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Balance of power on the Board of Directors

The Company had been taking steps and implementing new measures in its corporate governance structure since 2012, in line with an international trend of opinion in corporate governance, especially in Europe, that recommends that listed companies separate the positions of chairman of the Board of Directors and chief executive (managing director), so that each is held by a different person.

Counterbalancing measures approved by the Company since 2012

- Without prejudice to his appointment as executive chairman and chairman of the Board on 2012, the current Board's chairman, Mr. José Folgado Blanco, has never been a member of the Appointments and Remuneration Committee.
- The position of lead independent director was voluntarily created, at the Board's proposal, by the Annual General Meeting of Shareholders of the Company in April 2013, being appointed Ms. Carmen Gómez de Barreda Tous de Monsalve as lead independent director.
- The Board of Directors is currently composed of a significant majority of independent directors (58.3%) who provide a counterweight and balance of powers in the Board's composition.
- The procedure for selecting and appointing directors has been strengthened in recent years to improve the diversity of the Board in its broad concept, in terms of gender, age, seniority, experience and knowledge.
- The Board of Directors has voluntarily attributed to itself in its internal Regulations, certain non-delegable responsibilities that cannot be performed by the managing director or by Board's committees.





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Counterbalancing measures approved by the Company since 2012 / continued

- At each of its regular meetings, the Board also exercises immediate effective control of the ordinary, extraordinary and urgent actions of the managing director.
- Board's committees, composed of 60% of independent directors in the case of the Appointments and Remuneration Committee and of 80% in the Audit Committee, are attributed broad functions in the By-laws and in the Board of Directors Regulations.

- For years, the Board has been conducting an annual self-assessment, with advice from independent external experts, and publishes such conclusions in the Annual Corporate Governance Reports.
- Since 2010, Red Eléctrica voluntarily submits the annual directors' remuneration report and, since 2007, the annual remuneration of the Board of Directors, to the Annual General Meeting of Shareholders for its approval, as separate and independent items on the General

- Meeting of Shareholders' agenda, along with extensive further details and information on comparable companies.
- In recent years, the Company has voluntarily limited the term of its directors' position to four years, when the legal maximum was six years.

All these practices, jointly with the need to have a Board of Directors fully committed, well balanced and diverse in terms of gender, experience and knowledge, supported by ongoing refresher

programmes for technical know-how, and which acts according to the principle of transparency and quality reporting to the markets, constitute sufficient counterbalancing measures that ensure a robust corporate governance system. This has helped the Board to effectively perform

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4.1. Separation of Chairman and Managing Director positions

At its meeting on 12 June 2015, at the proposal of its chairman, the Company's Board of Directors approved the "Report on the separation of the positions of chairman of the Board of Directors and chief executive (managing director) of the Company", which assesses the advantages of this organizational model for Red Eléctrica and its shareholders, with the aim of improving the Company's corporate governance structure existing then. The Extraordinary General Meeting of Shareholders held on 17 July 2015 analyzed the process and, in order to put it into effect, resolved to increase the

number of directors (setting the total at twelve) and appointed Mr. Juan Francisco Lasala Bernad as an executive director of the Company. At its meeting on 28 July 2015, the Board of Directors appointed the new executive director as managing director of the Company.

The reasons that led the Board of Directors to approve the separation of the positions of chairman of the Board of Directors and chief executive (managing director) were as follows:

- The Company had been taking steps and implementing new measures in its corporate governance structure since 2012 and, in 2015, considered that the time to define and implement

a clear, transparent process for transitioning to the new model of separation of positions had come, which would improve on previous experience and had the backing of its shareholders.

- A growing international trend of opinion regarding corporate governance, especially in Europe, recommends that listed companies separate the positions of chairman of the Board of Directors and chief executive (managing director), so that each is held by a different person.

- The basic aim is to prevent excessive concentration of power in the hands of a single person who is both chairman of the Board of Directors and chief executive of the Company, as this could prevent

the Board of Directors and the senior management team from performing their supervisory and management functions properly, with the necessary independence and objectivity.



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- The accumulation of power in the hands of a chairman/ managing director could cause misrepresentations in the performance of the functions of the Board (guided by its chairman) and the senior management team (led by the chief executive), which could give rise to conflicts of interest which, if not handled correctly, might lead to destruction of shareholder value.
- Although the proxy advisors of the most important international investors and prominent institutional shareholders accepted the temporary adoption of counterbalancing measures to mitigate the excessive accumulation of power, such measures were justified only as a temporary solution, combined with a commitment to formally separate the two positions within a reasonable period. What initially was merely a recommendation to separate the positions became a requirement of institutional shareholders and is gradually being adopted by

most listed companies that have a significant proportion of foreign shareholders, as is the case of Red Eléctrica, in which foreign shareholders hold around 70% of the share capital.

- Added to the requirements of shareholders and proxy advisors were those of recognized international bodies and institutions, such as the RobecoSam Dow Jones Sustainability World Index (DJSI), which annually assess the corporate social responsibility practices adopted by large international groups and industrial corporations and listed companies, penalizing in their corporate governance scores and rankings those companies that have failed to effectively separate the positions of chairman and managing director, as was the case of Red Eléctrica.

- At the time the separation was approved, there was in Spain a growing movement among Ibex 35 companies in favour of separating the two positions, as can be seen in the report published by the CNMV on the “Corporate Governance Reports of Issuers of Securities Admitted to Trading on Official Secondary Markets” for 2014, which showed that approximately 40% of Ibex 35 companies had implemented the separation.

The plan provided for a transitional period, which started at the Annual General Meeting of Shareholders held on 17 July 2015 and ended at the Extraordinary General Meeting of Shareholders held on 15 April 2016, when the separation of functions between the chairman of the Board and the managing director was completed. Since the mentioned Shareholders' Meeting, the chairman of the Board of Directors has exclusively had the responsibilities attached to the position of chairman.

Transitional period:

- The chairman of the Board continued to hold executive powers and status as chairman of the Board of Directors, with the responsibilities and functions pertaining to that position.

As chairman of the Board, besides the powers established in the LSC [Article 529 *sexies*], the By-laws [Article 20, 21 and 25] and the Board of Directors Regulations [Article 9], the chairman also had the following basic powers:

- To manage and boost the Board's general oversight function.
- To guide and boost the approval by the Board of Directors of the Company's and the Group's Strategic Plan and proper supervision of its execution.



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- To manage and coordinate the approval by the Board of Directors of the Company's and the Group's risk control and management system and the necessary supervision of its implementation and proper functioning.
- To guide the Board's actions in relation to proposals for the appointment and removal of senior managers and to manage and boost the supervision of senior management by the Board.

Regarding the executive functions during the transitional period, the chairman of the Board focused on management, oversight and supervision of the transfer of powers and the effective exercise of executive responsibilities by the

managing director, so that both processes took place in a rational and orderly way.

For the duration of the transitional period, the chairman of the Board retained the necessary powers to ensure that the organizational unit of Red Eléctrica de España, S.A.U. which acts as electricity system operator had the necessary operational autonomy for the required functions, in accordance with applicable regulations. During that period, a study was conducted of the functions that by their nature were transferred directly to the managing director.

- On July 2015, following the Extraordinary General Meeting of Shareholders, the Board of Directors appointed the new executive director as managing director of the Company and approved the delegation of executive authority and responsibilities to him, thus

initiating the process that ensured stability in the transition to the new organizational model.

- The managing director, for his part, took on the functions of his position, under the direction of the chairman of the Board, who retained executive authority for that purpose throughout the transitional period.

The powers of the managing director were focused on:

- Management, coordinating and driving the management of the Company's and the Group's business areas.
- Leadership, initiative and guidance of the execution and implementation of the Company's and the Group's Strategic Plan.
- Efficient implementation of the risk control system approved by the Board of Directors in the Company and the Group and proper oversight of its proper functioning.

- Regular reporting to the Board of Directors on the state of execution and implementation of the Strategic Plan, the functioning of the risk management system and progress in the management of the Group's business areas, so that the Board was able to adequately and effectively exercise its general oversight and control function.



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Completion of the process:

- The transfer of executive functions and responsibilities to the new managing director was completed at the Annual General Meeting of Shareholders held on 15 April 2016, which approved with a favourable vote of 98.47% the re-election of Mr. José Folgado Blanco, chairman of the Company's Board of Directors, as an "other external" director for a period of four years. Mr. Folgado thus ceased to be an executive director.
- Following said General Meeting of Shareholders, as a result of the final transfer of the chairman's executive functions to the managing director, the Board of Directors adopted the necessary resolutions for the distribution of responsibilities and functions between the two

positions on the terms approved in the separation process. In particular, it resolved to revoke the authority delegated by the Board of Directors to its chairman and the existing authorities granted to the chairman, given the eminently executive nature of those authorities, and maintained the delegation of all the authorities to the managing director.

- Furthermore, the Board of Directors granted new powers to the non-executive chairman of the Board of Directors, in accordance with the responsibilities of the position.

THE CHAIRMAN OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE COMPANY AND OF THE RED ELÉCTRICA GROUP

According to Article 25 of the By-laws, the chairman of the Board of Directors is the chairman of the Company, and as such is chairman of the Red Eléctrica Group.

Since 8 March 2012 the position of chairman of the Board of Directors of the Company has been held by Mr. José Folgado Blanco. At its meeting on 31 May 2016 the Board of Directors resolved to revoke powers granted to Mr. José Folgado Blanco given that he had ceased to be an executive director at the Annual General Meeting of Shareholders held on 15 April 2016.

In Red Eléctrica the chairman of the Board of Directors is chosen from among the Board's members, after consideration of a report issued by the Appointments and Remuneration Committee, and is the person responsible for leading the Board of Directors and ensuring that it functions effectively. Under the corporate regulations, if the position of chairman falls upon

an executive director, the appointment will require the vote in favour of two-thirds of the members of the Board of Directors.

Under the Board of Directors Regulations, the Board of Directors has reserved to itself, and is not permitted to delegate, the responsibilities and powers it considers strategic, which in December 2016 were expanded with the approval of the amendment to the Board of Directors Regulations. The reserved responsibilities cannot be assumed by chairman of the Board, the managing director or the Board committees.

Article 529 *sexies* of the LSC, which was added in the reform enacted by Act 31/2014 of 3 December, amending the LSC for the improvement of corporate governance, regulated the powers of the chairman of the Board for the first time, naming the chairman as the person ultimately responsible for the effective functioning of the Board of Directors.



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The Annual General Meeting held on 15 April 2015 approved amendments to the By-laws aimed at fully adapting them to the LSC and specifically amended Article 25 of the By-laws to include the powers assigned to the chairman of the Board in the aforementioned Article 529 *sexies* of the LSC.

In addition to Article 25 Articles 20 and 21 of the Company's By-laws assign to the chairman of the Board the functions of representing the Board of Directors on a permanent basis, of calling a vote on Board matters once

they are considered to have been sufficiently debated and ensuring that Board resolutions are complied with.

In addition, Recommendation 33 of the Good Governance Code of Listed Companies (CGGLC) expanded the powers of the chairman of the Board.

Article 9 of the Company's Board of Directors Regulations assigns certain functions to the chairman of the Board and, following the amendment approved on 20 December 2016, has been adapted to the content of Article 529 *sexies* of the LSC, to the abovementioned Recommendation 33 CGGLC and to the changes in the Board's organization and functioning resulting from completion of the separation of the positions of chairman of the Board and managing director, among other things.

Under Article 12 of the Shareholders' General Meeting Regulations, the chairman of the Board of Directors has for many years been responsible

for chairing the General Meeting of Shareholders, anticipating the new legal provision introduced with the recent reform of the LSC.

Main responsibilities of the Chairman of the Board, Chairman of the Company and of the Red Eléctrica Group

- Convene and chair Board meetings, setting the agenda and conducting the discussions and deliberations.
- Prepare and submit to the Board a schedule of meeting dates and, if appropriate, the items of business to be transacted.
- Chair the General Meeting.
- Ensure that directors receive sufficient information in advance to be able to deliberate on the business of the meeting.
- Stimulate debate and active participation by directors during Board meetings, safeguarding their freedom to take positions and express opinions.
- Participate, in coordination with the Appointments and Remuneration Committee and with the lead independent director, in the periodic assessment of the Board of Directors and of the Company's chief executive.
- Review the refresher programme for directors when circumstances so advise.



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THE MANAGING DIRECTOR

The position and functions of managing director and the delegation of powers thereto are regulated in Articles 22 to 25 of the By-laws, and the responsibilities associated with that position are

set out in the document “Process of separation of the positions of chairman of the Board of Directors and chief executive [managing director] of the Company”, and in Article 11 of the Board of Directors Regulations.

Under the Company’s corporate regulations, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may appoint one or more managing directors from among its members.

Following the appointment of Mr. Juan Francisco Lasala Bernad as executive director of the Company by the Extraordinary General Meeting held on 17 July 2015, the Company’s Board of Directors, at its meeting on 28 July 2015, appointed him as managing director of the Company, a position he continues to hold at the date of this Annual Corporate Governance Report.

Primary responsibilities of the managing director

- Supervise, coordinate and promote the management of the organization and business areas of the Company and the Group;
- Regularly report to the Board of Directors on the degree of execution and completion of the strategic plan and the budget, the functioning of the risk management system and the progress achieved in the management of the Group’s business areas, so that the Board is able to adequately and effectively exercise its general oversight and control function.
- Lead, promote and guide the execution and implementation of the strategic plan and the budget of the Company and the Group;
- Ensure efficient implementation of the risk control system approved by the Board of Directors in the Company and the Group and effective oversight of its operation;

Those regulations also provide that the managing director or directors may be directors other than the chairman of the Board of Directors and may have such authority delegated to them as is deemed appropriate, although with the necessary scope for the day-to-day conduct and effective management of the Company’s business lines, always specifying the content, limits and types of delegated authority.

Without prejudice to the powers belonging to the chairman of the Board, the managing director will act as the Company’s chief executive and will be responsible for the day-to-day conduct and effective management of the organization and of the Company’s businesses, always in accordance with the decisions and criteria set by the General Meeting and the Board of Directors, each within its remit.

As already indicated, as a result of the separation of the positions of managing director and chairman of the Board, the Company’s management team has two clearly differentiated executive bodies: The **Executive Committee**, which is chaired by the managing director, and the **Advisory Committee to the Chairman**, which, as indicated by its name, is responsible for advising the chairman [who also chairs the committee] on the matters within his remit.



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4.2 Selection and succession processes

Royal Decree Law 18/2017 of 24 November, amending, amongst others, the Spanish Companies Act on matters of non-financial information and diversity, requires listed public limited companies to include in their annual corporate governance report a description of the diversity policy applied in relation to the Board of Directors, including its objectives, the measures adopted, the way in which they have been implemented and the results in the period covered by the report, as well as such measures as may have been approved on these matters in the appointments committee. In line with the most

recent recommendations on corporate governance, said law promotes a broad concept of diversity and provides that the diversity policy should take in questions such as professional training and experience, age, disabilities and gender and should refer to such measures as have been approved to have the Board of Directors include a number of females that allows a well-balanced presence of women and men to be achieved.

Diversity policy in the selection of Directors in Red Eléctrica

This policy is set out in the:

- The corporate governance policy
- The criteria laid down by the Appointments and Remuneration Committee to define the optimum profile for holding a directorship.
- The Board of Directors Regulations [Articles 15, 18 and 22]
- The By-laws [Article 24]

The corporate governance policy approved by the Board of Directors on 25 November 2014 took into account the objective of improving gender diversity, charting and embracing as objective *"To strengthen the Company's commitment to diversity of knowledge, experience and gender in Board and committee composition."*

The practices included in that corporate governance policy include *"Diversity on the Board of Directors. The Company applies the principle of promoting diversity in knowledge, experience and gender among Board and committee members, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective."*



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The Board of Directors of Red Eléctrica Corporación, S.A. years ago made a commitment, by way of Article 18.4 jj) of Board of Directors Regulations, to comply with the recommendations on equality and therefore laid down the obligation of the Appointments and Remuneration Committee to prepare an annual report on gender diversity and equality policy and submit it to the Board for approval. That report reflects the Company's concern for diversity and equality. Accordingly, for some years now measures are analyzed and adopted to achieve the right balance within the Board of Directors and throughout the entire organization.

The latest report on diversity and equality approved by the Board of Directors on 30 January 2018 has taken a step forward in diversity reporting, including data not just

on gender but also considering experience, knowledge, age and seniority in the position of the members of the Board of Directors and within the organization.

That report is posted on the corporate website and may be seen via the following link:

[Diversity and Equality Information](#)

Also in relation to this area, the Appointments and Remuneration Committee has a set of **criteria for defining the optimum profile for holding a directorship**, which define the qualities, competences and experience that an ideal candidate for a directorship should have.

That profile takes as initial values for analyzing a candidate for a directorship the experience and knowledge in the energy sector, experience in the business world and on boards of directors and other governing bodies of public and private entities, on boards of directors of listed companies,

experience in finance and in financial markets, and in managing organizations and management teams, as well as command of languages.

Furthermore, before issuing its report or nominating a director, the Appointments and Remuneration Committee always analyzes the diversity of the profiles and contributions of the current members of the Board of Directors, in order to ensure that the Board at all times has the necessary knowledge and experience to successfully undertake the coming challenges and efficiently and proactively advance in the fulfilment of the strategies and objectives of the Company and of the Red Eléctrica Group.

In preparing the nomination, the Appointments and Remuneration Committee, in addition to other proposals and suggestions, can also obtain, when it deems fit, the opinion of international advisors specialized in director selection. They propose various candidates and issue reports evaluating the strengths and experience of each candidate. Those reports are carefully analyzed and assessed by the Appointments and Remuneration Committee when deciding the director nomination it will bring before the Board.

The nominations for directors and the associated reports which the Company has posted on its website, both in Spanish and in English, and which were submitted to the Annual General Meeting of Shareholders held on 31 March 2017, transparently reveal the concern felt by both the Appointments and Remuneration Committee and the Board of Directors for diversity in the composition of the Board



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of Directors. In those proposals and reports the Appointments and Remuneration Committee and the Board of Directors drew on the criteria that define the profile and the requisite traits considered appropriate for directors to establish the qualities, competences and experience that the candidate directors should have, and assessed and applied them in the selection processes for the directors who were submitted for the approval of the aforesaid General Meeting of Shareholders.

The nominations of directors and the associated reports that were submitted to the 2017 Annual General Meeting of Shareholders may be consulted on the corporate website, via the following link:

[Nominations and reports for appointment of Directors General Meeting 2017](#)

Article 22 del Regulations of the Board of Directors provides that the Board of Directors, within the scope of its powers, will ensure that the nominees are persons of good standing, competence and experience who ensure diversity of gender, experience and knowledge on the Board.

In this context, attention should be called to the important role played by the Appointments and Remuneration Committee in fostering diversity on the Board of Directors. As provided in Article 24 of the By-laws and Article 18 of the Board of Directors Regulations, that committee is charged with setting a target number for the less represented gender, evaluating

the competences, knowledge and experience needed on the Board, submitting to the Board nominations for the appointment of independent directors, reporting on the nominations of other directors, amongst other responsibilities. And Article 15 of the Board of Directors Regulations stipulates that the Audit Committee members will be appointed taking into account their knowledge and experience in accounting, auditing or risk management matters.

As is explained further below in section 7 on Looking to the Future, Red Eléctrica embraces the need for continuous improvement in this area and has therefore begun a study and analysis to review and design a matrix of Board competences, further applying the aforementioned criteria that define the optimum profile by the light of comparable international studies.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedure is regulated in Articles 21 to 23 of the Board of Directors Regulations. According to those articles, directors are appointed by the General Meeting of Shareholders or by the Board of Directors by co-optation. The proposal of appointments—including by co-optation— or the re-election of directors will be made by the Appointments and Remuneration Committee, in the case of independent directors, and by the Board itself in for all other directorships.

The proposal must in all cases be accompanied by a supporting report from the Board evaluating the competence, experience and merits of the proposed candidate. This report will be attached to the minutes of the General Meeting of Shareholders or of the Board meeting.



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The proposal for appointment or re-election of a non-independent director must furthermore be preceded by a report from the Appointments and Remuneration Committee.

The Board of Directors, within the scope of its powers, will ensure that the nominees are persons of good standing, competence and experience who ensure diversity of gender, experience and knowledge on the Board.

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

Directors will hold office for the period stipulated in the Company's By-laws.

Article 20 of the By-laws sets the term of office for directorships at four years, and the directors may be re-elected indefinitely, without prejudice to the authority of the Annual General Meeting of Shareholders to remove directors at any time. According to Article 7 of the Board of Directors Regulations, independent directors may not continue discharging their duties as such independent directors for a continuous period of more than twelve years.

REMOVAL OF DIRECTORS

This is regulated in Article 24 of the Board of Directors Regulations. According to that article, directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at their General Meeting in the exercise of the powers granted to them by law and by the By-laws. The Board of Directors shall not propose the removal of independent directors before the end of the

term stipulated in the By-laws for which they were appointed, other than with just cause and upon prior report by the Appointments and Remuneration Committee. In particular, just cause will be deemed to exist when the director acquires new positions or new obligations that do not allow him or her to dedicate the time needed to discharge the duties of director, is in breach of the duties inherent in the directorship or becomes subject to any of the situations described in Article 7.2 c) of the Board of Directors Regulations and therefore no longer qualifies as an independent director. The removal of independent directors may also be proposed as the result of public tender offers, mergers or similar corporate transactions which imply a change in the Company's share capital structure, where such changes in the structure of the

Board are fostered by the criterion of proportionality referred to in Article 7.1.c) of the Board of Directors Regulations.

Directors must also place their directorship at the disposal of the Board of Directors and formally tender their resignation, if the Board considers appropriate, in the events provided for in Article 24.2 of the Board of Directors Regulations.

Committee members will leave their committee when they cease to be directors.

Where a director leaves office before the end of his or her term, whether by resignation or for other reasons, he or she will explain his reasons in a letter addressed to all Board members, and, in addition to said resignation being publicized to the market as mandated by the applicable laws, it will be included in the Annual Corporate Governance Report.



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SUCCESSION PLAN AND CONTINGENCY PLANS

At its meeting held on 27 October 2011, the Board of Directors approved the succession plan for the Company's chairman, when the chairman still performed executive functions, following a corporate governance practice that is becoming increasingly common worldwide, involving the preparation and approval by listed companies of succession plans for their chief executive (Managing director), in order to minimize the impact of the handover on the organization, and aiming to determine a model profile for the candidates and ensure the continuity of the business, thereby reducing as far as possible the possible risks or negative effects of the appointment of a new executive chairman, until he or she has fully settled into the role. The Plan established a succession procedure that is split into several

phases, assigning functions to the managing bodies involved; all with a view to creating an environment in which the appointment of a new chairman can be carried out in an orderly and efficient manner that did not affect the Company's ordinary course.

It was possible to apply this plan for the first time in 2012, when Mr. Luis Atienza Serna stepped down as executive chairman of the Company, in favour of Mr. José Folgado Blanco, who had already been sitting on the Board of Directors as an independent director since 2008, which facilitated the handover to the new chairman, whose independent judgement, knowledge of the Company and the industry, as well as his prior experience, leadership and capacity for dialogue with the energy regulator, were notable qualities.

But since 2011, in line with advances in the world of good corporate governance, the Company has undergone significant structural changes on the Board of Directors that directly affect the former Plan: in May 2013 the position of lead independent director was established and in July 2015, the Extraordinary General Meeting of Shareholders approved the separation of the positions of chairman of the Board of Directors and chief executive.

Since that time various legislative changes have been enacted that affect the rules on publicly traded companies and a new Good Governance Code of Listed Companies (CGGLC) was adopted in Spain that recommends that those companies prepare succession plans by having the Appointments and Remuneration Committees prepare and present proposals on a coordinated basis with the lead independent

director. As a result, the relevant amendments were made to the Company By-laws (Article 24.2.f) and to the Board of Directors Regulations (Articles 10.2.1.h and 18.1.m) that directly affect the responsibilities of the Appointments and Remuneration Committee and of the lead independent director in the process of drawing up the succession plans.

In this connection, the Board of Directors, both in the self-assessments of its performance carried out in recent years and in the latest annual corporate governance reports, stressed the need to review and update the 2011 succession plan for the Company's Board chairman



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because, amongst other reasons, a specific succession plan was needed for the chief executive, whose role was now held by a different person after the separation of the function from that of the Board chairman.

The Appointments and Remuneration Committee and lead independent director worked intensely throughout 2017 on the analysis and preparation of succession plans, with the support of an outside international consultant.

Lastly, at its meeting of 19 December 2017, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, approved the “Contingency plan for succession of the Board chairman” and the “Contingency plan for succession of the managing director”.

The “Contingency plan for succession of the Board chairman” and the “Contingency plan for succession of the managing director” set out the profiles and functions of the offices of Board chairman and managing director, and lay down the actions that should be taken immediately inside the Company if unexpected or unforeseeable

events impede the chairman of the Board of Directors and the managing director from performing their duties during their term of office. Those plans are reviewed at least every six months. Both plans set out detailed objectives, the events that trigger their application, the responsible bodies and the actions to be carried out in each phase, from the first 24 hours through the first month, and assign responsibilities and specific functions, to avoid risks of an unforeseen and disorderly succession.

Work will continue in 2018 on defining the succession plans and revising the approved Contingency Plans.





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4.3

Lead independent director

Following the reform of the LSC in December 2014, having a lead director is obligatory in listed companies in Spain in which the chairman of the Board of Directors is an executive director (Article 529 septies LSC). The powers and responsibilities of the lead director have been reinforced in the Good Governance Code of Listed Companies (CGGLC), which explicitly assigns to the lead director functions such as chairing Board meetings in the chairman's absence, having contact with shareholders and investors and overseeing the succession plan for the chairman.

The Appointments and Remuneration Committee and the Board of Directors of the Company believe that the position of lead independent director that was created in 2013, constitutes, given the responsibilities attributed to that office, an effective corporate governance practice, and it has been recognized as such by shareholders and proxy advisors that consider it a key counterweight in the structure and composition of the Board for striking a proper balance of powers and responsibilities.

The Board of Directors resolved to voluntarily create the position of lead independent director at the proposal of the Appointments and Remuneration Committee at the Board meeting of 13 March 2013. On 18 April 2013, the Annual General Meeting of Shareholders approved an amendment to the By-laws which, amongst other issues, included that position on the same terms as on which it had already been included in the Board of Directors Regulations at that same Board meeting. The term of office is three years and the holder may be reappointed. The appointment will be terminated when the lead director ceases to be a director or loses his or her independent status or when the Board of Directors, at the proposal of the Appointments and Remuneration Committee, so decides.

At its meeting on 28 May 2013, the Board of Directors appointed Ms. Carmen Gómez de Barreda Tous de Monsalve as lead independent director for a period of three years. At its meeting of 31 May 2015, the Board approved her re-election as lead independent director for a three-year term, position which she continues to hold at present.



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The roles and responsibilities of the lead independent director are set forth in Article 25 bis of the By-laws and are implemented in the new Article 10 (formerly Article 9 bis) of the Board of Directors Regulations, as amended on 20 December 2016. The amendment of that article of the Board of Directors Regulations consisted mainly in adapting it to Articles 529 *sexies*, para. 2 and 529 *septies*, para. 2 of the LSC, as well as to Recommendation 34 of the CGGLC.

Following the conclusion of the positions of chairman of the Board and chief executive of the Company, the Board considered appropriate to maintain this role because, among other things, the lead director helps maintain the checks and balances within the Board of Directors in favour of the independent directors and because it is a role that has been very well received by shareholders and proxy advisors.

Functions and performance of the lead independent director during 2017

The functions of the lead independent director of Red Eléctrica are set out in Article 25 bis of the By-laws and Article 10 of the Board of Directors Regulations.

The essential responsibility of the lead independent director, which must be taken into account in the performance of the other duties, is to organize the possible common positions of the non-executive 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.

The main responsibilities of this office are:

• In relation to the Board of Directors:

- Chair meetings of the Board of Directors when the chairman is absent or has a conflict of interest and subsequently assess, with the chairman, the matters discussed.
- Call ordinary or extraordinary meetings of the Board of Directors, where justified by good reasons, which must be stated in an attachment to the notice of the meeting, when the request for a meeting has not been met by the chairman of the Board.
- Take part in preparing the annual schedule of meetings of the Board of Directors, in coordination with the chairman, the secretary of the Board and the Appointments and Remuneration Committee.

- Take part in the Board self-assessment and, in particular, lead the periodic assessment of its chairman, in coordination with the Appointments and Remuneration Committee.
 - Voice the concerns of the non-executive directors.
 - Coordinate the preparation of the succession plan for the chairman and, where applicable, the managing director.
- In relation to the independent directors:
- At least once a year, at his or her own initiative or at the initiative of any other independent director, call and chair formal or informal meetings of the independent directors and determine the matters to be discussed, which may include the basic responsibilities of the Board of Directors and senior management, with the possibility of asking for the presence of senior managers at such meetings.





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• **In relation to shareholders:**

Maintain contact with investors and shareholders in order to know their points of view, and to form an opinion as to their concerns in relation to the corporate governance of the Company, in accordance with any general guidelines established by the Appointments and Remuneration Committee or the Board of Directors, to which it will report regularly.

In 2017 the lead independent director held diverse meetings with independent directors to know their concerns and organize their common positions on different matters debated by the Board of Directors.

The lead independent director has taken active part in:

- The design, planning and promotion of the process of separating the positions of Board chairman and managing director.
- The process of preparing the contingency plans for succession of the Board chairman and the managing director, which have been recently approved.
- The annual self-assessments of the Board of Directors.
- The road shows with proxy advisors organized by the Company in 2017 and 2018.