

**RED ELÉCTRICA**  
CORPORACIÓN

**Annual Corporate Governance Report**  
**2019**

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**ANNUAL CORPORATE GOVERNANCE REPORT OF RED  
ELÉCTRICA CORPORACIÓN, S.A.**

**2019 FINANCIAL YEAR<sup>1</sup>**

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<sup>1</sup> Unless another date is expressly indicated in this report, the reference date is 31 December 2019.

## INTRODUCTION: THE RED ELÉCTRICA GROUP

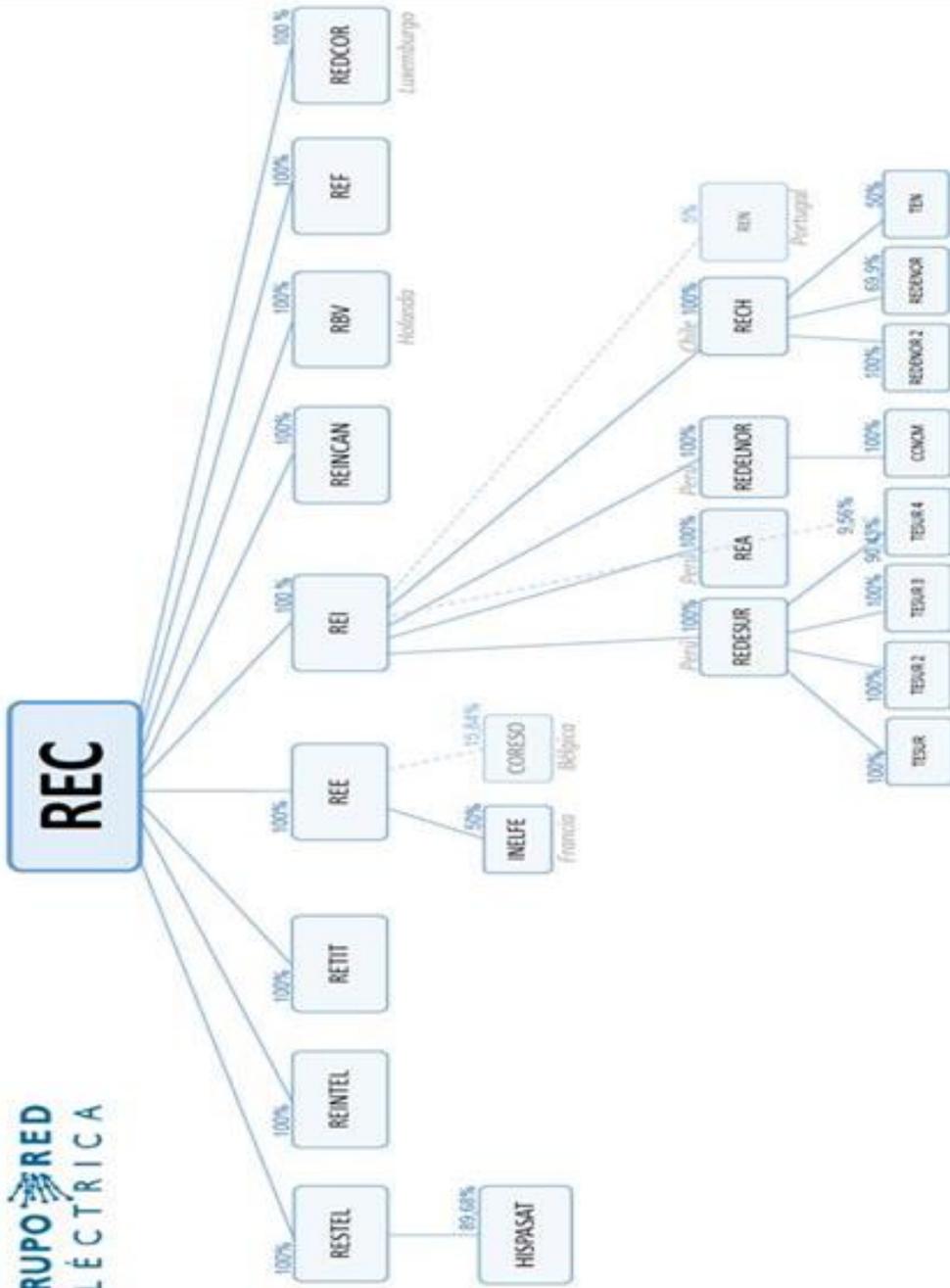
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The world's first company devoted exclusively to electricity system operation and electricity transmission was incorporated on 29 January 1985 under the name of Red Eléctrica de España, S.A. (currently Red Eléctrica Corporación, S.A.).

In 2008, in order to reinforce transparency and the separation of the regulated activities in Spain (transmission and system operation) from the rest of the activities, Red Eléctrica became a holding company.

The Group's parent company is **RED ELÉCTRICA CORPORACIÓN, S.A. (REC)**, which has the following wholly-owned subsidiaries:

- **RED ELÉCTRICA DE ESPAÑA, S.A.U. (REE)**, which is responsible for the electricity activities in Spain. REE owns 50% of the share capital of **INTERCONEXIÓN ELÉCTRICA FRANCIA-ESPAÑA, S.A.S. (INELFE)**, a company formed in partnership with REE's French counterpart, RTE, for the development of interconnections with France.
- **RED ELÉCTRICA INTERNACIONAL, S.A.U. (REI)**, which is responsible for the group's investing and consulting activities outside Spain.
- **RED ELÉCTRICA DE ESPAÑA FINANCE, BV (REEFBV)** and **RED ELÉCTRICA FINANCIACIONES, S.A.U. (REF)**, which were created as investment vehicles for the Group companies' various activities.
- **REDCOR REASEGUROS, S.A. (REDCOR)**, incorporated to reinsure the risks of activities, so as to ensure better access to the international markets.
- **RED ELÉCTRICA INFRAESTRUCTURAS EN CANARIAS, S.A.U. (REINCAN)**, which develops hydroelectric pumping projects as tools at the services of the electricity system operator.
- **RED ELÉCTRICA INFRAESTRUCTURAS DE TELECOMUNICACIÓN, S.A.U. (REINTEL)**, which manages the telecommunications business.
- **RED ELÉCTRICA SISTEMAS DE TELECOMUNICACIONES, S.A.U. (RESTEL)**, which manages the satellite business through **HISPASAT, S.A. (HISPASAT)**, in which it has an 89.68% of its shareholding.
- **RED ELÉCTRICA Y DE TELECOMUNICACIONES, INNOVACIÓN Y TECNOLOGÍA, S.A.U. (RETIT)**, to accelerate technological innovation, generate competitive advantages and originate business opportunities that make the Group a technology reference.



Red Eléctrica Group's activities are distributed in the following three major areas:

### **1.- Managing and operating electricity infrastructure (Spain)**

- Red Eléctrica de España, S.A.U.

Red Eléctrica de España, S.A.U. is the sole transporter and operator of the Spanish electricity system (TSO). Its mission is to operate the system in real time, ensuring supply continuity and secure integration of renewable energies. It also develops and maintains the high-voltage electricity transport network on a sustainable basis.

### **2.- Managing and operating electricity infrastructures (international)**

- Red Eléctrica Internacional, S.A.U.

The investment in electricity transmission infrastructure outside Spain is channelled through various subsidiaries integrated in Red Eléctrica Internacional, S.A.U. It is currently executing projects in Peru and Chile, through its subsidiaries, and is responsible for medium and high-voltage electricity system maintenance, protection and telecommunications systems, as well as for technical advising on energy projects.

### **3.- Telecommunications business (fibre optic and satellites)**

- Red Eléctrica Infraestructuras de Telecomunicación, S.A.U.

This company operates more than 50,000 km of dark fibre optic cable deployed along the electricity transport network and the network associated with railway service in Spain. It acts as a neutral provider of telecommunications infrastructure for the main players in the sector and telecom carriers who operate in the country. Its main business is leasing dark fibre optic and technical areas and sites to house telecommunications equipment. It also provides maintenance services for fibre optic cable and telecommunications equipment.

- Hispasat, S.A.

On 3 October 2019, Red Eléctrica Corporación, S.A., through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U., acquired an 89.68% shareholding in Hispasat, S.A. The deal positions the Red Eléctrica Group as global operator of electricity and telecommunications infrastructure, both in Spain and internationally, a key part of the Strategic Plan 2018-2022.

Hispasat, S.A. is the leading satellite infrastructure operator in Spain and Portugal in terms of revenue, the fourth largest operator in Latin America and the eighth worldwide.

# 1. REGULATORY FRAMEWORK AND CORPORATE GOVERNANCE POLICY AS THE EXPRESSION OF CORPORATE GOVERNANCE STRATEGY

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The Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter, "Red Eléctrica" or the "Company"), as the Board of a listed company, complies with the requirements of the laws applicable to listed companies. The Company also has a Corporate Governance Policy, which in summary form sets out the catalogue of principles evidencing not only the Company's compliance with applicable laws and regulations but also its alignment with national and international corporate governance recommendations and best practices, which the Company has adopted voluntarily since it was listed on the stock market in 1999 and which it has incorporated into its own internal regulations. Those internal regulations are continuously reviewed so as to continue to incorporate best practices and achieve greater information transparency for shareholders and other stakeholders.

## **CORPORATE GOVERNANCE POLICY**

The Corporate Governance Policy was approved by the Board of Directors at its meeting on 25 November 2014. The policy, as established, is intended to align the interests of the Company with those of its shareholders and other stakeholders by protecting and promoting a value shared by all, a value that incorporates economic, social, environmental and good governance criteria, thereby not only contributing to the Company's sustainability, solvency and good reputation amongst its shareholders and other stakeholders but also reinforcing trust, stability, progress and the social and economic development of society at large.

The Policy also establishes that it is based on the corporate values that govern the Company's relations with its various stakeholders and help to achieve the Company's strategies and maximise its value on a sustainable basis.

Those values are reflected in the principles that govern the Group's Corporate Governance Policy. Those principles have been adopted with the aim that they become embedded in the organisation as, continuously updated and enlarged, they constitute the corporate governance culture of Red Eléctrica.

The Corporate Governance Policy may be consulted on the corporate website at the following link:

[Corporate Governance Policy](#)

### **CORPORATE GOVERNANCE POLICY**

The Corporate Governance Policy embodies the principles that reflect the corporate values governing the Company's relations with stakeholders and the practices it has adopted, or has undertaken to adopt, in order to apply those principles, which ultimately are incorporated into the Company's internal corporate regulations.

Other policies approved by the Company, and which may be consulted via the relevant links, are as follows:

[Environmental policy](#)  
[Procurement policy](#)  
[Communication policy](#)  
[Business development policy](#)  
[Economic and financial policy](#)  
[Excellence and quality policy](#)  
[Integrated risk management policy](#)  
[Operational policy](#)  
[Human resources policy](#)  
[Corporate responsibility policy](#)  
[Integrated security policy](#)  
[Technology and innovation policy](#)  
[Transmission policy](#)  
[Criteria for communication with shareholders, institutional investors and proxy advisors](#)  
[Compliance policy](#)

Of all the above policies, special emphasis is given in this report to the **Criteria for communication with shareholders, institutional investors and proxy advisors**. These criteria were approved by the Board of Directors at its meeting held on 25 October 2016 on proposal of the Appointments and Remuneration Committee.

They represent a response to the Board of Directors' undertaking to comply with Recommendation 4 of the CNMV's Code of Good Governance of Listed Companies. They set out the principles and guidelines for communication with stakeholders, with the aim of ensuring that stakeholders are able to exercise their rights, protecting their interests and promoting engagement with stakeholders through open, transparent and sustainable dialogue. The Board of Directors is responsible for reviewing the criteria and approving any amendments, and also for monitoring compliance.

The Criteria for communication with shareholders, institutional investors and proxy advisors may be consulted on the corporate website at the following link:

[Criteria for communication with shareholders, institutional investors and proxy advisors](#)

The Criteria for communication with shareholders, institutional investors and proxy advisors put into effect the *principle of consolidating, developing and promoting symmetric mechanisms for dialogue and engagement with shareholders, investors and leading stakeholders in order to improve relations, strengthen commitment and reinforce their trust*, as stated in the Company's Corporate Governance Policy.

## **EXTERNAL REGULATORY FRAMEWORK**

The main external regulations applicable in matters of corporate governance are the following:

## **1. Restated Text of the Spanish Companies Act (Ley de Sociedades de Capital, LSC), approved by Royal Legislative Decree 1/2010 of 2 July 2010**

This regulation establishes the legal regime applicable to corporations, and, specifically, listed companies, which are the subject of Title XIV (Articles 495 to 541) of said Act. Its provisions may be overruled or modified by the Articles of Association, except for any those that are mandatory.

The minimum content of the Annual Corporate Governance Report (ACGR) is established in Article 540.4 of the Spanish Companies Act. This article was amended by Royal Decree-Law 18/2017 of 24 November 2017, which content was again amended by Act 11/2018 of 28 December 2018, which establishes the obligation to incorporate a description of the diversity policy applied in relation to the board of directors, management and the specialised committees constituted within it, with regard to issues such as age, gender, disability or the professional training and experience of its members; including its objectives, the measures adopted, the manner in which they have been applied, in particular, the procedures for seeking to include on the board of directors a number of women to achieve a balanced presence of women and men and the results in the reporting period, as well as any measures agreed on these matters by the Appointments Committee. Companies must also disclose whether information was provided to shareholders on diversity criteria and objectives when electing or renewing members of the board of directors, management and the specialised committees set up therein. If no diversity policy is applied, a clear and reasoned explanation must be given in this respect. Act 11/2018 of 28 December 2018 also incorporated other innovations with respect to non-financial information that must be included within the management report, and which must be submitted for approval under a separate point on the Agenda of the Annual General Meeting of Shareholders.

On 28 May 2019 a public consultation procedure was launched for a draft bill to amend the restated text of the Spanish Companies Act (the "LSC"), amongst other legal provisions, mainly aimed at adapting them to Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 (the "Directive"), although also covering other matters not addressed by the Directive, as described below:

### **• Matters involving transposition of the Directive**

- Engagement and market disclosure by managers of collective investment institutions and entities and rules on proxy advisors:
  - Imposition on management companies of collective investment institutions, venture capital firms, closed-ended collective investment entities, insurers authorised to operate in the life assurance business and reinsurers of the duty to prepare and disseminate an engagement policy in the companies in which they invest.
  - Imposition on management companies of the duty to disclose to the entities or institutions for whom they provide asset management services how their investment strategy complies with the agreement signed with them, as well as the risks involved, among other questions.
  - Regulation of proxy advisors.
- Identification of shareholders and exercise of shareholder rights.
  - Expansion of the information the company may request to identify its shareholders.
  - Extension of the right to know the identity of the beneficial owners of the shares.

- Flow of information between the company and its shareholders and beneficial owners.
  - Imposition on financial intermediaries of a duty to facilitate the exercise or rights by ultimate beneficiaries. Transparency and proportionality in the fees charged for these services.
  - Duty of companies to send electronic confirmation of receipt of electronic votes.
- Remuneration Policy and Annual Report on Remuneration:
    - Expansion and specification of their content.
    - Application until the following general meeting in the event of rejection in the vote of the general meeting to which it is submitted.
  - Related party transactions:
    - Definition of related party transaction and of related parties by reference to International Accounting Standards.
    - New rules on transparency and approval of related party transactions.
    - Obligation of the board of directors to implement an internal procedure for periodic evaluation of the requirements for exemption from rules on transparency and approval of related party transactions.
- Matters unrelated to the content of the Directive
- Composition of the board of directors:
    - Obligation that the board of directors of listed companies be entirely composed of natural persons.
  - Possibility of including “additional voting rights for loyalty shares”:
    - Possibility of conferring an additional vote on each share that has been owned by the same shareholders on an uninterrupted basis during two or more consecutive years.
    - Need for inclusion in the Articles of Association via resolution approved by an enhanced majority.
    - Elimination of the additional voting right by resolution approved with the majorities required for amendment of the Articles of Association, without counting additional votes where more than 10 years have passed since their inclusion.
    - Consideration of the additional votes when computing general meeting attendance quorums, the majorities required for approving resolutions, compliance with the duty to report significant holdings and to issue tender offers.
  - Content of the Management Report:
    - Inclusion of the Annual Corporate Governance Report and of the Annual Report on Remuneration in separate sections.
  - Limits on the auditor's opinion on the Annual Report on Remuneration:
    - Extension of the auditor's report to the information contained in the Annual Report on Remuneration, confining the auditor's opinion to checking that said Report is contained in the Management Report.
  - Elimination of the requirement to publish quarterly financial information.

Taking into account that this is a draft bill, the above considerations may be subject to change.

The Restated Text of the Spanish Companies Act as it currently stands may be consulted via this link: [Spanish Companies Act](#)

## **2. Circular 2/2018 of 12 June 2018 of the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*)**

It establishes the Annual Corporate Governance Report models for listed companies, savings banks and other entities that issue securities admitted to trading on official securities markets and the Annual Remuneration Report models for the directors of listed companies and members of the board of directors and the control committee of savings banks that issue securities admitted to trading on official securities markets. The Official Annex to this ACGR has been prepared based on the standard form of Annex I included in the abovementioned circular.

The complete document can be consulted via the following link:  
[CNMV Circular 2/2018 of 12 June 2018](#)

## **3. Good Governance Code of Listed Companies (*Código de Buen Gobierno de las Sociedades Cotizadas, CBGSC*), approved by a resolution of the Board of the CNMV on 18 February 2015**

The purpose of the CBGSC is to ensure the proper performance of the governing and administrative bodies of Spanish companies, so as to make them as competitive as possible; to generate trust and transparency for national and international shareholders and investors; and to improve companies' internal control and sustainability. The CBGSC is composed of 64 recommendations, grouped in three large areas which relate to general aspects (Recommendations 1 to 5), to the General Meeting of Shareholders (Recommendations 6 to 11) and to the Board of Directors (Recommendations 12 to 64), respectively.

Following the CBGSC's recommendations is voluntary. However, under the "*comply or explain*" principle, listed companies that do not comply with any of the CBGSC's recommendations are required to state their reasons for not doing so in their ACGR. In Section G of the Official Annex to this Annual Corporate Governance Report, the Company reports on its compliance with the recommendations of the CBGSC.

Red Eléctrica fully complies with 60 recommendations, partly complies with 3 and does not comply with and therefore gives an explanation for only 1 recommendation.

The CNMV recently initiated a public consultation procedure on the proposed amendment of certain recommendations of the Good Governance Code of Listed companies. Limited in scope, the reform seeks to adapt the CBGSC to the legal changes enacted since 2015 and to clarify, specify, supplement and, as applicable, strengthen the content of certain recommendations, such as those involving the control and handling of situations that can affect the reputation of directors and of the companies themselves, and to update the CBGSC's approach to sustainability matters. It has also been proposed that companies should have a general policy for disseminating economic-financial and corporate information through the communications media, social networks and other channels, and that on boards the gender with less representation must reach at least 40%, encouraging the presence of more female senior managers.

The current CBGSC may be consulted at the following link:

[Good Governance Code of Listed Companies](#)

#### **EXTERNAL REGULATORY FRAMEWORK**

1. Restated Text of the Spanish Companies Act
2. Act 11/2018 of 28 December 2018
3. Circular 2/2018 of 12 June 2018 of the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*)
4. Good Governance Code of Listed Companies

#### **EXTERNAL INITIATIVES**

Among the most noteworthy voluntary external initiatives in corporate governance matters are the Company's accession to the Global Compact in 2002 and its participation in the following initiatives in relation to Principle 10 on anti-corruption:

-Participation, as premium member of the Integrity Forum of the NGO Transparency International Spain. The Forum is a platform for reflection, provided by Transparency International Spain in order to improve compliance and ethical management in Spanish companies. It is organised in different working groups and holds regular thematic sessions on business ethics.

-Participation in the International Corporate Governance Network, (ICGN). This body promotes effective standards for corporate governance and investor management in order to advance efficient markets and sustainable economies throughout the world, pursuant to the Global Governance Principles and to the Global Responsibility Principles of the ICGN.

-Participation in the Transparency, Good Governance and Integrity Cluster of Forética. This is a platform of companies coordinated by the Spanish association for the promotion of the culture of ethical and socially responsible management, Forética, with the aim of serving as a business meeting point for leadership, knowledge, exchange and dialogue on this subject.

#### **INTERNAL REGULATORY FRAMEWORK**

The guiding principles of the Company's corporate governance strategy are set out in a body of corporate regulations and procedures, listed below. As a voluntary legal regime, following the principles of the Corporate Governance Policy and in line with best practice, these regulations and procedures go beyond the applicable regulatory requirements.

At 31 December 2019, these internal corporate regulations consisted of:

#### **INTERNAL REGULATORY FRAMEWORK**

- The Ethics Code
- The Articles of Association
- The Board of Directors Regulations
- The Internal Code of Conduct in the Securities Market
- The Regulations of the General Meeting of Shareholders

- The Procedure for proxies, voting and remote information at the General Meeting of Shareholders (for the 2019 Annual General Meeting of Shareholders)
- The Operating Rules of the Shareholder E-Forum (for the 2019 Annual General Meeting of Shareholders)

### ✓ The Ethics Code

The purpose of the Ethics Code is to provide ethical guidance to the people who work in Red Eléctrica Group companies (directors, management bodies and employees), specifying the values and commitments that must govern their activity in the Company.

Many of these values and commitments have accompanied Red Eléctrica since 1987, when it published its first shared value system, under the title "Basic principles of action".

The current version of the Red Eléctrica Group's Ethics Code was approved by the Board of Directors of the Group's parent company on 28 May 2013, responding to the demands of the stakeholders and the recommendations of advocacy bodies on this matter.

In 2018, the Company began the process of reviewing and updating the Ethics Code with the aim of adapting it to the best practices in compliance management, as well as to the evolution of the demands of stakeholders and the changes produced in the structure of the Red Eléctrica Group.

This project has been pursued out by a specific multidisciplinary working group formed by the areas of compliance, corporate governance, sustainability, human resources and procurement. During 2019, the Company made plans for participation in the project by the rest of the areas of the organisation, as well as by employees by means of an ad hoc evaluation survey, prior to the final approval of the new code.

The Red Eléctrica Group engaged the leading integrity firm, Transparency International, for the external review of the new Code. Approval of the new Code is expected to be completed during the first half of 2020.

The full text of the Ethics Code may be consulted on the Company's website at the following link:

[Ethics Code](#)

The Ethics Code serves as a basis and foundation for the Corporate Governance Policy, which proclaims the *principle of establishing the necessary mechanisms and instruments to ensure that the Company identifies, analyses and adopts best practices, principles and recommendations in good corporate governance matters, following the principle of excellence in its actions and the principle of fostering a knowledge of the principles and values that inspire the Company's Corporate Governance Policy, both internally within the organisation and externally among all stakeholders.*

## ✓ **The Articles of Association**

The Articles of Association govern the Company's internal affairs and regulate, among other things, the operation of the General Meetings of Shareholders, the Board of Directors and its Committees.

The Company's Articles of Association are constantly being adapted in order to align them not only with applicable law but also with the best practices and principles in the corporate governance area, and, for this purpose, they have been successively amended by the Company's Annual General Meeting of Shareholders.

The most recent amendments to the Articles of Association were approved in 2015, to adapt them to the legislative reforms introduced by Act 31/2014 of 3 December 2014, which amended the Spanish Companies Act for the improvement of corporate governance, and other amendments of style or order designed to give greater clarity to the text of the Articles of Association, in 2016, on the occasion of the shares' split, through which the face value of the Company's shares was decreased from two euros to fifty euro cents per share, and in 2019 with the changes made to the regulation of the remuneration of members of the board of directors, eliminating possible remuneration arrangements that have not been used in the past and disclosing greater detail on the remuneration components of directors (for their non-executive functions) and of executive directors; and, furthermore, to expressly contemplate payment or reimbursement of expenses incurred in the performance of their director duties, along with other terminological nuances and clarifications.

The Articles of Association may be consulted on the corporate website at the following link:

[Articles of Association](#)

## ✓ **The Board of Directors Regulations<sup>2</sup>**

The Board of Directors Regulations establish the basic rules of organisation and functioning of the Board of Directors and its Committees, the rules of conduct for their members and the system of supervision and control of the Board of Directors and its Committees in order to ensure the highest standards of professionalism and efficiency of their actions. This is achieved by encouraging the active participation of its directors, placing the interests of the Company and of its shareholders above their own interests, while upholding the Law, the Articles of Association and corporate governance principles.

The amendments of the Regulations approved by the Board of Directors during 2019 were as follows:

- At the Board meeting of 19 February 2019:
  - ✓ The Board Committees were restructured with the creation of a new Sustainability Committee and associated modification of the functions of two other Board Committees, the Audit Committee and the Appointments and Remuneration Committee, in line with the strategic focus on sustainability that the Board of Directors is proposing for the Red Eléctrica Group.
  - ✓ The responsibilities of the Appointments and Remuneration Committee were strengthened with the creation of a new

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<sup>2</sup>Unless expressly provided otherwise, all references to the Board of Directors Regulations in this report are understood to refer to the version in effect at 31 December 2019.

framework for relations between the Board of Directors and the employees of Red Eléctrica Group companies, pursuant to the best international corporate governance practices.

- ✓ Review of the overall oversight function that the Audit Committee is called on to perform, in coordination with the specific supervisory functions assigned to each of the other Board of Directors Committees within the scope of their respective responsibilities.
  - ✓ The modifications included certain other adaptations to best corporate governance practices, especially at the international level, and introducing some other formal or stylistic improvements.
- At the Board meeting of 30 April 2019:
    - ✓ Strengthen the role of the Company's Board of Directors as supervisor and guarantor of the functional independence of the electricity system operator, a function attributed by law to Red Eléctrica de España, S.A.U., in relation to those duties and responsibilities which so require by law and regulation. The initiative for this reform came from the Board of Directors itself, at its meeting of 26 March 2019, where it resolved to propose that the relevant modifications be formally introduced into the Board of Directors Regulations.

The Board of Directors, at its meeting of 24 September 2019, resolved to undertake a new review of the Board of Directors Regulations with the aim of improving the governance of the Red Eléctrica Group, reflecting the legal amendments in progress and undertaking the pertinent technical improvements, which are pending approval as at the date of this report. The purpose of said voluntary change was as follows:

- ✓ Without prejudice to the incorporation of the relevant adaptations to Act 11/2018 of 28 December 2018 on non-financial information and diversity, to update the functions of the Board and of the Board committees on sustainability matters, some on an enterprise-wide basis, with the formal and material scope agreed by the three Committees, and to strengthen the mechanisms for coordination between the three Board Committees.
- ✓ Improve governance in the Red Eléctrica Group, strengthening the role of the Company's Board of Directors in relation to the Group.
- ✓ Expressly include the concept of corporate reputation among the guiding principles of the Board's actions to promote the interest of the Company as a whole.
- ✓ Strengthen the principle of independence of the TSO (separation of regulated and unregulated activities).
- ✓ Introduction of other improvements of a formal or stylistic nature.

All the modifications of the Board of Directors Regulations have been proposed and reported on favourably by the Appointments and Remuneration Committee, in accordance with the terms of Article 3 of the Board of Directors Regulations. Said Committee has drawn up the relevant proposal, together with the Memorandum setting out the grounds for the proposal provided for in the abovementioned article.

The current Board of Directors Regulations may be consulted on the Company's website at the following link:

[Board of Directors Regulations](#)

#### ✓ **The Internal Code of Conduct in the Securities Market**

The Company approved its first Internal Code of Conduct in the Securities Market on 7 February 1994. There have been several updates to this Code since then, the most recent one being the approved by the Board of Directors on 26 November 2019 to adapt it to the regulatory changes made to the Spanish Securities Market Act (*Ley del Mercado de Valores*) by Royal Decree Law 19/2018 of 23 November 2013 on payment services and other urgent measures on financial matters, to the Criminal Code (*Código Penal*) and to the sanctioning provisions on use or transmission of inside information, as well as to the legal provisions governing the protection of personal data. The Code has also been amended to include new internal procedures after the rollout of the online tool, the "Internal Code of Conduct Platform", to facilitate compliance with the obligations laid down in the Code and, in addition, after having seen the complexity of the functions that the Code attributes to the Oversight Body, it was deemed appropriate for that body to be organised as a collegial body, with the consequent modification of its composition and operating guidelines.

The full text of the Code may be consulted on the corporate website at the following link:

[The Internal Code of Conduct in the Securities Market](#)

The Articles of Association, Board of Directors Regulations and Internal Code of Conduct in the Securities Market put into effect the *principle of exercising the necessary control and supervision in the areas that are most critical and relevant to the Company by making the Board of Directors assume direct responsibilities and establishing those responsibilities as being reserved to the Board of Directors in the Board Regulations*, a principle stated in the Company's Corporate Governance Policy.

#### ✓ **The Regulations of the General Meeting of Shareholders**

The Regulations of the General Meeting of Shareholders represent the shareholders' legal status rules in line with the best practices in the corporate governance area. They include all the new means of shareholder protection and participation, with a view to recognising, promoting and strengthening shareholder rights at the Company to the greatest extent possible.

The latest amendment to these Regulations was approved by the Annual General Meeting of Shareholders in 2015 in order to be adapted to the legislative reforms introduced by Act 31/2014 of 3 December, which amended the Spanish Companies Act to improve corporate governance, as well as to make other amendments of style or order designed to give greater clarity to the text of the Regulations of the General Meeting of Shareholders.

The Regulations of the General Meeting of Shareholders may be consulted on the Company's web site at the following link:

[Regulations of the General Meeting of Shareholders](#)

✓ **The Procedure of remote voting, proxy appointment and provision of information by electronic means at the General Meeting of Shareholders**

This procedure regulates the different means shareholders may use to appoint proxies, vote remotely and request information by electronic means, as well as the rules of priority.

The Board of Directors' meeting held on 19 February 2019 approved the rules on remote voting, proxy appointment and exercise of the right of information for the Annual General Meeting of Shareholders held on 22 March 2019.

The full text of this procedure may be consulted on the Company's website at the following link:

[Procedure on remote voting, proxy appointment and provision of information by electronic means at the General Meeting of Shareholders](#)

✓ **Operating Rules of the Shareholder E-Forum**

The purpose of the Shareholder E-Forum is to facilitate communication between the Company's shareholders (individual shareholders, both natural and legal entities, as well as any voluntary shareholder associations) when General Meetings of Shareholders are held.

The forum's Operating Rules for the Annual General Meeting of Shareholders held on 22 March 2019 were approved by the Board of Directors at its meeting on 19 February 2019 on the same terms and conditions as those approved by the Board of Directors in previous years.

The Operating Rules of the Shareholder E-Forum may be consulted on the Company's web site at the following link:

[Operating Rules of the Shareholder E-Forum](#)

The Regulations of the General Meeting of Shareholders, the Procedure for remote voting, proxy appointment and the provision of information by electronic means at the General Meeting of Shareholders as well as the Operating Rules of the Shareholder E-Forum put into effect the *principle of promoting informed participation by the Company's shareholders in General Meetings of Shareholders*, in relation to the *principle of ensuring the proper exercise of shareholder rights at General Meetings of Shareholders*, both of which are laid down in the Company's Corporate Governance Policy.

**EXTERNAL RECOGNITIONS**

As a result of its compliance with external and internal regulations and its application of best practices, the Company has received a number of external recognitions. The main external recognitions related to corporate governance awarded to the Company in 2019 are listed below. Although some of them were obtained as part of a sustainability award, corporate governance aspects were a very important consideration:

## MAIN EXTERNAL RECOGNITIONS

1. Continuation in the Dow Jones Sustainability World Index.
2. Maintenance of the 500+ European Excellence Seal, according to the EFQM model, granted by the European Foundation for Quality Management, with a score of 718 points in 2017.
3. Received I National Award for Excellent, Innovative and Sustainable Management, granted by the Excellence in Management Club (*Club Excelencia en Gestión*), the EFQM in Spain, in 2019. It was recognised by the panel for its excellence in management for the pursuit of sustainable and innovative management of the company over time.
4. Renewal of title as “Ambassador of European Excellence” from the Excellence in Management Club, a distinction awarded to companies and entities that hold an EFQM 500+ Seal of Excellence and have scored over 600 points in the EFQM evaluation.
5. “Silver Class” classification in the The Sustainability Yearbook 2020, a report prepared by the S&P Global in collaboration with RobecoSAM to recognise the leading companies in sustainability.
6. Continuation in the FTSE4Good sustainability index ever since the Company was first included in 2008.
7. Inclusion in the MSCI ESG, with the highest “AAA” rating granted by that index.
8. Continued inclusion in the Euronext-Vigeo sustainability indexes (Eurozone 120, Europe 120 and World 120), which include the 120 most advanced European companies in terms of corporate, social and environmental governance.
9. Continued inclusion in the Ethibel Sustainability Index (ESI) Excellence Europe.
10. Received 'Prime' status in the ISS-Oekom sustainability rating. Top position in the utilities sector in Oekom Research's Corporate Responsibility Review 2019 ranking.
11. Continued inclusion in the ECPI sustainability index family.
12. Inclusion in the STOXX Global ESG Leaders index family.

## 2. COMMITMENT TO DIALOGUE WITH AND PARTICIPATION OF SHAREHOLDERS AND OTHER STAKEHOLDERS

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Over the last few years, Red Eléctrica has significantly progressed in transparency and good governance matters. Good governance allows stakeholders to have regular, timely access to relevant, sufficient and reliable information on the Company's governance rules and practices and the results obtained.

### **BEST PRACTICES IN 2019 FOCUSED ON DIALOGUE AND ENGAGEMENT WITH SHAREHOLDERS**

- One highlight was the conference “**Red Eléctrica, key player in energy transition**” that was held for investors, analysts, sustainability agencies and proxy advisors at the Company's headquarters in October 2019, in which the Red Eléctrica Group unveiled its commitment to sustainability and shared its vision on how to advance with its stakeholders toward the achievement of Sustainable Development Goals.
- Update and continuous improvement, under international standards, of the corporate governance-related information contained on the corporate website.
- Participation in national and International corporate governance forums, working groups and initiatives (International Corporate Governance Network, Institute of Directors, Spanish Issuers Association, etc.).
- Road shows with foreign shareholders and proxy advisors on business and corporate governance.
- Receipt of international external advice in corporate governance matters.
- Board assessment with the support of a new international external consultant.

The Company notes that, in 2013, it became a member of the International Corporate Governance Network, a worldwide corporate governance body that brings together international institutional investors, large corporations, regulators, academics, proxy advisors and other corporate governance specialists.

The Company conducts its relations with shareholders and institutional investors at a generic level, not individually or specifically with any one of them. Under no circumstances does the Company provide institutional shareholders with information that is liable to place them in a privileged or advantageous position with respect to other shareholders; the Company merely provides information that is already public in a rational and ordered manner.

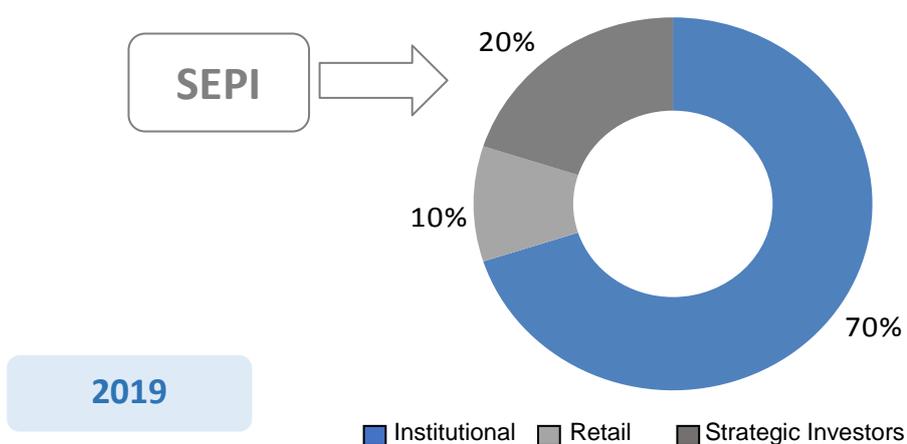
The Company usually organises road shows, presented by the Company's top-level managers, in the most relevant financial markets in Spain and abroad in which there is a larger presence of institutional investors, in order to provide information on its activities and business development, trying to approach this specific group of investors in this way.

In light of the high percentage of foreign institutional shareholders (close to 70%), in January and February 2019 and in December and January 2020, in both cases prior to the call of the General Meeting of Shareholders, and as in previous years, the Company launched a programme of contact network and visits to investors and proxy advisors in order to gather relevant and updated information as well as to directly explain the Company's practices and actions in corporate governance matters. The aim of this initiative is to consolidate adequate mechanisms for regular, symmetric exchange of information with national and foreign institutional investors and the most prominent proxy advisors, thereby adjusting to the latest international standards in corporate governance.

The communication criteria with shareholders, institutional investors and proxy advisors approved by the Board of Directors on 25 October 2016 set out the policy as well as the principles and guidelines for communicating with said stakeholders, with the aim of ensuring that they are able to exercise their rights, protecting their interests and promoting engagement with shareholders through open, transparent and sustainable dialogue.

## 2.1 OWNERSHIP STRUCTURE

20% of the Company's shares are held by the state holding company Sociedad Stata de Participaciones Industriales (SEPI) and the remaining 80% are free float, although, as it will be explained below, no other shareholder can hold more than a 5% of the share capital. The free float includes a high percentage of foreign shareholders, especially institutional investors, which according to the latest information available in 2019 held close to 67% of the share capital (of which around 55% is located in the United Kingdom and the USA, countries that are particularly demanding in terms of good corporate governance). That is why the Board of Directors places such importance on the international corporate governance practices and recommendations demanded by its shareholders.



- **Capital: 541,080,000 shares**
- **Capitalisation (31/12/19): €9,701,564,400**
- **Free-Float 80%**
- **Institutional: Foreign 67% + Spanish 3%**

Source: Thomson Reuters holdings information as of February 2019. Banco Santander June 2019.

## 2.2 POWERS OF THE GENERAL MEETING OF SHAREHOLDERS

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The General Meeting of Shareholders, duly called and legally constituted, represents all the shareholders and exercises the functions assigned to it within the Company.

Its resolutions, adopted pursuant to the Regulations of the General Meeting of Shareholders and the Articles of Association, are binding on all shareholders, without prejudice to their legal right of separation. The General Meeting of Shareholders has the power to adopt all resolutions specific to its status as the Company's sovereign body.

### **SOME POWERS OF THE GENERAL MEETING OF SHAREHOLDERS**

The General Meeting of Shareholders is responsible, among other things, for:

- Approving the Company's individual and consolidated financial statements, its management by the Board of Directors and the proposed allocation of profits.
- Appointing and removing directors, ratifying, as necessary, their appointment by co-option, and appointing and reappointing the auditors.
- Approving the withdrawal or limitation of preferential subscription or assumption rights.
- Approving the directors' remuneration policy in accordance with the Law.
- Approving the acquisition, disposal or transfer of core assets to another company. An asset is presumed to be a core asset when the amount of the transaction exceeds 25 per cent of the value of the assets shown in the latest approved balance sheet.
- Resolving on capital increases or decreases, transformations, mergers, splits, bulk transfers of assets and liabilities and transfers of the registered office to another country.
- Approving the winding-up of the Company and the liquidation balance sheet, as well as any transactions the effect of which is equivalent to liquidation of the Company.
- The transfer to subsidiaries of core activities previously carried out by the Company itself, even though the Company retains full ownership thereof.

The General Meeting of Shareholders may also give instructions to the administration body or subject the decisions or resolutions of that body on certain management matters to authorisation by the General Meeting of Shareholders, as provided by the LSC.

The rules on the organisation and functioning of the General Meeting of Shareholders are contained in Articles 11 to 18 of the Articles of Association as well as in the Regulations of the General Meeting of Shareholders. Those regulations may be consulted on the corporate website at the following links:

[Articles of Association](#)

[Regulations of the General Meeting of Shareholders](#)

The powers of the Annual General Meeting of Shareholders include the power to appoint the members of the Board of Directors. The Annual General Meeting of Shareholders held on 22 March 2019 adopted resolutions to:

- Ratify the appointment of Mr. Jordi Sevilla Segura as director of Red Eléctrica Corporation, S.A., in the “other non-executive” category that had been made by the Board of Directors at its meeting of 31 July 2018 and, consequently, proceed to appoint him as director, in the “other non-executive” category, for a term of office of four years.
- Ratify the appointment of Ms. María Teresa Costa Camp as proprietary director of Red Eléctrica Corporación, S.A., that had been resolved by the Board of Directors at its meeting of 25 September 2018, and, consequently, proceed to appoint her as a proprietary director representing the State Industrial Holdings Company (*Sociedad Estatal de Participaciones Industriales*, SEPI) for a term of office of four years.
- Ratify the appointment of Mr. Antonio Gómez Expósito as proprietary director of Red Eléctrica Corporación, S.A., that had been resolved by the Board of Directors at its meeting of 25 September 2018, and, consequently, proceed to appoint him as a proprietary director representing the State Industrial Holdings Company (*Sociedad Estatal de Participaciones Industriales*, SEPI) for a term of office of four years.
- Appoint Mr. José Juan Ruiz Gómez as independent director of Red Eléctrica Corporación, S.A., for a term of office of four years, replacing independent director Mr. José Luis Feito Higuera, at the proposal of the Appointments and Remuneration Committee.

The resolutions adopted by the Annual General Meeting of Shareholders held on 22 March 2019 were reported to the CNMV as a Material Disclosure, with registry number 276387, and have been published on the Company’s website since the day of the General Meeting of Shareholders, both in English and Spanish.

Those resolutions may be consulted on the website of the CNMV and on the Company’s website at the following links:

[Material Disclosure filed with CNMV on resolutions adopted by the 2019 Annual General Meeting of Shareholders](#)

[Full text of resolutions adopted at the 2019 Annual General Meeting of Shareholders](#)

## 2.3 RIGHT OF INFORMATION

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For some time now, resolution proposals have been published in full, in Spanish and in English, together with the call of the General Meeting of Shareholders, with all the

relevant information for shareholders being posted on the Company website, which is designed to make it easier for shareholders to exercise their right of information. The Company's website is a suitable mechanism for communicating with shareholders and investors, as it is the mean to publish, among other things, the following information:

- The quorum requirement and the result of the voting casts on each of the resolutions approved by previous General Meetings of Shareholders.
- Information relating to the right of attendance and procedures for granting proxies for General Meetings of Shareholders, in accordance with the provisions of the Articles of Association and the Regulations of the General Meeting of Shareholders.
- Information on electronic voting and proxies.
- Information on issuances of securities.
- Information on the ratings granted to the Company by credit rating agencies.
- Increased information about the Company's shareholders, with greater detail on significant holdings, treasury stock and shareholder agreements.

Background:

Act 25/2011, of 1 August 2011, introduced a number of changes relating to the website content of listed companies, in particular, regarding the information that must be published on the website when calling a General Meeting of Shareholders. Despite the fact that most of this information was already published on the Company's website, the Annual General Meeting of Shareholders held on 19 April 2012 approved an amendment to the relevant article of the Regulations of the General Meeting of Shareholders to incorporate the content required under said Act.

That General Meeting of Shareholders ratified the creation of the company's corporate website at the domain "www.ree.es", for the purposes of Article 11 bis of the Restated Text of the Spanish Companies Act.

Order ECC/461/2013 of 20 March 2013 (which is currently in force, as it was not repealed with the approval of the successive amendments to the Spanish Companies Act), which determines the content and structure of the Annual Corporate Governance Report, the annual remuneration report and other reporting documents of listed companies, describes the relevant information to be included on the websites of listed companies; however, the current corporate website in addition to containing all the information specified in that Order contains information expanded and improved in following years.

In 2013, with the voluntary creation of the "Corporate Governance" section at the top of the main page menu, the quality of the information available to shareholders was improved.

In 2015, the corporate website was adapted to the requirements established in Circular 3/2015 of 23 June 2015 of the National Securities Market Commission, on technical and legal specifications and information to be contained on the websites of listed companies and savings banks that issue securities admitted to trading on official secondary securities markets.

2016 was a particularly important year as regards disclosure and information transparency through the corporate website in relation to the Company's corporate governance. The most noteworthy improvements to the information contained on the corporate website are as follows:

- i. Publication of a highly visual, user-friendly and interactive section for exploring the history of the Company's corporate governance since it went public in 1999.
- ii. Publication of the "Criteria for communication with shareholders, institutional investors and proxy advisors", which sets out the principles and guidelines for the Company's communication with these stakeholders.

This process of continuous improvement of the corporate website continued in 2017, the most noteworthy milestone being the revision of the "Ethics and transparency" section. That section was renamed "Ethics and Compliance", incorporating information on the company's new regulatory compliance system, the methodology for evaluation of risks of noncompliance and the importance of awareness and training as key factors for the development of a culture of compliance within the organisation.

In 2018, the Committees section was restructured with the approval of the new Sustainability Committee.

In 2019, two new informational sections were added in the Ethics and Compliance area. One of them is intended to inform on the Data Protection Compliance System and the other to publicise the Company's commitment to the prevention of corruption. Pursuant to that commitment, the Company began, together with the Spanish Network of the United Nations Global Compact, an anti-corruption training programme for our suppliers aimed at educating companies on these matters, on the basis of Principle 10 of United Nations Global Compact, which provides that "businesses should work against corruption in all its forms, including extortion and bribery".

In addition, on the website the following actions taken by Red Eléctrica to facilitate the exercise of the information right of the shareholders at the General Meeting of Shareholders are notable:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Meeting and especially the financial statements and the Annual Corporate Governance Report, are made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- An entire section of the Agenda of the Annual General Meeting of Shareholders is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Audit Committee and the Appointments and Remuneration Committee are made available to all shareholders, by way of a link, in the Annual Corporate Governance Report and are published on the corporate website.

- A Shareholder Bulletin is published quarterly, containing the main news regarding the Company.
- In 2018, the chairman of the Audit Committee and the chairman of the Appointments and Remuneration Committee were available to all shareholders during General Meetings of Shareholders to deal with any matters falling within their competence that could arise, and it was so announced at the General Meeting of Shareholders.
- The points on the Agenda of General Meetings of Shareholders are explained in as much detail as possible.
- Matters are voted on separately, even by way of remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each matter submitted to vote.
- The Shareholder Information Office specifically deals with requests made by company shareholders. Shareholders may also submit questions in writing about the information available to the public or reported to the competent authorities and make inquiries through the Shareholder Information Office.
- In 2018, the Annual Report on Related-Party Transactions, the Annual Sustainability Report (which has been published for several years already) and the Report on the Independence of the External Auditor were published on the corporate website in time for the Annual General Meeting of Shareholders, all this in accordance with Recommendation 6 of the CBGSC.
- For several years now, an independent consultant has conducted an audit of the Annual General Meeting of Shareholders management processes, with a view to improving the protection of shareholder rights in General Meetings of Shareholders. The auditor's reports are published on the website from the date of the General Meeting of Shareholders. Since the 2014 Annual General Meeting of Shareholders, shareholders have been offered the possibility of requesting a certificate confirming their vote, verified by the external auditor of the General Meeting of Shareholders. At the Annual General Meeting of Shareholders held in March 2018, the General Meeting management processes were audited once again and shareholders were offered the possibility of requesting a certificate confirming their vote, verified by the external auditor. At the end of 2018, the company's Audit Committee reported favourably to the Board on the replacement of the Auditor of these management processes, in order to comply with the Recommendations of regular rotation of the auditors, as a guarantee of their independence.

Accordingly, besides making timely disclosures to the market during 2018 through regular publication of information about its financial results and through relations with institutional investors, Red Eléctrica has included all the relevant information and notices on its corporate website, which is the basic tool the Company uses to communicate with its shareholders.

Apart from the legal and regulatory requirements regarding the corporate website, it is necessary to highlight the importance for Red Eléctrica of its continuous adaptation and development in matters of corporate governance, which it endeavours to describe on its website, keeping it permanently updated, as a living instrument of communication, dialogue and commitment with shareholders, in application of its Corporate Governance Policy. That is why this priority is maintained every year, as described in Section 7 (Future Plans of Red Eléctrica in Corporate Governance Matters) of this Report.

## 2.4 RIGHT OF ATTENDANCE

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The limits on the share capital stakes in the Company are established in Additional Provision 23 of Act 54/1997 of 27 November 1997 and remain in force, as expressly provided by the Single Repealing Provision of Act 24/2013 of 26 December 2013 on the Electricity Sector. Those limits are as follows:

- ✓ Any natural or legal person may hold shares in the Company, provided the sum of their direct and indirect holdings of the Company's shares does not exceed 5% of the Company's share capital and they do not hold more than 3% of the voting rights. Those shares may not be pooled for any purpose whatsoever.
- ✓ Parties that engage in activities in the electricity industry, and any individuals or legal entities that directly or indirectly hold more than 5% of the capital of such parties, may not exercise more than 1% of the voting rights in the parent company.
- ✓ The special regime for SEPI is maintained, whereby SEPI must always hold at least ten percent (10%) of the Company's share capital.

These legal provisions concerning the general and special shareholding regime are incorporated in articles 5 and 14 and the sole additional provision of the Company's Articles of Association and also in article 6.3 of the Regulations of the General Meeting of Shareholders.

Shareholders may attend the General Meeting of Shareholders as long as they are up to date in the payment of capital calls and provide evidence of their share ownership in the form of a certificate made out in their name in the accounting register of book entries five days before the meeting is due to be held.

To this effect, article 15 of the Articles of Association and article 10 of the Regulations of the General Meeting of Shareholders provide that shareholders with the right to attend may be represented at the General Meeting of Shareholders by any other person, in accordance with Spanish Companies Act. The condition that the proxy must be in favour of a company shareholder has been withdrawn, following the approval of the adaptation of its content to Act 25/2011 of 1 August 2011, at the General Meeting of Shareholders held on 19 April 2012.

There is no restriction in the Articles of Association requiring a minimum number of shares to be held in order to attend the General Meeting of Shareholders (the "one share, one vote" principle applies).

Directors and managers are required to attend General Meetings of Shareholders.

As a general rule and in order for General Meeting of Shareholders proceedings and resolutions to reach the widest audience, General Meetings of Shareholders are open to the media and the proceedings are broadcast in audio and video format, with a sign language interpreter and an English simultaneous interpreter.



## 2.5 RIGHT OF PARTICIPATION

Red Eléctrica pays special attention to the right of information and to facilitating the greatest possible shareholder participation in General Meetings of Shareholders.

### KEY MECHANISMS FOR FOSTERING THE RIGHT OF PARTICIPATION

- **Electronic voting system** in place at General Meetings of Shareholders since 2005.
- **Corporate website section** providing complete information for General Meetings of Shareholders.
- **Live webcasts** of General Meetings of Shareholders, with an English interpreter and a Spanish sign language interpreter.
- **Online forum** for shareholders.
- Information in **social media**.
- **Shareholder and investor** information office.

Thanks to these mechanisms, a total of 4,843 shareholders voted (913 in person and 3,930 by proxy) at the 2019 Annual General Meeting of Shareholders (AGM). This means that 12% of the Company's approximately 40,000 shareholders took part in the AGM. Of those shareholders, 580 voted or appointed a proxy electronically, which is equivalent to 12% of the shareholders that took part in the General Meeting of Shareholders. The average percentage of votes in favour of the proposed resolutions submitted to the 2019 AGM was 92.2%. This percentage includes all the resolutions, including those concerning directors' remuneration, in which SEPI abstains, as it has done for many years, following a rule it has adopted in all the listed companies in which it does not have a controlling interest. If the resolutions on directors' remuneration are excluded, the average percentage of vote in favour would be 98.7%.

## 2.6 RELATIONS WITH OTHER STAKEHOLDERS

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The Red Eléctrica Group's stakeholder management model incorporates the requirements of relevant standards and benchmarks, such as AA1000, IQNet SR10, ISO26000 and Global Reporting Initiative. This model ensures adequate management of the significant economic, social and environmental impacts of the Red Eléctrica Group's activities and services on its stakeholders, avoiding the risk of not quickly identifying any problem that may affect the relationship with them. This model contemplates the following phases: identification and segmentation of stakeholders, prioritisation and definition of the framework and channels of relations.

The Company carries out an annual perception studies aimed at evaluating the satisfaction of stakeholders with the Company's performance and at identifying requirements and expectations. In addition to serving as a tool for engaging closely with stakeholders, these studies are a prime lever for continued improvement in the Company.

During 2019 those studies were submitted to in-depth review and update both as regards their content and in relation to the process itself. Of note are the following improvements that were implemented:

Improvement in the structure of the studies, adapting it to the sustainability commitment and seeking out synergies between topics and the target publics.

Inclusion of the identification of significant matters and assessment of their importance for each stakeholder.

Identification of global perception and reputational indices.

Plans for 2020 include a broad review of the stakeholders management model to allow each company in the Red Eléctrica Group to have an up-to-date and prioritised inventory. This will serve as starting point for defining new relationship frameworks with stakeholders for each company that are in step with the changing situation of the Group.

For more information see: [Grupos de interés del Grupo Red Eléctrica](#)

### 3. THE BOARD OF DIRECTORS AS THE BODY RESPONSIBLE FOR CONTROL AND SUPERVISION

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The Board of Directors governs and represents the Company, without prejudice to the powers assigned to the General Meeting of Shareholders, and performs its tasks in accordance with the rules of organisation and functioning set out in the Articles of Association and the Board of Directors Regulations.

#### 3.1 COMPOSITION

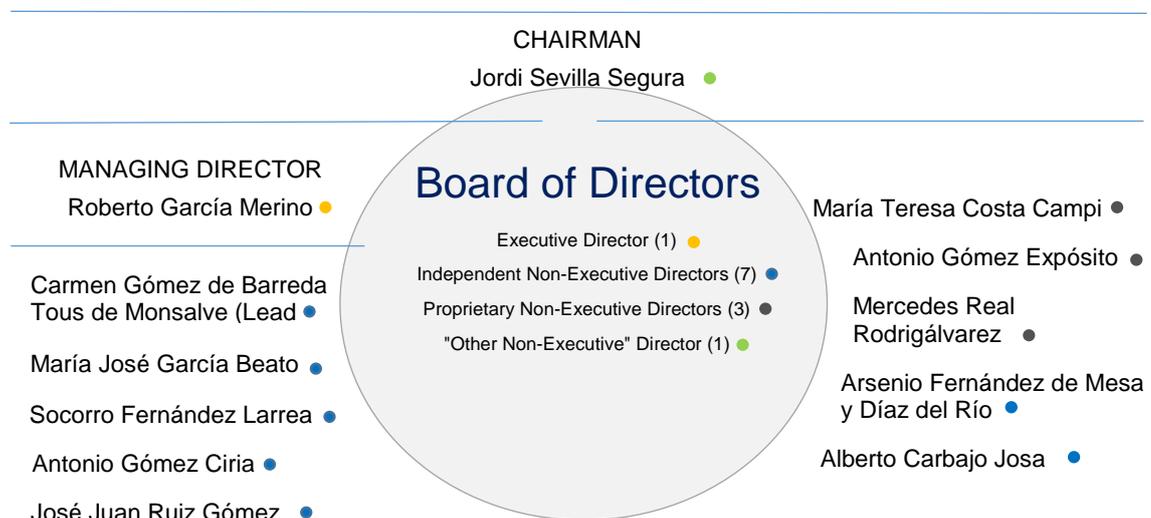
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With respect to the **qualitative composition** of the Board of Directors, article 7 of the Board of Directors Regulations states that in exercising its power to make proposals to the General Meeting of Shareholders and to co-opt directors to fill vacancies, the Board should strive to achieve a Board composition so that:

- a) Non-executive directors represent an ample majority of the Board.
- b) The number of executive directors is the minimum necessary, having regard to the complexity of the corporate Group.
- c) The ratio of proprietary directors to independent directors should match the ratio of the number of shares represented by proprietary directors to the rest of the Company's shares; this strict proportionality rule may be relaxed, so that the proportion of proprietary directors on the Board may be greater than would otherwise be the case given the percent of share capital they represent.
- d) The number of independent directors is at least half of the total number of directors. When the chairman of the Board is also the Company's managing director, independent directors should be a majority of the total number of directors.

As regards the **quantitative composition** of the Board of Directors, article 20 of the Articles of Association provides that the Board of Directors must have no fewer than nine (9) and no more than thirteen (13) members and that the actual number of directors will be decided, within those limits, by the General Meeting of Shareholders.

At 31 December 2019, as decided by the Extraordinary General Meeting of Shareholders held on 17 July 2015, the Company's Board of Directors was made up of twelve (12) directors, as shown in the following figure:



The company also has a **Lead Independent Director (LID)**, approved by the Annual General Meeting of Shareholders and regulated in the corporate rules, even after the separation of the positions of chairman of the Board of Directors and managing director of the company has taken place and been consolidated, in accordance with the most advanced international standards of corporate governance. Both issues are dealt with in more detail in Section 4 (Balance of powers on the Board of Directors) of this Report. It should also be noted that the Board of Directors, at its meeting held on 26 March 2019, re-elected a woman as the company's Lead Independent Director for an additional term of three years.

#### Functions of Lead Independent Director (LID)

- Organise possible common positions of non-executive directors and, in particular, those of independent directors.
- Request call of meetings of the Board.
- Chair meetings of the Board in the absence of the Chairman.
- Coordinate the preparation of the Succession Plans for the chairman and the managing director
- Take part in the Board self-assessment and, in particular, lead the assessment of the chairman of the Board
- Maintain contacts with shareholders and investors.

(Article 10 of the [Board of Directors Regulations](#)).

Members of the Board	Position on the Board	Type of Director	First Appointment	Last Appointment	Age
Jordi Sevilla Segura	<i>Chairman</i>	Other non-Executive	31/07/18	22/03/19	63
Roberto García Merino	<i>Managing director</i>	Executive	27/05/19	27/05/19	46
María Teresa Costa Campi	<i>Member</i>	Proprietary non-executive (SEPI)	25/09/18	22/03/19	68
Antonio Gómez Expósito	<i>Member</i>	Proprietary non-executive (SEPI)	25/09/18	22/03/19	62
Mercedes Real Rodríguez	<i>Member</i>	Proprietary non-executive (SEPI)	31/10/17	22/03/18	51
Carmen Gómez de Barreda Tous de Monsalve	<i>Member</i>	Independent non-executive	19/04/12	15/04/16	51
María José García Beato	<i>Member</i>	Independent non-executive	29/11/12	31/03/17	54
Socorro Fernández Larrea	<i>Member</i>	Independent non-executive	09/05/14	22/03/18	54
Antonio Gómez Ciria	<i>Member</i>	Independent non-executive	09/05/14	22/03/18	62
Arsenio Fernández de Mesa y Díaz del Río	<i>Member</i>	Independent non-executive	31/01/17	31/03/17	64
Alberto Francisco Carbajo Josa	<i>Member</i>	Independent non-executive	31/03/17	31/03/17	70
José Juan Ruiz Gómez	<i>Member</i>	Independent non-executive	22/03/19	22/03/19	62

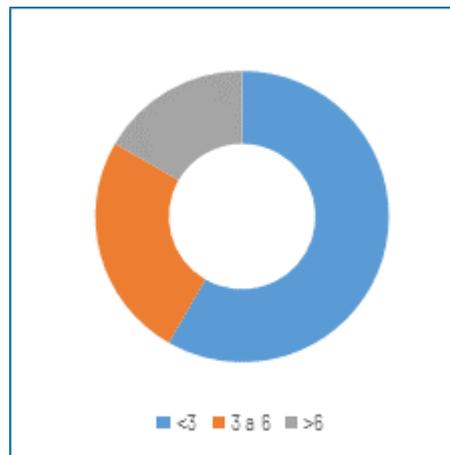
**Composition of the Board by position and gender**



- **5 women**, who represent **41.7% of the total number of directors**, **45.45 of the non-executive directors** and **42.8% of independent directors**.
- **58.3% of independent directors**.
- **3.25 years average term of office** of directors.
- **58.9 years old on average**.
- **Diversity of knowledge and professional experience:** professionals with very diverse training (in Law, Economics and Business Studies, Civil Engineering, Mining Engineering, Industrial Engineering, Mathematics, etc.), as well as significant professional experience in the public and private sectors, both in Spain and abroad.

The company ranks among the top IBEX 35 companies with the **highest presence of women on the Board of Directors**, surpassing the target of **30%** set for 2020 in **Recommendation 14** of the Good Governance Code of Listed Companies.

**SENIORITY**



Further below, Section 4.2 of this report on the Diversity Policy includes information on the matrix of powers of the Board, approved by it in 2018 and updated in 2019.

The **PROFESSIONAL PROFILES** of the members of the Board of Directors at 31 December 2019 are described below. They show that all the Company's directors are professionals of high standing, with extensive professional experience, and so bring the necessary experience and knowledge to the task of supervising corporate management, so as to assist the Company and the Red Eléctrica Group in the

performance of their activities. It is significant to note in this regard that, subsequent to the close of the financial year, the Board of Directors, at its meeting held on 28 January 2020, accepted the irrevocable resignation unexpectedly submitted by Mr. Jordi Sevilla Segura as a director and, consequently, as non-executive chairman of the Board of Directors and of the Company.

<p><b>Chairman of the Board (Other non-executive)</b></p>  <p>Jordi Sevilla Segura<sup>3</sup></p>	<p>Born 19 March 1956.</p> <p>He has a degree in Economics from the Universidad de Valencia. Official of the Senior State Commercial Technicians and Economists Corps (February 1983).</p> <p><i>Currently:</i></p> <p>Chairman of the Red Eléctrica Group and of the Board of Directors of Red Eléctrica Corporación, S.A.</p> <p>Member of Board of Directors of Hispasat, S.A.</p> <p>Chairman of the Social Council of the Universidad Internacional de La Rioja (UNIR) (since July 2018).</p> <p>Advisor to the Social Observatory of the La Caixa Foundation in its studies on the economic reality of Spanish society (since 2017).</p> <p>Trustee of the Spanish Digital Foundation (since 2014).</p> <p><i>Formerly:</i></p> <p>Vice-chairman of the Spanish consulting firm Llorente y Cuenca, specialised in reputation management, communication and public affairs (2016-2018).</p> <p>Economic Manager for the Electoral Programme of the Socialist Candidate for Prime Minister in two electoral campaigns 2015 and 2016.</p> <p>Senior Counsellor of PriceWaterhouseCoopers (PwC) (2009-2015).</p> <p>Minister for Public Administration (2004-2007).</p> <p>Deputy for the province of Castellón (2000-2009).</p> <p>Secretary for Economic Policy and Employment of the PSOE (2000-2004)</p> <p>Economic adviser to the Socialist Parliamentary Group in Congress, with special support to the Secretary General and the candidate for Prime Minister (1998-2000).</p> <p>Chief of Staff of the Minister of Economy and Finance, participating in the management of the crisis of the European Monetary System and the European economic crisis associated with German unification (1993-1996).</p> <p>Member, in representation of the State, of the Boards of Directors of Tabacalera and Instituto Nacional de Industria (INI) (1991-1996).</p> <p>Chief of Staff of the Minister of Agriculture, participating in the MacSharry reform of the CAP (1991-1993).</p> <p>Advisor for international economic relations in the Office of the Prime Minister of Spain, participating in the negotiations of the Maastricht Treaty (1986-1991).</p> <p>Deputy Territorial Director in Valencia, participating in the Management Committee for citrus exports and in the Executive Committee of the Chamber of Commerce (1983-1986).</p>
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<sup>3</sup>The Board of Directors, at its meeting held on 28 January 2020, accepted the irrevocable resignation unexpectedly submitted by Mr. Jordi Sevilla Segura as a director and, consequently, as non-executive chairman of the Board of Directors and of the Company.

	<p><i>Other:</i></p> <p>He has been a professor at the Escuela de Organización Industrial (EOI) and at the Instituto de Empresa (IE) where he was associate professor of Economic Environment in an Executive Masters programme.</p> <p>Author of several books on economic and political matters.</p> <p>He has published numerous articles in specialised journals and has maintained a weekly column in the Mercados supplement of the newspaper El Mundo (2008-2018) and currently in the newspaper El Periódico.</p> <p>He was the first minister to open a Blog (2006) and is very active on Twitter @sevillajordi (since 2008).</p>
<p><b>Managing director (Executive)</b></p>  <p>Roberto García Merino</p>	<p>Born 20 March 1973</p> <p>Degree in Economics and Business from Universidad Complutense de Valladolid. PDG from IESE (2016). MBA from Instituto de Empresa (1999).</p> <p><i>Currently:</i></p> <p>Managing director of Red Eléctrica Corporación, S.A.</p> <p>Directorships in the following Red Eléctrica Group companies:</p> <ul style="list-style-type: none"> <li>• Hispasat, S.A.</li> <li>• Red Eléctrica Infraestructuras de Telecomunicación S.A.U. (REINTEL)</li> <li>• Red Eléctrica Sistemas de Telecomunicaciones S.A.U. (RETEL)</li> <li>• Red Eléctrica Internacional S.A.U. (REI)</li> <li>• Red Eléctrica del Sur S.A. (REDESUR)</li> <li>• Transmisora Eléctrica del Norte S.A. (TEN)</li> </ul> <p><i>Professional profile:</i></p> <p>Since joining the Red Eléctrica Group in 2004, he has performed diverse duties involving strategic planning and business development, especially in the international area and in the telecommunications field, highlighted by the following executive positions:</p> <ul style="list-style-type: none"> <li>• Executive Director of Telecommunications and International of the Red Eléctrica Group (since March 2019)</li> <li>• Corporate Director of Business Diversification (2015-2019)</li> <li>• Director of Business Development and Strategy (2012-2015)</li> <li>• Head of Strategic Planning Department (2007-2012)</li> </ul> <p><i>Outside the Red Eléctrica Group:</i></p> <ul style="list-style-type: none"> <li>• Internal investment banking analyst in Banco Espírito Santo (2000-2004)</li> </ul>

**Proprietary non-executive  
director** representing SEPI



María Teresa Costa Campi

Born 31 July 1951.

Degree and PhD (Cum Laude) in Economics from the University of Barcelona.

*Currently:*

Professor of Economics at the University of Barcelona since 1987

Director of the Chair of Energy Sustainability at the University of Barcelona.

Coordinator of Energy Economics for the Master in Renewable Energies Programme at the University of Barcelona.

Lead Researcher in the Energy Sustainability and Environmental Research Group.

*Formerly:*

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 CSN Advisory Board (2016-2018)

Chairwoman, National Energy Commission (CNE) (2005-2011).

Chairwoman of ARIAE (2005-2011).

Vice-Chairwoman of MEDREG (2010-2011) and Chairwoman of its Scientific Committee (2014-2016).

Member of CEER (2005-2009).

Chairwoman of the Board of MIBEL (2006-2007).

Member of the Board of Directors of INCASOL (2004-2005).

Secretary of Industry and Energy of the Generalitat de Catalunya (2004-2005).

Chairwoman of EPLICSA (2004-2005).

Vice-Chairwoman of CIDEM (2004-2005).

Member of the Spanish Parliament VII Legislature (2000-2004).

*Other:*

She has a long academic career with a very active presence in research and teaching, as well as in conferences and papers at international congresses in the energy, industrial and business sectors.

She has more than 170 publications in books and academic journals specialised in Spanish and international energy and economics. The research group she directs on Energy Economics has been recognised for Research Excellence by the corresponding official research quality assessment agency.

**Proprietary non-executive  
director** representing SEPI



Antonio Gómez Expósito

Born 26 August 1957.

He has a doctorate in Industrial Engineering (Electrical Specialty) from the Escuela Técnica-Superior de Ingenieros Industriales of the University of Seville.

*Currently:*

Professor of Electrical Engineering at the Superior Technical School of Engineering of the University of Seville.

Director of the Cátedra Endesa Red (since 2007).

Editor of Journal of Modern Power Systems and Clean Energy (China).

Principal researcher of one of the largest and most important national research groups in the area of electrical systems, consisting of more than 20 PhDs and six full professors.

Fellow of the IEEE (Institute of Electrical and Electronics Engineers).

Member of the Sevillian Royal Academy of Sciences (since 2014).

*Formerly:*

Coordinator of the Interuniversity Doctoral Programme "Electric Energy Systems", University of Seville (2013-2017).

Director of the Department of Electrical Engineering, University of Seville (2003-2011).

Director of the Inter-University Doctorate Programme "Technical and Economic Management of Electricity Generation, Transmission and Distribution Systems", University of Seville (2003-2006).

Editor of IEEE Transactions on Power Systems (2011-2016).

Member of the IEEE European Working Group on Energy (2014-2016).

Trustee of the Technological Corporation of Andalusia (2006-2015).

Member of the Steering Committee of the FutuRed Technology Platform (2008-2013).

Visiting Professor at the University of Waterloo, Canada (1998).

Adjunct Faculty at the University of San Diego, California (1988).

*Other:*

He maintains an active presence in the academic, research and teaching fields, as well as in conferences and scientific committees of important international congresses in the energy sector.

He is co-author of more than three hundred technical publications developed, mainly, among other fields of specialisation, in the area of electricity generation, transmission and distribution systems, including several textbooks used in universities around the world.

<p><b>Proprietary non-executive director</b> representing SEPI</p>  <p>Mercedes Real Rodríguez</p>	<p>Born 6 January 1968.</p> <p>Degree in Economics, Business and Law from the Universidad Pontificia de Comillas (ICADE E-3), and PDD from IESE.</p> <p><i>Currently:</i></p> <p>Head of Investees of SEPI's Energy Division.</p> <p>Member of the Board of Directors and Chairwoman of the Audit Committee of Enresa, S.A. S.M.E.</p> <p><i>Formerly:</i></p> <p>Member of the Board of Directors of Enusa Industrias Avanzadas, S.A. S.M.E.</p> <p>Financial and Control director, Controller and Head of HR at Grupo INFOBOLSA, S.A. (BME Group and Deutsche Börse, AG Group).</p> <p>Member of the Board of Directors, Financial and Control Director at Open Finance, S.L.</p> <p>Head of financial sector entity audit team at Arthur Andersen (currently Deloitte &amp; Touche).</p>
<p><b>Independent non-executive director</b> (Lead Independent Director)</p>  <p>Carmen Gómez de Barreda Tous de Monsalve</p>	<p>Born on 20 May 1968.</p> <p>Degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE).</p> <p>Master's in Business Administration from the IESE (Executive MBA), Universidad de Navarra.</p> <p><i>Currently:</i></p> <p>General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)</p> <p>Member of Board of Directors of Hispasat, S.A.</p> <p>Board Member of Grupo Ezentis S.A.</p> <p>Member of the Advisory Board of the Board of Directors of Grupo Antolin-Irausa, S.A.</p> <p><i>Formerly:</i></p> <p>Head of the Cogeneration Department, Business Management, Enagás.</p> <p>Head of the International, Petrochemical and Marketing Departments of Repsol.</p> <p>Director of Services Development at Union Fenosa.</p> <p>Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).</p> <p>Institutional Relations and Communications Manager for BP Oil España.</p> <p>Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).</p> <p>Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER).</p> <p>Teacher/lecturer in various master's courses (Universidad de Barcelona, ICAI, Cesma, Club Español de la Energía)</p>

**Independent non-executive  
director**



María José García Beato

Born 27 May 1965.

Law Degree, Universidad de Cordoba. State Attorney.

*Currently:*

Director and General Secretary 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 Fundación AEB.

Fundación Cajasur.

*Formerly:*

State Attorney at the High Court of Justice in Madrid.

Head of the Legal Services Department of the Data Protection Agency.

State Attorney in the Sub-division of the State Legal Services Division.

State Attorney in the Communications Secretariat at the Ministry of Development.

Secretary of the Board of Directors of Retevisión, S.A.

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.

Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA).

Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI).

Director, Sociedad Estatal Correos y Telégrafos, S.A.

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Deputy Secretary for Justice.

State Attorney in the Audiencia Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.

Secretary of the Board of Directors of Banco Urquijo, S.A.

Director, Banco Gallego S.A.

Secretary of the Board of Trustees of Fundación de Estudios de Economía Aplicada (FEDEA).

Secretary of the Board of Directors of Sabadell United Bank (Miami).

**Independent non-executive  
director**



Socorro Fernández Larrea

Born 7 April 1965.

Degree in Civil Engineering, Universidad Politécnica de Madrid, and Senior Management Programme (PADE), IESE.

*Currently:*

Executive director of the consultancy firm JUSTNOW, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations.

Independent director of GRUPO CEMENTOS MOLINS.

Chairman of the Board of Directors of OFG Adquisiciones e Ingeniería, S.L.

Independent director of Spanish engineering firm SEG, SA

Member of the Board of Directors of Banco Caminos

Member of IESE's Regional Council in Madrid.

Advisor to the Board of Directors of the Mexican engineering firm CAL Y MAYOR

*Formerly:*

Independent director of Témpace Properties Socimi, S.A.

Member of the Board of Directors of the Spanish construction and real estate firm ACR.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

General Manager, COPISA Constructora Pirenaica S.A.

Vice Chairwoman of ANCI, Asociación de Constructores Independientes.

Member of the Governing Council, Association of Civil Engineers.

Regional Manager, Seop, Obras y Proyectos, S.A.

National Representative, Ferrovia Conservación, S.A.

Representative in Castilla-La Mancha, Ferrovia-Agroman, S.A.

Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A.

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha.

Construction manager of Ferrovia, S.A.

*Other:*

Member of the advisory Board of the newspaper EXPANSION

Member of WCD, Women Corporate Directors, and co-chairwoman of the Spain chapter.

Member of AED, Asociación Española de Directivos, and member of its Executive Committee.

Member of CEAL, Consejo Empresarial de América Latina, and member of the Executive Committee of the Iberian chapter.

Member of WPO-YPO, Young Presidents' Organisation, and member of the executive committee of the Eurolatam chapter

Member of IWF, International Women Forum.

**Independent non-executive  
director**



Antonio Gómez Ciria

Born 25 March 1957.

Degree in Economics and Business, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Master's in Business Administration (Executive MBA), IESE.

Accredited Accounting Expert – AECA.

*Currently:*

Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

Member of the Board of Directors of Mapfre, S.A., of Mapfre España Compañía de Seguros y Reaseguros S.A., of Mapfre RE Compañía de Reaseguros S.A. and member of its Executive Committee, and of Mapfre Vida, S.A. de Seguros y Reaseguros sobre la Vida Humana.

*Formerly:*

Member of the Board of Directors of Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros, S.A. and member of its Executive Committee.

General Manager of Administration and IT, Member of the Management Committee of the FCC Group.

Representative of the FCC Group at the Forum of Large Companies, Ministry of Finance and Public Administrations.

General Manager of Internal Auditing, Member of the Management Committee of the FCC Group.

Head of Internal Auditing, FCC Group.

Member of the Advisory Board of the Internal Auditors Institute and a Member of its Executive Committee.

General Technical Secretary of InverCaixa, an investment management company in the La Caixa Group.

Chairman of Instituto de Contabilidad y Auditoría de Cuentas (ICAC).

Director, Empresa Nacional de Uranio, S.A.

Director, Empresa Nacional de Autopistas, S.A.

Director, Tabacalera, S.A.

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid.

Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española.

Head of the Auditing and Accounting Department of Banco de Crédito Agrícola.

Auditor/Inspector of the General State Inspectorate.

*Other:*

Member of the CNMV Work Group to prepare a "Management report guide for listed entities".

**Independent non-executive  
director**



**Arsenio Fernández de Mesa y  
Díaz del Río**

Born 20 July 1955.

*Currently:*

Civil servant in the General State Administration from 1979, currently on leave.

Head of Technical Inspection of Fleet of multinational company International Marine Coatings Ltd. (CEPISA, Spain) from 1982, currently on leave.

Member of the Scientific Council of the Instituto Internacional de Ciencias Políticas of the UNESCO Chair of Comparative Political and Administrative Sciences, attached to the Defence, Industry and Security Areas

Senior Advisor in VIMAD GLOBAL SERVICES S.L.

Director Advisor in BRUZON CORREDURÍA DE SEGUROS Y REASEGUROS

Master's Degree in National Defence from Universidad Rey Juan Carlos.

Diploma in "Advanced Military Studies" from Centro Superior de Estudios de la Defensa Nacional (1991)

Diploma in "Advanced Defence Studies" from Centro Superior de Estudios de la Defensa Nacional (2011)

Diploma from Instituto de Empresa Business School (IE BS) in the Executive MBA Programme for Parliamentarians (2009)

Businesses Parliament Programmes in IBERDROLA, INDRA and INFORPRESS

Professor (Ad Honorem) in Instituto Internacional de Ciencias Políticas of the UNESCO Chair of Comparative Political and Administrative Sciences, attached to the Defence, Industry and Security Areas since 2010.

Honorary Professor of Universidad Alfonso X El Sabio of the Cátedra Real Forum of Senior Management.

*Formerly:*

Senior Advisor in Preventia Neurotechnology (2016-2017)

Professor of Sociedad de Estudios Internacionales. Course in Advanced International Studies (2014)

Director General of the Guardia Civil (2011-2016). Rank of Undersecretary.

Vice Chairman of the Defence Committee of the Congress (2004-2011).

Spokesperson on Defence for GPP party in the Spanish Congress of Deputies (1996-2000).

Chairman of the National Defence Committee of the Party (1996-2000).

Government Delegate in Galicia (2000-2004) Ranking of Undersecretary.

Member of International Assembly of OSCE.

Member of the Parliamentary Assembly of the Atlantic Alliance.

Deputy elected to the Congress of Deputies in the following legislatures: 1989-1993, 1993-1996, 1996-2000, 2000-2004 (resigned as Deputy upon appointment as Government Delegate in Galicia) 2004-2008, 2008-2011 and 2011-2015 (resigned as Deputy upon appointment as Director General of the Guardia Civil).

Spokesperson Fisheries, Spokesperson for Naval and Merchant Marine Sector and Spokesperson for Defence in the Congress

	<p>of Deputies.  First Deputy Mayor of El Ferrol (1987-1989).  Councilman of the Municipality of El Ferrol (1983-1991).</p> <p><i>Other:</i>  Speaker at seminars and conferences on Fisheries, Defence, Naval Sector, Merchant Marine and Security in diverse universities and other national and international forums, including CHEMI (Centre des Hautes Études de Ministère de l'Intérieur) of France and the Escuela de Guarda di Finanza (Italy).  Holds diverse national and international distinctions, including, from the Governments of Spain, France, Italy (twice) Portugal, Peru, Mexico, Colombia and is Statutory Gold Mater in the Real Forum de Alta Dirección (Royal Forum of Senior Management).</p>
<p style="text-align: center;"><b>Independent non-executive director</b></p>  <p style="text-align: center;">Alberto Carbajo Josa</p>	<p>Born 8 August 1949.  Mining Engineer, Universidad Politécnica de Madrid.  Degree in Economics from Universidad Autónoma de Madrid.  Master's degree on the European Union from the Diplomatic School of Madrid.</p> <p><i>Currently:</i>  Independent international consultant in the electricity sector.  Professor "Ad Honorem" in Universidad Politécnica de Madrid.  Member of the Advisory Board of the Escuela Técnica Superior de Minas y Energía.</p> <p><i>Formerly:</i>  Director General of the Oficina de Compensaciones del Sector Eléctrico (OFICO) (until 1991).  Director General for Mines and Construction Industries at the Ministry of Industry and Energy (1992-1995).  Member of the Boards of Directors of Endesa and Petronor (1992-1995).  Director of the National Energy Committee (1995-2000).  International Regulation Director at Corporación Unión Fenosa, providing services in the Regulation Secretariat (2002-2004).  General Manager of Operations at Red Eléctrica de España, S.A. (2004-March 2012).</p> <p><i>Other:</i>  He has served as associate professor in the Energy Systems Department at the Escuela Técnica Superior de Ingenieros de Minas in Madrid, professor in the master's degree in Renewable Energy at the Escuela de Organización Industrial, professor in the master's degree in Energy and Competitiveness sponsored by Orkestra (Basque Competitiveness Institute), professor in the Higher Energy Business Course given by the Club Español de la Energía and professor in energy supply-related subjects at Universidad de Alcalá de Henares.</p>

**Independent non-executive  
director**



José Juan Ruiz Gómez

Born 30 July 1957.

Degree in Economics from Universidad Autónoma de Madrid. State Economics and Trade Expert.

*Currently:*

Consultant and independent advisor on macroeconomic matters and Latin American markets.

Member of the Scientific Committee of the Real Instituto Elcano (since 2012).

Member of the Editorial Board of El País and of the Prisa Group.

*Professional profile:*

Chief Economist and head of Research Department in the Inter-American Development Bank (2012-2018).

Chief Economist for Latin America in Banco de Santander (1999-2012).

Representative of Banco Santander on the Board of Directors of the Real Instituto Elcano (until 2012).

Member of the Social Council of the Universidad de Castilla la Mancha (2005-2009) and chairman of that council (2010-2012).

Member of boards of directors in public sector entities (INI, Aviaco, Autopistas del Atlántico, Renfe and Tabacalera) and private companies, in particular, in the banking sector, holding directorships in the years from 1999 to 2012 in Banco de Santiago (Chile), Banco Santander Colombia, Banco Santander Puerto Rico, Banco Santander Peru and Banco Venezuela.

Head of Department of Strategy and Planning in Banco Santander (1996-1999).

Chief Economist in Asesores Financieros Internacionales (1996).

Member of Independent Committee of Experts of the Spanish Ministry of Economy and Finance responsible for preparing macroeconomic scenarios for the Spanish economy (1994-1998).

Member of Editorial Board of Grupo Recoletos (1994-1999).

Chief Economist in Argentaria (1993).

The most significant positions held in government (Ministry of Economy and Finance) include:

Undersecretary for International Economy and Competition of the Ministry of Economy and Finance (1991-1993).

Member of the Management Committee of the Ministry of Economy and Finance (1991-1993).

Head of the Cabinet of the State Secretary for the Economy (1988-1990).

Executive Advisor to the State Secretary for the Economy (1985-1987).

Head of the Balance of Payments Services, State Secretary for Trade (1984-1985).

Economic Advisor to the State Secretary for Trade and for the General Secretary of Trade (1983).

Technical support in the Technical General Secretariat during the negotiations for Spain's accession to the EU (1984-1985).

Head of the Spanish delegation to the OECD for annual macroeconomic supervision meetings (1990-1993).

President of the Economic Policy Committee of the European Union (1992-1993).

	<p>Member of the Economic Policy Committee of the EU (1989-1992).</p> <p>Responsible for Spain's relations with the IMF, the World Bank and various Development Banks (Africa, Asia, Latin America and Europe) (1986-1993).</p> <p><i>Other:</i></p> <p>He also participates as speaker in conferences of various institutions and collaborates as professor in the International Master's Degree of the Instituto de Empresa.</p>
<p><b>Secretary of the Board of Directors (non-director)</b></p>  <p>Rafael García de Diego Barber</p>	<p>Born 27 July 1951.</p> <p>He was appointed Secretary of the Board of Directors and legal advisor at the Board meeting held on 4 May 1995.</p> <p>Law degree, Universidad Complutense, Master's Degree in Tax Counselling for Businesses, Instituto de Empresa.</p> <p><i>Currently:</i></p> <p>Secretary General and Secretary of the Board of Directors of Red Eléctrica de España, S.A.U., Member of the Madrid Bar Association, Director of the Dutch company Red Eléctrica de España Finance B.V., Joint Director of Red Eléctrica Financiaciones, S.A.U. and Director of the Luxembourg company REDCOR Reaseguros, S.A.</p> <p><i>Formerly:</i></p> <p>Lawyer, Loss Department, Zurich, S.A., Lawyer and Secretary of the Boards of Directors of companies in the Inmobiliario Pradisa Group, Lawyer and tax advisor of Ageco, Sociedad de Gestión Financiera and tax manager of Banco Internacional de Comercio, S.A., Lawyer of the Legal Department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX), Lawyer of the Legal Department, Head of the Legal Department and Director responsible for Legal Affairs at Red Eléctrica de España, S.A.U.</p>
<p><b>Vice secretary of the Board of Directors (non-director)</b></p>  <p>Fernando Frías Montejo</p>	<p>Born 11 March 1965.</p> <p>He was appointed Assistant Secretary of the Board of Directors at the meeting held on 21 April 2005.</p> <p>Degree in Law and Corporate Legal Adviser, Universidad Pontificia de Comillas (<i>ICADE E-1</i>).</p> <p>Management Development Programme for TSOs, IESE, Universidad de Navarra.</p> <p><i>Currently:</i></p> <p>Member of the Madrid Bar Association and Head of the Corporate Governance Department of Red Eléctrica de España, S.A.U.</p> <p><i>Formerly:</i></p> <p>Legal Counsel in the Legal Department of Red Eléctrica de España, S.A.U. (REE) from 1990, Head of the Corporate Governance and Compliance Department at REE and Secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., Red de Alta Tensión, S.A. and Tenedora de Acciones de Redesur, S.A.</p>

## 3.2 RESPONSIBILITIES AND ACTIVITY

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The Board of Directors Regulations set out the basic principles guiding the actions of the Company's Board of Directors and lay down the basic rules for the organisation and functioning of the Board and its committees, the rules of conduct for its members, as well as the supervisory and control functions entrusted to the Board. This is achieved by encouraging the active participation of its directors, placing the interests of the Company and of its shareholders above their own interests, while upholding the Law, the Articles of Association and corporate governance principles.

The **RULES ON THE ORGANISATION AND FUNCTIONING** of the Board are contained in the Articles of Association (Articles 19 to 26, both inclusive) and the current Board of Directors Regulations (Articles 5 to 13, both inclusive, and articles 19 and 20).

Also, pursuant to the Articles of Association and the Board of Directors Regulations, the principle guiding the Board's actions at all times is the corporate interest, understood as the Company's long-term profitability and sustainability so as to ensure the Company's long-term survival and the maximisation of its value.

The Board of Directors, supported by the work of the Audit Committee, the Appointments and Remuneration Committee and the Sustainability Committee, governs and represents the company.

The following responsibilities, amongst others, rest with the Board:

- **Approval of the general policies and strategies of the Company and the Group**, with special emphasis on the risk management and control policy.

- Decisions regarding **appointments and removal** of managers who report directly to the Board or to directors, **director remuneration**, financial reporting and **strategic investments** (except for those that rest with the General Meeting of Shareholders).

- Annual assessment of the quality and efficiency of the Board and of the functioning of its Committees.

Specifically, the Board holds all powers to manage and represent the Company, both in and out of court, exercising such powers directly, via delegation or by means of a power of attorney in the terms established by Law, the Articles of Association and the Board of Directors Regulations.

In any event, in accordance with the provisions of article 6 of the Board of Directors Regulations, the Board of Directors will perform its duties with unity of purpose and independent judgement and will adopt the necessary measures in relation to the corporate organisation to ensure that:

- a) The Company's management pursues the achievement of the corporate interest and has the proper resources and incentives for doing so.
- b) The management of the Company and of Group companies is under the effective supervision of the Board.
- c) No person or small group of persons holds decision-making power unfettered by checks and balances.
- d) The same treatment is dispensed to all shareholders who are in the same position and no shareholder receives preferential treatment over the others.
- e) The functions attributed by law to Red Eléctrica de España, S.A.U. and, as applicable, to the other companies in the Group, are performed seeking to

protect the public interest in those functions and with the legally required independence in the adoption of the relevant decisions (paragraph recently included as a result of the amendment of the Regulations approved by the Board of Directors on 30 April 2019).

- f) In its relations with stakeholders and in pursuit of the corporate interest, the Company, in addition to respecting the applicable laws and regulations and to a conduct guided by good faith, ethics and respect for customs and generally accepted good practices, works to conciliate its own interest with, as applicable, the legitimate interests of its employees, suppliers, customers and the rest of the stakeholders who may be affected, as well as the impact of the Company's activities in the community as a whole and on the environment, furthermore abiding by those additional principles of sustainability and good corporate governance that it has voluntarily accepted.

The Board's policy is to delegate the ordinary management of the Company to the executive bodies and management team and to concentrate on its general supervisory function, the approval of basic operating guidelines and strategies and on decisions that are highly relevant to the interests of the Company.

**NON-DELEGABLE RESPONSIBILITIES OF THE BOARD OF DIRECTORS  
(Article 5 of the Board of Directors Regulations):**

- a) Approve the general policies and strategies of the Company and the Group.
- b) The following decisions:
  - i) Appointment and removal of the Company's managing directors and the setting of their contracts terms.
  - ii) Appointment and removal of executives of the Company who report directly to the Board or any of its members and the setting of the basic terms of their contracts, including their remuneration.
  - iii) The remuneration of directors, within the framework set by the Articles of Association and the remuneration policy approved by the Annual General Meeting of Shareholders, and in the case of executive directors the additional remuneration for their executive functions and any other terms that must be included in their contracts.
  - iv) Authorisation or waiver of the obligations arising from the duty of loyalty, as provided in Article 230 of the Spanish Companies Act.
  - v) The financial reports which, as a listed company, the Company must publish periodically or which it submits to the regulatory or market supervisory bodies for their publication.
  - vi) Investments or transactions of any kind carried out by the Company or the Group which, because of their amount or special characteristics, are considered strategic, according to the criteria established by the Board of Directors, or entail special tax risk, unless the approval of the Annual General Meeting of Shareholders is required.
  - vii) The creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories that are considered tax havens and any other similar transactions or operations which, on account of their complexity, could impair the transparency of the

#### Company and the Group.

- c) The approval, after obtaining a report from the Audit Committee, of transactions carried out with directors by the Company or companies in its Group on the terms of the Spanish Companies Act, or with shareholders who, either individually or together with others, own a significant holding.
- d) Drawing-up of the financial statements and presentation to the Annual General Meeting of Shareholders.
- e) Calling of the Annual General Meeting of Shareholders and drafting of the agenda and proposals for resolutions.
- f) Delegation of any authority the Annual General Meeting of Shareholders may in turn have delegated to the Board of Directors, unless expressly authorised by the Annual General Meeting of Shareholders to subdelegate or substitute them.
- g) The drawing-up of any kind of report required of the Board of Directors by law, provided the transaction to which the report refers cannot be delegated.
- h) Annual assessment of:
  - i) The quality and efficiency of the functioning of the Board, the diversity of its composition and competencies, the performance of their functions by the chairman of the Board of Directors and the Company's managing director and, where applicable, the performance and contribution of each director, paying special attention to the chairpersons of the different committees, all this based on the report submitted to the Board by the Appointments and Remuneration Committee in coordination with the lead independent director, if any, or the chairman, as the case may be.
  - ii) The composition and functioning of the Board's committees and of any other delegated body that may have been created, based on the report submitted to the Board by the Appointments and Remuneration Committee in coordination with the lead independent director or the chairman, as the case may be.

Act 11/2018 established as a new non-delegable responsibility of the Board (which will be included in the upcoming amendment of the Board Regulations the mandatory non-financial information, in the supervision of the process of preparation and presentation of non-financial information.

Before the start of the year, on proposal of its chairman, the Board of Directors approves an indicative schedule of **MEETINGS** for the year. In any event, in accordance with article 19 of the Board of Directors Regulations, the Board of Directors will ordinarily meet on a monthly basis, eight times a year at least, in accordance with the calendar and, if applicable, the agendas set at the start of the year, to which each director will be entitled to propose the addition of initially unscheduled items for the agenda. Furthermore, at the chairman's initiative, it may meet as many times this is deemed appropriate for the Company's adequate operation.

During 2019, the Board of Directors held eleven (13) meetings. There was full 100% attendance, that is, 156 attendances.

The Company has a **small, effective and efficient Board**. In 2019, the Board met **13 times**, with **100% attendance**.

Attendance at 2019 Board of Directors meetings			
Director	Present	Represented	% attendance 2019
Jordi Sevilla Segura	13	0	100%
Roberto García Merino	7	0	100%
Juan Francisco Lasala Bernad	6	0	100%
Mercedes Real Rodrigálvarez	13	0	100%
Carmen Gómez de Barreda Tous de Monsalve	13	0	100%
María José García Beato	13	0	100%
Socorro Fernández Larrea	13	0	100%
Antonio Gómez Ciria	13	0	100%
José Luis Feito Higuera	3	0	100%
Arsenio Fernández de Mesa y Díaz del Río	13	0	100%
Alberto Carbajo Josa	13	0	100%
Antonio Gómez Expósito	13	0	100%
María Teresa Costa Campi	13	0	100%
José Juan Ruiz Gómez	10	0	100%

With respect to the number of attendances shown in the above table, it should be noted that certain directors did not hold their directorship during the whole of 2019, namely:

- Mr. Roberto García Merino was appointed by co-option as executive director at the Board of Directors meeting held on 27 May 2019, until the next following General Meeting of Shareholders, in order to fill the vacancy left by the resignation tendered by Mr. Juan Francisco Lasala Bernad as director. At that same meeting, Mr. Roberto García Merino was also appointed managing director of the Company.
- Mr. José Juan Ruiz Gómez was appointed independent director at the Annual General Meeting of Shareholders held on 22 March 2019 for the four-year term of office stipulated in the Articles of Association, replacing the then independent director Mr. José Luis Feito Higuera.

Furthermore, the Board of Directors Regulations make reference to the **INHERENT DUTIES OF DIRECTORSHIPS** and, in this regard, articles 30 to 38 set out the general duty of care, the duty of loyalty, the duty to avoid situations of conflict of interest, the duty to abstain from using non-public information, as well as the duty of disclosure of directors.

In all events, in accordance with articles 5 and 6 of Board of Directors Regulations, the director's function is to guide and oversee the Company's management in order to achieve its interests.

## **GENERAL DUTY OF CARE**

Directors must exercise their position and perform the duties imposed by law with the care of prudent businessmen, in line with the nature of their position and the functions assigned to each one of them. In particular, they have an obligation to:

- a) Be properly informed and prepared for meetings of the Board and of any committees of which they are members. For this purpose, directors have a duty to demand and a right to receive from the Company the information they need in order to fulfil their obligations.
- b) Devote the necessary time and take the necessary measures to ensure proper supervision and oversight of the Company. In particular, they must devote enough time to be able to perform their functions effectively and know the Company's business and rules of governance, taking part in any professional development programmes the Company may organise, as provided by article 26 of the Board of Directors Regulations.
- c) In accordance with the provisions of the applicable legislation, personally attend the meetings of the Board and any committees of which they are members and take active part in the deliberations, so as to make an effective contribution, with their judgment, to Board decision making.

If any director is unable, for good reason, to attend a meeting to which he or she has been called, such director must give instructions to the director who is to represent him or her, in accordance with Article 20 of the Board Regulations. Non-executive directors may only appoint another non-executive director to represent them and executive directors must endeavour to appoint another executive director, if possible.

Absences will be reported in the Annual Corporate Governance Report.

- d) Perform any specific task assigned to them by the Board of Directors that is reasonably within their time commitment.
- e) Support the investigation of any irregularity in the management of the Company or any Group company that may come to their notice and the surveillance of any risk situation.
- f) Instruct the persons with the necessary authority to call an extraordinary meeting of the Board of Directors or of a Committee when they consider there to be matters that require discussion, or to add such matters to the agenda of the next meeting that is to be held.
- g) Have at their disposal and gather the information they need in order to perform their functions effectively and regularly monitor any issues arising out of the Company's activity, it being their responsibility to identify and request such information from the chairman or the secretary of the Board.
- h) Oppose any resolutions that are contrary to the Law, the Articles of Association or the corporate interest, expressing their opposition clearly. In particular, independent directors and those unaffected by any potential conflict of interest must oppose resolutions that may be contrary to the interests of shareholders who are not represented on the Board. This obligation also applies to the secretary of the Board, even if not a director. If the Board adopts significant or reiterated decisions about which a director or the secretary has serious doubts, they must draw the appropriate conclusions and, if they opt to resign, must explain the reasons as provided in article 24.4 of the Board Regulations.

## **DUTY OF LOYALTY**

Directors must carry out their duties with the loyalty of a faithful representative, acting in good faith and in the best interests of the Company, and must comply with the duties imposed by Law, the Articles of Association and these Regulations.

In particular, the duty of loyalty obliges directors to:

- a) Not use their authority for any purposes other than those for which it has been granted.
- b) Keep secret all information, data, reports or records to which they may have access in the performance of their duties, even after they have left its position, except where permitted or required by Law.
- c) Refrain from deliberating or voting on resolutions or decisions in which they, or persons related to them, have a direct or indirect conflict of interest. Resolutions or decisions that affect a director as such, such as those concerning a director's appointment to or removal from positions on the Board of Directors or other such decisions, are excluded from the abovementioned obligation to refrain.
- d) Carry out their duties in accordance with the principle of personal responsibility, exercising their own judgment, independently of any instructions from or ties to third parties.
- e) Take the necessary steps to avoid situations in which their activities, whether for their own account or on behalf of others, conflict with the interests of the Company and their duties to the Company.

## **DUTY TO AVOID SITUATIONS OF CONFLICT OF INTERESTS**

1. In particular, the duty to avoid conflicts of interest referred to in paragraph e) of the previous section requires directors to refrain from:

- a) Entering into transactions with the Company, unless they are small-scale, ordinary transactions carried out on the standard terms for customers, that is to say, transactions that do not need to be reported in order to give a true and fair view of the Company's assets and liabilities, financial position and results of operations.
- b) Using the Company's name or their status as directors to unlawfully influence the execution of private transactions.
- c) Using the Company's assets, including confidential information, for private ends.
- d) Using the Company's business opportunities for their own benefit.
- e) Seeking advantages or remuneration from parties other than the Company or the Group for the performance of their duties, unless the advantages or remuneration consist of mere business courtesies.
- f) Carrying on activities for their own account or on behalf of others that actually or potentially bring them into competition with the Company or that in any other way place them in permanent conflict with the interests of the Company.

2. The above provisions will also apply when the beneficiary of the prohibited acts or activities is a related person of a director, within the meaning given in the laws and regulations that apply from time to time.

3. In any case, directors must notify the Board of Directors of any direct or

indirect conflict that may exist between their own interests, or those of persons related to them, and the interests of the Company.

Any conflicts of interest directors may have will be disclosed in the notes to the financial statements.

### **NON-PUBLIC INFORMATION**

Directors must also refrain from performing, or suggest that anyone perform, a transaction involving securities of the Company or its subsidiaries, associates or related parties, on the basis of information obtained from their position, or insider or reserved information, as long as this continues to be non-public information.

This is without prejudice to the rules applicable in each case in the Internal Code of Conduct in the Securities Market.

### **DIRECTORS' DUTY OF DISCLOSURE**

1. Directors must disclose to the Company any interests they may have in the Company and any options on shares or derivatives linked to the value of the shares, whether held directly or through companies in which the director has a significant interest. This disclosure will include any changes to such interests or associated rights, independently of compliance with securities market regulations.

2. Directors must also disclose to the Company their other professional obligations, in case they could interfere with their duties as directors of the Company. In particular, they must disclose all the positions they hold and all the activities they carry out in other companies or entities whose business is the same, analogous or complementary to that of the Company or any Group company or that are in any way competitors of the Company; as well as any ownership interest in such companies and, in general, any other circumstance or situation that could be relevant to the performance of their duties or their independence of judgment as directors of the Company.

3. Directors must notify the Company of any material change in their situation which affects the characteristic or condition that was the basis for their appointment as directors or which might entail a conflict of interest.

4. Directors must disclose to the Company any proceedings brought against them in court, in administrative proceedings or in any other form that are important enough to have the potential to harm the Company's name and reputation, in particular any criminal proceedings in which they are the subject of investigation, as well as the progress and outcome of such proceedings.

As regards **RELATED-PARTY TRANSACTIONS**, article 5.5 c) of the Board of Directors Regulations sets out, amongst the direct and non-delegable duties of the Board of Directors, the approval, upon prior report from the Audit Committee (as stipulated in article 16.6 c) of the Board of Directors Regulations), transactions the Company or any Group company may enter into with directors, in the terms of the Spanish Companies Act, or with shareholders who individually or in concert with others hold a significant interest, including shareholders represented on the Board of Directors of the Company or any Group company and persons related to them. The directors affected, or those who represent or are associated with the shareholders affected, must refrain from participating in the deliberations and voting on the resolution in question.

Only transactions that meet each of the following three criteria do not require such approval:

- They are carried out under contracts the conditions of which are standardised and apply en masse to a large number of customers.
- They are carried out at prices or rates set on a general basis by the person supplying the good or service concerned.
- Their amount does not exceed 1% of the Company's annual revenue.

Furthermore, article 36 of the Board Regulations states that the Board of Directors has formally reserved the right to approve, subject to a report from the Audit Committee, any material transaction of the Company with significant shareholders, including shareholders represented on the Board of the Company or any Group company, and persons related to them, unless the nature and conditions of the transaction are such that, under article 5.5 c) of said Regulations, it requires the approval of the General Meeting of Shareholders.

In 2016 the Company for the first time posted on its website the Annual Report of the Audit Committee on related-party transactions pursuant to Recommendation 6 of the CBGSC. On the corporate website ([www.ree.es](http://www.ree.es)), under the section "Reports and other documents" referred to in Recommendation 6 of the CBGSC, the 2019 Annual Report of the Audit Committee on Related Transactions is available.

In this regard, under article 31 e) of the Board of Directors Regulations, directors must take the necessary measures to avoid situations in which their activities, whether for their own account or on behalf of others, conflict with the interests of the Company and their duties to the Company.

And article 32 of the Board of Directors Regulations, previously cited in this Report, further develops the duty to avoid situations of conflict of interest referred to by article 31 e), and specifies those in which the director must abstain, stipulating that, in all events, directors must disclose to the Board of Directors any situation of direct or indirect conflict that they or their related persons may have with the interests of the Company. Any conflicts of interest directors may have will be disclosed in the notes to the financial statements.

In May 2010, on proposal of the Audit Committee, the Board of Directors approved certain resolutions on identifying related-party transactions and set out objective parameters for controlling such transactions (relevant or not relevant), annual recurring related-party transactions and transactions that must be disclosed to the markets. Pursuant to those resolutions, the Audit Committee conducts an annual review of related-party transactions and gives the Board of Directors timely reports thereon.

Nevertheless, as a result of the amendments of the Board of Directors Regulations on 20 December 2016, and of the Internal Code of Conduct in the Securities Market of 26 September 2017, the Board of Directors, based on the applicable laws and regulations governing related-party transactions and taking into consideration the Company's internal rules fully adapted to those laws and regulations, in January 2018 resolved to render those resolutions inapplicable and approved a new one whereby all related-party transactions that the Company or any Group company carry out with directors or with shareholders of the Company who individually or in concert own a significant holding, including shareholders represented on the Board of Directors of the Company or of a Group company, or with their related persons according to the applicable legislation, must be submitted to the approval of the Board of Directors, upon prior report from the Audit Committee and before the transactions are executed.

Board approval is not required for transactions that meet all three of the conditions specified above (article 5.5. c) of the Board of Directors Regulations).

Also, the reporting obligations legally established in relation to the aforesaid related party transactions will be met.

The Board of Directors has also resolved that the Board be informed on a half-yearly basis, upon prior report from the Audit Committee and after the transaction is executed, of any related-party transactions carried out by the Company or any Group company with directors and executives who may wield "significant influence" as well as with their close family relations, on the terms provided in the relevant legislation.

Notable amongst the **MAIN CORPORATE RESOLUTIONS** on corporate governance approved by the Company's Board of Directors during 2019 were the following:

1. At its meeting of 19 February 2019, after a prior favourable report from the Appointments and Remuneration Committee, the Board approved the Company's Annual Corporate Governance Report for 2018, the Annual Directors' Remuneration Report, and the Financial Statements and Management Report for 2018 were formulated.
2. At said meeting held on 19 February 2019, it was resolved to submit to the Annual General Meeting of Shareholders the ratification of Mr. Jordi Sevilla Segura's appointment as director, in the "other non-executive" category, and of Ms. María Teresa Costa Campi and Mr. Antonio Gómez Expósito's appointments as proprietary directors representing *Sociedad Estatal de Participaciones Industriales* (SEPI), as well as the appointment of Mr. José Juan Ruiz Gómez as independent director, replacing independent director Mr. José Luis Feito Higuera, all for the four-year term of office stipulated in the Articles of Association.

3. At that same meeting, in addition to the proposals relating to the foregoing appointments, the Board approved all the proposed resolutions and reports to be submitted to the Annual General Meeting of Shareholders in respect of 2018, which was then called. Those proposals were:
  - To approve the Annual Accounts (Statement of Financial Position, Income Statement, Statement of Changes in Equity, Statement of Recognised Income and Expense, Statement of Cash Flows and Notes to the Financial Statements) and the Management Report of Red Eléctrica Corporación, S.A. for the financial year closed 31 December 2018.
  - To approve the Consolidated Annual Accounts (Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Global Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements) and the Consolidated Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A. and subsidiaries for the financial year closed 31 December 2018.
  - To approve the allocation of results proposed by the Board of Directors at its meeting of 19 February 2019 and, consequently, distribute the profit for the 2018 financial year.
  - To approve the report on non-financial information of the consolidated Group of Red Eléctrica Corporación, S.A. for 2018, as provided in Act 11/2018 of 28 December 2018 amending the Commercial Code, the Restated Text of the Spanish Companies Act approved by Legislative Royal Decree 1/2010 of 2 July 2010, and Act 22/2015 of 20 July 2015 on the auditing of accounts, on matters of non-financial information and diversity.
  - To approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2018 financial year.
  - In relation to the remuneration of the Board of Directors:
    - To amend article 20 (“Board of Directors”) of the Articles of Association on matters of remuneration of the Company's Board of Directors.
    - To approve the Annual Directors' Remuneration Report of Red Eléctrica Corporación, S.A.
    - To approve the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for 2019.
  - To reappoint the statutory auditor of the parent company and of the consolidated group.
  - To grant authority to implement the resolutions adopted by the 2018 Annual General Meeting of Shareholders.
  - To report to the Annual General Meeting of Shareholders on Red Eléctrica's Annual Corporate Governance Report for 2018.
  - To report to the Shareholders' Annual General Meeting on the amendment of the Board of Directors Regulations.
4. At the meeting held on 26 March 2019, the Board resolved to appoint Mr. José Juan Ruiz Gómez to the Appointments and Remuneration Committee, to reelect Ms. María José García Beato as member of the Audit Committee and Ms. Carmen Gómez de Barreda Tous de Monsalve as lead independent director, all for a term of three years. At its meeting held on that same date, the Appointments and Remuneration Committee appointed Ms. Socorro Fernández Larrea to chair the Committee, likewise for a term of three years.

5. At its meeting held on 27 May 2019, the Board resolved to appoint, by co-option until the next following General Meeting of Shareholder, Mr Roberto García Merino as executive director of Red Eléctrica Corporación, S.A., until the next General Meeting, in order to fill the vacancy left on the Board of Directors as a result of the resignation tendered by Mr. Juan Francisco Lasala Bernad from his executive director directorship. At that same meeting, Mr. Roberto García Merino was appointed managing director of the Company.
6. At its meeting of 24 September 2019, the Board passed certain resolutions on governance matters and, in particular, approved the start of a review of the Board of Directors Regulations.
7. At its meeting of 17 December 2019, the Board approved the Report on the Self-Assessment of the Board of Directors for 2018, prepared with specialised external advice.

The **resolutions that have been reported to the CNMV as MATERIAL DISCLOSURE** during 2019 can be consulted on the Company's website, via this link, [Accionistas e Inversores – Hechos Relevantes](#), as well as on the website of the CNMV using the following link, [CNMV – Red Eléctrica Corporación Hechos Relevantes](#).

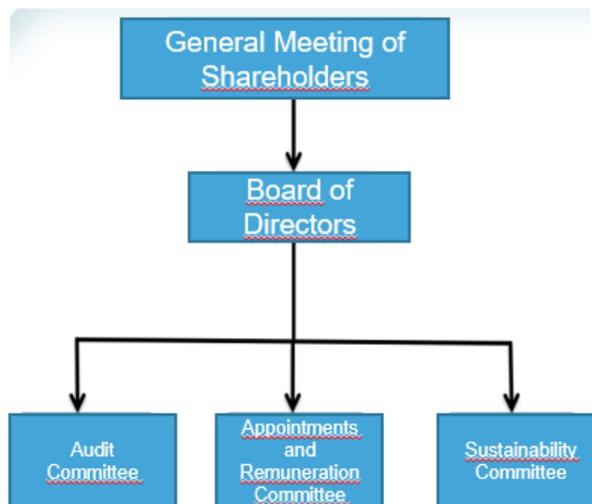
### 3.3 COMMITTEES

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Since November 2018, the company has had three Board Committees as a result of the creation of the Sustainability Committee, which entailed a restructuring of the other two Board Committees, the Audit Committee and the Appointments and Remuneration Committee. The three Committees have been set up by the Board of Directors, with a highly technical profile, to support it in the performance of its responsibilities, designed to achieve greater efficiency and transparency.

The structure, composition, functions and responsibilities of the Committees are laid down in articles 22 to 24 of the Articles of Association and developed in articles 14 to 18ter of the Board of Directors Regulations. Both sets of corporate rules have fully adapted to the latest reforms of the LSC, the CBGSC and the most recent international practices and recommendations in relation to the composition of the committees and to the independence and qualifications of their members.

In late 2018 a review was undertaken of the Board of Directors Regulations to update the functions of the three Board committees, culminating in approval of the revised version at the Board of Directors meeting held on 19 February 2019. In September 2019 a new review of said Regulations was begun to update the functions of the Board and its committees on sustainability matters, some on an enterprise-wide basis, with the formal and material scope agreed by the three Board committees, and to strengthen the mechanisms for coordination between said three committees, which are currently pending approval.



### 3.3.1 AUDIT COMMITTEE

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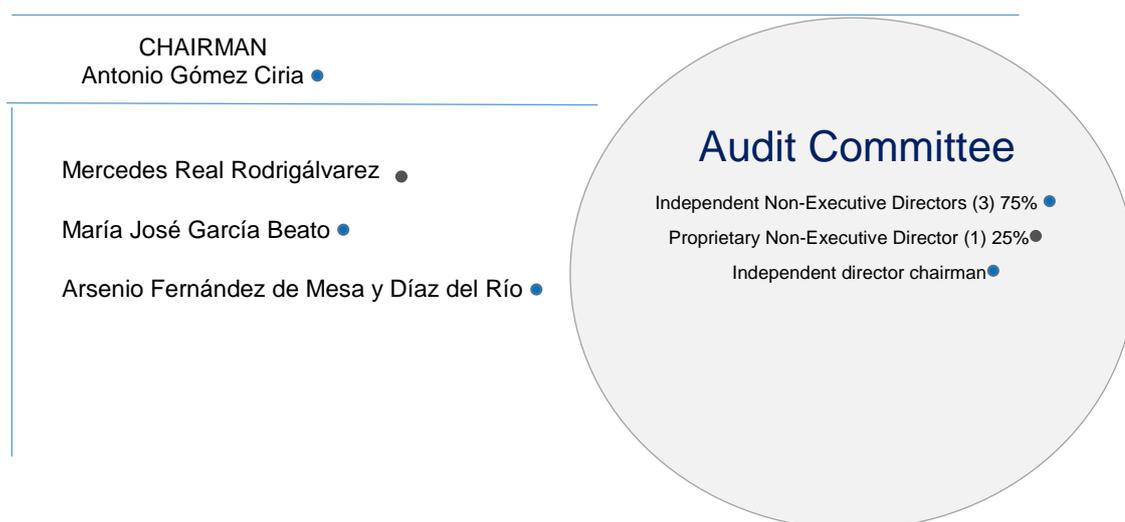
#### 3.3.1.1 Composition

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The Audit Committee is made up of four members, all of them appointed from among the non-executive directors and a majority of them being independent directors, for a term of three years.

Throughout 2019 the committee was made up exclusively of non-executive directors, with a majority of independent directors.

The composition of the Company's Audit Committee at 31 December 2019 was as follows:



#### HIGHLIGHTS:

- In March 2019, one of its members was re-elected for a new three-year term.
- The Audit Committee continues **maintaining the same percentage of female directors** in its composition as at 31 December 2018 is **50%**.
- Prior to the approval of CNMV Technical Guidelines 3/2017 on Audit Committees in Public Interest Entities of 27 June, the Company was already following its recommendations in relation to **diversity in the Audit Committee's composition**, given that its members have knowledge and experience in accounting or audit matters, or both, and in management, economics, finance and business.
- Furthermore, among the members of the Committee since 2017 is an **expert in integral security** (as pointed out by the Board when proposing his appointment to the Annual General Meeting of Shareholders). **Integral security refers to physical and cybersecurity**. This appointment complied with the recommendation made in the aforesaid Technical Guidelines so that at least one member has experience in information technologies given the growing importance of the digital transformation of businesses and processes.

With respect to the **professional profile of the directors** who compose the Committee, they are particularly well qualified for their position and have extensive professional experience, having held positions of the highest responsibility outside the Company, in functions related to those entrusted to the Committee. Their professional profiles are noteworthy for their knowledge and experience in accounting or auditing, or both, which has been taken into account for their appointment, in accordance with article 529 quaterdecies of the LSC and Recommendation 39 of the CBGSC. Furthermore, article 15.2 of the Board of Directors Regulations goes even further by providing that, in addition to knowledge and experience in accounting and auditing, knowledge and experience of risk management is a criterion for appointment of its members, especially the chairman.

The chairman of the Committee is chosen by its members from amongst its independent directors, and its secretary is the Board of Directors' secretary.

After the irrevocable resignation unexpectedly tendered on 28 January 2020 by Mr. Jordi Sevilla Segura as director and, consequently, as non-executive chairman of the Board of Directors and of the Company, the contingency plan for succession of the chairman was activated, very satisfactorily, as described in greater detail further below in this report. Pursuant to that plan, the chairman de Audit Committee temporarily took over the management of internal audit and risk control functions.

Over the course of 2019, at the request of the Committee itself, the Audit Committee meetings were attended by the Director of Internal Audit and Risk Control and the Corporate Director of Economics and Finance, solely to report on matters within their remit. The committee meetings were also attended, when invited by the committee, by other persons from those and other departments in order to report on the matters within their ambit.

### 3.3.1.2 Responsibilities and Activity

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Amongst other duties, the functions of the Audit Committee include those of providing support to the Board of Directors in its supervision of the financial reporting process, of the risk management and internal control systems, of the independence of the External Auditor, compliance with the law and with internal regulations and the rules governing relations with the Company's shareholders, and any other responsibilities expressly assigned to it by the Board of Directors.

In 2018, 2019 and 2020, pursuant to key recommendations on corporate governance, the individual and consolidated annual accounts that are submitted to the Audit Committee for its approval by the Board of Directors were previously certified by the managing director, the Corporate Economic-Financial Director and the Chief Economist.

Subsequent to the restructuring of the Board committees, the functions of this Committee were reviewed as part of the overall review of the Board of Directors Regulations. At the Board of Directors meeting held on 19 February 2019, the revised functions were approved and are now set out in article 16 of said Regulations. The main change was to include certain matters regarding the regulatory compliance system.

The Committee meets with the appropriate frequency for discharging its duties. In all events, it must meet at least on a quarterly basis and when called by its chairman or requested by two of its members and whenever the Board of Directors or the chairman require it to issue reports or submit proposals.

During 2019, the Audit Committee held eleven (11) meetings, and submitted reports on its activities to the Board of Directors the same number of times. In those meetings there were no absences or proxy attendance, for which reason the number of attendances in person was 44, for an overall attendance rate of 100%.

More detailed information on the matters addressed by the Audit Committee during 2019 is available at the Company's website via the following link: [Annual Report on Activities of the Audit Committee in 2019](#)

### 3.3.2 APPOINTMENTS AND REMUNERATION COMMITTEE

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#### 3.3.2.1 Composition

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The Appointments and Remuneration Committee is composed of three members, all of them appointed from among the non-executive directors and a majority of them being independent directors, for a term of three years.

Throughout 2019, the Appointments and Remuneration Committee was made up exclusively of non-executive directors, with a majority of independent directors.

The composition of the Company's Appointments and Remuneration Committee at 31 December 2019 was as follows:

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CHAIRWOMAN  
Socorro Fernández Larrea ●

Antonio Gómez Expósito ●

José Juan Ruiz Gómez ●

## Appointments and Remuneration Committee

Independent  
Non-Executive Directors (2) 66.7% ●

Proprietary  
Non-Executive Directors (1) 33.3% ●

Independent director  
chairman ●

### KEY POINTS:

- In March 2019, one of its members was re-elected for a new three-year term.
- Also in March 2019 a woman was named to chair the Appointments and Remuneration Committee, a position previously held by a man.
- The Appointments and Remuneration Committee maintains the same of women as of 31 December 2018, that is, 33.3%.

With respect to the **professional profiles of the directors** who compose the Committee, they are particularly well qualified for their positions and have broad professional experience, having held positions of the highest responsibility outside the Company in functions related to those entrusted to the Committee, so all the Committee members have a proven capacity to perform the tasks entrusted to the Committee, based on their broad experience and knowledge.

The chairman of the Committee is chosen by its members from amongst its independent directors, and its secretary is the Board of Directors' secretary.

Throughout 2019, when the Committee considered it appropriate, the members of the company's executive team responsible for areas of their competence attended the meetings of the Committee in order to provide the appropriate explanations.

### 3.3.2.2 Responsibilities and Activity

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The Committee is attributed powers, inter alia, for the appointment and removal of directors and senior executives who report directly to the Board, the chairman or the managing director, for the director remuneration policy, compliance with director duties and observances of corporate governance rules and principles and for employees of Group companies. It also prepares an annual report on diversity and equality, which it submits to the Board for approval. A new feature within the duties added in the amendment of the Board of Directors Regulations approved by the Board at its meeting of 19 February 2019 was the responsibility to propose to the Board of Directors a protocol for relations between the Board and employees of Group companies to ensure protection of their interests, in line with the most advanced international good governance practices, especially those envisaged in the new United Kingdom

Corporate Governance Code. The entirety of its functions may be seen in article 18 of said Regulations.

The Committee meets with the appropriate frequency for discharging its duties. In all events, it must meet at least on a quarterly basis and when called by its chairman or requested by two of its members and whenever the Board of Directors or the chairman require it to issue reports or submit proposals.

During 2019, the Appointments and Remuneration Committee held sixteen (16) meetings, and submitted reports on its activities to the Board of Directors the same number of times. In those meetings there were no absences or proxy attendances. Accordingly, the number of attendances in person was 47, for an overall attendance rate of 100%.

More detailed information on the matters addressed by the Appointments and Remuneration Committee during 2019, and the changes in its composition during that year, is available at the Company's website via the following link, [Annual Report on Activities of the Appointments and Remuneration Committee](#)

### 3.3.3 Sustainability Committee

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#### 3.3.2.1 Composition

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The new Sustainability Committee was created pursuant to article 22 of the Articles of Association and article 14 of the Board of Directors Regulations, and in accordance with Recommendation 53 of the CBGSC.

The Sustainability Committee was created by resolution of the Board of Directors on 27 November 2018, on proposal of the chairman following a favourable report from the Appointments and Remuneration Committee. The creation of the Sustainability Committee responds to the strategic nature that the Board of Directors wishes to give to sustainability in the Group, contributing to reinforcing Red Eléctrica's position in matters of sustainability and corporate governance.

The Sustainability Committee is composed of three members, all of them appointed from among the non-executive directors and a majority of them being independent directors, for a term of three years.

Since its creation, the Sustainability Committee has been made up exclusively of non-executive directors, with a majority of independent directors.

The composition of the Company's Sustainability Committee at 31 December 2019, which has not changed since it was formed, was as follows:



With respect to the **professional profiles of the directors** who compose the Committee, they are particularly well qualified for their positions and have broad professional experience, having held positions of the highest responsibility outside the Company in functions related to those entrusted to the Committee, so all the Committee members have a proven capacity to perform the tasks entrusted to the Committee, based on their broad experience and knowledge.

The chairman of the Committee is chosen by its members from amongst its independent directors, and its secretary is the secretary of the Board of Directors.

At 31 December 2019 the chairwoman of the Sustainability Committee was the lead independent director of the Company.

### **3.3.3.2 Responsibilities and Activity**

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The Sustainability Committee is assigned authority, inter alia, in relation to ethical leadership, compliance with the Group's sustainability policies, sustainability actions and proposals, the 2030 Sustainability Commitment, sustainability policies and their tie-in with the Strategic Plan, interaction with different stakeholders, the annual report on ethical management in the Group, sustainability disclosures according to international benchmarks, the review and validation of reports on specific sustainability areas and oversight of compliance with the Ethics Code. The functions of Sustainability Committee are included in the new article 18 TER of the Board of Directors Regulations subsequent to the amendment of those rules that was approved on 19 February 2019.

The Committee meets with the requisite frequency for discharging its duties. In all events, it must meet at least on a quarterly basis and when called by its chairman or requested by two of its members and whenever the Board of Directors or the chairman require it to issue reports or submit proposals.

During 2019, the Sustainability Committee held twelve (12) meetings, and submitted reports on its activities to the Board of Directors the same number of times. In those meetings there were no absences or proxy attendances. Accordingly, the number of attendances in person was 36, for an overall attendance rate of 100%.

More details on the matters addressed by the Sustainability Committee during 2019 are available on the Company's website, via the following link: [Annual Report on Activities of the Sustainability Committee in 2019](#)

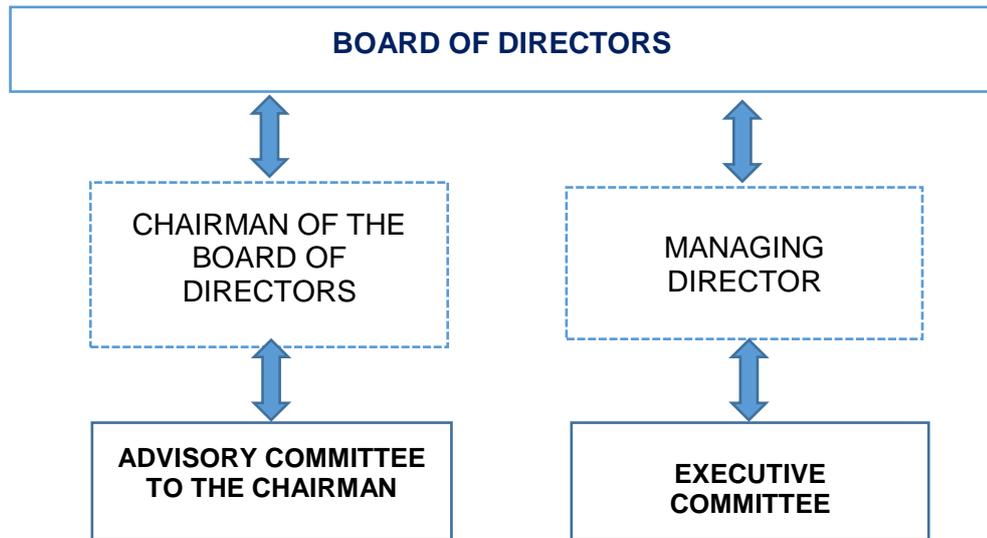
## **3.4 RELATIONS WITH THE MANAGEMENT**

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The policy of the Board of Directors is to delegate the ordinary management of the Company and the Group to the executive bodies and the management team and to concentrate on its general supervisory function and the approval of basic operating guidelines.

Nevertheless, as a result of the separation of the positions of the Board's non-executive chairman and managing director, the Company has two clearly differentiated management bodies composed of senior executives, which have been maintained following the replacement of the chairman of the Board in July 2018 and after the replacement of the managing director in May 2019:

- Advisory Committee to the Chairman, headed by the chairman of the Board.
- Executive Committee, headed by the managing director.



The secretary of the Board of Directors serves as secretary to both committees.

The creation of the two separate committees was intended to replicate in the organisation the model of separation of functions between the chairman and the managing director, with the committee headed by the chairman taking care of overall supervision and strategic oversight, while the committee headed by the managing director engages in permanent monitoring of the business and corporate activities.

## 4. BALANCE OF POWERS ON THE BOARD OF DIRECTORS

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The Company had been taking steps and implementing new measures in its corporate governance structure since 2012, in line with an international trend 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**

- The chairman of the Board appointed in 2012 never joined the Appointments and Remuneration Committee, notwithstanding his appointment as executive chairman and chairman of the Board.
- The position of lead independent director was voluntarily created, on the Board's proposal, by the Annual General Meeting of Shareholders of the Company in April 2013, with Ms. Carmen Gómez de Barreda Tous de Monsalve being appointed 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 Competencies matrix approved in 2018 is a tool for monitoring and improving the overall quality of the Board of Directors.
- The Board of Directors in its internal Regulations has been voluntarily reserving for itself certain non-delegable responsibilities that cannot be performed by the managing director or by Board committees.
- At each of its regular meetings, the Board also exercises immediate effective control of the ordinary, extraordinary and urgent actions of the managing director.
- The Board committees, 75% composed of independent directors in the case of the Audit Committee, and 66.7% in the case of the Appointments and Remuneration Committee and the Sustainability Committee, have extensive functions attributed to them 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 is six years.

All these practices, together with the need to have a Board of Directors that is fully committed, well balanced and diverse in terms of gender, experience and knowledge, supported by ongoing refresher programmes for technical knowhow, and that 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 its general supervisory function and oversee the work of the management team and the then executive chairman, until the formal and definitive separation of the two positions.

#### **4.1. SEPARATION OF CHAIRMAN AND MANAGING DIRECTOR POSITIONS**

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At its meeting on 12 June 2015, on 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 managing director of the Company", which assesses the advantages of this organisational model for the company and its shareholders, with the aim of improving the Company's then existing corporate governance structure. The Shareholders' Extraordinary General Meeting held on 17 July 2015 analysed the separation process and, in order to put it into effect, agreed to increase the number of directors by one (setting the total at twelve) and appointed the executive director of the Company. At its meeting on 28 July 2015, the Board of Directors appointed the new executive director to be 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 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 regarding corporate governance, especially in Europe, recommends that listed companies separate the positions of Chairman of the Board of Directors and 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 managing director of the Company, as this could prevent the Board of Directors and the executive team from performing their supervisory and management functions properly, with the necessary independence and objectivity.
- The accumulation of power in the hands of a chairman/managing director could cause distortions in the performance of the functions of the Board (guided by its chairman) and the senior executive team (led by the managing director), 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 in Spain 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 recognised international bodies and institutions, such as the RobecoSam Dow Jones Sustainability World Index (DJSI), which annually assess the sustainability practices adopted by large international groups and industrial corporations and listed companies, in their corporate governance scores and rankings penalising 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 a growing movement in Spain among Ibex 35 companies in favour of separating the two positions, as could 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 Spanish Companies Act (article 529 sexies), the Articles of Association (articles 20, 21 and 25) and the Board of Directors Regulations (article 9), the chairman also had the following basic powers:

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

#### 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 by a favourable vote of 98.47% approved the re-election as an "other non-executive" director, for a period of four years, of the one that then was the chairman of the Board of Directors of the company, with a term expiring 31 July 2018.
- 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 powers granted to the chairman, given the executive nature of such authority, and maintained the delegation of all the authority 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.

Following the replacement of the non-executive chairman of the Board of Directors in July 2018, and after the replacement of the managing director in May 2019, the model for separating the posts of chairman of the Board of Directors and managing director of the company, approved in 2019, has been maintained and is functioning properly. The non-executive chairman has assumed supervisory responsibilities and corporate functions that are strategic for the company and the managing director is responsible for directing the management of the company's business.

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

According to article 25 of the Articles of Association, the chairman of the Board of Directors is the chairman of the Company, and as such is chairman of the Red Eléctrica Group.

The non-executive chairman of the Board of Directors and of the company at 31 December 2019 was Mr. Jordi Sevilla Segura. His appointment as a director of the company in the "other non-executive" category and non-executive chairman of the Board and of the company was approved by the Board of Directors on 31 July 2018, following the Board's acceptance of the resignation tendered by the previous chairman on the same date.

In his capacity as chairman of the Board of Directors, since his appointment he has discharged, amongst others, the following functions:

- Institutional representation of the Company and of the Group.
- Promotion and oversight of the Company and Group's policies and strategies.
- Strategic corporate functions, including, amongst others, regulation, sustainability, institutional relations, communication, compliance, internal audit and risk control.
- Leadership and promotion of the Group's technological and digital transformation.
- The function of safeguarding the principle of independence of the Electricity System Operator and proper separation of regulated and unregulated activities.

Recently, at its meeting of 28 January 2020, the Board of Directors accepted the irrevocable resignation unexpectedly tendered by Mr. Jordi Sevilla Segura as director and, hence, as non-executive chairman of the Board of Directors and of the Company. At that same meeting, the Board resolved to implement the Contingency Plan for succession of the Chairman that had been approved by the Board on 19 December 2017 and updated on 29 January 2019. The plan has been a key tool for distributing the functions then performed by the chairman amongst the managing director, the lead independent director and the chairman of the Audit Committee, as is described further below in this report.

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 and are currently being reviewed in the latest revision of the Board of Directors Regulations begun in September 2019. 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 2014, amending the Spanish Companies Act 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.

The Annual General Meeting of Shareholders held on 15 April 2015 approved amendments to the Articles of Association aimed at fully adapting them to the LSC and specifically amended article 25 of the Articles of Association 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 Articles of Association 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 (CBGSC)* 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. Following the amendment approved on 20 December 2016 it was adapted to the content of article 529 *sexies* of the LSC, to the abovementioned Recommendation 33 of the CBGSC and to the changes in the Board's organisation 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 Regulations of the General Meeting of Shareholders, 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 2014 reform of the LSC. 2014 and, in his absence, the General Meeting of Shareholders is to be chaired by the vice chairman selected by ranking or greater seniority in that position, and, in default thereof, by the person designated by the Board of Directors, failing which, it shall be chaired by the director or shareholder freely designated by the shareholders in attendance at each General Meeting of Shareholders.

## **MAIN RESPONSIBILITIES AS CHAIRMAN OF THE BOARD OF DIRECTORS**

- Ensure that sufficient time is devoted to strategic issues.
- Call and chair Board meetings, setting the agenda and leading the discussions and deliberations.
- Prepare and submit to the Board a schedule of meeting dates and, if appropriate, the items of business to be considered.
- Chair the General Meeting of Shareholders.
- Ensure that directors receive sufficient information in advance to be able to deliberate on the agenda.
- Stimulate debate and active participation by directors during Board meetings, protecting their freedom to take positions.
- 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 managing director.
- Review the refresher programmes for directors when circumstances so advise.

## **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 Articles of Association, 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 managing director of the Company", and currently are set forth in article 11 of the Board of Directors Regulations.

The managing director of the Company is Mr. Roberto García Merino. At its meeting of 27 May 2019, the Company's Board of Directors appointed him as managing director of the Company after his appointment as executive director of the Company, on an interim basis until the next following General Meeting, in order to fill the only vacancy existing on the Board of Directors, which was produced by the resignation tendered by the person who previously held the position of executive director. His appointment will be submitted to ratification by the Company in the next General Meeting of Shareholders. He is the senior executive responsible for **the ordinary management and effective direction of the organisation and businesses** of the Company and of the Group.

After the irrevocable resignation tendered unexpectedly by Mr. Jordi Sevilla Segura as director and hence as non-executive chairman of the Board of Directors and of the Company on 28 January 2020, the Contingency Plan for succession of the chairman was activated. As a result, the managing director, in addition to the functions of that office, has been in charge of managing and representing the Company vis-à-vis the national government and State administration and has been the person responsible for informing the communications media, investors and shareholders.

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, reporting to and under the supervision of the Board of Directors, for the day-to-day conduct and effective management of the organisation and of the Company and Group's businesses, always in accordance with the policies, strategies, decisions and criteria set by the General Meeting of Shareholders and the Board of Directors, each within its remit.

#### **MAIN RESPONSIBILITIES OF THE MANAGING DIRECTOR**

- Supervise, coordinate and promote the management of the organisation and business areas of the Company and the Group.
- 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.
- 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.

In any event, the managing director will report directly to the Board of Directors on the discharge of his duties, without prejudice to regularly informing the chairman of the Board on the performance of the businesses of the Company and Group and the rest of the areas under his responsibility.

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

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.

As already indicated, as a result of the separation of the positions of managing director and chairman of the Board, the Company's executive 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. This structure has been maintained following the appointment of the new non-executive chairman of the Board and of the company.

## 4.2 SELECTION AND SUCCESSION PROCESSES

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With regard to the selection processes, it should be noted, as indicated in Section 1 of this Report, that Act 11/2018 of 28 November 2018, which amended, inter alia, the restated text of the Spanish Companies Act, in matters of non-financial information and diversity, that it requires listed companies to include, within the Annual Corporate Governance Report, a description of the diversity policy applied in relation to the Board of Directors and the specialised committees set up within it, with regard to issues such as age, gender, disability or the training and professional experience of its members; including its objectives, the measures taken, the manner in which they have been implemented and, in particular, the procedures for seeking to include on the board of directors a number of women allowing for a balanced presence of women and men and the results achieved in the reporting period, as well as any measures that the Appointments Committee may have resolved on these issues. Companies must also disclose whether information was provided to shareholders on diversity criteria and objectives when electing or renewing members of the board of directors and the specialised committees set up within it.

As regards the company's **DIVERSITY POLICY**, Red Eléctrica endeavours to ensure diversity in a broad sense so that it extends to the concepts of gender, experience, knowledge, age, seniority, etc., and continues to apply the policies and procedures that guarantee reasonable balance and diversity both within the Board of Directors and its Committees and throughout the organisation, which reflects the company's concern for diversity and equality in order to achieve a balance within the Board of Directors and the organisation as a whole.

### **DIVERSITY POLICY IN THE SELECTION OF DIRECTORS IN RED ELÉCTRICA**

This policy is set out in:

- The Corporate Governance Policy
- The criteria laid down by the Appointments and Remuneration Committee to define the optimum profile for holding a directorship.
- The matrix of competencies of the Board of Directors approved in 2018 and updated in 2019.
- The Board of Directors Regulations (articles 15, 18 and 22)
- The Articles of Association (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, recognising and assuming the principle of *"Strengthening 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."*

Red Eléctrica applies the principle contained in the Corporate Governance Policy, approved in December 2014, of ensuring that appropriate procedures exist to select directors, guaranteeing reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks.

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

In 2018 the Appointments and Remuneration Committee and the Board of Directors carried out a process of evaluating the competencies and knowledge of the members of the Board of Directors, culminating in the approval of the **matrix of competencies of the Board of Directors**, individualised by director. The application of the matrix of individual competencies of the directors, which reflects the competencies, experience, knowledge, professionalism, suitability, independent judgment, qualities and capacities that the Board of Directors must have, facilitates the supervision of the overall diversity in its composition for the taking of the most appropriate and informed decisions at each moment.

The matrix consists of three blocks (knowledge-experience in the sector of activities / global knowledge-experience / and diversity) which comprise, in turn, a total of twenty-eight categories reflecting the experience and knowledge of the members of the Board in aspects such as the energy sector, telecommunications, institutional relations, the financial sector and the capital market, business strategy and development, boards of directors of public and private entities, sustainability, risk management and compliance, digital transformation, gender, age or seniority as a director, among others.

The matrix of competencies of the Board is a good governance tool that will facilitate the supervision of the balance, diversity and global and individual quality of the Board of Directors at all times and is in accordance with international practices and the most advanced recommendations in the area of corporate governance.

This matrix of competencies was revised in 2019 so that it remains fully in force and is aligned at all times with the strategy of the Red Eléctrica Group.

In addition, before issuing its report or making a proposal to appoint a director, the Appointments and Remuneration Committee always analyses the diversity of profiles and contributions of the current members of the Board of Directors, so that at all times the Board has the knowledge and experience necessary to successfully meet the coming challenges and progress efficiently and proactively in fulfilment of the strategies and objectives of the company and the Red Eléctrica Group.

In preparing the nomination, the Appointments and Remuneration Committee, in addition to other proposals and suggestions, when it deems fit can also seek the opinion of international advisors (head-hunters) specialised in director selection. They propose various candidates and issue reports evaluating the strengths and experience of each candidate. Those reports are carefully analysed and assessed by the Appointments and Remuneration Committee when issuing the report and/or proposal to appoint a director it will bring before the Board.

The proposals of directors and the associated reports the Company has posted on its website, both in Spanish and in English, which were submitted to the Annual General Meeting of Shareholders held on 22 March 2019, 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 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, competencies 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 2019 Annual General Meeting of Shareholders may be consulted on the corporate website, via the following link:

[Proposals and reports on appoint of Directors General Meeting of 2019](#)

Article 22 of the **Board of Directors Regulations** 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 **Articles of Association** and article 18 of the Board of Directors Regulations, that Committee is charged with setting a target number for women, evaluating the competencies, knowledge and experience needed on the Board, submitting to the Board proposals for the appointment of independent directors, reporting on the proposals for appointment of other directors, amongst other responsibilities. 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.

The Board of Directors of Red Eléctrica Corporación, S.A., under the provisions of article 18.4 j) of the Board Regulations, years ago assumed the commitment to comply with the recommendations established regarding diversity and, therefore, through the Appointments and Remuneration Committee accepted the obligation to prepare an annual report on diversity to be submitted to the Board for its approval. That report reflects the Company's concern for diversity. Accordingly, for some years now measures are analysed and adopted to achieve the right balance within the Board of Directors and throughout the entire organisation.

The latest report on diversity was approved by the Board of Directors on 29 January 2019. This report refers to fiscal year 2018 and incorporates data on diversity in a broad sense, not only of gender but also considering the experience, knowledge, age or seniority of the directors that make up the Board of Directors, and within the organisation, newly including information from a greater number of Red Eléctrica Group companies. That report is posted on the corporate website and may be seen via the following link: [Diversity Report 2018](#)

The 2019 diversity report is expected to be approved at the end of the first quarter of 2020 in tandem with the Sustainability Report for that same years which is slated to be approved in that period as well.

Of note in this regard is the signing of the General protocol on balanced participation of women on the Board of Directors and the General protocol on balanced participation of women in pre-executive and executive positions and management committees, both signed with the Ministry of the Presidency, Relations with the Congress and Equality in

2019 within the framework of the 'more women, better businesses' initiative. The two protocols bear out the Board of Directors' concern for and commitment to diversity, taking into account that although there are now **5 women on the Board of Directors** which represent **41.7% of the total Board** (above the 40% stipulated in the First Additional Provision of Act 3/2007 of 22 March 2007), the Board is committed to making further advances in this area.

Notwithstanding the progress made to date and the external recognitions, the Board of Directors remains fundamentally committed to making further progress in diversity. The necessary resources and means will continue to be made available to develop mechanisms that promote the presence of qualified women both on the Board and its committees and in executive positions and positions of responsibility within the organisation, so as to put into effect and consolidate the Company's diversity management model.

## **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-option, 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 Shareholders' Meeting or of the Board meeting.

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 Articles of Association.

Article 20 of the Articles of Association 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 will cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Meeting of Shareholders in the exercise of the powers granted to them by Law and by the Articles of Association. The Board of Directors shall not propose the removal of independent directors before the end of the term stipulated in the Articles of Association 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 offices or new obligations that do not allow him 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 publicised to the market as mandated by the applicable laws, it will be included in the Annual Corporate Governance Report.

## **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 managing director, in order to minimise the impact of the handover on the organisation, 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.

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 affected 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 managing director.

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 (CBGSC) was adopted in Spain that recommended 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's Articles of Association (article 24.2.f) and to the Board of Directors Regulations (articles 10.2.1.h and 18.1.m) that directly affected 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 successive annual corporate governance reports, stressed the need to review and update the 2011 succession plan for the Company's Board chairman because, amongst other reasons, a specific succession plan was needed for the managing director, whose role was now held by a different person after the separation of the that 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 the succession plans, with the support of an outside international consultant.

Lastly, at its meeting of 19 December 2017, the Board of Directors, on 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 positions 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 must be reviewed at least every 6/12 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, assigning responsibilities and specific functions and avoiding risks of an unforeseen and disorderly succession.

In accordance with the foregoing, work was carried out in 2018 on updating both plans and, on proposal of the Appointments and Remuneration Committee, at the meeting of the Board of Directors held on 29 January 2019, the updating of the "Contingency plan for the succession of the Chairman of the Board" and the "Contingency plan for the succession of the managing director" were approved.

The Contingency Plan for succession of the Board chairman was applied for the first time, with very satisfactory results, after the unexpected resignation of the Board chairman at the Board of Directors meeting held on 28 January 2020. The Plan proved to be a fundamental tool for distributing the duties of the chairman among the managing director, the lead independent director and the chairman of the Audit Committee. After being activated, the application of the Plan generated the following steps:

1.- The lead independent director took over managing the Board of Directors and temporarily chaired Board meetings, and the managing director, in addition to discharging the duties of said office, handled the Company's representation vis-à-vis the national government and State administration. The managing director was also charged with communicating information to the media, investors and shareholders.

2.- The chairman of the Audit Committee temporarily took over managing internal audit and risk control functions.

3.- At the same time, the Board initiated the process of selecting a new chairman in order for the latter to be appointed after the relevant call by the lead independent director and upon the favourable report of the Appointments and

Remuneration Committee.

It should furthermore be noted that the executive functions of the managing director were maintained in full, thus ensuring the normal operation of the Company and of the Group.

### 4.3 LEAD INDEPENDENT DIRECTOR

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Following the reform of the Spanish Companies Act 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). The powers and responsibilities of the lead director have been reinforced in the Good Governance Code of Listed Companies (CBGSC), 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 recognised 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 on 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 Articles of Association 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, on proposal of the Appointments and Remuneration Committee, so decides.

At its meeting of 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 meetings of 31 May 2016 and 26 March 2019, the Board of Directors resolved to reelect said director as lead independent director for a 3-year term, respectively, position which she continues to hold at present.

The functions and responsibilities of the lead independent director are established in article 25 bis of the Articles of Association and are developed in article 10, adapted to articles 529 *sexies*, paragraph 2 and 529 *septies*, paragraph 2 of the LSC, as well as Recommendation 34 of the CBGSC.

Following the conclusion of the process of separation of the positions of chairman of the Board and managing director of the Company, the Board considered it to be appropriate to maintain this role because, among other reasons, the lead independent 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 2019**

The functions of the lead independent director of Red Eléctrica are set out in article 25 bis of the Articles of Association 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 organise 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 in the event of absence, impossibility or conflict of interest of the chairman and, where such exist, of the vice chairmen, 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 and functioning of the Board of Directors, with the possibility of asking for the presence of executives at such meetings.

• 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 2019 the lead independent director held diverse meetings with independent directors to know their concerns and organise their common positions on different matters debated by the Board of Directors.

After the irrevocable resignation tendered by Mr. Jordi Sevilla Segura as director and hence as non-executive chairman of Board of Directors and of the Company on 28 January 2020, the Contingency Plan for succession of the chairman was activated and, as a result of its application, the lead independent director took charge of managing the Board of Directors and temporarily chairing the Board meetings.

The lead independent director has actively participated in:

- The design, planning and promotion of the process of separating the positions of Board chairman and managing director.
- The annual self-assessments of the Board of Directors.
- The corporate governance road shows with proxy advisors organised by the company since 2016.
- The process of preparing the contingency plans for succession of the Board chairman and the managing director.

## 5. REMUNERATION POLICY AND ASSESSMENT

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### 5.1 ASSESSMENT

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The Board of Directors in article 5 of the Board of Directors Regulations expressly reserves, inter alia, on a non-delegable basis, the responsibility for the annual assessment of the quality and efficiency of the functioning of the Board, the performance of their duties by the chairman of the Board and the managing director of the company and the effective functioning of the Board Committees, based on the report referred to it by the Appointments and Remuneration Committee, in coordination with the lead independent director or the chairman. The assessment of the performance of the Board, of its chairman, of the Company's managing director and of the Board committees will be conducted by an outside independent expert at least every two years.

The Board must periodically review the general aspects of the assessment methodology used, the overall results of the assessment and any corrective measures adopted, as the case may be.

For some years now, Red Eléctrica has been carrying out annual assessments of the operation and performance of the Board of Directors, of the Board chairman and of the Company's managing director and of Board committees, with the support of external independent advisors. The assessment for 2018, conducted in 2019, again featured the engagement of an outside international consultant and was carried out under the supervision of the Appointments and Remuneration Committee, in coordination with the lead independent director.

#### **2018 ASSESSMENT PROCESS: SUMMARY OF CONCLUSIONS AND ACTION PLAN**

##### **•Conclusions**

1. The directors are of the majority opinion that the Board of Directors of the Company has achieved a high standard of corporate governance having regard to:
  - Its level of interest in and knowledge of best practices in corporate governance.
  - The directors' commitment to work according to processes and practices recognised as market benchmarks.
  - The presence on the Board of top-tier and highly qualified professionals.
  - The Board's gender diversity.
2. The directors believe that decision-making in the Board is governed by procedures aligned with the corporate governance practices of comparable companies.
3. With respect to deliberations in the Board, all directors agree that the Board

encourages discussion and the unrestrained presentation of points of view.

4. The directors agree that the increase in the issues brought before the Board and the geographical expansion of the Company may warrant lengthening the term of the Board.
5. The directors understand that certain aspects of corporate governance could be modified with the aim of optimising the time dedicated to the Board and of improving the governance structure. The majority agree that a corporate governance organisation should be established in subsidiaries that allows delegation of certain governance and supervisory functions, once the duties of the Appointments and Remuneration Committee and the Board in the appointment of their executives and directors have been precisely defined.
6. The consensus is that to facilitate renewal of the Board, a competencies matrix should be designed that is adapted to the needs of the Company and serves to define the profiles of future directors.

• Action Plan

1. Actions regarding reporting to the Board:
  - Continue improving the preparation and review of Board minutes.
  - Enhance the strategic discussion of markets, competitors, and regulated and unregulated businesses.
2. Optimise the Board agenda and deliberations:
  - Increase debates on strategy and on supervision of new businesses.
  - Organise informal informational sessions and analyses of key issues.
3. Continue making headway in establishing a corporate governance organisation in subsidiaries that allows the delegation of certain governance and supervisory functions and permits the Appointments and Remuneration Committee to oversee the appointment of directors and key executives in the Red Eléctrica structure.
4. Design a Board renewal model based on the implementation of a competences matrix approved by the Board as guide for defining director profiles that are aligned with the needs of the Company.

The Board of Directors will soon start a new Board self-assessment process for 2019.

In relation to the broadening and updating of the Board's knowledge base, article 26 of the Board of Directors Regulations provides that the Company will have an information programme that provides new directors with quick and sufficient knowledge of the Company, as well as of its rules of corporate governance, and will also offer directors programmes for updating their knowledge when circumstances so require. In 2017 a new induction plan for directors was approved. It sets out the basic information and

documents to be provided to directors who have joined the Company recently and specifies the areas responsible for carrying this out. This Plan was applied for the first time to the directors who joined in 2018 and also continued being applied in 2019 to directors who voluntarily wished to participate.

Also, internal training programmes may be set up periodically on national and international trends in corporate governance.

In addition, the Board and the Committees may be assisted by specialised advisors and consultants for analysis and decision-making if they deem it appropriate (articles 15, 17, 18 BIS and 28 of the Board of Directors Regulations).

Another tool that has contributed to enhancing the efficiency of the Board and of its committees is the director's intranet portal, where key information is posted such as documents for the meetings of the Board of Directors and of its committees, as well as corporate information of interest on economic, social and environmental matters. Also of note is the full digitisation since 2017 of meetings of the Board of Directors and Board committees, so the meetings since then have been held via mobile devices (tablets and smart phones), with a corporate intranet specifically designed for this purpose.

## 5.2 REMUNERATION

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The company applies the principle of maintaining a remuneration policy for the Board of Directors based on moderation, effective dedication, alignment with the long-term strategies and interests of the company and its shareholders and other stakeholders, to act as an incentive whilst not affecting a director's impartiality in terms of amount.

For this purpose, for years comparative analyses have been performed of peer companies and permanent contact is maintained with the Company's shareholders and proxy advisors. As a result of this analysis and of the market research carried out by the Company with the support of an international consultant, in 2014 a new remuneration structure was established replacing the variable remuneration component with a fixed component, so non-executive directors no longer receive any variable remuneration.

Only the remuneration of the executive directors includes variable components tied to short and long-term targets aligned with the Company's prime objectives.

Since 2015, environmental, social and good corporate governance **(ESG) criteria** have been applied in calculation of the **variable remuneration** of the managing director and of senior executives.

**The Directors Remuneration Policy** applicable in 2019 was approved by the Annual General Meeting of Shareholders held on 22 March 2019, for a term of three years. Its core principles are:

General principles	Executive director (managing director)	Non-executive directors
Balance and moderation	x	x
Alignment with the practices demanded by shareholders and investors	x	x
Transparency	x	x
Voluntary submission of any decision related to director remuneration to approval of the Annual General Meeting of Shareholders	x	x
Alignment of remuneration policy with the Company's strategy	x	x
Alignment with the remuneration established by comparable companies	x	x
Remuneration policies and practices ensure no discrimination by reason of gender, age, culture, religion and race	x	x
Linkage to effective time commitment	x	x
Linkage to the responsibility and performance of their tasks as directors	x	x
Maintaining a reasonable balance between the various components of (short-term) fixed remuneration and (annual and long-term) variable remuneration, reflecting an adequate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value	x	
Absence of variable components in remuneration in order to ensure their complete independence with respect to the remuneration paid to the executive director (managing director) and management team		x
Sufficient to act as an incentive, without limiting their independence		x

All of the foregoing principles are consistent with the Company's Corporate Governance Policy, approved by the Board of Directors at its meeting of 25 November 2014 and published on the corporate website.

Moreover, said remuneration principles comply with the general rules laid down for companies in the Spanish Companies Act, regarding the need for remuneration to be commensurate with a Company's size and importance, economic position, comparability, profitability and sustainability; and the need not to encourage excessive risk taking and not to reward adverse results.

The Directors Remuneration Policy approved in 2019 may be consulted on the corporate website via the following link:

[Directors Remuneration Policy](#)

## OTHER HIGHLIGHTS OF DIRECTOR REMUNERATION

Since 2010, Red Eléctrica voluntarily submits the Annual Report on Directors Remuneration and, since 2007, the annual remuneration of the Board of Directors to the Annual General Meeting of Shareholders for approval, as separate and independent items on the General Meeting agenda. Consequently, the proposals and reports on these matters are submitted to the shareholders for a binding vote.

This line of action was continued in 2019 and, in addition to the Directors Remuneration Policy, at the General Meeting of a proposal to amend the Articles of Association (article 20) in relation to the remuneration of the Board of Directors, the Annual Report on Directors' Remuneration and the remuneration of the Board of Directors for 2019 was submitted for approval (in a binding vote) of the shareholders as separate and independent points on the agenda of the Annual General Meeting of Shareholders. Red Eléctrica Corporación S.A. thus continues to align itself with corporate governance best practices, giving shareholders the necessary autonomy and independence of judgment to be able to vote on each resolution individually and separately.

The proposed Board remuneration was supported by practically all of the shareholders at the Annual General Meeting of Shareholders held on 22 March 2019, with only 0.53% voting against. For years the government owned shareholder SEPI has abstained from voting on proposals for remuneration of the Board at the Annual General Meeting of Shareholders, in line with the policy it follows in all Spanish listed companies in which it holds a minority interest.

At the Annual General Meeting of Shareholders to be held in 2020, there will be submitted for approval (binding vote) of the shareholders as separate and independent items on the Agenda the Annual Report on Directors' Remuneration and the remuneration of the Board of Directors for 2020, following the same line as in previous years. These proposed resolutions can be consulted on the corporate website ([www.ree.es](http://www.ree.es)), in the Annual General Meeting of Shareholders section.

Modification of the Articles of Association, new Directors Remuneration Policy, remuneration of the Board of Directors and the Annual Report on Directors' Remuneration **approved by the shareholders on a binding basis.**

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## 6. APPLICATION OF THE INTEGRATED COMPLIANCE, RISK MANAGEMENT AND CONTROL SYSTEM

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### 6.1 ETHICS AND COMPLIANCE IN THE RED ELÉCTRICA GROUP

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For the Red Eléctrica Group, **ethics and compliance** are fundamental pillars of the proper pursuit of its business. The company is committed to acting with the utmost integrity in the performance of its obligations and commitments, as well as in the relations and engagement with its stakeholders.

The Red Eléctrica Group has a number of rules of corporate conduct that lay down the values and standards of ethical behaviour that must be embraced by all persons in the Red Eléctrica Group in the performance of their professional activities.

Red Eléctrica has a **Compliance System** aligned with best practices in this field, so as to ensure that the organisation properly respects the obligations established and undertakings given and so develops a culture in which compliance risks are managed proactively.

INTEGRITY MODEL OF THE RED ELÉCTRICA GROUP				
Ethics Code	Compliance System	Code of conduct for suppliers	Criminal Compliance System	Guide for the prevention of corruption

#### 6.1.1 Development of ethics and compliance culture

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Awareness and training are key factors in developing an **ethics and compliance culture** within the organisation. The Compliance Area is responsible for creating an enterprise-wide awareness and understanding of the importance and strategic role of the Red Eléctrica Group's compliance system within the organisation's integrity culture.

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*Red Eléctrica continuously promotes a **culture based on ethics and compliance**, as a fundamental element of due diligence in the management of compliance risks.*

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As part of Red Eléctrica's commitment to Ethics and Compliance, it participated in the **Integrity Forum of Transparency International Spain**. This forum is a platform for reflection, in order to improve compliance and ethics management in Spanish companies. It is organised in different working groups and holds regular thematic sessions on business ethics.

Red Eléctrica is a member of the **Spanish Compliance Association** (ASCOM) and actively participates in the working groups on criminal compliance, data protection and new technologies, prevention of money laundering and compliance in the industrial sector. It also has joined the group of large companies belonging to the **Forética Transparency, Good Governance and Integrity Cluster**.

### 6.1.2 Ethics Code

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**The purpose of the** Red Eléctrica Group's Ethics Code is to provide an ethics guide for the management, directors and employees of the Red Eléctrica Group, laying down the values and commitments that should govern their activity in the Group.

The current version of the Red Eléctrica Group's Ethics Code was approved by the Board of Directors on 28 May 2013, responding to the demands of stakeholders and the recommendations of the bodies that set standards in this field, notably including the United Nations Organisation, the European Union, the Organisation for Economic Cooperation and Development and international bodies such as Transparency International and Fundación Étnor, amongst others.

#### Process of reviewing and updating the Ethics Code

In 2018, the Company began the process of reviewing and updating the Ethics Code with the aim of adapting it to the best practices in compliance management, as well as to the evolution of the demands of stakeholders and the changes produced in the structure of the Red Eléctrica Group.

The pursuit of this project has been carried out by a specific multidisciplinary working group formed by the areas of compliance, sustainability, corporate governance, human resources and procurement. During 2019, the Company has planned the participation of the rest of the organisation's areas and stakeholders in the project, prior to final approval of the new Code.

In this work, the Red Eléctrica Group engaged the international standard-bearer on integrity matters, Transparency International, for the external review of the new Code, and actively engaged Group employees in the process with an ad hoc evaluation survey. The process of approving the new Code is expected to be completed during the first half of 2020.

### 6.1.3 Code of Conduct for Suppliers

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The Red Eléctrica Group has a specific code for its suppliers in which it highlights the monitoring of respect for human rights and compliance with occupational and environmental safety requirements by its suppliers, in the development of the products or services required by the company, whether they have been carried out directly or through other companies.

In 2019 the Company undertook a review and update of the code of conduct for suppliers to adapt it to the best practices in compliance management and to the updated version of the Red Eléctrica Group's Ethics Code. The importance for the Company's ethics management of having a supply chain aligned with the values and standards of behaviour of the Ethics Code requires that the code of conduct for suppliers be periodically reviewed to ensure it is in line with the best practices in relation to due diligence with third parties.

For the external review of the new Code the Red Eléctrica Group engaged the support of Transparency International, the key benchmark entity in the integrity area. Approval of the new Code is expected to be completed during the first half of 2020.

## 6.1.4 Ethics Channel

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To encourage application of the Ethics Code, the Red Eléctrica Group has established an **ethics channel** on its corporate website, where users can submit inquiries, report wrongdoing and make suggestions to the Ethics Officer and advocate for the Company's stakeholders. The channel is audited periodically and ensures the confidentiality of its users.



Red Eléctrica also has another channel for receiving reports of non-compliance, complaints, inquiries and ethical suggestions, the DÍGAME telephone hotline, which is available to external stakeholders who are not aware of the Ethics Channel. This service refers inquiries to the Ethics Officer, preserving confidentiality.

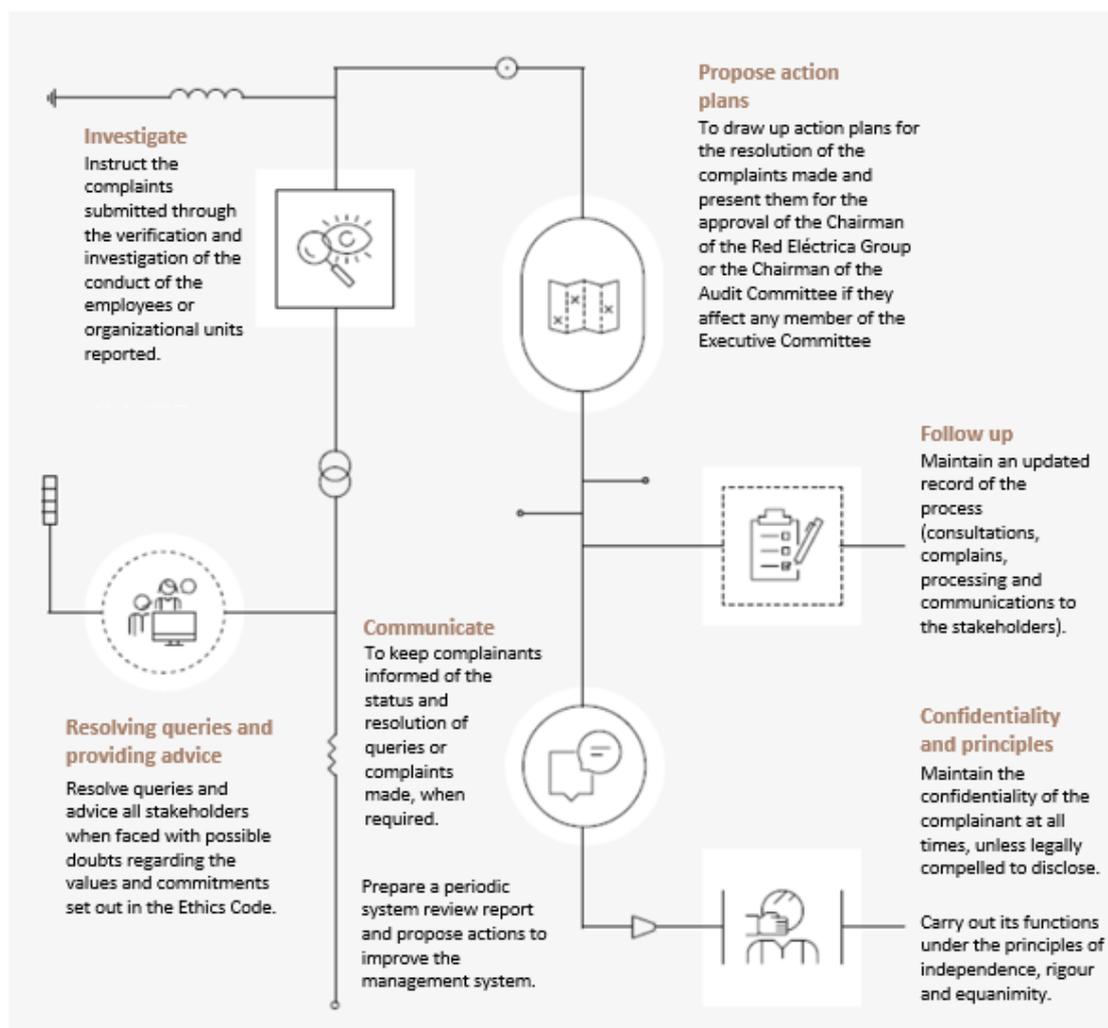
During 2019 the Ethics Officer was consulted 21 times via the Ethics Channel, with a maximum resolution time of 10 days. The consultations referred to the following standards of behaviour:

- Integrity, responsibility and transparency.
- Respect, dignity and non-discrimination.
- Responsible monitoring of management of suppliers.
- Limitation on the acceptance of gifts, loans or invitations.
- Proper safeguarding of information systems.

During 2019 three complaints were received in relation to compliance with the Ethics Code, one of which is pending resolution at the conclusion of this report. More precise information on these complaints can be found on the company's website at the following link: [Annual executive on management of the Ethics Code](#) .

### **ETHICS OFFICER**

To ensure awareness, application of and compliance with the Ethics Code, Red Eléctrica appointed Rafael García de Diego, general secretary and secretary of the Board of Directors, as Ethics Officer and stakeholder ombudsman. The responsibilities of the Ethics Officer are as follows:



## 6.1.5 Tax Strategy

The Red Eléctrica Group is committed to complying with tax legislation and with its tax obligations, fosters a cooperative relationship with the tax authorities and considers the tax contribution in all territories where it operates as significant for the overall economic and social development.

The responsibility for setting tax strategy, formulating policy on tax risk management and control, and approving investments or transactions which due to their amount or special characteristics are considered strategic or which entail particular tax risk is reserved to the Board of Directors and cannot be delegated. This reflects the strategic role of Boards of Directors in tax matters.

The **Tax Strategy** of the Red Eléctrica Group was approved by the Board of Directors on 30 June 2015 and has as its purpose to define the approach to be taken to tax matters on a consistent basis and aligned with the strategy of the Group. It lays out the vision and objectives in the tax area, and is based on the three core values of transparency, good governance and responsibility.

The tax strategy's vision can be summed up as follows:

"Manage tax matters proactively, acting responsibly and transparently towards all stakeholders and in such a way as to comply with tax legislation and minimise reputational risk, making compliance compatible with protection of shareholder value."

The scope of application of the Tax Strategy includes all Red Eléctrica Group companies and covers the following tax obligations:

- Fulfilment of the obligation to file returns for and pay for taxes charged and borne.
- Fulfilment of the obligation to file returns for and pay taxes collected and paid for the account of third parties.
- Fulfilment of tax reporting obligations.

On 29 September 2015 the Board of Directors approved the Red Eléctrica Group's **Tax Risk Control and Management Policy** and its integration into the Integrated Risk Management Policy. The tax risk management and control systems are described in Section 6.3 of this Report.

As part of the development of good practices that reduce tax risks, the following actions have been taken:

- ✓ Approval of the tax policies applied in the annual corporate income tax return for 2018. This was done before the annual tax filing, at the Audit Committee meeting held on 20 June 2019.
- ✓ Information on the Annual Report on Tax Transparency for financial year 2018. This action was taken at the Audit Committee meeting of 18 September 2019.
- ✓ Approval of the tax policies applied in the first half of 2019. This action was taken at the Audit Committee meeting of 29 July 2019.
- ✓ Approval of the 2018 Country by Country Information Statement. This action was taken at the Audit Committee meeting of 12 December 2019.
- ✓ Approval of the tax policies applied in the closing of accounts for financial year 2019. This was done in the Audit Committee meeting on 20 January 2020, before the financial statements for 2019 were authorised for issue.

The Red Eléctrica Group has an enterprise-wide Risk Management System that includes the main tax risks for the Group and the mechanisms for their mitigation, control and management.

In addition, the Group has a System for Internal Control over Financial Reporting (ICFR) that includes tax reporting and processes and their associated controls, based on the COSO II (Committee of Sponsoring Organisations of the Treadway Commission) methodology. These processes and systems undergo systematic internal and external audits.

The Red Eléctrica Group has diverse mechanisms to prevent unlawful operations, money laundering and asset stripping. These include the Ethics Code, the Code of

conduct for suppliers, the System of criminal compliance and the "Guide for the Prevention of Corruption: Zero Tolerance", which is made available to Red Eléctrica Group employees, suppliers and stakeholders on the corporate website. The Red Eléctrica Group also carries out awareness-building actions and ongoing training in which those documents are given to employees.

The Red Eléctrica Group's Ethics Code and Tax Strategy establish a commitment not to create companies in order to evade tax in countries considered tax havens.

The Red Eléctrica Group has no presence or any operations in territories officially classified as tax havens according to the current regulations.<sup>4</sup>

Furthermore, at its meeting on 29 September 2015, the Board of Directors of Red Eléctrica Corporación, S.A. approved a resolution requiring the Red Eléctrica Group to subscribe to the **Code of Best Tax Practices** adopted by the Spanish Tax Agency (AEAT) within the framework of the Large Businesses Forum (Foro de Grandes Empresas). Adherence to those practices is in line with the tax principles and guidelines set out in the Group's Tax Strategy.

On 28 October 2016, the Large Businesses Forum approved a proposal to strengthen good practices in business tax transparency, and proposed that companies issue an "**Annual Report on Tax Transparency for Companies Adhering to the Code of Good Tax Practices**". Pursuant to the above, since 2017 the Red Eléctrica Group has been voluntarily submitting said Tax Transparency Report with the AEAT and has now filed those reports for fiscal years 2016, 2017 and 2018.

Following the practice started in 2014, and with the aim of voluntarily offering greater **tax reporting transparency** to its different stakeholders, the Company published its total tax contribution, making clear the significant economic and social role of the taxes paid by the Group.

In order to calculate its total tax payments, the Red Eléctrica Group uses PricewaterhouseCoopers's Total Tax Contribution (TTC) framework, which measures the total impact derived from a Company's payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to the different Tax Authorities, directly or indirectly, as a result of the Red Eléctrica Group's economic activity.

The Red Eléctrica Group's total tax contribution for 2019 is published in the 2019 Sustainability Report.

Lastly, it should be noted that in 2019 the Red Eléctrica Group, pursuant to its commitment to transparency in the conduct of its activities, published a tax report for 2018 setting out the main tax issues and positioning of the Group. That report may be consulted on the corporate website.

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<sup>4</sup> Royal Decree 1080/91 of 5 July 1991, subsequently amended by Royal Decree 116/2003 of 31 January 2003, European Union list of non-cooperative tax jurisdictions and the OECD list of non-cooperating tax havens.

## 6.2 COMPLIANCE

### COMPLIANCE SYSTEM

Red Eléctrica has a Compliance System aligned with best practices in this field with the aim of supporting the organisation in complying with its obligations and commitments. The purpose of the compliance function is to promote a comprehensive vision that anticipates compliance risk, ensures that it is controlled efficiently, guaranteeing that said risk is managed on a coordinated and unified basis across the entire enterprise, improving the internal control in the organisation.

The Compliance Area is responsible for the design, development, implementation and monitoring of the Red Eléctrica Group's Compliance System.

Objective del Compliance System				
Ensure that all people in the company are aware of and comply with the external and internal obligations contained in the regulations and the voluntary commitments, as well as provide <b>due control</b> for their compliance.	Define and develop a <b>compliance map</b> for each of the defined regulatory areas.	Systematically identify, analyse and evaluate the <b>key controls</b> that mitigate compliance risks, using uniform criteria.	Report to the control bodies of the Red Eléctrica Group on the <b>status and evolution</b> of compliance in each of the defined regulatory areas.	Promote a <b>corporate culture</b> based on ethics and compliance.



## Regulatory areas of the Red Eléctrica Group's Compliance System:



### KEY ACTIONS IN 2019

- Approval of a global compliance policy of the Red Eléctrica Group.
- Update of the criminal compliance system and creation of the Criminal Compliance Committee.
- Approval of a criminal compliance system for the subsidiaries of the Red Eléctrica Group in Latin America.
- Update of the Code of Conduct of the System Operator.
- Development of the 2019 Plan to build awareness and disseminate the compliance system
- Design of a global system of due diligence for third party compliance.

### NEXT OBJECTIVES

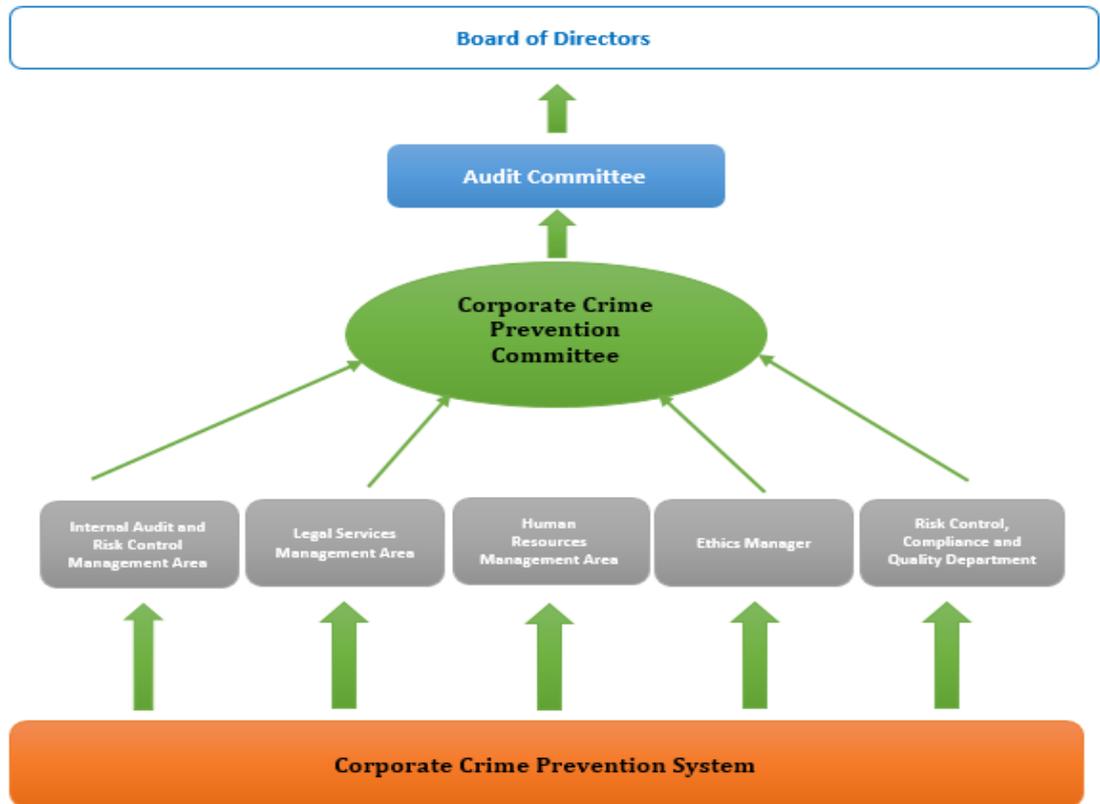
- Approval of the updated version of the Ethics Code and the Code of Conduct of the Red Eléctrica Group and of the Code of conduct for suppliers.
- Implementation of global system of due diligence for third party compliance.
- Review and update of the corruption prevention system to adapt it to best practices.
- Digital transformation of the compliance function.
- Development of a system to promote, measure and accredit the compliance culture.

## CRIMINAL COMPLIANCE SYSTEM

Red Eléctrica has a **Criminal Compliance System** aimed at identifying the rules, procedures and tools established in the Group to avoid the breach of legal rules that carry criminal liability for the Company and its employees and to adapt them to the regulatory environment. This widens the due control exercised by the Red Eléctrica Group to take in the management and prevention of criminal risks that can affect its activity and business sector.

The Board of Directors, as highest body with risk management responsibilities in the Red Eléctrica Group, in accordance with the applicable laws and regulations has

designed the Criminal Compliance Committee as specific body to control the Red Eléctrica Group's Criminal Compliance System. The Criminal Compliance System Committee is responsible for supervising and monitoring the Criminal Compliance System of the Red Eléctrica Group, for the purpose of ensuring that main criminal risks be properly identified, managed and made known internally.



In 2019, the Company completed the process of reviewing and updating the criminal compliance System with the aim of adapting it to the criteria of the Red Eléctrica Group's global Compliance System and to best practices in the area of management of criminal compliance.

In 2019, the Ethics Officer received no complaints about breaches related to criminal risks and none of the Group's companies has been investigated or convicted for breaches related to the organisation's criminal risks.

## PREVENTION OF CORRUPTION AND CONFLICTS OF INTEREST

The ethics Code and the related inquiries and complaints management system include aspects related to the fight against corruption, and are an effective mechanism for the detection and treatment of possible cases of corruption and fraud. The governing bodies, employees and suppliers of Red Eléctrica know and adhere to the Ethics Code and, as applicable, the organisation's Code of conduct for suppliers, in their entirety.

The Red Eléctrica Group has a **Guide for the Prevention of Corruption: Zero Tolerance**, approved by the Board of Directors in 2015, which develops the corporate values and behavioural guidelines contained in the Ethics Code related to the main manifestations of corruption.

All persons in the Red Eléctrica Group know and embrace the content of that guide and guide their actions by the principals, commitments and controls set out there.

The company periodically checks the processes considered susceptible to the risk of corruption and fraud. Those controls involve internal audits based on the programmes for prevention of fraud and criminal liability, which include specific controls for those risks.

Red Eléctrica's processes are integrated in systems organised in accordance with international standards (IQNet SR10, ISO 9001, ISO 14001 and ISO 450001) and their design has included controls to mitigate or reduce the main risks associated with those processes.

In addition, there is a system for internal control over financial reporting (ICFR) that includes controls for the risks of inappropriate use of assets and intentional misrepresentations in financial statements. The independent assurance report on that system is included as an annex to this report.

In 2019, in accordance with the standards of conduct set out in the Ethics Code, which prohibits contributions to political parties and organisations, no donations, subsidies or loans were made by the Group to political parties.

During the past year no reports of wrongdoing were received in the Ethics Channel in respect of possible cases of corruption. No company in the Red Eléctrica Group has been investigated or convicted by any court of wrongdoing in cases of corruption.

In addition, the Red Eléctrica Group has a **Guide for the management of conflicts of interest** since 2018, for the implementation of the commitments assumed in the Ethics Code in this area, with the aim of detecting and preventing potential conflicts of interest that could affect the executive team of the Red Eléctrica Group. This guide, the result of the Red Eléctrica Group's duty of diligence in matters of conflicts of interest, incorporates preventive measures to minimise risks in this area.

## **PROTECTION OF PRIVACY**

The Red Eléctrica Group has a Data Protection Compliance System, as part of its Global Compliance System, that responds to the requirements of the European Data Protection Regulation and to Spain's Organic Act on the Protection of Personal Data at the technical, legal and organisational level.

The purpose of the System is to promote and maintain a responsible, proactive approach to the protection of personal data that ensures good governance of personal data and nurtures the trust of our stakeholders.

### **Data Protection Governance Model**

The Red Eléctrica Group's governance model for data protection responds to the organisational demands of data protection regulations, assigning and defining the responsibilities and functions of the organisation's units and members in relation to data protection matters.

The model has been developed taking into account, amongst others, the following aspects:

- The appointment of a Data Protection Officer (DPD) responsible for ensuring compliance with data protection rules and acting as conduit for communication with the supervisory and control authority for these matters.

- The creation of a Data Protection Advisory Body to support the proper functioning of the data protection compliance system and propose legal, technical and organisational improvements in that system. In addition to the DPO, the advisory body is composed of representatives from the following areas: Compliance, Legal Services, Corporate Security, Information Technology and Human Resources.
- The creation of a network of representatives for personal data protection matters in the various departments of the Red Eléctrica Group in Spain, as a key position for instilling a proper data protection culture in the Company, linking the management of the different areas to compliance with the regulatory requirements in this area.

### **Development of a Privacy Culture**

Awareness and training are key factors for developing a privacy culture within the organisation.

Through the annual plan of activities of the data protection compliance system, Red Eléctrica promotes proper training, awareness and education in the organisation regarding the importance of the data protection compliance system within the integrity culture of the Group.

Red Eléctrica places prime importance on having a corporate compliance culture in which all people in the organisation value the privacy rights of our stakeholders and their members.

During 2019 diverse awareness, education and training activities were carried on regarding privacy matters and will be continued in 2020, including the following:

- Workshops for specific groups within the organisation that are especially involved in the processing of personal data.
- e-learning training sessions on privacy for the entire workforce.

### **Proactivity in the protection of personal data.**

The Red Eléctrica Group takes a conscientious, diligent and proactive approach to its processing of personal data.

In line with the above, the Company has:

- A privacy policy that determines questions such as how personal data are to be handled so as to safeguard the rights of the data subjects, and the security of the data.
- A specific methodology for analysing risks in the processing of personal data, aimed at evaluating those risks and implementing security and control measures that guarantee the rights and freedoms of citizens.
- A methodology for identifying, evaluating, rating and responding to security incidents relating to compliance with data protection rules and regulations.
- A protocol for allowing exercise of the rights of access, rectification, erasure (right to be forgotten), objection, portability and restriction of processing of personal data.

- The Data Protection Officer is the person responsible for ensuring personal data protection rights in Red Eléctrica Group.

In 2019 the Data Protection Officer received no complaints regarding breaches of personal data protection and none of the companies in the Group has been investigated or sanctioned for breaches of privacy rules and regulations.

## 6.3 INTEGRATED RISK MANAGEMENT AND CONTROL

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### 6.3.1 Integrated risk management system

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An integrated risk management System has been in place in the Red Eléctrica Group since 2002 for the purpose of achieving the Group's strategies and objectives, ensuring that the risks that can affect them, including tax risks, are identified, analysed, evaluated, managed and controlled in a systematic manner, subject to unified criteria and within the acceptable risk level approved by the Board of Directors.

The management system is developed in accordance with the ISO 31000 standard on principles and guidelines in the management of risk, and is of an integrated and ongoing nature, with such management being undertaken by business unit, subsidiary and corporate level support area.

The Red Eléctrica Group has an integrated risk management Policy and a general procedure for enterprise risk management and control, based on the COSO II Integrated Framework for Enterprise Risk Management (Committee of Sponsoring Organisations of the Treadway Commission).

In 2015 work started on a gradual review of compliance with the five components of internal control, according to the COSO Integrated Framework, May 2013. At the end of 2015 the audit firm Ernst & Young (EY) reviewed the first of these components ("Control Environment") and in November 2016, the second ("Risk Assessment"). In both reviews it concluded that the elements and activities related to the risk evaluation and control environment are formalised and present in all areas/operations of the organisation and, furthermore, in many cases the benchmark best practices in these areas have been implemented.

During 2017 the third component, "Control Activities", was evaluated by the firm of Deloitte, the conclusion being that within the Group it is mature and in line with advanced best practices in the market.

On a complementary basis, in 2017 the firm EY undertook an audit of the integrated risk management system. As a result of this review it was concluded that the implementation of the system conforms with the ISO 31000 standard.

In 2018, EY performed an evaluation of the fourth component of the COSO Integrated Framework: "Information and communication", concluding that Red Eléctrica has strong information and communication mechanisms, aligned with the most advanced practices with regard to this reference framework.

In 2019, further to the work done in reviewing the internal control components, the review of the COSO components was completed with the evaluation of the fifth component: "Monitoring activities", by the firm of PWC, which concluded that Red Eléctrica has activities and controls in place that ensure a high level of compliance with the principles of this component, in line with the best practices in internal control.

## Integrated risk management policy

The integrated risk management policy is approved by the board of directors. This policy identifies the different types of risks that may affect the Group, sets the level of risk considered to be acceptable and provides guidelines for managing and mitigating such risks.

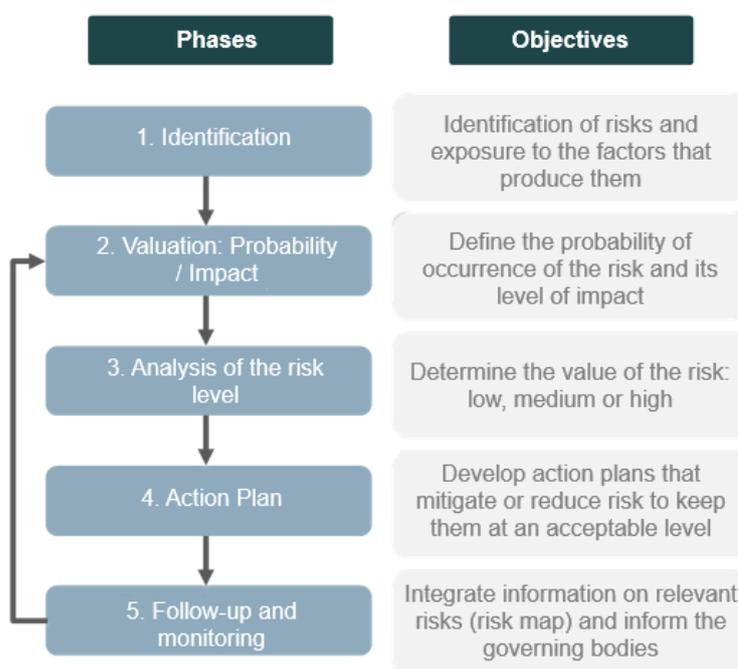
Since 2015, it has included the tax risk control and management policy.

This policy is fully aligned with the Group's strategic plan and is available in the Corporate Governance section of the corporate website via the following link: [Integrated Risk Management Policy](#).

## The integrated risk management and control procedure

For its part, the general procedure for integrated risk management and control regulates the identification, analysis, assessment and control of the management of the material risks faced by the Group.

The procedure is intended to ensure that managers at all levels within the Group are aware of and assess the risks that threaten the Group's strategies and objectives, take those risks into account in their activities and keep them within the set levels of acceptable risk.



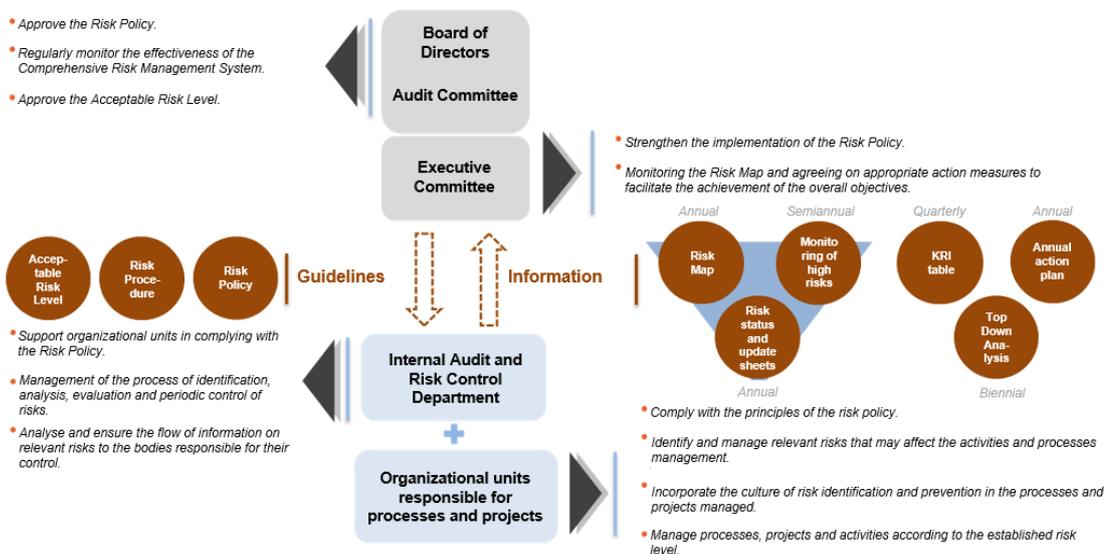
## Organisational structure

The integrated nature of the Risk Management System ensures the participation of all the units of the Red Eléctrica Group and ensures that the bodies in charge of risk control are adequately informed of the risk situation.

The Integrated Risk Management and Control Policy and Procedure defines the different responsibilities of the governing bodies and each of the organisational units,

as well as the information flows and activities to be carried out, in accordance with the scheme shown in the following graph.

### Organisational scheme



The **Board of Directors** Regulations expressly give the Board of Directors responsibility for approving the integrated risk management policy of the group. This includes the defined level of acceptable risk, and receiving reports on and periodically monitoring the internal control, prevention and reporting systems.

On a biannual basis, the Board reviews the risk control system and material risks, including tax risks, without prejudice to the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The **Audit Committee** is responsible for periodically supervising the effectiveness of the integrated risk management system, including tax risk, to ensure that material risks are identified, kept within the established acceptable risk levels and properly reported.

The **Executive Committee**, composed of executives from the most significant and strategic areas of the Company, is assigned the functions of monitoring the material risks map and ensuring that the risks classified as high level and other especially important risks, as well as the critical action plans to mitigate those risks, are properly controlled and monitored.

The **Internal Audit and Risk Control Department**, pending from an organisational standpoint from the chairman and from a functioning standpoint from the Audit Committee, is responsible for coordinating and supporting the risk identification, analysis and assessment process and periodically controlling risks. This department submits the appropriate reports to the Executive Committee, Audit Committee and Board of Directors.

The **organisational units** participate continuously in the process of identifying, analysing and evaluating the Group's risks, together with the Internal Audit and Risk Control Department, and in the implementation of the action plans defined to mitigate them.

### 6.3.2 Main risks, level of acceptable risk, and response and supervision plans.

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#### **Main risks that may affect the achievement of the Group's strategies and objectives**

One of the Red Eléctrica Group's core businesses involves transmission activities and operation of the electricity system in Spain. These are classified as regulated activities, as their development is critical for the security and continuity of Spanish electricity supply, and they are carried out exclusively.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which the company has to undertake its principal activities and determines the risks to which it is exposed.

Furthermore, in its latest Strategic Plan (2018-2022), the Red Eléctrica Group has made clear the importance of the new activities taken up by the Group in the telecommunications, international business and digital transformation areas, primarily.

The types of risks the Group faces in the pursuit of its strategies and objectives can be classified as follows:

#### Strategic:

- Risks related to the **regulatory framework** in which the Group's activity is carried out.
- **Business** risks associated with the business context itself or with strategic decisions.
- Risks related to **sustainability and good governance**.

#### Operational:

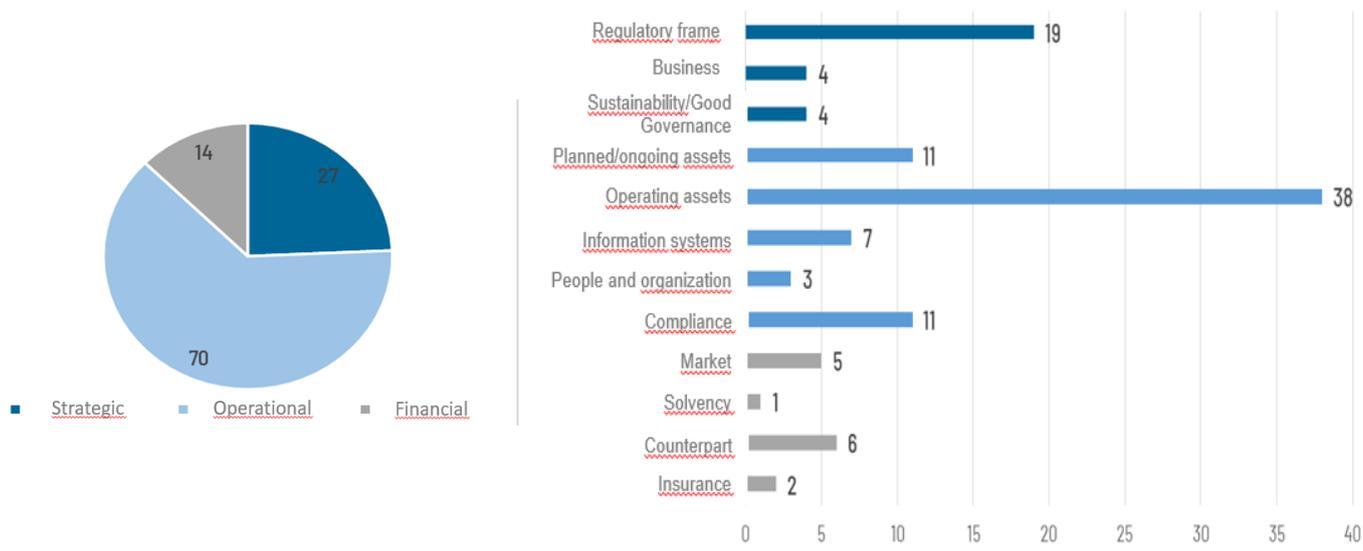
- Risks associated with **assets planned and/or in progress**.
- Risks associated with **assets in service**.
- Risks related to **information systems**
- Risks related to **people and their** organisation.
- **Compliance** risks.

#### Financial:

- **Market** risks
- Risks related to the **solvency** of the company.
- **Counterparty** risk
- **Insurance** risks.

The tax aspects, classified as strategic risks related to the regulatory framework, were included in 2015 in the Policy for integrated risk management, establishing the specific guidelines for action to manage such risks.

Following the risk analysis performed by the Red Eléctrica Group, the latest Risk Map identifies 111 risks, which are shown in the following chart by risk category:



There is detailed information on the current risks of the Group, and the risks that may emerge in the future, in the company's Sustainability Report. This report is available on the corporate website ([www.ree.es](http://www.ree.es)).

### Acceptable Risk Level

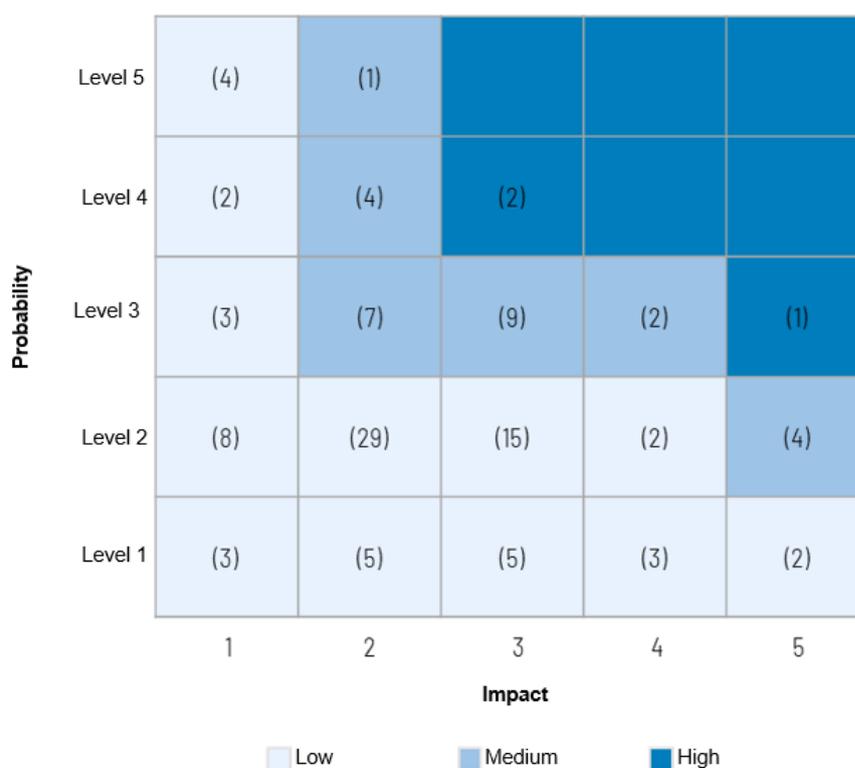
The Integrated Risk Management System of the Group sets out a methodology to determine the level of risk. As a result all identified risks are classified into three levels:

- High-level risks.
- Medium-level risks.
- Low-level risks.

The level of a risk is established by combining two variables, the **probability** of occurrence and the **impact** that the materialisation of said risk would have on the company as regards four key elements of the business:

<p><b>ELECTRIC POWER SUPPLY</b> Energy not supplied (ENS) as a result of the possible event.</p>	<p><b>REPUTATION</b> Perception of stakeholders as a result of failing to meet their expectations and dissemination of the event in communication channels and social networks.</p>
<p><b>STRATEGIC PLAN</b> Degree of impact on the achievement of the Group's Strategic Plan.</p>	<p><b>ECONOMIC LOSS</b> Impact on the income statement, after corporate income tax.</p>

Depending on the probability of occurrence and the level of impact of each risk, it is placed in the **probability/impact matrix**, which automatically determines the level of risk. The following matrix reflects the distribution of the 111 risks identified according to their assessment.



The risk level the Red Eléctrica Group is willing to accept is established both for individual risks, and for aggregate risk for each of the impact axes.

The **global acceptable risk level** that the Group is willing to assume for each of the four impact axes contemplated in the Integrated Risk Management System is approved by the Board of Directors. As a general rule, the overall risk level must not exceed this approved acceptable risk level.

At the individual level, as established in the Integrated Risk Management Policy, any risk that does not exceed the low risk level is considered to be acceptable. Risks above this level must be acted upon to reach the acceptable level. Risk management will be carried out having regard to the relation between the importance of the risk and the cost and measures needed to reduce it. However, for activities that have an impact on the electricity system, the impact that the risks may have on the system must also be taken into account.

### Risks that materialized in 2019

No significant financial risk materialised in 2019.

With respect to strategic risks, notable in the regulatory area this year was the publication by Spain's competition and markets authority, the CNMC, of proposed Circulars establishing the methodology for calculating the remuneration payable to Red Eléctrica for its activity as TSO. The circulars are intended to regulate the remuneration

of said activities for the regulatory period 2020-2025, thereby dispelling the uncertainties associated with certain aspects of the remuneration scheme.

The proposed Circular on the methodology for remuneration of the transmission activity maintains the end of the useful life for pre-98 assets (those that obtained operating licenses prior to 1998) as from 2024, after the approval of the increase in one year resulting from the upgrade and improvement actions carried out in 2015-2018. For its part, the proposed Circular on unit values sets out the standard transmission facilities and sets a reduction of the operating and maintenance unit values for the period 2020-2025. With respect to the proposed Circular on the financial rate of return (FRR), the calculation methodology based on weighted average cost of capital is ratified, with a proposed FRR of 6.003% in 2020 and 5.58% for the rest of the regulatory period (2021-2025). Lastly, it should be noted that there has been established for the first time via a proposed Circular a methodology for calculating the system operator's remunerations that increases the current remuneration and minimises the remuneration risks associated with that activity.

Red Eléctrica submitted its input on many aspects of the proposed Circulars seeking to attain a regulatory environment that allows the Company to perform its key role as electricity system operator and transporter in the ecological transition process. It bears emphasis that the impact of a large part of the measures finally backed by the MITECO has already been envisaged in the projections used in the Group's current Strategic Plan.

With regard to operational risks, it should be noted that transmission grid installations are permanently exposed to events that may affect the continuity and security of the electricity supply. These events are mainly caused by third parties and meteorological phenomena. If they materialise, the Group has insurance policies that limit the potential impact of these events on the income statement.

During 2019 events occurred that led power outages of minor importance, except for the blackout that affected the island of Tenerife on 29 September due to an electrical failure in the Granadilla substation. This incident was known as a complete 'zero energy' blackout, leading Red Eléctrica to activate the replacement protocol envisaged for swift and secure recovery of supply. At the same time Red Eléctrica called together the Emergency Committee to coordinate the process of resuming power supply and to handle institutional and media communication tasks. It took 9 hours and 14 minutes to restore demand completely, although the process was gradual and slow. The power supply shortfall associated with the process was 2,623.90 MWh. The investigation and analyses conducted in the substation equipment found that the incident originated in a fortuitous and undetectable failure of a voltage transformer in the 66kV Granadilla substation.

The main actions to mitigate these risks are focused on maintenance of the facilities to ensure they are in proper working order, and on development and strengthening of the transmission network to avoid an isolated incident from producing a grid-wide disturbance. Along these lines, since 2011 (when the Canary Islands assets were acquired) Red Eléctrica has invested a total of 325.8 million euros in maintenance, upgrade and refurbishment of the transmission network, including 2.2 million euros in the Granadilla substation where the power supply incident originated. Also, between 2014 and 2018 capital expenditure on new grids in the Canary Islands amounted to 326.3 million euros, with a further 487.9 million budgeted through 2021.

Noteworthy amongst the operational risks associated with the assets in service are environmental risks, that is, those whose materialisation could have an impact on the

environment. On 11 September 2019, the protective systems for the submarine electrical connexion between Spain and Morocco detected a leak of coolant in one of the cables (powerline number 7) of the two circuits comprised by the connection, which is owned 50-50 by L'Office National d'Électricité et de l'Eau Potable (ONEE) of Morocco and Red Eléctrica. The problem was located in Moroccan waters some 15.4 km from the Spanish coast at a depth of 490 metres. It bears emphasis that the coolant liquid is biodegradable and once dissolved in water is not harmful to marine or human health. The investigations carried out and the available evidence indicate that the incident was due to external aggression.

When the incident occurred, owing to the design of the facility, the leak containment system was automatically activated and progressively reduced the pressure of the coolant liquid down to the technically viable minimum. The Maritime Interior Plan was also activated for the interconnection in the alert phase and Spanish maritime authorities, the Ministry of Ecological Transition and all other relevant authorities were kept duly informed on the incident at all times. The work to seal the interconnection was completed on 16 October and efforts then focused on repairing the interconnection facilities. Although the interconnection capacity with Morocco has declined from 900 to 400 MW due to the loss of one of the two circuits, this incident has at no time affected the security of electricity supply.

Red Eléctrica has proactively increased its surveillance plan for the zone and for maritime activity on the interconnection route during the time the circuit has been rendered inoperative, implementing a plan of action that supplements the ordinary surveillance and supervisory activities. Toward this end, additional alarms and in situ supervision have been included in the control system and in the AIS surveillance system. This supervision consists in surveillance from a ship of the interconnection cable route. This work is of the utmost importance, as it serves to alert ships that are anchored or sailing at low speeds in these areas as to the prohibition on remaining there to instruct them to sail on to other locations.

### **Risk response and supervision plans for the Group's main risks**

In the process of identification, analysis, evaluation and control of risks, the actions required to reduce the degree of risk to the acceptable level are established.

To monitor risks, the current risk management system contemplates the **monitoring of more than 500 actions plans** aimed at reducing risk levels, with **more than 300 indicators** of the evolution of those levels.

The Risk Control unit, together with the risk management units, reviews the evolution and effect of the action plans established. This review is carried out annually covering all risks and, on a half-yearly basis for those high level risks and others subject to special vigilance as it is considered that changes in their situation could raise them to high risk levels in the medium/long-term.

Furthermore the company has a **System for Internal Control of Financial Reporting (SICFR)**, with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, with the early and voluntary adoption of international best practices. The SICFR includes the tax information and processes of Red Eléctrica and the controls associated therewith.

Red Eléctrica has **contingency plans** that regulate the various crisis situations that may arise in the event of an electricity incident (to ensure security of supply), or a non-electricity incident that may affect the environment, people, the operations of the

company, the availability of its systems, the business results or any other aspect that may have an impact on the reputation of the company.

Also, the Company has a **Business Continuity Plan** aimed at making the necessary preparations and planning a set of procedures to be able to respond appropriately to a disaster, crisis or emergency, from the moment it occurs until it returns to normal. To minimise its impact on the business, decision making in crisis situations is streamlined and automated.

In addition, actions are carried out with other Group units to manage risks in line with the Integrated Risk Management System. Thus, in 2019 we continued to collaborate on the development of the risk management system for the transmission system investment projects of the Transport Network (IRIS project), on the development of the model for analysing risks in the transmission network facilities (part of the MANINT project) and on implementation of the recommendations of the task force on disclosure of climate-related financial risks (Task Force for Climate-related Financial Disclosure).

#### KEY ACTIONS IN 2019

- Improvements in risk assessment methodologies: Review of the strategic impact axis to align it with the new Strategic Plan and update of the corporate risks matrix.
- Analysis, selection and contracting of the "GLOBAL SUITE" tool as comprehensive IT solution for corporate risk control.
- Development of the model for assessing risks associated with the Group's Transmission Network assets in service.
- Identification and evaluation of risks and opportunities associated with climate change, applying the recommendations of the Task Force for Climate.
- Development of a dashboard of Key Environmental Indicators for Risk Management and (KRIs) and definition of thresholds for their monitoring.

#### MAJOR ACTIONS IN 2020

- Review and improvement of the integrated Risk Management system to align it with best practices (COSO ERM 2017 / ISO31000:2018 standards).
- Completion of implementation of new IT solution for Corporate Risk Control.
- Review of levels of acceptable risks established by the RE Group.

## 6.4 INTERNAL AUDIT

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Red Eléctrica Internal Audit is an independent, objective assurance activity that involves planned systematic review of the Group's processes, systems, projects and other activities to assess and enhance their effectiveness by identifying aspects that require improvement and monitoring of the effective implementation of those improvements.

The Internal Audit Department, as part of the Internal Audit and Risk Control Division, reports organisationally to the chairman of the Board and functionally to the Audit Committee, and its mission, authorities, functions and duties are set out in the "Internal Audit Statute of the Red Eléctrica Group" approved by the Board of Directors.

In order for this activity to contribute greater value to the organisation, the Company prepares an Annual Plan of audits to be performed the following year with a focus on the key risks faced by the Group, based on the Corporate Risk Maps, the Criminal Compliance and Fraud System, Information Systems, and the internal control system and requirements established in the internal rules and regulations and the legislation on the related Management Systems. The requests made by senior management and the Audit Committee are also considered when preparing the annual Plan. The Annual Plan includes internal audits of processes, information systems and cybersecurity, prevention of criminal liability and risks of fraud, the system of internal control over financial reporting (ICFR system), of subsidiaries, of certified management systems, and other audits, not included in the foregoing, that are required by law or by the requirements of internal rules. Audit results are reported quarterly, as is the follow-up on aspects that require improvement, to the executive team, to the managing director, to the chairman and to the Audit Committee.

#### **Relations between internal audit and other assurance units**

Internal audit (third line of defence) takes into account the level of assurance provided by other functions and departments of the Company that also perform assurance functions (second line of defence) when drawing up the Annual Plan and determining the focus and scope of the audits.

In relation to risk management, the Annual Plan includes audits to evaluate the design and effectiveness of the controls and actions that contribute to mitigating the most important inherent risks of the Group, reporting the results to the Risk Control area.

In relation to the compliance activity, the Annual Plan envisages specific audits of the risks of criminal liability of legal persons, as well as of legal and internal compliance in the Group's processes, and reports the results to the Compliance area.

## 7. LOOKING TO THE FUTURE

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In the Annual Corporate Governance Report for this financial year, as for many years, a section is dedicated to the future outlook for Red Eléctrica in matters of corporate governance, due to the relevance it has for current shareholders and potential investors, as well as future third parties interested in Red Eléctrica.

The statements made in this Section do not, per se, constitute any commitment or formal obligation for the Company, enforceable by third parties; they are merely possible steps and measures to be taken in 2020 and subsequent years, according to Red Eléctrica's tradition to continue including the best corporate governance practices, in light of the progress made in shareholder requirements and its corporate governance commitment.

During 2019, the Board of Directors used the following basic tools, among others, to analyse corporate governance best practices, with a view to their possible adoption by Red Eléctrica: the annual assessment of the Board with the support of an outside advisor, an annual schedule of visits to institutional investors and proxy advisors, the engagement of advisors and specialists in diverse corporate governance matters and an external audit of the processes for managing the General Meeting of Shareholders to help identify possible improvements.

The Company's presence as a member of the world's leading organisation in the field of corporate governance, the International Corporate Governance Network (ICGN), has once again helped it to have first-hand knowledge of the key international trends in corporate governance, and their progress, with the possibility of conducting an early analysis and implementation.

In the Company's 2014 Corporate Governance Policy, certain commitments to good corporate governance were undertaken, which have been incorporated and consolidated by Red Eléctrica by adopting certain principles and practices, summarised in Section I above, which will be periodically monitored in 2020, as in each year, to oversee compliance.

The following are some of the main issues currently being analysed or due to be discussed by the Board of Directors and its committees:

- Review and continuous improvement of the Company's engagement with its shareholders and proxy advisors in order to cement a sustainable relationship that will keep the Company's interests aligned with those of its shareholders in the medium and long term, creating mutual trust.
- The Board of Directors' commitment to sustainability (ESG) as a strategy for developing the Group's business, with the support of the Sustainability Committee and the other Board Committees, within the scope of their respective responsibilities in this area.
- Updating of the Board of Directors Regulations in order to adapt them to regulatory changes and adoption of best corporate governance practices.

- Monitoring the implementation of diversity policies within the Board of Directors and throughout the organisation, in particular, monitoring compliance with the General protocol on balanced participation of women on the Board of Directors and the General protocol on balanced participation of women in pre-executive and executive positions and management committees, signed with the Ministry of the Presidency, Relations with the Congress and Equality in 2019 within the framework of the 'more women, better businesses' initiative.
- Progress in updating the Red Eléctrica Group Ethics Code to adapt it to the best practices in matters of compliance and sustainability, and its dissemination.
- Progress in the development of the Red Eléctrica Group's Compliance System and implementation of the Red Eléctrica Group's compliance culture awareness and dissemination plan.
- Implementation of a new annual self-assessment process for the Board of Directors in order to continue improving the functioning of the Board and its Committees.
- Review of the Contingency Plans for the succession of the chairman of the Board and the managing director.
- Review of the plan for recruitment of new directors.
- Review of the matrix of competences of the Board of Directors and design of a model for renewal of the Board based on the implementation of a matrix of competencies approved by the Board that serves to define director profiles according to the needs of the Company.
- Continue advancing toward the establishment of a corporate governance organisation in subsidiaries under the oversight of the Board of Directors.
- Continuous analysis, update and improvement of the corporate governance information published on the corporate website to meet international standards.
- Continuous progress in the process of preparing and publishing annual corporate information for shareholders and other stakeholders, based on the principles of quality, clarity, integrity and simplicity of information.

OFFICIAL ANNEX



**RED ELÉCTRICA**  
CORPORACIÓN

STANDARD FORM OF ANNEX I TO CNMV CIRCULAR 2/2018 OF 12 JUNE 2018  
OF THE SPANISH NATIONAL SECURITIES MARKET COMMISSION (CNMV)



**PARTICULARS OF THE ISSUER**

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Ending date of the reference period: [31/12/2019]

CIF: [A-78003662]

Corporate name:

**[RED ELECTRICA CORPORACION, S.A.]**

Registered office:

PASEO DEL CONDE DE LOS GATTANES, 177 (LA MORALEJA-ALCOBENDAS) MADRID

**A. OWNERSHIP STRUCTURE**

A.1. Complete the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
11/07/2016	270,540,000.00	541,080,000	541,080,000

State whether there are multiple classes of shares with different related rights:

Yes

No

A.2. Give details of the direct and indirect owners of significant shareholdings in your company at the financial year end, excluding directors:

Name of shareholder	% of voting rights attributed to the shares		% of voting rights through financial instruments		Total % of voting rights
	Direct	Indirect	Direct	Indirect	
BLACKROCK INC	0.00	3.04	0.00	0.00	3.04
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	20.00	0.00	0.00	0.00	20.00

Details of indirect holdings:

Name of indirect holder	Name of direct holder	% of voting rights attributed to the shares	% of voting rights through financial instruments	Total % of voting rights
No data				

Indicate the most significant movements in the shareholder structure that took place during the financial year:

A.3. Complete the following tables on members of the company's board of directors who hold rights to vote shares of the company:

Name of director	% of voting rights attributed to the shares		% of voting rights through financial instruments		Total % of voting rights	% of voting rights that <u>can be transferred</u> through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0.00	0.00	0.00	0.00	0.00	0.00	0.00

MS MERCEDES REAL RODRIGÁLVAREZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ANTONIO GÓMEZ CIRIA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ALBERTO FRANCISCO CARBAJO JOSA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JORDI SEVILLA SEGURA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ANTONIO GÓMEZ EXPÓSITO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS MARÍA JOSÉ GARCÍA BEATO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS SOCORRO FERNÁNDEZ LARREA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS MARÍA TERESA COSTA CAMPI	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JOSÉ JUAN RUIZ GÓMEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ROBERTO GARCÍA MERINO	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total % of voting rights held by the board of directors	0.00
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Details of indirect holdings:

Name of director	Name of direct holder	% of voting rights attributed to the shares	% of voting rights through financial instruments	Total % of voting rights	% of voting rights that <u>can be transferred</u> through financial instruments
No data					

- A.4. Give details of any relationships of a family, commercial, contractual or corporate nature, known to the company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the ordinary course of business, except for those reported in section A.6:

Name of related parties	Type of relationship	Brief description
No data		

- A.5. Give details of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and the company and/or its group, unless the relationships are negligible or arise in the ordinary course of business:

Name of related parties	Type of relationship	Brief description
No data		

- A.6. Describe any relationships between significant shareholders or shareholders represented on the board and the directors, or their representatives, in the case of legal person directors, unless the relationships are negligible for both parties.

Explain, where applicable, how the significant shareholders are represented. Specifically, indicate any directors who have been appointed to represent a significant shareholder, whose appointment was sponsored by a significant shareholder or who are related to a significant shareholder and/or to entities in its group, specifying the nature of the relationship. In particular, state the identity and position of any directors or representatives of directors of the listed company who are themselves directors or representatives of directors of companies that have significant holdings in the listed company or in entities belonging to the same group as a significant shareholder:

Name of related director or representative	Name of related significant shareholder	Name of the company in the significant shareholder's group	Description of the relationship or position
MS MERCEDES REAL RODRIGÁLVAREZ	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	ENRESA, S.A., S.M.E. (ENRESA)	<ul style="list-style-type: none"> <li>- Director of Energy Division Investees at SEPI. -Director of ENRESA, representing SEPI.</li> <li>- Chairman of ENRESA's Audit Committee, representing SEPI.</li> </ul>

- A.7. State whether shareholders agreements affecting the company have been notified to it as provided in articles 530 and 531 of the Spanish Companies Act. If so, briefly describe them and list the shareholders bound by the agreement:

Yes  
 No

State whether the company is aware of the existence of concerted actions among its shareholders. If there are, briefly describe them.

Yes  
 No

If any of the above agreements or concerted actions have been modified or terminated during the financial year, expressly so state:

- A.8. Indicate if there is any individual or legal person that exercises or may exercise control over the company, within the meaning of article 5 of the Securities Market Act. If so, identify it:

Yes

[√] No

**A.9.** Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	Total % of share capital
2,024,844		0.37

(\*) Held through:

Name of direct shareholder	Number of shares held directly
No data	

**A.10.** State the conditions and term given by the shareholders meeting to the board of directors to issue, repurchase or transfer treasury shares:

The Spanish Companies Act (LSC) strengthened the legal scheme applicable to treasury shares of companies as established in Act 3/2009 of 3 April 2009 on Structural Modifications of Commercial Companies, since then there have been no relevant changes in that scheme. At the Annual General Meeting of Shareholders held on 15 April 2015, authorisation relative to delivery of treasury shares of the company, as remuneration, to employees thereof and of the Red Eléctrica Group, for a term of 5 years from the date of the aforesaid General Meeting of Shareholders, was submitted for approval. Therefore it remains in effect, with a partial modification approved at the Annual General Meeting of Shareholders held on 15 April 2016. At the Annual General Meeting of Shareholders held in 2015, as a separate point on the agenda, a remuneration Plan was established for employees, members of management and executive directors of Red Eléctrica Corporación, S.A., also extendable to the same groups within the companies in its consolidated Group in Spain, allowing a part of their annual remuneration to be paid by delivery of shares of the company, from treasury shares, always within the annual maximum legal limit of 12,000 euros per participant, allowing enjoyment of certain tax advantages. Approval of the aforesaid Plan requires a resolution with certain legally-established conditions. The Annual General Meeting of Shareholders of the company held in 2015 authorised the Board of Directors, in accordance with the provisions of article 146 and related provisions of the LSC and other applicable rules, to engage in derivative acquisition of treasury shares of Red Eléctrica Corporación, S.A. by the company itself and by companies in the Red Eléctrica Group, directly or indirectly, to the extent determined by the Board of Directors to be advisable under the circumstances, provided that the following conditions are satisfied:

- The maximum number of shares to be acquired will not exceed the established legal limit, all of the foregoing provided that the other applicable legal requirements may also be fulfilled.
- The acquisition may not be made at a price greater than the price of the shares on the stock exchange at the time of the acquisition, or at a price less than 50% of the exchange price at that time.
- The form of acquisition may be a purchase, exchange, or any other transaction, with or without consideration, as the circumstances may warrant. In the event of acquisition without consideration, as provided in article 146.4 of the LSC, the acquired shares may be partially paid up.
- In accordance with the provisions of article 146.1 b) of the LSC, the acquisition, including such shares as the company may have acquired previously and hold as treasury shares, may not result in net worth being less than the amount of share capital plus the legal reserve and those reserves that the Articles of Association designate as restricted reserves. The company's Board of Directors, as provided in the third paragraph of article 146.1 a) of the LSC, may use all or a part of the treasury shares acquired by virtue of the aforesaid authorisation and those already owned by the company at the date of approval of the resolution, for implementation of remuneration programmes the purpose of which is direct delivery of shares to employees, members of management and executive directors of the company and the companies in the Red Eléctrica Group in Spain. For all of the foregoing the Board of Directors has been authorised, in the broadest sense necessary, to request as many authorisations and to adopt as many resolutions as necessary or appropriate to comply with current legal provisions, and to successfully implement the resolution. The Annual General Meeting of Shareholders held on 15 April 2016 approved a partial modification of the resolution adopted by the 2015 Annual General Meeting of Shareholders of the company, under point 10.2 of the Agenda, on Approval of a Remuneration Plan addressed to employees, executive directors and members of the management of

the company and the companies in the Red Eléctrica Group in Spain, consisting of the possibility that payment of a part of their remuneration may be made by delivery of shares of the company coming from treasury shares, and consequently it was resolved to introduce the following partial changes therein:

- **Maximum:** The maximum amount of remuneration to be received in shares, per year, in the case of the managing director of the company, will be the amount resulting from the remuneration policy for executive directors that is applicable from time to time over the term of the Plan, with a maximum limit in any event of 120,000 euros.
- **Number of shares to be received by the beneficiary:** It will be the number depending on the price of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.
- **Maximum number of shares authorised:** The maximum total number of shares to be delivered will be the number depending on the value of the share at the close of trading on the exchange on the date of delivery, with the maximum limit in each case applicable to each beneficiary.
- The aforesaid resolution will remain in full effect in relation to the other matters that have not been modified, in particular including the duration thereof.
- Given the forthcoming expiration of the aforesaid resolutions, it is expected that a new resolution with similar terms to the previous ones will be subject to approval at the next company's Annual General Meeting of Shareholders.

**A.11. Estimated free float:**

	%
Estimated free float	76.96

**A.12.** Indicate whether there is any restriction (under the Articles of Association, applicable laws or otherwise) on transferability of securities and/or any restriction on voting rights. In particular, state the existence of any kind of restrictions that could present obstacles to the takeover of the company by means of share purchases on the market, as well as any authorisation or notification requirements applicable to acquisitions or transfers of the company's financial instruments under industry regulations.

- Yes  
 No

**Description of the restrictions**

Maximum percentage of voting rights a shareholder may exercise under a special legal restriction: 3% (general) and 1% (electricity sector). Maximum percentage of voting rights a shareholder may exercise under a restriction imposed by the Articles of Association: 3% (general) and 1% (electricity sector). The limits are established in additional provision twenty-three of Act 54/1997 of 27 November 1997 (which remains in effect by virtue of the sole repealing provision of Electricity Sector Act 24/2013 of 26 December 2013), after its amendment by the Royal Decree Law 13/2012 of 30 March 2012, which incorporated certain additional restrictions in respect of companies undertaking generation or marketing functions. The special regime for the *Sociedad Estatal de Participaciones Industriales* (SEPI) is maintained, whereby it in any case must hold at least a ten percent (10%) interest in the share capital. These legal provisions on the general and special shareholding regime are incorporated in article 5 and 14 and in the sole additional provision of the Articles of Association, and in article 6.3 of the Regulations of the General Meeting of Shareholders of the company, the content of which is available on the corporate website of the company - www.ree.es. The articles restrictions set forth the legal limitations.

**A.13.** State whether the general meeting has resolved to adopt anti-takeover measures in the event of a public tender offer by virtue of the provisions of Act 6/2007.

- Yes

No

If so, explain the measures approved and the circumstances under which the restrictions would prove to be ineffective.

A.14. State whether the company has issued securities that are not traded on a European Union regulated market.

Yes

No

If so, state the various classes of shares and, for each class of shares, the rights and obligations given thereby:

## **B. GENERAL MEETING OF SHAREHOLDERS**

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B.1. State whether there are, and if so describe, departures from the minimums contemplated in the Spanish Companies Act (*Ley de Sociedades de Capital*) (LSC) regarding the quorum for holding the general meeting of shareholders:

Yes

No

B.2. State whether there are, and if so describe, departures from the scheme contemplated in the Spanish Companies Act (LSC) for adopting corporate resolutions:

Yes

No

B.3. State the rules applicable to the amendment of the company's articles of association. In particular, state the majorities contemplated for the amendment of the articles of association and, if applicable, the rules contemplated for the protection of shareholders' rights in the amendment of the articles of association.

The scheme for the amendment of the Articles of Association does not differ from the provisions of articles 285 and following of the LSC, which require approval by the General Meeting of Shareholders, with the majorities set forth in articles 194 and 201 of the aforesaid Act. Act 31/2014 of 3 December 2014, amending the Spanish Companies Act for the improvement of corporate governance, introduced certain changes in the scheme of majorities (article 201 of the LSC). In particular, it clarified that resolutions will be adopted by a simple majority of votes, in the sense that the resolution obtains more votes in favour than against from the capital present in person or by proxy. For resolutions amending the Articles of Association and similar (article 194 of the LSC) an "absolute majority" is required if the quorum is greater than 50% of the share capital, and two thirds of the share capital present in person or by proxy when the quorum on second call does not reach 50% of the share capital. An immediate consequence of the reform of the LSC was the amendment of the Articles of Association and the company's General Meeting of Shareholders Regulations at the Annual General Meeting of Shareholders held on 15 April 2015. The Articles of Association that were in effect at the time of holding the aforesaid General Meeting of Shareholders and were applied thereto were not different from the provisions in articles 285 and following of the LSC, requiring approval by the General Meeting of Shareholders, with the majorities that were set forth in article 194 and 201 of the LSC in effect at the time of holding the aforesaid General Meeting of Shareholders. Article 14 of the aforesaid Articles of Association provides that, in order for an Annual or Extraordinary General Meeting of Shareholders to be duly called, and for a valid resolution to increase or decrease capital, and any other amendment of the Articles of Association, on first call the attendance of shareholders, in person or by proxy, holding at least 50% of the subscribed share capital with voting rights will be required, and on second call the attendance of 25% of the aforesaid subscribed capital with voting rights will be sufficient. In addition, the board of directors, in compliance with the provisions of article 286 of the LSC, will be required to draft the full text of the proposed amendment and a written report explaining it. Also, under the provisions of article 287 of the LSC, the notice of call of the General Meeting of Shareholders must state the matters that are to be amended with appropriate clarity, and state the right of all shareholders to examine the full text of the proposed amendment and the report thereon at the registered office, and request that those documents be delivered or sent free of charge. For some time now, resolution proposals have been published in full, in Spanish and in English,

together with the Notice of General Meeting, with all the relevant information for shareholders being posted on the company website, which is designed to make it easier for shareholders to exercise their right of information. The company's website is an appropriate means of communication with shareholders and investors. In addition, the following actions to facilitate the exercise of the information right of the shareholders at the General Meeting of Shareholders are notable:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Meeting is made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- A Shareholder Bulletin is published quarterly, containing the main news regarding the company.
- The items on the agenda of General Meetings of Shareholders are explained in as much detail as possible.
- Separate voting on each item is permitted, including remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item put to a vote.
- The Shareholder Information Office specifically deals with requests made by company shareholders. Shareholders may also submit questions in writing about the information available to the public or reported to the competent authorities and make inquiries through the Shareholder Information Office.

The most recent amendment of the company's Articles of Association was approved by the Annual General Meeting of Shareholders held on 22 March 2019, which resolved to amend article 20 of the aforesaid Articles of Association on remuneration. As in prior years, in 2019 an audit was conducted of the processes of management of the aforesaid General Meeting of Shareholders, seeking improvement of the guarantees of the rights of shareholders in the General Meetings of Shareholders. The auditor's report was published on the website on the same day as the holding of the aforesaid General Meeting of Shareholders.

- B.4.** Give figures for attendance at the general meetings of shareholders held in the financial year to which this report refers and the two prior years:

Date of General Meeting	Attendance data				Total
	% attendance in person	% by proxy	% remote voting		
			Electronic voting	Other	
31/03/2017	22.47	36.01	0.06	0.00	58.54
Of which, Float	15.60	25.01	0.04	0.00	40.65
22/03/2018	21.73	38.63	0.06	0.00	60.42
Of which, Float	15.09	26.83	0.04	0.00	41.96
22/03/2019	21.60	41.46	0.09	0.00	63.15
Of which, Float	13.72	26.33	0.06	0.00	40.11

- B.5.** State whether in the general meetings held during the year there was any item in the agenda that, for whatever reason, was not approved by the shareholders:

Yes  
 No

- B.6.** State whether there is an articles of association restriction establishing a minimum number of shares necessary to attend the general meeting of shareholders or to vote remotely:

Yes  
 No

- B.7.** State whether there is a requirement that certain decisions, other than those established by law, entailing the acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions are subject to the approval of the general meeting of shareholders:

Yes

[√] No

- B.8. State the address of and manner of access to the company's website for information on corporate governance and other information on general meetings of shareholders that must be made available to shareholders by way of the company's website:

Article 2 of the General Meeting of Shareholders Regulations establishes the content of the corporate website, the purpose of which is to serve as an instrument to ensure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the company. The company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation. Act 25/2011 of 1 August 2011 gave greater prominence to the company's website, since it introduced a new article 11 bis in the Spanish Companies Act, which governs the electronic headquarters or corporate website. That article established the duty of capital companies to have a website, approved by the General Meeting of Shareholders and registered in the Commercial Registry. For this reason the Annual General Meeting of Shareholders held on 19 April 2012 ratified the creation of the Red Eléctrica website, which was registered in the Commercial Registry. In addition, the aforesaid Act incorporated into article 516 of the LSC the obligation of Listed Companies to use the website to disseminate the announcement of call of the General Meeting of Shareholders, something that Red Eléctrica Corporación, S.A. had been doing for years before that. The company's website ([www.ree.es](http://www.ree.es)), which was redesigned in 2013 after exhaustive international benchmarking for the purpose of improving the channels of communication with shareholders, includes a section accessible from the homepage dedicated to "Corporate Governance" matters, which contains all information regarding this matter that is of interest to shareholders. The aforesaid website also includes a specific area, accessible from the homepage, for "Shareholders and Investors". In 2015 the Corporate Governance and Shareholders and Investors sections of the corporate website were revised in accordance with Circular 3/2015 of 23 June 2015 of the National Securities Market Commission. In the General Meeting of Shareholders subsection of the Corporate Governance section there is a link called "Information Right", containing the information related to the existing channels of communication between the company and its shareholders, and pertinent explanations for the exercise of the information right. It is also remarkable the review of the Ethics and Transparency section carried out in 2017. Said section was renamed "Ethics and compliance" and now includes information on the company's new regulatory compliance system, the compliance risk assessment methodology and the importance of awareness-building and training as key factors for developing a culture of compliance within the organisation. In 2018 the Committees section was restructured with the approval of the new Sustainability Committee. Two new information spaces were created in the Ethics and Transparency section in 2019. One is to provide information on the Data Protection and Compliance System, and the other is to make public the company's commitment to preventing corruption. As part of this commitment, a training programme has been launched in partnership with the Global Compact Network Spain on tackling corruption. The training is for the company's suppliers and is based on Principle 10 of the United Nations Global company, which establishes that: "businesses should work against corruption in all its forms, including extortion and bribery".

Publicity of the resolutions approved by the General Meeting of Shareholders is regulated in article 17 of the Meeting Regulations. Regarding publicity, during 2019 the following actions, among others, are notable: the live broadcast, simultaneously in Spanish and English, of the Annual General Meeting of Shareholders held on 22 March 2019 and of the earnings presentations given at the close of the 2018 financial year and the first half of 2019; and the publication in English of the notice of General Meeting of Shareholders, from the day it was published, and of the proposed resolutions to be submitted to approval at the General Meeting of Shareholders, in addition to all the related documentation, including the Annual Corporate Governance Report. In 2019, as in prior years, the Shareholder Electronic Forum was made available for the Annual General Meeting of Shareholders. The aforesaid Forum, created by Red Eléctrica Corporación, S.A. on its website ([www.ree.es](http://www.ree.es)) for the holding of its General Meetings of Shareholders, is in response to the requirement established in article 539.2 of the LSC. The aforesaid tool was incorporated into the Regulations of the General Shareholders Meeting, via article 8.4, after its approval by the General Shareholders Meeting on 13 April 2011. The purpose of this forum is to facilitate communication among the shareholders of Red Eléctrica, in order to publish proposals and supplement the agenda in the call of the General Meeting of Shareholders, issue requests for support of such proposals, present initiatives for reaching the percentage required to exercise a minority right as contemplated by law, or make offers of or requests for voluntary proxies.

The company has a strong commitment to improving and adapting the corporate website on an ongoing basis, as a living instrument of communication, dialogue and commitment to shareholders, in application of its Corporate Governance Policy.

### **C. STRUCTURE OF THE COMPANY'S MANAGEMENT**

**C.1. Board of directors**

C.1.1 Maximum and minimum number of directors under the articles of association and number set by the general meeting of shareholders:

Maximum number of directors	13
Minimum number of directors	9
Number of directors set by the shareholders' meeting	12

C.1.2 Complete the following table regarding the board of directors members:

Name of director	Representative	Category of the director	Position on the Board	Date first appointed	Date last re-elected	Election procedure
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Independent	DIRECTOR	19/04/2012	15/04/2016	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS MERCEDES REAL RODRIGÁLVAREZ		Proprietary	DIRECTOR	31/10/2017	22/03/2018	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ANTONIO GÓMEZ CIRIA		Independent	DIRECTOR	09/05/2014	22/03/2018	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ALBERTO FRANCISCO CARBAJO JOSA		Independent	DIRECTOR	31/03/2017	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR JORDI SEVILLA SEGURA		Other non-Executive	CHAIRMAN	31/07/2018	22/03/2019	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ANTONIO GÓMEZ EXPÓSITO		Proprietary	DIRECTOR	25/09/2018	22/03/2019	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS MARÍA JOSÉ GARCÍA BEATO		Independent	DIRECTOR	29/11/2012	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Name of director	Representative	Category of the director	Position on the Board	Date first appointed	Date last re-elected	Election procedure
MS SOCORRO FERNÁNDEZ LARREA		Independent	DIRECTOR	09/05/2014	22/03/2018	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO		Independent	DIRECTOR	31/01/2017	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS MARÍA TERESA COSTA CAMPI		Proprietary	DIRECTOR	25/09/2018	22/03/2019	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ROBERTO GARCÍA MERINO		Executive	MANAGING DIRECTOR	27/05/2019	27/05/2019	CO-OPTATION
MR JOSÉ JUAN RUIZ GÓMEZ		Independent	DIRECTOR	22/03/2019	22/03/2019	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Total number of directors	12
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Give details of any departures from the board of directors during the reporting period, whether due to resignation, removal or any other reason:

Name of director	Category of the director at the time of departure	Date of last appointment	Departure date	Specialised committees of which the director was a member	State whether the departure took place before the director's term of office expired
MR JOSÉ LUIS FEITO HIGUERUELA	Independent	15/04/2015	22/03/2019	Appointments and Remuneration Committee	NO
MR JUAN FRANCISCO LASALA BERNAD	Executive	17/07/2015	27/05/2019	None	YES

C.1.3 Complete the following tables on the board members in each category:

EXECUTIVE DIRECTORS
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Name of director	Office in the company	Profile
MR ROBERTO GARCÍA MERINO	MANAGING DIRECTOR	<p>Born on 20 March 1973. Degree in Economics and Business Studies, Universidad de Valladolid. General Management Program (PDG) from the IESE (2016). Master's in Business Administration (MBA) from the Instituto de Empresa (1999). Currently Chief Executive Officer of Red Eléctrica Corporación, S.A. Member of the administrative body in the companies of the Red Eléctrica Group:</p> <ul style="list-style-type: none"> <li>• Hispasat, S.A. • Infraestructuras de Telecomunicación S.A.U.(REINTEL)</li> <li>• Red Eléctrica Sistemas de Telecomunicaciones S.A.U. (RESTEL) • Red Eléctrica Internacional S.A.U. (REI) • Red Eléctrica del Sur S.A. (REDESUR) • Transmisora Eléctrica del Norte S.A. (TEN)</li> </ul> <p>Professional experience: Since joining the Grupo Red Eléctrica in 2004, he has performed different functions linked to strategic planning and business development, especially in the international field and in the field of telecommunications, with the performance of the following managerial positions being particularly noteworthy:</p> <ul style="list-style-type: none"> <li>• Executive Director of Telecommunications and International of Grupo Red Eléctrica (since March 2019)</li> <li>• Corporate Director of Business Diversification (2015-2019) • Director of Strategy and Business Development (2012-2015)</li> <li>• Head of Department of Strategic Planning (2007-2012) Outside the Grupo Red Eléctrica: • Internal analyst in investment banking at the Banco Espíritu Santo (2000-2004)</li> </ul>

Total number of executive directors	1
% of the total board	8.33

PROPRIETARY NON-EXECUTIVE DIRECTORS		
Name of director	Name of significant shareholder represented or that nominated the director	Profile
MS MERCEDES REAL RODRIGÁLVAREZ	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	<p>Born on 6 January 1968. Degrees in Economics and Business Studies and in Law from Universidad Pontificia de Comillas (ICADE E-3), and Management Development Program from IESE. Currently: Head of Investees of Sociedad Estatal de Participaciones Industriales' (SEPI) Energy Division. Member of the board of directors and chair of the Audit Committee of Enresa, S.A. S.M.E. Formerly: Member of the board of directors of Enusa Industrias Avanzadas, S.A. S.M.E. Financial and Controlling Managing director, Controller and Head of HR at the INFOBOLSA, S.A. Group (BME Group and Deutsche Börse, AG Group). Member of the board of directors, Financial Managing Director and Control Director at OPEN FINANCE, S.L. Head of financial sector entity audit team at Arthur Andersen (currently Deloitte &amp; Touche).</p>

PROPRIETARY NON-EXECUTIVE DIRECTORS		
Name of director	Name of significant shareholder represented or that nominated the director	Profile
MR ANTONIO GÓMEZ EXPÓSITO	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Born on 26 August 1957. PhD in Industrial Engineering (Electrical Engineering) from Escuela Técnica Superior de Ingenieros Industriales (ETSII) at the University of Seville. Currently: Professor of Electrical Engineering at Escuela Técnica Superior de Ingenieros Industriales (ETSII) at the University of Seville. Head of the Endesa Red Chair (since 2007). Editor of Journal of Modern Power Systems and Clean Energy (China). Lead researcher of one of the largest and most important Spanish research groups in the area of electrical systems, made up of more than 20 PhDs and six professors. Fellow of the IEEE (Institute of Electrical and Electronics Engineers). Member of the Seville Royal Academy of Sciences (since 2014). Formerly: Coordinator of the Interuniversity Doctoral Programme on Electricity Systems at the University of Seville (2013-2017). Head of the Electrical Engineering Department at the University of Seville (2003-2011). Head of the Interuniversity Doctoral Programme on Technical and Economic Management of Electricity Generation, Transport and Distribution Systems at the University of Seville (2003-2006). Editor of IEEE Transactions on Power Systems (2011-2016). Member of the IEEE European Working Group on Energy (2014-2016). Trustee of Corporación Tecnológica de Andalucía (2006-2015). Member of the Steering Committee of Plataforma Tecnológica Futured (2008-2013). Visiting Professor at the University of Waterloo, Canada (1998). Adjunct Faculty at the University of San Diego, California (1988). Other: He maintains an active presence in the academic, research and teaching sphere, as well as at conferences and on the scientific committees of major international energy sector conferences. He is co-author of more than 300 technical publications, mainly in the fields of electricity generation, transport and distribution systems, including various textbooks that are used in universities around the world.
MS MARÍA TERESA COSTA CAMPI	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	Born on 31 July 1951. BA and PhD ( <i>Cum Laude</i> ) in Economics from the University of Barcelona. Currently: Professor of Economics at the University of Barcelona since 1987 Head of the Energy Sustainability Chair at the University of Barcelona. Coordinator of the Energy

PROPRIETARY NON-EXECUTIVE DIRECTORS		
Name of director	Name of significant shareholder represented or that nominated the director	Profile
		<p>Economics Programme for the master's degree in Renewable Energy at the University of Barcelona. Chief researcher of the Environment and Energy Sustainability Research Group. Formerly: Member of the board of directors of EDP RENOVÁVEIS, S.A. (EDPR) and member of this latter company's Audit, Control and Related Parties Committee (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 Committee (CNE) (2005-2011). Chairperson of ARIAE (2005-2011). Vice-Chairperson of MEDREG (2010-2011) and chairperson of MEDREG's scientific committee (2014-2016). Member of CEER (2005-2009). Chairperson of the board of directors of MIBEL (2006-2007). Member of the board of directors of INCASOL (2004-2005). Minister of Industry and Energy in the Catalan government (Generalitat) (2004-2005). Chairperson of EPLICSA (2004-2005). Vice-Chairperson of CIDEM (2004-2005). Member of the Spanish Parliament, VII Legislature (2000-2004). Other: She has had a long academic career, with a very active presence in research and teaching, as well as at conferences and as a speaker at international energy sector, industry and business conferences. She has more than 170 publications in books and specialised Spanish and international academic journals in the fields of energy and economics. The Energy Economics research group she leads has received a Research Excellence award from the official agency responsible for evaluating research quality.</p>

Total number of proprietary directors	3
% of the total board	25.00

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
<p>MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE</p>	<p>Born on 20 May 1968. Degree in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE). Executive MBA from IESE, Universidad de Navarra. Currently: General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). Member of the board of directors of Hispasat, S.A. Member of the board of directors of Grupo Ezentis, S.A. Member of the Advisory Board to the board of directors of the Antolin-Irausa, S.A. group. Formerly: Head of the Cogeneration Department, Business Management, Enagás. Head of the International, Petrochemical and Marketing Departments of Repsol. Director of Services Development at Unión Fenosa. Deputy Director of Oil Markets at the Comisión Nacional de Energía (CNE). Institutional Relations and Communications Manager for BP Oil España. Member 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). Teacher/lecturer in various master's courses (Universidad de Barcelona, ICAI, Cesma, Club Español de la Energía).</p>

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
MR ANTONIO GÓMEZ CIRIA	<p>Born on 25 March 1957. Degree in Economics and Business from Universidad Complutense de Madrid. Degree in Mathematics from Universidad Complutense de Madrid. Executive MBA from IESE. Accredited Accounting Expert – AECA. Currently: Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Counsel of the Association of Economists. Member of the board of directors of Mapfre, S.A., Mapfre España Compañía de Seguros y Reaseguros, S.A., Mapfre Re Compañía de Reaseguros, S.A. and member of its Executive Committee, and Mapfre Vida, S.A. de Seguros y Reaseguros sobre la Vida Humana. Formerly: Member of the board of directors of Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros, S.A. and member of its Executive Committee. General Manager of Administration and IT, Member of the Management Committee of Grupo FCC. Representative of Grupo FCC at the Large Businesses Forum, Ministry of Finance and Public Administrations. Among other positions, he is General Manager for Administration and IT and belongs to the Management Committee of Grupo FCC. Head of Internal Audit of the FCC group. Member of the Advisory Council of the Internal Auditors Institute and a Member of its Executive Committee. General Technical Secretary of InverCaixa, investments management company of La Caixa Group. Chairperson of 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. Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid. Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española. Head of the Auditing and Accounting Department of Banco de Crédito Agrícola. Auditor/Inspector of the General State Inspectorate. Other: Member of the National Stock Market Commission (CNMV) Work Group to prepare a “Management report guide for listed entities”.</p>
MR ALBERTO FRANCISCO CARBAJO JOSA	<p>Born on 8 August 1949. Degree in Mining Engineering from Universidad Politécnica de Madrid. Degree in Economics from Universidad Autónoma de Madrid. Master’s degree on the European Union from the Diplomatic School in Madrid. Currently: Independent international consultant in the area of electricity. “Ad Honorem” Professor at the Polytechnic University of Madrid. Member of the Advisory Board of the Escuela Técnica Superior de Ingenieros de Minas y Energía. Formerly: Director General of the Oficina de Compensaciones del Sector Eléctrico (OFICO) (until 1991). General Manager of Mines and Construction Industries at the Ministry of Industry and Energy (1992-1995). Member of the Boards of Directors of Endesa and Petronor (1992-1995). Director of the National Energy Committee (1995-2000). International Regulation Officer at Corporación Unión Fenosa, providing services in the Regulation Secretariat (2002-2004). General Manager of System Operation of Red Eléctrica de España, S.A. (2004 - March 2012). Other: He has been an associate professor in the Energy Systems Department at the Escuela Técnica Superior de Ingenieros de Minas in Madrid, professor in the master’s degree in Renewable Energy at the Escuela de Organización Industrial, professor in the master’s degree in Energy and Competitiveness sponsored by Orkestra (Basque Competitiveness Institute), professor in the Higher Energy Business Course given by the Club Español de la Energía and professor in energy supply-related subjects at Universidad de Alcalá de Henares.</p>

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
MS MARÍA JOSÉ GARCÍA BEATO	Born on 27 May 1965. Law Degree from the University of Cordoba. State Counsel. Currently: Director and General Secretary of Banco Sabadell, S.A. Non-director Secretary of the board of directors of Sabadell Consumer Finance S.A.U. Trustee of Fundació Privada Banc Sabadell. Trustee of the Fundación AEB. Member of the Advisory Board of Fundación Cajasur. Formerly: State Counsel at the High Court of Justice in Madrid. Head of the Legal Services Department of the Spanish Data Protection Agency. State Counsel in the Consultative Services Sub-directorate of the State Legal Services Directorate. State Counsel in the Communications Secretariat at the Ministry of Development. Secretary of the board of directors of Retevisión, S.A. Cabinet Chief at the Ministry of Justice. Director, Infoinvest, S.A., Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA), Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI), Director, Sociedad Estatal Correos y Telégrafos, S.A., Director, Banco Guipuzcoano, S.A. Director, Banco CAM, S.A. Deputy Secretary for Justice. State Counsel in the Audiencia Nacional (National Court) Legal Department. Head of Legal Services, Banco Sabadell. Secretary of the board of directors of Banco Urquijo, S.A. Director of Banco Gallego S.A. Secretary of the Board of Trustees of Fundación de Estudios de Economía Aplicada (FEDEA). Secretary of the board of directors of Sabadell United Bank (Miami).
MS SOCORRO FERNÁNDEZ LARREA	Born on 7 April 1965. Degree in Civil Engineering from Universidad Politécnica de Madrid, and Senior Management Program (PADE), IESE. Currently: Managing Director of the consultancy firm JUST NOW, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations. Independent director of GRUPO CEMENTOS MOLINS. Independent Director of OFG Adquisiciones e Ingeniería, S.L. Independent director of the Spanish engineering firm SEG, S.A. Member of the board of directors of Banco Caminos. Member of the Regional Board of the IESE in Madrid. Adviser to the board of directors of the Mexican engineering firm CAL Y MAYOR. Formerly: Independent Director of Tèmpore Properties Socimi, S.A. Member of the board of directors of the construction and real-estate company ACR. Member of the board of directors of AMPER, S.A. (proprietary director), representing Emilanteos, S.L. Managing Director of COPISA Constructora Pirenaica, S.A. Vice-Chairperson of ANCI, the association of independent builders. Member of the governing council of the Civil Engineers Association. Regional Manager of the construction firm Seop, Obras y Proyectos, S.A. National representative, Ferroviario Conservación, S.A. Representative for Castilla-La Mancha, Ferroviario-Agroman, S.A. Representative for Castilla-La Mancha of Agraman Empresa Constructora, S.A. General Manager for Roads, Hydraulic Works and Transport of the Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha. Site manager, Ferroviario, S.A. Other: Member of the Advisory Board of the daily newspaper Expansión. Member of WCD, Women Corporate Directors, and co-chairperson of the Spain chapter. Member of AED, Asociación Española de Directivos, and member of its Executive Committee. Member of CEAL, Consejo Empresarial de América Latina, and member of the Executive Committee of the Iberian chapter. Member of WPO-YPO, Young Presidents' Organisation, and member of the executive committee of the Eurolatam chapter. Member of IWF, International Women's Forum.

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	<p>Born on 20 July 1955. Currently: Civil Servant of the General State Administration since 1979 and 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. Advisor 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 (2011). 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. Honorary Professor at the Alfonso X El Sabio University of the Royal Forum Chair in Senior Management. Formerly: Senior Advisor for Preventia Neurotechnology (2016-2017). Professor at the International Studies Society. Advanced International Studies Course (2014). General Manager of the Spanish Civil Guard (2011-2016). Rank of Deputy Secretary. Deputy Chair of the Congressional Committee on Defence for the Spanish House of Commons (2004-2011). Spokesperson in the Spanish House of Commons for the Defence of the GPP Political Party of which he is a member (1996-2000). Chair of the National Committee for the Defence of the Political Party for which he is a MP (1996-2000). Government Delegate in Galicia (2000-2004). Rank of Deputy Secretary.</p> <p>Member of the OSCE International Parliamentary Assembly. Member of the NATO Parliamentary Assembly. Elected as a Member of Parliament (House of Commons) 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 Spanish Civil Guard). He has served as spokesperson for the Fishery sector, the Naval Sector, Merchant Marine and Defence Spokesperson in the Spanish House of Commons. First Deputy Mayor of El Ferrol (1987-1989). Member of the El Ferrol Municipal Council (1983-1991). Other: Lecturer at seminars and conferences on Fishery, Defence, the Naval Sector, Merchant Marine and National Security in various universities and in other types of national and international forums, among others: the Centre des Hautes Études du Ministère de l’Intérieur de France CHEMI (Centre for Advanced Studies of the French Ministry of the Interior, Paris) and the School de Guarda di Finanza (Italy). He is in possession of several national and international decorations, among others, by the Governments of Spain, France, Italy (twice), Portugal, Peru, Mexico, Colombia. He is a Gold Master Statutory of the Royal Forum of Senior Management.</p>

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
MR JOSÉ JUAN RUIZ GÓMEZ	<p>Born on 30 July 1957. Degree in Economics from Universidad Autónoma de Madrid. Trade Expert of the State. Currently: Independent consultant and advisor on macroeconomic issues and on Latin American markets. Member, in a personal capacity, of the Scientific Council of the Elcano Royal Institute (since 2012). Member of the Editorial Board of El País and Grupo Prisa. Professional experience: Chief Economist and Head of the Research Department at the Inter-American Development Bank (IDB) (2012-2018). Chief Economist for Latin America at Banco de Santander (1999-2012). Representative of Banco Santander on the board of directors of the Elcano Royal Institute (until 2012). Member of the Social Council of the University of Castilla La Mancha (2005-2009) and Chairperson of the same (2010-2012). Member of the board of directors of various public entities (INI, Aviaco, Autopistas del Atlántico, Renfe and Tabacalera) and also private entities, in particular, in the banking sector, as member of the board of directors in Banco de Santiago (Chile), Banco Santander Colombia, Banco Santander Puerto Rico, Banco Santander Peru and Banco Venezuela between 1999 and 2012. Head of the Strategy and Planning Department of Banco Santander (1996-1999). Chief Economist of Asesores Financieros Internacionales (1996). Member of the Independent Committee of Experts of the Ministry of Economy and Finance responsible for developing macroeconomic scenarios for the Spanish economy (1994-1998). Member of the Editorial Board of the Recoletos Group (1994-1999). Chief Economist at Argentaria (1993). The most relevant positions held in the Public Administration (Ministry of Economy and Finance) are as follow: Undersecretary of International Economy and Antitrust of the Ministry of Economy and Finance (1991-1993) Member of the Management Committee of the Ministry of Economy and Finance (1991-1993). Chief of Staff for the State Secretariat for Economy (1988-1990). Executive Advisor to the State Secretariat for Economy (1985-1987). Head of the Balance of Payments Service, State Secretariat for Commerce (1984-1985). Economic Advisor to the State Secretariat for Commerce and General Secretariat for Commerce (1983). Technical support to the General Technical Secretariat during the negotiation of Spain's entry into the EU (1984-1985). President of the Spanish Delegation to the OECD for the annual meetings regarding macroeconomic monitoring (1990-1993). Chairperson of the Economic Policy Committee of the European Union (1992-1993). Member of the Economic Policy Committee of the EU (1989-1992). Responsible for Spanish relations with the IMF, the World Bank and the Development Banks (Africa, Asia, Latin America and Europe) (1986-1993). Other: Additionally, he works as lecturer in conferences with various institutions and collaborates as professor in the International Master's Degrees of Instituto de Empresa.</p>

Total number of independent directors	7
% of the total board	58.33

State whether any independent director receives from the company, or its group, any amount or benefit other than director's remuneration, or maintains, or has maintained in the most recent financial year, a business relationship with the company or any company in its group, whether in his or her own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained such a relationship.

Where applicable, explain the reasons why the director is considered capable of performing his or her duties as an independent director.

Name of director	Description of the relationship	Reasoned explanation
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MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	The independent director, Carmen Gómez de Barreda Tous de Monsalve, accrued 5,510.28 euros in 2019 for her position as director at Hispasat, S.A.	Neither the nature nor quantity of the remuneration accrued as a director of a group company does not affect her independence as a director of Red Eléctrica Corporación, S.A.
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OTHER NON-EXECUTIVE DIRECTORS			
Identify the other non-executive directors, state the reasons why they cannot be classified as proprietary or independent directors and give details of their relationships with the company, its directors or its shareholders.			
Name of director	Reasons	company, officer or shareholder with which the relationship is maintained	Profile
MR JORDI SEVILLA SEGURA	<p>Mr Jordi Sevilla Segura was appointed a director, in the “Other Non-Executive” category, at the board of directors meeting held on 31 July 2018. In the report on the appointment proposal drafted by the Appointments and Remuneration Committee and in the board of directors’ report and the proposal analysing the category of the proposed director, it was concluded that in view of his personal circumstances and professional background, Mr Sevilla Segura could have been appointed as independent director.</p> <p>However, it did not seem appropriate to assign him to that category because, beyond any legal requirements, in compliance with the commitments acquired by the company towards its shareholders, with a large international representation, at the Extraordinary General Meeting of Shareholders held in July 2015, in which the separation of the positions of Chairperson of the Board and managing director was approved almost unanimously, the important strategic responsibilities and functions to be performed by Mr Sevilla Segura as Chairperson of the board of directors did not entirely match the generally accepted profile of an independent director. It was therefore decided that Mr Sevilla Segura should be assigned to the</p>	RED ELÉCTRICA CORPORACIÓN, S.A.	<p>Born on 19 March 1956. Degree in Economics from Universidad de Valencia. Member of the corporation of Senior Government Trade Experts and Economists (February 1983). Currently: Chairperson of Red Eléctrica Group and of the board of directors of Red Eléctrica Corporación, S.A. Member of the board of directors of Hispasat, S.A. Chairperson of the Social Council of Universidad Internacional de La Rioja (UNIR) (since July 2018). Adviser to the Social Observatory of Fundación La Caixa in its research into the economic context of the Spanish society (since 2017). Trustee of Fundación España Digital (since 2014). Formerly: Vice-Chairperson of the Spanish consultancy Llorente y Cuenca, specialising in reputation management, communication and public affairs (2016-2018). Economic advisor of the electoral programme of the socialist candidate for Prime Minister in two election campaigns (2015 and 2016). Senior Counsel at PriceWaterhouseCoopers (PwC) (2009-2015). Minister of Public Administrations (2004-2007). Representative for the province of Castellón in the Congress (2000-2009) Secretary for economic</p>

	<p>category of “Other Non-Executive directors”, as specified in the Spanish Companies' Act, article 529 duodecies.2, in line with an orderly, reasonable succession to the former Chairperson of the Board, who was also assigned to that category with the support of almost all the company’s shareholders (at the 2016 Annual General Meeting of Shareholders he was re-elected to that category by 98.5% of the votes cast).</p>		<p>policy and employment of the Spanish Socialist Party (PSOE) (2000-2004). Economic advisor to the Socialist Parliamentary Group in the Congress, providing special assistance to the General Secretary and candidate for the post of Prime Minister (1998-2000).</p>
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			<p>Director of the Office of the Minister of Economy and Finance, taking part in the management of the European Monetary System crisis and the European economic crisis associated to the German unification (1993-1996). Member, representing the State, on the Boards of Directors of Tabacalera and Instituto Nacional de Industria (INI) (1991-1996). Head of the Office of the Minister of Agriculture, taking part in the MacSharry reform of the CAP (1991-1993).</p> <p>Advisor on international economic relations in the Prime Minister's Office, taking part in the Maastricht Treaty negotiations (1986-1991).</p> <p>Deputy Regional Manager in Valencia, on the Management Committee for the export of citrus fruit and on the Chamber of Commerce Executive (1983-1986). Other: He has taught at Escuela de Organización Industrial (EOI) and at IE Business School (IE), where was associate professor of Economic Environment in an executive master's degree. He is the author of several books on economics and politics. He has published numerous articles in journals and wrote a regular weekly column in the Markets supplement of the daily newspaper El Mundo (2008-2018) and currently in the newspaper El Periódico. He was the first minister to start a blog (2006) and is very active on Twitter @sevillajordi (since 2008).</p>
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Total number of other non-executive directors	1
% of the total board	8.33

Give details of any changes in the category of each director during the period:

Name of director	Date of change	Previous category	Current category
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No data			
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C.14 Complete the following table with information on the number of female directors at the end of the last four years and the category to which they were assigned:

	Number of female directors				% of total directors in each category			
	F/Y 2019	F/Y 2018	F/Y 2017	F/Y 2016	F/Y 2019	F/Y 2018	F/Y 2017	F/Y 2016
Executive					0.00	0.00	0.00	0.00
Proprietary	2	2	1		16.67	16.67	8.33	0.00
Independent	3	3	3	4	25.00	25.00	25.00	36.36
Other non-executive					0.00	0.00	0.00	0.00
Total	5	5	4	4	41.67	41.67	33.33	36.36

C.15 Indicate whether the company has diversity policies in relation to the board of directors on matters such as age, gender, disability and professional training and experience. Small and medium-sized enterprises, as defined in the Audit Act, must report, at least, their policy on gender diversity.

- Yes
- No
- Partial policies

If so, describe the diversity policies, their objectives, the measures they entail, how they have been applied and their results during the year. State also any specific measures adopted by the board of directors and the Appointments and Remuneration Committee to achieve balance and diversity among the directors.

If the company does not apply a diversity policy, explain the reasons why not.

Description of the policies, objectives, measures, how applied and results obtained
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The company's diversity policy is set out in the Corporate Governance Policy, the criteria laid down by the Appointments and Remuneration Committee to define the optimum profile for appointment as director, the new Board of Directors competencies matrix, the Board of Directors Regulations (articles 15, 18 and 22) and the Articles of Association (article 24). The Corporate Governance Policy approved by the Board of Directors on 25 November 2014 acknowledges the aim of improving gender diversity by stating and accepting the principle of strengthening the company's commitment to diversity of knowledge, experience and gender on the Board of Directors and Board committees and within the practices included in the aforesaid Corporate Governance Policy is the Board of Directors diversity. 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. The Appointments and Remuneration Committee has also had for many years a series of criteria for determining the ideal profile for service as director, which define the qualities, competencies and experience the ideal candidate for the position of director should have. In 2018, the Appointments and Remuneration Committee and the board of directors carried out an assessment of the directors' competencies and knowledge, which resulted in the approval of the board of directors competencies matrix, individually specified for each director. Applying this matrix, which shows the competencies, experience, knowledge, professionalism, suitability, independence of judgement, qualities and capabilities the board of directors should have, makes it easier to supervise overall Board diversity and facilitates informed decision making. The matrix consists of three blocks: knowledge and experience of the business/ overall knowledge and experience/ and diversity. These three blocks are further broken down into 28 categories, so

as to reflect the directors' experience and knowledge in matters such as the energy sector, telecommunications, institutional relations, the financial sector and the capital market, strategy and business development, the boards of directors of public and private bodies, sustainability, risk management and compliance, digital transformation, gender, age and length of service on the Board. The Board competencies matrix is a good governance tool that facilitates supervision of the balance, diversity, and overall and individual quality of the board of directors at any given time and is consistent with the most advanced international practices and recommendations in corporate governance matters. The matrix was updated in 2019 to ensure it is fully up-to-date and aligned at all times with the Red Eléctrica Group's strategy. Article 22 of the Board of Directors Regulations provides that the Board of Directors, within the scope of its authority, will ensure that the candidates elected are persons of recognised solvency, competence and experience, ensuring diversity of gender, experience and knowledge within the Board. In this context, it is appropriate to note the important role of the Appointments and Remuneration Committee in the promotion of diversity on the board of directors since, as established in article 24 of the Articles of Association and in article 18 of the Board of Directors Regulations, that Committee is responsible for fostering a candidate of representation for the under-represented sex on the board of directors, assessing skills, knowledge and experience required on the Board, referring proposals for the appointment of independent directors to the Board, and reporting on proposals for the appointment of the other directors, among others. On the other hand, article 15 of the Board of Directors Regulations specifies that in appointing the members of the Audit Committee the candidates' knowledge and experience in accounting, auditing and risk management matters will be taken into account.

- C.1.6 Explain any measures agreed by the appointments committee to ensure that selection procedures have no implicit bias that might prevent the selection of female directors, and that the company deliberately searches for and includes among its potential candidate women who have the required professional profile, so as to reach a balanced presence of men and women:

Explanation of the measures

The purpose of the action taken by the company is to actively promote the selection of qualified women and include them on the board of directors. The company's Corporate Governance Policy, which is published on the corporate website ([www.ree.es](http://www.ree.es)), establishes "the principle of strengthening its commitment to diversity of knowledge, experience and gender in the composition of the board of directors and its committees" and within the practices included in the aforesaid Corporate Governance Policy is the diversity in 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. To that end, the board of directors has adopted the recommended best practices in gender diversity and as of year-end 2019, five (41.67%) of its members are women. The company thus continues to comply with the 30% target set in Recommendation 14 of the CBGSC (Código de Buen Gobierno de las Sociedades Cotizadas) ("Good Governance Code of Listed Companies") for the year 2020. Notably, in 2019 a female replaced a male as chairperson of the Appointments and Remuneration Committee. Furthermore, since 25 May 2013 a female has served as lead independent director after her last re-election for a term of three years on 26 March 2019. As regards the Board committees, since the latest Board restructuring, which was approved on 27 November 2018, the Sustainability Committee is chaired by a woman and two of its three members are women (66.7%). Two of the four members of the Audit Committee are women (50%) and one of the three members of the Appointments and Remuneration Committee is a woman (33.33%), who is also chairperson of the Committee.

In each candidate selection process, the Appointments and Remuneration Committee analyses the experience of the directors and evaluates whether it is in accordance with the profile of those suitable to hold positions as directors of the type the position of which is vacant at that time. During the selection process, the Appointments and Remuneration Committee fulfils the basic responsibilities specified in article 18.1, sections h), i) and k) of the Board of Directors Regulations. Candidates are assessed taking into account the competencies, experience, professionalism, suitability, independence of judgement, knowledge, qualities, abilities and availability of the existing members of the board of directors, with the Appointments and Remuneration Committee playing an important role in the process. Where considered appropriate, the Appointments and Remuneration Committee seeks the opinion of head-hunters specialised in the recruiting process of directors, who put forward various candidates and issue reports on each one of them, in which they assess the candidate's competencies and experience. These reports are carefully analysed and assessed by the Appointments and Remuneration Committee before a report and/or appointment proposal is submitted to the Board.

The board of directors' concern to hire female talent for the Board is manifested in article 18.1 n) of the Board of Directors Regulations, which makes it one of the Appointments and Remuneration Committee's core responsibilities to ensure that gender diversity is taken into account when filling new vacancies, setting a target for the representation of the less well represented gender and preparing guidelines on how to achieve that objective. All of the foregoing was taken into account by the Appointments and Remuneration Committee and the board of directors when analysing the reports and proposals to fill the vacancies that arose on the board of directors during 2019, as may be seen on the corporate website ([www.ree.es](http://www.ree.es)) within the documentation the company made available to shareholders for the Annual General Meeting of Shareholders held on 22 March 2019.

When despite such measures as may have been adopted, there are few female directors, or none, explain the reasons:

Explanation of the reasons

Not applicable.

C.1.7 Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. And in particular, regarding how that policy is promoting the objective that in 2020 the number of female directors will represent at least 30% of the total members of the Board of directors.

As already explained in sections C.1.5 and C.1.6 above (to which we refer to avoid repetition), the Appointments and Remuneration Committee has criteria that define the most suitable profile for a director. In 2018 the Appointments and Remuneration Committee and the Board of Directors approved a matrix of Board competencies, individualised for each director, which is a good governance tool that facilitates supervision of the balance, diversity, and overall and individual quality of the board of directors at any given time and is consistent with the most advanced international practices and recommendations in matters of corporate governance. The matrix was updated in 2019 to ensure it is fully up-to-date and aligned at all times with the Red Eléctrica Group's strategy.

In assessing candidates for the director position, the Appointments and Remuneration Committee fulfils the basic responsibilities specified in article 18.1, sections h), i), k) and n) of the Board of Directors Regulations and the provisions of the Corporate Governance Policy regarding the selection of directors and analyses the candidates' competencies, training, experience, professionalism, suitability, gender, independence of judgement, knowledge, qualities, capabilities and availability. In the proposals and reports for appointment of directors that the company has published on its website, which have been submitted to the Annual General Meeting of Shareholders, held on 22 March 2019, there is a transparent statement of the concern of both the Appointments and Remuneration Committee and the board of directors for diversity in the composition of the board of directors.

The company's Board of Directors, under the provisions of article 18.4 j) of the Board of Directors Regulations, assumed years ago the commitment to comply with the recommendations established regarding equality and, therefore, established the obligation of the Appointments and Remuneration Committee to prepare an annual report on gender diversity and equality policy to be submitted to the Board for its approval. This report reflects the company's concern for diversity and equality and, therefore, measures were analysed and adopted years ago to achieve balance of competencies in the board of directors and throughout the organisation. Red Eléctrica Corporación, S.A.'s Board of Directors, under the provisions of article 18.4 j) of the Board of Directors Regulations, assumed years ago the commitment to comply with the recommendations established regarding diversity and, therefore, established the obligation of the Appointments and Remuneration Committee to prepare an annual report on diversity to be submitted to the Board for its approval. This report reflects the company's concern for diversity and, therefore, measures were analysed and adopted years ago to achieve balance of competencies in the Board of Directors and throughout the organisation.

The most recent report on diversity was approved by the Board of Directors on 29 January 2019. This report relates to the financial year 2018 and included data on diversity in a broad sense, not only regarding gender but also experience, knowledge, age and years of service of the directors on the Board and within the organisation, including, for the first time, information on a larger number of Red Eléctrica Group companies. This report is published on the corporate website ([www.ree.es](http://www.ree.es)). The diversity report for the financial year 2019 is expected to be approved at the end of the first quarter of 2020 in line with the Sustainability Report for 2019 which will be approved on the same date. As of 31 December 2019, the company has five women directors (41.7%) and therefore it meets the 30% target for 2020 set in

Recommendation 14 of the CBGSC. It is remarkable in this regard the execution of the General protocol on balanced participation of females on the board of directors and the General protocol on balanced participation of females in senior management, executive and management committee positions, both come under the umbrella of the More Women, Better Businesses initiative, signed with the Ministry of the Presidency, Parliamentary Relationships and Equality in 2019. This is a demonstration of the Board of Directors' interest in Band commitment to diversity, considering that despite having five women on the board of directors (41.7% of the total and above the 40% threshold stipulated in the additional provision one of the Spanish Act 3/2007 of 2 March 2007), commits itself to continue to make progress in this regard. The company will therefore continue to earmark the funds and resources needed to establish mechanisms that drives up the number of qualified females on the Board and its committees and in management and other positions of responsibility in the organisation enabling the company's diversity management model to be put into practice and built on.

C.1.8 If applicable, explain the reasons proprietary directors have been appointed at the request of shareholders whose share interests are less than 3% of capital:

Name of shareholder	Justification
No data	

State whether any formal requests for membership on the board have not been honoured for shareholders whose share interests are not less than those of others upon whose request proprietary directors have been appointed. If applicable, explain the reasons the requests have not been honoured:

Yes

No

C.1.9 State, in case they exist, any powers or authorities delegated by the board of directors to individual directors or Board committees:

Name of director or committee	Brief description
MR ROBERTO GARCÍA MERINO	The Board of Directors of the company, in a meeting held on 27 May 2019, unanimously resolved: "to delegate, jointly, severally and indistinctly, to the Managing Director of Red Eléctrica Corporation, S.A., Mr Roberto García Merino, under and in accordance with the provisions of articles 249 of the current Spanish Companies Act, 149 of the Commercial Registry Regulations, 22 of the Articles of Association and 5 of the Board of Directors Regulations, all authority of the Board of Directors that may be delegated by law and pursuant to the Articles of Association".

C.1.10 Give details of any members of the board who hold the position of director or manager in other companies belonging to the group of the listed company:

Name of director	Name of group entity	Position	Has executive functions?
MR ROBERTO GARCÍA MERINO	RED ELÉCTRICA DEL SUR, S.A.	CHAIRPERSON OF THE BOARD OF DIRECTORS	NO

Name of director	Name of group entity	Position	Has executive functions?
MR ROBERTO GARCÍA MERINO	TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	MEMBER OF THE BOARD OF DIRECTORS (DIRECTOR)	NO
MR ROBERTO GARCÍA MERINO	RED ELÉCTRICA INTERNACIONAL, S.A.U.	JOINT DIRECTOR	YES
MR ROBERTO GARCÍA MERINO	RED ELÉCTRICA DE ESPAÑA, S.A.U.	REPRESENTATIVE OF THE SOLE DIRECTOR	YES
MR ROBERTO GARCÍA MERINO	RED ELÉCTRICA INFRAESTRUCTURAS DE TELECOMUNICACIÓN, S.A.U.	JOINT DIRECTOR	YES
MR ROBERTO GARCÍA MERINO	RED ELÉCTRICA SISTEMAS DE TELECOMUNICACIONES, S.A.U.	JOINT DIRECTOR	YES
MR ROBERTO GARCÍA MERINO	HISPASAT, S.A.	DIRECTOR	NO
MR JORDI SEVILLA SEGURA	HISPASAT, S.A.	DIRECTOR	NO
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	HISPASAT, S.A.	DIRECTOR	NO

C.1.11 Name any directors of your company who are known by your company to be directors or representatives of directors of other listed companies other than companies in your group:

Name of director	Name of the listed company	Position
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	GRUPO EZENTIS, S.A.	DIRECTOR
MS MARÍA JOSÉ GARCÍA BEATO	BANCO SABADELL, S.A.	DIRECTOR
MS SOCORRO FERNÁNDEZ LARREA	CEMENTOS MOLINS INDUSTRIAL, S.A.	DIRECTOR
MR ANTONIO GÓMEZ CIRIA	MAPFRE, S.A.	DIRECTOR

C.1.12 Indicate and, where applicable, explain whether the company has any rules on the maximum number of directorships to be held by its directors, indicating in each case where the rule is stated:

Yes

No

Explanation of the rules and where are they stated

Article 18.1 k) of the Board of Directors Regulations establishes, among the basic responsibilities of the Appointments and Remuneration Committee in relation to appointments and removals, that of evaluating the time and dedication necessary in order for directors to effectively perform their duties, for these purposes evaluating compatibility thereof with membership on other management bodies of companies, and ensuring that they have sufficient availability for proper performance of their duties. In this regard, the Appointments and Remuneration Committee has the authority to analyse and, if applicable, propose to the Board that members of the Board of Directors of Red Eléctrica Corporación, S.A. be authorised to join the boards of directors of other companies. Article 7.3 of the Board of Directors Regulations limits the number of boards members of other listed companies of which an independent director of the company may be a member to a maximum of two (2), absent an express exception approved by the Board, on proposal of the Appointments and Remuneration Committee. In addition, under article 7.2 b) of the Board of Directors Regulations, proprietary directors may not simultaneously serve as directors of more than five (5) listed companies. And under article 7.2 a) of the aforesaid Regulations, executive directors may only serve as directors on one (1) board of directors of another company, with the exception of positions on Boards of Directors of subsidiaries or investees of the company.

C.1.13 State the overall amounts of the following items of remuneration paid to the board of directors:

Remuneration accrued by the board of directors during the year (thousand euros)	3,289
Amount of accrued pension rights of current directors (thousands of euros)	42
Amount of accrued pension rights of former directors (thousands of euros)	

C.1.14 Name the members of senior management who are not executive directors, and state the total remuneration they earned during the financial year:

Name	Position(s)
MR MIGUEL RAFAEL DUVISON GARCÍA	GENERAL MANAGER OF OPERATIONS
MS EVA PAGÁN DÍAZ	GENERAL MANAGER OF TRANSMISSION
Total senior management remuneration (in thousands of euros)	
	664

C.1.15 State whether there was any amendment of the board regulations during the financial year:

Yes

No

Description of amendments

Amendments to the Board of Directors Regulations approved by the Board in 2019 were as follows:

At the meeting held on 19 February 2019:

- The Board Committees were restructured by creating a new Sustainability Committee, while the functions of the other two board committees – the Audit Committee and the Appointments and Remuneration Committee – were revised based on the strategic importance the Board of Directors wants to attach to sustainability in the Red Eléctrica Group.

- The Appointments and Remuneration Committee was given more responsibilities through the creation of a new model governing labour relations between the Board of Directors and the Red Eléctrica Group companies in accordance with international corporate governance best practices.
- The general supervisory function the Audit Committee is tasked with and the specific supervisory functions assigned to each of the other board committees in their various jurisdictions were revised.
- The review also served to make some changes to key corporate governance practices, especially in the international area, as well as to introduce other improvements of a formal nature or style.

At the meeting held on 30 April 2019:

- Strengthen the Board of Directors' role as a supervisor and guarantor of the functional independence of the Electricity System Operator – a function legally attributed to Red Eléctrica de España, S.A.U. – vis-à-vis the powers and duties conferred on it under prevailing legislation. The reform was called for by the Board of Directors at its meeting on 26 March 2019 with a resolution to propose the formal inclusion of the appropriate amendments in the Board of Directors Regulations.

C.1.16 Describe the procedures for the selection, appointment, re-election and removal of directors. Specify the competent bodies, the formal steps to be taken and the criteria to be used in each procedure.

- 1- Appointment and re-election. Article 21 of the Board Regulations provides that directors will be appointed by the General Meeting of Shareholders or, in the event of an early vacancy, by the Board of Directors by co-optation. The proposal for the appointment (including by way of co-optation) or 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 the case of all other directors. The Board, within the scope of its authority, will see to it that the candidates selected are persons of recognised solvency, competence and experience, guaranteeing gender diversity, experience and knowledge within the Board, following the policy of appointment and evaluation of candidates approved by the Board itself, even being entitled to use outside advisors when considered to be necessary, in accordance with article 22 of the aforesaid Regulations. Under articles 23 of the Regulations, directors will serve for the term contemplated in the Articles of Association. Articles 20 of the aforesaid Articles sets the term of service as a director at four years. As established in article 7 of the Board Regulations, Independent Directors may not serve as such for a consecutive period of more than twelve years. In 2011 the board of directors approved a Succession Plan for the chairperson. But since 2011, in line with advances in the world of corporate governance, the company has undergone significant structural changes. For this reason, throughout 2017 intensive work was carried out by the Appointments and Remuneration Committee and the lead independent director in the preparation of the “Contingency Plan for the succession of the Chairperson of the Board” and the “Contingency Plan for the succession of the managing director” with the support of an international outside consultant. The Board of Directors, at its meeting held on 19 December 2017, on proposal of the Appointments and Remuneration Committee, approved the aforementioned Plans, including the profiles and functions of the chairperson of the board and the Managing Director and previewing the actions to be taken within the company immediately in the event of unforeseen or unforeseeable events that prevent both the chairperson of the Board of Directors and the managing director, during the period of their appointment, from performing their duties. The aforesaid Plans will be reviewed at least every 6/12 months. Both Plans set out in detail their objectives, the causes of activation, the responsible parties and the actions to be taken in each phase, from the first 24 hours to the first month, assigning specific roles and responsibilities and avoiding risks of an unforeseen and disorderly succession. The Contingency Plan for the succession of the board of directors' chairperson has been implemented for the first time and with a satisfactory outcome, after the resignation of the former chairperson at the Board meeting held on 28 January 2020.
- 2- Evaluation of directors. Article 5 of the Board of Directors Regulations establishes that, at least every two years, the Board will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the Appointments and Remuneration Committee. The Board has reserved to itself, on a non-delegable basis (article 5 of the Regulations) the annual evaluation of its own functioning, of the functioning of its Committees, of the performance of their functions by the chairperson of the Board and the managing director. The process for the 2018 financial year, carried out in 2019, was with the collaboration of a new outside international consultant and was undertaken under the direction of the Appointments and Remuneration Committee, in coordination with the lead Independent Director. The Board of Directors will initiate shortly a self-evaluation process for the Board of Directors, covering the year 2019.
- 3- Removal. Article 24.1 of the Board Regulations establishes that directors will leave office when the period for which they were appointed has elapsed, or when so decided by the General Meeting of Shareholders in use of the authority conferred on it by law or the articles. Article 24.1 of the Board Regulations establishes that directors will

leave office when the period for which they were appointed has elapsed, or when so decided by the General Meeting of Shareholders in use of the authority conferred on it by law or the articles. The Board of Directors must not propose the removal of independent directors before the end of the period for which they were appointed unless, after considering a report by the Appointments and Remuneration Committee, it is satisfied that there is just cause. In particular, just cause will be deemed to exist when the director acquires new positions or new obligations that prevent him or her from devoting the time needed to discharge the duties of a director, is in breach of his or her duties as a director or is subject to any of the circumstances described in articles 7.2 j) 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 articles 7.1.c) of the Board of Directors Regulations. Also, directors must tender their resignation to the board of directors and, if the Board considers it appropriate, resign in the cases contemplated in articles 24.2 of the Board Regulations. Lastly, articles 24.3 of the aforesaid Regulations provides that members of the Committees will leave office when they do so as regards their positions as directors.

C.1.17 Explain to what extent the annual evaluation of the board has resulted in significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

The annual evaluation of the Board of Directors for 2018 was signed off by the Board of Directors at its meeting on 17 December 2019. Consequently, there has not been enough time for significant changes to the organisation or procedures concerning the Board's activities to be made based on the results of the evaluation.

Describe the evaluation process and the areas evaluated by the board of directors, assisted where appropriate by an outside consultant, regarding the functioning and composition of the board and its committees and any other area or aspect that was included in the evaluation.

Description of evaluation process and areas evaluated

The Board of Directors, in article 5 of the Board of Directors Regulations, expressly reserves, inter alia, on a nondelegable basis, the annual evaluation of the quality and efficiency of the functioning of the Board, the performance of their duties by the chairperson of the Board and the managing director of the company and the effective functioning of the Board Committees, based on the report referred to it by the Appointments and Remuneration Committee, in coordination with the lead independent director or the chairperson. The evaluation the functioning of the Board, its chairperson, the managing director of the company and its Committees will be performed by an independent expert third party at least every two years.

Red Eléctrica Corporación, S. A. was one of the first companies to carry out the voluntary annual evaluation process of its board of directors, also being assisted for years by outside advisors with the aim of giving its self-evaluations a more objective and independent view, thus following the recommendations established by recent regulatory amendments and the best practices applicable to Corporate Governance.

The process for 2018 carried out in 2019 was signed off by the board of directors at its 17 December 2019 meeting. This process was with the collaboration of a new outside international consultant and was undertaken under the direction of the Appointments and Remuneration Committee, in coordination with the lead independent director. The main conclusions and the action plan approved on completion of this process are summarised in the free text section of the company's Annual Corporate Governance Report, which is published on the corporate website ([www.ree.es](http://www.ree.es)). Please refer to this for further information.

The Board of Directors will initiate shortly a self-evaluation process for the Board, covering the year 2019.

C.1.18 For the years in which the evaluation was assisted by an outside consultant, details of any business dealings the consultant or any company in its group have had with the company or any company in its group.

Russell Reynolds Associates Spain, S.L.U. carried out the evaluation of the Board of Directors for the financial year 2019. During said year, this consultant had business dealings with a Group company which involved providing other services for a fee of EUR 70,320.36 (43.7% of the total fees for services provided by this consultancy firm).

C.1.19 State the circumstances in which directors are required to resign.

Article 24.2 of the Board Regulations contemplates that directors will place their positions at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignations, in the following cases:

- a) When they reach 70 years of age.
- b) When they are subject to any of the grounds of incompatibility or prohibition contemplated by law.
- c) When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.
- d) When they have seriously breached their obligations as directors.
- e) When they leave the management positions with which their appointments as directors were associated.
- f) When their continued presence on the Board endangers the company's interests, and the Board so finds with the favourable vote of two thirds of its members. If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.
- g) In the case of a proprietary director, when the shareholder the shareholding interests of which it represents on the Board transfers all of its interest in the company, or reduces it to a level requiring reduction of the number of its proprietary directors.
- h) On request of the Board of Directors by a majority of two thirds of its members, when there are repeated absences from meetings of the Board.
- i) When any circumstance occurs that prevents or significantly limits their participation in and dedication to the meetings of the Board and exercise of their duties and responsibilities as directors."

C.1.20 Are supermajorities, other than the legally stipulated majorities, required for any kind of decision?

Yes

No

If so, describe the differences.

Description of the differences
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Any resolution. Quorum: Half plus one of its members present in person or by proxy (article 20 of the Regulations); Type of majority: Absolute. Amendment of the Board Regulations as provided in article 3.4 of the Regulations. Same as for any resolution; Type of majority: Two thirds.

Removal of directors when their continued presence on the Board endangers the company's interests, in particular in respect of section 38.4 of the Regulations, and the Board so finds with the favourable vote of two thirds of its members, pursuant to article 24.2 f) of the Regulations. Same as for any resolution; Type of majority: Two thirds.

Removal of director on request of the Board of Directors, when there are repeated absences from meetings of the Board. Request by two thirds majority (article 24.2 h) of the Regulations. In accordance with article 529 septies of the LSC, in the Board of Directors Regulations it is established that if the position of chairperson is held by an executive

director, appointment thereof will require the favourable vote of two thirds of the members of the board of directors article 9 of the Regulations).

There are no provisions for resolutions that require a supermajority for their adoption, apart from the specific ones contemplated in the applicable law and the cases referred to above.

Except in cases where other quorums for attendance have been specifically established, the board will be validly constituted with the attendance of at least half plus one of its members, present either in person or by proxy. If there is an odd number of directors, then a quorum will be present with the attendance of the whole number of directors immediately over half.

In accordance with the provisions of article 21 of the Articles of Association, any director may grant a proxy to another director, in writing and specially for each meeting, to represent and vote for them at meetings of the Board of Directors. Such proxy should be given to a director of the same type as the grantor of the proxy (articles 30.2 c) and 20 of the Board Regulations. (Article 529 quater of the LSC only allows non-executive directors to grant proxies to another non-executive director, which provision has been included in article 21 of the Articles of Association and article 30.2 c) of the Board of Directors Regulations).

The chairperson will organise the discussion, ensuring and encouraging the participation of all directors in the deliberations of the body, and will submit the matters for vote when he deems them to have been sufficiently debated. Each director, present in person or by proxy, will have one vote.

Both the Articles of Association (article 21) and article 20 of the Board Regulations provide that resolutions will be adopted by absolute majority of votes of the directors attending the meeting, in person or by proxy, except in those cases in which the law requires that resolutions be adopted by a greater majority, with the exceptions already discussed that are contemplated in the Board of Directors Regulations.

C.1.21 State if there are any specific requirements other than those relating to directors, to be appointed chairperson of the board of directors:

Yes

No

Description of requirements

Article 9 of the Board of Directors Regulations, after its adaptation to article 529 septies of the LSC, provides that if the position of chairperson is held by an executive director, appointment thereof will require the favourable vote of two thirds of the members of the Board of Directors.

C.1.22 Indicate if the articles or board of directors' regulations establish any age limit for directors:

Yes

No

	Age limit
Chairperson	70
Managing director	N/A
Director	N/A

C.1.23 Indicate whether the articles of association or the board of directors' regulations set a limit on the term of office of independent directors or any additional requirements stricter than those established by law:

Yes

[√] No

C.1.24 Indicate whether the articles of association or the board of directors' regulations establish specific rules for the granting of proxies by directors in favour of other directors, the manner of doing so and, in particular, the maximum number of proxies a director may hold, as well as whether any limitation has been established regarding the categories within which it is possible to grant proxies, beyond the limitations imposed by law. If so, briefly describe those rules.

Each director may extend a proxy to another director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors. It is so provided in article 21 of the Articles of Association. Non-executive directors may do so only to another non-executive director.  
If a director cannot, for justified cause, attend a Board of Directors' meeting that has been called, he must give instructions to the director that will represent him, seeing to it that he is represented by a director of the same category as provided in article 30.2 c) and article 20 of the Board Regulations.  
Also, article 529 quater of the LSC must be applied for non-executive directors, as already set forth in the Articles of Association and the Board of Directors Regulations.

C.1.25 State the number of meetings of the board of directors held during the financial year. State also how many times, if any, the board of directors met without the chairperson being present. The figures treat proxies with specific instructions as being in attendance.

Number of board of directors meetings	13
Number of board of directors meetings without the chairperson being present	0

Indicate the number of meetings held by the coordinating director with the rest of the directors without the presence of any executive director, either in person or by proxy:

Number of meetings	2
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State the number of meetings the various board committees have held during the financial year:

Number of meetings of the AUDIT COMMITTEE	11
Number of meetings of the APPOINTMENTS AND REMUNERATION COMMITTEE	16
Number of meetings of the SUSTAINABILITY COMMITTEE	12

C.1.26 State the number of meetings held by the board of directors during the financial year and the attendance figures of the members:

Number of meetings with at least 80% of the directors present in person	13
--	----

In-person attendances as a % of total number of votes cast during the year	100.00
Number of meetings with all the directors present in person or by proxy with specific instructions	13
Votes cast by directors present in person or by proxy with specific instructions as % of total votes cast during the year	100.00

C.1.27 Indicate whether the individual and consolidated annual financial statements submitted for board formulation are previously certified:

Yes

No

If so, state the person(s) who has/have certified the company's individual and consolidated annual accounts for preparation by the board:

Name	Position
MS MARÍA TERESA QUIRÓS ÁLVAREZ	CHIEF FINANCIAL OFFICER
MR JOSÉ MANUEL RODRÍGUEZ GIL	ECONOMIC DIRECTOR
MR ROBERTO GARCÍA MERINO	MANAGING DIRECTOR

C.1.28 Give details of any mechanisms the board of directors has established to avoid the individual and consolidated financial statements prepared by it being presented to the general meeting with qualifications in the audit report.

As expressly indicated in article 42 of the Board Regulations, the Board of Directors will definitively formulate the accounts, after review by the Audit Committee pursuant to its functions as established in the Regulations, seeing to it that there are no qualifications by the auditor. However, when the Board concludes that its position should be maintained, it will publicly explain the substance and scope of the disagreement.

In this regard, the Audit Committee is particularly important, as it continuously monitors the process of reporting economic and financial information to the market supervisory bodies, thereby increasing the possibility of absence of qualifications in the annual audit reports.

Since it was incorporated in 1985, the company has not been subject to any audit qualifications regarding its Annual Accounts, which attests to the accuracy, reliability and sufficiency of the Annual Accounts of the company and of its consolidated Group throughout its life, guaranteeing at all times the highest informational transparency.

C.1.29 Is the secretary of the board of directors a director?

[ ] Yes

[√] No

If the secretary is not a director, complete the following table:

Name of the secretary	Representative
MR RAFAEL GARCÍA DE DIEGO BARBER	

C.1.30 State the specific mechanisms established by the company to preserve the independence of the external auditors and any mechanisms to preserve the independence of financial analysts, investment banks and rating agencies, including how the legal provisions have been implemented in practice.

Approval of the policy for engagement of non-audit services from the Outside Auditor is reserved on a nondelegable basis to the board of directors in its internal Regulations (article 5.5 a) xiv). The Annual General Meeting of Shareholders held on 15 April 2015 approved an amendment of the Articles of Association, to adapt them to the legislative reforms introduced by Act 31/2014 of 3 December 2014, amending the Spanish Companies Act to improve corporate governance. Among other articles, there was an amendment of article 23.2 of the Articles of Association related to the authority of the Audit Committee incorporating minimum adjustments in relation to the Outside Auditors. The Audit Committee is the body under the Board of Directors that is responsible for the relationship with outside auditors. In this regard the Audit Committee assists the Board of Directors in ensuring independence of the company's outside auditor. In article 16.3 b) of the Board of Directors Regulations, in relation to the independence of outside auditors, within the functions of the Audit Committee, the function of establishing direct relationships with the Outside Auditors is included, with that committee regularly to collect and receive information from the auditor regarding the audit plan, the process of development thereof and its implementation, and regarding such matters as may result in a threat to their independence, including the matter related to the report from the Outside Auditor of neither it nor any of its partners having been convicted by a final judgement, in criminal proceedings related to the performance of its audit functions, for examination by the Committee, and any others related to the process of development of the audit of accounts. And to authorise, when it considers it to be appropriate, services of the Outside Auditors other than those that are prohibited, on the terms contemplated in the applicable legislation on audit of accounts. In addition, article 16.3 h) of the aforesaid Regulations includes the Audit Committee function of issuing, annually prior to the issue of the audit report, a report stating an opinion as to whether the independence of the Outside Auditors or audit companies has been compromised. In this regard the Audit Committee must ensure that the company (i) makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with the departing auditor, and (ii) complies with the applicable rules regarding non-audit services, limits on the concentration of the auditor's business and, in general, the other rules established to ensure independence of the auditors. Also, in the case of resignation of the auditor, the Audit Committee must examine the underlying circumstances. Further, pursuant to the terms of article 42 of the Board of Directors Regulations, the board of directors will refrain from engaging audit firms whose anticipated fees in all categories are projected to surpass ten percent of total income during the last financial year. In addition, the aforesaid article 42 of the aforesaid Regulations requires the board of directors to report, annually, on the overall fees that have been paid to the outside audit company for services other than auditing, seeking to minimise the engagement of such services to the extent possible. Without prejudice to the obligation established in the aforesaid regulatory rule, to report to the Audit Committee on the services provided to the company and the Group by the outside auditor, other than those related to the outside audit (services that are regularly reported to the markets by way of heading C.1.32 of this report), the approach followed by the company is not to engage this kind of services from the Outside Auditor from the date it has been appointed by the General Meeting of Shareholders, unless there are exceptional reasons justifying the engagement of such services therefrom, which are to be appropriately explained in the annual public reporting of the company. In any case, the engagement of such services must be authorised by the Audit Committee. Since 2016, in compliance with Recommendation 6 of the CBGSC, the company publishes the Audit Committee Report on the independence of the Outside Auditor on the corporate website, duly in advance of the date of holding the Annual General Meeting of Shareholders. The company makes frequent presentations to financial analysts and investment banks to report the key economic and financial figures of the group, and to review its business performance. Said presentations are regularly attended by the most important professionals and specialists in the sector. After making the foregoing presentations,

all participants are offered the opportunity to be included in a list of entities that periodically receive the most important information regarding the company of interest to them.  
Presentations to analysts are sent in advance to the CNMV so that they are disclosed to the markets through its website. These presentations are then immediately posted on the company's website.  
The principal purpose of the "Investor Relations" Department, under the company's Corporate Economic and Financial Office, is to serve as a channel for communications with financial professionals and institutional investors and respond to their inquiries.

C.1.31 Indicate whether the company changed its external auditor during the year. If so identify the new and departing auditors:

Yes

No

Explain any disagreements with the departing auditor and the reasons for the same if any.

Yes

No

C.1.32 Indicate whether the audit firm provides any non-audit services to the company and/or group. If so, state the auditor's fees for such services in absolute terms and as a percentage of the total fees invoiced to the company and/or its group:

Yes

No

	company	Group companies	Total
Fees for non-audit services (thousands of euros)	26	93	119
Fees for non-audit services / Fees for audit services (%)	19.00	17.00	17.00

C.1.33 State whether the audit report on the financial statements for the prior financial year contains reservations or qualifications. Where applicable, state the reasons given to the shareholders in the General Meeting by the chairperson of the audit committee to explain the substance and scope of the reservations or qualifications.

Yes

No

C.1.34 State the number of consecutive financial years the current audit firm has audited the company's and/or group's individual or consolidated financial statements. Also state how long the current audit firm has audited the company's financial statements as a percentage of the total number of financial years for which the company's financial statements have been audited:

	Individual	Consolidated
Number of consecutive financial years	7	7

	Individual	Consolidated
No. of financial years audited by current audit firm / No. of financial years the company or its group has been audited (as a %)	21.00	37.00

C.1.35 Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for the board of directors' meetings in good time. If so, give details.

Yes

No

Details of the procedure

The Board of Directors meetings are called at least six days in advance and all the relevant information is sent together with the call. The call always includes the agenda for the meeting and, as a general rule, the relevant information is attached, duly summarised and prepared. Notwithstanding the foregoing, article 19.5 of the Board Regulations establishes that the call of the board of directors will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the Board of Directors may be called by telephone and the prior notice period will not apply when, in the chairperson's opinion, the circumstances so require. The urgent reasons will be explained in the minutes of the meeting as provided in article 19.6 of the Regulations.

Article 27.1 of the Board Regulations provides that a director has the broadest rights to collect information regarding any matter affecting the company. In this regard a director may examine the books, records, documents and other background of corporate transactions, and inspect all of its facilities. The right to information extends to subsidiary companies, both domestic and foreign. In accordance with article 27.3 of the Board Regulations, in order not to interfere with the ordinary management of the company, exercise of information rights is channelled through the chairperson of the Board of Directors and/or the managing Director. They will respond to director inquiries by providing the information directly, making the appropriate spokesmen at the appropriate level within the organisation available, or arranging for requested on-site review and inspection. Article 27.4 of the Board Regulations provides that the chairperson may restrict access to certain information on an exceptional and temporary basis, informing the board of directors of the decision during its next meeting. Also, both the Audit Committee and the Appointments and Remuneration Committee may access any kind of company information or documentation they need to effectively perform their duties.

C.1.36 State whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may prejudice the credit and reputation of the company, and if so give details:

Yes

No

Explain the rules

Article 35 of the Board Regulations, among the disclosure obligations of a director, provides that a director must advise the company of all judicial, administrative and other claims that by reason of their significance may jeopardise the credit and reputation of the company. In particular, he must advise of criminal actions in which he appears as a target, and of the progress of the trial.

Also, as indicated in article 24.2 f) of the Board Regulations, directors must tender their positions to the board of directors and formalise the corresponding resignation when remaining on the Board endangers the interests of the company, as discussed above, if so ordered by the Board by a vote of two thirds of its members. If a director is tried for any of the crimes indicated in the corporate legislation, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All such determinations will be disclosed and explained in the Annual Corporate Governance Report.

C.1.37 State whether any member of the board of directors has reported to the company that he has been indicted or tried for any of the crimes stated in article 213 of the Spanish Companies Act:

Yes

No

C.1.38 Give details of significant agreements that have been entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer, and the effects thereof.

There are no agreements entered into by the company that become effective, are amended or are terminated in the event of a change of control of the company by reason of a public tender offer for its shares.

C.1.39 Identify individually for directors, and on an aggregate basis in other cases and describe in detail any agreements between the company and its directors and managers or employees that contain indemnification, guarantee or golden parachute clauses, when they resign or are improperly dismissed, or if the contractual relationship concludes by reason of a public tender offer or other transaction.

Number of beneficiaries	3
Type of beneficiary	Type of resolution
Managing director, top-level managers	At 31 December 2019 there are 3 beneficiaries with this type of agreement. In accordance with the remuneration policy, following market practice for these cases, as a result of the new appointment of the managing director, the previously existing employment contract is suspended. In the event that this contract is terminated, the managing director would earn on compensation terms, the remuneration existing at the date of the suspension, taking into account, for the appropriate purposes, the length of service at Red Eléctrica de España, S.A.U. up to the date of appointment as managing director (15 years), plus the period of service -if any- after the termination of the position as managing director, all in accordance with current labour legislation. Both the economic regime and the suspension of the employment relationship of the new managing director are in line with that applicable to the previous managing director. There are no guarantee or golden parachute clauses for dismissals in favour of top-level Managers currently providing their services within the Group. If the employment relationship is extinguished, the compensation corresponding to those Managers would be calculated in accordance with the applicable labour laws. The contracts of these Managers were approved by the Appointments and Remuneration Committee and they were duly notified to the Board of Directors.

Indicate whether, apart from any regulatory reporting requirements, these contracts must also be reported or approved by corporate bodies of the company or its group. If so, specify the procedures, circumstances and nature of the bodies responsible for such approval or reporting:

	Board of directors	General Meeting of Shareholders
Body authorising the clauses	√	

	Yes	No
Is the general meeting of shareholders informed of the clauses?	√	

**C.2. Board of directors committees**

C.2.1 Give details of all committees of the board of directors, their members and the proportions of executive, proprietary, independent and other non-executive directors that are members thereof:

AUDIT COMMITTEE		
Name	Position	Category
MS MERCEDES REAL RODRIGÁLVAREZ	MEMBER	Proprietary
MR ANTONIO GÓMEZ CIRIA	CHAIRPERSON	Independent
MS MARÍA JOSÉ GARCÍA BEATO	MEMBER	Independent
MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	25.00
% of independent directors	75.00
% of other non-executive directors	0.00

Explain the functions of this committee, including any additional functions to those specified by law, and describe the committee's procedures, composition and functioning. For each of these functions, indicate the most important actions taken during the year and how, in practice, the committee has performed each of the functions assigned to it by law, the Articles of Association or any other corporate resolution.

The functions, procedures and rules of organisation and functioning of the Audit Committee are set forth in articles 23 of the Articles of Association and 15 and 16 of the Board of Directors Regulations (for full details, see the corporate website, [www.ree.es](http://www.ree.es)).

The most important actions of the Audit Committee are included in the Annual Activities Report of the aforesaid Committee for 2019, which is available on the corporate website ([www.ree.es](http://www.ree.es)), in the section on "Reports and Other Documents" referred to in Recommendation 6 of the CBGSC.

Identify the members of the Audit Committee that have been appointed having regard to their knowledge and experience of accounting, auditing or both and state the date of the appointment of the commission chairperson in its position.

Names of directors with experience	MS MERCEDES REAL RODRIGÁLVAREZ / MR ANTONIO GÓMEZ CIRIA / MS MARÍA JOSÉ GARCÍA BEATO / MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO
Date of appointment as chairperson	20/11/2017

APPOINTMENTS AND REMUNERATION COMMITTEE		
Name	Position	Category
MR ANTONIO GÓMEZ EXPÓSITO	MEMBER	Proprietary
MS SOCORRO FERNÁNDEZ LARREA	CHAIRPERSON	Independent
MR JOSÉ JUAN RUIZ GÓMEZ	MEMBER	Independent

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of other non-executive directors	0.00

Explain the functions of this committee, including any additional functions to those specified by law, and describe the committee's procedures, composition and functioning. For each of these functions, indicate the most important actions taken during the year and how, in practice, the committee has performed each of the functions assigned to it by law, the Articles of Association or any other corporate resolution.

The functions, procedures and rules of organisation and functioning of the Appointments and Remuneration Committee are set forth in article 24 of the Articles of Association and article 17 and 18 of the Board of Directors Regulations (for full details, see the corporate website, [www.ree.es](http://www.ree.es)).

The most important actions of the Appointments and Remuneration Committee are included in the Annual Activities Report of the aforesaid Committee for 2019, which is available on the corporate website ([www.ree.es](http://www.ree.es)), in the section on "Reports and Other Documents" referred to in Recommendation 6 of the CBGSC.

SUSTAINABILITY COMMITTEE		
Name	Position	Category
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	CHAIRPERSON	Independent
MR ALBERTO FRANCISCO CARBAJO JOSA	MEMBER	Independent
MS MARÍA TERESA COSTA CAMPI	MEMBER	Proprietary

% of executive directors	0.00
% of proprietary directors	33.33
% of independent directors	66.67
% of other non-executive directors	0.00

Explain the functions assigned to this committee and describe its procedures and rules of organisation and functioning. For each of these functions, indicate the most important actions taken during the year and how, in practice, the committee has performed each of the functions assigned to it by law, the Articles of Association or any other corporate resolution.

The functions, procedures and rules of organisation and functioning of the Sustainability Committee are set forth in the new articles 18 BIS and 18 TER of the Board of Directors Regulations (for full details, see the corporate website, [www.ree.es](http://www.ree.es)).

The most important actions of the Sustainability Committee are included in the Annual Activities Report of the aforesaid committee for 2019, which is available on the corporate website ([www.ree.es](http://www.ree.es)), in the section on “Reports and Other Documents” referred to in Recommendation 6 of the CBGSC.

C.2.2 Complete the following table with information regarding the number of female directors that have been members of the committees of the board of directors at the end of the last four financial years:

	Number of female directors							
	F/Y 2019		F/Y 2018		F/Y 2017		F/Y 2016	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMITTEE	2	50.00	2	50.00	2	40.00	1	20.00
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.33	1	33.33	2	40.00	3	75.00
SUSTAINABILITY COMMITTEE	2	66.66	2	66.66	0	0.00	0	0.00

C.2.3 State whether there is any regulation of Board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

The Board of Directors Regulations of the company regulate the structure, composition and functioning of the Audit Committee, the Appointments and Remuneration Committee, and the Sustainability Committee in accordance with the principal international recommendations and practices regarding corporate governance, introducing improvements in organisation and functioning.

The company opted for comprehensive regulation in the Board of Directors Regulations without establishing specific internal regulations for the committees. Since November 2018, the company has had three Board committees following the creation of the Sustainability Committee. This involved the restructuring of the other two Board committees: the Audit Committee and the Appointments and Remuneration Committee. The three committees were established by the Board of Directors to help it perform its duties. They are eminently technical and are intended to achieve a greater degree of efficiency and transparency.

The structure, composition, functions and responsibilities of the Committees are established in articles 22 to 24 of the Articles of Association and implemented through articles 14 to 18 TER of the Board of Directors Regulations. Both these company documents are fully in line with the latest reforms of the LSC, the CBGSC and the latest international recommendations and best practices on the composition of board committees and the independence and qualifications of their members.

At the end of 2018 the Board of Directors Regulations were reviewed to update the functions of the three Board committees. The revised document was approved at the 19 February 2019 meeting of the board of directors. The amendments made to the Regulations were approved in order to:

- Restructure the Board committees by creating a new Sustainability Committee and update the functions of the other two board committees – the Audit Committee and the Appointments and Remuneration Committee – based on the strategic importance the board of directors wants to attach to sustainability in the Red Eléctrica Group.
- Increase the responsibilities of the Appointments and Remuneration Committee through the creation of a new model governing labour relations between the board of directors and the Red Eléctrica Group companies in accordance with international corporate governance best practices.
- Revise the general supervisory function the Audit Committee is tasked with in coordination with the specific supervisory functions assigned to each of the other Board committees in their various jurisdictions.
- Make some changes to key corporate governance practices, especially in the international arena, and to introduce other improvements of a formal nature or concerning style.

The current Board of Directors Regulations may be viewed on the company's website, [www.ree.es](http://www.ree.es), in the Corporate Governance section, without prejudice to their being registered, and therefore available to the shareholders and any interested person, at the CNMV and the Madrid Commercial Registry.

At its meeting on 30 April 2019, the Board of Directors approved the new version of the Board of Directors Regulations to further increase the independence of the System Operator by including, inter alia, the new function of an Audit Committee in article 16.4 a).

In September 2019, said Regulations were reviewed again to update the functions of the Board and its Committees vis-à-vis sustainability. Some of these functions are cross-cutting and the formal and material scope thereof was agreed by the three Board committees. The review also served to bolster coordination between the three committees through mechanism that are pending approval.

Each year, the Board committees prepare reports on their activities, which are incorporated in the Annual Corporate Governance Report and are published on the company's website. In 2019, in accordance with Recommendation 6 of the CBGSC, the activities reports of the Board committees for the 2018 financial year were published, separately, on the corporate website. It is planned that the 2019 activities reports for the three committees will also be published on the corporate website ([www.ree.es](http://www.ree.es)).

**D. RELATED PARTY AND INTRAGROUP TRANSACTIONS**

D.1. Explain the procedure, if any, and the competent bodies for the approval of related party and intragroup transactions.

In May 2010, at the proposal of the Audit Committee, the Board of Directors approved a related-party transaction control policy and set objective parameters (relevant or not relevant) for the control of related-party transactions, annual recurring related-party transactions and transactions that must be disclosed to the Markets. In compliance with the aforesaid resolutions, the Audit Committee annually monitors the related party transactions and reports in a timely manner to the board of directors. However, as a result of the update of the Board of Directors Regulations, dated 20 December 2016, and of the Internal Regulations of Conduct in the Securities Market, dated 26 September 2017, the board of directors on the basis of the current legal scheme for related party transactions, and taking account of the corporate rules of the company as fully adapted to that scheme, in January 2018 derogated the aforesaid resolutions and approved a new resolution whereby any related party transaction that the company or companies included in its Group engage in with directors or shareholders of the companies, individually or collectively with others holding a significant participation, including shareholders represented on the board of directors of the company or companies in its Group, or persons related thereto in accordance with the current legislation, is submitted to approval of the board of directors, after a report from the Audit Committee, prior to being implemented. Excepted from approval by the Board are transactions that, simultaneously, have the following three characteristics: -that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a high number of customers, - that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and - that the amount thereof does not exceed 1% of the annual income of the company. Also, the reporting obligations legally established in relation to the aforesaid related party transactions will be met. The resolutions of January 2018 also contemplate the need to report semi-annually to the Board of Directors, after a report of the Audit Committee, and after implementation, any related party transaction undertaken by the company or companies in its Group with the directors and officers of the company, shareholders and third parties that may exercise “significant influence”, as well as close family members thereof, on the terms contemplated in the current legislation.

D.2. Describe those transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the company or entities in its group and the significant shareholders of the company:

Name of related significant shareholder	Name of the company or group entity	Nature of the relationship	Transaction type	Amount (thousands of euros)
No data				N/A

D.3. Describe the transactions that are significant by reason of their amount or relevant by reason of their subject matter, entered into by the company or entities in its group and the directors or managers of the company:

Name of the directors or managers	Name of the related party	Link	Nature of the transaction	Amount (thousands of euros)
No data				N/A

D.4. Give details of any significant transactions entered into by the company with other entities belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, as regards their subject matter and terms, are part of the ordinary course of the company’s business.

In any event, any intragroup transaction entered into with entities established in countries or territories considered to be tax havens is to be reported:

Name of group company	Brief description of the transaction	Amount (thousands of euros)
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Leases.	83
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Other expenses.	485
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Financing agreements, loans and capital contributions (lender).	24,677
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Financial income on the loan.	1,364
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Provision of services.	75
HISDESAT SERVICIOS ESTRATÉGICOS, S.A.	Provision of services.	1,178

D.5. Give details of significant transactions between the company or entities in its group and other related parties that have not been reported in previous sections:

Name of the related party	Brief description of the transaction	Amount (thousands of euros)
No data		N/A

D.6. Give details of the mechanisms in place to detect, determine and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, managers or significant shareholders, on the other.

In accordance with article 31 e) of the Board Regulations a director must take the measures necessary to avoid being involved in situations in which its interests, whether for itself or a third party, may be in conflict with the corporate interest and its duties to the company. And article 32 of the Board Regulations develops the duty to avoid situations of conflict of interest referred to in article 31 e) and clarifies it as regards those from which the director must refrain. In any case, directors must notify the Board of Directors of any direct or indirect conflict that may exist between their own interests, or those of persons related to them, and the interests of the company. Any conflicts of interest directors may have will be reported in the notes to the financial statements. Regarding officers, conflicts of interest are regulated in the Code of Ethics that is published on the corporate website ([www.ree.es](http://www.ree.es)), specifically in Section 6 of the aforesaid Code. In accordance with the aforesaid Section 6 of the Code of Ethics conflicts of interest appear when there is any circumstance or situation in which the interests of individuals, family members or people close to the directors and employees differ from the interests of the company. All actions or decisions in which a person in the Group

participates must be aimed at the objective of maintaining the continuity of the company and achieving an unblemished reputation. The commitments that must be assumed are as follows: Limitations on participation on boards of directors or affiliations: Persons in the group may not be members of any board of directors or body of a similar nature of any company that maintains business relationships with the Red Eléctrica Group, or any agency or office of the government without the knowledge and, if applicable, agreement of the company. They may participate in non-governmental organisations or non-profit entities, provided that this position is not used to favour possible collaboration of Group companies with those social entities to the detriment of others. Limitation on occupation outside the company: The Red Eléctrica Group respects its employees engaging in outside activities or services, provided that it does not result in a loss of efficiency or productivity in the job, and that the resources, working hours or facilities of the Group companies are not used for such purposes. Also, services will not be rendered in any entity related to the electricity sector, to avoid conflicts of interest, and business relationships will not be maintained with companies in which there are personal or family interests, without reporting to management. Proper treatment of confidential information. If by reason of work an individual has confidential or inside information it must not be used for its own benefit. Improper use thereof may put the company in a situation in which its reputation or economic situation may be affected. In those cases in which it is considered to be necessary, specific confidentially agreements will be signed for each project or specific action. Professionals having access to this type of information may not enter into transactions based on that confidential information or transfer it to third parties for this or any other purpose. The definition of “inside information” and the kinds of behaviour that affect the securities markets are contained in the Internal Regulations of Conduct in the Securities Market. In case of doubt in this regard, the “Oversight Body” for the aforesaid regulations is to be consulted. Confidential information will be protected against being inadvertently disclosed to outsiders. If any confidential information is to be transmitted electronically, it must be properly protected. Limitation on the acceptance of gifts, loans or invitations: In no case may gifts, loans, entertainment and/or invitations be accepted from individual or legal third persons related to activities of the company that may result in a loss of independence and fair dealing with the various stakeholders, particularly customers and suppliers. Employees will refrain from accepting gifts of any kind that they may receive from customers, suppliers, shareholders, etc. of the Group having a value of more than 150 euros each. If, the aforesaid limit being exceeded, it is impossible or difficult to return the gift, it will be made. available to the Group for corporate volunteer work, thus to collaborate in solidarity initiatives. Limitation on ownership or participation in the capital of companies: Holding a significant financial interest in companies with which the Electric Group maintains or is in the process of establishing commercial relations will be avoided. As an estimated reference, the figure of 3% of the company’s capital or shares is provided. In doubtful cases, the company’s management is to be consulted.

D.7. Is more than one group company Listed in Spain?

Yes

No

## **E. RISK CONTROL AND MANAGEMENT SYSTEMS**

### **E.1. Explain the scope of the company's Risk Control and Management System, including tax risks:**

Since 2002 the Red Eléctrica Group has had a comprehensive risk management system to facilitate compliance with the Group's strategies and objectives, ensuring that the risks that may affect them, including tax risks, are identified, analysed, evaluated, managed and controlled in a systematic manner, with uniform criteria within an acceptable risk level approved by the Board of Directors.

The management system was developed in accordance with the ISO 31000 standard on principles and guidelines in the management of risk, and is of a comprehensive and ongoing nature, with such management being undertaken by business unit, subsidiary and corporate level support area.

The Red Eléctrica Group has an integrated risk management policy and a general procedure for enterprise risk management and control, based on the COSO II Integrated Framework for Enterprise Risk Management (Committee of Sponsoring Organisations of the Treadway Commission).

In 2015 work started on a gradual review of the compliance of the five components of internal control, according to the COSO Integrated Framework, May 2013. At the end of 2015 the audit firm Ernst & Young reviewed the first of these components ("control environment") and in November 2016, the second ("risk assessment"). In both reviews it came to the conclusion that the elements and activities relating to the control and risk assessment environment are formally established and in place in all areas/operations of the organisation and that, furthermore, in many cases the best practices in these fields have been implemented.

During 2017 the third component, "Control Activities", was evaluated by Deloitte, the conclusion being that within the Group it is mature and in line with advanced best practices in the market.

In addition, in 2017 EY audited the comprehensive risk management system and concluded that the system implementation is in accordance with the ISO 31000 standard.

In 2018, EY assessed the fourth component of the COSO Integrated Framework: "Information and communication". Its conclusion was that Red Eléctrica has sound information and communication mechanisms in place, in line with the most advanced practices within the COSO framework.

In 2019, continuing the review of the internal control components, the review of the components of the COSO Integrated Framework was completed with an evaluation of the fifth component: "Monitoring" by PWC. This firm concluded that Red Eléctrica has procedures and controls in place that ensure a high degree of compliance with the principles of this component, in line with best internal control practices.

### **E.2. Identify the company bodies responsible for the preparation and implementation of the Risk Control and Management System, including tax risks:**

The integrated risk management system ensures that all the Red Eléctrica Group's units are involved and that the bodies responsible for risk control are properly informed of risk status.

The Board of Directors Regulations expressly gives the Board of Directors responsibility for approving the group's integrated risk management policy, which sets the acceptable level of risk, and for receiving reports on and periodically monitoring the internal control, prevention and reporting systems.

Twice a year, the Board reviews the risk control system and material risks, including tax risks, without prejudice to the information it receives regularly from the Audit Committee as part of the committee's continuous risk monitoring activity.

The Audit Committee is responsible for periodically supervising the effectiveness of the integrated risk management system, including tax risk, to ensure that material risks are identified, are kept within the established acceptable risk levels and are properly reported.

The Executive Committee, composed of the managers of the most important and strategic areas of the company, is assigned the functions of monitoring the Risks Map of important risks and ensuring appropriate control and monitoring of the management of the risks characterised as being of high level, and others of special importance, and the action plans critical to mitigation thereof.

The Internal Audit and Risk Control Office, reporting on a dotted-line basis to the Chairperson's Office and on a solid-line basis to the Audit Committee, is responsible for coordinating and supporting the risk identification, analysis and assessment process and periodically controlling risks. This directorate submits the appropriate reports to the Executive Committee, Audit Committee and the Board of Directors.

The organisational units participate continuously, together with the Internal Audit and Risk Control Office, in the identification, analysis and assessment of the Group's risks and in the implementation of the chosen action plans to mitigate those risks.

**E.3.** Indicate the main risks, including tax risks and, insofar as they are material, corruption risks (the latter within the meaning of Royal Decree-Law 18/2017), that could affect the achievement of business objectives:

One of the principal businesses of the Red Eléctrica Group is the transmission of electricity and the operation of the electricity system in Spain, which are regulated activities, in so far as they are critical to the security and continuity of Spain's electricity supply and are carried out on an exclusive basis.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which the company must undertake its principal activities and determines the risks to which it is exposed.

Moreover, the Red Eléctrica Group stated in its latest published Strategic Plan (2018-2022) the importance of the new activities integrated into the Group in the areas of telecommunications, international businesses and digital transformation, primarily.

The types of risks the Red Eléctrica Group faces in its efforts to achieve its strategies and objectives can be classified as follows:

Strategic risks:

- Risks associated with the regulatory framework within which the Group operates.
- Business risks associated with the business context or strategic decisions.
- Risks associated with sustainability and good governance.
- Risks associated with planned assets or assets under construction.
- Risks associated with assets in service.
- Risks related to information systems.
- Risks associated with people and the organisation.
- Compliance risks. Financial risks.
- Market risks.
- Risks associated with the company's solvency.
- Counterparty risks.
- Underwriting risks.

The tax aspects, classified as strategic risks associated with the regulatory framework, were included in the Comprehensive Risk Management Policy in 2015, which sets out specific risk management action guidelines.

As a result of the risk analysis performed by the Red Eléctrica Group, a total of 111 risks were identified in the most recently presented Risks Map.

Detailed information on the Group's current and possible future risks is provided in the company's Sustainability Report, which is published on the corporate website ([www.ree.es](http://www.ree.es)).

**E.4.** State whether the entity has risk tolerance levels, including for tax risk:

The Group's risk management system defines a methodology for setting the risk level, so that all identified risks are classified in three categories:

- High-level risks.
- Medium-level risks.
- Low-level risks.

The level of a risk is determined by combining two variables – the probability of occurrence and the impact its occurrence would have on the company – in respect of four key elements of the business:

- ELECTRICITY SUPPLY: Energy not supplied (ENS) as a result of the possible event.
- REPUTATION: Stakeholder perceptions in the event of failure to meet their expectations and disclosure of the event in communication channels and social media.
- STRATEGIC PLAN: Degree of impact on the achievement of the Group's Strategic Plan.
- ECONOMIC LOSS: Impact on the income statement after corporate income tax.

Each risk is situated within the probability/impact matrix according to its probability of occurrence and level of impact, thus automatically determining the level of risk.

The overall acceptable risk level the Group is willing to accept for each of the four main types of impact envisaged in the Integrated risk management system is approved by the board of directors. As a general rule, the overall risk level must not exceed this approved acceptable risk level.

At an individual level, as set out in the Comprehensive risk management policy, every risk that does not exceed the low risk level is considered acceptable. Risks that exceed the low risk level must be acted upon until they reach an acceptable level. Risk management must aim for consistency between the importance of the risk and the cost and resources required to reduce it. However, for activities that have repercussions for the electricity system, the impact the risks may have on the system must also be taken into account.

**E.5. Indicate what risks, including tax risks, have materialised during the financial year:**

Turning to strategic risks, on the regulatory front the CNMC published its proposed circulars this year setting out the method for calculating Red Eléctrica's remuneration as TSO. These circulars establish how these activities will be remunerated for the next regulatory period (2020-2025), ending the uncertainty caused by the treatment of various aspects that had yet to be resolved.

The proposed circular on the method for calculating the remuneration for transmission activity leaves the useful life for pre-98 assets (those authorised for operation before 1998) ending after 2024, following the approval of a one-year extension due to refurbishment and improvement work between 2015 and 2018. The proposed circular on unitary values identifies the standard transmission facilities and establishes a reduction in the unitary operation and maintenance values for the period 2020-2025. The proposed circular on the financial remuneration rate (FRR) ratifies the calculation method based on weighted average cost of capital (WACC), proposing an FRR of 6.003% in 2020 and 5.58% for the remainder of the regulatory period (2021-2025). Lastly, a proposed circular also establishes for the first time a method for calculating the system operator's remuneration, which increases the current remuneration and minimises the income risk associated with this activity.

Red Eléctrica submitted objections to many of the points included in the proposed circulars with a view to ensuring a regulatory environment is in place that enables the company to perform its key role as transmission and electricity system operator in the ecological transition. It should be noted that the impact of many of the measures ultimately endorsed by the Ministry for Ecological Transition and Demographic Challenge have already been factored in to the Group's current Strategic Plan.

As regards operational risks, it should be emphasised that the transmission network facilities are permanently exposed to events that may affect the continuity and security of the electricity supply. These events are caused mainly by third parties and meteorological phenomena. If such events occur, the Group has insurance policies limiting the potential their impact on the income statement.

In 2019 events occurred that resulted in minor cuts in supply, with the exception of the cut in the electricity supply that occurred on the island of Tenerife on 29 September due to a power failure at the Granadilla substation. This incident led to what is known as a blackout or electrical zero, prompting Red Eléctrica to trigger its back-up protocol to safely restore supply as quickly as possible. Red Eléctrica also convened the Emergency Committee established to coordinate this back-up protocol and liaise with the public authorities and the media. Supply was restored to all customers after nine hours and 14 minutes despite a gradual and progressive approach being adopted, and the power not supplied as a result of the outage totalled 2,623.90 MWh. The subsequent investigation and analysis performed by the substation teams found that the cause of the failure was a random and undetectable failure in one of the voltage transformers at the 66kV Granadilla substation

Lastly, on 11 September 2019, the system protecting the subsea interconnection between Spain and Morocco detected a leakage of coolant from one of the cables (number 7) in the two circuits making up the interconnection which is owned by Morocco's National Office of Drinking Water and Electricity (ONEE) and Red Eléctrica (both with 50% stakes). The fault was detected in Moroccan waters some 15.4 km from the Spanish coast and at a depth of 490 metres. It should be stressed that the coolant is biodegradable and once dissolved in water, is not hazardous to human or sea life. Investigations and evidence gathered show that the fault was the result of external interference. Following the incident, and as designed into the facility, the leak containment system automatically activated, gradually reducing the pressure of the coolant until it reached the technically viable minimum. The Internal Maritime Plan for the interconnection was also triggered in alert phase and the Spanish maritime authorities, the Ministry for Ecological Transition and other authorities concerned were kept abreast of developments. After a concerted effort, work to seal the leak was completed on 16 October. While the capacity of the interconnection with Morocco was reduced from 900 to 400 MW because one of the circuits was taken off line, this incident did not affect electricity supply security at any time.

**E.6. Explain the plans for response to and monitoring of the company's principal risks, including tax risks, and the procedures the company follows to ensure that the board of directors responds to any new challenges that may arise:**

In the process of identification, analysis, evaluation and control of risks, the actions required to reduce the degree of risk down to the acceptable level are established.

For the monitoring of risks, the current comprehensive risk management system includes the monitoring of more than 500 action plans aimed at reducing the level of risk and more than 300 indicators to review their evolution.

The Risk Control Unit, together with the risk management units, reviews the performance and effect of the agreed action plans. This review is carried out annually for all risks and semi-annually for high-level risks and other risks that have been placed on special watch because a change in their situation could convert them into high-level risks in the mid to long term.

Furthermore the company has a System for Internal Control of Financial Reporting (SICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the company, with the early and voluntary adoption of international best practices. The SICFR includes Red Eléctrica's tax information and processes and the associated controls.

Red Eléctrica has contingency plans that regulate the various crisis situations that may arise in the event of an electricity incident (to ensure security of the supply), or a non-electricity incident that may affect the environment, people, the operations of the company, the availability of its systems, the business results or any other aspect that may have an impact on the reputation of the company.

The company also has a Business Continuity Plan with the aim of making the necessary preparations and planning a set of procedures to be able to respond appropriately to a disaster, crisis or emergency from the moment it arises until the situation returns to normal. The aim is to reduce the impact on the business to a minimum and to speed up and automate decision making in crisis situations.

Also, joint action is taken with other units of the Group to manage risks in line with the Integrated risk management system. Throughout 2019, the company continued to participate in the development of the risk management system for transmission network investment projects (Project IRIS), the development of the risk analysis model for transmission network facilities (as part of Project MANINT), and the implementation of the recommendations of the Task Force for Climate-related Financial Disclosures.

#### MAIN ACTIONS TAKEN IN 2019

- Improvements to risk assessment methodology: review of the strategic impact axis to bring it into line with the new Strategic Plan and update of the corporate risks matrix.
- Analysis, selection and procurement of the tool "GLOBAL SUITE" as an end-to-end IT solution for corporate risk control.
- Development of a model for assessing the risk associated with the Group's transmission network assets in service.
- Identification and assessment of climate-related threats and opportunities, implementing the recommendations of the Task Force for Climate-related Financial Disclosures.
- Development of a scorecard of key risk management and environment indicators (KRI) and definition of thresholds for monitoring these KRI.

#### MAIN ACTIONS TAKEN IN 2020

- Review and improvement of the End-to-End Risk Management System to bring it into line with best practices (COSO ERM 2017 and ISO31000:2018 standards).
- Completion of the roll-out of the new IT solution for corporate risk management.
- Review of Acceptable Risk thresholds established in the RE Group.

**F. INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE  
PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)**

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Describe the mechanisms comprising the systems for control and management of risks in relation to the process of financial information reporting (SICFR) of your entity.

**F.1. Control environment of the entity.**

State, indicating the main features, at least:

F.1.1 What bodies or functions are responsible for: (i) the existence and maintenance of an appropriate and effective SICFR; (ii) its implementation; and (iii) its monitoring.

The model of responsibilities of the System for Internal Control of Financial Reporting (hereinafter “SICFR”) is structured by way of the following special bodies, offices and organisational units, which develop, maintain and monitor the process of preparation of financial information:

The Board of Directors, which has the ultimate responsibility for the existence and maintenance of an appropriate and effective SICFR. For these purposes, article 5 a) ix) of the company’s Board of Directors Regulations provides that one of the Board’s nondelegable responsibilities is the “approval of the policy for control and management of the principal risks of the company and the Group, and periodic review and monitoring of the systems for internal control, prevention and reporting”.

The Corporate Economic and Financial Office, as the level implementing the guidelines issued by the board of directors, has given responsibility for the design, implementation, functioning and coherence of the SICFR to the Economic Office, since within its responsibilities, as indicated in the SICFR Manual, is that of “establishing an appropriate control structure to ensure the effectiveness of the internal control system”.

The Audit Committee is responsible for supervision of the SICFR. In accordance with article 16 of the Board of Directors Regulations, the Audit Committee will exercise the functions of “supervising the process of preparation and the integrity of the financial information of the company and, if applicable, the Group, seeing to proper attention to the regulatory requirements, appropriate delimitation of the perimeter of consolidation, and proper application of accounting principles and criteria as applicable thereto” and “supervising the Internal Audit services, which will see to proper functioning of the information and internal control systems”. For performance of its SICFR supervisory functions the Audit Committee has the Internal Audit and Risk Control Office, and the outside auditors. (For details, see section F.5)

The organisational units of the Group are jointly responsible for the controls defined in their areas of responsibility and must ensure the proper design and operation thereof.

To supplement these measures, in 2015 work started on a gradual review of the compliance of the five components of internal control, according to the COSO Integrated Framework, May 2013. At the end of 2015 the audit firm EY reviewed the first of these components (“control environment”) and in November 2016, the second (“risk assessment”). In both reviews it came to the conclusion that the elements and activities relating to the control and risk assessment environment are formally established and in place in all areas/operations of the organisation and that, furthermore, in many cases the best practices in these fields have been implemented.

During 2017 the third component, “Control Activities”, was evaluated by Deloitte, the conclusion being that within the Group it is mature and in line with advanced best practices in the market.

In addition, in 2017 EY audited the comprehensive risk management system and concluded that the system implementation is in accordance with the ISO 31000 standard.

In 2018, EY assessed the fourth component of the COSO Integrated Framework: “Information and communication”. Its conclusion was that Red Eléctrica counts with sound information and communication mechanisms, in line with the most advanced practices within the COSO framework.

In 2019, continuing the review of the internal control components, the review of the components of the COSO Integrated Framework was completed with the evaluation of the fifth component: “Monitoring” by PWC. This firm concluded that Red Eléctrica has procedures and controls in place that ensure a high degree of compliance with the principles of this component, in line with best internal control practices.

F.1.2 If they exist, particularly as regards the process of preparation of financial information, describe the following:

- Departments or mechanisms responsible: (i) for design and review of the organisational structure; (ii) for clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) that there are sufficient procedures for proper dissemination thereof within the entity:

The Corporate Resources Office, as the level implementing the guidelines issued by the Board of Directors, through the Human Resources Office of the Group, is responsible for determining the basic structure of the organisation, determining the various levels of authority and the resulting levels of responsibility. All of the foregoing is intended to maintain an organisational structure design that is implemented, reviewed and updated on an ongoing basis.

The internal mechanisms used by this office for clear definition of the lines of responsibility and determination of the general framework of the organisational structure are documented as follows:

- Restated Text of the Articles of Association.
- Internal Code of Conduct in the Securities Market.
- Corporate Responsibility Manual.
- Ethics Code.

The details of the scope of lines of responsibility and authority of the SICFR are regulated by way of the SICFR Action Guide, which details the functions of maintenance, updating and supervision of the SICFR at each of the various levels of responsibility that are described. It should be noted that the Corporate Economic and Financial Office has delegated some of the tasks to the Economic Office, and the latter has delegated them to the Accounting Information and Administration Department. This SICFR Action Guide is part of the Group rules and is available to employees on the Intranet.

Dissemination of the organisational structure is accomplished by way of the Intranet, with an updated organisation chart being available to employees.

- Code of conduct, approval body, degree of dissemination and instruction, principles and values included (indicating whether there are specific references to the transactions ledger and preparation of financial information), body responsible for analysing non-compliance and proposing corrective actions and sanctions:

The Group has an appropriate conduct framework, stating values and specific guidelines for action, strengthening the bases for achieving the objectives of reliable and transparent financial information. At this level are the following documents aligned with the corporate policies of the Group: Ethics Code:

The current “Code of Ethics: Values and Commitments” was approved by the Board of Directors of the company, in effect from 28 May 2013 until a new update is approved or it is repealed. This code is the reference framework to ensure responsible management and ethical behaviour of the members of the organisation in the performance of their duties. The Code contains the corporate values and guidelines for behaviour to be followed, formulated by way of principles and commitments, and constitutes a firm commitment of the company to ethical and transparent management, applicable to all people in the Group.

Together with the appropriate training, in person or remotely, it is provided to the employees of the Group, in addition to being available to them on a permanent basis both in the internal rules and on the corporate website.

This Code of Ethics is reviewed regularly to adjust its requirements to the needs of the company and its relationship to the environment and with stakeholders. The current 2013 version adopts the requirements and recommendations regarding management of ethics of the most respected international agencies, among them the United Nations (UN), the European Union, the Organisation for Economic Cooperation and Development (OECD) and international organisations such as Transparency International and the Etnor Foundation, among others.

Regarding preparation of the economic and financial information, it includes the following matters, among others, within the description of the corporate values:

- “Reliability”: commitment to preparation of reliable, rigorous and realistic information, particularly financial information.
- “Responsibility”: all decisions and actions taken must respect the legal system and be the result of a process of reflection in which the possible consequences that may derive therefrom are assessed.
- “Leadership and Creativity”: the commitment to excellence in management relies on efficient systems and processes, a valued element being participation and pride of belonging, on the systematic search for improvement, and on the identification and application of best practices. Transparent external and internal communication is an important element of the strengthening of business leadership.

The body responsible for analysing non-compliance and proposing corrective actions and sanctions is the Ethics Manager and defender of stakeholders, with the cooperation of the chairperson of Red Eléctrica Group and the chairperson of the Audit and Appointments and Remuneration Committees.

- Internal Code of Conduct in the Securities Market:

The “Internal Regulations for Conduct in the Securities Market” initially were approved by the board of directors on 25 June 2009. Thereafter, they were reviewed and updated periodically to adapt the requirements to the needs of the company and its relationship with the environment and its stakeholders; the most recent review was made in September 2019, to adapt it to the market abuse regulation.

The aforesaid regulations establish the rules for action in the securities markets and the required records, in relation to the following:

- Inside and Material Information.
- Conflicts of Interest.
- Related Parties.
- Rules on the free formation of prices.
- Treasury shares.

These regulations apply to those subject thereto as specified in article 2 and 3, that is the directors, the secretary and the vice secretary of the company’s Board, as well as those persons whose customary functions are related to the securities markets and are expressly specified by the Oversight Body. In this regard the persons subject thereto must sign through the platform, established for this purpose, a declaration confirming they understand and accept the obligations to which they are subject as stated in point 2.2 of article 2.

For the purposes of the aforesaid regulations, the Oversight Body, as specified in article 16, comprises the Legal Affairs Director, the Board Secretary and the Director of the Corporate Economic and Financial Office. In addition to its specific responsibilities established in the aforementioned regulations, the Oversight Body is also responsible for confirming, recording, reporting and monitoring compliance with the obligations and duties stipulated therein.

- Corporate Responsibility Policy

The purpose of this policy is to establish the general principles and guidelines so that all companies in the Red Eléctrica Group undertake sustainable, ethical and responsible business management in the performance of their duties.

- Complaint channel, allowing communication to the Audit Committee of irregularities of a financial and accounting nature, in addition to possible non-compliance with the code of conduct and irregular activities in the organisation, stating if applicable that it is of a confidential nature:

The Code of Ethics, in the section on “System for detection and processing of possible non-compliance, complaints, inquiries and suggestions” contemplates a system for receipt and processing of alleged non-compliance by reason of ethical, commercial, financial, accounting and other violations of this code. Any interested party may report alleged non-compliance.

Complaints preferably are to be made electronically. On the corporate website there is an easily viewed and accessible channel by way of which complaints will be transmitted electronically to the Ethics Manager. The system ensures confidentiality and non-reprisal in all of its phases. The Ethics Manager assumes a commitment of total confidentiality in the performance of his duties, which commitment will extend to those providing internal support thereto.

Also, there is another means of sending reports of non-compliance, complaints, inquiries and suggestions regarding ethical matters, by way of the *DÍGAME* (TELL ME) service, to receive requests from outside stakeholders that are not aware of the aforesaid channels.

- Regular programmes of training and updating for personnel involved in the preparation and review of financial information, as well as evaluation of the SICFR, which cover at least accounting standards, audit, internal control and risk management:

The Human Resources Office, based on the training prepared by the Offices involved in the preparation and review of financial information, manages and plans the educational programmes related to specific training in this area. In this regard, the Corporate Economic and Financial Office, as the level implementing and having responsibility for the design, implementation, functioning and coherence of the SICFR, proposes training programmes to the Human Resources Office to ensure that the training is kept updated for all personnel involved in the preparation and review of the financial information, as well as evaluation of the SICFR.

Additionally, as from this year, the Group and other major companies are also involved in a collaboration concerning SICFR to share experiences, knowledge and best practices in this area.

## **F.2. Evaluation of financial reporting risks.**

State, at least:

F.2.1 The principal features of the risk identification process, including risks of error or fraud, in terms of:

- Whether the process exists and is documented:

The company bases its process for identification of risks of error or fraud in the financial information on the Enterprise Risk Management – Integrated Framework issued by COSO (Committee of Sponsoring Organizations of the Treadway Commission), implementing practices aimed at designing and maintaining an internal control system that allows providing reasonable security in respect of the reliability of the regulated financial reporting.

The process of evaluation of risks of information reporting is documented in the Group’s Manual for the System for Internal Control of Financial Reporting. That procedure is available within the company’s SICFR management tool, to which the managers involved have access.

- Whether the process covers all of the financial reporting objectives (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), whether it is updated and with what frequency.

For the significant accounts and breakdowns the key processes and sub-processes associated therewith have been defined, and the risks that may generate errors and/or fraud in the financial information have been identified, covering all of the objectives of financial reporting (existence and occurrence, integrity, evaluation, presentation, breakdown and comparability, and rights and obligations), updated at least annually.

- The existence of a process of identification of the perimeter of consolidation, taking account, inter alia, of the possible existence of complex corporate structures, holding companies or special-purpose companies.

The Audit Committee is responsible for supervision of the perimeter of consolidation. The procedure for review and authorisation of the financial information is formalised monthly by way of internal review at the level of the Corporate Economic and Financial Office, and concludes with presentation to the Audit Committee, and subsequently to the Board of Directors. In these reviews, among other matters, the perimeter of consolidation, as well as any other complex corporate structure, holding company or special-purpose company, are subject to approval.

- Whether the process takes account of the effects of other types of risks (operational, technological, financial, legal, tax, reputation, environmental, etc.) to the extent affecting the financial statements:

The process of identifying financial reporting risks factors in the effect of other types of risk stipulated in the end-to-end risk management system detailed in section e) when these risks affect the financial statements. These risks are, however, assessed and managed by other areas in the company.

- Which governance body of the entity supervises the process:

The Audit Committee supervises the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed. This supervision is carried out with the support of the Internal Audit and Risk Control Office, which is functionally independent from this Audit Committee.

**F.3. Control activities.**

State, indicating their principal features, whether there are at least:

- F.3.1 Procedures for review and authorisation of financial information and the description of the SICFR, to be disclosed to the securities markets, indicating those responsible, as well as documentation describing the flow of activities and controls (including those related to risk of fraud) of the various types of transactions that may materially affect the financial statements, including the accounting closing procedure and the specific review of the relevant judgements, estimates, valuations and projections

On a monthly basis, the Accounting Information and Administration Department, which organisationally reports to the Group's Economic Office, reviews and formally validates the financial information prepared and reported to the Corporate Economic and Financial Manager in order to ensure its reliability. The aforesaid procedure of review and authorisation ends with presentation thereof to the Audit Committee and, thereafter, to the board of directors. In these reviews the perimeter of consolidation, the accounting and tax criteria, judgements, and the relevant estimates and projections used in preparation of the Financial Statements are subject to approval by the Audit Committee.

Also, prior to formulation of the consolidated Annual Accounts and the Management Report, as an additional guarantee mechanism regarding the financial information, a process of Certification of Accounts has been implemented whereby the companies comprising the consolidated Group and the Offices/Departments that participate in preparation of the financial information, are expressly asked to certify that they have effective control mechanisms and that there is no fact that may significantly affect the accounts that has not been appropriately communicated.

In addition, the Economic Office, reporting to the Corporate Economic and Financial Office, has been delegated the functions of supervision of the process of design, implementation, functioning and coherence of the SICFR, as well as keeping the Audit Committee timely informed in respect thereof. While the Internal Audit and Risk Control Office is responsible for supporting the Audit Committee in its supervision and evaluation of the SICFR by way of conducting the audits included in its annual plan, and reporting the results.

The SICFR implemented within the company involves the entire Organisation by way of implementation and regular monitoring of the functioning of the various controls in the area of generation of financial information. This SICFR originated in 2008, as a part of a voluntary project. Since the 2008 financial year it has been adapted to all of the regulatory requirements and reviewed by an independent third party.

As a result of its implementation, the processes/sub-processes and key controls that cover the various types of transactions that may materially affect the Financial Statements, as well as all of those affected by relevant judgements, estimates, valuations and projections, have been documented by way of flowcharts.

All of the documentation is known to the managers of each cycle/sub-cycle and is updated annually to adapt its content to the current reality of the company, as well as the possible changes in the processes, controls, risks, systems, etc.

The units that participate in preparation of the financial information must see to compliance with and updating and maintenance of the SICFR within their areas of responsibility, and must provide the Economic Office with their annual agreement with the procedures included in the SICFR. This includes ensuring that:

- i. all controls, objectives and supplementary information are properly documented;
- ii. the design and implementation of the controls provide reasonable security and cover the established control objectives;
- iii. there is no new system or procedure that is not included within the scope of the flowcharts, that may significantly affect the established control objectives;
- iv. improvement actions have been implemented if ineffective controls have been identified in a prior review.
  - The documentation describing the flows of activities and controls (including those related to the risk of fraud) include:
    - Details of the internal rules and procedures, which govern everything from general controls to sub-processes.
    - Details of the organisational structures.
    - Details of the significant cycles.
    - Flowcharts of each of the sub-processes.
    - A description of the process, the specific risk covered, incoming information prior to application of the control and outgoing information after application of the control, regularity, objective pursued, potential errors mitigated, coverage of fraud and type thereof, as well as the department responsible for implementation.
    - Details of the information systems affecting automatic and/or semi-automatic controls.
    - Assessment of the level of risk of failure of the SICFR controls, as a result of an assessment of the probability and impact thereof if they do not function effectively.

Among the principal transactions seeking to guarantee the reliability and transparency of the process of preparation of the financial information, the following are notable:

- Review of the processes of estimates and provisions (at the level of revenue and expenses).
- Review of impairment associated with recorded assets (mainly referring to assets).

- Review of the commissioning of assets and the processes for fixing associated values (capitalisable items, monitoring of administrative approvals, technical commissioning conditions, etc.).
- Renew using specific mandatory procedures and/or instructions of:
- Accounting records and/or entries
- One-off transactions (evaluation at the Senior Management level of the economic and financial, corporate and legal implications that may derive from such transactions).
- Closing of Financial Statements, and preparation of the individual and consolidated Annual Accounts. The internal reference rules governing these matters are set forth in the following:
  - i. “Manual of Accounting Policies and Chart of Accounts of the Group”, which includes the accounting policies that are to govern the Group’s making of accounting allocations in the information systems, as well as in the preparation of the Financial Statements and the Annual Accounts, in order to guarantee an accurate image of the assets and liabilities, financial situation, results of operations, changes in net worth and cash flows.
  - ii. “Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts”, in which it is established that “the process of closing annual accounts is a process that occurs twice each financial year (at the close of the financial year and at the midpoint of the year with preparation of the semi-annual interim information), the purpose of which is obtaining annual accounts that reflect the economic situation of the company. This process affects all companies in the Group that must prepare their own annual accounts following the local rules in their countries”.
- Preparation and publication of financial information (includes matters related to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, communications to the National Securities Market Commission, official communications, etc.). The principal internal rules governing these matters are set forth in the following:
  - i. “Internal Code of Conduct in the Securities Market”.
  - ii. “Procedure for Preparation and Close of the Individual and Consolidated Financial Statements and Annual Accounts”. At this specific level of closing information and, if applicable, subsequent publication, the Corporate Economic/Financial Office, the General Secretariat, the Board of Directors and the office of the Chairperson play a fundamental role.

F.3.2 Policies and procedures for internal control of information systems (inter alia regarding secure access, control of changes, operation thereof, operational continuity and separation of functions) that support the relevant processes of the entity in relation to preparation and publication of financial information.

The Group has established a protocol for conduct and use of computer and communications systems, the preparation of which is the responsibility of the Corporate Information Technologies Office. This document establishes the principal rules to govern use of computer and telecommunications resources that the Group makes available to its workers (equipment, applications, Internet access and electronic messaging services).

On the other hand, the Group maintains a procedure that regulates the activities of management of computer security in the environment of the corporate information systems, the responsibility of the Corporate Information Technologies Office.

The following controls and measures exist to provide the Group with reasonable assurance regarding the internal control of the information systems:

- Annually there is analysis of the security risks of the information in the Corporate Information Systems (*Sistemas de Información Corporativos*, or “SIC”), which allows obtaining a list of the most significant risks, with assessment thereof, and establishing the actions and measures necessary to reduce or maintain the level of risk of those considered to be most important.
- The security rules are reviewed annually, or whenever there are significant changes, in order to assure maintenance of their suitability, adequacy and effectiveness.
- An inventory is maintained of all assets (equipment, software, applications and information) that are a part of the SIC. Each asset must have an assigned responsible organisational unit.
- General measures are established to protect the information, depending on the category in which it is classified. In addition, the responsible unit may define specific measures complementing the general measures.
- Security documentation addressed to employees and outside collaborators is prepared and published.
- The heads of the units are to verify that new employees and outside collaborators are aware of the published information security documentation. Also, they are to see to it that these persons comply with the content of the documentation.
- The Human Resources Office is to report to the Information Technologies Department on all movements of personnel, internal and external (hires, departures, transfers and changes of position) in order for it to apply the corresponding changes in rights of access to the information systems.

- All employees and collaborators must return the computer equipment in their possession at the end of the employment, contract or relationship with the company, and may not appropriate information.
- A risk evaluation will be conducted to determine the security implications deriving from the process of participation of outside collaborators in business processes, and appropriate controls will be defined and implemented.
- The Corporate Resources and Transformation Office will define and implement the physical security measures to protect the facilities in which the information systems are housed against damage caused by fire, flood and other forms of natural or man-made disasters. In addition, it will establish appropriate controls of entrance into restricted access areas, to ensure that only authorised personnel are allowed access.
- The Information Technologies and Systems Department will ensure proper and secure operation of the information systems for which it is responsible, by preparation and implementation of appropriate operating procedures. These procedures will contemplate separation of duties to reduce the risk of negligence or deliberate misuse of the system. In the case of provision of computer services by third parties, the Information Technologies and Systems Department must verify that the agreed security controls and service levels have been implemented and are maintained by the third parties.
- The Information Technologies and Systems Department is responsible for defining rules and procedures for management of access (authentication and authorisation) by users to the information systems.
- Formal communications procedures will be established to ensure that information security incidents and weaknesses associated with the information systems are communicated to it in a manner allowing timely corrective action.
- An Informatics Contingency Plan (*Plan de Contingencias Informáticas*, or “PCI”) is prepared for the information systems, so that in the event of a disaster destroying them or making them unavailable resumption of service may be accomplished at a time consistent with their level of criticality.

- F.3.3 Internal control policies and procedures to monitor the management of activity subcontracted to third parties, as well as such matters of evaluation, calculation or valuation as may be entrusted to independent experts, which may materially affect the financial statements.

The Group is particularly concerned with operations undertaken by third parties (in order to ensure that, in key processes that may be outsourced there is a maximum guarantee of control and the standards demanded by the Group are fulfilled).

In all cases, outsourcing of such activities is based on a services agreement, which clearly indicates the services to be rendered and the resources the third party is to provide to perform such services. There is exhaustive control of such subcontracted activities, and there is evidence of that control.

The Group also has a code of conduct for suppliers, the objective of which is to make its suppliers aware of the general principles for their working and professional conduct within their different areas of activity. The Group sees to the ongoing application of these principles by the suppliers.

#### **F.4. Information and communication.**

State, indicating their principal features, whether there are at least:

- F.4.1 A specific function responsible for defining and updating accounting policies (an accounting policy department or area) and resolving doubts or conflicts deriving from their interpretation, maintaining fluid communication with those responsible for the operations within the organisation, and an updated accounting policies manual communicated to the units through which the entity operates.

The Group has a “Manual of Accounting Policies and Chart of Accounts of the Group” which serves as a reference to set the guidelines and actions in the field of accounting records, and is appropriately communicated to the employees to which it is applicable (any action is to be taken taking the provisions of the aforesaid manual into account). This manual is updated periodically, the most recent update being in December 2019; in the update process it is verified that the accounting policies are within the regulatory framework applicable to the company, as established in the Commercial Code, General Accounting Plan and other commercial legislation, as well as the International Financial Reporting Standards adopted by the European Union.

In addition, the Accounting Information and Administration Department, located within the Economic Office, assumes responsibility for defining and resolving any matter related to the interpretation of the accounting policies, covering any area of the various companies. The Economic Office organisationally is located within the Corporate Economic and Financial Office, which in turn reports to the managing director.

- F.4.2 Mechanisms for capture and preparation of financial information in standardised format, applicable to and used by all units of the entity of the group, supporting the principal financial statements and the notes, as well as the information specified regarding the SICFR.

The Group has formal processes for closing and preparation of the information associated with the Financial Statements and the Annual Accounts. In both cases, the procedures for closing of the Financial Statements and preparation of the Annual Accounts contain guides for action and supervision that are implemented when obtaining, analysing and thereafter preparing the information for final approval.

The system supporting the operations of the Group is principally SAP. The companies that do not use SAP are required to apply the criteria fixed by the Group to ensure uniformity in those processes by way of a reporting package prepared for that purpose, which must include all breakdowns needed for preparation of the Financial Statements and notes. In the process of preparation of the consolidated financial information and the breakdowns thereof a computer application is used that ensures the uniformity, standardisation and validity of the information.

For its part, the SICFR is supported by a corporate tool that is managed centrally, from which the information specified in the SICFR is drawn.

In addition, there is a specific mechanism for the entire process of formulation of the Annual Accounts, in which the Audit Committee is of particular relevance. Functionally it reports to the Board of Directors, and is responsible for seeing to a maximum guarantee of the entire process of preparation (among other matters, both at the level of the work supervising Internal Audit and by the outside auditor), as a step prior to formulation by the Board of Directors. Finally, in an effort to provide outside agents with reliable and truthful information on the status of its net worth, financial position and results of operations, the “Internal Regulations for Conduct in the Securities Market” have been drafted. They regulate these matters, both as to submissions to supervisory and/or regulatory agencies, and at the level of communications media.

#### **F.5. Supervision of the functioning of the system.**

State, indicating the main features, at least:

- F.5.1 The SICFR supervision activities undertaken by the Audit Committee, and whether the entity has an internal audit function that within its authority supports the commission in its supervision of the internal control system, including the SICFR. Also state the scope of the evaluation of the SICFR undertaken during the financial year and the procedure whereby the one responsible for performing the evaluation communicates the results thereof, whether the entity has an action plan specifying the possible corrective measures, and whether the impact thereof on financial information has been considered.

Supervision of the financial information is a responsibility given to the Audit Committee. Its responsibilities include, inter alia, (i) approval of the accounting principles to be used in preparation of the Annual Accounts of the company and its consolidated Group; (ii) supervision of the process of preparation and presentation, as well as the integrity of the financial information of the company and, if applicable, the Group, seeing to it that the regulatory requirements are observed; (iii) appropriate delimitation of the perimeter of consolidation; and (iv) proper application of the applicable accounting principles and criteria.

In addition, the Audit Committee regularly monitors the effectiveness of the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed, in particular the systems related to the process of issuing financial information, among which is the SICFR, aimed at providing reasonable assurance of the reliability of the financial information.

For the performance of these functions the Audit Committee has the support of the Internal Audit and Risk Control Office, hierarchically reporting to the chairperson of the company, and functionally to the Audit Committee. The Audit Committee sees to the independence and effectiveness of the Internal Audit function; supervises and controls

the process of selection, appointment, re-election and removal of the head of the audit function; controls the resources assigned to the Internal Audit function and, inter alia, its budget; receives periodic information regarding its activities; and verifies that the Senior Management of the company and the Group is acting on the conclusions and recommendations in its reports.

The head of Internal Audit must present an annual work programme to the Audit Committee, report to it directly on any issues arising during its implementation and submit an activities report at the end of each financial year. Regarding the SICFR, the Internal Audit work plan contemplates covering the entire SICFR in periods of 3 years. Internal Audit designs and executes a testing plan on the control environment, general controls, area level controls and established procedures, and on a selective basis verifies compliance with the designed flowcharts. Once fieldwork is completed, Internal Audit prepares and issues the SICFR audit reports, based on the provisions of the annual work plan approved by the Audit Committee, and verifies proper implementation of the SICFR corrective actions.

In addition to the audit work performed by Internal Audit in relation to the SICFR, on an annual basis there is an audit of the SICFR to confirm reasonable assurance of the design and effective application thereof. This audit of the SICFR by outside auditors has been performed since the 2008 financial year.

The Audit Committee is timely informed of the reviews performed by Internal Audit and the outside auditor, other SICFR tasks performed and the evolution of the action plan regarding recommendations for improvement identified in the audits. These recommendations for improvement are classified by priority and those associated with risk of fraud are broken out.

The Group considers it has an effective SICFR, not including the Hispasat sub-group which is currently being integrated into the Group's SICFR. In the 2019 financial year no significant deficiencies were identified in the Group's SICFR, and the outside auditor concluded that the Group maintains an effective SICFR, without considering the Hispasat sub-group excluded from the scope.

- F.5.2 Whether there is a procedure for discussion whereby the auditor (in accordance with the provisions of the NTA (*Normas Técnicas de Auditoría*, the Technical Audit Standards)), the internal audit function and other experts may advise senior management and the Audit Committee or directors of the entity of significant weaknesses in internal control identified during the processes of review of the annual accounts or such others as may have been entrusted to them. Also, state whether there is an action plan seeking to correct or mitigate the weaknesses identified.

In relation to the outside auditors, the Board of Directors Regulations provide that it is regularly (at least once each year) to request them to provide an evaluation of the quality of the Group's internal control procedures.

With regard to the company's Audit Committee, as regards supervision of the functioning of the internal control system, among its objectives is ensuring that the outside auditor, the Internal Audit function and other experts may advise the board of directors of the significant weaknesses in internal control identified during the processes of review of the Annual Accounts, or such others as may have been entrusted to them. In this regard, the communications are to be sent for each review when it is completed, always prior to formulation of the Financial Statements by the Board of Directors.

#### **F.6. Other relevant information.**

On 3 October, the Red Eléctrica Group acquired 89.68% of Hispasat S.A. The Group is currently working to adapt the SICFR of the Hispasat subgroup and its subsidiaries to the criteria established in the Integrated Internal Control Framework of the Treadway Commission (COSO) and to standardise information before integrating it into the Red Eléctrica Group's SICFR in 2020.

#### **F.7. Outside auditor's report.**

State:

F.7.1 Whether the SICFR information transmitted to the markets has been reviewed by the outside auditor, in which case the entity must include the corresponding report as an annex. If not, it must state the reasons.

The Group has voluntarily submitted its SICFR to review since 2008. These reviews were performed by Deloitte, S.L. until 31 December 2012; by PriceWaterhouseCoopers from 1 January 2013 until 31 December 2014; and by KPMG, S.L. since 1 January 2015.

**G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

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State the company's degree of compliance with the recommendations of the Code of Good Governance of Listed Companies. If any recommendation is not complied with or is complied with partially, a detailed explanation of the reasons must be included so the shareholders, investors and market in general have sufficient information to evaluate the actions of the company. General explanations will not be acceptable.

1. The articles of association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder nor impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies  Explain

2. When the parent company and a subsidiary are stock market listed the two should provide detailed disclosure on:
  - a) The type of activity they engage in, and any business dealings between them, we well as between the subsidiary and other group companies.
  - b) The mechanisms in place to resolve possible conflicts of interest.

Complies  Partially complies  Explain  Not applicable

3. During the holding of the annual general meeting, as a supplement to written dissemination of the annual corporate governance report, the chairperson of the board of directors should verbally advise the shareholders, in sufficient detail, of the most relevant corporate governance matters of the company, in particular:
  - a) The changes occurring since the prior annual general meeting of shareholders.
  - b) The specific reasons the company does not comply with the recommendations in the Code of Corporate Governance and the alternative rules, if any, applied in this regard.

Complies  Partially complies  Explain

4. The company should define and promote a policy of communication and contacts with shareholders, institutional investors and voting advisors that is fully consistent with the rules against market abuse and give similar treatment to shareholders that are in the same position.

The company should make that policy public by way of its website, including information regarding the manner in which it has been put into practice, and identifying the spokesmen or those responsible for carrying it out.

Complies  Partially complies  Explain

5. The board of directors should not refer to the general meeting any proposed delegation of authority to issue shares or convertible securities excluding the right of pre-emption in an amount greater than 20% of the capital at the time of the delegation.

And when the board of directors approves an issue of shares or convertible securities with exclusion of the right of pre-emption, the company on its website should immediately publish the reports regarding that exclusion referred to in the commercial legislation.

Complies  Partially complies  Explain

6. Listed companies that prepare the reports identified below, whether mandatorily or voluntarily, should publish them on their websites sufficiently in advance of the holding of the annual general meeting, even if dissemination thereof is not mandatory:

- a) Report on independence of the auditor.
- b) Reports on the functioning of the audit and appointments and remuneration committees.

- c) Audit Committee report on related party transactions.
- d) Report on corporate social responsibility policy.  
Complies [X]      Partially complies []      Explain []
7. The company should provide live broadcasts of the holding of the general meetings of shareholders by way of its website.  
Complies [ X ]      Explain [ ]
8. The Audit Committee should ensure that the board of directors presents the financial statements to the general meeting of shareholders without limitations or qualifications in the audit report. Should such qualifications exist, both the chairperson of the Audit Committee and the auditors should give a clear account to shareholders of the scope and content of such limitations or qualifications.  
Complies [X]      Partially complies []      Explain [ ]
9. The company on its website, on a permanent basis, should publish the requirements and procedures it will accept to evidence ownership of shares, the right of attending the general meeting of shareholders and the exercise or delegation of voting rights.  
And the aforesaid requirements and procedures should promote attendance and the exercise of shareholder rights and be applied in a non-discriminatory manner.  
Complies [X]      Partially complies []      Explain [ ]
10. When any shareholder entitled to do so, prior to the holding of the general meeting of shareholders, exercises the right to supplement the agenda or present new proposed resolutions, the company should:
- a) Immediately disseminate those supplementary points and new proposed resolutions.
- b) Make the attendance card, proxy or remote voting form public, with the changes required for voting on the new points on the agenda and alternative proposed resolutions, on the same terms as for proposals by the board of directors.
- c) Submit all such points or alternative proposals to vote and apply the same voting rules thereto as those formulated by the board of directors, in particular including the presumptions or inferences regarding the sense of the vote.
- d) Subsequent to the general meeting of shareholders, communicate the breakdown of the vote on such supplementary points or alternative proposals.  
Complies [ ]      Partially complies [ ]      Explain [ ]      Not applicable [ X ]
11. If the company contemplates paying attendance allowances for the general meeting of shareholders, it should establish a general policy regarding such allowances in advance, and that policy should be stable.  
Complies [ ]      Partially complies [ ]      Explain [ ]      Not applicable [ X ]
12. The board of directors should carry out its functions with unity of purpose and independence of judgement, give the same treatment to all shareholders that are in the same position and be guided by the corporate interest, that being understood to be achievement of a profitable business sustainable in the long term, promoting its continuity and maximising the economic value of the company.  
And in pursuit of the corporate interest, in addition to respecting the laws and regulations and behaving based on good faith, ethics and respect for commonly accepted best practices and uses, it should seek to reconcile the corporate interest, as applicable, with the legitimate interests of its employees, suppliers, customers and other stakeholders that may be affected, and the impact of the activities of the company in the community as a whole and in the environment.

Complies  Partially complies  Explain

13. The board of directors should be of the size necessary to achieve effective and participatory functioning, which makes it advisable for it to have between five and fifteen members.

Complies  Explain

14. The board of directors should approve a director selection policy that:
- Is specific and verifiable.
  - Ensures that the proposals for appointment or re-election are based on prior analysis of the needs of the board of directors.
  - Promote diversity of knowledge, experience and gender.

The results of the prior analysis of the needs of the board of directors should be set forth in the explanatory report of the appointments committee that is published upon call of the general meeting of shareholders to which the ratification, appointment or re-election of each director is submitted.

And the director selection policy should promote the objective that in the year 2020 the number of female directors will represent at least 30% of the total members of the board of directors.

The appointments committee annually will verify compliance with the director selection policy, and will report thereon in the annual corporate governance report.

Complies  Partially complies  Explain

15. Proprietary and independent directors should constitute an ample majority of board of directors' positions, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the percentage ownership interest they hold in the company.

Complies  Partially complies  Explain

16. Proprietary directors as a percentage of non-executive directors should not be greater than the capital of the company represented by those directors as a percentage of the remainder of capital.

This criterion may be eased:

- In companies of high capitalisation in which there are few shareholdings legally considered to be significant.
- In companies with a plurality of shareholders represented on the board of directors but not otherwise related.

Complies  Explain

17. The number of independent directors is at least half of the total number of directors. However, when the company is not of high capitalisation or, when it is, it has a shareholder or multiple shareholders acting in concert, which control more than 30% of the share capital, the number of independent directors should represent at least one third of the total number of directors.

Complies  Explain

18. Companies should post the following director particulars on their websites, and keep them updated:

- Professional experience and background.
- Other boards of directors to which they belong, whether or not the companies are listed, as well as the other compensated activities they engage in, whatever their nature.

- c) Indication of the category to which the director belongs, in the case of proprietary directors indicating the shareholder represented or with which the director has ties.
- d) The date of their first and subsequent appointments as a company director, and subsequent re-elections.
- e) Shares held in the company and any options thereon held thereby.
- Complies  Partially complies  Explain

The company on its website ([www.ree.es](http://www.ree.es)) publishes and updates all information regarding directors that is listed in Recommendation 18, with the exception of the other compensated activities referred to in the last subsection of section (b) of that Recommendation. The company does not publish that information for reasons of confidentiality, since disclosure of that information could conflict with the protection of the right of privacy of the directors.

19. In the annual corporate governance report, after verification by the appointments committee, the reasons for the appointment of proprietary directors proposed by shareholders with share interests less than 3% of capital should be explained, as should the reasons for any rejection of a formal request for a board position from shareholders whose share interest is not less than that of others successfully applying for a proprietary directorship.
- Complies  Partially complies  Explain  Not applicable
20. Proprietary directors should resign when the shareholders they represent fully transfer their shareholdings. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.
- Complies  Partially complies  Explain  Not applicable
21. The board of directors should not propose the removal of any independent director before the expiry of that director's tenure as mandated by the articles, except where just cause is found by the board of directors, after a report from the appointments committee. In particular, just cause is understood to exist when the director comes to occupy new positions or assumes new obligations that prevent its dedicating the time necessary for performance of the functions inherent in the position of a director, breaches the duties inherent in the position or is in any of the circumstances resulting in loss of independent status, in accordance with the provisions of applicable law. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the capital structure of the company, in order to meet the proportionality criterion indicated in recommendation 16.
- Complies  Explain
22. Companies should establish rules requiring directors to inform the Board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent court proceedings. And if a director is indicted or tried for any of the crimes indicated in the corporate law, the board of directors should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not the director should be called on to resign. And the board of directors should report and explain all such determinations in the annual corporate governance report.
- Complies  Partially complies  Explain
23. All directors should express clear opposition when they feel a proposal submitted for the approval of the board of directors might harm the corporate interest. In particular, independents and other directors unaffected by the conflict of interests should challenge any decision that could go against the interests of shareholders lacking board of directors representation.

When the board of directors makes significant or reiterated decisions about which a director has expressed serious reservations, he should draw the pertinent conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next recommendation.

This recommendation also applies to the secretary of the board of directors, whether or not a director.

- |  |                                   |   |                                  |  |
|--|-----------------------------------|---|----------------------------------|--|
|  | Complies <input type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> | Not applicable <input checked="" type="checkbox"/> |
|--|-----------------------------------|---|----------------------------------|--|
24. Directors who give up their positions before their tenure expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the board of directors. Regardless of whether such departure is reported as a material disclosure, the reasons should be explained in the annual corporate governance report.
- |  |  |   |                                  |   |
|--|--|---|----------------------------------|---|
|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> | Not applicable <input type="checkbox"/> |
|--|--|---|----------------------------------|---|
25. The appointments committee should ensure that non-executive directors have sufficient time available for proper performance of their duties.
- And the board of directors regulations should establish the maximum number of boards of companies of which their directors may be members.
- |  |  |   |                                  |  |
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|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> |  |
|--|--|---|----------------------------------|--|
26. That the board of directors should meet with the frequency necessary to properly perform its duties, at least eight times per year, in accordance with a schedule of dates and agendas established at the beginning of the year, each director individually being entitled to add other agenda items.
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|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> |  |
|--|--|---|----------------------------------|--|
27. Director absences should be kept to a strict minimum and quantified in the Annual Corporate Governance Report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.
- |  |  |   |                                  |  |
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|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> |  |
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28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.
- |  |                                   |   |                                  |  |
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|  | Complies <input type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> | Not applicable <input checked="" type="checkbox"/> |
|--|-----------------------------------|---|----------------------------------|--|
29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.
- |  |  |   |                                  |  |
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|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> |  |
|--|--|---|----------------------------------|--|
30. Independently of the knowledge required of directors for performance of their duties, companies should also offer directors refresher courses when circumstances so warrant.
- |  |  |                                  |   |  |
|--|--|----------------------------------|---|--|
|  | Complies <input checked="" type="checkbox"/> | Explain <input type="checkbox"/> | Not applicable <input type="checkbox"/> |  |
|--|--|----------------------------------|---|--|
31. Agendas for meetings should clearly indicate those points in respect of which the board of directors must adopt a decision or resolution, so that the directors may, in advance, study or collect the information necessary for adoption thereof.
- When, exceptionally, by reason of urgency, the chairperson wishes to submit decisions or resolutions not appearing on the agenda for approval of the board of directors, express prior consent of the majority of the directors present will be required, with that consent to be reflected in the minutes.
- |  |  |   |                                  |  |
|--|--|---|----------------------------------|--|
|  | Complies <input checked="" type="checkbox"/> | Partially complies <input type="checkbox"/> | Explain <input type="checkbox"/> |  |
|--|--|---|----------------------------------|--|

32. The directors should be regularly advised of movements in shareholdings and the opinions held by significant shareholders, investors and rating agencies regarding the company and its group.

Complies [ X ]      Partially complies [ ]      Explain [ ]

33. The chairperson, as the one responsible for effective functioning of the board of directors, in addition to exercising the functions attributed thereto by law and the articles, should prepare and submit to the board of directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board and, if applicable, the Managing Director of the company; be responsible for direction the Board and the effectiveness of its functioning; see to it that sufficient time is devoted to discussion of strategic matters, and order and review the refresher programmes for each director, when circumstances so warrant.

Complies [ X ]      Partially complies [ ]      Explain [ ]

34. When there is a lead director, in addition to the authority corresponding to it by law, the articles or the board of directors regulations should give the lead director the following authority: chairing the board of directors in the absence of the Chairperson and the vice chairpersons, if any; voice the concerns of the non-executive directors; maintaining contact with investors and shareholders to learn of their points of view for purposes of forming an opinion regarding their concerns, in particular in relation to the corporate governance of the company; and coordinating the succession plan for the chairperson.

Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]

35. The Secretary of the board of directors in particular should see to it that the board of directors, in its actions and decisions, takes account of such corporate good governance recommendations contained in this Good Governance Code of Listed Companies as may be applicable to the company.

Complies [ X ]      Explain [ ]

36. The full board of directors annually should evaluate and, if applicable, adopt an action plan correcting deficiencies identified in respect of:

- a) The quality and efficiency of the functioning of the board of directors.
- b) The functioning and composition of its committees.
- c) Diversity in the composition and competencies of the board of directors.
- d) The performance of the chairperson of the board of directors and, if applicable, the company's managing director.
- e) The performance and contribution of each director, paying special attention to the heads of the various committees of the board.

Evaluation of the various committees will start from the report they submit to the board of directors. Evaluation of the board of directors will start from the report submitted by the appointments committee.

Every three years the board of directors will be assisted in the evaluation by an outside consultant, the independence of which will be verified by the appointments committee.

The business relationships maintained by the consultant or any company in its group with the company or any company in its group must be itemised in the annual corporate governance report.

The process and the areas evaluated will be described in the annual corporate governance report.

Complies [ X ]      Partially complies [ ]      Explain [ ]

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board of directors itself. The secretary of the board of directors should also act as secretary of the executive committee.

Complies       Partially complies       Explain       Not applicable

38. The board of directors should be kept fully informed of the business transacted and decisions made by the executive committee and all members of the board of directors should receive copies of the minutes of the meetings of the executive committee

Complies       Partially complies       Explain       Not applicable

39. The members of the Audit Committee, particularly its chairperson, should be appointed on the basis of their knowledge and experience in accounting, auditing or risk management matters, and the majority of those members should be independent directors.

Complies       Partially complies       Explain

40. Under the supervision of the Audit Committee, there should be a unit that assumes the internal audit function, seeing to the proper functioning of the internal control and information systems, and functionally reporting to the non-executive director that chairs the Board or the Audit Committee.

Complies       Partially complies       Explain

41. The head of the unit that assumes the internal audit function should present its annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies       Partially complies       Explain       Not applicable

42. In addition to those contemplated by law, the Audit Committee should have the following functions:

1. As regards internal reporting and control systems:

- a) Monitoring the preparation and the integrity of the financial information on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles.
- b) Ensuring the independence of the unit that assumes the internal audit function, proposing the selection, appointment, re-election and removal of the head of the internal audit service; proposing the budget of this service; approving its orientation and work plans, ensuring that its activity is principally focused on the relevant risks of the company; receiving periodic information regarding its activities; and verifying that senior management takes account of the conclusions and recommendations in its reports.
- c) Establishing and supervising a mechanism whereby staff can report, confidentially and, if possible and considered to be appropriate, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications.

2. As regards the outside auditor:

- a) Investigating the circumstances giving rise to the resignation of any outside auditor.
- b) Seeing to it that the remuneration of the outside auditor for its work does not compromise its quality or independence.
- c) Seeing to it that the company notifies any change of auditor to the CNMV as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.

- d) Ensuring that the outside auditor annually has a meeting with the full board of directors to report to it on the work performed and the evolution of the accounting and risk situation of the company.
- e) Ensuring that the company and the outside auditor comply with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other regulations of the independence of auditors.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
43. The Audit Committee should have authority to meet with any company employee or executive, even ordering their appearance without the presence of another executive.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
44. The Audit Committee should be informed of structural and corporate modification transactions expected to be implemented by the company, for analysis thereof and prior report to the board of directors on the economic conditions thereof and their accounting impact, in particular, if applicable, on the proposed exchange ratio.
- Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]
45. The risk control and management policy should identify at least the following:
- a) The various kinds of risk, financial and non-financial (inter alia operating, technological, legal, social, environmental, political and reputation) to which the company is exposed, including contingent liabilities and other off-balance-sheet risks within financial or economic risks.
- b) The setting of the level of risk that the company deems acceptable.
- c) The measures contemplated for mitigating the impact of the identified risks, should they materialise.
- d) The internal reporting and control systems to be used to control and manage the aforesaid risks, including contingent liabilities and off-balance-sheet risks.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
46. Under the direct supervision of the Audit Committee or, if applicable, a specialised commission of the board of directors, there should be an internal risk management and control function exercised by a unit or internal department of the company that is expressly given the following functions:
- a) Ensuring the good functioning of the risk control and management systems, in particular that all important risks affecting the company are appropriately identified, managed and quantified.
- b) Actively participating in the preparation of the risk strategy and in important decisions regarding the management thereof.
- c) Seeing to it that the risk control and management systems adequately mitigate the risks within the context of the policy defined by the board of directors.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
47. The members of the appointments and remuneration committee (or of the appointments committee and the remuneration committee, if they are separate) should be designated in a manner ensuring that they have the knowledge, skills and experience appropriate to the functions they are called on to perform, and the majority of those members should be independent directors.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
48. High capitalisation companies should have an appointments committee and a separate remuneration committee.

Complies

Explain

Not applicable

The company does not believe it is desirable to have an Appointments Committee and a separate Remuneration Committee for the following reasons:

- By reason of the small size of the board of directors (composed of 12 members, one of them being an executive director) by comparison with other high capitalisation companies.
- Because based on the subject matter, separate appointments and remuneration committees would not have sufficient matters to consider during the financial year to justify the separation.
- By reason of the independence of the outside directors, taking account of the fact that currently all of them are members of one of the company's three Board committees, splitting the current Appointments and Remuneration Committee into two separate committees would result in directors simultaneously belonging to multiple committees, which would have information from one of the other two Committees, to the detriment of their full autonomy in the performance of their duties.

49. The appointments committee should consult with the chairperson of the board of directors and the company's managing director, especially on matters relating to executive directors.

And any director should be entitled to request of the appointments committee that it consider potential candidates to fill director vacancies, if in its judgement they are suitable.

Complies

Partially complies

Explain

50. The remuneration committee should exercise its functions independently, and in addition to those given to it by law, it should have the following functions:

- a) Proposing to the board of directors the standard conditions for senior manager contracts.
- b) Verifying that the remuneration policy established by the company is observed.
- c) Periodically reviewing the remuneration policy applied to directors and senior managers, including share-based remuneration schemes and application thereof, as well as ensuring that individual remuneration is proportionate to that paid to other directors and senior managers of the company.
- d) Seeing to it that possible conflicts of interests do not compromise the independence of the outside advice provided to the committee.
- e) Verifying the information on remuneration of directors and senior managers contained in the various corporate documents, including the annual report on remuneration of directors.

Complies

Partially complies

Explain

51. The remuneration committee should consult with the chairperson and managing director of the company, especially on matters relating to executive directors and senior managers.

Complies

Partially complies

Explain

52. The rules for the composition and functioning of the supervision and control committees should appear in the board of directors regulations, and should be consistent with those applicable to the committees mandated by law in accordance with the foregoing recommendations, including:

- a) They should be composed exclusively of non-executive directors, with a majority of independent directors.
- b) Committees should be chaired by independent directors.
- c) The board of directors should appoint the members of such committees based on the knowledge, skills and experience of the directors and the tasks of each committee, discuss their proposals and reports, and they

- should render accounts, at the first full meeting of the board of directors subsequent to their meetings, of their activities and take responsibility for the work performed.
- d) The committees should be entitled to engage outside advisors, when they feel this is necessary for the discharge of their duties.
- e) Minutes of the meeting should be prepared and made available to all directors.
- Complies  Partially complies  Explain  Not applicable
53. Supervision of compliance with the corporate governance rules, the internal codes of conduct and the corporate social responsibility policy should be attributed to one committee or shared among multiple committees of the board of directors, which may be the Audit Committee, the appointments committee, the corporate social responsibility committee, if any, or a specialised committee that the board of directors, in exercise of its self-organisation authority, decides to create for that purpose, to which the following minimum functions should be specifically attributed:
- a) Supervising compliance with the internal codes of conduct and the corporate governance rules of the company.
- b) Supervising the shareholder and investor communications and relationships strategy, including small and medium-sized shareholders.
- c) Periodically evaluating the adequacy of company's corporate governance system in order for it to fulfil its mission of promoting the interests of society and, as applicable, taking account of the legitimate interests of the other stakeholders.
- d) Reviewing the company's corporate responsibility policy, seeing to it that it is aimed at creation of value.
- e) Monitoring the corporate social responsibility strategy and practices and evaluating the degree of compliance therewith.
- f) Monitoring and evaluating the processes of relationships with the various stakeholders.
- g) Evaluating everything related to non-financial risks of the company, including operating, technological, legal, social, environmental, political and reputation risk.
- h) Coordinating the process of reporting non-financial and diversity information, in accordance with applicable regulations and reference international standards.
- Complies  Partially complies  Explain
54. The corporate social responsibility policy should include the principles or commitments the company assumes voluntarily in relation to the various stakeholders, and identify at least:
- a) The objectives of the corporate social responsibility policy and the development of support instruments.
- b) The corporate strategy related to sustainability, the environment and social matters.
- c) The specific practices regarding questions related to: shareholders, employees, customers, suppliers, social questions, environment, diversity, fiscal responsibility, respect for human rights and prevention of illegal conduct.
- d) The methods or systems for monitoring the results of application of the specific practices indicated above, the associated risks and management thereof.
- e) The mechanisms for supervision of non-financial risk, ethics and business conduct.
- f) The channels for communication with, participation of and dialogue with stakeholders.
- g) The responsible communication practices that avoid manipulation of information and protect integrity and honour.

- Complies [ X ]      Partially complies [ ]      Explain [ ]
55. In a separate document or in the management report, the company should report on the matters related to corporate social responsibility, for that purpose using any of the internationally accepted methodologies.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
56. The remuneration of directors should be such remuneration as is necessary to attract and retain directors of the desired profile and compensate the dedication, qualification and responsibility the position requires, but not so high as to compromise the independence of judgement of the non-executive directors.
- Complies [ X ]      Explain [ ]
57. Variable remuneration tied to the performance of the company and personal performance, and remuneration in the form of delivery of shares, options or rights on shares or instruments indexed to the value of the share and long-term savings systems such as pension plans, retirement systems or other social security systems should be limited to executive directors.
- The delivery of shares as remuneration to non-executive directors may be contemplated when it is conditioned on their holding them until they cease to be directors. The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.
- Complies [ X ]      Partially complies [ ]      Explain [ ]
58. In the case of variable remuneration, the remuneration policies should include the limits and technical safeguards necessary to ensure that such remuneration reflects the professional performance of the beneficiaries and not solely the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.
- In particular, it should be ensured that the variable components of remuneration:
- Are tied to performance criteria that are predetermined and measurable, and those criteria take account of risk assumed in order to obtain a result.
  - Promote sustainability of the company and include non-financial criteria that are appropriate for the creation of long-term value, as well as being in compliance with the internal procedures and rules of the company and its policies for the control and management of risk.
  - Are configured on the basis of balance among achievement of short, medium and long-term objectives, allowing remuneration of ongoing performance over a period of time sufficient to assess the contribution to sustainable creation of value, in such manner that the elements of measurement of such performance do not depend solely on one-off, occasional or extraordinary events.
- Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]
59. Payment of a significant part of the variable components of remuneration should be deferred for a minimum period of time sufficient to verify that the previously established conditions of performance have been satisfied.
- Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]
60. In the case of remuneration linked to company earnings, account should be taken of any qualifications stated in the outside auditor's report that reduce those earnings.
- Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]
61. A significant percentage of the variable remuneration of executive directors should be tied to delivery of shares or financial instruments indexed to their value.

Complies  Partially complies  Explain  Not applicable

62. Once the shares or options or rights on shares corresponding to the remuneration systems have been awarded, the directors should not be entitled to transfer ownership of a number of shares equivalent to two times their annual fixed remuneration, or exercise the options or rights until a term of at least three years has elapsed after they are awarded.

The foregoing will not apply to the shares, if any, the director needs to dispose of in order to pay the costs related to acquisition thereof.

Complies  Partially complies  Explain  Not applicable

The individuals serving as Managing Directors in 2019 have assumed the commitment to the company to hold the shares received as part of each year's annual variable remuneration for a minimum period of five years. This is all included in the annual report on Board remuneration approved by the board of directors at its meeting on 25 February 2020. The recommendation of a three-year lock-up period included therein is therefore adhered to same.

63. The contractual arrangements should include a clause allowing the company to claim repayment of the variable components of remuneration when the payment is not in accordance with the performance conditions, or when the remuneration has been paid based on information later shown to be inaccurate.

Complies  Partially complies  Explain  Not applicable

64. The payments for termination of the contract should not exceed an established amount equivalent to two years of total annual remuneration and should not be paid until the company has been able to verify that the director has met the previously established performance criteria.

Complies  Partially complies  Explain  Not applicable

## H. OTHER INFORMATION OF INTEREST

1. If there is any relevant aspect of corporate governance within the company or the entities in the group that has not been included in the other sections of this report, but that it is necessary to include in order to set forth more complete and reasoned information regarding the governance practices in the entity or its group, briefly explain.
2. This section also may be used to supply any additional information, clarification or qualification relating to foregoing sections of this report, provided such additional information is relevant and not repetitious.  
In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is required to disclose that is not required in this report.
3. The company also may indicate if it has voluntarily adhered to other codes of ethical principles or best practices, international, sectoral or otherwise. If applicable, identify the code in question and the date of adhesion. In particular, the company should mention whether it adheres to the 20 July 2010 Code of Best Tax Practices:

1. The company for years has voluntarily prepared an Annual Corporate Governance Report, available on the corporate website, following a model with structure and content of its own that has a format and content following the most recognised international practices. The intention thereby as to respond appropriately to the demands and recommendations of its shareholders, to which we remit for any third party that may consider it to be of interest. This report has been incorporated in the abovementioned Annual Corporate Governance Report as an Official Annex.

2. The company is subject to Spanish law as regards corporate governance.

3. Set forth below is additional information regarding the following sections.

A.5: The company's significant shareholder, *Sociedad Estatal de Participaciones Industriales* (SEPI), has not any commercial, contractual or corporate relationship with the company and/or its group that are material or arise outside the ordinary course of business.

A.6: In relation to the information requested in this subsection Ms Mercedes Real Rodríguez is a representative of the director that is a legal person, Spanish State's Industrial Holding company (*Sociedad Estatal de Participaciones Industriales*, SEPI), on the board of directors of ENRESA, S.A. S.M.E., with tax identification code (C.I.F.) A78056124, which belongs to the group of the significant shareholder SEPI, but it is not a director of that significant shareholder (in SEPI she only serves as Director of Energy Division Investees).

C.1.10: For purposes of this section they are considered to have executive functions when powers of attorney have been granted in their favour by each company, in relation to management of the corporate activities.

C.2.2: The Sustainability Committee was created on 27 November 2018, so there are no data on women directors in this committee for previous years.

G.4: The Board of Directors at its meeting of 25 October 2016 approved the Criteria for communication with shareholders, institutional investors and proxy advisors, on proposal of the Appointments and Remuneration Committee.

This document contains the policy for communications with the aforesaid stakeholders and is in response to the commitment of the Board of Directors to comply with Recommendation 4 of the Code of Good Governance of Listed Companies. They set out the principles and guidelines for communication with stakeholders, with the aim of ensuring that stakeholders are able to exercise their rights, protecting their interests and promoting engagement with stakeholders through open, transparent and sustainable dialogue. The Board of Directors is responsible for reviewing the criteria and approving any amendments and also for monitoring compliance. The Criteria for communication with shareholders, institutional investors and proxy holders is published on the website of the company ([www.ree.es](http://www.ree.es)), in the Corporate Governance section, "Our Commitment" subsection".

4. The Board of Directors of Red Eléctrica Corporación, S.A. in its meeting of 29 September 2015 approved adhesion of the Red Eléctrica Group to the Code of Best Tax Practices, which had been approved by the Forum of Large Companies in the version proposed by the State Tax Administration Agency (*Agencia Estatal de Administración Tributaria*, or "AEAT"). The content thereof was complied with during the 2019 financial year.

The adhesion to the Code of Best Tax Practices by the Red Eléctrica Group occurred on 23 October 2015, in accordance with the adhesion procedure established therein.



**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED  
COMPANIES**

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This annual corporate governance report was approved unanimously by the board of directors of the company at its meeting on:

[ 25/02/2020 ]

State whether there are any directors who voted against or abstained from voting to approve this Report.

[ ] Yes  
[√] No



# Red Eléctrica Corporación, S.A.

**Independent Reasonable Assurance Report on the System of Internal  
Control over Financial Reporting (ICOFR) of Red Eléctrica Corporación,  
S.A. and subsidiaries for 2019**

(Translation from the original in Spanish. In the event of discrepancy, the  
Spanish-language version prevails.)



KPMG Auditores, S.L.  
Paseo de la Castellana, 259 C  
28046 Madrid

## **Independent Reasonable Assurance Report on the System of Internal Control over Financial Reporting (ICOFR) of Red Eléctrica Corporación, S.A. and subsidiaries for 2019**

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 7 June 2019, we have examined the Internal Control over Financial Reporting (hereinafter "ICOFR") information of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the Red Eléctrica consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2019. This system is based on the criteria established in the Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Our examination did not include an evaluation of the system of Internal Control over Financial Reporting at 31 December 2019 of Hispasat, S.A. and its subsidiaries (hereinafter the Hispasat subgroup), inasmuch as at the date of this report this subgroup is in the process of implementing ICOFR, given that it was acquired by the Red Eléctrica Group on 3 October 2019. The impact of the Hispasat subgroup's consolidation represents 12% of total assets, 2% of total revenue and 0.7% of the Group's net profit at 31 December 2019 and for the year then ended.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.



(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## **Directors' and Management's Responsibility**

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The Board of Directors of the Parent and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and supervision of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content of and preparing the accompanying ICOFR information.

## **Our Responsibility**

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Our responsibility is to express an opinion on the effectiveness of the Group's Internal Control over Financial Reporting based on our examination.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

We apply International Standard on Quality Control (ISQC) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

## **Inherent Limitations**

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Due to the limitations inherent in any internal control system, there is always a possibility that ICOFR may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.



(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## Conclusion

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In our opinion, and excluding the Hispasat subgroup which, as mentioned in the second paragraph of this report, is not within the scope of our examination, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2019, in accordance with the criteria established in the Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the ICOFR information included in note F of the Group's Annual Corporate Governance Report at 31 December 2019 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, subsequently amended by CNMV Circular 7/2015 of 22 December 2015 and CNMV Circular 2/2018 of 12 June 2018, with respect to the description of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

## Other Matters

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Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 25 February 2020 we issued our unqualified auditor's report on the consolidated annual accounts of the Group for 2019, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Eduardo González Fernández

25 February 2020