



**RED**  
**ELÉCTRICA**  
CORPORACIÓN

**CHAIRMAN'S ADDRESS**

**EXTRAORDINARY SHAREHOLDERS' MEETING**

17 July 2015

## Introduction

Ladies and gentlemen, this year celebrating the thirtieth anniversary of Red Eléctrica, we gather again to address a matter absolutely relevant to the company's present and future. It is a source of satisfaction for me to chair this important corporate event that has been called exclusively to share with you that on which the Board of Directors has been working since 2012: the separation of the positions of Chairman of the Board and the company's CEO, a commitment taken on by Red Eléctrica and by the chairman with the shareholders.

As you know, the Board of Directors already stated, in the first AGM that I chaired and which was held in April 2012, the commitment to adopt certain measures to counterbalance the powers and responsibilities of the unified position of *Chairman/CEO*, to facilitate the path towards the final separation of such positions.

## New situation

After three years, in which there have been various steps taken in this direction, which I will detail later, we are in a situation that leads us to consider the process to separate positions at this time.

Firstly, the regulatory uncertainties in the electricity sector that existed in 2013 and 2014 and that affected the company's main activities and especially the remuneration of the same have been largely resolved. As a result, last February the Board of Directors approved the Group's new Strategic Plan with a time frame for 2014-2019, which means, among other challenges, a clear and sustained increase in non-regulated activities.

It seems, therefore, very appropriate that the drive and implementation of the new Plan is approached, from the beginning, with a well planned and sustainable solid organisational structure, especially as regards its senior executives, which will strengthen proper alignment between the company's interests and those of its shareholders.

This Plan strengthens the efficiency criteria in developing our activity as TSO, with the challenges posed by the drive for new international connections and links between islands, as well as assuming a greater range of other businesses linked to already established activities, as

is the case in the management of optical fibre, and an expansion of the business base from energy storage and international investment.

Without a doubt, the exercise of roles and responsibilities differentially, entailing greater autonomy and objectivity in the discharge of the same, will strengthen the management of the Group's businesses to meet the challenges raised by the new Strategic Plan, based on the principles of excellence, efficiency and sustainability, among other principles.

Secondly, the internal analysis process on the transfer of executive powers and the succession of measures taken in recent years towards establishing counterbalances to facilitate the work of control and supervision of the Board of Directors makes the present time very appropriate to culminate with a concrete proposal for the separation of positions for formal approval and the implementation of the corresponding process.

The extraordinary importance of this proposal for the company, which also comes from the shareholder environment, fully justifies that the decision be directly submitted to the company's shareholders at an EGM convened exclusively for such purpose.

#### **Red Eléctrica's commitment to its shareholders**

The situation is, therefore, ideal to take the final step of a journey that began, as I said at the beginning of my talk, in 2012. The main counterbalance measures that Red Eléctrica committed to implementing in its governing bodies were, among others:

- the maintenance of an adequate level of dialogue and engagement with shareholders,
- the departure of the executive director from the Appointments and Remuneration Committee,
- the appointment of an Independent Coordinating Director,
- the strengthening of independence in the composition of the Board and its Committees,
- the strengthening of the supervision and control role of the Board of Directors at the expense of the responsibilities of the *Chairman/CEO*,
- the annual self-evaluation of the Board with independent external support,
- moderation in the remuneration of the Board of Directors, as well as its separation from risk and management objectives, focusing on its objectives regarding planning, supervision and control

- as well as the time limitation - beyond the legal term then in force- of the term of office of directors, favouring their rotation.

All these practices, together with the need for a Board of Directors with full dedication, balanced and diverse in gender, experience and knowledge, equipped with a suitable programme to update technical skills, and that will also act under the principles of transparency and quality of information to the markets, would be sufficient counterbalance measures to have a robust corporate governance system that facilitates the Board's performance of its role to supervise and control the managers in general and, in particular, the *Chairman/CEO* until formal and final separation of both positions occurs.

Red Eléctrica has strictly complied with all the commitments made in 2012 and has been reporting regularly to all its stakeholders and, in particular, to its shareholders, on the progress and measures taken.

Notwithstanding my appointment as executive chairman and of the Board in 2012, I never included myself as a member of the Appointments and Remuneration Committee.

The position of Independent Coordinating Director was created by the company's AGM held in April 2013, with Carmen Gómez de Barreda being appointed in May 2013 as Independent Coordinating Director.

The Board of Directors is currently composed of a significant majority of independent directors, 64%, which acts as a counterbalance and balance of powers in the composition of the Board.

The process to select and appoint directors has been strengthened in recent years to improve diversity in gender, experience and knowledge.

The Board of Directors has been voluntarily assigned in its internal Regulations certain responsibilities which cannot be delegated that cannot be exercised by either the executive chairman or by the Board Committees.

The Board also exercises effective immediate control over the ordinary, extraordinary and urgent actions carried out by the executive chairman, at each ordinary meeting.

The Board Committees, currently composed of 75% of independent directors, have broad roles assigned in the Articles of Association and in the Regulations of the Board of Directors.

Moreover, for years the Board has been subject to an annual self-evaluation, with independent external professionals consulting, and it publishes the preliminary findings of these processes in its Annual Corporate Governance Reports.

Several years ago, the company voluntarily limited the term of office of its directors to 4 years, while the law established a limit of 6 years.

In line with its trajectory in terms of corporate governance and the commitment made to its shareholders, since 2012 Red Eléctrica has continued in parallel with the analysis of the process to separate positions in order to meet the objective of separating the positions of *Chairman/CEO* and thus achieve an orderly succession.

This will of the company has been clearly evident in the Annual Corporate Governance Reports approved by the Board since 2013, the interventions by the chairpersons of the Appointments and Remuneration Committee and my own in recent AGMs and in the company's Corporate Governance Policy. I was even quite explicit about this in the press conference held on the occasion of the last Meeting.

In short, the Board of Directors proposes to the EGM a process in which the company believes and to which it has been strongly committed, with the aim of achieving the most appropriate management structure in order to meet the objectives set out in the new Strategic Plan. Moreover, it responds to the growing international trend in the field of corporate governance that recommends such separation of positions for companies listed on stock markets. The requests of shareholders and the recommendations of proxy advisors have been added to the recommendations of recognised international organisations and institutions that annually evaluate the corporate social responsibility practices adopted by large groups and listed companies.

### **The process to separate positions**

A transitional period has been established that will culminate in the 2016 AGM, with the full separation of roles between the position of Chairman of the Board of Directors and CEO. From the aforementioned Meeting, the Chairman of the Board of Directors shall exclusively hold the responsibilities inherent to that office.

Since there are currently no vacancies on the Board of Directors, it is necessary that this AGM approves the increase, by one more director, in the current number of directors, going from

eleven to twelve members, who will make up the Board and decide on the appointment, as a member of the Board, of the new executive director, to which I will refer later.

Until the 2016 AGM, I will continue in my capacity as Chairman of the Board of Directors and in my current executive powers, focusing my efforts on directing, supporting and managing the transfer of executive powers in favour of the new CEO so that such transfer occurs in a rational and orderly manner during the transitional phase.

Therefore, the CEO, under my direction, will assume executive roles from the date of their appointment until the time of the final transfer of roles in 2016, as just indicated.

On the other hand, the Board of Directors believes that the position of Independent Coordinating Director created in 2013 constitutes, with the responsibilities assigned to it, an effective corporate governance practice, as has been recognised by shareholders and proxy advisors.

In addition, it should be noted that, with the appointment of the new executive director, the percentage of independent directors on the Board will remain a majority and sufficient, with 58%.

Therefore, the Board has decided to maintain the position of Independent Coordinating Director, even when the process has been finalised, in order to preserve the balances and counterbalances within the Board of Directors in favour of independent directors.

Regarding the remuneration aspects covered in the process applicable during the transitional period, both to me in my capacity as executive chairman, as well as to the new CEO, I would like to state that the Board of Directors has taken into account the criteria and principles set out in the remuneration policy of the Board of Directors approved at the last AGM, in particular the principle of remunerative moderation, as well as the market research conducted on comparable companies, as shown in the report on the process approved by the Board, which is available for your perusal.

### **Proposal to appoint Juan Lasala**

At this point we will take a step further in our commitment to our shareholders, working to culminate this orderly process to separate positions and succession, we need to appoint the best candidate for the Board to propose their appointment as executive director to the Meeting.

The appropriate profile to hold the position of executive director with the purpose of becoming the company's CEO, responsible for directing and driving the management of the Group's activities at the highest management level, must require specific qualities, consequently, the Appointments and Remuneration Committee and the Board of Directors benefited from the opinion of an international external consultant specialising in senior executive selection processes.

As a result of the analysis process, the Committee and the Board of Directors analysed and evaluated the proposal I gave them. This was an internal candidate with a high level of knowledge on the company, Juan Francisco Lasala Bernad, who joined the company in 2001 and, since December 2012, has held the position of Chief Corporate Financial Officer in the company and in the Red Eléctrica Group.

The aforementioned external consultant's report concluded, after an exhaustive analysis, that Juan Francisco Lasala Bernad is highly valid to hold the position of CEO of Red Eléctrica Corporación, S.A.

The fact of having been exposed over the last 15 years to different scenarios in the strategy of Red Eléctrica has given him a high level of professional development. Undoubtedly, he has participated directly and very actively in the company's strategic design in recent years, as well as in the evolution of the telecommunications business. Similarly, he is well prepared to develop the new strategy in the international field.

He is also outstanding in his effective communication skills, knowledge of investors and specific experience in corporate development.

As a manager, he is clearly focussed on prioritising the design of what really affects efficiency and enables the company to optimise negotiations with various stakeholders.

He has already developed a high level of internal credibility and capacity to influence and is, without doubt, a good negotiator with regulators, customers and partners.

I am convinced, as are the Committee and the Board of Directors, that Juan Francisco Lasala Bernad has the ideal profile to hold the position of CEO of the company and to assume the necessary leadership, drive and direction for the businesses and strategies of the Red Eléctrica Group. I, therefore, request the shareholders' favourable note on the points of this Meeting's agenda, with the full conviction that, with this decision, our company will gain in strength to

successfully take on the major challenges that will be raised, both in regulated as well as unregulated activities, in Spain and abroad.

Finally, I would like to thank you for your high level of participation in this Meeting, which, while being extraordinary and held in July, has had a similar quorum to that of the last ordinary Meeting held on 15th April,

thereby demonstrating the commitment of our shareholders to the company and matters related to Good Governance.

Thank you very much.