



Grupo Red Eléctrica

Appointments and Remuneration Committee

16 February 2021

Annual Activity Report of the
Appointments and Remuneration
Committee for 2020

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1. Introduction

In accordance with the provisions of article 18.6 a) of the Board of Directors Regulations, the Appointments and Remuneration Committee's Action Plan for 2020 foresees the drafting of a report outlining the activities performed by the Committee in 2020, which is the purpose of this document.

2. Legal background, structure, functions and composition

2.1. Legal background:

At a Board of Directors meeting held on 19 February 2019, a resolution was approved to amend the Board of Directors Regulations to meet the strategic approach that the Board wished to apply to the sustainability of Grupo Red Eléctrica by restructuring the Board's Committees, consisting of the creation of a new Sustainability Committee and the update of the functions of the other two Committees: the Audit Committee and the Appointments and Remuneration Committee. The Appointments and Remuneration Committee's responsibilities in relation to the Group companies were reinforced in accordance with the best international corporate governance practices and the general risk supervisory and control function of the Audit Committee was also reviewed in coordination with the specific functions assigned to each of the other Committees within their respective areas of responsibility.

At a meeting held on 31 March 2020, the Board of Directors Regulations were amended to incorporate the appropriate adaptations to Law 11/2018, of 28 December, on matters of non-financial information and diversity, update the functions of the Board of Directors and of its Committees in respect of sustainability, some of which are of cross-cutting nature, and strengthening the mechanisms of co-ordination between the three Board Committees, with the formal and material scope agreed by them.

The mentioned review improves the governance of Grupo Red Eléctrica, reinforcing the role of the Board of Directors of Red Eléctrica Corporación, S.A. in relation to the Group, incorporating and strengthening resolutions in respect of governance (the appointment, renewal and removal of the directors of the Group companies, the appointment and removal of the executives of Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U. reporting directly to the Chairperson of the Board of Directors or the Managing Director, and to the Group's strategic executives as established by the Board, as well as the establishment of the basic conditions of their contracts, including their remuneration) adopted by the Board on September 2019.

Likewise, the concept of corporate reputation has been expressly included in the Regulations as being one of the main drivers of the Board of Directors' actions, which should also ensure the interest of the company as a whole. In particular, the functions of the position of chairperson of the Board relating to institutional representation, supervision of the company's and the Group' policies and strategies and the need to ensure the independence of Red Eléctrica de España, S.A.U. as TSO are included.

Furthermore, in line with the above, the aforementioned review reinforces the principle of the TSO's independence -separation of regulated and non-regulated activities- and incorporates the amendment envisaged in the Draft Bill amending the consolidated text of the Spanish Companies Act (and other financial regulations) to adapt them to Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement) regarding the elimination of the figure of the natural person who is appointed as a representative of a director who is a legal person in listed companies. Finally, it introduces some other improvements in form or style.

2.2. Structure and functions:

Article 24 of the Articles of Association and articles 17 and 18 of the Board of Directors Regulations regulate the structure, composition and duties and responsibilities of the Appointments and Remuneration Committee.

The Committee has responsibilities assigned to it, *inter alia*, in relation to appointments, performance and removals of directors and company senior managers, their remuneration, fulfilment of the duties of directors, the rules and actions regarding Corporate Governance and in matters regarding Corporate Responsibility and Sustainability, and with respect to the Group's employees.

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

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

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

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

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

2.3. Composition:

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

The appointment and removal of the Committee members shall be carried out by the Board of Directors at the proposal of the Board's chairperson, following a report from the Appointments and Remuneration Committee. The members of the Committee shall hold their position for a term of no more than three years, and may be re-elected, and shall be removed when removed as directors or when so resolved by the Board of Directors, following a report

from the Appointments and Remuneration Committee. The chairperson will be replaced every three years and may be re-elected.

The appointments, re-elections and removals to and from the Appointments and Remuneration Committee during 2020 have been the following:

- At a meeting held on 24 November 2020, the Board of Directors of Red Eléctrica Corporación, S.A., appointed the independent director, Ms. María José García Beato, as a member of the Appointments and Remuneration Committee of Red Eléctrica Corporación S.A., for a three-year period, as established by the Board of Directors Regulations and at the proposal of the Chairperson of the Board, after receiving a report from the Appointments and Remuneration Committee in accordance with article 24 of the Articles of Association and article 17 of the Board of Directors Regulations, ceasing to be a member of the Audit Committee.
- Mr. Antonio Gómez Expósito tendered his resignation as proprietary director, representing SEPI, resignation that became effective at the meeting of the Board of Directors held on 22 December 2020, ceasing to be a member of the Board of Directors of Red Eléctrica Corporación, S.A. and, therefore, ceasing to form part of the Appointments and Remuneration Committee as of the aforementioned date.

The composition of the Committee at 31 December 2020* was as follows:

Director	Position	Type of Director
Socorro Fernández Larrea	<i>Chairperson</i>	External independent
María José García Beato	<i>Director</i>	External independent

*As at 31 December 2020, there is a vacancy for a proprietary director on the Appointments and Remuneration Committee, due to the resignation as a director and, therefore, as a member of the Appointments and Remuneration Committee, of Mr. Antonio Gómez Expósito, which became effective at the meeting of the Board of Directors held on 22 December 2020, having been a member of said Committee during the financial year 2020 up to the aforementioned date.

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

Set forth below are brief summaries of the professional careers of the members at 31 December 2020:

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

She is currently Chairperson of OFG TELECOMUNICACIONES; Independent Director of GRUPO CEMENTOS MOLINS; Independent Director of the Spanish engineering firm SEG, S.A.; Independent Director of BANCO CAMINOS; Council Member of the IESE Regional Board in Madrid and advisor to the Board of Directors of the Mexican engineering firm CAL Y MAYOR.

She has also been, among others, executive director of the Consulting firm JUSTNOW, S.L.; independent director of TÉMPORE PROPERTIES Socimi, S.A.; independent director of the ACR Group; member of the Board of Directors of AMPER, S.A. as proprietary director, representing the company Emilanteos, S.L.; general manager of COPISA Constructora Pirenaica S.A.; Deputy Chairperson of ANCI (Spanish Association of Independent Constructors); member of the governing board of Spanish Association of Civil Engineers

(*Colegio de Ingenieros de Caminos, Canales y Puertos*); Regional Manager of the construction company SEOP, S.A.; National Representative of FERROVIAL CONSERVACIÓN, S.A.; Representative in Castilla la Mancha of FERROVIAL-AGROMAN, S.A.; Representative in Castilla La Mancha of AGROMAN Empresa Constructora, S.A.; General Director for Roads, Hydraulic Structures and Transport of the Department of Public Works of the Regional Government of Castilla La Mancha and chief project engineer for FERROVIAL, S.A.

She is also a member of the advisory board of the newspaper EXPANSION, member of WCD (Women Corporate Directors) and previously co-chair of the Spanish chapter; member of AED (Spanish Association of Executives) and a member of its Executive Board; member of CEAPI (Business Council Alliance for Ibero-America); member of WPO-YPO (Young Presidents' Organization), and a former member of the Executive Committee of the Eurolatam and Madrid chapter and member of IWF (International Women Forum), and former member of its management board in Spain; Medal of Honour of the Spanish Association of Civil Engineers.

- *Ms. María José García Beato*, born on 27 May 1965, has a degree in Law from the Universidad de Córdoba and is a Spanish State Attorney.

She is currently general secretary-director 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 AEB; member of the Advisory Board of the publisher Wolters Kluwer España S.A., and member of the Advisory Board of Fundación Cajasur.

Among other positions, she has been State Attorney at the Madrid High Court; head of the Legal Office at the Data Protection Agency; State Attorney at the Advisory Services Office of the Directorate for State Legal Services; State Attorney at the General Secretariat for Communications of the Ministry of Public Works; secretary of the board of directors of Retevisión, SA.; director general of the Ministry of Justice Office; board member of: Infoinvest S.A.; Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA); Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI); Sociedad Estatal Correos y Telégrafos, S.A.; Banco Guipuzcoano, S.A. and of Banco CAM, S.A.; under-secretary of Justice; State Attorney in the Legal Department at the National Court; director of the Legal Department of Banco Sabadell; secretary of the board of directors of Banco Urquijo, S.A.; director of the board of directors of Banco Gallego, S.A.; secretary of the board of Trustees of the Foundation for the Study of Applied Economics (FEDEA) and secretary of the board of directors of Sabadell United Bank (Miami).

The secretary of the Committee is Mr. Carlos Méndez-Trelles García, current Secretary of the Board of Directors of the company, by virtue of his appointment as such, approved by the Board of Directors of Red Eléctrica Corporación, S.A., at the proposal of the Appointments and Remuneration Committee, on 26 May 2020. On the same date, the former secretary of the Board of Directors, Mr. Rafael García de Diego-Barber, resigned (for reasons of age), thereby ceasing to hold his position as secretary of the Board of Directors and, consequently, his position as secretary of the Appointments and Remuneration Committee.

Throughout 2020, at the request of the Committee itself, the Committee meetings have usually been attended by the Economic-Financial Corporate Director, the Director of Strategy and Control, the corporate Director of Transformation and Resources, and occasionally by the Director of Internal Audit and Risk Control, the Finance Director and the Corporate Director of Sustainability and External Affairs, the Vice-secretary General, and the Vice-secretary of the Board, all of them exclusively to report on matters concerning the Committee's areas of responsibility, safeguarding at all times the independence of the aforementioned Committee.

3. Activities carried out during 2020

At a meeting held on 21 January 2020, the Appointments and Remuneration Committee approved its Annual Action Plan for 2020, considering the responsibilities attributed to it by the Articles of Association and in the Board of Directors Regulations.

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

The Appointments and Remuneration Committee has met fifteen (15) times during 2020, informing the Board of Directors the same number of times about the activities performed by the Committee.

The main tasks that the Committee has carried out during 2020 have been, among others, the following:

3.1. Regarding appointments, performance and removals:

- Implementation of the contingency plan for the succession of the Chairperson of the Board, reporting favourably and proposing to the Board of Directors the appointment of a new director within the category of "other external" through the co-optation procedure and her subsequent appointment as non-executive Chairperson of the Board to fill the vacancy created by the resignation of the former Chairperson.
- Favourably report and propose to the Board of Directors, to be tabled at the General Meeting of Shareholders, the appointment of a female director within the category of "other external directors" and one executive director and the re-election of an independent female director.
- Analysis and favourable report to the Board regarding the Chairperson's proposal to re-elect two independent directors as members of the Audit Committee.
- Favourable report and proposal to the Board of Directors, regarding the ratification of the delegation of powers to the Managing Director, upon his ratification and appointment as executive director by the Shareholders at the General Meeting.
- As part of the process of succession to the position of Secretary of the Board, analyse and report favourably to the Board of Directors on the proposal for the appointment of a new Secretary of the Board
- Favourable report and proposal to the Board of Directors, regarding the appointment of a new female Director of Internal Audit and Risk Control.
- Analysis and favourable report on the proposals for director appointments at companies pertaining to Grupo Red Eléctrica.
- Analysis on the compatibility of positions of independent director in view of the possibility of an appointment in a company unrelated to Grupo Red Eléctrica.
- Report favourably to the Board, for its approval, on the resignation of a proprietary director and the appointment of a new proprietary director, by co-optation, at the proposal of SEPI.
- Report favourably to the Board, for its approval, on the proposed transfer of the registered office of a company of Grupo Red Eléctrica and the appointment of joint directors in said company.

- Report favourably to the Board, for its approval, on the appointment of an independent director as a member of the Audit Committee and her removal as a member of the Sustainability Committee.
- Report favourably to the Board, for its approval, on the appointment of an independent director as a member of the Appointments and Remuneration Committee and her removal as a member of the Audit Committee.
- Report favourably to the Board, for its approval, on the appointment of an independent director as a member of the Sustainability Committee and his removal as a member of the Appointments and Remuneration Committee.

3.2. Regarding remuneration:

- Submit a favourable report to the Board of Directors regarding the Proposed Remuneration of the Board of Directors for 2020, and approve and submit to the Board of Directors a favourable report the Annual Report on Remuneration of directors for the years 2019 and 2020, to be tabled at the Annual General Meeting of Shareholders.
- Approval of the proposed assessment of the fulfilment of the 2019 Business and Managerial Objectives and those of the Executive Committee.
- Approval of the 2020 Objectives for the Executive Committee and the Operations Department.
- Analysis of the correlation matrix of objectives with the Strategic Plan.
- Analysis of the tracking of the 2020 Business and Managerial Objectives and those of the Executive Committee.
- Analysis of the report regarding the Remuneration policy for the executive team of Red Eléctrica in 2020.
- Information on the progress of the Incentivised Exit Plan (*Plan de Salidas Incentivas* or PSI).
- Approval of the fulfilment of 2014-2019 Long-Term Objectives.
- Report favourably to the Board of Directors on the proposals for the Annual Share Ownership Programme for Employees, Members of Management and Executive Directors of Grupo Red Eléctrica.

3.3. Regarding Corporate Governance rules and actions:

- Analysis, favourable report and presentation to the Board of a voluntary proposal to amend the Board of Directors Regulations for the purpose of incorporating legal amendments under way and undertake other technical improvements that were considered necessary.
- Favourable report on the proposed Annual Corporate Governance Report for 2019, and presentation to the Board of Directors.
- Analysis, favourable report and submission to the Board of Directors of the proposed calls to meetings, agenda, resolutions and reports related to the Annual General Meeting of Shareholders for 2019, as well as the Electronic Voting Procedure and the Regulations of the Shareholder's Forum.
- Analysis and monitoring of the Board's self-assessment process, as well as analysis of the Report on the Board's self-assessment, agreeing on its submission to the Board of Directors for approval.

- Favourably report to the Board about the proposed review and update of the Code of Ethics of Grupo Red Eléctrica.
- Analysis of the Annual Report on the Criminal Risk Prevention Programme for 2019 and submission to the Board of Directors.
- Analysis and favourable report on the proposal for updating the Criminal Compliance System at Red Eléctrica Group.
- Information on the external audit of the management procedures of the Annual General Meeting of Shareholders.
- Analysis and favourable report on the proposal for updating the competencies matrix for the members of the Board of Directors.
- Analysis and favourable report to the Board for its approval of the Protocol regarding the Board of Directors' relationship with employees.
- Analysis of the reform of the Code of Good Governance for Listed Companies.
- Analysis of the Report on compliance with the Internal Code of Conduct in the Securities Market.
- Analyse and submit to the Board, for approval, the proposed update of the Corporate Governance Policy.
- Analyse and submit to the Board, for approval, the proposed update of the contingency plans for the succession of the Chairperson of the Board and Managing Director.
- Report and submit to the Board the proposal to update the Criteria for reporting financial, non-financial and corporate information to shareholders, institutional investors, proxy advisors and other stakeholders.

3.4. Regarding Corporate Responsibility and Sustainability:

- Favourably inform the Board of the Diversity Report for the year 2019.
- Follow-up and information regarding the 2018-2022 Integral Diversity Plan at Grupo Red Eléctrica.
- Report favourably on the process of reporting non-financial information on the Committee's powers.
- Report favourably to the Board, for its approval, on the proposal for the Long-Term Incentives Plan to Promote Energy Transition, Reduce the Digital Divide and Diversification.
- Analysis of the Prevention Action Plan, with a 2020-2023 horizon, and of occupational health and safety policies.
- Analysis of the Climate Survey and Action Plan.

3.5. Other activities:

- Approval of the Annual Report on the Activities of the Committee during 2019.
- Analysis of the Strategic Plan of Grupo Red Eléctrica.

- Information regarding the initiatives to initiate the adaptation of Grupo Red Eléctrica to the requirements of the 2018-2022 Strategic Plan.
- Approval of the Committee's Action Plan for 2021.
- Analysis and submission to the Board, for approval, of the activities and information programme for Board Directors for 2021.
- Approval of the Committee's meeting schedule for 2020 and 2021.

4. Director attendance at meetings

The Appointments and Remuneration Committee held fifteen (15) meetings during 2020, informing the Board of Directors the same number of times about the activities performed by the Committee. During those meetings only one member failed to attend for a justified reason, to avoid a conflict of interest, and none of them have attended by proxy and therefore 100% attendance was achieved (with 44 attendances).

5. Assessment of compliance with the principles and recommendations established by the CNMV (Technical Guidelines 1/2019)

On 20 February 2019 the CNMV approved the Technical Guidelines regarding Appointments and Remuneration Committees (Technical Guidelines 1/2019), in accordance with the provisions of article 21.3 of the Consolidated Text of the Securities Market Act, approved by Legislative Royal Decree 4/2015, of 23 October.

These Technical Guidelines serve the purpose of providing guidance on the functioning of the Appointments and Remuneration Committees and establish certain recommendations for affected companies that the CNMV will take into account during its supervisory duties.

The company's continuous commitment to the application of the best international corporate governance practices has allowed it to comply in advance with the recommendations established in the Technical Guidelines 1/2019 that are applicable to the company, as is explained in the Annual Corporate Governance Report.

a) The structure, composition and duties of the Appointments and Remuneration Committee are regulated by article 24 of the Articles of Association and are further developed in article 17 and 18 of the Board of Directors Regulations. They include, among others, the composition, requirements for the appointment of members, operating rules, responsibilities and duties assigned, the resources that must be provided, rules regarding the appointments, performance and removal of directors and senior managers with respect to remuneration, compliance with directors' duties, with rules and actions within the corporate governance area and with respect to employees of the Group's companies. For reasons of legal certainty, it is considered to be more appropriate that the regulations governing the functioning of the Appointments and Remuneration Committee be set out in the Board of Directors Regulations, published on the corporate website and filed with the Mercantile Registry.

b) The independence of the Committee is encouraged by the following:

- i. It is exclusively formed by external directors with both the Chairperson and the majority of its members being independent directors.

ii. The remuneration of the members of the Committee is governed by the principle of moderation and is associated to their responsibility so as to avoid compromising their independence and objectivity.

iii. Furthermore, neither the Chairperson of the Board of Directors nor the Managing Director participate in the Committee's meetings.

iv. The executives that attend Committee meetings do so at the Committee's request and only attend with respect to the points of the agenda for which they are responsible.

c) The company did not consider it advisable to have a separate Appointments Committee and a Remuneration Committee for the following reasons:

- Due to the small size of the Board of Directors (composed of 12 members, 1 of which is an executive director) compared to other highly capitalized companies.
- Because two separate Appointments and Remuneration committees would not have sufficient matters to deliberate during the year to justify their separation.
- Due to the independence of the non-executive directors, taking into account that they are all currently members of one of the three Board Committees of the company and the separation of the current Appointments and Remuneration Committee into two different committees would mean that they would be made up of directors simultaneously pertaining to several committees and would have information from one of the other Committees, to the detriment of their full autonomy in the exercise of their duties.

d) Continuous dialogue is maintained with the various stakeholders relating to the competencies falling to the Committee. Furthermore, a diversity of opinions is encouraged within the Committee so that each member may act in accordance with his/her personal criteria.

e) The members of the Committee have the demonstrated capacity to perform the duties falling to the Committee as a result of their extensive experience, aptitudes and knowledge, including those relating to corporate governance, analysis and strategic assessment, evaluation of suitability requirements that may be necessary by virtue of regulations applicable to the company when performing senior management duties and in the design of remuneration policies and plans for directors and the executive team, among others.

f) The company is committed to a diverse composition in terms of gender, professional experience, competencies and industry knowledge. At 31 December 2020, 100% of the Committee consists of female directors, there being, additionally, a vacancy for an external proprietary director on such Committee, as it has been previously indicated.

g) The Committee has an Annual Action Plan and meets monthly and periodically reviews and analyses matters relating to appointments, performance and removals of directors and senior managers, including remuneration, compliance with director duties and corporate governance rules and actions, as well as with respect to employees of the Group companies, among others.

h) An annual self-assessment process regarding the Committee's functioning is carried out with external support within the framework of the annual self-assessment process of the Board of Directors.

i) There is an "Onboarding Programme" for new members of the Committee within the framework of the annual Onboarding Plan for new directors, called the Induction Plan.

j) There is an "Annual Knowledge and Information Programme" for directors that is updated on an annual basis and is implemented throughout the year.

k) The Appointments and Remuneration Committee has performed and continues to perform an essential role in the design, planning and implementation of the self-assessment of the Board of Directors and the preparation and

update of the Contingency Plans for the Succession of the Chairperson of the Board and the managing director, in coordination with the coordinating female independent director, as is explained in further detail in the company's Annual Corporate Governance Report.