



**RED ELÉCTRICA**  
CORPORACIÓN

***Board of Directors***

*February 24, 2011*

**Report on the compensation policy for the Board of  
Directors**

*(Item 9.1 on the agenda for the  
Annual Shareholders' Meeting, for approval)*



## **REPORT ON THE COMPENSATION POLICY FOR THE BOARD OF DIRECTORS**

*(ITEM 9.1 ON THE AGENDA FOR THE ANNUAL SHAREHOLDERS' MEETING, FOR APPROVAL)*

### **I. BACKGROUND AND SUBJECT MATTER OF THE REPORT**

The compensation of the managing and executive bodies of listed companies has awakened particular interest in recent years.

Both the Unified Good Governance Code approved by the National Securities Market Commission on May 19, 2006 and the European Commission Recommendation of December 14, 2004, for the fostering of an appropriate regime for the remuneration of directors of listed companies, advise that the Boards of Directors of such companies should adopt resolutions relating to the Board compensation policy, at the proposal of the corresponding Appointments and Compensation Committees.

In establishing the annual compensation to be received by the Company's Directors, the Corporate Responsibility and Governance Committee of Red Eléctrica Corporación, S.A. ("Red Eléctrica" or the "Company") has taken the above recommendations into consideration, although none of them are mandatory.

The purpose of this report is to comply with the recommendations and inform shareholders of the criteria, rules and parameters used to establish the compensation of the Board of Directors of Red Eléctrica. It also offers detailed information on the amount of such compensation, both in aggregate form and broken down by Director. Reference is also made to senior management compensation, as required by the most recent corporate governance practices.

Also noteworthy is the Company's practice of submitting this report for approval to the Annual Shareholders' Meeting.

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

#### **1. Introduction**

Article 27 of the Board Regulations of Red Eléctrica establish that, within the limits stipulated by law and in the Corporate Bylaws, and without prejudice to the powers of the Shareholders' Meeting, it will be the Board, at the proposal of the Corporate Responsibility and Governance Committee, that establishes the Directors' compensation system applicable each year and the criteria for distribution of that compensation.

Equally, the Board Regulations establish that the Corporate Responsibility and Governance Committee will prepare an annual report on the Directors' compensation policy to be submitted each year by the Board of Directors to the Annual Shareholders' Meeting, following the recommendations of the Unified Good Governance Code.

Accordingly, the Board of Directors of Red Eléctrica Corporación, S.A., at the proposal of the Company's Corporate Responsibility and Governance Committee, must adopt a general



resolution on Board compensation policy for 2010 and a resolution relating to the Board compensation program envisaged for 2011, both of which are set out below.

All of the foregoing is without prejudice to approval by the Shareholders' Meeting of all aspects falling under its jurisdiction.

## **2. Functions of the Corporate Responsibility and Governance Committee in preparing the compensation policy**

The policy contained in this report was proposed by the Corporate Responsibility and Governance Committee at its meeting of December 16, 2010 and approved by the Board of Directors at its meeting on the same date.

The Corporate Responsibility and Governance Committee has been analyzing the recommendations of the Unified Good Governance Code since its publication in 2006 with a view to keeping the Directors' compensation system in line with corporate governance principles and best practices. This analysis has given rise to the compensation policy for Red Eléctrica's Board, proposed by the Committee.

The Committee met on 11 occasions in 2010 to address compensation matters relating to the Company's Board and senior management, among other aspects.

## **3. Principles of the Red Eléctrica Board compensation policy**

The Board of Directors of Red Eléctrica is made up of a majority (ten) of External Directors (Nominee and Independent) and a single Executive Director (the Chairman).

The general policy described below takes into account the corporate governance recommendations made in relation to the different structure that ought to be given to the compensation of the Executive Director compared with the other Directors.

The economic crisis currently affecting capital markets worldwide has been borne in mind by both the Committee and the Board when drawing up the proposal to maintain the current compensation for all Board and Board Committee items in 2010 with no changes whatsoever to the amount or conditions thereof, thus maintaining the overall compensation that has applied since 2007.

Pursuant to the provisions of Article 20 of the Corporate Bylaws, reproduced below, Company Directors will receive, for the performance of their functions as members of the managing body, an amount established each year according to two compensation criteria: attendance fees and compensation linked to Company results. The overall, annual compensation for the entire Board and for the above items may not exceed 1.5% of the net income of the Company, as expressly established in Article 20 of the Corporate Bylaws.

Directors who are members of any of the Board Committees will receive additional compensation for their membership of such Committees.

The amount of the compensation will be proposed to the Board by the Corporate Responsibility and Governance Committee each year.

## **4. Compensation principles, items and criteria**



Article 22 of the Corporate Bylaws states 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 (now called the Corporate Responsibility and Governance Committee) ...”*.

Accordingly, the members of both Board Committees receive compensation for their attendance at and dedication to such Committees and such amounts must be established annually by the Board when it approves its own compensation, within the limits established by the law, the Bylaws and the regulations.

Pursuant to the Bylaws and the regulatory framework that regulates the compensation of the Board of Directors, Board compensation must observe the following compensation items and criteria:

1. Fixed fees for attendance at and dedication to the Board.
2. Compensation linked to the annual income of the Company.
3. Compensation for dedication to the Board Committees.
4. Bylaw limit on the overall, annual compensation for the entire Board: 1.5% of the net income of the Company approved by the Shareholders' Meeting.
5. Within the limits established in the law, the Bylaws and the regulations, the Board of Directors is responsible for allocating the amount of its annual compensation among all of the above items and among its members in the manner, at the time and in the proportion it so determines. This decision is adopted by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.
6. Possibility of compensation plans consisting of the award of Company shares.

Such plans are provided for in the Corporate Bylaws although they have not been used, except in the case of the Executive Director, in an amount similar to the rest of the executive team, since 2006, and subject to an annual limit of €12,000.

As in previous years, the Board compensation policy is guided by the following basic principles:

- Moderation
- Link to actual dedication.
- Link to the Company's performance.
- To act as an incentive but without conditioning Directors' independence (particularly in the case of Independent Directors).
- Transparency.
- Compatibility with, and independence from, the habitual risk coverage established by the Company for attendance at meetings and performance of their functions by Directors.



- Alignment with habitual practices at listed companies.
- Approval of the compensation by the Shareholders' Meeting.

## 5. Internal regulations:

The internal rules and regulations approved by the Shareholders' Meeting and the Board regarding the compensation of the members of the Company's Board of Directors are set out in Article 20 and the Sole Additional Provision of the Corporate Bylaws, as well as in Article 27 of the Board Regulations.

### 5.1. Corporate Bylaws:

- Article 20:

*"...The compensation of the Board of Directors shall consist of 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 (now Article 218.2 of the Corporate Enterprises 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 contemplated in this Article shall be compatible with and independent of salaries, compensation, indemnification, pensions or compensation of any kind established in general or specifically for those members of the Board of Directors who hold an ordinary or special senior management employment relationship or an independent professional relationship with the Company, which relationships shall be compatible with the status of member of the Board of Directors..."*

- Sole Additional Provision, second paragraph:

*"Where a Director who is an individual holds 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 in keeping with the applicable provisions on incompatibility in the public sector, notwithstanding any compensation that may accrue to such public shareholder, either because it has been directly appointed as a member of the Board of Directors or because of the services provided to the Board or its delegated Committees by the individuals representing such public holder of shares in the capital of the Company, and which exceed any compensation to which he may be personally entitled under such legislation, all of the foregoing, pursuant to Transitional Provision Nine, while such ownership situation is maintained".*



## 5.2. Board Regulations (Article 27):

The new Board Regulations approved at the Board meeting held on January 28, 2010, consolidated the Board compensation policy, since the previous text relating to Board compensation was retained with no changes whatsoever. Thus:

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

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

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

*b) Variable compensation items, including, in particular:*

*i) The types of Director to which they apply, with an explanation of the relative weighting of variable to fixed compensation items;*

*ii) Criteria for evaluating results on which any right to compensation is based.*

*iii) Fundamental parameters and the 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 objectives taken as a reference.*

*This shall also include the technical safeguards necessary to ensure that such variable compensation is in line with 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 operates, or other similar circumstances.*

*c) The principal characteristics of the corporate welfare systems, with an estimate of their amount or equivalent annual cost.*

*d) Conditions that must be observed in the contracts of those exercising senior management functions as Executive Directors, including term, advance notice periods and any other clauses relating to signing bonuses, as well as indemnification for early termination or termination of the contractual relationship between the Company and the Executive Director.*

*3. Compensation by way of the award of Company shares, on the terms authorized by the Shareholders’ Meeting, variable compensation linked to the Company performance and corporate welfare systems shall be reserved to Executive Directors.*

*4. Compensation linked to the Company’s earnings shall take into account any qualifications stated in the external auditor’s report that reduce such income.*



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

*a) An individual breakdown of the compensation obtained by each Director, to include, where appropriate:*

- i) Any attendance fees and other fixed compensation as Director.*
- ii) Additional compensation as a member of any Board Committee.*
- iii) Any compensation in the form of a share in income or premiums, and the reason for which it is granted.*
- iv) Contributions on behalf of Executive Directors to fixed-contribution pension plans, or any increase in the vested rights of Executive Directors in the case of contributions to fixed-benefit plans.*
- v) Any severance agreed or paid in the event of termination of their functions.*
- vi) Any compensation received as a Director of other Group companies.*
- vii) Compensation for the performance of senior management functions by Executive Directors.*
- viii) Any other compensation item other than those listed above, regardless of its nature or the Group company that pays 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 individual breakdown of any award 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 earnings or other performance indicators of the Company."*

### **5.3. Approval by the Shareholders' Meeting:**

Notwithstanding the above provisions of the Company's corporate governance rules, the Board of Directors resolved, as it has done for several years, to submit the compensation of the Board of Directors for approval by the Shareholders' Meeting under a separate item on the agenda.

## **III. COMPENSATION OF THE BOARD OF DIRECTORS IN 2010**

### **1. Compensation policy applied**

Pursuant to the bylaw and regulatory provisions set out above, at the meeting held on December 16, 2010, the Board of Directors resolved, at the proposal of the Corporate Responsibility and Governance Committee, to propose to the Shareholders' Meeting that the current compensation for all Board and Board Committee items be maintained in 2010 with



no changes whatsoever to the amount or conditions thereof, thus maintaining the overall compensation that has applied since 2007.

The 2010 compensation items are the same as those established for 2009 (attendance fees for Board meetings, amounts for dedication to Board Committees and compensation linked to the annual net income of the Company).

The amount of all Board compensation items, excluding the compensation of the Executive Director under his employment relationship with the Company, amounted to 0.48% of the net income of the Red Eléctrica Group in 2010, compared with 0.57% in 2009.

The following table gives a comparison of the amounts of Board compensation in the last five years:

Year	2006	2007	2008	2009	2010
Percentage	0.91%	0.78%	0.66%	0.57%	0.48%

The portion of the Board compensation linked to 2010 results will be paid, in the corresponding amount, once the 2010 consolidated financial statements have been approved by the Annual Shareholders' Meeting to be held in April 2011.

The authorization given by the Annual Shareholders' Meeting held on May 20, 2010, allowing managers and Executive Directors of the Company and those of companies belonging to its Consolidated Group to request that part of their compensation, up to an annual limit of €12,000, be paid in the form of an award of Company shares remains in force, and the proposed renewal of this authorization for a further period of eighteen months will be submitted for approval to the next Annual Shareholders' Meeting.

## 2. Information on Board compensation, broken down by item, type of director and director

The compensation of the Board of Directors in 2010 is set out below, in thousands of euros, by compensation item, by type of Director and by Director.

### 2.1. By compensation item:

Fixed compensation	388
Variable compensation	1,193
Attendance fees	902
Pension funds and plans: contributions	6
Life insurance premiums	6
<b>Total</b>	<b>2,495</b>

### 2.2. By type of Director:

Executive (1 Director)	796
External Nominee (3 Directors)	535
External Independent (7 Directors)	1,164
<b>Total</b>	<b>2,495</b>



### 2.3. By Director:

	<u>Fixed</u> <u>compensation</u>	<u>Variable</u> <u>compensation</u>	<u>Attendance</u> <u>fees for</u> <u>Board</u> <u>Meetings</u>	<u>Dedication</u> <u>to</u> <u>Committees</u>	<u>Contributions</u> <u>to life</u> <u>insurance</u> <u>and pension</u> <u>plan</u>	<u>Total</u>
Luis María Atienza Serna	388	301	66	29	12	796
Antonio Garamendi Lecanda	-	93	66	29	-	188
Manuel Alves Torres <sup>(1)</sup>	-	93	66	29	-	188
Rafael Suñol Trepát	-	93	66	-	-	159
María de los Ángeles Amador Millán	-	93	66	29	-	188
Francisco Javier Salas Collantes	-	93	66	29	-	188
Martín Gallego Málaga <sup>(2)</sup>	-	38	25	-	-	63
José Folgado Blanco	-	93	66	-	-	159
Arantza Mendizabal Gorostiaga	-	93	66	29	-	188
María Jesús Álvarez <sup>(1)</sup>	-	93	66	29	-	188
Miguel Boyer Salvador	-	55	40	-	-	95
Rui Manuel Janes Cartaxo	-	55	40	-	-	95
<b>Total compensation earned</b>	<b>388</b>	<b>1,193</b>	<b>699</b>	<b>203</b>	<b>12</b>	<b>2,495</b>

(1) Amounts received by SEPI

(2) He stood down as Director in May 2010

In his capacity as a member of the Board of Directors of REN, the Executive Director received compensation of €29,000 in 2010 (€30,000 in 2009). At the request of the Executive Director himself, this amount was deducted from his annual fixed compensation.

The annual variable compensation of the Executive Director is established by the Corporate Responsibility and Governance Committee at the start of each year using quantifiable and pre-determined objective criteria. The targets are in line with the strategies and steps established in the Company's Strategic Plan and the Corporate Responsibility and Governance Committee is also responsible for assessing the level of achievement of the targets.

In 2009, a compensation plan for executives (2009-2013 "Plan Extraordinario 25º aniversario") was established, linked to the 25th anniversary of the Company, as a management tool and an incentive for fulfilling the five-year Strategic Plan. Compliance with the plan, which includes the Executive Director, will be assessed at the end of its term in 2014. Depending on the level of achievement of the targets set, the overall assessment for the five years may be up to 1.8 times the fixed annual compensation. As with the annual



targets, this plan takes into account quantifiable and pre-determined objective criteria which are in keeping with the medium- and long-term vision of the Company's Strategic Plan, and the establishment and assessment of the targets falls to the Corporate Responsibility and Governance Committee. In 2010 the Company liquidated a long-term compensation plan in the amount of €429,000.

There are safeguard or golden parachute clauses in favor of the Executive Director to cover dismissal or changes in control. These clauses were proposed by the Appointments, Compensation and Corporate Governance Committee (now called the Corporate Responsibility and Governance Committee) and approved by the Board of Directors. The clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount.

At December 31, 2010, there were no loans, advances or guarantees established by the Company in favor of members of the Board of Directors reflected on the balance sheet. There were also no pension liabilities incurred vis-à-vis members of the Board of Directors at that date.

In 2010, the members of the Board of Directors did not engage in any transactions with the Company or Group companies, whether directly or through persons acting on their behalf, that were outside the ordinary course of business or were not performed at arm's length.

#### **IV. REFERENCE TO THE SENIOR MANAGEMENT COMPENSATION POLICY**

In 2010, compensation, and life insurance and pension plan contributions for senior executives amounted to €957,000 and €30,000, respectively.

There were no loans or advances to senior executives at December 31, 2010.

There are safeguard or golden parachute clauses in favor of two senior executives. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of up to two years' salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Appointments, Compensation and Corporate Governance Committee (now called the Corporate Responsibility and Governance Committee) and they were duly notified to the Board of Directors.

In 2009, a compensation plan for executives (2009-2013 "*Plan Extraordinario 25º aniversario*") was established, linked to the 25th anniversary of the Company, as a management tool and an incentive for fulfilling the five-year Strategic Plan. Compliance with the plan, which includes the executives, will be assessed at the end of its term in 2014. Depending on the level of achievement of the targets set, the overall assessment for the five years may be up to 1.8 times the fixed annual compensation. In 2010 the Company liquidated a long-term compensation plan in the amount of €689,000.

#### **V. BOARD COMPENSATION IN 2011**

In relation to compensation for 2011, the Board of Directors, at the meeting held on December 16, 2010, resolved, at the proposal of the Corporate Responsibility and Governance Committee, that the attendance fees for Board and Board Committee meetings established for 2010 be maintained in 2011 with no changes whatsoever to the amount or



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conditions thereof, without prejudice to the overall compensation for all items in 2011 which, pursuant to the provisions of the Bylaws, will be established in due course by the Board of Directors.

The above compensation will apply as from January 01, 2011.

## **VI. PROJECTIONS FOR FUTURE YEARS**

The Board of Directors takes into account at all times the performance of the markets and the global economic and financial situation when adopting its decisions on the Board compensation policy. It is envisaged that the Board will continue its policy of moderation and adaptation to the economic circumstances, so that its decisions are the most appropriate for the Company's interests and those of its shareholders, as in previous years.