



**RED ELÉCTRICA**  
CORPORACIÓN

## **Audit Committee**

12 February 2018

Annual Activity Report of the  
Audit Committee for the year 2017

## Table of Contents

<b>1. Introduction</b>	<b>2</b>
<b>2. Legal background, structure, functions and composition</b>	<b>2</b>
2.1. Legal background.	
2.2. Structure and functions.	
2.3. Composition.	
<b>3. Activities carried out during the year 2017</b>	<b>9</b>
3.1. Regarding economic-financial information.	
3.2. Regarding the internal control and risk management systems.	
3.3. Regarding internal audit function.	
3.4. Regarding the external auditors.	
3.5. Regarding compliance with the legal provisions and internal rules.	
3.6. Regarding the company's shareholders.	
3.7. Other activities.	
<b>4. Director attendance at meetings</b>	<b>13</b>
<b>5. Review of the annual accounts for the year 2017</b>	<b>13</b>
<b>6. Assessment of compliance with the principles and recommendations laid down by the CNMV (Technical Guide 3/2017)</b>	<b>13</b>



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## 1. Introduction

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In the Audit Committee's Annual Action Plan for the year 2018, in accordance with the provision contained in Article 16.6 a) of the Regulations of the Board, foresees the drafting of a report outlining the activities performed by the Audit Committee throughout 2017, and which is the object of this document.

## 2. Legal background, structure, functions and composition

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### 2.1 Legal background:

The Company's Board of Directors, at its meeting held on 13 March 2013, resolved to amend the Regulations of the Board for the purpose of updating its content in accordance with the legislative amendments that had affected the regime of public limited companies (*Sociedades Anónimas*) in Spain, as well as adapting itself to best practices in corporate governance, particularly those at an international scope, and introducing improvements in the organisation and operation of the Board of Directors and its Committees.

Accordingly, the shareholders approved the amendment of the By-laws at the Annual General Shareholders' Meeting held on 18 April 2013, to adapt, among other aspects, the regulations of the Audit Committee and the Corporate Responsibility and Governance Committee (now called the Appointments and Remuneration Committee) contained in the Company's By-laws, to the main international recommendations and practices in matters of good corporate governance. Noteworthy of said amendment is the requirement provided for in the By-laws which establishes that the majority of the members of both Committees shall be independent directors.

Law 31/2014, of 3 December, amending the Spanish Capital Companies Law (*Ley de Sociedades de Capital*) in order to enhance corporate governance, resulted in an adaptation of the Company's By-laws at the Annual General Shareholders' Meeting held on 15 April 2015; in particular, Article 23 relating to the Audit Committee was adapted. Similarly, the Regulations of the Board of Directors were also amended on 20 December 2016, to fully adapt the same to the recent reforms of the Capital Companies Law, the Spanish Code of Good Governance of Listed Companies, and to introduce improvements in the organisation and operation of the Board's Committees in order to adapt them to the new organisational structure.

Spanish Audit Law 22/2015, of 20 July, amended Article 529 *quaterdecies* of the Spanish Capital Companies Act (LSC) relating to the Audit Committee and, accordingly, in December 2016, the Board of Directors amended Articles 15 and 16 of the Regulations of the Board of Directors regarding the composition, operation and the role and duties of the Audit Committee, which have been fully adapted to said Law.



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## 2.2 Structure and functions:

Article 23 of the By-laws and Articles 15 and 16 of the Regulations of the Board of Directors, regulate the structure, composition and duties and responsibilities of the Audit Committee.

The Audit Committee has been assigned, among other functions, the duty of providing support to the Board of Directors in the oversight of the drafting process of the Company's economic-financial information, the internal control and risk management systems, supervision of relationships with External Auditors, compliance with legal provisions and internal regulations, and relationship with the Company's shareholders, with regard to matters within its scope of competence.

The Committee meets on a regular basis in order to ensure the successful performance of its functions. In any case, it must meet at least quarterly, when called by the chairperson or requested by two of its members and, likewise, every time the Board of Directors or its chairperson requests a report be issued or that proposals be submitted.

Article 15.4 of the Regulations of the Board of Directors establishes that the notice of the meetings, with all documentation associated to the same, may be made by electronic means that guarantee the due security and confidentiality of the notice and relevant documentation.

Such notice, which shall include the agenda, shall be sent by the chairperson or secretary of the Committee to each one of its members at least three days prior to the date scheduled for the meeting, unless shorter notice is required due to urgency reasons.

Article 15.6 of the Regulations of the Board lays down the possibility that, due to reasons of urgency and in an exceptional manner, the Committee meetings may be held via conference call, videoconference or any other remote communication means which allow the meeting to be held, provided that all the members of the Committee give their consent.

The quorum of the Committee may be established with the attendance of the majority of its members and it may adopt decisions or recommendations by an absolute majority of the votes of the directors attending the meeting, either in person or by proxy, reflecting said decisions and recommendations in the minutes at the end of the meeting. In order to better comply with its duties and responsibilities, the Committee may obtain advice from independent professionals, and may access any type of information or documentation of the Company it needs to perform its functions.



### 2.3 Composition:

The composition of the Audit Committee is regulated in Article 23.1 of the Corporate By-laws and in Article 15 of the Regulations of the Board of Directors. The latter article provides that the Audit Committee shall be comprised of five members, drawn from among non-executive board directors, and the majority of its members shall be independent directors. The chairperson of the Committee shall be an independent director elected from among its members, and the secretary shall be the one of the Board of Directors.

The appointment and removal of Committee members shall be carried out by the Board of Directors at the proposal of the Board's Chairperson. The members of the Committee shall hold their position for a term of no more than three years, and may be re-elected, and shall be removed when removed as directors or when so resolved by the Board of Directors, following a report from the Appointments and Remuneration Committee. The Committee's Chairperson will be replaced every three years and may be re-elected after the lapse of one year since his/her removal.

The following changes in the composition of the Audit Committee have taken place during the year 2017:

- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 25 April 2017, resolved to appoint the Independent Director Mr. Arsenio Fernández de Mesa y Díaz del Río as a member of the Audit Committee of Red Eléctrica Corporación, S.A, for a period of three years as established in the Regulations of the Board, to fill the existing vacancy in the Audit Committee as a result of the removal of the Nominee Director Mr. Santiago Lanzuela Marina as a member of said Committee.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 31 October 2017, resolved to appoint the Independent Director Ms. Socorro Fernández Larrea as a member of the Audit Committee of Red Eléctrica Corporación, S.A, for a period of three years as established in the Regulations of the Board, to fill the existing vacancy in the Audit Committee as a result of the removal of the Independent Director Mr. José Luis Feito Higuera as a member of said Committee.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 31 October 2017, resolved to re-appoint the Independent Director Mr. Antonio Gómez Ciria as member of the Audit Committee of Red Eléctrica Corporación, S.A. for a period of three years as established in the Regulations of the Board, in accordance with the provisions of Article 23 of the Corporate By-laws and Article 15 of the Regulations of the Board of Directors.
- Likewise, the Audit Committee of the Company, at its session held on 20 November 2017, resolved to appoint the Independent Director Mr. Antonio Gómez Ciria as its Chairman for a term of three years, in accordance with the provisions of Article 23 of the Corporate By-laws and Article 15 of the Regulations of the Board of Directors.



The composition of the Committee, as at 31 December 2017, was the following:

Director	Position	Type of Director
Antonio Gómez Ciria	<i>Chairman</i>	External Independent
Fernando Fernández Méndez de Andés	<i>Member</i>	External Nominee (SEPI)
María José García Beato	<i>Member</i>	External Independent
Arsenio Fernández de Mesa y Díaz del Río	<i>Member</i>	External Independent
Socorro Fernández Larrea	<i>Member</i>	External Independent

The Directors on the Committee are highly qualified to hold their positions, with extensive professional experience, having held positions of the highest responsibility outside Red Eléctrica, performing duties and responsibilities related to those entrusted to the Committee. The members' professional profiles are noteworthy for their knowledge and expertise in accounting or audit matters, or both, which have been taken into account for their appointment, as provided for in Article 529 *quaterdecies* of the Spanish Capital Companies Act, and in Recommendation 39 of the Spanish Code of Good Governance of Listed Companies (CBGSC). Article 15.2 of the Regulations of the Board of Directors provides that in addition to considering the knowledge and expertise in matters of accounting and auditing, when appointing the members of the Audit Committee and, especially, its chairperson, his/her knowledge and expertise in matters of risk management will be taken into account. In addition, the Committee has incorporated an expert with extensive experience and knowledge in the field of comprehensive security, understood as physical security of people and facilities and cybersecurity, complementing the professional capacities and the knowledge of the directors that comprise the Committee.

Provided below is a brief summary of the professional career of its members, as at 31 December 2017, who have knowledge and expertise in accounting, auditing and/or risk management matters:

- *Mr. Antonio Gómez Ciria*, born on 25 March 1957, has a degree in Economics and Business Administration from the Complutense University of Madrid, a degree in Mathematics from the Complutense University of Madrid, a masters' degree in Business Administration and Management (Executive MBA) from IESE and is a Certified Chartered Accountant - AECA.

Currently, Member of the Advisory Board of the Registry of Economists Experts in Financial Accounting and Information (ECIF) of the General Council of the Spanish Association of Economists, and Member of the Board of Directors of Mapfre España Compañía de Seguros y Reaseguros S.A., Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros S.A. y Mapfre Re Compañía de Reaseguros S.A. and member of the Management Committee.

Formerly, among other positions, has served as: General Manager of Administration and Information Technology and member of the Management Committee of the FCC Group; Representative of the FCC Group at the Large-Scale Company Forum of the Ministry of



Finance and Public Administrations; General Manager for Internal Auditing and member of the Management Committee of the FCC Group; Manager of Internal Auditing of the FCC Group; Member of the Advisory Board of the Institute of Internal Auditors and Spokesman of the Management Committee; General Technical Secretary of InverCaixa (investment management company belonging to La Caixa Group); Chairman of ICAC (Spain's Accounting and Auditing Institute); Board Member of ENUSA (State-owned National Uranium Company); Board Member of ENA (State-owned National Highways Company); Board Member of Tabacalera, S.A.; Market Inspection Manager for Sociedad Rectora de la Bolsa de Valores de Madrid; Deputy Manager of Budget Planning and Studies for Radio Televisión Española; Manager of the Controlling and Accounting Department of Banco de Crédito Agrícola; Controller and Auditor for General State Intervention.

- *Mr. Fernando Fernández Méndez de Andés*, born on 10 February 1956, has a Doctorate in Economics and is a Professor of Economic Sciences at the IE Business School.

Currently, International consultant on macroeconomic, regulatory and financial matters; External adviser to the Strategy Committee of the Arcano Financial Group; Member of the Scientific Committee of Bruegel. Member of the Advisory Committee of FEF (Spanish Financial Studies Foundation); Habitual economic commentator and columnist in various media channels; Habitual speaker at international symposia and conferences connected with his professional and academic activity, and author of numerous articles and publications related to his professional and academic activity; Independent Director of Bankia, S.A.

Formerly, among other positions, has served as: Member of the Committee of Experts for Tax Reform, 2013-14; Member of the Evaluation Committee of Bruegel, 2013; Head Economist at the International Monetary Fund (IMF); Chief economist and Director of the Research Service of Banco Central Hispano (BCH) and Banco Santander; Rector of the Universidad Europea de Madrid and of the Universidad Antonio de Nebrija; Director of the European Business Programme.

- *Ms. María José García Beato*, born on 27 May 1965, has a Law Degree from the Universidad de Córdoba and is a Spanish State Attorney.

Currently, Vice-secretary of the Board of Directors of Banco Sabadell, S.A.; General Secretary and member of the Executive Committee of Banco Sabadell S.A.; Non-Director Secretary of the Board of Directors of Sabadell Consumer Finance S.A.U.; Trustee of the Fundació Privada Banc Sabadell; Trustee of the FEBEF (Spanish Banking Foundation for Financial Studies); Member of the Advisory Board of the Wolters Kluwer España, S.A. publishing house and Member of the Advisory Board of Fundación Cajasur.

Formerly, among other positions, has served as: State Attorney at the Madrid High Court; Head of the Legal Office at the Data Protection Agency; Spanish representative on the Advisory Committee of the European Council regarding data protection; Advisor to the Board of the Spanish National Mint for the CERES project (Spanish Certification of



Electronic Transactions); State Attorney at the Advisory Services Office of the Vice-Directorate for State Legal Services; State Attorney at the General Secretariat for Communications of the Ministry of Public Works; Director General of the Ministry of Justice Office. Has been a Board member of: Infoinvest S.A.; SEGIPSA (State-owned company for Heritage Real Estate Management); SEEI (State-owned company for International Exhibitions); Sociedad Estatal Correos y Telégrafos, S.A. (State-owned National Postal Service); Banco Guipuzcoano, S.A. and of Banco CAM, S.A. Additionally, has been Under-Secretary for Justice; State Attorney in the Legal Department at the National Court; Director of the Legal Department of Banco Sabadell; Secretary of the Board of Directors of Retevisión, S.A. and Banco Urquijo, S.A.; Director of the Board of Directors of Banco Gallego, S.A.; Secretary of the Board of Trustees of FEDEA (Foundation for the Study of Applied Economics); Secretary of the Board of Directors of Sabadell United Bank (Miami).

- *Mr. Arsenio Fernández de Mesa y Díaz del Río*, born on 20 July 1955. Is a Career Civil Servant since 1979 of the General State Administration, on leave of absence; Chief Technical Inspector of Vessels for International Marine Coatings, Ltd. (a multi-national company), from 1982 to 1989, currently on mandatory leave of absence; has a Master's degree in National Defence from the Rey Juan Carlos University, has a Diploma in 'Advanced Military Studies' from CESEDEN (the Higher Centre for National Defence Studies); Diploma in 'Advanced Defence Studies' from CESEDEN; Parliamentarians Executive Management Programme (EMBA) from the Instituto de Empresa (IE Business School); Parliamentary Business Programmes (INFORPRESS, IBERDROLA, INDRA). Is Honorary Professor of the University 'Alfonso X El Sabio' of the Royal Forum of Senior Management Professorship; Professor (Ad Honorem) of the International Institute of Political Sciences of the UNESCO Chair in Comparative Political and Administrative Science, attached to the Defence and Industry and Security Areas; Professor of the Society of International Studies, Course of Advanced International Studies from the Rey Juan Carlos University.

Formerly, among other positions, has served as: Director General of the Spanish Civil Guard (2011-2016); Scientific Adviser of the International Institute of Political Sciences (2010); Vice-President of the Parliamentary Defence Committee (2004-2011); Parliamentary Spokesperson for Defence (1996-2000); Advisory Minister for Public Administrations (2004); Delegate for the Government in Galicia (2000-2004); Member of Parliament, elected by the province of La Coruña, in 7 Legislatures (1989-2012), holding, among others, the positions of Spokesman for the Naval and Merchant Marine Sector, Vice-President of the Parliamentary Defence Committee, Parliamentary Spokesperson for Defence, President of the National Defence Committee, Member of the OSCE International Assembly and Member of the NATO Parliamentary Assembly; First Deputy Mayor of El Ferrol (1987-1989); Councillor for the Local Council of El Ferrol (1983-1991); Lecturer at conferences and seminars on Defence, Fisheries, Naval Sector, Merchant Marine, Security and the Civil Guard, in various universities and in all kinds of national and international forums, among others, EUROPOL, Centre des Hautes Études du Ministère de l'Intérieur de France CHEMI (Centre for Higher Studies of the French Ministry of the Interior, Paris) and the School of the Finance Guard (Italy).





- *Ms. Socorro Fernández Larrea*, born on 7 April 1965, has a Degree in Civil Engineering from the Universidad Politécnica de Madrid and holds an IESE Senior Management Programme (PADE) diploma.

Currently, Executive director of the consultancy firm JUSTNOW, S.L., an entity providing advice in the infrastructure construction sector, for both commercial and financial operations; Member of the Board of Directors of GRUPO CEMENTOS MOLINS. Member of the Board of Directors of the engineering company SEG, S.A.; Member of the Board of Directors of the Spanish construction and real estate development company ACR; Member of the IESE Madrid Chapter Board; Advisor of the Board of Directors of the Mexican engineering company CAL Y MAYOR; Member of the Advisory Board of the 'Expansión' newspaper; Member of WCD, Women Corporate Directors and Co-Chair of the Spanish chapter; Member of AED, Spanish Association of Directors, and member of its Management Board; Member of Consejo Empresarial de América Latina (Business Board of Latin America), and member of the Management Board for its Iberian chapter; Member of WPO-YPO, Young Presidents' Organisation, and member of the executive committee of the Eurolatam chapter; Member of the International Women's Forum.

Formerly, among other positions, has served as: Member of the Board of Directors of AMPER, S.A. as nominee director, representing the company Emilanteos, S.L.; General Manager at COPISA Constructora Pirenaica S.A.; Deputy Chairwoman of ANCI (Spanish Association of Independent Constructors); Member of the Governing Board of Colegio de Ingenieros de Caminos, Canales y Puertos (Spanish Association of Civil Engineers); Regional Director of the construction company Seop, Obras y Proyectos, S.L.; National representative of Ferrovial Conservación, S.A.; Representative in Castilla la Mancha for Ferrovial-Agroman, S.A.; Representative in Castilla La Mancha for Agroman Empresa Constructora, S.A.; Director General for Roads, Hydraulic Structures and Transport of the Department of Public Works of the Regional Government of Castilla la Mancha; Chief Project engineer for Ferrovial, S.A.

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

Throughout the year 2017, at the request of the Committee itself, the Committee's meetings have been regularly attended by Mr. Carlos Méndez-Trelles García, Manager of Internal Audit and Risk Control, and by Ms. Teresa Quirós Álvarez, Chief Financial Officer, to inform about different matters related to the areas within the Committee's scope of responsibility. Other persons belonging to the above areas and/or other corporate management areas have also taken part in the meetings, when called upon to do so by the Committee, in order to inform about matters within the scope of responsibility of their areas.

In the year 2017, regarding the review of the Annual Accounts of the Company and its Group for the year 2016, the external auditor for the Company and its Group explained to the Committee the audit processes carried out in the Group. The Committee resolved to give a favourable opinion with regard to the Annual Accounts for the year 2016. Likewise, the Committee has met several times with the external auditor to analyse matters within its scope of responsibilities.



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### 3. Activities carried out during the year 2017

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On 15 December 2016, the Audit Committee approved its Annual Action Plan for the year 2017, considering the responsibilities attributed to the same in the Corporate By-laws and in the Regulations of the Board of Directors.

The Audit Committee has informed the Board of Directors about its activities in the meetings of the latter immediately following each meeting of the Committee, and has made available to all the directors, through the Company's 'Directors Portal' intranet, the documentation for the meetings and copy of the minutes of the same.

The Audit Committee has met eleven (11) times during the year 2017, informing the Board of Directors the same number of times about the activities performed by the Committee.

The main tasks that the Committee has carried out during the year 2017 have been the following:

#### 3.1 Regarding economic-financial information:

- Review and favourable report of the Annual Accounts for the year 2016 of the Company and its Consolidated Group, and Report by the external auditor.
- Analysis of the external legal report on the tax criteria for the settlement of Corporate Tax for the year 2016.
- Analysis of the closing forecast for the year 2016 of the Red Eléctrica Group, as well as the approval of the accounting and tax criteria adopted to carry out the same.
- Analysis and approval of the Annual Report on Tax Transparency for the year 2016.
- Analysis of proposed allocation of profits and distribution of dividends of Red Eléctrica Corporación, S.A. for the year 2016 and issuing of favourable report.
- Analysis of the biannual and annual financial information for the market supervisory bodies and issuance of favourable report.
- Analysis and favourable report of the monthly Economic-Financial Reports.
- Review and favourable approval of the subsections of the company's Annual Corporate Governance Report for the year 2016, within the scope of the Committee's responsibilities.
- Follow-up of the monthly reports on treasury stock.
- Follow-up of the quarterly reports on related party transactions
- Analysis and favourable report regarding the renewal of the Annual Euro Commercial Paper (ECP) Programme.
- Analysis of the proposal to renew the Annual plan for Euro Medium Term Notes (EMTN) and submission of favourable report to the Board.



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- Analysis of the external auditor's report on the consolidated financial statements for the first half of 2017.
  - Approval of the schedule for the economic closing of the year 2017.
  - Analysis of the proposed distribution of interim dividends for the year 2017 and submission of the favourable report to the Board.
  - Analysis and favourable report by the Board of Directors of the Red Eléctrica's Budget for the year 2018.
  - Analysis and favourable report of the proposal for the novation and amendment of the syndicated loan of Red Eléctrica de España.
  - Analysis and favourable report for the adaptation of the syndicated loan to sustainability criteria.
  - Monitoring of the guidelines of the Annual Control Plan of the AEAT (Spanish Tax Authority) for 2017, as well as the main implications for Red Eléctrica.
  - Approval of the "Country-by-Country" tax declaration that must be submitted to the AEAT.
  - Analysis of the report on the bond issue carried out in 2017.
  - Analysis and favourable report of the tender proposal in the Integrated System of the Norte Grande (SING) of Chile.
  - Analysis and favourable report of the proposal to participate in the tender process of various projects in Peru.

### **3.2 Regarding the internal control and risk management systems:**

- Analysis of the follow-up report of the Action Plan for the Comprehensive Risk Management System in the year 2016.
- Analysis of the report on the Internal Control over Financial Reporting (ICFR) System for the year 2016.
- Analysis of the report prepared by the external auditor, KPMG, regarding the audit of the Internal Control over Financial Reporting (ICFR) System for the year 2016.
- Analysis of the update to the Company's Risk Map, as at 31 December 2016.
- Analysis of the Annual Report on the Supervisory and Control Body of the Prevention Programme for the year 2016.
- Analysis of the Report on the status of the Criminal Risk Prevention Programme for the first semester of the year 2017.
- Analysis of the Report on the review of the status of the high-level risks of the Comprehensive Risk Management System.



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- Analysis of the evolution of Key Risk Indicators (KRIs)
  - Approval of the Annual Action Plan for the Comprehensive Risk Management System for the year 2018.
  - Analysis of the action plan on improvement opportunities detected in an external audit conducted on the Comprehensive Risk Management System.

### **3.3 Regarding the internal audit function:**

- Analysis of the report on internal audits carried out in the year 2016 and the results of each of such audits.
- Analysis of the report on compliance with the 2016 Internal Audit Plan.
- Analysis of quarterly reports of internal audits performed.
- Analysis of the Internal Audit Report on the Internal Control over Financial Reporting (ICFR) System.
- Analysis of the quarterly reports on compliance with the Internal Audit recommendations.
- Approval of the budget, means and resources of the Internal Audit department for the year 2018.
- Approval of the Annual Internal Audit Plan for the year 2018.
- Review of the report of the Institute of Internal Auditors of Spain on the Assessment of the Quality of the Internal Audit function of REE.
- Review and favourable proposal of the project to update the Internal Audit Regulations.
- Analysis of the report on the results of the internal audits of the certified and accredited Management Systems of the Red Eléctrica Group, prepared by the Sustainability and Innovation Area.

### **3.4 Regarding the external auditors:**

- Analysis of the reports by the external auditor regarding the annual accounts for the year 2016 and the external audit preliminary report for the year 2017.
- Analysis of the report on the independence of the external auditor issued by KPMG Auditores, S.L., and issuing of a report regarding such independence, pursuant to that laid down in Recommendation no. 6 of the Spanish Code of Good Governance of Listed Companies
- Analysis of the status report on the external auditor.
- Review of the policy for the engagement of the external auditor for services other than auditing, and analysis of additional services engaged in the year 2016 and those forecasted for 2017.



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- Analysis of the audit plan and strategy for the year 2017, presented by the External Auditor.
  - Analysis of the External Audit Report on the certified Management Systems.

### **3.5 Regarding compliance with the legal provisions and internal rules**

- Analysis of the Follow-up Report on Internal Rules.
- Analysis of the report on the annual assessment of compliance with the Internal Regulations for Conduct in the Securities Market.
- Review of the monthly reports and the Annual Report on Occupational Health and Safety for the year 2016.
- Analysis of the Annual Report on the Management of the Code of Ethics for the year 2016.
- Analysis of the proposal to update the Regulations of the Board of Directors within the scope of the Audit Committee's responsibilities.
- Analysis and favourable report of the proposal to adapt the Internal Regulations for Conduct in the Securities Market to the European Regulation on Market Abuse, with the support of an external legal advisor.

### **3.6 Regarding the company's shareholders:**

- Analysis of the Board's proposed resolutions for the Annual General Shareholders' Meeting on matters within their scope of responsibility.
- Follow-up of potential initiatives, suggestions and grievances raised by the shareholders throughout the year. During the year 2017 no initiatives, grievances or suggestions have been received from the company's shareholders.
- The Committee has been informed about the external audit of the management procedures of the Ordinary General Shareholders' Meeting.

### **3.7 Other activities:**

- Approval of the Audit Committee's Activity Report for the year 2016, to be incorporated into the company's Annual Corporate Governance Report for said year.
- Analysis of the report on the 2016/2017 Corporate Insurance Programme of the Red Eléctrica Group.
- Analysis of the content of the Annual Healthy Workplace Report for the year 2016.
- Approval of the Committee's Action Plan for the year 2018.
- Approval of the Committee's meeting schedule for the year 2018.



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#### 4. Director attendance at meetings

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The Audit Committee held eleven (11) sessions during the year 2017, informing the Board of Directors the same number of times about the activities performed by the Committee. During said sessions one (1) absence and one (1) attendance by proxy were recorded, therefore the number of attendances was 53, which corresponds to a percentage of 96.4%.

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#### 5. Review of the annual accounts for the year 2017

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At this meeting, in which the Committee's annual activity report for the year 2017 has been approved, the Audit Committee has proceeded, in connection with the financial year 2017, to:

- Oversight of the Annual Accounts for the year 2017 of the company and its Consolidated Group and the External Auditor's Report.
- Analyse the relevant proposals for the allocation of profits and distribution of dividends in Red Eléctrica Corporación, S.A.

As usual, the external auditor of the company and its Group for the mentioned year, KPMG, has attended to offer the Committee the appropriate clarifications and explanations.

In both cases, the Committee has issued a favourable report on such proposals.

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#### 6. Assessment of compliance with the principles and recommendations laid down by the CNMV (Technical Guide 3/2017)

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On 27 June 2017, the Spanish Securities Market Commission (CNMV) approved the Technical Guide 3/2017 on Audit Commissions at Public-Interest Entities, under the provisions of Articles 21.3 and 21.4 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015, of 23 October.

The purpose of the aforementioned Technical Guide is to provide guidance on the functioning of the audit committees and sets out a series of recommendations for the companies concerned and that the CNMV will take into account in its supervisory role.

The Company's continued commitment to applying the best international corporate governance practices has allowed it to comply in advance with the recommendations of the Technical Guide 3/2017, as explained in the Company's Annual Corporate Governance Report.

In accordance with the recommendations of the Technical Guide 3/2017, the following is noteworthy in relation to the Company's Audit Committee:

- a) The regulations of the structure, composition and functions of the Audit Committee, as explained above, is regulated in Article 23 of the Company By-laws and is developed in Articles 15 and 16 of the Regulations of the Board of Directors, which stipulates, among other aspects, the composition, the requirements for the appointment of its members, the operating rules, the responsibilities and functions assigned, the means with which shall be made available to it, the rules on the relationship of the Committee with the Board of Directors and the shareholders,



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the rules on communication with the External Auditor and the internal auditor, the assessments carried out by the Committee and the reports that it is entrusted to draft and issue. As a guarantee of legal security, it is considered more appropriate that the operating regulations of the Audit Committee be contained in the Regulations of the Board of Directors, published on the corporate website and filed with the Commercial Register.

b) The independence of the Committee is promoted, hence:

i. It is comprised exclusively of external directors and both the chairperson and the majority of its members are independent directors.

ii. The remuneration of the Committee members responds to the principle of moderation and is linked to the Committee's responsibility, so as to not compromise its independence and impartiality.

iii. In addition, neither the Chairman of the Board of Directors nor the Chief Executive Officer participate in the Committee's meetings.

iv. Directors of the management team who attend the Committee, do so when called upon by the Committee and only attend in relation to the points of the agenda within their scope of responsibility of their areas.

c) In order to ensure full independence of the External Auditor, the corresponding Articles of the By-laws and the Regulations of the Board of Directors were adapted to the reform of the Capital Companies Law that regulated this matter.

d) Continuous dialogue is maintained with the various stakeholders related to the scope of responsibility of the Committee. In addition, the diversity of opinions within the Committee is promoted so that each member of the Committee can act according to their personal criteria.

e) The members of the Committee have considerable experience in management, economic, financial and business areas. On the other hand, due to the growing importance of digitalisation and virtual processes, in 2017 a board member with extensive experience and knowledge in aspects of comprehensive security has joined the Committee.

f) It is committed to a diverse composition regarding gender, professional experience, competence and sector-specific knowledge. In 2017, a female board member with extensive experience and knowledge in the infrastructure sector was incorporated.

g) The Committee has an Annual Action Plan and meets monthly and promptly reviews and analyses the aspects related to: economic-financial and non-financial information; internal control and risk management systems; compliance with the legal provisions and internal regulations, and information related to Occupational Health and Safety.

h) An annual self-assessment process of the performance of the Committee is carried out, with external support, within the framework of the annual self-assessment process of the Board of Directors.

i) There is a 'Welcome Programme' for new members of the Committee, within the framework of the Annual Welcome Plan for new board directors, called the Induction Plan.



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j) There is an 'Annual Knowledge Programme' for Board directors, which is updated annually and carried out every year.

k) The Red Eléctrica Group has various mechanisms in place to prevent illicit operations, money laundering and the concealment of assets. These include the Code of Ethics, the Supplier Code of Conduct, the Prevention of Criminal Risks Programme and the 'Guide for the Prevention of Corruption: Zero Tolerance', which are available to employees, suppliers and to all stakeholders through the corporate website.

As a result of compliance with external and internal regulations and the commitment to best practices, the Company has received a series of external recognitions during 2017, noteworthy among which is its designation as World and European Leader in the electric utilities sector and the utilities supersector in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index, or the renewal of the European Seal of Excellence 500+ according to the EFQM model (European Foundation for Quality Management), with an overall score of 718 points.