent to all board members.

See items B.2.1 and B.2.3

Complies | Complies partially | Explain

The only qualification on full compliance with the recommendation is the fact that the executive director and chairman of the Company is a member of the Nominating, Compensation and Corporate Governance Committee, by unanimous decision of the Board, which believes it is appropriate for him to be a member, without prejudice to his abstention on all matters that may personally affect him or may lead to a possible conflict of interest.



45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the audit committee, the nominating committee or, as the case may be, separate compliance or corporate governance committees.

Complies

Explain

46. All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and background in accounting, auditing and risk management matters.

Complies

Explain

47. Listed companies should have an internal audit function, under the supervision of the audit committee, to ensure the proper operation of internal reporting and control systems.

Complies

Explain

48. The head of the internal audit function should present an annual work programme to the audit committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

Complies partially Explain

49. The risk control and management policy should identify at least the following:

- a) The various kinds of risk (operating, technological, financial, legal, reputation ...) faced by the company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks;
- b) Setting the risk level the company deems to be acceptable;
- c) The measures contemplated for mitigating the impact of the identified risks, should they materialise;
- d) The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.

See item D

Complies

Complies partially Explain

50. The audit committee's role should be:

1. As regards internal reporting and control systems:

- a) Monitoring the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate



definition of the scope of consolidation, and proper application of accounting principles.

- b) Periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.
- c) Assuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and removal of the head of the internal audit function; proposing the budget for that function; receiving periodic information regarding its activities; and verifying that senior management acts on the conclusions and recommendations in its reports.
- d) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. As regards the external auditor:

- a) Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement.
- b) Receiving regular information from the external auditor on the progress and findings of the audit programme, and verifying that senior management is acting on its recommendations.
- c) Monitoring the independence of the external auditor, to which end:
 - i) The company should notify any change of auditor to the CNMV as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.
 - ii) The committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
 - iii) The committee should investigate the issues giving rise to the resignation of any external auditor.
- d) In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies.

See items B.1.35, B.2.2., B.2.3 and D.3

Complies

Complies partially Explain

The Board of Directors believes it is appropriate, as has been the case in the past, for the Audit Committee to supervise and control the process of selection, appointment and removal of the head of the internal audit function, and its



action plans, also supervising and approving the resources allocated thereto and among them, and its budget.

Nevertheless, the Board of Directors unanimously believes that the authority to appoint and remove the head of the internal audit function and propose its budget must be in the province of the Company's senior management.

- 51. The audit committee should have authority to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.**

Complies

Explain

- 52. The audit committee should prepare information on the following points from recommendation 8 for input to board decision-making:**

- a) **The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are prepared under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) **The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories that are treated as tax havens, and any other transactions or operations of a comparable nature whose complexity could impair the transparency of the group.**
- c) **Related party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See items B.2.2 and B.2.3

Complies

Complies partially Explain

- 53. The board of directors should seek to present the financial statements to the general meeting without reservations or qualifications in the audit report. should such reservations or qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

See item B.1.38

Complies

Complies partially Explain

- 54. The majority of nominating committee members (or nominating and compensation committee members, as the case may be) should be independent directors.**

See item B.2.1

Complies Complies partially Explain



Of the four members of the Nominating and Compensation Committee three are external directors. Of these, two are independent directors, and constitute a relative but not absolute majority.

Further to the discussion of recommendation no. 44, it again must be stated that independent directors have a voting majority on the Nominating Compensation and Corporate Governance Committee, because in the hypothetical case of a tie between independent and other directors the chairman, who necessarily must be an independent director, has a casting vote.

55. The nominating committee should have the following functions in addition to those stated in earlier recommendations:

- a) **Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**
- b) **Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the transfer proceeds in a planned and orderly manner.**
- c) **Report on the senior officer appointments and removals that the chief executive proposes to the board.**
- d) **Report to the board on the gender diversity issues discussed in recommendation 14 of this Code.**

See item B.2.3

Complies Complies partially Explain Not applicable

56. The nominating committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

Any director may suggest directorship candidates to the nominating committee for its consideration.

Complies Complies partially Explain Not applicable

57. The compensation committee should have the following functions in addition to those stated in earlier recommendations:

- a) **Make proposals to the board of directors regarding:**
 - i) **The compensation policy for directors and senior officers;**
 - ii) **The individual compensation and other contractual conditions of executive directors.**
 - iii) **The standard conditions for senior officer employment contracts.**
- b) **Oversee compliance with the compensation policy set by the Company.**



See items B.1.14, B.2.3

Complies | Complies partially | Explain | Not applicable

58. The compensation committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies | Explain | Not applicable



G OTHER INFORMATION OF INTEREST

If you believe there is any other relevant principle or aspect of your company's corporate governance practices that has not been addressed by this report, please give details.

This section may be used to supply any additional information, clarification or qualification relating to the preceding sections of this report.

In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is required to disclose that is not required in this report.

Binding definition of independent director

State whether any of the independent directors has or has had any relationship with the company, its significant shareholders or its officers that, had it been sufficiently significant or important, would have resulted in the impossibility of treating the director as an independent director under the definition set forth in section 5 of the Uniform Corporate Governance Code:

YES NO

Name of director	Type of relationship	Explanation
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This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting of 17 April 2008, after a favourable report from the Nominating, Compensation and Corporate Governance Committee dated the 11th of that month.

State whether there are any Directors who voted against or abstained from voting to approve this report.

YES NO

Name of the director not voting in favour of approval of this report	Reason (opposed, abstained, not in attendance)	Explain the reason
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I. AUDIT COMMITTEE ACTIVITIES REPORT FOR THE 2007 FISCAL YEAR.

1. BACKGROUND AND JUSTIFICATION

The Board of Directors of RED ELÉCTRICA DE ESPAÑA, S.A. (RED ELÉCTRICA) at its meeting held on 18 November 2003 established the new Audit Committee, which replaced the former Audit and Compliance Committee, as provided in article 23 of the Bylaws and in Chapter V, articles 15 and 16 of the Board of Directors Regulations, approved at that meeting. The foregoing was in accordance with the provisions of article 47 of Act 44/2002 of 22 November 2002 on Measures to Reform the Financial System.

The Ordinary General Shareholders Meeting of the Company on 31 May 2007 approved an amendment of the Bylaws to adapt them to the Sole Corporate Governance Recommendations Document, called the Uniform Good Governance Code, approved by the CNMV by Resolution 192 of May 2006.

In respect of the Audit Committee, that Meeting amended article 23 of the Bylaws, to adapt it to recommendation no. 22 of the referenced Uniform Good Governance Code, regarding composition of the committee, and changed the name of the Audit Committee from "Comité de Auditoría" to "Comisión de Auditoría", more in accordance with commercial practice.

Finally, continuing with the process of adapting the Company's corporate governance rules to the Uniform Good Governance Code, the Board of Directors at a meeting held on 20 December 2007 resolved to amend the Board of Directors Regulations. By means of that amendment the Board adapted the rules on composition, functioning and authority of the Audit Committee.

The authority, organisation and procedure of the Audit Committee therefore are governed by the Bylaws and by the new Board of Directors Regulations of RED ELÉCTRICA, adapted to Acts 44/2002 and 26/2003 and the recommendations in the Uniform Good Governance Code.

Article 14.6.a) of the Regulations of the Company's Board of Directors establishes, among other duties of the Audit Committee, the preparation of an annual report of its activities, without prejudice to its duty to keep the Board of Directors up to date regarding the Committee's activities.

Consequently, the 2008 Action Plan of the Audit Committee contemplates the preparation of a report on the Committee's activities during 2007, in the month of March. This report is to be incorporated in this Annual Corporate Governance Report of the Company.



2. COMPOSITION

The Audit Committee is comprised of three members, pursuant to article 23 of the Bylaws and article 13 of the Board Regulations, who are appointed to their positions for a period of three years.

As provided in current regulations, the Audit Committee shall be comprised of a number of members to be determined by the Board of Directors, from a minimum of three to a maximum of five, all external directors.

The chairman of the committee is elected by its members from among the independent directors who are members thereof, and the secretary is the secretary of the Board of Directors.

Throughout 2007 the Committee was comprised of only external directors, with a majority of independent directors.

The composition of the Company's Audit Committee at 31 December 2007 was as follows:

- Francisco Javier Salas Collantes (independent director) Chairman
- Manuel Alves Torres (nominee director)
Member
- Pedro Rivero Torre (independent director) Member

- Rafael García de Diego Barber Non-Director Secretary

The directors belonging to the committee are particularly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions related to those entrusted to the committee. Particularly notable is their appropriate background in economic, financial and accounting matters.

The working career of each of the members of the Audit Committee is as follows:

- Mr. Pedro Rivero Torre is a professor of Financial Economics and Business Accounting at Universidad Complutense de Madrid, a Chartered Accountant (on leave of absence). He holds, among others, positions as chairman of UNESA, a member of the Economic and Social Council and chairman of the Corporate Social Responsibility Committee of the Spanish Accounting and Business Administration Association (AECA).
- Mr. Manuel Alves Torres has a degree in Economics and Business. At present, he is the head of planning and control and a member of the Management Committee of the State Industrial Ownership Corporation (SEPI). He also is a director of Tragsa.
- Mr. Francisco Javier Salas Collantes is a graduate in Economics, specialising in Business Economics. Formerly he was chairman of INI and TENERE, which at the time owned important companies in the energy sector, which position he held at the same time as he was chairman of Iberia. He has also been a member of the boards of directors of financial institutions, including long service on the boards of directors of Inforeasing, Banco Exterior de España and Argentaria. Currently, among other positions, he is a director of Telvent and chairman of its Audit Committee, a



member of the Advisory Board (Spain) of Banco Privado Português, a founding shareholder and director of SAGA Servicios Financieros and a director of the risk capital managers Ged Iberian Private Equity and Ged Capital Development.

The secretary of the committee is Mr. Rafael García de Diego Barber, the secretary of the board of directors and the Company's general counsel.

Also regularly attending meetings of the committee are the assistant to the chairman, Mr. Javier de Quinto Romero, the head of the internal audit function, and the general manager of administration and finance, Dr. Esther Rituerto Martínez, to report on various matters in their areas of responsibility.

As regards review of the financial statements of the Company and its group for the 2006 fiscal year, the corresponding meeting was attended by the economic manager, Mr. José Manuel Rodríguez Gil; the external auditor of the Company and its group for that fiscal year, Price Waterhouse Coopers, which at all times responded to requests for information and clarifications made of it by the members of the committee, and approved the financial statements as presented.

3. FUNCTIONS

According to article 23 of the Bylaws and article 16 of the former Board of Directors Regulations, the Audit Committee's duties, among others, include support to the Board of Directors when monitoring the economic and financial reporting process, internal control of the Company, the independence of the external auditor, compliance with legal provisions and internal regulations, prior analysis of the Company's significant transactions, and any other authority given to it by the Board of Directors.

The new Board of Directors Regulations confirm the prior authority of the committee and give it new authority, following the recommendations of the Uniform Good Governance Code.

Particularly notable is the following new authority:

1-In respect of economic and financial information, responsibility has been added to monitor the preparation and integrity of the financial information of the Company and, where appropriate, the group, seeing to it that regulatory requirements are respected, the scope of consolidation is appropriately defined, and the applicable accounting principles and criteria are properly applied.

In addition, it has been established that it must report to the board in advance regarding economic and financial information the Company must disclose and send to market supervision agencies. Following the recommendations of the Uniform Good Governance Code, the committee should ensure that interim statements are prepared under the same accounting principles as annual statements and, if it considers it to be appropriate, may ask the external auditor of accounts to conduct a limited review.

2- In respect of internal control and risk management systems, the internal audit function has been given responsibility for proper functioning of information systems and internal controls; the Audit Committee is responsible for ensuring the independence and effectiveness of the internal audit function; supervising and controlling the process of selection, appointment, re-election and removal of the head of the internal audit function, as well as its action plans; supervising and controlling resources assigned to the internal audit function and, inter alia, its budget; receiving periodic information regarding its activities; and verifying that senior management is acting on the conclusions and recommendations in its reports.



The head of internal audit should present an annual work programme to the audit committee, report to it directly on any incidents arising during its implementation and submit an activities report at the end of each fiscal year.

In addition, following the recommendations of the Uniform Good Governance Code, the committee must periodically supervise the risk management systems, so that the principal risks are appropriately identified, managed and disclosed; and also must supervise the procedure established by the board allowing employees to communicate potentially significant irregularities, particularly financial and accounting irregularities, that they discover within the Company.

3- In respect of external audits, the principal innovations incorporated in the new regulations are ensuring that the Company makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with departing auditors, and also ensuring that the Company, within the scope of its responsibilities, complies with current rules regarding non-audit services, limits on concentration of the auditor's business and, in general, the other rules established to ensure independence of auditors. In the event of resignation of the external auditor, it must review the underlying circumstances, and verify that senior management is acting on the recommendations of the external auditor.

4- In respect of compliance with legal provisions and internal rules, the regulations newly establish an obligation of the Audit Committee to supervise the procedures for communication of financial and accounting irregularities, and consistency of related party transactions with the Company's interests, with the responsibility to report to the board in advance of such transactions.

5- The other responsibilities section provides for the duty of the committee to report to the board in the event of transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the Group's transparency.

6- As regards the Company's shareholders, the committee shall review and, if applicable, shall reply to any initiatives, suggestions or complaints raised by the shareholders in the exercise of their rights. It shall also inform the General Meeting, as applicable, of any issues within its competence that are raised by the shareholders. In the absence of such initiatives, suggestions or complaints, the committee must be advised of proper functioning of the communication channels available to shareholders.

During 2007 the committee continued to pay special attention to supervising the Company's internal audit function, both in the annual action plan preparation phase and in monitoring the results of audits performed throughout the fiscal year.

Notable among the activities of the Audit Committee in 2007 was supervision of the overall risk management policy of RED ELÉCTRICA and its group. The Technical Office, in the first place, and the Office of the Chairman, thereafter, gave various presentations to the committee in respect of the Company's risk management. The Audit Committee continued to pay special attention to monitoring employment risk prevention policies.

The committee participated in various sessions in the process of preparing the portions of the new Board of Directors Regulations within its competence.

The committee also reported the text of the Company's Code of Ethics to the Board of Directors prior to its approval in July 2007.



The committee timely reported on its activities to the Board of Directors, prepared an action plan for the 2007 fiscal year and an annual report of its activities for the 2006 year, to be incorporated in the annual information of the Company and its group for the 2006 fiscal year.

4.- ACTIVITIES CARRIED OUT DURING THE 2007 FISCAL YEAR

The Audit Committee on 18 December 2006 approved the corresponding annual action plan, in light of its responsibilities under the Bylaws and the Board of Directors Regulations. This plan served as a guide for preparation of the committee's corresponding schedule of meetings.

In addition the Audit Committee reported on its activities to the Board of Directors at its meetings immediately following each meeting of the committee, and provided the directors with copies of the minutes of its meetings since July 2007.

The Audit Committee met ten (10) times during 2007, and provided the same number of reports to the Board of Directors.

The Audit Committee in 2007 performed the following tasks:

As regards economic and financial information:

- . Analysis and report to the board on progress of the 2006 fiscal year closing.
- . Analysis and report to the board of the 2007 budget for the RED ELÉCTRICA Group, for submission to the Board of Directors.
- . Analysis and report to the board on the 2007-2011 Investment Plan.
- . Analysis and report to the board on the proposal for distribution of an additional dividend for the 2006 fiscal year.
- . Review of the 2006 financial statements of RED ELÉCTRICA and its group, to be presented to the board for reporting purposes, and a review of the external auditor's opinion.
- . Analysis of intragroup transactions within the RED ELÉCTRICA Group.
- . Monitoring of the quarterly reports on the Company's treasury share management.
- . Analysis and report to the board on the proposed distribution of an interim dividend for the 2007 fiscal year.
- . Supervision of the content of the Debt and Derivatives Registration Document and the Base Prospectus for promissory notes, for the year 2008, registered with the CNMV.
- . Approval of the closing schedule for the 2007 fiscal year.
- . Periodic and/or as needed review of economic and financial information sent to the CNMV.

As regards internal control and risk management systems:

- . Analysis of the Overall Risk Management Report at 31 December 2006.
- . Analysis of the chapter regarding risk control systems included in the Annual Corporate Governance Report for the 2006 fiscal year.
- . Review and monitoring of the Project for Review of Internal Control of Financial Reporting (SOX Project).
- . Analysis of status of relevant high level risks at 30 September 2007.

As regards the internal audit function:

- . Analysis and approval of the Company's 2007 Annual Internal Audit Plan.



-
- . Analysis of the periodic report on the prevention of occupational hazards, throughout 2007.
 - . Analysis of the report on internal audits conducted during the 2006 fiscal year.
 - . Evaluation of the Company's internal procedures. Specifically analysed were the so-called "Process for management of payments to suppliers" and "Actions in special situations affecting the electricity system, facilities or the environment".
 - . Approval of the Audit Committee's programme for review of the Company's rules and procedures.
 - . Approval of the Annual Internal Audit Plan for the 2008 fiscal year.
 - . Review of the internal procedures introduced by the Company for monitoring of noncompliance and weaknesses discovered during internal audits.
 - . Review of the audit trail of corporate information systems.

As regards external auditors:

- . Review of the external auditor's preliminary report in respect of the 2007 fiscal year.
- . Review of the external auditor's report on the quality of the group's internal control systems.

As regards compliance with legal provisions and internal regulations:

- . Analysis and supervision of compliance with the rules of corporate governance in the 2006 fiscal year in respect of the duties assigned in that regard to the Audit Committee.
- . Analysis and review of the proposal for amendment of the Bylaws and General Shareholders Meeting Regulations.
- . Analysis and report on the text of the Code of Ethics and Corporate Values of the Company.
- . Review of the evaluation report on compliance with the Company's Code of Conduct in the Securities Market corresponding to the 2007 fiscal year.
- . Review and reporting on the report regarding the degree of compliance with the recommendations in the Code.
- . Analysis and report to the board on proposals for amendment of the aspects of the Board of Directors Regulations affecting the authority of the Audit Committee.

As regards the Company's shareholders:

- . Follow-up of any initiatives, suggestions and complaints made by the shareholders during the year.
- . Presence of the chairman of the Audit Committee at the Ordinary General Shareholders Meeting of the Company, in order to personally reply to any issues raised by the shareholders.

Other activities:

- . Approval of the meeting schedule for the 2007 fiscal year.
- . Approval of the annual report of activities of the Audit Committee for the 2006 fiscal year, to be attached to the Company's Corporate Governance Report for that fiscal year.
- . Ongoing monitoring of the process of renewal of the annual corporate insurance programme of the RED ELÉCTRICA Group.
- . Approval of the committee's action plan for the 2008 fiscal year.
- . Timely reporting to the Board of Directors on the committee's activities.



II. NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE ACTIVITIES REPORT FOR 2007 FISCAL YEAR.

1. BACKGROUND.

1. BACKGROUND.

After Red Eléctrica was listed on the stock exchange in 1999, the Nominating Committee was formed within the Board of Directors. It began to act in the area of appointment of directors and senior officers. Following the recommendations of the Aldama Report, dated 18 November 2003, the Company's Board of Directors established a Nominating and Compensation Committee. The committee's initial authority regarding appointments was expanded, and it assumed new responsibilities in respect of compensation of the Board of Directors and the management team of the Company and its group.

Since 2004 the committee on an annual basis has approved an activity report. The purpose of the activity report was to fulfil the obligation established in the Company's Board of Directors Regulations to prepare an annual activity report, without prejudice to the duty to maintain the Board of Directors periodically informed of its activities. The report was attached as an annex to the Company's Annual Corporate Governance Report submitted for approval of the Board of Directors.

In accordance with best corporate governance practices, particularly as indicated in the Conthe Code, the Company's General Shareholders Meeting of 31 May 2007 expanded the scope of the committee's responsibilities. Based thereon, during the 2007 fiscal year the Company's Board of Directors amended the name, which now is the Nominating, Compensation and Corporate Governance Committee, and included the expanded authority in the Board of Directors Regulations. Notable among the new authority expressly given to it is that related to corporate governance.

The 2008 Annual Action Plan of the Nominating, Compensation and Corporate Governance Committee, as provided in article 16.5 a) of the Board Regulations, contemplates the preparation, during the first quarter of the year, of a report of the activities undertaken during 2007, as customary to be attached to the Annual Corporate Governance Report, which is the subject matter of this document.

2. STRUCTURE, COMPOSITION AND FUNCTIONS.

2.1. Structure.

Articles 24.2 of the Bylaws and 15 and 16 of the Board of Directors Regulations, in the new version approved by the Board of Directors on 20 December 2007, govern the structure, composition and functions of the Nominating, Compensation and Corporate Governance Committee.

The Committee must examine the suggestions forwarded by the chairman, the members of the committee, and Company executives or shareholders, in matters affecting the appointment of directors, including managing or executive directors, or compliance with corporate governance principles, the Bylaws and the Board of Directors Regulations.



The committee meets as often as required for proper performance of its duties. In any event it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be adopted. The calls of the meetings must include the agenda and are sent by the committee secretary to each of its members, at least three days prior to the date specified for the meeting, unless the meeting needs to be held earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote and entered in the minutes at the end of the meeting. In order to better perform its duties, the committee may propose to the Board of Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 15 of the Board Regulations provides that the Nominating, Compensation and Corporate Governance Committee shall be comprised of a number of directors fixed by the Board of Directors, from a minimum of three to a maximum of five, with a majority of external directors, at least half being independent directors. The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors.

The appointment and removal of committee members is carried out by the Board of Directors on proposal of the board chairman. The committee members hold their positions for a period of three years and may be re-elected; they leave their positions when they give up their directorships or if so resolved by the Board of Directors, after a report from the Audit Committee. The chairman may be re-elected after a year has elapsed since he left office.

2.2. Composition

At the end of the 2007 fiscal year and at the date of approval of this report the Nominating, Compensation and Corporate Governance Committee consists of four directors. Three are external directors and one is an executive director. Two of the external Directors are independent, one of them being the chairwoman of the committee.

During 2007, as a result of expiration of the term for which they had been appointed, the Company's Board of Directors, at its meeting held on 26 April 2007, re-elected Mr. Antonio Garamendi Lecanda and Mr. Juan Gurbindo Gutiérrez and appointed Ms. M^a Ángeles Amador Millán as members of the committee. The latter member was appointed chairwoman of the committee.

At the end of the 2007 fiscal year and at the date of approval of this report the committee's composition was as follows:

- | | |
|---|------------|
| • M ^a Ángeles Amador Millán (independent director) | Chairwoman |
| • Antonio Garamendi Lecanda (independent director) | Member |
| • Juan Gurbindo Gutiérrez (nominee director (SEPI)) | Member |
| • Luis M ^a Atienza Serna (executive director) | Member |

The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors, Mr. Rafael García de Diego Barber. The appointment and removal of committee members is carried out by the Board of Directors on proposal of the board chairman.



2.3. Functions.

The basic responsibilities of the Nominating, Compensation and Corporate Governance Committee, pursuant to article 24 of the Bylaws, are as follows:

- a) *Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.*
- b) *Proposing the compensation policy for directors and senior officers to the Board of Directors and monitoring its implementation.*
- c) *Assuming the reporting, supervision and proposal functions regarding corporate governance as determined by the Board of Directors, for so long as an ad hoc committee is not created for that purpose".*

The foregoing responsibilities are developed in further detail in article 16 of the Board of Directors Regulations, which provides as follows:

“16.1 As regards appointments and removals:

- a) *Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.*
- b) *Report prior to their submission to the Board of Directors on proposals for appointment or removal of the secretary of the Board of Directors and the assistant secretary thereof.*
- c) *Propose to the Board of Directors the system for selecting independent directors.*
- d) *Evaluate the balance of skills, knowledge and experience on the board and based thereon define the roles and capabilities required of the candidates to fill each vacancy.*
- e) *Evaluate the time and dedication necessary for directors to perform their duties with due quality and efficiency, for these purposes evaluating whether they are compatible with membership on other management bodies of listed companies.*
- f) *Report on the senior officer appointments and removals that the chairman proposes to the Board of Directors.*
- g) *Examine or organise, in appropriate form, the succession of the chairman, making recommendations to the board so the transfer proceeds in a planned and orderly manner.*
- h) *Ensure that gender diversity is respected when filling vacancies.*
- i) *Consult with the chairman, particularly when dealing with matters related to executive directors.*

16.2 As regards compensation:



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- a) *Propose to the Board:*
 - iv) *the compensation policy for directors and senior officers.*
 - ii) *the individual compensation and other contractual conditions of executive directors.*
 - iii) *the standard conditions for senior officer employment contracts.*
 - b) *Consult with the chairman of the Company, particularly when dealing with matters related to executive directors and senior officers.*
 - c) *Oversee compliance with the compensation policy set by the Company.*

16.3 *As regards discharge of the directors' duties:*

- a) *Ensure fulfilment by the directors of the obligations established in these regulations, report to the Board on their performance, and issue the appropriate reports and proposals as well as, as applicable, on the measures to be adopted in the event of breach.*
- b) *Authorise the directors to use corporate assets.*

16.4 *As regards corporate governance rules: Supervise observance of the corporate governance rules, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue an annual report on the measures to be implemented and send it to the board.*

16.5 *Other functions:*

- a) *Keep the board informed of its activities and prepare an annual report to be included in the management report, as well as an action plan for each fiscal year.*
- b) *Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.*
- c) *Report to the board on performance of their duties by the chairman and the full committee.*
- d) *Verify the category of each director, for purposes of the pertinent board explanations to the General Shareholders Meeting that is to make or ratify the appointment of that director, and reflect it in the Annual Corporate Governance Report.*
- c) *Any other authority conferred on it by the board".*



3. ACTIVITIES CARRIED OUT DURING THE 2007 FISCAL YEAR.

The Nominating, Compensation and Corporate Governance Committee met eleven (11) times during the 2007 fiscal year. The Board of Directors is timely informed of the matters considered by the committee. Copies of the minutes of each meeting are delivered to the directors.

The most significant actions of the Nominating, Compensation and Corporate Governance Committee during the 2007 fiscal year were:

3.1. As regards appointments, removals and re-elections:

- Monitoring of the ongoing labour force adjustment plan (expediente de regulación de empleo – ERE).
- Favourable report on members of the Board of Directors joining the boards of other companies, as contemplated in section 4 of the Independent Director's Statute.
- Report on the request of an officer to take advantage of the ongoing early retirement programme, and the conditions for his departure from the Company.
- Report on changes in the Company's management structure.
- Report on specific changes in the Company's management.
- Election of Ms. María de los Ángeles Amador Millán as the chairwoman of the committee.
- Report on departure from the organisation of a senior manager in the group's international area.

3.2. As regards compensation:

- Approval of the proposed corporate and management objectives for the 2007 fiscal year.
- Approval of the proposal of objectives for members of the Management Committee for the 2007 fiscal year.
- Review of compliance with management and corporate objectives and those of the Company's Management Committee for the 2006 fiscal year.
- Approval of the proposal to the Board of Directors on compensation of directors and committee members for 2006.
- Review and monitoring of the degree of compliance with the 2007 objectives of the Company's various management areas.
- Review of information regarding director compensation for inclusion in the annual public documentation.
- Proposal to submit Board of Directors compensation for approval of the General Meeting.



- Approval of the compensation policy for the management team for the 2007 fiscal year.
- Review of the plan approved by the General Shareholders Meeting for acquisition of shares by the Company's officers.
- Approval of the proposed amendment of 2006-2008 multi-year objectives to adjust them to the 2007-2012 strategic plan.
- Approval of bonuses to officers for extraordinary services.
- Treatment of the Company's chairman's compensation as a member of the board of directors of a company in which an interest is held, to be communicated to the Board of Directors.
- Sending a proposal for 2008 compensation of the Board of Directors to it.

3.3. As regards Corporate Governance:

- Report on the process of self-evaluation of the Board of Directors and its committees, developed by an outside advisor, for submission to the Board of Directors.
- Report on adaptation of the bylaws and the General Meeting Regulations to best corporate governance practices, for submission to the Board of Directors and subsequent submission to the General Shareholders Meeting.
- Report on degree of compliance with the recommendations contained in the Uniform Good Governance Code of Listed Companies (Conthe Code) for consideration by the Board of Directors.
- Proposal of Annual Corporate Governance Report for the 2006 fiscal year.
- Proposal for review of Board of Directors Regulations for adaptation to recommendations contained in the Uniform Good Governance Code of Listed Companies (Conthe Code).
- Report on initiatives to be taken regarding corporate governance.
- Definition of the Board of Directors' annual self-evaluation process for the 2007 fiscal year.
- Report on the Company's Code of Ethics and Corporate Values.

3.4. Other actions:

- Report on the Company's reorganisation process.
- Review of the committee's annual activity report for the 2006 fiscal year, for attachment to the Annual Corporate Governance Report.
- Approval of the schedule and annual work plan for 2008.
- Immediate reporting to the Board of Directors on the committee's activities at each of its meetings.



4. DIRECTOR ATTENDANCE AT MEETINGS.

During the eleven (11) meetings held there was only one (1) proxy and one (1) absence, for good cause.



III. NOTIFICATIONS AND MATERIAL DISCLOSURES TO THE CNMV

1. ACQUISITIONS OR DISPOSITIONS OF INTERESTS (Notification of 19/02/2007)

On 19 February 2007 it was reported to the CNMV that Red Eléctrica de España, S.A. had held preliminary discussions for acquisition of a minority interest in the Portuguese Company Rede Eléctrica Nacional, S.A., but at that date no final agreement had been reached regarding the matter.

2. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 27/2/2007)

On 27 February 2007 the results of the RED ELÉCTRICA GROUP for the 2006 fiscal year were published. Consolidated profit was 200.2 million euros

3. ACQUISITIONS OR DISPOSITIONS OF INTERESTS (Notification of 6/3/2007)

On 6 March 2007 the CNMV was notified that Red Eléctrica de España and EDP - Energias de Portugal had reached formal agreement, effective that date, for Red Eléctrica de España to acquire 5% of REN. The price of the indicated transaction is tied to the market value of REN resulting from a future IPO to be made during 2007. A deposit has been paid.

4. INFORMATION REGARDING DIVIDENDS TO AND THE OTHER FORMS OF COMPENSATION OF SHAREHOLDER (Notification of 22/3/2007)

On 22 March 2007 the CNMV was notified that the Board of Directors of Red Eléctrica de España had resolved to propose to the Ordinary General Shareholders Meeting the payment on shares with a dividend right of the gross amount of 0.8984 euros per share.

5. MATERIAL DISCLOSURES REGARDING COMPENSATION SYSTEMS (Notification of 27/03/2007)

On 27 March 2007 the CNMV was notified that on 26 March there had been a new application of the plan for acquisition of shares by officers of Red Eléctrica, by delivery of 8,324 shares for a total of 285,000 euros.

6. CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (Notification of 29/03/2007)

On 29 March 2007 the CNMV was notified that within the framework of the strategic alliance between Red Eléctrica de España and Redes Energéticas Nacionais, SGPS, S.A. (REN), the General Shareholders Meeting of REN held on 28 March 2007 had resolved to appoint the chairman of the Board of Directors of Red Eléctrica de España, Mr. Luis Atienza Serna, as a director of REN.

7. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 27/04/2007)

On 27 April 2007 the results of the RED ELÉCTRICA GROUP for the first quarter of the 2007 fiscal year were published.

8. ANNOUNCEMENT OF CALLS AND RESOLUTIONS OF MEETINGS (Notification of 27/04/2007)



On 27 April 2007 the CNMV was sent the agenda for the Ordinary General Shareholders Meeting to be held on 30/05/07 or 31/05/07, on first or second call, respectively.

9. CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (Notification of 27/04/2007)

On 27 April 2007 the CNMV was notified of the composition of the Company's Audit Committee and Nominating and Compensation Committee.

10. ANNUAL CORPORATE GOVERNANCE REPORT (Notification of 21/05/2007)

On 21 May 2007 the Annual Corporate Governance Report for the 2006 fiscal year was sent.

11. CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (Notification of 24/05/2007)

On 24 May 2007 the CNMV was notified of changes in the Company's Nominating and Compensation Committee.

12. ANNOUNCEMENT OF CALLS AND RESOLUTIONS OF GENERAL MEETINGS (Notification of 31/05/2007)

On 31 May 2007 the CNMV was notified of resolutions adopted by the Ordinary General Shareholders Meeting held on 31 May 2007 on second call.

13. OTHER INCREASES AND DECREASES IN FIXED ASSETS (Notification of 8/06/2007)

On 8 June 2007 the CNMV was notified that Red Eléctrica de España, S.A. had reached agreement with Hc Energía for acquisition of electricity transport facilities in the Autonomous Community of Valencia. The amount of the transaction is 16,810,000 euros. It shall become effective when governmental authorisation is received from the Ministry of Industry, Tourism and Trade.

14. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 26/10/2007)

On 26 October 2007 the CNMV was sent the results for the first nine months of 2007.

15. ANNOUNCEMENT OF PAYMENTS OF COUPONS AND DIVIDENDS (Notification of 20/12/2007)

On 20 December 2007 the CNMV was notified that payment of an interim dividend out of profits of the 2007 fiscal year had been announced, amounting to 0.3868 euros per share and representing an increase of 19% by comparison with the interim dividend paid out of profits of the 2006 fiscal year.