



RED ELÉCTRICA
CORPORACIÓN

Appointments and Remuneration Committee

13 February 2018

Annual Activity Report of the
Appointments and Remuneration Committee
for the year 2017

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1. Introduction

In the Appointments and Remuneration Committee's Action Plan for the year 2018, 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 throughout 2017, 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, due to reasons of urgency and in an exceptional manner, 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. The latter article provides that the Appointments and Remuneration Committee shall be comprised of five members, drawn 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 2017:

- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 25 April 2017, resolved to appoint the Nominee Director Mr. Santiago Lanzuela Marina and the Independent Director Mr. Alberto Carbajo Josa, as members of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., for a period of three years as established in the Board of Directors Regulations, in order to fill the two existing vacancies in the Appointments and Remuneration Committee.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 31 October 2017, resolved to appoint the Nominee Director Ms. Mercedes Real Rodríguez, representing the Sociedad Estatal de Participaciones Industriales (SEPI - the State Industrial Holding Company), as member of the Appointments and Remuneration Committee for a period of three years as established 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, in order to fill the vacancy existing as a result of the resignation of Nominee Director Mr. José Ángel Partearroyo Martín.
- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting held on 31 October 2017, resolved to appoint the Independent Director Mr. José Luis Feito Higuera as member of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. for a period of three years as established in the Regulations of the Board, to fill the vacancy existing in the Appointments and Remuneration Committee in place of the Independent Director Mrs. Socorro Fernández Larrea, who ceases as a member of said Committee.



- Likewise, the Appointments and Remuneration Committee of the Company, at its session held on 27 November 2017, resolved to appoint the Independent Director Mr. José Luis Feito Higuera as its Chairman for a term of three years, 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 composition of the Committee, as at 31 December 2017, was the following:

Director	Position	Type of Director
José Luis Feito Higuera	<i>Chairman</i>	External Independent
Santiago Lanzuela Marina	<i>Member</i>	External Nominee (SEPI)
Alberto Carbajo Josa	<i>Member</i>	External Independent
Carmen Gómez de Barreda Tous de Monsalve	<i>Member</i>	External Independent
Mercedes Real Rodríguez	<i>Member</i>	External Nominee (SEPI)

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 2017:

- *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 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.

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. Santiago Lanzuela Marina*, born on 27 September 1948, has a Degree in Economics and Business Studies and is a Civil Servant.

Formerly, among other positions, has served as: Associate Professor at the Faculty of Economics and Business Studies at the University of Valencia (1971-1973); Head of the Spanish Technical Cooperation Mission in Nicaragua (1974-1976); Director of International Technical Cooperation of the Ministry of Labour (1976-1981); Advisor to the President of the Ibero-American Cooperation Institute (1982); Head of the National Heritage Inspection Service (1987); Minister for Economy and Inland Revenue of the Government of Aragón (1989-1993); Founder and President of the Public Works Institute of Aragón (1990); President of the European Business and Innovation Centre of Aragón (1992); Member of Parliament of Aragón (1991-1999); President of the Autonomous Community of Aragón (1995-1999); Senator for the Autonomous Community of Aragón; Chairman of the Economy and Inland Revenue Commission of the Senate (1999-2000); Member of Congress, Chairman of the Economy and Inland Revenue Commission (2000-2004); Member of Congress, Member of the Permanent Council, Deputy Chairman of the Foreign Affairs Committee and Member of the Public Works Commission (2004-2008); Member of Congress, Deputy Chairman of the Foreign Affairs Committee of Congress, Member of the Public Works Committee, Member of the Commission for Territorial Administration; Promoter of the Subcommittee for the analysis of the Spanish energy strategy for the next 25 years (2008-2011); Member of Congress, Chairman of the Economy and Competitiveness Committee, Member of the Foreign Affairs Committee, Member of the Public Works Committee, and Member of the Spanish delegation to the Parliamentary Assembly of the Organisation for Security and Cooperation in Europe-OSCE; President of the Spanish Delegation in the 'OECD Global Parliamentary Network Meeting', Mexico, 2014; President of the Spanish Delegation in the 'European Interparliamentary Space Conference (EISC)', Warsaw, 2012; Brussels, 2013 and Toulouse, 2014. (2011-28/7/2014).

- *Mr. Alberto Carbajo Josa*, born on 8 August 1949, is a Mining Engineer from the Universidad Politécnica de Madrid. Economic Science Graduate from the Universidad Autónoma de Madrid. Masters' degree on the European Union from the Diplomatic School of Madrid.

Currently, International independent advisor in the field of electrical energy.

Formerly, among other positions, has served as: General Manager of the Compensation Office of the Electricity Sector (OFICO) until 1991; General Manager of the Mining and Construction Industries of the Ministry of Industry and Energy (1992-1995); Member of the Boards of Directors of ENDESA and Petronor (1992-1995); Member of the Board of the National Energy Commission (1995-2000); Advisor to the European Union for the liberalisation of the Romanian electricity system in the definition of the generation market, the methodology and the calculation of the toll rates and the development of the regulatory modifications for the liberalisation of generation and supply (2000); Executive of International Regulation for the Corporación Unión Fenosa, providing his services to the Secretary General of Regulation (2002-2004); General Manager of System Operation of Red Eléctrica de España, S.A., with significant responsibilities regarding the elec-



tricity planning of the sector and its infrastructures, the integration of renewable energies, the capacity of interconnection with the European electricity system and the modification of the regulations of the electricity sector (2004 - March 2012). Regarding his academic experience, he has been an associate professor in the Department of Energy Systems of the Escuela Técnica Superior de Ingenieros de Minas de Madrid (School of Mining Engineering of Madrid); Lecturer on the masters' programme in Renewable Energies at the Escuela de Organización Industrial (School of Industrial Organisation); Lecturer on the masters' programme in Energy and Competitiveness at Orkestra (Basque Institute of Competitiveness); Professor for the Advanced Course of Energy Business of the Club Español de la Energía (Spanish Energy Club) and Professor at Universidad de Alcalá de Henares in subjects related to energy supply.

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

Currently, General Manager of CORES, Corporación de Reservas Estratégicas de Productos Petrolíferos (Strategic Petroleum Reserves Corporation) and Member of the Board of Directors of Grupo Ezentis S.A.

Formerly, among other positions, has served as: Head of the Cogeneration area of the Business Management Department of Enagás; Head of the International, Petrochemical and Marketing Departments of Repsol; Director of Services Development at Union Fenosa; Deputy Director of Oil Markets with the CNE (National Energy Commission); Institutional Relations and Communications Manager for BP Oil España; Representative of the Spanish Delegation on the Emergency Matters 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); Professor at lectures and/or presentations on different Masters' Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club).

- *Ms. Mercedes Real Rodríguez*, born on 6 January 1968, has a Degree in Economics and Business Sciences from the Universidad Pontificia de Comillas (ICADE E-3); Law Degree from the Universidad Pontificia de Comillas (ICADE E-3); Masters' Programme for Management Development (PMD) from the IESE Business School.

Currently, Director of the Division of Investee Companies of the Energy Division at the State Industrial Holding Company (SEPI); Member of the Board of Directors of ENRESA, S.A., S.M.E. M.P and Chairwoman of the Audit Committee of ENRESA, S.A., S.M.E. M.P.

- Formerly, among other positions, has served as: Member of the Board of Directors of ENUSA Industrias Avanzadas, S.A., S.M.E.; Chief Financial and Control Officer, Controller and Head of Human Resources of the INFOBOLSA S.A. (BME Group and Deutsche Börse Group, AG); Member of the Board of Directors, Chief Financial and Control Officer of OPEN FINANCE, S.L.; Head of the Audit Team, of Financial Sector entities, in ARTHUR



ANDERSEN (currently DELOITTE & TOUCHE). 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 2017, 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 2017

On 12 December 2016, the Appointments and Remuneration Committee approved its Annual Action Plan for the year 2017, 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 eleven (11) times during the year 2017, 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 2017 have been the following:

3.1 Regarding appointments, performance and removals:

- Favourable report and proposals to the Board of Directors in relation to the appointment by co-option of an independent director.
- Favourable report to the Board of Directors, to be tabled at the General Shareholders' Meeting, regarding the proposed ratification and appointment of an independent director.
- Favourable report and proposal to the Board of Directors, to be tabled at the General Shareholders' Meeting, of the proposed re-election of a female independent director.
- Favourable report and proposal to the Board of Directors, to be tabled at the General Shareholders' Meeting, of the proposed appointment of an independent director.
- Favourable report to the Board of Directors, to be tabled at the General Shareholders' Meeting, regarding the proposed appointment of a female nominee director.
- Favourable report on proposals of the Chairman Board of Directors for the appointment of a nominee director and an independent director as members of the Appointments and Remuneration Committee and the re-election of an independent director and appointment of a female independent director as members of the Audit Committee.



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- Favourable report on proposals of the Chairman Board of Directors for the modification of the composition of the Committees of the Board.
 - Agreement, by unanimous vote, by which the Chairperson of the Appointments and Remuneration Committee is appointed
 - Analysis of 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, of other companies.

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 2017, the Annual Report on Remuneration of directors for the year 2016 to be tabled at the Annual General Shareholders' Meeting.
- Approval of the proposed evaluation of the fulfilment of Business, Managerial and Management Committee objectives for 2016.
- Analysis of the report on the revision of remuneration of the management team in 2017.
- Approval of the Business, Managerial and Executive Committee Objectives defined for 2017.
- Analysis of the report on the evolution of the 2014-2019 long-term Objectives.
- Approval of the proposal for modification of participants in the long-term Remuneration Plan (2014-2019).
- Analysis of the report on the implementation of the Defined Contribution Plan for the CEO, approved by the Board of Directors and ratified by the Ordinary General Shareholders' Meeting held in 2017.
- Analysis of the follow-up of the Business, Managerial and Executive Committee Objectives corresponding to 2017.
- Analysis of the proposal for the remuneration of the Board of Directors for the year 2017.

3.3 Regarding Corporate Governance rules and actions:

- Analysis and submission to the Board of Directors of the proposal to adapt the Internal Regulations for Conduct in the Securities Market to the European Regulation on Market Abuse, with the support of an external legal advisor.



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- Approval of the proposed Annual Corporate Governance Report for the year 2016, 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 2017, as well as the Electronic Voting Procedure and the Regulations of the Shareholder's Forum.
 - Analysis of the 2016 Report on the Self-assessment of the Board, agreeing its submission to the Board of Directors and requesting the heads of the external advisor to present to the Board the methodology for its drafting and the results obtained.
 - Analysis of the Annual Report on the Criminal Risk Prevention Programme corresponding to the year 2016 and submission to the Board of Directors
 - Information on the external audit of the management procedures of the Ordinary General Shareholders' Meeting.
 - Analysis of the Action Plan regarding the professional development of persons and pre-managers, presented by the Human Resources Area.
 - Commencement, analysis and drafting of contingency plans in the succession processes of the Chairman and Chief Executive Officer and favourable report of the proposal for its submission to the Board.
 - Review and approval of the Induction Plan for new Board Directors.
 - Information on the road shows held with proxy advisors in 2017 and those foreseen for 2018.

3.4 Regarding Corporate Responsibility and Sustainability:

- Analysis of the Annual Corporate Responsibility Report for the year 2016, and submission to the Board.
- Analysis of the Annual Report on the Management of Corporate Responsibility for the year 2016, and submission to the Board.
- Analysis of the periodic information on Corporate Responsibility.
- Analysis of the Annual Report on the Management of the Code of Ethics corresponding to the year 2016, and submission to the Board.
- Approval of the 2017 Annual Sustainability Programme.
- Analysis of the information on the periodic follow-up of sustainability.
- Approval of the Sustainability Model of the Red Eléctrica Group.
- Analysis of the report outlining the results of the 2017 Dow Jones Index.
- Approval of the Sustainability Indicator Dashboard of the Red Eléctrica Group.



3.5 Other activities:

- Approval of the Appointments and Remuneration Committee's Activity Report for the year 2016, to be incorporated into the company's Annual Corporate Governance Report for said year.
- Approval of the Committee's Action Plan for the year 2018.
- Approval of the Committee's meeting schedule for the year 2018.

4. Director attendance to meetings

The Appointments and Remuneration Committee held eleven (11) sessions during the year 2017, informing the Board of Directors the same number of times about the activities performed by the Committee. During said sessions one (1) attendance by proxy was recorded, therefore the number of attendances was 48, which corresponds to a percentage of 98%.