



**RED ELÉCTRICA**  
CORPORACIÓN

***Board of Directors***

*13 March 2013*

Amendment of Corporate Bylaws



## **AMENDMENT OF CORPORATE BYLAWS (Point Seven sections One, Two, and Three, of the Agenda of the General Meeting)**

**AMENDMENT OF THE CORPORATE BYLAWS IN ORDER TO (I) ADAPT THEM TO THE LATEST LEGISLATIVE REFORMS OF LAW 54/1997, OF NOVEMBER 27, ON THE ELECTRICITY INDUSTRY AND OTHER RELATED REGULATIONS; (II) INTRODUCE COUNTERWEIGHTS SHOULD THE CHAIRMAN OF THE BOARD ALSO BE THE CHIEF EXECUTIVE OF THE COMPANY AND OTHER MEASURES PERMITTING THE SEPARATION OF BOTH POSTS, AND (III) ADAPT THE RULES ON BOARD COMMITTEES TO THE MAIN PRACTICES AND INTERNATIONAL RECOMMENDATIONS FOR GOOD CORPORATE GOVERNANCE AND TO THE CURRENT COMPOSITION OF SUCH COMMITTEES: AMENDMENT OF ARTICLES 2 “CORPORATE PURPOSE”, 5 “CAPITAL STOCK”, 21 “FUNCTIONING OF THE BOARD OF DIRECTORS”, 22 “BOARD COMMITTEES AND DELEGATION OF POWERS”, 23 “AUDIT COMMITTEE”, 24 “CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE”, 25 “CHAIRMAN OF THE COMPANY”, AND SOLE ADDITIONAL PROVISION “SPECIAL REGIME FOR THE STATE INDUSTRIAL HOLDING COMPANY”, AND INTRODUCTION OF A NEW ARTICLE 25 BIS “THE LEAD INDEPENDENT DIRECTOR”.**

### **I. SUPPORTING REPORT BY THE BOARD OF DIRECTORS ON POINT SEVEN, SECTIONS ONE, TWO, AND THREE OF THE AGENDA OF THE GENERAL MEETING RELATING TO THE AMENDMENT OF THE CORPORATE BYLAWS.**

#### **1. AIM OF THE REPORT.**

The Board of Directors of Red Eléctrica Corporación, S.A. (hereinafter, the “**Company**”), at the session held on 13 March 2013, has agreed to submit the amendment of articles 2 “Corporate Purpose”, 5 “Capital Stock”, 21 “Functioning of the Board of Directors”, 22 “Board Committees and delegation of powers”, 23 “Audit Committee”, 24 “Corporate Responsibility and Governance Committee”, 25 “Chairman of the Company”, and the Sole Additional Provision “Special Regime for the State Industrial Holding Company” of the Corporate Bylaws, and the introduction of a new article 25 bis “The Lead Independent Director” to the Shareholders’ Meeting, at Point Seven, sections One, Two, and Three, of the Agenda for the said Meeting.

This report has been drawn up by the Board of Directors of the Company in compliance with the provisions of article 286 of the Corporate Enterprises Law, which, in respect of the amendment of the Corporate Bylaws, requires the directors of public limited companies to draft the complete text of the amendment being proposed and to publish a written report justifying the amendment.

Pursuant to article 287 of the Corporate Enterprises Law, the announcement of the call of the General Meeting must clearly state the points that are to be altered, and include a reference to the right corresponding to all shareholders to examine, at the registered office, the complete text of the proposed amendment and the report on the said amendment, as well as to ask for the said documents to be supplied or delivered free of charge. The said documents must also be published without interruption on the Company’s website as from the publication of the announcement of the call, pursuant to the provisions of article 518 of the Corporate Enterprises Law.

## 2. JUSTIFICATION FOR THE AMENDMENT OF THE BYLAWS

The amendment of the Corporate Bylaws submitted for approval before the Shareholders' Meeting has various purposes:

- Firstly, to adjust and update the content of the Bylaws to the changes introduced by Royal Decree-Law 13/2012 of 30 March, which transposes directives in relation to internal electricity and gas markets and in relation to electronic communications, and which implements measures for the correction of deviations caused by misalignments between the costs and revenues of the electricity and gas sectors, repealing the third additional provision of Law 17/2007 of 4 July, and amended Law 54/1997 of 27 November, on the Electricity Industry, on a number of points affecting the Company.

The proposed amendments in this regard seek to eliminate any references by the Company's Corporate Bylaws to the regulations now repealed, such that they are fully in accordance with the new regulatory framework.

In addition, advantage is being taken of this amendment to eliminate express references to other articles of the Electricity Industry Law that are still in force, and replace them with a generic reference to the Electricity Industry Law, in order to ensure these Bylaws remain unaffected by any subsequent legal amendments.

- Secondly, certain checks and balances are introduced which are to apply in the event the Chairman of the Board of Directors also happens to be the chief executive of the Company at the same time, in order to reduce, as far as possible, the risk of concentrating too much power in one person, in accordance with the main international practices and recommendations on good corporate governance.

The proposed amendments, the most significant of which concern the various rules on the functioning of the Board of Directors, the more-detailed regulation of the possible delegation of powers by the Board in favour of one or more Managing Directors, and the creation of the office of Lead Independent Director, seek to express the possible separation of the office of Chairman of the Board from that of chief executive of the Company, introducing the pertinent provisions in order to allow this separation and establishing counter-balancing measures to apply in the event the two offices are held by the same person.

In this regard, the introduction of a new article 25 bis is of note, which is to regulate the office and the main powers of the Lead Independent Director, as an essential figure for avoiding the excessive concentration of power in the Chairman of the Board where he/she is at the same time chief executive of the Company. This figure, which is also envisaged in other articles of the bylaws in relation to certain aspects of his/her activities, is in accordance with the most demanding practices of good corporate governance, both nationally and internationally, and the purpose is essentially to organize the possible common positions of the independent directors and serve as a channel for expressing or giving voice to these common positions before the Chairman of the Board of Directors, the Board itself, and the Board Committees. This promotes the status of the Board as a collegiate body with powers of control and supervision over the activities of the managing team of the Company.

- Thirdly, to adapt the regulation of the Audit Committee and of the Corporate Responsibility and Governance Committee contained in the Company's Corporate Bylaws to the main international practices and recommendations in matters of good

corporate governance. In this regard, the new provision that the majority of the members of the two committees should be independent directors is noteworthy, and has actually already been met by the Company.

Lastly, the opportunity has been taken to put forward some other additional changes to the Corporate Bylaws of a grammatical or stylistic nature, or with regard to how they are ordered.

### 3. PROPOSED AMENDMENTS

In accordance with the above, the following are proposed:

- 1) The amendment of article 2, entitled “Corporate Purpose”, in order to eliminate the reference to the repealed Third Additional Provision of Law 17/2007, of 4 July, from the Corporate Bylaws.

Thus it is proposed to amend article 2 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 2. Corporate Purpose</b></p> <p>The Company’s corporate purpose shall be:</p> <ol style="list-style-type: none"> <li>1. to hold, pursuant to the legislation in force from time to time, the capital stock of the company to which the functions of system operator, electricity transmission network manager and electricity transmitter correspond, pursuant to the provisions of Additional Provision no. 3 of Law 17/2007, of July 4, 2007 (“Law 17/2007”).</li> <li>2. the management of its business group, constituting the holdings in the capital stock of the companies comprising it.</li> <li>3. the research, study and plan investment and corporate organization projects, as well as to promote, create and develop industrial, commercial or services enterprises; to research, develop and operate communications, information technologies and other new technologies in all respects; to provide assistance or support services to investees, for which purpose it may provide to those companies such guarantees and deposits as may be appropriate.</li> <li>4. the design, development, implementation and operation of services relating to the corporate information, management and organization specific to its activity.</li> </ol>	<p><b>Article 2. Corporate Purpose</b></p> <p>The Company’s corporate purpose shall be:</p> <ol style="list-style-type: none"> <li>1. to hold, pursuant to the legislation in force from time to time, the capital stock of the company to which the functions of system operator, <u>and</u> electricity transmission network manager and electricity transmitter correspond, pursuant to the provisions of <u>Additional Provision no. 3 of Law 17/2007, of July 4, 2007 (“Law 17/2007”)–Law 54/1997 of 27 November, on the Electricity Industry (the “Electricity Industry Law”).</u></li> <li>2. the management of its business group, constituting the holdings in the capital stock of the companies comprising it.</li> <li>3. the research, study and plan investment and corporate organization projects, as well as to promote, create and develop industrial, commercial or services enterprises; to research, develop and operate communications, information technologies and other new technologies in all respects; to provide assistance or support services to investees, for which purpose it may provide to those companies such guarantees and deposits as may be appropriate.</li> <li>4. the design, development, implementation and operation of services relating to the corporate information, management and organization specific to its activity.</li> </ol>

5. this corporate purpose includes all activities which are necessary for or enable its fulfillment, provided that they comply with the law.	5. this corporate purpose includes all activities which are necessary for or enable its fulfillment, provided that they comply with the law.
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2) The amendment of article 5, entitled “Capital Stock”, for the purpose of:

- a) Eliminating the reference to the repealed Third Additional Provision of Law 17/2007, of 4 July, from the Corporate Bylaws.
- b) Correcting some small errors.

Thus it is proposed to amend article 5 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 5. Capital Stock</b></p> <p>1. The capital stock of the Company stands at two hundred and seventy million five hundred and forty thousand euros (€270,540,00), and is divided into one hundred and thirty five million two hundred and seventy thousand (135,270,000) shares, of a single class and series, each with a par value of two euros (€2), fully subscribed and paid in, and represented by book entries.</p> <p>2. Pursuant to the provisions of Additional Provision no. 3 of Law 17/2007 and the Electricity Industry Law:</p> <ol style="list-style-type: none"> <li>1) the total direct or indirect holding owned by any individual or legal entity in the capital stock of the Company can at no time be greater than five percent (5%) of the capital stock of the Company, unless otherwise authorized by the Law. These shares cannot be syndicated for any purpose. No shareholder may exercise more than three percent (3%) of non-economic rights. Parties pursuing activities in the Electricity Industry and individuals or legal entities which directly or indirectly own holdings in the capital thereof equal to more than five percent (5%) may not exercise more than one percent (1%) of non-economic rights. Furthermore, the direct or indirect holdings of parties pursuing activities in the Electricity Industry, when added together, must not total more than forty percent (40%).</li> </ol>	<p><b>Article 5. Capital Stock</b></p> <p>1. The capital stock of the Company stands at two hundred and seventy million five hundred and forty thousand euros (€270,540,000), and is divided into one hundred and thirty five million two hundred and seventy thousand (135,270,000) shares, of a single class and series, each with a par value of two euros (€2), fully subscribed and paid in, and represented by book entries.</p> <p>2. Pursuant to the provisions of <del>Additional Provision no. 3 of Law 17/2007 and the</del> Electricity Industry Law:</p> <ol style="list-style-type: none"> <li>1) the total direct or indirect holding owned by any individual or legal entity in the capital stock of the Company can at no time be greater than five percent (5%) of the capital stock of the Company, unless otherwise authorized by the Law. These shares cannot be syndicated for any purpose. No shareholder may exercise more than three percent (3%) of non-economic rights. Parties pursuing activities in the Electricity Industry and individuals or legal entities which directly or indirectly own holdings in the capital thereof equal to more than five percent (5%) may not exercise more than one percent (1%) of non-economic rights. Furthermore, the direct or indirect holdings of parties pursuing activities in the Electricity Industry, when added together, must not total more than forty percent (40%).</li> </ol>

<p>2) In order to calculate the holding of each shareholder, an individual or legal entity shall be deemed to own, in addition to the shares and other securities owned or acquired by the entities belonging to its group, as defined in Article 4 of Securities Market Law 24/1988, those which are owned by:</p> <ul style="list-style-type: none"> <li>a) persons acting in their own name but for the account of the aforesaid shareholder, on a specific basis or forming a decision-making unit, the members of a legal entity's Board of Directors being deemed, unless proven otherwise, to act for the account of or on a concerted basis with such entity.</li> <li>b) the shareholders with whom the aforesaid shareholder exercises the control of a dependent company.</li> </ul> <p>In any case, regard shall be had both to the nominee ownership of the shares and other securities and to the voting rights held under any title.</p> <p>3. Notwithstanding the provisions of Article 6.2 of these Bylaws, the infringement of the limits indicated in Article 5.2 or of those imposed at any time by the legislation in force shall entail the legal consequences determined therein, including, if appropriate, the imposition of the relevant penalties and that which is provided for in these Bylaws.</p> <p>The non-economic rights relating to shares or other securities which, pursuant to the provisions of the legislation in force at any given time, exceed the limit stipulated in this Article, shall be held in abeyance until they are brought into line with that limit.</p> <p>4. As an exception to the general rule and by reason of the singular regime conferred by the Electricity Industry Law on the State Industrial Holding Company (<i>Sociedad Estatal de Participaciones Industriales</i>), the holding and the voting rights of this Company shall be governed by the provisions of these Bylaws, except where provision is made in the Sole Additional Provision of same.</p>	<p>2) In order to calculate the holding of each shareholder, an individual or legal entity shall be deemed to own, in addition to the shares and other securities owned or acquired by the entities belonging to its group, as defined in Article 4 of Securities Market Law 24/1988, those which are owned by:</p> <ul style="list-style-type: none"> <li>a) persons acting in their own name but for the account of the aforesaid shareholder, on a specific basis or forming a decision-making unit, the members of a legal entity's Board of Directors being deemed, unless proven otherwise, to act for the account of or on a concerted basis with such entity.</li> <li>b) the shareholders with whom the aforesaid shareholder exercises the control of a dependent company.</li> </ul> <p>In any case, regard shall be had both to the nominee ownership of the shares and other securities and to the voting rights held under any title.</p> <p>3. Notwithstanding the provisions of Article 6.2 of these Bylaws, the infringement of the limits indicated in Article 5.2 or of those imposed at any time by the legislation in force shall entail the legal consequences determined therein, including, if appropriate, the imposition of the relevant penalties and that which is provided for in these Bylaws.</p> <p>The non-economic rights relating to shares or other securities which, pursuant to the provisions of the legislation in force at any given time, exceed the limit stipulated in this Article, shall be held in abeyance until they are brought into line with that limit.</p> <p>4. As an exception to the general rule and by reason of the singular regime conferred by the Electricity Industry Law on the State Industrial Holding Company (<i>Sociedad Estatal de Participaciones Industriales</i>), the holding and the voting rights of this Company shall be governed by the provisions of these Bylaws, except where provision is made in the Sole Additional Provision of same.</p>
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- 3) The amendment of article 21, entitled “Functioning of the Board of Directors”, for the purpose of:
- a) Including the possibility of appointing the Lead Independent Director, as well as some of his/her main duties.
  - b) Establishing a more balanced arrangement concerning the Chairman’s power to call meetings of the Board of Directors, thus avoiding an excessive concentration of power.
  - c) Adapting the article to current regulations.
  - d) Making some clarifications in the drafting of the article.

Thus it is proposed to amend article 21 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 21. Functioning of the Board of Directors.</b></p> <p>The Board shall designate a Chairman from among its members and, if it deems appropriate, one or more Deputy Chairmen. The Board shall also freely appoint the person who is to hold office as Secretary of the Board of Directors and, if it deems appropriate, shall also appoint a Deputy Secretary. Neither the Secretary nor the Deputy Secretary need be a Director.</p> <p>In the absence of the Chairman of the Board, Board meetings shall be chaired, if there are Deputy Chairmen, by the relevant Deputy Chairman according to rank or, if no rank has been established, by the Director who has held office for the longest time. In the Secretary’s absence, his functions shall be discharged by the Deputy Secretary, if any, and in his absence, by the youngest Director from among those attending the meeting.</p> <p>The Board shall meet where required by the Company’s interests and at least once per quarter and, in any case, within not more than three months from the end of the financial year, with a view to drawing up the financial statements, the management report and the</p>	<p><b>Article 21. Functioning of the Board of Directors.</b></p> <p>The Board shall designate a Chairman from among its members and, if it deems appropriate, one or more Deputy Chairmen. <u>It may also appoint, following a proposal by the Corporate Responsibility and Governance Committee, one of the independent directors to be the Lead Independent Director.</u> The Board shall also freely appoint the person who is to hold office as Secretary of the Board of Directors and, if it deems appropriate, shall also appoint a Deputy Secretary. Neither the Secretary nor the Deputy Secretary need be a Director.</p> <p>In the absence of the Chairman of the Board, <u>and should there be one, of the Lead Independent Director,</u> Board meetings shall be chaired, if there are Deputy Chairmen, by the relevant Deputy Chairman according to rank or, if no rank has been established, by the Director who has held office for the longest time. In the Secretary’s absence, his functions shall be discharged by the Deputy Secretary, if any, and in his absence, by the youngest Director from among those attending the meeting.</p> <p>The Board shall meet where required by the Company’s interests and at least once per quarter and, in any case, within not more than three months from the end of the financial year, with a view to drawing up the financial statements, the management report and the</p>

<p>proposal for the distribution of income and allocation of loss.</p> <p>Each Director may have another Director represent him and vote on his behalf at meetings of the Board of Directors, by virtue of delegation in writing especially for each Board meeting.</p> <p>Board meetings shall be called by the Chairman or by whoever is acting as Chairman and shall meet on the days which the Chairman decides and whenever deemed appropriate by the Chairman or requested in writing by three (3) Directors, who must state in their request the matters to be discussed at the meeting. In such case, the Chairman, or whoever is acting as Chairman, shall call the Board to meet within fifteen (15) days after the request. In addition, Directors constituting at least one-third of the members of the Board may call a Board meeting, setting the agenda, to be held in the municipality in which the registered office is located, if, after making a request to the Chairman, the Chairman fails to call the meeting within one month without just cause. The call shall be issued in writing, addressed personally to each Director and sent by any means capable of leaving record of the contents of the notice and of its receipt, sufficiently in advance of the date set for the Board meeting.</p> <p>A Board meeting may be held without a call where all Directors are present and all agree to the holding of the meeting.</p> <p>Board meetings shall be validly convened where one half plus one of the Board members are present or represented at the meeting.</p> <p>Voting in writing without a meeting being held shall only be admitted when no Director objects to this procedure.</p> <p>When the Chairman deems a matter to have been sufficiently debated, he shall submit it to a vote. Each Director present or duly represented shall have one vote. Resolutions shall be adopted by a majority of the votes, except in cases where the Law requires resolutions to be adopted by a greater</p>	<p>proposal for the distribution of income and allocation of loss.</p> <p>Each Director may have another Director represent him and vote on his behalf at meetings of the Board of Directors, by virtue of delegation in writing especially for each Board meeting.</p> <p>Board meetings shall be called by the Chairman or by whoever is acting as Chairman and shall meet on the days which the Chairman decides and whenever deemed appropriate by the Chairman or requested <del>in writing</del> by <u>the Lead Independent Director</u> or three (3) Directors, <del>who must state in their stating in the</del> request the matters to be discussed at the meeting. <del>In such case, the Chairman, or whoever is acting as Chairman, shall call the Board to meet within fifteen (15) days after the request.</del> In addition, Directors constituting at least one-third of the members of the Board, <del>and in the above case, the three (3) Directors who have made the request or</del> <u>the Lead Independent Director</u>, may call a Board meeting, setting the agenda, to be held in the municipality in which the registered office is located, if, after making a request to the Chairman, the Chairman fails to call the meeting within one month without just cause. The call shall be issued in writing, addressed personally to each Director and sent by any means capable of leaving record of the contents of the notice and of its receipt, sufficiently in advance of the date set for the Board meeting.</p> <p>A Board meeting may be held without a call where all Directors are present and all agree to the holding of the meeting.</p> <p>Board meetings shall be validly convened where one half plus one of the Board members are present or represented at the meeting.</p> <p>Voting in writing without a meeting being held shall only be admitted when no Director objects to this procedure.</p> <p>When the Chairman <u>or the person chairing the meeting in the absence of the Chairman</u> deems a matter to have been sufficiently debated, he shall submit it to a vote. Each Director present or duly represented shall have one vote. Resolutions shall be adopted by <u>an absolute</u> majority of the <u>directors in</u></p>
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<p>majority. In the case of a tie, the Chairman shall have the casting vote.</p> <p>Minutes shall be approved by the Board of Directors itself at the end of the meeting or at the beginning of the next meeting, and shall be signed by the Secretary of the Board, or the meeting Secretary, and countersigned by the person acting as Chairman. Board minutes shall be transcribed in a minutes book, which shall be signed by the Secretary of the Board and countersigned by the Chairman.</p> <p>If vacancies arise during the term for which Directors were appointed, the Board may designate from among the shareholders such persons as are to cover those vacancies until the next Shareholders' Meeting is held.</p>	<p><u>attendance at the meeting, in person or by proxy<sup>1</sup> votes</u>, except in cases where the Law requires resolutions to be adopted by a greater majority. In the case of a tie, the Chairman shall have the casting vote.</p> <p>Minutes shall be approved by the Board of Directors itself at the end of the meeting or at the beginning of the next meeting, and shall be signed by the Secretary of the Board, or the meeting Secretary, and countersigned by the person acting as Chairman. Board minutes shall be transcribed in a minutes book, which shall be signed by the Secretary of the Board and countersigned by the Chairman.</p> <p>If vacancies arise during the term for which Directors were appointed, the Board may designate from among the shareholders such persons as are to cover those vacancies until the next Shareholders' Meeting is held.</p>
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- 4) The amendment of article 22, entitled "Board Committees and delegation of powers", for the purpose of:
- a) Regulating the office of Managing Director in greater detail, in the event that this office is not held by the Chairman of the Board of Directors.
  - b) Making some clarifications to the drafting of the article and minor stylistic changes.

Thus it is proposed to amend article 22 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 22. Board Committees and delegation of powers</b></p> <p>The Board shall approve its internal Regulations with the basic rules on its organization and operation, the rules of conduct of its members and its system of supervision and control, with a view to attaining the optimum professionalism and efficiency in its work, promoting the active participation of all its members, subordinating its own interests to those of the Company and of its shareholders, in compliance with the Law, the Bylaws and the principles of good corporate governance.</p> <p>The Board shall act in plenum or in committees which may be set up on a permanent basis or for a specific matter, with delegated and executive powers, or powers to</p>	<p><b>Article 22. Board Committees and delegation of powers</b></p> <p>The Board shall approve its internal Regulations with the basic rules on its organization and operation, the rules of conduct of its members and its system of supervision and control, with a view to attaining the optimum professionalism and efficiency in its work, promoting the active participation of all its members, subordinating its own interests to those of the Company and of its shareholders, in compliance with the Law, the Bylaws and the principles of good corporate governance.</p> <p>The Board shall act in plenum or in committees which may be set up on a permanent basis or for a specific matter, with delegated and executive powers, or powers to</p>

<sup>1</sup> Adapted to comply with article 248.1 of the Corporate Enterprises Law.

<p>research, advise or propose. Pursuant to the Law and to these Bylaws, there must be an Audit Committee and a Corporate Responsibility and Governance Committee, notwithstanding any other name they may be ascribed by the Board of Directors from time to time, with the functions indicated in the following Articles. Additionally the Board shall set up, having regard to the recommendations on corporate governance from time to time in force, such other committees as it deems suitable to the Company's optimum organization and operation.</p> <p>The Committees shall keep the Board of Directors informed of their work at all times.</p> <p>Notwithstanding such powers of attorney as may be conferred on any person, the Board of Directors may designate an Executive Committee, which shall be composed of such Directors as may be resolved by the Board and on which the Secretary of the Board shall act as Secretary, and one or more Managing Directors.</p> <p>The setting up of the Executive Committee, the designation of the Directors who are to sit on it, the designation of Managing Director(s) and the permanent delegation of powers, if any, shall require the affirmative vote of two thirds of the members of the Company's Board of Directors to be valid. Notwithstanding delegation, the Board of Directors shall retain the powers delegated.</p>	<p>research, advise or propose. Pursuant to the Law and to these Bylaws, there must be an Audit Committee and a Corporate Responsibility and Governance Committee, notwithstanding any other name they may be ascribed by the Board of Directors from time to time, with the functions indicated in the following Articles. Additionally the Board shall set up, having regard to the recommendations on corporate governance from time to time in force, such other committees as it deems suitable to the Company's optimum organization and operation.</p> <p>The Committees shall keep the Board of Directors informed of their work at all times.</p> <p>Notwithstanding such powers of attorney as may be conferred on any person, the Board of Directors may designate an Executive Committee, which shall be composed of such Directors as may be resolved by the Board and on which the Secretary of the Board shall act as Secretary, <del>and one or more Managing Directors.</del></p> <p><u>Likewise, the Board of Directors may appoint one or more Managing Directors, who may be directors other than the Chairman of the Board of Directors, which, if applicable, will be members of the Executive Committee, and who shall be conferred such powers as may be considered appropriate. In the event that powers are delegated on a permanent basis in favour of various Directors, those powers which are to be exercised jointly and severally, and those which are to be exercised jointly, should be specified. Likewise, if all such powers are to be exercised in one form or the other, this should also be specified.</u></p> <p>The setting up of the Executive Committee, the designation of the Directors who are to sit on it, the designation of Managing Director(s) and the permanent delegation of powers, if any, shall require the affirmative vote of two thirds of the members of the Company's Board of Directors to be valid. Notwithstanding delegation, the Board of Directors shall retain the powers delegated <u>that may correspond to it.</u></p>
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- 5) The amendment of article 23, entitled "Audit Committee", for the purpose of:
- a) Adapting it to meet the best practices and good corporate governance recommendations, and the current composition of the Committee.

- b) Making minor clarifications to the drafting of the article.

Thus it is proposed to amend article 23 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 23. Audit Committee.</b></p> <p>1. The Company shall have an Audit Committee composed of a number of members to be determined by the Board of Directors, with a minimum of three, from among the External Directors and at least one Independent Director designated taking into account his knowledge of and experience in accounting and/or audit from among its members. The Chairman shall be an Independent Director designated from among its members. The Secretary of the Board of Directors shall act as Secretary.</p> <p>The Committee shall support the Board of Directors in supervising economic and financial processes and the independence of the External Auditor, and in the internal control of the Company.</p> <p>2. The Audit Committee shall have at least the following powers:</p> <ul style="list-style-type: none"> <li>(i) To report at Shareholders' Meetings on matters falling within its jurisdiction which are raised in the course of such Meetings.</li> <li>(ii) To supervise the efficacy of the Company's internal control, any internal audit, and risk management systems, as well as discuss with the auditors any significant weaknesses of the internal control system detected in the course of the audit.</li> <li>(iii) To supervise the process of preparing and filing regulated financial information.</li> </ul>	<p><b>Article 23. Audit Committee.</b></p> <p>1. The Company shall have an Audit Committee composed of a number of members to be determined by the Board of Directors, with a minimum of three <u>(3) and a maximum of five (5)</u>, from among the External Directors and <del>at least one with a majority of</del> Independent Directors<sup>2</sup>, <u>designated all of whom are to be appointed</u> taking into account <del>his</del> <u>their</u> knowledge of and experience in accounting and/or audit from among its members. The Chairman shall be an Independent Director designated from among its members. The Secretary of the Board of Directors shall act as Secretary.</p> <p>The Committee shall support the Board of Directors in supervising economic and financial processes and the independence of the External Auditor, and in the internal control of the Company.</p> <p>2. The Audit Committee shall have at least the following powers:</p> <ul style="list-style-type: none"> <li>(i) To report at Shareholders' Meetings on matters falling within its jurisdiction which are raised in the course of such Meetings.</li> <li>(ii) To supervise the efficacy of the Company's internal control, any internal audit, and risk management systems, as well as discuss with the <u>external</u> auditors any significant weaknesses of the internal control system detected in the course of the audit.</li> <li>(iii) To supervise the process of preparing and filing regulated financial information.</li> </ul>

<sup>2</sup> Pursuant to the 18th Additional Provision of the Securities Market Law, there should be at least one independent director on this Committee, although the rule requiring a majority of independent directors on this Committee is good practice in corporate governance.

<p>(iv) To propose to the Board of Directors the appointment of auditors for submission to the Shareholders' Meeting.</p> <p>(v) To duly engage with the auditors in order to receive information on any issues that may jeopardize their independence, for their examination by the Committee, and any other issues relating to the audit process, as well as other communications provided for in audit legislation and audit standards. In any case, they must receive each year from the auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of the legislation in force.</p> <p>(vi) Before the auditors' report is issued, to issue a report each year expressing an opinion on the independence of the auditors or audit firms. This report must, in any case, make a pronouncement on the provision of the additional services referred to in the preceding letter.</p> <p>(vii) Any other power attributed to the Board, either in general in its Regulations or entrusted to it in particular.</p> <p>3. Any member of the management team or Company personnel who is required for such purpose shall be obliged to attend Committee meetings and must provide assistance and allow access to the information available to him. In order to discharge its functions, the Committee shall have access to the means necessary for its functioning.</p>	<p>(iv) To propose to the Board of Directors the appointment of <u>external</u> auditors for submission to the Shareholders' Meeting.</p> <p>(v) To duly engage with the <u>external</u> auditors in order to receive information on any issues that may jeopardize their independence, for their examination by the Committee, and any other issues relating to the audit process, as well as other communications provided for in audit legislation and audit standards. In any case, they must receive each year from the <u>external</u> auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of the legislation in force.</p> <p>(vi) Before the auditors' report is issued, to issue a report each year expressing an opinion on the independence of the <u>external</u> auditors or audit firms. This report must, in any case, make a pronouncement on the provision of the additional services referred to in the preceding letter.</p> <p>(vii) Any other power attributed to the Board, either in general in its Regulations or entrusted to it in particular.</p> <p>3. Any member of the management team or Company personnel who is required for such purpose shall be obliged to attend Committee meetings and must provide assistance and allow access to the information available to him. In order to discharge its functions, the Committee shall have access to the means necessary for its functioning.</p>
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4. The Board of Directors shall expand on the powers and the rules of operation of the Audit Committee either in specific regulations or in special provisions of the Board Regulations.	4. The Board of Directors shall expand on the powers and the rules of operation of the Audit Committee either in specific regulations or in special provisions of the Board Regulations.
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- 6) The amendment of article 24, entitled “Corporate Responsibility and Governance Committee”, for the purpose of:
- a) Adapting the text of the Company’s Corporate Bylaws to the best practices and good corporate governance recommendations, and the current composition of the Committee.
  - b) Making minor clarifications to the drafting of the article.

Thus it is proposed to amend article 24 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 24. Corporate Responsibility and Governance Committee</b></p> <p>1. The Company shall have a Corporate Responsibility and Governance Committee, which shall be formed by a number of Directors to be determined by the Board of Directors, with a minimum of three, the majority being External Directors, and at least one half of its members being Independent Directors.</p> <p>The Committee Chairman shall be an Independent Director elected by its members and the Secretary shall be the Secretary of the Board of Directors.</p> <p>2. The Corporate Responsibility and Governance Committee shall have the following basic responsibilities, plus those assigned to it at any time by the Board of Directors:</p> <ul style="list-style-type: none"> <li>a) to report on—and, in the case of Independent Directors, make—in advance, all proposals submitted by the Board of Directors to the Shareholders’ Meeting for the appointment or removal of Directors, including in cases of co-optation.</li> </ul>	<p><b>Article 24. Corporate Responsibility and Governance Committee</b></p> <p>1. The Company shall have a Corporate Responsibility and Governance Committee, which shall be formed by a number of Directors to be determined by the Board of Directors, with a minimum of three <u>(3) and a maximum of five (5) from amongst</u>, <del>the majority being the</del> External Directors, and <u>at least one half with the majority</u> of its members being Independent Directors.</p> <p>The Committee Chairman shall be an Independent Director elected by its members and the Secretary shall be the Secretary of the Board of Directors.</p> <p>2. The Corporate Responsibility and Governance Committee shall have the following basic responsibilities, plus those assigned to it at any time by the Board of Directors:</p> <ul style="list-style-type: none"> <li>a) to report on—and, in the case of Independent Directors, make—in advance, all proposals submitted by the Board of Directors to the Shareholders’ Meeting for the appointment or removal of Directors, <u>including in cases of co-optation; likewise to report on and propose – in the case of independent directors – the appointment of directors by co-optation approved by the Board, and</u></li> </ul>

<p>b) to propose to the Board of Directors the compensation policy for Directors and senior executives and to ensure its observance.</p> <p>c) to assume such reporting, supervising and proposing functions in the area of corporate governance as may be determined by the Board of Directors, as long as no ad hoc Committee has been set up for those functions.</p> <p>3. The Board of Directors shall expand on the powers and rules of operation of the Corporate Responsibility and Governance Committee either in specific regulations or in special provisions of the Board Regulations.</p>	<p><a href="#">to propose the appointment of the Lead Independent Director to the Board.</a></p> <p>b) to propose to the Board of Directors the compensation policy for Directors and senior executives and to ensure its observance.</p> <p>c) to assume such reporting, supervising and proposing functions in the area of corporate governance as may be determined by the Board of Directors, as long as no ad hoc Committee has been set up for those functions.</p> <p>3. The Board of Directors shall expand on the powers and rules of operation of the Corporate Responsibility and Governance Committee either in specific regulations or in special provisions of the Board Regulations.</p>
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7) The amendment of article 25, entitled “Chairman of the Company”, for the purpose of:

- a) Changing the title of the article, so that the reference to "Chairman of the Company" does not lead to a misunderstanding in relation to the nature of the office of the Chairman of the Board.
- b) Acknowledging the possibility that the Chairman might not simultaneously be the chief executive of the Company.
- c) Clarifying the compatibility of the existence of the Chairman of the Board and of one or more Managing Directors.
- d) Making minor alterations to the order and style.

Thus it is proposed to amend article 25 of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Article 25. Chairman of the Company</b></p> <p>The Chairman of the Board of Directors is the Chairman of the Company and of all its governing and managing bodies, and shall be in charge of ensuring compliance with the resolutions of the Board of Directors, which he shall represent on a permanent basis.</p>	<p><b>Article 25. Chairman of the <a href="#">CompanyBoard</a></b></p> <p>The Chairman of the Board of Directors <a href="#">is the shall be deemed to be the</a> Chairman of the Company <del>and of all its governing and managing bodies</del><sup>3</sup>, and shall be in charge of ensuring compliance with the resolutions of the Board of Directors, which he shall represent on a permanent basis.</p>

<sup>3</sup> If the Chairman is an executive director he/she may not, for example, be Chairman of the Committees.

<p>The power to represent the Company, both in and out of court, shall be conferred not only on the Board of Directors but also on the Chairman of the Company.</p> <p>The Chairman of the Company has the senior management of all Company services and shall be responsible for the Company's signature, administration and full representation in all matters, both in and out of court, and shall be empowered to adopt, for reasons of urgency, such measures as he deems appropriate to the Company's interests, reporting them to the Board of Directors immediately thereafter.</p>	<p><u>In addition to the Board of Directors and, where appropriate, the Managing Director(s), the power to represent the Company, both in and out of court, shall be conferred not only on the Board of Directors but also on may vest with the Chairman of the Company Board.</u></p> <p><del>The Chairman of the Company has the senior management of all Company services and shall be responsible for the Company's signature, administration and full representation in all matters, both in and out of court, and shall be empowered to adopt, for reasons of urgency, such measures as he deems appropriate to the Company's interests, reporting them to the Board of Directors immediately thereafter.</del></p> <p><u>The existence of the Chairman of the Board shall be deemed to be without prejudice to the power of the Board of Directors to appoint one or more Managing Directors, as well as to confer on them such permanent powers as may be considered appropriate, pursuant to the provisions of article 22 of these Bylaws.</u></p>
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- 8) The inclusion of a new article 25 bis, entitled "The Lead Independent Director", regulating this new office:

Thus it is proposed to include the following article 25 bis in the Corporate Bylaws:

<i>Previous wording</i>	<i>Proposed new wording</i>
	<p><u><b>Article 25 bis. The Lead Independent Director</b></u></p> <p><u>1. In the event the Board appoints one of the Independent Directors to the office of Lead Independent Director, the essential duty of this position, which must be taken into account in the performance of the other duties envisaged in the Board of Directors Regulations, shall be to organize the possible common positions of the independent directors and serve as a channel for expressing or giving voice to these common positions before the Chairman of the Board of Directors, the Board itself, and the Board Committees.</u></p> <p><u>2. The Lead Independent Director shall hold office for three (3) years, following which he/she may be re-elected. The Lead Independent Director shall cease to hold office when he/she ceases to be a Director, or when he/she ceases to be independent whilst remaining a director, or when the Board of Directors should so decide, following a</u></p>

- 9) The amendment of the Sole Additional Provision, entitled “Special Regime for the State Industrial Holding Company”, for the purpose of:
- a) Eliminating the express reference to the repealed Third Additional Provision of Law 17/2007 from the Corporate Bylaws, and other specific articles of the Electricity Industry Law, and including a generic reference to the Electricity Industry Law, so as to ensure these Bylaws remain unaffected by any subsequent legal amendments.
  - b) Making minor clarifications to the drafting of the article.

Thus, it is proposed to amend the Sole Additional Provision of the Corporate Bylaws to read as follows, with the amendments compared to the previous wording highlighted:

<i>Previous wording</i>	<i>Proposed new wording</i>
<p><b>Sole Additional Provision. Special Regime for the State Industrial Holding Company</b></p> <p>1. By virtue of the provisions of the Electricity Industry Law, neither the limitations stipulated in paragraph 2 of Additional Provision no. 3 of Law 17/2007, nor the limitations stipulated in these Bylaws on the holding of shares in the Company and on non-economic rights shall apply to the State Industrial Holding Company. The State Industrial Holding Company shall in all cases have a shareholding of not less than 10%.</p> <p>2. Where a Director, who is an individual, holds his office on behalf of the shareholder referred to in Transitional Provision Nine in relation to Article 34.1 of the Electricity Industry Law, his compensation must be brought into line with the applicable provisions on matters of conflicts of interest in the public sector stipulated for such purpose, notwithstanding any compensation that might be due to the public shareholder, either because it is directly designated member of the Board of Directors or for services provided to the Board or to its standing committees by persons representing that public shareholder in the Company’s capital and exceeding those which, pursuant to the aforesaid legislation, may relate to them personally, all of the foregoing for as long as ownership is maintained pursuant to Transitional Provision Nine.</p>	<p><b>Sole Additional Provision. Special Regime for the State Industrial Holding Company</b></p> <p>1. By virtue of the provisions of the Electricity Industry Law, neither the limitations stipulated in <del>paragraph 2 of Additional Provision no. 3 of Law 17/2007</del><u>the Electricity Industry Law</u>, nor the limitations stipulated in these Bylaws on the holding of shares in the Company and on non-economic rights shall apply to the State Industrial Holding Company. The State Industrial Holding Company shall in all cases have a shareholding of not less than 10%.</p> <p>2. Where a Director, who is an individual, holds his office on behalf of the <u>said</u> shareholder, <del>referred to in Transitional Provision Nine in relation to Article 34.1 pursuant to the provisions</del> of the Electricity Industry Law, his compensation must be brought into line with the applicable provisions on matters of conflicts of interest in the public sector stipulated for such purpose, notwithstanding any compensation that might be due to the public shareholder, either because it is directly designated member of the Board of Directors or for services provided to the Board or to its standing committees by persons representing that public shareholder in the Company’s capital and exceeding those which, pursuant to the aforesaid legislation, may relate to them personally, all of the foregoing for as long as ownership is maintained</p>



	pursuant to <del>Transitional Provision</del> <u>Nine</u> the applicable legislation.
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#### 4. APPROVAL OF THE REPORT

For all the foregoing, and in accordance with the provisions of articles 286 of the Corporate Enterprises Law and 158 of the Commercial Registry Regulations, the Board of Directors issues this Report on the amendment of the Corporate Bylaws.

Madrid, 13 March 2013.

## II. PROPOSED RESOLUTIONS.

### PROPOSED RESOLUTIONS FOR THE AMENDMENT OF THE CORPORATE BYLAWS (POINT SEVEN OF THE AGENDA, SECTIONS ONE, TWO, AND THREE).

It is agreed to propose the amendment of the Bylaws of the Company to the Shareholders' Meeting, in accordance with the terms set forth in the report drawn up by the directors pursuant to articles 286 of the Corporate Enterprises Law and 158 of the Commercial Registry Regulations, so that it may be voted on separately for each block, in accordance as is set out below:

#### **One. Adaptation to the latest legislative reforms of Law 54/1997, of November 27, on the Electricity Industry and other related regulations:**

A. To amend article 2 ("Corporate Purpose"), which shall read as follows:

##### **"Article 2. Corporate Purpose**

*The Company's corporate purpose shall be:*

- 1. to hold, pursuant to the legislation in force from time to time, the capital stock of the company to which the functions of system operator and electricity transmission network manager and electricity transmitter correspond, pursuant to the provisions of Law 54/1997 of 27 November, on the Electricity Industry (the "Electricity Industry Law").*
- 2. the management of its business group, constituting the holdings in the capital stock of the companies comprising it.*
- 3. the research, study and plan investment and corporate organization projects, as well as to promote, create and develop industrial, commercial or services enterprises; to research, develop and operate communications, information technologies and other new technologies in all respects; to provide assistance or support services to investees, for which purpose it may provide to those companies such guarantees and deposits as may be appropriate.*
- 4. the design, development, implementation and operation of services relating to the corporate information, management and organization specific to its activity.*
- 5. this corporate purpose includes all activities which are necessary for or enable its fulfillment, provided that they comply with the law."*

B. To amend article 5 ("Capital Stock"), which shall read as follows:

##### **"Article 5. Capital Stock**

- 1. The capital stock of the Company stands at two hundred and seventy million five hundred and forty thousand euros (€270,540,000), and is divided into one hundred and thirty five million two hundred and seventy thousand (135,270,000) shares, of a single class and series, each with a par value of two euros (€2), fully subscribed and paid in, and represented by book entries.*

2. Pursuant to the provisions of the Electricity Industry Law:

- 1) *the total direct or indirect holding owned by any individual or legal entity in the capital stock of the Company can at no time be greater than five percent (5%) of the capital stock of the Company, unless otherwise authorized by the Law. These shares cannot be syndicated for any purpose. No shareholder may exercise more than three percent (3%) of non-economic rights. Parties pursuing activities in the Electricity Industry and individuals or legal entities which directly or indirectly own holdings in the capital thereof equal to more than five percent (5%) may not exercise more than one percent (1%) of non-economic rights. Furthermore, the direct or indirect holdings of parties pursuing activities in the Electricity Industry, when added together, must not total more than forty percent (40%).*
- 2) *In order to calculate the holding of each shareholder, an individual or legal entity shall be deemed to own, in addition to the shares and other securities owned or acquired by the entities belonging to its group, as defined in Article 4 of Securities Market Law 24/1988, those which are owned by:*
  - a) *persons acting in their own name but for the account of the aforesaid shareholder, on a specific basis or forming a decision-making unit, the members of a legal entity's Board of Directors being deemed, unless proven otherwise, to act for the account of or on a concerted basis with such entity.*
  - b) *the shareholders with whom the aforesaid shareholder exercises the control of a dependent company.*

*In any case, regard shall be had both to the nominee ownership of the shares and other securities and to the voting rights held under any title.*

3. *Notwithstanding the provisions of Article 6.2 of these Bylaws, the infringement of the limits indicated in Article 5.2 or of those imposed at any time by the legislation in force shall entail the legal consequences determined therein, including, if appropriate, the imposition of the relevant penalties and that which is provided for in these Bylaws.*

*The non-economic rights relating to shares or other securities which, pursuant to the provisions of the legislation force at any given time, exceed the limit stipulated in this Article, shall be held in abeyance until they are brought into line with that limit.*

4. *As an exception to the general rule and by reason of the singular regime conferred by the Electricity Industry Law on the State Industrial Holding Company (Sociedad Estatal de Participaciones Industriales), the holding and the voting rights of this Company shall be governed by the provisions of these Bylaws, except where provision is made in the Sole Additional Provision of same."*

- C. To amend the Sole Additional Provision ("Special Regime for the State Industrial Holding Company"), which shall read as follows:

***"Sole Additional Provision. Special Regime for the State Industrial Holding Company.***

1. *By virtue of the provisions of the Electricity Industry Law, neither the limitations stipulated in the Electricity Industry Law, nor the limitations stipulated in these*

*Bylaws on the holding of shares in the Company and on non-economic rights shall apply to the State Industrial Holding Company. The State Industrial Holding Company shall in all cases have a shareholding of not less than 10%.*

2. *Where a Director, who is an individual, holds his office on behalf of the said shareholder, pursuant to the provisions of the Electricity Industry Law, his compensation must be brought into line with the applicable provisions on matters of conflicts of interest in the public sector stipulated for such purpose, notwithstanding any compensation that might be due to the public shareholder, either because it is directly designated member of the Board of Directors or for services provided to the Board or to its standing committees by persons representing that public shareholder in the Company's capital and exceeding those which, pursuant to the aforesaid legislation, may relate to them personally, all of the foregoing for as long as ownership is maintained pursuant to the applicable legislation."*

**Two. The introduction of counterweights should the Chairman of the Board also be the chief executive of the Company and other measures permitting the separation of both posts:**

- A. To amend article 21 ("Functioning of the Board of Directors"), which shall read as follows:

***"Article 21. Functioning of the Board of Directors***

*The Board shall designate a Chairman from among its members and, if it deems appropriate, one or more Deputy Chairmen. It may also appoint, following a proposal by the Corporate Responsibility and Governance Committee, one of the independent directors to be the Lead Independent Director. The Board shall also freely appoint the person who is to hold office as Secretary of the Board of Directors and, if it deems appropriate, shall also appoint a Deputy Secretary. Neither the Secretary nor the Deputy Secretary need be a Director.*

*In the absence of the Chairman of the Board, and should there be one, of the Lead Independent Director, Board meetings shall be chaired, if there are Deputy Chairmen, by the relevant Deputy Chairman according to rank or, if no rank has been established, by the Director who has held office for the longest time. In the Secretary's absence, his functions shall be discharged by the Deputy Secretary, if any, and in his absence, by the youngest Director from among those attending the meeting.*

*The Board shall meet where required by the Company's interests and at least once per quarter and, in any case, within not more than three months from the end of the financial year, with a view to drawing up the financial statements, the management report and the proposal for the distribution of income and allocation of loss.*

*Each Director may have another Director represent him and vote on his behalf at meetings of the Board of Directors, by virtue of delegation in writing especially for each Board meeting.*

*Board meetings shall be called by the Chairman or by whoever is acting as Chairman and shall meet on the days which the Chairman decides and whenever deemed*

*appropriate by the Chairman or requested by the Lead Independent Director or three (3) Directors, stating in the request the matters to be discussed at the meeting. In addition, Directors constituting at least one-third of the members of the Board, and in the above case, the three (3) Directors who have made the request or the Lead Independent Director, may call a Board meeting, setting the agenda, to be held in the municipality in which the registered office is located, if, after making a request to the Chairman, the Chairman fails to call the meeting within one month without just cause. The call shall be issued in writing, addressed personally to each Director and sent by any means capable of leaving record of the contents of the notice and of its receipt, sufficiently in advance of the date set for the Board meeting.*

*A Board meeting may be held without a call where all Directors are present and all agree to the holding of the meeting.*

*Board meetings shall be validly convened where one half plus one of the Board members are present or represented at the meeting.*

*Voting in writing without a meeting being held shall only be admitted when no Director objects to this procedure.*

*When the Chairman or the person chairing the meeting in the absence of the Chairman deems a matter to have been sufficiently debated, he shall submit it to a vote. Each Director present or duly represented shall have one vote. Resolutions shall be adopted by an absolute majority of the directors in attendance at the meeting, in person or by proxy, except in cases where the Law requires resolutions to be adopted by a greater majority. In the case of a tie, the Chairman shall have the casting vote.*

*Minutes shall be approved by the Board of Directors itself at the end of the meeting or at the beginning of the next meeting, and shall be signed by the Secretary of the Board, or the meeting Secretary, and countersigned by the person acting as Chairman. Board minutes shall be transcribed in a minutes book, which shall be signed by the Secretary of the Board and countersigned by the Chairman.*

*If vacancies arise during the term for which Directors were appointed, the Board may designate from among the shareholders such persons as are to cover those vacancies until the next Shareholders' Meeting is held".*

- B. To amend article 22 ("Board Committees and delegation of powers") which shall read as follows:

***"Article 22. Board Committees and delegation of powers.***

*The Board shall approve its internal Regulations with the basic rules on its organization and operation, the rules of conduct of its members and its system of supervision and control, with a view to attaining the optimum professionalism and efficiency in its work, promoting the active participation of all its members, subordinating its own interests to those of the Company and of its shareholders, in compliance with the Law, the Bylaws and the principles of good corporate governance.*

*The Board shall act in plenum or in committees which may be set up on a permanent basis or for a specific matter, with delegated and executive powers, or powers to*

research, advise or propose. Pursuant to the Law and to these Bylaws, there must be an Audit Committee and a Corporate Responsibility and Governance Committee, notwithstanding any other name they may be ascribed by the Board of Directors from time to time, with the functions indicated in the following Articles. Additionally the Board shall set up, having regard to the recommendations on corporate governance from time to time in force, such other committees as it deems suitable to the Company's optimum organization and operation.

*The Committees shall keep the Board of Directors informed of their work at all times.*

*Notwithstanding such powers of attorney as may be conferred on any person, the Board of Directors may designate an Executive Committee, which shall be composed of such Directors as may be resolved by the Board and on which the Secretary of the Board shall act as Secretary.*

*Likewise, the Board of Directors may appoint one or more Managing Directors, who may be directors other than the Chairman of the Board of Directors, which, if applicable, will be members of the Executive Committee, and who shall be conferred such powers as may be considered appropriate. In the event that powers are delegated on a permanent basis in favour of various Directors, those powers which are to be exercised jointly and severally, and those which are to be exercised jointly, should be specified. Likewise, if all such powers are to be exercised in one form or the other, this should also be specified.*

*The setting up of the Executive Committee, the designation of the Directors who are to sit on it, the designation of Managing Director(s) and the permanent delegation of powers, if any, shall require the affirmative vote of two thirds of the members of the Company's Board of Directors to be valid. Notwithstanding delegation, the Board of Directors shall retain the powers delegated that may correspond to it."*

- C. To amend article 25 ("Chairman of the Company") which shall read as follows:

**"Article 25. Chairman of the Board.**

*The Chairman of the Board of Directors shall be deemed to be the Chairman of the Company, and shall be in charge of ensuring compliance with the resolutions of the Board of Directors, which he shall represent on a permanent basis.*

*In addition to the Board of Directors and, where appropriate, the Managing Director(s), the power to represent the Company, both in and out of court, may vest with the Chairman of the Board.*

*The existence of the Chairman of the Board shall be deemed to be without prejudice to the power of the Board of Directors to appoint one or more Managing Directors, as well as to confer on them such permanent powers as may be considered appropriate, pursuant to the provisions of article 22 of these Bylaws."*

- D. To include a new article 25 bis ("The Co-ordinating Independent Director"), which shall read as follows:

**"Article 25 bis. The Lead Independent Director**

1. *In the event the Board appoints one of the Independent Directors to the office of Lead Independent Director, the essential duty of this position, which must be taken into account in the performance of the other duties envisaged in the Board of Directors Regulations, shall be to organize the possible common positions of the independent directors and serve as a channel for expressing or giving voice to these common positions before the Chairman of the Board of Directors, the Board itself, and the Board Committees.*

2. *The Lead Independent Director shall hold office for three (3) years, following which he/she may be re-elected. The Lead Independent Director shall cease to hold office when he/she ceases to be a Director, or when he/she ceases to be independent whilst remaining a director, or when the Board of Directors should so decide, following a proposal by the Corporate Responsibility and Governance Committee.”*

**Three. Adapting the rules on Board Committees to the main practices and international recommendations for good corporate governance and to the current composition of such Committees:**

A. To amend article 23 (“Audit Committee”), which shall read as follows:

**“Article 23. Audit Committee**

1. *The Company shall have an Audit Committee composed of a number of members to be determined by the Board of Directors, with a minimum of three (3) and a maximum of five (5), from among the External Directors and with a majority of Independent Directors, all of whom are to be appointed taking into account their knowledge of and experience in accounting and/or audit from among its members. The Chairman shall be an Independent Director designated from among its members. The Secretary of the Board of Directors shall act as Secretary.*

*The Committee shall support the Board of Directors in supervising economic and financial processes and the independence of the External Auditor, and in the internal control of the Company.*

2. *The Audit Committee shall have at least the following powers:*

- (i) To report at Shareholders’ Meetings on matters falling within its jurisdiction which are raised in the course of such Meetings.*
- (ii) To supervise the efficacy of the Company’s internal control, any internal audit, and risk management systems, as well as discuss with the external auditors any significant weaknesses of the internal control system detected in the course of the audit.*
- (iii) To supervise the process of preparing and filing regulated financial information.*
- (iv) To propose to the Board of Directors the appointment of external auditors for submission to the Shareholders’ Meeting.*

- (v) *To duly engage with the external auditors in order to receive information on any issues that may jeopardize their independence, for their examination by the Committee, and any other issues relating to the audit process, as well as other communications provided for in audit legislation and audit standards. In any case, they must receive each year from the external auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of the legislation in force.*
- (vi) *Before the auditors' report is issued, to issue a report each year expressing an opinion on the independence of the external auditors or audit firms. This report must, in any case, make a pronouncement on the provision of the additional services referred to in the preceding letter.*
- (vii) *Any other power attributed to the Board, either in general in its Regulations or entrusted to it in particular.*

3. *Any member of the management team or Company personnel who is required for such purpose shall be obliged to attend Committee meetings and must provide assistance and allow access to the information available to him. In order to discharge its functions, the Committee shall have access to the means necessary for its functioning.*

4. *The Board of Directors shall expand on the powers and the rules of operation of the Audit Committee either in specific regulations or in special provisions of the Board Regulations."*

- B. To amend article 24 ("Corporate Responsibility and Governance Committee"), which shall read as follows:

***"Article 24. Corporate Responsibility and Governance Committee***

1. *The Company shall have a Corporate Responsibility and Governance Committee, which shall be formed by a number of Directors to be determined by the Board of Directors, with a minimum of three (3) and a maximum of five (5) from amongst the External Directors, and with the majority of its members being Independent Directors.*

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

2. *The Corporate Responsibility and Governance Committee shall have the following basic responsibilities, plus those assigned to it at any time by the Board of Directors:*

- a) *to report on—and, in the case of Independent Directors, make—in advance, all proposals submitted by the Board of Directors to the Shareholders' Meeting for the appointment or removal of Directors; likewise to report on and propose – in the case of independent directors –*



*the appointment of directors by co-optation approved by the Board, and to propose the appointment of the Lead Independent Director to the Board.*

- b) to propose to the Board of Directors the compensation policy for Directors and senior executives and to ensure its observance.*
- c) to assume such reporting, supervising and proposing functions in the area of corporate governance as may be determined by the Board of Directors, as long as no ad hoc Committee has been set up for those functions.*

*3. The Board of Directors shall expand on the powers and rules of operation of the Corporate Responsibility and Governance Committee either in specific regulations or in special provisions of the Board Regulations.”*