



Appointments and Remuneration Committee

14 February 2019

Annual Activity Report of the
Appointments and Remuneration
Committee for the year 2018

Table of Contents

1. Introduction	2
<hr/>	
2. Legal background, structure, functions and composition	2
<hr/>	
2.1. Legal background.	
2.2. Structure and functions.	
2.3. Composition.	
3. Activities carried out during the year 2018	7
<hr/>	
3.1. Regarding appointments, performance and removals.	
3.2. Regarding remuneration.	
3.3. Regarding Corporate Governance rules and actions.	
3.4. Regarding Corporate Responsibility and Sustainability.	
3.5. Other activities.	
4. Director attendance at meetings	10
<hr/>	



1. Introduction

In the Appointments and Remuneration Committee's Action Plan for the year 2019, in accordance with the provision contained in Article 18.6 a) of the Regulations of the Board, foresees the drafting of a report outlining the activities performed by the Appointments and Remuneration Committee in 2018, and which is the object of this document.

2. Legal background, structure, functions and composition

2.1 Legal background:

The Company's Board of Directors, at its meeting held on 13 March 2013, resolved to amend the Regulations of the Board for the purpose of updating its content in accordance with the legislative amendments that had affected the regime of public limited companies (*Sociedades Anónimas*) in Spain, as well as adapting itself to best practices in corporate governance, particularly those at an international scope, and introducing improvements in the organisation and operation of the Board of Directors and its Committees.

Accordingly, the shareholders approved the amendment of the By-laws at the Annual General Shareholders' Meeting held on 18 April 2013, to adapt, among other aspects, the regulations of the Audit Committee and the Corporate Responsibility and Governance Committee (now called the Appointments and Remuneration Committee) contained in the Company's By-laws, to the main international recommendations and practices in matters of good corporate governance. Noteworthy of said amendment is the requirement provided for in the By-laws which establishes that the majority of the members of both Committees shall be independent directors.

Law 31/2014, of 3 December, amending the Spanish Capital Companies Law (*Ley de Sociedades de Capital*) in order to enhance corporate governance, resulted in an adaptation of the Company's By-laws at the Annual General Shareholders' Meeting held on 15 April 2015; in particular, Article 24 relating to the Appointments and Remuneration Committee was adapted. Similarly, the Regulations of the Board of Directors were also amended on 20 December 2016 (Articles 17 and 18), to fully adapt the same to the recent reforms of the Capital Companies Law, the Spanish Code of Good Governance of Listed Companies, and to introduce improvements in the organisation and operation of the Board's Committees in order to adapt them to the new organisational structure.

2.2 Structure and functions:

Article 24.2 of the By-laws and Articles 17 and 18 of the Regulations of the Board of Directors, regulate the structure, composition and duties and responsibilities of the Appointments and Remuneration Committee.



The Committee has responsibilities assigned to it, inter alia, in relation to appointments, performance and removals of Board directors and Company senior managers, their remuneration, fulfilment of the duties of directors, the rules and actions regarding Corporate Governance and in matters regarding Corporate Responsibility and Sustainability.

The Committee meets on a regular basis in order to ensure the successful performance of its functions. In any case, it must meet at least quarterly, when called by the chairperson or requested by two of its members and, likewise, every time the Board of Directors or its chairperson requests a report be issued or that proposals be submitted.

Article 17.5 of the Regulations of the Board of Directors establishes that the notice of the meetings, with all documentation associated to the same, may be made by electronic means that guarantee the due security and confidentiality of the notice and relevant documentation.

Such notice, which shall include the agenda, shall be sent by the chairperson or secretary of the Committee to each one of its members at least three days prior to the date scheduled for the meeting, unless shorter notice is required due to urgency reasons.

Article 17.7 of the Regulations of the Board lays down the possibility that the Committee meetings may be held via conference call, videoconference or any other remote communication means which allow the meeting to be held, provided that all the members of the Committee give their consent.

The quorum of the Committee may be established with the attendance of the majority of its members and it may adopt decisions or recommendations by an absolute majority of the votes of the directors attending the meeting, either in person or by proxy, reflecting said decisions and recommendations in the minutes at the end of the meeting. In order to better comply with its duties and responsibilities, the Committee may obtain advice from independent professionals, and may access any type of information or documentation of the Company it needs to perform its functions.

2.3 Composition:

The composition of the Appointments and Remuneration Committee is regulated in Article 24.1 of the Corporate By-laws and in Article 17 of the Regulations of the Board of Directors. In accordance with the aforementioned articles, Committee shall be comprised of the number of members to be fixed by the Board of Directors, with a minimum of three (3) and a maximum of five (5), selected from among non-executive board directors, and the majority of its members shall be independent directors. The chairperson of the Committee shall be an independent director elected from among its members, and the secretary shall be the one of the Board of Directors.

The appointment and removal of Committee members shall be carried out by the Board of Directors at the proposal of the Board's Chairperson, following a report from the Appointments and Remuneration Committee. The members of the Committee shall hold their position for a



term of no more than three years, and may be re-elected, and shall be removed when removed as directors or when so resolved by the Board of Directors, following a report from the Appointments and Remuneration Committee. The Committee's Chairperson will be replaced every three years and may be re-elected after the lapse of one year since his/her removal.

The following changes in the composition of the Appointments and Remuneration Committee have taken place during the year 2018:

- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 29 May 2018, resolved to re-appoint the External Independent Director Ms. Carmen Gómez de Barreda Tous de Monsalve as member of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., for a period of three (3) years as foreseen in the Regulations of the Board, in accordance with the provisions of Article 24 of the Corporate By-laws and Article 17 of the Regulations of the Board of Directors.
- The Board of Directors of Red Eléctrica Corporación S.A., at its meeting held on 25 September 2018, resolved to accept the resignation of Mr. Santiago Lanzuela Marina as External Proprietary Director of the Company and, consequently, as member of the Appointments and Remuneration Committee.
- The Board of Directors of Red Eléctrica Corporación S.A., at its meeting held on 27 November 2018, at the proposal of the Chairman and as a result of a favourable report from the Appointments and Remuneration Committee, agreed to create the new Sustainability Committee and restructure the Committees of the Board of Directors. On the occasion of the aforementioned restructuring process, the External Independent Directors, Ms. Carmen Gómez de Barreda Tous de Monsalve and Mr. Alberto Carbajo Josa, were appointed as members of the new Sustainability Committee of Red Eléctrica Corporación S.A., from that moment ceasing to be members of the Appointments and Remuneration Committee of Red Eléctrica Corporación S.A. Similarly, the External Independent Director, Ms. Socorro Fernández Larrea, and the External Proprietary Director, Mr. Antonio Gómez Expósito, representing the State Industrial Holding Company (SEPI), were appointed as members of the Appointments and Remuneration Committee of Red Eléctrica Corporación S.A., for a 3-year term pursuant to the Regulations of the Board, in accordance with Article 24 of the Corporate By-laws and Article 17 of the Regulations of the Board of Directors.

The composition of the Committee, as at 31 December 2018, was the following:

Director	Position	Type of Director
José Luis Feito Higuera	<i>Chairman</i>	External Independent
Antonio Gómez Expósito	<i>Member</i>	External Proprietary (SEPI)
Socorro Fernández Larrea	<i>Member</i>	External Independent



All of the members of the Committee have demonstrated capacity to perform the functions entrusted to the Committee, due to their broad experience, skills and knowledge

Set forth below are summaries of the professional careers of the members as at 31 December 2018:

- *Mr. José Luis Feito Higuera*, born on 13 April 1952, has a Degree in Economics and Business Studies from the Complutense University of Madrid. State Trade Expert and Economist. Spanish Ambassador.

Currently, Chairman and General Manager of IEE (Institute of Economic Studies) since 2009); Member of the Executive Committee and of the Board of Trustees of the CEOE (Spanish Confederation of Employers' Organisations) since 2001; Independent Board Director of Bankia, S.A. and Member of its Audit and Compliance Committee since 2012; Member of the Editorial Board of the 'Expansión' newspaper since 2001; Member of the Social Advisory Council of the Carlos III University and member of the Editorial Board of ICE. .

Formerly, among other positions, has served as: Chairman of ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (Association of Spanish Companies holding Highway, Tunnel, Bridge and Toll Road concession contracts) 2001-2014; Spanish Ambassador to the OECD in Paris (1996-2000). Partner and Member of the Board of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), an entity in which he was 'Chief Economist' and responsible for the management of various areas in Investment Banking (1986-1996); Head of International Financial Institutions of the Bank of Spain; Member of the European Monetary Committee (Brussels) and the Committee of Governors of Central Banks of the European Union in Basel (1984-1986); Executive Director and 'Expert' Advisor at the International Monetary Fund in Washington (1980-1984); Head of Cabinet of Studies of the Foreign Sector and Data Processing of the Ministry of Economy and Finance in Madrid (1978-1980); programmer, analyst and IT director in Seresco, S.A. and Entel-Ibermática, S.A., in Madrid (1967-1978).

- *Mr. Antonio Gómez Expósito*, born on 26 August 1957, has a Doctorate (PhD) in Industrial Engineering (Major in Electrical Engineering) from the Higher Technical School of Industrial Engineers of the University of Seville.

Currently, Full Professor of Electrical Engineering at the Higher Technical School of Engineering of the University of Seville; Director of the "Endesa Red" Chair (since 2007); Associate Editor of Journal of Modern Power Systems and Clean Energy (China); Lead researcher of one of the largest and most relevant research groups nationwide in the field of electricity systems, composed of more than twenty Ph.D.'s and five Full Professors. Fellow Member of the IEEE (Institute of Electrical and Electronics Engineers): Member of the Real Academia Sevillana de Ciencias (since 2014).

Formally, among other positions, has served as: Coordinator of the Inter-university Doctorate (PhD) Programme "Electrical Energy Systems", University of Seville (2013-2017); Chair of the Department of Electrical Engineering, University of Seville (2003-2011);



Chair of the Ph.D. programme entitled 'Technical and Economic Management of Generation, Transmission and Distribution Systems', University of Seville (2003-2006); Associate Editor of IEEE Transactions on Power Systems (2011-2016); Member of the IEEE European Working Group on Energy (2014-2016); Member of the Board of Trustees of Corporación Tecnológica de Andalucía (2006-2015); Member of the Steering Committee of FUTURED (Spanish Technological Platform of Electrical Grids); Visiting Professor at the University of Waterloo, Canada (1998) and Adjunct Faculty at San Diego State University, California (1988).

In addition, maintains an active presence in the academic, research and teaching arena, as well as acting as lecturer at conferences and scientific committees at important international symposiums in the energy field.

- *Ms. Socorro Fernández Larrea*, born on 7 April 1965, has a Degree in Civil Engineering from the Universidad Politécnica de Madrid and holds an IESE Senior Management Programme (PADE) diploma.

Currently, Executive Director of the consultancy firm JUSTNOW, S.L., an entity providing advice in the infrastructure construction sector, for both commercial and financial operations; Member of the Board of Directors of GRUPO CEMENTOS MOLINS. Chairwoman of the Board of Directors of OFG Telecomunicaciones; Independent Director of Témporte Properties Socimi, S.A.; Independent Director of the engineering company SEG, S.A.; Member of the Board of Directors of Banco de Caminos; Council Member of the IESE Regional Board of the Madrid Chapter and Advisor of the Board of Directors of the Mexican engineering company CAL Y MAYOR.

Formerly, among other positions, has served as: Member of the Board of Directors of the Spanish construction and real estate company ACR; Member of the Board of Directors of AMPER, S.A. as Proprietary Director, representing the company Emilanteos, S.L.; General Manager at COPISA Constructora Pirenáica S.A.; Deputy Chairwoman of ANCI (Spanish Association of Independent Constructors); Member of the Governing Board of Colegio de Ingenieros de Caminos, Canales y Puertos (Spanish Association of Civil Engineers); Regional Director of the construction company Seop, Obras y Proyectos, S.L.; National representative of Ferrovial Conservación, S.A.; Representative in Castilla la Mancha for Ferrovial-Agroman, S.A.; Representative in Castilla La Mancha for Agroman Empresa Constructora, S.A.; Director General for Roads, Hydraulic Structures and Transport of the Department of Public Works of the Regional Government of Castilla la Mancha; Chief Project engineer for Ferrovial, S.A.

The secretary of the Committee is Mr Rafael García de Diego Barber, General Counsel and Secretary of the Company's Board of Directors.

Throughout the year 2018, when the Committee considered it appropriate, members of the management team responsible for certain areas within the Committee's scope of responsibility attended the meetings, to facilitate the appropriate explanations.



3. Activities carried out during the year 2018

The Appointments and Remuneration Committee, at its meeting held on 27 November 2017, approved its Annual Action Plan for the year 2018, considering the responsibilities attributed to the same in the Corporate By-laws and in the Regulations of the Board of Directors.

The Appointments and Remuneration Committee has informed the Board of Directors about its activities in the meetings of the latter immediately following each meeting of the Committee, and has made available to all the directors, through the Company's 'Directors Portal' intranet, the documentation for the meetings and copy of the minutes of the same.

The Appointments and Remuneration Committee has met twelve (12) times during the year 2018, informing the Board of Directors the same number of times about the activities performed by the Committee.

The main tasks that the Committee has carried out during the year 2018 have been the following:

3.1 Regarding appointments, performance and removals:

- Favourable report and proposal to the Board of Directors, to be tabled at the General Shareholders' Meeting, regarding the proposed re-election of one independent male director and one independent female director.
- Favourable report to the Board of Directors, to be tabled at the General Shareholders' Meeting, regarding the proposed ratification and appointment of a female proprietary director.
- Favourable report on proposals of the Chairman of Board of Directors for the re-election of an independent director as member of the Appointments and Remuneration Committee and the re-election of a proprietary director as member of the Audit Committee.
- Report on the resignation of the Chairman of the Board of Directors and favourable report and proposals to the Board of Directors regarding the appointment by co-option of a director within the category 'other external' and on the proposal for the appointment of the Chairman of the Board of Directors.
- Favourable report of the proposal of the State Industrial Holding Company (SEPI) for the appointment of a male proprietary director and a female proprietary director in substitution of two other proprietary directors.
- Analysis of the report on the restructuring of the organization in Red Eléctrica.
- Analysis and report on the proposal of the Chairman of the Board of Directors for the creation of the Sustainability Committee and on the restructuring and changes in the composition of the Board's committees.



-
- Reports on the compatibility of positions of independent directors of Red Eléctrica Corporación S.A. with their possible appointment as board directors, or other positions, in other companies outside of the Red Eléctrica Group.

3.2 Regarding remuneration:

- Analysis and favourable report to the Board of Directors of the proposed annual Programme for delivery of shares for employees, members of management and executive directors of the Red Eléctrica Group.
- Favourable report to the Board of Directors regarding the proposed remuneration of the Board of Directors for the year 2018, the Annual Report on Remuneration of directors corresponding to the years 2017 and 2018, to be tabled at the Annual General Shareholders' Meeting.
- Approval of the proposed assessment of the fulfilment of the 2017 Business and Managerial objectives and those of the Management Committee.
- Approval of the 2018 Business and Managerial objectives and those of the Management Committee.
- Analysis and approval of the modification of the Business and Managerial Objectives and those of the Executive Committee, which is limited to the objectives 'Development and profitability of the TSO' and 'Expansion of the business base' of the Chief Financial Officer's Department.
- Approval of the objectives of the new Corporate Directorate of Sustainability and External Relations.
- Analysis of the changes in the 2014-2019 Long-Term Variable Remuneration Programme as a result of the restructuring of the organization.
- Analysis of the follow-up of the 2018 Business and Managerial objectives and those of the Management Committee.

3.3 Regarding Corporate Governance rules and actions:

- Approval of the proposed Annual Corporate Governance Report for the year 2017, and submission to the Board of Directors.
- Analysis and favourable report of the call proposals, agenda, agreements and reports related to the Ordinary General Shareholders' Meeting for the year 2018, as well as the Electronic Voting Procedure and the Regulations of the Shareholder's Forum.
- Analysis of the 2017 Report on the Self-assessment of the Board, agreeing its submission to the Board of Directors.



-
- Analysis of the results of the 2017 assessment of the Executive Management Team of Red Eléctrica.
 - Analysis of the Annual Report on the Criminal Risk Prevention Programme corresponding to the year 2017 and submission to the Board of Directors
 - Information on the external audit of the management procedures of the Ordinary General Shareholders' Meeting.
 - Analysis and proposal of the new skills and competencies matrix of the members of the Board of Directors and submission to the Board for approval.
 - Commencement of the analysis process of the adaptation of the Regulations of the Board of Directors as a consequence of the restructuring of the Committees of the Board.
 - Updating of the contingency plans in the succession processes of the Chairman and the Chief Executive Officer and favourable report on the proposal for its submission to the Board.
 - Analysis and submission to the Board of the Knowledge and Information Activities Programme for board directors.
 - Analysis of the Report on compliance with the Internal Code of Conduct in the Securities Market.
 - Information on the road shows held with proxy advisors in 2018 and those foreseen for 2019.

3.4 Regarding Corporate Responsibility and Sustainability:

- Analysis of the Diversity and Equality Report, and submission to the Board.
- Analysis of the 2017 Annual Sustainability Report, and submission to the Board.
- Analysis of the Annual Report on the Management of the Code of Ethics corresponding to the year 2017, and submission to the Board.
- Approval of the 2018 Annual Sustainability Programme.
- Analysis of the information on the periodic follow-up of sustainability.
- Analysis of the report outlining the results of the 2018 Dow Jones Index.
- Additional information on the recognition of the Carbon Disclosure Project (CDP).
- Additional information on the functioning of the Vigeo Index, used as a reference in the Company's current syndicated 'green' loan.
- Additional information on the correlation/link between the activity of Red Eléctrica and the Sustainable Development Goals and the corresponding metrics.



3.5 Other activities:

- Approval of the Appointments and Remuneration Committee's Activity Report for the year 2017, to be incorporated into the company's Annual Corporate Governance Report.
- Analysis of the activities and information programme for Board Directors for the year 2019.
- Approval of the Committee's meeting schedule for the year 2019.

4. Director attendance to meetings

The Appointments and Remuneration Committee held twelve (12) sessions during the year 2018, informing the Board of Directors the same number of times about the activities performed by the Committee. During said sessions two (2) non-attendances were recorded, therefore the number of attendances stood at 54, which corresponds to a percentage of 96%.