



**RED ELÉCTRICA**  
CORPORACIÓN

**Board of Directors**

23 February 2016

Proposal for the amendment of the Remuneration  
Policy for the Directors approved by the Annual  
General Meeting of the Shareholders held on 15  
April 2015

## I. REPORT

### I.1 Background

This report is hereby drawn up pursuant to the provisions established in Article 529.*novodecies* of Spanish Corporate Enterprises Act [*Ley de Sociedades de Capital*] (LSC), introduced by Law 31/2014, of 3 December, amending the LSC to improve corporate governance matters, which requires that the Annual General Meeting of Shareholders approve a directors remuneration policy. Furthermore, it establishes that the directors remuneration policy consequently approved will remain in force for the three financial years following the year it was approved by the General Meeting, and that **any amendment or replacement thereof during said term will require the prior approval of the Annual General Meeting of Shareholders, according to the approval procedure foreseen.**

Article 529.*novodecies* LSC establishes that this Directors Remuneration Policy (and, further to the foregoing, any amendment or replacement thereof) must be reasoned and will include a specific opinion delivered by the Appointments and Remuneration Committee. Both documents will be published on the corporate website following the call of a General Meeting and will expressly entitle the shareholders to request that such documents be delivered or handed over cost-free; this right will be expressly referred to in the call notice of the Meeting.

This document constitutes **a legal reasoned opinion, explaining the amendment made to the directors remuneration policy** approved by the 2015 Annual General Meeting of Shareholders of Red Eléctrica Corporación, S.A. (hereinafter, the Company or Red Eléctrica) described below, which will be presented to the Board of Directors for approval at the Annual General Meeting of Shareholders to be held in 2016.

Pursuant to the provisions established in Article 24 of the Company By-laws and Article 16 of the Board of Directors' Regulations, the Appointments and Remuneration Committee is entrusted, amongst other duties, with proposing to the Board of Directors a remuneration policy for directors and senior executives, and will ensure its compliance.

Since 2007, Red Eléctrica voluntarily submits the annual remuneration paid to the Board of Directors for the binding approval of the Annual General Meeting of Shareholders, the annual directors remuneration report since 2010 and, since the passing of Act 31/2014, the directors remuneration policy since 2015. Consequently, the idea is to continue along these same lines of action, i.e. to present the issues of directors' remuneration, amendments to the directors remuneration policy, the annual report on directors' remuneration and, as the case may be, share-based remuneration for executive directors, for approval, as separate and independent points of the Agenda of the General Meeting, in all cases- even when this is not mandatory pursuant to the LSC, as in the case of the annual report- and with binding effects.

As a result, Red Eléctrica will continue its alignment with best corporate governance practice, aimed at providing the shareholders with enough self-sufficiency and independence to be able to individually and separately vote on each different resolution entrusted to the Annual General Meeting of Shareholders.

## **I.2. Reasons to amend the directors remuneration policy approved by the Annual General Meeting of Shareholders held on 15 April 2015**

As thoroughly explained at the 2015 Extraordinary General Meeting of Shareholders of Red Eléctrica, on 17 July 2015 a procedure commenced to splitting positions of Chairman of the Board and of the Chief Executive Officer (CEO) of Red Eléctrica from office. Following a transitional period that began on said date, the process should be completed at the latest by the 2016 Annual General Meeting of Shareholders, with a transfer of all executive duties inherent to the post of Chairman of the Board of Directors to the CEO. Thereinafter, the Chairman of the Board of Directors will exclusively hold the responsibilities inherent to said post and, consequently, will act as non-executive Chairman.

As regards the system used to remunerate the posts of Board Chairman and CEO, the report on the severance process, presented at said Extraordinary General Meeting, established as follows:

- a) During the **transitional period** that will end, at the latest, with the Annual General Meeting of Shareholders held in 2016:
- Remuneration payable to the **Chairman of the Board of Directors**, given that during this transitional period he will continue to hold executive duties, was established in accordance with the directors remuneration policy approved by the 2015 Annual General Meeting of Shareholders, subject to certain remuneration adjustments following its functional performance over this period and best practices and market studies on comparable companies, conducted by an independent external consultant.

As a result of the foregoing, during the transitional period, the remuneration payable to the Chairman of the Board of Directors consisted of the following components:

- Fixed remuneration: this amount remained unchanged with respect to what was being paid until then, i.e. 399,170 euros.
- Target annual variable remuneration, i.e. for 100% target achievement: this remuneration was reduced to half of the amount in force until then. Consequently, it was set as 25% of the annual fixed remuneration, i.e. 99,792 euros.
- Multi-year variable remuneration: this item was removed from the remuneration payable to the Chairman of the Board of Directors.

As a result of the foregoing changes, the total target remuneration payable to the Chairman of the Board of Directors during the transitional period amounted to 498,963 euros (annually) which, with respect to the target total annual remuneration established prior to the transitional period (718,506 euros), represents a decrease higher than 30%.

The table below shows how the remuneration payable to the Chairman of the Board of Directors has developed:

<i>Annually compounded figures in thousand euros</i>	<b>Before the Transitional Period</b>	<b>Transitional Period</b>
Fixed Remuneration (FR)	399	399
Target Annual Variable Remuneration	200 (50% FR)	100 (25% FR)
Target Multi-year Variable Remuneration	120 (30% FR)	--
<b>Total Remuneration for executive duties</b>	<b>719</b>	<b>499</b>
	<b>Decrease</b>	<b>- 220 (- 31%)</b>

The Executive Chairman is entitled to a life insurance since 28 July 2015, when his contract was amended.

During the transitional period the Chairman has received, in addition and as foreseen in the directors remuneration policy approved by the 2015 Annual General Meeting of Shareholders, remuneration as a member of the Board of Directors.

- The remuneration system applicable to the Chief Executive Officer was established according to said directors remuneration policy and further to the report on the process to splitting positions of Chairman of the Board and the Chief Executive Officer (CEO) of the Company from office, submitted to the Extraordinary General Meeting of Shareholders held on 17 July 2015.

As a result of the foregoing, the following basic remuneration items were established for the CEO during the transitional period: a) annual fixed remuneration (FR) of 235,000 euros; b) annual variable remuneration (50% FR), subject to meeting the targets established for the Executive Chairman in 2015, described in the Annual Report on Directors Remuneration, c) multi-year variable remuneration (30% FR, annually compounded Target value), subject to meeting the targets established in the multi-year variable remuneration payable to the Executive Chairman and described in the Annual Report on Directors Remuneration; d) cash in lieu of benefits; e) life insurance; and f) annual fixed remuneration for his director duties.

Therefore, with respect to the transitional period, please note that it is no longer necessary to change the current directors remuneration policy, as the remuneration system applicable to the Executive Chairman and CEO, based on their respective executive duties, was gathered both in the directors remuneration policy approved by the Annual General Meeting of Shareholders held on 15 April 2015, and in the adjustments made to the report on the process to splitting positions of Chairman of the Board and CEO of the company from office, presented to the Extraordinary General Meeting of Shareholders held on 17 July 2015.

- b) **As of the Annual General Meeting of Shareholders held in 2016**, the remuneration payable to the Chairman of the Board of Directors and CEO will be presented to this General Meeting for approval, and will be announced in the Annual Report on Directors Remuneration, which will include an individual breakdown by items and amounts.

The remuneration payable to the CEO, in accordance with consolidated practice on salary moderation and positioning on the remuneration market of Red Eléctrica's senior management, should be located approximately at the 25<sup>th</sup> percentile of market references, as approved by the Board of Directors on 12 June 2015.

Consequently, for this second period, which will begin upon expiration of the transitional period and will culminate upon the effective transfer of all executive duties by the Chairman of the Board of Directors to the CEO, given that the Board Chairman will be a non-executive Chairman (and director) and the CEO will undertake all executive duties, the specific remuneration system applicable to both positions should be accordingly adjusted.

In this context, this Report gathers the amendments required in the directors remuneration policy, approved at the last Annual General Meeting of Shareholders held in 2015, as a result of culmination of the process to splitting positions of Chairman of the Board and CEO from office, approved by the Extraordinary General Meeting of Shareholders held on 17 July 2015, which will be applicable once approved, as the case may be, by the next Annual General Meeting of Shareholders held in 2016.

### **I.3 Reasons to change the directors remuneration policy**

The changes to be made to the directors remuneration policy, presented below for approval, follow the same reasons taken into account in 2015 when the policy was drawn up, as follows:

- a) The provisions of the Company By-laws, Board of Directors Regulations and principles established in the corporate governance policy approved by the Company's Board of Directors, at its meeting held on 25 November 2014, and published on the corporate website.

b) The following general principles and internal criteria:

- The quality and commitment provided by Red Eléctrica's human capital are essential to ensure successful execution of Red Eléctrica Group's strategies and, with this in mind, any remuneration policy and practice is applied to the Board of Directors and senior management to attract, motivate and hold onto the best professionals.
- Balance and moderation.
- Transparency.
- Voluntary presentation of any decision related to directors' remuneration to the General Shareholders Meeting's approval.

c) Applicable regulations.

The Appointments and Remuneration Committee has verified that the amendments proposed to the directors remuneration policy do not alter the conformity of the policy itself to the provisions generally established for corporate enterprises, in section 4 of Article 217 LSC:

"Directors' remuneration will in any case be reasonably proportional to the company's relevance, its economic situation at all times and market standards of comparable companies. The remuneration system established must focus on encouraging long-term profitability and sustainability in the company, establishing the necessary caution to avoid excessive risks being undertaken and the reward of unfavourable results".

d) Market data and guidelines from institutional investors and proxy advisors, as well as information provided by the latter during the engagement process conducted by the Red Eléctrica Group.

Each year, the Appointments and Remuneration Committee reviews the remuneration policy applicable to directors, including in this review process an analysis of comparable companies to Red Eléctrica, in order to verify that this remuneration is adequate and moderate with respect to the market. In order to determine the relevant parameters and amounts, the company draws up remuneration studies with the advice of internationally renowned firms established on the market.

Specifically, as part of the decision-making process to establish the remuneration payable to the (non-executive) **Chairman of the Board of Directors** as of the 2016 Annual General Meeting of Shareholders, a comparative analysis has been conducted on the remuneration paid to non-executive Chairmen belonging to Ibex-35 companies, a benchmark to which Red Eléctrica belongs. This analysis not only covers a quantitative approach to various remuneration items, but also a qualitative analysis of their dedication, background, experience, etc. for market positions of reference. The main conclusions of this analysis are provided below:

- Remuneration payable to non-executive Ibex-35 Chairmen consists of fixed items, not dependent on business targets.
- The average market remuneration totals 750,000 euros (although the amounts are broadly scattered).
- When calculating this remuneration, particular qualitative issues are taken into account, related to the specific person holding the post, such as trust, experience, criticality at historical moments, relevance from an institutional perspective, etc., amongst others.

Also, as part of the decision-making process to determine the remuneration payable to the Chief Executive Officer (**CEO**) entrusted with all executive duties, an analysis was conducted on external competitors in remuneration terms, compared with a group of reference. The criteria used to determine this reference market are the same ones used in previous years for this type of analysis, in relation to the remuneration paid to the company's Chief Executive Officer, indicated below:

- Geographical scope: companies with headquarters in Spain.
- Scope of responsibility: listed companies, belonging to Ibex-35- Spain's leading benchmark, which includes Red Eléctrica- or Ibex Medium Cap.
- Activity sector: multiple sectors. Of the group of companies meeting the foregoing criteria, we have excluded any that carry out an activity that significantly differs from that of Red Eléctrica, e.g. banking.
- Size factors: we have selected a group of companies falling within a turnover range of +/-2.5x the turnover figure of the Red Eléctrica Group. Other factors have also been taken into account, such as number of employees, total assets and stock market capitalization.

Complete lists of the companies used in the foregoing studies are published in the relevant annual reports on directors' remuneration.

#### **I.4 Effects**

As regards the effects of the amendments made to the directors remuneration policy, the reasonable effective date should coincide with its approval by the 2016 Annual General Meeting of Shareholders, in the terms and conditions established in the policy amendment, and will be valid until the 3-year term has elapsed, approved by the 2015 Annual General Meeting of Shareholders, i.e. until 31 December 2018.

## II. PROPOSED RESOLUTION

The following resolution is hereby proposed to the Board of Directors for its approval:

To submit the following amendment of the directors remuneration policy applicable to Red Eléctrica Corporación, S.A. to the Annual General Meeting of Shareholders, for approval.

### AMENDMENT TO THE DIRECTORS REMUNERATION POLICY APPLICABLE TO RED ELÉCTRICA CORPORACIÓN, S.A.

As established in the report on the process to splitting positions of Chairman of the Board and of the Chief Executive Officer (CEO) of the company from office, presented to the Extraordinary General Meeting of Shareholders held on 17 July 2015, it is expected that, at the very latest, by the Annual General Meeting of Shareholders held in 2016, the process will culminate to splitting positions of Chairman of de Board and CEO, transferring all executive duties inherent to the Chairman of the Board of Directors to the CEO. Consequently, the directors remuneration policy approved at the last 2015 Annual General Meeting of Shareholders (valid for a 3-year term) needs to be adjusted to the company's new governance structure.

Thus, by virtue of the report on which this proposal is based, the directors remuneration policy approved at the last 2015 Annual General Meeting of Shareholders is hereby amended in the following terms and conditions:

1. Section 3 of the directors remuneration policy is amended, entitled "*Remuneration policy for non-executive directors*", as follows:

The position of Chairman of the Board of Directors is entitled to an **annual fixed remuneration**, in line with the recommendations of institutional investors and proxy advisors, in order to adequately remunerate the specific responsibility, dedication and experience required by the position of **Chairman of the Board of Directors**, without executive duties. This remuneration amounts to 399,170 euros/year.

Nevertheless, given that this remuneration is significantly below the market median, the Board of Directors may review and update this amount in subsequent years, during the term of the policy and in accordance with its principles.

This remuneration represents a 44% decrease over the total remuneration paid to the Chairman for his executive duties, as shown in the comparative below:

<i>Annually compounded figures in thousand euros</i>	<b>Before the Transitional Period</b>	<b>Transitional Period</b>	<b>As of the 2016 Annual General Meeting of Shareholders</b>
Fixed Remuneration (FR)	399	399	399
Annual Variable Remuneration	200 (50% FR)	100 (25% FR)	--
Multi-year Variable Remuneration	120 (30% FR)	--	--
<b>Total Remuneration for executive duties or others assigned to the non-executive Chairmanship</b>	<b>719</b>	<b>499</b>	<b>399</b>
	<b>Decrease</b>	<b>- 220 (- 31%)</b>	<b>- 320 (- 44%)</b>

The Chairman of the Board of Directors will also receive the remuneration established in the remuneration policy for members of the Board of Directors, i.e. fixed remuneration of 130,742 euros/year and 1,500 euros allowances for attending each of the ordinary meetings of the Board of Directors.

Consequently, the remuneration policy for non-executive directors, including the Chairman of the Board of Directors, does not foresee any results-based variable items, or the granting of loans or advance payments or any guarantees established by the company in favour of Board members.

As a result, a new section has been included in “Table 4. Policy remuneration for non-executive directors”, as follows:

	<b>Purpose</b>	<b>Limits</b>	<b>Operation</b>
<b>Chairman of the Board of Directors</b>	To adequately remunerate the dedication required by the position, including his particular level of responsibility, skills and experience needed for the performance of this task.	399,170 €/year for 2016.  Annual adjustments may be conducted, within the maximum, global and annual limit for the entire	Settled in monthly payments, before day 10 of the month.

The remainder of Section 3, “Remuneration policy for non-executive directors”, remains unchanged.

2. The following amendments have been made to Section 2.3 of the directors remuneration policy, entitled “Table on executive director remuneration policy”, as a result of appointing the **Chief Executive Officer** (CEO) and establishing a total splitting of functions between the positions of Chairman of the Board and CEO, due to effectively transferring all executive duties to the latter:

2.1. As announced at the Extraordinary General Meeting of Shareholders held on 17 July 2015, CEO remuneration must be positioned at the 25th percentile of market references (1,025,000 euros), although this objective is not met with the amendments now proposed to the remuneration policy. This is why the variation foreseen over the annual fixed remuneration has been changed, applicable to the period covered by the policy, in order to enable the Appointments and Remuneration Committee to establish the most adequate annual increase based on factors such as development and consolidation in the post, performance in the company’s results, business complexity, company’s geographical diversity, etc. Consequently, the Appointments and Remuneration Committee will also periodically check- as is standard practice- the positioning of the CEO’s total remuneration with respect to the market and will accordingly make the necessary adjustments in order to reach a positioning at the 25<sup>th</sup> percentile of market references, upholding Red Eléctrica’s consolidated practice in favour of salary moderation.

2.2. The target level of annual variable remuneration has been changed (reached in the event of 100% achievement of all pre-established targets); instead of 50% of the annual fixed remuneration, established in the directors remuneration policy approved at the 2015 Annual General Meeting of Shareholders, it will now be 75% of this annual fixed remuneration. The maximum of this annual variable remuneration continues to be equivalent to 110% of the target annual variable remuneration, in line with what is established in the directors remuneration policy approved at said General Meeting, i.e. 82.5% of annual fixed remuneration.

This increased variable remuneration is consistent with the assumption of all executive duties by the CEO, his leadership within the organization and- as indicated in the severance process report presented to the Extraordinary General Meeting of Shareholders held in July 2015- allows his total remuneration to be positioned in the 25<sup>th</sup> percentile of the reference market.

This change in annual variable remuneration entails an increase in the weight of variable remuneration over total remuneration, in line with the guidelines provided by institutional investors and proxy advisors, who recommend that a large percentage of the CEO’s total remuneration be linked to the company’s results and to the achievement of previously established targets. Both the annual and multiannual variable remuneration target constitutes 51% of the total remuneration.

2.3. The system used to settle annual gross variable remuneration has been changed, in such a way that 75% will be paid in cash and the remaining 25% in shares. The CEO undertakes a commitment vis-à-vis the company, whilst he remains in office, to maintain ownership of the shares received for at least five years. If the Annual General Meeting of Shareholders does not the delivery in shares as a form of remuneration to the CEO or establishes a lower maximum than the one indicated, the company will pay in cash the amount equivalent to any remuneration not payable in shares.

Payment of part of the variable remuneration in shares will better align the interests of the CEO with those of the shareholders, adjusting the directors remuneration policy to the recommendations of proxy advisors, institutional investors and the Spanish Code on Good Governance in Listed Companies.

Consequently, the sections entitled “Fixed Remuneration” and “Annual Variable Remuneration included in “Table 1. Executive director remuneration policy” will hereinafter read as follows:

	Purpose	Limits	Operation
<b>Fixed Remuneration</b>	To reward the executive, based on his level of responsibility and professional background.	<p><b>Amount:</b> 399,170€</p> <p><b>Standard general update:</b></p> <p>Annual gross fixed remuneration may be updated each year according to the criteria approved at all times by the Appointments and Remuneration Committee, to include development and consolidation in the post, performance of the company's results, business complexity, geographical diversity, market references, etc.</p> <p>Irrespective of an update in the foregoing term, it must always be reasoned by the Appointments and Remuneration Committee.</p>	<p>Fixed remuneration must be made consistent with the executive's responsibility and leadership within the organization, in line with that paid on the market in comparable companies.</p> <p>In certain situations, the Appointments and Remuneration Committee may acknowledge, for instance, a change in responsibility, development in the position and/or any special needs for holding onto and motivating the executive. In these circumstances, the Committee may decide to apply a higher increase. The underlying reasons will be explained in the annual report on directors' remuneration.</p>

	Purpose	Limits	Operation
<b>Annual Variable Remuneration</b>	To incentivise achievement of the annual targets, in line with the Strategic Plan of the Red Eléctrica Group.	<p><b>Maximum</b> The target level (75% of the annual fixed remuneration) will be reached upon 100% achievement of all pre-established targets.</p> <p>The maximum level (82.5% of the annual fixed remuneration) will be reached if there is over-achievement in the maximum of any pre-established targets, according to the metric figures described and any rules and internal procedures for target assessment established by the Company for its executives.</p> <p><b>Metrics</b> Based on achieving a combination of specific, predetermined and quantifiable economic-financial, industrial, operational and qualitative objectives, aligned with the corporate interest and Red Eléctrica Group's Strategic Plan.</p> <p>The weight of economic-financial objectives will be 70% maximum of the overall incentive. They consist of metric figures that guarantee an adequate balance between financial and operating issues related to the Company's management.</p> <p>The weight of qualitative objectives will be 30% maximum, and may even be 40% in the event of over-achievement, of the overall incentive.</p>	<p>The Appointments and Remuneration Committee is in charge of approving the targets, at the beginning of each financial year, and evaluating their achievement, at year-end.</p> <p>The Committee will supervise the objectives each quarter, over the entire year; at the end of the year, their level of achievement will be calculated. In this appraisal, the Committee will be assisted by the Corporate Economic-Financial Management, in charge of management control in the Red Eléctrica Group, which will provide information about the audited results. Both to establish these objectives and to assess their achievement, the Committee will also take into account any potential long term impact and any associated risk.</p> <p>In order to ensure that annual variable remuneration is effectively related to the professional performance of its beneficiaries, when the level of achievement of quantitative objectives is determined, all positive or negative economic effects will be eliminated, arising from extraordinary events that may distort assessment results.</p> <p>The achievement scale determined at the beginning of the year includes a minimum threshold, below which no incentive is paid- a target level- representing 100% achievement of objectives, and a maximum level, specific for each metric figure. The maximum incentive is only paid if achievement is ascertained of the objectives established at the beginning of the year, as well as over-achievement if applicable to the objective.</p> <p>In order to calculate variable remuneration, the level of achievement and weighting of each individual and/or global objective will be taken into account, applying rules and internal procedures for the assessment of objectives, established by the Company for its executives.</p> <p>75% of this annual variable remuneration is paid in cash and the remaining 25% is paid in shares. The CEO undertakes vis-à-vis the company, whilst he remains in office, to maintain ownership of the shares received for at least five years. If the Annual General Meeting of Shareholders does not approve the delivery in shares as a form of remuneration to the CEO or establishes a lower maximum than the one indicated, the amount equivalent to any remuneration not payable in shares will be paid in cash.</p>

3. As regards section “**4. Effects**” of the directors remuneration policy, please note that any changes in this policy will be effective once approved by the Annual General Meeting of Shareholders to be held in 2016, in the terms and conditions established for policy amendments, and will remain valid for the 2016, 2017 and 2018 financial years, in accordance with the term approved by the 2015 Annual General Meeting of Shareholders for the directors remuneration policy.

Any amendment or replacement of the policy during this term will require the prior approval of the Annual General Meeting of Shareholders, in accordance with applicable law.

## Annex

### **Directors Remuneration Policy (amended by the Annual General Meeting of Shareholders held on 15 April 2016 <sup>(\*)</sup>)**

*(\*) The main amendments made to the policy currently in force are marked in **yellow**.*

## **DIRECTORS REMUNERATION POLICY FOR RED ELÉCTRICA CORPORACIÓN, S.A.**

### **1. Remuneration Policy principles:**

The quality and commitment offered by members of the Board of Directors and top-notch executives in Red Eléctrica are essential to ensure the successful execution of Red Eléctrica Group's strategies. With this aim, the Appointments and Remuneration Committee draws up its remuneration policy and practice, which is presented to the Board of Directors of Red Eléctrica Corporación, S.A. (hereinafter, the Company or Red Eléctrica), for application to the Board of Directors and senior management, in order to adequately acknowledge the company's best professionals.

This Directors Remuneration Policy is based on the following general principles:

- Balance and moderation.
- Alignment with the practice requested by shareholders and investors.
- Transparency.
- Voluntary presentation of any decision related to directors' remuneration to the General Shareholders Meeting, for approval.

The following principles are applied to the remuneration of the Executive Director:

- Alignment of the Executive Director remuneration policy with the Company's strategy.
- Maintaining a reasonable balance between the various components of (short-term) fixed remuneration and (annual and long-term) variable remuneration, reflecting an adequate acceptance of risks, combined with the achievement of defined objectives and linked to the creation of sustainable value.
- Alignment with the remuneration of comparable companies.

In relation to the remuneration paid to non-executive directors:

- How it is related to the time effectively dedicated to the company.
- Linked to their responsibility and performance of director tasks.
- Absence of variable remuneration components in order to ensure their total independence with respect to the remuneration paid to the Executive Director and management team.
- Motivating amount, without affecting their independence.

The Appointments and Remuneration Committee considers it appropriate to periodically review the remuneration policy applied to the Board of Directors and Executive Director, including in this review process a comparison with reference companies, selecting comparable business groups and maintaining permanent contact with the shareholders and proxy advisors, in order to ascertain that the remuneration paid to directors and Executive Director is adequate and moderate in market terms.

All of the foregoing principles comply with the Company's corporate governance policy, approved by the Board of Directors at its meeting held on 25 November 2014 and published on the corporate website.

Furthermore, these remuneration principles fulfil the general provisions established for corporate enterprises in new Article 217.4 of the Spanish Corporate Enterprises Act, regarding their adequacy in terms of the company's size and relevance, economic situation, comparability, profitability and sustainability; and non-acceptance of risks or the reward of unfavourable results.

## **2. Remuneration Policy for the Executive Director:**

### **2.1 Selection of objectives and metric figures linked to variable remuneration (Executive Director)**

In the process conducted by the Appointments and Remuneration Committee to analyse, select and propose objectives and metric figures in order to determine the variable remuneration of the Executive Director, the short and long-term strategic priorities of the Red Eléctrica Group are taken into account, foreseen in the Strategic Plan approved by the Board of Directors.

For annual variable remuneration purposes, a combination of quantitative and qualitative objectives is established, linked to the Strategic Plan of the Red Eléctrica Group, which are reviewed each year to ensure that they are sufficiently stringent. These measurable and quantifiable objectives are approved by the Appointments and Remuneration Committee at the beginning of the year and are supervised each quarter. The Committee, at the end of the year, is also entrusted with evaluating compliance with previously established objectives.

In order to establish an adequate weighting and levels of achievement for each objective, the Appointments and Remuneration Committee takes into account Red Eléctrica Group's historical analyses, estimates and expected results, and periodically supervises the same.

With respect to long-term variable remuneration, this depends on certain multi-annual objectives linked to the Strategic Plan of the Red Eléctrica Group, subject to meeting certain conditions and considering the sustainability of Red Eléctrica Group's results over the period.

The remuneration policy established in this document for the Executive Director, for all his duties and responsibilities, is generally applicable to all newly appointed Executive Directors. Nevertheless, certain particularities exist, described below.

When defining the economic system applicable to a new Executive Director, the Appointments and Remuneration Committee will take into account the experience and knowledge of the new Executive Director, his previous position and remuneration level before his appointment.

Table 1 below describes the items to be taken into account to design and establish the remuneration system applied to new Executive Directors. Depending on the remuneration level enjoyed before they joined the Company, the Committee may establish different remuneration to achieve the economic system it deems appropriate.

The Appointments and Remuneration Committee will follow the criteria established in section I.3 of the preceding report, entitled “Reasons to change the directors remuneration policy”, explaining and reasoning the new remuneration as foreseen in the policy.

The remuneration policy for new appointments foresees the possible transitional co-existence of more than one Executive Director or splitting positions of Chairman of the Board and CEO, with different functions and responsibilities for each.

## **2.2 Ex post control of variable remuneration (Executive Director)**

The Appointments and Remuneration Committee, by virtue of the duties established in the Company By-laws and Board of Directors Regulations, is competent to propose to the Board the cancellation or reimbursement of any short or long-term variable remuneration, paid to the relevant beneficiary/ies or manager(s), in unexpected circumstances indicating that variable remuneration has accrued or been paid based on inaccurate or mistaken information or data, or in breach of internal corporate regulations or applicable laws, as subsequently proved. Furthermore, the Appointments and Remuneration Committee will assess whether, in exceptional circumstances of this kind, it may even propose to the Board of Directors termination of the contractual relationship with the relevant beneficiary/ies or manager(s), and the adoption of any measures deemed appropriate.

The Appointments and Remuneration Committee may propose to the Board of Directors that adjustments be made in the components, criteria, thresholds and limits of any annual or multi-annual variable remuneration, in exceptional circumstances arising from internal or external extraordinary factors or events. Details and an explanation of these adjustments will be gathered in the annual report on directors’ remuneration.

## 2.3 Table-Executive Director´s remuneration policy

Table 1. – Executive Director´s remuneration policy

	Purpose	Limits	Operation
<b>Fixed Remuneration</b>	To reward the executive, based on his level of responsibility and professional background.	<p><b>Amount:</b> 399,170€</p> <p><b>Standard general update:</b> Annual gross fixed remuneration may be updated each year according to the criteria approved at all times by the Appointments and Remuneration Committee, to include development and consolidation in the post, performance of the company's results, business complexity, geographical diversity, market references, etc.</p> <p>Irrespective of an update in the foregoing term, it must always be reasoned by the Appointments and Remuneration Committee.</p>	<p>Fixed remuneration must be made consistent with the executive's responsibility and leadership within the organization, in line with that paid on the market in comparable companies.</p> <p>In certain situations, the Appointments and Remuneration Committee may acknowledge, for instance, a change in responsibility, development in the position and/or any special needs for holding onto and motivating the executive. In these circumstances, the Committee may decide to apply a higher increase. The underlying reasons will be explained in the annual report on directors' remuneration.</p>
<b>Annual Variable Remuneration</b>	To incentivise compliance with annual objectives, in line with the Strategic Plan of the Red Eléctrica Group.	<p><b>Maximum</b> The target level (75% of annual fixed remuneration) will be reached if 100% of all pre-established objectives are met. The maximum level (82.5% of the annual fixed remuneration) will be reached if pre-established objectives are fulfilled above their maximum, according to the metric figures described and rules and internal evaluation procedures for Company objectives established for executives.</p> <p><b>Metric figures</b> Based on achieving a combination of specific, predetermined and quantifiable economic-financial, industrial, operational and qualitative objectives, aligned with the corporate interest and Red Eléctrica Group's Strategic Plan. The weight of economic-financial objectives will be 70% maximum of the overall incentive. They consist of metric figures that guarantee an adequate balance between financial and operating issues related to the Company's management. The weight of qualitative objectives will be 30% maximum, and may even be 40% in the event of over-achievement, of the overall incentive.</p>	<p>The Appointments and Remuneration Committee will approve these objectives at the beginning of the year and will appraise their achievement at the end of the year.</p> <p>The Committee will supervise the objectives each quarter, over the entire year; at the end of the year, their level of achievement will be calculated. In this appraisal, the Committee will be assisted by the Corporate Economic-Financial Management, in charge of management control in the Red Eléctrica Group, which will provide information about the audited results. Both to establish these objectives and to assess their achievement, the Committee will also take into account any potential long-term impact and any associated risk.</p> <p>In order to ensure that annual variable remuneration is effectively related to the professional performance of its beneficiaries, when the level of achievement of quantitative objectives is determined, all positive or negative economic effects will be eliminated, arising from extraordinary events that may distort assessment results.</p> <p>The achievement scale determined at the beginning of the year includes a minimum threshold, below which no incentive is paid- a target level- representing 100% achievement of objectives, and a maximum level, specific for each metric figure. The maximum incentive is only paid if achievement is ascertained of the objectives established at the beginning of the year, as well as over-achievement if applicable to the objective.</p> <p>In order to calculate variable remuneration, the level of achievement and weighting of each individual and/or global objective will be taken into account, applying rules and internal procedures for the assessment of objectives, established by the Company for its executives.</p> <p>75% of this annual variable remuneration is paid in cash and the remaining 25% is paid in shares. The Chief Executive Officer (CEO) undertakes vis-à-vis the company, whilst he remains in office, to maintain ownership of the shares received for at least five years. If the Annual General Meeting of Shareholders does not approve the delivery in shares as a form of remuneration to the CEO or establishes a lower maximum than the one indicated, the amount equivalent to any remuneration not payable in shares will be paid in cash.</p>
<b>Multiannual Variable Remuneration</b>	To reward fulfilment of Red Eléctrica Group's strategies in the long term, the sustainability of Red Eléctrica Group results, and the creation of sustainable shareholder value.	<p><b>Target</b> 1.8x the Annual Fixed Remuneration.</p> <p><b>Maximum</b> 110% of the target.</p> <p><b>Metric figures:</b> Economic-financial and operating objectives foreseen in the 2014-2019 Strategic Plan.</p>	<p>The Plan is structured into a single 6-year cycle. A cash award is made, equivalent to a number of times of annual fixed remuneration. This amount will be paid in full or as a percentage at the end of the Plan, depending on the achievement of certain metric figures linked to Red Eléctrica's Strategic Plan.</p> <p>In any case, the average weighted achievement of all objectives must be at least 70%. Otherwise, there will be no right to the incentive, irrespective of each objective's individual achievement. Likewise, the maximum</p>

	Purpose	Limits	Operation
		<p>The following objectives and weightings are established:</p> <ul style="list-style-type: none"> <li>- 20% linked to extension of the business base, measured through the investment volume indicator;</li> <li>- 25% of the incentive depends on fulfilment of the Investment Plan of the transportation network, measured according to commissioned positions, amongst others;</li> <li>- 20% of the incentive is linked to the quality of system operation; any energy not supplied is taken into account in its measurement;</li> <li>- 25% of the incentive is linked to the effectiveness of operations and two metric figures are taken into account: return on fixed assets and profit per share;</li> <li>- The remaining 10% depends on fulfilment of the Corporate Responsibility Plan.</li> </ul>	<p>achievement of all of the Plan's objectives will be 110%, even if the average weighted achievement of objectives is higher.</p> <p>The Committee will supervise these objectives each year and, upon completion of the Plan, will determine the level of achievement. In this assessment, the Committee will be assisted by the Corporate Economic-Financial Management, entrusted with management control in the Red Eléctrica Group, which will provide information on the audited results. The Committee will also take into account any associated risk, both to establish objectives and to assess their achievement.</p> <p>When determining the level of achievement of these objectives, any positive or negative economic effects are eliminated, derived from extraordinary events, which could distort assessment results.</p>
<b>Remuneration for membership, time assigned and attendance at meetings of the Board of Directors</b>	To remunerate the responsibilities inherent to the post of director and time assigned to the Board of Directors.	<p><b>Maximum</b></p> <ul style="list-style-type: none"> <li>-Individual: See Table 4 below.</li> <li>-Global: global and annual remuneration for the entire Board, for all items, in an amount equivalent to 1.5% of the Company's liquid earnings, approved by the General Meeting. In any case, the foregoing remuneration will act as a maximum, and the Board will propose how to distribute it amongst the items foreseen in the by-laws and amongst the administrators, in the manner, at the time and in the proportion freely determined.</li> </ul>	According to the remuneration policy of non-executive directors described in Table 4 below.

## 2.4 Other remuneration components of the Executive Director

The remuneration policy of the Executive Director foresees his participation in benefit systems, as well as the granting of other advantages, credits, advance payments and guarantees established by the Company, in line with the Group's executive policy.

The remuneration policy of Executive Directors also foresees their participation in remuneration systems with stock or share value-based options, if previously expressly authorised by the General Shareholders Meeting and within the limits and conditions established by current laws at all times.

## 2.5. Executive Director Contractual terms

A commercial agreement currently regulates performance of the Executive Director duties and responsibilities; it includes clauses which, in practice, are usually included in this type of contract. This agreement has been proposed by the Appointments and Remuneration Committee and approved by the Company's Board of Directors.

Both tables below summarize the main indemnification, exclusivity and non-compete clauses included in the Executive Director's contract:

**Table 2. Indemnification in the event of contractual termination**

	Dismissal as decided by the Company	Voluntary resignation by the Executive Director
<b>Prior notice</b>	N/A	2-month prior notice. If this prior notice is not provided, the Executive Director will indemnify the Company.
<b>Indemnification</b>	Contractual termination.  Indemnification will be equivalent to an annuity, based on a fixed remuneration annuity plus applicable variable remuneration, calculated according to 100% achievement of objectives.  Indemnification will not be payable if dismissal is a consequence of serious, wilful and intentional conduct on the part of the Executive Director when performing his tasks.	Contractual termination.  If the director decides to terminate his relationship with the Company due to a serious and intentional breach by the Company or a material change in his duties, for reasons not attributable to the Executive Director, the latter will be entitled to receive the same indemnification foreseen for Company dismissal cases.

**Table 3. Exclusivity and non-compete**

	Operation
<b>Confidentiality</b>	Art. 34.a) of the Board of Directors Regulations provides that all directors will maintain the secrecy of any Board and Committee discussions in which they are involved and, in any case, will refrain from disclosing any information, data, reports or background details they may have accessed further to their post. This duty of confidentiality will remain after the director is no longer in office.
<b>Non-compete</b>	The Executive Director's contract includes an obligation to not compete with the Company during two (2) years after he is no longer in office, without this entitling him to any indemnification as a post-contractual non-compete obligation, given that this is presumed as covered with his fixed remuneration.  In addition to his legal duties as a Red Eléctrica director, the Executive Director will also be bound by a non-compete obligation with the Company, in the terms in which this obligation is regulated for Company directors in the Board of Directors Regulations (Art. 33).
<b>Limitation of posts and exclusivity</b>	The contract foresees full-time work and excludes any other services whatsoever with other companies, whether or not competitors, whilst the director is bound to Red Eléctrica, unless this is expressly authorised by the Board of Directors.  The Board of Directors' Regulations (Art. 7.2.a)) provides that the Executive Director may only hold office as director on one (1) Board in other companies (other than Red Eléctrica investee companies).

### 3. Remuneration policy of non-executive directors:

A breakdown of the key items of the remuneration policy of non-executive directors is provided below. According to the Company By-laws, the Board of Directors will propose how to distribute the annual remuneration amongst the possible items established; the limit of global and annual remuneration for the entire Board, for all items, will be 1.5% of the Company's liquid earnings, approved by the General Meeting. In any case, the foregoing remuneration will apply as a principle and the Board itself will propose how to distribute the amount amongst the foregoing items and amongst the directors, in the manner, at the time and in the proportion that is freely determined. Consequently, said percentage acts as a limit on the annual global remuneration of the Board of Directors, for the purposes of the Company By-laws and Article 529.septedecies of the Spanish Corporate Enterprises Act.

Every year, the Board presents its resolutions on Board remuneration, applicable to non-executive directors, to the Annual General Meeting of Shareholders for approval, as a separate point of the agenda.

**Table 4. Remuneration policy of non-executive directors**

	Purpose	Limits	Operation
<b>Fixed Remuneration</b>	To adequately remunerate the responsibility and time dedicated in the position in question, without reaching levels that could hinder the director's independence.	<b>Maximum</b> 130,742 €/year per director. Annual adjustments may be conducted, within the maximum, global and annual limit for the entire Board.	Settled in monthly payments, before day 10 of the month.
<b>Allowances for attendance at Board of Directors meetings</b>	To remunerate personal and effective attendance at Board of Directors meetings.	<b>Maximum</b> Board of Directors: 1,500 €/director for each ordinary meeting Annual adjustments may be conducted, within the maximum, global and annual limit for the entire Board.	Allowances for attendance at Board meetings will be paid for each director's personal attendance at each ordinary meeting scheduled for the year in the calendar approved by the Board of Director. A proxy may be granted without losing entitlement to this allowance, for duly justified reasons and twice a year at the most. This amount will be paid within fifteen days following the meeting.  Extraordinary meetings of the Board of Directors, attended in person or by remote means, will not entail any remuneration for allowances.
<b>Chairman of the Board of Directors</b>	To adequately remunerate the dedication required by the position, including his particular level of responsibility, skills and experience needed for the performance of this task.	<b>399,170 €/year for 2016.</b>  Annual adjustments may be conducted, within the maximum, global and annual limit for the entire	Settled in monthly payments, before day 10 of the month.

	Purpose	Limits	Operation
<b>Time assigned to Board of Directors Committees</b>	To remunerate the time assigned and attendance at meetings of Board of Directors Committees	<b>Maximum</b> - Audit Committee (members): 27,900 €/year per member. - Appointments and Remuneration Committee (members): 27,900 €/year per member. - Committee Chairmen: 15,000 €/year each. Annual adjustments may be conducted, within the maximum, global and annual limit for the entire Board.	Allowances for attending Board Committee members and chairmen remuneration will be settled in monthly payments, before day 10 of the month. The foregoing amounts will be paid annually, irrespective of the number of Committee meetings held over the year.
<b>Coordinating Independent Director</b>	To adequately remunerate the extra time required by the post	<b>Maximum</b> 15,000 €/year Annual adjustments may be conducted, within the maximum, global and annual limit for the entire Board.	Settled in monthly payments, by day 10 of the month.

The remuneration policy of non-executive directors does not foresee the granting of loans, advance payments or guarantees established by the Company in favour of members of the Board of Directors.

Nor does it contemplate the participation of non-executive directors in social benefit systems, or indemnification for their supervision and collegiate decision-making in relation to cancellation of their relationship with the Company due to non-executive director status, or the granting of additional remuneration other than the foregoing.

#### 4. Effects:

The amendments made to the directors remuneration policy will come into effect upon approval by the Annual General Meeting of Shareholders held in 2016, in the terms and conditions established in the policy amendment, and will cover the 2016, 2017 and 2018 financial years, according to the term approved by the 2015 Annual General Meeting of Shareholders for the directors remuneration policy.

Any change or replacement of this policy during said term will require the prior approval of the Annual General Meeting of Shareholders, in accordance with applicable law.