



# **RED ELÉCTRICA**

## CORPORACIÓN

**Annual Corporate  
Governance Report 2018**

# CONTENTS

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INTERVIEW WITH THE CHAIRMAN.....	3
INTRODUCTION: THE RED ELÉCTRICA GROUP.....	6
1 REGULATORY FRAMEWORK AND CORPORATE GOVERNANCE POLICY AS THE EXPRESSION OF CORPORATE GOVERNANCE STRATEGY.....	8
2 COMMITMENT TO DIALOGUE WITH AND PARTICIPATION OF SHAREHOLDERS AND OTHER STAKEHOLDERS .....	17
2.1 OWNERSHIP STRUCTURE .....	18
2.2 POWERS OF THE GENERAL MEETING OF SHAREHOLDERS.....	19
2.3 RIGHT OF INFORMATION .....	20
2.4 RIGHT OF ATTENDANCE .....	23
2.5 RIGHT OF PARTICIPATION .....	25
2.6 RELATIONS WITH OTHER STAKEHOLDERS .....	25
3 THE BOARD OF DIRECTORS AS THE BODY RESPONSIBLE FOR CONTROL AND SUPERVISION .....	27
3.1 COMPOSITION.....	27
3.2 RESPONSIBILITIES AND ACTIVITY .....	40
3.3 COMMITTEES .....	51
3.3.1 AUDIT COMMITTEE .....	51
3.3.2 APPOINTMENTS AND REMUNERATION COMMITTEE .....	54
3.3.3. SUSTAINABILITY COMMITTEE .....	55
3.4 RELATIONS WITH THE MANAGEMENT .....	57
4 BALANCE OF POWERS ON THE BOARD OF DIRECTORS.....	58
4.1. SEPARATION OF CHAIRMAN AND MANAGING DIRECTOR POSITIONS.....	59
4.2 SELECTION AND SUCCESSION PROCESSES.....	65
4.3 LEAD INDEPENDENT DIRECTOR .....	71
5 REMUNERATION POLICY AND ASSESSMENT .....	74
5.1 ASSESSMENT .....	74
5.2 REMUNERATION .....	75
6 APPLICATION OF THE INTEGRATED COMPLIANCE, RISK MANAGEMENT AND CONTROL SYSTEM.....	78
6.1 ETHICS AND COMPLIANCE .....	78
6.1.1 DEVELOPMENT OF ETHICS AND COMPLIANCE CULTURE .....	79
6.1.2 ETHICS CODE .....	79

6.1.3 CODE OF CONDUCT FOR SUPPLIERS .....	80
6.1.4 ETHICS CHANNEL .....	80
6.1.5 TAX STRATEGY .....	82
<hr/>	
6.2 COMPLIANCE .....	84
6.3 INTEGRATED RISK MANAGEMENT AND CONTROL .....	89
<hr/>	
6.3.1 INTEGRATED RISK MANAGEMENT SYSTEM .....	89
6.3.2 MAIN RISKS, LEVEL OF ACCEPTABLE RISK AND RESPONSE AND SUPERVISION PLANS. ....	92
<hr/>	
6.4 INTERNAL AUDIT .....	97
<hr/>	
7 LOOKING TO THE FUTURE.....	99
STANDARD FORM OF ANNEX I TO CNMV CIRCULAR 2/2018 OF 12 JUNE 2018 OF THE SPANISH NATIONAL SECURITIES MARKET COMMISSION (CNMV) .....	101
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**ANNUAL CORPORATE GOVERNANCE REPORT OF RED  
ELÉCTRICA CORPORACIÓN, S.A.**

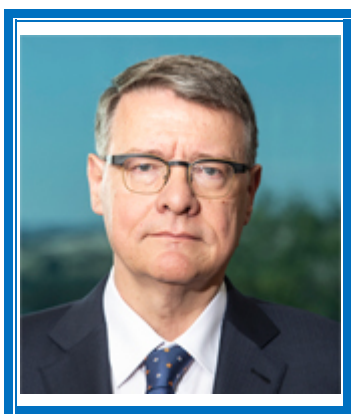
**2018 FINANCIAL YEAR<sup>1</sup>**

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<sup>1</sup> Unless another date is expressly indicated in this report, the reference date is 31 December 2018.

## INTERVIEW WITH THE CHAIRMAN

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**Jordi Sevilla Segura**

**Chairman of the Red Eléctrica Group**

"The trust of our shareholders is our main asset and therefore it is our objective to strengthen the bonds between the company and its shareholders, through permanent dialogue and commitment, which are undoubtedly the engine that will lead us to continue advancing on the path of good corporate governance."

### **In your opinion what are the pillars upon which Red Eléctrica's good corporate governance is based?**

Without a doubt, ethics and integrity. The shareholders, the Board of Directors, the executive team and all employees of the Group must be motivated by a shared value, based on ethics and integrity, taking economic, social, environmental and good governance interests into account, in order to contribute to sustainability and reinforce the solvency and good reputation of the company, and to promote trust, stability, progress and the social and economic development of society as a whole.

It is a permanent challenge for Red Eléctrica to be at the forefront of good corporate governance, so highly valued by our shareholders that force the company to adopt the best international practices, particularly those required by institutional investors. For this reason, Red Eléctrica devotes its best efforts to listening to the world of investors, proxy and other advisors, specialists and evaluators in the field and, in general, to all stakeholders involved in this area.

### **Red Eléctrica has implemented a model separating the positions of non-executive chairman and managing director, since the latter joined the company. How is that working?**

I have verified that the model of separation of functions of the non-executive chairman and the managing director, approved by the Extraordinary General Meeting of Shareholders in 2015, is working correctly, thanks to its proper design and the excellent coordination that the managing director and I maintain in the exercise of our respective responsibilities.

In accordance with the model of separation of functions implemented, the managing director is responsible for the management of the Group's businesses and I, in my capacity as non-executive chairman, have assumed the functions of directing the supervision of the Group's strategies and their execution and modification, as well as the strategic corporate functions, such as regulation, sustainability, institutional relations, compliance, internal audit and risk control, among others. This model of separation of functions contributes to maintaining the appropriate balance of powers in the composition of the Board of Directors and to improving the corporate governance structure of the company, facilitating the supervision of compliance with the objectives and strategies contemplated in the Group's Strategic Plan and, in turn, encouraging their execution by the various business areas.

Therefore, I can tell you that in Red Eléctrica the chairman, although not executive, performs strategic functions; furthermore, on the current path towards energy

transition, and in the era of innovation and digitisation, both the managing director and I myself must assume key responsibilities, in my case focused on directing supervision in these matters, and in his case on directing effective management and execution.

**Which of the corporate governance practices followed by Red Eléctrica in 2018 would you highlight?**

I would like to highlight, first of all, the commitment of the company's Board of Directors to sustainability, considering it one of the essential bases of the Red Eléctrica Group's strategy.

In this sense, the incorporation of the new Sustainability Committee has been a milestone. It responds to the strategic nature that the Board of Directors wishes to give to sustainability in the Red Eléctrica Group and contributes to reinforcing Red Eléctrica's position in matters of sustainability and corporate governance.

I would also mention the updating of the Contingency Plans for the Succession of the Chairman of the Board and the Managing Director; the application of the plan for incorporation of new directors (known as the Induction Plan); the approval of the new matrix of powers of the Board of Directors and the maintenance of our leadership position, on the Board and in the organisation, in matters of diversity in order to have the best talent and seek the necessary balance in the composition of all corporate bodies.

Finally, the new framework for the relationship between the Board of Directors and the Group's employees, which will be defined in 2019 through the Appointments and Remuneration Committee, should be highlighted.

**Finally, can you tell us what plans the Company has for its corporate governance in 2019?**

The Board of Directors and its Committees will continue to advance in their commitment to be at the forefront of corporate governance. The trust of our shareholders is our main asset and therefore it is our objective to strengthen the bonds between the company and its shareholders, through permanent dialogue and commitment, which are undoubtedly the engine that will lead us to continue advancing on the path of good corporate governance.

During 2019 we will continue to grow in the area of sustainability, deepening the development of the functions of the Sustainability Committee and the rest of the Board Committees, we will update the Ethics Code of the Red Eléctrica Group, we will continue to promote diversity in a broad sense in the organisation of all the Group's companies, in general, with the aim of continuing to make progress in the good corporate governance of the company in order to incorporate the best practices in this area and thus maintain our commitment to the company's shareholders and to society as a whole.

## 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.** The parent controls **Red Eléctrica de España, S.A.U. (REE)**, which is responsible for the electricity activities in Spain; **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, B.V. 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)**, which reinsures the risks of activities, so as to ensure better access to the international markets; **Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)**, which manages the telecommunications **business** and **Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)** which responds to the need to promote energy storage projects in the Canary Islands.

The activity of **Red Eléctrica de España, S.A.U. (REE)** represents 93% of the Group's business. The company has all the electricity transmission and operation assets, human resources and financial means linked to these activities.

The investment in electricity transmission infrastructure outside Spain is channelled through various subsidiaries integrated in **Red Eléctrica Internacional, S.A.U. (REI)**. Those subsidiaries are the following:

In Peru, REI owns 100% of **Red Eléctrica del Sur, S.A. (REDESUR)** and **Red Eléctrica Andina, S.A. (REA)**. REDESUR, in turn, controls the companies Transmisora Eléctrica del Sur, S.A. (TESUR), Transmisora Eléctrica del Sur 2, S.A. (TESUR 2), Transmisora Eléctrica del Sur 3, S.A. (TESUR 3) and Transmisora Eléctrica del Sur 4, S.A. (TESUR 4), each devoted to specific projects. In December 2018 REI reached an agreement to acquire 100% of CCNCM, the concessionaire of the 220 kilovolt (kV) Carhuaquero-Cajamarca Norte-Cáclic-Moyobamba electrical line and associated substations in northern Peru, a project for which a new subsidiary will be responsible, which has been incorporated in January 2019.

In Chile, through **Red Eléctrica Chile, S.p.A. (RECH)**, a wholly-owned subsidiary of REI, it has a 50% stake in the share capital of **Transmisora Eléctrica del Norte, S.A. (TEN)**. The remaining 50% of TEN is owned by E-CL (belonging to the Engie Group), a Chilean company that has promoted the first interconnection between the country's northern and central systems.

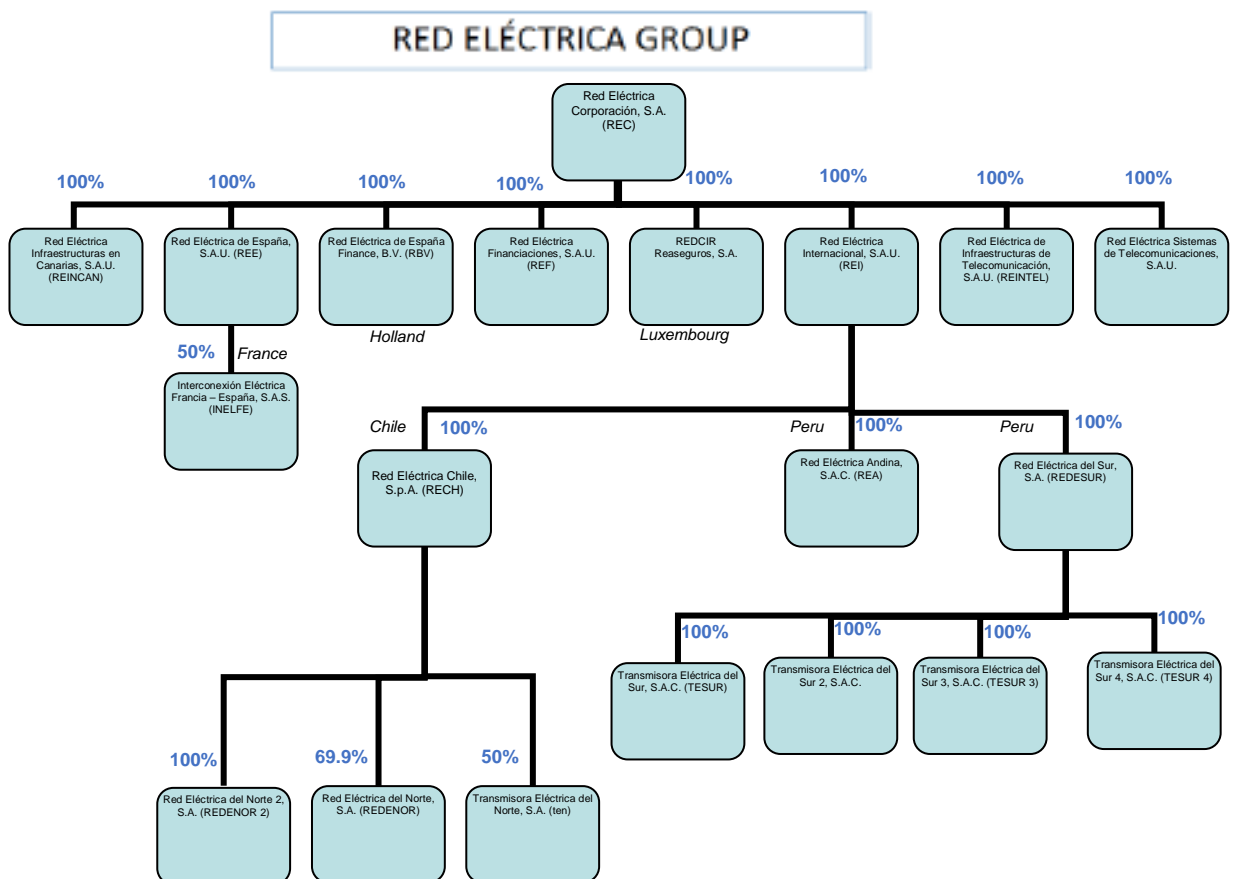
In addition, RECH through **Red Eléctrica del Norte, S.A. (REDENOR)** (a company created in a 70%-30% consortium with Cobra Instalaciones y Servicios), was awarded the execution and subsequent operation of more than 258 kilometres of lines in Chile. The project, located in the area of Pozo Almonte, close to the border with Peru, includes the design, financing, construction, operation and maintenance of the first 220 kV circuit in northern Chile.

In July 2018 RECH acquired 100% of the share capital of Centinela Transmisión. In the Antofagasta region of northern Chile, this company operated three 220 kilovolt (kV) lines connecting the Encuentro - El Tesoro, El Tesoro - Esperanza and El Cobre - Esperanza substations (265 km of circuit). RECH, through **Red Eléctrica del Norte 2, S.A. (REDENOR 2)**, is responsible for this project.

Since 1 July 2015, **Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)** has been managing the telecommunications business, an activity previously managed by REI. REINTEL is focused on the commercial operation of fibre optic infrastructure and associated technical spaces and has a network of more than 33,000 km of fibre optic cable.

**Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)** meets the need to develop energy storage projects in the Canary Islands as a system operator tool to ensure supply in the islands at all times and optimise the integration of energy from renewable sources.

Red Eléctrica de España, S.A.U. also has a 50% stake in **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.





# 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 constantly being amended 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 sustainably maximise its value.

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 are as follows:

- (i) Sustainability Policy
- (ii) Criteria for communication with shareholders, institutional investors and proxy advisors
- (iii) Environmental Policy
- (iv) Integrated Risk Management Policy
- (v) Excellence and Quality Policy
- (vi) Integrated Security Policy
- (vii) Technology and Innovation Policy
- (viii) Procurement Policy
- (ix) Communication Policy
- (x) Business Development Policy
- (xi) Economic and Financial Policy
- (xii) Operational Policy
- (xiii) Human Resources Policy
- (xiv) Transmission Policy

These policies may be consulted on the corporate website at the following link:

[Corporate Policies](#)

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:

- **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, the content of which has been further amended by the recent **Act 11/2018 of 28 December 2018**, which sets forth the obligation to incorporate a description of the diversity policy applied in relation to the board of directors, management and the specialised committees incorporated 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 so as 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 regard. Act 11/2018 of 28 December 2018 also incorporated other developments regarding 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.

The Spanish Companies Act may be consulted at the following link: [Spanish Companies Act](#); and Act 11/2018 at the following link: [Act 11/2018](#).

- **CNMV Circular 2/2018 of 12 June 2018**

It sets forth 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](#)

- **Code of Good Governance 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 three and does not comply with and therefore gives an explanation for only one recommendation.

The CBGSC may be consulted at the following link:

[Code of Good Governance of Listed Companies](#)

#### **EXTERNAL REGULATORY FRAMEWORK**

- Restated Text of the Spanish Companies Act
- Act 11/2018 of 28 December 2018
- Circular 2/2018 of 12 June 2018
- Code of Good Governance 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:

-Membership 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.

-Membership of the group of large companies belonging to the Transparency, Good Governance and Integrity Cluster. 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 2018, 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 2018 Annual General Meeting of Shareholders)
- The Operating Rules of the Shareholder E-Forum (for the 2018 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.

The Ethics Code is currently under review for the incorporation of best practices after benchmarking and subsequent analysis during 2018, and its update is expected to be approved and disseminated in 2019.

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 repeatedly 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 – and 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.

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

[Bylaws](#)

- **The Board of Directors Regulations**

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 latest amendments to the Board Regulations were approved at the Board of Directors meeting held on 20 December 2016. The purpose of these amendments was to update the content of the regulations considering certain legislative reforms that have recently affected the rules governing public companies, in line with the amendments to the Articles of Association and the Regulations of the General Meeting of Shareholders approved by the Annual General Meeting of Shareholders on 15 April 2015; as well as to make certain changes in order to adapt to best practices, especially international best practices, in corporate governance; to make improvements to the organisation and functioning of the Board of Directors and its committees; and to adapt the regulations to the current organisation of the Red Eléctrica Group. At the end of 2018 a review of the Board Regulations was initiated to respond to:

- Restructuring of the Board Committees, through the creation of a new Sustainability Committee and the updating of the functions of the other two Board Committees, the Audit Committee and the Appointments and Remuneration Committee.
- Adaptation to the new Act 11/2018 of 28 December 2018 on non-financial information and diversity.

- Making some other adaptations to best corporate governance practices, especially at the international level, and introducing some other formal or stylistic improvements.

The 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 being the one approved by the Board of Directors on 26 September 2017 in order to adapt it to the Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse, which has been in force in Spain since 3 July 2016 which implied therefore a required technical adaptation of the Internal Code.

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

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

The Articles of Association, Board of Directors Regulations and Internal Code of Conduct 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, 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:

[General Meeting of Shareholders Regulations](#)

- **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 16 February 2018 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 2018.

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

[Procedure for remote voting, proxy appointment and the 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 2018 were approved by the Board of Directors at its meeting on 16 February 2018 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 2018 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. Constituent of the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index.
2. Maintenance of the Sello Excelencia Europea 500+ excellence award, according to the EFQM model, granted by the European Foundation for Quality Management, with a score of 718 points in 2017.
3. Recognition in corporate governance matters, for the third year running, by the respected English publication Ethical Boardroom Magazine.
4. "Gold Class" award in the Sustainability Yearbook, a report prepared by the assessment agency RobecoSam which recognises the companies with the best corporate responsibility practices.
5. Constituent of the FTSE4Good sustainability index ever since the Company was first included in 2008. This index includes listed companies from around the world that meet the index requirements.
6. Constituent of the MSCI ESG index that includes the companies with the best ESG (Environmental, Social and Governance) performance in their sector.
7. Renewed 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.
8. Constituent of the Euronext Vigeo Eiris family of indexes and Ethibel Sustainability Index Excellence Europe.
9. Renewed inclusion in the Ethibel Sustainability Index Excellence Europe.
10. Second position in the utilities sector in Oekom Research's Corporate Responsibility Review 2018 ranking.
11. Renewed inclusion in the ECPI sustainability index family.
12. Constituent of the STOXX Global ESG Leaders index family.
13. Member of the group of the 100 most responsible companies in Spain, according to the *Merco Responsabilidad y Gobierno Corporativo* reputation monitor.

## 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 2018 FOCUSED ON DIALOGUE AND ENGAGEMENT WITH SHAREHOLDERS

- 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 (ICGN), 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 public information in a rational and ordered manner.

The Company usually organises road shows, presented by the Company's top-level executives, 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.

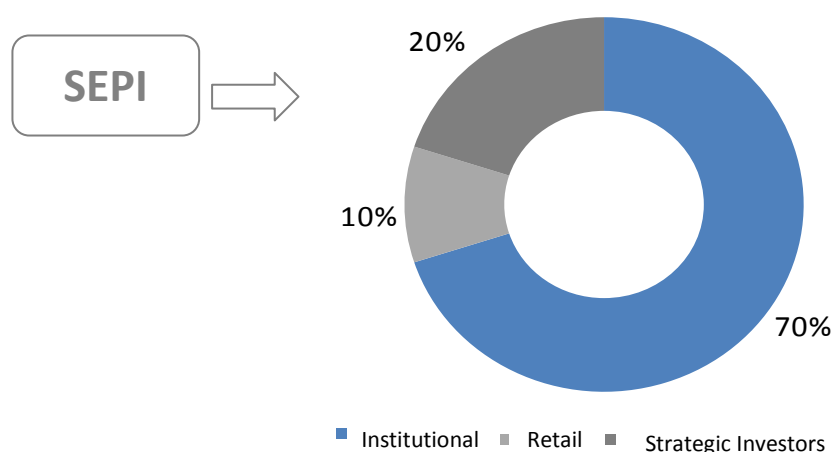
In light of the high percentage of foreign institutional shareholders (close to 70%), in January and February of the years 2018 and 2019, as in previous years, the Company

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 Estatal 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 (April 2018) held almost 66% of the share capital (of which around 54% 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 gives such importance to the international corporate governance practices and recommendations required by its shareholders.



### 2018

- **Share Capital: 541,080,000 shares**
- **Capitalisation (31/12/18): € 10.551.060.000**
- **Free Float 80%**
- **Institutional: Foreign 66% + Spanish 4%**

Source: Thomson Reuters holdings information as of February 2018. Banco Santander June 2018.

## 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 director's 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](#)

[General Meeting of Shareholders Regulations](#)

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 2018:

- Re-elected Ms. Socorro Fernández Larrea as an independent director.
- Re-elected Mr. Antonio Gómez Ciria as an independent director.
- Ratified and appointed Ms. Mercedes Real Rodrigálvarez as a proprietary director.

The resolutions adopted by the Annual General Meeting of Shareholders held on 22 March 2018 were reported to the CNMV as a Material Disclosure, with registry number 263212, 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:

[Relevant Event reported to CNMV on resolutions adopted by 2018 Annual General Meeting of Shareholders](#)

[Full text of resolutions adopted by 2018 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. Even though 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 subsequent 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.

Financial year 2016 was particularly important 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 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, through 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



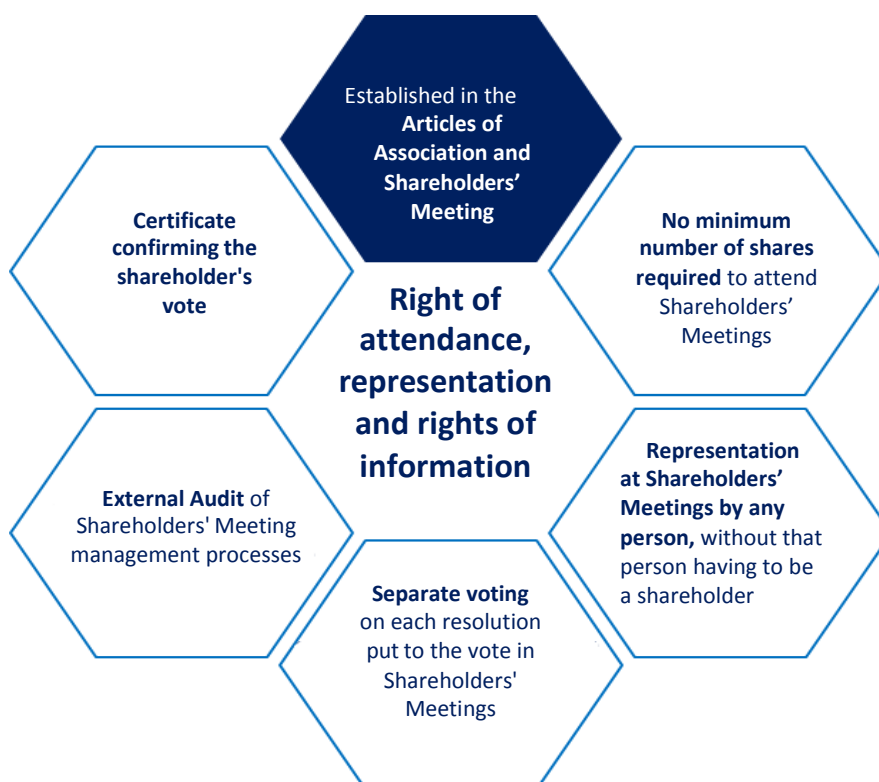
the form of a certificate made out in their name in the accounting register of book entries five days before the meeting is due to be held.

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 By-law restriction 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 executives are required to attend General Meetings of Shareholders.

As a general rule and in order for General Meeting 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 interpreter.



## 2.5 RIGHT OF PARTICIPATION

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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 4,439 shareholders voted (728 in person and 3,711 by proxy) at the 2018 Annual General Meeting of Shareholders (AGM). This means that 11% of the Company's approximately 40,000 shareholders took part in the AGM. Of those shareholders, 407 voted or appointed a proxy electronically, which is equivalent to 9% of the shareholders that took part in the General Meeting. The average percentage of votes in favour of the proposed resolutions submitted to the 2018 AGM was 91.9%. 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 98.5%.

## 2.6 RELATIONS WITH OTHER STAKEHOLDERS

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The main objective of the Red Eléctrica Group is to achieve a lasting relationship of trust with its stakeholders.

Red Eléctrica'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 Red Eléctrica's activities and services on its stakeholders, avoiding the risk of not identifying quickly 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.

Each year the company conducts a satisfaction survey programme as a dialogue tool to ensure knowledge of stakeholder requirements, assess performance and identify actions for continuous improvement.

For the third consecutive year, Red Eléctrica achieved the highest score (100 points out of 100) in the assessment that determines the composition of the Dow Jones Sustainability Index for its commitment and excellent performance with its stakeholders.

## **Main actions in 2018**

Among the actions carried out in 2018, it is worth highlighting the management of stakeholders in the process of preparing the **new planning of the transmission grid**, promoting two-way communication and the dissemination of information to third parties, and the implementation in a representative sample of projects of the Model for the management of stakeholders in **investment projects of the transmission grid** defined in 2017 that allows systematisation and improvement of the management of stakeholders, using the best existing practices and aligning with the recommendations of the ISO 21500 standard.

For more information see: [REE Group stakeholders](#)

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

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.

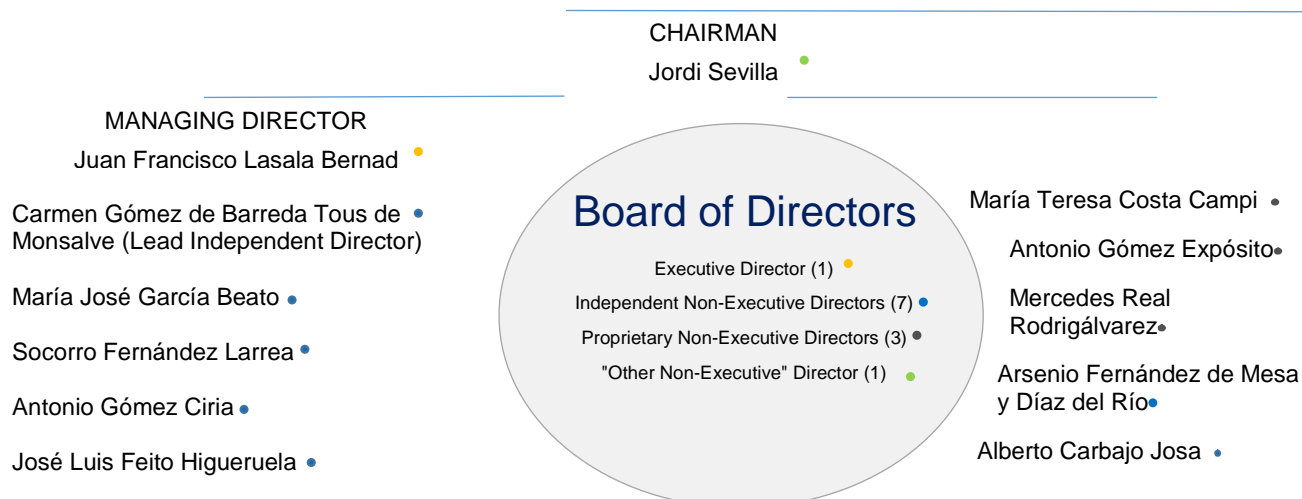
### 3.1 COMPOSITION

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:

- Non-executive directors represent an ample majority of the Board.
- The number of executive directors is the minimum necessary, having regard to the complexity of the corporate Group.
- 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.
- 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 2018, 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, 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 31 May 2016, re-elected a woman as the company's Lead Independent Director for an additional term of three years.

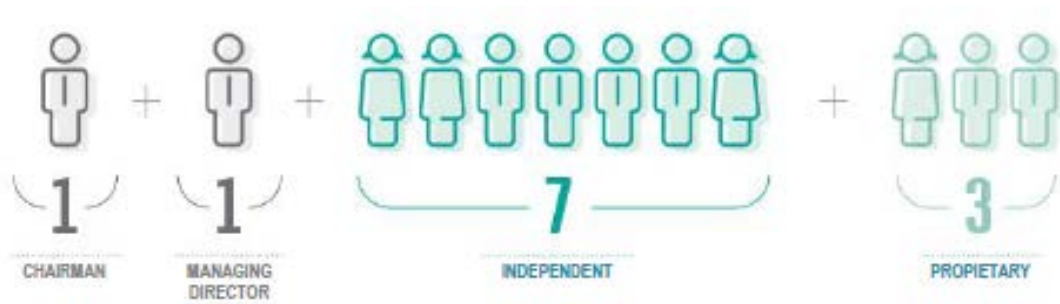
#### Functions of the Lead Independent Director

- 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](#)).

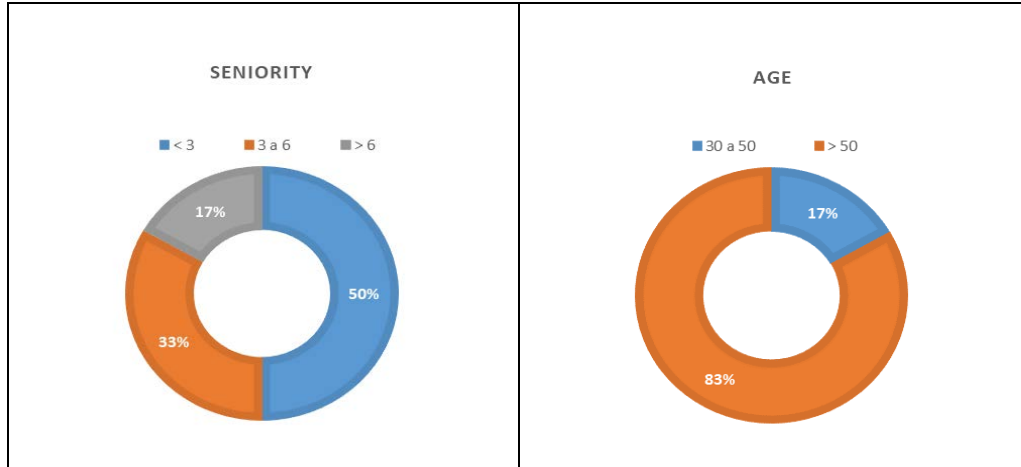
Members of the Board	Position on the Board	Type of Director	First Appointment	Last Appointment	Age
Jordi Sevilla Segura	<i>Chairman</i>	Other Non-Executive	31/07/18	31/07/18	62
Juan Francisco Lasala Bernad	<i>Managing director</i>	Executive	17/07/2015	17/07/2015	51
María Teresa Costa Campi	<i>Member</i>	Proprietary Non-Executive (SEPI)	25/09/18	25/09/18	67
Antonio Gómez Expósito	<i>Member</i>	Proprietary Non-Executive (SEPI)	25/09/18	25/09/18	61
Mercedes Real Rodríguez	<i>Member</i>	Proprietary Non-Executive (SEPI)	31/10/17	22/03/18	50
Carmen Gómez de Barreda Tous de Monsalve	<i>Member</i>	Independent Non-Executive	19/04/12	15/04/2016	50
María José García Beato	<i>Member</i>	Independent Non-Executive	29/11/12	31/03/17	53
Socorro Fernández Larrea	<i>Member</i>	Independent Non-Executive	09/05/14	22/03/18	53
Antonio Gómez Ciria	<i>Member</i>	Independent Non-Executive	09/05/14	22/03/18	61
José Luis Feito Higuera	<i>Member</i>	Independent Non-Executive	13/02/15	15/04/2015	66
Arsenio Fernández de Mesa y Díaz del Río	<i>Member</i>	Independent Non-Executive	31/01/17	31/03/17	63
Alberto Francisco Carbajo Josa	<i>Member</i>	Independent Non-Executive	31/03/17	31/03/17	69

## Board composition by position and gender



- **5 women**, who represent **41.7% of the total number of directors** and **42.8% of the number of independent directors**.
- **58.3%** of independent directors.
- **2.9 years average term of office** of directors.
- **58.8 years old on average**.

The company is among the companies that headed the IBEX 35 with the **highest presence of women on the Board** of



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

As regards their **PROFESSIONAL PROFILES**, 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.

**Chairman of the Board (Other Non-Executive)**



Jordi Sevilla Segura

Born on 19 March 1956.

He has a degree in Economics from the Universidad de Valencia. Official of the Senior State Commercial Technicians and Economists Corps (February 1983).

*Currently:*

Chairman of the Red Eléctrica Group and of the Board of Directors of Red Eléctrica Corporación, S.A.

Chairman of the Social Council of the Universidad Internacional de La Rioja (UNIR) (since July 2018).

Advisor to the Social Observatory of the La Caixa Foundation in its studies on the economic reality of Spanish society (since 2017).

Trustee of the Spanish Digital Foundation (since 2014).

*Formerly:*

Vice-chairman of the Spanish consulting firm Llorente y Cuenca, specialised in reputation management, communication and public affairs (2016-2018).

Economic Manager for the Electoral Programme of the Socialist Candidate for Prime Minister in two electoral campaigns 2015 and 2016.

Senior Counselor of PriceWaterhouseCoopers (PwC) (2009-2015).

Minister for Public Administration (2004-2007).

Representative for the province of Castellón in the Congress of Deputies, economy spokesman of the Socialist Group and Chairman of the Mixed Commission on Climate Change (2000-2009).

Secretary for Economic Policy and Employment of the PSOE (2000-2004).

Economic adviser to the Socialist Parliamentary Group in Congress, with special support to the Secretary General and the candidate for Prime Minister (1998-2000).

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).

Member, in representation of the State, of the Boards of Directors of Tabacalera and Instituto Nacional de Industria (INI) (1991-1996).

Chief of Staff of the Minister of Agriculture, participating in the MacSharry reform of the CAP (1991-1993).

Advisor for international economic relations in the Office of the Prime Minister of Spain, participating in the negotiations of the Maastricht Treaty (1986-1991).

Deputy Territorial Subdirector in Valencia, participating in the Management Committee for citrus exports and in the Executive Committee of the Chamber of Commerce (1983-1986).

*Other:*

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.

Author of several books on economic and political matters.

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*.

He was the first minister to open a Blog (2006) and is very active on Twitter @sevillajordi (since 2008).

**Managing Director (Executive)**



Juan Francisco Lasala Bernad

Born on 25 February 1967.

Degree in Business Studies, Universidad Complutense de Madrid.

*Currently:*

Managing director of Red Eléctrica Corporación, S.A.

A member of the Company since 2001, he has performed executive functions in the International area and in the Telecommunications area and has held the position of director of Planning and Control and Corporate Finance Director.

*Formerly:*

Director of Planning and Control of the Avanzit group and group CFO for Spain.

CFO of Midas, Spain.

Assistant CFO at Burger King, Spain.

Auditor at KPMG Peat Marwick.

**Proprietary Non-Executive Director** representing SEPI



María Teresa Costa Campi

Born on 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 Programme for the Master in Renewable Energies at the University of Barcelona.

*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 Cortes Generales 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 160 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 on 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 five 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 Rodrigálvarez</p>	<p>Born on 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. M.P.</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 INFOBOLSA, S.A. Group (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>Board Member of Grupo Ezentis S.A.</p> <p>Member of the Advisory Board of the Board of Directors of Antolin-Irausa, S.A. Group.</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 on 27 May 1965.

Law Degree, Universidad de Cordoba. State Attorney.

*Currently:*

Director General Secretary of the Board of Directors of Banco Sabadell, S.A.

Non-director Secretary of the Board of Directors of Sabadell Consumer Finance S.A.U.

Trustee of the *Fundació Privada Banc Sabadell*.

Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).

Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.

Member of the Advisory Board of Fundación Cajasur.

*Formerly:*

State Attorney at the High Court of Justice in Madrid.

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

Spanish representative on the Advisory Board of the European Committee on Data Protection.

Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.

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

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

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 Retevisión, S.A.

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 on 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 CEMENTOS MOLINS GROUP.

Chairwoman of the Board of Directors of OFG Telecomunicaciones

Independent director of Témopre Properties Socimi, S.A.

Independent director of Spanish engineering firm SEG, S.A.

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:*

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, Ferrovial Conservación, S.A.

Representative in Castilla-La Mancha, Ferrovial-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 Ferrovial, 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 on 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 España Compañía de Seguros y Reaseguros S.A., Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros S.A. and member of its Executive Committee, 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:*

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

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

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

Head of Internal Auditing, Grupo FCC.

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**



José Luis Feito Higuera

Born 13 April 1952.

Mr Feito holds a degree in Economics and Business from Universidad Complutense de Madrid.

Trade Expert and State Economist.

Ambassador of Spain.

*Currently:*

Chairman and General Manager of the IEE (Instituto de Estudios Económicos) since 2009.

Member of the Executive Committee and Board of Directors of CEOE since 2001.

Member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Committee since 2012.

Member of the Editorial Board of the newspaper Expansion since 2001.

Member of the Social Council of Universidad Carlos III.

Member of the Editorial Board of ICE.

*Formerly:*

Chairman of ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).

Ambassador of Spain to the OECD in Paris (1996-2000).

Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), in which entity he was "Chief Economist", responsible for management of various areas in Investment Banking (1986-1996).

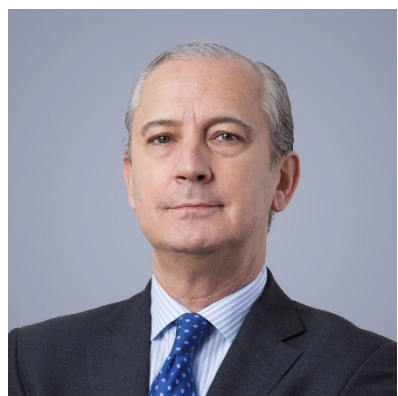
Head of International Financial Institutions of the Bank of Spain, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Union in Basel (1984-1986).

Technical Adviser and Executive Director in Washington of the International Monetary Fund (1980-1984).

Head of the Foreign Research and Data Processing Service of the Ministry of Economy and Finance, in Madrid (1978-1980).

Programmer, analyst and IT executive with Seresco, S.A. and Entel-Ibermática, S.A., in Madrid (1967-1978).

**Independent Non-Executive  
Director**



Arsenio Fernández de Mesa y  
Díaz del Río

Born 20 July 1955.

*Currently:*

Career officer of the central government (Administración General del Estado), on leave of absence.

Head of Fleet Technical Inspection for the multinational International Marine Coatings Ltd, from 1982 to 1989, currently on mandatory leave of absence.


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 (CESEDEN).

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

Executive Management Programme for members of Parliament (EMBA) of Instituto de Empresa (IE) Business School.

Parliament Companies Company Programmes (INFORPRESS, IBERDROLA, INDRA).

	<p>Honorary Professor of Universidad Alfonso X El Sabio of the Cátedra Real Forum of Senior Management.</p> <p>Professor (Ad Honorem) of Instituto Internacional de Ciencias Políticas of the UNESCO Chair of Comparative Political and Administrative Sciences, attached to the Defence, Industry and Security Areas.</p> <p>Professor of Sociedad de Estudios Internacionales. Advanced International Studies Course, Universidad Rey Juan Carlos.</p> <p><i>Formerly:</i></p> <p>General Manager of the Guardia Civil (2011-2016).</p> <p>Scientific Advisor of Instituto Internacional de Ciencias Políticas (2010).</p> <p>Vice Chairman of the Defence Committee of the Congress (2004-2011).</p> <p>Defence Spokesman for the Congress (1996-2000).</p> <p>Adviser to the Minister for Public Administration (2004).</p> <p>Government Delegate in Galicia (2000-2004).</p> <p>Member of Parliament, elected by the province of La Coruña, in 7 Legislatures (1989-2012), holding, among others, the positions of Spokesman for the Naval and Merchant Marine Sector, Vice Chairman of the Defence Committee of Congress, Defence Spokesman in Congress, Chairman of the National Defence Committee, Member of the International Assembly of the OSCE, Member of the Parliamentary Assembly of the Atlantic Alliance.</p> <p>First Deputy Mayor of El Ferrol (1987-1989).</p> <p>Councilman of the Municipality of El Ferrol (1983-1991).</p> <p>Speaker at conferences and seminars on Defence, Fishing, Shipbuilding Sector, Merchant Marine, Security and Guardia Civil, at various universities and in all types of national and international forums, among others EUROPOL, the Centre des Hautes Etudes du Ministère de l'Intérieur de France, CHEMI (School of Advanced Studies of the French Ministry of the Interior, in Paris) and the School of the Guardia di Finanza (Italy).</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.</p> <p>Mining Engineer, Universidad Politécnica de Madrid.</p> <p>Degree in Economics from Universidad Autónoma de Madrid.</p> <p>Master's degree on the European Union from the Diplomatic School of Madrid.</p> <p><i>Currently:</i></p> <p>Independent international consultant in the electricity sector.</p> <p><i>Formerly:</i></p> <p>Director General of the Oficina de Compensaciones del Sector Eléctrico (OFICO)- (until 1991).</p> <p>Director General for Mines and Construction Industries at the Ministry of Industry and Energy (1992-1995).</p> <p>Member of the Boards of Directors of Endesa and Petronor (1992-1995).</p> <p>Director of the National Energy Committee (1995-2000).</p> <p>Consultant to the European Union for the liberalisation of the Romanian electricity system, defining the generation market, the methodology and the calculation of the distribution tariffs and preparing the regulatory changes to liberalise generation and supply (2000).</p>

	<p>International Regulation Director at Corporación Unión Fenosa, providing services in the Regulation Secretariat (2002-2004).</p> <p>General Manager of Operations at Red Eléctrica de España, S.A., with significant responsibilities in planning the industry's activities and infrastructure, the integration of renewable energy, interconnection capacity with the European electricity system and changes to electricity regulation (2004-March 2012).</p> <p>His academic experience includes work 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>
<p><b>Non-director Secretary of the Board of Directors</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>Assistant 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 (ICADE E-1).</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.

#### **LATEST AMENDMENT TO THE BOARD OF DIRECTORS REGULATIONS OF 20 DECEMBER 2016:**

-Adaptation to the provisions of Act 31/2014 of 3 December 2014, amending the LSC to improve corporate governance and to the CBGSC, in line with the changes made to the Articles of Association and to the Regulations of the General Meeting of Shareholders.

-Broadening of the essential non-delegable responsibilities of the Board of Directors in plenum in Article 5 of the Board of Directors Regulations to adapt them to Articles 249 bis and 529 ter of the LSC.

-Adaptation to key corporate governance practices, especially at the international level.

-Introduction of improvements in the organisation and functioning of the Board of Directors and its Committees.

-Adaptation to the new organisational structure of the Red Eléctrica Group, after the separation of the functions of the Board chairman and the managing director.

The **RULES ON THE ORGANISATION AND FUNCTIONING** of the Board are contained in the Articles of Association (Article 19 to 26, inclusive) and the current Board of Directors Regulations (Article 5 to 14, 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, since its recent creation, 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** of senior executives, **director remuneration**, financial reporting, **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) 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 conduct guided by good faith, ethics and respect for customs and generally accepted good practices, works to reconcile 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 with the impact of the Company's activities in the community as a whole and on the environment, furthermore abiding by those additional principles of social responsibility 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 has established as a new non-delegable responsibility of the Board (which will be included in the revision of the Board Regulations, already initiated at the end of

2018, as indicated above) to include, when appropriate, 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 2018, the Board of Directors held eleven (11) meetings. There were three (3) proxy attendances in all, bringing the number of attendances in person to 129, for an overall attendance rate of 97.7%.

The Company has a **small, effective and efficient** Board. In **2018**, the Board met **11 times**, with a **high attendance rate** by directors (**97.7%**).

Attendance at 2018 Board of Directors meetings			
Director	Present	Represented	% attendance 2018
Jordi Sevilla Segura	4	0	100%
José Folgado Blanco	7	0	100%
Juan Francisco Lasala Bernad	11	0	100%
Fernando Fernández Méndez de Andés	8	0	100%
Santiago Lanzuela Marina	8	0	100%
Mercedes Real Rodrigálvarez	10	1	90.9%
Carmen Gómez de Barreda Tous de Monsalve	11	0	100%
María José García Beato	11	0	100%
Socorro Fernández Larrea	10	1	90.9%
Antonio Gómez Ciria	11	0	100%
José Luis Feito Higuera	11	0	100%
Arsenio Fernández de Mesa y Díaz del Río	11	0	100%
Alberto Carbajo Josa	10	1	90.9%
Antonio Gómez Expósito	3	0	100%
María Teresa Costa Campi	3	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 2018, namely:

- Mr. Jordi Sevilla Segura was appointed by co-option as a director in the category of "other non-executive" and non-executive Chairman of the Board of

Directors and of the company at the meeting of the Board of Directors held on 31 July 2018, following the acceptance by the Board, at that meeting, of the resignation presented by Mr José Folgado Blanco from the position of director, in the category of "other non-executive" and, consequently, after the acceptance of the resignation of Mr Folgado as non-executive Chairman of the Board of Directors and of the Company.

- Ms. María Teresa Costa Campi and Mr Antonio Gómez Expósito were appointed by co-option as proprietary non-executive directors representing Sociedad Estatal de Participaciones Industriales (SEPI) at the meeting of the Board of Directors held on 25 September 2018, replacing, respectively, Mr Santiago Lanzuela Marina and Mr Fernando Fernández Méndez de Andés, following the acceptance by the Board of Directors, at the aforementioned meeting, of the resignations presented by them as proprietary non-executive directors representing SEPI, at the request of this.

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) 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 CONFLICT OF INTEREST SITUATIONS**

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 2018 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 2018 were the following:

1. At its meeting of 16 February 2018, after a prior favourable report from the Appointments and Remuneration Committee, the Board approved the Company's Annual Corporate Governance Report for 2017, the Annual Directors' Remuneration Report, and the Financial Statements and Management Report for 2017 were formulated.

2. At the aforementioned meeting held on 16 February 2018, it was resolved to submit to the Annual General Meeting of Shareholders the re-election of Ms Socorro Fernández Larrea and Mr Antonio Gómez Ciria as independent directors, and the ratification and appointment of Ms Mercedes Real Rodrigálvarez as a proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), all of them for the four-year term established 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 2017, 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 2017.
  - 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 2017.
  - To approve the allocation of results proposed by the Board of Directors at its meeting of 16 February 2018 and, consequently, distribute the profit for the 2017 financial year.
  - To approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2017 financial year.
  - In relation to the remuneration of the 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 2018.
  - To grant authority to implement the resolutions adopted by the 2017 Annual General Meeting of Shareholders.
  - To report to the Annual General Meeting of Shareholders on Red Eléctrica's Annual Corporate Governance Report for 2017.
4. At the meeting held on 29 May 2018, it was resolved to re-elect Mr Fernando Fernández Méndez de Andrés as a member of the Audit Committee and Ms Carmen Gómez de Barreda Tous de Monsalve as a member of the Appointments and Remuneration Committee, both for a term of 3 years.
5. At the meeting held on 31 July 2018, it was resolved to appoint by co-option, until the first Annual General Meeting of Shareholders is held, Mr. Jordi Sevilla Segura as a director of Red Eléctrica Corporación, S.A., within the category of "other non-executive", and non-executive Chairman of the Board of Directors and of the company until the first General Meeting of Shareholders is held, in order to fill the vacancy on the Board of Directors, as a result of the resignation submitted by Mr. José Folgado Blanco from the position of director, and consequently as non-executive Chairman of the Board of Directors and of the company, which was accepted by the Board of Directors at the same meeting.

6. At its meeting held on 25 September 2018, it co-opted Ms María Teresa Costa Campi and Mr Antonio Gómez Expósito as proprietary directors of Red Eléctrica Corporación, S.A., representing Sociedad Estatal de Participaciones Industriales (SEPI), until the first Annual General Meeting of Shareholders is held, in order to fill the vacancies on the Board of Directors as a result of the acceptance by the Board of Directors, at the same meeting, of the resignations of the proprietary directors representing SEPI, Mr Santiago Lanzuela Marina and Mr Fernando Fernández Méndez de Andés, whom they respectively replaced.
7. At the same meeting of 25 September 2018, the Board approved the Report on the Self-Assessment of the Board of Directors for 2017, prepared with specialised external advice.
8. At a meeting held on 27 November 2018, on the proposal of the Chairman and following a favourable report of the Appointments and Remuneration Committee, it was resolved to create a Sustainability Committee and restructure the other two Board Committees, the Audit Committee and the Appointments and Remuneration Committee, modifying their composition.
9. At its meeting held on 18 December 2018, it approved a new matrix of powers for the Board of Directors.

The **resolutions that have been reported to the CNMV as MATERIAL DISCLOSURES** during 2018 can be consulted on the Company's website, via this link, [Shareholders and Investors – Relevant Events](#), as well as on the website of the CNMV using the following link, [CNMV – Red Eléctrica Corporación Relevant Facts](#).

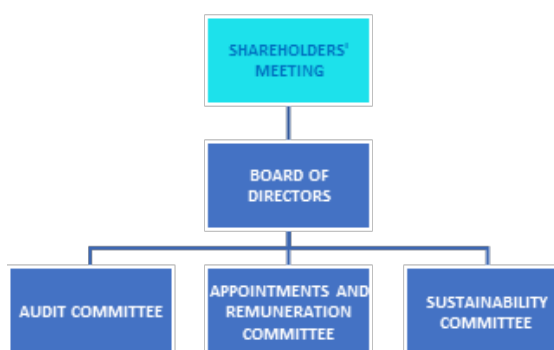
## 3.3 COMMITTEES

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Since November 2018, the company has had three Board Committees as a result of the creation of the new 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 18 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.

At the end of 2018, the process of revising the Board of Directors Regulations began, which will update the functions of the three Board Committees.



At the end of 2018, the process of revising the Board of Directors' Regulations began, which will update the functions of the three Board Committees.

### 3.3.1 AUDIT COMMITTEE

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#### 3.3.1.1 Composition

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At 31 December 2018 the Audit Committee was 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 2018 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 2018 was as follows:

## CHAIRMAN

Antonio Gómez Ciria •

Mercedes Real Rodrigálvarez •

María José García Beato •

Arsenio Fernández de Mesa y  
Díaz del Río •

## Audit Committee

Independent Non-Executive Directors (3) 75% •

Proprietary Non-Executive Directors (1) 25% •

Independent director chairman

### HIGHLIGHTS:

- In May 2018, one of its members was re-elected for a new three-year term.
- In November 2018, as a consequence of the creation of the new Sustainability Committee, its composition was modified, and the number of members was reduced from 5 to 4, maintaining the same chairman. The composition resolved by the Board of Directors on that date was maintained at 31 December 2018.
- The Audit Committee has **increased the percentage of women** in its composition with respect to 31 December 2017, from 40% to **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 considered 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.

Over the course of 2018, 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.

### 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 and 2019, 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.

Following the restructuring of the Board Committees, the functions of this Committee are being reviewed as part of the process of updating the Board Regulations initiated at the end of 2018.

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 is called by its chairman or upon request of two of its members, and, likewise, whenever the Board of Directors or the chairman require it to issue reports or submit proposals.

During 2018, 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 52, for an overall attendance rate of 100%.

More detailed information on the matters addressed by the Audit Committee during 2018, and the changes in its composition during that year, is available at the Company's website via the following link, [Activity Audit Committee Report 2018](#).

## 3.3.2 APPOINTMENTS AND REMUNERATION COMMITTEE

### 3.3.2.1 Composition

At 31 December 2018 the Appointments and Remuneration Committee was made up 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 2018, 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 2018 was as follows:



#### KEY POINTS:

- In May 2018, one of its members was re-elected for a new three-year term.
- In November 2018, as a consequence of the creation of the new Sustainability Committee, its composition was modified, and the number of members was reduced from 5 to 3, maintaining the same chairman. The composition resolved by the Board of Directors on that date was maintained at 31 December 2018.
- The Appointments and Remuneration Committee has reduced the percentage of women from 40% to 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 2018, 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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This Committee has authority assigned to it regarding appointment and removal of directors and senior executives, their remuneration, compliance with director duties and respecting the principles and rules of corporate governance. It also prepares an annual report on diversity and equality, which it submits to the Board for approval. Likewise, as part of the process of updating the Board of Directors Regulations initiated at the end of 2018, the responsibilities of the aforementioned Committee are being reviewed in order to propose a protocol to the Board of Directors for relations with employees, responding to the most advanced international good governance practices, especially those contemplated in the new UK Corporate Governance Code.

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 is called by its chairman or upon request of two of its members, and, likewise, whenever the Board of Directors or the chairman require it to issue reports or submit proposals.

During 2018, the Appointments and Remuneration 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 (2) absences, for which reason the number of attendances in person was 54, for an overall attendance rate of 96%.

More detailed information on the matters addressed by the Appointments and Remuneration Committee during 2018, and the changes in its composition during that year, is available at the Company's website via the following link, [Appointments and Remuneration Committee Activity Report 2018](#).

### **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.

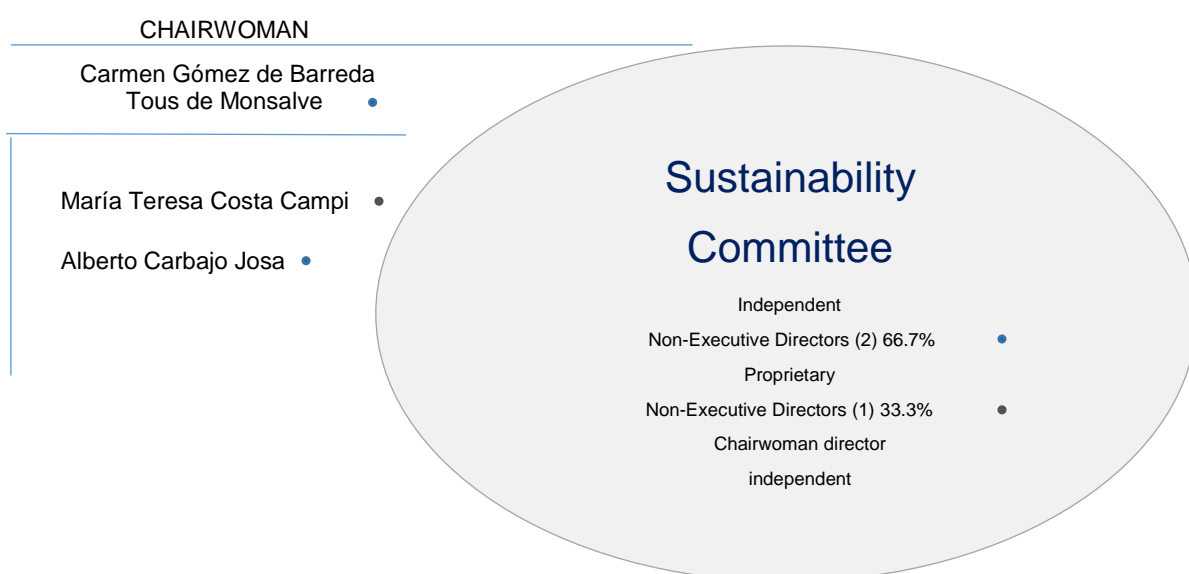


The Sustainability Committee was created by resolution of the Board of Directors on 27 November 2019, on proposal of the Chairman following a favourable report from the Appointments and Remuneration Committee. The creation of the Sustainability Committee responds to the strategic nature that the Board of Directors wishes to give to sustainability in the company, contributing to Red Eléctrica's positioning in terms of sustainability and corporate governance.

At 31 December 2018 the Sustainability Committee was made up 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 2018, 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 Board of Directors' Secretary.

At 31 December 2018 the Chair of the Sustainability Committee is the company's Lead Independent Director.

### 3.3.3.2 Responsibilities and Activity

The Sustainability Committee has the basic responsibilities for sustainability that were previously assumed by the Appointments and Remuneration Committee along with other Corporate Governance functions. Due to its importance, we should highlight the Group's strategy in relation to the 2030 Sustainability Commitment and the sustainability policies and their link with the Strategic Plan, together with the periodic

evaluation of the progress and results obtained by Red Eléctrica in this area and the degree of compliance. The functions of the Sustainability Committee are currently being carefully analysed for their appropriate development and incorporation into the Board Regulations, which are currently under review.

Since its creation in November 2018, the Sustainability Committee has held two (2) meetings in 2018 and submitted reports on its activities to the Board of Directors the same number of times. In those meetings there were no absences, for which reason the number of attendances in person was 6, for an overall attendance rate of 100%.

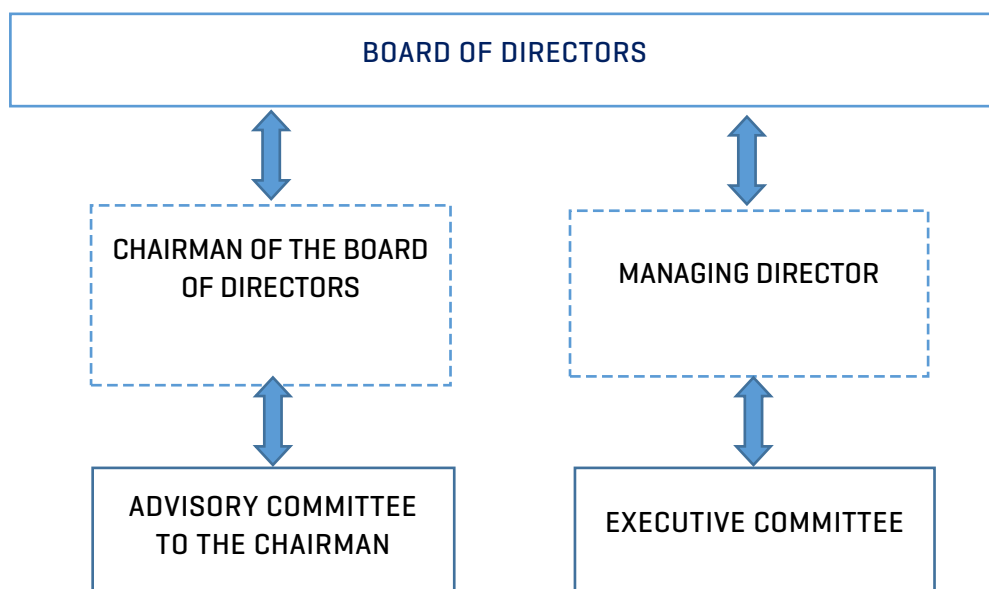
### 3.4 RELATIONS WITH THE MANAGEMENT

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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:

- 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 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 voluntarily reserved to 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, composed of 75% 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 Extraordinary General Meeting of Shareholders held on 17 July 2015 analysed the process and, in order to put it into effect, resolved to increase the number of directors (setting the total at twelve) and appointed Mr Juan Francisco Lasala Bernad as an executive director of the Company. At its meeting on 28 July 2015, the Board of Directors appointed the new executive director as 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 Ibx 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 Ibx 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 former 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, the model of separating the posts of chairman of the Board of Directors and managing director of the company, approved in 2015, 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 the company is **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. Since his appointment, he has been actively in charge of:

- Directing and promoting the process of approval of the Group's strategies by the Board of Directors.
- Leading the control by the board of:
  - The execution of the approved Plans in accordance with the strategy, values and mission.
  - The evaluation of the Group's main business indicators.
- Directing and promoting the approval by the Board of the Risk Control and Management Systems, the Regulatory Compliance System and the supervision of the Group's Internal Audit services.
- Promoting and supervising the assumption of the Group's Ethics Code Values and Commitments.
- Assuming the representation of the Company at the highest level.
- In addition, he directs the corporate functions in the areas of Regulation, Sustainability, Internal Audit, Risk Control, Compliance and Institutional Relations, among others, which are of a strategic nature.

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 with the approval of the amendment to the Board of Directors Regulations. 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 Code of Good Governance 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.



## **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 were specified in the document "Process of separation of the positions of chairman of the Board of Directors and managing director of the Company" and are currently set forth in Article 11 of the Board of Directors Regulations.

The managing director of the company is **Mr Juan Francisco Lasala Bernad**. At the meeting held on 28 July 2015, the company's Board of Directors appointed him managing director of the company, following his appointment as executive director of the company by the Extraordinary General Meeting of Shareholders held on 17 July 2015. He bears the ultimate responsibility for **directing the management of the organisation and the business** of the company and the Group.

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 for the day-to-day conduct and effective management of the organisation and of the Company's businesses, always in accordance with the decisions and criteria set by the General Meeting 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 internal control and risk management system approved by the Board of Directors in the Company and the Group and effective oversight of its proper functioning;
- Regularly report to the Board of Directors on the degree of execution and completion of the Strategic Plan and the Budget, on the functioning of the risk management system and the degree of 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.

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 amends, 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 new matrix of competencies of the Board of Directors approved in 2018.
- 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 new **matrix of competencies of the Board of Directors**, individualised by director. The application of the new 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 new 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 capital markets, strategy and business 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 new 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 consistent with international practices and the most advanced recommendations in the area of corporate governance.

This matrix of competencies will be updated annually 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 2018, 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 2018 Annual General Meeting of Shareholders may be consulted on the corporate website, via the following link:

[Proposals and reports on the appointment of directors Shareholders' meeting 2018](#)

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. And 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 equality and, therefore, through the Appointments and Remuneration Committee imposed the obligation to prepare an annual report on gender diversity and equality policy to be submitted to the Board for its approval. Said report reflects the Company's concern for diversity and equality. 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 and Equality was approved by the Board of Directors on 29 January 2019. This report refers to financial 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, this year newly including information from a greater number of Red Eléctrica Group companies.

Said report is posted on the corporate website and may be accessed via the following link: [Diversity and equality report 2018](#)

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-option. 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 General Meeting of Shareholders 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 non-executive 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 their General Meeting in the exercise of the powers granted to them by law and by the Articles of Association. The Board of Directors will 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 positions or new obligations that do not allow him or her 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 Code of Good Governance 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 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 sense, 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 the 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.

### 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 Code of Good Governance 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 meeting of 31 May 2015, the Board approved her re-election as lead independent director for a three-year term, a position 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 2018**

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 when the chairman is absent or has a conflict of interest 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 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 2018 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.

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, which have been recently updated.

## 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 nondelegable 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 2017, conducted in 2018, 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. The following is a summary of the main conclusions reached:

#### **MAIN CONCLUSIONS OF THE 2017 ASSESSMENT PROCESS**

##### **• Improvements proposed by the Board of Directors**

- Continue to make progress on gender diversity.
- Broaden the diversity of knowledge and experience of independent directors at an international level.
- Continue with the best practice of all external directors being members of one of the Board Committees.
- Maintain a chairman profile that ensures adequate institutional relationships.
- Continue to advance the priorities established in the Sustainability Plan included in the Strategic Business Plan.
- Maintain the commitment of continuous improvement and ongoing review of good governance practices.

##### **• Improvements proposed by the outside consultant**

- Orient the matrix of competencies of the Board to the overall quality of the Board and align it with the Strategic Plan.

- Continue the practice of incorporating external directors with experience in the macroeconomic and economic-financial areas, as well as on the boards of directors of entities of similar complexity.
- Incorporate a director with experience in the infrastructure sector.
- Consider the need to increase the duration and/or number of meetings of the Audit Committee, in view of the growing scope of its functions.
- Continue to strengthen the specialised outside advising in the process of reviewing the Group's Strategic Plan.

The Board of Directors will start a new Board self-assessment process for 2018, again with the support of an outside consultant.

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 will continue in 2019.

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 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, correlation with effective dedication, alignment with the long-term strategies and interests of the company and its shareholders and other stakeholders, that acts as an incentive but does not affect the directors' impartiality due to its 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 the calculation of the **variable remuneration** of the managing director and of senior executives.

**The Directors Remuneration Policy** applicable in 2018 was approved by the Annual General Meeting of Shareholders held on 15 April 2015, for a term of three years. With the completion of the process of separating the positions of chairman and managing director, on 15 April 2016 the Annual General Meeting of Shareholders approved an amendment of that Policy. Its principles are:

General principles	<ul style="list-style-type: none"> <li>• Balance and moderation</li> <li>• Alignment with the practices demanded by shareholders and investors.</li> <li>• Transparency.</li> <li>• Voluntary submission of any decision related to director remuneration to approval of the Annual General Meeting of Shareholders.</li> </ul>
Principles governing the remuneration of executive directors	<ul style="list-style-type: none"> <li>• Alignment with the Company's strategy.</li> <li>• Reasonable balance between the fixed and variable components to reflect an appropriate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value.</li> <li>• Alignment with the remuneration established by comparable companies.</li> </ul>
Principles governing remuneration of non-executive directors	<ul style="list-style-type: none"> <li>• Linked to actual time commitment.</li> <li>• Linked to responsibility and performance of their tasks as directors.</li> <li>• Absence of variable remuneration components in order to ensure their complete independence.</li> <li>• Sufficient to act as an incentive, without limiting their independence.</li> </ul>

All of the foregoing principles conform to 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 Article 217.4 of 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.

Given that the Directors Remuneration Policy then in effect ended on 31 December 2018, a new Remuneration Policy will be submitted to the Annual General Meeting of Shareholders in 2019, starting from the previous Policy, referred to above, and

introducing the adjustments and modifications that the Appointments and Remuneration Committee and the Board of Directors deem appropriate.

Both the Directors Remuneration Policy approved in 2015 and the amendment to that policy approved in 2016, in effect throughout 2018, are published on the corporate website by way of the following links:

[Directors' Remuneration Policy](#)

[Amendment to the 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 2018 and the Annual Report on Directors' Remuneration and the remuneration of the Board of Directors for 2018 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 2018, with only 0.46% 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.

In addition to the new Directors Remuneration Policy mentioned above, at the Annual General Meeting of Shareholders to be held in 2019, a modification of the Articles of Association (Article 20) will be submitted for the approval (binding vote) of the shareholders as separate and independent items on the Agenda, as regards the remuneration of the Board of Directors, the Annual Report on Directors' Remuneration and the remuneration of the Board of Directors for 2019, 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 in a binding manner.**

## 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

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*For the fourth consecutive year, Red Eléctrica obtained the highest score (100 out of 100 points) in the evaluation that determines the composition of the Dow Jones Sustainability Index for its excellent performance in terms of ethics code, compliance, corruption and bribery.*

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## 6.1.1 Development of the 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.

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



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.

In addition, 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's 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.

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 development 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 approval of the new Code.

### 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.

### 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 2018 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:

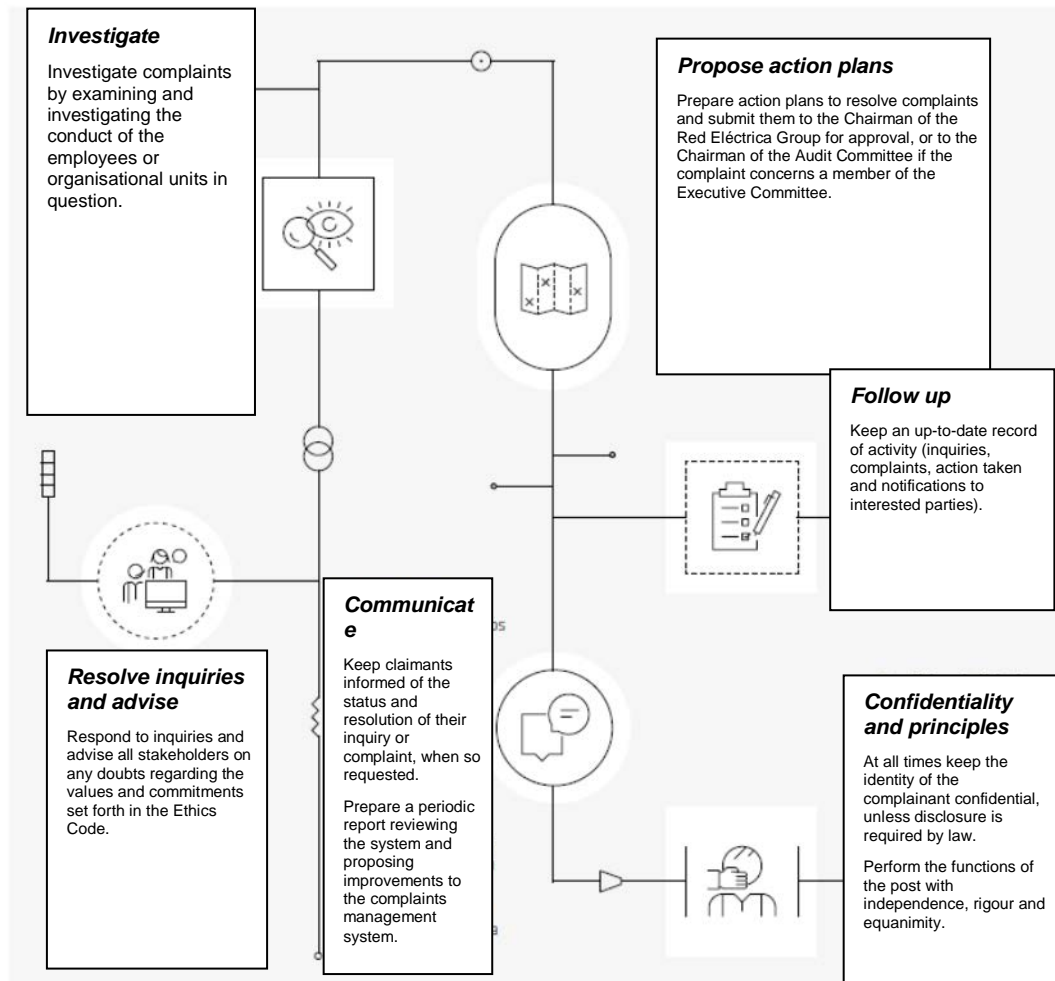
- Integrity, responsibility and transparency,
- Responsible monitoring of management of suppliers,
- Limitation on the acceptance of gifts, loans or invitations.
- Proper treatment of confidential information.

In 2018 the company received seven complaints in relation to compliance with the Ethics Code, of which four were resolved during the year and three are in the process of being resolved. More precise information on these complaints can be found on the

company's website accessible via the following link: [Annual report on the 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

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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 2017. This was done before the annual tax filing, at the Audit Committee meeting held on 20 June 2018.
- ✓ Information on the Annual Report on Tax Transparency for fiscal year 2017. This action was taken at the Audit Committee meeting of June 2018.

✓Approval of the tax policies applied in the first semester of 2018. This action was taken at the Audit Committee meeting of 27 July 2018.

✓Approval of the 2017 Country by Country Information Statement. This action was taken at the Audit Committee meeting of 12 December.

✓Approval of the tax policies applied in the closing of accounts for financial year 2018. This was done in the Audit Committee meeting of 22 January 2019, before the financial statements for 2018 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 (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 Programme for the Prevention of Criminal Liability 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>2</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, in 2017 the Red Eléctrica Group for the

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<sup>2</sup> Royal Decree 1080/91 of 5 July, as amended by Royal Decree 116/2003 of 31 January on the European list of non-cooperative tax jurisdictions approved by the ECOFIN at its meeting of 5 December 2017 and the List of non-cooperative tax havens compiled by the OECD.

first time voluntarily submitted that Tax Transparency Report to the Spanish tax administration in respect of fiscal 2016. Pursuant to the above, in 2017 and 2018 the Red Eléctrica Group voluntarily submitted that Tax Transparency Report to the Spanish tax administration in respect of fiscal years 2016 and 2017, respectively.

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 2018 is published in the 2018 Sustainability Report.

## 6.2 COMPLIANCE

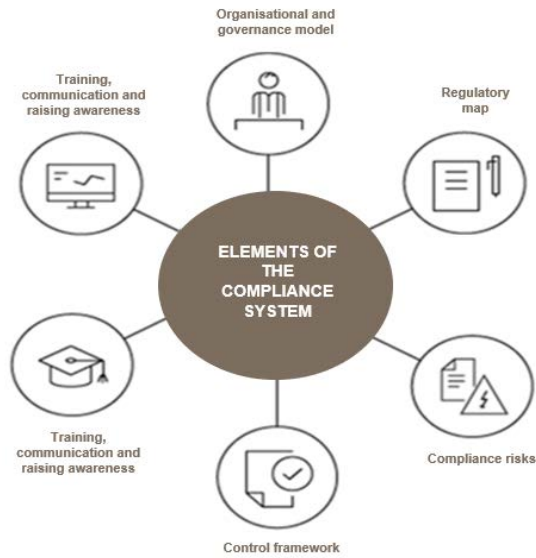
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### COMPLIANCE SYSTEM

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, part of the Internal Audit and Risk Control Department, is responsible for the design, development, implementation and monitoring of the Red Eléctrica Group's Compliance System.

## COMPLIANCE SYSTEM



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



#### KEY ACTIONS IN 2018

- Design and implementation of the data protection compliance system.
- Appointment of the Data Protection Officer and creation of the Data Protection Advisory Body.
- Approval of the Guide for management of conflicts of interests of the executive team.
- Creation of the advisory body for conflicts of interest.
- Design of a specific criminal compliance system for the subsidiaries of the Red Eléctrica Group in Latin America.
- Design of specific methodology for identification and assessment of compliance controls.
- Development of the 2018 Plan to build awareness and disseminate the compliance system

#### NEXT OBJECTIVES

- Completion of the process of updating the Ethics Code of the Red Eléctrica Group to adapt it to best practices in compliance matters.
- Revision and updating of the Code of Conduct for Suppliers.
- Conclusion of the process of updating the Red Eléctrica Group's criminal compliance system.
- Design of a global system of due diligence for third party compliance.
- Digital transformation of the compliance function.
- Development of the 2019 compliance culture awareness, training and sensitisation plan.

#### CRIMINAL COMPLIANCE SYSTEM

Red Eléctrica has a **Criminal Risk Prevention Programme** aimed at identifying the rules, procedures and tools established 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 under the Spanish Criminal Code (Código Penal).

The Programme, approved by the Board of Directors of Red Eléctrica at its meeting of 24 November 2011, has a control management body to supervise the compliance with the programme and to carry out specific actions to ensure it is kept up to date and executed properly.

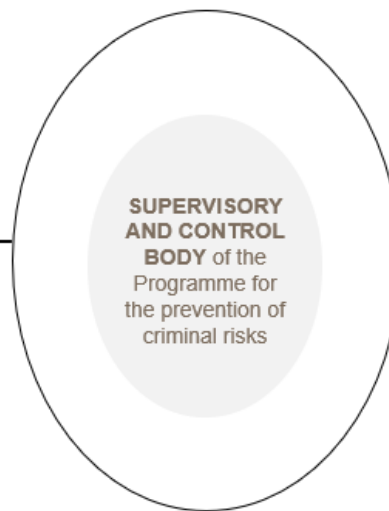
**Members**

- Ethics Officer
- Representative of the Internal Audit Department
- Representative of the Risk Control, Compliance and Quality Department
- Representative of the Legal Services Department
- Representative of the Human Resources Planning and Organisation Department

**Receives reports from:**

- Internal Audit Department
- Risk Control, Compliance and Quality Department
- Legal Services Department
- Human Resources Planning and Organisation Department

In addition, the Ethics Officer reports on complaints received with possible criminal implications, maintaining the confidentiality of all information received.



**Functions**

To report periodically to the Audit Committee regarding:

- Actions taken
- Proposed improvements
- Updates implemented
- Agreed measures

To monitor the control measures associated with the prevention of criminal risks, compliance with the programme and its frequency.

In 2018, the Ethics Officer did not receive any 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.

In 2018, the company began the process of reviewing and updating the Criminal Compliance System with the aim of adapting it to the criteria of Red Eléctrica's global Compliance System and to best practices in the area of management of criminal compliance, with completion planned for 2019.

**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 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 members of Red Eléctrica Group have the obligation to know and apply the content of that guide and review how they act in light of the principles, commitments and controls established by it.



In addition, and specifically, 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 for the prevention of criminal liability, which include specific controls for those risks.

Furthermore, Red Eléctrica's processes are integrated in systems organised in accordance with international standards (IQNet SR10, ISO 9001, ISO 14001 and OHSAS 18001) and their design has included controls to mitigate or reduce the main risks associated with those processes.

In addition to these processes, 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 2018, 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, in 2018 the Red Eléctrica Group approved a **Guide for the management of conflicts of interest**, for the development of the commitments assumed by the Red Eléctrica Group 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.

## 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 the compliance of the five components of internal control, according to the COSO Integrated Framework, of 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 component, "Risk Assessment". In both reviews it concluded that the elements and activities related to the control environment are formalised and present in all areas/operations of the organisation and, furthermore, in many cases reference best practices in this area have been implemented.

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

In 2018, as a follow-up to the revision of the internal control components, EY carried out the 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.

On a complementary basis, in 2017 the same firm 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.

#### **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.

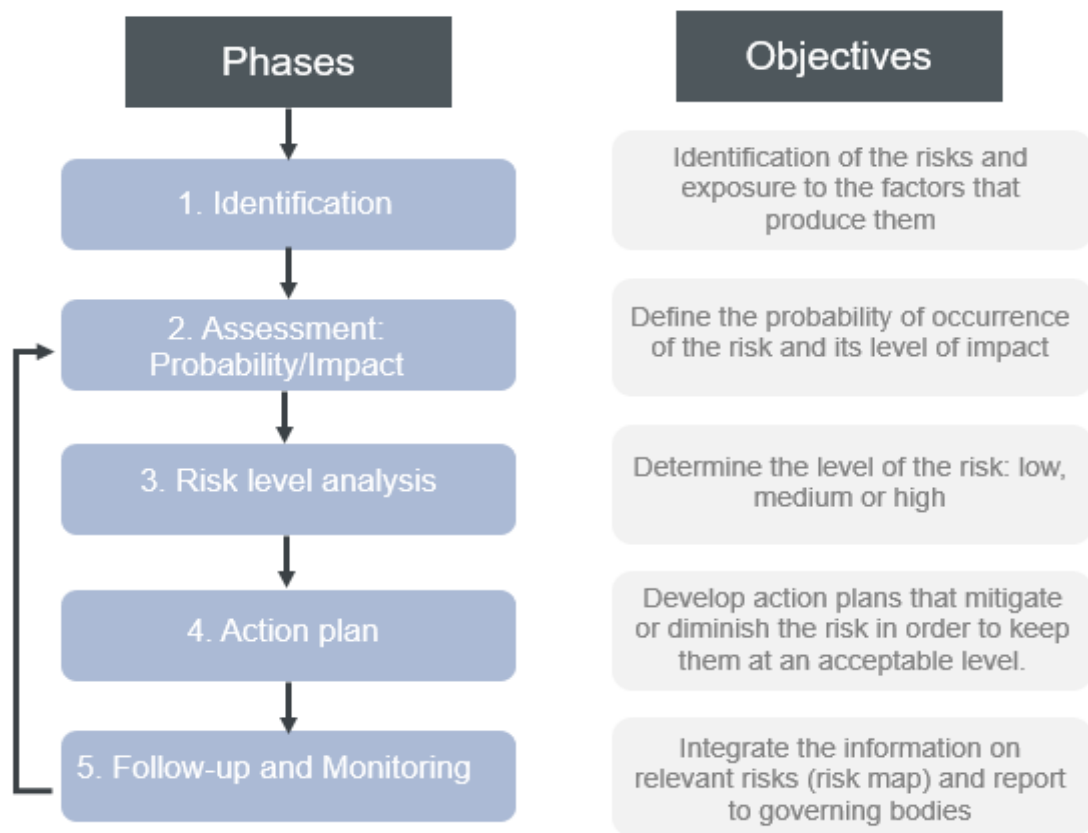
Since 2015, this policy includes the tax risk control and management policy.

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.

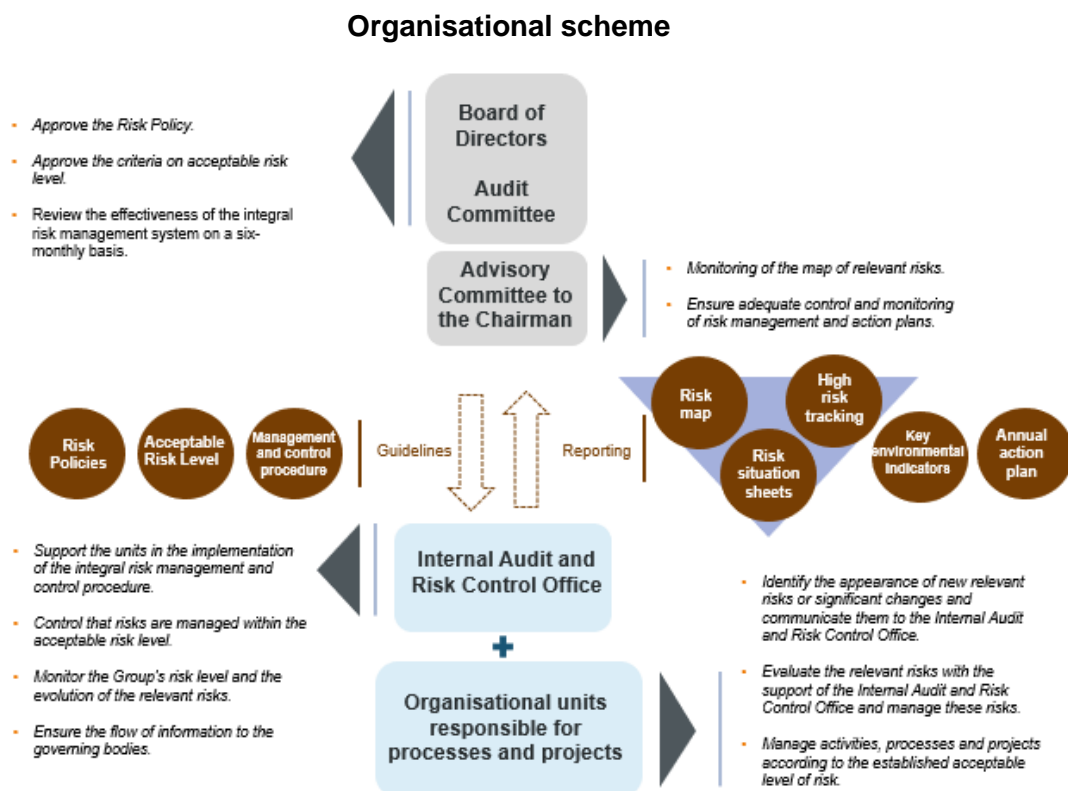
The procedure is intended to ensure that managers at all levels within the Group are aware of and assess the risks that threaten the Group's strategies and objectives, take those risks into account in their activities and keep them within the set levels of acceptable risk.



## 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.



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 **Advisory Committee to the Chairman**, 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**, reporting directly to the office of the chairman, 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 Advisory Committee to the Chairman, 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.

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### 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**

The main business of the Red Eléctrica Group is the development of 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.

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**.

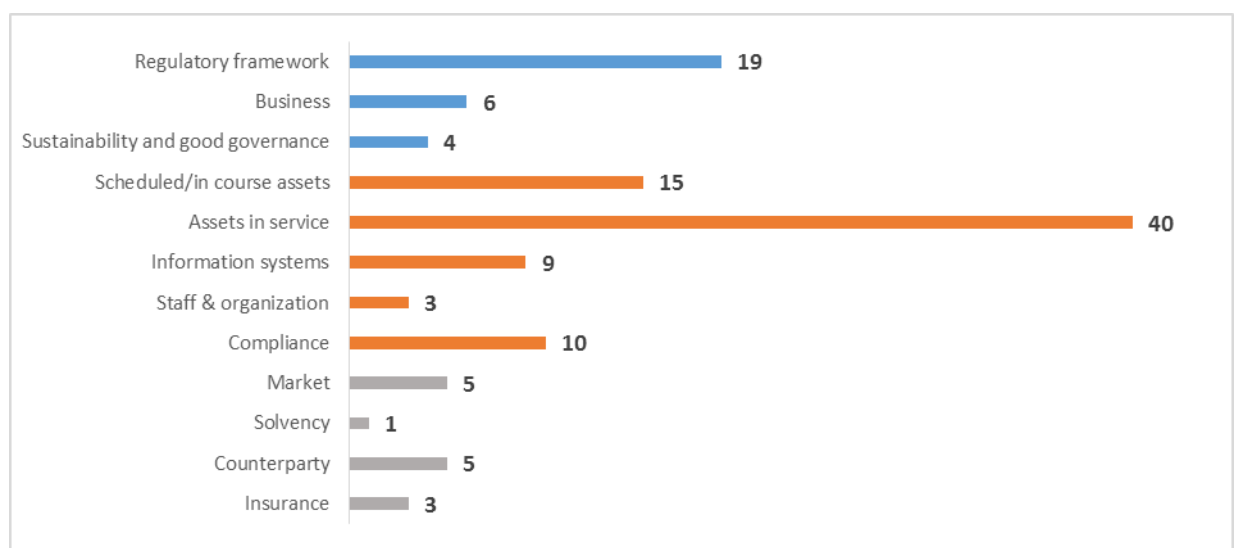
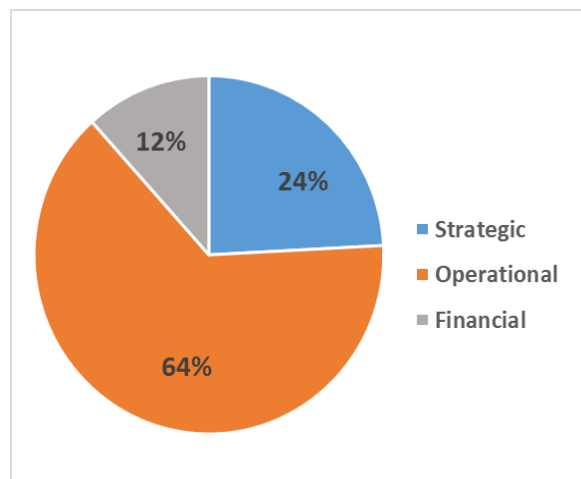
- Risks related to **people and their organisation**.
- **Compliance** risks.

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 120 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.

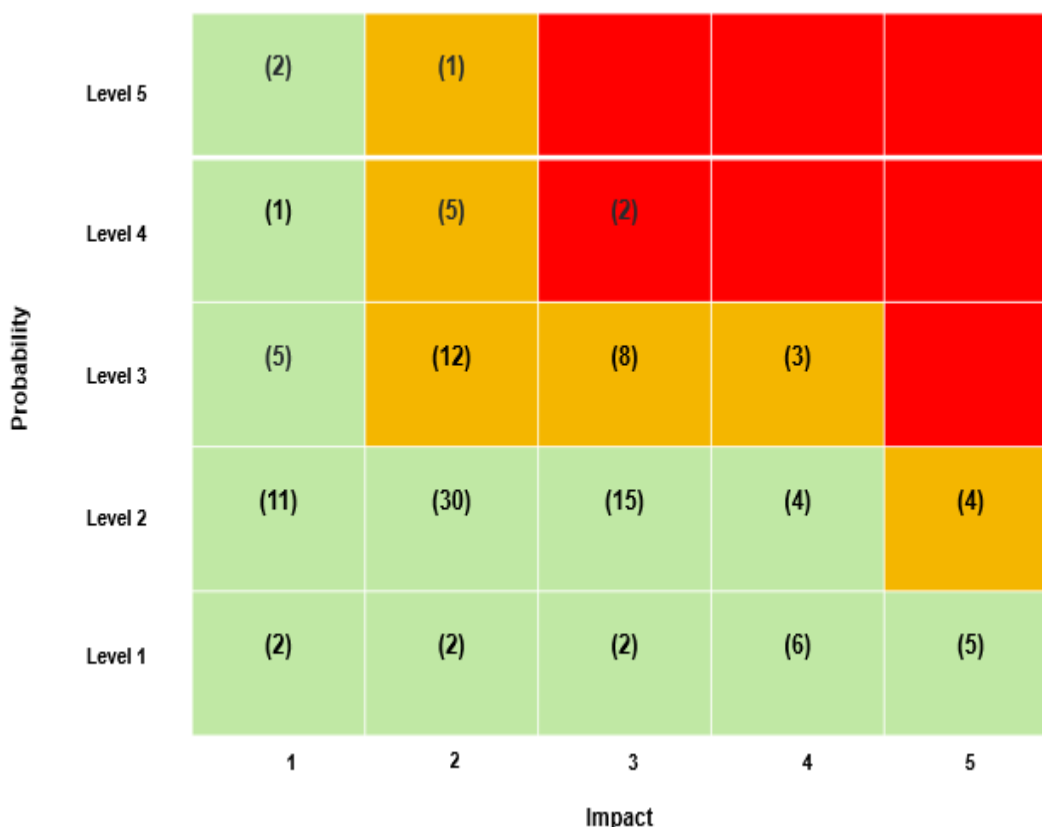
The Integrated Risk Management System of the Group sets out a methodology to determine the level of risk. As a result all identified risks are classified into three levels:

- 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>ACHIEVEMENT OF BASIC STRATEGIES</b> Degree of impact on the achievement of basic strategies.</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 120 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 materialised in 2018

No significant strategic or financial risk materialised in 2018.

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.

In 2018 there were events the consequences of which were minor supply outages, with the exception of the partial outage in the electricity supply produced on the island of



Menorca on 28 October. This incident was caused by the entry into the island of a *cap de fibló* (tornado) in a north-south direction, affecting two lines (Dragonera-Mercadal and Dragonera-Ciudadela) and causing serious structural damage to the supports and wires. The work to restore the electricity supply was accelerated thanks to the Special Maintenance Plan activated this year, which has emergency technical and human resources to reinforce the safety and reliability of Menorca's transmission network. Faced with the extraordinary nature of this atmospheric event, the Insurance Compensation Consortium has accepted coverage for the damage caused and, therefore, there has been no impact on economic loss or on the quality indicators of the electricity supply.

For these events, the control systems have functioned appropriately, as shown by the availability index of the transmission network, which in 2018 was 98.14% in the peninsula, 98.45% in the Canary Islands and 96.81% in the Balearic Islands.

### **Risk response and supervision plans for the Groups 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 Internal Audit and Risk Control Department, together with the risk management units, reviews the evolution and effect of the established action plans. 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 lead them to reach high risk levels in the medium or 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.

In 2018, a **Business Continuity Plan** was developed 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 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 develop risk management in line with the Integrated Risk Management System. Thus, in 2018 we continued to collaborate in the development of the Risk Management System in Investment Projects (IRIS project) and in the Risk Map of the Group's activities in Peru. Likewise, there has been collaboration with the compliance area in updating the criminal compliance and data protection risk maps, the latter as a consequence of the entry into force of the European Regulation on the protection of personal data.

## KEY ACTIONS IN 2018

- Review of the methodology for measuring the impact of the reputational axis.
- Analysis and redefinition of the structure and reporting of the Group's risks.
- Deployment of the risk management office in investment projects.
- Evolution of the methodology for quantifying the impact on electricity supply.

## MAIN ACTIONS IN 2019

- Updating of the Group's acceptable risk level.
- Digitisation of the Risk Control function.
- Development of a risk assessment model for the Group's assets in service.
- Analysis and implementation of the recommendations of the Task Force for Climate-related Financial Disclosure.
- Development of a set of key risk management indicators.

## 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 overseeing implementation of those improvements.

The internal audit unit 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 focused on: key risks of the Corporate Risk Maps, the Criminal Compliance and Fraud System, and their controls, internal control (control framework, ICFR system and internal control of Group subsidiaries), meeting requests from senior management, and checking the legal and internal rules and regulations, covering the legal requirements and the requirements of the management systems that have been established (quality, environment, occupational safety and health and corporate responsibility).

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 units with functions in the second line of defence when preparing the Annual Plan and determining the scope and focus of the audits.

In relation to risk management, the Annual Plan includes audits of the analysis and verification 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 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 2019 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 2018, 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 2019, 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 new 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 corporate changes and to incorporate best corporate governance practices.
- Monitoring the implementation of diversity policies within the Board of Directors and throughout the organisation.
- 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 sensitization and dissemination plan.
- Implementation of a new annual self-assessment process for the Board of Directors, with the support of an external consultant, in order to continue improving the functioning of the Board and its committees.
- Revision of the Contingency Plans for the succession of the Chairman of the Board and the Managing Director.
- Revision of the incorporation plan for new directors.
- Revision of the matrix of competencies 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.



**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)**

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**PARTICULARS OF THE ISSUER**

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Ending date of the reference period: [ 31/12/2018 ]

CIF: [ A-78003662 ]

Corporate name:

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

Registered office:

[ PASEO DEL CONDE DE LOS GAITANES, 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	0.10	3.14
LAZARD ASSET MANAGEMENT	0.00	5.18	0.00	0.00	5.18
FIDELITY INTERNATIONAL LIMITED	0.00	1.99	0.00	0.00	1.99
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 can be transferred 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 JUAN FRANCISCO LASALA BERNAD	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 LUIS FEITO HIGUERUELA	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 can be transferred through financial instruments
No data		N.A.	N.A.	N.A.	N.A.

- 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 shareholders 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., M.P. (ENRESA)	-Director of Energy Division Investees at SEPI. -Director of ENRESA, representing SEPI. - Chairman of ENRESA's Audit Commission, representing SEPI.

- 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  
[ v ] No

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

[ ] Yes  
[ v ] 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  
[ v ] 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
1,198,049		0.22

(\*) 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 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, 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 on 15 April 2015 authorised the Board of Directors, in accordance with the provisions of article 146 and related provisions of the Spanish Companies Act 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 Spanish Companies Act, the acquired shares may be partially paid up.
- In accordance with the provisions of article 146.1 b) of the Spanish Companies Act, 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 Spanish Companies Act, 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 Meeting of Shareholders held on 15 April 2016 approved a partial modification of the resolution adopted by the Annual General Meeting of the Company of 15 April 2015, 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.

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

	%
Estimated free float	69.47

**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](http://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, or "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 amendment of the company's articles. In particular, state the majorities contemplated for amendment of the articles and, if applicable, the rules contemplated for protection of shareholder rights in the amendment of the articles.

The scheme for amendment of the Articles 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 (articles 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 and the like (article 194 of the LSC) an "absolute majority" is required if the quorum is greater than 50% of capital, and two thirds of the capital present in person or by proxy when the quorum on second call does not reach 50% of capital. An immediate consequence of the reform of the LSC was the amendment of the Articles of Association and the Company's Meeting 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 Meeting 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. Article 14 of the aforesaid Articles 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 15 April 2016, which resolved to amend article 5 of the aforesaid Articles, to allow a doubling of the number of shares of the company, complying with the contemplated majorities and procedure. As in prior years, in 2018 Deloitte audited the processes of management of the aforesaid General Meeting of Shareholders, seeking improvement of the guarantees of the rights of shareholders in the Meetings. 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				
	% attendance in person	% by proxy	% remote voting		Total
			Electronic voting	Other	
15/04/2016	21.79	38.65	0.04	0.00	60.48
Of which, Free Float	15.13	26.85	0.02	0.00	42.00
31/03/2017	22.47	36.01	0.06	0.00	58.54
Of which, Free 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

- 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 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 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.

Publicity of the resolutions approved by the General Meeting of Shareholders is regulated in article 17 of the Meeting Regulations. Regarding publicity, during 2018 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 2018 and of the earnings presentations given at the close of the 2017 financial year and the first half of 2018; and the publication in English of the notice of General Meeting, from the day it was published, and of the proposed resolutions to be submitted to approval at the Meeting, in addition to all the related documentation, including the Annual Corporate Governance Report. In 2018, 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, 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 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.



# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

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**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 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	31/07/2018	CO-OPTION
MR JUAN FRANCISCO LASALA BERNAD		Executive	MANAGING DIRECTOR	17/07/2015	17/07/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MR ANTONIO GÓMEZ EXPÓSITO		Proprietary	DIRECTOR	25/09/2018	25/09/2018	CO-OPTION
MS MARÍA JOSÉ GARCÍA BEATO		Independent	DIRECTOR	29/11/2012	31/03/2017	RESOLUTION OF GENERAL SHAREHOLDERS MEETING
MS SOCORRO FERNÁNDEZ LARREA		Independent	DIRECTOR	09/05/2014	22/03/2018	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
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	25/09/2018	CO-OPTION
MR JOSÉ LUIS FEITO HIGUERUELA		Independent	DIRECTOR	13/02/2015	15/04/2015	RESOLUTION OF GENERAL SHAREHOLDERS MEETING

Total number of directors	12
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Give details of any departures from the board 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 FOLGADO BLANCO	Other Non-Executive	15/04/2016	31/07/2018	None	YES
MR SANTIAGO LANZUELA MARINA	Proprietary	15/04/2015	25/09/2018	Appointments and Remuneration Committee	YES
MR FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Proprietary	15/04/2016	25/09/2018	Audit Commission	YES

C.1.3 Complete the following tables on the Board Members in each category:

EXECUTIVE DIRECTORS		
Name of director	Office in the company	Profile
MR JUAN FRANCISCO LASALA BERNAD	Managing director	Born on 25 February 1967. Degree in Business Studies from Universidad Complutense de Madrid. Currently: Managing director of Red Eléctrica Corporación, S.A. In the Company since 2001, he has performed executive functions in the International area and in the Telecommunications area and has held the position of director of Planning and Control and Corporate Economic-Finance Director. Formerly: Director of Planning and Control of the Avanzit Group and Financial Managing Director for Spain. Financial Managing Director of

		Midas, Spain. Assistant Financial Managing Director at Burger King, Spain. Auditor at KPMG Peat Marwick.
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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)	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 Commission of Enresa, S.A. S.M.E. M.P. 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 & Touche).
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 <i>Journal of Modern Power Systems and Clean Energy</i> (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 five 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 <i>IEEE Transactions on Power Systems</i> (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

PROPRIETARY NON-EXECUTIVE DIRECTORS		
Name of director	Name of significant shareholder represented or that nominated the director	Profile
		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)	<p>Born on 31 July 1951. BA and PhD (Cum Laude) 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 Economics Programme for the master's degree in Renewable Energy at the University of Barcelona. 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).</p> <p>Member of the Board of Directors of ABERTIS (2013 - May 2018). Member of the Advisory Board of the CSN (2016-2018). Chairman of the National Energy Committee (CNE) (2005-2011). Chairman of ARIAE (2005-2011). Vice-Chairman of MEDREG (2010-2011) and chairman of MEDREG's scientific committee (2014-2016). Member of CEER (2005-2009). Chairman 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). Chairman of EPLICSA (2004-2005). Vice-Chairman 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 160 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
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	<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 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</p>

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
	<p>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.</p> <p>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>
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 España Compañía de Seguros y Reaseguros, S.A., Mapfre Global Risks Compañía Internacional de Seguros y Reaseguros, S.A. and member of its Executive Committee, 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: 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. Chairman 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. 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). Consultant to the European Union for the liberalisation of the Romanian electricity system, defining the generation market, the methodology and the calculation of the distribution tariffs and preparing the regulatory changes to liberalise generation and supply (2000). International Regulation Officer at Corporación Unión Fenosa, providing services in the Regulation Secretariat (2002-2004). General Manager of Operations at Red Eléctrica de España, S.A., with significant responsibilities in planning the industry's activities and infrastructure, the integration of renewable energy, interconnection capacity with the European electricity system and changes to electricity regulation (2004-March 2012). His academic experience includes work 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</p>

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
	Español de la Energía and professor in energy supply-related subjects at Universidad de Alcalá de Henares.
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 the Board of Directors 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 Fundación Española de Banca para Estudios Financieros (FEBEF). Member of the Advisory Board of the publisher Wolters Kluwer España, S.A. 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. Spanish representative on the Advisory Board of the European Committee on Data Protection. Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project. 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. 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 Retevisión, S.A. 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. Chairman of the Board of Directors of OFG Telecomunicaciones. Independent Director of Témpace Properties Socimi, S.A. Independent director of the Spanish engineering firm SEG, S.A. Member of the Board of Directors of Banco Caminos. Member of the Territorial Board of IESE in Madrid. Adviser to the Board of Directors of the Mexican engineering firm CAL Y MAYOR. Formerly: 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), representing Emilanteos, S.L. Managing Director of COPISA Constructora Pirenaica, S.A. Vice-Chairman 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, Ferrovial Conservación, S.A. Representative for Castilla-La Mancha, Ferrovial-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, Ferrovial, S.A. Other: Member of the Advisory Board of the daily newspaper Expansión. Member of WCD, Women Corporate Directors, and co-chairman 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.
MR ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	Born on 20 July 1955. Currently: Career civil servant, on leave. Head of Fleet Technical Inspection at the multinational International Marine Coatings Ltd from 1982 to 1989, currently on forced leave. Master's degree in National Defence from Universidad Rey Juan Carlos. Graduate degree in Higher Military Studies from Centro Superior de Estudios de la

INDEPENDENT NON-EXECUTIVE DIRECTORS	
Name of director	Profile
	<p>Defensa Nacional (CESEDEN). Graduate degree in Higher Defence Studies from Centro Superior de Estudios de la Defensa Nacional (CESEDEN). Executive MBA (EMBA) for members of Parliament from Instituto de Empresa (IE) Business School. Parliament and Business programmes (Inforpress, Iberdrola, Indra). Honorary Professor in the Real Forum de Alta Dirección Chair at Universidad Alfonso X El Sabio. Honorary Professor in the UNESCO Chair of Comparative Politics and Government, attached to the Defence and Industry and Security Areas, at Instituto Internacional de Ciencias Políticas. Professor at Sociedad de Estudios Internacionales. Higher International Studies course. Universidad Rey Juan Carlos. Formerly: General Manager of the Spanish Civil Guard (2011-2016). Scientific Director of the Instituto Internacional de Ciencias Políticas (2010). Vice-Chairman of the Defence Committee of the Congress of Deputies (2004-2011). Defence spokesman of the Congress of Deputies (1996-2000). Adviser to the Minister of Public Administrations (2004). Government Delegate in Galicia (2000-2004). Member of the Parliament, elected for the province of La Coruña, in seven legislatures (1989-2012), holding the following posts, among others: Spokesman for the Shipping Industry and Merchant Navy, Vice-Chairman of the Defence Committee of the Congress of Deputies, Defence Spokesman in the Congress of Deputies, Chairman of the National Defence Committee, Member of the OSCE International Assembly, Member of the NATO Parliamentary Assembly. First Deputy Mayor of El Ferrol (1987-1989). Member of the El Ferrol Municipal Council (1983-1991). Speaker at conferences and seminars on Defence, Fisheries, Shipping Industry, Merchant Navy, Security and the Civil Guard, at various Universities and in all kinds of national and international forums, including Europol, Centre des Hautes Études du Ministère de l'Intérieur de France (CHEMI) in Paris and the Accademia della Guardia di Finanza in Italy.</p>
MR JOSÉ LUIS FEITO HIGUERUELA	<p>Born on 13 April 1952. Degree in Economics and Business Studies, Universidad Complutense de Madrid. State Trade Expert and Economist. Ambassador of Spain. Currently: Chairman and General Manager of IEE (Instituto de Estudios Económicos) since 2009. Member of the Executive Committee and Management Board of the Spanish employers' confederation CEOE since 2001. Member of the Board of Directors of Bankia, S.A. and member of its Audit and Compliance Commission since 2012. Member of the Editorial Board of the daily newspaper Expansión since 2001. Member of the Social Council of Universidad Carlos III. Member of the Editorial Board of ICE.</p> <p>Formerly: Chairman of the concessionaires' association ASETA, Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014). Ambassador of Spain to the OECD in Paris (1996-2000). Partner and Member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), in which entity he was Chief Economist, responsible for management of various areas in Investment Banking (1986-1996). Head of international financial institutions at the Banco de España, member of the European Monetary Committee (Brussels) and the Committee of Governors of the Central Banks of the European Economic Community in Basel (1984-1986). Technical Advisor and Executive Director of the International Monetary Fund in Washington (1980-1984). Head of the Foreign Sector Research and Data Processing Service of the Ministry of Economy and Finance in Madrid (1978-1980). Programmer, analyst and IT executive at Seresco, S.A. and Entel-Ibermática, S.A. in Madrid (1967-1978).</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
No data		

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.</p> <p>In the report on the appointment proposal prepared 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 an 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, including a large international contingent, at the Extraordinary General Meeting held in July 2015, in which the separation of the positions of Chairman of the Board and Managing Director was approved virtually unanimously, 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).</p> <p>Currently: Chairman of the Red Eléctrica Group and of the Board of Directors of Red Eléctrica Corporación, S.A.</p> <p>Chairman 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 Spain’s real economy (since 2017). Trustee of Fundación España Digital (since 2014).</p> <p>Formerly: Vice-Chairman of the Spanish consultancy Llorente y Cuenca, specialising in reputation management, communication and public affairs (2016-2018). Economic director 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, economics spokesperson of the</p>



	<p>important strategic responsibilities and functions to be performed by Mr Sevilla Segura as Chairman of the Board of Directors did not entirely match the generally accepted profile of an independent director.</p> <p>It was therefore decided that Mr. Sevilla Segura should be assigned to the category of "Other non-executive directors", as specified in LSC article 529 duodecies.2, in line with an orderly, reasonable succession to the previous Chairman of the Board, who was also assigned to that category with the backing of almost all the company's shareholders (at the 2016 Annual General Meeting he was re-elected to that category by 98.5% of the votes cast).</p>	<p>Socialist Group and chairman of the joint committee on climate change (2000-2009).</p> <p>Secretary for economic policy and employment of the Spanish Socialist Party (PSOE) (2000-2004). Economic adviser 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). 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 with German unification (1993-1996). Member, representing the State, of 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>Adviser on international economic relations in the Prime Minister's Office, taking part in the Maastricht Treaty negotiations (1986-1991). Deputy Regional Director in Valencia, sitting on the Management Committee for the export of citrus fruit and on the Chamber of Commerce Executive (1983-1986). Other: He has taught at the Escuela de Organización Industrial (EOI) and at IE Business School (IE), where was associate professor of Economic Environment in an executive master's programme. 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 <i>El Mundo</i> (2008-2018) and currently in the newspaper <i>El Periódico</i>. 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
No data			

C.1.4 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 2018	F/Y 2017	F/Y 2016	F/Y 2015	F/Y 2018	F/Y 2017	F/Y 2016	F/Y 2015
Executive					0.00	0.00	0.00	0.00
Proprietary	2	1			16.67	8.33	0.00	0.00
Independent	3	3	4	5	25.00	25.00	36.36	41.67
Other Non-executive					0.00	0.00	0.00	0.00
Total	5	4	4	5	41.67	33.33	36.36	41.67

C.1.5 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**

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 a 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. The practices set out in the Corporate Governance Policy include diversity on the Board of Directors. The company applies the principle of promoting diversity of knowledge, experience and gender amongst 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 for many years had a series of criteria for determining the ideal profile for service as a 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, specified individually for each director. Applying this new matrix, which shows the competencies, experience, knowledge, professionalism, suitability, independence of judgment, qualities and capabilities the Board of Directors should have, makes it easier to supervise overall Board diversity and facilitates informed decision making. The new 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 new Board competencies matrix is a good governance tool that will facilitate 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. Article 22 of the Board of Directors Regulations

provides that the Board of Directors, within the scope of its authority, will see to it 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 target for the representation of women on the Board of Directors, evaluating the competencies, 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 Commission 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 "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". To that end, the Board of Directors has adopted the recommended best practices in gender diversity and as of year-end 2018, five (41.7%) of its members are women. The company thus continues to comply with the 30% target set in Recommendation 14 of the CBGSC for the year 2020. It is worth pointing out that in 2018 a male proprietary director was replaced by a woman, so the number of women on the Board of Directors increased by one compared to the previous year, when it stood at four. Moreover, since 25 May 2013 a woman has held the position of lead Independent Director. As regards the Board committees, since the latest Board restructuring, which was approved on 27 November 2018, the new 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 Commission are women (50%) and one of the three members of the Appointments and Remuneration Committee is a woman (33.33%).

In each director selection process, the Appointments and Remuneration Committee analyses the profile of each candidate and assesses whether it matches the desired profile for the position. 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 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 2018, 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 2018.

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 Director approved a new matrix of Board competencies, individualised for each director, which is a good governance tool that will facilitate 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.

In assessing candidates for director, 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 judgment, knowledge, qualities, capabilities and availability. In the proposals and reports for the 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 2018, 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 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. The most recent report on Diversity and Equality was approved by the Board of Directors on 29 January 2019. The report relates to financial year 2018 and analyses, among other matters, the presence of women on the Board of Directors and Board committees and compliance with the target of 30% women directors by 2020. It also provides data on diversity in a broad sense among the directors and within the organisation, including, for the first time, information on a larger number of Red Eléctrica Group companies. As of 31 December 2018, the Company has five women directors (41.7%) and so meets the 30% target for 2020 set in Recommendation 14 of the CBGSC.

For further details we refer the reader to the Diversity and Equality Report for 2018, which is published on the corporate website ([www.ree.es](http://www.ree.es)).

- 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 JUAN FRANCISCO LASALA BERNAD	The Board of Directors of the company, in a meeting held on 28 July 2015, unanimously resolved: "To delegate, jointly, severally and indistinctly, to the

	Managing Director of Red Eléctrica Corporation, S.A., Mr. Juan Francisco Lasala Bernad, 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”.
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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 JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DE ESPAÑA, S.A.U.	REPRESENTATIVE OF THE SOLE DIRECTOR	YES
MR JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INTERNACIONAL, S.A.U.	JOINT DIRECTOR	YES
MR JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA INFRAESTRUCTURAS DE TELECOMUNICACIÓN, S.A.U.	JOINT DIRECTOR	YES
MR JUAN FRANCISCO LASALA BERNAD	RED ELÉCTRICA DEL SUR, S.A.	CHAIRMAN OF THE BOARD OF DIRECTORS	NO
MR JUAN FRANCISCO LASALA BERNAD	TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	MEMBER OF THE BOARD OF DIRECTORS (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
MR JOSÉ LUIS FEITO HIGUERUELA	BANKIA, S.A.	DIRECTOR
MS MARÍA JOSÉ GARCÍA BEATO	BANCO SABADELL, S.A.	DIRECTOR
MS CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	GRUPO EZENTIS, S.A.	DIRECTOR
MS SOCORRO FERNÁNDEZ LARREA	CEMENTOS MOLINS INDUSTRIAL, 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 be authorised to join Boards of Directors of other companies. Article 7.3 of the Board Regulations limits the number of boards 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)	3,352
Amount of accrued pension rights of current directors (thousands of euros)	160
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 DUVISION GARCÍA	GENERAL MANAGER OF OPERATIONS
MS. EVA PAGÁN DÍAZ	GENERAL MANAGER OF TRANSMISSION
Total senior management remuneration (in thousands of euros)	
	657

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

Yes  
 No

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-option. The proposal for the appointment (including by way of co-option) 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 chairman. 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 Chairman 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 chairman 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 Chairman 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. Accordingly, in 2018 both plans were updated.

Evaluation of directors. Article 5 of the Board 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 nondelegable 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 chairman of the board and the managing director. The process for the 2017 financial year 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. 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. 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 the 2017 financial year resulted, inter alia, in the following changes in the internal organisation:

- (i) The gender diversity on the Board of Directors was increased with the addition of another female director to replace a male director in September 2018. The Board thus has 42% of women directors.
- (ii) The Induction Plan for new directors was put into effect with the arrival of the new directors appointed in 2018.
- (iii) Directors with knowledge and experience in the infrastructure sector joined the Board, thus increasing the Board's diversity in this respect.
- (iv) The company fulfilled its commitment of continuous improvement in corporate governance, as is shown by the improvements described in the 2018 Corporate Governance Report.

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 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 evaluation the functioning of the Board, its chairman, 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.

In 2018, in accordance with the recommendations for good governance of Listed Companies, the Board of Directors engaged an outside consultant to act as facilitator and leader of the process of self-evaluation of the effectiveness of the functioning of the Board. In order to carry out the self-evaluation exercise, an interview script was defined taking into account the best corporate governance practices.

The outside consultant held individual interviews with each and every member of the Board of Directors, during which he or she analysed the quality and efficiency of the Board's operation, the functioning and composition of its committees, diversity in the composition and competencies of the Board, the performance of the Chairman of the Board and the company's managing director.

In particular, process of self-evaluation included detailed analysis of the following areas:

- Organisation of the Board
- Organisation of the Committees
- Composition of the Board
- Functioning of the Board
- Communication with Shareholders and Regulators
- Risk Management
- Future Issues
- Suggestions

The self-evaluation report contains the conclusions obtained (summarised in the freely drafted part of the company's Annual Corporate Governance Report, to which we remit) and was submitted to the Appointments and Remuneration Committee and approved by the Board of Directors at its meeting held on 25 September 2018.

The Board of Directors will also initiate shortly a new self-evaluation process for the Board of Directors, covering the year 2018, with the support of an outside consultant.

- 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.

The outside consultant and companies in its group have had no other business dealings with the company or companies in its group.

- 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

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. Quorum: 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. Quorum: 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 chairman 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 it at meetings of the Board of Directors. Such proxy must 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 outside directors to grant proxies to another outside director, which provision has been included in article 21 of the Articles of Association and article 30.2 c) of the Regulations.)

30.2 c) of the Regulations). The chairman 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 chairman 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 chairman 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 regulations establish any age limit for directors:

- Yes  
 No

	Age limit
Chairman	N/A
Managing director	N/A
Director	70

C.1.23 Indicate whether the articles or board 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 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 met without the chairman being present. The figures treat proxies with specific instructions as being in attendance.

Number of board meetings	11
Number of board meetings without the chairman being present	

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 COMMISSION	11
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Number of meetings of the APPOINTMENTS AND REMUNERATION COMMITTEE	12
Number of meetings of the SUSTAINABILITY COMMITTEE	2

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	11
In-person attendances as a % of total number of votes cast during the year	97.70
Number of meetings with all the directors present in person or by proxy with specific instructions	11
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
MR JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR
MS MARÍA TERESA QUIRÓS ÁLVAREZ	CHIEF FINANCIAL OFFICER
MR JOSÉ MANUEL RODRÍGUEZ GIL	ECONOMIC 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 Commission 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 Commission 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 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 related to the authority of the Audit Commission incorporating minimum adjustments in relation to the Outside Auditors.

The Audit Commission is the body under the Board of Directors that is responsible for the relationship with outside auditors. In this regard the Audit Commission 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 Commission, 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 judgment, 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 Commission 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 Commission must examine the underlying circumstances. Further, pursuant to the terms of article 42 of the Board of Directors Regulations, the board 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 Commission 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 Commission. Since 2016, in compliance with Recommendation 6 of the CBGSC, the company publishes the Audit Commission 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 first sent to the CNMV so that they are known by 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

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)	23	117	140
Fees for non-audit services / Fees for audit services (%)	23.00	32.00	30.00

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 chairman of the audit commission 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	6	6

	Individual	Consolidated
No. of financial years audited by current audit firm / No. of financial years the	18.00	33.00

company or its group has been audited (as a %)		
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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 meetings in good time. If so, give details.

- Yes  
 No

Details of the procedure

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 will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the board may be called by telephone and the prior notice period will not apply when, in the chairman'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 chairman 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 chairman 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 Commission 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

Details of the procedure

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	<p>At 31 December 2018 there are three (3) beneficiaries with this type of agreement. In accordance with the remuneration policy, the managing director's contract, following the customary market practices, contemplates compensation equivalent to one year's remuneration in the event of termination of the commercial relationship by reason of dismissal or change of control. In addition, as is customary in these cases, as a result of his appointment as Managing Director, the pre-existing employment contract is suspended. If it were to be extinguished, in terms of compensation, it would accrue the remuneration existing at the date of the suspension, for the appropriate purposes based on his seniority with the Company at the date of his appointment as Managing Director (14 years), in accordance with the current labour legislation.</p> <p>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.</p>

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	v	
	Yes	No

Is the general meeting of Shareholders informed of the clauses?	v	
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**C.2. Board of directors commissions**

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 COMMISSION		
Name	Position	Category
MS MERCEDES REAL RODRIGÁLVAREZ	MEMBER	Proprietary
MR ANTONIO GÓMEZ CIRIA	CHAIRMAN	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 commission, including any additional functions to those specified by law, and describe the commission's procedures, composition and functioning. For each of these functions, indicate the most important action taken during the year and how, in practice, the commission 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 Commission 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 Commission are included in the Annual Activities Report of the aforesaid Commission for 2018, 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 commission 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 chairman 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 of the chairman as chairman	28/11/2017

APPOINTMENTS AND REMUNERATION COMMITTEE



Name	Position	Category
MR ANTONIO GÓMEZ EXPÓSITO	MEMBER	Proprietary
MS SOCORRO FERNÁNDEZ LARREA	MEMBER	Independent
MR JOSÉ LUIS FEITO HIGUERUELA	CHAIRMAN	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 2018, 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	CHAIRMAN	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 Sustainability Committee has the basic responsibilities in matters of sustainability previously assigned to the Appointments and Remuneration Committee, together with other Corporate Governance functions. Among its more important functions are those of monitoring the Group's strategy in relation to the 2030 Sustainability Commitment and its sustainability policies and their link to the Strategic Plan, as well as periodically assessing Red Eléctrica's progress, results and degree of compliance in this area. The functions of the Sustainability Committee are currently being analysed in detail with a view to formulating and incorporating them in the Board of Directors Regulations, which are under review. From the time it was created in November 2018, the Sustainability Committee held two (2) meetings in 2018 and also reported twice on its activities to the Board of Directors.

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 2018		F/Y 2017		F/Y 2016		F/Y 2015	
	Number	%	Number	%	Number	%	Number	%
AUDIT COMMISSION	2	50.00	2	40.00	1	20.00	1	20.00
APPOINTMENTS AND REMUNERATION COMMITTEE	1	33.33	2	40.00	3	75.00	4	100.00
SUSTAINABILITY COMMITTEE	2	66.66		0.00		0.00		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 and the Appointments and Remuneration Committee in accordance with the principal international recommendations and practices regarding corporate governance, introducing improvements in the organisation and functioning.

The company opted for comprehensive regulation in the Board of Directors Regulations without establishing specific internal regulations for the Committees. The functions and responsibilities of the Audit Commission and the Appointments and Remuneration Committee are based on the Articles of Association, which were adapted in this regard to the innovations introduced by Act 31/2014 of 3 December 2014, amending the Spanish Companies Act to improve corporate governance, at the Annual General Meeting of Shareholders held on 15 April 2015. The Board of Directors Regulations also were amended in the same sense on 20 December 2016, for full adaptation to the reforms 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 and to adapt them to the new organisational structure. In view of the most recent reforms of the Spanish Companies Act, the principal matters had already been incorporated in the amendments of the Articles and the Board Regulations approved in 2013. Nevertheless, these corporate rules were reviewed to ensure that they are fully adapted to the Act. At the end of 2018, a review of the Board of Directors Regulations was started that will update the functions of the Board committees.

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.

The new Sustainability Committee was created on 27 November 2018 pursuant to the provisions of 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 has the basic responsibilities in matters of sustainability previously assigned to the Appointments and Remuneration Committee, together with other corporate governance functions. Among its more important functions are those of monitoring the Group's strategy in relation to the 2030 Sustainability Commitment and its sustainability policies and their link to the Strategic Plan, as well as that of periodically assessing Red Eléctrica's progress, results and degree of compliance in this area. The functions of the Sustainability Committee are currently being analysed in detail with a view to formulating and incorporating them in the Board of Directors Regulations, which, as mentioned previously, are under review.

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 2018, in accordance with Recommendation 6 of the CBGSC, the activities reports of the Board committees for the 2017 financial year were published, separately, on the corporate website. The committees' activity reports for 2018 are also expected to be published on the corporate website ([www.ree.es](http://www.ree.es)), except for the new Sustainability Committee, given that it was created at the end of 2018.

**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 Commission, 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 Commission 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 Commission, 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 Commission, 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.	47
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Other expenses.	448
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Financing agreements, loans and capital contributions (lender).	42,263
TRANSMISORA ELÉCTRICA DEL NORTE, S.A.	Financial income on the loan.	2,550

**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 nongovernmental 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 confidentiality 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 - OFFICIAL ANNEX 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 environment are formally established and in place in all areas/operations of the organisation and that, furthermore, in many cases the best practices in this field 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 2018, continuing the review of the internal control components, 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 line with the most advanced practices within the COSO framework.

In 2017, EY audited the comprehensive risk management system and concluded that the system implementation is in accordance with the ISO 31000 standard.

-Integrated risk management policy:

The Integrated Risk Management Policy is approved by the Board of Directors. It identifies the different types of risk that may affect the Group, sets the risk level considered acceptable and provides action guidelines for managing and mitigating those 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.

-Integrated risk management and control procedure:

On the other hand, the General procedure for comprehensive risk management and control governs the process of identification, analysis, evaluation and control of the management of the significant risks to which the Group is exposed.

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.

**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 Integrated risk management and control policy and procedure define the responsibilities of the governing bodies and of each organisational unit, as well as the information flows and activities to be carried out.

-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 Commission as part of the committee's continuous risk monitoring activity.

-The Audit Commission 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 Advisory Committee for the Office of the Chairman, 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 directly to the Chairman's Office, 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 Management Committee, Audit Commission and 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:

The principal business 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 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.

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.

-Operational risks:

- 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 120 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.
- ACHIEVEMENT OF BASIC STRATEGIES: Degree of impact on the achievement of basic strategies.
- 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 risk level the Red Eléctrica Group is willing to accept is set for individual risks and for aggregate risk in each type of impact.

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:

No noteworthy strategic or financial risk materialised during 2018.

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 2018 events occurred that resulted in minor cuts in supply, with the exception of the partial cut in the electricity supply that occurred in Menorca on 28 October. This incident occurred when a tornado crossed the island from north to south, affecting two lines (Dragonera-Mercadal and Dragonera-Ciudadela) and causing serious structural damage to pylons and conductors. The work to restore the electricity supply was expedited by the Special Maintenance Plan put into operation that same year, which provides emergency technical and human resources to reinforce the safety and reliability of the Menorca distribution network. In view of the extraordinary nature of this natural event, the Insurance Settlements Consortium agreed to cover the damage and so there was no economic loss and no impact on the electricity supply quality indicators.

The control systems responded appropriately to these events, as is evidenced by the transmission network availability index, which in 2018 was 98.14 % for Peninsular Spain, 98.45% for the Canary Islands and 96.81% for the Balearic Islands.



- 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 Internal Audit and Risk Control Office, 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.

In 2018 a Business Continuity Plan was implemented 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. Thus, in 2018 there was continued collaboration on developing the Investment project risk management system (IRIS project) and the Risk map of the Group's activities in Peru. There was also collaboration with the compliance area in updating the risk maps for criminal risk and data protection, this latter in response to the entry into force of the European Data Protection Regulation.

#### MAIN ACTIONS TAKEN IN 2018

- Review of the methodology for measuring the impact of reputational risk.
- Analysis and redefinition of the Group's risk structure and reporting.
- Deployment of the investment project risk management office.
- Improvements to the methodology for quantifying the impact on the electricity supply.

#### MAIN ACTIONS TAKEN IN 2019

- Update of the Group's acceptable risk level.
- Digitalisation of the Risk Control function.
- Development of a model for assessing the risk associated with the Group's assets in service.
- Analysis and implementation of the recommendations of the Task Force for Climate-related Financial Disclosure.
- Development of a dashboard of key risk management indicators.

**F. INTERNAL SYSTEMS FOR CONTROL AND MANAGEMENT OF RISKS IN RELATION TO THE PROCESS OF FINANCIAL INFORMATION REPORTING (SICFR)**

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 review and supervision 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 Commission is responsible for supervision of the SICFR. In accordance with article 16 of the Board of Directors Regulations, the Audit Commission 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 Commission 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 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 environment are formally established and in place in all areas/operations of the organisation and that, furthermore, in many cases the best practices in this field 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 2018, continuing the review of the internal control components, 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.

**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 noncompliance 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 noncompliance and proposing corrective actions and sanctions is the Ethics Manager and defender of stakeholders, with the cooperation of the chairman of Red Eléctrica Group and the chairman 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 version was generated in September 2017, 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 will receive a copy of the regulations, being required to sign a declaration confirming receipt thereof and understanding of the obligations to which they are subject as stated in point 2.2 of article 2.

For purposes of the aforesaid regulations, the Oversight Body, as specified in article 11, is the Corporate Economic and Financial Office, which may seek the cooperation of the Office of the Secretary of the Board of Directors for such legal questions as may arise as to their application or interpretation.

- 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 commission of irregularities of a financial and accounting nature, in addition to possible noncompliance 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 noncompliance, complaints, inquiries and suggestions" contemplates a system for receipt and processing of alleged noncompliance by reason of ethical, commercial, financial, accounting and other violations of this code. Any interested party may report alleged noncompliance.

Complaints preferably are to be made electronically. On the website of each company there will be an easily viewed and accessible channel, by way of which, confidentially, complaints will be transmitted electronically to the Ethics Manager. The system will ensure confidentiality and non-reprisal in all of its phases. The Ethics Manager must assume 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 noncompliance, 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.

**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 subprocesses 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 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 Commission 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 Commission, 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 Internal Audit and Risk Control Office is responsible for providing support to the Audit Commission in the evaluation of risks, in close collaboration with the various units that control each of the aforesaid risks (Information Technology Department, Financial, Legal, Tax, Environmental, etc.).

- Which governance body of the entity supervises the process:

The Audit Commission 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 Commission.

**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 judgments, 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 Commission and, thereafter, to the Board of Directors. In these reviews the perimeter of consolidation, the accounting and tax criteria, judgments, and the relevant estimates and projections used in preparation of the Financial Statements are subject to approval by the Audit Commission.

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 Commission timely informed in respect thereof. While the Internal Audit and Risk Control Office is responsible for supporting the Audit Commission 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/subprocesses 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 judgments, estimates, valuations and projections, have been documented by way of flowcharts.

All of the documentation is known to the managers of each cycle/subcycle 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 status of the information associated with maintenance of 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 subprocesses.
    - Details of the organisational structures.
    - Details of the significant cycles.
    - Flowcharts of each of the subprocesses.
    - 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 processes.
    - 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 Investor Relations Office, the Corporate Economic/Financial Office, the General Secretariat, the Board of Directors and the office of the Chairman 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 Systems and 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 and Systems 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 and Systems 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 Human Resources 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 January 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 Commission 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 commission, 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 Commission. 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 Commission 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 Commission has the support of the Internal Audit and Risk Control Office, hierarchically reporting to the Chairman of the Company, and functionally to the Audit Commission. The Audit Commission 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 Commission, 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 Commission, 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 Commission 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 (high, medium and low) and those associated with risk of fraud are broken out.

The Group considers it has an effective SICFR. In the 2018 financial year no significant deficiencies were identified in the Group's SICFR, and the outside auditor concluded that the Group maintains an effective SICFR.

- 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 Commission, 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.

- 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 listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies [ X ]      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 [ X ]

3. During the holding of the annual general meeting, as a supplement to written dissemination of the annual corporate governance report, the chairman 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.
- 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 [ X ]      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 [ X ]      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 [ X ]      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 commission 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 general meetings of shareholders by way of its website.

Complies [ X ]      Explain [ ]

8. The audit commission 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 chairman of the audit commission 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 judgment, 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 [ X ]      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 [ X ]      Explain [ ]

14. The board of directors should approve a director selection policy that:

- a) Is specific and verifiable.
- b) Ensures that the proposals for appointment or re-election are based on prior analysis of the needs of the board of directors.
- c) 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 [ X ]      Explain [ ]

The Appointments and Remuneration Committee has had for many years a series of criteria for determining the ideal profile for service as a 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 the new matrix of the directors' individual competencies, which shows the competencies, experience, knowledge, professionalism, suitability, independence of judgment, qualities and capabilities the Board of Directors should have, makes it easier to supervise overall Board diversity and facilitates informed decision making at every situation.

The new 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 new Board competencies matrix is a good governance tool that will facilitate 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.

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, who put forward various candidates and issue a report on each one, in which they assess the candidate's competencies and experience. These reports are carefully analysed and assessed before submitting a report and/or proposal to the Board.

In addition the Appointments and Remuneration Committee fulfils the basic responsibilities established in articles 18.1, subsections h), i) and n) and 22 of the Board of Directors Regulations, 24 of the Articles of Association and the provisions in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014, establishing the following practices: -The company applies the principle 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. To do this, when assessing the candidates participating in the selection process, the procedure will take into account the competencies, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at that time, the Appointments and Remuneration Committee playing an important role in the process. -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.

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 2018, 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 proposals and reports on appointment of directors that have been submitted for approval of the Annual General Meeting of Shareholders held in 2018 may be consulted.

At 31 December 2018 the Company has five women directors (41.7%) and meets the 30% target for 2020 set in Recommendation 14 of the CBGSC.

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 [ X ]      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:

- a) In companies of high capitalisation in which there are few shareholdings legally considered to be significant.
- b) In companies with a plurality of shareholders represented on the board of directors but not otherwise related.

Complies [ X ]      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:

- a) Professional experience and background.
- b) 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  Partially complies  Explain  Not applicable

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  Partially complies  Explain

25. The appointments committee should ensure that non-executive directors have sufficient time available for proper performance of their duties.

And the board regulations should establish the maximum number of boards of companies of which their directors may be members.

Complies  Partially complies  Explain

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.

Complies  Partially complies  Explain



27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. And when they must occur, proxies should be granted with instructions.

Complies  Partially complies  Explain

28. When directors or the secretary express concerns about any proposal or, in the case of directors, about the company's performance, and such concerns are not resolved in the board of directors meeting, the member expressing them should be entitled to request that they be noted in the minutes.

Complies  Partially complies  Explain  Not applicable

29. The company should establish appropriate channels for directors to obtain the advice necessary for performance of their duties including, if so required by the circumstances, outside advice at the expense of the company.

Complies  Partially complies  Explain

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  Partially complies  Explain

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 chairman 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  Partially complies  Explain

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  Partially complies  Explain

33. The chairman, 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  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 chairman and the vice chairmen, 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 chairman.

Complies  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 as may be applicable to the company.

Complies  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 chairman 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  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 chairman, 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 commission, 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 commission.

Complies [ X ]      Partially complies [ ]      Explain [ ]

41. The head of the unit that assumes the internal audit function should present its annual work programme to the audit commission, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies [ X ]      Partially complies [ ]      Explain [ ]      Not applicable [ ]

42. In addition to those contemplated by law, the audit commission 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 commission 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 commission 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 nonfinancial (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 commission 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 [ X ]      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 chairman 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 judgment they are suitable.

Complies [ X ]      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 [ X ]      Partially complies [ ]      Explain [ ]

51. The remuneration committee should consult with the chairman and managing director of the company, especially on matters relating to executive directors and senior managers.

Complies [ X ]      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 commission, 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 nonfinancial risks of the company, including operating, technological, legal, social, environmental, political and reputation risk.
- h) Coordinating the process of reporting nonfinancial 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 nonfinancial 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 judgment 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:

- a) Are tied to performance criteria that are predetermined and measurable, and those criteria take account of risk assumed in order to obtain a result.
- b) Promote sustainability of the company and include nonfinancial 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.
- c) 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  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 managing director has assumed a commitment to the company to maintain ownership of the shares received as annual variable remuneration for each financial year for at least five years. After a period of five years, if 100% fulfilment of objectives is achieved, the managing director will have received a number of shares approximately equivalent to one year of fixed remuneration. The aforesaid element of remuneration is stated in the annual report on remuneration of directors of the company, approved by the Board of Directors at its meeting of 16 February 2018, and communicated as a material disclosure to the CNMV.

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 this year, as a novelty, has a new format and content following the most recognised international practices, submitted to independent outside review. 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.

Set forth below is additional information regarding the following sections.

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 Empresa Nacional de Residuos Radiactivos, S.A. (ENRESA), 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".

3. 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 2018 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.

This annual remuneration report was approved unanimously by the board of directors of the company at its meeting on:

[ 19/02/2019 ]

State whether there are any directors who voted against or abstained from voting to approve this Report.

[ ] Yes  
[ v ] No



# Red Eléctrica Corporación, S.A.

**Auditor's Report on the "Information concerning the System of Internal Control over Financial Reporting (ICOFR)" of Red Eléctrica Corporación, S.A. and subsidiaries for 2018.**

(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

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

## **Independent Auditor's Report on the System of Internal Control over Financial Reporting (ICOFR) of Red Eléctrica Corporación, S.A. and subsidiaries for 2018**

To the Directors of Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (hereinafter "ICOFR") 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 2018. 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.

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.

### **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 oversight 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 information concerning ICOFR.



## **Our Responsibility**

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Our responsibility is to express an opinion on the effectiveness of the Group's System of 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 System of 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.



## Conclusion

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In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2018, 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 information concerning ICOFR included in note F of the Group's Annual Corporate Governance Report at 31 December 2018 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 the System 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 20 February 2019 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2018, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.  
On the Spanish Official Register of  
Auditors ("ROAC") with No. S0702

*(Signed on original in Spanish)*

Eduardo González Fernández

20 February 2019