

## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED PUBLIC LIMITED COMPANIES

#### PARTICULARS OF ISSUER

**ENDING DATE OF REFERENCE PERIOD**

31/12/2017

**C.I.F.**

A-78003662

**CORPORATE NAME**

RED ELECTRICA CORPORACION, S.A.

**REGISTERED OFFICE**

PASEO DEL CONDE DE LOS GAITANES, 177, (LA MORALEJA-ALCOBENDAS) MADRID

## ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED PUBLIC LIMITED COMPANIES

### A OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of shares	Number of voting rights
11/07/2016	270,540,000.00	541,080,000	541,080,000

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

Yes  No

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

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	0	16,679,918	3.08%
FIDELITY INTERNACIONAL LIMITED	0	5,514,544	1.02%
SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)	108,216,000	0	20.00%
LAZARD ASSET MANAGEMENT	0	27,479,816	5.08%
BLACKROCK INC	0	16,447,433	3.04%

Name of indirect holder of the shares	Through: Name of direct holder of the shares	Number of voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	CAPITAL RESEARCH AND MANAGEMENT COMPANY	16,679,918
FIDELITY INTERNACIONAL LIMITED	FIDELITY INTERNACIONAL LIMITED	5,514,544
LAZARD ASSET MANAGEMENT	LAZARD ASSET MANAGEMENT	27,479,816
BLACKROCK INC	BLACKROCK INC	16,447,433

Indicate the most significant movements in the shareholder structure that took place during the financial year:

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

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MR. JOSÉ FOLGADO BLANCO	4,796	0	0.00%
MR. ANTONIO GÓMEZ CIRIA	0	0	0.00%
MR. SANTIAGO LANZUELA MARINA	16	0	0.00%
MR. JUAN FRANCISCO LASALA BERNAD	5,965	0	0.00%
MS. MARÍA JOSÉ GARCÍA BEATO	20	0	0.00%
MS. SOCORRO FERNÁNDEZ LARREA	0	0	0.00%
MR. JOSÉ LUIS FEITO HIGUERUELA	0	0	0.00%
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0.00%
MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	0	0	0.00%

Name of director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. MERCEDES REAL RODRIGÁLVAREZ	0	0	0.00%
MR. ALBERTO FRANCISCO CARBAJO JOSA	2,452	0	0.00%

% of total voting rights controlled by board of directors	0.00%
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Complete the following tables on members of the company's board of directors who hold rights over company stock:

- A.4 Give details, if so, of any relationships of a family, commercial, contractual or corporate nature, known to the company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the ordinary course of business:
- A.5 Give details, if so, of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and the company and/or its group, unless the relationships are negligible or arise in the ordinary course of business:
- A.6 State whether shareholder agreements affecting the company have been notified to it as provided in articles 530 and 531 of the Spanish Companies Act. If so, briefly describe them and list the shareholders bound by the agreement:

Yes  No

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

Yes  No

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

At the closing date of the 2017 financial year, there is no record in the company of any shareholder agreements or covenants requiring concerted exercise of their voting rights, or of a common policy in company management, with the aim of significantly influencing the company.

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

Yes  No

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

**At year end:**

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
1,613,693	0	0.29%

**(\*) Held through:**

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

## A.9 State the conditions and term given by the shareholders meeting to the board of directors to issue, repurchase or transfer treasury shares.

The Spanish Companies Act strengthened the legal scheme applicable to treasury shares of companies as established in Act 3/2009 of 3 April 2009 on Structural Modifications of Commercial Companies, since then there have been no relevant changes in that scheme. At the Annual General Meeting of Shareholders held on 15 April 2015, authorisation relative to delivery of treasury shares of the Company, as remuneration, to employees thereof and of the Red Eléctrica Group, for a term of 5 years from the date of the aforesaid General Meeting, was submitted for approval. Therefore it remains in effect, with a partial modification approved at the Annual General Meeting of Shareholders held on 15 April 2016. At the Annual General Meeting of Shareholders held in 2015, as a separate point on the agenda, a remuneration plan was established for employees, members of management and executive directors of Red Eléctrica Corporación, S.A., also extendable to the same groups within the companies in its consolidated group in Spain, allowing a part of their annual remuneration to be paid by delivery of shares of the company, from treasury shares, always within the annual maximum legal limit of 12,000 euros per participant, allowing enjoyment of certain tax advantages. Approval of the aforesaid plan requires a resolution with certain legally-established conditions. The Annual General Meeting of Shareholders of the company held on 15 April 2015 authorised the Board of Directors, in accordance with the provisions of Article 146 and related provisions of the Spanish Companies Act and other applicable rules, to engage in derivative acquisition of treasury shares of Red Eléctrica Corporación, S.A. by the company itself and by companies in the Red Eléctrica Group, directly or indirectly, to the extent determined by the Board of Directors to be advisable under the circumstances, provided that the following conditions are satisfied:

-The maximum number of shares to be acquired will not exceed the established legal limit, all of the foregoing provided that the other applicable legal requirements may also be fulfilled.

-The acquisition may not be made at a price greater than the price of the shares on the stock exchange at the time of the acquisition, or at a price less than 50% of the exchange price at that time.

-The form of acquisition may be a purchase, exchange, or any other transaction, with or without consideration, as the circumstances may warrant. In the event of acquisition without consideration, as provided in Article 146.4 of the Spanish Companies Act, the acquired shares may be partially paid up.

-In accordance with the provisions of article 146.1 b) of the Spanish Companies Act, the acquisition, including such shares as the Company may have acquired previously and hold as treasury shares, may not result in net worth being less than the amount of share capital plus the legal reserve and those reserves that the articles of association designate as restricted reserves.

The Company's Board of Directors, as provided in the third paragraph of article 146.1 a) of the Spanish Companies Act, may use all or a part of the treasury shares acquired by virtue of the aforesaid authorisation and those already owned by the Company at the date of approval of the resolution, for implementation of remuneration programmes the purpose of which is direct delivery of shares to employees, members of management and Executive Directors of the Company and the companies in the Red Eléctrica Group in Spain. For all of the foregoing the Board of Directors has been authorised, in the broadest sense necessary, to request as many authorisations and to adopt as many resolutions as necessary or appropriate to comply with current legal provisions, and to successfully implement the resolution. The Annual Meeting of Shareholders held on 15 April 2016 approved a partial modification of the resolution adopted by the Annual General Meeting of the Company of 15 April 2015, under point 10.2 of the Agenda, on Approval of a Remuneration Plan addressed to employees, Executive Directors and members of the management of the Company and the companies in the Red Eléctrica Group in Spain, consisting of the possibility that payment of a part of their remuneration may be made by delivery of shares of the Company coming from treasury shares, and consequently it was resolved to introduce the following partial changes therein:

-Maximum: The maximum amount of remuneration to be received in shares, per year, in the case of the Managing Director of the Company, will be the amount resulting from the remuneration policy for Executive Directors that is applicable from time to time over the term of the Plan, with a maximum limit in any event of 120,000 euros.

-Number of shares to be received by the beneficiary: It will be the number depending on the price of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.

-Maximum number of shares authorised: The maximum total number of shares to be delivered will be the number depending on the value of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.

The aforesaid resolution will remain in full effect in relation to the other matters that have not been modified, in particular including the duration thereof.

### A.9.bis Estimated floating capital:

	%
<b>Estimated Floating Capital</b>	80.00

A.10 State whether there is any restriction on transferability of securities and/or any restriction on voting rights. In particular, state the existence of any kind of restrictions that could present obstacles to the takeover of the company by means of share purchases on the market.

Yes  No

Description of the restrictions
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Maximum percentage of voting rights that may be exercised by a shareholder under special legal restriction 3% (general) and 1% (electricity sector).

Maximum percentage of voting rights that may be exercised by a shareholder under an articles restriction: 3% (general) and 1% (electricity sector).

The limits are established in additional provision twenty-three of Act 54/1997 of 27 November 1997 (which remains in effect by virtue of the sole repealing provision of Electricity Sector Act 24/2013 of 26 December 2013), after its amendment by Royal Decree Law 13/2012 of 30 March 2012, which incorporated certain additional restrictions in respect of companies undertaking generation or marketing functions. The special system for the SEPI is maintained, whereby it in any case must hold at least a ten percent (10%) interest in share capital. These legal provisions on the general and special shareholding regime are incorporated in Articles 5 and 14 and in the sole additional provision of the Articles of Association, and in Article 6.3 of the Regulations of the General Meeting of Shareholders of the Company, the content of which is available on the corporate website [www.ree.es](http://www.ree.es). The articles restrictions set forth the legal limitations.

A.11 State whether the general meeting has resolved to adopt anti-takeover measures in the event of a public tender offer by virtue of the provisions of Act 6/2007.

Yes  No

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

A.12 State whether the company has issued securities that are not traded on a Community regulated market.

Yes  No

If so, state the various classes of shares and, for each class of shares, the rights and obligations given thereby.

## **B GENERAL MEETING OF SHAREHOLDERS**

B.1 State whether there are, and if so describe, departures from the minimums contemplated in the Spanish Companies Act (*Ley de Sociedades de Capital*, or "LSC") regarding the quorum for holding the general meeting of shareholders.

Yes  No

B.2 State whether there are, and if so describe, departures from the scheme contemplated in the Spanish Companies Act (LSC) for adopting corporate resolutions:

Yes  No

Describe how they differ from the provisions of the LSC.

**B.3 State the rules applicable to amendment of the company's articles. In particular, state the majorities contemplated for amendment of the articles and, if applicable, the rules contemplated for protection of shareholder rights in the amendment of the articles.**

The scheme for amendment of the Articles does not differ from the provisions of articles 285 and following of the LSC, which require approval by the General Meeting of Shareholders, with the majorities set forth in articles 194 and 201 of the aforesaid Act. Act 31/2014 of 3 December 2014, amending the Spanish Companies Act for the improvement of corporate governance, introduced certain changes in the scheme of majorities (article 201 of the LSC). In particular, it clarified that resolutions will be adopted by a simple majority of votes, in the sense that the resolution obtains more more votes in favour than against from the capital present in person or by proxy. For resolutions amending the Articles and the like (Article 194 of the LSC) an "absolute majority" is required if the quorum is greater than 50% of capital, and two thirds of the capital present in person or by proxy when the quorum on second call does not reach 50% of capital. An immediate consequence of the reform of the LSC was amendment of the Articles of Association and the Company's Meeting Regulations at the Annual General Meeting of Shareholders held on 15 April 2015. The Articles of Association that were in effect at the time of holding the aforesaid Meeting and were applied thereto were not different from the provisions in Articles 285 and following of the LSC, requiring approval by the General Meeting of Shareholders, with the majorities that were set forth in Articles 194 and 201 of the LSC in effect at the time of holding the aforesaid General Meeting. Article 14 of the aforesaid Articles provides that, in order for an Annual or Extraordinary General Meeting of Shareholders to be duly called, and for a valid resolution to increase or decrease capital, and any other amendment of the Articles of Association, on first call the attendance of shareholders, in person or by proxy, holding at least 50% of the subscribed share capital with voting rights will be required, and on second call the attendance of 25% of the aforesaid subscribed capital with voting rights will be sufficient. In addition, the Board of Directors, in compliance with the provisions of article 286 of the LSC, will be required to draft the full text of the proposed amendment and a written report explaining it. Also, under the provisions of article 287 of the LSC, the notice of call of the General Meeting of Shareholders must state the matters that are to be amended with appropriate clarity, and state the right of all shareholders to examine the full text of the proposed amendment and the report thereon at the registered office, and request that those documents be delivered or sent free of charge. For some time now, resolution proposals have been published in full, in Spanish and in English, upon the call of the Shareholders' General Meeting, with all the relevant information for shareholders being posted on the corporate website, which is designed to make it easier for shareholders to exercise their right to information. The Company's website is an appropriate means of communication with shareholders and investors. In addition, the following actions to facilitate the exercise of the information right of the shareholders at the General Meeting of Shareholders are notable:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Meeting is made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- A Shareholder Bulletin is published quarterly, containing the main news regarding the Company.
- The items included on the agenda for the Shareholders Meeting are provided in as much detail as possible.
- Matters are voted on separately, even by way of remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each matter submitted to vote.
- The Shareholder Information Office specifically deals with requests made by Company shareholders. Shareholders may also submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.

The most recent amendment of the company's Articles of Association was approved by the Annual General Meeting of Shareholders held on 15 April 2016, which resolved to amend article 5 of the aforesaid Articles, to allow a doubling of the number of shares of the company, complying with the contemplated majorities and procedure. As in prior years, in 2017 Deloitte audited the processes of management of the aforesaid General Meeting of Shareholders, seeking improvement of the guarantees of the rights of shareholders in the Meetings. The auditor's report was published on the website on the same day as the holding of the aforesaid General Meeting of Shareholders.

**B.4 Give figures for attendance at the general meetings of shareholders held in the financial year to which this report refers and the prior year:**

Date of general meeting	Attendance data				Total
	% attendance in person	% by proxies	% remote voting		
			Electronic voting	Other	
15/04/2016	21.79%	38.65%	0.04%	0.00%	60.48%
31/03/2017	22.47%	36.01%	0.06%	0.00%	58.54%

**B.5 State whether there is an articles restriction establishing a minimum number of shares necessary to attend the general meeting of shareholders.**

Yes  No

## B.6 Repealed section.

## B.7 State the address of and manner of access to the company's website for information on corporate governance and other information on general meetings of shareholders that must be made available to shareholders by way of the Company's website.

Article 2 of the General Meeting Regulations establishes the content of the corporate website, the purpose of which is to serve as an instrument to ensure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the company. The company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation. Act 25/2011 of 1 August 2011 gave greater prominence to the company's website, since it introduced a new Article 11 bis in the Spanish Companies Act, which governs the electronic headquarters or corporate website. That article established the duty of capital companies to have a website, approved by the General Meeting of Shareholders and registered in the Commercial Registry. For this reason the Annual General Meeting of Shareholders held on 19 April 2012 ratified the creation of the Red Eléctrica website, which was registered in the Commercial Registry. In addition the aforesaid Act incorporated into Article 516 of the LSC the obligation of Listed Companies to use the website to disseminate the announcement of call of the General Meeting of Shareholders, something that Red Eléctrica Corporación, S.A. has been doing for years. The company's website ([www.ree.es](http://www.ree.es)), which was redesigned in 2013 after exhaustive international benchmarking for the purpose of improving the channels of communication with shareholders, includes a section accessible from the homepage dedicated to "Corporate Governance" matters, which contains all information regarding this matter that is of interest to shareholders. The aforesaid website also includes a specific area, accessible from the homepage, for "Shareholders and Investors". In 2015 the Corporate Governance and Shareholders and Investors sections of the corporate website were revised in accordance with Circular 3/2015 of 23 June 2015 of the National Securities Market Commission. In the General Meeting of Shareholders subsection of the Corporate Governance section there is a link called "Information Right", containing the information related to the existing channels of communication between the company and its shareholders, and pertinent explanations for the exercise of the information right. Publicity of the resolutions approved by the General Meeting of Shareholders is regulated in article 17 of the Meeting Regulations. Regarding publicity, during 2017 the following actions, among others, are notable: the live broadcast, simultaneously in Spanish and English, of the Annual General Meeting of Shareholders, held on 31 March 2017, and of the presentations of results at the close of the 2016 financial year and the first semester of 2017, publication in English of the announcement of call, from the day it was published, and of the proposed resolutions submitted to approval of the Meeting, in addition to all documentation related thereto, including the Annual Corporate Governance Report. In 2017, as in prior years, the Shareholder Electronic Forum for the Annual General Meeting of Shareholders was instituted. The aforesaid Forum, created by Red Eléctrica Corporación, S.A. on its website ([www.ree.es](http://www.ree.es)) for the holding of its General Meetings, is in response to the requirement established in article 539.2 of the LSC. The aforesaid tool was incorporated into the Regulations of the General Shareholders Meeting, via Article 8.4, after its approval by the General Shareholders Meeting on 13 April 2011. The purpose of this Forum is to facilitate communication among the shareholders of Red Eléctrica, in order to publish proposals and supplement the agenda in the call of the Meeting of Shareholders, issue requests for support of such proposals, present initiatives for reaching the percentage required to exercise a minority right as contemplated by law, or make offers of or requests for voluntary proxies. In 2017 the company continued with the process of ongoing improvement of its website. The most noteworthy milestone was the revision of the section on ethics and transparency. That section was renamed "Ethics and Compliance", incorporating information on the company's new regulatory compliance system, the methodology for evaluation of risks of noncompliance and the importance of awareness and training as key factors for the development of a culture of compliance within the organisation. The company has a strong commitment to improving and adapting the corporate website on an ongoing basis, as a living instrument of communication, dialogue and commitment to shareholders, in application of its Corporate Governance Policy.

## C STRUCTURE OF THE COMPANY'S MANAGEMENT

### C.1 Board of directors

#### C.1.1 Maximum and minimum number of directors under the articles of association:

Maximum number of directors	13
Minimum number of directors	9

#### C.1.2 Complete the following table regarding the board members:

Name of director	Representative	Category of the director	Office on the board	Date of First appt.	Date of Last appt.	Election procedure
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Independent	DIRECTOR	19/04/2012	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Name of director	Representative	Category of the director	Office on the board	Date of First appt.	Date of Last appt.	Election procedure
MR. JOSÉ FOLGADO BLANCO		Other Outside	CHAIRMAN:	22/05/2008	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. ANTONIO GÓMEZ GIRIA		Independent	DIRECTOR	09/05/2014	09/05/2014	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. SANTIAGO LANZUELA MARINA		Proprietary	DIRECTOR	29/07/2014	15/04/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JUAN FRANCISCO LASALA BERNAD		Executive	MANAGING DIRECTOR	17/07/2015	17/07/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. MARÍA JOSÉ GARCÍA BEATO		Independent	DIRECTOR	29/11/2012	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. SOCORRO FERNÁNDEZ LARREA		Independent	DIRECTOR	09/05/2014	09/05/2014	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. JOSÉ LUIS FEITO HIGUERUELA		Independent	DIRECTOR	13/02/2015	15/04/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS		Proprietary	DIRECTOR	19/04/2012	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO		Independent	DIRECTOR	31/01/2017	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR. ALBERTO FRANCISCO CARBAJO JOSA		Independent	DIRECTOR	31/03/2017	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS. MERCEDES REAL RODRIGÁLVAREZ		Proprietary	DIRECTOR	31/10/2017	31/10/2017	CO-OPTION

<b>Total number of directors</b>	12
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Give details of the directors who left the board of directors during the reporting period:

Name of director	Category of the director at time of departure	Departure date
MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN	Proprietary	16/10/2017

C.1.3 Complete the following tables on the Board Members and their individual category:

### **INSIDE DIRECTORS**

Name of director	Office in the company
MR. JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR

<b>Total number of executive directors</b>	1
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% of the total board	8.33%
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### **PROPRIETARY OUTSIDE DIRECTORS**

Name of director	Name of significant shareholder represented or that nominated the director
MR. SANTIAGO LANZUELA MARINA	SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)
MS. MERCEDES REAL RODRIGÁLVAREZ	SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)

Total number of proprietary directors	3
% of the total board	25.00%

### **INDEPENDENT OUTSIDE DIRECTORS**

#### **Name of director:**

MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

#### **Background:**

Born on 20 May 1968.

Degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE). Masters in Business Administration from the IESE (Executive MBA), Universidad de Navarra.

#### **Currently:**

General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)  
Board Member of Grupo Ezentis S.A.

#### **Formerly:**

Head of the Cogeneration Department, Business Management, Enagás.

Head of the International, Petrochemical and Marketing Departments of Repsol.

Director of Services Development at Union Fenosa.

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

Institutional Relations and Communications Manager for BP Oil España.

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

Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER).

Professor at lectures and/or presentations on different Masters Courses (Universidad de Barcelona, ICAI, Cesma, Club Español de la Energía).

#### **Name of director:**

MR. ANTONIO GÓMEZ CIRIA

#### **Background:**

Born on 25 March 1957.

Degree in Economics and Business, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Masters in Business Administration (Executive MBA), IESE.

Accredited Accounting Expert – AECA.

#### **Currently:**

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

Member of the Board of Directors of Mapfre España Compañía de Seguros y Reaseguros S.A., Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros S.A. and Mapfre Re Compañía de Reaseguros S.A. and member of the Executive Committee.

Formerly:

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC. Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations.

General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC.

Head of Internal Auditing, Grupo FCC.

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

General Technical Secretary of InverCaixa, an investment management company in the La Caixa Group.

Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC.

Director, Empresa Nacional de Uranio, S.A.

Director, Empresa Nacional de Autopistas, S.A.

Director, Tabacalera, S.A.

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid.

Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española.

Head of the Auditing and Accounting Department of Banco de Crédito Agrícola.

Auditor/Inspector of the General State Inspectorate.

Other information of interest:

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

### **Name of director:**

**MS. MARÍA JOSÉ GARCÍA BEATO**

#### **Background:**

Born on 27 May 1965.

Law Degree, Universidad de Cordoba. State Attorney.

Currently:

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

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

Non-director Secretary of the Board of Directors of Sabadell Consumer Finance S.A.U.

Trustee of the Fundació Privada Banc Sabadell.

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

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

Member of the Advisory Board of Fundación Cajasur.

Formerly:

State Attorney at the High Court of Justice in Madrid.

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

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

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

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

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

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.

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

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

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

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Deputy Secretary for Justice.

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

Head of Legal Services, Banco Sabadell.

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

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

Director, Banco Gallego S.A.

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

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

**Name of director:**

MS. SOCORRO FERNÁNDEZ LARREA

**Background:**

Born on 7 April 1965.

Roads, Canals and Ports Engineer with a degree from the Universidad Politécnica de Madrid and participated in an IESE Senior Management Programme (PADE).

Currently:

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

Member of the Board Directors, GRUPO CEMENTOS MOLINS.

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

Member of the Board of Directors, ACR (Spanish construction and real estate company)-

Member of the Territorial Board of the IESE in Madrid.

Advisor to the Board of Directors of the Mexican engineering firm CAL Y MAYOR

Formerly:

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

General Manager, COPISA Constructora Pirenáica S.A.

Vice Chairman of ANCI, Asociación de Constructores Independientes.

Member of the Governing Council, Association of Civil Engineers.

Regional Manager, Seop, Obras y Proyectos, S.A.

National Representative, Ferrovial Conservación, S.A.

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

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

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

Construction Manager of Ferrovial, S.A.

Other information of interest:

Member of the advisory Board of the newspaper EXPANSION

Member of WCD, Women Corporate Directors and cochair of the Spanish chapter

Member of AED, Asociación Española de Directivos, and a member of its Board of Directors

Member of the Business Council for Latin America (CEAL), member of the Management Board of the Iberian Peninsula chapter.

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

Member of IWF, International Women Forum.

**Name of director:**

MR. JOSÉ LUIS FEITO HIGUERUELA

**Background:**

Born on 13 April 1952.

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

Trade Expert and State Economist.

Ambassador of Spain.

Currently:

Chairman and General Manager of the IEE (Instituto de Estudios Económicos) since 2009.

Member of the Executive Committee and Board of Directors of CEOE since 2001.

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

Member of the Editorial Board of the newspaper Expansion since 2001.

Formerly:

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

Ambassador of Spain to the OECD (Organisation for Economic Cooperation and Development) in Paris (1996-2000).

Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), in which entity he was "Chief Economist", responsible for management of various areas in Investment Banking (1986-1996).

Head of International Financial Institutions of the Bank of Spain, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Union in Basel (1984-1986).

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

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

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

**Name of director:**

MR. ALBERTO FRANCISCO CARBAJO JOSA

**Background:**

Born on 8 August 1949.

Mining Engineer, Universidad Politécnica de Madrid.

Degree in Economics, Universidad Autónoma de Madrid.

Masters degree regarding the European Union, Escuela Diplomática de Madrid.

Currently:

Independent international consultant in the electricity sector.

Formerly:

General Manager of the Oficina de Compensaciones del Sector Eléctrico (OFICO) (up to 1991).

General Manager for Mining and Construction Industries, Ministry of Industry and Energy (1992-1995).

Member of the Board of Directors of ENDESA and Petronor (1992-1995).

Director, National Energy Commission (1995-2000).

Consultant for the European Union in the deregulation of the Romanian electricity system, as to definition of the generation market, methodology and calculation of the toll rates, and preparation of the regulatory amendments for deregulation of generation and supply (2000).

International Regulation Manager for Corporación Unión Fenosa, working in the Secretariat General for Regulation (2002-2004).

General Manager for Operations of Red Eléctrica de España, S.A., with notable responsibilities related to electricity planning for the sector and its infrastructure, the inclusion of renewable energies, capacity for interconnection with the European electricity system and amendment of electricity regulations (2004-March 2012).

As for his academic experience, he was an associate professor in the Energy Systems Department of Escuela Técnica Superior de Ingenieros de Minas de Madrid, a professor in the Renewable Energies Masters Programme of Escuela de Organización Industrial, a professor in the Energy and Competitiveness Masters Programme of Orkestra (Instituto Vasco de Competitividad), a professor in the Advanced Energy Business Course of the Club Español de la Energía and a professor in Universidad de Alcalá de Henares in matters related to the supply of energy.

**Name of director:**

MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO

**Background:**

Born on 20 July 1955.

Career officer of the central government (*Administración General del Estado*), on leave of absence.

Head of Fleet Technical Inspection for the multinational International Marine Coatings Ltd, from 1982 to 1989, currently on mandatory leave of absence.

Masters Degree in National Defence from Universidad Rey Juan Carlos.

Diploma in "Advanced Military Studies" from Centro Superior de Estudios de la Defensa Nacional (CESEDEN).

Diploma in "Advanced Defence Studies" from Centro Superior de Estudios de la Defensa Nacional (CESEDEN).

Executive Management Programme for members of Parliament (EMBA) of Instituto de Empresa (IE) Business School.

Parliament Companies Company Programmes (INFORPRESS, IBERDROLA, INDRA).

Honorary Professor of Universidad Alfonso X El Sabio of the Cátedra Real Forum of Senior Management.

Professor (Ad Honorem) of Instituto Internacional de Ciencias Políticas of the UNESCO Chair of Comparative Political and Administrative Sciences, attached to the Defence, Industry and Security Areas.

Professor of Sociedad de Estudios Internacionales. Advanced International Studies Course, Universidad Rey Juan Carlos.

Formerly:

General Manager of the Guardia Civil (2011-2016).

Scientific Advisor of Instituto Internacional de Ciencias Políticas (2010).

Vice Chairman of the Defence Committee of the Congress (2004-2011).

Defence Spokesman for the Congress (1996-2000).

Adviser to the Minister for Public Administration (2004).

Government Delegate in Galicia (2000-2004).

Member of Parliament, elected by the province of La Coruña, in 7 Legislatures (1989-2012), holding, among others, the positions of Spokesman for the Naval and Merchant Marine Sector, Vice Chairman of the Defence Committee of Congress, Defence Spokesman in Congress, Chairman of the National Defence Committee, Member of the International Assembly of the OSCE, Member of the Parliamentary Assembly of the Atlantic Alliance.

First Deputy Mayor of El Ferrol (1987-1989).

Councilman of the Municipality of El Ferrol (1983-1991).

Speaker at conferences and seminars on Defence, Fishing, Shipbuilding Sector, Merchant Marine, Security and Guardia Civil, at various universities and in all types of national and international forums, among others EUROPOL, the Centre des Hautes Etudes du Ministère de l'Intérieur de France, CHEMI (School of Advanced Studies of the French Ministry of the Interior, in Paris) and the School of the Guardia di Finanza (Italy).

<b>Total number of independent directors</b>	7
<b>% of total board</b>	58.33%

State whether any independent director receives from the company, or its group, any amount or benefit other than director remuneration, maintains or over the most recent financial year has maintained a business relationship with the company or any company in its group, whether in the director's own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained that relationship.

As of 31 December 2017, Grupo Mapfre (Mr. Antonio Gómez Ciria being a director of Mapfre Global Risks Internacional de Seguros y Reaseguros, S.A., of Mapfre España, Compañía de Seguros y Reaseguros, S.A. and of Mapfre Re Compañía de Reaseguros, S.A.) had received 14,418,000 euros from the Red Eléctrica Group.

If applicable, include a board explanation of the reasons it believes that director can perform as an independent director.

### **OTHER OUTSIDE DIRECTORS**

Identify the other outside directors and state the reasons they cannot be deemed to be proprietary or independent and their relationships, whether with the company or its directors or its shareholders.

**Name of director:**

MR. JOSÉ FOLGADO BLANCO

**Company, executive or shareholder with which the relationship is maintained:**

RED ELÉCTRICA CORPORACIÓN, S.A.

**Reasons:**

Mr. José Folgado Blanco was re-elected as an "other outside" director at the Annual General Meeting of Shareholders held on 15 April 2016. In the report of the Appointments and Remuneration Committee on the proposed re-election of the director, and in the report and proposal of the Board of Directors that analysed the category of the director, it was concluded that he could not be re-elected as an "Executive"

Director, based on the commitment established in the aforesaid "report on the process of separation of the positions of Chairman of the Board of Directors and Chief Executive (CEO) of the Company", submitted to the Extraordinary General Meeting of Shareholders of the company held on 17 July 2015. Nor could he be re-elected as an "Independent" Director, in view of the express legal prohibition contained in article 529 duodecies.4. a) of the LSC, and in article 7.2.c) i) of the company's Board Regulations, which provide that, in order for Executive Directors to be appointed as Independent Directors, a term of 3 years must have elapsed after the termination of that relationship.

<b>Total number of other outside directors</b>	1
<b>% of total board</b>	8.33%

Give details of any changes in the category of each director during the period:

C.1.4 Complete the following table with the information related to the number of female directors over the last 4 years, as well as the category of such female directors:

	Number of female directors				% of total directors of each type			
	F/Y 2017	F/Y 2016	F/Y 2015	F/Y 2014	F/Y 2017	F/Y 2016	F/Y 2015	F/Y 2014
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	1	0	0	0	8.33%	0.00%	0.00%	0.00%
<b>Independent</b>	3	4	5	5	25.00%	36.36%	41.67%	50.00%
<b>Other Outside</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	4	4	5	5	33.33%	36.36%	41.67%	50.00%

C.1.5 Explain the measures, if any, adopted to foster inclusion on the board of directors of a number of women allowing reaching a balanced presence of women and men.

Explanation of the measures
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In the Corporate Governance Policy approved by the Board of Directors of the company on 25 November 2014, published on the corporate website ([www.ree.es](http://www.ree.es)), it was taken into account the objective of improvement as regards gender diversity, stating and assuming the principle of "Strengthening its commitment to diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees." Also within the practices included in the aforesaid Corporate Governance Policy is "Board of Directors Diversity. The Company applies the principle of promoting diversity of knowledge, experience and gender amongst Board and Committee members, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective." Article 22 of the Board of Directors Regulations provides that the Board of Directors, within the scope of its authority, will see to it that the candidates elected are persons of recognised solvency, competence and experience, ensuring gender diversity, experience and knowledge within the Board. In this context, it is appropriate to note the important role of the Appointments and Remuneration Committee in the promotion of diversity on the Board of Directors since, as established in article 24 of the Articles of Association and in article 18 of the Board of Directors Regulations, that Committee is responsible for fostering an objective of representation for women on the Board of Directors, evaluating the competencies, knowledge and experience required on the Board, referring proposals for the appointment of independent directors to the Board, and reporting on proposals of appointment of the other directors, among others. The Board of Directors of Red Eléctrica Corporación, S.A., under the provisions of article 18.4 j) of the Board Regulations, years ago assumed the commitment to comply with the recommendations established regarding equality and, therefore, established the obligation of the Appointments and Remuneration Committee to prepare an annual report on gender diversity and equality policy to be submitted to the Board for its approval. This report reflects the company's concern for diversity and equality and, therefore, years ago measures were analysed and adopted to achieve balance of competencies on the Board of Directors and throughout the organisation. The most recent report on Diversity and Equality approved by the Board of Directors on 30 January 2018 took a step forward in the concept of diversity by incorporating information not only on gender but also considering the experience, knowledge, age or seniority in the position of the directors on the Board of Directors, and in the organisation. The aforesaid report is published on the corporate website ([www.ree.es](http://www.ree.es)). At 31 December 2017, four of its 12 members, representing 33.33% of the total, are women, for which reason Red Eléctrica continues to be among the leading IBEX 35 companies, satisfying the objective of 30% established in Recommendation 14 of the CBGSC for 2020. On the other hand, it should be noted that, in 2013, the Board of Directors resolved to create the position of lead Independent Director (*consejero independiente coordinador*, or "CIC"), which was approved by the General Meeting of Shareholders held on 18 April 2013, in order to strengthen the balance of authority within the Board of Directors, on which the position of Executive Director and chairman of the board is filled by the same person. On 25 May 2013 a woman also was appointed as the lead Independent Director. The Board of Directors, on proposal of the Appointments and Remuneration Committee, at the meeting held on 31 May 2016, approved her re-election as lead Independent Director, for a term of 3 years.

C.1.6 Explain the measures, if any, that have been agreed by the appointments committee in order for selection procedures to have no implicit bias preventing selection of female directors, and for the company to deliberately seek and include women having the professional experience sought within the potential candidates:

#### Explanation of the measures

As stated in subsection C.1.5. above, the purpose of the actions instituted by the company is actively to promote the selection of qualified women and include them on the Board of Directors. To that end, the Board of Directors has adopted the best practice recommendations in the area of gender diversity. At the end of the 2017 financial year, four of its members (33.33%) are women. The company thus continues to comply with the 30% objective established in Recommendation 14 of the CBGSC, both objectives for the year 2020. Since 25 May 2013 a woman has held the position of lead Independent Director. Regarding the Board Committees, it should be noted that at 31 December 2017, on the Appointments and Remuneration Committee, 2 of its 5 members are women (40%). On the Audit Committee, also, 2 of the 5 members are women (40%).

The Corporate Governance Policy published on the corporate website ([www.ree.es](http://www.ree.es)) establishes "the principle of strengthening its commitment to diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees" and within the practices included in the aforesaid Corporate Governance Policy is "Board of Directors Diversity. The Company applies the principle of promoting diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees, as an essential factor that allows it to achieve its objectives from a plural and balanced perspective." As regards the selection of directors, the Appointments and Remuneration Committee uses a general matrix of competencies that includes the Criteria that define the ideal profile for holding the position of director. In each candidate selection process, the Appointments and Remuneration Committee analyses the experience of the candidates and evaluates whether it is in accordance with the profile of those suitable to hold positions as directors of the type the position of which is vacant at that time

When doing so the Appointments and Remuneration Committee complies with the basic responsibilities established in article 18.1, subsections h), i) and k) of the Board of Directors Regulations, pursuant to which the Committee must:

-Ensure that the candidates for vacancies on the Board meet all of the requirements of the legal provisions and the provisions of these Regulations.

-Evaluate the competencies, knowledge and experience necessary on the Board and, as a result, define the functions and aptitudes necessary in the candidates who are to fill each vacancy, within the policy approved for such purpose.

-Evaluate the time and dedication necessary in order for directors to effectively perform their tasks, for these purposes evaluating whether it is compatible with membership on other management bodies of companies, and ensuring that they have sufficient time available for proper performance of their duties.

All of the foregoing was taken into account by the Appointments and Remuneration Committee and the Board of Directors when analysing the reports and proposals to fill the vacancies existing on the Board of Directors during 2017, as may be seen on the corporate website ([www.ree.es](http://www.ree.es)) within the documentation that Red Eléctrica made available to shareholders for the Annual General Meeting of Shareholders held on 31 March 2017.

Regarding the concern of the Board of Directors for addition of female talent to the Board of Directors, article 18.1 n) of the Board of Directors Regulations establishes, as one of the basic responsibilities of the Appointments and Remuneration Committee, seeing to it that gender diversity is taken into account when filling new vacancies, establishing an objective for female representation and giving guidelines regarding how to reach that objective. For more information we remit to the Diversity and Equality Report approved by the Board of Directors on 30 January 2018, which is published on the corporate website ([www.ree.es](http://www.ree.es)).

When despite such measures as may have been adopted, there are few female directors, or none, explain the reasons:

#### Explanation of the reasons

C.1.6 bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. And in particular, regarding how that policy is promoting the objective that in 2020 the number of female directors will represent at least 30% of the total members of the board of directors.

#### Explanation of the conclusions

Regarding selection of directors the Appointments and Remuneration Committee uses a general matrix of competencies that sets forth the criteria defining the ideal profile in order to serve as a director of the company, and analyses the qualities, competencies and experience an ideal director should have in order to hold the position, independently of the category. In each candidate selection process, the Appointments and Remuneration Committee analyses the experience of the candidates and evaluates whether it is in accordance with the profile of those suitable to hold positions as directors of the corresponding type of director.

When doing so the Appointments and Remuneration Committee complies with the basic responsibilities established in article 18.1, subsections h), i) and k) of the Board of Directors Regulations already referred to in Subsection C.1.6 above.

In addition, in the Corporate Governance Policy it is established that "Red Eléctrica applies the principle of ensuring the existence of appropriate procedures for the selection of directors, which guarantee reasonable balance and diversity within the Board of Directors for proper discharge of its mission. To do this, when assessing the candidates participating in the selection process, the procedure will take into account any competencies, experience, professionalism, suitability,

impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at all times, and the Appointments and Remuneration Committee plays an important role in the process".

In the same way, in the Corporate Governance Policy of the company it is established that "the company applies the principle of promoting diversity in knowledge, experience and gender amongst Board and Committee members, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective". As already has been explained in subsections C.1.5 and C.1.6 above (to which we remit to avoid repetition), the company has 4 female directors and meets the 30% objective established in new Recommendation 14 of the CBGSC for 2020.

For more information we remit to the Gender Diversity and Equality Policy Report approved by the Board of Directors on 20 December 2016, which is published on the corporate website ([www.ree.es](http://www.ree.es)).

### C.1.7 Explain the form of representation on the board of shareholders with significant shareholdings.

In accordance with the provisions of article 20 of the Articles of Association, the composition of the capital structure of the company is taken into account in the election of directors. Also, it must be ensured that outside directors represent a large majority. In any event, the Board's composition will be determined in such a way as to ensure the most adequate representativeness of the share capital.

As provided in article 7 of the Board of Directors Regulations, the following are considered to be Proprietary Directors:

- i) Those whose shareholdings are not less than the shareholding legally considered to be significant or who have been appointed due to their position as shareholders, even if the shareholding does not reach that level.
- ii) Those representing the shareholders indicated in the preceding paragraph.

For these purposes, a director will be deemed to represent a shareholder when:

- i) The director has been appointed in exercise of the shareholder's right of representation.
- ii) He or she is a director, Senior Manager, employee or non-occasional service provider of said shareholder or the companies belonging to its group.
- iii) Company records show that the shareholder acknowledges the director as its appointee or representative.
- iv) The director is the spouse of or maintains an analogous affective relationship with or is a close relative of a significant shareholder.

Proprietary Directors may not serve simultaneously as directors of more than five (5) listed companies.

The composition of the Board of Directors is governed by the principle of proportionality; in this regard the Board of Directors Regulations establish in their article 7 that among outside directors, the ratio of Proprietary Directors to Independent Directors reflects the ratio of the Company's capital represented by proprietary directors and the remainder of the Company's capital; this strict proportionality principle may be relaxed in such manner that the weight of Proprietary Directors is greater than what would correspond to them based on the total percentage of capital they represent:

- i) In the case of high capitalisation in which there are few or no shareholdings legally considered to be significant.
- ii) Where there is a plurality of shareholders represented on the board but not otherwise related.

In addition the number of Independent Directors must represent at least half of the total number of directors. When the chairman of the Board is also the chief executive of the Company, the independent directors should constitute a majority of the total number of directors. These provisions were included in the Board Regulations in March of 2013, to reflect good international corporate governance practices, and maintained with practically no change in the Regulations approved in December of 2016.

In accordance with the authorisation contained in article 24.2 of the Articles of Association, within the authority of the Appointments and Remuneration Committee is that of reporting to the Board of Directors, for referral to the General Meeting of Shareholders, on the appointment or re-election of the Proprietary Directors proposed by the majority shareholder.

In any event, Proprietary Directors must inform the Board about any conflict of interest between the company and the shareholders proposing their appointment, when this affects matters submitted to the board, refraining from participating in the adoption of the corresponding resolutions. In addition it should be noted that, among the circumstances in which directors are required to resign, article 24.2 g) of the Board of Directors Regulations provides that a Proprietary Director must resign when the shareholder the interests of which it represents on the Board transfers its entire interest in the Company, or reduces it to a level requiring reduction of the number of its Proprietary Directors.

In the adaptation of the Board of Directors Regulations approved in March of 2013, a provision was introduced regarding Proprietary Directors, to the effect that they cannot serve simultaneously in the position of a director for more than (5) listed companies. This limitation is maintained in the update of the aforesaid Regulations approved in December of 2016.

In Red Eléctrica, the Spanish State's Industrial Holding Company (Sociedad Estatal de Participaciones Industriales, SEPI) at 31 December 2017 is the direct owner of a significant interest, holding 108,216,000 shares, which represent 20% of share capital. In addition, there are three Proprietary Directors representing SEPI on the Board of Directors, Mr. Fernando



Fernández Méndez de Andés, Mr. Santiago Lanzuela Marina and Ms. Mercedes Real Rodríguez, representing 25% of the total number of directors.

Apart from the SEPI, there is no individual or legal person that exercises or could exercise control over the company in accordance with the provisions of Article 5 of Royal Legislative Decree 4/2015 of 23 October 2015, approving the restated text of the Securities Market Act.

C.1.8 If applicable, explain the reasons proprietary directors have been appointed at the request of shareholders whose share interests are less than 3% of capital:

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

Yes  No

C.1.9 State whether any director has resigned his position before the end of his term of office, whether that director explained his reasons to the board and if so in what way, and, if he did so in writing to the entire board, below explain at least the reasons given by that director:

**Name of director:**

MR. JOSÉ ÁNGEL PARTEARROYO MARTÍN

**Reason for resignation:**

By replacement resolution adopted by the shareholder represented (SEPI).

C.1.10 State the powers, if any, delegated to the managing director(s):

**Name of director:**

MR. JUAN FRANCISCO LASALA BERNAD

**Brief description:**

The Board of Directors of the company in a meeting held on 28 July 2015 unanimously resolved: "To delegate, jointly, severally and indistinctly, to the Managing Director of Red Eléctrica Corporation, S.A., Mr. Juan Francisco Lasala Bernad, under and in accordance with the provisions of articles 249 of the current Spanish Companies Act, 149 of the Commercial Registry Regulations, 22 of the Articles of Association and 5 of the Board of Directors Regulations, all authority of the Board of Directors that may be delegated by law and pursuant to the Articles of Association".

C.1.11 Identify any members of the board who hold the position of director or manager in other companies belonging to the group of the listed company:

Name of director	Name of group entity	Position	Has executive functions?
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DEL SUR, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS	NO
MR. JUAN FRANCISCO LASALA BERNAD	TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	MEMBER OF THE BOARD OF DIRECTORS (DIRECTOR)	NO
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INTERNACIONAL, S.A.U.	JOINT DIRECTOR	YES

MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DE ESPAÑA, S.A.U.	INDIVIDUAL REPRESENTATIVE OF THE SOLE ADMINISTRATOR, RED ELÉCTRICA CORPORACIÓN, S.A.	YES
MR. JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INFRAESTRUCTURAS DE TELECOMUNICACIÓN, S.A.U.	JOINT (BUT NOT SEVERAL) DIRECTOR	YES

C.1.12 Name, if any, the directors of your company who are known by your company to be directors of other companies listed on stock exchanges other than companies in your group:

Name of director	Name of group entity	Position
MR. JOSÉ LUIS FEITO HIGUERUELA	BANKIA, S.A.	DIRECTOR
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	BANKIA, S.A.	DIRECTOR
MS. SOCORRO FERNÁNDEZ LARREA	CEMENTOS MOLINS INDUSTRIAL, S.A.	DIRECTOR
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	GRUPO EZENTIS, S.A.	DIRECTOR

C.1.13 State and if applicable explain whether the company has established rules regarding the number of committees of which its directors may be members:

Yes  No

**Explanation of the rules**

Article 18.1 k) of the Board of Directors Regulations establishes, among the basic responsibilities of the Appointments and Remuneration Committee in relation to appointments and removals, that of evaluating the time and dedication necessary in order for directors to effectively perform their duties, for these purposes evaluating compatibility thereof with membership on other management bodies of companies, and ensuring that they have sufficient time available for proper performance of their duties.

In this regard, the Appointments and Remuneration Committee has the authority to analyse and, if applicable, propose to the Board that members of the Board of Directors of Red Eléctrica be authorised to join Boards of Directors of other companies.

Article 7.3 of the Board Regulations limits the number of boards of other Listed Companies of which an Independent Director of the company may be a member to a maximum of two (2), absent an express exception approved by the Board, on proposal of the Appointments and Remuneration Committee.

In addition, under article 7.2 b) of the Board of Directors Regulations, Proprietary Directors may not simultaneously serve as directors of more than five (5) Listed Companies. And under article 7.2 a) of the aforesaid Regulations, Executive Directors may only serve as directors on one (1) Board of Directors of another company, with the exception of positions on Boards of Directors of subsidiaries or investees of the Company.

C.1.14 Repealed section.

C.1.15 State the overall remuneration of the board of directors:

<b>Remuneration of the Board of Directors (thousands of euros)</b>	3,286
<b>Amount of accrued pension rights of current directors (thousands of euros)</b>	80
<b>Amount of accrued pension rights of former directors (thousands of euros)</b>	0

C.1.16 Name the members of senior management who are not executive directors, and state the total remuneration they earned during the financial year:

Name	Position
MR. MIGUEL RAFAEL DUVISON GARCÍA	GENERAL MANAGER OF OPERATIONS
MS. EVA PAGÁN DÍAZ	GENERAL MANAGER OF TRANSMISSION
<b>Total senior management remuneration (in thousands of euros)</b>	649

C.1.17 Give details of the directors, if any, who are also directors of companies that are significant shareholders and/or entities in their group:

Name of director	Name of significant shareholder	Position
MS. MERCEDES REAL RODRIGÁLVAREZ	SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)	DIRECTOR

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

**Name of related director:**

MS. MERCEDES REAL RODRIGÁLVAREZ

**Name of related significant shareholder:**

SPANISH STATE'S INDUSTRIAL HOLDING COMPANY (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES, SEPI)

**Description of relationship:**

DIRECTOR OF ENERGY DIVISION INVESTEEES

C.1.18 State whether there was any amendment of the board regulations during the financial year:

Yes  No

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

1. Appointment and re-election. Art. 21 of the Board Regulations provides that directors will be appointed by the General Meeting of Shareholders or, in the event of an early vacancy, by the Board of Directors by co-option. The proposal of appointment (including by way of co-option) or re-election of directors will be made on proposal of the Appointments and Remuneration Committee, in the case of Independent Directors, and by the Board itself, in the case of other directors. The Board within the scope of its authority will see to it that the candidates selected are persons of recognised solvency, competence and experience, guaranteeing gender diversity, experience and knowledge within the Board, following the policy of appointment and evaluation of candidates approved by the Board itself, even being entitled to use outside advisors when considered to be necessary, in accordance with art. 22 of the aforesaid Regulations. Under art. 23 of the Regulations, directors will serve for the term contemplated in the Articles of Association. Art. 20 of the aforesaid Articles sets the term of service as a director at four years. As established in art. 7 of the Board Regulations, Independent Directors may not serve as such for a consecutive period of more than twelve years. In 2011 the Board of Directors approved a Succession Plan for the chairman. But since 2011, in line with advances in the world of corporate governance, the company has undergone significant structural changes. For this reason, throughout 2017 intensive work was carried out by the Appointments and Remuneration Committee and the Lead Independent Director in the preparation of the "Contingency Plan for the succession of the Chairman of the Board" and the "Contingency Plan for the succession of the Managing Director" with the support of an international outside consultant. The Board of Directors, at its meeting held on 19 December 2017, on proposal of the Appointments and Remuneration Committee, approved the aforementioned Plans, including the profiles and functions of the chairman of the board and the Managing Director and previewing the actions to be taken within the company immediately in the event of unforeseen or unforeseeable events that prevent both the Chairman of the Board of Directors and the Managing Director, during the period of their appointment, from performing their duties. The aforesaid Plans will be reviewed at least every 6 months. Both Plans in detail establish their objectives, the causes of activation, the responsible parties and the actions to be taken in each phase, from the first 24 hours to the first month, avoiding risks of an unforeseen and disorderly succession. In 2018 work will continue on the definition of the Plans of succession and updating the approved Contingency Plans.

2. Evaluation of directors. article 5 of the Board Regulations establishes that, at least every two years, the Board will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the Appointments and Remuneration Committee. The Board has reserved to itself, on a nondelegable basis (art. 5 of the Regulations) the annual evaluation of its own functioning, of the functioning of its Committees, of the performance of their functions by the chairman

of the board and the chief executive. The process for the 2016 financial year was with the collaboration of a new outside international consultant and was undertaken under the direction of the Appointments and Remuneration Committee, in coordination with the lead Independent Director. 3. Removal. art. 24.1 of the Board Regulations establishes that directors will leave office when the period for which they were appointed has elapsed, or when so decided by the General Meeting of Shareholders in use of the authority conferred on it by law or the articles. The Board of Directors may not propose removal of Independent Directors before the end of the articles period for which they were appointed, unless there is just cause found by the Board after a report from the Appointments and Remuneration Committee. In particular, just cause will be understood to exist when the director comes to occupy new positions or contracts new obligations that prevent it from dedicating the necessary time to performance of the duties of the position of a director, breaches the duties inherent in the position or is in any of the circumstances described in art. 7.2 c) of the Board Regulations, preventing classification thereof as independent. Removal of an Independent Director also may be proposed as a result of takeover bids, mergers or other similar corporate transactions that result in a change in the capital structure of the Company, when those changes in the structure of the Board are motivated by the proportionality criterion indicated in art. 7.1 c) of the aforesaid Regulations. Also, directors must tender their positions to the Board of Directors and, if it considers it to be appropriate, formalise the corresponding resignation in the cases contemplated in Art. 24.2 of the Board Regulations, which are stated in section C.1.21 below. Art. 24.3 of the aforesaid Regulations provides that members of the Committees will leave office when they do so as regards their positions as directors. When a director leaves office before the end of the term of appointment, whether by reason of resignation or otherwise, it will explain the reasons in a letter that it will send to all members of the Board. Without prejudice to the resignation being disclosed to the market as established by current law, the reasons therefor will be stated in the annual corporate governance report, in accordance with art. 24.4 of the aforesaid Regulations.

### C.1.20 Explain to what extent the annual evaluation of the board has resulted in significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments
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The annual evaluation of the Board of Directors for the 2016 financial year resulted, inter alia, in the following changes in the internal organisation:

(i) The gender diversity on the Board of Directors was increased with the addition of a female director to replace a male director in October 2017.

(ii) A plan of incorporation (induction plan) has been designed and implemented for new directors, which was put into practice in connection with the incorporation of a new director.

(iii) A commitment has been made to continuously improve and review the good governance practices adopted as reflected in this report. Not only has progress been made in 2017, but further progress will be sought in 2018, in order to comply with some of the improvement proposals contained in the report on the evaluation process for 2016, in particular those relating to the review of the current Strategic Plan, which will be completed in 2019.

### C.1.20.bis Describe the process of evaluation and the areas evaluated undertaken by the board of directors with the assistance, if applicable, of an outside consultant, regarding diversity of its composition and competencies, the functioning and composition of its committees, the performance of the chairman of the board of directors and the chief executive officer of the company and the performance and contribution of each director.

The Board of Directors in article 5 of the Board of Directors Regulations expressly reserves, inter alia, on a nondelegable basis, the annual evaluation of the quality and efficiency of the functioning of the Board, the performance of their duties by the chairman of the Board and the chief executive of the company and the effective functioning of the Board Committees, based on the report referred to it by the Appointments and Remuneration Committee, if applicable in coordination with the lead Independent Director or the chairman. The evaluation the functioning of the Board, its chairman, the chief executive of the company and its Committees will be performed by an independent expert third party at least every two years.

Red Eléctrica Corporación, S. A. was one of the first companies to carry out the voluntary evaluation process of its Board of Directors, also being assisted for years by outside advisors with the aim of giving its self-evaluations a more objective and independent view, thus following the recommendations established by recent regulatory amendments and the best practices applicable to Corporate Governance.

In 2017, in accordance with the recommendations for good governance of Listed Companies, the Board of Directors engaged an outside consultant to act as facilitator and leader of the process of self-evaluation of the effectiveness of the functioning of the Board. In order to carry out the self-evaluation exercise, an interview script was defined taking into account the best corporate governance practices.

The outside consultant held individual interviews with each and every member of the Board of Directors, during which he or she analysed the quality and efficiency of the Board's operation, the functioning and composition of its committees, diversity in the composition and competencies of the Board, the performance of the Chairman of the Board and the company's chief executive.

In particular, in the process of self-evaluation there was detailed analysis of the following areas:

-Organisation of the Board

- Organisation of the Committees
- Composition of the Board
- Involvement of the Board
- Communication with Shareholders and Regulators
- Talent Management and Succession Plans
- Risk Management
- Future Issues
- Suggestions

The self-evaluation report contains the conclusions obtained (summarised in the Company's voluntary Annual Corporate Governance Report, to which we remit) and was submitted to the Appointments and Remuneration Committee and approved by the Board of Directors at its meeting held on 27 June 2017.

The Board of Directors also resolved to initiate a new self-evaluation process for the Board of Directors, covering the year 2017, with the support of an outside consultant.

**C.1.20.ter** If applicable, provide details of the business relationships maintained by the consultant or any company in its group with the company or any company in its group.

The business relations with the outside consultant consisted exclusively of assisting the Board of Directors in the aforementioned self-evaluation process of the Board of Directors.

**C.1.21** State the circumstances in which directors are required to resign.

Article 24.2 of the Board Regulations contemplates that directors will place their positions at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignations, in the following cases:

- "a) When they reach 70 years of age.
  - b) When they are subject to any of the grounds of incompatibility or prohibition contemplated by law.
  - c) When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.
  - d) When they have seriously breached their obligations as directors.
  - e) When they leave the management positions with which their appointments as directors were associated.
  - f) When their continued presence on the Board endangers the Company's interests, and the Board so finds with the favourable vote of two thirds of its members.
- If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.
- g) In the case of a Proprietary Director, when the shareholder the shareholding interests of which it represents on the Board transfers all of its interest in the Company, or reduces it to a level requiring reduction of the number of its Proprietary Directors.
  - h) On request of the Board of Directors by a majority of two thirds of its members, when there are repeated absences from meetings of the Board.
  - i) When any circumstance occurs that prevents or significantly limits their participation in and dedication to the meetings of the Board and exercise of their duties and responsibilities as directors."

**C.1.22** Repealed section.

**C.1.23** Are supermajorities, other than the statutory majorities, required for any kind of decision?

Yes  No

If so, describe the differences.

Description of the differences
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Any resolution. Quorum: Half plus one of its members present in person or by proxy (art. 20 of the Regulations); Type of majority: Absolute.  
 Amendment of the Board Regulations as provided in article 3.4 of the Regulations. Quorum: Same as for any resolution; Type of majority: Two thirds.  
 Removal of directors when their continued presence on the Board endangers the company's interests, in particular in respect of section 38.4 of the Regulations, and the Board so finds with the favourable vote of two thirds of its members, pursuant to art. 24.2 f) of the Regulations. Quorum: Same as for any resolution; Type of majority: Two thirds.  
 Removal of director on request of the Board of Directors, when there are repeated absences from meetings of the Board. Request by two thirds majority (art. 24.2 h) of the Regulations). In accordance with art. 529 septies of the LSC, in the Board of Directors Regulations it is established that if the position of chairman is held by an Executive Director,

appointment thereof will require the favourable vote of two thirds of the members of the Board of Directors art. 9 of the Regulations).

There are no provisions for resolutions that require a supermajority for their adoption, apart from the specific ones contemplated in the applicable law and the cases referred to above.

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

In accordance with the provisions of article 21 of the Articles of Association, any director may grant a proxy to another director, in writing and specially for each meeting, to represent and vote for it at meetings of the Board of Directors. Such proxy must be given to a director of the same type as the grantor of the proxy (articles 30.2 c) and 20 of the Board Regulations). (Article 529 quater of the LSC only allows outside directors to grant proxies to another outside director, which provision has been included in art. 21 of the Articles of Association and art. 30.2 c) of the Regulations).

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

Both the Articles of Association (article 21) and article 20 of the Board Regulations provide that resolutions will be adopted by absolute majority of votes of the directors attending the meeting, in person or by proxy, except in those cases in which the law requires that resolutions be adopted by a greater majority, with the exceptions already discussed that are contemplated in the Board of Directors Regulations.

C.1.24 State if there are any specific requirements other than those relating to directors, to be appointed chairman of the board of directors.

Yes  No

**Description of requirements**

Article 9 of the Board of Directors Regulations, after its update and adaptation to article 529 septies of the LSC, provides that if the position of chairman is held by an Executive Director, appointment thereof will require the favourable vote of two thirds of the members of the Board of Directors.

C.1.25 Indicate if the chairman has a casting vote:

Yes  No

**Matters on which there is a casting vote**

In the event of a tie vote, the chairman will have the casting vote and will settle the issue, regardless of the subject matter of the resolution being voted on (Article 21 of the Articles of Association and Article 20.3 of the Board Regulations).

C.1.26 Indicate if the articles or board regulations establish any age limit for directors:

Yes  No

Age limit for chairman:

Age limit for managing director:

Age limit for director: 70

C.1.27 Indicate if the articles or board regulations set a limit on the term of office of independent directors, other than as established by law:

Yes  No

C.1.28 Indicate whether the articles or board of directors regulations establish specific rules for the granting of proxies within the board of directors, the manner of doing so and, in particular, the maximum number of proxies a director may hold, as well as whether any limitation has been established regarding the categories within which it is possible to grant proxies, beyond the limitations imposed by law. If so, briefly describe those rules.

Each director may extend a proxy to another director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors. It is so provided in article 21 of the Articles of Association. Outside directors may do so only to another outside director.

If a director cannot, for justified cause, attend a board meeting that has been called, he must give instructions to the director that will represent him, seeing to it that he is represented by a director of the same category as provided in article 30.2 c) and article 20 of the Board Regulations. In addition the provisions of art. 529 quater of the LSC must be applied for outside directors, as already set forth in the Articles of Association and the Board of Directors Regulations.

C.1.29 Indicate the number of meetings held by the board of directors during the period. State also how many times, if any, the board met without the chairman being present. The figures treat proxies with specific instructions as being in attendance.

<b>Number of board meetings</b>	11
<b>Number of board meetings without the chairman being present</b>	0

If the chairman is ans

<b>Number of meetings</b>	0
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State the number of meetings the various board committees have held during the financial year:

<b>Committee</b>	<b>No. of Meetings</b>
AUDIT COMMITTEE	11
APPOINTMENTS AND REMUNERATION COMMITTEE	11

C.1.30 State the number of meetings held by the board of directors during the financial year with the attendance of all of its members. The figures treat proxies with specific instructions as being in attendance:

<b>Number of meetings with the attendance of all directors</b>	7
<b>Those in attendance as a percentage of total number of votes during the financial year</b>	97.00%

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

Yes  No

If so, state the person(s) who has/have certified the company's individual and consolidated annual accounts for preparation by the board:

<b>Name</b>	<b>Position</b>
MR. JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR
MS. MARÍA TERESA QUIRÓS ÁLVAREZ	CHIEF FINANCIAL OFFICER
MR. JOSÉ MANUEL RODRÍGUEZ GIL	ECONOMIC MANAGER

**C.1.32 Give details of any mechanisms the board of directors has established to avoid the individual and consolidated financial statements prepared by it being presented to the general meeting with qualifications in the audit report.**

As expressly indicated in article 42 of the Board Regulations, the Board of Directors will definitively formulate the accounts, after review by the Audit Committee pursuant to its functions as established in the Regulations, seeing to it that there are no qualifications by the auditor. However, when the board concludes that its position should be maintained, it will publicly explain the substance and scope of the disagreement.

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

Since it was incorporated in 1985, the Company has not been subject to any audit qualifications regarding its Annual Accounts, which attests to the accuracy, reliability and sufficiency of the Annual Accounts of the company and of its consolidated Group throughout its life, guaranteeing at all times the highest informational transparency.

**C.1.33 Does the secretary of the board hold a directorship?**

Yes  No

If the secretary does not hold a directorship complete the following table:

Name of the secretary	Representative
MR. RAFAEL GARCÍA DE DIEGO BARBER	

**C.1.34 Repealed section.**

**C.1.35 Indicate any mechanisms established by the company to safeguard the independence of the outside auditors, financial analysts, investment banks and rating agencies.**

Approval of the policy for engagement of non-audit services from the Outside Auditor is reserved on a nondelegable basis to the Board of Directors in its internal Regulations (Art. 5.5 a) xiv).

The Annual General Meeting of Shareholders held on 15 April 2015 approved an amendment of the Articles of Association, to adapt them to the legislative reforms introduced by Act 31/2014 of 3 December 2014, amending the Spanish Companies Act to improve corporate governance. Among other articles, there was an amendment of article 23.2 of the Articles related to the authority of the Audit Committee, incorporating minimum adjustments in relation to the Outside Auditors.

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

In article 16.3 b) of the Board of Directors Regulations, in relation to the independence of outside auditors, within the functions of the Audit Committee, the function of establishing direct relationships with the Outside Auditors is included, with that committee regularly to collect and receive information from the auditor regarding the audit plan, the process of development thereof and its implementation, and regarding such matters as may result in a threat to their independence, including the matter related to the report from the Outside Auditor of neither it nor any of its partners having been convicted by a final judgment, in criminal proceedings related to the performance of its audit functions, for examination by the Committee, and any others related to the process of development of the audit of accounts. And to authorise, when it considers it to be appropriate, services of the Outside Auditors other than those that are prohibited, on the terms contemplated in the applicable legislation on audit of accounts. In addition, article 16.3 h) of the aforesaid Regulations includes the Audit Committee function of issuing, annually prior to the issue of the audit report, a report stating an opinion as to whether the independence of the Outside Auditors or audit companies has been compromised.

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

Further, pursuant to the terms of article 42 of the Board of Directors Regulations, the board will refrain from engaging audit firms whose anticipated fees in all categories are projected to surpass ten percent of total income during the last financial year.



In addition, the aforesaid article 42 of the aforesaid Regulations requires the Board of Directors to report, annually, on the overall fees that have been paid to the outside audit company for services other than auditing, seeking to minimise the engagement of such services to the extent possible.

Without prejudice to the obligation established in the aforesaid regulatory rule, to report to the Audit Committee on the services provided to the company and the Group by the outside auditor, other than those related to the outside audit (services that are regularly reported to the markets by way of heading C.1.37 of this report), the approach followed by the company is not to engage this kind of services from the Outside Auditor from the date it has been appointed by the General Meeting of Shareholders, unless there are exceptional reasons justifying the engagement of such services therefrom, which are to be appropriately explained in the annual public reporting of the company. In any case, the engagement of such services must be authorised by the Audit Committee.

Since 2016, in compliance with Recommendation 6 of the CBGSC, the company publishes the Audit Committee Report on the independence of the Outside Auditor on the corporate website, duly in advance of the date of holding the Annual General Meeting of Shareholders.

The company makes frequent presentations to financial analysts and investment banks to report the key economic and financial figures of the group, and to review its business performance.

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

Presentations to analysts are first sent to the CNMV so that they are known by the markets through its website. These presentations are then immediately posted on the company's website.

The principal purpose of the "Investor Relations" Department, under the company's Corporate Economic and Financial Office, is to serve as a channel for communications with financial professionals and institutional investors and respond to their inquiries.

C.1.36 State whether the company has changed outside auditors during the financial year. Is so identify the new and departing auditors:

Yes  No

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

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

Yes  No

	Company	Group	Total
<b>Fees for non-audit services (thousands of euros)</b>	15	112	127
<b>Fees for non-audit services / Total fees invoiced by the auditor (%)</b>	17.00%	37.00%	32.00%

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

Yes  No

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

	Company	Group
<b>Number of consecutive financial years</b>	5	5

No. of financial years audited by current audit firm / No. of financial years the company has been audited (as a %)	16.00%	29.00%
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C.1.40 Is there a procedure to allow directors to take independent professional advice? If so, give details.

Yes  No

**Describe the procedure**

A specific procedure exists within the company in order for directors to obtain outside advice.

To receive assistance in exercising their functions, article 28 of the Board Regulations provides in this regard that directors may request that the Board of Directors engage legal, accounting, financial or other expert consultants, at the expense of the company.

This engagement must necessarily refer to specific problems of a certain significance and complexity that arise in the performance of their duties.

The request to engage such consultants must be made to the chairman. It may be rejected by the Board of Directors if it is shown that:

- a) It is not necessary for the proper performance of the functions assigned to the directors.
- b) The cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company, or
- c) The technical assistance sought may be adequately provided by experts or technicians of the Company, or has been entrusted to other outside experts.

In respect of the Audit Committee and the Appointments and Remuneration Committee, articles 15.8 and 17.9, respectively, of the Board Regulations state that the committees may propose that the Board of Directors seek independent professional advice.

Furthermore, said Committees may have access to any type of information or documentation of the Company that is necessary to better carry out their duties, pursuant to the provisions established in the foregoing articles of the Board Regulations.

C.1.41 Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for board and board committee meetings in good time. If so, give details.

Yes  No

**Describe the procedure**

Board of Directors meetings are called at least six days in advance and all the relevant information is sent together with the call. The call always includes the agenda for the meeting and, as a general rule, the relevant information is attached, duly summarised and prepared.

Notwithstanding the foregoing, article 19.5 of the Board Regulations establishes that the call of the board will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the board may be called by telephone and the prior notice period will not apply when, in the chairman's opinion, the circumstances so require. The urgent reasons will be explained in the minutes of the meeting as provided in article 19.6 of the Regulations.

Article 27.1 of the Board Regulations provides that a director has the broadest rights to collect information regarding any matter affecting the Company. In this regard a director may examine the books, records, documents and other background of corporate transactions, and inspect all of its facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with article 27.3 of the Board Regulations, in order not to interfere with ordinary management of the company, exercise of information rights is channelled through the chairman of the Board of Directors and/or the Managing Director. They will respond to director inquiries by providing the information directly, making the appropriate spokesmen at the appropriate level within the organisation available, or arranging for requested on-site review and inspection.

Article 27.4 of the Board Regulations provides that the chairman may restrict access to certain information on an exceptional and temporary basis, informing the Board of Directors of the decision during its next meeting.

Also, both the Audit Committee and the Appointments and Remuneration Committee may access any kind of information or documentation of the Company that they need for better performance of their duties, as indicated in section C.1.40 above.

C.1.42 State whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may prejudice the credit and reputation of the company, and if so give details:

Yes  No

**Explain the rules**

Article 35 of the Board Regulations, among the disclosure obligations of a director, provides that a director must advise the company of all judicial, administrative and other claims that by reason of their significance may jeopardise the credit and reputation of the company. In particular he must advise of criminal actions in which he appears as a target, and of the progress of the trial.

Also, as indicated in article 24.2 f) of the Board Regulations, directors must tender their positions to the Board of Directors and formalise the corresponding resignation when remaining on the Board endangers the interests of the company, as discussed above, if so ordered by the Board by a vote of two thirds of its members.

If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.

C.1.43 State whether any member of the board of directors has reported to the company that he has been indicted or tried for any of the crimes stated in article 213 of the Spanish Companies Act:

Yes  No

State whether the board of directors has reviewed the case. if so, explain the decision taken as to whether it is or is not appropriate for the director to remain in office or, if applicable, state the actions taken by the board of directors up to the date of this report or the actions it contemplates taking.

C.1.44 Give details of significant agreements that have been entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer, and the effects thereof.

There are no agreements entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer for its shares.

C.1.45 Identify on an aggregate basis and describe in detail agreements between the company and its directors and managers or employees that contain indemnification, guarantee or golden parachute clauses, when they resign or are improperly dismissed, or if the contractual relationship concludes by reason of a public tender offer or other transaction.

**Number of beneficiaries: 4**

**Type of beneficiary**

Chairman, Managing Director and top-level Managers

**Description of Agreement:**

The contract of the Chairman was proposed by the Corporate Governance and Responsibility Committee (currently called the Appointments and Remuneration Committee) and approved by the Board of Directors of the Company in March of 2012. On the ending date of the transitional period (General Meeting of Shareholders of 15 April 2016) by decision of the Company, the commercial contract of the Chairman of the Board of Directors was deemed to be automatically terminated upon cessation of use of his executive functions. Also, at the date of the end of the transitional period as

executive Chairman, indemnification corresponding to one year of remuneration accrued in his favour, as contemplated in the executive Chairman contract. That indemnification will be due when he ceases to be a director of the Company.

Also, at the General Meeting of Shareholders held on 15 April 2016, the remuneration of the Managing Director was updated to be consistent with that approved at the General Shareholders' Meetings held on 17 July 2015 and 15 April 2016, given the assumption of all of the Company's executive functions. The remuneration of the Managing Director includes both fixed and variable remuneration, annual and multi-year, for his executive functions, as well as fixed remuneration as a member of the Board of Directors. The allowance for social benefits also is maintained. Part of the annual variable remuneration will be paid by delivery of shares of the Company.

The contract of the Managing Director was proposed by the Appointments and Remuneration Committee and approved by the Company's Board of Directors on 28 July 2015. On proposal of the Appointments and Remuneration Committee, after approval of the Board of Directors on 23 February 2016, that contract was updated, in accordance with the remuneration policy, to reflect the new conditions due to the full assumption of the executive functions. In accordance with the remuneration policy, this contract, following the customary market practices, contemplates indemnification equivalent to one year's remuneration in the event of termination of the commercial relationship by reason of dismissal or change of control. In addition, as is customary in these cases, as a result of his appointment as Managing Director, the pre-existing employment contract is suspended. If it were to be extinguished, it would in terms of indemnification accrue the remuneration existing at the date of the suspension, for the appropriate purposes based on his seniority with the Company at the date of his appointment as Managing Director (14 years), in accordance with the current labour legislation.

Top-level Managers: There are no guarantee or golden parachute clauses for dismissals in favour of top-level Managers currently serving within the Group. If the employment relationship is extinguished, the indemnification corresponding to those Managers would be calculated in accordance with the applicable labour laws. The contracts of these Managers were approved by the Appointments and Remuneration Committee and they were duly notified to the Board of Directors.

The top-level Managers providing services within the Group at 31 December 2017 are included in the Structural Management Plan put in place by the Company in 2015.

State whether such clauses must be notified to and/or approved by the management bodies of the company or its group:

	Board of directors	General meeting
<b>Body authorising the clauses</b>	<b>Yes</b>	<b>No</b>

	Yes	No
Is the general meeting of Shareholders informed of the clauses?	X	

## C.2 Board of directors committees

C.2.1 Give details of all committees of the board of directors, their members and the proportions of executive, proprietary, independent and other outside directors that are members thereof:

### AUDIT COMMITTEE.

Name	Position	Category
MR. ANTONIO GÓMEZ CIRIA	CHAIRMAN	Independent
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Independent
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	MEMBER	Proprietary
MS. SOCORRO FERNÁNDEZ LARREA	MEMBER	Independent
MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	MEMBER	Independent

<b>% of Proprietary Directors</b>	20.00%
<b>% of Independent Directors</b>	80.00%

<b>% of other outside</b>	0.00%
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Explain the functions assigned to this committee, describe its procedures and rules of organisation and functioning and summarise its most important actions during the year.

The functions, procedures and rules of organisation and functioning of the Audit Committee are set forth in articles 23 of the Articles of Association and 15 and 16 of the Board of Directors Regulations (see the corporate website).

The most important actions of the Audit Committee are included in the Annual Activities Report of the aforesaid Committee for 2017, which is available on the corporate website (www.ree.es), in the section on "Reports and Other Documents" referred to in Recommendation 6 of the CBGSC.

Identify the director that is a member of the audit committee that has been appointed taking account of his knowledge and experience regarding accounting, auditing or both, and state the number of years the Chairman of this committee has been in the position.

<b>Name of the director with experience</b>	MR. ANTONIO GÓMEZ CIRIA
<b>No. of years the chairman has held the position</b>	0

### **APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Category</b>
MR. JOSÉ LUIS FEITO HIGUERUELA	CHAIRMAN	Independent
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	MEMBER	Independent
MR. ALBERTO FRANCISCO CARBAJO JOSA	MEMBER	Independent
MS. MERCEDES REAL RODRIGÁLVAREZ	MEMBER	Proprietary
MR. SANTIAGO LANZUELA MARINA	MEMBER	Proprietary

<b>% of Proprietary Directors</b>	40.00%
<b>% of Independent Directors</b>	60.00%
<b>% of other outside</b>	0.00%

Explain the functions assigned to this committee, describe its procedures and rules of organisation and functioning and summarise its most important actions during the year.

The functions, procedures and rules of organisation and functioning of the Appointments and Remuneration Committee are set forth in articles 24 of the Articles of Association and 17 and 18 of the Board Regulations (see the corporate website).

The most important actions of the Appointments and Remuneration Committee are included in the Annual Activities Report of the aforesaid Committee for 2017, which is available on the corporate website (www.ree.es), in the section on "Reports and Other Documents" referred to in Recommendation 6 of the CBGSC.

C.2.2 Complete the following table with information regarding the number of female directors that have been members of the committees of the Board of Directors over the last four financial years:

	<b>Number of female directors</b>							
	<b>F/Y 2017</b>		<b>F/Y 2016</b>		<b>F/Y 2015</b>		<b>F/Y 2014</b>	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
AUDIT COMMITTEE.	2	40.00%	1	20.00%	1	20.00%	2	50.00%
APPOINTMENTS AND REMUNERATION COMMITTEE	2	40.00%	3	75.00%	4	100.00%	3	75.00%

C.2.3 Repealed section

#### C.2.4 Repealed section.

#### C.2.5 State whether there is any regulation of board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

The Board of Directors Regulations of the company regulate the structure, composition and functioning of the Audit Committee and the Appointments and Remuneration Committee in accordance with the principal international recommendations and practices regarding corporate governance, introducing improvements in the organisation and functioning.

The company opted for comprehensive regulation in the Board of Directors Regulations without establishing specific internal regulations for the Committees.

The functions and responsibilities of the Committees are based on the Articles of Association, which were adapted in this regard to the innovations introduced by Act 31/2014 of 3 December 2014, amending the Spanish Companies Act to improve corporate governance, at the Annual General Meeting of Shareholders held on 15 April 2015. The Board of Directors Regulations also were amended in the same sense on 20 December 2016, for full adaptation to the reforms of the Spanish Companies Act, to the Code of Good Governance of Listed Companies and to introduce improvements in the organisation and functioning of the Board Committees and to adapt them to the new organisational structure.

In view of the most recent reforms of the Spanish Companies Act, the principal matters had already been incorporated in the amendments of the Articles and the Board Regulations approved in 2013. Nevertheless, these corporate rules have been reviewed to ensure that they are fully adapted to the new Act.

The current Board of Directors Regulations may be viewed on the company's website, [www.ree.es](http://www.ree.es), in the Corporate Governance section, without prejudice to their being registered, and therefore available to the shareholders and any interested person, at the CNMV and the Madrid Commercial Registry. The Board Committees annually prepare various reports on the conduct of their activities, which are incorporated into the Annual Corporate Governance Report and published on the company's website. In 2017, in accordance with Recommendation 6 of the CBGSC, the activities reports of the Committees for the 2016 financial year were separately published on the corporate website. It is contemplated that the activities reports of the Committees for 2017 also will be published in the same manner on the corporate website ([www.ree.es](http://www.ree.es)).

#### C.2.6 Repealed section.

### **D RELATED PARTY AND INTRAGROUP TRANSACTIONS**

#### D.1 Explain the procedure, if any, for approval of related party and intragroup transactions.

##### **Procedure for reporting approval of related party transactions**

In May 2010 the Board of Directors, on proposal of the Audit Committee, adopted certain resolutions on related-party transactions and defined objective parameters for the control of related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions that must obligatorily be reported to the securities markets. In compliance with the aforesaid resolutions, the Audit Committee annually monitors the related party transactions and reports in a timely manner to the Board of Directors.

However, as a result of the update of the Board of Directors regulations, dated 20 December 2016, and of the Internal Regulations of Conduct in the Securities Market, dated 26 September 2017, the Board of Directors on the basis of the current legal scheme for related party transactions, and taking account of the corporate rules of the company as fully adapted to that scheme, in January 2018 derogated the aforesaid resolutions and approved a new resolution whereby any related party transaction that the company or companies included in its Group engage in with directors or shareholders of the companies, individually or collectively with others holding a significant participation, including shareholders represented on the Board of Directors of the company or companies in its Group, or persons related thereto in accordance with the current legislation, is submitted to approval of the Board of Directors, after a report from the Audit Committee, prior to being implemented.

Excepted from approval by the Board are transactions that, simultaneously, have the following three characteristics:

- that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a high number of customers,
- that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and
- that the amount thereof does not exceed one per cent of the annual income of the company.

Also, the reporting obligations legally established in relation to the aforesaid related party transactions will be met.

The resolutions of January 2018 also contemplate the need to report semi-annually to the Board of Directors, after a report of the Audit Committee, and after implementation, any related party transaction undertaken by the company or companies in its Group with the directors and officers of the company, shareholders and third parties that may exercise "significant influence", as well as close family members thereof, on the terms contemplated in the current legislation.

- D.2 Describe those transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the company or entities in its group and the significant shareholders of the company:
- D.3 Describe the transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the company or entities in its group and the directors or managers of the company:
- D.4 Give details of any significant transactions entered into by the company with other entities belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, as regards their subject matter and terms, are part of the ordinary course of the company's business.

In any event, any intragroup transaction entered into with entities established in countries or territories considered to be tax havens is to be reported:

**Name of group company:**

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

**Amount (thousands of euros):** 85

**Brief description of the transaction:**

Leases.

**Name of group company:**

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

**Amount (thousands of euros):** 54,828

**Brief description of the transaction:**

Financing agreements in the form of loans and capital contributions with TRANSMISORA ELÉCTRICA DEL NORTE, S.A. acting as lender.

**Name of group company:**

TRANSMISORA ELÉCTRICA DEL NORTE, S.A.

**Amount (thousands of euros):** 1,724

**Brief description of the transaction:**

Financial income on the loan.

- D.5 State the amount of transactions entered into with other related parties.

15,585 (€ 000s)

- D.6 Give details of the mechanisms in place to detect, determine and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, managers or significant shareholders, on the other.

In accordance with art. 31 e) of the Board Regulations a director must take the measures necessary to avoid being involved in situations in which its interests, whether for itself or a third party, may be in conflict with the corporate interest and its duties to the Company. And article 32 of the Board Regulations develops the duty to avoid situations of conflict of interest referred to in article 31 e) and clarifies it as regards those from which the director must refrain. In any event, the

directors must advise the Board of Directors of any conflict situation, direct or indirect, that they or persons related thereto may have with the interest of the company. The situations of conflict of interest of directors will be reported in the notes to the annual accounts.

Regarding officers, conflicts of interest are regulated in the Code of Ethics that is published on the corporate website (www.ree.es), specifically in Section 6 of the aforesaid Code. In accordance with the aforesaid Section 6 of the Code of Ethics conflicts of interest appear when there is any circumstance or situation in which the interests of individuals, family members or people close to the directors and employees differ from the interests of the company.

All actions or decisions in which a person in the Group participates must be aimed at the objective of maintaining the continuity of the company and achieving an unblemished reputation.

The commitments that must be assumed are as follows:

Limitations on participation on boards of directors or affiliations: Persons in the group may not be members of any board of directors or body of a similar nature of any company that maintains business relationships with the Red Eléctrica Group, or any agency or office of the government without the knowledge and, if applicable, agreement of the company. They may participate in nongovernmental organisations or non-profit entities, provided that this position is not used to favour possible collaboration of Group companies with those social entities to the detriment of others.

Limitation on occupation outside the company: The Red Eléctrica Group respects its employees engaging in outside activities or services, provided that it does not result in a loss of efficiency or productivity in the job, and that the resources, working hours or facilities of the Group companies are not used for such purposes. Also, services will not be rendered in any entity related to the electricity sector, to avoid conflicts of interest, and business relationships will not be maintained with companies in which there are personal or family interests, without reporting to management.

Proper treatment of confidential information. If by reason of work an individual has confidential or inside information it must not be used for its own benefit. Improper use thereof may put the company in a situation in which its reputation or economic situation may be affected. In those cases in which it is considered to be necessary, specific confidentiality agreements will be signed for each project or specific action. Professionals having access to this type of information may not enter into transactions based on that confidential information or transfer it to third parties for this or any other purpose. The definition of "inside information" and the kinds of behaviour that affect the securities markets are contained in the Internal Regulations of Conduct in the Securities Market. In case of doubt in this regard, the "Oversight Body" for the aforesaid regulations is to be consulted.

Confidential information will be protected against being inadvertently disclosed to outsiders. If any confidential information is to be transmitted electronically, it must be properly protected.

Limitation on the acceptance of gifts, loans or invitations: In no case may gifts, loans, entertainment and/or invitations be accepted from individual or legal third persons related to activities of the company that may result in a loss of independence and fair dealing with the various stakeholders, particularly customers and suppliers. Employees will refrain from accepting gifts of any kind that they may receive from customers, suppliers, shareholders, etc. of the Group having a value of more than 150 euros each. If, the aforesaid limit being exceeded, it is impossible or difficult to return the gift, it will be made available to the Group for corporate volunteer work, thus to collaborate in solidarity initiatives.

Limitation on ownership or participation in the capital of companies: Holding a significant financial interest in companies with which the Electric Group maintains or is in the process of establishing commercial relations will be avoided. As an estimated reference, the figure of 3% of the company's capital or shares is provided. In doubtful cases, the company's management is to be consulted.

## D.7 Is more than one group Company Listed in Spain?

Yes  No

Identify the subsidiaries listed in Spain:

### Listed subsidiary

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

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

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

**Mechanisms to resolve any conflicts of interest.**

## **E** RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Explain the scope of the Risk Management System of the company, including tax risks.

Since 2002 the Red Eléctrica Group has had a comprehensive risk management system to facilitate compliance with the Group's strategies and objectives, ensuring that the risks that may affect them, including tax risks, are identified, analysed,



evaluated, managed and controlled in a systematic manner, with uniform criteria within an acceptable risk level approved by the Board of Directors.

The management system conforms to the ISO 31000 standard on principles and guidelines in the management of risk, and is of a comprehensive and ongoing nature, with such management being undertaken by business unit, subsidiary and corporate level support area.

In 2015 progressive revision of compliance with the five components of internal control began, according to the COSO Comprehensive Framework of May 2013. The EY audit firm at the end of 2015 undertook review of the first of these components, "Control Environment", and in November 2016 review of the second component, "Risk Evaluation". In both reviews it concluded that the elements and activities related to the control environment are formalised and present in all areas/operations of the organisation and, furthermore, in many cases reference best practices in this area have been implemented. In 2017 the EY firm undertook an audit of the comprehensive risk management system. As a result of this review it was concluded that the implementation of the system conforms with the ISO 31000 standard.

The Red Eléctrica Group has a comprehensive risk management policy and a comprehensive general risk management and control procedure, based on the COSO II (Committee of Sponsoring Organisations of the Treadway Commission) Comprehensive Corporate Risk Management Framework.

#### The Comprehensive Risk Management Policy

According to the Board of Directors Regulations of Red Eléctrica Corporation, it is the Board of Directors itself that approves the risk control and management policy.

The various types of risks are identified in it, the risk level the Group considers to be acceptable is fixed, and guidelines are established for management and mitigation of those risks.

In 2015 the Policy for Control and Management of Tax Risks was included within this policy, incorporating the guidelines for management and mitigation of this type of risk.

This policy is fully aligned with the current strategic plan of the Group, and is available on the corporate website in the Corporate Governance section.

#### The General Procedure for Comprehensive Risk Control and Management

The general procedure for comprehensive risk management and control governs the process of identification, analysis, evaluation and control of the management of the significant risks to which the Group is exposed.

This process is undertaken for the purpose of ensuring that the various levels of responsibility within the Group are aware of and evaluate the risks threatening the strategies and objectives of the Group, and that the management performed by them takes account of and is effectuated within the established acceptable risk limits.

## **E.2 Identify the company bodies responsible for the preparation and implementation of the Risk Management System, including tax risks.**

The risk management system is comprehensive in nature, in so far as all of the Group's business units participate in it, along with the various governing bodies, within a systematised management process, which conforms to the criteria and guidelines established in the Policy and General Procedure of Comprehensive Risk Control and Management.

The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out.

As expressly recognised in the Regulations of the Board of Directors, the Board of Directors is responsible for approval of the Comprehensive Risk Management Policy of the Group, which includes definition of the acceptable risk level, and review and periodic monitoring of internal control, prevention and reporting systems.

The Board reviews the risk control system and material risks, including tax risks, at least twice a year, without prejudice to the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The Audit Committee has authority for regular monitoring of the effectiveness of the comprehensive risk management system, including tax risks, so that the relevant risks are identified, managed within the established acceptable risk levels and appropriately reported.

The Advisory Committee for the Office of the Chairman, composed of the managers of the most important and strategic areas of the company, is assigned the functions of monitoring the Risks Map of important risks and ensuring appropriate control and monitoring of the management of the risks characterised as being of high level, and others of special importance, and the action plans critical to mitigation thereof.

The Internal Audit and Risk Control Office, reporting to the office of the chairman, is responsible for coordinating and supporting the process of identification, analysis and evaluation, and undertaking the periodic review of risks. This department provides reports for the Advisory Committee for the Office of the Chairman, Audit Committee and Board of Directors.

The organisational units are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the Internal Audit and Risk Control Office, and in the implementation of action plans.

## **E.3 Identify the principal risks, including tax risks, that may affect achievement of the business objectives.**

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

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

The types of risks faced by the Group in the achievement of its strategies and objectives may be classified as follows:

Operating risks:

- Operating risks that may affect the electricity system. Those risks that may affect the electricity system related to proper functioning of the Transmission Network and System Operation.
- Environmental and human risks. These risks are related principally to the environment in which the activities are undertaken and the safety of the persons working therein.
- Comprehensive security risks. This combines the risks related to physical security and cyber security
- Other operating risks. Those of an operating nature not included in the foregoing types.

Regulatory risks:

- Regulatory risks as the Spanish TSO (transmission system operator). Those risks that are related to the regulation affecting the Group in its activity as the Spanish TSO.
- Other regulatory risks, deriving from regulation other than as indicated above. It in particular includes tax risks. Tax risks: those produced by application of the tax rules, interpretive complexity or amendments to the aforesaid rules and the possible impact on reputation resulting from the management of tax matters.

Financial and counterparty risks:

- Financial and counterparty risks. This corresponds to financial and market risks and those related to counterparty breach of their contractual obligations.

Business diversification risks:

- Risks associated with the telecommunications business.
- Foreign business risks. This includes the risks of activities engaged in by the Group through its subsidiaries abroad.

The tax aspects were included in 2015 in the Policy for Comprehensive Risk Management, establishing the specific guidelines for action to manage such risks.

As a result of the risk analysis performed by the Red Eléctrica Group in the most recently presented Risks Map 118 risks were identified (2016 financial year).

There is detailed information on the current risks of the Group, and the risks that may emerge in the future, in the company's Sustainability Report. This report is available on the corporate website.

#### E.4 State whether the entity has a risk tolerance level, including tax risk.

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

The Comprehensive Risk Management System of the Group sets out a methodology to determine the acceptable level of risk. As a result all identified risks are classified into three categories:

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

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

The probability of occurrence is classified into five levels in accordance with a specific probability distribution.

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

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

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

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

In accordance with the comprehensive risk management policy, at the individual level, any risk that is not above the low risk level will be considered to be acceptable. Risks above this level must be subjected to actions until achieving an acceptable level to the extent that the risk is manageable and the cost of the measures to mitigate it is justified by the effect that materialisation of the risk could have on the Group.

In 2016 the Board of Directors approved the determination of the acceptable overall risk level that the Group is willing to assume for each of the four types of impact contemplated in the Comprehensive Risk Management System, as referred to above (impact on electricity supply, impact on basic strategies of the Group, impact on reputation and impact on results). As a general risk management approach, the overall aggregate risk level of the Group, determined as the result of statistically combining the individual risks, must not exceed this acceptable risk level on an overall basis.

#### E.5 Indicate what risks, including tax risks, have materialised during the financial year.

No risks of note materialised during 2017.

The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of the supply of electricity.

During 2017 there were events the consequences of which were outages of minor importance. Generally these events are caused by third parties and meteorological phenomena.

For these events, the control systems have functioned appropriately, as shown by the availability index of the peninsular transmission network, which in 2017 was 98.29%.

The Group also has insurance policies limiting the potential impact of these events on the income statement.

## E.6 Explain the plans for response to and monitoring of the principal risks of the entity, including tax risks.

In the process of identification, analysis, evaluation and control of risk management, the actions required to reduce the degree of risk down to the acceptable level are established.

For the monitoring of risks, the current Comprehensive Risk Management System includes the monitoring of more than 500 action plans aimed at reducing the level of risk and more than 300 indicators to review their evolution.

On a semi-annual basis for high-level risks and others of special importance, and annually for the other levels of risk, and when circumstances make it advisable as to specific risks, the Internal Audit and Risk Control Office reviews the performance and impact of the action plans previously established to reduce risk with the units.

In addition, the Group defines contingency plans that regulate the various crisis situations that may arise in the event of an electricity incident (to ensure security of supply), or a non-electricity incident that may affect the environment, people, the operations of the company, the availability of its systems, the business results or any other fact that may have an impact on the reputation of the company.

The company also has an action guide for management of cyber incidents, updated in 2017, which establishes the criteria and guidelines for management of any incident related to cybersecurity.

Furthermore the company has a System for Internal Control of Financial Reporting (SICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, with the early and voluntary adoption of international best practices. The SICFR includes the tax information and processes of the company and the controls associated therewith.

The SICFR is described in detail in "SECTION F. INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)".

## **F INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)**

Describe the mechanisms comprising the systems for control and management of risks in relation to the process of financial information reporting (SICFR) of your entity.

### F.1 Control environment of the entity

State, indicating the main features, at least:

#### F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an appropriate and effective SICFR; (ii) its implementation; and (iii) its monitoring.

The model of responsibilities of the System for Internal Control of Financial Reporting (hereinafter "SICFR") is structured by way of the following special bodies, offices and organisational units, which develop, maintain and monitor the process of preparation of financial information:

- The Board of Directors, which has the ultimate responsibility for the existence and maintenance of an appropriate and effective SICFR. For these purposes, the Board of Directors Regulations of the Company, in their Article 5, section a) point ix) provide that among the nondelegable authority thereof is "approval of the policy for control and management of the principal risks of the Company and the group, and review and periodic follow-up regarding the systems for internal control, prevention and reporting".

- The Corporate Economic and Financial Office, as the level implementing the guidelines issued by the Board of Directors, has given responsibility for the design, implementation, functioning and coherence of the SICFR to the Economic Office, since within its responsibilities, as indicated in the Internal Control Manual, is that of "establishing an appropriate control structure to ensure the effectiveness of the internal control system".

- The Audit Committee is responsible for supervision of the SICFR. In accordance with article 16 of the Board of Directors Regulations, the Audit Committee will exercise the functions of "supervising the process of preparation and the integrity of the financial information of the Company and, if applicable, the Group, seeing to proper attention to the regulatory requirements, appropriate delimitation of the perimeter of consolidation, and proper application of accounting principles and criteria as applicable thereto" and "supervising the Internal Audit services, which will see to proper functioning of the information and internal control systems". For performance of these functions the Audit Committee has an Internal Audit and Risk Control Office, and the outside auditors.

- The organisational units of the Group are jointly responsible for the controls defined in their areas of responsibility and must ensure the proper design and operation thereof.

In addition to the foregoing, during 2017 the third component, "Control Activities", was evaluated by the Deloitte firm, the conclusion being that within the Group it is mature and in line with advanced best practices in the market.

F.1.2. If they exist, particularly as regards the process of preparation of financial information, describe the following:

- Departments and/or mechanisms responsible: (i) for design and review of the organisational structure; (ii) for clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) that there are sufficient procedures for proper dissemination thereof within the entity.

The Corporate Resources Office, as the level implementing the guidelines issued by the Board of Directors, through the Human Resources Office of the Group, is responsible for determining the basic structure of the organisation, determining the various levels of authority and the resulting levels of responsibility. All of the foregoing is intended to maintain an organisational structure design that is implemented, reviewed and updated on an ongoing basis. The internal mechanisms used by this office for clear definition of the lines of responsibility and determination of the general framework of the organisational structure are documented as follows:

- Restated Text of the Articles of Association.
- Internal Regulations for Conduct in the Securities Market.
- Corporate Responsibility Manual.
- Code of Ethics: values and commitments.

The details of the scope of lines of responsibility and authority of the SICFR are regulated by way of the SICFR Action Guide, which details the functions of maintenance, updating and supervision of the SICFR at each of the various levels of responsibility that are described. It should be noted that the Corporate Economic and Financial Office has delegated some of the tasks to the Economic Office, and the latter has delegated them to the Accounting Information and Administration Department. This SICFR Action Guide is part of the Group rules and is available to employees on the Intranet.

Dissemination of the organisational structure is accomplished by way of the Intranet, with an updated organisation chart being available to employees.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether there are specific references to the transactions ledger and preparation of financial information), body responsible for analysing noncompliance and proposing corrective actions and sanctions.

The Group has an appropriate conduct framework, stating values and specific guidelines for action, strengthening the bases for achieving the objectives of reliable and transparent financial information. At this level are the following documents aligned with the corporate policies of the Group:

- Code of Ethics:

The current "Code of Ethics: Values and Commitments" was approved by the Board of Directors of the Company, in effect from 28 May 2013 until a new update is approved or it is repealed. This code is the reference framework to ensure responsible management and ethical behaviour of the members of the organisation in the performance of their duties. The Code contains the corporate values and guidelines for behaviour to be followed, formulated by way of principles and commitments, and constitutes a firm commitment of the company to ethical and transparent management, applicable to all people in the Group.

Together with the appropriate training, in person or remotely, it is provided to the employees of the Group, in addition to being available to them on a permanent basis both in the internal rules and on the corporate website. This Code of Ethics is reviewed regularly to adjust its requirements to the needs of the company and its relationship to the environment and with stakeholders. The current 2013 version adopts the requirements and recommendations regarding management of ethics of the most respected international agencies, among them the United Nations (UN), the European Union, the Organisation for Economic Cooperation and Development (OECD) and international organisations such as Transparency International and the Etnor Foundation, among others. Regarding preparation of the economic and financial information, it includes the following matters, among others, within the description of the corporate values:

- "Reliability": commitment to preparation of reliable, rigorous and realistic information, particularly financial information.

- "Responsibility": all decisions and actions taken must respect the legal system and be the result of a process of reflection in which the possible consequences that may derive therefrom are assessed.

- "Leadership and Creativity": the commitment to excellence in management relies on efficient systems and processes, a valued element being participation and pride of belonging, on the systematic search for improvement, and on the identification and application of best practices. Transparent external and internal communication is an important element of the strengthening of business leadership.

The body responsible for analysing noncompliance and proposing corrective actions and sanctions is the Ethics Manager and defender of stakeholders, with the cooperation of the chairman of Red Eléctrica Group and the chairman of the Audit and Appointments and Remuneration Committees.

- Internal Regulations for Conduct in the Securities Market:

The "Internal Regulations for Conduct in the Securities Market" initially were approved by the Board of Directors on 25 June 2009. Thereafter, they were reviewed and updated periodically to adapt the requirements to the needs of the company and its relationship with the environment and its stakeholders; the most recent version was approved in September 2017, to adapt it to the European Regulation on Market Abuse.

The aforesaid regulations establish the rules for action in the securities markets and the required records, in relation to the following:

- Inside and Material Information.
- Related Parties.
- Rules on the free formation of prices.
- Treasury shares.

These regulations apply to those subject thereto as specified in Articles 2 and 3, that is the Directors, the Secretary and the Vice Secretary of the Company's Board, as well as those persons whose customary functions are related to the securities markets and are expressly specified by the Oversight Body. In this regard the persons subject thereto will receive a copy of the regulations, being required to sign a declaration confirming

receipt thereof and understanding of the obligations to which they are subject as stated in point 2.2 of Article 2. For purposes of the aforesaid regulations, the Oversight Body, as specified in Article 11, is the Corporate Economic and Financial Office, which may seek the cooperation of the Office of the Secretary of the Board of Directors for such legal questions as may arise as to their application or interpretation.

- Corporate Responsibility Policy

The purpose of this policy is to establish the general principles and guidelines so that all companies in the Red Eléctrica Group undertake sustainable, ethical and responsible business management in the performance of their duties.

- Complaint channel, allowing communication to the audit committee of irregularities of a financial and accounting nature, in addition to possible noncompliance with the code of conduct and irregular activities in the organisation, stating if applicable that it is of a confidential nature.

The Code of Ethics, in the section on "System for detection and processing of possible noncompliance, complaints, inquiries and suggestions" contemplates a system for receipt and processing of alleged noncompliance by reason of ethical, commercial, financial, accounting and other violations of this code. Any interested party may report alleged noncompliance.

Complaints preferably are to be made electronically. On the website of each company there will be an easily viewed and accessible channel, by way of which, confidentially, complaints will be transmitted electronically to the Ethics Manager. The system will ensure confidentiality and non-reprisal in all of its phases. The Ethics Manager must assume a commitment of total confidentiality in the performance of his duties, which commitment will extend to those providing internal support thereto.

Also, there is another means of sending reports of noncompliance, complaints, inquiries and suggestions regarding ethical matters, by way of the DIGAME (TELL ME) service, to receive requests from outside stakeholders that are not aware of the aforesaid channels.

- Regular programmes of training and updating for personnel involved in the preparation and review of financial information, as well as evaluation of the SICFR, which cover at least accounting standards, audit, internal control and risk management.

The Human Resources Office, based on the training prepared by the Offices involved in the preparation and review of financial information, manages and plans the educational programmes related to specific training in this area. In this regard, the Corporate Economic and Financial Office, as the level implementing and having responsibility for the design, implementation, functioning and coherence of the SICFR, proposes training programmes to the Human Resources Office to ensure that the training is kept updated for all personnel involved in the preparation and review of the financial information, as well as evaluation of the SICFR.

## F.2 Evaluation of financial reporting risks

State, at least:

### F.2.1. The principal features of the risk identification process, including risks of error or fraud, in terms of:

- Whether the process exists and is documented.

The Company bases its process for identification of risks of error or fraud in the financial information on the COSO I (Committee of Sponsoring Organisations for the Commissions of the Treadway Commission) methodology, implementing practices aimed at designing and maintaining an internal control system that allows providing reasonable security in respect of the reliability of the regulated financial reporting.

The process of evaluation of risks of information reporting is documented in the Group's Manual for the System for Internal Control of Financial Reporting. That procedure is available within the Company's SICFR management tool, to which the managers involved have access.

- Whether the process covers all of the financial reporting objectives (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), whether it is updated and with what frequency.

For the significant accounts and breakdowns the key processes and subprocesses associated therewith have been defined, and the risks that may generate errors and/or fraud in the financial information have been identified, covering all of the objectives of financial reporting (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), updated annually.

- The existence of a process of identification of the perimeter of consolidation, taking account, inter alia, of the possible existence of complex corporate structures, holding companies or special-purpose companies.

The Audit Committee is responsible for supervision of the perimeter of consolidation.

The procedure for review and authorisation of the financial information is formalised monthly by way of internal review at the level of the Corporate Economic and Financial Office, and concludes with presentation to the Audit Committee, and subsequently to the Board of Directors. In these reviews, among other matters, the perimeter of consolidation, as well as any other complex corporate structure, holding company or special-purpose company, are subject to approval.

- Whether the process takes account of the effects of other types of risks (operational, technological, financial, legal, reputation, environmental, etc.) to the extent affecting the financial statements.

The Internal Audit and Risk Management Office is responsible for providing support to the Audit Committee in the evaluation of risks, in close collaboration with the various units that control each of the aforesaid risks (Information Technology Department, Financial, Legal, Tax, Environmental, etc.).

- Which governance body of the entity supervises the process.

The Audit Committee supervises the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.

### F.3 Control activities

State, indicating their principal features, whether there are at least:

- F.3.1. Procedures for review and authorisation of financial information and the description of the SICFR, to be disclosed to the securities markets, indicating those responsible, as well as documentation describing the flow of activities and controls (including those related to risk of fraud) of the various types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of the relevant judgments, estimates, valuations and projections.

On a monthly basis, the Accounting Information and Administration Department, which organisationally reports to the Group's Economic Office, reviews and formally validates the financial information prepared and reported to the Corporate Economic and Financial Manager in order to ensure its reliability. The aforesaid procedure of review and authorisation ends with presentation thereof to the Audit Committee and, thereafter, to the Board of Directors. In these reviews the perimeter of consolidation, the accounting and tax criteria, judgments, and the relevant estimates and projections used in preparation of the Financial Statements are subject to approval by the Audit Committee. Also, prior to formulation of the consolidated Annual Accounts and the Management Report, as an additional guarantee mechanism regarding the financial information, a process of Certification of Accounts has been implemented whereby the companies comprising the consolidated Group and the Offices/Departments that participate in preparation of the financial information, are expressly asked to certify that they have effective control mechanisms and that there is no fact that may significantly affect the accounts that has not been appropriately communicated.

In addition, the Economic Office, reporting to the Corporate Economic and Financial Office, has been delegated the functions of supervision of the process of design, implementation, functioning and coherence of the SICFR, as well as keeping the Audit Committee timely informed in respect thereof. While the Internal Audit and Risk Management Office is responsible for supporting the Audit Committee in its supervision and evaluation of the SICFR by way of conducting the audits included in its annual plan, and reporting the results.

The SICFR implemented within the Company involves the entire Organisation by way of implementation and regular monitoring of the functioning of the various controls in the area of generation of financial information. This SICFR originated in 2008, as a part of a voluntary project. Since the 2008 financial year it has been adapted to all of the regulatory requirements and reviewed by an independent third party.

As a result of its implementation, the processes/subprocesses and key controls that cover the various types of transactions that may materially affect the Financial Statements, as well as all of those affected by relevant judgments, estimates, valuations and projections, have been documented by way of flowcharts.

All of the documentation is known to the managers of each cycle/subcycle and is updated annually to adapt its content to the current reality of the company, as well as the possible changes in the processes, controls, risks, systems, etc.

The units that participate in preparation of the financial information must see to compliance with and updating and maintenance of the SICFR within their areas of responsibility, and must provide the Economic Office with their annual agreement with the status of the information associated with maintenance of the SICFR. This includes ensuring that:

- i. all controls, objectives and supplementary information are properly documented;
- ii. the design and implementation of the controls provide reasonable security and cover the established control objectives;
- iii. there is no new system or procedure that is not included within the scope of the flowcharts, that may significantly affect the established control objectives;
- iv. improvement actions have been implemented if ineffective controls have been identified in a prior review. \* The documentation describing the flows of activities and controls (including those related to the risk of fraud) include:
  - Details of the internal rules and procedures, which govern everything from general controls to subprocesses.
  - Details of the organisational structures.
  - Details of the significant cycles.
  - Flowcharts of each of the subprocesses.
  - A description of the process, the specific risk covered, incoming information prior to application of the control and outgoing information after application of the control, regularity, objective pursued, potential errors mitigated, coverage of fraud and type thereof, as well as the department responsible for implementation.
  - Details of the information systems affecting automatic and/or semi-automatic processes.

- Assessment of the level of risk of failure of the SICFR controls, as a result of an assessment of the probability and impact thereof if they do not function effectively.
- Among the principal transactions seeking to guarantee the reliability and transparency of the process of preparation of the financial information, the following are notable:
- Review of the processes of estimates and provisions (at the level of revenue and expenses).
  - Review of impairment associated with recorded assets (mainly referring to assets).
  - Review of the commissioning of assets and the processes for fixing associated values (capitalisable items, monitoring of administrative approvals, technical commissioning conditions, etc.).
  - Renew using specific mandatory procedures and/or instructions of:
    - Accounting records and/or entries
    - One-off transactions (evaluation at the Senior Management level of the economic and financial, corporate and legal implications that may derive from such transactions).
    - Closing of Financial Statements, and preparation of the individual and consolidated Annual Accounts. The internal reference rules governing these matters are set forth in the following:
      - i. "Manual of Accounting Policies and Chart of Accounts of the Group", which includes the accounting policies that are to govern the Group's making of accounting allocations in the information systems, as well as in the preparation of the Financial Statements and the Annual Accounts, in order to guarantee an accurate image of the assets and liabilities, financial situation, results of operations, changes in net worth and cash flows.
      - ii. "Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts", in which it is established that "the process of closing annual accounts is a process that occurs twice each financial year (at the close of the financial year and at the midpoint of the year with preparation of the semi-annual interim information), the purpose of which is obtaining annual accounts that reflect the economic situation of the Company. This process affects all companies in the Group that must prepare their own annual accounts following the local rules in their countries".
    - Preparation and publication of financial information (includes matters related to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, communications to the National Securities Market Commission, official communications, etc.). The principal internal rules governing these matters are set forth in the following:
      - i. "Internal Regulations for Conduct in the Securities Market".
      - ii. "Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts".
- At this specific level of closing information and, if applicable, subsequent publication, the Investor Relations Office, the Corporate Economic/Financial Office, the General Secretariat, the Board of Directors and the office of the Chairman play a fundamental role.

### F.3.2. Policies and procedures for internal control of information systems (inter alia regarding secure access, control of changes, operation thereof, operational continuity and separation of functions) that support the relevant processes of the entity in relation to preparation and publication of financial information.

The Group has established a protocol for conduct and use of computer and communications systems, the preparation of which is the responsibility of the Corporate Information Systems and Technologies Office.

This document establishes the principal rules to govern use of computer and telecommunications resources that the Group makes available to its workers (equipment, applications, Internet access and electronic messaging services).

On the other hand, the Group maintains a procedure that regulates the activities of management of computer security in the environment of the corporate information systems, the responsibility of the Corporate Information Technologies and Systems Office.

The following controls and measures exist to provide the Group with reasonable assurance regarding the internal control of the information systems:

- Annually there is analysis of the security risks of the information in the Corporate Information Systems (*Sistemas de Información Corporativos*, or "SIC"), which allows obtaining a list of the most significant risks, with assessment thereof, and establishing the actions and measures necessary to reduce or maintain the level of risk of those considered to be most important.
- The security rules are reviewed annually, or whenever there are significant changes, in order to assure maintenance of their suitability, adequacy and effectiveness.
- An inventory is maintained of all assets (equipment, software, applications and information) that are a part of the SIC. Each asset must have an assigned responsible organisational unit.
- General measures are established to protect the information, depending on the category in which it is classified. In addition, the responsible unit may define specific measures complementing the general measures.
- Security documentation addressed to employees and outside collaborators is prepared and published.
- The heads of the units are to verify that new employees and outside collaborators are aware of the published information security documentation. Also, they are to see to it that these persons comply with the content of the documentation.
- The Human Resources Office is to report to the Information Technologies and Systems Department on all movements of personnel, internal and external (hires, departures, transfers and changes of position) in order for it to apply the corresponding changes in rights of access to the information systems.
- All employees and collaborators must return the computer equipment in their possession at the end of the employment, contract or relationship with the company, and may not appropriate information.
- A risk evaluation will be conducted to determine the security implications deriving from the process of participation of outside collaborators in business processes, and appropriate controls will be defined and implemented.
- The Human Resources Office will define and implement the physical security measures to protect the facilities in which the information systems are housed against damage caused by fire, flood and other forms of natural or man-made disasters. In addition, it will establish appropriate controls of entrance into restricted access areas, to ensure that only authorised personnel are allowed access.
- The Information Technologies and Systems Department will ensure proper and secure operation of the information systems for which it is responsible, by preparation and implementation of appropriate operating procedures. These procedures will contemplate separation of duties to reduce the risk of negligence or deliberate misuse of the system. In

the case of provision of computer services by third parties, the Information Technologies and Systems Department must verify that the agreed security controls and service levels have been implemented and are maintained by the third parties.

- The Information Technologies and Systems Department is responsible for defining rules and procedures for management of access (authentication and authorisation) by users to the information systems.
- Formal communications procedures will be established to ensure that information security incidents and weaknesses associated with the information systems are communicated to it in a manner allowing timely corrective action.
- An Informatics Contingency Plan (*Plan de Contingencias Informáticas*, or "PCI") is prepared for the information systems, so that in the event of a disaster destroying them or making them unavailable resumption of service may be accomplished at a time consistent with their level of criticality.

### F.3.3. Internal control policies and procedures to monitor the management of activity subcontracted to third parties, as well as such matters of evaluation, calculation or valuation as may be entrusted to independent experts, which may materially affect the financial statements.

The Group is particularly concerned with operations undertaken by third parties (in order to ensure that, in key processes that may be outsourced there is a maximum guarantee of control and the standards demanded by the Group are fulfilled). In all cases, outsourcing of such activities is based on a services agreement, which clearly indicates the services to be rendered and the resources the third party is to provide to perform such services. There is exhaustive control of such subcontracted activities, and there is evidence of that control. The Group also has a code of conduct for suppliers, the objective of which is to make its suppliers aware of the general principles for their working and professional conduct within their different areas of activity. The Group sees to the ongoing application of these principles by the suppliers.

## F.4 Information and communication

State, indicating their principal features, whether there are at least:

### F.4.1. A specific function responsible for defining and updating accounting policies (an accounting policy department or area) and resolving doubts or conflicts deriving from their interpretation, maintaining fluid communication with those responsible for the operations within the organisation, and an updated accounting policies manual communicated to the units through which the entity operates.

The Group has a "Manual of Accounting Policies and Chart of Accounts of the Group" which serves as a reference to set the guidelines and actions in the field of accounting records, and is appropriately communicated to the employees to which it is applicable (any action is to be taken taking the provisions of the aforesaid manual into account). This manual is updated periodically, the most recent update being in 2016; in the update process it is verified that the accounting policies are within the regulatory framework applicable to the Company, as established in the Commercial Code, General Accounting Plan and other commercial legislation, as well as the International Financial Reporting Standards adopted by the European Union.

In addition, the Accounting Information and Administration Department, located within the Economic Office, assumes responsibility for defining and resolving any matter related to the interpretation of the accounting policies, covering any area of the various companies. The Economic Office organisationally is located within the Corporate Economic and Financial Office, which in turn reports to the Managing Director.

### F.4.2. Mechanisms for capture and preparation of financial information in standardised format, applicable to and used by all units of the entity of the group, supporting the principal financial statements and the notes, as well as the information specified regarding the SICFR.

The Group has formal processes for closing and preparation of the information associated with the Financial Statements and the Annual Accounts. In both cases, the procedures for closing of the Financial Statements and preparation of the Annual Accounts contain guides for action and supervision that are implemented when obtaining, analysing and thereafter preparing the information for final approval.

The system supporting the operations of the Group is principally SAP. The companies that do not use SAP are required to apply the criteria fixed by the Group to ensure uniformity in those processes by way of a reporting package prepared for that purpose, which must include all breakdowns needed for preparation of the Financial Statements and notes. In the process of preparation of the consolidated financial information and the breakdowns thereof a computer application is used that ensures the uniformity, standardisation and validity of the information. For its part, the SICFR is supported by a corporate tool that is managed centrally, from which the information specified in the SICFR is drawn.

In addition there is a specific mechanism for the entire process of formulation of the Annual Accounts, in which the Audit Committee is of particular relevance. Functionally it reports to the Board of Directors, and is responsible for seeing to a maximum guarantee of the entire process of preparation (among other matters, both at the level of the work supervising Internal Audit and by the outside auditor), as a step prior to formulation by the Board of Directors.

Finally, in an effort to provide outside agents with reliable and truthful information on the status of its net worth, financial position and results of operations, the "Internal Regulations for Conduct in the Securities Market" have been drafted. They regulate these matters, both as to submissions to supervisory and/or regulatory agencies, and at the level of communications media.

## F.5 Supervision of the functioning of the system



State, indicating the main features, at least:

- F.5.1. The SICFR supervision activities undertaken by the audit committee, and whether the entity has an internal audit function that within its authority supports the committee in its supervision of the internal control system, including the SICFR. Also state the scope of the evaluation of the SICFR undertaken during the financial year and the procedure whereby the one responsible for performing the evaluation communicates the results thereof, whether the entity has an action plan specifying the possible corrective measures, and whether the impact thereof on financial information has been considered.

Supervision of the financial information is a responsibility given to the Audit Committee. Its responsibilities include, inter alia, (i) approval of the accounting principles to be used in preparation of the Annual Accounts of the Company and its consolidated Group; (ii) supervision of the process of preparation and presentation, as well as the integrity of the financial information of the Company and, if applicable, the Group, seeing to it that the regulatory requirements are observed; (iii) appropriate delimitation of the perimeter of consolidation; and (iv) proper application of the applicable accounting principles and criteria.

In addition the Audit Committee regularly monitors the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed, in particular the systems related to the process of issuing financial information, among which is the SICFR. The objective of the SICFR is to provide reasonable assurance of the reliability of the financial information.

For the performance of these functions the Audit Committee has the support of the Internal Audit and Risk Control Office, hierarchically reporting to the Chairman of the Company, and functionally to the Audit Committee. The Audit Committee sees to the independence and effectiveness of the Internal Audit function; supervises and controls the process of selection, appointment, re-election and removal of the head of the audit function; controls the resources assigned to the Internal Audit function and, inter alia, its budget; receives periodic information regarding its activities; and verifies that the Senior Management of the Company and the Group is acting on the conclusions and recommendations in its reports.

The head of Internal Audit must present an annual work programme to the Audit Committee, report to it directly on any issues arising during its implementation and submit an activities report at the end of each financial year. Regarding the SICFR, the Internal Audit work plan contemplates covering the entire SICFR in periods of 3 years. Internal Audit designs and executes a testing plan on the control environment, general controls, area level controls and established procedures, and on a selective basis verifies compliance with the designed flowcharts. Once fieldwork is completed, Internal Audit prepares and issues the SICFR audit reports, based on the provisions of the annual work plan approved by the Audit Committee, and verifies proper implementation of the SICFR corrective actions.

In addition to the audit work performed by Internal Audit in relation to the SICFR, on an annual basis there is an audit of the SICFR to confirm reasonable assurance of the design and effective application thereof. This audit of the SICFR by outside auditors has been performed since the 2008 financial year.

The Audit Committee is timely informed of the reviews performed by Internal Audit and the outside auditor, other SICFR tasks performed and the evolution of the action plan regarding recommendations for improvement identified in the audits. These recommendations for improvement are classified by priority (high, medium and low) and those associated with risk of fraud are broken out.

In the 2017 financial year no significant deficiencies were identified in the Group's SICFR, and the outside auditor concluded that the Group maintains an effective SICFR.

- F.5.2. Whether there is a procedure for discussion whereby the auditor (in accordance with the provisions of the NTA (Normas Técnicas de Auditoría, the Technical Audit Standards)), the internal audit function and other experts may advise senior management and the audit committee or directors of the entity of significant weaknesses in internal control identified during the processes of review of the annual accounts or such others as may have been entrusted to them. Also, state whether there is an action plan seeking to correct or mitigate the weaknesses identified.

In relation to the outside auditors, the Board of Directors Regulations provide that it is regularly (at least once each year) to request them to provide an evaluation of the quality of the Group's internal control procedures.

With regard to the Company's Audit Committee, as regards supervision of the functioning of the internal control system, among its objectives is ensuring that the outside auditor, the Internal Audit function and other experts may advise the Board of Directors of the significant weaknesses in internal control identified during the processes of review the Annual Accounts, or such others as may have been entrusted to them. In this regard, the communications are to be sent for each review when it is completed, always prior to formulation of the Financial Statements by the Board of Directors.

## F.6 Other relevant information

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## F.7 Outside auditor's report

State:

F.7.1. Whether the SICFR information transmitted to the markets has been reviewed by the outside auditor, in which case the entity must include the corresponding report as an annex. If not, it must state the reasons.

The Group has voluntarily submitted its SICFR to review since 2008. These reviews were performed by Deloitte, S.L. until 31 December 2012; by PriceWaterhouseCoopers from 1 January 2013 until 31 December 2014, and by KPMG, S.L. from 1 January 2015.

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the company's degree of compliance with the recommendations of the Code of Good Governance of Listed Companies.

If any recommendation is not complied with or is complied with partially, a detailed explanation of the reasons must be included so the shareholders, investors and market in general have sufficient information to evaluate the actions of the company. General explanations will not be acceptable.

1. The Articles of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies  Explain

2. When the parent company and a subsidiary are stock market listed the two should provide detailed disclosure on:

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.
- b) The mechanisms in place to resolve possible conflicts of interest.

Complies  Partially complies  Explain  Not applicable

3. During the holding of the annual general meeting, as a supplement to written dissemination of the annual corporate governance report, the chairman of the board of directors should verbally advise the shareholders, in sufficient detail, of the most relevant corporate governance matters of the company, in particular:

- a) The changes occurring since the prior Annual general meeting.
- b) the specific reasons the company does not comply with the recommendations in the Code of Corporate Governance and the alternative rules, if any, applied in this regard.

Complies  Partially complies  Explain

4. The company should define and promote a policy of communication and contacts with shareholders, institutional investors and voting advisors that is fully consistent with the rules against market abuse and give similar treatment to shareholders that are in the same position.

The company should make that policy public by way of its website, including information regarding the manner in which it has been put into practice, and identifying the spokesmen or those responsible for carrying it out.

Complies  Partially complies  Explain

5. The board of directors should not refer to the general meeting any proposed delegation of authority to issue shares or convertible securities excluding the right of pre-emption in an amount greater than 20% of the capital at the time of the delegation.

And when the board of directors approves an issue of shares or convertible securities with exclusion of the right of pre-emption, the company on its website should immediately publish the reports regarding that exclusion referred to in the commercial legislation.

Complies  Partially complies  Explain

6. Listed companies that prepare the reports identified below, whether mandatorily or voluntarily, should publish them on their websites sufficiently in advance of the holding of the annual general meeting, even if dissemination thereof is not mandatory:

- a) Report on independence of the auditor.
- b) Reports on the functioning of the audit and appointments and remuneration committees.
- c) Audit committee report on related party transactions.
- d) Report on corporate social responsibility policy.

Complies  Partially complies  Explain

7. The company should provide live broadcasts of the holding of general meetings of shareholders by way of its website.

Complies  Explain

8. The audit committee should ensure that the board of directors presents the financial statements to the general meeting of shareholders without limitations or qualifications in the audit report. Should such qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of the scope and content of such limitations or qualifications.

Complies  Partially complies  Explain

9. The company on its website, on a permanent basis, should publish the requirements and procedures it will accept to evidence ownership of shares, the right of attending the general meeting of shareholders and the exercise or delegation of voting rights.

And the aforesaid requirements and procedures should promote attendance and the exercise of shareholder rights and be applied in a non-discriminatory manner.

Complies  Partially complies  Explain

10. When any shareholder entitled to do so, prior to the holding of the general meeting of shareholders, exercises the right to supplement the agenda or present new proposed resolutions, the company should:

- a) Immediately disseminate those supplementary points and new proposed resolutions.
- b) Make the attendance card, proxy or remote voting form public, with the changes required for voting on the new points on the agenda and alternative proposed resolutions, on the same terms as for proposals by the board of directors.
- c) Submit all such points or alternative proposals to vote and apply the same voting rules thereto as those formulated by the board of directors, in particular including the presumptions or inferences regarding the sense of the vote.
- d) Subsequent to the general meeting of shareholders, communicate the breakdown of the vote on such supplementary points or alternative proposals.

Complies  Partially complies  Explain  Not applicable

11. If the company contemplates paying attendance allowances for the general meeting of shareholders, it should establish a general policy regarding such allowances in advance, and that policy should be stable.

Complies  Partially complies  Explain  Not applicable

12. The board of directors should carry out its functions with unity of purpose and independence of judgment, give the same treatment to all shareholders that are in the same position and be guided by the corporate interest, that being understood to be achievement of a profitable business sustainable in the long term, promoting its continuity and maximising the economic value of the company.

And in pursuit of the corporate interest, in addition to respecting the laws and regulations and behaving based on good faith, ethics and respect for commonly accepted best practices and uses, it should seek to reconcile the corporate interest, as applicable, with the legitimate interests of its employees, suppliers, customers and other stakeholders that may be affected, and the impact of the activities of the company in the community as a whole and in the environment.

Complies  Partially complies  Explain

13. The board of directors should be of the size necessary to achieve effective and participatory functioning, which makes it advisable for it to have between five and fifteen members.

Complies  Explain

14. The board of directors should approve a director selection policy that:

- a) Is specific and verifiable.
- b) Ensures that the proposals for appointment or re-election are based on prior analysis of the needs of the board of directors.
- c) Promote diversity of knowledge, experience and gender.

The results of the prior analysis of the needs of the board of directors should be set forth in the explanatory report of the appointments committee that is published upon call of the general meeting of shareholders to which the ratification, appointment or re-election of each director is submitted.

And the director selection policy should promote the objective that in the year 2020 the number of female directors will represent at least 30% of the total members of the board of directors.

The appointments committee annually will verify compliance with the director selection policy, and will report thereon in the annual corporate governance report.

Complies  Partially complies  Explain

Regarding selection of directors the Appointments and Remuneration Committee uses certain Criteria that define the ideal profile for service as a director, defining the qualities, competencies and experience that the ideal candidate for a position as a director must have.

The aforesaid profile, as initial values for analysis of the director candidate, considers experience in and knowledge of the energy sector, business experience and experience on boards of directors and other governing bodies of public or private entities, on boards of directors of listed companies, financial experience and experience in financial markets, and management of organisations and management teams, as well as knowledge of languages.

In addition, before issuing its report or making a proposal to appoint a director, the Appointments and Remuneration Committee always analyses the diversity of profiles and contributions of the current members of the Board of Directors, so that at all times the Board has the knowledge and experience necessary to successfully meet the coming challenges and progress efficiently and proactively in fulfilment of the strategies and objectives of the company and the Red Eléctrica Group.

For preparation of the corresponding proposal, the Appointments and Remuneration Committee sometimes, among

other proposals and suggestions, has the opinion of top-tier outside international advisors specialised in processes of selection of directors, which propose various candidates and issue the corresponding reports, in which they evaluate the competencies and experience of each candidate, which reports are carefully analysed and assessed by the Appointments and Remuneration Committee in order to issue the proposed appointment of a director to be referred to the Board.

In addition the Appointments and Remuneration Committee fulfils the basic responsibilities established in articles 18.1, subsections h), i) and n) and 22 of the Board of Directors Regulations, 24 of the Articles of Association and the provisions in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014, establishing the following practices:

-The company applies the principle of ensuring that appropriate procedures exist to select directors, guaranteeing reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks. To do this, when assessing the candidates participating in the selection process, the procedure will take into account the competencies, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at that time, the Appointments and Remuneration Committee playing an important role in the process.

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

In the proposals and reports for appointment of directors that the company has published on its website, both in Spanish and in English, which have been submitted to the most recent Annual General Meeting of Shareholders, held on 31 March 2017, there is a transparent statement of the concern of both the Appointments and Remuneration Committee and the Board of Directors for diversity in the composition of the Board of Directors. In those proposals and reports the Appointments and Remuneration Committee and the Board of Directors, on the basis of the criteria defining the profile and requirements considered to be appropriate to hold the position of a director, have established the qualities, competencies and experience that must be met by an ideal director to occupy the position and have assessed and applied them in the processes of selection of the directors that have been submitted to approval of the aforesaid Shareholders Meeting.

The proposals and reports on appointment of directors that have been submitted for approval of the Annual General Meeting of Shareholders held in 2017 are available on the corporate website ([www.ree.es](http://www.ree.es)).

At 31 December 2017 the company has 4 female directors (33.33%) and meets the 30% objective established in Recommendation 14 of the CBGSC for 2020. The company is in first place among the IBEX 35 companies with the greatest percentage of women on the Board of Directors. For more information we remit to the Diversity and Equality Report approved by the Board of Directors on 30 January 2018, which is published on the corporate website ([www.ree.es](http://www.ree.es)).

15. Proprietary and independent directors should constitute an ample majority of board of directors positions, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the percentage ownership interest they hold in the company.

Complies  Partially complies  Explain

16. Proprietary directors as a percentage of outside directors should not be greater than the capital of the company represented by those directors as a percentage of the remainder of capital.

This criterion may be eased:

- a) In companies of high capitalisation in which there are few shareholdings legally considered to be significant.
- b) In companies with a plurality of shareholders represented on the board of directors but not otherwise related.

Complies  Explain

17. The number of independent directors should represent at least one half of all directors.

However, when the company is not of high capitalisation or, when it is, it has a shareholder or multiple shareholders acting in concert, which control more than 30% of the share capital, the number of independent directors should represent at least one third of the total number of directors.

Complies  Explain

18. Companies should post the following director particulars on their websites, and keep them updated:

- a) Professional experience and background.
- b) Other boards of directors to which they belong, whether or not the companies are listed, as well as the other compensated activities they engage in, whatever their nature.

- c) Indication of the category to which the director belongs, in the case of proprietary directors indicating the shareholder represented or with which the director has ties.
- d) The date of their first and subsequent appointments as a company director, and subsequent re-elections.
- e) Shares held in the company and any options thereon held thereby.

Complies  Partially complies  Explain

The company on its website ([www.ree.es](http://www.ree.es)) publishes and updates all information regarding directors that is listed in Recommendation 18, with the exception of the other compensated activities referred to in the last subsection of section (b) of that Recommendation. The company does not publish that information for reasons of confidentiality, since disclosure of that information could conflict with the protection of the right of privacy of the directors.

19. In the annual corporate governance report, after verification by the appointments committee, the reasons for the appointment of proprietary directors proposed by shareholders with share interests less than 3% of capital should be explained, as should the reasons for any rejection of a formal request for a board position from shareholders whose share interest is not less than that of others successfully applying for a proprietary directorship.

Complies  Partially complies  Explain  Not applicable

20. Proprietary directors should resign when the shareholders they represent fully transfer their shareholdings. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies  Partially complies  Explain  Not applicable

21. The board of directors should not propose the removal of any independent director before the expiry of that director's tenure as mandated by the articles, except where just cause is found by the board of directors, after a report from the appointments committee. In particular, just cause is understood to exist when the director comes to occupy new positions or assumes new obligations that prevent its dedicating the time necessary for performance of the functions inherent in the position of a director, breaches the duties inherent in the position or is in any of the circumstances resulting in loss of independent status, in accordance with the provisions of applicable law.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the capital structure of the company, in order to meet the proportionality criterion indicated in recommendation 16.

Complies  Explain

22. Companies should establish rules requiring directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

And if a director is indicted or tried for any of the crimes indicated in the corporate law, the board of directors should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not the director should be called on to resign. And the board of directors should report and explain all such determinations in the annual corporate governance report.

Complies  Partially complies  Explain

23. All directors should express clear opposition when they feel a proposal submitted for the approval of the board of directors might harm the corporate interest. In particular, independents

and other directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking board of directors representation.

When the board of directors makes significant or reiterated decisions about which a director has expressed serious reservations, he should draw the pertinent conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the board of directors, whether or not a director.

Complies  Partially complies  Explain  Not applicable

24. Directors who give up their positions before their tenure expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the board of directors. Regardless of whether such departure is reported as a material disclosure, the reasons should be explained in the annual corporate governance report.

Complies  Partially complies  Explain  Not applicable

25. The appointments committee should ensure that outside directors have sufficient time available for proper performance of their duties. And the board regulations should establish the maximum number of boards of companies of which their directors may be members.

Complies  Partially complies  Explain

26. That the board of directors should meet with the frequency necessary to properly perform its duties, at least eight times per year, in accordance with a schedule of dates and agendas established at the beginning of the year, each director individually being entitled to add other agenda items.

Complies  Partially complies  Explain

27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And when they must occur, proxies should be granted with instructions.

Complies  Partially complies  Explain

28. When directors or the secretary express concerns about any proposal or, in the case of directors, about the company's performance, and such concerns are not resolved in the board of directors meeting, the member expressing them should be entitled to request that they be noted in the minutes.

Complies  Partially complies  Explain  Not applicable

29. The company should establish appropriate channels for directors to obtain the advice necessary for performance of their duties including, if so required by the circumstances, outside advice at the expense of the company.

Complies  Partially complies  Explain

30. Independently of the knowledge required of directors for performance of their duties, companies should also offer directors refresher courses when circumstances so warrant.

Complies  Explain  Not applicable

31. Agendas for meetings should clearly indicate those points in respect of which the board of directors must adopt a decision or resolution, so that the directors may, in advance, study or collect the information necessary for adoption thereof.

When, exceptionally, by reason of urgency, the chairman wishes to submit decisions or resolutions not appearing on the agenda for approval of the board of directors, express prior consent of the majority of the directors present will be required, with that consent to be reflected in the minutes.

Complies  Partially complies  Explain

32. The directors should be regularly advised of movements in shareholdings and the opinions held by significant shareholders, investors and rating agencies regarding the company and its group.

Complies  Partially complies  Explain

33. The chairman, as the one responsible for effective functioning of the board of directors, in addition to exercising the functions attributed thereto by law and the articles, should prepare and submit to the board of directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the board and, if applicable, the chief executive of the company; be responsible for direction the board and the effectiveness of its functioning; see to it that sufficient time is devoted to discussion of strategic matters, and order and review the refresher programmes for each director, when circumstances so warrant.

Complies  Partially complies  Explain

34. When there is a lead director, in addition to the authority corresponding to it by law, the articles or the board of directors regulations should give the lead director the following authority: chairing the board of directors in the absence of the chairman and the vice chairmen, if any; stating the concerns of the outside directors; maintaining contact with investors and shareholders to learn of their points of view for purposes of forming an opinion regarding their concerns, in particular in relation to the corporate governance of the company; and coordinating the succession plan for the chairman.

Complies  Partially complies  Explain  Not applicable

35. The Secretary of the board of directors in particular should see to it that the board of directors, in its actions and decisions, takes account of such corporate good governance recommendations contained in this Good Governance Code as may be applicable to the company.

Complies  Explain

36. The full board of directors annually should evaluate and, if applicable, adopt an action plan correcting deficiencies identified in respect of:

- a) The quality and efficiency of the functioning of the board of directors.
- b) The functioning and composition of its committees.
- c) Diversity in the composition and competencies of the board of directors.
- d) The performance of the chairman of the board of directors and, if applicable, the company's chief executive.
- e) The performance and contribution of each director, paying special attention to the heads of the various committees of the board.



Evaluation of the various committees will start from the report they submit to the board of directors. Evaluation of the board of directors will start from the report submitted by the appointments committee.

Every three years the board of directors will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the appointments committee.

The business relationships maintained by the consultant or any company in its group with the company or any company in its group must be itemised in the annual corporate governance report.

The process and the areas evaluated will be described in the annual corporate governance report.

Complies  Partially complies  Explain

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board of directors should also act as secretary of the executive committee.

Complies  Partially complies  Explain  Not applicable

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee and all members of the board of directors should receive copies of the minutes of the meetings of the executive committee

Complies  Partially complies  Explain  Not applicable

39. The members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing or risk management matters, and the majority of those members should be independent directors.

Complies  Partially complies  Explain

40. Under the supervision of the audit committee, there should be a unit that assumes the internal audit function, seeing to the proper functioning of the internal control and information systems, and functionally reporting to the outside director that chairs the board or the audit committee.

Complies  Partially complies  Explain

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

Complies  Partially complies  Explain  Not applicable

42. In addition to those contemplated by law, the audit committee should have the following functions:

1. As regards internal reporting and control systems:

- a) Monitoring the preparation and the integrity of the financial information on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles.
- b) Ensuring the independence of the unit that assumes the internal audit function, proposing the selection, appointment, re-election and removal of the head of the

internal audit service; proposing the budget of this service; approving its orientation and work plans, ensuring that its activity is principally focused on the relevant risks of the company; receiving periodic information regarding its activities; and verifying that senior management takes account of the conclusions and recommendations in its reports.

- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if possible and considered to be appropriate, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications.

2. As regards the outside auditor:

- a) Investigating the circumstances giving rise to the resignation of any outside auditor.  
b) Seeing to it that the remuneration of the outside auditor for its work does not compromise its quality or independence.  
c) Seeing to it that the company notifies any change of auditor to the CNMV as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.  
d) Ensuring that the outside auditor annually has a meeting with the full board of directors to report to it on the work performed and the evolution of the accounting and risk situation of the company.  
e) Ensuring that the company and the outside auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations of the independence of auditors.

Complies  Partially complies  Explain

43. The audit committee should have authority to meet with any company employee or executive, even ordering their appearance without the presence of another executive.

Complies  Partially complies  Explain

44. The audit committee should be informed of structural and corporate modification transactions expected to be implemented by the company, for analysis thereof and prior report to the board of directors on the economic conditions thereof and their accounting impact, in particular, if applicable, on the proposed exchange ratio.

Complies  Partially complies  Explain  Not applicable

45. The risk control and management policy should identify at least the following:

- a) The various kinds of risk, financial and nonfinancial (inter alia operating, technological, legal, social, environmental, political and reputation) to which the company is exposed, including contingent liabilities and other off-balance-sheet risks within financial or economic risks.  
b) The setting of the level of risk that the company deems acceptable.  
c) The measures contemplated for mitigating the impact of the identified risks, should they materialise.  
d) The internal reporting and control systems to be used to control and manage the aforesaid risks, including contingent liabilities and off-balance-sheet risks.

Complies  Partially complies  Explain

46. Under the direct supervision of the audit committee or, if applicable, a specialised committee of the board of directors, there should be an internal risk management and control function exercised by a unit or internal department of the company that is expressly given the following functions:

- a) Ensuring the good functioning of the risk control and management systems, in particular that all important risks affecting the company are appropriately identified, managed and quantified.
- b) Actively participating in the preparation of the risk strategy and in important decisions regarding the management thereof.
- c) Seeing to it that the risk control and management systems adequately mitigate the risks within the context of the policy defined by the board of directors.

Complies  Partially complies  Explain

47. The members of the appointments and remuneration committee (or of the appointments committee and the remuneration committee, if they are separate) should be designated in a manner ensuring that they have the knowledge, skills and experience appropriate to the functions they are called on to perform, and the majority of those members should be independent directors.

Complies  Partially complies  Explain

48. High capitalisation companies should have an appointments committee and a separate remuneration committee.

Complies  Explain  Not applicable

The company does not believe it is desirable to have an Appointments Committee and a separate Remuneration Committee for the following reasons:

-By reason of the small size of the Board of Directors (composed of 12 members, one of them being an executive director) by comparison with other high capitalisation companies.

-Because based on the subject matter, separate appointments and remuneration committees would not have sufficient matters to consider during the financial year to justify the separation.

-By reason of the independence of the outside directors, taking account of the fact that currently all of them are members of one of the two Board of Directors Committees of the company, the creation of the new Committee would result in directors simultaneously belonging to multiple committees, which would have information from one of the other two Committees, to the detriment of their full autonomy in the performance of their duties.

49. The appointments committee should consult with the chairman of the board of directors and the company's chief executive, especially on matters relating to executive directors. And any director should be entitled to request of the appointments committee that it consider potential candidates to fill director vacancies, if in its judgment they are suitable.

Complies  Partially complies  Explain

50. The remuneration committee should exercise its functions independently, and in addition to those given to it by law, it should have the following functions:

- a) Proposing to the board of directors the standard conditions for senior manager contracts.
- b) Verifying that the remuneration policy established by the company is observed.
- c) Periodically reviewing the remuneration policy applied to directors and senior managers, including share-based remuneration schemes and application thereof, as well as ensuring that individual remuneration is proportionate to that paid to other directors and senior managers of the company.
- d) Seeing to it that possible conflicts of interests do not compromise the independence of the outside advice provided to the committee.
- e) Verifying the information on remuneration of directors and senior managers contained in the various corporate documents, including the annual report on remuneration of directors.

Complies  Partially complies  Explain

51. The remuneration committee should consult with the chairman and chief executive of the company, especially on matters relating to executive directors and senior managers.

Complies  Partially complies  Explain

52. The rules for the composition and functioning of the supervision and control committees should appear in the board of directors regulations, and should be consistent with those applicable to the committees mandated by law in accordance with the foregoing recommendations, including:

- a) They should be composed exclusively of outside directors, with a majority of independent directors.
- b) Committees should be chaired by independent directors.
- c) The board of directors should appoint the members of such committees based on the knowledge, skills and experience of the directors and the tasks of each committee, discuss their proposals and reports, and they should render accounts, at the first full meeting of the board of directors subsequent to their meetings, of their activities and take responsibility for the work performed.
- d) The committees should be entitled to engage outside advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of the meeting should be prepared, and made available to all directors.

Complies  Partially complies  Explain  Not applicable

53. Supervision of compliance with the corporate governance rules, the internal codes of conduct and the corporate social responsibility policy should be attributed to one committee or shared among multiple committees of the board of directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if any, or a specialised committee that the board of directors, in exercise of its self-organisation authority, decides to create for that purpose, to which the following minimum functions should be specifically attributed:

- a) Supervising compliance with the internal codes of conduct and the corporate governance rules of the company.
- b) Supervising the shareholder and investor communications and relationships strategy, including small and medium-sized shareholders.
- c) Periodically evaluating the adequacy of company's corporate governance system in order for it to fulfil its mission of promoting the interests of society and, as applicable, taking account of the legitimate interests of the other stakeholders.
- d) Reviewing the company's corporate responsibility policy, seeing to it that it is aimed at creation of value.
- e) Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance therewith.
- f) Monitoring and evaluating the processes of relationships with the various stakeholders.
- g) Evaluating everything related to nonfinancial risks of the company, including operating, technological, legal, social, environmental, political and reputation risk.
- h) Coordinating the process of reporting nonfinancial and diversity information, in accordance with applicable regulations and reference international standards.

Complies  Partially complies  Explain

54. The corporate social responsibility policy should include the principles or commitments the company assumes voluntarily in relation to the various stakeholders, and identify at least:

- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social matters.
- c) The specific practices regarding questions related to: shareholders, employees, customers, suppliers, social questions, environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of application of the specific practices indicated above, the associated risks and management thereof.
- e) The mechanisms for supervision of nonfinancial risk, ethics and business conduct.
- f) The channels for communication with, participation of and dialogue with stakeholders.
- g) The responsible communication practices that avoid manipulation of information and protect integrity and honour.

Complies  Partially complies  Explain

55. In a separate document or in the management report, the company should report on the matters related to corporate social responsibility, for that purpose using any of the internationally accepted methodologies.

Complies  Partially complies  Explain

56. The remuneration of directors should be such remuneration as is necessary to attract and retain directors of the desired profile and compensate the dedication, qualification and responsibility the position requires, but not so high as to compromise the independence of judgment of the outside directors.

Complies  Explain

57. Variable remuneration tied to the performance of the company and personal performance, and remuneration in the form of delivery of shares, options or rights on shares or instruments indexed to the value of the share and long-term savings systems such as pension plans, retirement systems or other social security systems should be limited to executive directors.

The delivery of shares as remuneration to outside directors may be contemplated when it is conditioned on their holding them until they cease to be directors. The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.

Complies  Partially complies  Explain

58. In the case of variable remuneration, the remuneration policies should include the limits and technical safeguards necessary to ensure that such remuneration reflects the professional performance of the beneficiaries and not solely the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind. In particular, it should be ensured that the variable components of remuneration:

- a) Are tied to performance criteria that are predetermined and measurable, and those criteria take account of risk assumed in order to obtain a result.
- b) Promote sustainability of the company and include nonfinancial criteria that are appropriate for the creation of long-term value, as well as being in compliance with the internal procedures and rules of the company and its policies for the control and management of risk.

c) Are configured on the basis of balance among achievement of short, medium and long-term objectives, allowing remuneration of ongoing performance over a period of time sufficient to assess the contribution to sustainable creation of value, in such manner that the elements of measurement of such performance do not depend solely on one-off, occasional or extraordinary events.

Complies  Partially complies  Explain  Not applicable

59. Payment of a significant part of the variable components of remuneration should be deferred for a minimum period of time sufficient to verify that the previously established conditions of performance have been satisfied.

Complies  Partially complies  Explain  Not applicable

60. In the case of remuneration linked to company earnings, account should be taken of any qualifications stated in the outside auditor's report that reduce those earnings.

Complies  Partially complies  Explain  Not applicable

61. A significant percentage of the variable remuneration of executive directors should be tied to delivery of shares or financial instruments indexed to their value.

Complies  Partially complies  Explain  Not applicable

62. Once the shares or options or rights on shares corresponding to the remuneration systems have been awarded, the directors should not be entitled to transfer ownership of a number of shares equivalent to two times their annual fixed remuneration, or exercise the options or rights until a term of at least three years has elapsed after they are awarded.

The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.

Complies  Partially complies  Explain  Not applicable

The managing director has assumed a commitment to the company to maintain ownership of the shares received as annual variable remuneration for each financial year for at least five years. After a period of five years, if 100% fulfilment of objectives is achieved, the managing director will have received a number of shares approximately equivalent to one year of fixed remuneration. The aforesaid element of remuneration is stated in the annual report on remuneration of directors of the company, approved by the Board of Directors at its meeting of 16 February 2018, and communicated as a material disclosure to the CNMV.

63. The contractual arrangements should include a clause allowing the company to claim repayment of the variable components of remuneration when the payment is not in accordance with the performance conditions, or when the remuneration has been paid based on information later shown to be inaccurate.

Complies  Partially complies  Explain  Not applicable

64. The payments for termination of the contract should not exceed an established amount equivalent to two years of total annual remuneration, and should not be paid until the company has been able to verify that the director has met the previously established performance criteria.

Complies  Partially complies  Explain  Not applicable

## **H** OTHER INFORMATION OF INTEREST

1. If there is any relevant aspect of corporate governance within the company or the entities in the group that has not been included in the other sections of this report, but that it is necessary to include in order to set forth more complete and reasoned information regarding the governance practices in the entity or its group, briefly explain.
2. This section also may be used to supply any additional information, clarification or qualification relating to foregoing sections of this report, provided such additional information is relevant and not repetitious.

In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is required to disclose that is not required in this report.

3. The company also may indicate if it has voluntarily adhered to other codes of ethical principles or best practices, international, sectoral or otherwise. If applicable, identify the code in question and the date of adhesion.

1. The company for years has voluntarily prepared an Annual Corporate Governance Report, available on the corporate website, following a model with structure and content of its own that this year, as a novelty, has a new format and content following the most recognised international practices, submitted to independent outside review. The intention thereby as to respond appropriately to the demands and recommendations of its shareholders, to which we remit for any third party that may consider it to be of interest. This report, prepared in accordance with the Model in Annex I of Circular 7/2015 of the CNMV, has been incorporated as an Official Annex to the aforesaid Annual Corporate Governance Report of the company.

2. The company is subject to Spanish law as regards corporate governance. Set forth below is additional information regarding the following sections.

C.1.11: For purposes of this section they are considered to have executive functions when powers of attorney have been granted in their favour by each company, in relation to management of the corporate activities.

C.1.17: In relation to the information requested in this subsection Ms. Mercedes Real Rodríguez is a representative of the director that is a legal person, Spanish State's Industrial Holding Company (Sociedad Estatal de Participaciones Industriales, SEPI), on the Board of Directors of Empresa Nacional de Residuos Radiactivos, S.A. (ENRESA), with tax identification code (C.I.F.) A78056124, which belongs to the group of the significant shareholder SEPI, but it is not a director of that significant shareholder (in SEPI she only serves as Director of Energy Division Investees).

C.1.26: Article 24 of the Board of Directors Regulations: Departure from office is not automatic. Rather directors must tender their positions to the Board of Directors and, if it considers it to be appropriate, formalise the corresponding resignation when they reach the age of 70.

C.137. The amount in the total column of non-audit services includes 72 thousand euros of services related to audit and 55 thousand euros of other services.

G.4: The Board of Directors at its meeting of 25 October 2016 approved the Criteria for communication with shareholders, institutional investors and proxy advisors, on proposal of the Appointments and Remuneration Committee. This document contains the policy for communications with the aforesaid stakeholders and is in response to the commitment of the Board of Directors to comply with Recommendation 4 of the Code of Good Governance of Listed Companies. The document includes the principles and guidelines regarding communication with the aforesaid stakeholders, guaranteeing appropriate exercise of their rights and interests and promoting the commitment to shareholders by way of open, transparent and sustainable dialogue. The Board of Directors is the body responsible for reviewing it and approving any modification, and also has supervision of compliance therewith.

The Criteria for communication with shareholders, institutional investors and proxy holders is published on the website of the company ([www.ree.es](http://www.ree.es)), in the Corporate Governance section, "Our Commitment" subsection.

3. The Board of Directors of Red Eléctrica Corporación, S.A. in its meeting of 29 September 2015 approved adhesion of the Red Eléctrica Group to the Code of Best Tax Practices, which had been approved by the Forum of Large Companies in the version proposed by the State Tax Administration Agency (*Agencia Estatal de Administración Tributaria*, or "AEAT"). The content thereof was complied with during the 2017 financial year. The adhesion to the Code of Best Tax Practices by the Red Eléctrica Group occurred on 23 October 2015, in accordance with the adhesion procedure established therein.

This annual corporate governance report was approved unanimously by the board of directors of the company at its meeting of 16/02/2018.

State whether there are any directors who voted against or abstained from voting to approve this Report.

Yes

No





KPMG Auditores, S.L.  
Paseo de la Castellana, 259 C  
28046 Madrid

Independent Auditor's Report on  
the System of Internal Control over Financial Reporting

*(Translation from the original in Spanish. In the event of discrepancy,  
the Spanish-language version prevails)*

To the Directors of  
Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (Sistema de Control Interno sobre la Información Financiera, hereinafter "SCIIF") of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the RED Eléctrica consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2017. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Board of Directors of the Company and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content and preparing the accompanying information concerning SCIIF. Our responsibility is to express an opinion on the effectiveness of the Group's System of Internal Control over Financial Reporting based on our examination.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's System of Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

We apply ISQC1 (International Standard on Quality Control 1) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Due to the limitations inherent in any internal control system, there is always a possibility that SCIIF may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2017, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the information concerning SCIIF included in note F of the Group's Annual Corporate Governance Report at 31 December 2017 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015, with respect to the description of the System of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 19 February 2018 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2017, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Ana Fernández Poderós

19 February 2018