



RED
ELÉCTRICA
CORPORACIÓN

Grupo Red Eléctrica

Sustainability Committee

13 February 2020

Report on the Activities of the
Sustainability Committee in 2019

Contents

1. Introduction	3
2. Legal precedents, structure, functions and composition	3
2.1. Legal precedents	
2.2. Structure and functions	
2.3. Composition	
3. Activities carried out in 2019	7
4. Directors' attendance at meetings	9

1. Introduction

The Plan of Action of the Sustainability Committee for 2020 envisages the preparation of a report of the Committee's activities in 2019, that represents the object of this document.

2. Legal precedents, structure, functions and composition

2.1. Legal precedents:

At a meeting held on 13 March 2013, the Board of Directors of the company resolved to amend the Board of Directors Regulations with the aim of updating its contents in line with legislative changes relating to the regime of public companies, adapting them to best practices in respect of corporate governance, especially in the international context, and making improvements to the organisation and functioning of the Board of Directors and its Committees.

Consequently, the Annual General Meeting of Shareholders, held on 18 April 2013, approved the amendment of the Articles of Association, in order to adapt, among other aspects, the regulations of the Audit Committee and of the Corporate Governance and Responsibility Committee (currently called the Appointments and Remuneration Committee) in the company's Articles of Association, to the best international corporate governance practices and recommendations. It is remarkable that the Articles of Association establish that a majority of the members of both committees must be independent directors.

Law 31/2014, of 3 December, amending the Spanish Companies Act to improve corporate governance resulted in an amendment to the company's Articles of Association at the Annual General Meeting of Shareholders held on 15 April 2015, in particular, to article 24 related to the Appointments and Remuneration Committee. Likewise, on 20 December 2016, the Board of Directors Regulations were amended (articles 17 and 18) to fully adapt them to the latest amendments to the Spanish Companies' Act and the Good Governance Code of Listed Companies and to introduce improvements to the organisation and functioning of the Board's Committees and to adapt them to the new organisational structure.

The Sustainability Committee was created by a resolution of the Board of Directors dated 27 November 2018, according to the provisions of article 22 of the Articles of Association and article 14 of the Board of Directors Regulations, and in accordance with Recommendation no. 53 of the Good Governance Code of Listed Companies (GGCLC).

At a meeting held on 19 February 2019, the Board of Directors approved an amendment to the Board of Directors Regulations in light of the strategic focus the Board wished to give to sustainability in Grupo Red Eléctrica via the restructuring of the Board's Committees, the creation of a new Sustainability Committee and the updating of the functions of the other two Committees, the Audit Committee and Appointments and Remuneration Committee. The responsibilities of the Appointments and Remuneration Committee were strengthened within the labour area of the Group companies, in accordance with the best international corporate governance practices, and in addition, the general oversight and risk control function to be carried out by the Audit Committee was reviewed, in conjunction with the specific functions assigned to each of the other Committees in the area of their respective responsibilities.

At a meeting held on 30 April 2019, the Board of Directors approved an amendment to the Board of Directors Regulations with the aim of strengthening the Board of Directors' role as supervisor and guarantor of the functional independence of the Electricity System Operator, a function legally attributed to Red Eléctrica de España, S.A.U., in respect of the attributions and responsibilities required by the regulations in force.

Finally, the Sustainability Committee has reviewed the proposed amendment of the Board of Directors Regulations to update the functions of the Board of Directors and of its Committees in respect of sustainability, some of which are cross-cutting nature, and strengthen the mechanisms of coordination among the three Committees of the Board of Directors with the formal and material scope agreed by them.

In addition, the aim of this review is to improve the governance of Grupo Red Eléctrica, strengthening the role of the Board of Directors of the company in relation to the Group, incorporating and strengthening resolutions in respect of governance and expressly referring to the concept of corporate reputation as one of the main drivers of the actions of the Board, which should also ensure the interest of the company as a whole.

Lastly, this review, which is pending approval, seeks to strengthen the principle of independence of the TSO (separation of regulated and unregulated activities) and implement the appropriate adaptations to Law 11/2018, of 28 December, in respect of non-financial information and diversity.

2.2. Structure and functions:

Article 22 of the Articles of Association stipulates that the Board of Directors can create, depending on the corporate governance recommendations in force at the time, those committees deemed appropriate for the best organisation and functioning of the company. Articles 18 BIS and 18 TER of the Board of Directors Regulations govern the structure, composition and functions of the Sustainability Committee.

The Committee has been assigned powers, among others, in relation with the promotion of an ethical leadership driving compliance with the Code of Ethics and the adoption of corporate values, inside and outside the organisation, as the basis of Group strategies and actions; the oversight of compliance of the Group's sustainability policies aiming to achieve the Sustainable Development Objectives; the information, oversight and analysis of the actions and proposals in respect of sustainability proposed or resolved by the responsible organisational units; the monitoring of the Group's strategy and practices in relation with the 2030 Sustainability Commitment and with sustainability policies and their association with the Strategic Plan; the oversight of relations processes with interest groups according to interest group management system methodology established for this purpose; the oversight and co-ordination of the reporting of information in respect of sustainability in accordance with international benchmarks; and the review and validation of the reports and sections of these, be they obligatory or voluntary, in relation with specific aspects of sustainability.

The Committee meets with the frequency required to carry out its functions appropriately. However, it must meet at least quarterly, when convened by its chairman or if two of its members request so, and, also, whenever the Board of Directors or its chairman request the publication of a report or the submission of proposals.

Article 18.4 BIS of the Board of Directors Regulations stipulates that the calling of meetings, with the associated documents, can be done by electronic means that guarantee the due security and confidentiality of the call and of the corresponding documents.

This call, which shall include the agenda of the meeting, will be sent by the chairman or secretary of the Committee to each of its members at least three days prior to the date of the meeting, unless due to reasons of urgency it is necessary to call the meeting within a shorter period of time.

Article 18.6 BIS of the Board of Directors Regulations stipulates that meetings of the Committee may be held by conference call, video-conference or any other remote means of communication always provided all the members of the Committee have access to it.

The Committee shall be duly constituted with the assistance of the majority of its members and may adopt decisions or recommendations by an absolute majority of votes of the members attending the meeting, present or represented, which shall be included in the minutes at the end of the meeting. To better carry out its functions, the Committee may seek assistance from independent professionals and may also access any kind of information or documents of the company required when carrying out its functions.

2.3. Composition:

The composition of the Sustainability Committee is governed by article 18 BIS of the Board of Directors Regulations. In accordance with said article, the Committee shall be comprised of three members appointed among the non-executive directors, and the majority of its members must be independent directors. The Chairman of the Committee will be an independent director chosen among its members and the secretary will be the secretary of the Board of Directors.

The appointment and dismissal of the members of the Committee will be carried out by the Board of Directors as proposed by the chairman of the Board, with a report previously issued by the Appointments and Remuneration Committee. The members of the Committee shall discharge their duties for a period of no more than three years, may be re-elected and will be replaced when they cease to be directors or when the Board of Directors so resolves, with a report previously issued by the Appointments and Remuneration Committee. The chairman will be replaced every three years and can be re-elected.

There were no changes to the composition of the Sustainability Committee in 2019, so at 31 December 2019 this was as follows:

Director	Position	Class of Director
Carmen Gómez de Barreda Tous de Monsalve	<i>Chairperson</i>	Independent external
María Teresa Costa Campi	<i>Member</i>	Proprietary external (SEPI)
Alberto Francisco Carbajo Josa	<i>Member</i>	Independent external

All the members of the Committee have a proven ability to carry out the functions entrusted to the Committee given their ample experience, skills and knowledge.

Brief summaries of the careers of its members at 31 December 2019 are included below:

- Ms. Carmen Gómez de Barreda Tous de Monsalve, born 20 May 1968, holds a degree in Economics and Business Science from the *Universidad Pontificia de Comillas (ICADE)* and a Master's degree in Business Administration from the IESE (Executive MBA), University of Navarra.

She is currently managing director of the *Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)*; a member of the Board of Directors of Hispasat, S.A.; a member of the board of directors of Grupo Ezentis S.A.; and a member of the Advisory Board of the board of directors of Grupo Antolin-Irausa, S.A.

She has been, among others, Head of the Cogeneration area of the Commercial Department of Enagás; Head of the International, Petrochemical and Marketing Departments of Repsol; Manager of Services Development at Union Fenosa; Deputy Manager of Oil Markets at the *Comisión Nacional de Energía (CNE)*; Institutional Relations and Communications Manager for BP Oil España; representative of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA); representative on various international working groups on issues of energy regulation and security

of supply (ARIAE and CEER) and professor at lectures and/or presentations on different Masters courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club).

- Ms. María Teresa Costa Campi, born on 31 July 1951, holds a degree and PhD (*Cum Laude*) in Economics from the University of Barcelona.

She has been a professor (*catedrática*) of Economics of the University of Barcelona since 1987, is manager of the Energy Sustainability Chair of the University of Barcelona, coordinator of the Energy Economics Programme and professional Seminars in the Master of Renewable Energy at the University of Barcelona and Lead Researcher of the Sustainability Energy and Environment Investigation Group.

She has been, among others, a member of the board of directors of EDP RENOVÁVEIS, S.A. (EDPR) and member of the Audit, Control and Related Parties Committee of said company (July-September 2018); member of the board of directors of ABERTIS (2013-May 2018); member of the Advisory Board of the CSN (2016-2018); chairperson of the National Energy Commission (CNE) (2005-2011); chairperson of ARIAE (2005-2011); deputy chairperson of MEDREG (2010-2011) and chairperson of the MEDREG Scientific Committee (2014-2016); CEER Member (2005-2009); chairperson of the Board of MIBEL (2006-2007); member of the Board of Directors of INCASOL (2004-2005); secretary of Industry and Energy of the Regional Government of Catalonia (2004-2005); chairperson of EPLICSA (2004-2005); deputy chairperson of CIDEM (2004-2005) and member of Parliament (*Cortes Generales*) of VII Legislative period (2000-2004).

She also has a long academic career with a very active presence in research and teaching, as well as in conferences and presentations at international congresses in the fields of energy, industry and business. She has published more than 170 publications in Spanish and international books and academic journals specialized in energy and economics. The research group she manages at *Economía de la Energía* has been recognised for Research Excellence by the corresponding official agency for evaluating the quality of research.

- Mr. Alberto Carbajo Josa, born on 8 August 1949, has a degree in Mining Engineering from the *Universidad Politécnica de Madrid*, is an Economic Science Graduate of the *Universidad Autónoma de Madrid* and has a Master's degree in the European Union from the *Escuela Diplomática de Madrid*.

He is currently an international independent advisor in the field of electrical energy; "Ad Honorem" professor at the *Universidad Politécnica de Madrid* and member of the Advisory Board of the *Escuela Técnica Superior de Ingenieros de Minas y Energía*.

He has been, among others, general manager of the Compensation Office of the Electrical Sector – OFICO – (until 1991); general manager of the Mining and Construction Industries of the Ministry of Industry and Energy (1992-1995); member of the boards of directors of ENDESA and Petronor (1992-1995); member of the board of the National Energy Commission (1995-2000); consultant of the European Union for the de-regulation of the Rumanian electricity system (2000); executive of International Regulations for the *Corporación Unión Fenosa*, providing his services to the Secretary General of Regulation (2002-2004), and general manager of Operation of Red Eléctrica de España, S.A. (2004 - March 2012).

In addition, he has been an associate professor in the Department of Energy Systems of the *Escuela Técnica Superior de Ingenieros de Minas y Energía de Madrid*; professor of the Master's programme in Renewable Energies at the *Escuela de Organización Industrial*; professor of the Master's programme in Energy and Competitiveness at Orkestra (*Instituto Vasco de Competitividad*); professor for the Advanced Course of Energy Business of the *Club Español de la Energía* and professor at *Universidad de Alcalá de Henares* in subjects related to energy supply.

The secretary of the Committee is Mr. Rafael García de Diego Barber, General Secretary and Secretary of the Board of Directors of the company.

Throughout 2019, when the Committee considered it appropriate, members of management responsible for certain areas related with the Committee's responsibilities attended Committee meetings in order to provide relevant explanations.

3. Activities carried out in 2019

At a meeting held on 12 February 2019 the Sustainability Committee approved its Annual Plan of Action for 2019, in view of the responsibilities assigned to it in the Articles of Association and in the Board of Directors Regulations.

The Sustainability Committee informed the Board of Directors of its activities at the meetings of the latter immediately subsequent to each meeting of the Committee and via the "directors' portal" intranet sent all the directors the documents corresponding to the meetings and copies of the minutes of these.

The Sustainability Committee met twelve (12) times in 2019, informing the Board of Directors the same number of times about the activities carried out by the Committee.

The main tasks carried out by the Committee in 2019 were as follows:

- Analysis and favourable report on the proposal to adapt the Board of Directors Regulations to the reorganisation of the Board's committees.
- Analysis of information about the regular monitoring of sustainability. Analysis and review, among other matters, of key projects of the 2018 annual sustainability programme and of projects related to management's 2018 sustainability objective, associated with Grupo Red Eléctrica's Sustainability Commitment, such as its belonging to the Dow Jones Sustainability Index (DJSI) and Euronext Vigeo Eiris indices.
- Analysis of the latest global trends in sustainability and certain practices of leading companies in this area.
- Resolution to carry out a comparative study of the best practices in respect of sustainability management within the scope of the responsibilities of the board and of its committees. Assignment of the proposal to a top level consultancy. Request by the General Secretary and the Board for the preparation of an internal report into the development of the comparative study for the updating of the Committee's responsibilities. Analysis and co-ordination with the other Board Committees within the framework of the review of the functions of the Committees in respect of sustainability. Approval of the proposal for the revision of the responsibilities of the Board Committees in respect of sustainability.
- Analysis and approval of the Annual Report on Sustainability for the year 2018.
- Analysis of the contribution of Grupo Red Eléctrica to the Sustainable Development Objectives.
- Analysis of the report on non-financial information of Red Eléctrica Corporación, S.A. for the year 2018 and of the preliminary draft of the external verification report.
- Oversight of the sections of the 2018 Corporate Governance Report in the area of the Committee's responsibilities.

- Analysis of the Board's proposal of resolutions for submission to the General Meeting of Shareholders in the area of the Committee's responsibilities, which refers to the report on the non-financial information of the Consolidated Management Report of Red Eléctrica Corporación, S.A. for 2018.
- Analysis of the study of sustainability index requirements and ESG investor expectations.
- Analysis of the report on leading climate change bodies. Carbon Disclosure Project (CDP).
- Analysis and favourable report on the proposal for Sustainability Objectives 2030.
- Quarterly monitoring of the 2019 Annual Sustainability Programme.
- Quarterly monitoring of the 2019 Management Sustainability Objective.
- Analysis of the main aspects of the Dow Jones Sustainability Index evaluation process. Analysis of the report on results obtained and of the comparative study.
- Analysis of the Vigeo-Eiris evaluation process.
- Analysis and favourable report on the Annual Code of Ethics Management Report for 2018.
- Analysis of the three-yearly report on interest group perception studies.
- Information on the pilot project on the circular economy and zero waste to landfill.
- Analysis of and information on the Sustainability Workshops program (October 2019). Information on the situation subsequent to the holding of these.
- Information regarding the project for the review and updating of the Group's Code of Ethics.
- Analysis and favourable report on the materiality study.
- Information regarding the Sustainable Shareholders' Meeting project.
- Analysis of the report on the changes in the organisation as a consequence of the integration of Hispasat.
- Analysis of the Green Framework for the issuance of green bonds aimed at funding green projects.
- Information regarding the report on tax payment and transparency.
- Analysis of and information on the 2018 tax transparency report.
- Information regarding the pilot project "Capital Natural".
- Information regarding the Circular Economy pilot project. Objectives, management model and roadmap.
- Analysis of Grupo Red Eléctrica's 2018-2022 Integral Diversity Plan. Review of the main actions carried out in respect of Corporate Volunteering.
- Approval of the Committee's Plan of Action for 2019 and 2020.
- Review of the schedule of Committee meetings for 2019.

4. Directors' attendance at meetings

The Sustainability Committee met twelve (12) times in 2019, informing the Board of Directors the same number of times about the activities carried out by the Committee. There were no non-attendances or attendances via representation, so there were a total of 36 attendances in person, which represents to a 100% percentage.