



**RED**  
**ELÉCTRICA**  
CORPORACIÓN

## **Board of Directors**

22 February 2017

Annual General Meeting of Shareholders:  
Report about the proposal for the appointment  
of Mr. Alberto Carbajo Josa as independent  
director



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## 1. Background and justification

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At the next Annual General Meeting of Shareholders, to be held on 30 and 31 March 2017, on first and second call, respectively, the mandate of Ms. María Ángeles Amador Millán as independent director will end, as she will have held the post of independent director of the company for twelve (12) years.

Pursuant to the condition established in Article 529 *duodecies* of the Spanish Companies Act (*Ley de Sociedades de Capital*, "LSC") and in Article 7.2.c) of the Board of Directors Regulations, independent directors cannot perform their duties as directors for a continuous period exceeding twelve (12) years.

Pursuant to the provisions of Article 529 *decies* of the LSC and Article 18 of the Board of Directors Regulations, the Appointments and Remuneration Committee must make a proposal by assessing the skills, experience and merits of the director proposed, which is then presented to the Board of Directors, so that the latter may issue its report (Article 529 *decies*, section 5, of the LSC) and subject the proposal to approval by the next Annual General Meeting of Shareholders.

The procedure and requirements for appointing the directors of the company are established in the LSC, in Articles 529 *decies* to 529 *duodecies* and 529 *quindecies*, in Article 24 of the company's By-laws and in Articles 7, 18, 21, 22 and 23 of the Board of Directors Regulations. The evaluation criteria, conditions and circumstances to be considered when appointing directors are set out in said rules.

## 2. Corporate profile of director and review of candidates

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The Appointments and Remuneration Committee has set criteria to define the profile and requirements considered appropriate in order to perform the duties of director, listing those qualities, skills and experience that the suitable director should have to hold the position of director.

The above-mentioned profile considers the following to be fundamental values for analysing candidates for the position of director: experience and knowledge in the energy sector, business experience and experience on boards of directors and other governing bodies of public and private entities, as well as experience on boards of directors of listed companies, in finance and the financial market, and in the management of organisations and management teams, as well as knowledge of foreign languages.

Furthermore, before issuing its report and making its proposal for the appointment of a director, the Appointments and Remuneration Committee always assesses the diversity of the profiles and contributions of the current members of the Board, so as to ensure that the Board has the knowledge and experience required to deal successfully with future challenges and to make



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progress on the strategies and objectives of the company and of the Red Eléctrica group, in an efficient and proactive manner.

To draw up the current proposal, the Appointments and Remuneration Committee has sought the opinion of a first-rate, international, external advisor specialised in selection processes for directors, in addition to considering other proposals and suggestions. The adviser has proposed various candidates and has issued the corresponding reports which assess the skills and experience of each candidate. The Appointments and Remuneration Committee has analysed and evaluated these reports in detail before issuing its proposal for the appointment of a director to be subsequently presented to the Board.

The final outcome of this selection process is that the Appointments and Remuneration Committee has chosen Mr. Alberto Carbajo Josa to hold the post of independent director of the company and, in the meeting held on 21 February 2017, has formally raised to the Board of Directors this proposal of appointment as independent director. We include a summary of the circumstances and reasons on the basis of which the Committee has decided to issue this proposal to appoint the aforementioned candidate as independent director of the company.

### **3. Analysis and evaluation of the selected candidate's professional experience**

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Regarding the selected candidate's professional experience, which the Committee has analysed in detail (and which will be published on the corporate website [www.ree.es](http://www.ree.es), in the section containing documentation on the calling of the Annual General Meeting of Shareholders), it is worth mentioning that Mr. Carbajo Josa has held some very important positions, in both the private and public sectors, in relation to the energy sector and, specifically, the electricity sector.

In this regard, we can highlight the positions he has held as manager of International Regulations at Unión Fenosa, providing his services to the General Secretariat of Regulations (2002-2004); as General Manager of the Electricity Sector Compensation Office -OFICO- (until 1991); as General Manager for Mining and Construction Industries of the Spanish Ministry of Industry and Energy (1992-1995); and as Director of the Spanish Energy Commission (1995-2000).

Regarding his time at Red Eléctrica, we can highlight that he was General Manager of System Operation at Red Eléctrica de España, S.A., having significant responsibilities related to the electrical planning of the sector and its infrastructures, the integration of renewable energies, the interconnection capacity with the European electricity system and the amendment of regulations governing electricity for their adaptation to EU directives (2004-2012).

The candidate also has proven experience as a director of energy companies, specifically electricity companies, as demonstrated by his holding of the position of Board member of ENDESA and of Petronor (1992-1995).

Moreover, the candidate was previously an international advisor and consultant on matters related to the energy and electricity sector, a consultant to the European Union for the liberalisation of the Romanian electricity system in the definition of the generation market,



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advising on the definition of the electricity generation market, the methodology and the calculation of toll rates and the development of the regulatory modifications for the liberalisation of generation and supply (2000). We can also point out his experience as an international consultant in relation to World Bank Programs in the Latin American energy sector (2013-2014). At present, the candidate continues to work as an independent international consultant.

Lastly, we can highlight that the candidate also has extensive academic experience in the field of electricity regulation: he has been an associate professor in the Department of Energy Systems at the Higher Technical College for Mining Engineers of Madrid, professor of the Master programme in Renewable Energies at the Escuela de Organización Industrial, professor of the Masters programme in Energy and Competitiveness at the Orkestra Institute (Instituto Vasco de Competitividad), professor of the High-Level Energy Business Course at the Club Español de la Energía and professor at the Universidad de Alcalá de Henares on subjects related to energy supply.

He also has noteworthy experience in and knowledge of the electricity sector, not only in terms of the business aspects, but also with regard to the Public Administration.

After analysing the summary of his professional experience, the Appointments and Remuneration Committee and the Board of Directors value very highly his broad knowledge of and experience in Spanish and EU and even international energy regulation in general, and the activities carried out by Red Eléctrica in particular.

This candidate has also drafted an approach to the regulation of the energy sector from the perspective of an independent international consultant; thus his views are very diverse.

Although more than 5 years have passed since his professional relationship with the company ended, the candidate has very extensive knowledge of the Red Eléctrica culture, which he formed part of during 8 years as a manager, playing an important role at the company and leaving his colleagues with an excellent opinion of him, both professionally and personally.

From an analysis of his professional experience, it can be concluded that Mr. Carbajo Josa's profile is very suited to the position on the Board of Directors of Red Eléctrica Corporación, S.A. as an independent director, complementing his professional skills and knowledge and reinforcing the diversity of the professional profile of the Board members, especially with regard to his experience in and knowledge of the regulatory side of the energy sector, which is currently key for Red Eléctrica in light of the movement in Europe to create a true internal energy market, which is crucial to the company's future.

#### **4. Category assigned to the candidate for director**

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At this point, it is necessary to determine what category would be assigned to the proposed candidate for director, bearing in mind also that he would be substituting the independent director Ms. María Ángeles Amador Millán.



In light of Mr. Carbajo Josa's professional experience, considering that he held the position of General Manager of System Operation of Red Eléctrica de España S.A., a company of the group, between the years 2004 and 2012, and in light of the requirements established in Article 529 *duodecies* LSC and in Article 7.2.c) of the Board of Directors Regulations, there is no legal impediment whatsoever to proposing that Mr. Carbajo Josa is appointed as an “independent” director, since the statutory term of 3 years since the end of his labour relationship with the company has elapsed.

In particular, the Board of Directors of the company decided to terminate Mr. Carbajo Josa's position as General Manager of System Operation of Red Eléctrica de España, S.A. at its meeting of 29 March 2012. Therefore, more than five (5) years will have passed between the date of the next Annual General Meeting of Shareholders, to be held on 30 and 31 March 2017 (on first and second call, respectively) at which the appointment of Mr. Carbajo Josa as independent director will be proposed, and the end of his professional relationship with the company. Furthermore, it is appropriate to mention that since his termination (29 March 2012) to date, there has been no legal or business relationship of any type between Mr. Carbajo Josa and the company, nor with the companies of the Red Eléctrica group. Considering the high percentage of foreign ownership of the share capital of Red Eléctrica, it seems fitting to expressly state the above-mentioned circumstances, since some recommendations from shareholders and international institutional investors and their advisors (the *proxy advisors*) require longer terms than those established in Spanish law (3 years) to back the appointment as “independent” director of a former manager of the company.

The Committee and the Board consider that the profile of the proposed candidate for director fulfils the requirements of impartiality, objectiveness, professional prestige, credit-worthiness, skills and experience set out in the Board of Directors Regulations for holding the position of external director.

No incompatibility as established in the LSC and in the Board of Directors Regulations regarding the candidate proposed to hold the position of independent director on the company's Board of Directors, is detected.

In light of the foregoing, the Appointments and Remuneration Committee has deemed it appropriate to propose to the Board of Directors the appointment of Mr. Alberto Carbajo Josa as independent director, opinion unanimously shared by the Board of Directors.

Lastly, it is important to note that prior to his appointment, as is customary, Mr. Carbajo Josa must issue the declaration confirming that he is not subject to any legal, regulatory or corporate incompatibilities with regard to holding the position as independent director of the company.

## **5. Favourable report on the proposal for appointment**

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Consequently, upon the conclusion of the analysis and notwithstanding that Mr. Carbajo Josa must formally declare that he has no incompatibilities with regard to holding the position as independent director, the Board of Directors considers that Mr. Alberto Carbajo Josa meets the conditions that match the corporate profile and the Board's current requirements for holding the position of independent director on the Board of Directors of the company.



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Having read the above report of the Board of Directors, and having analysed the proposal made by the Appointments and Remuneration Committee on 21 February 2017, pursuant to the provisions of Article 529 decies of the LSC, Article 24 of the company's By-laws and Article 21 of the Board of Directors Regulations, the proposal is presented to the Annual General Meeting of Shareholders as follows:

*To appoint Mr. Alberto Carbajo Josa as independent director of Red Eléctrica Corporación, S.A., for the term of four years established in the company's By-laws, pursuant to the provisions of Article 529 decies of the Spanish Companies Act.*