



**RED ELÉCTRICA**  
CORPORACIÓN

**Annual Corporate Governance Report 2015**

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# ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A.

## 2015<sup>1</sup> FINANCIAL YEAR

### TITLE I – LEGAL FRAMEWORK APPLICABLE TO RED ELÉCTRICA

#### CHAPTER I.- EXTERNAL FRAMEWORK

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

The amendment to the regulatory framework in this area, approved in 2011, reaffirmed the obligation of companies both to approve an Annual Corporate Governance Report (art. 61 *bis* of the Securities Market Act, introduced by the fifth final provision of Act 2/2011, of 4 March, on Sustainable Economy) and to incorporate the Annual Corporate Governance Report into the Management Report, in a separate section (art. 538 of the Spanish Corporate Enterprises Act, the "LSC"), approved by Royal Legislative Decree 1/2010 of 2 July, as amended by Act 25/2011 of 1 August).

Act 31/2014, of 3 December, amending the LSC to improve corporate governance, added a new article (art. 540 LSC), specifying the minimum content of the Annual Corporate Governance Report, previously established in art. 61 *bis* of the LMV, which was expressly repealed as a result of said Act. Following the amendment, the Annual Corporate Governance Report must include information on any measures adopted to ensure that the Board of Directors includes a sufficient number of female members to maintain a balance between men and women, as well as any measures agreed upon by the Appointments and Remuneration Committee. Furthermore, a reference is made to tax risks in risk control systems. Art. 540 LSC provides that the content and structure of the Annual Corporate Governance Report will be determined by the Ministry of Economy and Competitiveness, or by the CNMV, if expressly authorized.

Accordingly, on 30 December 2015 the Official State Gazette (BOE) published CNMV Circular 7/2015 of 22 December, amending Circular 5/2013 of 12 June establishing the standard forms for the Annual Corporate Governance Report of public companies, savings banks and other entities that issue securities which are traded on official securities markets, and CNMV Circular 4/2013 of 12 June establishing the standard forms for the annual report on the remuneration of the directors of public companies and the members of the Boards of Directors and Control Committees of savings banks that issue securities which are traded on official securities markets.

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<sup>1</sup> Unless another date is expressly indicated in this report, the reference date is 31 December 2015.

CNMV Circular 7/2015 answers the need to amend the standard form for the Annual Corporate Governance Report as a result of the approval of Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and the Code of Good Governance of Listed Companies (CGGLC), approved by resolution of the Board of the CNMV on 18 February 2015.

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

- Some sections that referred to old recommendations of the Unified Code which have become binding rules following the entry into force of Act 31/2014 of 3 December have been eliminated.
- Some sections have been amended to include the new requirements of Act 31/2014 of 3 December, notably the inclusion of information on the various committees the entity has created (Section C.2), the inclusion of certain information on the Board of Directors assessment process (Section C.1.20 *bis* and the inclusion of tax risks (Section E).
- The new recommendations of the CGGLC have been included in section G (“Degree of compliance with corporate governance recommendations”).

The changes made by CNMV Circular 7/2015 of 22 December are included in the Official Annex to this Annual Corporate Governance Report, which has been completed in accordance with the abovementioned standard form.

At the same time, the legal framework affecting various corporate governance aspects of Spanish joint stock companies has undergone relevant changes over the last year, particularly as a result of the entry into force of said Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. This Act prompted a review of the company’s basic corporate rules, in order to adapt to the new law, which was carried out in 2015.

The review of the recommendations included in the Unified Code on Good Corporate Governance carried out by the Committee of Experts led by the CNMV led to the approval of the CGGLC, which was approved by resolution of the Board of the CNMV on 18 February 2015.

The activity of the Committee of Experts in corporate governance matters consisted of identifying, on the one hand, the legal obligations stated in the recent LSC, as amended by Act 31/2014 of 3 December and, on the other, the voluntary recommendations contained in the CGGLC, which are subject to the “comply or explain” principle.

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

The main changes are:

- a) The principles that give rise to the recommendations are identified.
- b) Old recommendations that have already been incorporated into law have been removed.

c) Specific recommendations on corporate social responsibility have been added.

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

## **CHAPTER II.- INTERNAL FRAMEWORK**

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

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

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

### **➤ Corporate By-laws**

The company's By-laws are constantly being adapted, so as to align them not only with legislation but also with best practices and principles in the corporate governance area, and have been repeatedly amended by the company's Annual General Meeting.

The Annual General Meeting held on 15 April 2015 approved an amendment to the By-laws to adapt them to the latest legislative reforms introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. Specifically, the following articles were amended: 11 "General Meeting", 12 "Types of General Meeting", 13 "Notice of General Meeting", 15 "Right of information and attendance at General Meetings", 17 "Constitution of the presiding committee, manner of deliberation", 20 "The Board of Directors", 21 "Functioning of the Board of Directors", 22 "Board committees and delegation of authority", 23 "The Audit Committee", 24 "The Corporate Responsibility and Governance Committee.", 25 "The Company Chairman", 25 bis "The Independent Lead Director" and 26 "The Secretary of the Board".

## ➤ **Annual General Meeting of Shareholders Regulations**

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

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

As in the case of the By-laws, the Annual General Meeting held on 15 April 2015 approved an amendment to the Annual General Meeting of Shareholders Regulations, aimed at adapting them to the latest legislative reforms introduced by Act 31/2014 of 3 December and other amendments of style or order designed to give greater clarity to the text of the Annual General Meeting of Shareholders Regulations. Specifically, the following articles were amended: 3 (“Competencies of the General Meeting”), 5 (“Notice of General Meeting”), 6 (“Shareholder’s rights”), 7 (“Shareholder’s right to participate”), 8 (“Shareholder’s right to information”), 10 (“Proxies”) and 15 (“Constitution, deliberation and adoption of resolutions”).

## ➤ **Board of Directors Regulations**

As indicated in art. 22 of the By-laws, the main purpose of the Board of Directors Regulations is to establish the basic rules for the organization and functioning of the Board of Directors and its committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its committees, with a view to ensuring the highest standards of professionalism and efficacy in their actions. This is achieved by encouraging the active participation of its directors, placing the interests of the company and its shareholders above the directors’ own personal interests, while upholding the law, the By-laws and corporate governance principles.

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

The Board considered the adoption of measures to counterbalance the concentration of power in the hands of the CEO and Chairman of the company’s Board of Directors and other measures such as specific provisions enabling the splitting of the positions of CEO and Chairman and the express reservation to the Board of Directors of certain powers and responsibilities which, for reasons of urgency, had previously been entrusted to the Board’s chairman. Another novelty was the formalization of certain practices that had been previously conducted in the company, such as an annual assessment of the Board of Directors, its committees and Chairman, by an independent expert. As a novelty, the composition of Board committees was adapted to investor requirements, strengthening their impartiality, by demanding a majority of independent directors, and the principle of transparency was gathered in relation to the remuneration policy applied to the Board and Senior Management, including new components and remuneration structures recently recommended by investors and proxy advisors.

Like the By-laws and the General Meeting Regulations, the Board of Directors Regulations are currently under review, mainly with a view to adapting them to Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and to the

extent the Board of Directors considers it pertinent, to the new corporate governance recommendations included in the new CGGLC.

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

➤ **Company Chairman Succession Plan.**

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

It was possible to apply this plan for the first time in 2012, when Mr. Luis Atienza Serna stepped down as Executive Chairman of the company, in favour of Mr. José Folgado Blanco, who had already been sitting on the Board of Directors as an independent director since 2008, which facilitated the handover to the new chairman, whose independent judgement, knowledge of the company and the industry, as well as his prior experience, leadership and capacity for dialogue with the energy regulator, were notable qualities.

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

➤ **Internal Code of Conduct in the Securities Market.**

This code of conduct was approved by the Board of Directors on 25 June 2009. At a meeting held on 30 June 2011 the Board of Directors approved an update to the code in order to adapt the Internal Code of Conduct in the Securities Market to the new corporate structure of the group, and to record the change of name of what used to be known as the Corporate Responsibility and Governance Committee. At its meeting on 26 July 2012, the Board of Directors approved a further change to the Internal Code of Conduct in the Securities Market in order to expressly set out certain periods prior to the presentation of the group's results during which certain persons with access to information on these results are prohibited from trading in the company's securities. Finally, on 24 June 2014, the Board of Directors approved another update of the code, basically to adjust it to best practices in treasury stock

matters, with particular emphasis on the CNMV's recommendations issued in July 2013 regarding volume, pricing and trading time. The code will be updated, as necessary, in line with the latest changes in the law, the LSC and the new CGGLC.

➤ **Code of Ethics.**

The purpose of the Code of Ethics of the Red Eléctrica Group is to provide an ethics guide for the people who work in Red Eléctrica Group companies, determining the values and commitments that must govern their activity in their company.

Many of these values and commitments have accompanied Red Eléctrica since 1987, when it published its first shared value system, under the title "Basic principles of action". In 2007, Red Eléctrica's ethical commitment was reinforced with the approval of the "Code of Ethics and Corporate Values", the implementation of the ethical consultation and reporting channel and the creation of the Ethics Officer.

The current version of the Red Eléctrica Group's Code of Ethics was approved by the Board of Directors of the group's parent company on 28 May 2013, responding to the demands of stakeholders and the recommendations of advocacy bodies, notably the United Nations Organization, the European Union, the Organization for Economic Cooperation and Development and international bodies such as Transparency International and Fundación Étnor. The latest amendments are intended to take account of the accumulated experience since the original Code of Ethics came into force, adjust the scope and content of the code and adapt the ethics management system to the latest changes in the law.

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

It applies to group companies, that is to say, subsidiaries, regardless of their geographical location or the countries in which they happen to be carrying out their activities, providing professional services or engaging in any other activity related to the group.

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

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

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

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

As a consequence of Red Eléctrica's commitment to prohibit all forms of corruption, bribery and facilitating payments, on 22 December 2015 the parent company's Board of Directors approved the "Guide for the prevention of corruption: zero tolerance", as a key element of the Red Eléctrica Group's model of integrity. This initiative was included in the company's 2015 Corporate Responsibility Programme. Its goal is to provide guidance on the prevention of corruption for all Red Eléctrica Group professionals, setting out the commitments and action criteria that must govern their professional activity within the group. Its purpose is to give the members of the Red Eléctrica Group an analysis of the circumstances and risks they face in relation to corruption and to build awareness of the criteria and instruments the company has at its disposal for managing those risks.

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

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

#### ➤ **Corporate Governance Policy.**

The Board of Directors, at its meeting held on 25 November 2014, approved the company's Corporate Governance Policy. The policy provides that its foundations are the corporate values governing its relationship with various stakeholders, helping achieve the company's strategies and sustainably maximizing its value. These values are reflected in the principles governing the group's Corporate Governance Policy. Briefly, the policy describes the catalogue of principles evidencing not only the company's compliance with applicable regulations, but also its alignment with national and international recommendations and trends in corporate governance matters, which the company has been voluntarily undertaking since it was listed on the stock market in 1999. These principles included are

expected to remain in the long term in the organization, given that without prejudice to their continuous update along with future commitments, they constitute the corporate governance culture of Red Eléctrica. The Corporate Governance Policy is intended to align the interests of the company with those of its shareholders and other stakeholders by protecting and promoting a value shared by all, incorporating economic, social, environmental and good governance criteria, thereby contributing not only to the company's sustainability, solvency and good reputation among its shareholders and other stakeholders, but also reinforcing trust, stability, progress and the social and economic development of society

Title II below provides a detailed description of the principles and practices included in the company's Corporate Governance Policy. This policy is available on the corporate website, under Corporate Governance, "Our Commitment".

➤ **The procedure for remote voting and proxy appointment and the provision of information by electronic means at the Annual General Meeting of Shareholders**

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

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

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

Again, considering that it was an Extraordinary Meeting, the results were satisfactory, given that 71 shareholders, holding 21,235 shares, exercised their right to vote or appoint a proxy electronically. This means that 4.2% of the 1,710 shareholders present in person or by proxy at the meeting participated in the meeting by electronic means.

➤ **Operating Rules of the Shareholder E-Forum.**

The Operating Rules of the Shareholder E-Forum were approved by the Board of Directors at its meeting on 10 March 2015 for the Annual General Meeting held on 15 April 2015, and at its meeting on 12 June 2015 for the Extraordinary General Meeting held on 17 July 2015, in both cases on the same terms and conditions (subject to minor formal adjustments) as were approved by the Board of Directors in previous years.

The Shareholder E-Forum deployed by Red Eléctrica on its website ([www.ree.es](http://www.ree.es)) on the occasion of its General Meetings responds to the requirement established in the last paragraph of art. 117.2 of the Securities Market Act, introduced by Act 12/2010 of 30 June and art. 539.2 of the revised text of the LSC, approved by Royal Legislative Decree 1/2010 of 2 July, which has not been amended by Act 31/2014, reforming the LSC.

The Shareholder E-Forum aims to facilitate communication between the company's shareholders (individual shareholders, be they natural or legal persons, and any voluntary shareholder associations) on the occasion of the company's General Meetings. Shareholders have the possibility of sending, for publication on the Forum, communications in accordance with the law, together with their contact details, thereby enabling the shareholders to communicate with each other.

## **TITLE II- MAIN CORPORATE GOVERNANCE ASPECTS, PRINCIPLES AND PRACTICES AT RED ELÉCTRICA.**

### **CHAPTER I.- RED ELÉCTRICA'S PRINCIPLES AND PRACTICES IN CORPORATE GOVERNANCE MATTERS**

- **Corporate governance principles: The Corporate Governance Policy.**

The Board of Directors meeting held on 25 November 2014 approved Red Eléctrica's Corporate Governance Policy. Red Eléctrica's Corporate Governance Policy states the principles that must govern its relations with stakeholders. Those principles are as follows:

- To consolidate, develop and promote symmetrical mechanisms for dialogue and commitment with shareholders, investors and leading stakeholders in order to improve relations, strengthen commitment and reinforce their trust.
- To promote the informed participation of company shareholders at Annual General Meetings of Shareholders.
- To adopt the necessary measures guaranteeing the adequate exercise of shareholder rights at General Meetings.
- To exert the necessary control and supervision in the company's most critical and relevant areas, with the Board of Directors directly undertaking responsibilities, as non-delegable powers under the Board Regulations.
- To preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and impartiality, pursuing the interest of the company and its shareholders, as well as the company's sustainability.
- To ensure that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity among Board members when performing their task.
- To consolidate its commitment with diverse knowledge, experience and gender in Board and Committee composition.
- To establish adequate mechanisms to define the duties and responsibilities of directors, and to disclose and resolve any potential conflicts of interest between directors and the company.
- To consolidate a remuneration policy for the Board of Directors, based on moderation, effective dedication and alignment with long-term strategies and interests of the company and its shareholders.

- To consolidate the practice of presenting to the Annual General Meeting of Shareholders, for approval, a remuneration policy, annual remuneration and annual remuneration report for the Board of Directors.
  - To guarantee quality and efficiency in operation and performance of the Board of Directors, Chairman of the Board and the company's CEO and Board committees, through an annual assessment, ensuring that support and assistance is received from independent external advisors.
  - To arrange continuous training for directors in various fields and activities of the company, through an annual training and information plan.
  - To guarantee an orderly succession of the company's CEO, guaranteeing continuity and sustainability in the company.
  - To establish the necessary mechanisms and instruments to ensure that the company identifies, analyzes and adopts, as necessary, the best practices, principles and recommendations in good corporate governance matters, following the principle of excellence in its actions, adopted by the company.
  - To guarantee transparency and utmost quality in information, in such a way that the company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders.
  - To review, update and improve, on a permanent basis and further to international standards, the content and structure of the corporate website.
  - To encourage awareness of the principles and values behind the company's Corporate Governance Policy, both internally within the organization and externally among all stakeholders.
- **Red Eléctrica's main corporate governance practices.**

One of Red Eléctrica's main challenges is to implement the corporate governance practices demanded by its shareholders, in Spain and worldwide, proxy advisors and other bodies, both international (such as the OECD and the International Corporate Governance Network) and national (CGGLC).

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

Following the latest recommendations established by the International Integrated Reporting Council (IIRC), below is a summary of the best practices followed by the company in relation to its Corporate Governance Policy principles, without prejudice to the relevant section (TITLE IV) describing, among other issues, some of the commitments contained in this policy, as part of Red Eléctrica's roadmap on the matter.

-In relation to the company's shareholders:

- Engagement.

Further to the principle of consolidating, developing and encouraging symmetrical mechanisms for dialogue and engagement with shareholders and investors, Red Eléctrica

tries to fulfil the needs of foreign institutional shareholders, given their large presence in the company's shareholding, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relations, increase commitment and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by other shareholders.

- Annual General Meeting of Shareholders.

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

Furthermore, in relation to the principle of guaranteeing the adequate exercise of shareholder rights at General Meetings, the company implements mechanisms and adopts measures to enable the performance of tasks and competences entrusted at all times, by law and best corporate governance practices, to the Annual General Meeting of Shareholders.

#### -Regarding the Board of Directors and its committees:

- Basic tasks and operation of the Board.

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

-To approve the basic action guidelines and general policies and strategies of the company and its group, to include the strategic or business plan of the company and its group, its investment and financing policy, corporate governance policy, corporate responsibility policy, remuneration policy and assessment of senior executive performance.

-Likewise, to approve a policy to control and manage the main risks of the company and its group, periodically supervising all internal control, prevention and information systems.

-To effectively supervise the management team.

In order to perform its direct responsibilities, and other tasks and responsibilities, the Board of Directors ordinarily convenes once a month and, at least, once a quarter. Furthermore, at the Chairman's request, it may meet as many times this is deemed appropriate for the company's adequate operation.

Likewise, it will meet whenever this is requested by the lead independent director or three directors.

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

- Balance of powers in the structure and composition of the Board of Directors.

The Board carries out its tasks further to the principle of action with unity of purpose and impartiality, pursuing the interest of the company and of its shareholders, as well as sustainability of the company. To do this, it preserves an adequate balance and proportionality in the powers entrusted to Board members.

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

The principle of effective majority of independent directors on the committees, derived from the principle of majority independent directors on the Board, is applied to all Board

committees irrespective of legal or regulatory name and typology. Furthermore, each committee is chaired by an independent director and all the members are non-executive directors.

The structure of Red Eléctrica's Board of Directors includes a lead independent director, approved by the Annual General Meeting of Shareholders and regulated in its corporate rules, who is entrusted with organizing possible common positions adopted by independent directors and who acts as a channel for interlocution or as a spokesman of such common positions before the Board Chairman, the Board itself and its committees. The tasks entrusted to the lead independent director include the power to call Board of Directors meetings, for duly justified reasons, if this request has not been fulfilled by the Board Chairman.

Under the Board Regulations, the Board of Directors has a wide range of reserved responsibilities that cannot be delegated and there is a commitment to permanently examine other possible additional measures to ensure a proper balance of powers and responsibilities on the Board. (This applies particularly when the positions of Chairman of the Board and CEO are held by the same person, although in 2015 the shareholders in Extraordinary General Meeting voted to commence a process of splitting of the two positions).

- Appointment of directors.

Red Eléctrica applies the principle of ensuring that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks. To do this, when assessing the candidates participating in the selection process, the procedure will take into account any competences, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at all times, and the Appointments and Remuneration Committee plays a relevant role in the process.

- Directors' responsibilities.

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

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

- Conflicts of interest.

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

- Remuneration policy of the Board of Directors.

The company applies the principle of maintaining a remuneration policy for the Board of Directors based on moderation, effective dedication, alignment with the long-term strategies

and interests of the company and its shareholders and other stakeholders, to act as an incentive while not affecting a director's impartiality in terms of amount. Consequently, it makes comparative analyzes with other comparable companies and keeps permanent contact with its shareholders and proxy advisors.

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

- Diversity on the Board of Directors.

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

- Assessment of the Board of Directors.

For many years Red Eléctrica has applied the principle of conducting an annual assessment of the functioning and performance of the Board of Directors, the Chairman of the Board and CEO and the Board committees, ensuring that support is received from independent external advisors (as has been the case in the last three years). The process is carried out under the supervision of the Appointments and Remuneration Committee, in coordination with the lead independent director, and a summary of the conclusions is published voluntarily in this Report.

- Directors' training and information plan.

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

- CEO succession plan.

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

- Secretary of the Board of Directors.

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

governance matters, allowing the company to monitor developments in best practices and adequately disseminate them among its stakeholders.

-Regarding the principles of informative transparency and dissemination of corporate governance policy:

The starting point is the principle of guaranteeing transparency and utmost quality in information, in such a way that the company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders, undertaking a commitment to encourage awareness of Corporate Governance Policy principles and values.

Further to the principle establishing a commitment to review, update and permanently improve the content and structure of the corporate website, international standards are taken into account in order to include the most relevant information for its stakeholders, improving accessibility, operation and the quality of information.

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

Some of the foregoing practices, set out in the Corporate Governance Policy, are described below as they relate to shareholders, the Board of Directors and its committees, and relations with the external auditor, with a special section on the process of splitting positions submitted for approval by the Extraordinary General Meeting in July 2015.

- **Relations with shareholders and institutional investors.**

Over the last few years, Red Eléctrica has significantly progressed in transparency and good governance matters. Good governance requires that its stakeholders have regular and prompt access to relevant, sufficient and reliable information, both in relation to the rules and governance of the company, and the results reached.

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

The best practices followed in 2015 in corporate governance matters, focusing on shareholder dialogue and commitment, are described below:

- Update and continuous improvement, under international standards, of the information contained on the corporate website in relation to corporate governance.
- Participation in international corporate governance forums and initiatives (International Corporate Governance Network, Institute of Directors, Spanish Issuers, etc.).
- Roadshows with foreign shareholders and proxy advisors on corporate governance.
- International external advice in corporate governance matters.

- Self-assessment of the Board, with specialized external support.

Since 2013, the company has steadily consolidated its position as a member of the world organization for corporate governance, the International Corporate Governance Network, which brings together foreign institutional investors, large corporations, regulators, academics, proxy advisors and other corporate governance specialists.

The company's relations with its shareholders and institutional investors are generic, not particularly or specifically held with any of these.

The company also ordinarily arranges roadshows presented by the company's top-line managers, on leading financial markets in Spain and abroad, with a larger presence of institutional investors, in order to provide information on its activities and business development, trying to thus approach this specific group of investors.

In light of the high percentage of foreign institutional shareholders (close to 70%), in January 2015 and 2016, as in previous years, the company launched a programme of visits to investors and proxy advisors in order to gather relevant and up-to-date information and also to directly explain the company's practices and actions in corporate governance matters. The aim is to consolidate adequate mechanisms for regular exchange of information with national and foreign institutional investors and the most prominent proxy advisors, thereby adjusting to the latest international standards in corporate governance.

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

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

- **The process of splitting positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) of the company.**

At its meeting on 12 June 2015, at the proposal of its Chairman, the company's Board of Directors approved the "Report on the process of splitting positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) of the company", which assesses the benefits of this organizational model for Red Eléctrica and its shareholders, with a view to improving the company's existing corporate governance structure. The Extraordinary General Meeting held on 17 July 2015 analyzed the process and, in order to put it into effect, agreed to increase the number of directors by one (setting the total at twelve) and appointed Mr. Juan Francisco Lasala Bernad as an executive director of the company. At its meeting on 28 July 2015, the Board of Directors appointed the new executive director to be Chief Executive Officer of the company.

The reasons that led the Board of Directors to approve the splitting of positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) are as follows:

- The company had been taking steps and implementing new measures in its corporate governance structure since 2012 and, in 2015, considered that the time had come to define and implement a clear, transparent process for transitioning to the new model of splitting of positions, which would improve on previous experience and had the backing of its shareholders.

- A growing international current of opinion in the corporate governance field, especially in Europe, recommends that listed companies split positions of Chairman of the Board of Directors and CEO, so that each is held by a different person.
- The basic aim is to prevent an excessive concentration of power in the hands of a single person who is both Chairman of the Board of Directors and CEO, as this could prevent the Board of Directors and the Senior Management team from performing their supervisory and management functions properly, with the necessary independence and objectivity.
- The accumulation of power in the hands of a Chairman/CEO could cause distortions in the performance of the functions of the Board (guided by its Chairman) and the Senior Management team (led by the CEO), which could give rise to conflicts of interest which, if not properly resolved, might lead to destruction of shareholder value.
- Although the proxy advisors of the most important international investors and prominent institutional shareholders have accepted the temporary adoption of counterbalancing measures to mitigate the excessive accumulation of power, such measures were justified only as a temporary solution, combined with a commitment to formally split the two positions within a reasonable period. What initially was merely a recommendation to split the positions has de facto become a demand of institutional shareholders and is gradually being adopted by most listed companies that have a significant proportion of foreign shareholders, as is the case of Red Eléctrica, whose foreign shareholders hold around 70% of the share capital.
- Added to the demands of shareholders and proxy advisors are those of recognised international bodies and institutions, such as the RobecoSam Dow Jones Sustainability World Index (DJSI), which annually assess the corporate social responsibility practices adopted by large international groups and industrial corporations and listed companies, penalizing in their corporate governance scores and classifications those companies that have failed to effectively split the positions of Chairman and CEO, as was the case of Red Eléctrica.
- In Spain there is a growing movement among Ibex 35 companies in favour of separating the two positions, as can be seen in the latest report published by the CNMV on the “Corporate Governance Reports of Issuers of Securities Admitted to Trading on Official Secondary Markets” for 2014, which shows that approximately 40% of Ibex 35 companies have implemented the splitting.

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

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

### Transitional period:

- Until the 2016 Annual General Meeting, the Chairman of the Board will continue to have all his current executive powers and status as Chairman of the Board of Directors, with the responsibilities and functions pertaining to that position.

As Chairman of the Board, besides the powers established in the LSC (art. 529 *sexies*), the By-laws (art. 20, 21 and 25) and the Board of Directors Regulations (art. 9), the Chairman will also have the following basic powers:

- Power to direct and steer the Board's general oversight function.
- Power to guide and steer the approval by the Board of Directors of the company's and the group's Strategic Plan and proper supervision of its execution.
- Power to direct and coordinate the approval by the Board of Directors of the company's and the group's risk control and management system and the necessary supervision of its implementation and proper functioning.
- Power to guide the Board's actions in relation to proposals for the appointment and removal of senior managers and to direct and steer the supervision of Senior Management by the Board.

As regards the executive functions, the Chairman of the Board will focus on the management, oversight and supervision of the transfer of powers and the effective exercise of executive responsibilities by the new CEO, so that both processes take place in a rational and orderly fashion during this transitional phase.

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

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

The powers of the CEO are focused on:

- Executive management, coordinating and driving the management of the company's and the group's business areas.
- Leadership, initiative and guidance of the execution and implementation of the company's and the group's Strategic Plan.
- Efficient implementation of the risk control system approved by the Board of Directors in the company and the group and proper oversight of its functioning.
- Regular reporting to the Board of Directors on the degree of execution and implementation of the Strategic Plan, the functioning of the risk management system and developments in the management of the group's business areas, so

that the Board is able to adequately and effectively exercise its general oversight and control function.

- Following the Extraordinary General Meeting, the Board of Directors appointed the new executive director as CEO of the company and approved the delegation of executive authority and responsibilities to the CEO, thus initiating the process that will ensure stability in the transition to the new organizational model.
- The formal transfer of executive responsibilities to the new CEO will be completed when the current Chairman of the Board ceases to be executive director, which will be at the 2016 Annual General Meeting.

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

- **Board of Directors.**

- Small number of directors (12 members following the Extraordinary General Meeting held on 17 July 2015, which resolved to increase the number of directors by one and appoint a new executive director, who was appointed CEO of the company by the Board of Directors at its meeting on 28 July 2015).
- Two executive directors (until the 2016 Annual General Meeting), one of whom is the CEO.
- Following the appointment of the CEO, the Chairman of the Board of Directors retains all his executive powers, along with the responsibilities and functions of the position, until the 2016 Annual General Meeting.
- The CEO assumes the functions of his position, under the supervision of the Chairman of the Board, who retains executive authority for that purpose until the 2016 Annual General Meeting.
- The powers and responsibilities of executive directors are limited by:
  - The legal reservation of non-delegable responsibilities to the Board of Directors, 58% of which consists of independent directors.
  - The effective control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the executive directors.
  - The immediate effective control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the executive directors.
  - The functions and responsibilities assigned to the Board committees, 75% of whose members are independent directors, by the By-laws and Board of Directors Regulations.
  - The responsibilities of the lead independent director.

- The core responsibilities for the administration of the company specified in art. 5 of the Board of Directors Regulations have been expressly reserved to the full Board of Directors and cannot be delegated (a reservation that was broadened in 2013 when the Board of Directors Regulations were amended and will be broadened again after the review of the Board of Directors Regulations currently under way with a view to adapting them to art. 249 bis and 529 *ter* of the LSC as recently amended, which extend the powers that the Board of Directors is not permitted to delegate under any circumstances).
  - The non-delegable responsibilities cannot be exercised by the executive directors or the Board committees.
  - The percentage of independent directors (58%) is greater than required under international standards.
  - The Board of Directors has taken on board the best practice recommendations in the area of gender diversity. Five of its members, representing 50% of the company's non-executive directors (41.7% of the total), are women. This puts the company in a leading position among IBEX 35 companies. The Board of Directors prepares and approves an annual gender diversity report, which this year has been made available on the company's website.
  - A participative and proactive Board.
  - A very high percentage of attendance and dedication to the exercise of their responsibilities on the part of the directors.
  - Use of new technologies to facilitate the operation of the Board and provide directors with information and documentation, through the Director's Portal, which is currently being reviewed and updated.
- **The Chief Executive Officer.**
    - The Board of Directors, at the proposal of the Appointments and Remuneration Committee, may appoint one or more Chief Executive Officers from among its members.
    - The Chief Executive Officer or Officers may be directors other than the Chairman of the Board of Directors and may have such authority delegated to them as is deemed appropriate, although with the necessary scope for the day-to-day conduct and effective management of the company's business lines, always specifying the content, limits and types of delegated authority.
    - Without prejudice to the powers belonging to the Chairman of the Board, the CEO will act as the company's CEO and will be responsible for the day-to-day conduct and effective management of the company's businesses, always in accordance with the decisions and criteria set by the General Meeting and the Board of Directors, each within its remit.
    - The regulations governing the position of CEO and the delegation of authority are established in art. 22 to 25 of the By-laws and the responsibilities of the CEO, once the positions of Chairman of the Board and CEO have been split, will be specified in the Board of Directors Regulations, currently under review.

- Following the appointment of Mr. Juan Francisco Lasala Bernad as executive director of the company by the Extraordinary General Meeting held on 17 July 2015, the company's Board of Directors, at its meeting on 28 July 2015, appointed Mr. Juan Francisco Lasala Bernad as CEO of the company.
  - Currently, until the end of the transitional period for the splitting of positions of Chairman of the Board of Directors and CEO, both have authority delegated by the Board of Directors.
- **Lead independent director.**
    - Appointed by the Board of Directors from among the independent directors, at the proposal of the Appointments and Remuneration Committee.
    - The lead director's main task is to organize the common positions of the non-executive directors and to serve as a channel for representing those positions to the Chairman of the Board of Directors, the Board and its committees.
    - The term of the position is three years and is subject to reappointment.
    - This role currently lies with the independent director Carmen Gómez de Barreda Tous de Monsalve, by resolution of the Board of Directors on 28 May 2013.
    - It serves as a counterweight to the concentration of power in the hands of the Chairman of the Board of Directors when the latter is also the CEO of the company.
    - The lead independent director convenes and chairs the meetings of the independent directors; this task was actively executed in 2014.
    - The roles and responsibilities of the lead independent director are set forth in art. 25 *bis* of the By-laws and have been implemented in art. 9 *bis* of the Board of Directors Regulations.
    - It has been considered appropriate to maintain this position even after the positions of Chairman of the Board and executive director of the company have been split, because it helps maintain the checks and balances within the Board of Directors in favour of the independent directors and because it is a decision that has been very well received by the shareholders and proxy advisors.
- **Board committees.**
    - Formed by the Board of Directors to assist in highly technical matters and provide greater efficiency and transparency, the Board committees support the Board in the performance of its duties.
    - They are made up of qualified professionals occupying important posts in other institutions or corporations outside the company.
    - All their members are non-executive directors.
    - In 2013, the composition of the committees, as specified in the Board of Directors Regulations, was formally adapted to the demands of shareholders, so as to

reinforce the committees' independence. A requirement that both committees have a majority of independent directors was introduced.

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

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

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

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

In 2015 further steps were taken in this direction, with the submission of the directors' remuneration for 2015, the directors' remuneration policy and the Annual Directors' Remuneration Report to the shareholders for approval (in a binding vote), as three separate and independent points on the General Meeting agenda. Red Eléctrica Corporación S.A. thus continues to align itself with corporate governance best practices, giving shareholders

the necessary autonomy and independence of opinion to be able to vote on each General Meeting resolutions individually and separately.

### **-Remuneration policy principles.**

The directors' remuneration policy, which was approved by the Annual General Meeting held on 15 April 2015, is based on the following general principles:

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

As regards the remuneration of executive directors, the following principles have been established:

- Alignment of the executive director's remuneration with the company's strategy.
- Maintaining a reasonable balance between the various components of (short-term) fixed remuneration and (annual and long-term) variable remuneration, reflecting an adequate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value.
- Alignment with the remuneration established by comparable companies.

As regards the remuneration of non-executive directors, the following principles have been established:

- Linked to effective time commitment.
- Linked to responsibility and performance of their tasks as directors.
- Absence of variable components in remuneration in order to ensure their complete independence with respect to the remuneration paid to the executive director and management team.
- Sufficient to act as an incentive, without limiting their independence.

The Appointments and Remuneration Committee deems it appropriate to periodically review the policy on remuneration of the Board of Directors and CEO, including in this review process a comparison with reference companies, selecting groups of comparable companies, and maintaining permanent contact with its shareholders and proxy advisors, in order to check the adequacy and moderation of the remuneration paid to directors and executive director in market terms.

All of the foregoing principles conform to the company's Corporate Governance Policy, approved by the Board of Directors at its meeting of 25 November 2014 and published on the corporate website.

Moreover, said remuneration principles comply with the general rules laid down for capital companies in art. 217.4 of the LSC, regarding the need for remuneration to be appropriate to a company's size and importance, economic position, comparability, profitability and sustainability, and the need not to encourage excessive risk taking or reward unfavourable results.

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

- **Independence in relations with the external auditor.**

In 2012, at its Annual General Meeting held on 19 April 2012, the company amended its By-laws in order, among other things, to bring them into line with Act 12/2010, which was intended to reinforce the powers of the Audit Committee to verify the independence of the external auditor. The amendment in question was reflected in art. 14 of the Board of Directors Regulations, which was approved by the Board of Directors at its meeting held on 13 March 2013.

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

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

If it were considered necessary to engage the external auditor to provide non-audit services, the engagement would have to be expressly authorized by the Audit Committee.

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

In any case, the requirements and limitations regarding the provision of non-audit services, established by Act 22/2015 of 20 July on auditing, in relation to Regulation (EU) No 537/2014 of 16 April, must always be taken into account.

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

external auditor for the company and its group for the minimum legal term of three years, until 2015, inclusive.

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

## **Chapter II.- THE SHAREHOLDER STRUCTURE.**

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

At 31 December 2015, Sociedad Estatal de Participaciones Industriales (SEPI) directly owned a significant stake in the company, holding 27,054,000 shares, representing 20% of the capital.

There are no individuals or legal entities that exercise or may exercise control over the company, as provided in art. 5 of the Securities Market Act, in accordance with art. 42 of the Commercial Code.

The equity of the company includes a 20% shareholding owned by SEPI, with the remaining 80% being free float, although, as explained below, no other shareholder may own a stake larger than 5%.

Within the free float, there is a high percentage of foreign shareholders, especially of institutional investors, which at July 2015 accounted for almost 70% of the share capital (of which around 60% is located in the UK and USA), which is why the Board of Directors attaches such importance to the international corporate governance practices and recommendations, demanded by its shareholders.

The entry into force of Act 17/2007, of 4 July, introduced various changes affecting the company's shareholders. These amendments had, among other aims, that of guaranteeing the independence of the company vis-à-vis all other electricity sector activities and agents, given that the activities carried on by Red Eléctrica (transport of electricity and operation of the electricity system) are considered by legislators to be an essential service. Royal Decree-Law 13/2012, of 30 March, transposing a number of directives, among them, Directive 2009/72, of 13 July, which stipulates the mandatory independence of distributors and operators of European electricity systems, endorses the legal limitations on shareholdings and political rights applicable to the company's shareholders, incorporating a number of additional restrictions on companies that perform generation or marketing functions. Royal Decree-Law 13/2012, of 30 March, amended the second paragraph of the twenty-third additional provision and art. 34.1 of Act 54/1997, of 27 November. Said additional provision remains in effect pursuant to the express stipulation of the repealing provision of Act 24/2013, of 26 December, on the Electricity Sector.

The equity limits stated in the twenty-third additional provision of Act 54/1997, of 27 November, are:

- Any individual or legal entity may hold shares in the company, provided that the sum of their direct and indirect interests in the company's capital does not exceed 5% of

the capital and they do not hold more than 3% of the voting rights. These shares may not be pooled for any purpose whatsoever.

- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of the voting rights in the parent company.
- The special regime for SEPI is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in art. 5 and 14 and the sole additional provision of the By-laws, and in art. 6.3 of the company's General Meeting Regulations.

- **The corporate website.**

This year, the Shareholder Structure chapter once again includes a special section on a basic, modern tool for communicating with shareholders, namely, the corporate website.

Apart from the legal and regulatory requirements regarding the website, which are addressed in other sections of this report, it should be highlighted here how important it is for Red Eléctrica to continue to adapt and evolve in the area of corporate governance. The Annual Corporate Governance Report for 2012, approved by the Board of Directors on 26 February 2013, emphasized the desirability of enhancing the corporate governance information provided on the company's website, in line with international standards, and making the information easier for international shareholders and investors to find, understand and use (Title IV of the 2012 Annual Corporate Governance Report, "Future Plans in respect of Corporate Governance at Red Eléctrica").

Red Eléctrica's international consultants in the area of corporate governance have confirmed that foreign institutional investors, which are so important to the company, in places such as the UK, France, Holland, Germany and the United States, have highlighted the difficulty they face in effectively analyzing the information relating to the corporate governance structure that is made available on the corporate websites of Spanish listed companies.

In view of the opportunity for improvement, in 2013 the company implemented a project to update and improve the corporate website, in order to incorporate the latest practices at enterprise level, also taking into account the requirements and recommendations of the regulatory environment applicable to listed companies. Within the framework of this project, it also conducted an analysis of the corporate governance sections of the website, in order to incorporate leading international standards in terms of structure and content. The new website, with its new structure and design, was launched in October 2013.

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

The 2013 Annual Corporate Governance Report, approved by the company's Board of Directors in 2014, expressly included among the most relevant corporate governance projects a "Permanent analysis, update and improvement, under international standards, of the corporate governance information contained on the company's website" (Title V). The Corporate Governance Policy approved by the Board of Directors on 25 November 2014

also gathers the principle of permanently reviewing, updating and improving, under international standards, the content and structure of the corporate website, improving its accessibility, operation and quality of information.

In practice, this principle has been effectively applied throughout the year. As a result, in 2015, sections have been reviewed, contents improved and information completed, as deemed appropriate.

The “Corporate Governance” and “Shareholders and Investors” sections of the corporate website were also reviewed in 2015, in accordance with CNMV Circular 3/2015 of 23 June. The “General Meeting” subsection of the corporate governance section includes a new entry, “Right to information”, which provides information about the channels of communication between the company and its shareholders and explains how shareholders may exercise their right to information.

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

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

### **CHAPTER III.- The General Meeting**

The General Meeting, duly called and legally convened, represents all of the shareholders and exercises the functions corresponding to it within the company.

Its resolutions, adopted pursuant to the General Meeting Regulations and the By-laws, are binding on all shareholders, without prejudice to their legal right to separation. The General Meeting has the power to adopt all resolutions specific to its status as the company’s sovereign body. In particular, and without limitation, it is responsible for:

- Approving the company’s individual and consolidated financial statements, its management by the Board of Directors, and the proposed allocation of profits.
- Appointing and removing directors, ratifying, as necessary, their appointment by co-optation, and appointing and reappointing the auditors.
- Approving plans or authorizing transactions involving treasury stock.
- Approving the establishment of remuneration systems linked to the share price for directors.
- Resolving to issue debentures, increase or reduce share capital, change the legal form, merge, spin off or wind up the company, and make any amendment to the By-laws.

- Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the LSC.
- Approving operations whose effect would be equivalent to the modification of the company's corporate purpose.

Following the amendment approved by Act 31/2014 of 3 December, the LSC has increased the number of matters reserved to the General Meeting, which include, on a general basis, the acquisition, disposal or contribution of essential assets to another company (art. 260.f) LSC) and, in the specific case of listed companies, the transfer to subsidiaries of essential activities previously carried out by the company itself; transactions whose effect is equivalent to the liquidation of the company; and approval of the directors' remuneration policy (art. 511 *bis* LSC).

Furthermore, all capital companies will be governed by the rule contained in art. 161 LSC, previously reserved to limited liability companies, whereby the General Meeting may participate in management matters (giving instructions to the management body or presenting for its authorization the adoption of decisions or resolutions on certain management matters).

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

For some time now, resolution proposals have been published in full, in Spanish and in English, together with the Notice of General Meeting, with all the relevant information for shareholders being posted on the company website, which is designed to make it easier for shareholders to exercise their right to information. The company's website is a suitable mechanism for communicating with shareholders and investors, given that the following information, among others, is posted on it:

- The quorum requirement and the result of the votes on each of the resolutions approved by previous General Meetings.
- Information relating to the right of attendance and procedures for granting proxies for General Meetings, in accordance with the provisions of the By-laws and the General Meeting Regulations.
- Information on electronic voting and proxies.
- Information on issuances of securities.
- Information on the ratings granted by credit rating agencies.
- Increased information about the company's shareholders, with greater detail on significant holdings, treasury stock and shareholder agreements.

Act 25/2011, of 1 August, introduced a number of changes relating to the website content of listed companies; in particular, as regards the information that must be published on the website when calling a General Meeting. Despite the fact that, in large part, such information was already published on the company's website, the Annual General Meeting held on 19 April 2012 approved an amendment to the relevant article of the General Meeting Regulations to incorporate the content required under the Act.

The said General Meeting held on 19 April 2012 ratified the creation of the corporate website of the company at the domain “www.ree.es”, for the purposes of the provisions of art. 11 *bis* of the revised LSC.

Order ECC/461/2013, of 20 March (which is currently in force, as it was not repealed with the approval of the latest amendment of the LSC), which determines the content and structure of the Annual Corporate Governance Report, the annual report on remuneration and other reporting documents of listed companies, describes the relevant information to be included on the websites of listed companies; however, the current corporate website not only contains all the information identified in the said Order, but it has also been expanded and improved in 2013, 2014 and 2015.

By voluntarily creating the “Corporate Governance” section in 2013, the quality of shareholder information was improved.

Furthermore, also worthy of note are the following actions conducted by Red Eléctrica to facilitate the exercise of the right to information of the shareholders at the General Meeting:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the General Meeting and especially the financial statements and the Annual Corporate Governance Report, are made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- An entire section of the General Meeting agenda is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Audit Committee and the Appointments and Remuneration Committee are made available to all shareholders in the Annual Corporate Governance Report.
- A Shareholder Bulletin is published quarterly, containing the main news regarding the company.
- The chairman of the Audit Committee is available to all shareholders during General Meetings to deal with any matters falling within his remit that may arise, communicating this to the shareholders during the General Meeting.
- At the 2015 Annual General Meeting, both chairpersons of the Board committees participated to present a summary of their committees’ activities during the past year.
- The items included on the agenda for the General Meeting are provided in as much detail as possible.
- Separate voting on each item is permitted, including remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to vote.
- The Shareholder Information Office specifically deals with requests made by company shareholders. Shareholders may also submit questions in writing regarding the

information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.

- In 2016, the Annual Report on Related-Party Transactions, the Annual Corporate Responsibility Report (which has been published for several years already) and the Report on the Independence of the External Auditor will all be published in time for the Annual General Meeting, all this in accordance with Recommendation no. 6 of the CGGLC.
- For several years now, an independent consultant (Deloitte) has conducted an audit of the Annual General Meeting management processes, with a view to improving the protection of shareholder rights in General Meetings. The auditor's reports are published on the website on the same day as the holding of the General Meeting. Since the 2014 Annual General Meeting, shareholders have been offered the possibility of requesting a certificate confirming their vote, verified by the General Meeting's external auditor, Deloitte. At the Annual General Meeting held in April 2015 and the Extraordinary General Meeting held on 17 July 2015, Deloitte carried out an audit of the General Meeting management processes and offered shareholders the option of requesting a certificate confirming their vote, verified by Deloitte.

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

- **Right to information.**

The company pays special attention to the right to information, as reflected in art. 15 of the By-laws and art. 8 of the General Meeting Regulations. Art. 8 of the General Meeting Regulations establishes the obligation to make documentation and information relating to the agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the corporate website.

In addition, during the meeting, shareholders may orally request any reports or clarification they deem appropriate regarding the items on the agenda. If such requests cannot be satisfied at the time, the Board of Directors must provide the information in writing within seven days of the meeting.

The company maintains an open, free-flowing and accessible dialogue with shareholders. Communications are made with the utmost transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.

A specific Shareholder Information Office is in place to deal with any inquiries from minority shareholders.

The company undertakes to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the company website, including:

- The call notice of the General Meeting, containing the proposed resolutions and the corresponding reports by the Board of Directors.

- The company's individual and consolidated management reports for the year, and the proposed allocation of results.
- The company's individual and consolidated Management Report for the year.
- The audit reports on the company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report (now referred to as a Global Sustainability Report).
- The Annual Report on Remuneration and Remuneration Policy of the Board of Directors.
- The environmental report.
- The procedures regulating the remote voting system at the Annual General Meeting.
- The Operating Rules of the Shareholder E-Forum.
- Any other report whose inclusion is obligatory or is decided by the Board of Directors.

Act 31/2014, of 3 December, amending the LSC, has introduced novelties in relation to the right of information. The main ones, applicable to listed companies, are described below:

-It is made clear that all proposed resolutions on each and every point of the agenda will be continuously available on the company website following publication of the call. It is also clarified that a report will be drawn up and published on the website on any points of the agenda that are informative only.

-In particular, there is now a duty to include on the website detailed information on the reports and proposed appointment, ratification or re-election of directors since the meeting was called, and on the Directors Remuneration Policy.

-The term available to shareholders to request information and clarifications is extended until the fifth day prior to the date scheduled for the meeting (before, the term was until the seventh preceding day).

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

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

As already explained in Chapter II of Title I above, the Annual General Meeting held on 15 April 2015 approved the amendments to the By-laws and the General Meeting Regulations aimed at fully adapting them to the amended LSC with regard to the matters that were not previously covered by these corporate regulations.

- **Right of attendance.**

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

To this effect, art. 15 of the By-laws and art. 10 of the General Meeting Regulations provide that shareholders with the right to attend may be represented at the General Meeting by any other person, in the manner established in the LSC. The condition that the proxy must be a company shareholder has been withdrawn, following the approval of the adaptation of its content to Act 25/2011, of 1 August, by the General Meeting held on 19 April 2012.

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

Company directors and executives are required to attend General Meetings.

As a general rule and in order for the proceedings of meetings and the resolutions adopted to reach the widest audience, the media are allowed access to General Meetings and the General Meeting proceedings are broadcast in an audiovisual format, with simultaneous translation into English.

- **Right of participation and new technologies.**

The General Meeting Regulations allow shareholders to participate to the fullest extent in matters of interest to them (right to attend, meeting calls, inclusion of items and proposals on the agenda, inquiries and requests for information and voting).

In line with the most well-known recommendations in this area, the General Meeting Regulations are in keeping with the regime established by Act 26/2003, of 17 July 2003, regarding the development of shareholder rights and the rules regarding the organization and functioning of the General Meeting, and the current LSC, following the reforms introduced by Act 25/2011, of 1 August. This Act introduced certain adjustments and provisions aimed at strengthening the right of shareholders to participate at the General Meeting, which justified the adaptation thereto of the General Meeting Regulations and the By-laws, at the General Meeting held on 19 April 2012.

Under the General Meeting Regulations (following their adaptation to the LSC at the Annual General Meeting of 15 April 2015), shareholders holding more than 3% of the share capital may apply to the Board, prior to the Notice of General Meeting, to have particular items included in the General Meeting agenda. The Board of Directors must include the items requested in the manner that best suits the company’s interests, provided that they refer to matters falling within the scope of the powers of the General Meeting.

Shareholders may also submit proposals in relation to the matters on the agenda, in addition to making suggestions on the activities and interests of the company which, in its view, should be discussed at the General Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.

Red Eléctrica introduced an electronic voting system in 2005. It was one of the pioneers of this system, which allows shareholders to exercise their voting rights electronically via the company website, [www.ree.es](http://www.ree.es). Since then, the company has allowed shareholders to exercise their voting rights electronically at all General Meetings.

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

meant that 7.5% of the 4,132 shareholders present in person or by proxy at the meeting participated in the meeting by electronic means.

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

Furthermore, both the Annual General Meeting and the Extraordinary General Meeting held in 2015 and the presentations to analysts were broadcast live via the company's website. The presentations are available on the corporate website. The General Meeting has been broadcast by live webcast since 2006, with simultaneous translation into English. Also, to enable people with hearing difficulties to follow and participate in the proceedings, a sign language interpreter was present at both the Annual General Meeting and the Extraordinary General Meeting.

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

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

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

In accordance with CNMV Circular 3/2015 of 23 June, a "Right to information" page has been added to the "General Meeting" section of the corporate website, with information about channels of communication between the company and its shareholders and explanations on how to exercise the right to information.

## **CHAPTER IV.- THE BOARD OF DIRECTORS**

- **Organization and competences.**

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

With the support of the Audit Committee and the Appointments and Remuneration Committee, the Board of Directors governs and represents the company.

The Board's strategic decision-making processes are described below.

The rules on the organization and functioning of the Board are contained in the By-laws (art. 19 to 26, inclusive) and in the Board of Directors Regulations (art. 5 to 12, inclusive).

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

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

Specifically, the Board holds all powers to manage and represent the company, both in and out of court, exercising such powers directly, via delegation or pursuant to a power of attorney in the terms established by law, the By-laws and the Board of Directors Regulations.

The Board's policy is to delegate the ordinary management of the company to the executive bodies and the management team and to concentrate on its general supervisory function, the approval of basic operating guidelines and strategies and on decisions that are highly relevant to the interests of the company.

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

- a) Approval of the general policies and strategies of the company and the group, in particular:

Approval of the strategic or business plan of the company and its group, as well as the annual budget and management objectives, and monitoring of the degree of compliance therewith throughout the year.

- ii) Approval of the investment and funding policy.
- iii) Approval of the definition of the structure of the corporate group.
- iv) Approval of the Corporate Governance Policy.
- v) Approval of the Corporate Responsibility Policy.
- vi) Approval of the policy on the remuneration and assessment of senior executives.
- vii) Approval of the policy for control and management of the principal risks of the company and of the group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.

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

- The various types of risk (operational, technological, financial, legal and reputational, among others) that the company and the group face, including, among financial and economic risks, contingent liabilities and other off-balance sheet risks.
- The setting of the level of risk that the company deems acceptable.
- Planned measures to mitigate the impact of identified risks, in the event that they materialize.
- The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

- viii) Approval of the policy of dialogue with investors and shareholders.
- ix) Approval of the policy regarding appointments and the evaluation of candidates to the Board of Directors.
- x) Approval of the policy regarding the performance evaluation of the Board and its directors.

- x) Approval of the policy regarding the dissemination of the corporate governance, corporate responsibility, remuneration and risk management practices.
  - xii) Approval of the policy regarding the contracting of non-auditing services with the external auditor.
  - xiii) Approval and, if applicable, proposal to the General Meeting of dividend and treasury stock policies, and in particular, the limits thereof.
  - xiv) Those specifically provided for in the Regulations.
- b) The following decisions:
- i) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contractual conditions.
  - ii) The financial reporting which, due to its status as a listed company, the company must periodically make to the public, or which it submit to the regulatory or market supervision bodies for publication.
  - iii) Investments or transactions considered strategic by virtue of their amount or special characteristics, except where the approval of the shareholders in General Meeting is required.
  - iv) The creation or acquisition of holdings in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions and operations that could impair the transparency of the group.
- c) Authorization of related-party transactions, as defined by the legislation in force from time to time, that are material or outside the ordinary course of business of the company and must be reported obligatorily to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.
- Where a related-party transaction involves a director, in addition to not exercising or delegating his right to vote, the director shall leave the meeting while the Board of Directors deliberates and votes on the transaction, after having informed the Board of the transaction.
- d) The annual evaluation of:
- i) The quality and efficiency of the functioning of the Board and the performance by the company's Chairman and the CEO of their functions, based on the report of the Appointments and Remuneration Committee, in coordination, where appropriate, with the lead independent director.
  - ii) The functioning of its committees, based on the report submitted by the Appointments and Remuneration Committee, in coordination, where appropriate, with the lead independent director.

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

Regulations are being reviewed in order to adapt them more completely to the new legislation, among other things.

- **Tax responsibilities.**

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

Following the reform of the LSC, in listed companies, responsibility for setting tax strategy, formulating policy on tax risk control and management and approving investments or transactions which because of their amount or special characteristics are considered strategic or which entail particular tax risk is reserved to the Board of Directors and cannot be delegated, thus reinforcing the strategic role of Boards of Directors in tax matters, in line with the trend in other countries in our environment in this respect.

In accordance with the action plan in tax matters presented to the Audit Committee on 18 February 2015, the company has complied with the LSC and has implemented a series of voluntary measures to improve and develop best tax practices, which are listed below:

- ✓ Approval by the Board of Directors of the Red Eléctrica Group's tax strategy at its meeting held on 30 June 2015.
- ✓ Approval by the Board of Directors, at its meeting held on 29 September 2015, of the Red Eléctrica Group's tax risk management and control policy and the inclusion of this policy in the company's Integrated Risk Management Policy.
- ✓ Approval by the Board of Directors of the tax aspects of investments or transactions which because of their amount or special characteristics are considered strategic or entail special tax risk.
- ✓ Reporting on the tax policies applied in the annual corporate income tax return for 2014. This was done before the annual tax filing, at the Audit Committee meeting held on 24 June 2015.
- ✓ Approval by the Board of Directors of the Red Eléctrica Group's adherence to the Code of Best Tax Practices, at its meeting on 29 September 2015.
- ✓ Reporting on the tax policies applied in the close of accounts for financial year 2015. This was done in the Audit Committee meeting on 21 January 2016, before the financial statements for 2015 were authorized for issue.

Additionally, with a view to providing greater tax information transparency for its stakeholders, in 2015 for the first time the Red Eléctrica Group published (in the 2014 Corporate Responsibility Report) its 2014 total tax contribution, demonstrating the important economic and social role the Red Eléctrica Group plays, through its tax contribution, in the various countries in which it operates.

In order to calculate its total tax payments, the Red Eléctrica Group uses PwC's Total Tax Contribution (TTC) framework, which measures the total impact derived from a company's payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to

the different tax authorities, directly or indirectly, as a result of the Red Eléctrica Group's economic activity.

The Red Eléctrica Group's total tax contribution for 2015 is published in the 2015 Corporate Social Responsibility Report.

The Red Eléctrica Group's tax strategy, which reflects the group's vision and goals in tax matters, is based on the three fundamental values of transparency, good governance and accountability.

The tax strategy's vision can be summed up as follows:

“Manage tax matters proactively, acting responsibly and transparently towards all stakeholders and in such a way as to comply with tax legislation and minimize reputational risk, making compliance compatible with protection of shareholder value.”

In 2015 the Board of Directors approved the Red Eléctrica Group's tax risk control and management policy and its integration in the Integrated Risk Management Policy. The tax risk control and management systems are described in section E of this report.

The Red Eléctrica Group's Code of Ethics and tax strategy establish a commitment not to create companies in order to evade tax in countries considered tax havens.

Furthermore, at its meeting on 29 September 2015, the Board of Directors of Red Eléctrica Corporación, S.A. approved a resolution requiring the Red Eléctrica Group to subscribe to the Code of Best Tax Practices adopted by the Spanish Tax Agency within the framework of the Large Businesses Forum.

- **Composition**

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

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

The 12-year limit on the term of position of independent directors, following the recommendations of the Unified Code on Good Corporate Governance<sup>2</sup>, was incorporated in the Board of Directors Regulations in January 2010. All other types of director may be reappointed indefinitely by the General Meeting. Act 31/2014, of 3 December, reforming the LSC, expressly specifies this limit, thus giving it legal status (art. 529.12 LSC). As the limit is now required by law, the new CGGLC no longer includes it among its recommendations.

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

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

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<sup>2</sup> Order ECC/461/2013, of 20 March, which determines the content and structure of the annual corporate governance report, the annual remuneration report and other reporting instruments of listed public companies, savings banks and other entities issuing securities admitted to trading on official securities markets, has incorporated into the legislation the said prohibition.

Name of director	First appointed	Last appointed	Position on the Board	Type of director	Election procedure	Board committee membership
José Folgado Blanco	22.05.2008	19.04.2012	Chairman	Executive	General Meeting	---
Juan Francisco Lasala Bernad	17.07.15	17.07.15	CEO	Executive	General Meeting	---
María Angeles Amador Millán	26.05.2005	18.04.2013	Member	Independent non-executive	General Meeting	Appointments and Remuneration General Meeting
Fernando Fernández Méndez de Andés	19.04.2012	19.04.2012	Member	Proprietary non-executive (SEPI)	General Meeting	Auditing General Meeting
Paloma Sendín de Cáceres	19.04.2012	19.04.2012	Member	Independent non-executive	General Meeting	Auditing General Meeting
Carmen Gómez de Barreda Tous de Monsalve	19.04.2012	19.04.2012	Member	Independent non-executive	General Meeting	Appointments and Remuneration (chair)
María José García Beato	29.11.2012	18.04.2013	Member	Independent non-executive	General Meeting	Appointments and Remuneration (member)
Socorro Fernández Larrea	9.05.14	9.05.14	Member	Independent non-executive	General Meeting	Appointments and Remuneration (member)
Antonio Gómez Ciria	9.05.14	9.05.14	Member	Independent non-executive	General Meeting	Audit (member)
Santiago Lanzuela Marina	29.07.14	15.04.15	Member	Proprietary non-executive (SEPI)	General Meeting	Audit (member)
José Luis Feito Higuera	13.02.15	15.04.15	Member	Independent non-executive	General Meeting	Audit (chairman)
<sup>3</sup> José Ángel Partearroyo Martín	22.12.15	22.12.15	Member	Proprietary non-executive (SEPI)	Co-optation	--

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

- **Directors' professional profiles.**

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

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

**Chairman of the Board and CEO**

**José Folgado Blanco**, born 3 April 1944.

Degree in Economics. Final-year award with special distinction.

Doctorate in Economics, Universidad Autónoma de Madrid.

*Currently:*

Member of the Social Board, Universidad Autónoma de Madrid.

Chairman of the Board of Directors of Red Eléctrica Corporación, S.A.

*Formerly:*

Tenured Professor of Public Finance and Tax Systems, Universidad Autónoma de Madrid.

Head of the economics department of the CEOE.

Member of the Economic and Social Board representing business organizations.

Secretary of State for Budgets and Expenditure. Ministry of Economy and Finance, from May 1996.

Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, from April 2000.

Secretary of State for Energy, Industrial Development and Small and Medium-Sized Enterprises. Ministry of Economy, since July 2002.

Member of the Spanish Parliament representing the province of Zamora and Vice-Chairman of the Finance Committee since March 2004.

Mayor of Tres Cantos (Madrid) since June 2007.

**Chief Executive Officer**

**Juan Francisco Lasala Bernad**, born 25 February 1967

Degree in Business Studies, Universidad Complutense de Madrid.

*Currently:*

Chief Executive Officer of Red Eléctrica Corporación, S.A.

*Formerly:*

A member of the company since 2001, he has performed executive functions in the international area and in the Telecommunications area and has held the position of director of Planning and Control and corporate Finance Director.

Director of Planning and Control of the Avanzit group and group CFO for Spain.

CFO of Midas, Spain.

Assistant CFO at Burger King, Spain.

Auditor at KPMG Peat Marwick.

**Independent non-executive director**

**María Angeles Amador Millán**, born 10 October, 1949.

Law Degree, Universidad Complutense de Madrid

*Currently:*

Practising lawyer.

*Formerly:*

Technical General Secretary, Ministry of Public Works and Urban Development.

Deputy Secretary, Ministry of Health and Consumer Affairs.

Minister for Health and Consumer Affairs.

Member of Parliament for Segovia.

Member of Parliament for Madrid.

Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

**Proprietary non-executive director proposed by SEPI**

**Fernando Fernández Méndez de Andrés**, born 10 February 1956.

Doctorate in Economics, Universidad Autónoma de Madrid.

Professor of Economics, IE Business School.

*Currently:*

International Consultant on macroeconomic, financial and regulatory issues.

Chairman of Pividal Consultores.

External Advisor to the Strategy Committee of the Grupo Financiero Arcano.

Collaborator with the Fundación de Estudios Financieros.

Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.

Independent director of Bankia, S.A.

*Formerly:*

Member of the Expert Committee for Tax Reform, 2013-2014

Member of the Bruegel Evaluation Committee, 2013.

Principal Economist at the International Monetary Fund.

Chief Economist and Director of the Research Department of Banco Central Hispano (BCH) and Banco Santander

Vice-Chancellor of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.

**Independent non-executive director**

**Paloma Sendín de Cáceres**, born 19 September, 1951.

Graduate in Economics and Business Studies, Universidad Autónoma de Madrid.

State Trade Expert and Economist. State Diploma in Trade.

*Currently:*

Member of the Advisory Board of the Technical School of Mines and Energy of Madrid.

Advisory Committee Member of the Fundación para Estudios sobre la Energía.

*Formerly:*

Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.

General Manager for Administration and International Relations, Organization of Latin

American States for Education, Science and Culture (OEI).

Member of the Nuclear Safety Board (CSN) and member of a number of national and international committees, representing the CSN before the OECD and other bodies.

Director General of Mines.

President of the National Mining Safety Commission.

Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.

General Manager of Promotion at ICEX.

Member and representative of Spain on various EC committees and workgroups.

Member of the Organizing Committee of the European Union Conference on Stakeholders.

Member of the Organizing Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.

Director of SEPI (1997-2000).

Director, Hulleras del Norte (HUNOSA).

Director, Banco Exterior de España.

Director, Compañía Logística de Hidrocarburos (CLH).

Director, FOCOEX.

Director of Tabacos de Filipinas.

Director, SIRECOX.

Director, Centro para el Desarrollo Tecnológico Industrial (CDTI).

Director, Fábrica Nacional de Moneda y Timbre (FNMT).

Director, Tabatrade.

Director, Banco Exterior de España, UK branch.

Author of numerous articles and publications related to her professional activity.

Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.

### **Independent non-executive director (lead independent director)**

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

Doctorate in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).

Master in Business from the IESE (Executive MBA), University of Navarra.

*Currently:*

*Director General of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)*

*Formerly:*

Head of the Cogeneration Department, Business Management, Enagás.  
Head of the International, Petrochemical and Marketing Departments of Repsol.

Director of Services Development at Union Fenosa.

Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).

Institutional Relations and Communications Manager for BP Oil España.

Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).

Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER). Professor at lectures and/or presentations on different Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

### **Independent non-executive director**

**María José García Beato**, born 27 May 1965.

Law Degree, Universidad de Cordoba. State attorney.

#### *Currently:*

Non-director Vice-Secretary of the Board of Directors of Banco Urquijo, S.A.

General Secretary and member of the Management Committee of Banco Sabadell, S.A.

Secretary of the Board of Directors of Sabadell United Bank (Miami).

Trustee of Fundació Privada Banc Sabadell.

Trustee of Fundación Española de Banca para Estudios Financieros (FEBEF).

Secretary of the Board of Trustees of Fundación de Estudios de Economía Aplicada (FEDEA).

Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.

Member of the Advisory Board of Fundación Cajasur.

#### *Formerly:*

State Attorney at the High Court of Justice in Madrid.

Head of the Legal Services Department of the Data Protection Agency.

Spanish representative on the Advisory Board of the European Committee on Data Protection.

Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.

State Attorney in the Sub-division of the State Legal Services Division.

State Attorney in the Communications Secretariat at the Ministry of Development.

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.,

Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA),

Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI),

Director, Sociedad Estatal Correos y Telégrafos, S.A.,

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Deputy Secretary for Justice.

State Attorney in the Audiencia Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.

Secretary of the Board of Directors of Retevisión, S.A.

Secretary of the Board of Directors of Banco Urquijo, S.A.

Director, Banco Gallego S.A.

#### **Independent non-executive director**

**Mr. Antonio Gómez Ciria**, born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Masters in Business Administration & Management (Executive MBA), IESE.

*Currently:*

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

*Formerly:*

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC.

Representative of Grupo FCC at the Large Businesses Forum, Ministry of Finance and Public Administrations.

Among other positions, he is General Manager for Administration and IT and belongs to the Management Committee of Grupo FCC.

Head of Internal Audit of the FCC group.

Member of the Advisory Council of the Internal Auditors Institute and a Member of its Executive Committee.

General Technical Secretary of InverCaixa, investments management company of La Caixa Group.

Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC.  
Director of Empresa Nacional de Uranio, S.A.  
Director of Empresa Nacional de Autopistas, S.A.  
Director of Tabacalera, S.A.  
Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid.  
Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española.  
Head of the Auditing and Accounting Department of Banco de Crédito Agrícola.  
Auditor/Inspector of the General State Inspectorate.

*Other:*

Member of the CNMV Work Group to prepare a “Management report guide for listed entities”.

Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

**Independent non-executive director**

**Ms. Socorro Fernández Larrea**, born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid, and Senior Management Program, IESE

*Currently:*

CEO of the consultancy firm JustNow, S.L., providing advise in the infrastructure construction sector, both in commercial and financial operations.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

Member of the Board of Directors of the Spanish engineering firm SEG, S.A.

Member of the Board of Directors of the Spanish construction and real estate firm ACR.

Member of the advisory board of the Mexican engineering firm CAL Y MAYOR

Member of the advisory board of the real estate firm ZELTEX, with activity in Senegal

*Formerly:*

CEO at COPISA Constructora Pirenáica, S.A.

Vice-Chairman of ANCI, the association of independent builders.

Member of the governing council of the Civil Engineers Association.

Regional Manager of the construction firm Seop, Obras y Proyectos, S.A.

National representative, Ferrovial Conservación, S.A.

Representative for Castilla-La Mancha, Ferrovial-Agroman, S.A..

Representative for Castilla-La Mancha, Agroman Empresa Constructora, S.A..

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha.

Site manager, Ferrovial, S.A.

*Other:*

Member of the advisory board of the daily newspaper *Expansión*

Member of WCD, Women Corporate Directors, and co-chairman of the Spain chapter

Member of AED, Asociación Española de Directivos, and member of its Executive Committee

Member of CEAL, Consejo Empresarial de América Latina, and member of the Executive Committee of the Iberian chapter.

Member of WPO-YPO, Young Presidents' Organization, and member of the executive committee of the Eurolatam chapter

Member of IWF, International Women's Forum

**Proprietary non-executive director, on behalf of SEPI**

**Santiago Lanzuela Marina**, born 27 September 1948.

Degree in Economics & Trade.

Civil servant of the State.

*Formerly:*

Adjunct Professor, Faculty of Economics and Business Studies, Universidad de Valencia (1971-1973).

Head of the Spanish Mission for Technical Cooperation in Nicaragua (1974-1976).

Head of International Technical Cooperation Programmes, Ministry of Employment (1976-1981).

Advisor to the President of Instituto de Cooperación Iberoamericana (1982).

Head of the National Heritage Inspection Service (1987).

Regional Councillor of Economy and Finance, Government of Aragón (1989-1993).

Founder and Chairman of Instituto Aragonés de Fomento (1990).

President of Centro Europeo de Empresas e Innovación de Aragón (1992).

Parliamentary Member for Aragón (1991-1999).

President of the Autonomous Community of Aragón (1995-1999).

Senator for the Autonomous Community of Aragón. Chairman of the Senate Economy and Finance Committee (1999-2000).

Congressman, President of the Economics and Tax Commission in Congress (2000-2004).

Congressman, Member of the Permanent Council, Vice-Chairman of the Committee for Foreign Affairs and Member of the Development Committee (2004-2008).

Member of the Territorial Management Committee. Sponsor of the “Deputy Committee to analyze Spain’s energy strategy for the next 25 years” (2008-2011).

Congressman, President of the Economics and Competition Commission, Member of the Committee for Foreign Affairs, Member of the Development Committee, and member of the Spanish Delegation in the Parliamentary Assembly to Organize Security and Cooperation in Europe-OSCE (2011-28.7.2014).

### **Independent non-executive director**

**José Luis Feito Higuera**, born on 13 April 1952.

Mr. Feito holds a degree in Economics and Business from Universidad Complutense de Madrid.

State Trade Expert and Economist.

Ambassador of Spain.

#### *Currently:*

Chairman of IEE (Instituto de Estudios Económicos) since 2009.

Chairman of the Economic and Financial Policy Committee of the Spanish employers confederation CEOE and member of its Executive Committee and Management Board since 2001.

Member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012.

Member of the editorial board of the daily newspaper *Expansión* since 2001.

#### *Formerly:*

Chairman of the concessionaires association ASETA, Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).

Ambassador of Spain to the OECD in Paris (1996-2000).

Partner and Member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), where he has been Chief Economist and head of various investment banking areas (1986-1996).

Head of international financial institutions at the Banco de España, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Economic Community in Basel.

Technical Advisor and Executive Director of the International Monetary Fund in Washington (1980-1984).

Head of the Foreign Sector Research and Data Processing Service of the Ministry of Economy and Finance in Madrid (1978-1980).

Programmer, analyst and IT executive at Seresco, S.A. and Entel-Ibermática, S.A. in Madrid (1967-1978).

**Proprietary non-executive director, on behalf of SEPI**

**José Ángel Partearroyo Martín**, born 16 February 1974.

Law degree from Universidad de Salamanca.  
Master's degree in Business Legal Advice (LLM) from Instituto de Empresa. Public service exams to qualify as a judge and public prosecutor.

*Currently:*

General Manager of SEPI.

*Formerly:*

Head of Investees in the Communication Division of SEPI.  
Senior Associate at BIRD & BIRD (Spain) LLP.  
Senior Lawyer as Ramón y Cajal Abogados (in alliance with Mayer Brown).  
Associate Lawyer at Goñi y Cajigas Abogados, S.L.  
Associate Lawyer at KPMG Abogados, S.L.  
Associate Professor of Company Law in the Law Faculty of the Colegio Universitario Cardenal Cisneros (attached to Universidad Complutense de Madrid).  
Associate Professor of Company Law in the Law Faculty of Universidad Rey Juan Carlos I.

**Non-director Secretary of the Board of Directors**

Rafael García de Diego Barber, born 27 July 1951.

He was appointed Secretary of the Board of Directors and legal advisor at the Board meeting held on 4 May 1995.

Law degree, Universidad Complutense, Master's Degree in Tax Counselling for Businesses, Instituto de Empresa.

*Currently:*

Secretary General and of the Board of Directors of Red Eléctrica de España, S.A., Member of the Madrid Bar Association, Director of the Dutch company Red Eléctrica de España Finance B.V., Joint Director of Red Eléctrica Financiaciones, S.A.U. and Director of the Luxembourg company REDCOR Reaseguros, S.A.

*Formerly:*

Lawyer, Loss Department, Zurich, S.A., Lawyer and Secretary of the Boards of Directors of companies in the Inmobiliario Pradisa Group, Lawyer and tax advisor of Ageco, Sociedad de Gestión Financiera and a tax manager of Banco Internacional de Comercio, S.A., Lawyer of the Legal Department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX), Lawyer of the Legal Department, Head of the Legal Department and Director responsible for Legal Affairs at Red Eléctrica de España, S.A.

**Non-director Vice-Secretary of the Board of Directors**

**Fernando Frías Montejo**, born 11 March 1965.

He was appointed Vice-Secretary of the Board of Directors at the meeting held on 21 April 2005.

Degree in Law and Certificate in Business Studies, Universidad Pontificia de Comillas (ICADE-E-I).

*Currently:*

Member of the Madrid Bar Association, and Head of the Corporate Governance Legal Department of Red Eléctrica de España, S.A.

*Formerly:*

Lawyer in the Legal Department of Red Eléctrica de España, S.A. since 1990 and Secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., Red de Alta Tensión, S.A. and Tenedora de Acciones de Redesur, S.A.

- **Attendance at Board of Directors and Committee meetings.**

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

- **Board of Directors:**

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

<b>Attendance at Board of Directors meetings</b>		
<b>Director</b>	<b>Present</b>	<b>Represented</b>
José Folgado Blanco	13	0
Juan Francisco Lasala Bernad	5	0
María Angeles Amador Millán	14	0
José Luis Feito Higuera	12	0
Fernando Fernández Méndez de Andés	14	0
Francisco Ruiz Jiménez	12	1
Paloma Sendín de Cáceres	14	0
Carmen Gómez de Barreda Tous de Monsalve	14	0
María José García Beato	14	0
José Ángel Partearroyo Martín	1	0
Antonio Gómez Ciria	14	0
Socorro Fernández Larrea	13	1
Santiago Lanzuela Marina	14	0

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

-Mr. José Luis Feito Higuera was co-opted to the Board of Red Eléctrica Corporación, S.A. as an independent director at the Board of Directors meeting held on 13 February 2015.

-Mr. Francisco Ruiz Jiménez submitted his resignation as proprietary director of Red Eléctrica Corporación, S.A. on behalf of SEPI at the Board of Directors meeting held on 24 November 2015.

-Mr. José Ángel Partearroyo Martín was appointed proprietary director of Red Eléctrica Corporación, S.A. on behalf of SEPI at the Board of Directors meeting held on 22 December 2015.

- Audit Committee:

Of the eleven (11) Audit Committee meetings held in 2015, no directors failed to attend.

- Appointments and Remuneration Committee:

The Appointments and Remuneration Committee held fourteen (14) meetings in 2015, with no non-attendances.

- Chairman of the Board.

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

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

Art. 529 *sexies* of the LSC, which was added following the reform enacted by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, regulates the powers of the Chairman of the Board for the first time, naming the Chairman as the person ultimately responsible for the effective functioning of the Board of Directors. Besides the functions specified in law, the By-laws and the Board of Directors Regulations, the LSC also gives the Chairman the following responsibilities:

- Convene and chair Board meetings, setting the agenda and conducting the discussions and deliberations.

- Chair the General Meeting.

- Ensure that directors receive sufficient information in advance to be able to deliberate on the business of the meeting.

- Stimulate debate and active participation by directors during Board meetings, safeguarding their freedom to take positions and express opinions.

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

Art. 20 and 21 of the company's By-laws make the Chairman of the Board responsible for representing the Board of Directors on a permanent basis, calling a vote on Board matters once they have been sufficiently debated and ensuring that Board resolutions are complied with.

Additionally, Recommendation 16 of the new CGGLC extends the powers of the Chairman of the Board to include the following:

- Prepare and submit to the Board a schedule of meeting dates and items of business to be transacted.
- Organize and coordinate the periodic assessments of the Board and, where applicable, the CEO.
- Guide the Board and be responsible for its effective functioning.
- Ensure that sufficient time is given to discussion of strategic matters.
- Agree upon and review the Board members' professional development programmes.

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

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

Until the Extraordinary General Meeting held on 17 July 2015, the Board of Directors included only one executive director, who was also the company's chairman. However, there were numerous checks and balances that helped maintain a balance of powers on the Board. The CEO was subject to specific controls of his responsibilities by the Board of Directors, from which he had to request subsequent ratification regarding any urgent decisions he may have had to adopt or, as the case may be, request prior authorization for such decisions. The independent directors, who until July 2015 represented 64% of the Board of Directors, and the Board committees, which had specific powers, also contributed to that balance of powers. In this respect, the most important measures were approved in 2013, following international corporate governance recommendations, with the corresponding amendments to the Board of Directors Regulations and the By-laws.

The relevant amendments made to the Board of Directors Regulations on 13 March 2013 were as follows:

- The possibility of creating the position of lead independent director and a procedure for appointing, removing and regulating the lead director's powers and responsibilities (a role that was appointed in May 2013).
- The introduction of specific measures for the splitting of positions of CEO and Chairman of the Board of Directors.
- Express reservation to the Board of Directors of certain competences and powers which, for reasons of urgency, had previously been delegated to the Chairman of the Board of Directors.
- Provision requiring that the number of independent directors must represent at least half of the total number of directors. When the Chairman of the Board is also the

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

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

The corporate legal regime approved in 2013 allowed the de facto splitting of the positions of Chairman of the Board and CEO of the company and even allowed the appointment of one or more Chief Executive Officers besides the Chairman. All these matters were resolved at the Extraordinary General Meeting held on 17 July 2015. At that meeting, having received the report on the splitting of positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) of the company, which had previously been approved by the Board of Directors, the shareholders agreed to increase the number of directors by one, setting the total at twelve, and appointed a new executive director (who subsequently was appointed CEO by the Board of Directors). Subsequently, at its meeting on 28 July 2015, the company's Board of Directors appointed the new executive director, Mr. Juan Francisco Lasala Bernad, to be CEO of the company. That appointment marked the start of a transitional period, in which the company has two executive directors (the Chairman of the Board and the CEO) and which will be brought to a conclusion at the 2016 Annual General Meeting. For further details we refer the reader to the section on "The process of splitting positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) of the company" in Chapter I, Title II of this report.

- **Directors' responsibilities and duties.**

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

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

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

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

- The duty of care of directors is described and specified.

- Obligations are redrafted, derived from directors' duty of loyalty (such as the duty of secrecy or to refrain in a conflict of interest) and are now mandatory, as well as the consequences of

a breach; other new obligations are added, such as the obligation of directors to act according to their free judgement, without accepting instructions or commitments with third parties; and, in general, the need to adopt the necessary measures to avoid any potential conflict of interest with the company.

-Further details are provided on obligations derived from the duty to avoid conflicts of interest, redrafting some of the current obligations derived from the duty of loyalty, already regulated in several provisions of the LSC.

-Situations are regulated where directors may be released from the need to fulfil their obligations derived from the duty of loyalty and duty to avoid conflicts of interest (such as transactions executed with the company, taking advantage of a business opportunity or the possibility of competing with the company).

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

**-Duty of diligent management**

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

**-Duty of loyalty**

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

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

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

**-Ban on using business opportunities**

Directors may not, whether directly or indirectly, for their own benefit, or for the benefit of related parties, or a third party, make use of a business opportunity of the company or Group companies, unless it has previously been offered to the company and the latter has waived the opportunity presented, and provided the opportunity has been authorized by the Board, subject to a report by the Appointments and Remuneration Committee.

**-Conflict of interest situations**

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

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

Directors must likewise notify the direct or indirect stakes that they or persons related to them may have in the capital of a company with the same, analogous or supplementary type

of activity to the corporate purpose, and must also notify the positions or functions exercised at them.

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

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

#### **-Prohibition on competition**

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

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

#### **-Duty of secrecy**

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

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

#### **-Non-public information**

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

Directors must refrain from performing, or suggest that anyone perform, a transaction involving securities of the company or its subsidiaries, associates or related parties, on the basis of information obtained from their office, or insider or reserved information, as long as this continues to be non-public information. This is without prejudice to the rules applicable in each case in the Internal Code of Conduct in the Securities Market.

#### **-Indirect transactions**

The director will have breached his loyalty to the company and/or group companies if, while having prior knowledge of it, he allows or does not disclose the existence of transactions conducted by his relatives or by companies in which he holds an executive position (or in

which he has a significant holding), or by other related parties, which have not been subjected to the conditions and controls provided for in the preceding articles.

- **Removals.**

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

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

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

- **Directors' Portal.**

The Directors' Portal is a project that began six years ago, with a view to applying new technologies in the day-to-day work of the members of the Board of Directors and its committees.

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

The content of the portal is divided into various sections, distinguishing between documentation relating to Board meetings, documentation relating to the Board's two committees and other documents of special interest to the Board. It also includes various sections with corporate information about the company, the main legislation affecting the company's activities, all the corporate information of interest to the directors in the exercise of their duties, information on the activities and functioning of the company's various organizational areas, press information concerning the company and other information which may be useful for directors to gain a better understanding of the company's activity and functioning and the exercise of their duties as directors.

The content of the Directors' Portal has been extended several times to include information on corporate responsibility, expand the corporate documentation and make technical improvements, making it a highly-valued tool by the directors.

The Director's Portal is constantly reviewed to ensure it is always up to date and that all possible improvements are made.

In 2015 the portal was subject to a thorough review: in light of the relevant progress made in IT over the last few years and based on reasonable experience in portal use, a structural and functional review of the Director's Portal was carried out in order to introduce technical improvements (software modernization, compatibility with new mobile electronic devices and browsers, etc.), resulting in a more modern and efficient application. The new tool is scheduled to be available in the first quarter of 2016.

- **Assessment of the Board.**

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

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

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

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

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

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

As in the previous year, the results of the self-assessment carried out by PwC through interviews with the directors show that Red Eléctrica's governing bodies are highly efficient and work well, receiving very positive assessments for their internal structure and functioning and fulfilment of their assigned responsibilities.

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

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

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

- The submission of directors' remuneration and the annual report on directors' remuneration to a binding vote, as separate points of the General Meeting agenda.
- The transparency and level of information achieved in relation to the design, structure and content of the directors' remuneration policy.
- Assessment of the governing bodies by an independent expert.

- Creation of the role of lead independent director.
- The level of gender diversity within the Board of Directors, with women representing 50% of the total number of members.
- The level of transparency of the Annual Corporate Governance Report.

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

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

- Continue to adapt Red Eléctrica's internal regulations to the changes introduced by the LSC, where the changes have not already been implemented. Specifically, the By-laws, the General Meeting Regulations and the Board of Directors Regulations of Red Eléctrica may have to be amended or updated.
- Continue to expand and develop the monitoring of strategic issues in Board of Directors meetings, although a broad majority of the directors considered these issues to have received good attention during the year.
- Continue to put effort into the continuing professional development of the directors in areas relating to Board accountability and corporate governance, in response to the changes made to the LSC and the updating of the CGGLC, with special emphasis on the members of the Appointments and Remuneration Committee.
- Continue to reinforce the model for managing the relationship between Red Eléctrica's governing bodies and investors and proxy advisors, as well as the policy for communication and contacts with institutional investors and proxy advisors.
- Carry out an in-depth analysis of the new recommendations introduced by the CGGLC and their impact on Red Eléctrica's current corporate governance model, with a view to implementing during 2015 the necessary actions to ensure compliance.

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

As was the case in 2014, support is being provided by an independent firm, PwC. Below we describe the preliminary results of the evaluation process conducted on the quality and efficient operation and performance of the management bodies of Red Eléctrica over 2015.

The evaluation process has been based on interviews to Red Eléctrica directors in order to gather opinion on various matters related to how the company's management bodies work.

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

- Regarding the structure and composition of the Board of Directors, most directors agree on the fact that it is adequate, both in terms of size and in terms of the relative proportion of the different types of member directors.
- As regards the internal functioning of the Board of Directors, most of the directors consider the frequency and convening of meetings, the information and documentation provided and the level of attendance and duration of Board meetings to be very good.
- In relation to the functioning and effectiveness of the Board of Directors, the directors give a favourable assessment of the planning of the annual schedule of meetings, the preparation on the agenda and the most important items of business, the encouragement of debate, the active participation of the directors and the efficiency of the decision-making process.
- New this year is the positive assessment of the periodic information received regarding changes in shareholders and the opinions of the most important shareholders, investors and rating agencies regarding Red Eléctrica. The participation of the lead director in meetings with proxy advisors is also considered a good thing.
- The directors consider the periodic training programmes they took part in last year to have made a positive contribution to their supervisory tasks.
- They declare themselves very satisfied with the level of interaction between the Board of Directors and Senior Management, especially as regards the availability of the company's senior executives, the rigour and preparation of the executives' appearances at Board meetings and the executives' willingness to accept the Board's guidance and supervision. Looking to 2016, with the appointment of the new CEO, they believe that the participation and interaction of other senior managers with the Board and its committees needs to be made more systematic, so that it can be maintained and even increased in this new stage.
- As regards the reorganization of the Senior Management of Red Eléctrica and the design and approval of the Strategic Plan, a majority of the directors believe that the Board's involvement in both processes has been adequate.
- A majority of the directors approve of the Board's performance of its reserved responsibilities, as defined in Red Eléctrica's internal regulations and other applicable laws and regulations.
- The Board's involvement and the performance in the process of splitting positions of Chairman of the Board of Directors and CEO of the company is viewed positively or very positively by a majority of the directors.
- The assessment of the Chairman's performance of his Board responsibilities is highly favourable.

- A majority of the directors give a positive assessment of the Chief Executive Officer's performance of his duties, especially as regards his role in driving the development of the company's business areas and overseeing the execution and accomplishment of the Strategic Plan.
- The directors express a positive opinion regarding the creation of the lead director role and the lead director's performance of his duties. The lead director's involvement was important in many of the extraordinary issues the Board had to deal with in 2015. There is a consensus that the role of the lead director should be maintained in Red Eléctrica over the next few years, despite the fact that it is no longer strictly necessary from the point of view of the corporate governance framework, as it is expected that from the next General Meeting onward the Chairman will be a non-executive.
- The directors express a favourable opinion of the Board Secretary's performance, particularly as regards ensuring that the Board takes the recommendations of the CGGLC into account in its actions and decisions.
- It is worth noting this year that the directors are very satisfied with the internal functioning and formal aspects of both the Audit Committee and the Appointments and Remuneration Committee.
- As regards the role of shareholders and investors and proxy advisors, a majority of the directors consider that the role and involvement of the governing bodies improved in the last financial year, especially as a result of relationship-building between the Board and proxy advisors and the significant increase in communication with shareholders and investors.
- A majority of the directors recognise the high level of transparency and information achieved in disclosing the design, structure and content of the remuneration policy to shareholders.
- A majority of the directors approve of the publication of relevant information and documentation on the Red Eléctrica website, where it is available to stakeholders.
- Lastly, as regards the governing bodies' responsibilities in relation to corporate social responsibility, most of the directors agree that Red Eléctrica has performed very well in exercising these responsibilities.

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

- Continue to develop good practices within the company's governance model, looking beyond the new regulatory requirements contained in the LSC and CGGLC.
- Continue to develop and reinforce the governing bodies' relations with investors and proxy advisors, analyzing and deciding how the Board should interact and engage with these stakeholders and fostering the adoption of new best practices.
- Continue to explore strategy and risk management-related issues that could affect the company.

- Consider including new subjects relating to taxation, risk management and specific energy sector knowledge in the Board training programmes.
  - Taking into account the recent reorganization of the company's governance and management model, the Board must continue to monitor effective implementation of this model.
  - If Mr. José Folgado is re-elected and becomes a non-executive director, maintaining the lead director role may require reviewing the lead director's functions and adapting them to the company's new governance model.
- **Board remuneration policy.**

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

## **CHAPTER V.- Board committees**

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

Pursuant to the By-laws and the Board of Directors Regulations, the company has two Board committees: the Audit Committee and the Appointments and Remuneration Committee. The roles and responsibilities of these committees are established in the By-laws, which at the Annual General Meeting held on 15 April 2015 were amended to bring them into line with the new rules introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance. The Board of Directors Regulations are also being reviewed to fully adapt them to the abovementioned reform of the LSC and to implement, as far as possible, the recommendations of the new CGGLC.

Following the reform of the LSC, the latest international practices and recommendations regarding the composition and independence of the committees and the qualifications of their members have been consolidated. The main aspects of this reform do not affect Red Eléctrica's internal regulations because they were taken into account when the By-laws and Board Regulations were amended in 2013 and the great majority of them were already taken into account prior to the amendment. Nevertheless, these corporate regulations are being reviewed to ensure that they are fully adapted to the new legislation.

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

- Companies are now required to establish, along with the Audit Committee, either a single Appointments and Remuneration Committee or two separate committees for Appointments and Remuneration.
- Both the Audit Committee and the Appointments and Remuneration Committee should consist entirely of non-executive directors, at least two of whom should be independent.
- The chairman of each committee will be designated from among the independent directors.
- The minimum competences of both committees are established.

At its meeting on 24 December 2015, further to a proposal made by the Chairman of the Board of Directors and subject to a prior opinion from the Appointments and Remuneration Committee, the company's Board of Directors agreed to increase the number of members of each Board committee (the Audit Committee and the Appointments and Remuneration Committee) from four (4) to five (5). This measure gives the Appointments and Remuneration Committee greater independence in the exercise of its functions (art. 24.3 of the By-laws), as the independent directors (four out of five members) are more strongly represented (equivalent to 80%) and carry more weight in decision making. The presence of women on the Appointments and Remuneration Committee (four out of five members) has also been increased, in compliance with the obligation established in art. 16.I. i) of the Board of Directors Regulations to take gender diversity into account when filling vacancies, in line with international corporate governance best practices. The increase in the number of members of the Appointments and Remuneration Committee from four to five, all of them non-executive directors and a majority of them independent, also meets the demands of art. 529 *quindecies* of the LSC, which establishes that "the Appointments and Remuneration Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, at least two of whom shall be independent directors", and reinforces compliance with Recommendation 47 of the CGGLC, which recommends that a majority of the members of said committee be independent directors, given that the proportion of independent directors on the committee has increased.

With the increase in the size of the Audit Committee from four to five members and the inclusion of a proprietary director, the company continues to comply with the rule that the committee be made up of a majority of independent directors and continues to support the committee's independence in the exercise of its functions (art. 23.3 of the By-laws), given that the independent directors (three out of five members) continue to have more weight in decision making. The expansion of the Audit Committee to five members, all of them non-executive directors and a majority of them independent, meets the demands of art. 529 *quaterdecies* of the LSC, which establishes that "the Audit Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, at least two of whom shall be independent directors and one of whom shall be appointed based on his knowledge and experience in matters of accounting, auditing or both", and Recommendation 39 of the CGGLC, which recommends that the members of the Audit Committee, especially its chairman, be appointed having regard to their knowledge and experience in matters of accounting, auditing or risk management and that a majority of the members of the committee be independent directors.

At 31 December 2015, both Board committees were chaired by independent directors and the chairman of the Appointments and Remuneration Committee was a woman.

For more details, as usual, a copy of the annual activity report of both committees for 2015 is included in Chapter IV, Title III of this report. Both reports are due to be published, separately, on the corporate website.

### **1. Audit Committee**

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

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

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

Director	Position	Type of Director
José Luis Feito Higuera	Chairman	Independent non-executive
Paloma Sendín de Cáceres	Member	Independent non-executive
Fernando Fernández Méndez de Andés	Member	Proprietary non-executive (SEPI)
Antonio Gómez Ciria	Member	Independent non-executive
Santiago Lanzuela Marina	Member	Proprietary non-executive (SEPI)

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

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

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

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

In 2015, in connection with the review of the company's and the group's financial statements for 2014, the external auditor of the company and its group explained the audit process and the final audit opinion, which is entirely clean and unqualified, distributing a report with the

conclusions of the audit and responding to questions raised by the members of the committee. The Committee agreed to issue a favourable opinion on the 2014 Annual Accounts.

### ➤ **Functions**

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

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

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

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

The Audit Committee shall have at least the following responsibilities:

- (i) Report to the Annual General Meeting of Shareholders on issues raised in relation to matters that fall within the committee's remit.
- (ii) Supervise the effectiveness of the company's internal control, internal audit and risk management systems, including tax risk management, and discuss with the external auditor any significant weaknesses in the internal control system detected in the course of the audit.
- (iii) Supervise the preparation and presentation of the statutory financial statements.
- (iv) Refer to the Board of Directors any proposals regarding the selection, appointment, re-election and replacement of the external auditors and the terms of their engagement, regularly gather information from the external auditors about the audit plan and its execution and take steps to preserve the external auditors' independence in the exercise of their functions.
- (v) Establish the necessary relations with the external auditors in order to receive, for examination by the committee, information on any matter that might put the auditors' independence at risk and any other matter relating to the audit process, and conduct any other communications provided for in audit law and auditing standards. The committee will also receive an annual statement from the external auditors certifying their independence in relation to the company or entities directly or indirectly related to it, as well as

information about any additional services of any kind provided and the fees received from these entities by the external auditors, or by individuals or entities related to them, in accordance with applicable laws on auditing.

- (vi) Issue each year, prior to the issue of the auditors' report, a report expressing an opinion on the independence of the external auditors. This report will contain an assessment of any additional non-audit services provided, as referred to in the previous section, considered individually and in the aggregate, in relation to the auditors' independence and compliance with auditing standards.
- (vii) Report to the Board of Directors, in advance of its meetings, on all matters provided for by law, the By-laws and the Board of Directors Regulations, in particular regarding:
  - 1. The financial information the company must publish periodically.
  - 2. The creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories classified as tax havens.
  - 3. Transactions with related parties.
- (viii) Any other duty assigned to it by the Board or more generally in its internal regulations, or as a particular assignment.

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

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

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

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

In addition, a need to review and inform the Board in advance of the economic/financial information which the company is to make public and forward to the supervisory bodies of the market has also been established. In line with standard practice, the committee must ensure that the monthly, quarterly and half-yearly financial statements are prepared using the same accounting criteria as those used to prepare the annual financial statements and, whenever it deems appropriate, may request a limited review by the external auditor. The functions of supervising the investments, the annual budget, and timetable for the financial year economic close in order to submit them to the Board, and periodically monitoring the company's treasury stock operations, have now been added.

2- In relation to internal control and risk management systems, supervise the internal audit function to ensure the correct functioning of the reporting and internal control systems; the Auditing Committee has also been assigned to ensure the independence and efficiency of

the internal audit function, to supervise and control the process for selecting, appointing, re-electing and removing the person in charge of the internal audit service, as well as such service's action plans; to supervise and control the means and resources allocated to the internal audit service and, inter alia, its budget; to receive periodic information on its activities; and to check that Senior Management of the company and of its group has regard to the conclusions and recommendations of its reports.

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

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

- 3- Establish the necessary relations with the external auditors in order to receive, for examination by the committee, information on any matter that might put the auditors' independence at risk and any other matter relating to the audit process, and conduct any other communications provided for in audit law and auditing standards. In any case, they must annually receive from the external auditors a written confirmation of their independence with respect to the company or to entities related to it directly or indirectly, and also issue a report expressing an opinion on the independence of the external auditors making a pronouncement, in all cases, on the provision of non-audit services; particularly noteworthy is the responsibility for ensuring that the company discloses any change of auditor to the CNMV as a material event and, if applicable, any disagreements with the outgoing auditor, and also for ensuring that the company, within the scope of its responsibilities, complies with the legislation in force on the provision of services other than audit services, the limits on the concentration of the auditor's business and, in general, the other provisions stipulated to ensure the auditor's independence. In the event of resignation of the external auditor, it must examine the circumstances that may have led to its renounce, and verify that Senior Management of the company and of Red Eléctrica de España, S.A.U. is acting on the recommendations of the external auditor. The changes in these functions in the Regulations have been made to adapt them to the wording of art. 23 of the By-laws.

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

supervise the preparation of the annual compliance report by the Programme's control and supervisory body.

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

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

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

## **2. The Appointments and Remuneration Committee**

Act 31/2014 of 3 December establishes the obligation of listed companies to create an Appointments and Remuneration Committee, chaired by an independent director, consisting of at least two independent directors and made up exclusively of non-executive directors. The Act also establishes certain minimum duties in relation to appointments and remuneration. In Red Eléctrica, the committee that for many years has performed all these functions and responsibilities is the Appointments and Remuneration Committee (formerly known as the Corporate Responsibility and Governance Committee). Both in its composition and in its functions, the Appointments and Remuneration Committee substantially meets the requirements of the amended LSC (art. 529 *quindecies* LSC), although at the 2015 Annual General Meeting the By-laws were amended to bring them more fully into line with the LSC.

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

These specifications are in line with the corporate governance best practices included in the LSC, which recommend that no executive directors be included in this committee and that the majority of its members be independent directors.

It is worth noting that already in 2012, even before the Board of Directors Regulations were amended in 2013, the Board of Directors decided to adjust the composition of the Corporate Responsibility and Governance Committee so that, for the first time, it did not include the company's Executive Chairman.

The committee's chairman is an independent director chosen from among its members and its secretary is the Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors, at the proposal of the Board Chairman. Committee members will hold position for a three-year term and may be re-elected, and will abandon their position if they lose director status or if this is agreed by

the Board of Directors, further to a report issued by the Appointments and Remuneration Committee. The committee's chairman is appointed for a three-year period and may be re-elected after a one-year break in service.

The following changes in the composition of the Appointments and Remuneration Committee took place during 2015:

- With the expiry of the term of position of Ms. Carmen Gómez de Barreda Tous de Monsalve (independent non-executive director) as a member of the Appointments and Remuneration Committee, at its meeting on 26 May 2015 the company's Board of Directors decided, after considering a report by the Appointments and Remuneration Committee, to re-elect her as a member of the Appointments and Remuneration Committee for a period of three years.
- Mr. Francisco Ruiz Jiménez was a member of the Appointments and Remuneration Committee until 24 November 2015, when he submitted his resignation as a proprietary director of Red Eléctrica Corporación, S.A., representing SEPI. His resignation was accepted by the company's Board of Directors at the meeting held on that date, giving rise to a vacancy on the Appointments and Remuneration Committee.
- As explained earlier, at its meeting on 24 November 2015 the company's Board of Directors, at the proposal of its chairman and after considering a report by the Appointments and Remuneration Committee, agreed to increase the number of members of the Appointments and Remuneration Committee from four (4) to five (5) and appointed Ms. María Angeles Amador Millán as a new member of the Appointments and Remuneration Committee.

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

Director	Position	Type of director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent non-executive
María José García Beato	Member	Independent non-executive
Socorro Fernández Larrea	Member	Independent non-executive
María Angeles Amador Millán	Member	Independent non-executive
Vacancy <sup>4</sup>	Member	_____

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

The committee's members have been appointed by the Board of Directors at the proposal of the Chairman for a three-year term, subject to a prior report from the Appointments and Remuneration Committee.

All the committee members have a proven capacity to perform the tasks entrusted to the committee, based on their extensive experience and knowledge.

At 31 December 2015, 100% of the members of the Appointments and Remuneration Committee are women, including its chairperson. At that same date, independent directors represented 100% of the voting rights on the Appointments and Remuneration Committee and the chairperson was an independent non-executive director.

### ➤ **Functions**

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

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

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

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

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

The most recent amendment to the Board of Directors Regulations, approved in 2013, adapted the functions of the Appointments and Remuneration Committee to international corporate governance best practices, acknowledged certain legal requirements, such as the annual report on directors' remuneration (regulated in art. 61 *ter* of the Securities Market Act), and specified important functions which the committee was already performing but which were not expressly stated in the regulations.

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

1- In relation to appointments, performance and removals:

- a) To submit for the Board of Directors' approval and implement, where applicable, the policy for appointing and assessing candidates (new function introduced with the changes to the Regulations).
- b) To report –and propose, in the case of independent directors– in advance, on all proposals submitted by the Board of Directors to the Annual General Meeting for the designation or removal of directors; and report and propose –in the case of independent directors– the appointments of the directors by co-optation approved by the Board.
- c) To report, prior to their submission to the Board of Directors, on proposals for the appointment or removal of all positions on the Board of Directors and its committees.
- d) To draft an independence statement form, to be submitted to the Board of Directors, which must be signed and delivered annually by the Independent Directors.
- e) To verify each director's status for the purposes of the pertinent explanations from the Board of Directors at the Annual General Meeting of Shareholders which must appoint or ratify their appointment, and for the recording of the appointment in the Annual Corporate Governance Report.
- f) To propose to the Board of Directors, the appointment of the lead independent director.
- g) To ensure that the candidates for vacancies on the Board meet all of the requirements of the legal provisions and the provisions of these Regulations.
- h) Evaluate the competence, knowledge and experience necessary on the Board and, as a result, to define the functions and aptitudes necessary in the candidates who are to cover each vacancy, within the policy approved for such purpose.

- i) To evaluate the time and dedication necessary for directors to discharge their duties with due clarity and efficiency, valuing, for such purposes, compatibility with membership on other management bodies of companies.
- j) To report on appointments and removals of Senior Managers of the company and of Red Eléctrica de España, S.A.U. proposed by the Chairman to the Board of Directors.
- K) To examine or organize, as deemed suitable, the succession of the Chairman and, if appropriate, to make proposals to the Board for such succession to occur in any orderly and well-planned way.
- l) To ensure a sufficient balance of men and women when covering new vacancies.

2- In relation to remuneration:

a) To propose to the Board:

- i) The remuneration policy applicable to the Board of Directors and, where applicable, the Senior Management of the company and of Red Eléctrica de España, S.A.U.
- ii) The annual remuneration for the Board of Directors, which shall include the part corresponding to the fixed remuneration and the variable remuneration linked to compliance with the predetermined and quantifiable strategies and objectives established by the Board, at the proposal of the Appointments and Remuneration Committee, before the start of each financial year and linked to actions envisaged in the company's Strategic Plan.
- iii) The individual contractual remuneration for executive directors and the other terms of their contracts.
- iv) The basic terms of the contracts of senior managers of the company and of Red Eléctrica de España, S.A.U.

b) To consult the Chairman of the company, especially where dealing with matters relating to CEOs and Senior Managers of the company and of Red Eléctrica de España, S.A.U.

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

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

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

3- In relation to discharge of directors' duties:

- a) To ensure that directors perform the obligations stipulated in these Regulations, to report to the Board on their performance, to issue the appropriate reports and

proposals and, as the case may be, any on the measures to be taken in the event of breach.

- b) To authorize directors to use corporate assets.

#### 4- In relation to rules and actions on corporate governance:

- a) To supervise compliance with the rules of corporate governance, making proposals for improvement to the Board of Directors, to receive information in this connection and, if appropriate, to issue and submit annually to the Board a report on the measures to be taken.
- b) To submit to the Board of Directors the proposals of the Audit Committee on the modification of the Internal Code of Conduct in the Securities Markets.
- c) To approve the proposed Annual Corporate Governance Report to be submitted to the Board of Directors.
- d) To submit to the Board of Directors the proposed resolutions and reports within its powers to be submitted to the Annual General Meeting of Shareholders.
- e) To direct the Board's assessment process and, in particular, regarding the Board Chairman and the company's CEO, in coordination with the lead independent director.
- f) To approve an annual improvement programme on corporate governance and periodically assess its compliance.
- g) To periodically review the company's Corporate Criminal Risk Prevention Program, in coordination with the powers attributed to the Audit Committee.
- h) To submit to the Board of Directors a Knowledge and Information Programme Proposal for directors.

#### 5- In relation to corporate responsibility:

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

#### 6- Other functions:

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

## CHAPTER VI.- LEAD INDEPENDENT DIRECTOR

### 1. Introduction

In accordance with international standards of Corporate Government, it is recommended that listed companies splitting positions of CEO and Chairman of the Board of Directors.

The basic principle of this requirement is to avoid the risk of concentrating too much power in the hands of one single person, who at the same time performs the positions of both Chairman of the Board of Directors and CEO of the listed company, which could prevent or impede both the Board of Directors and Senior Management from adequately carrying out, with the necessary independence, those functions they have been given.

As an alternative to the splitting positions of CEO and Chairman of the Board, the main foreign international investors and the major international proxy advisors have previously accepted the creation of a lead independent director within the Board of Directors, as an alternative temporary measure, to act as an additional counterweight to the concentration of power in the hands of the CEO-Chairman.

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

At its meeting on 13 March 2013, the company's Board of Directors agreed to create the position of lead independent director, as proposed by the Appointments and Remuneration Committee. The By-laws were amended accordingly at the Annual General Meeting of shareholders held on 18 April 2013. At its meeting on 28 May 2013, the Board of Directors appointed Ms. Carmen Gómez de Barreda Tous de Monsalve as lead independent director for a period of three years.

In the report on the splitting positions of Chairman of the Board of Directors and CEO of the company that was submitted to the Extraordinary General Meeting on 17 July 2015, the Appointments and Remuneration Committee and the company's Board of Directors concluded that the role of lead director on the Board of Directors of Red Eléctrica Corporación, S.A. should be maintained even after the positions of Chairman and CEO have been separated.

The reasons for this conclusion are as follows:

- Having a lead director is an effective corporate governance practice, as the shareholders and proxy advisors have acknowledged: they consider the lead director an important element of the current Board structure and composition, one that helps ensure a proper balance of powers and responsibilities.
- Following the reform of the LSC in December 2014, having a lead director is obligatory in listed companies in Spain in which the Chairman of the Board of Directors is an executive director (art. 529 *septies* LSC). The powers and

responsibilities of the lead director have been reinforced in the new CGGLC, which explicitly assigns to the lead director functions such as chairing Board meetings in the Chairman's absence, having contact with shareholders and investors and overseeing the Chairman's succession plan.

- In its 2014 self-assessment, the company's Board of Directors expressed a positive opinion regarding the lead director, who was considered to have helped improve the functioning of the Board, and considered it a role that should be reinforced in future years.
- As to whether the role of lead director should be maintained beyond the 2016 Annual General Meeting, it should be borne in mind that if Mr. Folgado Blanco is re-elected as director at that General Meeting, he will qualify as a non-executive director but cannot be considered an independent director for at least five years, because of a prohibition provided by law (art. 529 *duodecies*, section 4.a) LSC) and regulation (art. 7.2 c) of the Board of Directors Regulations). It would therefore seem advisable to maintain the figure of the lead director.
- It should also be pointed out that although independent directors are still a majority on the Board and have sufficient presence, with the appointment of the new executive director the proportion drops from 64% to 58%. For all these reasons it is considered that maintaining the figure of the lead director, even after the splitting has been completed, will help to preserve the checks and balances within the Board of Directors in favour of the independent directors and will be a decision that will be welcomed by the shareholders and proxy advisors, as they have recently conveyed to the company.
- Moreover, most of the Ibex 35 companies that have already split positions of Chairman and CEO have opted to maintain the position of lead director even after the splitting.

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

## 2. Functions

The core responsibility of Red Eléctrica's lead independent director, as established in art. 25 *bis* of the By-laws, following the amendment adopted at the 2014 Annual General Meeting to adapt them to the reform of the LSC, is to organize any common positions of the non-executive directors, in particular the independent non-executive directors, and to serve as a channel of communication or spokesperson for such common positions to the Chairman of the Board of Directors, the Board itself and the Board committees. This core responsibility must be taken into account in the performance of the other functions provided for by law, the By-laws and the Board of Directors Regulations.

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

1. With respect to the Board of Directors:

- a) To propose, to the Chairman of the Board of Directors, items to be included on the agenda for each meeting.

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

## 2. In respect of the independent directors:

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

## 3. In respect of the Shareholders:

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

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

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

## **Chapter VII.- The CEO**

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

Without prejudice to any other powers and responsibilities that may be assigned to him, in accordance with the "Process of splitting the positions of Chairman of the Board of Directors

and CEO of the company”, the main responsibilities of the Chief Executive Officer, as CEO of the company, are as follows:

- a) To direct, coordinate and drive the management of the company’s and the group’s business areas;
- b) To lead, drive and guide the execution and implementation of the company’s and the group’s Strategic Plan;
- c) To oversee the efficient implementation and correct operation of the risk control system approved by the Board of Directors in the company and the group;
- d) To regularly report to the Board of Directors on the degree of execution and implementation of the Strategic Plan, the functioning of the risk management system and progress in the management of the group’s business areas, so that the Board is able to adequately and effectively exercise its general oversight and control function.

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

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

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

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

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

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

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

The Chairman of the Board of Directors, Mr. Folgado Blanco, and the CEO, Mr. Juan Francisco Lasala Bernad, have delegated to them all the powers of the Board of Directors

that the law and the By-laws allow to be delegated, pursuant to the Board of Directors resolutions dated 26 April 2012 and 28 July 2015, respectively.

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

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

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

### **Chapter VIII.- SENIOR MANAGEMENT.**

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

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

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

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

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

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

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

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

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

## **CHAPTER IX.- RISK POLICY AND INTERNAL CONTROL SYSTEMS.**

### **1. Scope of the company's risk management system, including for financial risks.**

A risk management system has been in place since 2002 and the company developed its first Risk Map in 2003.

The risk management system operates across the entire organization and as an integrated whole and is consolidated at corporate level by business unit, subsidiary and support area.

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

According to the Regulations of the Board of Directors of Red Eléctrica Corporación, approving the risk control and management policy is the responsibility of the Board of Directors. The risk control and management policy identifies the different types of risk, sets the level of risk the company considers acceptable and sets out action guidelines to mitigate risk.

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

- **The Integrated Risk Management Policy.**  
This policy (4th edition), which was approved by the Board of Directors in November 2014, identifies the different types of risks, sets the level of risk the company considers acceptable and sets out action guidelines for managing and mitigating those risks.  
In September 2015 this policy was expanded to include the tax risk control and management policy and the action guidelines for managing and mitigating tax risks.

The Integrated Risk Management Policy is fully aligned with the group's current Strategic Plan and is available in the "Corporate Governance" section of the corporate website, although the inclusion of the tax risk policy is still pending.

- **General Integrated Risk Control and Management Procedure.**  
This procedure (4th edition), which was ratified by the Management Committee in January 2013, establishes the purpose, responsibilities, activities and tasks of the system.

The General Integrated Risk Control and Management Procedure regulates the identification, assessment and management of the relevant risks faced by the group. The risk identification, assessment and management process is designed to ensure that managers at all levels within the group are aware and have an assessment of the risks that threaten the group's activities, processes and projects, take those risks into account in their activities and ensure that the risks remain within the established tolerance limits.

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

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

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

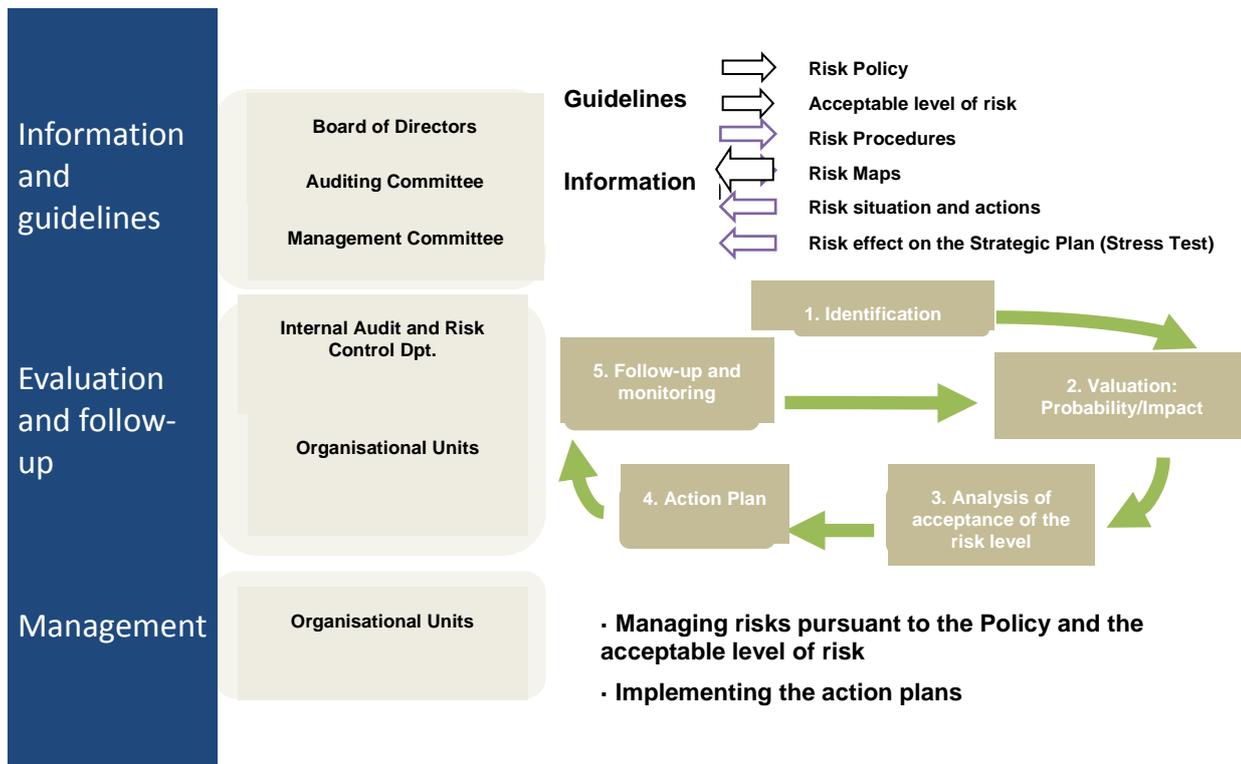
The tax risk control and management policy sets out the group's tax strategy, as approved by the Board of Directors on 30 June 2015. On 29 September 2015, the Board of Directors decided that the group should subscribe to the Code of Best Tax Practices, which identifies practices that help to reduce significant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

## **2. Company Bodies responsible for the preparation and implementation of the risk management system (including for tax risks)**

As previously stated, the risk management system is integrated in nature, insofar as all of the group's business units participate in it, along with the various governing bodies, within a systematized management process, in line with the criteria and guidelines established in the General Integrated Risk Control and Management Policy and Procedure.

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

## Integrated risk management model



As expressly recognised in the Board of Directors Regulations, the Board of Directors is responsible for approval of the company's and the group's Integrated Risk Management Policy and must be informed of and periodically monitor the internal control, prevention and reporting systems.

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

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

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

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

The **Internal Audit and Risk Control Directorate**, reporting to the Chairman's Office, is responsible for managing the identification, analysis, assessment and periodic control of risks. This department provides reports for the Management Committee, Audit Committee

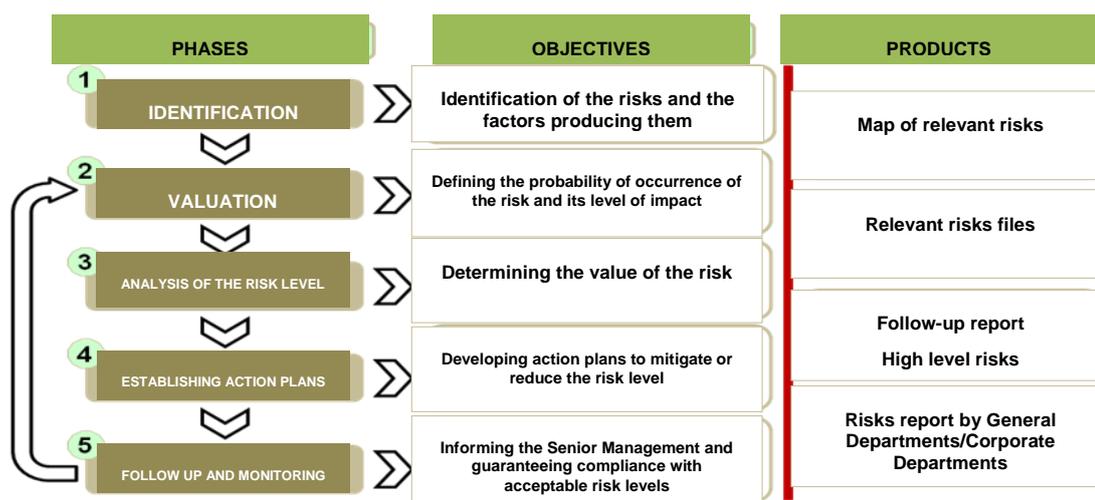
and the Board of Directors. Among the information provided, the following is of particular note:

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

The organizational units are involved in the risk management system within the process of identification, analysis and evaluation, together with the Internal Auditing and Risk Control Department and in the implementation of action plans.

Along with the responsibilities assigned to the group's various units and control bodies, the risk management system establishes the information flows, the actions guaranteeing the systematic monitoring and control of risks through a series of activities and products, and the specific methodology to measure the level of risk.

### Risk assessment and monitoring



### 3. Main risks (including tax risks) that could affect the achievement of business objectives.

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

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

In this context it is important to highlight the following for their importance and relevance:

- **Regulatory** risks: Possible changes to the legal framework regulating the business, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the operation of the business.
- **Operational** risks: Risks resulting from inadequate or failed internal processes, people and systems or from external events. Although operational risks affect all kinds of economic activity, they have a wider social and economic significance in the Red Eléctrica Group, given the criticality of the functions the group performs, and so require special attention. Operational risks include cyber security risks, which are very important, considering the company's activity and the systems it uses. The risk management system pays special attention to these risks.

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

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

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

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

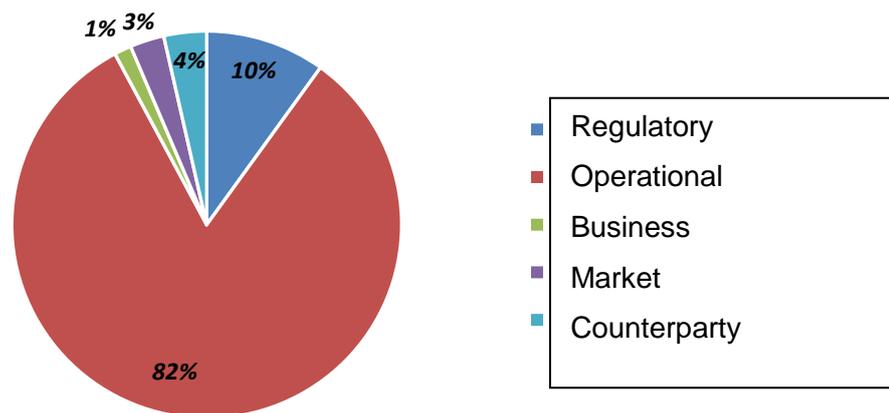


The next Risk Map will provide a more detailed breakdown of the risks, as follows:

- Regulatory risks as Spanish TSO
- Other regulatory risks, including tax risks
- Operational risks that may affect the Spanish electricity system
- Integral security risks
- Environmental and personal security risks
- Other operational risks, including criminal liability risks
- Financial and counterparty risks
- Risks associated with the telecommunications business
- Foreign business risks

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

The distribution of the risks by category is as follows:



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

#### 4. Risk tolerance level (including tax risks)

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

##### **Acceptable risk level for an individual risk:**

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

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

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

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

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

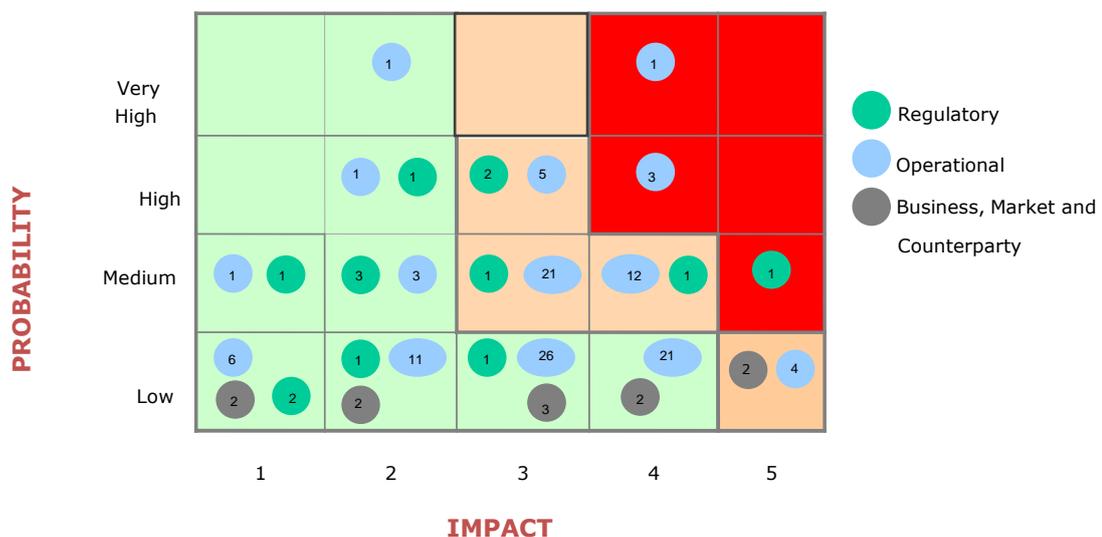
In relation to their impact, risks are rated on the basis of the effect that their materialization could have on four key elements of the business:

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

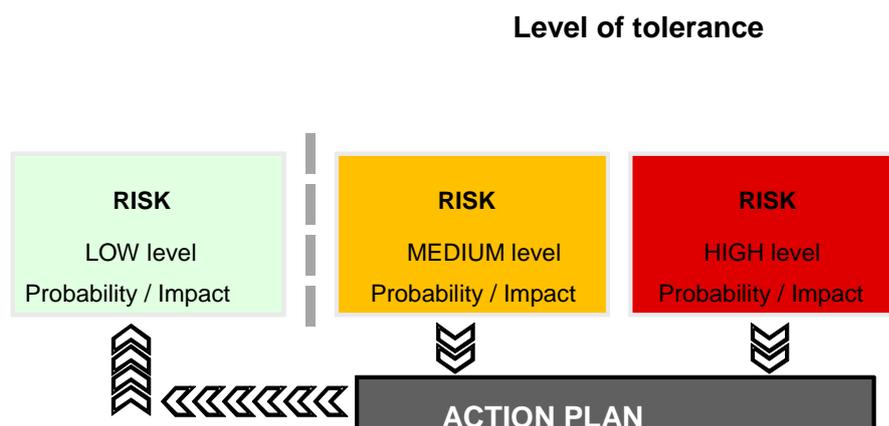
For each of these four elements, Red Eléctrica Group has produced a table showing five levels of effect or impact. In the cases of electricity supply and the income statement, the measurement is quantitative in nature (MWh and Euros) whereas for basic strategies and reputation it is qualitative.

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

**Risk matrix**



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



**Overall acceptable risk level:**

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

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

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

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

**5. Risks (including tax risks) that materialized in 2015**

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

## **6. Risk response and supervision plans for the company's main risks.**

### *Prevention of risks in the design and functioning of Red Eléctrica Group processes.*

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

### *Risk (including tax risk) action and supervision plans.*

In the process of identification, analysis, evaluation and control of risks referred to above, the actions required are established to reduce the degree of risk down to the acceptable level, as well as to maintain it in such level.

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

### *Contingency plans*

Red Eléctrica has a General Procedure: "Crisis management (pre-alert, alert and emergency)", to regulate crisis situations that could occur in cases of:

- Electrical incident, that could affect the security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incident, that could affect the environment, people, the efficiency of the company, business results or whatever other event that could impact on the company's reputation.

This procedure:

- Establishes the way in which this crisis should be managed in general.
- Determine the phases of pre-alert, alert and emergency for each type of risk that could affect the operation or transmission of energy through the electricity system or that might impact on people, the environment, efficiency and/or reputation.
- Establish the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- Relate the specific contingency plans that exist at Red Eléctrica for each type of event.

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

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

international best practices. The ICFR system includes Red Eléctrica's tax information and processes and the associated controls.

It is described in detail in "SECTION F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF FINANCIAL REPORTING (ICFR)" of the Official Annex to this report, drafted according to the standard form provided in Annex I to CNMV Circular 7/2015 of 22 December, in force at the date of approval of this report.

## **CHAPTER X.- RELATED-PARTY TRANSACTIONS**

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

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

The Audit Committee is responsible for reporting to the Board of Directors, in advance, on any related-party transactions that under art. 5.5 of the Board Regulations require Board authorization; and for reporting on related-party transactions that do not require authorization but that the committee considers the Board should be aware of.

In May 2010, pursuant to art. 5.5 and 14.6 of the Board of Directors Regulations and at the proposal of the Audit Committee, the Board of Directors approved a related-party transaction control policy and set objective parameters (relevant or not relevant) for the control of related-party transactions, annual recurring related-party transactions and transactions that must be disclosed to the markets. The Audit Committee monitors this policy annually and reports to the Board of Directors.

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

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

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

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

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

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

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

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

In addition, art. 2 of the Internal Code of Conduct in the Securities Market includes within its scope of application directors, the Secretary and Deputy Secretary of the company's Board of Directors, executives (as defined in Chapter I of the Code) and the persons expressly designated by the Oversight Body created pursuant to the Code.

Under art. 7 of the Internal Code of Conduct in the Securities Market, obligated parties and temporarily obligated parties must generally endeavour to avoid situations of direct conflict of interest or conflicts of interest concerning Related Persons and must notify the Oversight Body of any situations of conflict of interest that may reasonably arise within fifteen (15) days from such situations coming to their attention, so that the Oversight Body may adopt the appropriate decisions in advance. In the case of directors, they shall notify the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

Obligated Parties and Temporarily Obligated Parties must keep up to date the information on notified conflicts of interest reporting all changes as and when they occur. Without prejudice to the obligations established in the preceding sub-article, as regards conflicts of interest, Board Members must comply with the conditions and requirements contained in the company's By-laws and Board of Directors Regulations, and, in general, with all such conditions and requirements as may derive from the corporate/commercial legislation applicable to public limited companies.

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

It should be noted that for the above purposes, in accordance with art. 11 of the Internal Code of Conduct in the Securities Market, the Oversight Body is the Directorate-General of Administration and Finance (following the company's internal reorganization, now the Corporate Economic and Financial Department), which will act in collaboration with the

Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Audit Committee on the degree of compliance with the code and on any incidents that may occur.

Pursuant to art. 13 of the Internal Regulations on Securities Market Conduct, the Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by Obligated Parties or Temporarily Obligated Parties as may be submitted to the committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Appointments and Remuneration Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's commitment to update it constantly, and adopt the best corporate governance practices in the area, and of the applicable legislation.

In relation to company executives, art. 2.1.3 of the Internal Code of Conduct in the Securities Market establishes that company executives, as defined in Chapter 1, are deemed to be subject to the code and, accordingly, will be subject to potential conflicts of interest. Art. 5.2. of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the code, on a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

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

### **TITLE III- THE YEAR 2015 IN RED ELÉCTRICA**

#### **CHAPTER I.- MAIN SHAREHOLDER AGREEMENTS.**

The main shareholder agreements on corporate governance adopted by the company during financial year 2015 are as follows:

1. At its meeting on 24 February 2015, following consideration of a favourable report from the Appointments and Remuneration Committee, the Board of Directors approved the company's Annual Corporate Governance Report for 2014 and the Annual Report on Directors' Remuneration for 2014 and authorized the Financial Statements and Management Report for 2014 for issue.
2. At its meeting on 10 March 2015, the Board of Directors agreed to submit the proposal for the appointment of Mr. Santiago Lanzuela Marina as proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI) and the proposal for the appointment of Mr. José Luis Feito Higuera as independent director of the company for the four-year term envisaged in the By-laws to the Annual General Meeting for ratification.

3. Also at its meeting on 10 March 2015, the Board of Directors approved all proposed agreements and reports to be presented to the Annual General Meeting, for the 2014 financial year, which was then called.
  
4. At the Annual General Meeting held on 15 April 2015, the following resolutions were adopted as separate and independent points of the agenda:
  - To approve the Annual Accounts (Balance Sheet, P&L Account, total Statement of Changes in Net Wealth, Cash Flow Statement and Annual Report) and the Management Report of Red Eléctrica Corporación, S.A. for the financial year ending 31 December 2014.
  - To approve the Consolidated Annual Accounts (Consolidated Balance Sheet, Consolidated P&L Account, Consolidated Global P&L Statement, Consolidated Statement of Changes in Net Wealth, Consolidated Cash Flow Statement and Consolidated Annual Report) and the Consolidated Management Report of the Consolidated Red Eléctrica Group. for the financial year ending 31 December 2014.
  - To approve the allocation of results proposed by the Board of Directors at its meeting of 24 February 2015 and, consequently, to distribute the profit of the 2014 financial year.
  - To approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2014 financial year.
  - To ratify the appointment of Mr. Santiago Lanzuela Marina as proprietary director of Red Eléctrica Corporación, S.A., representing SEPI, as agreed by the Board of Directors at its meeting on 29 July 2014, and so appoint him as proprietary director of Red Eléctrica Corporación, S.A., representing SEPI, for the four-year term specified in the By-laws, in accordance with art. 529 *decies* of the LSC and the reports issued by the Board of Directors and the Appointments and Remuneration Committee.
  - To ratify the appointment of Mr. José Luis Feito Higuera as an independent director of Red Eléctrica Corporación, S.A., as agreed by the Board of Directors at its meeting on 13 February 2015, and so, in accordance with art. 529 *decies* of the LSC, at the proposal of the Appointments and Remuneration Committee and after consideration of a report from the Board of Directors, to appoint him as independent director for the four-year term specified in the By-laws.
  - To approve the amendment of the By-laws in order to adapt them to the latest changes in the law introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and other modifications of style or order, so as to give greater clarity to the text of the By-laws:

-One.- Amendments concerning the General Meeting and shareholder rights.: Amendments to articles 11 (“Annual General Meeting of Shareholders”), 12 (“Types of General Meeting”), 13 (“Notice of General Meeting”), 15 (“Right of information and attendance at General Meetings”) and 17 (“Constitution of the presiding committee, manner of deliberation”).

-Two.- Amendments concerning the legal status of directors and the Board of Directors: Amendments to articles 20 (“The Board of Directors”), 21

("Functioning of the Board of Directors"), 25 ("The Company Chairman"), 25 *bis* ("The Lead Director") and 26 ("The Secretary of the Board").

-Three.- Amendments concerning the Board committees: Amendments to articles 22 ("Board committees and delegation of authority"), 23 ("Audit Committee") and 24 ("Corporate Responsibility and Governance Committee").

- To approve the amendment of the Annual General Meeting of Shareholders Regulations in order to adapt them to the latest changes in the law introduced by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, and other modifications of style or order, so as to give greater clarity to the text of the Annual General Meeting of Shareholders Regulations: amendments to articles 3 ("Competencies of the General Meeting"), 5 ("Notice of General Meeting"), 6 ("Shareholder's rights"), 7 ("Shareholder's right to participate"), 8 ("Shareholder's right to information"), 10 ("Proxies") and 15 ("Constitution, deliberation and adoption of resolutions").
- To grant authority to the Board of Directors, for a period of five (5) years, to increase the share capital at any time, on one or more occasions, up to a maximum amount of one hundred and thirty-five million two hundred and seventy thousand (135,270,000) euros, equivalent to half the current share capital, in the amount and at the issue price the Board of Directors shall decide in each case, with authority to fully or partly disapply preferential subscription rights up to an overall limit of 20% of the capital and with express authority to amend the wording of art. 5 of the By-laws as appropriate and, where necessary, to request the initial or continued listing or delisting of the shares in organized secondary markets.
- To grant authority to the Board of Directors, for a period of five (5) years and with an aggregate limit of five thousand million (5,000,000,000) euros, to issue, in one or more issuances, directly or through companies belonging to the Red Eléctrica Group, debentures, bonds and other fixed-income or debt instruments of a similar nature, both ordinary and convertible or exchangeable for shares of the company, other Red Eléctrica Group companies or other companies unrelated to the Red Eléctrica Group, including, without limitation, commercial paper, asset-backed securities, preferred participating securities and warrants that give a right to the delivery of shares of the company or other Red Eléctrica Group companies, whether newly issued or in circulation, with express authority to fully or partly disapply preferential subscription rights up to an overall limit of 20% of the capital; authority to give a company guarantee to new issues of fixed-income securities (including convertible or exchangeable securities) issued by Red Eléctrica Group companies; authority to amend the wording of art. 5 of the By-laws as appropriate and, where necessary, to request the initial or continued admission to trading or removal from trading of said securities.
- To approve, each in a separate vote, the following proposals for the purchase the company's own shares in the secondary market:
  - Authority for the company or Red Eléctrica Group companies to purchase their own shares and to directly deliver such shares, as remuneration, to employees and executive directors of the company and of Red Eléctrica Group companies.

- Approval of a remuneration plan for employees, executive directors and members of the Senior Management of the company and other Red Eléctrica Group companies in Spain.
  - Revocation of prior authorities.
- In relation to the remuneration of the Board of Directors:
    - Approve the directors' remuneration policy of Red Eléctrica Corporación, S.A.
    - Approve the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for 2015.
    - Approve the Annual Directors' Remuneration Report of Red Eléctrica Corporación, S.A.
- Grant authority to execute the resolutions adopted by the 2014 Annual General Meeting of Shareholders.
  - Report to the Annual General Meeting of Shareholders on the Red Eléctrica's Annual Corporate Governance Report for 2014.
5. At its meeting on 26 May 2015, the Board of Directors approved the renewal of the Board committees, the Audit Committee and the Appointments and Remuneration Committee.
  6. At that same meeting, the Board of Directors approved the Board's self-assessment report for 2014, prepared with external advice from PwC.
  7. At its meeting on 12 June 2015, the Board of Directors approved the report on the process of splitting positions of Chairman of the Board of Directors and CEO (Chief Executive Officer) of the company.
  8. At that same meeting, the Board of Directors approved the proposed resolutions and the report to be submitted to the Extraordinary General Meeting, which was convened at the meeting.
  9. At its meeting on 24 June 2015, the Audit Committee appointed the independent director Mr. José Luis Feito Higuera to be chairman of the committee for a period of three years.
  10. At the Annual General Meeting held on 17 May 2015, the following resolutions were adopted as separate and independent items on the agenda:
    - To report to the Extraordinary General Meeting on the process of splitting positions of Chairman of the Board of Directors and CEO of the company.
    - To increase the number of directors of the company by one (1), bringing the actual total number of members of the Board of Directors to twelve (12), as proposed by the Board of Directors and following consideration of a favourable report from the Appointments and Remuneration Committee.

- To appoint Mr. Juan Francisco Lasala Bernad as executive director of Red Eléctrica Corporación, S.A. for the four-year term specified in the By-laws, in accordance with art. 529 *decies* of the LSC, at the proposal of the Board of Directors and following consideration of a favourable report from the Appointments and Remuneration Committee.
  - To grant authority to execute the resolutions passed by the Extraordinary General Meeting.
11. At its meeting on 28 July 2015, the Board of Directors appointed Mr. Juan Francisco Lasala Bernad to be CEO of the company.
  12. At its meeting on 29 September 2015, the Board of Directors approved the Red Eléctrica Group's policy on the control and management of tax risks and its inclusion in the Integrated Risk Management Policy.
  13. At its meeting on 27 October 2015, the Board of Directors approved the report on gender diversity and equality policy for 2014.
  14. At its meeting on 24 November 2015, the Board of Directors accepted the resignation of Mr. Francisco Ruiz Jiménez, the proprietary director representing Sociedad Industrial de Participaciones Industriales (SEPI).
  15. At its meeting on 24 November 2015, the Board of Directors agreed to set the number of members of each of the Board committees at five and appointed Ms. María Angeles Amador Millán as a member of the Appointments and Remuneration Committee and Mr. Santiago Lanzuela Marina as a member of the Audit Committee, both of them at the proposal of the Chairman of the Board of Directors and following consideration of a report by the Appointments and Remuneration Committee.
  16. Also at its meeting on 24 November 2015, the Board of Directors approved an update of the Corporate Responsibility Policy, which is published on the company's website.
  17. At its meeting on 22 December 2015, the Board of Directors appointed Mr. José Ángel Partearroyo Martín, the proprietary director representing SEPI, to fill the vacancy left by the resignation of the proprietary director Mr. Francisco Ruiz Jiménez.

## **CHAPTER II. - MAIN EXTERNAL RECOGNITIONS.**

Below are the main external recognitions awarded to the company in 2015 in relation to corporate governance. Although some of them were obtained as part of a corporate responsibility award, corporate governance aspects were an important consideration.

1. Gold Class award in the 2016 Sustainability Yearbook, which each year analyzes the sustainability of more than 2,000 companies in 59 industries worldwide and recognises those with best responsibility practices. Red Eléctrica is the only Spanish company in the electric utilities sector to have obtained the highest distinction.

2. Inclusion in the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index, reaching a corporate governance score of 85 out of 100, within one point of the industry leader.
3. Constituent of the FTSE4Good sustainability index ever since the company was first included in 2008. This index includes listed companies all over the world that meet the index requirements.
4. Constituent of the MSCI ESG indices (MSCI Global Sustainability Indexes, MSCI Socially Responsible Indexes, MSCI Global Climate Index and MSCI Global Environmental Index) ever since it was first included in 2014. The companies included in these indices are the ones with the best ESG (Environmental, Social and Governance) performance in their sector.
5. Constituent, following initial inclusion in 2014, of the Euronext-Vigeo sustainability indices (Eurozone 120, Europe 120, World 120), which include the 120 most advanced companies in terms of corporate, social and environmental governance.
6. Constituent of the Ethibel family of indices since it was first included in 2009.
7. Renewed inclusion in the ECPI index family, following initial inclusion in 2007.
8. Constituent of the STOXX Global ESG Leaders index family, which offers a representation of the leading global companies in terms of environmental, social and governance criteria, since it was first included in 2011.
9. Special award to Red Eléctrica “for the planning and proposal to the Extraordinary General Meeting of the splitting of positions of Chairman and CEO” in Fundación Compromiso y Transparencia’s report on the five best and five worst practices of the Boards of Directors of listed Spanish companies in 2015.
10. Red Eléctrica renewed its Sello Excelencia Europea 500+ excellence award, according to the EFQM model, granted by Club Excelencia en Gestión, obtaining more than 700 points.

### **CHAPTER III.- RELEVANT EVENTS NOTIFIED TO THE MARKETS.**

The company informs the CNMV and published on its website, immediately following approval by the Board of Directors, the call notice, proposed resolutions and other documentation related to the Annual General Meeting Shareholders.

Furthermore, the same day the meeting is held, or on the immediately following business day, the company sends to the CNMV the wording of all resolutions approved, by notifying a Relevant Event.

The text of all resolutions approved is also available on the company website, once the CNMV has been informed.

In order to reinforce the right of information held by company shareholders abroad, representing approximately 70%, all documentation presented for approval and information at the meeting, including the Annual Corporate Governance Report, is translated into English and is published, in English, on the company website, on the same publication date as the Relevant Events and related documentation.

During 2015, the following Relevant Events were notified to the CNMV:

**1. Composition of the Board of Directors.**

At its meeting on 13 February 2015, the Board of Directors of Red Eléctrica Corporación, S.A. appointed Mr. José Luis Feito Higuera as an independent director of the company.

**2. Information on dividends.**

At its meeting on 24 February 2015, the company's Board of Directors agreed to submit a proposal to the Annual General Meeting of Shareholders to pay the gross amount of 3 euros per share to the holders of shares that carry dividend rights.

**3. Information on results.**

On 25 February 2015, Red Eléctrica presented its results for financial year 2014.

**4. Interim financial information.**

On 25 February 2015, the company submitted information on its results for the second half of 2014.

**5. Strategic plans, forecasts and presentations.**

On 25 February 2015, Red Eléctrica submitted its presentation of 2014 results and its strategy for 2014-2019.

**6. Annual Corporate Governance Report.**

On 25 February 2015, the company submitted the Annual Corporate Governance Report for 2014.

**7. Annual directors' remuneration report.**

On 25 February 2015, the company submitted the Annual Directors' Remuneration Report for 2014.

**8. General Meeting notices and resolutions.**

On 12 March 2015, the company submitted the Notice of Annual General Meeting of Shareholders and draft resolutions.

**9. Ratings.**

On 1 April 2015, the company reported that the rating agency Fitch Ratings had confirmed the long-term rating of Red Eléctrica Corporación, S.A. at A-, with a positive outlook.

**10. Ratings.**

On 7 April 2015, the company reported that on that same date the rating agency Standard & Poor's had upgraded the long-term rating of Red Eléctrica Corporación, S.A. to BBB+, with a stable outlook.

**11. Public offers of fixed-income and other instruments for subscription or sale.**

On 10 April 2015, the company reported that on that date Red Eléctrica placed 500 million euros of notes in the markets. The issue has a term of 10 years, with an annual coupon of 1.125% and a price of 99.521.

**12. General Meeting notices and resolutions. - Remuneration systems.**

On 16 April 2015, the company published the full text of the resolutions adopted by the company's Annual General Meeting.

**13. Public offers of fixed-income and other instruments for subscription or sale.**

The company reported that on 24 April 2015 part of the "EUR 500,000,000 1.125 per cent Notes due April 2025" will be exchanged for other bonds already in issue.

**14. Information on results.**

On 29 April 2015, the company submitted information about its results for the first quarter of 2015.

**15. Interim financial information.**

On 29 April 2015, the company submitted information about its results for the first quarter of 2015.

**16. Composition of the Board of Directors.**

At its meeting on 26 May 2015, the company's Board of Directors renewed the members of the Audit Committee and the Appointments and Remuneration Committee.

**17. General Meeting notices and resolutions.**

On 12 June 2015, the Board of Directors called an Extraordinary General Meeting to approve the process of splitting positions of Chairman of the Board and CEO and to appoint a new CEO.

**18. General Meeting notices and resolutions.**

On 15 June 2015, the company published the Notice of Extraordinary General Meeting and draft resolutions.

**19. Composition of the Board of Directors.**

On 26 June 2015, the company reported that the Audit Committee had appointed the independent director Mr. José Luis Feito Higuera as committee chairman for a three-year term.

**20. General Meeting notices and resolutions.**

On 17 July 2015, the company published the full text of the resolutions adopted by the company's Extraordinary General Meeting.

**21. Composition of the Board of Directors.**

At its meeting on 28 July 2015, the Board of Directors appointed Mr. Juan Francisco Lasala Bernad to be CEO of the company.

**22. Information on results.**

On 29 July 2015, Red Eléctrica published its results of the first half of 2015.

**23. Interim financial information.**

On 29 July 2015, the company submitted information on its results for the first half of 2015.

**24. Information on results.**

On 29 July 2015, the company reported the presentation of its results for the first half of 2015.

**25. Ratings.**

On 14 October 2015, the company reported that on 13 October 2015 the rating agency Standard & Poor's had upgraded Red Eléctrica's rating to 'A-'.

**26. Information on results.**

On 28 October 2015, Red Eléctrica published its results for the first nine months of financial year 2015.

**27. Interim financial information.**

On 28 October 2015, the company submitted information on its results for the third quarter of 2015.

**28. Composition of the Board of Directors.**

On 24 November 2015, the company reported that the Board of Directors had accepted the resignation of Mr. Francisco Ruiz Jiménez, the proprietary director representing SEPI, and had set the number of members of each Board committee at five.

**29. Other corporate governance items.**

On 3 December 2015, the company submitted a report on the information requested by the CNMV from all listed companies and issuers in relation to certain provisions of the LSC.

**30. Transfers and acquisitions of equity interests.**

On 4 December 2015, the company reported that Red Eléctrica Chile, SpA and the Chilean company E-CL, S.A. had reached an agreement on the acquisition of 50% of the share capital of Transmisora Eléctrica del Norte, S.A.

**31. Composition of the Board of Directors.**

At its meeting on 22 December 2015, the Board of Directors appointed Mr. José Ángel Partearroyo Martín as a proprietary director of Red Eléctrica Corporación, S.A., representing SEPI.

**32. Information on dividends.**

At its meeting on 22 December 2015, the company's Board of Directors agreed on the payment of an interim dividend out of profit for 2015.

**33. Other corporate governance items.**

On 28 December 2015, the company submitted a report on the determination of the home Member State of Red Eléctrica Corporación, S.A.

The Relevant Events reported to the CNMV in 2016, before the approval of this report at the Board meeting held in February 2016, are as follows:

### **34. Changes in the Board of Directors.**

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

## **Chapter IV.- ANNUAL ACTIVITY REPORTS OF THE BOARD COMMITTEES.**

The annual activity reports of the Appointments and Remuneration Committee and the Audit Committee for financial year 2015 are reproduced in full below.

### **APPOINTMENTS AND REMUNERATION COMMITTEE ACTIVITY REPORT FOR 2015.**

#### **1. Introduction**

The Action Plan of the Committee for the 2016 financial year, as provided in article 16.6 a) of the Board Regulations, contemplates the preparation of an annual activities report, in this case for 2015, which must be included in the Annual Corporate Governance Report, which is the subject matter of this document.

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

##### **2.1 Legal background.**

The Board of Directors of the company, at a meeting held on 13 March 2013, resolved to amend the Board Regulations to adjust their content to the legislative amendments affecting public limited companies, to adapt to best practices regarding corporate governance, especially in the international sphere, and to introduce improvements into the organisation and functioning of the Board of Directors and its Committees.

As a result, the Annual General Meeting of Shareholders, held on 18 April 2013, approved amendment of the Bylaws, to adapt, inter alia, the regulation of the Audit Committee and the Corporate Governance and Responsibility Committee (currently called the Appointments and Remuneration Committee) in the Bylaws of the company, to the principal international practices and recommendations regarding sound corporate governance. Notable in this regard is the bylaws provision to the effect that the majority of members of both committees must be independent directors.

Even before amendment of the Board Regulations in 2013, it is worth noting the decision of the Board adopted in 2012 for the first time to configure the Appointments and Remuneration Committee to exclude participation of the Executive Chairman of the company.

Act 31/2014 of 3 December 2014, amending the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital, or "LSC") to improve corporate governance, established the obligation of listed companies to create an Appointments and Remuneration Committee, chaired by an independent director, comprised of at least two independent directors, with all of its members being non- executive. It also states certain minimum authority regarding appointments and remuneration. In the company, the Committee that for years has had all of these functions and responsibilities is the Appointments and Remuneration Committee. In both its composition and its functions, the Appointments and Remuneration Committee substantially complies with the requirements of the amendment of the LSC (Art. 529

quindecies of the LSC), although the corresponding modifications of the Bylaws in order for it to adapt fully to the LSC were approved at the Annual General Meeting of Shareholders held on 15 April 2015.

As in the case of the Bylaws, currently the Board of Directors Regulations are being reviewed, principally to adapt them to Act 31/2014 of 3 December 2014 and, to the extent that the Board of Directors deems it to be pertinent, to the new recommendations regarding good governance set forth in the new Code of Good Governance of Listed Companies.

## **2.2 Structure and functions.**

Articles 24.2 of the Bylaws and 15 and 16 of the Board of Directors Regulations regulate the structure, composition and functions of the Appointments and Remuneration Committee.

The Committee has authority assigned to it regarding appointment and removal of directors and senior managers, their remuneration, compliance with director duties, respecting the principles and rules of corporate governance and as regards corporate responsibility policy.

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 a report to be issued or proposals to be adopted.

In article 15.5 of the Board of Directors Regulations it is provided that the call of the meetings, with the documentation associated therewith, may be made by telematic means guaranteeing the due security and confidentiality of the call and the corresponding documentation.

That call, which is to include the agenda, will 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.

Article 15.5 of the Board Regulations establishes the possibility that, by reason of urgency and on an exceptional basis, meetings of the Committee may be held by conference call, videoconference or any other means of remote communication that allows the meeting to be held, provided that all of the members of the Committee so agree.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by absolute 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 the advice to be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

## **2.3 Composition.**

Article 15.1 of the Board of Directors Regulations provides that the Appointments and Remuneration Committee will be comprised of the number of directors fixed by the Board of Directors, between a minimum of three and a maximum of five, from among non-executive directors, with the majority of the members being independent directors. Article 24.1 of the Bylaws, already consistent with the amendment of the Spanish Corporate Enterprises Act, provides that the members of the Committee are appointed from among the non-executive directors, that being one of the provisions that will be incorporated in the Board of Directors Regulations after the review currently taking place.

The Committee Chairman will be an independent director chosen from amongst its members and the Secretary will be 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. Committee members will hold its position for a

three-year term and may be re-elected, and will abandon their position if they lose director status or if this is agreed by the Board of Directors, further to a report issued by the Appointments and Remuneration Committee. The Chairman will be replaced every three years, and may be re-elected once one year has passed since he ceased to be a member.

Regarding the composition of the Appointments and Remuneration Committee, during the 2015 financial year the following occurred:

- Upon expiration of the term of the position of Ms. Carmen Gómez de Barreda Tous de Monsalve (independent director) as a member of the Appointments and Remuneration Committee, the Board of Directors of the company at a meeting held on 26 May 2015 resolved to re-elect her as a member of that Committee for a term of three years, after a report thereon approved in the absence of the interested party.
- Mr. Francisco Ruiz Jiménez was a member of the Appointments and Remuneration Committee until 24 November 2015, on which date he presented his resignation as a proprietary director of Red Eléctrica Corporación, S.A., representing Sociedad Estatal de Participaciones Industriales (SEPI). The resignation was accepted by the Board of Directors of the company at the meeting held on the same date, from that moment there was a vacancy on the aforesaid Committee (which vacancy was filled by Mr. José Ángel Partearroyo Martín at the meeting held on 26 January 2016, after his appointment as a director at the meeting of 22 December 2015).
- The Board of Directors of the company, at the meeting held on 24 November 2015, on proposal of the Chairman of the Board of Directors, after a report from the Appointments and Remuneration Committee, resolved to increase the number of members of the Appointments and Remuneration Committee from four (4) members to five (5), and appointed Ms. María Ángeles Amador Millán to fill the position of the new member of the Appointments and Remuneration Committee.

At 31 December 2015 the composition of the Committee is as follows:

Director	Position	Type of Director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent External
María José García Beato	Member	Independent External
Socorro Fernández Larrea	Member	Independent External
M <sup>a</sup> Ángeles Amador Millán	Member	Independent External
Vacant <sup>5</sup>	Member	_____

All of the members of the Committee have demonstrated capacity to perform the functions of the Committee, by reason of their broad experience and knowledge.

<sup>5</sup> The Board of Directors at the meeting held on 26 January 2016 appointed the proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), Mr. José Ángel Partearroyo Martín, as a member of the Appointments and Remuneration Committee to fill the vacancy existing on the aforesaid Committee as a result of the resignation of Mr. Francisco Ruiz Jiménez, which occurred at the meeting of the Board of Directors held on 24 November 2015.

Set forth below are summaries of the professional careers of the members at 31 December 2015:

-Carmen Gómez de Barreda Tous de Monsalve has a degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE) and a master's degree in Business Administration from IESE (Executive MBA), Universidad de Navarra.

She currently is General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES).

She has served, inter alia, as the head of the Cogeneration area of the Marketing Department of Enagás, the head of the international, petrochemical and marketing areas of Repsol, Services Development Manager of Unión Fenosa, Deputy Director of Petroleum Markets with the National Energy Commission (Comisión Nacional de Energía, or "CNE"), Institutional Relations and Communications Manager of BP Oil España, representative of the Spanish delegation on the Emergency Matters Group and the Markets Group of the International Energy Agency (Agencia Internacional de la Energía, or "AIE").

-María José García Beato holds a law degree from the Universidad de Córdoba and serves as a Legal Counsel for the State.

Currently she serves as assistant secretary of the Board of Directors, Secretary General and member of the Management Committee of Banco Sabadell S.A., secretary of the Board of Sabadell United Bank (Miami), trustee of the Fundació Privada Banc Sabadell, trustee of the Fundación Española de Banca para Estudios Financieros, secretary of the Board of Trustees of the Fundación de Estudios de Economía Aplicada, Member of the Advisory Board of the publisher Wolters Kluwer España, S.A. and member of the Advisory Board of Fundación Cajasur.

She has held positions in the legal areas of the national government. Thus she has been, inter alia, the head of the Legal Department of the Data Protection Agency, Legal Counsel for the State in the Subdirectorate for Advisory Services of the Office for Legal Services of the State, Spanish representative on the Advisory Committee of the Council of Europe regarding data protection and Legal Counsel for the State in the Secretariat General for Communications of the Ministry of Development. In the Administration of Justice area she has, inter alia, served in the positions of Legal Counsel for the State in the Superior Court of Justice of Madrid, General Director of the Office of the Ministry of Justice, Undersecretary for Justice and Legal Counsel for the State in the Legal Service before the National Audience. She has been a director of the Sociedad Estatal de Gestión Inmobiliaria de Patrimonio and of Infoinvest, a director of the Sociedad Estatal Correos y Telégrafos and of the Sociedad Estatal para Exposiciones Internacionales.

In the banking and financial sector, she has been Manager of the Legal Department of Banco Sabadell, S.A., secretary of the Board of Directors of Banco Urquijo, S.A., and a director of Banco Guipuzcoano, S.A., of Banco CAM, S.A. and of Banco Gallego, S.A.

-Socorro Fernández Larrea is a Roads, Canals and Ports Engineer with a degree from the Universidad Politécnica de Madrid and participated in an IESE Senior Management Programme (PADE).

Currently she is an executive director of the consultant JUSTNOW, S.L., a member of the Board of Directors of AMPER, S.A. as a proprietary director, representing Emilanteos, S.L. She is a member of the Board of Directors of the Spanish engineering firm SEG, S.A., a member of the Board of Directors of the Spanish construction and real estate company ACR, a member of the advisory board of the Mexican engineering firm CAL Y MAYOR and of the real estate firm ZELTEX, with business in Senegal.

In the private sector, among other positions, she has been General Manager of COPISA Constructora Pirenaica S.A., Vice Chairperson of ANCI, Asociación de Constructores Independientes, Regional Manager of the construction firm Seop, Obras y Proyectos, S.A., national representative of Ferrovial Conservación, S.A., and representative in Castilla la Mancha of Ferrovial-Agroman, S.A. In the public sector she served as the General Manager of Roads, Hydraulic Works and Transport in the Public Works Ministry of the Regional Government of Castilla la Mancha.

-María Ángeles Amador Millán holds a law degree from the Universidad Complutense de Madrid.

She has served, inter alia, as Technical Secretary General of the Ministry of Public Works and Urban Development, Undersecretary of the Ministry of Health and Consumer Affairs, Minister of Health and Consumer Affairs and Undersecretary of the Constitutional Commission of the Congress. She also has served as the chairperson of the Corporate Governance and Responsibility Committee of the Company, which she joined as a director in May of 2005. Currently she is a practicing attorney.

### **3. Activities during 2015**

The Board of Directors has been informed of the matters dealt with at meetings of the Committee through the Director Portal (the Board intranet), and at the immediately following meetings of the Board of Directors, and copies of the minutes of the Committee have been made available to all directors once approved.

The most significant actions of the Appointments and Remuneration Committee during the 2015 financial year were:

#### **3.1 In relation to appointments, discharge of functions and removals:**

Favourable report and proposals to the Board of Directors in relation to the appointment by co-option of an independent director.

Favourable report to the Board of Directors, for referral to the General Meeting, regarding the proposed ratification and appointment of a proprietary director.

Favourable report and proposal to the Board of Directors, for referral to the General Meeting, for ratification and appointment of an independent director.

Evaluation of the criteria to be taken into account when filling vacancies occurring on the Board of Directors and its Committees, and analysis of the profile of candidates proposed in the process of selection thereof.

Favourable reports to the Board of Directors on the proposals of the chairman of the Board related to renewal of the Board Committees by reason of the ending of the terms of some of their members.

Favourable report to the Board of Directors on the proposal to appoint a new executive director for submission to the Extraordinary General Meeting of Shareholders.

Favourable report to the Board of Directors on the proposed formal delegation of authority of the Board to the managing director.

Favourable report to the Board of Directors on the proposal of the chairman to increase the number of members of the Board committees, in both cases proposed to be set at five, and to appoint the directors that are to fill the new positions.

Favourable report to the Board of Directors on the proposals to appoint two senior managers.

Analysis of a report on the compatibility of a position as an independent director of Red Eléctrica Corporación S.A. with possible appointment as a director of another company.

Favourable report to the Board of Directors on the Structural Plan of the Management Team.

Approval of the structural Management Plan Regulations of the Management Team.

Revision of the form for annual declaration of independent directors.

### **3.2 In relation to remuneration:**

Approval of the proposed corporate and management objectives for 2015.

Analysis of the report on achievement of annual objectives in 2009-2013.

Analysis of and favourable report to the Board of Directors on the 2014-2019 long-term variable remuneration proposal for the Management Team.

Favourable report to the Board of Directors on the proposed resolution to be submitted to the General Meeting, related to the authorisations to the Board for derivative acquisition of own shares and approval of a plan of remuneration addressed to employees, executive directors and members of the management of the group companies, consisting of payment of a part of their remuneration by delivery of shares of the company.

Analysis and favourable report to the Board of Directors of the proposed annual Programme for delivery of shares for employees, members of management and executive directors of the group companies.

Favourable report to the Board of Directors of the Annual Report on Remuneration of directors for the 2015 financial year, and the proposed Policy on remuneration of directors, for referral to the Annual General Meeting of Shareholders

Approval of the proposed evaluation of achievement of Business, Managerial and Management Committee objectives for 2014.

Approval of the proposed 2014-2019 long-term Objectives.

Approval of the definition of Management Committee Objectives for the 2015 financial year.

Analysis of achievement of the proposed Business, Managerial and Management Committee objectives for 2015.

Favourable report to the Board of Directors on the proposed partial amendment of the contract of the executive chairman and the proposed contract of the chief executive (managing director) of the company.

Approval of the proposed objectives for the Corporate Economic/Financial Manager for 2015.

Approval of the 2014-2019 Long-Term Variable Remuneration Programme Regulations.

Approval of the proposal to the Board of Directors of the remuneration of the Board of Directors for the 2016 financial year, for its submission to the Annual General Meeting of Shareholders.

### **3.3 In relation to the rules and actions regarding Corporate Governance:**

Analysis of the amendments of the corporate rules of the company, Bylaws and General Shareholders Meeting Regulations, deriving from the amendment of the Spanish Corporate Enterprises Act and favourable report to the Board of Directors related to the proposed amendment of both, for submission to the Annual General Meeting of Shareholders.

Analysis and approval of the proposed amendment of the operating rules for treasury shares, which were approved and referred by the Audit Committee, for submission to the Board of Directors.

Approval of the proposed Annual Corporate Governance Report for the 2014 financial year, for submission to the Board of Directors.

Analysis of the text of the call and agenda, and approval of the proposed resolutions and reports to be referred to the Board of Directors, related to the Annual General Meeting of Shareholders for the 2014 financial year and the Extraordinary General Meeting of Shareholders held in July of 2015.

Analysis of the prior report on the process of amendment of the Board Regulations to adapt them to the Spanish Corporate Enterprises Act and the Code of Good Governance of Listed Companies.

Analysis of the self-assessment report of the Board, the conclusions and recommendations of the process of external evaluation of the Board of Directors, its Committees and the chairman regarding the 2014 financial year, prepared with the assistance of PricewaterhouseCoopers (PwC).

Analysis and approval of the proposed engagement of PwC regarding the process of evaluation corresponding to 2015, for its referral to the Board of Directors.

Analysis of the Management Team Evaluation Report for 2014.

Analysis and favourable report of the Annual Gender Diversity and Equality Policy Report corresponding to the 2014 financial year, for its referral to the Board of Directors.

Analysis and favourable report to the Board of Directors of the Annual Criminal Risk Prevention Report in connection with the 2014 financial year.

Analysis and favourable report to the Board of the Red Eléctrica Group Guide for the prevention of corruption, as well as the report on preparation thereof.

### **3.4 In relation to Corporate Responsibility:**

Analysis and referral to the Board of the Report on Corporate Responsibility Management for the 2014 financial year.

Analysis of the periodic information on Corporate Responsibility.

Analysis and approval of the Annual Report on Code of Ethics Management in connection with the 2014 financial year, for its referral to the Board of Directors.

Analysis and favourable report to the Board of Directors on the updating of the Corporate Social Responsibility Policy.

Analysis of the reports on the results obtained as regards Corporate Responsibility.

### **3.5 Other actions:**

Approval of the committee's annual activity report for the 2014 financial year, and incorporation in the Annual Corporate Governance Report for that year.

Approval of the committee's Action Plan for the 2016 financial year.

Approval of the committee's schedule of meetings for the 2016 financial year.

## **4. Director attendance at meetings.**

In 2015 there were fourteen (14) meetings of the Appointments and Remuneration Committee, with no absences of directors.

## **AUDIT COMMITTEE ACTIVITY REPORT FOR 2015.**

### **1. Introduction**

The Audit Committee's Annual Action Plan for the year 2016 provides that a Report shall be prepared describing the Committee's Activities developed throughout the year 2015, which shall be incorporated into the company's Annual Corporate Governance Report, and which is the object of this document.

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

#### **2.1 Legal background:**

The company's Board of Directors, at its meeting held on 13 March 2013, resolved to amend the Board Regulations for the purpose of updating their content with the legislative amendments that have affected the regime of public limited companies (*sociedades anónimas*), adapting to notable practices in connection with corporate governance, particularly in the international scope, and introducing improvements in the organisation and operation of the Board of Directors and its Committees.

Accordingly, at the Annual General Meeting of Shareholders held on 18 April 2013, the shareholders approved the amendment of the By-laws to adapt, among other aspects, the regulation 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. To such effect, the requirement provided for in the By-laws must be highlighted, which establishes that the majority of the members of both Committees shall be independent directors.

Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital* (LSC)) to improve corporate governance, has introduced in its article 529 quaterdecies certain rules regarding the composition and functions of the Audit Committee. Both regarding its composition and its functions, the Audit Committee complies substantially with the requirements of the LSC amendment, although specific amendments of the By-laws (article 23) to fully adapt the same to the LSC, have been approved at the Annual General Meeting of Shareholders held on 15 April 2015. The express incorporation, among the functions of the Audit Committee, of the supervision of the "tax risk" management system, may be highlighted.

In the same way as the By-laws, the Board of Directors Regulations are currently being reviewed, mainly to adapt the same to Act 31/2014, of 3 December and, to the extent that the Board of Directors considers it appropriate, to the new recommendations in matters of governance set out in the new Code for Good Governance of Listed Companies.

#### **2.2 Structure and functions:**

Articles 23 of the By-laws and, 13 and 14 of the Board of Directors Regulations, regulate the structure, composition and functions of the Audit Committee.

The Audit Committee has been assigned, among other functions, to support the Board of Directors in supervising the process for the elaboration of the company's economic-financial information, internal control, risk control management, external auditor's independence, compliance with legal provisions and internal rules, and relationship with the company's shareholders.

The Committee meets on a regular basis for the successful development of its functions. In any case, it must meet at least quarterly, when called by the chairman or requested by two of its members and, likewise, every time the Board of Directors or its chairman requests the issue of a report or the adoption of proposals.

Article 13.4 of the Board of Directors Regulations 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 chairman 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 13.4 of the Board Regulations provide 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 permitting to hold the same, provided that all the members of the Committee give their consent.

The Committee will be set up with the attendance of the majority of its members and adopt decisions or recommendations by an absolute majority of the votes, which must be included in the minutes at the end of the meeting. To better comply with its functions, the Commission may propose to the Board of Directors to 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 Board of Directors Regulations provide in article 13.1 that the Audit Committee shall be formed by the number of directors fixed by the Board of Directors, between a minimum of three and a maximum of five, among external directors, the majority of its members being independent directors. In article 23.1 of the By-laws, already adapted to the reform of the Spanish Corporate Enterprises Act, it has been provided that the members of the Committee shall be designated among the non-executive directors, that being one of the formal adjustments that will be incorporated into the Board of Directors Regulations after the review that is being carried out at the moment.

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 the members of the Committee shall be carried out by the Board of Directors at the proposal of the chairman of the Board. The members of the Committee shall hold their position for a three-year period, and may be re-elected, and shall be removed when removed as directors or when so resolved by the Board of Directors, after obtaining a report from the Appointments and Remuneration Committee. The chairperson will be replaced every three years and may be re-elected after the lapse of one year since his/her removal.

Regarding the composition of the Audit Committee during the year 2015, the following actions have occurred:

- As a result of the expiration of the term of Ms Paloma Sendín de Cáceres' position (independent director) as member of the Audit Committee, the company's Board of Directors, at the meeting held on 26 May 2015 resolved to re-elect her as member of the Audit Committee for a three-year term, after obtaining the report from the Appointments and Remuneration Committee.
- As a result of the expiration of the term of Ms M<sup>a</sup> Ángeles Amador Millán's position (independent director) as member of the Audit Committee, the Board of Directors of

the company, at the meeting held on 26 May 2015, resolved to appoint Mr José Luis Feito Higuieruela as a member of the Audit Committee for a three-year term, after obtaining the report from the Appointments and Remuneration Committee.

The Committee agreed to appoint Mr Feito Higuieruela as chairman of the Audit Committee, in its meeting held on 24 June 2015 for a three-year period.

- Upon expiration of the term of Mr Fernando Fernández Méndez de Andés' position (proprietary director) as member of the Audit Committee, the company's Board of Directors, at the meeting held on 26 May 2015, resolved to re-elect him as member of the Audit Committee for a three-year term, upon obtaining the report from the Appointments and Remuneration Committee.
- The company's Board of Directors, at the meeting held on 24 November 2015, at the proposal of the chairman of the Board of Directors and upon obtaining a report from the Appointments and Remuneration Committee, resolved to increase the number of members of the Appointments and Remuneration Committee, from four (4) to five (5) members and appointed Mr Santiago Lanzuela Marina as new member of the Audit Committee.

The composition of the Committee, as of 31 December 2015, was the following:

Director	Position	Type of Director
Mr José Luis Feito Higuieruela	Chairman	External independent
Ms Paloma Sendín de Cáceres	Member	External independent
Mr Fernando Fernández Méndez de Andés	Member	External proprietary (SEPI)
Mr Antonio Gómez Ciria	Member	External independent
Mr Santiago Lanzuela Marina	Member	External proprietary (SEPI)

The Directors on the Committee are highly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside Red Eléctrica, in functions related to those entrusted to the Committee.

In this regard, Article 13.1 of the Board of Directors Regulations provides that the Committee shall be formed by a majority of Independent Directors, all of whom shall be appointed on the basis of their knowledge and expertise in accounting and/or auditing.

Below is a brief summary of the professional career of its members, as of 31 December 2015, who have knowledge and expertise in accounting and auditing matters:

- Mr José Luis Feito Higuieruela: BSc in Business and Economic Science from the Universidad Complutense de Madrid. Commercial Expert and State Economist. Spanish Ambassador.

He has held, among others, the following positions, Chairman of the ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (Spanish Association of Spanish Companies holding Highway, Tunnel, Bridge and Toll Road concessions); Spanish Ambassador before the OECD-Organisation for Economic

Cooperation and Development - in Paris; Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley); Head of International Financial Entities of the Bank of Spain, member of the European Monetary Committee (Brussels) and the Council of Governors of Central Banks of the European Union in Basel; Technical Advisor and Executive Director of the International Monetary Fund in Washington; Head of Department of Studies of the Foreign Sector and Data Processes, of the Spanish Ministry of Economy and Finance. At present, he is the Chairman of the IEE (Instituto de Estudios Económicos) since 2009; Chairman of the Economic and Financial Policy Committee of the CEOE and member of its Executive Committee and Governing Council since 2001; member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012, and member of the Editorial Board of the newspaper Expansión, since 2001.

- Ms Paloma Sendín de Cáceres: BSc in Business and Economics from the Universidad Autónoma de Madrid. Commercial Expert and State Economist. Commercial Diploma by the State.

She has held, among others, the following offices: Chief Trade Counsellor of the Economic and Commercial Office of the Spanish Embassy in Dublin; Director General for Administration and International Relations of the Organization of Ibero-American States for Education, Science and Culture (OIAS); Member of the Spanish Nuclear Safety Board (CSN); Director General for Mines; Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, of the Spanish Ministry of Industry and Energy; Director General of Promotion of the Spanish Foreign Trade Institute (ICEX) and Member of the Board of Directors in several entities. At present, she is a member of the Advisory Committee of the Escuela Técnica Superior de Ingenieros de Minas y Energía (Higher Technical School of Mining and Energy Engineering) in Madrid and a member of the Advisory Committee of the Fundación para Estudios sobre la Energía (Foundation for Energy Studies).

-Mr Fernando Fernández Méndez de Andés, PhD in Economic Science. Professor of Economics at the IE Business School.

Among other offices, he has been a member of the Expert Committee for the Tax Reform, 2013-2014; a member of the Bruegel Evaluation Committee, 2013; Senior Economist, International Monetary Fund: Chief Economist and Head of Research, Banco Central Hispano (BCH) and Banco Santander; Rector, European University, Madrid and Universidad Antonio de Nebrija; At present, he is an international consultant on macroeconomic, regulatory and financial topics; Chairman of Pividal Consultores; External Advisor to the Strategy Committee of Arcano Financial Group; Collaborator of Fundación de Estudios Financieros (Financial Research Foundation); regular lecturer at international conferences and symposia related to his professional and academic activity, and author of numerous articles and publications about the same, and independent director of Bankia, S.A.

-Mr Antonio Gómez Ciria: BSc in Economics and Business Studies. BSc in Mathematics from the Universidad Complutense in Madrid. Executive MBA from the IESE.

He has held, among other offices, the following: General Manager of Administration and Information Technology and member of the Management Committee of the FCC Group; General Manager for Internal Auditing and member of the Management Committee of the

FCC Group; member of the Advisory Board of the Institute of Internal Auditors and member of the Management Committee; General Technical Secretary of InverCaixa, investment management company belonging to the La Caixa Group; Chairman of the Instituto de Contabilidad y Auditoría de Cuentas, ICAC; Director of Empresa Nacional de Uranio, S.A.; Director of Empresa Nacional de Autopistas, S.A.; Director of Tabacalera, S.A.; Market Inspection Manager for the Governing company of the Madrid Stock Exchange; Deputy Manager for Research and Budget Planning of Radio Televisión Española; Manager of the Controlling and Accounting Department of Banco de Crédito Agrícola; Comptroller and Auditor for the Comptroller General's Office. At present, he is a member of the Advisory Board of Experts in Accounting and Financial Information (*Consejo Consultivo de Expertos en Contabilidad e Información Financiera*) (ECIF) of the General Board of Professional Association of Economists.

-Mr Santiago Lanzuela Marina: BSc in Economics and Trade. State Civil Servant.

He has held, among other offices, the following: Head of the Spanish Technical Cooperation Mission in Nicaragua; Director of International Technical Cooperation Programs of the Ministry of Labour; Advisor to the President of the Ibero-American Cooperation Institute; Head of the National Heritage Inspection Service; Founder and President of the Public Works Institute of Aragón; Chairman of the European Business and Innovation Centre of Aragón; Member of Parliament of Aragón; Minister for Economy and Inland Revenue of the Government of Aragón President of the Autonomous Community of Aragón. Member of the Senate for the Autonomous Community of Aragón; Chairman of the Economy and Inland Revenue Commission in the Senate; Member of Congress and Chairman of the Economy and Inland Revenue Commission; Member of the Permanent Council of Congress; Vice-chairman of the Foreign Affairs Committee of Congress, Member of the Public Works Committee and Member of the Committee for Territorial Administration; Promoter of the "Subcommittee for the analysis of Spanish energy strategy for the next 25 years"; Chairman of the Economy and Competitiveness Committee in Congress and Member of the Spanish delegation to the Parliamentary Assembly of the Organisation for Security and Cooperation in Europe -OSCE.

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

The Committee's meetings have been regularly attended by Mr Luis Villafruela Arranz, Corporate Director of Regulation and Global Risk Control during 2015, and Mr Juan Lasala Bernad and Ms Teresa Quirós Álvarez, as corporate directors of economics-finance, in the periods during which they have respectively held such offices during 2015, to inform about different matters related to the areas within their scope of responsibility. Other persons of the above and other Departments have joined, when called, to inform about the matters within their scope of responsibility.

In the year 2015, regarding the review of the Annual Accounts of the Company and its Group for the year 2014, 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 2014. Likewise, the Committee has met several times with the external auditor to analyse matters within its scope of responsibilities.

### **3. Activities developed during the year 2015**

On 17 December 2014, the Audit Committee approved its Annual Action Plan for the year 2015, regarding the responsibilities attributed to the same in the By-laws and in the Board of Directors Regulations.

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 directors portal, the documentation for the meetings and copy of the minutes of the same.

The Audit Committee has met eleven (11) times during the year 2015, informing the Board of Directors the same number of times about the activities carried out by the Committee.

The main tasks that the Committee has developed during the year 2015 have been the following:

#### **3.1 Regarding economic-financial information:**

- Review of the Annual Accounts for the year 2014 of the company and its Consolidated Group, and Report by the external auditor.
- Analysis of the closing forecast for the year 2014 of the Red Eléctrica Group, as well as the criteria adopted to carry out the same.
- Analysis of proposed distribution of profits and dividends of Red Eléctrica Corporación, S.A. for the year 2014 and issuing of favourable report.
- Review of financial information for the market supervisory bodies.
- Supervision of the subsections of the company's Annual Corporate Governance Report for the year 2014, within the scope of the Committee's responsibilities.
- Follow-up of the monthly reports on treasury stock.
- Follow-up of the quarterly reports on transactions with related parties.
- Analysis of the Report on transactions made between companies belonging to the Red Eléctrica Group as of 31 December 2015.
- Approval of the Annual European Commercial Paper (ECP) Programme.
- Analysis of the proposal to renew the Annual plan for EMTNs and submission of favourable report to the Board.
- Analysis of the external auditor's report on the consolidated financial statements for the first half of 2015.

- Analysis of the Reports on the issues of notes made during the year 2015.
- Analysis of the proposed distribution of interim dividends for the year 2015 and submission of the favourable report to the Board.
- Analysis of certain proposals for authorisation to cover the funding needs and issuing of favourable reports.
- Analysis of 2016 Budget and issuing of favourable report.

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

- Analysis of a report made by the external auditor, KPMG, regarding the quality of the Group's internal control systems with regard to the annual accounts for the year 2014.
- Analysis of the report on the System for Internal Control of Financial Information (SCIIF) for the year 2014.
- Analysis of the report on Internal Control within the international framework, issued by COSO, and its implementation in Red Eléctrica.
- Analysis of the Report on the Company's Map of Risks, as of 31 December 2014.
- Analysis of the quarterly and half-yearly status reports regarding high-level risks.
- Analysis of the report on the integration of Tax Risks into the Comprehensive Risk Management Policy of the Red Eléctrica Group, and submission of a favourable report to the Board.
- Review of the Annual Report for the year 2014 of the Control and Supervisory Body of the Criminal Risk Prevention Programme.
- Analysis of the proposed Guide for the prevention of corruption.

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

- Analysis of the Report on internal audits carried out in the year 2015 and the results of each of such audits.
- Analysis of the report on means and resources allocated to the Internal Audit department.

- Analysis of the report on the status and main developments in the internal rules.
- Analysis of the quarterly reports on compliance with the recommendations contained in the reports from the Internal Audit department.
- Approval of the budgets, means and resources of the Internal Audit department.
- Approval of the Internal Audit Plan for the year 2016.
- Review of the Annual Activity Plan in the Comprehensive Risk Management System for the year 2016.
- Supervision of the procedure to appoint the person in charge of internal audit.

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

- Analysis of the reports by the external auditor regarding the annual accounts for the year 2014 and the External audit preliminary report for the year 2015.
- Analysis of the reports on the independence of the external auditor issued by KPMG Auditores, S.L., pursuant to Act 12/2010, of 30 June.
- Analysis of the report on the External Audit Plan for the year 2015 prepared by KPMG.
- Approval of the criteria on the engagement of the external auditor, for services other than auditing.

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

- Analysis of the half-year reports and the annual report on the follow-up of internal rules, as of 31 December 2014.
- Analysis of the status and follow-up of the company's rules and procedures.
- Analysis of the report on the evolution of the management of internal rules.
- Analysis of the report on the annual evaluation of compliance with the Internal Conduct Regulations of the Securities Market.
- Review of the Annual Report on Occupational Health and Safety for the year 2014.
- Analysis of the Annual Management Report covering the Ethics Code.

- Analysis of the tax implications resulting from the amendment of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*).
- Analysis of the recommendations of the Code for Good Governance of Listed Companies affecting the Audit Committee.

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

- Analysis of the Board's proposed resolutions for the Annual General Meeting of Shareholders on matters within their scope of responsibility.
- Follow-up of potential initiatives, suggestions and complaints raised by the shareholders throughout the year.
- During the year 2015 no initiatives, complaints or suggestions have been received from the company's shareholders.

### **3.7 Other activities:**

- Approval of the Audit Committee's Activity Report for the year 2014, to be incorporated into the company's Annual Report on Corporate Governance for such year.
- Analysis of the reports on the renewals of the Red Eléctrica Corporate Insurance Programme.
- Approval of the meetings schedule for the year 2016.
- Approval of the Committee's Action Plan for the year 2016.
- Analysis and reports for the Board of Directors regarding relevant investment transactions (setting up a subsidiary for the activity of constructing energy storage facilities, acquisition of 50% of Transmisora Eléctrica del Norte, S.A. (TEN) in Chile, process of investing in transmission facilities, tender proposals for new projects in Latin America, among others).
- Analysis of the Report on the corporate adaptation of the Telecommunications and International Businesses and issue of favourable report.
- Analysis of the report on total tax contribution of the Red Eléctrica Group in the year 2014.
- Analysis of the proposed tax strategy for the Group and issuing of favourable report.

- Analysis of the proposal to adhere to the Good Tax Practices Code and issuing of favourable report.

#### **4. Attendance of directors to the meetings**

No absence or delegation by the members has occurred throughout the eleven (11) meetings held.

#### **5. Review of the annual accounts for the year 2015**

At this meeting, in which the Committee's activity report for the year 2015 has been approved, the Audit Committee has proceeded, in connection with the financial year 2015:

To review the Annual Accounts for the year 2015 of the company and its Consolidated Group and the External Auditor's Report.

To analyse the relevant proposals for the allocation of profits and distribution of dividends in Red Eléctrica Corporación, S.A.

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

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

Additionally, the Audit Committee has issued a favourable report to the Board of Directors regarding the proposal to re-elect the external auditor, which shall be submitted to the shareholders at the upcoming Annual General Meeting of Shareholders, for a three-year term.

#### **TITLE IV- RED ELÉCTRICA'S FUTURE PLANS IN RESPECT OF CORPORATE GOVERNANCE MATTERS.**

In the Annual Corporate Governance Report for this financial year, as in previous years, a section is dedicated to Red Eléctrica's future plans in respect of corporate governance matters, due to the relevance it has for current shareholders and potential investors, as well as future third parties interested in Red Eléctrica.

The statements made in this Title do not, per se, constitute any commitment or formal obligation for the company, enforceable by third parties; they are merely possible steps and measures to be taken in 2016 and subsequent years, according to Red Eléctrica's tradition to continue including the best corporate governance practices, in light of the progress made in shareholder requirements and its corporate governance commitment.

During 2015, the Board of Directors has used the following basic tools, among others, to analyze corporate governance best practices with a view to their adoption by Red Eléctrica: an annual self-assessment of the Board, with support (for several years now) from external advisors (PwC); annual planning of corporate governance improvements, driven by the Appointments and Remuneration Committee, with advice from specialized consultants; an annual schedule of visits to institutional investors and proxy advisors; an external audit (Deloitte) of the Annual General Meeting of Shareholders management processes to help identify possible improvements; and the new CGGLC, which has helped to identify improvement opportunities for 2015 and the following years.

The company's presence, as a member of the world's leading organization in the field of corporate governance, the International Corporate Governance Network, has been of help, one more year, to have first-hand knowledge of the most relevant international trends in corporate governance, and their progress, with the possibility of conducting an early analysis and implementation.

In the company's Corporate Governance Policy, approved by the Board of Directors in November 2014, certain commitments to good corporate governance were undertaken, which should be gradually included, or consolidated, by Red Eléctrica by adopting certain principles and practices, summarized in Title II above, which will be periodically supervised over a one-year period to guarantee compliance.

Below we highlight certain relevant issues which, among others, are being analyzed or will be soon the object of discussion by the Board of Directors and its committees:

- Review and progress in the company's commitments to its shareholders, in order to consolidate a permanent relationship that is able to align the company's interests with those of its shareholders, in the medium and long-term, to encourage mutual trust.
- Completion of the splitting of the positions of Chairman of the Board of Directors and CEO at the end of the transitional period, which will take place at the 2016 Annual General Meeting.
- Adaptation of the company's Board of Directors Regulations to the latest legal reforms and the CGGLC and to include improvements in the functioning of the Board of Directors and its committees, as well other corporate governance reforms.

- Review and update of the succession plan for the Chairman of the Board of Directors and the Chief Executive Officer (CEO) on completion of the process of splitting those positions in the company.
- Strengthening of internal control tasks and risk management in certain fields of the company's activity, and improvement in the quality of public information available on the matter.
- Implementation of a new Compliance Plan for the company, and creation of an independent regulatory compliance unit.
- Consolidation of the structure of directors' remuneration and the company's policy on directors' remuneration, in accordance with corporate governance best practices and the principles of moderation, transparency and comparability.
- Permanent analysis, updating and improvement of the corporate governance information published on the corporate website to meet international standards.
- Monitoring and improvement of the process by which the annual corporate information for shareholders and other stakeholders is prepared and published, in accordance with the principles of quality, clarity, integrity and simplicity of information.

**OFFICIAL ANNEX**

**STANDARD FORM OF ANNEX I TO CNMV CIRCULAR 7/2015 OF 22 DECEMBER**

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**ISSUER'S IDENTITY DETAILS**

FINANCIAL YEAR END

31/12/2015

TAX ID NUMBER  
(CIF) A-78003662

Company name:  
RED ELÉCTRICA CORPORACIÓN, S.A.

Registered Office:  
PASEO CONDE DE LOS GAITANES, 177  
LA MORALEJA – ALCOBENDAS  
MADRID

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

**A.1 Complete the following table on the Company's share capital:**

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
17-05-1999	270,540,000	135,270,000	135,270,000

Indicate whether different types of shares exist with different associated rights:

Yes

No

**A.2 List the direct and indirect owners of significant ownership interests in your company at year-end, excluding directors:**

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	27,054,000	0	20.00%
CAPITAL RESEARCH AND MANAGEMENT COMPANY	0	4,146,246	3.07%

Name or corporate name of the indirect stakeholder	Through: name of corporate name of the direct stakeholder	% of total voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	CAPITAL RESEARCH AND MANAGEMENT COMPANY	4,146,246

Indicate the most significant movements in the shareholder structure during the year:

**A.3 Complete the following tables on company directors holding voting rights through company shares:**

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MR. JOSÉ FOLGADO BLANCO	1,199	0	0.00%
MS. MARÍA DE LOS ÁNGELES AMADOR MILLÁN	0	0	0.00%

MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0.00%
MS. PALOMA SENDÍN DE CÁCERES	0	0	0.00%
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MS. MARÍA JOSÉ GARCÍA BEATO	5	0	0.00%
MS. SOCORRO FERNÁNDEZ LARREA	0	0	0.00%
MR. ANTONIO GÓMEZ CIRIA	0	0	0.00%
MR. SANTIAGO LANZUELA MARINA	4	0	0.00%
MR. JOSÉ LUIS FEITO HIGUERUELA	0	0	0.00%
MR. JOSÉ ANGEL PARTEARROYO MARTIN	10	0	0.00%
MR. JUAN FRANCISCO LASALA BERNAD	607	0	0.00%

<b>% total of voting rights held by the Board of Directors</b>	<b>0.00%</b>
----------------------------------------------------------------	--------------

Complete the following tables on share options held by directors:

**A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Capital Companies Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:**

Yes  No

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:**

Yes  No

**If any such covenants or agreements or concerted actions were amended or broken off during the year, please expressly describe:**

At the closing date of the 2015 financial year, the Company was not aware of any shareholders' agreements or covenants entailing an obligation to concertedly vote, or a common policy in the corporate management, or aimed at producing a material impact on the Company.

**A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the company in accordance with Article 4 of the Securities Market Act: If so, identify:**

Yes  No

Remarks
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**A.8 Complete the following tables on the company's treasury stock:**

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
437,187	0	0.32%

(\*) Through:

Give details of any significant variations during the year, pursuant to Royal Decree 1362/2007:

Explain any significant variations
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**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury stock.**

The Spanish Corporate Enterprises Act has consolidated the legal regime applicable to the treasury stock of companies established in Act 3/2009, of 3 April 2009, on Structural Modifications to Commercial Companies, without introducing any material amendments to the regime.

Over recent years, authorisation for delivery of treasury stock as remuneration to employees of the company and the Red Eléctrica Group has been submitted to the Annual General Meeting of Shareholders for annual renewal, even when still current. Once again, authorisation for delivery of treasury stock for another 5 years, although still current, was submitted to the Annual General Meeting of Shareholders held on 15 April 2015. The purpose of this was for the shareholders to renew the authorization granted last year and, furthermore, as a separate item on the agenda, it was also intended to establish once again a remuneration plan for employees, members of senior management and the executive directors of Red Eléctrica Corporación, S.A, which may be extended to the same collectives of the companies in its Consolidated Group in Spain, allowing part of their annual compensation to be awarded in the form of company shares, coming from treasury stock, on the same terms as last year and always within the maximum annual legal limit of EUR 12,000 per participant, which enables certain tax advantages to be enjoyed. The approval of the mentioned Plan requires a resolution with certain legally established conditions.

The Annual General Meeting of Shareholders of the Company held on 15 April 2015 gave authorization to the Board of Directors, pursuant to the provisions of Article 146 and related provisions of the Spanish Corporate

Enterprises Act and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group, directly or indirectly, and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or without consideration, as the circumstances so advise. In the case of an acquisition free of charge, pursuant to the provisions of Article 146.4 of the Spanish Corporate Enterprises Act, the shares acquired may be partially paid up.
- Pursuant to the provisions of Article 146.1 b) of the Spanish Corporate Enterprises Act, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net equity below the amount of capital stock plus legal reserves or restricted reserves pursuant to the By-laws.

In accordance with paragraph three of Article 146.1 a) of the Spanish Corporate Enterprises Act, the Board of Directors of the Company may use some or all of the treasury stock acquired under such authorization and the treasury stock already owned by the Company on the date of approval of the resolution to implement compensation programs consisting of the direct award of shares to employees, members of management and executive directors of the Company and companies in the Red Eléctrica Group in Spain.

For all of the foregoing, the Board of Directors is granted the broadest powers to request any authorizations and adopt any resolutions that may be necessary or appropriate for compliance with legislation in force, and the implementation and successful outcome of this resolution.

The term of this authorization is five (5) years as from the date of the aforementioned General Meeting.

Such Meeting expressly revoked and, therefore, rendered ineffective, as regards the part not used prior to the adoption of the foregoing resolutions, the authorizations for the derivative acquisition of treasury stock and the share remuneration plan approved by the Annual General Meeting of Shareholders held on 9 May 2014.

**A.9 bis Estimated floating capital**

	%
<b>Estimated floating capital</b>	80.00

**A.10 Give details of any restriction on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.**

Yes

No

Description of restrictions
<p><b>Maximum percentage of voting rights that can be exercised by a shareholder subject to special legal restriction (Act 54/1997, of 27 November, additional provision twenty-three):</b></p> <p>3% (general) 1% (electricity sector)</p> <p><b>Maximum percentage of voting rights that may be exercised by a shareholder due to by-law restrictions:</b></p> <p>3% (general) 1% (electricity sector)</p> <p>Limits on shareholdings established in additional provision twenty-three of Act 54/1997, of 27 November (which remains in force by virtue of the single repealing provision of Electricity Sector Act 24/2013, of 26 December), following its amendment by Royal Decree-Law 13/2012, of 30 March, which incorporated certain added restrictions with respect to generation or commercialization companies. The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten per cent (10%) of capital in all cases.</p> <p>These legal provisions on the general and special shareholding regime are set out in Articles 5 and 14 and the Sole Additional Provision of the Corporate By-laws, and in Article 6.3 of the Regulations of the General Shareholders' Meeting. The content of the foregoing is available on the Company's website: <a href="http://www.ree.es">www.ree.es</a>.</p> <p>There are no other additional by-law restrictions other than purely legal restrictions.</p>

**A.11 Indicate whether the Annual Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.**

Yes

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

**A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.**

Yes  No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

**B ANNUAL MEETING OF SHAREHOLDERS**

**B.1 Indicate the quorum required for constitution of the Annual Meeting established in the company's By-laws. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).**

Yes  No

**B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:**

Yes  No

Describe how they differ from the rules established in the LSC.

**B.3 Indicate the rules governing amendments to the company's By-laws. In particular, indicate the majorities required to amend the By-laws and, if applicable, the rules for protecting shareholders' rights when amending the By-laws.**

The amendment of the Corporate By-laws presents no differences to the system provided for in Articles 285 ff. of the Spanish Corporate Enterprises Act and which requires approval by the Annual General Meeting of Shareholders, with the majorities provided for in Article 194 and 201 of said Act. Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act to improve corporate governance. The latter Act has introduced certain novelties in the majority system (Article 201 LSC). In particular, it is clarified that all resolutions will be adopted by a simple majority of votes, i.e. the resolution should obtain more votes in favour than against the present or represented share capital. For resolutions to amend the By-laws and equivalent situations (Article 194 LSC) an "absolute majority" is necessary if the quorum exceeds 50% of the share capital and two thirds of the present and represented share capital, if the quorum at second call does not reach 50% of the share capital. The reform of the LSC has had the immediate result of the amendment of the Corporate By-laws and the Regulations of the Board of Directors at the Annual General Meeting of Shareholders held on 15 April 2015. The Corporate By-laws which were in force at the time such Annual Meeting was held and applied thereto did not include any differences with respect to Articles 285 ff. LSC, requiring the approval by the Annual General Meeting of Shareholders, with the majorities

foreseen in Articles 194 and 201 LSC, in force at the time the Annual General Meeting of Shareholders was held.

Pursuant to Article 14 of the Corporate By-laws, in order for the Annual or Extraordinary General Meeting of Shareholders to be duly constituted and validly adopt resolutions for capital increases or reductions or any other amendment of the Corporate By-laws, shareholders representing at least 50% of subscribed voting share capital must be present or represented by proxy on first call, whilst 25% of subscribed voting share capital must be present or represented by proxy on second call.

In addition, pursuant to Article 286 of the LSC, the Board of Directors must prepare a full text and justification for the proposed modification.

Article 287 of the LSC further establishes that the call notice for the Annual General Meeting of Shareholders must clearly set out the items to be modified and the right of all shareholders to examine the full text of the proposed modification and its relating report at the company's registered office, or to request delivery of such documents at no charge.

For several years, proposed resolutions have been published in full, both in Spanish and English language, upon call of the Annual General Meeting of Shareholders, with all relevant information for shareholders being posted on the Company website, which is designed to make it easier for shareholders to exercise their right to information. The Company's website is an adequate tool for communicating with shareholders and investors.

The following actions to facilitate the rights of shareholders to information at the Annual General Meeting of Shareholders are also noteworthy:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the General Meeting, particularly the financial statements and the Annual Corporate Governance Report, is made available to all shareholders at the corporate registered office, on the website and at the Shareholder's Information Office.
- A Shareholder Bulletin is published quarterly, containing the main news about the Company.
- The items included on the agenda for the General Meeting of Shareholders are as detailed as possible.
- Separate voting on each item is permitted, including via remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to vote.

○ The Shareholder's Information Office specifically deals with requests made by shareholders. Shareholders may submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.

○ Both at the Annual General Meeting of Shareholders and at the Extraordinary General Meeting of Shareholders held in 2015, Deloitte conducted an audit on the management processes of the Annual General Meeting of Shareholders, towards improving the guarantees of shareholder rights at the Annual Meeting. The auditor's reports were published on the website as soon as the General Meetings were respectively held.

**B.4 Indicate the attendance figures for the General Meetings of Shareholders held during the year to which this Report refers and the previous year:**

Date of general meeting	Attendance Data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
09/05/2014	20.26	35.83	0.06	0.00	56.15%
15/04/2015	22.29	34.96	0.05	0.00	57.30%
17/07/2015	22.72	35.62	0.01	0.00	58.35%

**B.5 Indicate whether the By-laws impose any minimum requirement on the number of shares required to attend the General Meetings of Shareholders:**

Yes  No

**B.6 Section revoked**

**B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.**

Article 2 of the Regulations of the General Meeting establishes the content of the Company website, the purpose of which is to serve as an instrument to ensure transparency in the way the Company conducts itself and, at the same time, to allow shareholders to exercise their rights more effectively, as well as make their dealings with the Company easier. The Company has been using this form of communication since it was listed on the stock exchanges in 1999. The content of the website is updated regularly and exceeds the requirements of applicable legislation.

Under Act 25/2011, of 1 August, more prominence is given to company websites, since it introduces a new Article 11 bis to the Spanish Corporate Enterprises Act regulating the on-line site or corporate website. Said article established a duty for listed companies to have a website, approved by the General Meeting and recorded at the Commercial Registry, which is why the Annual General Meeting of Shareholders held on 19 April 2012 ratified RED ELÉCTRICA's website, which has been recorded at the Commercial

Registry. The Act also incorporates an obligation under Article 516 of the Spanish Corporate Enterprises Act for listed companies to use the website to disseminate the call notice for the General Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years.

The Company's website ([www.ree.es](http://www.ree.es)), which was remodelled in 2013 after an exhaustive international benchmarking in order to improve communication channels with shareholders, includes a "Corporate Governance" section, accessible from the home page. This section includes full information on this subject of interest to shareholders. Our website also features a specific area for "Shareholders and investors". In 2015 the sections on Corporate Governance and Shareholders and investors of the corporate webpage were revised in accordance with Circular 3/2015, of 23 June, of the CNMV. In the part on the General Meeting of the Corporate Governance section, a new entry has been included entitled "Right to Information" containing information relating to communication channels existing between the company and its shareholders and the relevant explanations for exercising the right to information.

Furthermore, it is worth mentioning that, in fulfilment of the undertaking acquired by the Company with its investors, at present a project is being culminated for publishing the corporate governance history of the Company on the corporate webpage. The culmination thereof and, therefore, the publication of the corresponding contents on the webpage, is envisaged as being carried out in the first quarter of 2016. The publicising of the resolutions approved by the General Meeting is regulated under article 17 of the Regulations of the Board of Directors. As regards 2015 publicity matters, the following actions stand out: the live simultaneous broadcast, both in Spanish and English language, of the Annual General Meeting of Shareholders, held on 15 April 2015, and the Extraordinary General Meeting of Shareholders held on 17 July 2015, the live simultaneous broadcast, both in Spanish and English language, of the presentation of results as at the close of the financial year 2014, the live simultaneous broadcast, both in Spanish and English language, of the presentation of results for the first half of 2015, and the publication in English of the call announcement, from the day it was published, and of the proposals of resolutions submitted to the approval of the General Meetings, as well as all documentation relating to the same, including the Annual Corporate Governance Report at the Annual General Meeting of Shareholders and the Report on the process of the separation of the positions of chairman of the Board of Directors and chief executive primer (managing director) of the company at the Extraordinary General Meeting of Shareholders. In 2015, as in previous years, the Electronic Shareholders' Forum was set up for the Annual and Extraordinary General Meetings. Such Forum, created by Red Eléctrica Corporación, S.A. on its webpage - [www.ree.es](http://www.ree.es) - on the holding of its General Meetings, was in response to the need established in the final paragraph of article 117.2 of the Securities Market Act 24/1988, of 28 July, introduced by Act 12/2010, of 30 June, and by article 539.2 of the consolidated text of the Spanish Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July. The said tool was incorporated into the Regulations of the General Meeting of Shareholders, in article 8.4 thereof, after its approval by the Annual General Meeting of Shareholders held on 13 April 2011. The purpose of this Forum is to facilitate communication between the shareholders of Red Eléctrica, in

order to publish proposals as a supplement to the agenda in the Meeting call, make requests for adhesion to such proposals, present initiatives for reaching the percentage for exercising a minority right established by law or make offers or requests for voluntary representation. The firm intention is to continue improving and adapting the webpage corporative permanently, as a live instrument for communication, dialogue and commitment to the shareholders, in application of the Corporate Governance Policy of the Company.

## C COMPANY MANAGEMENT STRUCTURE

### C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the By-laws:

<b>Maximum number of directors</b>	13
<b>Minimum number of directors</b>	9

C.1.2 Complete the following table with Board members' details:

<b>Name or corporate name of director</b>	<b>Representative</b>	<b>Category of Director</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Independent	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. JOSÉ FOLGADO BLANCO		Executive	Chairman, CEO	22.05.08	19.04.12	Resolution of General Meeting
MS. MARÍA ANGELES AMADOR MILLÁN		Independent	Director	26.05.05	18.04.13	Resolution of General Meeting
MS. PALOMA SENDÍN DE CÁCERES		Independent	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. ANTONIO GÓMEZ CIRIA		Independent	Director	09.05.2014	09.05.2014	Resolution of General Meeting
MR. SANTIAGO LANZUELA MARINA		Proprietary	Director	29.07.2014	15.04.2015	Resolution of General Meeting
MS. MARÍA JOSÉ GARCÍA BEATO		Independent	Director	29.11.12	18.04.13	Resolution of General Meeting
MS. SOCORRO FERNÁNDEZ LARREA		Independent	Director	09.05.2014	09.05.2014	Resolution of General Meeting

MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS		Proprietary	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. JOSE LUIS FEITO HIGUERUELA		Independent	Director	13.02.2015	15.04.2015	Resolution of General Meeting
MR. JOSE ANGEL PARTEARROYO MARTIN		Proprietary	Director	22.12.2015	22.12.2015	Co-optation
MR. JUAN FRANCISCO LASALA BERNAD		Executive	Managing Director	17.07.2015	17.07.2015	Resolution of General Meeting

<b>Total number of Directors</b>	<b>12</b>
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Indicate any Board members who left during this period:

Name or corporate name of director	Status of the director at the time	Leaving date
MR. FRANCISCO RUIZ JIMENEZ	Proprietary	24.11.2015

**C.1.3 Complete the following tables on board members and their respective categories:**

**EXECUTIVE DIRECTORS**

Name or corporate name of director	Position held in the company
MR. JOSÉ FOLGADO BLANCO	CHAIRMAN
MR. JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR

<b>Total number of Executive Directors</b>	<b>2</b>
<b>% of the board</b>	<b>16.67%</b>

**EXTERNAL PROPRIETARY DIRECTORS**

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
Mr. José Ángel Partearroyo Martín	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Mr. Fernando Fernández Méndez de Andés	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Mr. Santiago Lanzuela Marina	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

<b>Total number of proprietary directors</b>	<b>3</b>
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<b>% of the board</b>	25.00%
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**INDEPENDENT EXTERNAL DIRECTORS**

**Name or corporate name of director:**

MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

**Profile:**

Born 20 May 1968.

Degree in Economics and Business Science from Universidad Pontificia de Comillas (ICADE).  
Master's in Business from the IESE (Executive MBA), University of Navarra.

Currently:

Director General of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)

Formerly:

Head of the Cogeneration Department, Business Management, Enagás.  
Head of the International, Petrochemical and Marketing Departments of Repsol.  
Director of Services Development at Union Fenosa.  
Deputy Director of Oil Markets at Committee Nacional de Energía (CNE).  
Institutional Relations and Communications Manager for BP Oil España.  
Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).  
Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER). Professor at lectures and/or presentations on different Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

**Name or corporate name of director:**

MS. MARÍA ANGELES AMADOR MILLÁN

**Profile:**

Born 10 October 1949.

Law Degree, Universidad Complutense de Madrid

Currently:

Practising lawyer.

Formerly:

Technical General Secretary, Ministry of Public Works and Urban Development.  
Deputy Secretary, Ministry of Health and Consumer Affairs.  
Minister for Health and Consumer Affairs.  
Member of Parliament for Segovia.  
Member of Parliament for Madrid.  
Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

**Name or corporate name of director:**

MS. PALOMA SENDÍN DE CÁCERES

**Profile:**

Born 19 September 1951.

Graduate in Economics and Business Science, Universidad Autónoma de Madrid.  
Trade Expert and State Economist. State Diploma in Trade.

Currently:

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

Formerly:

Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.

Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI).

Member of the Nuclear Safety Board (CSN) and member of a number of national and international Committees, representing the CSN before the OECD and other bodies.

Director General of Mines.

President of the National Mining Safety Commission.

Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.

Managing Director of Promotion at ICEX.

Member and representative of Spain on various EC committees and workgroups.

Member of the Organising Committee of the European Union Conference on Stakeholders.

Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.

Director of Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000).

Director, Hulleras del Norte (HUNOSA).

Director, Banco Exterior de España.

Director, Compañía Logística de Hidrocarburos (CLH).

Director, FOCOEX.

Director, Tabacos de Filipinas.

Director, SIRECOX.

Director, Centro para el Desarrollo Tecnológico Industrial (CDTI).

Director, Fábrica Nacional de Moneda y Timbre (FNMT).

Director, Tabatrade.

Director, Banco Exterior de España, UK branch.

Author of numerous articles and publications related to her professional activity.

Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.

**Name or corporate name of director:**

MR. ANTONIO GÓMEZ CIRIA

**Profile:**

Born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Master's in Business Administration & Management (Executive MBA), IESE.

Currently:

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

Formerly:

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC (2009-2014).  
Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations (2009-2014).  
General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC (2006-2009).  
Head of Internal Auditing, Grupo FCC (2005-2006).  
Member of the Advisory Council, Institute of Internal Auditors (2011-2013) and Member of the Executive Committee (2006-2009).  
General Technical Secretary of InverCaixa, investments management company of Grupo La Caixa (2000-2005).  
Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC (1996-2000).  
Director, Empresa Nacional de Uranio, S.A. (1996-2000).  
Director, Empresa Nacional de Autopistas, S.A. (1998-2000).  
Director, Tabacalera, S.A. (1996-1998).  
Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid (1989-1996).  
Deputy Manager for Studies and Budgetary Planning, Radio Televisión Española (1987-1989).  
Head of the Auditing and Accounting Department, Banco de Crédito Agrícola (1984-1987).  
Auditor/Inspector, General State Inspectorate (1981-1984).

Other:

Member of the CNMV Work Group to prepare a “Management report guide for listed entities” (2012-2013).  
Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

**Name or corporate name of director:**

MS. MARÍA JOSÉ GARCÍA BEATO

**Profile:**

Born 27 May 1965.  
Degree in law from the University of Cordoba. State lawyer.

Currently:

Deputy secretary non-director of the Board of Directors of Banco Sabadell, S.A.  
General Secretary and member of the Management Committee of Banco Sabadell, S.A.  
Secretary of the Board of Directors of Sabadell United Bank (Miami).  
Patrón of the Fundació Privada Banc Sabadell.  
Patrón of the Fundación Española de Banca para Estudios Financieros (FEBEF).  
Secretary of the Board of the Fundación de Estudios de Economía Aplicada (FEDEA).  
Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.  
Patrón of the Fundación Wolters Kluwer.  
Member of the Advisory Board of Fundación Cajasur.

Formerly:

State lawyer at the Madrid High Court of Justice.  
Head of the legal department of the Data Protection Agency.  
Spanish representative of the Consulting Committee of the Council of Europa on matters of data protection.  
Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for project CERES (Certificación Española de transacciones Electrónicas).

State lawyer at the Sub-directorate of the Consulting Services of the Directorate for State Legal Services.  
State lawyer at the General Secretariat for Communications of the Ministry of Development.  
General director of the Ministry of Justice cabinet.  
Director at Infoinvest, S.A.  
Director at Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA).  
Director at Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI).  
Director at Sociedad Estatal Correos y Telégrafos, S.A.  
Director at Banco Guipuzcoano, S.A.  
Director at Banco CAM, S.A.  
Deputy secretary of Justice.  
State lawyer at the National Court legal services.  
Director of the legal advice service of Banco Sabadell.  
Secretary of the Board of Directors of Retevisión, S.A.  
Secretary of the Board of Directors of Banco Urquijo,

**Name or corporate name of director:**

MS. SOCORRO FERNÁNDEZ LARREA

**Profile:**

Born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid.

Currently:

CEO of the consultancy firm JustNow, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

Member of the Board of Director of the Spanish engineering firm SEG, S.A.

Member of the Board of Directors of the Spanish construction and property firm ACR

Member of the advisory board of the Mexican engineering firm CAL Y MAYOR

Member of the advisory board of the property firm ZELTEX, active in Senegal

Formerly:

General Manager, COPISA Constructora Pirenaica S.A.

Vice President, ANCI, Asociación de Constructores Independientes

Member of the Governing Council, Association of Civil Engineers

Regional Manager, Seop, Obras y Proyectos, S.A.

National Representative, Ferrovia Conservación, S.A.

Representative in Castilla-La Mancha, Ferrovia-Agroman, S.A.

Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A.

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works,

Autonomous Community Board of Castilla-La Mancha

Works manager, Ferrovia, S.A., in Castilla-La Mancha

Other:

Member of the advisory board of the newspaper EXPANSION

Member of WCD, Women Corporate Directors and co-chair of the Spain chapter

Member of AED, Asociación Española de Directivos, member of the Management Board

Member of CEAL, the Business Council for Latin America, member of the Management Board (chapter on the Iberian Peninsula).

Member of WPO-YPO, Young Presidents' Organization, member of the chapter executive committee

Eurolatam

Member of IWF, International Women Forum

**Name or corporate name of director:**

MR. JOSÉ LUIS FEITO HIGUERUELA

**Profile:**

Born 13 April 1952.

Degree in Business Studies and Economics from the Universidad Complutense de Madrid.  
Commercial Expert and State Economist.  
Spanish Ambassador.

**Currently:**

Chairman of IEE (Instituto de Estudios Económicos) since 2009.  
Chairman of the Economic and Financial Policy Commission of the CEOE, and Executive Committee and Management Board member since 2001.  
Member of the Board of Directors of Bankia, S.A. and member of its Auditing and Compliance Committee since 2012.  
Member of the Editorial Board of the newspaper Expansión since 2001.

**Formerly:**

Chairman of ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).  
Spanish Ambassador to the OECD in Paris (1996-2000).  
Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), company where he was “Chief Economist” and responsible for the management of several Investment Banking areas (1986-1996).  
Head of International Financial Institutions at the Bank of Spain, member of the European Monetary Committee (Brussels) and of the Committee of Central Bank Governors of the European Union in Basle (1984-1986).  
Technical Advisors and Executive Director in Washington of the International Monetary Fund (1980-1984).  
Head of the Studies Service of the External and Data Processing Sector of the Ministry of Economy and Finance, in Madrid (1978-1980).  
Computer programmer, analyst and executive with the companies Seresco, S.A. and Entel-Ibermática, S.A., in Madrid (1967-1978).

<b>Total number of Independent Directors</b>	7
<b>% of the board</b>	58.33%

**List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.**

Yes

No

If applicable, include a statement from the board detailing the reasons why the said director may carry out his duties as an independent director.

**OTHER EXTERNAL DIRECTORS**

Identify the other external directors and list the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year:

**C.1.4 Complete the following table on the number of female directors over the past four years and their category:**

	% of total directors of each type							
	2015	2014	2013	2012	2015	2014	2013	2012
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	5	5	4	4	41.67%	50.00%	36.36%	36.36%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	5	5	4	4	41.67%	50.00%	36.36%	36.36%

**C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.**

Explanation of measures
<p>In line with Recommendation 15 of the UCGB and the most recent international developments, Red Eléctrica has been appointing women directors with suitable profiles on its Board of Directors.</p> <p>At the Annual General Meeting of Shareholders held on 22 May 2008, three female directors joined the Board of Directors of Red Eléctrica Corporación S.A. In 2009 and 2010, Red Eléctrica Corporación, S.A. was in first place in the IBEX 35 for the highest percentage of female members of the Board of Directors (27.3%); this percentage has been maintained. A further independent female director joined the Board of Directors in 2012. At the end of 2013, four (36.4%) of its members, representing 40% of the Company's external directors, were women. This placed the Company again in first place of the IBEX 35.</p> <p>In 2014, the Board of Directors took one more step to fulfil the best recommendations in gender diversity matters. Thus, the Annual General Meeting of Shareholders held on 9 May 2014 approved the appointment of a woman as a new independent director to replace another independent director. As a result, at present, at the date of approval of this Report, 5 out of the 11 members of the Board of Directors were women, meaning that 45.45% of the entire Board of Directors are women (as opposed to 36.4% at the end of 2013). With respect to external directors, the percentage of women in 2014 came to 50%, as opposed to 40% at the end of 2013, once again being in</p>

first position in the IBEX 35. As regards the financial year 2015, the number of women on the Board of Directors stayed at 5. However, after the increase by one the members of the Board of Directors as a result of the appointment of the managing director of the Company, which makes a total of 12 members, the percentage of women has fallen to 41.7% (compared to the 45.45% of 2014) but continues to be 50% of the external directors. Therefore, at present, Red Eléctrica continues to surpass the objective of 40% of the external directors established in the draft Directive approved by the European Commission, and the 30% established in the new Recommendation nº 14 of the Spanish Corporate Governance Code of Good Practices (CBGSC), both objectives being for the year 2020.

Moreover, as part of its ongoing commitment to adopt corporate governance best practices, the Board of Directors assumed the obligation of approving an annual report on gender diversity matters at the proposal of the Appointment and Remuneration Committee. The first edition of the report was approved at the end of 2008. This commitment has been maintained ever since.

At its meeting on 27 October 2015, the Board of Directors, as part of its on-going commitment to the adoption of best corporate governance practices, approved the Report on Gender Diversity and Equality Policy submitted to it by the Appointments and Remuneration Committee. For the third consecutive year, a single report has been prepared grouping information on gender diversity on the Board of Directors with information on gender diversity in the Red Eléctrica Group, thereby producing a single report with all information on the matter. This Report has been published on the Company's website once again.

The commitment of the Board of Directors of Red Eléctrica to strengthening the presence of women is an objective of good corporate governance policies, both on the Board of Directors and in company management and the rest of the organization of the main companies of the Red Eléctrica Group. Its application must be ongoing in order to consolidate a responsible corporate management model based, among other aspects, on active management of the principles of equality and non-discrimination. The objective is for women to play a commensurate role in the Company's decision making through a larger presence on its Board of Directors and its committees.

As regards the Board Committees, please note that in late 2015 the Company's Board of Directors, further to a proposal from the Chairman of the Board of Directors and a prior opinion from the Appointments and Remuneration Committee, has agreed to increase the number of members in each Board Committee: the Auditing Committee and Appointments and Remuneration Committee, from four (4) to five (5) members. Following this increase, on 31 December 2015, on the Appointments and Remuneration Committee, 100% of its 4 members were women (bearing in mind that on such date there was a vacancy and it consisted of 4 members) and is chaired by a

woman. On the Auditing Committee 1 out of its 5 members is a woman.

In 2013, the Board of Directors agreed to create the role of Lead Independent Director (LID). This was approved by the Annual General Meeting of Shareholders held on 18 April 2013. The aim of this measure is to reinforce the balance of powers within the Board of Directors, where the Chief Executive Officer and the Chairman of the Board are the same person. On 25 May 2013, Ms. Gómez de Barreda Tous de Mosalve was named Lead Independent Director by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.

**C.1.6 Explain the measures which, the appointment committee might have agreed so that selection procedures might be free from any implicit bias hindering the choice of female directors and the company deliberately seeking and including among the potential candidates women meeting the potential profile sought:**

<i>Explanation of measures</i>
<p>As stated in the previous section, the measures put in place by the Company are aimed at actively promoting the selection of female Directors and their incorporation into the Board of Directors, on the terms provided in Recommendation 14 of the former UCGG and in accordance with Article 16.1 of the Regulations of the Board of Directors. This is the responsibility of the Appointments and Remuneration Committee.</p> <p>The Board of Directors has taken on board best practice recommendations on gender diversity. At the end of 2015, five (41.7%) of its members, representing 50% of the Company's external directors, were women. Red Eléctrica therefore continues to surpass the objective of 40% of external directors established in the draft Directive approved by the European Commission and the 30% established in Recommendation nº 14 of the new CBGSC, both objectives being for the year 2020.</p> <p>On 25 May 2013 was appointed independent coordinating director by the Board of Directors, at the proposal of the Appointment and Remuneration Committee (formerly the Corporate Responsibility and Governance Committee).</p> <p>As regards the Board Committees, pursuant to the foregoing, it is worth mentioning that during the entire financial year 2015, the Appointment and Remuneration Committee was chaired by a woman</p>

and, after the increase in its members, as at 31 December 2015, 100% were women. The Auditing Committee was chaired by a woman until June 2015, and as at 31 December 2015 one of its 5 members was a woman.

To conclude, all proposed appointments of female directors and the incorporation of female directors as Board Committee members, either proposed or reported by the Appointment and Remuneration Committee, have been approved by the Board, entailing a greater presence of women on the Board of Directors and Committees, as well as in the management bodies of the Company.

When, despite the measures which were applicable have been adopted there are few or no female directors, explain the reasons justifying this:

Explanation of reasons
Not applicable

**C.1.6 bis Explain the conclusions of the appointments committee on the verification of the compliance with the director selection policy. In particular, explain how such policy is promoting the objective for the number of female directors in the year 2020 representing at least 30% of the total number of members of the board of directors.**

Explanation of conclusions
<p>As regards the selection of directors, the Appointments and Remuneration Committee is based on a general matrix of competences containing the criteria defining the profile and requisites considered suitable for performing the position as director of the company and analyses the qualities, competences and experience the ideal director for holding the position should have, regardless of their category.</p> <p>In each candidate selection process, the Appointments and Remuneration Committee analyses the profile of the candidates and assesses whether it is in line with the ideal profile for performing the position as director for the type of director of which is vacant at the time.</p> <p>To do this, the Appointments and Remuneration Committee fulfils the basic responsibilities established under article 16.1, sections g), h) and i) of the Regulations of the Board of Directors, whereby the Committee should:</p> <ul style="list-style-type: none"> <li>-Ensure the candidates for covering a director vacancy meet all the requisites required by legal provisions and the Regulations of the Board of Directors.</li> </ul>

-Assess the competence, knowledge and experience needed for the Board and define, as a result, the functions and skills necessary for the candidates to cover such vacancy, within the policy approved to such end.

- Assess the time and devotion need for directors to be able to perform their duties with due clarity and efficiency, evaluating to such end their compatibility with belonging to other company administrative bodies.

Moreover, in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014 and published on the webpage, it is established that "Red Eléctrica applies the principle of ensuring the existence of suitable procedures for the selection of directors, guaranteeing a reasonable balance and diversity on the Board of Directors for the suitable performance of their task. To do so, on evaluating the candidates participating in the selection process, the procedure takes into account the competences, experience, professionalism, suitability, independence of criteria, knowledge, qualities, capacities and availability of the members of the Board of Directors from time to time, with the Appointment and Remuneration Committee assuming a relevant role in this process".

To do all the foregoing, it has been taken into account by the Appointments and Remuneration Committee and the Board of Directors when analysing the reports and proposals for covering existing vacancies on the Board of Directors in 2015, as can be seen from the corporate webpage - [www.ree.es](http://www.ree.es) - in the documentation Red Eléctrica made available to shareholders for the ratification and appointment of a proprietary director and an independent director at the Annual General Meeting of Shareholders held on 15 April 2015, and the appointment of a new executive director at the Extraordinary General Meeting held on 17 July 2015, which also included a report from a head hunter.

As regards the concern of the Board of Directors for promoting women on the Board of Directors, article 16.1 l) of the Regulations of the Board of Directors establishes as one of the basic responsibilities of the Appointments and Remuneration Committee ensuring that account is taken of gender diversity when covering new vacancies. Likewise, the Corporate Governance Policy approved by the Company on 25 November 2014 establishes that "the Company applies the principle of promoting diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees as an essential factor enabling it to reach its objectives from a plural and balanced perspective".

As has already been explained in sections C.1.5 and C.1.6 above, since 2014 the Company has had 5 female directors and surpasses the objective of 40% of external directors established in the draft Directive approved by the European Commission and the 30% established in Recommendation nº 14 of the new CBGSC, both objectives being for the year 2020.

For several years, the Company has held first place among companies of the IBEX 35 as for the largest percentage of women on the Board of Directors.

For further information, we refer to the Diversity Report on Gender and Equality Policy approved by the Board of Directors on 27 October 2015 published on the corporate webpage – [www.ree.es](http://www.ree.es) -.

**C.1.7 Explain how shareholders with significant stakes are represented on the board.**

Pursuant to Article 20 of the Corporate By-laws, the selection of directors takes into consideration the Company's capital structure. The objective is for external directors (independent and proprietary) to form a significant majority. The composition of the Board of Directors is determined so as to ensure the most appropriate representation of share capital.

Pursuant to Article 7 of the Regulations of the Board of Directors, directors with a holding equal to or higher than legally significant thresholds, or who represent shareholders with such significant holdings, are considered proprietary directors. For these purposes, a director shall be considered to represent a shareholder, when:

- i) They have been appointed in exercise of the right of representation.
- ii) They are directors, senior managers, employees or regular suppliers of services to such a shareholder, or of companies belonging to the same group.
- iii) Company documentation shows that the shareholder considers that they nominated or are represented by the director.
- iv) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of a significant shareholder.
- v) Proprietary directors may not hold positions in more than five (5) listed companies at one time.

The composition of the Board of Directors is governed by the criteria of proportionality. Article 7 of the Regulations of the Board of Directors establishes that a balance will be sought between the number of

proprietary and independent directors to reflect the share of capital represented by proprietary directors and the remaining share capital.

Furthermore, efforts will be made to ensure that the number of independent directors represents at least half of all directors, and when the chairman of the Board is also the chief executive, independent directors must form a majority of total directors. These provisions were incorporated into the Regulations of the Board of Directors in March 2013, so as to reflect international corporate governance best practice.

Pursuant to the role set out in Article 24.2 of the Corporate By-laws, the competences of the Appointments and Remuneration Committee include reporting to the Board of Directors on the selection and reappointment of proprietary directors proposed by the majority shareholder, for presentation to the General Meeting.

Proprietary directors must disclose to the Board of Directors any conflict of interest between the Company and the shareholder that proposed their appointment where the conflict of interest relates to matters submitted to the Board of Directors and must refrain from participating in the adoption of the corresponding resolutions. Furthermore, Article 22.2 of the Regulations of the Board of Directors establishes that proprietary directors must tender their resignation when the shareholder they represent on the Board of Directors disposes of its stake in the Company, or reduces it below a level that reasonably justifies their designation as such.

The modifications to the Regulations of the Board of Directors approved in March 2013 set out that proprietary directors may not hold directorships in more than five (5) listed companies at one time.

At 31 December 2015, the State-owned Industrial Holdings Company (Sociedad Estatal de Participaciones Industriales or "SEPI") directly owned a significant stake in Red Eléctrica, holding 27,054,000 shares, representing 20% of its share capital. Three proprietary directors represent SEPI on the Board of Directors: Fernando Fernández Méndez de Andés, Santiago Lanzuela Marina and José Ángel Partearroyo Martín, representing 25% of the total number of directors, without including the independent director vacancy.

Aside from SEPI, there are no individuals or legal entities that exercise or may exercise control over the Company, pursuant to Article 5 of Royal Legislative Decree 4/2015, of 23 October, approving the consolidated text of the Securities Market Act.

**C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:**

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

**C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:**

**Director's name**

MR FRANCISCO RUIZ JIMÉNEZ

**Reasons for removal:**

Ceasing to form part of SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), which he represented as proprietary director of the company.

**C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):**

**Name or corporate name of director**

MR JOSÉ FOLGADO BLANCO

**Brief description**

At its meeting on 26 April 2012, the Company's Board of Directors unanimously agreed:

*"To delegate to the Chairman of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A., Mr José Folgado Blanco, pursuant to the provisions of Article 249 of the current Capital Companies Act, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate By-laws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the By-laws."*

**Name or corporate name of director**

JUAN FRANCISCO LASALA BERNAD

**Brief description**

At its meeting on 28 July 2015, the Company's Board of Directors unanimously agreed:

*"To delegate, jointly, severally and equally, to the managing director of Red Eléctrica Corporación, S.A., Juan Francisco Lasala Bernad, pursuant to the provisions of Article 249 of the current Capital Companies Act, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate By-laws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the By-laws."*

**C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:**

Name or corporate name of director	Corporate name of the group entity	Position	Executive duties?
Mr José Folgado Blanco	Red Eléctrica Internacional, S.A.U.	Joint Director	YES
Mr José Folgado Blanco	Red Eléctrica del Sur, S.A.	Chairman of the Board of Directors	NO
Mr José Folgado Blanco	Red Eléctrica España S.A.U.	Individual representative of the Sole Director, Red Eléctrica Corporación S.A	YES
Mr Juan Francisco Lasala Bernad	Red Eléctrica Internacional, S.A.U.	Joint Director	YES

**C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:**

Name or corporate name of director	Name of listed company	Position
Mr Fernando Fernández Méndez de Andrés	Bankia, S.A.	Director
Mr Jose Luis Feito Higuera	Bankia, S.A.	Director
Mr Socorro Fernández Larrea	Amper S.A.	Director

**C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:**

Yes X

No

Explanation of rules	
<p>As part of the basic duties of the Appointments and Remuneration Committee in respect of the appointment and removal of directors, Article 16.1 i) of the Regulations of the Board of Directors provides for the evaluation of the time and dedication necessary for directors to perform their work with due quality and efficiency, evaluating for these purposes whether their position as a director is compatible with membership of other managing bodies of companies.</p>	
<p>In this regard, the Appointments and Remuneration Committee has the power to analyse and propose to the Board authorisation, as the case may be, for members of the Board of Directors of Red Eléctrica to join the boards of directors of other companies.</p>	
<p>Article 7.3 of the Regulations of the Board of Directors limits the maximum number of boards of other listed companies on which an Independent Director may sit to two (2), except when otherwise expressly approved by the Board at the proposal of the Appointments and Remuneration Committee.</p>	
<p>In turn, according to said article of the Regulations:</p>	
<ul style="list-style-type: none"> <li>- Proprietary directors may not hold positions in more than five (5) listed companies at any one time.</li>   <li>- The Chairman of the Board of Directors and the executive directors may only hold positions as directors on one (1) board of directors of another company, with the exception of boards of directors of the Company's subsidiaries and investees.</li> </ul>	

**C.1.14 Section revoked.**

**C.1.15 List the total remuneration paid to the Board of Directors in the year:**

<b>Board remuneration (thousands of euros)</b>	2,653
<b>Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)</b>	0
<b>Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)</b>	0

**C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:**

Name or corporate name	Position(s)
MR ANDRÉS SECO GARCÍA	GENERAL MANAGER OF OPERATION
MR CARLOS COLLANTES PÉREZ-ARDÁ	GENERAL MANAGER OF TRANSMISSION
MS EVA PAGÁN DIAZ	GENERAL MANAGER OF TRANSMISSION
MR MIGUEL RAFAEL DUVISION GARCÍA	GENERAL MANAGER OF OPERATION

Total remuneration received by senior management (thousands of euros)	740
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**C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:**

Name or corporate name of director	Corporate name of company owning significant holding	Position
MR JOSÉ ÁNGEL PARTEARROYO MARTÍN	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	DIRECTOR

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

**Name or corporate name of related director**

MR JOSÉ ÁNGEL PARTEARROYO MARTÍN

**Name or corporate name of company owning significant holding**

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

**General Description**

GENERAL MANAGER

**C.1.18 Indicate whether any changes have been made to the board regulations during the year:**

Yes

No

**C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.**

## 1. Appointment and reappointment

Article 19 of the Regulations of the Board of Directors provides that Directors will be appointed by the General Meeting or by the Board of Directors by way of co-optation. The Appointments and Remuneration Committee must report in advance on the proposed appointment of Directors, including by way of co-optation. Within the scope of its powers, the Board of Directors will aim to ensure that the candidates appointed are of good standing, competence and experience, applying the appointment and assessment policy for candidates approved by the Board of Directors, and using external advisors as deemed appropriate, and as provided for in Article 20 of the Regulations.

As provided for in Article 21 of the Regulations, Directors will hold office for the period stipulated in the Corporate By-laws.

Article 20 of the Corporate By-laws establishes a four-year term of office for Directors. Pursuant to Article 7 of the Regulations of the Board of Directors, Independent Directors may not remain as such for a continuous period of more than twelve years.

In 2011, the Board of Directors approved a Company Chairman Succession Plan.

Bearing in mind that the Board Regulations were amended in 2013 and are currently under review, in 2016 a review will take place of the Succession Plan to keep it fully up to date, in accordance with the Corporate Governance Policy of the Company and the reforms of the LSC and to incorporate into the Succession Plan the functions and responsibilities of the position of independent co-ordinating director and contemplate the succession of the Chairman of the Board of Directors and that of the CEO after the split of the two positions approved at the Extraordinary General Meeting of Shareholders held in July 2015,

## 2. Evaluation of Directors

Pursuant to Article 5 of the Regulations of the Board of Directors, the Board, its Committees, its Chairman and the Chief Executive Officer of the Company will be assessed at least every two years by an independent external expert.

The Board of Directors has been carrying out an annual evaluation of its own operations, the operation of the Board Committees and of the Board Chairman with specialist external advice.

In particular, the Board of Directors has expressly reserved (Article 5 of the Regulations of the Board of Directors) among other responsibilities, which may not be delegated, the annual evaluation of:

- i) The quality and efficiency of the Board's functioning and the discharge by the Chairman of the Board of Directors and by the Company's Chief Executive Officer of their functions, based on a report submitted by the Appointments and Remuneration Committee in coordination, where applicable, with the lead independent director.
- ii) The functioning of its Committees, based on the report submitted by the Appointment and Remuneration Committee in coordination, where applicable, with the lead independent director.

The Board of Directors must periodically review the general aspects of the methodology used for the evaluation, its overall results and the corrective measures applied, if applicable.

The Appointments and Remuneration Committee is responsible for the assessment process for the Board of Directors and its Committees and, in particular, the Chairman of the Board of Directors and the Chief Executive Officer of the Company, in coordination, where applicable, with the lead independent director.

In 2014, and for 2015, which is currently underway, a self-evaluation process is being carried out with the assistance of the independent firm PricewaterhouseCoopers (PwC).

### 3. Removal.

Article 22.1 of the Regulations of the Board of Directors provides that Directors will cease to hold office at the end of the term for which they were appointed or when so decided by the General Meeting in exercise of the authority conferred upon it by law or the By-laws. The Board of Directors must not propose the removal of an Independent Director prior to the completion of the term of office specified in the By-laws for which the Director was appointed, unless there is just cause and subject to a report from the Corporate Responsibility and Governance Committee (now known as the Appointments and Remuneration Committee). In particular, just cause will be deemed to exist when a Director is in breach of the duties inherent to his/her position or is subject to any of the circumstances described in Article 7.2.c) of the Regulations of the Board of Directors, impeding their categorisation as independent. The removal of independent directors may also be proposed when a corporate transaction involves changes in the capital structure of the Company in order to meet the proportionality criterion set out in Article 7.1. c) of the Regulations of the Board of Directors.

Directors must tender their resignation to the Board of Directors and, if the Board deems it appropriate, formally resign in the cases contemplated in Article 22.2 of the Regulations of the Board of Directors and listed in section C.1.21 below.

Article 22.3 of the Regulations of the Board of Directors provides that Committee members will vacate their office when they cease as directors.

When a Director vacates his office before the end of his term, by reason of resignation or otherwise, he will explain the reasons in a letter to be sent to all members of the Board, the matter being reported in the Annual Corporate Governance Report, pursuant to Article 22.4 of the Regulations of the Board of Directors.

**C.1.20 Explain to what extent the annual board evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

Description of amendments
<p>The annual evaluation of the Board of Directors corresponding to 2014 has given rise, <i>inter alia</i>, to the following changes in internal organization:</p> <ul style="list-style-type: none"> <li>-The separation of the positions of Chairman of the Board of Directors and Chief Executive (managing director) of the Company.</li> <li>-The maintaining of the position of Independent Co-ordinating Director (CIC) after the aforementioned separation.</li> <li>-The reorganization of Management and approval of the Strategic Plan.</li> <li>-The strengthening of the model of relations between the Board of Directors and investors and proxy advisors.</li> </ul> <p>For further information, see the Annual Corporate Governance Report the company prepares voluntarily, available on the corporate webpage - <a href="http://www.ree.es">www.ree.es</a> -.</p>

**C.1.20.bis Describe the evaluation process and areas evaluated carried out by the board of directors assisted, if applicable, by an external consultant, as regards diversity in its composition and competences, operations and composition of its committees, performance of the chairman of the board of directors and the chief executive of the company and performance and contribution of each director.**

The self-evaluation process corresponding to 2014, which focused on the Board of Directors and its Committees, the performance of the duties of the Governing Bodies, including the chairman, the director independent co-ordinator and secretary of the Board, and other areas such as the role of the shareholders and investors or Remuneration Policy of the company included the participation for the second consecutive year of

PricewaterhouseCoopers (PwC), after having been conducted for several years by KPMG, current external auditor of the Red Eléctrica Group.

In relation to the self-evaluation process, this was carried out in the months of January and February based on interviews with the directors of the Company by those responsible at PwC, under the supervision and co-ordination of the Corporate Responsibility and Governance Committee (known now as the Appointment and Remuneration Committee) and the independent co-ordinating director.

During the interviews, the directors gave their opinion in relation to a series of questions related to the quality and efficacy of the operations and performance of the Board and other Administrative Bodies.

Moreover, those directors who in turn formed part of the Auditing Committee or the Appointments and Remuneration Committee answered a set of specific questions on such Bodies in order to analyse their operations in greater depth.

The final conclusions Report of the self-evaluation procedure for 2014 was approved by the Board of Directors at the meeting held on 26 May 2015.

As in the previous year, the result of the self-evaluation procedure carried out by PwC through the interviews with the directors shows that the Administrative Bodies of RED ELÉCTRICA enjoy a high degree of efficiency and smooth operations, obtaining a highly positive evaluation as to the structure and internal functioning of the various Administrative Bodies, and in respect of the fulfilment of the responsibilities entrusted to each of these Bodies.

Due to the renewal process of certain positions of the Board of Directors which took place in 2014, of note is the positive opinion of most directors in relation to the formal aspects of the Administrative Bodies, in particular regarding availability, rigor and preparation of the meetings and quality of the discussions.

Also valued very positively was the performance of the functions attributed to the various Administrative Bodies, with the directors emphasising positively the level of interaction between the Board of Directors and senior management, and the efficacy and level of discussions in relation to the decision-making process, especially when there was any difference of opinion among the members.

Furthermore, the self-evaluation in 2014 made it clear that the company is highly advanced as regards corporate governance, on having implemented various practices which go beyond the legal requisites existing at the time of the self-evaluation. In addition, pursuant to the provisions of the LSC, the Board of Directors, apart from making an

annual evaluation of its operations and those of its Committees, proposed on the basis of the outcome of the procedures an action plan with areas of improvement to be considered. For further information, see the Annual Corporate Governance Report the company prepares voluntarily, available on the corporate webpage -www.ree.es-.

**C.1.20.ter Describe in detail, if applicable, the business relations which the consultant or any company of its group might have with the company or any company of its group.**

The consultant evaluating the Board of Directors of the Company has other business relations with the Company and the companies of its group. The fees accrued by the consultant for the services provided for the evaluation of the Board of Directors of the Company comprise 7.93% of the total of the services provided to the Company and the companies of its group.

**C.1.21 State those cases in which directors must resign.**

Article 22.2 of the Regulations of the Board of Directors provides that Directors must tender their resignation to the Board of Directors and, if the Board deems it appropriate, formally resign, in the following cases:

- "a) When they reach 70 years of age.
- b) When they are subject to any of the statutory grounds for incompatibility or prohibition.
- c) When they are convicted of an offense or penalized in disciplinary proceedings for a serious or very serious infringement investigated by the supervisory authorities of the securities, energy and telecommunications markets.
- d) When they are in serious breach of their obligations as Directors.
- e) When they leave the executive positions with which their appointment as Director was associated.
- f) When their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Section 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a Director is prosecuted or is brought to trial for any of the crimes mentioned in Article 213 of the Spanish Corporate Enterprises Act, the Board shall examine his case as soon as possible and, in the light of the

specific circumstances, shall decide pursuant to the preceding paragraph whether or not it is appropriate for him to remain in office. All of the foregoing shall be set forth in the Annual Corporate Governance Report.

g) In the case of a Proprietary Director, when the shareholder whose shareholding interests 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.

h) At the request of the Board of Directors by a majority of two-thirds of its members, when they repeatedly fail to attend the Board meetings.

i) When a circumstance prevents or limits them significantly from taking part in and devoting themselves to the Board meetings and discharging their duties and responsibilities as directors."

**C.1.22 Section revoked**

**C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?**

Yes

No

If applicable, describe the differences.

Description of differences
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Any resolution – Quorum - Half plus one of the Directors present in person or by proxy (Art. 18 of the Regulations)- Type of majority: Absolute

Modification of the Regulations of the Board of Directors, pursuant to Article 3.4 of the Regulations-Quorum: As for any resolution- Type of Majority: Two thirds

Removal or retirement of a Director when their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Article 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members, in accordance with Article 22.2.f) of the Regulations. Quorum: As for any resolution. Type of majority: Two thirds

Cessation of the director at the request of the Board of Directors, in the event of repeated non-attendance at Board meetings. Request by two-thirds majority

No provision is made for resolutions that require a qualified majority for their adoption, apart from those specifically contemplated in the applicable legislation and those relating to amendments to the Regulations of the Board of Directors and removal or retirement referred to above.

Except in cases where other quorum requirements have been specifically established, the Board will be validly constituted where at least half plus one of its members are present, in person or by proxy. Where an odd number of Directors are present, a sufficient quorum will be deemed to exist if the next whole number immediately exceeding half of the Directors is present.

Article 21 of the Corporate By-laws establishes that any Director may grant a proxy to another Director, in writing and specifically for each meeting, to attend and vote on his behalf at meetings of the Board of Directors, providing that the proxy is granted to a Director of the same type as the Director represented (Articles 28.2 b) and 18 of the Regulations of the Board of Directors). (New Article 529 quarter LSC only allows non-executive directors to empower another non-executive director, provision which has been set forth in Article 21 of the Corporate By-laws).

The Chairman of the Board of Directors will be tasked with organizing the debate, ensuring and encouraging the participation of all Directors in Board deliberations, and putting the items to a vote once he deems them to have been sufficiently debated. Each Director, present in person or by proxy, will have one vote.

Article 21 of the By-laws and Article 18 of the Regulations of the Board of Directors establish that resolutions will be adopted by absolute majority of the votes of the directors present at the meeting, in person or by proxy, unless the law requires that resolutions be adopted by a higher majority, with the exceptions already mentioned as established in the Regulations of the Board of Directors.

**C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.**

Yes  No

**C.1.25 Indicate whether the Chairman has the casting vote:**

Yes  No

<b>Matters where the Chairman has the casting vote</b>
In the event of a tied vote, the Chairman will have the casting vote and will decide upon the issue independently of the subject matter of the resolution being voted on (Article 21 of the Corporate By-laws and Article 18.3 of the Board Regulations).

**C.1.26 Indicate whether the By-laws or the board regulations set any age limit for directors:**

Yes  No

Age limit for Chairman:

Age limit for chief executive

Age limit for director 70

**C.1.27 Indicate whether the By-laws or the board regulations set a limited term of office for independent directors:**

Yes  No

**C.1.28 Indicate whether the By-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold, and if any limitation has been established as to the categories which may be appointed as proxy, beyond those limitations imposed by law. If so, give brief details.**

Each Director may grant a proxy to another Director, in writing and specifically for each meeting, to represent him/her and vote on his/her behalf at the meetings of the Board of Directors. This is set out in Article 21 of the Corporate By-laws. Non-executive directors may only do so to another non-executive director.

Where a Director cannot, with just cause, attend the Board meeting(s) to which he has been called, he must give instructions to the Director that is to represent him, ensuring that he is represented by a Director of the same type, as provided in Article 28.2 b) and Article 18 of the Regulations of the Board of Directors.

Furthermore, the provisions established in new Art. 529 quarter LSC should apply for non-executive directors, which has already been set forth in the By-laws.

**C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.**

Number of Board meetings	14
Number of Board meetings held without the Chairman's attendance	1

If the chairman is an executive director, indicate the number of meetings without the attendance or proxy of any executive director, under the chair of the co-ordinating director:

Number of meetings	1
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Indicate the number of meetings of the various board committees held during the year:

Committee	No. of Meetings
Appointment and Remuneration Committee	14
Auditing Committee	11

**C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.**

Number of meetings with the attendance of all directors	11
% of attendances of the total votes cast during the year	98.08%

**C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:**

Yes  No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

**C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.**

Article 45 of the Regulations of the Board of Directors expressly establishes that the Company's Board of Directors will formulate the definitive financial statements, ensuring that they do not give rise to any qualifications by the auditor. Nevertheless, where the Board considers that it must maintain its judgement, it will publicly explain the substance and scope of the discrepancy.

In this regard, the Auditing Committee plays a particularly important role, as it continuously monitors the process of preparing the economic and financial information sent to the market supervisory bodies, thereby increasing the likelihood that there will be no qualifications in the annual auditors' reports.

Since the formation of the Company in 1985, it has not been subject to any qualifications in the audits of its financial statements. This

demonstrates the utmost accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated Group since its formation, guaranteeing at all times the maximum transparency in its reporting.

**C.1.33 Is the Secretary of the board also a director?**

Yes

No

If the Secretary is not a director, complete the following table:

<b>Name or corporate name of the secretary</b>	<b>Representative</b>
RAFAEL GARCIA DE DIEGO BARBER	

**C.1.34 Section revoked**

**C.1.35 Indicate, where applicable, the mechanisms implemented by the company to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.**

The approval of the policy to hire non-auditing services from an external auditor is reserved on a non-delegable basis to the Board of Directors further to its internal Regulations (Art. 5.5.a.xii)).

In 2012, at its Ordinary Shareholders Meeting of 19 April 2012, the Company adapted its Corporate By-laws to bring them into line with the aforementioned Act 12/2010, which aims to reinforce the competencies of the Auditing Committee to verify the independence of the external auditor. This modification is set down in Article 14.3 of the Regulations of the Board of Directors, which was approved by the Board of Directors at its meeting on 13 March 2013.

The Ordinary General Shareholders' Meeting held on 15 April 2015 approved an amendment of the Corporate By-laws, to adapt them to the latest legislative reforms introduced by Act 31/2014, of December 3, amending the LSC for improving corporate governance and, among other articles, article 23.2 of the By-laws was amended, relating to the competences of the Auditing Committee, incorporating minimum adjustments in relation to the External Auditors.

The Auditing Committee is the body within the Board of Directors responsible for the relationship with external auditors. In this regard, the Auditing Committee assists the Board of Directors in monitoring the independence of the Company's external auditor.

Article 14.3 b) of the Regulations of the Board of Directors (subject to review for its total adaptation to Act 31/2014, of 3 December), in relation to the independence of external auditors, provides that suitable relations may be established with the external auditors so as to obtain for examination information regarding matters that might jeopardize their independence or any other issue related to performance of the auditing process, and any other notifications as required under audit legislation and regulations. In any case, the Committee must receive each year from the auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of legislation in force.

In this regard, the Auditing Committee must ensure that the Company: (i) discloses any change of auditor to the CNMV as a relevant event and, if applicable, any disagreements with the outgoing auditor; and (ii) complies with the rules in force regarding the provision of non-auditing services, limits on concentration of the auditor's business and, in general, all other rules established to safeguard the independence of the auditor. In the event of resignation of the auditor, the Auditing Committee must examine the underlying circumstances.

The Regulations of the Board of Directors in force establish the Auditing Committee issuing annually, prior to the issuance of the auditors' report, a report containing its opinion on the independence of the external auditors.

Article 45 of the Regulations of the Board of Directors imposes a duty on the Board to refrain from engaging auditing firms whose envisaged fees for all items exceed 10% of their total revenues in the preceding year.

In addition, Article 45 also imposes a duty on the Board of Directors to provide yearly information on the overall fees paid by the Company to the auditing firm for non-auditing services, seeking to minimise contracting of such services as far as possible.

Without prejudice to the obligation set out in Article 45 for the Auditing Committee to report on services provided to the Company and the Group by the external auditors other than those related to the audit (and which are regularly reported to the markets through section C.1.37 of this report), the Company's approach is not to contract any such services from the auditor from the moment that they are appointed as such by the General Shareholders' Meeting, unless such contracting is justified by exceptional circumstances, in which case it will be duly explained in the Company's annual disclosures. In any

case, the contracting of such services must be authorised by the Auditing Committee.

The Company frequently makes all manner of presentations to financial analysts and investment banks to report on the key economic and financial highlights of the Group and its business performance.

These presentations are regularly attended by the most prominent industry professionals and experts. After these presentations, all participants are offered the opportunity to be included on a list of entities that periodically receive relevant Company information of interest to them.

All presentations to analysts are sent to the Spanish CNMV beforehand so that they may be consulted by the markets on its website. The presentations are also posted immediately on the corporate website.

The main purpose of the Investor Relations Department, which reports to the Company's Corporate Economic and Financial Department, is to act as a channel for communications with financial professionals and institutional investors, and to handle their inquiries.

**C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:**

Yes                      No

Explain any disagreements with the outgoing auditor and the reasons for the same:

**C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:**

Yes                       No

	Company	Group	Total
Amount of non-auditing work (in thousands euros)	0	66	66
Amount of non-auditing work as a % of the total amount billed by the auditing firm	0.00%	18.30%	18.30%

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons**

given by the Chairman of the Auditing Committee to explain the content and scope of those reservations or qualifications.

Yes  No

**C.1.39** Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	3	3
Number of years audited by current auditing firm/Number of years the company's financial statements have been audited (%)	10.00%	20.00%

**C.1.40** Indicate and give details of any procedures through which directors may receive external advice:

Yes  No

Procedures
<p>There is a specific procedure in place at the Company to allow Directors to seek external advice.</p> <p>In order to receive assistance in exercising their functions, Article 26 of the Regulations of the Board of Directors establishes that External Directors may request that the Board of Directors engage legal, accounting, financial or other expert advisers, at the expense of the Company.</p> <p>The engagement must refer to specific problems of a certain scale and complexity arising in the discharge of their office.</p> <p>The engagement request must be addressed to the Chairman. The request may be rejected by the Board of Directors if it transpires or can be inferred that:</p> <ul style="list-style-type: none"> <li>a) it is not necessary for the proper performance of the functions entrusted to the Directors;</li> <li>b) the cost thereof is not reasonable in view of the significance of the problem and the assets and revenues of the Company; or</li> <li>c) the technical assistance sought may be adequately provided by Company experts or technical personnel, or has been entrusted to other external experts.</li> </ul> <p>Articles 13.5 and 15.6 of the Regulations of the Board of Directors provide that the Auditing Committee and the Corporate</p>

Responsibility and Governance Committee may propose that the Board of Directors seek independent professional advice.

Furthermore, those Committees may access any type of Company information or documentation necessary for the better performance of their duties, pursuant to the provisions of the aforementioned articles of the Regulations of the Board of Directors.

**C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:**

Yes

No

**Procedures**

Board meetings are called at least six (6) days in advance and all relevant information is sent out with the call notice. The call notice always includes the agenda for the meeting and, in general, except where it is not possible, the relevant information, duly summarized and prepared.

Notwithstanding the foregoing, Article 17.5 of the Regulations of the Board of Directors establishes that the call notice for Board meetings will be sent at least three (3) days prior to the date of the meeting. As an exception and for reasons of urgency, the Board may be called by telephone and the advance notice period will not apply where the Chairman deems that the circumstances justify it. The reasons for the urgency are then set out in the minutes, pursuant to Article 17.6 of the Regulations of the Board of Directors.

Article 25.1 of the Regulations of the Board of Directors provides that Directors have the broadest rights to be informed of and to inspect any aspect of the Company. In this regard, Directors may, at any time, examine the books, registers, documents and other background information on corporate transactions and may even inspect all Company facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with Article 25.2 of the Regulations of the Board of Directors and so as not to disturb the ordinary management of the Company, the exercise of the right to information will be channelled through the Chairman of the Board of Directors, who will handle all requests from Directors, providing the information directly to them. The Chairman will also offer the appropriate contact persons at the relevant level within the organization or make arrangements to allow Directors to conduct the desired examination and inspection *in situ*.

Article 25.3 of the Regulations of the Board of Directors 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 this decision at its next meeting.

Both the Auditing Committee and the Corporate Responsibility and Governance Committee may access any kind of Company information or documentation that they may need for the better performance of their duties, as indicated in section C.1.40 above.

**C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:**

Yes

No

**Details of rules**

Article 38 of the Regulations of the Board of Directors provides, among the disclosure obligations of Directors, that Directors must inform the Company of all judicial, administrative and other claims that by reason of their significance could harm the credit and reputation of the Company and, in particular, of any criminal proceedings in which they appear as an accused party, and of subsequent progress in the case.

Furthermore, pursuant to Article 22.2 f) of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and, where the Board deems it appropriate, formally resign where their continued presence on the Board may jeopardize the interests of the Company, as envisaged above, and where the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a Director is prosecuted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Spanish Corporate Enterprises Act, the Board of Directors shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the director to remain in office.

**C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in Article 213 of the LSC:**

Yes

No

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

**C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.**

The Company has not entered into any agreements that come into force, are changed or terminate in the event of a change in control of the Company as a result of a takeover bid for the shares.

**C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.**

Number of beneficiaries	4
Type of beneficiary	Description of the resolution
Executive Directors	<p>The contract of the Chairman was proposed by the Appointment and Remuneration Committee (formerly the Corporate Responsibility and Governance Committee) and approved by the Board of Directors of the Company in March 2012. The contract of the Managing Director was proposed by the Appointment and Remuneration Committee and approved by the Board of Directors of the Company on 28 July 2015. Both contracts, following common market practice, include compensation equivalent to one year's remuneration in the event of the termination of the commercial relationship due to dismissal or a change of control.</p> <p>In addition, as is normal in these cases, as a result of his appointment as Managing Director, the current employment contract of Juan Lasala Bernad is suspended. In the event this should be terminated, it would accrue in terms of compensation the remuneration existing as at the date of its suspension, taking into account, for the appropriate</p>

	effects, his seniority in the Company as on the date of his appointment as Managing Director (14 years), in accordance with prevailing employment legislation.
Top executives	<p>There are no safeguard or golden parachute clauses for members of the Group's current senior management. In the event of the termination of the employment relationship, the compensation which would correspond to such executives would be calculated in accordance with applicable employment regulations. The contracts of these executives have been approved by the Appointment and Remuneration Committee, and have been reported to the Board of Directors. Those top executives who have not yet turned 60 are included in the Structural Management Plan put into practice by the Company in 2015.</p> <p>During 2015, accrued expenses were recognised associated with the departure, during the financial year, of a top executive, for the amount of 914 thousand euros, which included fixed remuneration, annual variable remuneration, the part accrued of the long-term remuneration 2014-2019 and, in addition, the compensation applicable in accordance with his contractual conditions.</p>

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	<b>Board of Directors</b>	<b>General Shareholders' Meeting</b>
<b>Body authorizing clauses</b>	<b>Yes</b>	<b>No</b>

	<b>YES</b>	<b>NO</b>
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Is the General Shareholders' Meeting informed of such clauses?	X	
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## C.2 Board committees

### C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors:

#### AUDITING COMMITTEE

Name	Position	Type
MR JOSE LUIS FEITO HIGUERUELA	Chairman	Independent
MS PALOMA SENDÍN DE CÁCERES	Member	Independent
MR FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Member	Proprietary
MR ANTONIO GÓMEZ CIRIA	Member	Independent
MR SANTIAGO LANZUELA MARINA	Member	Proprietary

% of proprietary directors	40.00%
% of independent directors	60.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational procedures and rules of the same and summarise its most important actions during the year.

The functions, organizational and operational procedures and rules of the Auditing Committee are set forth in the articles 23 of the Corporate By-laws and 13 and 14 of the Regulations of the Board of Directors.

The most important actions of the Auditing Committee are included in the Annual Activities Report of the said Committee corresponding to 2015, contained in the Annual Corporate Governance Report voluntarily prepared by the company, available on the corporate webpage –www.ree.es. Moreover, such Report is to be published separately on the said corporate webpage.

Identify the director member of the Auditing Committee designated bearing in mind their knowledge and experience in matters of accounting, auditing or both, and report on the number of years the Chairman of this committee has held the position.

Name of director with experience	MR JOSE LUIS FEITO HIGUERUELA
Nº of years of the chairman in the position	0

#### APPOINTMENT AND REMUNERATION COMMITTEE

Name	Position	Type
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CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	Chairwoman	Independent
MARÍA JOSÉ GARCÍA BEATO	Member	Independent
SOCORRO FERNÁNDEZ LARREA	Member	Independent
MARIA DE LOS ÁNGELES AMADOR MILLÁN	Member	Independent

<b>% of proprietary directors</b>	0.00%
<b>% of independent directors</b>	100.00%
<b>% of other external directors</b>	0.00%

Explain the functions attributed to this committee, describe the organizational and operational procedures and rules of the same and summarise its most important actions during the year.

The functions, organizational and operational procedures and rules of the Auditing Committee are set forth in articles 24 of the Corporate By-laws and 15 and 16 of the Regulations of the Board of Directors.

The most important actions of the Appointments and Remuneration Committee are included in the Annual Activities Report of the said Committee corresponding to 2015, contained in the Annual Corporate Governance Report voluntarily prepared by the company, available on the corporate webpage – [www.ree.es](http://www.ree.es). Moreover, such Report is to be published separately on the said corporate webpage.

**C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:**

	Number of female directors				
	2015	2014	2013	2012	2011
	Number %	Number %	Number %	Number %	Number %
<b>APPOINTMENT AND REMUNERATION COMMITTEE</b>	4 100.00%	3 75.00%	1 33.33%	1 33.33%	1 25.00%
<b>AUDITING COMMITTEE</b>	1 20.00%	2 50.00%	2 66.66%	2 66.66%	2 66.66%

**C.2.3 Section revoked**

**C.2.4 Section revoked**

**C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.**

In 2013, the Regulations of the Board of Directors of the company implemented the regulating of the structure, composition and operations of the Auditing Committee and the Appointments and Remuneration Committee in accordance with main practices and international recommendations on matters of corporate governance, introducing improvements into the organization and operations.

A complete regulation integrated into the Regulations of the Board of Directors was chosen, without any specific internal rules and regulations for the Committees having been established.

The functions and responsibilities of the Committees are based on the Corporate By-laws which have been adapted in this area to the new aspects introduced by Act 31/2014, of 3 December, amending the LSC for improving corporate governance, at the Annual General Meeting of Shareholders held on 15 April 2015. In this same sense, the Regulations of the Board of Directors is being reviewed, to be fully adapted to the said reform of the LSC and, to the extent possible, to the recommendations of the new CBGSC, among other aspects.

The current Regulations of the Board of Directors can be seen on the company webpage [www.ree.es](http://www.ree.es), in the section on Corporate Governance, notwithstanding the fact that it is registered and, therefore, available to any shareholders or interested party at the CNMV and the Madrid Commercial Registry.

Each year, the Board Committees prepares the corresponding reports on its activities, which are contained in full in the Annual Corporate Governance Report, prepared in their own format at the discretion of the company, and which can be seen on the webpage of the company. Moreover, both reports are to be published separately on the corporate webpage, once they have been approved by the Committees, in 2016.

**C.2.6 Section revoked**

**D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

**D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.**

**Procedure for approval of related-party transactions**

Pursuant to Articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010 the Board of Directors, at the proposal of the Auditing Committee, approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions requiring mandatory notification to the markets. The Auditing Committee monitors this policy annually and reports to the Board of Directors. In 2016 the public is envisaged on the corporate webpage of the Annual Auditing Committee Report on related transactions, corresponding to 2015, in accordance with recommendation 6 of the CBGSC.

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

**D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**

**D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**

**D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:**

**In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**

**D.5 Indicate the amount from related-party transactions.**

9 (thousands of euros)

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

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

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

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

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

The conflicts of interest described in this section are reported in the Annual Report.

In addition, Article 2 of the Internal Code of Conduct on the Securities Market includes within its scope of application Directors, the Secretary and Deputy Secretary of the Company's Board of Directors, executives (as defined in Chapter I of the Code) and the persons expressly designated by the Oversight Body created pursuant to the Code.

Under Article 7 of the Internal Code of Conduct on the Securities Market, obligated parties and temporarily obligated parties must generally endeavour to avoid situations of direct conflict of interest or conflicts of interest concerning related persons and must notify the Oversight Body of any situations of Conflict of Interest that may reasonably arise within fifteen (15) days from such situations coming to their attention, so that the Oversight Body may adopt the appropriate decisions in advance. In the case of Directors, they shall notify the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

Obligated parties and temporarily obligated parties must keep up to date the information on notified Conflicts of Interest reporting all changes as and when they occur. Without prejudice to the obligations established in the preceding paragraph, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate By-laws and in the Board Regulations, and, in general, with all such conditions and requirements as may derive from the corporate/commercial legislation applicable to public limited companies.

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

It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Corporate Economic and Financial Department, which will act in collaboration with the Secretary of the Board of Directors as regards any legal

issues resulting from the application or interpretation of the Code. The Oversight Body must periodically report to the Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to Article 13 of the Internal Code of Conduct on the Securities Market, the Auditing Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body.

In relation to company executives, Article 2.1.3 of the Internal Code of Conduct on the Securities Market establishes that Company executives, as defined in Chapter I, are deemed to be subject to the Code and, accordingly, will be subject to that Code. Article 5.2. of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the Code, on a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

The Board of Directors has formally reserved the examination of any material transaction carried out by the Company with a relevant shareholder, unless the matter is entrusted to the General Meeting due to its nature and conditions (Art. 39 of the Board Regulations).

**D.7 Is more than one Group company listed in Spain?**

Yes

No

Identify the listed subsidiaries in Spain:

**Listed subsidiaries**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

**Define any business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies**

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

**Mechanisms to resolve any potential conflicts of interest**

**E RISK CONTROL AND MANAGEMENT SYSTEMS**

**E.1 Describe the Risk Management System in place at the company.**

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

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

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

In accordance with the Regulations of the Board of Directors of Red Eléctrica, it is the Board of Directors itself that approves the Risk Control and Management Policy. This policy identifies the different kinds of risk, and sets the level of risk the Company deems to be acceptable and the action guidelines to mitigate the impact of these risks.

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

- Integrated Risk Management Policy.

This Policy (4<sup>th</sup> edition) was approved by the Board of Directors in November 2014, and identified the various types of risks, established the risk level which the Company considers acceptable and provided action guidelines for managing and mitigating such risks.

In September 2015 the tax risk management and control Policy was integrated into this policy, including action guidelines for the management and mitigation of these types of risks. This policy is fully in line with the Strategic Plan of the Group in force and is available on the corporate webpage in the section on Corporate Governance, although the said integration is pending incorporation.

- General Procedure of Integrated Risk Control and Management.

This procedure (4<sup>th</sup> edition) was approved by the Management Committee in January 2013, and establishes the object, responsibilities, activities and tasks of the system.

This procedure regulates the identification, evaluation and management of the relevant risks faced by the Group. This process is carried out in order to ensure that the various levels of responsibility of the Group are aware of and evaluate the risks threatening the activities, processes and projects, and that the management carried out takes them into account and is performed within the limits of the tolerable risk established.

As part of the internal policy of continuous improvement of processes, in 2012, the audit firm *Ernst & Young* carried out a review contrasting the

system of Risk Management at Red Eléctrica Group with the international standard ISO 31000, concluding that:

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

The Integrated Risk Management System includes any relevant task risks for the Red Eléctrica Group. On 29 September 2015, the Board of Directors approved the aspects of the Tax Risk Management and Control Policy of the Red Eléctrica Group and their integration into the Integrated Risk Management Policy.

The aspects of the Tax Risk Management and Control Policy implement the Tax Strategy of the Group approved by the Board of Directors on 30 June 2015. Furthermore, on 29 September 2015, the Board of Directors approved the adherence to the Code of Good Tax Practices which, *inter alia*, establishes all those leading to the reduction of significant tax risks and the prevention of those actions subject to causing them.

**E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax-related.**

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

The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out.

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

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

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

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

- Promoting implementation of the integrated risk management policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate achievement of global objectives.

The Risk Control and Internal Auditing Management, which reports to the Office of the Chairman, is, through the Internal Auditing and Risk Control Department, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports for the Management Committee, Auditing Committee and the Board of Directors. Amongst the information provided, the following is of particular note:

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

The organisational units are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the Risk Control and Internal Management and in the implementation of action plans.

Along with the responsibilities assigned to the Group's various units and control bodies, the Risk Management System establishes the information flows, the actions guaranteeing the systematic monitoring and control of risks through a series of activities and products, and the specific methodology to measure the level of risk.

**E.3 Indicate the main risks, including tax-related, which may prevent the company from achieving its targets.**

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

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

In this context, it is important to highlight the following for their importance and relevance:

- Regulatory risks: Possible changes to the legal framework regulating the business, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the operation of the business.
- Operational risks: Risks deriving from the inadequacy or failure of processes, personnel, internal equipment or systems or due to

external events. Although this type of risk is common in all kinds of economic activity, the critical nature of the functions carried out by Red Eléctrica Group mean that this type of risk could have a wider social and economic importance, for which reason it merits special attention.

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

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

As mentioned previously, in September 2015, the aspects of the Tax Risk Management and Control Policy of Red Eléctrica Group were integrated into the Integrated Risk Management Policy, establishing specific action guidelines for the management of such risks.

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest Risks Map produced, 141 risks have been identified, the distribution of which by types is:

- Regulatory risks, such as Spanish TSO
- Other regulatory risks, including tax risks
- Operational risks which might affect the Spanish electricity system
- Integrated security risks
- Risks to the environment and to the safety of persons
- Other operational risks, including criminal risks
- Financial and counterparty risks
- Risks associated with the telecommunications business
- Foreign trade risks

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

In order to monitor the risks, the current Risk Management System includes follow-up on 561 action plans, aimed at reducing the risk level, and 317 indicators for controlling the progress thereof.

#### **E.4 Identify if the company has a risk tolerance level.**

The level of risk which the Red Eléctrica Group is prepared to accept is established both for individual and aggregate risks (Global Acceptable Risk Level)

Acceptable risk level for an individual risk:

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

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

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

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

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

The level of tolerance for those risks defined by the Red Eléctrica Group only considers admissible those risks the evaluation of which in accordance with the foregoing matrix is considered to be low. According to the risk policy, any risk exceeding this admissible level must be subject to actions, in order to reach such level, insofar as the risk is manageable and the costs of its management are in proportion to the effect of the risk avoided. Every risk of acceptable level is subject to actions to maintain it at this level.

Global Acceptable Risk Level:

During 2015 and up to the present, work has been carried out on determining the global acceptable risk level which the Group is prepared to accept, for each of the four types of impacts already mentioned:

- Impact on the electricity supply.
- Impact on the strategies of the Group.
- Impact on reputation.
- Impact on results.

An aggregation method enabling the aggregate risk level to be determined is being developed, based on the evaluation of the individual risks.

Shortly, this global acceptable risk level will be subject to different contrasting tests before being submitted to the Board of Directors for its approval.

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

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

For each of these four elements, Red Eléctrica Group has produced a table showing 5 levels of effect or impact. In the cases of electricity supply and the income statement, the measurement is quantitative in nature (MWh and Euros) whereas for basic strategies and reputation it is qualitative.

The probability of occurrence and the level of impact of each risk are used to position each risk in a probability/impact matrix, automatically determining the level of risk (red boxes = high risk level, orange boxes = average risk level and green boxes = low risk level).

**E.5 Identify any risks, including tax-related, which have occurred during the year.**

First risk arising in the year and impact:

The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of electricity supply.

During 2015 certain events have occurred, entailing minor cuts in power supply.

- Underlying circumstances:

In general, these events were caused by third parties and weather conditions.

- Operation of control systems:

All control systems have worked adequately, as evidenced by the level of availability in the transmission network, registering 97.93% in 2015 (provisional figure) and 98.20% in 2014 (final figure).

The Company has insurance policies to mitigate the potential event of these events on the P&L account.

**E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax-related risks.**

- Prevention of risks in the design and functioning of Red Eléctrica Group processes.

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

- Risk supervision and action plans, including risk-related.

In the process of identification, analysis, evaluation and control of risks, referred to above, the actions required are established to reduce the degree of risk to an acceptable level, as well as to maintain it at the said level.

Each semester for high-level risks and annually for the other levels of risk, and when the circumstances of specific risks thus recommend, the Internal Auditing and Risk Management Department, which is integrated into the Global Risk Regulation and Control Department, along with the management units, reviews the performance and impact of the action plans established to reduce risk.

- Contingency Plans

Red Eléctrica has a General Procedure, "Crisis management (pre-alert, alert and emergency)", to regulate crisis situations that could occur in cases of:

- Electrical incidents that could affect security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incidents that could affect the environment, people, the efficiency of the Company, business results or any other event that could affect the Company's reputation.

This procedure:

- Establishes the way in which this crisis should be managed in general.
- Determines the phases of pre-alert, alert and emergency for each type of risk that could affect the operation or transmission of energy through the electricity system or that might impact on people, the environment, efficiency and/or reputation.
- Establishes the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- Relates the specific contingency plans that exist at Red Eléctrica for each type of event

Red Eléctrica also has an Action Guideline: Handling of Cyber Incidents, which establishes the criteria and guidelines for managing any cyber incidents regardless of the sphere within which it occurs.

Complementarily to the foregoing, it should be stated that in 2007, Red Eléctrica commenced a project for aligning, reviewing and improving its Internal Control Over Financial Reporting (ICFR), with the basic objective of obtaining improvements in the efficiency and safety of procedures for preparing the economic-financial information of the company, adopting, in advance and voluntarily, best international practices. The ICFR includes the tax procedures and information of Red Eléctrica as well as the controls associated with them.

Such ICFR is described in detail in “SECTION F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)” of this Report.

## **F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

### **F.1 The entity's control environment**

Specify at least the following components with a description of their main characteristics:

#### **F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.**

The responsibility model for the Company's Internal Control over Financial Reporting (hereinafter, ICFR) is articulated through the following special bodies, managements and organizational units, which implement, maintain and supervise the financial reporting process;

- The Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR. Specifically, pursuant to Article 5.6.vii) of the Regulations of the Board of Directors, the non-delegable functions of the Board of Directors include “approval of the policy for controlling and managing the main risks of the Company and of the Group, and for knowing and monitoring from time to time the internal control, prevention and reporting systems”.

- The Corporate Economic-Financial Management, as the executor of the guidelines issued by the Board of Directors, has entrusted the Economic Management with responsibility for designing, implementing, operating and maintaining the consistency of the ICFR. As indicated in the Internal Control Manual, its responsibilities

include “establishing an adequate control structure to ensure an effective Internal Control System”.

- The Auditing Committee is in charge of supervising ICFR. According to Article 14 of the Regulations of the Board of Directors, the Auditing Committee will “supervise the reporting process and integrity of the Company’s financial information, and of the Group, ensuring that all regulatory requirements are met, an adequate delimitation of the consolidation perimeter and an adequate application of any relevant accounting standards and criteria”, and “will supervise internal auditing services, to ensure that all reporting and internal control systems adequately operate”. To carry out these tasks, the Auditing Committee is supported by the Internal Auditing and Risk Control Department, as well as external Auditors.

The Group's organizational units are jointly responsible for the controls defined for their areas of responsibility, ensuring they are designed and operated effectively.

In addition to the above, in December 2015, Ernst and Young performed an evaluation of the Monitoring Area of the Red Eléctrica Group, concluding that the elements and activities related to the monitoring area are formalised and present in all divisions/operations of the Organisation and that, moreover, the best practices of reference in this field have been implemented.

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

Corporate Resource Management, as the executor of the guidelines issued by the Board of Directors, through the Group Human Resource Department, is responsible for defining the basic structure of the organization, defining the different levels of authority and the consequent levels of responsibility. All of this aims to maintain a design an organisational structure that is implemented, reviewed and updated constantly.

The internal measures used by the Division to clearly define the lines of responsibility, and to determine the general framework of the organizational structure, are instrumented through the following documents:

- Consolidated Version of the Corporate By-laws.

- Internal Code of Conduct on the Stock Exchange.
- Corporate Responsibility Manual.
- Code of Ethics and corporate values.

Any particularities linked to the lines of responsibility and authority of the ICFR, are regulated through the ICFR Action Guide, describing maintenance tasks, update and supervision of ICFR at each level of responsibility described, pointing out that the Corporate Economic-Financial Management has delegated part of its tasks to the Economic Management, and the latter to the Department of Accounting Information and administration. The ICFR Action Guide is part of the Group's regulations and is available on the Intranet to all employees.

Dissemination of the organizational structure is achieved through the Intranet. All employees are provided with an updated flowchart.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group has implemented an appropriate framework of conduct, with specific values and guidelines for action, reinforcing the basis for achieving the objective of reliable and transparent financial information.

At this level, the following documents are aligned with the Group's corporate policies:

- Code of Ethics

The current "Code of Ethics: values and commitments" is approved by the Company's Board of Directors and effective as of 28 May 2013, until a new update is approved or the Code repealed. This Code provides a reference framework for ensuring responsible management and ethical behaviour among all members of the organisation in their work. The Code sets out our corporate values and behavioural guidelines, based on our principles and commitments, and demonstrates the company's firm commitment to transparent and ethical management. The Code applies to everyone in the Group. All Group employees receive a copy of the Code of Ethics and Corporate Values, together with appropriate training, either by attending courses and/or distance training, and it is also permanently available in both the internal rules and on the corporate website.

The Code of Ethics is reviewed on a regular basis to keep its requirements in line with the needs of the Company and its relationship with the environment and its stakeholders. The latest version incorporates ethical management recommendations and requirements proposed by leading international bodies, such as the United Nations (UN), the European Union (EU), the Organisation for Economic Cooperation and Development (OECD) and organisations such as Transparency International and Fundación Étnor, amongst others.

In terms of financial information, it includes the following descriptions of our corporate values:

- "Trustworthiness" - committed to preparing and providing reliable, accurate and realistic information, especially financial data.
- "Responsibility" - all decisions and actions must comply with the legal system and be the result of a thoughtful process in which the possible consequences resulting thereof are assessed.
- "Leadership and Creativity" - commitment to management excellence is supported by efficient systems and processes, of which one valued element is participation and pride of belonging. It is also supported by the systematic quest for improvement, and in the identification and application of best practices. Transparent internal and external communication is an important element in the consolidation of business leadership.

The body in charge of examining infringements and proposing corrective action and sanctions is the Ethics Manager and Ombudsman of stakeholders, with assistance from the Chairman of the Red Eléctrica Group and the chairmen of the Auditing and Appointment and Remuneration Committees.

- Internal Code of Conduct on the Stock Exchange:

The "Internal Code of Conduct on the Stock Exchange" was initially approved by the Board of Directors on 25 June 2009 and has subsequently been partly updated in various articles.

The Code provides rules of conduct on stock exchanges and mandatory registers, in relation to the following:

- Confidential and Relevant Information
- Conflicts of Interest
- Related Parties

- Rules on free pricing
- Treasury stock

The Code is applicable to the Obligated Parties described in Articles 2 and 3 (Directors, the Secretary and Deputy Secretary of the Company, as well as other persons whose ordinary tasks are related to the stock exchange and are expressly designated by the Oversight Body).

All obligated persons will receive a copy of the Code, and will sign a statement confirming receipt and awareness of the binding obligations, as indicated in Article 2.2.2.

The Oversight Body, for the purposes of this Code, as described in Article 11, is the Corporate Economic-Financial Management, which may be assisted by the Secretary's Office of the Board of Directors for any legal matters derived from its application or interpretation.

The "Internal Code of Conduct on the Stock Exchange" is periodically reviewed in order to adjust its requirements to the company's needs and its relationship with surroundings and stakeholders. The latest update took place in June 2014. In this new version, the member companies of the Group have been updated.

- Corporate Responsibility Policy

The object of this Policy is to establish principles and general guidelines so that all member companies of the Red Eléctrica Group are able to carry out a sustainable, ethical and responsible business management further to their tasks.

- **"Whistle-blowing" channel, for the reporting to the Auditing Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The "Code of Ethics: values and commitments" sets out in detail the system for reporting, queries and suggestions. A system is included for receiving and processing potential infringements due to ethical, commercial, financial and accounting offences, and complaints under the Code. Any interested party may report any such alleged infringement.

Claims should be submitted, preferably, by electronic means. On the website of each company, there will be an easily accessible and visible channel through which claims can easily be sent to the Ethics Manager. The system will guarantee confidentiality and protect against reprisals in all its stages. The Ethics Manager will undertake to provide total

confidentiality in carrying out his/her functions; this commitment will be extended to those who provide him/her internal support.

Furthermore, there is another channel to report infringements, complaints, consultations and ethical suggestions: the DÍGAME Service. This enables applications to be received from external stakeholders without access to the foregoing channels.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

The Human Resources Department manages and plans all matters concerning training programs and other support items, based on the training plan prepared by the relevant Department. The Corporate Economic-Financial Management, as the executor in charge of designing, implementing, operating and guaranteeing the consistency of ICFR, proposes training plans to the Human Resource Department to ensure that all training plans are updated for the entire staff involved in reporting and reviewing financial information, including ICFR evaluation.

## **F.2 Risk assessment in financial reporting**

Report at least:

### **F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

- **The process exists and is documented.**

The Company bases its risk identification process, including risks of error or fraud in financial information, on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology, implementing practice to design and maintain an internal control system that provides reasonable security with respect to the reliability of regulated financial information.

The Internal Control System Manual for the Group's Financial Information has documented a risk evaluation process for financial information. This procedure is available in the Company's ICFR management tool, to which the managers involved have access.

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation,**

**disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The ICFR matrix intends to identify any accounts and breakdowns with a significant associated risks and with a material potential impact on financial information. In this process to identify significant accounts and breakdowns, quantitative and qualitative factors have been taken into account (complexity of operations, risk of fraud, level of process standardization and others), being updated yearly.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

The Auditing Committee is responsible for supervising the consolidation perimeter. The procedure for the review and authorisation of the financial information is formalised each month through internal reviews Corporate Economic and Financial Management level and culminates in its submission to the Auditing Committee and subsequently to the Board of Directors. These reviews submit for approval, among other aspects, the consolidation perimeter and any other complex corporate structure, instrumental entities or special purposes vehicles.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The Risk Management and Internal Auditing department is responsible for supporting the Auditing Committee in its risk evaluation tasks in close collaboration with the various units controlling each of the aforementioned risks (IT, Financial, Legal, Tax and Environmental Departments, etc.).

- **Which of the company's governing bodies is responsible for overseeing the process.**

The Auditing Committee supervises the efficacy of the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed.

### **F.3 Control activities**

Indicate the existence of at least the following components, and specify their main characteristics:

- F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud)**

**for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

Financial reporting is periodically reviewed, to include an ICFR description, according to varying levels of responsibility, in order to guarantee the quality of information.

The Department of Accounting Information and Administration, which is hierarchically dependent on the Group's Economic Management, revises and formally validates all financial data drawn up and reported to the Corporate Economic-Financial Manager, in order to ensure its reliability, on a monthly basis.

The procedure to review and authorise financial information is formalized monthly through internal audits by the Corporate Economic-Financial Management and ends when it is presented to the Auditing Committee and subsequently to the Board of Directors. These reviews submit for approval on the part of the Auditing Committee the consolidation perimeter, accounting and tax criteria, and relevant opinions, estimates and forecasts used in preparing the Financial Statements.

Amongst its tasks, the Corporate Economic-Financial Management is entrusted with supervising the design process, implementation, operation and consistency of ICFR, and to keep the Auditing Committee duly informed on the matter. these tasks have been delegated to the Economic Management.

In turn, the Economic Management should ensure that ICFR is adequately designed and implemented, and guarantee its operation and consistency.

The Internal Auditing and Risk Management Department is in charge of supporting the Auditing Committee when supervising and evaluating ICFR, by conducting audits, included in its annual plan, and reporting their results.

All units involved in financial reporting should ensure that ICFR is fulfilled, updated and maintained, within their area of responsibility.

The ICFR implemented in the Company involves the entire organization, by implementing and periodically supervising the operation of various checks in relation to financial reporting. The ICFR dates back to 2008 and is part of a voluntary project; it has adjusted to all regulatory requirements and is being reviewed by an independent third party since 2008.

Each year, any key processes/subprocesses identified as material are documented through flowcharts. These processes/subprocesses cover the various types of transactions that may have a material effect on the financial statements, as well as

any that may be affected by relevant judgments, estimates, valuations and projections.

All documentation is provided to the managers of each cycle/subcycle and has been endorsed by the managers of the checks documented in the ICFR control and risk matrix, through an ordinary approval channel, and is disseminated amongst all participations.

Documentation describing the activity flows and checks (including those related to risks of fraud) includes:

- Details of procedures and internal rules, regulating matters ranging from general checks to subprocesses.
- Details of organizational structures.
- Details of significant cycles.
- Flowcharts for each subprocess.
- Description of the process, specific risk covered, initial information before the check and subsequent output after the check, frequency, object covered, potential mitigated errors, coverage of fraud and typology and the department in charge of execution.
- Details of all data systems affecting automatic and/or semi-automatic processes.

The major transactions that attempt to ensure reliability and transparency in the process for drawing up the financial information include, in particular:

- Reviewing the processes for estimates and provisions (at the level of income and expenses).
- Reviewing impairment of registered assets (essentially referring to assets).
- Reviewing the bringing of assets into operation and the associated valuation processes (capitalizable items, monitoring administrative approvals, technical conditions for commissioning, etc.).
- Review through specific, mandatory procedures and/or instructions:
  - o Manual recording and/or accounting entries.
  - o One-off operations (assessment at the level of senior management of potential economic financial, corporate and legal implications of such operations).
  - o Closing the Financial Statements and drawing up the individual and consolidated Financial Statements. The internal rules that govern these points are set out in: (i)

the "Accounting Policies Manual and Group Accounting Plan" (setting out the accounting policies to be followed by the Group when recording accounting entries in the information system, and for drawing up the Financial Statements and the Annual Accounts, for the purpose of ensuring a true and fair view of net equity, the financial situation, the results of operations, changes in net equity and cash flows) and; (ii) the "Procedures for drawing up and closing the Financial Statements and the individual and consolidated Financial Statements" which states that "the process for closing the financial statements takes place twice a year (at year-end and half-way through the year when interim half-yearly information is prepared), with the purpose of obtaining financial statements that reflect the company's economic situation. In this process all the companies in the group that have to draw up their own financial statements in accordance with the local rules in force in their own countries are affected".

- o Drawing up and publishing the financial information (including aspects relating to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, notifications to the National Securities Exchange Commission, official notifications, etc.). The main internal rules governing these aspects are set out in: (i) the "Internal Code of Conduct on the Securities Market", (ii) the "Procedure for drawing up and closing the Financial Statements and individual and consolidated Financial Statements". At this specific level of closure of information and, as applicable, subsequent publication, the Investor Relations Department, the Corporate Economic and Financial Department, the Office of the Secretary, the Board of Directors and Chairman, play an essential role.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

The Group has implemented a conduct Protocol on the use of IT and communications systems for which the Corporate Systems and IT Management is responsible.

The document establishes the main rules governing the use of computer and telecommunication resources that the Group provides to its workers (equipment, applications, Internet access and electronic messaging services).

In turn, the Group has a procedure on Computer Security for its corporate IT systems, regulating the main activities followed to manage

security in IT system surroundings, entrusted to the Corporate Systems and IT Management.

The following checks and measures have been implemented to ensure that the Group can reasonably guarantee the internal control of its IT systems:

- Each year, a risk analysis is conducted on the security of information in Corporate Information Systems (CIS), to obtain a list of the most relevant risks for appraisal, establishing any measures and steps to reduce or maintain the risk level of those deemed most relevant.
- Each year, security regulations are reviewed or whenever there is a significant change, in order to ensure their suitability, adequacy and efficiency.
- An inventory is kept of all assets (equipment, software, applications and data) included in the CIS.

Each asset will be assigned an organizational unit in charge.

- General measures will be established for data protection depending on its classification category. In turn, the management unit may define specific measures to complement any general measures.
- Data security information is drafted and published, addressed to employees and external collaborators.
- The managers of all Units will check that any new employees and external collaborators are aware of the data security documentation published. Furthermore, they will ensure that these fulfil the specifications of the documentation.
- The Human Resources Management will inform the Systems and IT Department of all movements of internal and external staff (de-registrations, registrations, transfers and relocations) in order to apply the necessary changes in data system access rights.
- All employees and collaborators will return the computer equipment in their hands at the end of their job, contract or relationship with the company and may not withhold any information.
- A risk evaluation will be conducted to determine any security implications derived from the participation of external collaborators in business processes, defining and implementing the necessary checks.
- The Human Resources Management will define and implement physical security measures to protect the facilities where data systems are located, against damage from fire, flooding and other natural or human-caused disasters. Furthermore, it will establish adequate entry checks at restricted access areas to ensure that only authorised staff is allowed to enter.

- The Systems and IT Department will ensure that all data systems under its management are adequately and safely operating, by drawing up and implementing appropriate operating procedures. This procedure will contemplate task segregation to reduce the risk of negligence or deliberate misuse of the system. If computer services are provided by third parties, the Systems and IT Department will check that all security control measures and service levels agreed have been implemented and maintained by third parties.
- The Systems and IT Department is in charge of defining rules and procedures to manage user access (authentication and authorisation) to data systems.
- Formal communication procedures will be established to ensure that information security events and weaknesses associated to data systems are reported in such a way as to enable adequate corrective action.
- A Computer Contingency Plan (CCP) is drawn up for data systems so that, in the event of disaster destroying the systems or preventing access, service is able to be reinstated in a period of time in line with its criticality.

**F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

The Group is particularly concerned about operations carried out by third parties (in order to ensure a maximum guarantee of control in any key processes that might be outsourced, in relation to the standards required by the Group at the level of its processes).

In all cases, the outsourcing of such activities is set out in a service agreement, which clearly specifies the service in question and the means to be used by the service provider to provide the service. Exhaustive control is conducted over these outsourced activities, with evidence of such control.

Furthermore, the Group has established a code of conduct for its suppliers in order to make them aware of the general principles applicable to all areas of employment and professional activity. The Group seeks to ensure that these policies are continuously applied by its suppliers.

**F.4 Information and communication**

Indicate the existence of at least the following components, and specify their main characteristics:

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual**

**of accounting policies regularly updated and communicated to all the company's operating units.**

The Economic Information and Administration Department, as part of the Economic Management, is responsible for defining and resolving all issues related to the interpretation of accounting policies, providing coverage for all areas of the Company. The Economic Management is organizationally located within the Corporate Economic and Financial Department which, in turn, reports to the Managing Director.

The Group has developed an "Accounting Policies Manual and Group Accounting Plan" setting out guidelines and activities relating to accounting records. This is communicated to all applicable employees (all actions must be taken in accordance with the "Accounting Policies Manual and Group Accounting Plan"). This manual is updated periodically, and at least yearly, with its latest update being in 2015. In the updating processing, it was verified that the accounting policies fall within the regulatory framework applicable to the Company and which is established in the Commercial Code, General Accounting Plan and other commercial legislation, as well as International Financial Reporting Regulations adopted by the European Union.

**F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

The Group has formal processes in place for closing and preparing information specifically associated with the financial statements (FS) and the annual accounts. In both cases, the procedures for closing and drawing up the FS and annual account set out the guidelines for action and supervision applied in obtaining, analysing and subsequently preparing the information for final approval.

The support system for transactions made in the Group is mainly SAP. Those companies where SAP is not used are obliged to follow the criteria established by the group to ensure the uniformity of such processes through a reporting package prepared to such end which includes all breakdowns necessary for preparing the FS and notes. In the process for preparing the consolidated financial information and its breakdowns, a computer application is used ensuring the homogeneity, standardisation and validity of the information.

The ICFR is supported by a corporate tool managed centrally from which the detailed information of the ICFR is gathered.

In addition, there is a specific system for the entire process of preparing the Annual Accounts, where the Auditing Committee, which reports functionally to the Board of Directors, takes on particular significance. The Auditing Committee is tasked with

ensuring maximum confidence in the entire process of drawing up the information (both with respect to the supervisory tasks of the Internal Audit function and the external auditor), as a step prior to preparation by the Board of Directors.

In order to provide external agents with accurate and reliable financial information about its net equity, financial situation and the result of its operations. The "Internal Code of Conduct on the Securities Market" governs these aspects, both with respect to notifications to supervisory and/or regulatory bodies, and to press releases.

## **F.5 Monitoring of the functioning of the system**

Indicate the existence of at least the following components, describing their main characteristics:

**F.5.1. The ICFR monitoring activities undertaken by the Auditing Committee and an internal audit function whose competencies include supporting the Auditing Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has considered their potential impact on its financial information.**

The supervision of the financial information is a responsibility entrusted to the Auditing Committee which comprises the approval of the accounting principles to be used in the preparation of the annual accounts of the Company and its consolidated Group, supervision of the preparation and presentation process, and the completeness of the financial information of the Company and, if applicable, of the Group, ensuring account is taken of regulatory requisites, the suitable delimiting of the consolidation perimeter, and the correct application of the accounting principles and criteria applicable.

In addition, the Auditing Committee periodically supervises the efficacy of the internal control and risk management systems, so that the main risks may be suitably identified, managed and reported and, in particular, those systems relating to the process of reporting the financial information, including the ICFR. The objective of the ICFR is to provide reasonable security as to the reliability of the financial information.

In order to carry out these functions, the Auditing Committee is supported by Internal Audit and Risk Control Management, which depends hierarchically on the Chairman of the Company, and functionally on the Auditing Committee. The Auditing Committee ensures the independence and efficacy of the internal auditing

function, supervises and controls the process for the selection, appointment, re-election and removal of the person responsible for the auditing service, and controls the means and resources assigned to the internal auditing service, including their budget. It receives periodical information on their activities and verifies that the senior management of the Company and the Group takes into account the conclusions and recommendations of its report.

The person responsible for internal auditing must submit to the Auditing Committee an annual work plan, directly report any incidents arising from its performance and submit an activities report at the end of each financial year. As regards the ICFR, the internal auditing work plan is intended to cover the entire ICFR in periods of 3 years. Internal Auditing designs and executes a test plan on the control environment, general controls, controls on an area level and the procedures established. It also verifies the fulfilment of the flowcharts designed, on selective bases. Once the field work has been carried out, Internal Auditing prepares and issues the auditing reports of the ICFR, depending on the content of the annual work plan approved by the Auditing Committee, and verifies the correct implementation of the corrective actions in respect of the ICFR.

In addition to the auditing works performed by Internal Auditing in relation to the ICFR, each year an ICFR audit is commissioned with the scope of reasonable assurance, design and effective application of the same. This ICFR audit by the external auditors has been carried out since 2008.

The Committee is promptly informed of the reviews carried out by Internal Auditing, the review made by the external auditor, other tasks performed in the ICFR, and the progress of the action plan of the recommendations on improvements detected in the audits. These recommendations on improvements are classified into high priority and average to low priority and those associated with the risk of fraud are described.

In 2015, no significant deficiencies in the ICFR of the Group were detected, and the external auditor concluded that the Group has an effective ICFR.

**F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Auditing Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The Regulations of the Board of Directors, in relation to external auditors, periodically demand that, at least once a year, the quality of the Group's internal control procedures be evaluated.

As regards the Company's Auditing Committee, with respect to the supervision of the functioning of the System, its objectives include ensuring that the auditor, the Internal Audit function and other experts can report to management and to the Board of Directors on major internal control weaknesses identified in the processes for reviewing the financial statements and in any other processes entrusted to them. In this regard, reports are prepared for each review task on completion, and prior to the Board of Directors drawing up the financial statements.

## **F.6 Other relevant information**

## **F.7 External auditor review**

State whether:

**F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

Since 2008, REE has voluntarily presented its ICFR for review. These reviews have been conducted by Deloitte, S.L. until 31 December 2012, and by PricewaterhouseCoopers from 1 January 2013 until 31 December 2014 and KPMG, S.L. since 1 January 2015.

## **G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Indicate the degree of the company's compliance with the good corporate governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

**1. The By-laws 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.**

Compliant  Explain

**2. When a dominant and a subsidiary company are listed, the two should provide detailed disclosure on:**

**a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:**

**b) The mechanisms in place to resolve possible conflicts of interest.**

Compliant  Partially compliant  Explain  Not applicable X

- 3. When an ordinary general meeting is held, as a complement to the written publication of the annual corporate governance report, the chairman of the board of directors reports verbally to the shareholders, in sufficient detail, on the most relevant aspects of the corporate governance of the company and, in particular:**

**a) On any changes which have occurred since the last ordinary general meeting;**

**b) On the specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, where applicable, alternative rules it applies in this area.**

Compliant X Partially compliant  Explain

- 4. The company defines and promotes a policy of communication and contact with the shareholders, institutional investors and proxy advisors which fully respects the rules on market abuse and treats shareholders who are in the same position equally.**

**The company publishes such policy through its webpage, including information on the way in which it is put into practice, identifying the interlocutors or those responsible for carrying it out.**

Compliant  Partially compliant X Explain

Pursuant to the Corporate Governance Policy approved by the Board of Directors of the Company on 25 November 2014, and published on the corporate webpage, within the framework of the principle of consolidating, developing and promoting symmetrical mechanisms of dialogue and commitment with the shareholders and investors, the company attempts to meet the needs of foreign institutional shareholders given their significant presence in the shareholding of the company, and of the most relevant proxy advisors and other groups of interest, in order to improve relations, increase commitment and strengthen the trust of the same, without undermining the guarantees and equal treatment of the rest of the shareholding.

The relations of the Company with its shareholders and institutional investors are generic and not particular or specific to any of them.

The Company frequently organises road shows carried out by the top executives of the Company, in the main financial areas of Spain and abroad where there is a greater presence of institutional investors, to inform on its activities and the progress of its business, in an attempt to better approach this group of investors.

- 5. The board of directors does not raise before the general board any proposal for the delegating of powers, for issuing shares or convertible bonds excluding the preferential subscription right, for any amount more than 20% of the capital at the time of the delegating.**

**When the board of directors approves any issuance of shares or convertible bonds excluding the preferential subscription right, the company immediately publishes on its webpage the reports on such exclusion mentioned in commercial legislation.**

Compliant X    Partially compliant     Explain

- 6. Listed companies preparing the reports mentioned below, whether obligatorily or voluntarily, publish them on their webpage with sufficient notice prior to any general ordinary general meeting, even if such publication is not obligatory.**

- a) Report on the independence of the auditor.**
- b) Reports on the functioning of the auditing and appointment and remuneration committees.**
- c) Report from the auditing committee on related transactions.**
- d) Report on the corporate social responsibility policy.**

Compliant X    Partially compliant     Explain

- 7. The company broadcasts live, through its webpage, general shareholders' meetings.**

Compliant X    Explain

- 8. The auditing committee ensures the board of directors submits the accounts to the general shareholders' meeting without limitations or exceptions in the auditing report and that, in exceptional circumstances in which en exceptions exist, both the chairman of the auditing committee and the auditors clearly explain to the shareholders the content and scope of such limitations or exceptions.**

Compliant X    Partially compliant     Explain

- 9. The company permanently publicises on its webpage the requisites and procedures it will accept for evidencing ownership of the shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.**

**Such requisites and procedures favour the attendance and exercise of the rights of the shareholders and are applied non-discriminatorily.**

Compliant X    Partially compliant     Explain

- 10. When any entitled shareholder has exercised, prior to the general shareholders' meeting, the right to complete the agenda or to submit new resolution proposals, the company:**

- a) Immediately disseminates such complementary points and new resolution proposals.**
- b) Publicises the form of attendance card or vote delegation form or remote voting with the amendments necessary for the new points of the agenda and alternative resolution proposals to be voted on in the same terms as those proposed by the board of directors.**

**c) Submits all these points or alternative proposals to a vote applying the same voting rules as to those made by the board of directors, including, in particular, any presumptions or deductions as to who the vote is for.**

**d) Subsequent to the general shareholders' meeting, it reports the breakdown of votes on such complementary or new proposals:**

Compliant  Partially compliant  Explain  Non-applicable X

**11. In the event the company envisages paying attendance fees to the general shareholders' meeting, it first establishes a general policy on such fees, and such policy is stable.**

Compliant  Partially compliant  Explain  Non-applicable X

**12. The board of directors performs its functions with one sole purpose, with independent criteria, treats all shareholders in the same position equally and is guided by the corporate interest, this being understood to mean the achieving of a profitable business sustainable in the long term, promoting its continuity and maximising the financial worth of the company.**

**In striving for the corporate interest, apart from respecting laws and regulations and actions based on good faith, ethics and a respect for uses and commonly accepted good practices, it attempts to reconcile the corporate interest with, accordingly, the legitimate interests of its employees, suppliers, clients and other groups of interest which might be affected, and the impact of the activities of the company on the community as a whole and on the environment.**

Compliant X Partially compliant  Explain

**13. The board of directors is of the size necessary to operate effectively and in a participative manner, meaning five to fifteen members are recommended.**

Compliant X Explain

**14. The board of directors approves a director selection policy which:**

**a) Is specific and verifiable.**

**b) Ensures proposals for appointments or re-elections are based on a prior analysis of the needs of the board of directors.**

**c) Favours diversity of knowledge, experience and gender.**

**The result of the prior needs analysis of the board of directors is contained in the justifying report of the appointment committee published in calling the General Meeting to which the ratification, appointment or re-election of each director is submitted.**

**The director selection policy promotes the objective of the number of female directors representing at least 30% of the total number of members of the board of directors by the year 2020.**

**Each year, the appointments committee will verify the fulfilment of the director selection policy and will report on this in the annual corporate governance report:**

Compliant  Partially compliant X Explain

As regards the selection of directors, the Appointments and Remuneration Committee is based on a general matrix of competences containing the criteria defining the profile and requisites considered appropriate for the performance of the position of director of the Company, and analyses the qualities, competences and experience the ideal director to hold the position should have, regardless of their category.

In each candidate selection process, the Appointments and Remuneration Committee analyses the profile of the candidates and evaluates whether it is the ideal profile for the performance of the position of the director for the type vacant in the Company.

For this, the Appointments and Remuneration Committee complies with the basic responsibilities established in article 16.1, sections g), h), i) and l) of the Regulations of the Board of Directors.

Apart from the Corporate Governance Policy, approved by the Board of Directors on 25 November 2014, the following practices are established:

-The Company applies the principle of ensuring the existence of appropriate procedures for choosing directors, guaranteeing a reasonable balance and diversity on the Board of Directors for the suitable performance of its tasks. To do so, on evaluating the candidates participating in the selection process, the procedure takes into account the competences, experience, professionalism, suitability, independent criteria, knowledge, qualities, capacity and availability of the members of the Board of Directors from time to time, with the Appointments and Remuneration Committee assuming a relevant role in this process.

- The Company applies the principle of promoting diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees as an essential factor allowing it to attain its objectives from a balanced plural perspective.

All the foregoing was taken into account by the Appointments and Remuneration Committee and the Board of Directors in the reports and proposals prepared to cover vacancies existing on the Board of Directors in 2015, as can be seen on the corporate webpage - [www.ree.es](http://www.ree.es) -, in relation to the Annual and Extraordinary General Meetings of Shareholders.

Since 2014, the Company has had 5 female directors, surpassing the objective of 40% of external directors established in the draft Directive approved by the European Commission, and the 30% established in Recommendation nº 14 of the CBGSC, both objectives being for the year 2020. For several years, the Company has held first place among companies of the IBEX 35 as for the largest percentage of women on the Board of Directors. For further information, we refer to the Diversity Report on Gender and Equality Policy approved by the Board of Directors on 27 October 2015 published on the corporate webpage - www.ree.es-.

- 15. The proprietary and independent directors constitute a significant majority of the board of directors and the number of executive directors is the minimum necessary, bearing in mind the complexity of the corporate group and the participation percentage of the executive directors in the capital of the company.**

Compliant  Partially compliant  Explain

- 16. The percentage of proprietary directors of the total number of non-executive directors is not greater than the proportion existing between the capital of the company represented by such directors and the rest of the capital.**

**This criterion may be moderated:**

- a) **In companies with high capitalisation in which there are few shareholder stakes legally considered to be significant.**
- b) **In companies where there are multiple shareholders represented on the board of directors and there is no line between them.**

Compliant  Explain

- 17. The number of independent directors represents at least half the directors.**

**However, when the company does not have high capitalisation or when, even if it does, it has one or more shareholders acting in concert who control more than 30% of the share capital, the number of independent directors represents at least one third of all the directors.**

Compliant  Explain

- 18. Companies publish through their webpage, and keep updated, the following information on their directors:**

- a) **Professional and biographical profile.**
- b) **Other boards of directors to which they belong, whether or not of listed companies, and any other remunerated activities performed, whatever their nature.**
- c) **Indication of the category of director to which they belong, stating, in the case of proprietary directors, the shareholder they represent or to whom they are related.**
- d) **Date of first appointment as director of the company, and that of any subsequent re-elections.**

Compliant  Partially compliant  Explain

The Company publishes and keeps updated on its webpage [www.ree.es](http://www.ree.es) all information on directors listed in Recommendation nº 18, except for the other remunerated activities referred to in the last point of section (c) of such Recommendation. The Company does not publish such information for reasons of confidentiality since the disclosure of such information could come into conflict with the protection of the right to privacy of the directors.

- 19. The annual corporate governance report, subject to verification by the appointment committee, explains the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is below 3% of the capital, and states the reasons why, where applicable, no formal requests for presence on the board were heeded, coming from shareholders whose shareholding is equal to or greater than that of others at whose request the proprietary directors were appointed.**

Compliant  Partially compliant  Explain  Non-applicable X

- 20. The proprietary directors submit their resignation when the shareholder they represent transfers their stake in full. They also do so, in the corresponding reduction of the number of its proprietary directors.**

Compliant  Partially compliant  Explain  Non-applicable X

- 21. The board of directors does not propose the removal of any independent director before the completion of the statutory period for which they were appointed, notwithstanding any just cause, observed by the board of directors subject to a report from the appointments committee.**

**In particular, it will be understood that just cause exists when the director comes to hold new positions or undertakes further obligations preventing them from devoting the necessary time to the performance of the duties inherent in the position of director, fails to meet the duties inherent in their position or is involved in any of the circumstances meaning they are no longer classified as independent, pursuant to the provisions of applicable legislation.**

**The removal of independent directors may also be proposed as a result of public takeover bids, mergers or other similar corporate transactions involving a change in the capital structure of the company, when such changes to the structure of the board of directors are due to the proportionality criterion stated in the recommendation.**

Compliant X Explain

- 22. Companies establishing rules forcing directors to report and, if applicable, resign in those cases which might prejudice the credit and reputation of the company and, in particular, forcing them to inform the board of directors of any criminal cases in which they appear as the accused, and any subsequent procedural vicissitudes.**

**If a director is the object of a complaint or a ruling commencing a trial for any of the offences set forth in corporate legislation, the board of directors examines the case as soon as sea possible and, in view of the specific circumstances, decides whether or not the director should continue in their position. The board of directors provides justified information on this in its annual corporate governance report.**

Compliant  Partially compliant  Explain

- 23. All directors clearly express their opposition when they consider any proposal for a decision submitted to the board of directors may be contrary to the corporate interest. This is also the case of independent and other directors not affected by any potential conflict of interests, in matters of decisions which might prejudice those shareholders not represented on the board of directors.**

**Furthermore, when the board of directors adopts significant or repeated decisions about which the director might have serious reservations, the latter may gather the relevant conclusions and, should they decide to resign, explains the reasons in the letter mentioned in the following recommendation.**

**This recommendation also includes the secretary of the board of directors, even if they are not a director.**

Compliant  Partially compliant  Explain  Not applicable

- 24. When, either through resignation or for any other reason, a director steps down from their position before the end of their mandate, they explain the reasons in a letter to be sent to all members of the board of directors. Moreover, notwithstanding such termination being reported as a relevant event, the reason for the termination is reported in the annual corporate governance report.**

Compliant  Partially compliant  Explain  Not applicable

- 25. The appointments committee ensures the non-executive directors have sufficient availability of time for the correct performance of their functions.**

Compliant  Partially compliant  Explain

- 26. The board of directors meets with the frequency necessary for effectively performing their functions, and at least eight times a year, following the schedule of dates and matters established at the start of the year, with each director being able to individually propose other items on the agenda not initially foreseen.**

Compliant  Partially compliant  Explain

- 27. Any non-attendances of directors are reduced to essential cases and re quantified in the annual corporate governance report. When they are to take place, a proxy is granted with instructions.**

Compliant  Partially compliant  Explain

- 28. When the directors or secretary declare their concern over any proposal or, in the case of directors, over the progress of the company, and such concerns are not resolved at the board of directors' meeting, at the request of the person raising them, they will be recorded in the minutes.**

Compliant  Partially compliant  Explain  Not applicable

- 29. The company establishes suitable channels for directors to be able to obtain accurate advice for the fulfilment of their functions, including, if thus required by the circumstances, external advice paid by the company.**

Compliant  Partially compliant  Explain

- 30. Regardless of the knowledge required of directors for exercising their functions, companies also offer directors knowledge update programmes when the circumstances thus recommend.**

Compliant  Explain  Not applicable

- 31. The agenda of meetings clearly states those points in respect of which the board of directors must adopt a decision or resolution for which the directors may study or gather beforehand the information necessary for their adoption.**

**When, exceptionally, due to reasons of urgency, the chairman wishes to submit to the approval of the board of directors decisions or resolutions not appearing on the agenda, the prior express consent of the majority of the directors presents will be needed, and this will be recorded in the minutes.**

Compliant  Partially compliant  Explain

- 32. The directors are periodically informed of the movements of the shareholding and of the opinion of the significant shareholders, investors and rating agencies regarding the company and its group.**

Compliant  Partially compliant  Explain

- 33. The chairman, as person responsible for the effective running of the board of directors, as well as exercising the functions attributed to them by law and the By-laws, prepares and submits to the board of directors a schedule of dates and matters to be discussed; organises and co-ordinates the periodical evaluation of the board and, if applicable, that of the top executive of the company; is responsible for the management of the board and effectiveness of its operations; ensures sufficient time is devoted to discussing strategic questions, and agrees and reviews the revise the knowledge update programmes for each director, when the circumstances thus recommend.**

Compliant  Partially compliant  Explain

**34. When there is a co-ordinating director, the by-laws or regulations of the board of directors, as well as the powers corresponding to them by law, attributes them with the following: chairing the board of directors in the absence of the chairperson and their deputies, where applicable; passing on the concerns of the non-executive directors; maintaining contact with investors and shareholders to hear their point of view in order to form an opinion on their concerns, in particular in relation to the corporate governance of the company; and co-ordinating the chairperson succession plan.**

Compliant  Partially compliant X Explain  Not applicable

The position of the independent co-ordinating director is regulated under article 25 *bis* of the Corporate By-laws and their purpose is developed in article 9 *bis* of the Board Regulations. Pursuant to this latter article, the essential responsibility of the independent co-ordinating director, which should be taken into account for the performance of their other functions described in the Regulations, organising possible common positions of the independent directors and serving as an intermediary or spokesperson for such common positions in respect of the chairman of the Board of Directors, the Board itself and the Board Committees. Moreover, the Board Regulations establish that the independent co-ordinating director is attributed with the following functions:

In relation to the Board of Directors:

- Collaborating with the chairman and secretary of the Board of Directors in preparing the agenda of the Board meetings, and reviewing and proposing to the Board chairman matters to be included on the agenda of each meeting.
- Chairing the meetings of the Board of Directors in which the chairman is absent or in a position of a conflict of interest, and positively assessing the issues discussed with the chairman.
- Calling meeting, whether ordinary or extraordinary, of the Board of Directors, for duly justified reasons which must be attached to the call, when such request has not been met by the chairman of the Board.
- Participating in the preparation of the annual schedule of meetings of the Board of Directors, in co-ordination with the chairman, Board secretary and the Corporate Responsibility and Governance Committee.
- Participating in the self-evaluation process of the Board and, in particular, in relation to the Board chairman and top executive of the Company, in co-ordination with the Corporate Responsibility and Governance Committee.
- Performing other responsibilities the Board of Directors expressly attributes to them, if applicable.

In relation to the independent directors:

- Being the point of connection and co-ordinator of the issues raised and proposed made by independent directors in relation to the Board of Directors.
- Calling and chairing, at their own initiative or that of another independent director, and at least once a year, formal or informal meetings of independent directors, defining the issues to be discussed, which may deal, *inter alia*, with the basic responsibilities of the Board of Directors and senior management, with the possibility of requesting the presence of executives thereon.

In relation to the shareholders:

- Being available to the shareholders for any consultation or direct communication with them.

The Regulations of the Board of Directors is subject to review, mainly for their adaptation to Act 31/2014, of 3 December, amending the LSC for improving corporate governance and, to the extent the Board of Directors considers this relevant, to the new recommendations on matters of good governance set forth in the new CBGSC. However, it is of note that the only right under Recommendation nº 34 pending incorporation in the corporate regulations is that relating to the co-ordination of the chairman succession plan.

- 35. The secretary of the board of directors particularly ensures that, in their actions and decisions, the board of directors takes into account the recommendations on good governance contained in this good governance Code applicable to the company.**

Compliant  Explain

- 36. One a year in a plenary sessions, the board of directors evaluates and adopts, if applicable, an action plan correcting any deficiencies detected in respect of:**
- a) **The quality and efficiency of the operations of the board of directors.**
  - b) **The operations and composition of its committees.**
  - c) **Diversity in the composition and competences of the board of directors.**
  - d) **The performance of the chairman of the board of directors and top executive of the company.**
  - e) **The performance and contribution of each director, paying particular attention to those responsible on the various board committees.**

**In order to carry out the evaluation of the various committees, the basis will be the report submitted by the latter to the board of directors, and for the evaluation of the latter, the report submitted to it by the appointments committee.**

**Every three years, the board of directors will be held to carry out the evaluation by an external consultant, the independence of which will be verified by the appointments committee.**

**Any business relations the consultant or any company of its group have with the company or any company of its must be described in detail in the annual corporate governance report.**

**The process and areas evaluated will be the object of description in the annual corporate governance report.**

Compliant  Partially compliant  Explain

- 37. When there is an executive committee, the participation structure of the various categories of director will be similar to that of the actual board of directors and the secretary, when of the latter.**

Compliant  Partially compliant  Explain  Not applicable

**38. The board of directors are always aware of the matters discussed by the executive committee and all the members of the board of directors receive a copy of the minutes of the meetings of the executive committee.**

Compliant  Partially compliant  Explain  Not applicable

**39. The members of the auditing committee, and in particular its chairman, are designated taking into account their knowledge and experience in matters of accounting, auditing or risk managements, and the majority of such members are independent directors.**

Compliant  Partially compliant  Explain

**40. Under the supervision of the auditing committee, a unit is available assuming the function of internal auditing ensuring the smooth running of the information systems and internal control, depending functionally on the non-executive chairman of the board or that of the auditing committee.**

Compliant  Partially compliant  Explain

The company has a unit assuming the function of internal auditing ensuring the smooth running of the information systems and internal control. Such unit depends hierarchically and functionally on the chairman of the Board of Directors which, until the Ordinary General Shareholders' Meeting of 2016, is executive in nature. As a result, the total fulfilment of this recommendation will effectively take place at the next Ordinary General Shareholders' Meeting.

**41. The person responsible for the unit assuming the function of internal auditing presents the auditing committee with its annual work plan, reports directly on any incidents arising in its performance and submits an activity report at the end of each financial year.**

Compliant  Partially compliant  Explain  Not applicable

**42. Apart from those established by law, the following functions correspond to the auditing committee:**

**1. In relation to the information systems and internal control:**

**a) Supervising the preparation process and completeness of the financial information relating to the company and, if applicable, to the group, reviewing compliance with regulatory requisites, the suitable delimitation of the consolidation perimeter and the correct application of accounting criteria.**

**b) Ensuring the independence of the unit assuming the function of internal auditing; proposing the selection, appointment, re-election and removal of the person responsible for the internal auditing service; proposing the budget for such service; approving the guidelines and work plan, ensuring its activity is focused mainly on the relevant risks of the company; receiving periodical information on its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.**

**c) Establishing and supervising a mechanism enabling employees to communicate confidentially and, if possible and if considered appropriate, anonymously, any**

potentially relevant irregularities, especially related to finance and accounts, they might note within the company.

**2. In relation to the external auditor:**

**a) In the event of the renouncement of the external auditor, examining the circumstances which gave rise to this.**

**b) Ensuring the remuneration of the external auditor for their work does not compromise the quality or independence.**

**c) Ensuring the company reports to the CNMV as a relevant event the change of auditor, attaching a declaration on the possible existence of any disagreements with the outgoing auditor and, where applicable, their content.**

**d) Ensuring the external auditor holds a yearly meeting with the plenary board of directors to inform them of the work carried out and on the progress of the accounting situation and risks of the company.**

**e) Ensuring the company and the external auditor respect prevailing rules on the provision of services other than auditing, limits on the concentration of the business of the auditor and, in general, any other rules on the independence of the auditors.**

Compliant  Partially compliant  Explain

**43. The auditing committee may summons any employee or executive of the company and may even order them to appear without the presence of any other executive.**

Compliant  Partially compliant  Explain

**44. The auditing committee is informed on the structural and corporate modification transactions the company might plan to perform for their analysing and prior reporting to the board of directors on their economic conditions and accounting impact and, in particular, if applicable, on the exchange ratio proposed.**

Compliant  Partially compliant  Explain  Not applicable

**45. The control and risk management policy identifies at least:**

**a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational) the company might face, including among the financial or economic risks any contingent liabilities and other off-balance sheet risks.**

**b) The establishing of the risk level the company considers acceptable.**

**c) The measures envisaged for mitigating the impact of the risks identified, should these be materialised.**

**d) Information and internal control system to be used for controlling and managing the said risks, including contingent liabilities or off-balance sheet risks.**

Compliant  Partially compliant  Explain

**46. Under the direct supervision of the auditing committee or, if applicable, a special committee of the board of directors, and internal control and risk management function exists carried out by the internal department or unit of the company expressly attributed with the following functions:**

**a) Ensuring the smooth running of the control and risk management systems and, in particular, the suitable identifying, managing and quantifying of all significant risks affecting the company.**

**b) Participating actively in the preparation of the risk strategy and in the important decisions on their management.**

**c) Ensuring the risk management and control systems mitigate the risks appropriately within the framework of the policy defined by the board of directors.**

Compliant  Partially compliant  Explain

**47. The members of the appointments and remuneration committee, or of the appointments committee and remuneration committee, if separate are designated ensuring that they have suitable knowledge, aptitudes and experience for the functions they are to perform, and the majority of such members should be independent directors.**

Compliant  Partially compliant  Explain

**48. Those companies with high capitalisation have an appointments committee with a separate remunerations committee.**

Compliant  Explain  Not applicable

The company has not considered it suitable to have a separate Appointments Committee and Remuneration Committee for the following reasons:

-Due to the limited size of the Board of Directors (consisting of 12 members, 2 of them being executive directors) in comparison with other companies with high capitalisation.

-Because, bearing in mind the subject matter, a separate Appointments Committee and Remuneration Committee would not have sufficient matters during one financial year to justify the separation.

- Due to the independence of the non-executive directors, bearing in mind that, at present, all of them are members of one of the two Committees of the Board of Directors of the company, and the creation of a new Committee would involve this comprising directors belonging to several committees at once, who would have information from one of the other two Committees, to the detriment of their full autonomy for exercising their responsibilities.

**49. The appointments committee consults the chairman of the board of directors and top executive of the company, especially for matters relating to the executive directors.**

**Any director may ask the appointments committee to take into consideration potential candidates for covering director vacancies, if they find them suitable in their opinion.**

Compliant  Partially compliant  Explain

**50. The remuneration committee exercises its functions independently and, apart from the functions attributed to it by law, the following also correspond:**

**a) Proposing to the board of directors the basic conditions of contracts with senior executives.**

**b) Checking observance of the remuneration policy established by the company.**

**c) Periodically reviewing the remuneration policy applied to directors and senior executives, including share remuneration systems and the application thereof, and guaranteeing that their individual remuneration is proportionate to that paid to other directors and senior executives of the company.**

**d) Ensuring that any possible conflicts of interest do not prejudice the independence of the external advice provided to the committee.**

**e) Verifying the information on the remuneration of the directors and senior executives contained in the various corporate documents, including the annual report on the remuneration of the directors.**

Compliant  Partially compliant  Explain

**51. The remuneration committee consults the chairman and top executive of the company, especially over matters relating to executive directors and senior executives.**

Compliant  Partially compliant  Explain

**52. The rules on the composition and operations of the supervisory and control committees appear in the regulations of the board of directors and are consistent with those applicable to committees legally obligatory in accordance with previous recommendations, including:**

**a) Consisting exclusively of non-executive directors, with a majority of independent directors.**

**b) Their chairpersons must be independent directors.**

**c) The board of directors designates the members of these committees bearing in mind the knowledge, aptitudes and experience of the directors and tasks of each committee, discusses its proposals and reports, and, at the first plenary session of the board of directors after its meetings, reports on its activity and they are responsible for the work performed.**

**d) The committees may receive external advice, when they consider this necessary for the performance of their duties.**

**e) Minutes must be made of their meetings, which will then be made available to all the directors.**

Compliant  Partially compliant  Explain  Not applicable X

- 53. The supervision of the fulfilment of the rules on corporate governance, internal codes of conduct and corporate social responsibility policy is attributed to or distributed among several committees of the board of directors, such as the auditing committee, appointments committee, corporate social responsibility committee, where applicable, or a special committee that the board of directors, exercising its powers of self-organisation, might decide to create to such end, to which the following minimum functions are specifically attributed:**
- a) The supervision of the fulfilment of the internal codes of conduct and rules of corporate governance of the company.**
  - b) The supervision of the communication strategy and relationship with shareholders and investors, including small- and medium-sized shareholders.**
  - c) The periodical evaluation of the suitability of the corporate governance system of the company, in order for it to complete its mission of promoting the corporate interest and, accordingly, taking into account the legitimate interests of the other interest groups.**
  - d) The reviewing of the corporate responsibility policy of the company, ensuring this is aimed at the creation of value.**
  - e) The following of the strategy and practices of corporate social responsibility and the evaluation of its degree of compliance.**
  - f) The supervision and evaluation of the relationship processes with the various interest groups.**
  - g) The evaluation of everything relating to non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational risks.**
  - h) The co-ordination of the reporting process for non-financial information and on diversity, in accordance with applicable regulations and international standards of reference.**

Compliant X Partially compliant  Explain

- 54. The corporate social responsibility policy includes the principles or commitments that the company assumes in its relationship with the various interest groups and identifies at least:**
- a) The objectives of the corporate social responsibility policy and development of support instruments.**
  - b) The corporate strategy relating to the sustainability, the environment and social questions.**
  - c) Specific practices in matters related to: shareholders, employees, clients, suppliers, social matters, the environment, diversity, tax liability, the respecting of human rights and the prevention of unlawful actions.**
  - d) The methods or systems for monitoring the results of the application of the specific practices mentioned in the previous point, associated risks and their management.**
  - e) Mechanisms for the supervision of non-financial risk, ethics and business conduct.**
  - f) Channels for communication, participation and dialogue with interest groups.**
  - g) Practices of responsible communication preventing the manipulation of information and protecting integrity and honour.**

Compliant  Partially compliant  Explain

- 55. The company, in a separate document or in the management report, reports on matters related to corporate social responsibility, using for this any of the methods accepted internationally.**

Compliant  Partially compliant  Explain

- 56. The remuneration of the directors is that necessary for attracting and retaining directors of the desired profile and for remunerating the devotion, qualification and responsibility the position requires, but not so high so as to compromise the independence of criteria of the non-executive directors.**

Compliant  Explain

- 57. The executive directors are limited to the variable remuneration linked to the performance of the company and personal performance, as well as remuneration through the delivery of shares, options or rights over shares or instruments indexed to the share value and the long-term savings systems such as pension plans, retirement plans or other social benefit systems.**

The delivery of shares may be contemplated as remuneration to non-executive directors when subject to their keeping them until they cease to be directors. The foregoing will not apply to those shares the director may need to dispose of, if applicable, to meet the costs relation to their acquisition.

Compliant  Partially compliant  Explain

- 58. In the case of variable remuneration, the remuneration policies include the limits and technical precautions necessary for ensuring that such remuneration is related to the professional performance of its beneficiaries and does not derive solely from the general progress of the markets or business sector of the company or other similar circumstances.**

In particular, the variable components of the remuneration:

- a) Are related to the performance criteria predetermined and measurable and such criteria consider the risk assumed for obtaining a result.
- b) Promote the sustainability of the company and include non-financial criteria which are suitable for the creation of long-term value, and the fulfilment of the internal rules and procedures of the company and its control and risk management policies.
- c) Are configured on the basis of a balance between the fulfilment of objectives in the short, medium and long term, allowing remuneration for ongoing performance during a sufficient period of time for observing its contribution to the sustainable creation of value, so that the elements for measuring such performance do not only revolve around specific, occasional or extraordinary points.

Compliant  Partially compliant  Explain  Not applicable

- 59. The payment of a relevant part of the variable components of the remuneration is deferred for a minimum length of time sufficient for verifying that the previously established performance conditions have been met.**

Compliant  Partially compliant  Explain  Not applicable

**60. The remuneration related to the results of the company take into account the possible exceptions appearing in the report by the external auditor and reduces such results.**

Compliant  Partially compliant  Explain  Not applicable

**61. A relevant percentage of the variable remuneration of the executive directors is linked to the delivery of shares or financial instruments indexed to their value.**

Compliant  Partially compliant  Explain  Not applicable

Red Eléctrica will submit to the approval of the Ordinary General Shareholders' Meeting of 2016 a proposal for amendments to the policy for the remuneration of the directors approved by the Ordinary General Meeting of 2015. These amendments include the delivery of 25% of the annual variable remuneration of the executive director in the form of shares of the company. Such remuneration item is set forth in the annual report on the remuneration of the directors of the company approved by the Board of Directors at the meeting held on 23 February 2016 and notified as a relevant event to the CNMV.

**62. Once the shares or options or rights over shares corresponding to the remuneration systems have been attributed, the directors cannot transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, and cannot exercise the options or rights until a period of at least three years as from their attribution has elapsed.**

**The foregoing will not apply to any shares which the director may need to dispose of, if applicable, to meet the costs related to their acquisition.**

Compliant  Partially compliant  Explain  Not applicable

Red Eléctrica will submit to the approval of the 2016 Annual General Meeting a proposal to amend the policy on the remuneration of directors approved by the 2015 Annual General Meeting. Among these amendments, the managing director assumes the undertaking in respect of the company to maintain ownership of the shares received as annual variable remuneration each financial year, for at least five years. After a period of five years, if the objectives have been fully met, the managing director will have constituted a number of shares equivalent to approximately one year's fixed remuneration.

Such remuneration item is set forth in the annual report on the remuneration of the directors of the company approved by the Board of Directors at the meeting held on 23 February 2016 and notified as a relevant event to the CNMV.

**63. Any contractual agreements include a clause allowing the company to claim for the reimbursement of the variable components of the remuneration when the payment has not been in line with the performance conditions or when payment has been made taking into account data the inaccuracy of which is proven subsequently.**

Compliant  Partially compliant  Explain  Not applicable

**64. Any payments for the termination of the agreement do not exceed an established amount equivalent to two years' total annual remuneration and are not paid until the company has been able to verify that the director has complied with the previously established performance criteria.**

Compliant  Partially compliant  Explain  Not applicable

## **H OTHER INFORMATION OF INTEREST**

- 1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**
- 2. You may include in this section any other information, clarification or observation related to the above sections of this report.**

**Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.**

- 3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.**

1. For several years now, the Company voluntarily has been drawing up an Annual Corporate Governance Report, available on the corporate website, following its own model, structure and content. It intends to adequately respond to its shareholding's requirements and recommendations (to which we refer for any interested third party). This Report, drawn up according to the Standard Form provided in Annex I to CNMV Circular 7/2015, has been included as an Official Annex to said Annual Corporate Governance Report of the Company.

2. The Company is subject to Spanish legislation on matters of corporate governance. Below is complementary information in relation to the following sections:

C.1.11: Apart from the positions indicated, Mr José Folgado Blanco and Mr Juan Francisco Lasala Bernad hold the following positions in the companies of the Group whose parent company is Red Eléctrica Corporación, S.A.:

- Mr José Folgado Blanco and Mr Juan Francisco Lasala Bernad are joint directors of Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. and Red Eléctrica Infraestructuras en Canarias, S.A.U. In Red Eléctrica Infraestructuras de Telecomunicación, S.A.U., both have executive duties.

- Mr Juan Francisco Lasala Bernad is joint director of Red Eléctrica Financiaciones, S.A.U., director and alternate chairman of the Board of Red Eléctrica del Sur, S.A., director of Transmisora Eléctrica del Sur, S.A., director of Transmisora Eléctrica del Sur 2, S.A., and director and chairman of the board of Red Eléctrica de Chile, SpA. In Red Eléctrica Financiaciones, S.A.U. and Red Eléctrica de Chile, SpA he has executive duties.

For the effects of this section, it is considered that they have executive duties when they have been granted powers in their favour by each company.

C.1.16: Mr Andrés Seco García left the Company on 18 November 2015.

C.1.17: As regards the information requested in this section, Mr José Ángel Partearroyo Martín is director of S.E. Correos y Telégrafos, S.A., with tax ID code nº 183052407, which belongs to the group of the significant shareholder, Sociedad Estatal de Participaciones Industriales (SEPI), but he is not a director of such significant shareholder (in SEPI he only holds the position of General Manager).

C.1.18: The Regulations of the Board of Directors are subject to review, mainly as regards their adaptation to Act 31/2014, of 3 December, amending the LSC for improving corporate governance and, to the extent the Board of Directors considers this relevant, to the new recommendations on matters of good governance set forth in the new CBGSC. The reform of the Regulations also intends to take advantage of this situation to introduce improvements into the organization and operations of the Board of Directors and its Committees on the basis of the experience of recent years, and to incorporate specific provisions regulating the functions and responsibilities of the managing director separately in respect of those of the chairman of the Board of Directors and to make certain formal correction related to style or order. On the date of approval of this report, work is being carried out on a document containing the most suitable amendments and updates to be submitted shortly to the Board of Directors.

C.1.26: Article 22 of the Regulations of the Board of Directors: termination is not automatic but rather the directors should place the position at the disposal of the Board of Directors and, should the latter consider this appropriate, formalise the corresponding resignation when they reach the age of 70.

C.2.1: The Board of Directors, at the meeting held on 26 January 2016, designated the proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), Mr José Ángel Partearroyo Martín, as member of the Appointments and Remuneration Committee to cover the vacancy existing on the said Committee as a result of the resignation of Mr Francisco Ruiz Jiménez, which took place at the meeting of the Board of Directors held on 24 November 2015.

All the members of the Auditing Committee have been designated taking into account their knowledge and experience in matters of accounting, auditing or both.

G.54: The Board of Directors, at the meeting held on 24 November 2015, approved an update of the Corporate Responsibility Policy of Red Eléctrica Group to fulfil

the aspects contained in Recommendation nº 54 of the new Good Governance Code and the regulations in the area of corporative responsibility, in respect of which the company is certified (SA8000 Social Accountability and IQNet SR10). The new edition of the Corporate Responsibility Policy contains in an extended version the specific action principles contained in the corporative responsibility management system and developed in its management manual.

3. The Board of Directors de Red Eléctrica Corporación, S.A. at its meeting held on 29 September 2015, approved the adhesion of Red Eléctrica Group to the Code of Good Tax Practices, which had been approved by the Large-Scale Company Forum using the wording proposed by the Spanish Tax Authorities (AEAT), and during 2015 it complied with the content thereof.

The adhesion to the Code of Good Tax Practices of Red Eléctrica Group took place on 23 October 2015 in accordance with the adhesion procedure established therein.

This annual corporate governance report was adopted by the Board of Directors of the Company at its meeting held on 23/02/2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

No



**KPMG Auditores S.L.**  
Edificio Torre Europa  
Paseo de la Castellana, 95  
28046 Madrid

Independent Auditor's Report on the  
System of Internal Control over Financial Reporting

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of  
Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (*Sistema de Control Interno sobre la Información Financiera*, hereinafter "SCIIF") of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the REE consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2015. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Board of Directors of the Company and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content of and preparing the accompanying information concerning SCIIF. Our responsibility is to express an opinion on the effectiveness of the Group's System of Internal Control over Financial Reporting based on our examination.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's System of Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Due to the limitations inherent in any internal control system, there is always a possibility that SCIIF may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2015, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the information concerning SCIIF included in note F of the Group's Annual Corporate Governance Report at 31 December 2015 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015, with respect to the description of the System of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 24 February 2016 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2015, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Ana Fernández Poderós

24 February 2016