



RED ELÉCTRICA CORPORACIÓN



Regulations of the Board of Directors

March 13, 2013

This English translation is exclusively for information purposes and is based on the original, official document in the Spanish language, available in the Spanish version on the company's web site.

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INTRODUCTION

The Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter, “the Company”) at a meeting held on March 13, 2013, approved the amendment to the Board Regulations with the aim of updating its content in view of certain legislative reforms which, in recent times, have affected corporations, in line with the reforms of the Bylaws and the Regulations of the General Shareholders' Meeting approved by the Ordinary Shareholders' Meeting on April 13, 2011 and April 19, 2012, to make certain adjustments to important corporate governance practices, especially regarding international ones, and introduce improvements in the organization and functioning of the Board of Directors and its Committees. The reform was requested by the Corporate Responsibility and Governance Committee, pursuant to Article 3 of the Regulations in force. The Committee has prepared the corresponding proposal, together with a report justifying it, as provided in Article 3. The finally approved wording is as follows

CHAPTER I PRELIMINARY

ARTICLE 1. Purpose

1. The purpose of these Regulations is to establish the principles of conduct of the Board of Directors of Red Eléctrica Corporación, S.A., the basic rules governing its organization and operation and the rules of conduct of its members, as well as supervision and control functions entrusted to it.
2. The rules of conduct established in these Regulations shall apply to Directors, as defined in Article 7 of these Regulations, and, as far as is appropriate and compatible with their specific nature, to the secretary and vice secretary and to the Senior Managers of the Company and of Red Eléctrica de España, S.A.U.
3. Persons having the rank of General Manager of the Company and of Red Eléctrica de España, S.A.U. and executives who form part of the Board of Directors shall have the status of Senior Managers.

ARTICLE 2. Interpretation

These Regulations shall be interpreted in accordance with the applicable provisions of the Law and the Bylaws and with the principles and recommendations of good Corporate Governance of listed companies. In the

event of any discrepancy between the provisions of these Regulations and of the Bylaws, the provisions of the Bylaws shall prevail at all times.

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

ARTICLE 3. Amendment

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

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

4. The amendment of the Regulations, in order to be valid, shall require a resolution adopted by a two-thirds majority of the Directors present.
5. The Board of Directors shall inform about amendments to the Regulations at the first Shareholders' Meeting that is held.

ARTICLE 4. Dissemination

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

In particular, the Board shall serve notice of these Regulations on the National Securities Market Commission, shall have them published on

the Company's website, and shall inform the Shareholders' Meeting of any amendment hereof, pursuant to the Law. Once such notice has been issued, they shall be registered at the Mercantile Registry.

CHAPTER II THE BOARD'S MISSION

ARTICLE 5. General supervisory function

1. The Board of Directors manages, governs and represents the Company, without prejudice to the functions conferred on the Shareholders' Meeting.

The Board holds all the powers to manage and represent the Company, in and out of court, and shall exercise them, either directly or by delegation, substitution or grant of powers of attorney on the terms stipulated by Law, in the Bylaws and in these Regulations. The Board shall have jurisdiction over all matters which do not fall under the exclusive jurisdiction of the Shareholders' Meeting.

2. The Board's policy is to delegate the ordinary management of the Company and of Red Eléctrica de España, S.A.U. to the executive bodies and to the management team of the Company and of Red Eléctrica de España, S.A.U. and to focus its activity on the general function of supervision and approval of the basic guidelines on conduct.
3. Any delegation of powers made by the Board within the statutory limits shall not deprive it of such powers, so the Board shall maintain, in any case, the powers that may correspond to it.
4. Powers which are legally or institutionally reserved for the direct attention of the Board and those which are necessary for the responsible discharge of the general supervisory function may not be delegated.
5. In particular, the Board is obliged to discharge the following responsibilities directly and may not delegate any of them other than those stipulated in section b) ii) below which, if an extraordinary Board meeting cannot be held pursuant to Article 17 of these Board Regulations, may be adopted for reasons of urgency by the Company Chairman and ratified subsequently by the Board, without prejudice of the validity of the acts vis-à-vis third parties pursuant to Article 234 of the Corporate Enterprises Act:
 - a) Approval of the general policies and strategies of the Company and the Group and, in particular:

- i) approval of the Strategic Plan or Business Plan of the Company and its Group, as well as the budget and the annual management objectives, and monitoring of the degree of compliance throughout the year;
- ii) approval of the investment and financing policy;
- iii) approval of the definition of the structure of the group of companies;
- iv) approval of the corporate governance policy;
- v) approval of the company's corporate responsibility policy;
- vi) approval of the compensation policy and the policy for evaluating the performance of Senior Managers;
- vii) approval of the policy for controlling and managing the main risks of the Company and of the Group, and for knowing and monitoring from time to time the internal control, prevention and reporting systems.

The risk control and management policy shall identify at least:

- the various types of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company and the Group, contingent liabilities and other off-balance sheet risks being included among the financial or economic risks;
 - the setting of the risk level deemed by the Company to be acceptable;
 - the measures foreseen for mitigating the impact of the risks identified, should they materialize;
 - the internal information and control systems that will be used for controlling and managing the aforementioned risks, including contingent liabilities or off-balance-sheet risks.
- viii) approval of the dialogue policy with investors and shareholders;
 - ix) approval of the policy for appointing and assessing candidates for the Board of Directors;
 - x) approval of the policy for assessing the performance of both the Board and the Directors;

- xi) approval of the policy for disseminating Corporate Governance practices, Corporate Responsibility, remunerations and risk administration;
 - xii) approval of the policy for arranging non-audit services, with the External Auditor;
 - xiii) approval and, if appropriate, proposal to the Shareholders' Meeting of the dividend policy, as well as the policy on treasury stock and, in particular, its limits;
 - xiv) those specifically stipulated in these Regulations.
- b) The following decisions:
- i) Directors' compensation and, in the case of executive directors, additional compensation for their executive functions and other terms with which their contracts must comply;
 - ii) financial information which the Company, due to being listed, must make public on a periodic basis or which it must provide to the markets' regulatory or supervisory bodies for publication;
 - iii) all manner of investments or transactions which, due to their high amount or special characteristics, are strategic by nature, unless they are to be approved by the Shareholders' Meeting;
 - iv) the creation or acquisition of holdings in special-purpose vehicles or entities with their registered office in countries or territories classed as tax havens, and any other transaction and operation which could be detrimental to the Group's transparency.
- c) The authorization of related-party transactions, as defined by the legislation in force at any given time, that are significant or outside the normal business operations of the Company and must obligatorily be reported to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.
- If a related-party transaction involves a Director, the Director shall refrain from exercising or delegating his right to vote and shall leave the meeting while Board is deliberating and voting on the transaction, after having informed the Board of the transaction.
- d) The annual evaluation of:

- i) the quality and efficiency of the Board's functioning and the discharge by the Board Chairman and by the Company's top executive of their functions, based on a report submitted by the Corporate Responsibility and Governance Committee in coordination, where applicable, with the lead independent director;
- ii) the functioning of its Committees, based on the report submitted by the Corporate Responsibility and Governance Committee in coordination, where applicable, with the lead independent director.

The functioning of the Board, its Chairman, the Company's top executive and its Committees shall be evaluated by an independent third-party expert at least once every two years.

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

ARTICLE 6. Institutional guideline

1. The Board of Directors shall discharge its functions with singleness of purpose and independence of criterion.
2. The criterion which must at all times govern the conduct of the Board of Directors is the Company's interests, understood as the defense of the Company's sustainability and the value creation in the long term, as well as the protection and fostering of the Company's general interests.
3. In the area of corporate organization, the Board shall take the necessary measures to ensure:
 - a) that Company management pursues the achievement of the Company's interests and has the correct resources and incentives for doing so;
 - b) that the management of the Company and of Red Eléctrica de España, S.A.U. is under the effective supervision of the Board;
 - c) that no person or small group of persons has decision-making power which is not subject to counterbalances and controls;
 - d) that no shareholder receives preferential treatment over the others;

- e) with respect to stakeholders, that the Company complies with the laws and regulations; performs its obligations and agreements in good faith; observes the uses and good practices of the industries and territories in which it pursues its activity; and complies with any additional corporate responsibility and good corporate governance principles it has accepted voluntarily.

CHAPTER III COMPOSITION OF THE BOARD

ARTICLE 7. Qualitative composition

- I. The Board of Directors, in the exercise of its powers to make proposals to the Shareholders' Meeting and of co-optation to fill vacancies, shall ensure that in the composition of the body:
 - a) External Directors represent an ample majority of the Board;
 - b) the number of Executive Directors is the minimum necessary, having regard to the complexity of the Group of companies and the percentage owned by Executive Directors in the Company's capital;
 - c) among External Directors, the relationship between the number of Nominee Directors and Independent Directors reflects the proportion existing between the Company's capital represented by the Nominee Directors and the remaining capital; this criterion of strict proportionality may be moderated in such a way that the weight of the Nominee Directors is greater than that which would relate to the total percentage of capital they represent in the event of:
 - i) high capitalization in which holdings deemed by Law to be significant are few or nonexistent but there are shareholders with blocks of shares of high absolute value;
 - ii) where there is a plurality of shareholders represented on the Board, and they are not related among themselves;
 - d) the number of independent directors represents at least one-half of the total number of Directors. When the Board Chairman is also the Company's top executive, the independent directors must represent a majority of the total number of directors.

2. For such purposes:

a) Executive Director shall mean:

Directors who discharge senior management functions or are employed by the Company or its Group.

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

The Chairman of the Board of Directors and the executive directors can only discharge the director's position on one (1) Board of Directors of another company; this limit does not include positions on Board of Directors of Company subsidiaries or investees.

b) Nominee Director shall mean:

i) Directors who own a holding of more than or equal to that deemed by Law to be significant or who have been designated due to their status as shareholders, even if their holding falls below that amount.

ii) Directors representing shareholders among those indicated in the preceding paragraph.

For such purposes, a Director shall be deemed to represent a shareholder where:

i) he was appointed by virtue of a right of representation;

ii) he is a director, senior manager, employee or non-occasional service provider of that shareholder or of companies belonging to the same group;

iii) from the corporate documentation, it follows that the shareholder assumes that the Director has been designated by him or represents him;

iv) he is a spouse, spousal equivalent or relative to the second degree of kinship of a significant shareholder;

v) Nominee directors cannot simultaneously discharge their position as director in more than five (5) listed companies.

c) Independent Director shall mean:

Directors designated on the basis of their personal and professional conditions and, accordingly, able to discharge their functions without being conditioned by relationships with the Company, its significant shareholders or its Directors.

The following cannot be Independent Directors:

- i) former employees or Executive Directors of Group companies, unless 3 or 5 years have elapsed, respectively, since the end of the relationship;
- ii) persons who receive from the Company, or from its Group, any amount or benefit other than director's compensation, unless it is insignificant;

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

- iii) persons who are or have been during the last three years, a shareholder of the External Auditor or in charge of the audit report, whether in relation to the audit for that period of the listed company or of any other company in its Group;
- iv) persons who are Executive Directors or Senior Managers of a company other than that in which some Executive Director or Senior Manager of the Company is an External Director;
- v) persons who have or have had during the last year a significant business relationship with the Company or with any company in its Group, whether in their own name or as significant shareholder, Director or Senior Manager of an entity which has or has had such a relationship.

Business relationships shall mean those of the supplier of goods or services, including financial services, of those of advisor or consultant.

- vi) persons who are significant shareholders, Executive Directors, or Senior Managers of an entity which receives or has received

during the last three years, significant donations from the Company or from its Group.

This letter shall not include persons who are mere patrons of a Foundation which receives donations;

- vii) spouses, spousal equivalents or relatives to the second degree of kinship of an Executive Director or Senior Manager of the Company;
- viii) persons who have not been proposed, whether for appointment or reelection, by Corporate Responsibility and Governance Committee;
- ix) persons who are, with respect to a significant shareholder or shareholder represented on the Board, in any of the cases indicated in paragraphs i), v) or vii) of this section. In the case of kinship under paragraph vii), the limitation shall apply not only with respect to the shareholder but also with respect to its Nominee Directors at the investee.

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

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

Independent Directors cannot maintain their status as such for an ongoing period of more than twelve (12) years.

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

3. Independent Directors cannot hold office as director on more than two (2) Boards of Directors at other listed companies, unless expressly approved by the Board, at the proposal of the Corporate Responsibility and Governance Committee.

4. Proposals for the appointment or reelection of Directors made by the Board to the Shareholders' Meeting, as well as their appointment by co-optation, shall be approved by the Board:
 - a) at the proposal of the Corporate Responsibility and Governance Committee, in the case of Independent Directors;
 - b) following a report by the Corporate Responsibility and Governance Committee, in the case of all other Directors.
5. To appoint the independent directors, the policy for appointing and assessing the candidates approved by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee, must be followed.
6. Every year, the independent directors must sign and deliver a statement about their independence in line with the form approved by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.

ARTICLE 8. Quantitative composition

1. The Board of Directors shall be formed by the number of Directors established by the Shareholders' Meeting within the limits set in the Company's Bylaws.
2. The Board shall propose to the Shareholders' Meeting the number which, in accordance with the Company's specific circumstances, is most suitable to ensure the efficient functioning of the body and its stability.

CHAPTER IV STRUCTURE OF THE BOARD OF DIRECTORS

ARTICLE 9. The Chairman of the Board

1. The Chairman of the Board of Directors shall be elected from among its members and can have the status of chief executive of the Company, in which case, he can be delegated all the powers which may be delegated in accordance with the provisions of the law, the Bylaws and these Regulations and shall be responsible for the effective management of the Company's business, in accordance at all times with the decisions and criteria established by the Shareholders' Meeting and the Board of Directors within the scope of their respective powers.

2. The Chairman or the acting chairman has the ordinary power to call a meeting of the Board of Directors, draw up the agenda of its meetings and direct the debates, unless there is a conflict of interest, in which case the lead independent director shall direct the debate.

For such purpose, the Chairman shall ensure that directors receive sufficient information in advance, and shall encourage the debate and active participation of Directors during Board meetings, safeguarding their freedom to take a position and to express their opinions.

In the absence of the Chairman of the Board of Directors and, where applicable, of the lead independent director, his functions shall be performed by the longest-serving director.

3. The Chairman of the Board of Directors shall have the casting vote in the event of a tie.

ARTICLE 9 BIS. The lead independent director

1. The Board of Directors may designate, at the proposal of the Corporate Responsibility and Governance Committee, one of the independent directors as the lead independent director.

The lead independent director has the essential responsibility, which must be taken into account for carrying out the other functions described in these Regulations, of organizing the common positions of the independent directors and being the communicator or spokesperson of those common positions with respect to the Chairman of the Board of Directors, the Board itself and the Board's Committees.

2. Pursuant to these Regulations, the lead independent director shall have the following powers:

2.1 With respect to the Board of Directors:

- a) Propose the Board Chairman items to be included on each meeting's agenda;
- b) Chair the Board of Directors meetings when the Chairman is absent or is in a conflict of interest and subsequently evaluate with the Chairman the issues that were dealt with;
- c) Convene ordinary or extraordinary meetings of the Board of Directors for duly justified reasons which must be attached to

the meeting announcement, when such a request has not been dealt with by the Board Chairman;

- d) Take part in drawing up the annual timetable of the Board of Directors meetings, in coordination with the Chairman, the Board secretary and the Corporate Responsibility and Governance Committee;
- e) Participate in the Board's self-assessment process and, in particular, regarding the Board Chairman and Company's senior executive, in coordination with the Corporate Responsibility and Governance Committee;
- f) Carry out other responsibilities that the Board of Directors attributes expressly to him, where applicable.

2.2 With respect to the independent directors:

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

2.3 With respect to the shareholders:

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

- 3. The position of the lead independent director shall have a duration of three years, and can be re-elected. He shall be removed when he ceases to be a director; when, being a director, he loses his independent status; or when this is resolved by the Board of Directors at the proposal of the Corporate Responsibility and Governance Committee.

ARTICLE 10. The Secretary of the Board

- 1. The Secretary of the Board of Directors, who must be a lawyer, need not be a Director.
- 2. Without prejudice of the other functions provided for in the Company's Bylaws, the Secretary shall assist the Chairman in his tasks and must arrange for the effective operation of the Board, being responsi-

ble, in particular, for providing the Directors with the necessary advice and information, keeping corporate documentation, duly recording in the minutes book the proceedings at meetings and certifying the body's resolutions.

3. The Secretary shall ensure:
 - a) that the actions taken by the Board of Directors comply with the letter and spirit of the laws and their regulations and with the provisions issued by the regulatory bodies;
 - b) that the Board of Directors and its Committees comply with the Company's Bylaws, the Regulations of the Shareholders' Meeting and of the Board of Directors and with the Company's other rules of Corporate Governance;
 - c) that the Company's rules of corporate governance and the actions of the Board of Directors are in line with the recommendations of good corporate governance in force at any given time.
4. Proposals for the appointment and removal of the Secretary of the Board of Directors shall, prior to their submission to the Board, be the subject of a report by the Corporate Responsibility and Governance Committee.

ARTICLE 11. The Vice Secretary of the Board

1. The Board of Directors may appoint a Vice Secretary, who need not be a Director, to assist the Secretary of the Board of Directors, to replace him in the event of his absence, in the secretarial function, both on the Board of Directors and on its Committees. The Vice Secretary must be a lawyer.

Should both be absent, the functions of Secretary shall be discharged by the youngest Director.
2. Unless otherwise decided by the Board of Directors, the Vice Secretary may attend Board meetings to assist the Secretary in drawing up the minutes of the meeting.
3. Proposals for the appointment and removal of the Vice Secretary of the Board of Directors shall, prior to their submission to the Board, be the subject of a report by the Corporate Responsibility and Governance Committee.

ARTICLE 12. Committees on the Board of Directors

1. Without prejudice of any powers delegated on an individual basis, the Board of Directors may appoint one or more Managing Directors and set up other Committees to facilitate the Board's decision-making on certain matters. In accordance with the provisions of the Company's Bylaws and the legislation in force, the Board shall, in any event, set up an Audit Committee and a Corporate Responsibility and Governance Committee, without prejudice of the different names that can be given by the Board of Directors at any given time.

Additionally, the Board may also set up any other Committees it deems suitable, based on the Corporate Governance recommendations in force at any given time, for the optimum organization and functioning of the Company. The Board shall designate Committee members having regard to the knowledge, aptitudes and experience of the Directors and the functions of each Committee.

The Corporate Responsibility and Governance Committee must establish the terms of reference for the profile, experience and abilities that must be met by the members of the Board Committees.

2. Committees shall regulate their own functioning in accordance with the provisions of the Bylaws and of these Regulations. The Secretary of the Board and, in his absence, the Vice Secretary, shall act as Committee Secretary. Committees shall meet following a call by their respective Chairmen. Committees shall draw up an annual action plan of which they shall give an account to the Board and report on its progress from time to time. Where not specifically stipulated, the operating rules set forth in these Regulations in relation to the Board shall apply to the Committees, provided that they are compatible with the nature and function of those Committees.
3. The Committees shall prepare minutes of the resolutions adopted at their meetings, on the terms stipulated by the Board of Directors. A copy of the minutes shall be sent to all Board members and a report on the actions taken shall be given at the first Board meeting.
4. The Committees' activities must be reported to the Ordinary General Shareholders' Meetings.

CHAPTER V THE AUDIT COMMITTEE

ARTICLE 13. Composition and Functioning

1. The Audit Committee shall be composed of a number of members to be determined by the Board of Directors, between at least three and not more than five, from among the external directors and with a majority of independent directors, all of whom must be designated taking into account their knowledge and experience in accounting, auditing or both.

The Committee Chairman shall be elected by the Committee members from among the Independent Directors forming part of the Committee and the Secretary shall be the Secretary of the Board of Directors.

2. Committee members shall be appointed, reelected and removed by the Board of Directors at the proposal of the Chairman of the Board, following a report from the Corporate Responsibility and Governance Committee. The appointment shall be based on their knowledge and experience in accounting, auditing or risk management.

Committee members shall hold office for a period not exceeding three years, may be reelected and shall resign when they do so in their capacity as Directors or when the Board of Directors so decides, following a report by the Corporate Responsibility and Governance Committee. The Chairman shall be replaced every three years and may be reelected after one year has elapsed since his dismissal.

The Committee shall meet as frequently as may be decided, which must be at least quarterly, when called by its Chairman or at the request of two of its members and each time the Board or the Chairman thereof requests the issue of a report.

3. The call notice for meetings, which shall include the Agenda, shall be sent by the Committee Chairman or Secretary to each of its members at least three days prior to the date set for the meeting, unless for reasons of urgency it is necessary to call it within a shorter period.
4. The call notice, with the documentation associated with same, must be sent by telematic means that duly guarantee the security and confidentiality of the call notice and the corresponding documentation.

Committee meetings may be formed with the attendance of the majority of the Committee members and shall adopt decisions or recommendations by an absolute majority of the votes.

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

Members of the management team or personnel of the Company or any of the Group companies who are responsible for the areas under the powers of the Audit Committee, and the External Auditor, when summoned by the Chairman of the Audit Committee, shall be obliged to attend meetings of the Audit Committee and must provide assistance and allow access to the information available to them, in relation to the matters discussed.

5. For the optimum discharge of its functions, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any kind of Company information or documentation it may need for the discharge of its functions.

ARTICLE 14. Functions of the Audit Committee

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

14.1 In relation to economic/financial information:

- a) to approve the accounting principles and criteria to be used in the preparation of the financial statements of the Company and of its consolidated Group, and to check their correctness, reliability and sufficiency;
- b) to supervise the preparation and presentation process and the integrity of the financial information of the Company and, as the case may be, of the Group, ensuring that it is in line with the legal requirements, the suitable definition of the perimeter of consolidation and the

- correct application of the applicable accounting principles and criteria;
- c) to review and inform the Board in advance of the economic/financial information which the Company is to make public and forward to the supervisory bodies of the market. The Committee must ensure that the monthly, quarterly and half-yearly financial statements are prepared using the same accounting criteria as those used to prepare the annual financial statements and, whenever it deems appropriate, may request a limited review by the External Auditor;
 - d) to annually supervise the Investment Plan, the annual Budget and the Timetable for the Financial Year Economic Close in order to submit them to the Board;
 - e) to inform the Board in advance of the significant finance transactions or operations of companies in the Red Eléctrica Group;
 - f) to periodically monitor the Company's own stock operations.

14.2 In relation to internal control and risk management systems:

- a) to approve the Company's internal control procedures in relation to expenditure and investment, making, where necessary, the appropriate modifications;
- b) to supervise the internal audit services, which shall ensure the correct functioning of the reporting and internal control systems and must address requests for information from the Audit Committee in the discharge of its duties;
- c) to ensure the independence and efficiency of the internal audit function, to supervise and control the process for selecting, appointing, re-electing and removing the person in charge of the internal audit service, as well as such service's action plans; to supervise and control the means and resources allocated to the internal audit service and, inter alia, its budget; to receive periodic information on its activities; and to check that Senior Management of the Company and of Red Eléctrica de España, S.A.U. has regard to the conclusions and recommendations of its reports.

The person in charge of internal audit must submit his annual work plan to the Committee, report directly any incidents arising during its

performance and submit an activity report at the end of each year;

- d) to periodically supervise the efficacy of the internal control and risk management systems, in order to identify and manage the main risks, and make them suitably known, particularly the systems regarding the financial information issuing process;
- e) to discuss, with the External Auditors, the significant weaknesses of the internal control systems detected during the audit;
- f) to periodically supervise Corporate Insurance Program of the Company and its Group;
- g) to supervise the procedure established by the Board to enable employees to report the potentially significant irregularities, especially financial and accounting irregularities, they have detected in the business.

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

14.3 In relation to the External Auditors:

- a) to propose to the Board of Directors the appointment of External Auditors for the submission thereof to the Shareholders' Meeting, seeking to have it be the same audit firm for all Group companies, together with the terms of the audit contract, the scope of the professional mandate and its extension or termination;
- b) to establish the corresponding relations with the External Auditors in order to receive information about the issues that may jeopardize their independence, for assessment by the Committee, and any other issues related to the audit process, as well as any other communications envisaged in the audit legislation and standards. In any case, they must annually receive from the External Auditors a written confirmation of their independence with respect to the Company or to entities related to it directly or indirectly, as well as information about additional services of any type provided to such entities by these External Auditors, or by the persons or entities related to them in accordance with the provisions of the current legislation. In this connection:
 - i) to ensure that the Company informs the National Securities Market Commission of the change in auditor and, if appropriate, any disa-

greements with the outgoing auditor, as a Significant Fact;

- ii) to ensure that the Company, within the scope of its responsibilities, complies with the legislation in force on the provision of services other than audit services, the limits on the concentration of the auditor's business and, in general, the other provisions stipulated to ensure the auditor's independence;
- iii) should the auditor renounce, to examine the circumstances that may have led to its renounce.
- c) every year, to issue, before the audit report, a report expressing an opinion about the independence of the External Auditors or audit companies. This report must deal, in any case, with the additional services provided referred to in the preceding section;
- d) to receive any significant information relating to the Audit Plan, the performance of the Audit Plan and the results of its enforcement, as well as any other information stipulated in the accounting legislation;
- e) to serve as a communication channel between the Board and the External Auditor, to evaluate the results of each audit and check that Senior Management of the Company and of Red Eléctrica de España, S.A.U. has regard to its recommendations, mediating in the event of disputes between the former and the latter in relation to the principles and criteria applicable to the preparation of the financial statements;
- f) to supervise the performance of the audit contract, seeking to have the main contents of the audit report worded clearly and precisely;
- g) to be aware of the significant situations detected by the external auditor, in the same way as information from the internal control systems is received, which might have an adverse affect on the net worth, the results, or the image of the Group;
- h) to request from time to time from the external auditors, and at least once a year, an appraisal of the quality of the Group's internal control procedures.

14.4 In relation to compliance with legal provisions and internal rules:

- a) to supervise compliance with the Internal Rules of Conduct on the Securities Market and the functions of the Monitoring Body provided

for in same, reporting periodically to the Corporate Responsibility and Governance Committee of the level of compliance with said Rules and any incidents that may arise.

- b) to resolve the queries and disputes raised by those affected by said Rules that are submitted to it by the Monitoring Body in compliance with the Internal Rules of Conduct on the Securities Market.
- c) to carry out an annual evaluation of compliance with the Internal Rules of Conduct on the Securities Market and the adoption, as the case may be, of the appropriate measures to better their implementation and improve them; in this connection, the proposed modifications to the Rules that are considered necessary shall be submitted to the Corporate Responsibility and Governance Committee in order to be raised to the Board of Directors.
- d) to review compliance actions and measures which are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.
- e) to supervise the Corporate Criminal Risk Prevention Program, submit improvement proposals deemed fit to the Board and, before submitting them to the Board, supervise the annual compliance report drafted by the Program's control and supervisory body.

14.5 In relation to the Company's shareholders:

- a) to be aware of and, where relevant, provide responses to any initiatives, suggestions or complaints made by shareholders in relation to the scope of the functions of this Committee;
- b) where appropriate, to provide information to the Shareholders' Meeting on issues raised at the Meeting on issues falling within its powers;
- c) to submit to the Board of Directors the proposed resolutions and the reports within its powers to be submitted to the General Shareholders' Meeting.

14.6 Others:

- a) to keep the Board of Directors duly informed of its activities and to draw up an annual Report on activities to be included in the Annual Corporate Governance Report and approve an Action Plan and meeting timetable for each financial year;

- b) to report to the Board on extraordinary investment transactions when it so requests and, in any case, on transactions to create or acquire holdings in special-purpose vehicles or entities with their registered office in countries or territories classed as tax havens, and also any transactions and operations which could be detrimental to the Group's transparency;
- c) to report to the Board prior to any related-party transaction that requires the authorization of the Board of Directors, pursuant to Article 5.6 c) of these Regulations.

to report to the Board any related-party transaction that does not require the authorization of the Board of Directors but that the Committee considers should be known by it.
- d) to propose and report on any other matter relating to the foregoing that may be requested by the Chairman or by the Board of Directors or, because of its nature, is included within its powers;
- e) any other power conferred on it by the Board.

CHAPTER VI THE CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE

ARTICLE 15. Composition and Functioning

1. The Corporate Responsibility and Governance Committee shall be composed of a number of Directors to be determined by the Board of Directors, between at least three and not more than five, from among the external directors, and the majority must be independent directors.

The Committee Chairman shall be an Independent Director elected from among its members and the Secretary shall be the Secretary of the Board of Directors.

2. Committee members shall be appointed, reelected and removed by the Board of Directors at the proposal of the Chairman of the Board, following a report by the Corporate Responsibility and Governance Committee.

Committee members shall hold office for a period not exceeding three years, may be reelected and shall resign when they do so in their

capacity as Directors or when the Board of Directors so decides, following a report from by the Corporate Responsibility and Governance Committee. The Chairman shall be replaced every three years and may be reelected after one year has elapsed since his dismissal.

3. The Committee must consider suggestions made to it by the Chairman, the Board members, the executives of the Company and of Red Eléctrica, S.A.U. or the shareholders of the Company on matters which affect the appointment of Directors, the appointment of Managing or Executive Directors, or compliance with the Rules of Corporate Governance, the Bylaws and these Regulations.
4. The Committee shall meet with sufficient frequency for the proper discharge of its functions and, in any event, on a quarterly basis, when called by its Chairman or at the request of two of its members, as well as each time the Board of Directors or its Chairman requests the issue of a report or the adoption of proposals.
5. The call notice for meetings, which shall include the Agenda, shall be sent by the Committee Chairman or Secretary to each of its members at least three days prior to the date set for the meeting, unless for reasons of urgency it is necessary to call it within a shorter period.

The call notice, with the documentation associated with same, must be sent by telematic means that duly guarantee the security and confidentiality of the call notice and the corresponding documentation.

Committee meetings may be formed with the attendance of the majority of the Committee members and shall adopt decisions or recommendations by an absolute majority of the votes.

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

6. For the optimum discharge of its functions, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any kind of Company information or documentation it may need for the discharge of its functions.

ARTICLE 16. Functions of the Corporate Responsibility and Governance Committee

In accordance with the authorization set forth in Article 24.2 of the Company's Bylaws, the Corporate Responsibility and Governance Committee shall have the following basic responsibilities:

16.1 In relation to appointments, discharge of functions and removals:

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

ge their duties with due clarity and efficiency, valuing, for such purposes, compatibility with membership on other management bodies of companies;

- j) to report on appointments and removals of Senior Managers of the Company and of Red Eléctrica de España, S.A.U. proposed by the Chairman to the Board of Directors;
- k) to examine or organize, as deemed suitable, the succession of the Chairman and, if appropriate, to make proposals to the Board for such succession to occur in any orderly and well-planned way;
- l) to ensure a sufficient balance of men and women when covering new vacancies.

16.2 In relation to compensation:

- a) to propose to the Board:
 - i) the compensation policy applicable to the Board of Directors and, where applicable, the Senior Management of the Company and of Red Eléctrica de España, S.A.U.;
 - ii) the annual compensation for the Board of Directors, which shall include the part corresponding to the fixed compensation and the variable compensation linked to compliance with the predetermined and quantifiable strategies and objectives established by the Board, at the proposal of the Corporate Responsibility and Governance Committee, before the start of each financial year and linked to actions envisaged in the Company's Strategic Plan;
 - iii) the individual contractual compensation for executive directors and the other terms of their contracts;
 - iv) the basic terms of the contracts of senior managers of the Company and of Red Eléctrica de España, S.A.U.
- b) to consult the Chairman of the Company, especially where dealing with matters relating to Executive Directors and Senior Managers of the Company and of Red Eléctrica de España, S.A.U.
- c) to ensure compliance with the approved compensation policy applicable to the Board of Directors, the executive directors and, where applicable, the Senior Management and the other management team

of the Company and of Red Eléctrica de España, S.A.U. and, in particular, to periodically supervise compliance with the predetermined and quantifiable objectives, in line with the Strategic Plan, which must be assessed to determine the final amount of the annual and, where applicable, multi-year variable compensation applicable to them;

- d) to submit to the Board the proposed Annual Report on Directors' Compensation, in accordance with Article 47 of these Regulations;
- e) to ensure that the Annual Report on Directors' Compensation is in line with the international standards on this issue.

16.3 In relation to the discharge of Directors' duties:

- a) to ensure that Directors perform the obligations stipulated in these Regulations, to report to the Board on their performance, to issue the appropriate reports and proposals and, as the case may be, any on the measures to be taken in the event of breach;
- b) to authorize Directors to use corporate assets.

16.4 In relation to the rules and actions on Corporate Governance:

- a) to supervise compliance with the Rules on Corporate Governance, submitting proposals for improvement to the Board of Directors, to receive information in this connection and, if appropriate, to issue and submit annually to the Board a report on the measures to be taken;
- b) to submit to the Board the proposals of the Audit Committee in relation to the modification of the Internal Rules of Conduct on the Securities Market;
- c) to approve the proposed Annual Corporate Governance Report to be submitted to the Board of Directors;
- d) to submit to the Board of Directors the proposed resolutions and reports within its powers to be submitted to the General Shareholders' Meeting;
- e) to direct the Board's assessment process and, in particular, regarding the Board Chairman and the Company's top executive, in coordination with the lead independent director;

- f) to approve an annual improvement program on Corporate Governance and periodically assess its compliance;
- g) to periodically review the Company's Corporate Criminal Risk Prevention Program, in coordination with the powers attributed to the Audit Committee;
- h) to submit to the Board of Directors a Knowledge and Information Program Proposal for directors.

16.5 In relation to Corporate Responsibility:

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

16.6 Other functions:

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

CHAPTER VII FUNCTIONING OF THE BOARD

ARTICLE 17. Meetings of the Board of Directors

- I. Ordinarily the Board of Directors shall meet on a monthly basis, at

least once per quarter. In addition, at the Chairman's initiative, it shall meet as often as the latter considers appropriate for the correct functioning of the Company.

2. Before the start of each financial year, the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee, shall approve a guiding annual timetable for the meetings.
3. The Board shall also meet whenever the lead independent director or three directors request this, in which case they must state in the request the matters to be discussed at the meeting, in accordance with the Bylaws and these Regulations.
4. Additionally, the directors who make up at least one-third of the Board members and, in the preceding case, the three requesting directors or the lead independent director, may convene the Board directly, stating the agenda of the meeting to be held in the location of the registered address if, after the request to the Chairman, the latter, without a justified reason, has not convened the meeting within one month.
5. Meetings shall be called by letter, fax, telegram or e-mail, and shall be authorized with the signature of the Chairman or that of the Secretary or the Vice Secretary by order of the Chairman. The call shall be issued at least three days in advance.

The call notice, with the documentation associated with same, must be sent by telematic means that duly guarantee the security and confidentiality of the call notice and the corresponding documentation.

The call notice shall include at all times the Agenda of the meeting, which shall generally be accompanied, where possible, by the relevant information duly summarized and prepared. When deemed inadvisable in the reasonable opinion of the Chairman, the information shall not be enclosed and shall be made available for inspection by the Directors at the corporate headquarters.

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

6. On an exceptional basis, and for urgent reasons, a Board meeting may be called by telephone and the advance notice period and all other

requirements indicated in the previous point shall not apply when, in the Chairman's opinion, the circumstances so justify.

The urgent reasons shall be explained in the Minutes of the meeting

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

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

8. Voting in writing without a meeting being held shall only be admitted when no Director objects to this procedure.
9. The Board shall draw up an annual plan of ordinary meetings and shall have a formal catalogue of the subjects to be discussed.
- 10 The matters debated and the resolutions adopted at the meetings shall be recorded in Minutes, which may be approved by the Board itself after the meeting has been held, or at the beginning of the next ordinary meeting, and shall be signed by the Secretary of the Board or of the meeting, and countersigned by whoever acted as Chairman. When the directors or the secretary state their concerns about a proposal or, in the case of directors, about the Company's business, and such concerns are not resolved by the Board, the concerns shall be recorded in the minutes at the request of whoever stated them.

The Minutes shall be entered in a Minutes Book and shall be signed by the Secretary of the Board and countersigned by the Chairman.

ARTICLE 18. Conduct of the Meetings

1. Except in cases in which other quorums have been specifically stipulated, the Board meeting shall be validly formed when at least half plus one of its members are present or represented. If the number of Directors is uneven, a sufficient quorum shall be deemed to exist if the next whole number of Directors immediately exceeding half attends.
2. The Chairman shall organize the debate seeking and promoting the participation of all the Directors in the Board's deliberations, and shall submit the matters to a vote when he considers them to have been sufficiently debated.

3. Each Director, present or duly represented, shall have one vote. Except in cases in which other voting majorities apply, resolutions shall be adopted by an absolute majority of the directors attending the meeting in person or by proxy. In the event of a tie, the Chairman shall have the casting vote.
4. Directors that cannot attend the meetings must delegate their vote to another director, trying to ensure that it is the same type of director and, if possible, giving him/her precise voting instructions in accordance with Article 28 of these Regulations.
5. Such persons as the Board itself considers appropriate or advisable may attend meetings of the Board of Directors as guests.
6. Efforts will be made in order to ensure that the annual information about directors' attendance to the meetings of the Board and its Committees is made available to the shareholders in an individual way in the Annual Corporate Governance Report.

CHAPTER VIII APPOINTMENT AND REMOVAL OF DIRECTORS

ARTICLE 19. Appointment of Directors

1. Directors shall be appointed by the Shareholders' Meeting or by the Board of Directors in accordance with the provisions of the Corporate Enterprises Act, the Company's Bylaws and these Regulations
2. Proposed appointments –including by co-optation- of Directors shall be made by the Corporate Responsibility and Governance Committee in the case of Independent Directors, and must be the subject of a prior report by the same Committee, in the case of all other Directors.

ARTICLE 20. Appointment of External Directors

The Board of Directors, within the scope of its powers, shall ensure that candidates of good standing, competence and experience are appointed.

To appoint external directors, the Board of Directors must follow the candidate appointment and assessment policy approved by it and may use external advisors when it considers this necessary.

ARTICLE 21. Term of office

1. Directors shall hold office for the period stipulated in the Company's Bylaws.
2. Directors appointed by co-optation shall hold office until the date of the next Shareholders' Meeting, which may ratify them or appoint other directors.
3. Any Director who completes his term of office or for any other reason ceases to hold office may not render services at another entity which pursues activities that could give rise to a conflict of interest with that of the Company, for a period of two years.

ARTICLE 22. Removal of Directors

1. Directors shall leave office at the end of the period for which they were appointed or when so decided by the Shareholders' Meeting, exercising the powers conferred on it by Law or in the Bylaws.

The Board of Directors must not propose the removal of Independent Directors before the end of the period stipulated in the Bylaws for which they were appointed, other than with just cause and following a report by the Corporate Responsibility and Governance Committee. In particular, just cause shall be deemed to exist where the Director is in breach of the duties inherent in his office or where he is in any of the circumstances described in Article 7.2 c) which cause him to forfeit his status as Independent Director. The removal of Independent Directors may also be proposed as the result of corporate transactions which entail a change in the Company's capital structure, where such changes in the structure of the Board are fostered by the criterion of proportionality referred to in Article 7.1.c) of these Regulations.

2. Directors must surrender their post to the Board of Directors and formalize, if the latter considers appropriate, the appropriate resignation in the following cases:
 - a) when they reach 70 years of age;
 - b) when they are subject to any of the statutory grounds for incompatibility or prohibition;
 - c) when they are convicted of an offense or penalized in disciplinary proceedings for a serious or very serious infringement investigated

by the supervisory authorities of the securities, energy and telecommunications markets;

- d) when they are in serious breach of their obligations as Directors;
- e) when they leave the executive posts with which their appointment as Director was associated;
- f) when their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Section 30.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a Director is processed or is brought to trial for any of the crimes mentioned in Article 213 of the Corporate Enterprises Act, the Board shall examine his case as soon as possible and, in the light of the specific circumstances, shall decide pursuant to the preceding paragraph whether or not it is appropriate for him to remain in office. All of the foregoing shall be set forth in the Annual Corporate Governance Report;

- g) in the case of a Nominee Director, when the shareholder whose shareholding interests he represents on the Board disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such;
 - h) at the request of the Board of Directors by a majority of two-thirds of its members, when they repeatedly fail to attend the Board meetings;
 - i) when a circumstance prevents or limits them significantly from taking part in and devoting themselves to the Board meetings and discharging their duties and responsibilities as directors.
3. Committee members shall leave office when they cease to be Directors.
 4. Where a Director leaves the office before the end of his term, whether by resignation or on other grounds, he shall explain his reasons in a letter addressed to all Board members, record of which shall be left in the Annual Corporate Governance Report.

ARTICLE 23. Objectivity and secrecy of votes

1. Pursuant to Article 32 of these Regulations, Directors affected by pro-

posals for appointment, reelection or removal shall refrain from participating in deliberations and votes concerning them.

2. All votes of the Board of Directors concerning the appointment, reelection or removal of Directors shall be secret, if so requested by the majority of those attending, without prejudice to the right of all Directors to have their objection to the adopted resolution placed on record in the minutes.

CHAPTER IX DIRECTORS' INFORMATION

ARTICLE 24. Orientation and update

The Company shall have an information program which provides new Directors with expedient and sufficient knowledge of the Company, as well as of its Rules of Corporate Governance and shall also offer Directors programs for updating their knowledge when the circumstances so require.

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

ARTICLE 25. Faculties to obtain information and faculties of inspection

1. Directors have the broadest faculties to obtain information concerning any aspect of the Company, to examine its books, records, documents and all other background information on corporate transactions and to inspect its entire premises. The faculty to obtain information extends to subsidiaries, whether national or foreign.
2. In order to avoid disturbing the ordinary management of the Company, the exercise of the faculties to obtain information shall be channeled through the Chairman of the Board of Directors, who shall meet Directors' requests, supplying information to them directly, offering them suitable interlocutors at the appropriate level of the organization or arranging the measures so that they may carry out the desired examinations and inspections on site.
3. The Chairman may on an exceptional basis temporarily restrict access to certain information, reporting this decision to the Board of Directors at its next meeting.

ARTICLE 26. Assistance of experts

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

The assignment must necessarily relate to specific problems of certain importance and complexity which arise during the discharge by the Director of his duties.

2. The request for the hiring of experts shall be submitted to the Chairman of the Company and may be rejected by the Board of Directors if it is proven:
 - a) that it is not necessary for the correct discharge of the functions entrusted to the Directors;
 - b) that the cost thereof is not reasonable in view of the importance of the problem and the Company's assets and revenues; or
 - c) that the technical assistance which is sought may be adequately provided by the Company's experts or technicians or has been entrusted to other external experts.

CHAPTER X COMPENSATION OF THE BOARD OF DIRECTORS

ARTICLE 27. Directors' compensation

1. Directors shall be entitled to obtain such compensation as is set by the Shareholders' Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these Regulations. The Board's compensation policy must be in line with the Company's performance, always seeking coherence with the Company's value creation and sustainability in the long term.
2. The Board's compensation policy shall cover at least the following matters:
 - a) the amount of the fixed compensation items, itemizing any fees for attending Board and Committee meetings and an estimate of the annual fixed compensation to which they give rise;
 - b) variable compensation items, including, in particular:

- i) type of Directors to which they apply, as well as an explanation of the relative importance of variable compensation items with respect to fixed compensation items;
- ii) criteria for evaluating results or objectives on which any right to compensation is based, which shall be predetermined and quantifiable and in line with the Strategic Plan, and established by the Board before the start of each financial year, at the proposal of the Corporate Responsibility and Governance Committee;
- iii) fundamental parameters and basis for any system of annual bonuses or other benefits not paid in cash;
- iv) possibility that part or all of the variable compensation for directors comprises a block of Company shares;
- v) an estimate of the absolute amount of the variable compensation arising from the proposed compensation plan, depending on the degree of compliance with the assumptions or performance of the objectives taken as a reference.

This shall also include the technical precautions required to ensure that such variable compensation relates to the professional performance of its beneficiaries and is not merely the result of the general performance of the markets or of the industry in which the Company is active, or other similar circumstances;

- c) main characteristics of the system of benefits, with an estimate of their amount or equivalent annual cost;
 - d) terms with which the contracts of those discharging senior management functions as Executive Directors must comply, including term, prior notice periods and any other clauses relating to contracting fees, as well as severance pay for early termination or termination of the contractual relationship between the Company and the Executive Director.
3. Compensation through the award of Company shares, on the terms authorized by the Shareholders' Meeting, may be applied to all the directors, regardless of their status and type; however, the compensation linked to the Company's benefit systems shall be reserved to executive directors.
 4. Compensation linked to the Company's income shall have regard to

any qualifications stipulated in the external audit report which reduce such income.

5. Likewise, directors' compensation shall be established making an effort to take into account the criteria and parameters regarding the risk administration and management by the Company and its Group and the environmental, social and governance (ESG) issues.
6. The Board's compensation policy shall be approved by previously trying to make several comparative analyses with the compensation policies applied to similar or analogous national or international companies.
7. The Board's compensation policy may envisage: i) claw-back clauses, comprising the refund of amounts unduly received by the directors if it is proved that they have not complied with the predetermined and quantifiable objectives in line with the Strategic Plan, linked to the Board's variable compensation; and ii) deferrals or accruals for several years of the payment for the annual variable compensation linked to a financial year.
8. Directors' compensation shall be transparent. For such purpose, the Corporate Responsibility and Governance Committee shall submit for approval by the Board of Directors the proposed Annual Report on Directors' Compensation, in accordance with Article 47 of these Regulations.

CHAPTER XI DIRECTORS' DUTIES

ARTICLE 28. Duty of diligent administration

1. Pursuant to Articles 5 and 6, the Director's function is to guide and control the Company's management with a view to attaining the Company's interests.
2. In the discharge of his functions, a Director shall act with the diligence of an organized businessman, and must make diligent enquiries regarding the Company's progress, being obliged, in particular, to:
 - a) make enquiries and adequately prepare the meetings of the Board and of the Committees to which he belongs;
 - b) attend meetings of the Committees of which he is a member and actively participate in deliberations so that his views effectively contribute to decision-making.

If, for good reason, he cannot attend the meetings to which he has been called, he must instruct the Director who is to represent him, pursuant to Article 18 of these Regulations, ensuring that such representative authority is conferred on a Director of the same type as the Director represented.

Failures to attend shall be quantified in the Annual Corporate Governance Report;

- c) perform any specific task entrusted to him by the Board of Directors and reasonably included within his dedication commitment;
- d) instigate the investigation of any irregularity in the management of the Company and/or any of the Group companies of which he may become aware and the monitoring of any situation of risk;
- e) ask the persons with capacity to call meetings to call an extraordinary meeting of the Board or of a Committee or to include such items as he deems appropriate in the agenda of the next meeting to be held;
- f) have and obtain the information necessary for the effective discharge of his functions, and regularly follow the issues raised by Company management, it being his responsibility to identify and request it from the Secretary of the Board;
- g) object to resolutions which contravene the Law or the Bylaws;
- h) object to resolutions contrary to the corporate interest. In particular, Independent Directors and those not subject to a potential conflict of interest must object to resolutions which could be detrimental to shareholders not represented on the Board. This obligation also extends to the Secretary of the Board, even where he is not a Director.

ARTICLE 29. Duty of loyalty

Directors shall carry out their duties as a legal representative to defend the corporate interests, understood as the Company's interest, and shall comply with the duties imposed by the Law, the Bylaws and these Regulations.

ARTICLE 30. Use of the Company's name and the director's position

Directors may not use the Company's name or rely on their status as

Company Directors for the performance of transactions for their own account or for the account of persons related to them.

ARTICLE 31. Prohibition to take advantage of business opportunities

- a) A Director may not directly or indirectly use, for his own benefit or for the benefit of persons related to him or of a third party, a business opportunity of the Company or of any of the Group companies, unless it is previously offered to the Company, the Company waives its right to take advantage of it and the use is authorized by the Board, following a report by the Corporate Responsibility and Governance Committee.
- b) For the purposes of the previous paragraph, business opportunity means any possibility of making an investment or performing a commercial transaction which has arisen or has been discovered by the Director in connection with the discharge of his duties, or through the use of Company resources and information, or under such circumstances that it is reasonable to believe that the third party's offer was really aimed at the Company or any of the Group companies.

ARTICLE 32. Conflicts of interest

- a) Directors must communicate to the Board, via the Chairman or secretary, any direct or indirect conflicts of interest that they may have with the Company's interest. The affected director shall refrain from attending and participating in the resolutions or decisions regarding the transaction to which the conflict of interest refers.

A conflict of interest will not be deemed to have occurred in those transactions belonging to the ordinary course of business of the company with which the director has a labour or professional relationship or in which the director holds a management post or a significant stake, provided that the director is aware of the transaction not because of the discharge of its post or function, and without prejudice to the obligation to refrain from attending and participating in the resolutions or decisions regarding said transaction.

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

- c) Nominee directors must disclose to the Board any situation of conflict of interests between the Company and the shareholder who proposed their appointment, when it affects the issues submitted to the Board, and must refrain from participating in the adoption of the related resolutions.
- d) The conflicts of interest envisaged in the preceding sections shall be stated in the notes to the financial statements.

ARTICLE 33. Non-competition

Without prejudice to the provisions of these Regulations regarding conflicts of interest, no Director may pursue, either self-employed or employed by others, the same, analogous or supplementary type of activity to that of the corporate purpose of the Company and/or any of the Group companies, unless there is an express authorization from the Company, by means of a Shareholders' Meeting resolution, for which purpose the notification envisaged in the preceding article must be made. At the request of any shareholder, the Shareholders' Meeting shall resolve on the removal of the directors who are also directors of another competing company.

Any posts held at Group companies are excluded.

The director must consult the Board of Directors before accepting any management post at another company or entity which may constitute a conflict of interests or affect his dedication.

ARTICLE 34. Duty of secrecy

- a) Even when he has ceased to hold office, a director shall keep secret the confidential information, being obligated to maintain the confidentiality of the information, data, reports or background information to which he has had access in the discharge of his duties, without them being notified to third parties or disseminated when this may harm the corporate interests.
- b) This duty of secrecy is excluded when the laws allow their communication or dissemination to third parties or, where applicable, when they are required by or must be sent to the respective supervisory bodies, in which case the information that is provided must conform to the provisions of the laws.
- c) Nominee directors are entitled to inform the shareholders that they

represent of the issues debated within the Board and its Committees, provided that revealing such information does not harm the corporate interests and provided that such shareholders ensure the full confidentiality of the information received.

ARTICLE 35. Non-public information

- a) A Director may not use non-public information of the Company and/or any of the Group companies for private purposes without the prior resolution of the Board of Directors.

Directors must refrain from performing or suggesting performance to any person of a transaction relating to securities of the Company itself or of subsidiaries, associated or related companies in relation to which they have, by virtue of their office, inside or confidential information, for as long as it is not publicly known.

- b) The foregoing shall be deemed to be without prejudice to the rules in force in each case in the Regulations on Conduct on the Securities Markets.

ARTICLE 36. Indirect transactions

A Director shall be in breach of his duty of loyalty to the Company and/or to any of the Group companies if, knowingly in advance, he allows or fails to disclose the existence of transactions performed by his relatives, by companies in which he holds a management post or has a significant shareholding, or by other related parties which have not been subjected to the conditions and controls envisaged in the previous Articles.

ARTICLE 37. Parties related to directors

For the purposes established in these Regulations, related parties are those determined by the regulations in force at any given time.

ARTICLE 38. Directors' duty to inform

- I. A Director must inform the Company of any holding he has in its capital, as well as of stock options or derivatives linked to share value, whether this holding is direct or through companies in which he has a significant holding. This information shall also include any modifications which subsequently occur in such shareholding or related rights, independent of compliance with securities market regulations.

2. A Director must also inform the Company of his other professional obligations, in case they could interfere with the dedication required by his post, and, in particular, of all posts he holds and all activities he performs at other companies or entities with any activity which is the same as, similar or complementary to that of the Company and/or any of the Group companies, or which competes with it to any extent, and of any holdings in their capital stock and, in general, of any other event or situation which may be relevant to his conduct or independence of judgment, as Company Director.
3. A Director must notify the Company of significant changes in his situation which affect the basis on or capacity in which he was appointed as Director, or those which may involve a conflict of interests.
4. A Director must inform the Company of all judicial, administrative or any other kind of claims which, due to their importance, could seriously affect the Company's reputation and, in particular, of any criminal cases in which he appears as accused, as well as of subsequent procedural vicissitudes.

ARTICLE 39. Transactions with significant shareholders

The Board of Directors formally reserves the right to be informed of any significant transaction between the Company and a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the Shareholders' Meeting.

ARTICLE 40. Principle of transparency

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

ARTICLE 41. Breach

In the event that the Directors are in gross or repeated breach of the provisions of Chapter XI of these Regulations and/or the Internal Rules of Conduct on the Securities Market, the Corporate Responsibility and Governance Committee, at its own initiative or at the instance of the Board of Directors, shall gather the necessary information and shall make a proposal for action which it shall submit to the Board of Directors.

CHAPTER XII RELATIONSHIPS OF THE BOARD

ARTICLE 42. Relationships with shareholders

1. The Board of Directors shall arrange the appropriate channels to hear any proposals made by shareholders in relation to the Company's management in accordance with the Regulations of the Shareholders' Meeting.
2. The Board may organize, with the cooperation of such members of senior management as it deems appropriate, informative meetings regarding the progress of the Company and of its Group for shareholders who reside in the most important financial centers in Spain and in other countries.
3. The Board of Directors shall promote the informed participation of shareholders at Shareholders' Meetings and shall take such measures as are appropriate to facilitate the effective discharge by the Shareholders' Meeting of its functions in accordance with the Law, the Company's Bylaws and the Regulations of the Shareholders' Meeting.
4. The Board shall ensure the suitable and updated dissemination on the website of all the information that is legally mandatory and of all the information which it deems to be significant or of interest to the Company or its shareholders, with the purpose of improving information transparency to them.

ARTICLE 43. Relationships with institutional shareholders

1. The Board of Directors shall also establish suitable mechanisms for the regular exchange of information with institutional investors that form part of the Company's shareholding structure.
2. In no case may relationships between the Board of Directors and the institutional shareholders lead to the supply to the latter of any information which might place them in a privileged situation or position of advantage over other shareholders.

ARTICLE 44. Relationships with the markets

1. The Board of Directors shall ensure prompt compliance with the instructions in force regarding significant information, in accordance with the provisions of the Company's Regulations on Conduct in Securities Markets.

2. The Board of Directors shall adopt the necessary measures to ensure that the quarterly, half-yearly, annual and any other financial information which prudence requires is made available to the markets, is drawn up in accordance with the same principles, methods and professional practices as the financial statements, and that it is as reliable as the latter. For such purpose, the aforementioned information shall be reviewed by the Audit Committee.

ARTICLE 45. Relationships with auditors

1. The relationship of the Board with the External Auditors of the Company and, as the case may be the Group companies, shall be channelled through the Audit Committee.
2. The Board of Directors shall refrain from hiring audit firms where the projected fees payable to them, for all items, exceed ten percent of the total income for the last financial year.
3. Each year the Board of Directors shall publicly report the overall fees the Company has paid to the External Auditor for services other than audit services, trying to minimize as far as possible the arrangement of such services.
4. The Board of Directors shall definitively draw up the financial statements seeking to ensure that no qualification is made by the auditor. However, when the Board considers that it must maintain its opinion, it shall publicly explain the content and scope of the discrepancy.

ARTICLE 46. Annual Corporate Governance Report

1. The Board shall publish an Annual Report on Corporate Governance and shall report it to the market and to the National Securities Market Commission as a significant fact, with such structure and content as may be stipulated by the applicable regulations.

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

2. The Company's Annual Corporate Governance Report shall have the following minimum content:
 - a) Ownership structure of the Company, with information relating to shareholders with significant shareholdings, indicating the percentage of the holdings and any existing family, commercial, contractual

or corporate relations, as well as their representation on the Board; the shareholdings of the members of the Board of Directors who must report to the Company; and the existence of side agreements reported to the Company itself and to the National Securities Market Commission, and, if appropriate, deposited at the Mercantile Registry; the securities not traded in a regulated market in the EU, with an indication, where applicable, of the various types of shares and, for each type of shares, the rights and obligations granted, as well as the percentage of capital represented by the Company's treasury stock and their significant variations; and the regulations applicable to the amendment of the Company's Bylaws;

- b) Any restrictions on securities transferability and on voting rights;
- c) Administrative structure of the Company, with information regarding the composition, rules of organization and operation of the Board of Directors and of its committees; identity and compensation of its members, functions and posts within the Company, their relationships with shareholders with significant shareholdings, indicating the existence of crossed or related Directors and the procedures for selection, removal or reelection; the powers of the Board of Directors members and, in particular, those regarding the possibility of issuing or repurchasing shares; the significant resolutions adopted by the Company and which enter into force, are amended or concluded in the case of change of control at the Company as a result of a takeover bid, and its effects, except when such dissemination seriously harms the Company (this exception shall not be applied when the Company is legally obligated to advertise this information); and the resolutions between the Company and its directors, management or employees who have indemnities when they resign or are dismissed unfairly or if the employment relationship ends due to a takeover bid;
- d) Related-party transactions between the Company at/or the Group companies and its shareholders and its Directors and senior managers and intra-group transactions;
- e) Systems of risk control;
- f) Functioning of the Shareholders' Meeting, with information regarding the conduct of the meetings held;

- g) Degree of compliance with the recommendations on good corporate governance, or, if appropriate, an explanation of the failure to comply with such recommendations;
- h) A description of the main characteristics of the internal risk control and management systems in relation to the financial information issuing process.

ARTICLE 47. Annual Report on Directors' Compensation

1. Together with the Annual Corporate Governance Report, the Board shall approve, at the proposal of the Corporate Responsibility and Governance Committee, an Annual Report on Directors' Compensation, which will include at least the full, clear and comprehensible information about the Company's compensation policy approved by the Board for the year in question and, where applicable, that envisaged for future years. It will also include an overall summary of how the compensation policy was applied in the previous year, and a detail of the individual compensation accrued by each director.
2. The Annual Report on Directors' Compensation shall be drafted taking into account the main requirements in accordance with international standards.
3. The minimum content of the Annual Report on Directors' Compensation shall include the necessary information about the indemnities paid, where applicable, to the executive directors, and about golden parachute or indemnity clauses applied to the contracts in force signed with the executive directors and, where applicable, with the Company's senior managers, regarding early rescission or termination thereof.
4. This Annual Report on Directors' Compensation can also include information about the compensation policy for the Company's Senior Management, with the scope approved by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.
5. The Annual Report on Directors' Compensation shall be disseminated and put to vote as a separate item on the agenda at the Ordinary Shareholders' Meeting.



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Pº. del Conde de los Gaitanes, 177 · 28109 Alcobendas (Madrid) Spain
Oficina de atención al accionista: 900 100 182 · www.ree.es