



**RED ELÉCTRICA**  
CORPORACIÓN

***Board of Directors***

*December 20, 2016*

Regulations of the Board of Directors

# REGULATIONS OF THE BOARD OF DIRECTORS OF RED ELÉCTRICA CORPORACIÓN, S.A.

## INTRODUCTION

The Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter, the “**Company**”), at a meeting held on December 20, 2016, approved the amendment to the Board Regulations with the aim of updating their content in view of certain recent legislative reforms that have affected corporations, in line with the reforms of the Bylaws and the Regulations of the Shareholders' General Meeting approved by the Shareholders' Annual General Meeting on April 15, 2016, to make certain adaptations aligned with important corporate governance practices, especially regarding international ones, introduce improvements in the organization and functioning of the Board of Directors and its Committees, and adapt them to the new reality of the Red Eléctrica Group organization under the applicable legislation. Specifically, the prime objective of the reform is to adapt the Regulations to the provisions of Act 31/2014 of December 3, 2014 amending the Spanish Companies Act ("*Ley de Sociedades de Capital*") to improve corporate governance, as well as to the new Good Governance Code of Listed Companies approved by the Securities Market National Commission ("*Comisión Nacional del Mercado de Valores*") on February 24, 2015. The initiative for the reform came from the Appointments and Remuneration Committee, pursuant to Article 3 of the Regulations in force. The Committee has prepared the corresponding proposal, together with a report justifying it, as provided in Article 3. The finally approved wording is as follows

## CHAPTER I - PRELIMINARY

### Article 1. Purpose

1. The purpose of these Regulations is to establish the principles of conduct of the Board of Directors of Red Eléctrica Corporación, S.A., the basic rules governing its organization and operation and the rules of conduct of its members, as well as the supervision and control functions entrusted to it.
2. The rules of conduct established in these Regulations shall apply to directors, as defined in Article 7 of these Regulations, as well as to the representatives of directors that are legal entities and, as far as is appropriate and compatible with their specific nature, to the secretary and vice secretary.

### Article 2. Interpretation

These Regulations shall be interpreted in accordance with the applicable provisions of the law and the Bylaws and with the principles and recommendations of good corporate governance of listed companies. In the event of any discrepancy between the provisions of these Regulations and of the Bylaws, the provisions of the Bylaws shall prevail at all times.

The Board of Directors shall resolve any doubts arising from their application or interpretation.

### **Article 3. Amendment**

1. These Regulations may be amended at the request of the chairman, of one-third of the number of directors in office, of the Appointments and Remuneration Committee or of the Audit Committee, who must enclose a report justifying it with their proposal. Likewise, the lead independent director, in coordination with the other independent directors, may propose any amendments deemed fit for discussion.
2. Amendment proposals must be the subject of a report, in all cases, by the Appointments and Remuneration Committee.
3. The wording of the proposal, the report of its authors justifying it and the report of the Appointments and Remuneration Committee must be attached to the notice calling directors to the Board meeting which is to deliberate on it.

The call notice must be issued at least seven (7) days in advance.

4. The amendment of the Regulations, in order to be valid, shall require a resolution adopted by a two-thirds majority of the directors present.
5. The Board of Directors will report on the amendments to the Regulations at the next Shareholders' General Meeting.

### **Article 4. Dissemination**

1. Directors, the secretary and vice secretary of the Board and senior managers are obliged to know, comply with and ensure compliance with these Regulations. For such purpose the secretary of the Board will provide all of them with a copy thereof.
2. The Board of Directors shall take the necessary measures to have these Regulations suitably circulated among the shareholders and investors in general.

In particular, the Board will report to the Securities Market National Commission on these Regulations and have them published on the Company's website. Once such notice has been issued, they will be registered at the Mercantile Registry.

## **CHAPTER II - THE BOARD'S MISSION**

### **Article 5. General supervisory function**

1. The Board of Directors manages, governs and represents the Company, without prejudice to the competences reserved to the Shareholders' General Meeting.

The Board holds all the powers to manage and represent the Company, in and out of court, and shall exercise them, either directly or by delegation, substitution or grant of powers of attorney on the terms stipulated by law, in the Bylaws and in these

Regulations. The Board shall have competence over all matters that do not fall under the exclusive competences of the Shareholders' General Meeting.

2. The Board's policy is to delegate the ordinary management of the Company, of Red Eléctrica de España, S.A.U. and of the rest of the Group companies to the executive bodies and to the management team of said companies and to focus its activity on the general function of supervision and approval of the basic guidelines on conduct.
3. No delegation of powers made by the Board within the statutory limits will deprive it of such powers, wherefore the Board will in all events maintain the powers that rest with it.
4. Powers which are legally or institutionally reserved for the direct attention of the Board or those which are necessary for the responsible exercise of the general supervisory function of the company's management cannot be delegated.
5. In particular, the Board is obliged to directly exercise the following responsibilities and shall not delegate any of them:
  - a) Approval of the general policies and strategies of the Company and the Group and, in particular:
    - i) Those relating to the organization and functioning of the Board and, in particular, to the approval and amendment of these Regulations.
    - ii) Approval of the Strategic Plan or Business Plan of the Company and its Group, as well as the budget and the annual and multiannual management objectives, and monitoring of the degree of compliance throughout the year.
    - iii) Determination of general policies and strategies and, in particular, the Company's tax strategy.
    - iv) Approval of the investment and financing policy.
    - v) Approval of the definition of the basic structure of the corporate group controlled by the Company.
    - vi) Approval of the corporate governance policy of the Company and of the corporate group controlled by the Company.
    - vii) Approval of the Corporate Social Responsibility Policy.
    - viii) Approval of the compensation policy for senior managers who directly report to the Board, the Chairman or the managing director.
    - ix) Approval of the policy for controlling and managing the main risks of the Company and of the Group, and for knowing and supervising the internal control, prevention and reporting systems.

The risk control and management policy shall identify at least:

- The various types of risk (among others, operational, technological, financial, legal, reputational, tax, social, environmental and political risks) faced by the Company and the Group, including them the financial or economic risks, any contingent liabilities and other off-balance-sheet risks.

- The level of risk considered acceptable by the Company.
  - The measures established to mitigate the impact of identified risks, should they materialize.
  - The internal information and control and reporting systems to be used for controlling and managing the aforementioned risks, including contingent liabilities or off-balance-sheet risks.
- x) Approval of the policy for communication and contacts with shareholders, institutional investors and proxy advisors.
  - xi) Approval of the policy for appointing and assessing candidates for the Board of Directors.
  - xii) Approval of the policy for assessing the performance of both the Board and the directors.
  - xiii) Approval of the policy for disseminating corporate governance, corporate responsibility, remuneration and risk administration practices.
  - xiv) Approval of the policy for hiring non-audit services, with the External Auditor, without prejudice to the powers reserved to the Audit Committee.
  - xv) Approval and, if appropriate, proposal to the Shareholders' General Meeting of the dividend policy, as well as the policy on treasury stock and, in particular, the limits thereon.
  - xvi) Those specifically stipulated in these Regulations.

b) The following decisions:

- i) Appointment and removal of the managing directors of the Company, as well as the establishment of the terms of their contracts.
- ii) Appointment and removal of managers of the Company who report directly to the Board or to any of its members, as well as the establishment of the basic terms of their contracts, including their remuneration.
- iii) Directors' compensation, within the framework of the bylaws and of the remuneration policy approved by the Shareholders' General Meeting, and, in the case of executive directors, additional compensation for their executive functions and other terms their contracts must comply with.
- iv) Authorization or waiver of the obligations arising from the duty of loyalty, in accordance with Article 230 of the Spanish Companies Act.
- v) Financial information which the Company, due to being listed, must make public on a periodic basis or which it must provide to the markets' regulatory or supervisory bodies for publication.
- vi) Any kind of investment or transaction of the Company and of the Group which, due to its high amount or special characteristics, according to the criteria set by the

Board of Directors, is strategic by nature or entail a special tax risk, unless its approval corresponds to the Shareholders' General Meeting.

- vii) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Company or of the Group.
- c) The approval, after obtaining a report from the Audit Committee, of transactions carried out with directors by the Company or Companies within its Group on the terms of the Spanish Companies Act, or with shareholders who, either individually or together with others, own a significant holding, including shareholders represented on the Board of Directors of the Company or of other companies in its group or with persons related to them. The affected directors, or those representing or related to the affected shareholders, must refrain from participating in deliberating and voting on the resolution in question. Only transactions which simultaneously comply with the three following characteristics are exempt from this approval:
  - They must be carried out under contracts with standardized terms that generally apply to a large number of customers.
  - At prices generally set by the provider of the goods or services in question.
  - Of an amount that is not more than 1% of the Company's annual revenues.
- d) Preparation of the annual accounts and their presentation to the Shareholders' General Meeting.
- e) Calling Shareholders' General Meetings and drawing up of the agenda and proposed resolutions.
- f) Delegation of powers previously delegated by the Shareholders' General Meeting to the Board of Directors, unless expressly authorized by the Shareholders' General Meeting.
- g) Preparation of any report to the Board of Directors required by law, provided that the matter covered by the report cannot be delegated.
- h) The annual evaluation of:
  - i) the quality and efficiency of the Board's functioning, the diversity of the Board's membership and competences, the performance of their tasks by the Chairman of the Board and the Company's chief executive and, if applicable, the performance and contribution of each individual director, with particular attention to the chairmen of Board committees, all starting from the report sent to the Board by the Appointments and Remuneration Committee in coordination, where applicable, with the lead independent director or the chairman, as the case may be.
  - ii) The composition and effective operation of Board committees and of any other delegated body, starting with the report sent by the Appointments and Remuneration Committee in coordination with the lead independent director or the chairman, as the case may be.

The result of these evaluations will be set out in the minutes of the relevant meeting or will be annexed to the minutes themselves. In addition, based on the result of the evaluations, the Board will prepare and present a plan of action to correct the deficiencies and, if applicable, the areas of improvement detected. The evaluation process and areas evaluated will be detailed in the Corporate Governance Annual Report.

At least every two years, the Board of Directors will engage an external consultant to assist in the evaluation process, whose independence will be verified by the Appointments and Remuneration Committee. Any business dealings that the consultant or members of its corporate group maintain with the Company or any company in the Group will be detailed in the Annual Corporate Governance Report.

The Board must periodically review the general aspects of the methodology used for the evaluation, its overall results and the corrective measures applied, if applicable.

6. Where permitted by law, and provided there are reasons of duly justified urgency, the decisions on the above matters may be adopted by delegated bodies or individuals, although they will have to be ratified at the first Board of Directors meeting held after the decision is adopted.

In particular, the decisions provided for in subparagraph 5(b)(v) above —if an extraordinary session of the Board of Directors cannot be held under Article 19 of these Regulations— may be adopted for reasons of urgency by the chairman and, in his absence, by the Company's managing director, subject to subsequent ratification at the first Board meeting held after the decision is adopted, without prejudice to the validity of the acts vis-à-vis third parties in accordance with Article 234 of the Spanish Companies Act.

## **Article 6. Institutional guidance**

1. The Board of Directors shall discharge its functions with singleness of purpose and independence of criterion.
2. The criteria which must at all times govern the conduct of the Board of Directors is the corporate interest, understood as the Company's profitability and long-term sustainability to promote the Company's continuity and the maximization of its value.
3. In the area of corporate organization, the Board shall take the necessary measures to ensure that:
  - a) The Company's management pursues the achievement of the Company's interests and has the appropriate resources and incentives for doing so.
  - b) The management of the Company and of the Group companies is under the effective supervision of the Board.
  - c) No person or small group of persons has decision-making power which is not subject to counterbalances and controls.
  - d) The same treatment is dispensed to all shareholders who are in the same position and no shareholder receives preferential treatment over the others.

- e) In its relations with stakeholders and in pursuit of the corporate interest, the Company, besides abiding by the applicable laws and regulations and to conduct based on good faith, ethics and respect for customs and generally accepted good practices, works to conciliate its own interest with, as applicable, the legitimate interests of its employees, suppliers, customers and the rest of the stakeholder groups who may be affected, as well as with the impact of the Company's activities in the community as a whole and on the environment, furthermore abiding by those additional principles of social responsibility and good corporate governance that it has voluntarily accepted.

## **CHAPTER III - COMPOSITION OF THE BOARD**

### **Article 7. Qualitative composition**

1. The Board of Directors, in the exercise of its powers to make proposals to the Shareholders' General Meeting and of co-optation to fill vacancies, shall ensure that in the composition of the body:
  - a) External directors represent an ample majority of the Board.
  - b) The number of executive directors is the minimum necessary, having regard to the complexity of the corporate Group.
  - c) Among external directors, the relationship between the number of nominee directors and independent directors reflects the proportion existing between the Company's capital represented by the nominee directors and the remaining capital; this criterion of strict proportionality may be moderated in such a way that the weight of the nominee directors is greater than that which would relate to the total percentage of capital they represent in the following cases:
    - i) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings;
    - ii) Where there is a plurality of shareholders represented on the Board, and they are not related among themselves.
  - d) The number of independent directors represents at least one-half of the total number of directors. When the Board chairman is also the Company's chief executive, the independent directors must represent a majority of the total number of directors.
2. For such purposes:
  - a) Executive director means:

Directors who perform management functions in the Company or in its Group, irrespective of their legal relationship with the Company.

A director who performs management functions and, at the same time, is or represents a significant shareholder or a shareholder who is represented on the Board of Directors, will be considered an executive director.

Executive director shall not mean those who receive special powers from the Shareholders' General Meeting or the Board of Directors by delegation, authorization or power of attorney, for a specific act.

Executive directors may only hold a directorship on one (1) board of directors of another company; this limit does not include positions on boards of directors of the Company's subsidiaries or investees.

b) Nominee director means:

- i) Directors who own a holding equal to or more than the legal threshold for classification as significant or who have been designated due to their status as shareholders, even if their holding falls below that amount.
- ii) Directors representing shareholders among those indicated in the preceding paragraph.

For such purposes, a director will be deemed to represent a shareholder where:

- i) He was appointed by virtue of a right of representation.
- ii) He is a director, senior manager, employee or non-occasional service provider of that shareholder or of companies belonging to the same group.
- iii) The corporate documentation indicates that the shareholder accepts that the director has been designated by him or represents him.
- iv) He is a spouse, spousal equivalent or relative to the second degree of kinship of a significant shareholder.

Nominee directors cannot simultaneously hold directorships in more than five (5) listed companies.

c) Independent director means:

Directors designated on the basis of their personal and professional conditions and thus able to perform their functions without being conditioned by relationships with the Company or its Group, its significant shareholders or its executive Directors

In none of these cases, individuals in the following circumstances can be considered independent:

- i) Former employees or executive directors of Group companies, unless 3 or 5 years have elapsed, respectively, since the end of that relationship.
- ii) Persons who receive from the Company, or from its Group, any amount or benefit other than the director's compensation, unless it is insignificant for the director.

The foregoing shall not include dividends or pension supplements received by the director for his former professional or employment relationship, provided that such supplements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their payment at its own discretion, without incurring in a breach of such obligations.

- iii) Persons who are, or have been during the last three years, a shareholder of the External Auditor or in charge of the audit report, whether in relation to the audit for that period of the listed company or of any other company in its Group.
- iv) Persons who are executive directors or senior managers of another company in which an executive director or senior manager of the Company is an external director.
- v) Persons who have, or have had during the last year, a significant business relationship with the Company or with any company in its Group, whether in their own name or as significant shareholder, director or senior manager of an entity which has or has had such a relationship.

Business relationships include supply or provision of goods or services, including financial services, and engagement as advisor or consultant.

- vi) Persons who are significant shareholders, executive directors, or senior managers of an entity that receives or has during the last three years received donations from the Company or from its Group.

The above paragraph does not include persons who are mere trustees of a foundation which receives donations.

- vii) Spouses, spousal equivalents or relatives to the second degree of kinship of an executive director or senior manager of the Company.
- viii) Persons who have not been proposed, whether for appointment or reelection, by the Appointments and Remuneration Committee.
- ix) Directors who have held their directorship for a continuous period of more than twelve (12) years.
- x) Persons who are, with respect to a significant shareholder or shareholder represented on the Board, in any of the cases indicated in paragraphs i), v) or vii) above. In the case of kinship under paragraph vii), the limitation shall apply not only with respect to the shareholder but also with respect to its nominee directors at the investee.

Nominee directors who cease to have such status as a result of the sale by the shareholder they represented of his holding may only be reelected as independent directors where the shareholder they represented until such time has sold all of his shares in the Company.

A director who owns a holding in the Company may be an independent director, provided that he meets all the conditions stipulated in this section c) and that his holding is not significant.

The aforementioned period of 12 years is understood to be finalized when, upon expiry, calculated from the date of the first appointment as an independent director by the Shareholders' General Meeting, the following Shareholders' General Meeting has been held.

3. Independent directors cannot hold directorships on more than two (2) boards of directors at other listed companies, unless expressly approved by the Board at the proposal of the Appointments and Remuneration Committee.
4. Every year, the independent directors must sign and deliver a statement on their independence in the form approved by the Board of Directors, at the proposal of the Appointments and Remuneration Committee. In any event, all directors must sign a yearly statement of absence of conflicts of interest and of legal or regulatory disqualifications and send it to the Company.

#### **Article 8. Quantitative composition**

1. The Board of Directors will be composed of the number of directors established by the Shareholders' General Meeting within the limits set in the Company's Bylaws.
2. The Board will propose to the Shareholders' General Meeting the optimal number, according to the Company's specific circumstances, to ensure its efficient functioning and participation of all members.

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

#### **Article 9. The chairman of the Board**

1. The chairman of the Board of Directors will be elected amongst the Board members, upon prior report from the Appointments and Remuneration Committee, and will be responsible for the management and efficient running of the Board of Directors. If the chairman's position falls to an executive director, his appointment will require the favorable vote of two thirds of the members of the Board of Directors.
2. In any event, the chairman or acting chairman is responsible for calling and chairing the meetings of the Board of Directors, for setting the meeting agenda and leading the discussions and deliberations —unless the chairman is subject to a conflict of interest, in which case the debate will be led by the lead independent director— as well as for exercising in the Company's organization the functions inherent to the office of Board chairman.

The chairman is likewise responsible for preparing and submitting to the Board of Directors a schedule of meeting dates and, if applicable, the matters to be addressed; participating, in coordination with the Appointments and Remuneration Committee and, if such exists, with the lead independent director, in the periodic evaluation of the Board of Directors and of the Company's chief executive; ensuring that sufficient time is dedicated to the discussion of strategic questions and, when the circumstances warrant, reviewing the refresher training programs for directors.

For such purpose, the chairman will ensure that directors receive sufficient prior information to deliberate on the points of the agenda and will encourage debate and active participation of directors during Board meetings, safeguarding their freedom to take a position and to express their opinions.

In the absence of the chairman of the Board and, where applicable, of the lead independent director, his functions will be performed by the longest-serving director and, if there are more than one, by the eldest director.

3. The chairman of the Board of Directors will have the casting vote in the event of a tie.
4. The above functions are without prejudice to any others conferred by law, the Bylaws and these Regulations.

#### **Article 10. The lead independent director**

1. Upon prior proposal by the Appointments and Remuneration Committee, the Board of Directors may appoint amongst the independent directors a lead independent director with the functions and responsibilities envisaged in these Regulations. This appointment is mandatory if the chairman of the Board of Directors is an executive director.

The essential responsibility of the lead independent director, which must be taken into account for carrying out the other functions described in these Regulations, is to organize the possible common positions of the non-executive directors and serve as spokesperson for those common positions vis-à-vis the chairman of the Board of Directors, the Board itself and the Board's Committees.

2. Pursuant to these Regulations, the lead independent director will have the following functions:
  - 2.1. With respect to the Board of Directors:
    - a) Request the chairman to call meetings of the Board of Directors.
    - b) Request the chairman to include new points on the agenda of a Board meeting that has already been called.
    - c) 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.
    - d) 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 chairman.
    - e) Take part in drawing up the annual schedule of Board of Directors meetings, in coordination with the chairman, the Board secretary and the Appointments and Remuneration Committee.
    - f) Participate in the Board's self-evaluation and, in particular, lead the periodic evaluation of the Board chairman, in coordination with the Appointments and Remuneration Committee.

- g) Give voice to the concerns of non-executive directors.
- h) Coordinate the preparation of the succession plan for the chairman and, if applicable, for the managing director.
- i) Carry out other responsibilities that the Board of Directors attributes expressly to him, where applicable.

#### 2.2 With respect to the independent directors:

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, with the possibility of requesting the presence of directors at such meetings.

#### 2.3 With respect to the shareholders:

- a) Be at the disposal of the shareholders for any queries or direct communication with them.
  - b) Maintain contacts with investors and shareholders to consider their positions and develop an opinion of their concerns regarding the Company's corporate governance, pursuant to general guidance given by the Appointments and Remuneration Committee or the Board of Directors, which shall be regularly informed.
3. The lead independent director will have a term of office of three years and may be reelected. He will be removed when he ceases to be a director or is no longer classified as an independent director, or when so resolved by the Board of Directors at the proposal of the Appointments and Remuneration Committee.

### **Article 11. The managing director**

1. The Board of Directors, upon prior report by the Appointments and Remuneration Committee, may appoint amongst its members one or more managing directors, who does not need to be the chairman of the Board of Directors, and delegate thereto the powers the Board deems appropriate, although with the necessary scope for the ordinary management and effective leadership of the Company's business lines and establishing, in all events, the content, limits and category of delegation. If powers are delegated on a permanent basis to several directors, the Board must specify which powers are to be exercised jointly and severally and which can only be exercised jointly but not severally, or, if applicable, whether all of the powers delegated may be exercised in one form or the other.
2. Without prejudice to the powers that correspond to the Board chairman, the managing director will be the Company's chief executive and responsible for the ordinary management and effective leadership of the Company's business lines, in all cases pursuant to the decisions and criteria approved by the Shareholders' General Meeting and the Board of Directors within the scope of their respective powers.

3. Specifically, and without prejudice to any other powers and competencies attributed to thereto, the managing director will have the following responsibilities:
  - a) The direction, coordination and promotion of the management of the organization and business areas of the Company and the Group.
  - b) Leading, fostering and guiding the execution and fulfillment of the Strategic Plan and of the budget of the Company and the Group.
  - c) Efficient implementation of the internal control and risk management system approved by the Board of Directors in the Company and the Group as well as the supervision of their proper functioning.
  - d) Regular reporting to the Board of Directors on the level of execution and fulfillment of the Strategic Plan and budget, the execution of the risk management system implemented and progress in managing the business areas of the Group to allow the Board to perform its general supervisory and control function adequately and effectively.

#### **Article 12. The secretary of the Board**

1. The secretary of the Board of Directors must be a lawyer but does not need to be a director of the Board.
2. Without prejudice to the other functions provided by law, in the Company's Bylaws and in these Regulations, the secretary shall assist the chairman in his tasks and shall work to ensure that the Board operates effectively, being responsible, in particular, for providing the directors with relevant advice and information duly in advance and in the appropriate form in order for them to perform their duties. The secretary will also be responsible for keeping the Company's corporate documentation, for recording Board meetings in the minutes' book and for certifying the content of the minutes and the resolutions approved by the Board.
3. The Secretary shall ensure that:
  - a) The actions taken by the Board of Directors comply with the letter and spirit of the laws and regulations and with the provisions issued by regulatory bodies;
  - b) The Board of Directors and its Committees comply with the Company's Bylaws, the Regulations of the Shareholders' General Meeting and of the Board of Directors and with the Company's other rules of corporate governance;
  - c) The Company's rules of corporate governance and the actions and resolutions of the Board of Directors are in line with the recommendations on good corporate governance that apply from time to time.
4. Proposals for appointment and removal of the secretary of the Board of Directors shall, prior to their submission to the Board, be the subject of a report by the Appointments and Remuneration Committee.

#### **Article 13. The vice secretary of the Board**

1. The Board of Directors may appoint a vice secretary, who need not be a director, to assist the secretary of the Board of Directors, to replace him in that function in the event of his absence, both on the Board of Directors and on its Committees. The vice secretary must be a lawyer.

Should both be absent, the functions of secretary will be discharged by the youngest director with legal training. .

2. Unless otherwise decided by the Board of Directors, the vice secretary may attend Board meetings to assist the secretary in drawing up the minutes of the meeting.
3. Proposals for appointment and removal of the vice secretary of the Board of Directors shall, prior to their submission to the Board, be subject to report by the Appointments and Remuneration Committee.

#### **Article 14. Committees on the Board of Directors**

1. Without prejudice to any powers delegated on an individual basis, the Board of Directors may appoint one or more managing directors and set up other specialized Committees to facilitate the Board's decision-making on certain matters. In accordance with the provisions of the Company's Bylaws and the legislation in force, the Board shall, in any event, set up an Audit Committee and an Appointments and Remuneration Committee, without prejudice to them being given a different name by the Board of Directors from time to time.

Additionally, the Board may also set up any other Committees it deems suitable, based on the corporate governance recommendations that apply from time to time, for optimal organization and functioning of the Company. The Board, at proposal of the chairman, will determine its composition, appoint the members of the Committees having regard to the knowledge, skills and experience of the directors, and establish the functions of each Committee. The rules on the composition and functioning of the Committees the Board of Directors decides to create, will be set out in these Regulations and be consistent with those that apply to the Committees that the Company is legally bound to set up.

The Appointments and Remuneration Committee will establish the terms of reference for the profile, experience and abilities that must be met by the members of the Board Committees.

2. The functioning of the Committees will be governed by the provisions of the Bylaws and these Regulations. The secretary of the Board and, in his absence, the vice secretary, will act as Committee secretary. Committees will meet following a call by their respective Chairmen. Committees will draw up an annual action plan of which they shall give an account to the Board of Directors and report on its progress from time to time. Where not specifically stipulated, the operating rules set forth in these Regulations in relation to the Board will apply to the Committees, provided that they are compatible with the nature and function of those Committees.
3. The documentation of the Committees' meetings will be made available to the rest of the directors after the meeting is held, unless their respective chairmen decide otherwise for duly justified reasons.

4. Minutes will be recorded of the resolutions approved in Committees' meetings, on the terms provided by the Board of Directors. A copy of the minutes will be immediately available to all Board members and the activities and work carried on by the Committees will be reported and reviewed at the first Board meeting thereafter.
5. The Committees' activities shall be reported to the annual Shareholders' General Meetings.

## **CHAPTER V - THE AUDIT COMMITTEE**

### **Article 15. Composition and functioning**

1. The Audit Committee will be composed of five members appointed amongst the non-executive directors, with a majority of independent directors.

The Committee chairman will be an independent director elected from among its members and the secretary of the Board of Directors will serve as the Committee secretary.

2. Committee members will be appointed, reelected and removed by the Board of Directors at the proposal of the chairman of the Board of Directors, following a report by the Report of the Appointments and Remuneration Committee. Appointment, especially as chairman, will be based on their knowledge and experience in accounting, auditing or risk management. As a whole, the Committee members will have the relevant technical expertise for the sector of activity in which the Company operates.

Committee members will hold office for a term not exceeding three years, may be reelected and will resign when they do so from their directorship or when the Board of Directors so decides, following a report by the Appointments and Remuneration Committee. The chairman will be replaced every three years and may be reelected after one year has elapsed since his removal.

3. The Committee will meet with the appropriate frequency for performing its duties and will attempt to do so before each ordinary meeting of the Board of Directors and, in all events, on a quarterly basis and when called by its chairman or requested by two of its members and whenever the Board of Directors or the chairman require it to issue reports or submit proposals.
4. The call notice for meetings, which will include the agenda, will be sent by the Committee chairman or secretary to each of its members at least three days prior to the scheduled meeting date, unless for reasons of urgency it is necessary to call it with a shorter period.

The call notice, with its associated documents, must be sent by electronic means that duly guarantee the security and confidentiality of the call notice and the documents.

5. There will be a quorum for a Committee meeting with the presence of a majority of its members. The Committee will approve decisions and make recommendations by absolute majority of the votes of the directors personally attending the meeting or by proxy.

6. For reasons of urgency and on an exceptional basis, Committee meetings may be held by conference call, video conference or any other remote communication means that allow a meeting to be held, provided that all of the Committee members agree thereto.
7. Attendance at the meetings will be mandatory for the members of the management team or employees of the Company or of Group companies who are responsible for the areas under the purview of the Audit Committee, and for the External Auditor, when so summoned by the Audit Committee, which may also stipulate that they attend unaccompanied by any other officer, and said persons will be bound to cooperate and provide the information in their possession in relation to the matters addressed.
8. For optimal performance of its functions, the Committee may seek advice from independent professionals and access any kind of the Company's information or documentation it may need for the performance of its functions.

#### **Article 16. Functions of the Audit Committee**

Without prejudice to the functions stipulated by law and in the Bylaws, the Committee will work to support the Board, carrying out supervisory functions relating to economic/financial processes and to the independence of the External Auditor, and functions relating to internal control of the Company. In the exercise of the authority provided for in Article 23.4 of the Bylaws, the following powers are conferred on the Audit Committee:

1. In relation to economic/financial information:
  - a) Approve the accounting principles and criteria to be used in the preparation of the financial statements of the Company and of its consolidated Group, and to check their correctness, reliability and sufficiency.
  - b) Supervise the preparation and presentation process and the integrity of the financial information of the Company and, if applicable, of the Group, and submit recommendations or proposals to the Board of Directors to safeguard that integrity, ensuring compliance with legal and regulatory requirements and the relevant international standards, the accurate demarcation of the consolidation perimeter and correct application of the applicable accounting principles and policies.
  - c) Review and inform the Board in advance of the economic/financial information which the Company is to make public and submit to the supervisory bodies of the market. 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 review by the External Auditor.
  - d) Ensure that the Board of Directors can present the annual financial statements to the Shareholders' General Meeting without limitations or qualifications in the auditor's report.
  - e) Supervise the Investment Plan, the annual budget and the schedule for the Economic Close of the year on an annual basis in order to submit them to the Board.

- f) Inform the Board of Directors in advance of investments and transactions of the Company or the Group which, due to their significant size or special characteristics according to the criteria established by the Board, are considered strategic or entail special tax risk.
- g) Inform the Board in advance of any significant borrowing by companies in the Red Eléctrica Group.
- h) Periodically monitor the Company's treasury stock transactions.

2. With respect to internal control and risk management systems:

- a) Supervise the Company's internal control procedures in relation to expenditure and investment, making, where necessary, the appropriate modifications.
- b) Supervise the internal audit services, which must ensure the correct functioning of the reporting and internal control systems and must address requests for information from the Audit Committee in the discharge of its duties. The internal audit unit will depend organizationally and hierarchically on the non-executive chairman of the Board and functionally on the Audit Committee.
- c) Monitor the independence and efficiency of the internal audit function; approve resolutions regarding the selection, appointment, reelection and removal of the head of the internal audit service, as well as the action plans for that service; approve and control the means and resources allocated to the internal audit service, including its budget; approve its priorities and work programs, reporting to the Board thereon, and ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management of the Company and of the Group companies is acting on the findings and recommendations of its reports.

The head of internal audit must propose the annual work program to the Committee, directly report any incidents arising during its execution and submit an activity report at the end of each year.

- d) Periodically supervise the efficacy of the internal control and risk management systems, so that the different types of risks are adequately identified, managed and make now, particularly the systems relating to the financial reporting process.

Evaluate all aspects of the Company's financial and non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

- e) Discuss with the External Auditors the significant weaknesses of the internal control systems detected during the audit, without compromising its independence.
- f) Periodically supervise the Insurance Corporate Program of the Company and its Group.
- g) Supervise the procedure established by the Code of Ethics to enable employees of the Group companies and other stakeholders to report any potentially significant

irregularities, in particular, financial and accounting ones, that have been detected in the Group companies.

Those in charge of internal control should inform the Board when irregularities or breaches arise which could cause a significant impact on or damage to the net worth, the results or to the image of the Company or of its Group.

- h) Submit recommendations or proposals to the Board of Directors in relation to the matters provided for in letters d) and e) above.

3. With regard to the External Auditors:

- a) Submit to the Board of Directors proposals for selection, appointment, reelection and removal of the External Auditors, making sure that the same audit firm is not used for all companies in the Group, taking responsibility for the selection process, in accordance with the relevant legislation, as well as for the terms and scope of its engagement, and its renewal or termination.
- b) Establish direct relations with the External Auditors, regularly requesting and receiving information from them on the audit plan, the development and execution of the plan, and on those issues that could jeopardize their independence, including the information regarding the External Auditor's statement that neither it, nor any of its partners, have been criminally convicted in a final ruling during criminal proceedings relating to the performance of its audit functions, for examination by the Committee, and any other matters relating to the pursuit of the audit process. To authorize, where the Committee deems appropriate, services of the External Auditors that are not prohibited, according to the terms of the legislation on auditing.
- c) In all events, an annual written statement must be received from the External Auditors declaring their independence from the Company or entities directly or indirectly related thereto, a declaration of the absence of criminal convictions referred to in the preceding paragraph, as well as more detailed individualised information on the additional services of any kind that have been provided and the fees received from those entities by the External Auditors, or by their related persons or entities according to the provisions of the regulations on auditing.
- d) Ensure that the Company formally reports any change of auditor to the Securities Market National Commission ("*Comisión Nacional del Mercado de Valores*"), accompanied by a statement regarding the existence or absence of disagreements with the outgoing auditor and, if applicable, the subject matter thereof.
- e) Ensure that the Company and the External Auditors, within the scope of their responsibilities, comply with the applicable rules and regulations and adopt the most recognized international standards on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other applicable rules to ensure the auditor's independence.
- f) Ensure that the External Auditors' remuneration does not compromise their quality or independence.
- g) Should the auditor resign, examine the circumstances that may have led to this resignation.

- h) Annually, prior to the issuance of the audit report, issue a report stating an opinion as to whether the independence of the External Auditors or audit companies has been compromised. This report must in any event contain a reasoned evaluation of the provision of each and one of the additional services referred to in subsection 3.c) that have been provided, taken individually and as a whole, other than the statutory audit, as regards the scheme of independence of the auditors and regulations governing the activity of auditing.
- i) Serve as a communication channel between the Board and the External Auditor, evaluate the results of each audit and check that senior management of the Company and of the Group companies has regard to its recommendations, mediating in the event of disputes between them in relation to the principles and criteria applicable to the preparation of the financial statements.
- j) Ensure that the External Auditors have at least an annual meeting with the Board of Directors in full to inform them of the work executed and developments in the company's risk and accounting situation.
- k) Supervise the performance of the audit contract, ensuring that the main contents of the audit report are worded clearly and precisely.
- l) Be aware of the significant situations detected by the External Auditor—in the same way as information from the internal control systems is received—which might have an adverse effect on the net worth, the results, or the image of the Group.
- m) Periodically request from the External Auditors, and at least once a year, an assessment of the quality of the Group's internal control procedures.
- n) Ask the competent court to revoke the External Auditors appointed by the Shareholders' General Meeting or by the Mercantile Registry and appoint others provided there is just cause.

4. In relation to compliance with legal provisions and internal rules:

- a) Supervise compliance with the Internal Code of Conduct on the Securities Market and the functions of the Monitoring Body provided for in same, reporting periodically and at least once a year to the Appointments and Remuneration Committee on the level of compliance with said Code and any incidents that may arise. To propose, if applicable, that appropriate measures should be adopted for their implementation and improvement. In this respect, the proposed modifications to the Code considered strictly necessary shall be submitted to the Appointments and Remuneration Committee in order to be brought before the Board of Directors.
- b) Resolve the queries and conflicts raised by those affected by the said Code that are submitted to it by the Monitoring Body in relation to compliance with the Internal Code of Conduct on the Securities Market.
- c) Review compliance with the actions and measures which are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.
- d) Supervise the Corporate Criminal Risk Prevention Program, and bring before the Board, through the Appointments and Remuneration Committee according to its

competences, the improvement proposals of the Program considered appropriate. Before submitting them to the Board, the Committee will also supervise the annual compliance report drafted by the Program's control and supervisory body.

- e) Supervise and regularly evaluate the functioning of the regulatory compliance system of the Group companies, bring before the Board the considered improvement proposals and supervise the annual regulatory compliance report.

5. In relation to the Company's shareholders:

- a) Know and, where relevant, provide responses to any initiatives, suggestions or complaints made by shareholders in relation to the scope of the functions of this Committee.
- b) Report to the Shareholders' General Meeting on questions posed in respect of matters within the competence of the Committee and, in particular, on the results of the external audit, explaining how it has contributed to the integrity of the financial information and the role played by the Committee in this process.
- c) Submit to the Board of Directors, through the Appointments and Remuneration Committee acting within its competences, the proposed resolutions and reports within its powers to be submitted to the Shareholders' General Meeting.
- d) In the exceptional event that the audit report on the annual accounts submitted to the Shareholders' General Meeting contains limitations or qualifications, give the shareholders and the auditors a clear explanation of the content and scope of those limitations or qualifications.

6. Other:

- a) Keep the Board of Directors duly informed of its activities and to draw up an annual report on activities to be included in the Annual Corporate Governance Report and approve an Action Plan and meeting timetable for each financial year.
- b) Report to the Board in advance on Company or Group transactions that involve the creation or acquisition of holdings in special-purpose vehicles or entities with registered office in countries or territories classed as tax havens, and any other transaction and operation which could be detrimental to the Group's transparency.
- c) Report to the Board prior to related-party transactions.
- d) Report to the Board of Directors on operations that involve structural and corporate modification that the Company is planning, in relation to their economic conditions and accounting impact and, especially, when applicable, the proposed exchange ratio.
- e) Propose and report on any other matters relating to the foregoing which may be requested by the chairman or by the Board of Directors or which by their nature fall within its powers.
- f) Any other power conferred on it by the Board.

## **CHAPTER VI - APPOINTMENTS AND REMUNERATION COMMITTEE**

### **Article 17. Composition and Functioning of the Appointments and Remuneration Committee**

1. The Appointments and Remuneration Committee will be composed of five members appointed amongst the non-executive directors, with a majority of independent directors.

The Committee chairman will be an independent director elected amongst its members and the secretary of the Board of Directors will act as its secretary.

2. Committee members will be appointed, reelected and removed by the Board of Directors at the proposal of the Chairman of the Board, following a report by the Appointments and Remuneration Committee, ensuring that they have the right balance of knowledge, skills and experience for the Committee's functions.

Committee members will hold office for a term not exceeding three years, may be reelected and will resign when they do so from their directorship or when the Board of Directors so decides, following a report by the Appointments and Remuneration Committee. The chairman will be replaced every three years and may be reelected after one year has elapsed since his dismissal.

3. The Committee must consider suggestions made to it by the chairman, the rest of the Board members, the managers of the Company and of the Group or the shareholders of the Company on matters which affect the appointment of directors, the appointment of managing or executive directors, or compliance with the Rules of Corporate Governance, the Bylaws and these Regulations.
4. The Committee will meet with sufficient frequency for performing its duties and, in all events, on a quarterly basis and when called by its chairman or requested by two of its members and whenever the Board of Directors or the chairman require it to issue reports or submit proposals.
5. The call notice for meetings, which will include the agenda, will be sent by the Committee chairman or secretary to each of its members at least three days prior to the date set for the meeting, unless for reasons of urgency it is necessary to call it with a shorter notice.

The call notice, with its associated documents, must be sent by electronic means that duly guarantee the security and confidentiality of the call notice and the documents.

6. The Committee may be constituted with the assistance of the majority of its members and will approve its decisions or make recommendations by absolute majority of the votes of the directors attending the meeting in person or by proxy.
7. For reasons of urgency and on an exceptional basis, Committee meetings may be held by conference call, video conference or any other remote communication means that allow a meeting to be held, provided that all of the Committee members agree thereto.
8. Attendance at the meetings will be mandatory for the members of the management team or employees of the Company or of Group companies who are responsible for the areas under the purview of the Appointments and Remuneration Committee, and said persons

shall cooperate and provide the information in their possession in relation to the matters addressed.

9. For optimal performance of its functions, the Committee may seek advice from independent professionals and access any kind of Company information or documentation it may need for the discharge of its functions.

### **Article 18. Functions of the Appointments and Remuneration Committee**

Under the authority granted in Article 24.2 of the Company Bylaws, the Appointments and Remuneration Committee will have the following basic responsibilities, without prejudice to the other functions that may be attributed thereto by law, the Bylaws or these Regulations:

1. In relation to appointments, performance of functions and removals:
  - a) Submit for the approval of the Board of Directors and implement, where applicable, the policy for appointing and evaluating candidates.
  - b) Make proposals to the Board of Directors of independent directors to be appointed by co-optation or, if applicable, for submission to decision by the Shareholders' General Meeting, and proposals for reelection or removal of those directors by the Shareholders' General Meeting.
  - c) Report on proposals for the appointment of the rest of the directors to be appointed by co-optation or for submission to decision by the Shareholders' General Meeting, as well as proposals for their reelection or removal by the Shareholders' General Meeting.
  - d) Report, prior to submission to the Board of Directors, on proposals for the appointment or removal of all the positions on the Board of Directors and on proposals for appointments of members of Board Committees.
  - e) Draft the independence statement form to be submitted to the Board which must be signed and delivered every year by the independent directors.
  - f) Verify each director's classification, for the purpose of the pertinent explanations from the Board of Directors at the Shareholders' General Meeting which must appoint or ratify their appointment, and ensure that it is duly disclosed in the Annual Corporate Governance Report.
  - g) Propose to the Board of Directors the appointment of the lead independent director.
  - h) Ensure that the candidates for vacancies on the Board meet all of the requirements of the applicable legal provisions and of these Regulations.

- i) Evaluate the necessary competences, knowledge and experience on the Board and, as a result, define the functions and skills required in the candidates who are to cover each vacancy, in accordance with the policy approved for such purpose.
  - j) Conduct a yearly verification on the compliance with the director selection policy approved, where such is the case, by the Board of Directors, and report thereon in the Annual Corporate Governance Report.
  - k) Evaluate the time and dedication necessary for directors to be able to duly discharge their duties, assessing, for such purposes, compatibility with membership on other management bodies of companies and ensuring that they have sufficient time available to perform their functions properly.
  - l) Report on the appointments—which must abide by the criteria of capacity, trust and, where possible, of internal promotion— and on the separation and basic terms of the contracts of senior managers who report directly to the Board, to the chairman or to the managing director.
  - m) Propose to the Board of Directors and keep up to date a Succession Plan for the chairman of the Board of Directors and the managing director of the Company, so that such succession is done in an orderly and well planned manner.
  - n) Ensure that gender diversity is taken into account when filling new vacancies, setting a target number for the less represented gender and drawing up guidelines for achieving that target.
2. In relation to compensation:
- a) to propose to the Board:
    - i) The directors' compensation policy to be brought before the Shareholders' General Meeting.
    - ii) The compensation policy for senior managers reporting directly to the Board, the chairman or the managing director.
    - iii) The annual compensation for executive directors, which will include fixed pay and a variable compensation component linked to the fulfillment of 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 tied to the actions envisaged in the Company's Strategic Plan.
    - iv) The individual compensation of executive directors and other terms of their contracts.
  - b) Consult the chairman of the Company, especially on matters relating to executive directors, and likewise the managing director, on matters involving senior managers of the Company and of Red Eléctrica de España, S.A.U.
  - c) Ensure that the compensation policies approved by the Board of Directors and by the Shareholders' General Meeting for executive directors and for senior managers are properly updated and complied with, and, in particular, periodically supervise compliance with the predetermined and quantifiable objectives aligned with the

Strategic Plan that must be assessed to determine the final amount of the yearly and, where applicable, multi-year variable compensation applicable to them.

- d) Submit to the Board a proposal of the Annual Report on Directors' Compensation, in accordance with Article 44 of these Regulations.
  - e) Draw up a specific report on a proposal for the compensation policy of the Board of Directors to be submitted to the Shareholders' General Meeting for approval.
  - f) Ensure that the proposal for the directors' compensation policy and the Annual Report on Directors' Compensation are aligned with the relevant international benchmarks.
  - g) Verify the information on directors' compensation contained in different corporate documents, including the Annual Report on Directors' Compensation.
3. In relation to the performance of directors' duties:
- a) Ensure that directors fulfill the obligations stipulated in these Regulations, report to the Board on their fulfillment, issue the relevant reports and proposals and, as the case may be, report on the measures to be taken in the event of non-fulfillment.
  - b) Report to the Board of Directors whenever the Board must resolve on authorization or waiver of the obligations deriving from the directors' duty of loyalty, in accordance with the applicable legislation.
4. In relation to the rules and actions on corporate governance:
- a) Supervise compliance with the Rules on Corporate Governance, submitting proposals for their improvement to the Board of Directors, receive information in this regard and, if appropriate, issue and submit annually to the Board a report on the measures to be taken. Promote the implementation of the principles and values of the Corporate Governance Policy in Group companies.
  - b) Submit to the Board of Directors the proposals of the Audit Committee, along with other proposed changes it deems appropriate, in relation to the modification of the Internal Code of Conduct on the Securities Market and the Regulations of the Board of Directors within the purview of the Audit Committee.
  - c) Submit the proposed Annual Corporate Governance Report to the Board of Directors.
  - d) Submit to the Board of Directors the proposed resolutions and reports within its powers, or those referred to it by the Audit Committee within its powers, for submission to the Shareholders' General Meeting.
  - e) Direct the process of evaluating the Board of Directors, its Committees, the Board chairman and the Company's managing director, in coordination with the chairman of the Board of Directors and with the lead independent director.
  - f) Periodically evaluate the corporate governance system and its adequacy for fulfilling its mission of promoting the corporate interest and of taking into account, where applicable, the legitimate interests of other stakeholders.

- g) Periodically review the Company's Corporate Criminal Risk Prevention Program and propose to the Board of Directors modifications and updates that contribute to its application and continuous improvement, having regard, where applicable, to the suggestions and proposals made by the Audit Committee and by the body responsible for controlling and supervising the Program, in coordination with the powers of the latter two bodies.
- h) Submit to the Board of Directors a Knowledge and Information Program Proposal for directors.
- i) Supervise the shareholder and investor communications and relationships strategy, including small and medium-sized shareholders.
- j) Submit to the Board of Directors a yearly report on gender diversity and equality policy in the Company, with guidelines for achieving the improvements targeted in those areas.
- k) Ensure that conflicts of interest do not undermine the independence of any external advice the Committee engages.

5. In relation to Corporate Responsibility and Sustainability:

- a) Propose, promote and review the Corporate Responsibility and Sustainability Policy of the Company and the Group, ensuring that it aims to value creation and identifies, at least:
  - The goals of the Policy and the support instruments to be deployed.
  - The corporate strategy with regard to sustainability, the environment and social issues.
  - Concrete practices in matters relative to shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
  - The methods or systems for monitoring the results of the practices referred to above, and identifying and managing the related risks.
  - The mechanisms for supervising non-financial risk, ethics and business conduct.
  - Channels for communication, participation and dialogue with other stakeholders.
  - Responsible communication practices that prevent the manipulation of information and protect the Company's honor and integrity.
- b) Report on, supervise and analyze the actions and proposals in the area of Corporate Responsibility and Sustainability by the competent organizational units and, where appropriate, submit the corresponding report to the Board of Directors.
- c) Monitor the Company's Corporate Responsibility and Sustainability strategies and practices and periodically assess the advances made, the results obtained and the level of compliance.
- d) Monitor and evaluate the Company's interaction with its stakeholders.

- e) Approve an annual report on the management of Corporate Responsibility and Sustainability for submission to the Board of Directors.
  - f) Approve an Annual Report on the Management of Ethics and Sustainability in the Company for submission to the Board of Directors.
  - g) Supervise the Corporate Responsibility and Sustainability reporting process, by means of a specific document in line with the international benchmarks, for submission to the Board.
6. Other functions:
- a) Keep the Board of Directors informed of its activities and draw up an annual report on activities which must be included in the Annual Corporate Governance Report, and approve an Action Plan and target timetable for each financial year.
  - b) Propose and report on any other matters relating to the foregoing which may be requested by the chairman or by the Board of Directors or which by their nature fall within its powers.
  - c) Any other responsibility attributed to it by the Board.
  - d) Consult with the chairman of the Board of Directors and with the managing director of the Company in the performance of their functions, especially on matters relating to executive directors and senior managers of the Company.
  - e) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

## **CHAPTER VII - FUNCTIONING OF THE BOARD**

### **Article 19. Meetings of the Board of Directors**

1. Ordinarily, the Board of Directors will meet on a monthly basis, and, in any event, eight times a year at least, in accordance with the calendar and, if applicable, the agendas set at the start of the year, to which each director will be entitled to propose the addition of initially unscheduled items. In addition, at the chairman's initiative, the Board will meet as often as it deems appropriate for the correct functioning of the Company.
2. Before the start of each financial year, the Board of Directors, at the proposal of its chairman, will approve an indicative annual calendar of meetings.
3. The Board will also meet whenever the lead independent director or three directors so request, in which case the request will state the matters to be discussed at the meeting, in accordance with the Bylaws and these Regulations.
4. Additionally, directors who make up at least one-third of the Board members and, in the preceding case, the three requesting directors or the lead independent director, may

convene meetings of the Board directly, stating the agenda of the meeting to be held in the location of the registered address if, after the request to the chairman, the latter, without justified causes, fails to call the meeting within one month.

5. Meetings will be called by letter, fax, telegram or e-mail, and the call notice will be authorized with the signature of the chairman or of the secretary or vice secretary by order of the chairman. The call will be issued at least three days in advance.

The call notice, with its associated documents, may be sent by electronic means that duly guarantee the security and confidentiality of the call notice and of the related documents.

The call notice must include the agenda of the meeting, clearly indicating the matters on which the Board must decide or resolve, and generally be accompanied, where possible, by the relevant information duly summarized and prepared. When deemed inadvisable in the reasonable opinion of the chairman, the information will not be enclosed and be instead made available to the directors at the corporate headquarters.

The lead independent director, in coordination with the other independent directors, may request the inclusion of items on the agenda, with proper justification and sufficiently in advance.

For reasons of urgency, the chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

6. On an exceptional basis, and for reasons of urgency, a Board meeting may be called by telephone and the advance notice period and all other requirements indicated in the previous point will not apply when, in the Chairman's opinion, the circumstances so justify.

The reasons of urgency will be explained in the minutes of the meeting.

7. The Board may meet without a call being necessary when all the directors are present and all of them agree to hold the meeting.

For reasons of urgency and on an exceptional basis, Board meetings may be held by conference call, video conference or any other remote communication means that enables it to be held, provided that all of the Board members present or represented agree to it.

8. Voting in writing without a meeting being held will only be allowed when no director objects to this procedure.
9. The matters debated and the resolutions adopted at the meetings will be recorded in minutes, which may be approved by the Board itself immediately after the meeting has been held, or at the beginning of the next ordinary meeting, and will be signed by the secretary of the Board or of the meeting, with the countersignature of whomever acted as chairman there. When directors or the secretary express concerns about some proposal or, in the case of directors, about the Company's performance, and such concerns are not resolved at the meeting, they will be recorded in the minutes at the request of the person expressing the concerns.

The minutes will be entered in a minute book and be signed by the secretary of the Board and countersigned by the chairman.

#### **Article 20. Conduct of meetings**

1. Except in cases in which other quora have been specifically stipulated, the Board will be validly convened when at least half plus one of its members are present or represented. If the number of directors is uneven, a quorum will be deemed to exist if the next whole number of directors immediately exceeding half attends the meeting.
2. The chairman will organize the debate seeking and promoting the participation of all the directors in the Board's deliberations, and will submit the matters to a vote when he considers them to have been sufficiently debated.
3. Each director, present or duly represented, will have one vote. Except in cases in which other voting majorities apply, resolutions will be adopted by an absolute majority of the directors attending the meeting in person or by proxy. In the event of a tie, the chairman will have the casting vote.
4. Directors must personally attend Board meetings. Directors who cannot attend a Board meeting must delegate their vote to another director, giving the latter precise voting instructions in accordance with Article 30 of these Regulations. Non-executive directors may only delegate their vote to another non-executive director, and executive directors will delegate their vote, insofar as possible, to another executive director.
5. Such persons as the Board itself considers appropriate or advisable may attend meetings of the Board of Directors as guests.
6. The annual information about each individual director's attendance at meetings of the Board and its Committees will be made available to the shareholders in the Annual Corporate Governance Report.

### **CHAPTER VIII - APPOINTMENT AND REMOVAL OF DIRECTORS**

#### **Article 21. Appointment of Directors**

1. Directors will be appointed by the Shareholders' General Meeting or, in the event of an early vacancy, by the Board of Directors by co-optation, in accordance with the provisions of the Corporate Enterprises Act, the Company's Bylaws and these Regulations.
2. Proposed appointments—including by co-optation—or reelection of directors will be made by the Appointments and Remuneration Committee, in the case of independent directors, and by the Board itself for the rest of the directors.

3. The proposal must in all cases be accompanied by a supporting report from the Board evaluating the competence, experience and merits of the proposed candidate. This report will be attached to the minutes of the Shareholders' General Meeting or of the Board meeting.
4. The proposal for the appointment or reelection of a non-independent director must furthermore be preceded by a report from the Appointments and Remuneration Committee.
5. The provisions of this article will likewise apply to the representatives of directors that are legal entities. The proposal of such representatives must be submitted to a report of the Appointments and Remuneration Committee.

#### **Article 22. Appointment of external directors**

The Board of Directors, within the scope of its powers, shall ensure that the nominees are persons of good standing, competence and experience who ensure the diversity of knowledge, experience and gender on the Board.

To appoint external directors, the Board of Directors must follow the candidate appointment and assessment policy approved by it and may use external advisors when it deems it necessary. This policy should be concrete and verifiable and ensure that the proposals for the appointment or reelection are based on a prior analysis of the needs of the Board of Directors.

The results of the prior analysis of the needs of the Board of Directors will be set forth in an explanatory report of the Appointments and Remuneration Committee, which will be published when the Shareholders' General Meeting to which the ratification, appointment or reelection of each director is submitted is called.

#### **Article 23. Term of office**

1. Directors will hold office for the period stipulated in the Company's Bylaws.
2. Directors appointed by co-optation will hold office until the date of the next Shareholders' General Meeting, which may ratify them or appoint other directors. Nevertheless, if a vacancy arises after the Shareholders' General Meeting is called and before it is held, the Board of Directors may appoint a director to exercise that office until the next Shareholders' General Meeting is held.
3. Any Director who completes his term of office or for any other reason ceases to hold office shall not render services at another entity which performs activities that could give rise to a conflict of interest with that of the Company, for a period of two years.

## **Article 24. Removal of directors**

1. Directors will leave office at the end of the term for which they were appointed or when so decided by the Shareholders' General Meeting under the powers conferred on it by law or in the Bylaws.

The Board of Directors shall not propose the removal of independent directors before the end of the term stipulated in the Bylaws for which they were appointed, other than with just cause that is to be considered in the prior report issued by the Appointments and Remuneration Committee. In particular, just cause will be deemed to exist when the director acquires new offices or new obligations that do not allow him to dedicate the time needed to perform the duties of director, when is in breach of the duties inherent to the directorship or when the director becomes subject to any of the situations described in Article 7.2 c) and therefore no longer qualifies as an independent director. The removal of independent directors may also be proposed as the result of public tender offers, mergers or similar corporate transactions which imply a change in the Company's capital structure, where such changes in the structure of the Board are fostered by the criterion of proportionality referred to in Article 7.1.c) of these Regulations.

2. Directors must render their post to the Board of Directors' discretion and, if the latter considers it appropriate, submit their resignation in the following cases:
  - a) They reach the age of 70 years.
  - b) They are subject to any of the statutory grounds for incompatibility or prohibition.
  - c) They are convicted of an offense or sanctioned in disciplinary proceedings for a serious or very serious infringement investigated by supervisory authorities of the securities, energy or telecommunications markets.
  - d) They have committed a serious breach of their obligations as directors.
  - e) They leave the executive offices with which their directorship was associated.
  - f) Their continuation on the Board jeopardizes the Company's interests and the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a court order is issued to bring a director to trial for a criminal offence defined in the corporate legislation, the Board will examine the case as soon as possible and, in the light of the specific circumstances, will decide pursuant to the preceding paragraph whether or not it is appropriate for the director to remain in office. All of the foregoing will be explained and disclosed in the Annual Corporate Governance Report.

- g) In the case of a nominee director, when the shareholder whose interests the director represents on the Board disposes of the whole of his shareholding in the Company or reduces it to a level that requires reducing the number of nominee directors to which the shareholder is entitled.
- h) At the request of the Board of Directors by a majority of two-thirds of its members, when directors repeatedly fail to attend the Board meetings.
- i) When a circumstance arises that prevents or significantly hinders them from taking part in and devoting themselves to the Board meetings and discharging their duties and responsibilities as directors.

3. Committee members will leave their Committee when they cease to be directors.
4. Where a director leaves office before the end of his term, whether by resignation or for other reasons, he will explain his reasons in a letter addressed to all Board members, and, without prejudice to said resignation being publicized to the market in accordance with the applicable laws, it will be included in the Annual Corporate Governance Report.

#### **Article 25. Objectivity and secrecy of votes**

All votes of the Board of Directors concerning the appointment, reelection or removal of directors will be secret, if so requested by the majority of those attending, without prejudice to the right of all directors to have their opposition to the adopted resolution minuted.

### **CHAPTER IX – DIRECTORS’ INFORMATION**

#### **Article 26. Orientation and update**

The Company will have an information program that provides new directors with quick and sufficient knowledge of the Company, as well as of its rules of corporate governance, and will also offer directors programs for updating their knowledge when circumstances so require.

Internal information programs may be established periodically on national and international trends in Corporate Governance.

In addition, directors will be regularly informed of significant movements in share ownership and of the views of major shareholders, investors and rating agencies on the Company and its Group.

#### **Article 27. Information and inspection powers**

1. Directors have the broadest powers to obtain information concerning any aspect of the Company, to examine its books, records, documents and all other background information on corporate transactions and to inspect all of its premises. The power to obtain information extends to subsidiaries, whether national or foreign.
2. The Company is obliged to inform the Board of Directors, through the appropriate channels, of judicial matters of significant importance or nature.
3. In order not to disrupt the ordinary management of the Company, exercise of the powers to obtain information will be channeled through the chairman of the Board of Directors and or the managing director, who will attend to the directors’ requests, supplying information to them directly, offering them suitable interlocutors at the appropriate level of the organization or arranging the measures so that they may carry out the desired examinations and inspections on site.
4. The chairman may on an exceptional basis temporarily restrict access to certain information, reporting this decision to the Board of Directors at its next meeting.

### **Article 28. Assistance of experts**

1. In order to obtain assistance in the discharge of their functions, directors may request the Board of Directors to engage, at the Company's expense, legal, accounting or financial advisers or other experts.

The engagement must necessarily relate to specific issues of certain importance and complexity which arise during the discharge of the duties of directors.

2. The request to engage experts will be submitted to the chairman of the Company and may be rejected by the Board of Directors if it is demonstrated:
  - a) that it is not necessary for the proper discharge of the functions entrusted to the directors;
  - b) that its cost is not reasonable having regard to the importance of the problem and the Company's assets and revenues; or
  - c) that the technical assistance which is sought may be adequately provided by the Company's experts or technicians or has been entrusted to other external experts.

## **CHAPTER X - COMPENSATION OF THE BOARD OF DIRECTORS**

### **Article 29. Directors' compensation**

1. Directors will be entitled to obtain the compensation as is set by the Shareholders' General Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and of these Regulations.
2. In the exercise of its powers, the Board will ensure that the directors' compensation policy is reasonably proportionate to the importance of the Company, its economic situation from time to time and the market standards for comparable businesses, is geared to value creation and the Company's long-term sustainability and includes the necessary safeguards to avoid excessive risk-taking or rewarding poor performance.
3. The directors' compensation policy will be aligned insofar as relevant with the remuneration system envisaged in the Bylaws and approved by the Shareholders' General Meeting every three years as a separate point on the agenda, and will address at least the following matters:
  - a) The amount of the fixed compensation components, itemizing any fees for attending Board and Committee meetings, with an estimate of the annual fixed compensation to which they give rise.
  - b) The variable compensation components, which will only apply to executive directors, specifically including:

- i) An explanation of the relative importance of variable compensation items with respect to fixed compensation items.
- ii) Criteria for evaluating results or objectives on which any right to compensation is based, which shall be predetermined and quantifiable and aligned with the Strategic Plan, and be set by the Board before the start of each year, at the proposal of the Appointments and Remuneration Committee.
- iii) Fundamental parameters and basis for any system of annual bonuses or other benefits not paid in cash.
- iv) Possibility that part or all of the variable compensation for directors be composed of a package of Company shares.
- v) An estimate of the absolute amount of the variable compensation arising from the proposed compensation plan, depending on the degree of fulfillment of the assumptions or the objectives charted.

This shall also include the limits and technical safeguards required to ensure that such variable compensation reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector or circumstances of that kind. In particular, it will be ensured that directors' variable compensation components:

- Are subject to predetermined and measurable performance criteria and which factor the risk assumed to obtain a given outcome.
  - Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the Company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
  - Be focused on achieving a balance between the delivery of short, medium and long-term objectives, which allow the remuneration for an ongoing performance during a term long enough so as to appreciate its contribution to long-term value creation, so that the measurement element is not based solely on one-off, occasional or extraordinary events.
- c) Main characteristics of the savings or pension systems, with an estimate of their amount or equivalent annual cost.
  - d) Conditions that must be respected by contracts of those discharging senior management functions such as executive directors or managing directors, including the amount of the yearly fixed pay and its variation during the period referred to by the policy, the different parameters for setting the variable components and the main terms and conditions of their contracts, including, in particular, their duration, advance notice periods and any other clauses relating to signing bonuses, indemnities for early termination or termination of the contractual relationship between the Company and the executive director, as well as any covenants on exclusivity, post-contract non-competition, permanence and loyalty rewards.
  - e) Profit sharing.

4. Variable remuneration linked to the Company's and the director's performance, as well as the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership in long-term savings schemes such as pension plans should be confined to executive directors. Nevertheless, the Company may consider share-based remuneration for non-executive directors provided they retain such shares until the end of their mandate, except for shares that the director must dispose of to defray costs related to their acquisition.
5. Remuneration linked to Company earnings should bear in mind any eventual qualifications stated in the external auditor's report which may reduce their amount.
6. Likewise, directors' compensation will be set taking into account the criteria and parameters regarding the administration and management of the risks of the Company and its Group and environmental, social and good corporate governance (ESG) aspects.
7. The Board compensation policy will be approved after conducting comparative analyses of compensation policies applied in similar or comparable national or international companies.
8. The Board compensation policy may provide that:
  - i) Contractual arrangements with directors include "claw-back" clauses whereby the Company can reclaim variable compensation components when it is demonstrated that the predetermined and quantifiable objectives aligned with the Strategic Plan have not been met or that those components accrued or were paid on the basis of data subsequently found to be misstated.
  - ii) Payment of a major part of the variable compensation components to be deferred or accrued over a period long enough to ensure that predetermined performance criteria have actually been met.
  - iii) Termination payments should not exceed a fixed amount equivalent to two years of the total annual remuneration and, if considered appropriate, that such payments should not be paid until the Company confirms that the director has met the predetermined performance criteria.
  - iv) A major part of executive directors' variable remuneration components to be linked to the delivery of shares or financial instruments whose value is linked to the share price.
9. Directors' compensation shall be transparent. Toward this end, the Appointments and Remuneration Committee will submit for approval by the Board of Directors the proposed Annual Report on Directors' Compensation, in accordance with Article 44 of these Regulations.

## **CHAPTER XI - DIRECTORS' DUTIES**

### **Article 30. General duty of diligence**

1. Pursuant to Articles 5 and 6 of these Regulations, the director's function is to guide and oversee the Company's management in order to achieve its interests.

2. Directors must perform the functions of their office and discharge their legally mandated duties with the diligence of a responsible entrepreneur, taking into account the nature of the directorship and the functions attributed to each of them, and being obliged, specifically, to:

- a) Make enquiries and adequately prepare the meetings of the Board and of the Committees to which the director belongs. For this purpose, directors have the duty to demand and the right to receive from the Company the appropriate information that is necessary for performing their obligations.
- b) Commit enough time and take all measures necessary for the Company's efficient management and supervision and, in particular, allocate sufficient time to discharge their responsibilities effectively and to gain a solid grasp of the Company's business and governance rules to which it is subject, taking part for this purpose in the refresher courses organized by the Company under Article 26 of these Regulations.
- c) Personally attend meetings of the Board and of Committees to which the director belongs and actively participate in deliberations so that his views contribute effectively to decision-making.

When due to justified cause a director cannot attend a meeting to which he has been called, he shall instruct the director that will represent him in accordance with Article 20 of these Regulations. Non-executive directors may only delegate their powers to another non-executive director, and executive directors will delegate their vote, insofar as possible, to another executive director.

Absences will be quantified in the Annual Corporate Governance Report.

- d) Perform any specific task entrusted to him by the Board of Directors and reasonably included within his dedication commitment.
- e) Promote the investigation of any irregularity in the management of the Company and/or any of the Group companies of which he may become aware and the monitoring of any situation of risk.
- f) Request the persons with capacity to call meetings to call an extraordinary meeting of the Board or of a Committee or to include such items as he deems appropriate on the agenda of the next meeting to be held.
- g) Have and obtain the information necessary for the effective discharge of his functions, and regularly follow the issues raised by Company management, it being his responsibility to identify and request that information from the secretary of the Board.
- h) Oppose resolutions that are contrary to the law, to the Bylaws or to the corporate interest, clearly stating that opposition. In particular, independent directors and those not subject to a potential conflict of interest must oppose resolutions which could be detrimental to shareholders not represented on the Board. This obligation also extends to the secretary of the Board, even where he is not a director. When the Board makes material or reiterated decisions about which a director has expressed serious reservations, then he must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in accordance with Article 24.4 of these Regulations.

### **Article 31. Duty of loyalty**

Directors will carry out their duties with the loyalty of a faithful representative, acting in good faith and in the Company's best interest, and will comply with the duties imposed by law, the Bylaws and these Regulations.

In particular, under their duty of loyalty directors must:

- a) Not exercise their powers for purposes other than those for which they were granted.
- b) Keep secret the information, data, reports and background to which they have had access in the performance of their office, including after they no longer hold the directorship, except in those cases permitted or required by law.
- c) Abstain from participating in deliberations and voting on resolutions or decisions in which a director or a related person thereof has a direct or indirect conflict of interest. This obligation to abstain does not apply to resolutions or decisions that affect directors in their capacity as director, such as appointment to or revocation of offices on the Board of Directors or others of similar significance.
- d) Perform their functions according to the principle of personal liability with freedom of judgment and independence with respect to instructions from and ties with third parties.
- e) Adopt the necessary measures to avoid situations in which their interests, whether for their own account or for that of another, can come into conflict with the corporate interests and their duties to the Company.

### **Article 32. Duty to avoid situations of conflict of interest**

1. In particular, the duty to avoid situations of conflict of interest referred to in paragraph e) of the preceding article requires a director to abstain from:
  - a) Engaging in transactions with the Company, except for ordinary operations conducted according to the standard conditions for customers and of little importance, understood to mean those transactions whose information is not necessary for reflecting a true and fair view of the net assets, financial position and results of the entity.
  - b) Using the Company's name or invoking their status as Company directors to unduly influence in the execution of private transactions.
  - c) Making use of the corporate assets, including the Company's confidential information, for private purposes.
  - d) Hijacking the Company's business opportunities.
  - e) Obtaining advantages or remuneration from third parties outside the Company and its group related to the performance of their functions, except for acts of common courtesy.
  - f) Engaging in activities on the director's own behalf or on behalf of others that involve effective competition, whether actual or potential, with the Company or that in any other way place the director in permanent conflict with the interests of the Company.

2. The above provisions will also apply when the beneficiary of the prohibited acts or activities is a related person of a director, within the meaning given in the laws and regulations that apply from time to time.
3. In all events, directors must disclose to the Board of Directors any situation of direct or indirect conflict that they or their related persons may have with the interests of the Company.

Situations of conflict of interest that involve directors shall be disclosed in the notes to the annual financial statements.

### **Article 33. Rules on mandatory obligations and waivers**

1. The Company may waive the prohibitions contained in the preceding article on a one-off basis, authorizing a director or related person to execute a specific transaction with the Company, use certain corporate assets, pursue a specific business opportunity, obtain some advantage or remuneration from a third party.
2. That authorization must necessarily be approved at the Shareholders' General Meeting if it involves waiver of a prohibition on obtaining advantages or remuneration from third parties, or affects a transaction with value of more than ten percent of the corporate assets.
3. In all other cases, the authorization may also be granted by the Board of Directors, provided there are assurances that the Board members who grant it are independent of the director who benefits from the waiver. Assurances will also be required that the authorized transaction is innocuous for the Company's net assets and, if applicable, that it is arm's length and transparent.
4. The obligation not to compete with the Company may only be waived in cases in which no harm to the Company can be expected or such harm as could be expected will be compensated by the benefits the waiver is expected to produce. The waiver must be granted expressly in a separate resolution of the Shareholders' General Meeting. In any event, at the initiative of any shareholder, the Shareholders' General Meeting may resolve on the removal of a director who carries on competing activities where the risk of harm to the Company has become significant.

### **Article 34. Non-public information**

Directors must likewise refrain from executing or suggesting to any person the execution of a transaction with securities of the Company or of its subsidiaries, associated or related companies in relation to which they have, by virtue of their office, inside or confidential information, until it becomes publicly known.

The foregoing is without prejudice to the rules in force in each case in the Internal Code of Conduct on the Securities Markets.

### **Article 35. Directors' duty of disclosure**

1. A director must disclose to the Company any holding he has in its capital, as well as stock options or derivatives linked to the share price, whether this holding is direct or through companies in which he has a significant holding. This disclosure will also include any subsequent modifications to the shareholding or related rights, independent of compliance with securities market regulations.
2. A director must also inform the Company of his other professional obligations, in case they could interfere with the dedication required by his post, and, in particular, of all posts he holds and all activities he carries on at other companies or entities with business that is the same as, similar or complementary to that of the Company and/or any of the Group companies, or which competes with it to any extent, and of any holdings in their capital and, in general, of any other event or situation which may be relevant to his conduct or independence of judgment as Company director.
3. A director must notify the Company of significant changes in his situation that affect the basis on or status for which he was appointed as director, or those which may involve a conflict of interests.
4. A director must inform the Company of all judicial, administrative or any other kind of claims which, due to their importance, could seriously affect the Company's reputation and, in particular, of any criminal cases in which he appears as investigated party, as well as of subsequent procedural vicissitudes.

#### **Article 36. Transactions with significant shareholders**

The Board of Directors formally reserves the competence to approve, upon prior report from the Audit Committee, any material transaction by the Company with a significant shareholder, including the shareholders represented on the Board of the Company or of other Group companies or with their related persons, except those which by reason of their nature and conditions fall within the competences of the Shareholders' General Meeting, according to Article 5.5.c) of these Regulations.

#### **Article 37. Principle of transparency**

The Board of Directors shall include in its annual public information a summary of the transactions performed by the Company with its directors and significant shareholders that must be disclosed to securities markets. The subject matter of the information will be the overall volume of transactions and the nature of the most significant ones.

#### **Article 38. Breach**

In the event that directors are in gross or repeated breach of the provisions of Chapter XI of these Regulations and/or the Internal Code of Conduct on the Securities Market, the Appointments and Remuneration Committee, at its own initiative or at that of the Board of Directors, will gather the necessary information and make a proposal for action and submit it to the Board of Directors.

## **CHAPTER XII - RELATIONSHIPS OF THE BOARD**

### **Article 39. Relationships with shareholders and corporate website**

1. The Board of Directors will set up the appropriate channels to hear any proposals made by shareholders in relation to the Company's management in accordance with the Regulations of the Shareholders' General Meeting.
2. The Board may organize, with the cooperation of such members of senior management as it deems appropriate, informational meetings on the progress of the Company and of its Group for shareholders who reside in the most important financial centers in Spain and in other countries.
3. The Board of Directors will encourage the informed participation of shareholders at Shareholders' General Meetings and take such measures as are appropriate to facilitate the effective discharge by the Shareholders' General Meeting of its functions in accordance with the law, the Company's Bylaws and the Regulations of the Shareholders' General Meeting. In this regard, and without prejudice to the other reports and proposals that by law must be made available to shareholders, the Company will post on the corporate website, sufficiently in advance of the Shareholders' Annual General Meeting, the report on the independence of the External Auditor, the reports on the activities of the Audit Committee and the Appointments and Remuneration Committees, the Audit Committee report on related-party transactions and the report on the Company's Corporate Responsibility Policy.
4. The Board shall ensure the suitable and updated dissemination on the website of all legally required information and of all information which it deems to be significant or of interest to the Company or its shareholders, in order to enhance the transparency of the information given to shareholders. In particular, the Company will make public on its website the policy for communication and contacts with shareholders, institutional investors and proxy advisors, with details on how it has been put into practice and identifying the relevant interlocutors or those charged with its implementation.
5. The Company will likewise make public through its website, and keep up to date, at least the following information on its directors:
  - a) Professional experience and background.
  - b) Directorships held in other companies, listed or otherwise, and, if deemed appropriate in view of the circumstances of each case, on the other remunerated activities of any kind that they perform.
  - c) An indication of the director's category; in the case of nominee directors, stating the shareholder they represent or have links with.
  - d) Date of their first appointment as Board member in the Company and subsequent reelections.
  - e) Shares held in the Company and any options on the same.
6. The Board of Directors shall not make proposals to the Shareholders' General Meeting for the delegation of powers to issue shares or convertible securities without pre-emptive

subscription rights for an amount exceeding 20% of capital at the time of such delegation. When the Board of Directors approves the issuance of shares or convertible securities without pre-emptive subscription rights, the Company must immediately post on its website the reports envisaged in company legislation explaining the exclusion of the pre-emptive subscription rights.

#### **Article 40. Relationships with institutional shareholders**

1. The Board of Directors will also establish suitable mechanisms for the regular exchange of information with institutional investors that form part of the Company's shareholder base.
2. Communications and contacts between the Board of Directors and institutional shareholders will comply in full with market abuse regulations and must not lead to the latter receiving any information that might place them in a privileged situation or at an advantage over other shareholders.

#### **Article 41. Relationships with the markets**

1. The Board of Directors will ensure prompt compliance with the rules on significant information, in accordance with the applicable legal provisions and the Company's Internal Code of Conduct on the Securities Market.
2. The Board of Directors will adopt the necessary measures to ensure that the quarterly, half-yearly, annual and any other financial information which good judgment requires be released to the markets, is drawn up in accordance with the same principles, methods and professional practices as the financial statements, and that it is as reliable as the latter. For such purpose, the aforementioned information will be reviewed by the Audit Committee.

#### **Article 42. Relationships with auditors**

1. The relationship of the Board with the External Auditors of the Company and, if applicable, of the Group companies, will be channeled through the Audit Committee.
2. The Board of Directors must refrain from engaging audit firms where the projected fees payable to them, for all items, exceed ten percent of the firm's total revenue for the last financial year.
3. Each year the Board of Directors will publicly disclose the overall fees the Company has paid to the External Auditor for services other than audit services, trying to minimize as far as possible the engagement of such services.
4. The Board of Directors will definitively present the financial statements, upon their prior review by the Audit Committee pursuant to its functions under these Regulations, striving

to ensure that they give rise to no qualifications from the auditor. However, when the Board considers that it must maintain its criterion, it shall publicly explain the content and scope of the discrepancy.

5. The External Auditor of the Company and, if applicable, of the Group shall offer its resignation to the Board of Directors and, if the Board sees fit, formally resign as such if the audit firm or any of its partners are convicted in a final court judgment in relation to their performance of audit functions for the Company or for third parties.

### **Article 43. Annual Corporate Governance Report**

1. The Board will publish an Annual Corporate Governance Report and communicate it to the market and to the Securities Market National Commission in accordance with the legislation in force, with the structure and content stipulated in the applicable laws and regulations.

This Report may include as much information as is deemed fit, in line with the main international requirements on Corporate Governance.

2. The Company's Annual Corporate Governance Report shall have the following minimum content:
  - a) Ownership structure of the Company, with information on: i) shareholders with significant shareholdings, indicating the percentage interest and any existing family, commercial, contractual or corporate relations, as well as their representation on the Board; ii) the shareholdings of the members of the Board of Directors that must be reported to the Company; (iii) the existence of shareholders' agreements reported to the Company and to the Securities Market National Commission, and, if applicable, deposited at the Mercantile Registry; (iv) securities not traded in a regulated market in the EU, with an indication, where applicable, of the different classes of shares and, for each share class, the rights and obligations they carry, as well as the percentage of capital represented by the Company's treasury stock and any significant variations therein; and v) the regulations applicable to the amendment of the Company's Bylaws.
  - b) Any restrictions on the transferability of securities and on voting rights.
  - c) Administrative structure of the Company, with information on: i) the composition, rules of organization and functioning of the Board of Directors and its Committees; (ii) the identity and compensation of its members, functions and offices in the Company, their relationships with shareholders with significant shareholdings, indicating the existence of interlocked or related directors and the procedures for selection, removal or reelection; iii) the powers of the Board of Directors members, in particular, those regarding the possibility of issuing or repurchasing shares; iv) the significant agreements to which the Company is party and which enter into force, are amended or concluded in the case of change of control of the Company as a result of a takeover bid, and their effects, except when their disclosure would seriously harm the Company (this exception will not apply when the Company is legally required to make this information public); v) agreements between the Company and its directors, officers or employees that provide for indemnities when they resign or are dismissed improperly or if the employment relationship ends due to a takeover bid; and vi) measures adopted, where such is the case, to ensure the Board of Directors includes a number of women that allows a balanced presence of women and men on the Board, as well

- as such measures as may have been approved in this respect in the Appointments and Remuneration Committee.
- d) Related-party transactions between the Company at/or the Group companies and their shareholders, directors and senior managers, and intra-group transactions;
  - e) Risk control systems, including for tax risks.
  - f) Functioning of the Shareholders' General Meeting, with information regarding the conduct of the meetings held.
  - g) Degree of compliance with the recommendations on good corporate governance, or, if applicable, an explanation of the failure to comply with such recommendations.
  - h) A description of the main features of the internal risk control and management systems in relation to the financial reporting process.
3. If nominee directors have been appointed at the request of shareholders controlling less than 3% of capital, the reasons for the appointment shall be disclosed in the Annual Corporate Governance Report, upon prior verification by the Appointments and Remuneration Committee. An explanation shall also be given on any rejection to a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a nominee directorship.
  4. During the Shareholders' Annual General Meeting the chairman of the Board of Directors shall verbally inform shareholders in sufficient detail of the most relevant aspects of the Company's Corporate Governance, supplementing the information circulated in the Annual Corporate Governance Report. In particular:
    - a) Changes taking place since the previous Shareholders' Annual General Meeting.
    - b) The specific reasons for the Company not following a given recommendation of the Good Governance Code of Listed Companies, and any alternative procedures followed in its stead.

#### **Article 44. Annual Report on Directors' Compensation**

1. Together with the Annual Corporate Governance Report, the Board will approve and publish, at the proposal of the Appointments and Remuneration Committee, an Annual Report on Directors' Compensation, including the compensation that they receive or should receive for their directorships and, if applicable, for the performance of executive functions. The report shall include, at least, full, clear and comprehensible information on the directors' compensation policy applicable in the current year. It also will include an overall summary of how the remuneration policy was applied during the year closed, as well as details of the individual remuneration earned in respect of all items by each of the directors during that financial year.
2. The Annual Report on Directors' Compensation will be drafted taking into account the main requirements in accordance with international standards.
3. The minimum content of the Annual Report on Directors' Compensation will include the necessary information about the indemnities paid, where applicable, to executive directors,

and on golden parachute or indemnity clauses applied to the contracts in force signed with the executive directors of the Company in the event of early rescission or termination of those contracts.

4. The Annual Report on Directors' Compensation will be disseminated and put to a consultative vote as a separate item on the agenda at the Shareholders' Annual General Meeting. Notwithstanding the above, the Company may voluntarily submit it to the approval of the Shareholders' Annual General Meeting in line with international best practices on corporate governance.
5. The Annual Report on Directors' Compensation will be released by the Company in accordance with the applicable law simultaneously to the released of the Annual Corporate Governance Report.