



**RED ELÉCTRICA**  
CORPORACIÓN

***Board of Directors***  
*April 14, 2010*

Amendment of Article 9 of the Corporate Bylaws in relation to the delegation of powers by the Shareholders' Meeting to the Board of Directors to increase capital and to issue debentures and other fixed-income securities (including convertible and/or exchangeable securities): Explanatory Report from the Board of Directors. *(Items six, seven and eight on the Agenda of the Ordinary Shareholders' Meeting)*

**For approval**

## EXPLANATORY REPORT

### **I.- AMENDMENT OF ARTICLE 9 (“SHAREHOLDERS’ PREEMPTIVE RIGHT”) OF THE CORPORATE BYLAWS (ITEM SIX ON THE AGENDA OF THE SHAREHOLDERS’ MEETING)**

**AMENDMENT OF THE CORPORATE BYLAWS IN RELATION TO THE PREEMPTIVE SUBSCRIPTION RIGHT IN ORDER TO BRING ITS CONTENTS INTO LINE WITH THE AMENDMENTS INTRODUCED BY LAW 3/2009, OF APRIL 3, 2009, ON STRUCTURAL MODIFICATIONS TO COMMERCIAL COMPANIES: AMENDMENT OF ARTICLE 9 “SHAREHOLDERS’ PREEMPTIVE RIGHT” OF THE CORPORATE BYLAWS.**

### **II.- DELEGATION TO THE BOARD OF DIRECTORS OF THE COMPANY OF POWER TO INCREASE CAPITAL STOCK AND TO ISSUE DEBENTURES AND OTHER FIXED-INCOME SECURITIES (INCLUDING CONVERTIBLE AND/OR EXCHANGEABLE SECURITIES), WITH POWER TO EXCLUDE IN WHOLE OR IN PART THE PREEMPTIVE SUBSCRIPTION RIGHT AND WITH EXPRESS AUTHORIZATION TO REDRAFT THE CORPORATE BYLAWS WHERE APPROPRIATE (ITEMS SEVEN AND EIGHT ON THE AGENDA OF THE SHAREHOLDERS’ MEETING);**

#### **1. PURPOSE OF THE REPORT**

The Board of Directors of Red Eléctrica Corporación, S.A. (the “Company”), at a meeting held on April 14, 2010, resolved to submit to the Shareholders’ Meeting, under items Six, Seven and Eight on the Agenda:

- (i) the amendment of the Corporate Bylaws relating to Article 9 (“Shareholders’ preemptive right”) of the Corporate Bylaws and
- (ii) the delegation to the Board of Directors of the Company of the power to increase the capital stock and to issue debentures and other fixed-income securities (including convertible and/or exchangeable securities), with power to exclude in whole or in part the preemptive subscription right and with express authorization to redraft, where appropriate, the Corporate Bylaws; and

This report is prepared by the Board of Directors of the Company in compliance with (i) the provisions of Articles 144.1 a), 159.2 and 293.3 of the current Corporations Law (the “LSA”) which require the Directors to prepare a written report justifying the reasons for any proposal that is submitted to the Shareholders’ Meeting and entails an amendment to the bylaws, current or eventual, as well as the grant of power to exclude the preemptive subscription right and (ii) the provisions of Article 158 of the Mercantile Registry Regulations.



## **2. JUSTIFICATION OF THE DELEGATION TO THE BOARD OF DIRECTORS OF THE COMPANY OF THE POWER TO INCREASE THE CAPITAL STOCK AND TO ISSUE DEBENTURES AND OTHER FIXED-INCOME SECURITIES (INCLUDING CONVERTIBLE AND/OR EXCHANGEABLE SECURITIES), WITH POWER TO EXCLUDE IN WHOLE OR IN PART THE PREEMPTIVE SUBSCRIPTION RIGHT AND WITH EXPRESS AUTHORIZATION, IN BOTH CASES, TO REDRAFT THE COMPANY BYLAWS WHERE APPROPRIATE**

The dynamic of any commercial company and, in particular, of companies whose shares are admitted to official trading, requires that its governing and managing bodies have at all times the most suitable instruments to properly respond to the needs of the Company or the demands of the market in each case. These needs may include the provision to the Company with new economic resources to meet such demands, which can be obtained via new contributions in the form of capital or by issuing securities or fixed-income instruments convertible into newly issued shares (with the consequent increase in capital stock).

Moreover, taking into account the current worldwide economic situation and the high volatility of the markets, swiftness of execution takes on a special importance and becomes a determining factor for the successful achievement of a potential attraction of additional funds.

In order to overcome difficulties such as not being able to foresee short and medium-term needs to increase capital stock and to ensure a swift and effective response, article 153.1.b) of the current LSA allows the Shareholders Meeting to authorize the Board of Directors to increase the capital stock, within certain limits, provided a number of requirements are met, without first consulting the Meeting. It also provides the possibility of redrafting the corporate bylaws and the possibility of excluding the preemptive subscription right, in accordance with Article 159.2 of the LSA, in the case there are reasons of corporate interest justifying such measure.

In accordance with article 153.1b) of the current LSA, the Shareholders' Meeting is allowed to authorize the Board of Directors to increase the capital stock by the necessary amount in order to meet requests for the conversion of convertible fixed-income securities into shares that have been issued by the Company, although this power may only be exercised to the extent that the Board of Directors does not exceed with such increases, together with any other capital increases, the limit of one half of the capital stock figure provided for in article 153.1.b) of the LSA.

Based on this legal possibility, which is often used by companies whose shares are admitted to official trading, it is proposed to the Shareholders' Meeting to authorize the Board of Directors to increase the capital stock, on one or more occasions, up to the maximum amount of one hundred and thirty-five million, two hundred and seventy thousand euros (€135,270,000), a figure which corresponds to 50% of the current capital stock, by issuing new shares.

In addition, in accordance with article 159.2 of the LSA, the delegation to the Board of Directors to increase capital referred to in this Report also includes the grant of the power to exclude, in whole or in part, the shareholders' preemptive subscription right, where it exists (note that in accordance with article 159.4 of the LSA, the shareholders' preemptive subscription right will not apply in capital increases carried out by the Board of Directors to meet requests to convert or exercise fixed-income securities) and where the interests of the Company so require, all as provided for in article 159.2.



The Board of Directors considers that this power to exclude the preemptive subscription right, as a supplement to the power to increase capital, is justified, on the one hand, by the relative reduction in the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issue) that such exclusion usually enables in comparison with an issue with preemptive subscription rights and, on the other hand, by making it possible for the Directors to be in a position to considerably increase the swiftness of action and response that today's financial markets occasionally demand, thereby enabling the Company to seize the moment when market conditions are more favorable. In addition, the exclusion of the preemptive subscription right leads to less distortion of the trading of the Company's shares during the issue period, which is usually shorter than in an issue with rights.

Note, however, that the exclusion of the preemptive subscription right is a power that the Shareholders' Meeting delegates to the Board of Directors, and that it falls to the latter, based on the specific circumstances and with respect to the legal requirements, to decide in each case whether or not the right should be excluded.

If the Board of Directors decides to exercise the possibility of excluding the preemptive subscription right in relation to a specific capital increase that it approves in the exercise of the authorization granted by the Shareholders' Meeting, it will issue, upon approving the increase, a report explaining the specific reasons of corporate interest that justify such decision to exclude the right, which will be addressed in turn by the relevant auditors' report referred to in article 159.2 of the LSA.

Both reports will be made available to the shareholders and notified to the first Shareholders' Meeting that is held after the capital increase resolution, in accordance with the provisions of the aforementioned article.

Consequently, in the exercise of the authorization granted by the Shareholders' Meeting, the Board of Directors would amend, without first consulting the Meeting, article 5 of the Corporate Bylaws relating to the capital stock, since this would provide the necessary flexibility in the future adoption of potential capital increases, so that such power can be exercised when considered appropriate in the interests of the Company, a power which may even include excluding the preemptive subscription right.

### **3. BYLAWS REFORM**

Law 3/2009, of April 3, 2009, on structural modifications to commercial companies (the "LME"), has introduced relevant changes into the current LSA. Among the aspects that have been reformed are those relating to the preemptive subscription right (the "PSR"), in particular—but not solely—in relation to the issue of debentures convertible into shares.

On the one hand, in its new wording, article 158.1 of the LSA now links the PSR of the existing shareholders to "*capital stock increases with the issue of new shares, ordinary or preferred, with a charge to monetary contributions*" so that in non-monetary capital increases, the shareholders will not have a PSR.

But, on the other hand, whereas prior to the entry into force of the LME the LSA granted the PSR in capital increases in which new shares were issued, not only to the existing shareholders, but also to "*holders of convertible debentures*" (which would also occur in issues of debentures convertible into shares, over which shareholders but also the "*holders of convertible debentures pertaining to previous issues*" had the PSR), following the reform implemented by the LME:



- In capital increases in which new shares are issued with a charge to monetary contributions, the PSR corresponds exclusively to the "existing shareholders", who—and only who—will therefore have the right to subscribe a number of shares proportional to the par value of the shares that they hold (article 158.1 of the LSA); and
- The same principle is extended to issues of debentures convertible into shares (since these transactions are considered as "indirect" capital increases) so that it is "the shareholders of the company" who will exclusively "have the preemptive right to subscribe the convertible debentures" (new article 293.1 of the LSA).

Lastly, the new article 293.2 of the LSA expressly provides for the possibility that the Shareholders' Meeting may resolve to exclude the PSR in whole or in part in convertible debenture issues, albeit submitting such resolutions to a set of requirements.

The proposed amendment seeks to adapt the Corporate Bylaws to the legislation in force on PSR, granting PSR solely and exclusively to the shareholders of the Company.

Based on the above, it is proposed to amend article 9 of the Bylaws, relating to the preemptive subscription right, to read as follows:

" Article 9.- Shareholders' preemptive right

*Where capital is increased with the issue of new ordinary or preferred shares with a charge to monetary contributions, existing shareholders may exercise, within the time period granted to them for such purpose by the Company's Board of Directors, which shall not be less than fifteen (15) days from the date of publication of the notice of public offering published in the Official Gazette of the Mercantile Registry, the right to subscribe a number of shares proportional to the par value of the shares that they own.*

*Preemptive subscription rights shall be transferable on the same terms as the shares to which they relate. In the event of an increase with a charge to reserves, the same rule shall apply to the rights to allocation of the new shares for no consideration.*

*Where any shareholder does not exercise or transfer his preemptive subscription right in the manner stipulated in these Corporate Bylaws, the Board of Directors may offer the subscription of the corresponding shares to such third parties as it deems appropriate or declare the capital increase to be incomplete, in which case the capital shall only be increased by the amount actually subscribed."*

### III. PROPOSED RESOLUTIONS

#### 1. PROPOSED RESOLUTION TO AMEND ARTICLE 9 ("PREEMPTIVE SUBSCRIPTION RIGHT") OF THE CORPORATE BYLAWS (ITEM SIX ON THE AGENDA OF THE SHAREHOLDERS' MEETING)

It is resolved to propose to the Shareholders' Meeting the amendment of the Corporate Bylaws consisting of:



Amending article 9 of the Corporate Bylaws relating to the shareholders' preemptive subscription right, which shall hereafter be worded as follows:

" Article 9.- Shareholders' preemptive right

*Where capital is increased with the issue of new ordinary or preferred shares with a charge to monetary contributions, existing shareholders may exercise, within the time period granted to them for such purpose by the Company's Board of Directors, which shall not be less than fifteen (15) days from the date of publication of the notice of public offering published in the Official Gazette of the Mercantile Registry, the right to subscribe a number of shares proportional to the par value of the shares that they own.*

*Preemptive subscription rights shall be transferable on the same terms as the shares to which they relate. In the event of an increase with a charge to reserves, the same rule shall apply to the rights to allocation of the new shares for no consideration.*

*Where any shareholder does not exercise or transfer his preemptive subscription right in the manner stipulated in these Corporate Bylaws, the Board of Directors may offer the subscription of the corresponding shares to such third parties as it deems appropriate or declare the capital increase to be incomplete, in which case the capital shall only be increased by the amount actually subscribed."*

**2. PROPOSED RESOLUTIONS TO DELEGATE TO THE BOARD OF DIRECTORS OF THE COMPANY POWERS TO INCREASE THE CAPITAL STOCK AND TO ISSUE DEBENTURES AND OTHER FIXED-INCOME SECURITIES (INCLUDING CONVERTIBLE AND/OR EXCHANGEABLE SECURITIES), WITH POWER TO EXCLUDE IN WHOLE OR IN PART THE PREEMPTIVE SUBSCRIPTION RIGHT AND WITH EXPRESS AUTHORIZATION TO REDRAFT THE CORPORATE BYLAWS WHERE APPROPRIATE (ITEMS SEVEN AND EIGHT ON THE AGENDA OF THE SHAREHOLDERS' MEETING, RESPECTIVELY).**

It is resolved to propose to the Shareholders' Meeting the adoption of the following resolutions:

**"DELEGATION TO THE BOARD OF DIRECTORS, FOR A PERIOD OF FIVE (5) YEARS, OF THE POWER TO INCREASE THE CAPITAL STOCK, 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 EUROS (€135,270,000), EQUAL TO HALF OF THE CURRENT CAPITAL STOCK, IN THE AMOUNT AND AT THE ISSUE PRICE DECIDED ON IN EACH CASE BY THE BOARD OF DIRECTORS, WITH THE POWER TO EXCLUDE, IN WHOLE OR IN PART, THE PREEMPTIVE SUBSCRIPTION RIGHT AND WITH EXPRESS AUTHORIZATION TO REDRAFT, AS THE CASE MAY BE, ARTICLE 5 OF THE CORPORATE BYLAWS AND TO REQUEST, AS THE CASE MAY BE, THE ADMISSION, CONTINUED LISTING AND/OR DELISTING OF THE SHARES ON ORGANIZED SECONDARY MARKETS. (ITEM SEVEN ON THE AGENDA OF THE SHAREHOLDERS' MEETING).**

**1.- Delegation to the Board of Directors, time period and quantitative limit.- To authorize the Board of Directors, in the broadest and most effective manner permitted by**



law, and in use of the power of delegation provided for in article 153.1.8b) of the Corporations Law in force and in article 8 of the Corporate Bylaws, so that, within the maximum period of five (5) years as from the date of adoption of this resolution, and without the need for a subsequent call of or resolution by the Shareholders' Meeting, it may resolve, on one or more occasions, at the time and in the amount it so decides, to increase the capital stock by the maximum amount of one hundred and thirty-five million, two hundred and seventy thousand euros (€135,270,000), equal to half of the current capital stock of the Company, with or without a preemptive subscription right.

**2.- Scope of the delegation.-** Any capital increases resolved upon by the Board of Directors within the scope of this delegation shall be performed by the issue of ordinary, preferred or redeemable shares, with or without voting rights, with fixed or variable additional paid-in capital or without additional paid-in capital, the consideration for which shall consist of monetary contributions.

The Board of Directors may establish, where this delegation resolution is silent, the terms and conditions of the capital increases, including, without limitation, the power to establish (in the event that convertible debentures have been issued with a fixed conversion ratio) a formula for adjusting such ratio that enables the potential dilution of the amount of the conversion right to be offset, the characteristics of the shares, the investors and markets for which the increases are intended and the placement procedure, as well as to freely offer any new shares not subscribed within the preemptive subscription period(s), if such right is not excluded.

The Board of Directors may also establish, where the capital increase is not fully subscribed, that the capital increase be rendered ineffective or that the capital only be increased by the amount actually subscribed, and may also redraft article 5 of the Corporate Bylaws relating to capital stock and the number of shares in circulation, once each of the capital increases has been agreed on and executed.

**3.- Calculation of the limit.-** The amount of any capital increases which, as the case may be and in order to meet the conversion of debentures, bonds and other analogous fixed-income securities into new shares, or the exercise of warrants with entitlement to the delivery of new shares, have been approved pursuant to the proposal submitted for approval to the Shareholders' Meeting under item Seven on the Agenda, shall be deemed included within the aforementioned maximum limit available from time to time.

**4.- Exclusion of the preemptive subscription right.-** Pursuant to the provisions of article 159.2 of the Corporations Law in force, the Board of Directors is expressly granted the power to exclude, in whole or in part, the preemptive subscription right in relation to some or all of the shares which, as the case may be, it may resolve to issue in accordance with this authorization, provided that the interests of the Company so dictate and provided that the nominal value of the shares to be issued plus any additional paid-in capital resolved upon corresponds to the fair value of the Company shares resulting from the report to be prepared, at the request of the Board of Directors, by an auditor other than the Company's auditor, appointed for such purposes by the Mercantile Registry on each occasion that the power to exclude the preemptive subscription right is exercised.

**5.- Admission to listing.-** The Board of Directors is also empowered to request the admission to trading, continued listing and, as the case may be, the delisting on organized secondary markets, Spanish or foreign, of any shares that may be issued pursuant to this authorization, performing the formalities and steps necessary or appropriate in each case



before the competent bodies of the different securities markets, domestic and foreign, for their admission to trading, continued listing and/or, as the case may be, delisting.

**6.- Delegation.-** *The Board of Directors is expressly empowered to delegate the powers contained in this resolution to the Chairman of the Board of Directors and/or any Board member and/or the Secretary and/or Deputy Secretary of the Board of Directors and/or any other attorney-in-fact of the Company."*

**"DELEGATION OF POWERS TO THE BOARD OF DIRECTORS, FOR A PERIOD OF FIVE (5) YEARS AND WITH A COMBINED LIMIT OF FIVE THOUSAND MILLION EUROS (€5,000,000,000), TO ISSUE, ON ONE OR MORE OCCASIONS, DIRECTLY OR THROUGH COMPANIES OF THE RED ELÉCTRICA GROUP, DEBENTURES, BONDS AND OTHER FIXED-INCOME INSTRUMENTS OR DEBT INSTRUMENTS OF AN ANALOGOUS NATURE, BOTH NONCONVERTIBLE AND CONVERTIBLE OR EXCHANGEABLE FOR SHARES OF THE COMPANY, OF OTHER COMPANIES IN THE RED ELÉCTRICA GROUP OR OF OTHER COMPANIES NOT RELATED TO SAME, INCLUDING, WITHOUT LIMITATION, PROMISSORY NOTES, SECURITIZATION BONDS, PREFERRED PARTICIPATIONS AND WARRANTS GIVING ENTITLEMENT TO THE DELIVERY OF SHARES OF THE COMPANY OR OF OTHER COMPANIES IN THE RED ELÉCTRICA GROUP, WHETHER NEWLY-ISSUED OR IN CIRCULATION, WITH THE EXPRESS POWER TO EXCLUDE, IN WHOLE OR IN PART, THE PRE-EMPTIVE SUBSCRIPTION RIGHT; AUTHORIZATION TO ENABLE THE COMPANY TO SECURE NEW ISSUES OF FIXED-INCOME SECURITIES (INCLUDING CONVERTIBLE OR EXCHANGEABLE SECURITIES) MADE BY COMPANIES OF THE RED ELÉCTRICA GROUP; AUTHORIZATION TO REDRAFT, AS THE CASE MAY BE, ARTICLE 5 OF THE CORPORATE BYLAWS AND TO REQUEST, AS THE CASE MAY BE, THE ADMISSION, CONTINUED LISTING AND/OR DELISTING OF THE SHARES ON ORGANIZED SECONDARY MARKETS. (ITEM EIGHT ON THE AGENDA OF THE SHAREHOLDERS' MEETING).**

*The following resolutions are proposed to the Shareholders' Meeting for approval:*

**1.- Delegation to the Board of Directors.-** *To delegate to the Board of Directors, in the broadest and most effective manner permitted by law and pursuant to the provisions of article 319 of the Mercantile Registry Regulations, Chapter X of the Corporations Law in force and other rules concerning the issue of debentures, the power to issue fixed-income securities in accordance with the following conditions.*

*The Board of Directors may also, as the case may be, authorize the exchange or swap of existing fixed-income securities - issued (or secured) directly by the Company or through companies in the Red Eléctrica Group - or of any new securities issued (or secured) directly by the Company or, as the case may be, by companies in the Red Eléctrica Group, in both cases pending redemption, for other fixed-income securities issued or to be issued by the Company or by other companies in the Red Eléctrica Group.*

**2.- Securities issued.-** *The securities referred to in this delegation may be bonds, debentures and other fixed-income securities or debt instruments of an analogous nature, in any of the forms permitted by law, issued directly or through companies in the Red Eléctrica Group, including, without limitation, promissory notes, securitization bonds, preferred participations and warrants or other analogous securities, both nonconvertible and convertible and/or exchangeable, directly or indirectly, for new*



shares and/or existing shares of the Company, of other Companies in the Red Eléctrica Group or of other companies not related to same, settleable by physical delivery or in cash, as well as fixed-income securities, preferred participations and warrants that incorporate the option to subscribe new shares or acquire existing shares of the Company or of other companies in the Red Eléctrica Group.

**3.- Duration of the delegation.-** The securities may be issued, on one or more occasions, at any time, within a maximum period of five (5) years from the date of adoption of this resolution.

**4.- Maximum amount of the delegation.-** The maximum aggregate amount of the security issue(s) resolved upon pursuant to this delegation shall be FIVE THOUSAND MILLION EUROS (€5,000,000,000) or its equivalent in another currency at the time of issue.

For the purposes of calculating the above limit, in the case of warrants, the sum of the warrant premiums and exercise prices of each issue resolved upon under this delegation shall be taken into account. In the case of promissory notes or analogous instruments, the outstanding balance of same shall be taken into account for the purposes of calculating the limit.

It is placed on record that, pursuant to the provisions of article 111 bis of the Securities Market Law in force, the quantitative limit for the issue of debentures or other securities that recognize or create debt established in article 282 of the Corporations Law in force does not apply to the Company.

**5.- Scope of the delegation.-** The delegation referred to in this resolution shall extend, as broadly as may be required by law, to the establishment of the different economic terms, regime, aspects and conditions of each issue. In particular and without limitation, the Board of Directors of the Company shall be responsible for determining, for each issue, its amount (always within the quantitative limit stipulated in subsection 4 above), the place of issue (whether in Spain or abroad), the currency of issue and, where it is a foreign currency, its equivalent in euros; its denomination, be it bonds, debentures or any other instrument permitted by law (including subordinated instruments); the issue date(s); where the securities are not convertible, whether they can be exchanged, in whole or in part, for preexisting shares of the Company, of other companies in the Red Eléctrica Group or, as the case may be, other companies not related to same- and whether they are to be converted or exchanged necessarily or voluntarily and, in this latter case, at the choice of the holder of the securities or of the Company or according to an objective criterion – or of incorporating a purchase or subscription option over such shares; the interest rate, date and procedure for payment of the coupon; their perpetual or redeemable nature and, in this latter case, the redemption period and the maturity date(s); the redemption price, premiums and batches; the issue security, including mortgages, given directly by the Company or by companies belonging to the Red Eléctrica Group; the type of representation, by certificates or book entries; the number of securities and their par value which, in the case of convertible and/or exchangeable securities, shall not be less than the par value of the shares; the applicable legislation, whether Spanish or foreign; requesting, as the case may be, the admission to trading on official or unofficial secondary markets, organized or otherwise, Spanish or foreign, of the securities issued in compliance with the requirements and conditions of the legislation in force in each case; as the case may be, designating the trustee of the corresponding syndicate of holders of the securities that may be issued and approving any fundamental rules that must regulate



*the legal relationships between the Company and said syndicate which, if deemed appropriate, may exist; and, in general, any other condition of the issue and performing all such steps as may be necessary or advisable for the execution of the specific issues resolved upon under this delegation.*

*The delegation also includes the conferral on the Board of Directors of the power to decide on the conditions for redemption of the securities issued in use of this authorization, and any conditions provided for in this respect in the Corporations Law in force may be used for such purpose.*

*The Board of Directors is also empowered to modify the terms and conditions of such securities, where it sees fit, subject to obtainment of any official authorization that may be required and, as the case may be, the agreement of the assemblies of the corresponding syndicates of holders of the pertinent securities that may be issued in use of this authorization.*

***6.- Basis and methods of conversion or exchange.-*** *In the case of issues of fixed-income securities convertible into new shares of the Company or of companies belonging to the Red Eléctrica Group or exchangeable for existing shares of the Company, of companies belonging to the Red Eléctrica Group or, as the case may be, companies not related to same, and for the purposes of determining the basis and methods of conversion or exchange, it is resolved to establish the following criteria:*

*1.- The securities issued under the scope of this resolution may be convertible into new shares of the Company or of companies belonging to the Red Eléctrica Group, exchangeable for existing shares of the Company, of companies belonging to the Red Eléctrica Group or, as the case may be, companies not related to same, or enable the conversion or exchange according to the circumstances and on the conditions established in the issue resolution, in accordance with a fixed (determined or determinable) or variable conversion or exchange ratio, with it being up to the Board of Directors to determine whether they are convertible or exchangeable or both at the same time, and to determine whether they are necessarily or voluntarily convertible or exchangeable and, where voluntary, whether it is at the election of their holder or the issuer, with the frequency and during the time period established in the issue resolution, a period which may not exceed fifteen (15) years from the date of issue.*

*2.- Where the issue is convertible and exchangeable, the Board of Directors may establish that the Company reserves the right to choose at any time between the conversion into new shares or the exchange for existing shares, specifying the nature of the shares to be delivered upon conversion or exchange, and may even choose to deliver a combination of new and preexisting shares. In all cases, the Company must respect equality of treatment among all holders of fixed-income securities that are converted or exchanged on the same date.*

*3.- For the purposes of conversion and exchange, the debentures, bonds or fixed-income securities shall be valued at their par value. Shares shall be valued at the exchange ratio determined in the resolution by the Board of Directors, which may be (i) fixed and determined in the resolution itself; (ii) fixed and to be determined on the date(s) indicated in the resolution; or (iii) variable. The fixed ratio to be determined or the variable ratio may be determined either in accordance with the market value of the Company shares on the date(s) or in the period(s) established as a reference, or according to any other criterion set by the Board of Directors. The Board of Directors may also determine an exchange ratio with or without a premium or discount, which*



may be different for each date of conversion and/or exchange of each issue (or, as the case may be, each tranche of an issue).

4.- Where the conversion or exchange goes ahead, any share fractions to be delivered to the holder of the fixed-income securities shall be rounded down to the nearest whole number and each holder shall receive any difference that may arise due to such circumstance in cash.

5.- In the issue of debentures, bonds or other fixed-income securities of an analogous nature which are convertible into new shares, the value of the share for the purposes of the conversion ratio may not be less than its par value under any circumstances.

6.- Pursuant to the provisions of article 292.3 of the Corporations Law in force, debentures, bonds or other fixed-income securities may not be converted into shares when the par value of the debentures, bonds or fixed-income securities to be converted is less than the par value of the shares into which they are to be converted. Nor shall it be possible to issue debentures, bonds or fixed-income securities that are convertible at a value lower than their par value. The same rules shall also apply in the case of redemption of preferred participations with delivery of new shares.

7.- When approving an issue of convertible debentures under the scope of this authorization by the Shareholders' Meeting, the Board of Directors shall issue a report explaining and specifying, on the basis of the above criteria, the basis and methods of conversion specifically applicable to the issue. The report shall be accompanied by the corresponding auditor's report, all of the foregoing in accordance with the provisions of article 292.2 of the Corporations Law in force.

**7.- Rights of the holders of convertible debentures.-** The holders of convertible or exchangeable securities and warrants shall enjoy all such rights as are granted to them under the legislation in force.

**8.- Exclusion of the preemptive subscription right in convertible securities and capital increases.-** The delegation to the Board of Directors provided for herein shall also include, without limitation, the following powers:

1.- The power of the Board of Directors, pursuant to the provisions of article 293.3 of the Corporations Law in force, to exclude, in whole or in part, the preemptive subscription right of convertible debentures held by shareholders, when so justified in the interests of the Company.

In any case, should the Board of Directors decide to eliminate the preemptive subscription right of shareholders in relation to any specific issue of convertible securities that may be made pursuant to this authorization, it shall issue, on approval of the issue and pursuant to the provisions of article 293 of the Corporations Law in force, a report by the Board of Directors giving specific details of the company interests that justify the measure and must obtain the mandatory report from the auditor containing a technical opinion on the reasonableness of the data contained in the report by the Board of Directors and the suitability of the conversion ratio and, as the case may be, of the adjustment formulas to offset any potential dilution of the economic holding of the shareholders. These reports shall be made available to shareholders and notified to the first Shareholders' Meeting held after the corresponding issue resolution.



2.- Pursuant to article 153.1b) of the Corporations Law in force, the power to increase capital in the amount necessary to meet requests for conversion of convertible securities issued under this delegation. This power may only be exercised to the extent that the Board of Directors does not exceed, with such increases, combined with any other capital increases that may be performed under this or other delegations to increase capital stock it may have, the limit of one half of the capital stock as provided for in article 153.1.b) of the Corporations Law in force.

This authorization to increase capital stock to meet the conversion of securities or the exercise of warrants includes the power to issue, on one or more occasions, the shares representing same that are necessary to perform the conversion or exercise and, in accordance with article 153.2 of the Corporations Law, the power to redraft article 5 of the Corporate Bylaws in relation to the capital stock figure and the number of shares in circulation and, as the case may be, to annul any part of the capital increase that was not necessary to convert the securities into shares or to exercise the warrants.

Pursuant to article 159.4 of the Corporations Law in force, in the capital increase performed by the Board of Directors to meet such requests for conversion or exercise, the preemptive subscription right of Company shareholders shall not apply.

3.- The power to explain and specify the basis and methods of conversion and/or exchange, bearing in mind the criteria established in section 6 above and, in general and on the broadest terms, the determination of all such matters and conditions as may be necessary or appropriate for the issue.

The Board of Directors, at the successive Shareholders' Meetings held by the Company, shall report to the shareholders on any use made up to that time of the delegation to issue convertible and/or exchangeable fixed-income securities.

**9.- Warrants.-** The rules provided for in sections 6 to 8 above shall apply, in analogous situations, in the case of the issue of warrants or other analogous securities that may give rise, directly or indirectly, to the entitlement to subscribe new shares of the Company or of companies belonging to the Red Eléctrica Group, and the delegation includes the broadest powers, with the same scope as the previous sections, to decide on all matters it deems appropriate in relation to this type of securities.

**10. Admission to trading.-** The delegation to the Board of Directors provided for herein also includes the request for admission to trading, where the Board of Directors deems it appropriate to trade, on secondary markets, official or unofficial, organized or otherwise, Spanish or foreign, the debentures, bonds, preferred participations, warrants and any other securities that are issued or secured by virtue of this delegation, and the Board of Directors is also empowered to perform the formalities and steps necessary or appropriate for admission to listing before the competent bodies of the different securities markets, Spanish and foreign, providing all such guarantees or undertakings as may be required by the legal provisions in force.

For the purposes of the provisions of article 27 (b) of the Stock Exchange Regulations, it is expressly placed on record that, in the event a subsequent request is made to delist the securities issued by virtue of this delegation, it shall be adopted with the same formalities referred to in said article and, in such case, the interest of any shareholders or holders of debentures that oppose or abstain from voting on the resolution shall be guaranteed, in compliance with the requirements established in the Corporations Law and other related provisions, all of the foregoing in accordance with



*the provisions of the Stock Exchange Regulations, the Securities Market Law and its implementing regulations.*

**11.- Guarantee of issues of fixed-income securities made by companies in the Red Eléctrica Group.-** *The Board of Directors of the Company shall also be empowered to secure, in the name of the Company, in any of the forms permitted by law, within the abovementioned limits, any new issues of securities (including convertible or exchangeable securities) that may be made by companies belonging to the Red Eléctrica Group during the period this resolution remains in force.*

**12.- Delegation.-** *The Board of Directors is expressly empowered to delegate the powers contained in this resolution to the Chairman of the Board of Directors, and/or any of its members and/or the Secretary and/or Deputy Secretary of the Board of Directors and/or any other attorney-in-fact of the Company.*

**13.- Revocation.-** *This delegation revokes and replaces, rendering it ineffective, the previous delegation resolved upon by the Ordinary Shareholders' Meeting held on May 21, 2009."*