

**REPORT ON THE COMPENSATION POLICY FOR THE BOARD OF DIRECTORS
OF RED ELÉCTRICA DE ESPAÑA, S.A.**

I. BACKGROUND AND SUBJECT-MATTER OF THIS REPORT

Both the Unified Code of Good Governance approved by the National Securities Market Commission on May 19, 2006 and the Recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies establish the advisability of having the Boards of Directors of such entities adopt resolutions on the Board's compensation policy at the proposal of the related Appointments and Compensation Committees.

The Appointments, Compensation and Corporate Governance Committee of Red Eléctrica de España, S.A. ("Red Eléctrica" or the "Company") considers the foregoing recommendations when setting the annual compensation to be received by Company Directors.

Pursuant to those recommendations, this report is aimed at informing shareholders of the methods, rules and parameters used to set the compensation of the Board of Directors of Red Eléctrica. Detailed information is also offered on the amounts of such compensation, expressed both in the aggregate and itemized by Director.

II. GENERAL CONSIDERATIONS ON THE COMPENSATION POLICY OF RED ELÉCTRICA.

1. Introduction

According to the foregoing premises, Article 27 of the Regulations of the Board of Directors of Red Eléctrica provides that the Board shall stipulate, within the statutory and bylaw limits and notwithstanding the powers of the Shareholders' Meeting, at the proposal of the Appointments, Compensation and Corporate Governance Committee, the system for compensating Directors applicable each year, and the methods for allocating such compensation.

The Regulations also provide that the Board of Directors may approve an annual report on the Directors' compensation policy for submission, if appropriate, to the Company's Shareholders' Meeting.

Based on the foregoing, the Board of Directors of Red Eléctrica de España, S.A., at the proposal of the Company's Appointments, Compensation and Corporate Governance Committee, adopted a general resolution on the Company's compensation policy for 2007 and a resolution relating to the Board's compensation program for 2008, to be set forth below.

All of the foregoing is notwithstanding ratification by the Shareholders' Meeting of any aspects falling within its powers.

2. Functions of the Appointments, Compensation and Corporate Governance Committee in preparing the compensation policy

The compensation policy set forth in this report was proposed by the Appointments, Compensation and Corporate Governance Committee at its meeting held on April 11, 2008 and approved by the Board of Directors at its meeting held on April 17, 2008.

The proposed compensation policy for the Directors of Red Eléctrica was defined by the Appointments, Compensation and Corporate Governance Committee on the basis of an intensive analysis of the recommendations made by the Unified Code of Good Governance, since its publication in 2006, with a view to keeping the Directors' compensation system in line with the best practices and principles of corporate governance.

The Committee held a total of 11 meetings in 2007 to discuss, among other matters, the compensation of the Board of Directors and of Senior Management.

3. Guidelines for the compensation policy of Red Eléctrica

The Board of Directors of Red Eléctrica has a majority of External Directors (Nominee and Independent) and one Executive Director (Chairman).

The recommendations issued on corporate governance in relation to the structure to be given to the compensation of the Executive Director with respect to other Directors were taken into consideration and the general policy described below was defined accordingly.

Pursuant to Article 20 of the Corporate Bylaws, which is reproduced below, Company Directors shall receive, for holding office as members of the managing body, an amount which is to be set annually on the basis of two types of compensation: fees for attending meetings of the managing body and compensation linked to the Company's income. Pursuant to the express provisions of Article 20 of the Corporate Bylaws, the overall annual compensation for the entire Board for the foregoing items cannot exceed 1.5% of the Company's net income.

Directors who are members of a Board Committee shall receive additional compensation as Committee members.

The amount of the compensation is to be proposed by the Appointments, Compensation and Corporate Governance Committee for each year.

4. Main items and methods of compensation

Article 22 of the Corporate Bylaws provides that *"the Board shall act in plenum or in committees which may be set up on a permanent basis or for a specific matter, with delegated and executive powers, or powers to research, advise or propose. Pursuant to the law and to these Bylaws, the Board must have an Audit Committee and an Appointments and Compensation Committee ..."*.

Accordingly, members of the two Committees of the Board of Directors are compensated for their attendance and dedication, and the amount of such compensation must be set annually by the Board itself when it approves its own compensation, within the statutory, bylaw and regulatory limits.

The bylaw and regulatory framework governing the compensation of the Board of Directors includes the following items and methods of compensation:

1. fixed fees for attendance and dedication to the Board;
2. compensation linked to the Company's annual income;
3. compensation for sitting on Board Committees;
4. bylaw limit on overall annual compensation for the entire Board: 1.5% of the Company's net income approved by the Shareholders' Meeting;
5. within the statutory, bylaw and regulatory limits, the Board of Directors is responsible for allocating its annual compensation among the foregoing items and among the directors in such manner, at such time and in such proportion as it sees fit. This decision will be adopted by the Board at the proposal of the Appointments, Compensation and Corporate Governance Committee;
6. possibility of compensation plans based on the award of Company shares, pursuant to the provisions of the Corporate Bylaws. The Regulations of the Board of Directors approved on December 20, 2007 reserved that possibility exclusively to Executive Directors. The Shareholders' Meeting held on May 31, 2007 approved a plan for the payment of a part of the compensation of members of Company Management and the Executive Director in the form of Company shares, up to a maximum limit of €12,000 per year.

The guiding principles of the compensation of the Company's Board of Directors include most notably its:

- moderation and consistency with the habitual practices of listed companies;
- link to the Company's earnings;
- transparency;
- connection with actual dedication;
- nature as an incentive, but without compromising independence (especially in the case of Independent Directors);
- compatibility with and independence from the habitual coverage of risks established by the Company for a Director's attendance of meetings and performance of functions.

5. Self-regulatory framework

The bylaw provisions on the compensation of members of the Board of Directors of Red Eléctrica are set forth in Article 20 and in the Sole Additional Provision of the Bylaws, as well as in Article 27 of the Board Regulations.

Those Articles are set forth below

5.1. Corporate Bylaws:

- Article 20:

“...The compensation of the Board of Directors shall be a fixed monthly fee for the attendance of Board meetings and a share in the Company’s income. Overall annual compensation for the entire Board and for the foregoing items shall be equal to 1.5% of the Company’s net income approved by the Shareholders’ Meeting. The foregoing compensation is, in all cases, a maximum figure and the Board itself shall be in charge of allocating its amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as it freely determines. Pursuant to Article 130 of the Corporations Law, compensation in the form of a share in income may only be received by Directors after the provisions to the statutory and bylaw reserves have been covered and shareholders have been recognized a dividend of not less than 4%

Compensation consisting of the award of shares or stock options or compensation linked to share value shall require a resolution of the Shareholders’ Meeting, which must state the number of shares to be awarded, the price for exercising the options, the share value taken as a reference and the term of this compensation system.

The compensation stipulated in this Article shall be compatible with and independent of salaries, wages, severance pay, pensions or any other type of compensation stipulated generally or individually for members of the Board of Directors who have an ordinary or special employment relationship or an independent professional relationship with the Company, which relationships shall be compatible with the office of Board member ...”.

- Sole Additional Provision, paragraph two:

“Where a Director, who is an individual, holds his office on behalf of the shareholder referred to in Transitional Provision Nine in relation to Article 34.1 of the Electricity Industry Law, his compensation must be brought into line with the applicable provisions on matters of conflicts of interest in the public sector stipulated for such purpose, notwithstanding any compensation that might be due to the public shareholder, either because it is directly designated member of the Board of Directors or for services provided to the Board or to its standing committees by persons representing that public shareholder in the Company’s capital and exceeding those which, pursuant to the aforesaid legislation, may relate to them personally, all of the foregoing for as long as ownership is maintained pursuant to Transitional Provision Nine”.

5.2. Board Regulations (Article 27):

“1. Directors shall be entitled to obtain such compensation as is set by the Shareholders’ Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these Regulations.

2. The compensation policy approved by the Board shall cover at least the following matters:

a) the amount of the fixed compensation items, itemizing any fees for attending Board and Committee meetings and an estimate of the annual fixed compensation to which they give rise;

b) variable compensation items, including, in particular:

- i) *type of Directors to which they apply, as well as an explanation of the relative importance of variable compensation items with respect to fixed compensation items;*
- ii) *methods for evaluating results on which any right to compensation is based;*
- iii) *fundamental parameters and basis for any system of annual bonuses or other benefits not paid in cash;*
- iv) *an estimate of the absolute amount of the variable compensation arising from the proposed compensation plan, depending on the degree of compliance with the assumptions or performance of the objectives taken as a reference.*

This shall also include the technical precautions required to ensure that such variable compensation relates to the professional performance of its beneficiaries and is not merely the result of the general performance of the markets or of the industry in which the Company is active, or other similar circumstances;

- c) *main characteristics of the system of benefits, with an estimate of their amount or equivalent annual cost;*
- d) *terms with which the contracts of those discharging senior management functions as Executive Directors must comply, including term, prior notice periods and any other clauses relating to contracting fees, as well as severance pay for early termination or termination of the contractual relationship between the Company and the Executive Director.*

3. Compensation through the award of Company shares, on the terms authorized by the Shareholders' Meeting, variable compensation linked to the Company's performance or benefit systems shall be reserved to Executive Directors.

4. Compensation linked to the Company's income shall have regard to any qualifications stipulated in the external audit report which reduce such income.

5. Directors' compensation shall be transparent. For such purpose, the Appointments, Compensation and Corporate Governance Committee shall prepare an annual report on Directors' compensation, which shall include:

- a) *an individualized itemization of the compensation of each Director, which shall include, if appropriate:*
 - i) *attendance fees and other fixed compensation as Director;*
 - ii) *additional compensation as member of a Board Committee;*
 - iii) *any compensation for participation in income or premiums, and the reason granted;*
 - iv) *contributions on behalf of Executive Directors to fixed-contribution pension plans; or increase in the consolidated rights of Executive Directors, in the case of contributions to fixed-benefit plans;*

- v) *all severance pay agreed or paid upon the termination of their functions;*
- vi) *compensation received as a Director of other Group companies;*
- vii) *compensation for the discharge of senior management functions by Executive Directors;*
- viii) *any other compensation item not included in the foregoing, regardless of its nature or the group entity paying it, especially where it is deemed a related-party transaction or where its omission distorts the true and fair view of the compensation received by the Director;*

b) an individualized itemization of eventual awards of shares to Executive Directors, on the terms authorized by the Shareholders' Meeting;

c) information on the relationship, in the preceding year, between the compensation obtained by Executive Directors and the Company's income or other revenues.

III. COMPENSATION OF THE BOARD OF DIRECTORS FOR 2007

1. Application of the compensation policy

By application of the foregoing provisions of the Bylaws, the Board of Directors, at its meeting held on February 7, 2008, at the proposal of the Appointments, Compensation and Corporate Governance Committee, definitively set the compensation for 2007 with an 4% increase over the compensation for 2006, similar to the increase in the compensation of Company Management and with the same scheme as that applied to date.

The compensation items for 2007 did not undergo changes with respect to those stipulated for 2006 (fees for attending Board meetings, amounts for sitting on Board Committees and compensation linked to the Company's annual net income).

The amount of the compensation, excluding the compensation of the Executive Director for his employment relationship with the Company, entails, for all items, 0.79% of the Company's net income, under the maximum limit of 1.5% stipulated in the Bylaws. In 2006, the percentage was 0.91% and in 2005 it was 1.18%.

The following is a comparative table of the compensation percentages for the last five years:

Year	2003	2004	2005	2006	2007
Percentage	1.35%	1.28%	1.18%	0.91%	0.79%

The part of the Board's compensation linked to the 2007 income is to be paid, according to the percentage agreed in the preceding paragraph, after the Shareholders' Meeting to be held in May 2008 has approved the 2007 financial statements.

There is still a possibility, authorized by the Shareholders' Meeting held on May 31, 2007, for managers and the Executive Member of the Board of Directors to ask to have a part of their compensation, up to a maximum of €12,000 per year, paid in Company shares. The extension of this possibility for a further eighteen months has been

submitted for approval to the Shareholders' Meeting to be held in May 2008, in the related proposal included in the meeting Agenda.

2. Itemization of the compensation policy by item, type and director

The following sets forth the compensation of the Board of Directors for 2007 in thousands of euros, by compensation item, type or category of director and by director.

2.1. By compensation item:

Fixed compensation	391
Variable compensation	1,269
Attendance fees	808
Contributions to life insurance and pension plan	11
Total	2,479

2.2. By type or category of director:

Executive (1 director)	772
Nominee Directors (3 directors)	517
Independent External Directors (7 directors)	1,190
Total	2,479

2.3. By Director

	Thousands of euros			
	By the Parent Company			
	Fixed compensation	Variable compensation	Attendance fees	Life insurance and pension plans
Luis M ^a Atienza Serna	391	⁽¹⁾ 289	81	11
Pedro Rivero Torre	-	98	90	-
Juan Gurbindo Gutiérrez ⁽²⁾	-	98	81	-
Antonio Garamendi Lecanda	-	98	91	-
Manuel Alves Torres ⁽²⁾	-	98	81	-
José Riva Francos	-	98	54	-
José Manuel Serra Peris	-	98	58	-
Rafael Suñol Trepas	-	98	61	-

¹ He also received €23,000 for holding office as Board Member of REN. This amount was deducted, at the request of Mr. Atienza Serna, from his annual fixed compensation.

² Amounts received by the Industrial Holding Company (SEPI).

Ángeles Amador Millán	-	98	72	-
Francisco Javier Salas Collantes	-	98	81	-
Martín Gallego Málaga	-	98	58	-
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Total compensation payable	391	1,269	808	11
	=====	=====	=====	=====

The Company also set up a three-year compensation plan for managers, including the Executive Director, which is linked to the performance of objectives and is to be settled, as the case may be, at the end of 2008.

The contents of the contract of the Chairman and Executive Director of the Company, Luis M^a Atienza Serna, were approved by the Appointments and Compensation Committee. The Board of Directors of the Company was informed thereof and expressly gave its consent. It contains clauses on guarantees or severance pay in favor of the Chairman and Executive Director for cases of dismissal or changes of control at the Company, which clauses are in line with habitual market practice and include grounds for the termination of the employment relationship, contemplating severance pay equal to one year's compensation, unless the applicable labor law stipulates a higher amount.

As of December 31, 2007 and 2006, the consolidated balance sheet recorded neither financial claims nor advances granted or guarantees provided by the Company in favor of members of the Board of Directors. Neither had obligations been entered into on such date in connection with pensions for members of the Board of Directors.

3. Reference to the compensation policy for Senior Management

In 2007 short-term compensation and contributions to life insurance and pension plans for senior managers amounted to €872,000 and €27,000, respectively, and were recorded as personnel expenses in the consolidated income statement.

The Company also set up a three-year compensation plan for these managers which is linked to the performance of objectives and is to be settled, as the case may be, at the end of 2008.

As of December 31, 2007 no loans or advances had been granted to these managers.

There are clauses on guarantees or severance pay for cases of dismissal in favor of two of these managers. The clauses are in line with habitual market practice and include grounds for the termination of the employment relationship, contemplating severance pay equal to up to two years' compensation, unless the applicable labor law stipulates a higher amount. The contracts setting forth these clauses were approved by the Appointments, Compensation and Corporate Government Committee and reported to the Board of Directors.

IV. COMPENSATION OF THE BOARD OF DIRECTORS FOR 2008

In relation to the compensation for 2008, the Board of Directors, at its meeting held on February 7, 2008, at the proposal of the Appointments, Compensation and Corporate Governance Committee, agreed to set the amount of the fee for attending meetings of

the Board of Directors at €5,055, as from the January 2008 meeting. These amounts will be paid for attendance or delegation.

The Board also agreed to set the annual compensation of each member of the Audit Committee and of the Appointments, Compensation and Corporate Governance Committee at €28,894. This compensation will be paid by calendar quarter, in arrears. Expenses incurred on travel to attend meetings of the Board and of its Committees will form part of the total compensation of the Board of Directors.

The foregoing compensation will apply as from January 1, 2008.

V. PROJECTIONS FOR FUTURE YEARS

No changes are expected to be made in the methods used to set the compensation of the Board of Directors based, as previously indicated, on moderation and on a contained increase of less than the projected increase in the Company's income in the coming years.