



RED
ELÉCTRICA
CORPORACIÓN

Appointments and Remuneration Committee

21 February 2017

Activities Report of the Appointments
and Remuneration Committee for
2016.

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1. Introduction

The Action Plan of the Committee for the 2017 fiscal year, as provided in Article 18.6 a) of the Board Regulations, contemplates the preparation of an annual activities report, in this case for the 2016 fiscal year, which must be included in the Annual Corporate Governance Report, which is the subject matter of this document.

2. Legal background, structure, functions and composition

2.1. Legal background.

The Board of Directors of the company, at a meeting held on 13 March 2013, resolved to amend the Board Regulations to adjust their content to the legislative amendments affecting public limited companies, to adapt to best practices regarding corporate governance, especially in the international sphere, and to introduce improvements in the organisation and functioning of the Board of Directors and its Committees.

As a result, the Annual General Meeting of Shareholders, held on 18 April 2013, approved the amendment of the By-laws, to adapt, inter alia, the regulation of the Audit Committee and the Corporate Governance and Responsibility Committee (currently called the Appointments and Remuneration Committee) in the By-laws of the company, to the principal international practices and recommendations regarding good corporate governance. Notable in this regard is the By-laws provision to the effect that the majority of members of both committees must be independent directors.

Act 31/2014 of 3 December 2014, which modified the Spanish Companies Act to improve corporate governance, caused an adaptation of the By-laws of the company at the Annual General Meeting of Shareholders held on 15 April 2015. The Board of Directors Regulations also were modified in the same sense on 20 December 2016, for their full adaptation to the most recent amendments of the Spanish Companies Act, to the Code of Good Governance of Listed Companies and to introduce improvements in the organisation and functioning of the Board Committees to adapt them to the new organisational structure, among other matters.

Following the most recent amendments of the Spanish Companies Act, the latest international practices and recommendations have been adopted as regards to the composition and independence of committees and qualifications of their members. The main elements had already been incorporated in the amendment of the By-laws and the Board Regulations approved in 2013. Nevertheless, these corporate rules have been reviewed to ensure that they are fully adapted to the content of the new Act.



2.2. Structure and functions.

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

The Committee is given authority, inter alia, in relation to appointments, performance and removals of directors and senior managers, their remuneration, compliance with the duties of the directors, the rules and actions regarding Corporate Governance and regarding Corporate Responsibility and Sustainability.

The Committee meets as often as required for proper performance of its duties. In any event, it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be referred.

In Article 17.5 of the Board of Directors Regulations it is provided that the call of the meetings, with the documentation associated therewith, may be made by telematic means guaranteeing the due security and confidentiality of the call and the corresponding documentation.

That call, which is to include the agenda, will be sent by the chairman or secretary of the Committee to each of its members, at least three days before the date indicated for the meeting, unless the meeting needs to be called earlier for emergency reasons.

Article 17.7 of the Board Regulations establishes the possibility that, by reason of urgency and on an exceptional basis, meetings of the Committee may be held by conference call, videoconference or any other means of remote communication that allows the meeting to be held, provided that all of the members of the Committee so agree.

There is a quorum for a Committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by absolute majority votes of the directors attending the meeting, in person or by proxy, reflecting said decisions and recommendations in the minutes at the end of the meeting. In order to better perform its duties, the Committee may receive advice from independent professionals and may access any type of information or documentation of the company that is required to perform its duties.

2.3. Composition.

The composition of the Appointments and Remuneration Committee is governed by Article 24.1 of the By-laws and Article 17 of the new Board of Directors Regulations. The latter article provides that the Committee will be composed of five members, appointed from among the non-executive directors, with the majority of its members being independent directors. The chairman of the Committee will be an independent director appointed from amongst its members and the secretary will be the secretary of the Board of Directors.



The appointment and removal of Committee members is carried out by the Board of Directors on proposal of the Chairman of the Board of Directors, following a report from the Appointments and Remuneration Committee. Committee members will hold their position for a term of not more than three years and may be re-elected, and will cease to be members of the Committee if they lose their director status or when agreed by the Board of Directors, following a report of the Appointments and Remuneration Committee. The chairman will be replaced every three years, and may be re-elected once one year has elapsed since he ceased to be a member.

Regarding the composition of the Appointments and Remuneration Committee, during the 2016 fiscal year the following occurred:

-The Board of Directors of Red Eléctrica Corporación, S.A., at the meeting of 26 January 2016, appointed the proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), Mr. José Ángel Partearroyo Martín, as a member of the Appointments and Remuneration Committee for a term of three years, to fill the vacancy existing on the Appointments and Remuneration Committee as a result of the resignation of the proprietary director Mr. Francisco Ruiz Jiménez.

-The Board of Directors of Red Eléctrica Corporación, S.A., at the meeting held on 26 April 2016, appointed the independent director Mr. Agustín Conde Bajén as a member of the Appointments and Remuneration Committee of the company, for a term of 3 years, to fill the vacancy arising on the Appointments and Remuneration Committee as a result of the resignation of Ms. M^a José García Beato as a member of the aforesaid Committee to become a part of the Audit Committee.

-The Board of Directors at the meeting held on 29 November 2016 accepted the resignation presented by Mr. Agustín Conde Bajén, and as a result there was a vacancy on the Board of Directors and on the Appointments and Remuneration Committee.



At 31 December 2016 the composition of the Committee was as follows:

Director	Position	Type of Director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent Director
Socorro Fernández Larrea	Member	Independent Director
María Ángeles Amador Millán	Member	Independent Director
José Ángel Partearroyo Martín	Member	Proprietary Director
Vacant ¹	Member	Independent Director

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

Set forth below are summaries of the professional careers of the members at 31 December 2016:

- Carmen Gómez de Barreda Tous de Monsalve has a degree in Economics and Business from the Universidad Pontificia de Comillas (ICADE) and a master's degree in Business Administration from IESE (Executive MBA), Universidad de Navarra.

She is currently General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES).

She has served, inter alia, as the head of the cogeneration area of the Marketing Department of Enagás, the head of the international, petrochemical and marketing areas of Repsol, Services Development Manager of Unión Fenosa, Deputy Director of Petroleum Markets with the National Energy Commission (Comisión Nacional de Energía, or "CNE"), Institutional Relations and Communications Manager of BP Oil España, representative of the Spanish delegation on the Emergency Matters Group and the Markets Group of the International Energy Agency (Agencia Internacional de la Energía, or "AIE").

¹The vacancy on the Appointments and Remuneration Committee arose upon resignation of the independent director Mr. Agustín Conde Bajén, which was accepted by the Board of Directors at the meeting held on 29 November 2016. At the date of approval of this report that vacancy remains unfilled.



- Socorro Fernández Larrea is a Canals and Ports Engineer with a degree from the Universidad Politécnica de Madrid and holds an IESE Senior Management Programme (PADE) diploma.

Currently she is an executive director of the consulting firm JUSTNOW, S.L., a member of the Board of Directors of AMPER, S.A. as a proprietary director representing Emilanteos, S.L. She is a member of the Board of Directors of the Spanish engineering firm SEG, S.A., a member of the Board of Directors of the Spanish construction and real estate company ACR, a member of the advisory board of the Mexican engineering firm CAL Y MAYOR end of the real estate company ZELTEX, with activity in Senegal.

In the private sector, amongst other positions, she has worked as General Manager of COPISA Constructora Pirenaica S.A., Vice-President of ANCI, Asociación de Constructores Independientes, Regional Manager of the construction company Seop, Obras y Proyectos, S.A., National Representative of Ferrovial Conservación, S.A., and Representative in Castilla-La Mancha of Ferrovial-Agroman, S.A. In the public sector, she held the position of General Manager of Roads, Hydraulic Works and Transport, Regional Council of Public Works, Autonomous Community Board of Castilla-La Mancha.

- María Ángeles Amador Millán holds a law degree from the Universidad Complutense de Madrid.

She has served, among other positions, as Technical Secretary General of the Ministry of Public Works and Urban Development, Undersecretary of the Ministry of Health and Consumer Affairs, Minister of Health and Consumer Affairs and Vicepresident of the Constitutional Commission of the Congress. She also has served as the president of the Corporate Governance and Responsibility Committee (currently known as the Appointments and Remuneration Committee) of the Company, which she joined as a director in May of 2005. Currently she is a practicing attorney.

- José Ángel Partearroyo Martín holds a law degree from the Universidad de Salamanca. Master's Degree in Business Law (LLM) from the Instituto de Empresa. Studied for the public examinations to access the judicial and prosecutor career.

Currently, he is the General Manager of Sociedad Estatal de Participaciones Industriales (SEPI).

Among other positions, he has been Director of Investee Companies in the Communications Division of Sociedad Estatal de Participaciones Industriales (SEPI), an Associate Attorney with KPMG Abogados, S. L., a Senior Attorney with RAMÓN Y CAJAL ABOGADOS (in alliance with Mayer Brown), Senior Associate with BIRD & BIRD (Spain) LLP, Adjunct Professor of Commercial Law on the Law Faculty of the Colegio Universitario Cardenal Cisneros (a part of the Universidad Complutense de Madrid) and on the Law Faculty of the Universidad Rey Juan Carlos I.



3. Activities during 2016

The Board of Directors has been informed of the matters dealt with at meetings of the Committee through the Director Portal (the Board intranet), making the documents dealt with by the Committee available to the Board, and at the immediately following meetings of the Board of Directors, and copies of the minutes of the Committee have been made available to all directors once approved.

The most significant actions of the Appointments and Remuneration Committee during the 2016 fiscal year were the following:

3.1. In relation to appointments, performance and removals:

- Favourable report and proposals to the Board of Directors in relation to the appointment by co-option of a proprietary director.
- Favourable report to the Board of Directors, for referral to the General Meeting of Shareholders, regarding the proposed re-election of a director in the "other outside" category.
- Favourable report to the Board of Directors, for referral to the General Meeting of Shareholders, regarding the proposed re-election of a proprietary director.
- Favourable report to the Board of Directors, for referral to the General Meeting of Shareholders, regarding the proposed ratification and appointment of a proprietary director.
- Favourable report and proposal to the Board of Directors, for referral to the General Meeting of Shareholders, of the proposed re-election of an independent director.
- Favourable report and proposal to the Board of Directors, for referral to the General Meeting of Shareholders, of the proposed appointment of an independent director.
- Evaluation of the criteria to be taken into account when filling vacancies occurring on the Board of Directors and its Committees, and analysis of the profile of candidates proposed in the process of selection thereof.
- Analysis of the replacement of the positions of the chairman of the Board of Directors in other companies of the Group and revocation of powers of attorney held by the chairman of the Board of Directors in those companies after completion of the process of separation of the positions of chairman of the Board of Directors and managing director and the acquisition of executive authority by the managing director.
- Analysis of the proposed replacement of the individual representative of the Sole Director of Red Eléctrica de España, S.A.U., as a result of completion of the process of separation of the positions of chairman of the Board of Directors and chief executive of the company.
- Analysis of the proposed revocation of delegated authority and powers of attorney of the chairman of the Board of Directors and grant of new authority thereto after the loss of his status as an executive director.



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- Favourable report on the chairman of the Board of Directors' proposals for the appointment of an independent female director as a member of the Audit Committee and an independent director as a member of the Appointments and Remuneration Committee.
 - Approval of the Board of Directors' proposal for the re-election of the lead independent director.
 - Analysis of reports on the compatibility of positions of independent directors of Red Eléctrica Corporación S.A. with their possible appointment as directors of other companies.

3.2. In relation to 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 group companies.
- Favourable report to the Board of Directors regarding the proposed remuneration of the Board of Directors for the 2016 fiscal year, the Annual Report on Remuneration of directors for the 2015 fiscal year, and the proposed amendment of the Policy on remuneration of directors, for referral to the Annual General Meeting of Shareholders.
- Approval of the proposed evaluation of achievement of Business, Managerial and Management Committee objectives for 2015.
- Analysis of the report on the remuneration of the management team in 2016.
- Approval of the definition of business, managerial and Executive Committee objectives for 2016.
- Approval of the Framework for action regarding remuneration and contractual aspects of the chairman of the Board of Directors and managing director deriving from the close of the transitional period of the process of separation of positions.
- Analysis of the report justifying and quantifying the variable long-term remuneration of the executive chairman of the Board of Directors, as a result of the Long-Term Variable Remuneration Plan and the process of separation of the positions of chairman of the Board and managing director.
- Analysis of the monitoring of the business, managerial and Executive Committee objectives for 2016.
- Analysis of the proposal for the remuneration of the Board of Directors for the 2017 fiscal year.

3.3. In relation to the Corporate Governance rules and actions:

- Analysis and referral to the Board of Directors of the proposed amendment of the Board of Directors Regulations.
- Analysis and favourable report on the proposed doubling of the par value of the shares and corresponding amendment of the By-laws.



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- Analysis and favourable report to the Board of Directors on the proposed criteria for communication with shareholders, institutional investors and proxy advisors.
 - Approval of the proposed Annual Corporate Governance Report for the 2015 fiscal year, for referral to the Board of Directors.
 - Analysis of the call and agenda, and approval of proposed resolutions and reports to be presented to the Board of Directors, in relation to the 2015 Annual General Meeting of Shareholders.
 - Analysis of the self-assessment report of the Board, the conclusions and recommendations of the process of external evaluation of the Board of Directors, its Committees and the chairman of the Board of Directors corresponding to the 2015 fiscal year, prepared with the assistance of PricewaterhouseCoopers (PwC).
 - Analysis of the design of the process for self-evaluation of the Board, for the 2016 fiscal year, for referral to the Board of Directors.
 - Analysis of the Management Team Evaluation Report for the 2015 fiscal year.
 - Analysis and favourable report to the Board of Directors of the Annual Gender Diversity and Equality Policy Report corresponding to the 2015 fiscal year.
 - Analysis and referral to the Board of Directors of the Annual Criminal Risk Prevention Report corresponding to the 2015 fiscal year.

3.4. In relation to Corporate Responsibility:

- Analysis of the 2016 Corporate Responsibility Programme.
- Analysis and referral to the Board of the Annual Corporate Responsibility Report for the 2015 fiscal year.
- Analysis and referral to the Board of the Annual Corporate Responsibility Management Report for the 2015 fiscal year.
- Analysis of the periodic information on Corporate Responsibility.
- Analysis and referral to the Board of Directors of the Annual Code of Ethics Management Report corresponding to the 2015 fiscal year.
- Analysis of the reports on the results obtained by the company regarding Corporate Responsibility.

3.5. Other actions:

- Approval of the Committee's annual activity report for the 2015 fiscal year, for inclusion in the Annual Corporate Governance Report for that year.
- Approval of the Committee's Action Plan for the 2017 fiscal year.
- Approval of the Committee's schedule of meetings for the 2017 fiscal year.



4. Director attendance at meetings.

In 2016 there were thirteen (13) meetings of the Appointments and Remuneration Committee, with three (3) absences of directors.