



Grupo Red Eléctrica

Audit Committee

19 February 2020

Report on the Activities of the
Audit Committee in 2019



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1. Introduction

The Action Plan of the Audit Committee for 2020, in accordance with the provision included in article 16.6 a) of the Board of Directors Regulations, 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 modify the Board of Directors Regulations with the aim of updating their 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. 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 23 pertaining to the Audit Committee. Similarly, on 20 December 2016, the Board of Directors Regulations were amended to fully adapt these to the latest reforms of the Spanish Companies' Act and the Code of Good Governance of Listed Companies and to introduce improvements to the organisation and functioning of the Board of Director' Committees and to adapt these to the new organisational structure.

Law 22/2015, of 20 July, of Auditing of Accounts, modified art. 529 quaterdecies LSC in relation to the Audit Committee and, consequently, in December 2016, the Board of Directors modified articles 15 and 16 of the Board of Directors Regulations regarding the composition, functioning and functions of the Audit Committee which are now fully adapted to said Law.

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 the Red Eléctrica Group via the restructuring of the Board of Directors' Committees, the creation of a new Sustainability Committee and the updating of the functions of the other two Committees, the Audit and Appointments and Remuneration Committees. The responsibilities of the Appointments and Remuneration Committee were strengthened within the labour sphere of Group companies, in accordance with best international corporate governance practices, and in addition, the general oversight and risk control function carried out by the Audit Committee was reviewed, in conjunction with the specific functions assigned to each of the other Committees within the scope 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's role as supervisor and guarantor of the functional independence



of the Electricity System Operator ("Operador del Sistema Eléctrico"), 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 Audit 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 co-ordination among the three Committees of the Board of Directors with the formal and material scope agreed by these.

In addition, the aim of this review is to improve the governance of the Red Eléctrica Group, 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 being one of the main drivers of the actions of the Board of Directors, 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 23 of the Articles of Association and 15 and 16 of the Board of Directors Regulations govern the structure, composition and functions of the Audit Committee.

The functions assigned to the Audit Committee include providing support to the Board of Directors in the monitoring of the preparation of the financial and non-financial information of the company, of internal control and risk management systems, of the supervision of relations with the external auditors, of compliance with legal provisions and internal regulations, and of relations with the company's shareholders, in matters concerning its responsibilities.

The Committee meets with the frequency required for the good development of its functions. However, it must meet at quarterly and when convened by its Chairperson or if two of its members request so and, also, whenever the Board of Directors or its Chairperson requests the publication of a report or the submission of proposals.

Article 15.4 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 Chairperson 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 15.6 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 conclusion 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 in when carrying out its functions.



2.3 Composition:

The composition of the Audit Committee is governed by article 23.1 of the Articles of Association and article 15 of the Board of Directors Regulations. In accordance with these articles, the Committee shall be comprised of the number of directors established by the Board of Directors, with a minimum of (3) and a maximum of five (5), among the non-executive directors, with a majority of its members being independent directors. The Chairperson 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 replacement of the members of the Committee will be carried out by the Board of Directors as proposed by the Chairperson of the Board of Directors. The members of the Committee shall fulfil 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 Chairperson will be replaced every three years and can be re-elected when one year has elapsed since their replacement.

Changes in the composition of the Audit Committee in 2019 were as follows:

- The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 26 March 2019, re-elected the independent director Ms. María José García Beato as member of the Audit Committee of Red Eléctrica Corporación S.A., for the period of 3 years stipulated in the Board of Directors Regulations, in accordance with the provisions of article 23 of the Articles of Association and article 15 of the Board of Directors Regulations.

The composition of the Committee at 31 December 2019 was as follows:

Director	Position	Class of Director
Mr. Antonio Gómez Ciria	<i>Chairperson</i>	Independent external
Ms. Mercedes Real Rodríguez	<i>Member</i>	Proprietary external (SEPI)
Ms. María José García Beato	<i>Member</i>	Independent external
Mr. Arsenio Fernández de Mesa y Díaz del Río	<i>Member</i>	Independent external

The directors comprising the Committee are especially qualified for the duties required by their position, with lengthy professional experience, having held positions of great responsibility outside Red Eléctrica in functions related to those entrusted to the Committee. The members of the Committee have outstanding knowledge and experience in accounting, auditing or both, attributes that were taken into account for their appointment, as stipulated in article 529 quaterdecies of the Spanish Companies' Act and in Recommendation 39 of the Code of Good Governance of Listed Companies. Article 15.2 of the Board of Directors Regulations, in accordance with said Recommendation, stipulates that, in addition to taking into account their knowledge and experience in accounting and auditing for the appointment of the members of the Committee, and especially of its Chairperson, their knowledge and experience in risk management will also be taken into account. In addition, the Committee has sought the services of an expert in integral security, which involves the physical security of persons and installations and cybersecurity, complementing the professional skills and knowledge of the directors that comprise it.

Brief summaries of the careers of its members at 31 December 2019 are included below, these having knowledge and experience of accounting, auditing and/or risk management:



- Mr. Antonio Gómez Ciria, born on 25 March 1957, has a degree in Economics and Business Studies and a degree in Mathematics from the Universidad Complutense de Madrid, an Executive MBA from IESE and is a Chartered Certified Accountant – AECA.

He is currently a member of the Advisory Board of Experts on Accounting and Financial Information (ECIF) of the General Council of the Spanish Association of Economists and member of the board of directors of Mapfre S.A. and of its Risk Committee, of Mapfre España Compañía de Seguros y Reaseguros S.A., of Mapfre Re Compañía de Reaseguros S.A. and member of the Management Committee of Mapfre Vida, S.A. de Seguros y Reaseguros sobre la Vida Humana.

Among other positions, he has been member of the boards of directors of Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros S.A. and member of the Management Committee; general manager of Administration and Information Technology and member of the Management Committee of the FCC Group; representative of the FCC Group at the Large-Scale Company Forum of the Ministry of Finance and Public Administrations; general manager for Internal Auditing and member of the Management Committee of the FCC Group; manager of Internal Auditing of the FCC Group; member of the Advisory Board of the Institute of Internal Auditors and member of the Management Committee; general technical secretary of InverCaixa (investment management company belonging to La Caixa group); chairperson of the Instituto de Contabilidad y Auditoría de Cuentas, ICAC; director of Empresa Nacional de Uranio, S.A.; director of Empresa Nacional de Autopistas, S.A.; director of Tabacalera, S.A.; market inspection manager for the Madrid Stock Exchange (Sociedad Rectora de la Bolsa de Valores de Madrid); deputy manager of Budget Planning and Studies for Radio Televisión Española; manager of the Controlling and Accounting Department of Banco de Crédito Agrícola and controller and auditor for General State Intervention.

- Ms. Mercedes Real Rodrígálvarez, born on 6 January 1968, has a degree in Economics and Business Sciences and in Law from the Universidad Pontificia de Comillas (ICADE E-3), and a PMD from the IESE.

She is currently director of the Division of Investee Companies - Energy in the State Industrial Holding Company (SEPI); and member of the board of directors and chairwoman of the Audit Committee of ENRESA, S.A., S.M.E.

She has been a member of the board of directors of ENUSA Industrias Avanzadas, S.A.; chief financial and control officer; controller and head of Human Resources of the INFOBOLSA Group (BME Group and Deutsche Börse Group, AG); member of the board of directors, chief financial and control officer of OPEN FINANCE, S.L. and head of the Audit Team, of Financial Sector entities, in Arthur Andersen (currently DELOITTE & TOUCHE).

- Ms. María José García Beato, born on 27 May 1965, has a degree in Law from the Universidad de Córdoba and is a Spanish State Attorney.

She is currently general secretary-director of Banco Sabadell, S.A.; non-director secretary of the board of directors of Sabadell Consumer Finance S.A.U.; trustee of the Fundació Privada Banc Sabadell; trustee of the Fundación AEB; member of the Advisory Board of the publisher Wolters Kluwer España S.A., and member of the Advisory Board of Fundación Cajasur.

She has been State Attorney at the Madrid High Court; head of the Legal Office at the Data Protection Agency; State Attorney at the Advisory Services Office of the Directorate for State Legal Services; State Attorney at the General Secretariat for Communications of the Ministry of Public Works; secretary of the board of directors of Retevisión, SA.; director general of the Ministry of Justice Office; board member of: Infoinvest S.A.; Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA); Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI); Sociedad Estatal Correos y Telégrafos, S.A.; Banco Guipuzcoano, S.A. and of Banco CAM, S.A.; under-secretary of Justice; State Attorney in the Legal Department



at the National Court; director of the Legal Department of Banco Sabadell; secretary of the board of directors of Banco Urquijo, S.A.; director of the board of directors of Banco Gallego, S.A.; secretary of the board of Trustees of the Foundation for the Study of Applied Economics (FEDEA) and secretary of the board of directors of Sabadell United Bank (Miami).

- Mr. Arsenio Fernández de Mesa y Díaz del Río, born on 20 July 1955, is a Civil Servant of the General State Administration since 1979, on leave of absence; chief technical inspector of vessels for International Marine Coatings, Ltd. (CEPISA, Spain), since 1982, currently on leave of absence; member of the Scientific Board of the International Institute of Political Sciences of the UNESCO Chair in Political Science and Comparative Administrative Study, assigned to the areas of Defence, Industry and National Security since 2010; Senior Advisor at Vimad Global Services S.L.; advisory member of the board of Bruzon Correduría de Seguros y Reaseguros; holds a Masters in National Defence from the Rey Juan Carlos University; holds a Diploma in 'Advanced Military Studies' from the Centre for Advanced National Defence Studies (1991); holds a Diploma in 'Advanced National Defence Studies' from the Centre for Advanced National Defence Studies (1991); holds a Diploma for completing the Executive Management Programme (EMBA) for members of Parliament from the Instituto de Empresa (IE.BS) Business School (2009); Parliament-Business Companies Programmes in IBERDROLA, INDRA and INFORPRESS; Ad Honorem professor at the International Institute of Political Sciences of the UNESCO Chair in Political Science and Comparative Administrative Study, assigned to the areas of Defence, Industry and National Security since 2010 and Honorary Professor at the Alfonso X El Sabio University of the Royal Forum Chair in Senior Management.

He has also been senior advisor for Preventia Neurotechnology (2016-2017); professor at the International Studies Society, Advanced International Studies Course (2014); director general of the Guardia Civil (2011-2016), with the rank of deputy secretary; deputy chair of the Congressional Committee on Defence for the Spanish Parliament (2004-2011); spokesperson for Defence of the GPP in the Spanish Parliament (1996-2000); chairperson of the Party's National Defence Committee (1996-2000); Government Delegate in Galicia (2000-2004), with the rank of deputy secretary; member of the OSCE International Parliamentary Assembly; Member of the NATO Parliamentary Assembly; elected as a Member of Parliament in the following legislative periods: 1989-1993; 1993-1996; 1996-2000; 2000-2004 (resigned as a Member of Parliament to become the government delegate in Galicia); 2004-2008; 2008-2011 and 2011-2015 (resigned as a Member of Parliament to become director general of the Guardia Civil); he has held the position of spokesperson for the Fishery sector, the Naval Sector and the Merchant Marine and defence spokesperson in the Spanish Parliament; was First Deputy Mayor of El Ferrol (1987-1989); councillor of the City Council of El Ferrol (1983-1991); speaker at seminars and conferences on Fisheries, Defence, the Naval Sector, Merchant Marine and National Security in various universities and in other national and international forums, among others, the CHEMI (*Centre des Hautes Études du Ministère de l'Intérieur de France*) and the Escuela de Guarda di Finanza (Italy).

He is in possession of several national and international decorations, among others, awarded by the governments of Spain, France, Italy (twice), Portugal, Peru, Mexico, and Colombia and is a Gold Master Statutory of the Royal Forum of Senior Management.

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, at the request of the Committee itself, Mr. Carlos Méndez-Trelles García, Head of Internal Auditing and Risk Control, and Ms. María Teresa Quirós Álvarez, CFO, attended Committee meetings to provide information



on certain matters concerning the Committee's areas of responsibility. Other people from these and other departments also attended Committee meetings when required to do so to provide information on areas for which they are responsible.

In 2019, as regards the review of the Annual Accounts of the company and its Group for 2018, the external auditor of the company and its Group explained to the Committee the audit procedures carried out in the Group. The Committee resolved to inform favourably on the Annual Accounts for 2018. The Committee also met with the external auditor on several occasions to analyse matters regarding its areas of responsibility.

3. Activities carried out in 2019

At a meeting held on 12 December 2018 the Audit 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 Audit 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 Audit Committee met eleven (11) 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:

3.1 In relation with financial information:

- Review of and favourable report on the Annual Accounts for 2018 of the company and its Consolidated Group and on the external auditor's report.
- Analysis of the draft version of KPMG's Report for the Audit Committee in compliance with Article 11 of (EU) Regulation No 537/2014 of the European Parliament and article 23 of Law 22/2015 of 20 July on Auditing, which includes the most significant aspects of the audit process and the response to each of these.
- Analysis of and favourable report on the external legal report on tax criteria for the payment of Corporate Income Tax for 2018.
- Analysis of quarterly results reports for the year.
- Analysis and approval of the accounting and tax criteria adopted to carry out the end of year close.
- Analysis and approval of the Annual Tax Transparency Report for 2018.
- Analysis of the proposed distribution of earnings and payment of dividends of Red Eléctrica Corporación, S.A. for 2018 and publication of a favourable report.
- Analysis of the tax transparency report.
- Analysis of half-yearly and annual financial information for market oversight bodies and publication of a favourable report.
- Analysis of and favourable reports on monthly financial reports.



- Review and acceptance of the sections of the Annual Corporate Governance Report for 2018, in the areas of the Committee's responsibilities.
- Monitoring of monthly treasury stock reports.
- Monitoring of quarterly reports on related party transactions.
- Analysis of and favourable report on the renewal of the Annual Programme of European Commercial Paper (ECP) and on the updating of the ECP Prospectus.
- Analysis of the proposal for the renewal of the annual EMTNs plan and the submission of a favourable report thereon to the Board of Directors. Review and updating of the EMTN Prospectus.
- Analysis of the consolidated financial statements and the external auditor's report for the first half of 2019.
- Approval of the schedule for the 2019 financial close.
- Analysis of the proposed payment of an interim dividend for 2019 and submission of a favourable report to the Board of Directors.
- Approval of the "País por País" statement which has to be submitted to the Spanish tax authorities.
- Analysis of reports monitoring the main investment projects.
- Analysis of the report on the profitability of international and telecoms investments.
- Analysis of and favourable report on the proposal for bank financing of the Hispasat project.
- Analysis of and favourable report on the creation of a new technological company (RETIT).
- Analysis of the Financial Strategy report.
- Analysis of the report on the main impacts of the CNMC circulars on the remuneration methodology for the transmission activity, the operation of the system and the Financial Rate of Return (TRF).
- Analysis of the reports on the changes in the organisation as a consequence of the integration of Hispasat.
- Analysis of and favourable report on the Medea Project, incorporation of the subsidiary in Brazil and the appointment of directors.
- Analysis of and favourable report on the hedging policy for the Medea Project.
- Analysis of and favourable report on the submission of bids in the tendering processes in Chile: Parinas and Likan Project.
- Analysis of and favourable report on the proposed investment by RETIT in the Venture Capital Fund.
- Analysis of and favourable report on the Horizon 1 Project.
- Information on the Green Framework.
- Analysis of the report on the impact of the CNMV circulars.
- Analysis and approval of the report on the adoption of resolutions of tax consolidation and of the distribution of the tax charge of Grupo Red Eléctrica.



- Analysis of and favourable report on the consolidated budget of Grupo Red Eléctrica for 2020.
- Analysis of and favourable report on resolutions regarding the process of corporatization.

3.2 In relation with internal control and risk management systems:

- Analysis of the report on the monitoring of the Integral Risk Management System Action Plan for 2018, and the annual plan for 2019.
- Analysis of the report on the monitoring of the annual Compliance System Action Plan and the annual plan for 2019.
- Analysis of the planning of annual external audit work and of the review of SICFR by the external auditor.
- Analysis of the Internal Audit Report on the System for Internal Control over Financial Reporting (SICFR) for 2018.
- Analysis of the review of the Map of Risks at 31.12.18, and the current status of and prospects for the main risks.
- Analysis and favourable report on the Annual Report of the Body for the Control and Oversight of the Prevention of Criminal Risk Programme for 2018.
- Analysis of and favourable report on the proposal for the updating of the Criminal Compliance System.
- Analysis of the report of the Criminal Compliance Committee.
- Analysis of the report on the review of the current status of high-level risks of the Integral Risk Management System.
- Analysis of the report on the current status of the main actions being carried out on reputational risks.
- Analysis of Key Risk Indicators (KRIs).
- Review of the table of Key Risk Indicators (context/management).
- Analysis and approval of the proposed improvement to the Table of Impacts of the Risk Management System.
- Information regarding the Integral Security system of Grupo Red Eléctrica.

3.3 In relation with internal audit services:

- Analysis of the report on the internal audits carried out in 2019 and the results of each of these, and on compliance with Internal Audit recommendations.
- Analysis of the Annual Report on Internal Audit Activities for 2018.
- Analysis of the quarterly reports on the internal audits carried out.
- Analysis of the Internal Audit Report on the System for Internal Control over Financial Reporting (SICFR) for 2019.
- Analysis of the quarterly reports on compliance with Internal Audit recommendations.
- Approval of the budget, means and resources of the Internal Audit service for 2020.
- Approval of the Annual Internal Audit Plan for 2020.



3.4 In relation with the external auditors:

- Analysis of the reports of the external auditor on the annual accounts for 2018 and the preliminary report of the external auditor for 2019.
- Analysis and approval of the report on the independence of the external auditor issued by KPMG Auditores, S.L., in accordance with the provisions of Recommendation nº 6 of the Code of Good Governance of Listed Companies.
- Analysis and approval of the fees of KPMG Auditores for 2019 for audit-related services, and for other services envisaged in 2019, and favourable report on the proposed renewal of KPMG as auditors of Grupo Red Eléctrica for a period of one year.
- Analysis and approval of the fees of KPMG Auditores for the auditing of the new Grupo Red Eléctrica companies, and their appointment as external auditors of the Hispasat group. Authorisation for the start of the process for the selection of external auditors for when the period for which the current external auditors have been appointed expires.
- Analysis of the Report of the external auditors on the Group's certified Management Systems.

3.5 In relation with compliance with legal provisions and internal regulations:

- Analysis of the Report on the Monitoring of Internal Regulations.
- Analysis of the report on the annual evaluation of compliance with Internal Regulations regarding Securities Market Conduct.
- Review of monthly Health and Safety at Work reports.
- Analysis of the Annual Report on Management of the Code of Ethics for 2018.
- Analysis of the process of adaptation of the Board of Directors Regulations and of the proposed amendments to these as a result of the reorganisation of the Board of Directors' Committee and the recent changes in the organisation of the Group.
- Analysis of and favourable report on the proposed amendment of the Code of Conduct of the System Operator.
- Analysis of and information on the plan of work for the revision of the Board of Directors Regulations in order to improve the governance of Grupo Red Eléctrica, incorporate the legal amendments in process and implement the necessary technical improvements.
- Analysis of and favourable report on the proposed amendment of the Internal Regulations regarding Securities Market Conduct, in order to adapt these to regulatory changes, to the new internal procedures and to the change in the structure of the Regulations Monitoring Body.

3.6 In relation with the company's shareholders:

- Analysis of the resolutions proposed by the Board of Directors to the Annual General Meeting of Shareholders in matters concerning its responsibilities.
- Monitoring of possible shareholder initiatives, suggestions and complaints during the year. In 2019 no company shareholder initiatives, suggestions or complaints were received.



- The Committee has been informed about the external audit of the procedures for managing the Annual General Meeting of Shareholders.

3.7 Other activities:

- Approval of the Report on the Activities of the Audit Committee in 2018.
- Analysis of the report on the Group's Corporate Insurance Programme in 2019.
- Analysis of and favourable report on proposed new Tax Lease transactions to be entered into in 2019, and the extension of the maximum authorised limit.
- Analysis of the bids submitted by Big Four for the internal report on the independence of the System Operator.
- Analysis of the Annual Healthy Workplace Report for 2018.
- Analysis of the report on the existence of a possible related party transaction.
- Approval of the Committee's Plan of Action for 2020.
- Approval of the schedule of Committee meetings for 2020.

4. Directors' attendance at meetings

The Audit Committee met eleven (11) 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 44 attendances in person, a 100% percentage.

5. Review of the annual accounts for 2019

The Audit Committee, in the meeting in which the Report of the Audit Committee's Activities for 2019 was approved, proceeded, in relation to FY 2019, to:

- Review the Annual Accounts for 2019 of the company and of its Consolidated Group, the external auditor's Report and the Statement of Non-Financial Information.
- Analyse the proposed distribution of earnings and payment of dividends of Red Eléctrica Corporación, S.A.

As usual, the External Auditor of the company and of its Group for the aforementioned year, KPMG, attended the meeting to provide the Committee with the appropriate clarifications and explanations.

In both cases the Committee has reported favourably on these proposals.

6. Assessment of compliance with the principles and recommendations stipulated by the CNMV (Guía Técnica 3/2017)

On 27 June 2017 the CNMV approved the Technical Guide on Audit Committees of Public-Interest Entities (Guía Técnica 3/2017), under the scope of the provisions established in articles 21.3 and 21.4 of the restated Spanish Securities Market Act approved by Royal Legislative Decree 4/2015, of 23 October.



The purpose of this Technical Guide is to provide guidance on the functioning of audit committees and includes certain recommendations for the affected companies that the CNMV will take into account in the performance of its oversight function.

The constant commitment of the company to use the best international practices in respect of corporate governance, has allowed it to comply in advance with the recommendations of the Guía Técnica 3/2017, as explained in the company's Annual Report on Corporate Governance.

In respect of the recommendations of the Guía Técnica 3/2017, the following points are worthy of mention with regard to the company's Audit Committee:

a) The structure, composition and functions of the Audit Committee are governed by article 23 of the Articles of Association and developed in articles 15 and 16 of the Board of Directors Regulations, that envisage, among other aspects, the composition of the Committee, the requirements for the appointment of its members, the rules of its functioning, the responsibilities and functions assigned thereto, the means at its disposal, rules governing the relations of the Committee with the Board of Directors and the shareholders, rules governing its communications with the External and Internal auditors, the evaluations to be carried out by the Committee and the reports it is required to publish. For reasons of legal certainty, it is deemed more appropriate that the regulations of the functioning of the Audit Committee be included in the Board of Directors Regulations, published on the corporate website and in the Mercantile Registry.

b) The Committee's independence is fostered as:

i. It is comprised exclusively of external directors and both the Chairperson and the majority of its members are independent directors.

ii. The compensation of the members of the Committee is in accordance with the principle of moderation and is linked to their responsibility, and therefore does not compromise their independence and objectivity.

iii. Moreover, neither the Chairperson of the Board of Directors nor the Managing Director take part in Committee meetings.

iv. Those executives who attend the meetings of the Committee do so at its request and only in relation to the points on the agenda regarding their area of responsibility.

c) In order to ensure the full independence of the External Auditor, the relevant articles of the Articles of Association and of the Board of Directors Regulations were brought into line with the reform of the Spanish Companies' Act governing this issue.

d) An ongoing dialogue is maintained with the various interest groups related with the Committee's areas of responsibility. In addition, diversity of opinion is encouraged within the Committee so that each member can act in accordance with their personal criteria.

e) The members of the Committee have significant experience in the fields of financial and business management. Due to the growing importance of digitisation and virtual processes, in 2017 a director with significant experience and knowledge of aspects of integral security joined the Committee.

f) A diverse composition is sought in terms of gender, professional experience, and sector skills and knowledge. At 31 December 2019, 50% of Committee members were women.

g) The Committee has an annual Action Plan and meets monthly and as required to review and analyse aspects concerning financial and non-financial information, internal control and risk management systems, compliance



with legal provisions and internal regulations, in addition to information regarding Health and Safety in the Workplace.

h) The functioning of the Committee is subject to an annual self-assessment process, with external support, as part of the annual self-assessment of the Board of Directors.

i) There is a "Welcome Programme" for new members of the Committee, which is part of the Annual Welcome Plan for new directors, called the Induction Plan.

j) There is an "Annual Knowledge Programme" for directors, updated annually and implemented throughout the year.

k) Grupo Red Eléctrica has various mechanisms for the prevention of illicit transactions, money-laundering and fraudulent concealment or disposal of assets. These include the Code of Ethics, the Code of Conduct for suppliers, the Criminal Risk Prevention Programme and the "Guide for the prevention of corruption: Zero Tolerance", which is at the disposal of employees, suppliers and the various interest groups on the corporate website.