



RED ELÉCTRICA
CORPORACIÓN

Appointments and Remuneration Committee

14 February 2019

Directors' Remuneration Policy of
Red Eléctrica Corporación, S.A.

I. REPORT BY THE APPOINTMENTS AND REMUNERATION COMMITTEE

I.1. Background

The Ordinary General **Shareholders' Meeting** held on 15 April **2016** **approved** the amendment of the **Directors' Remuneration Policy** of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "entity", the "company" or "Red Eléctrica") approved by the General Shareholders' Meeting held on 15 April 2015. The **valid term** of such policy encompassed the financial years 2016, 2017 and **2018**.

Since the valid term of the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. **expired** in 2018 (hereinafter referred to as the "remuneration policy" or the "directors' remuneration policy"), the Appointments and Remuneration Committee, as part of the decision-making process, has conducted a **review** of such remuneration **policy** with an overall and thorough approach. The aim of this process was to submit to the Ordinary General Shareholders' Meeting of 2019, for its approval, a directors' remuneration policy that, even though it is a continuation of the previous one, contemplates the possibility of introducing aspects that improve the degree of alignment with the principles and basic conditions defined by Red Eléctrica in remuneration matters.

This report is drawn up according to the provisions in the Spanish Capital Companies' Act (hereinafter referred to by its initials in Spanish "LSC"), which stipulates that the approval of the directors' remuneration policy is an obligation of the General Shareholders' Meeting.

The LSC stipulates that the directors' remuneration policy must be justified and must include a specific report issued by the Appointments and Remuneration Committee. Both documents must be posted on the company's website when the General Shareholders' Meeting is called and expressly entitle the shareholders to request that such documents be delivered or handed over free of charge; this right must be expressly stated in the call notice for the General Shareholders' Meeting.

This document is the **legal report with due grounds justifying the directors' remuneration policy** as detailed below and will be presented for the approval of the Board of Directors to be submitted to the Ordinary General Shareholders' Meeting of 2019.

Pursuant to the provisions in Article 24 of the company's Corporate Bylaws and Article 18 of the Regulation of the Board of Directors, the Appointments and Remuneration Committee is assigned, *inter alia*, the duties of proposing the directors' remuneration policy to the Board of Directors, supervising observation of its compliance and, if need be, its updating.

Red Eléctrica voluntarily submits the **annual remuneration of the Board of Directors** since 2007 and the **Annual Report on Remuneration of directors** since 2010 for a **binding approval** of the Ordinary General Shareholders' Meeting. Red Eléctrica has also submitted the **directors' remuneration policy** since 2015 for the approval of the General Shareholders' Meeting, after this was expressly stipulated in the LSC. Continuing along the same line, the director's remuneration, the directors' remuneration policy and Annual Report on

Remuneration of directors are proposed to be submitted as separate and independent items on the Agenda of the General Shareholders' Meeting.

In this way, Red Eléctrica maintains its level of alignment with the best corporate governance practices, which are aimed at providing the shareholders with sufficient autonomy and independent judgement to individually and separately vote on each of the different kinds of resolutions that fall within the competence of the General Shareholders' Meeting.

I.2. Basic conditions for the directors' remuneration policy

The directors' remuneration policy, as provided below for its approval, is based on the following **basis**, in line with those in the remuneration policy in force up to 2018:

- a) The group's **performance**.
- b) The value of the **contribution of the position and the person** both to the entity and the shareholders.
- c) The following **general principles and internal criteria** of Red Eléctrica:
 - The quality and commitment of the human resources of Red Eléctrica are essential to ensure the successful execution of the Red Eléctrica Group's strategies and, with this in mind, any remuneration policy and practice is applied to the Board of Directors and the senior executives to attract, motivate and retain the best professionals.
 - Balance and moderation.
 - Alignment with the company's strategy.
 - Alignment with the practices required by the shareholders and investors.
 - Alignment with effective time spent, responsibility and performance of duties.
 - The remuneration policies and practices guarantee non-discrimination based on gender, age, culture, religion or race.
 - Alignment with the remuneration applied by comparable companies.
 - Transparency.
 - Voluntarily submitting any decision related to the directors' remuneration to the approval of the General Shareholders' Meeting.
- d) **Internal equity**.

- e) The **market data and the guidelines of institutional investors and proxy advisors**, along with the information received from them in the regular engagement process conducted by the Red Eléctrica Group.
- f) The provisions in Red Eléctrica's **corporate rules** (the Corporate Bylaws and Regulation of the Board of Directors) and the principles determined in the corporate governance policy approved by the company's Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.
- g) The applicable **regulations**. The Appointments and Remuneration Committee has verified that the new directors' remuneration policy is suitable according to that stipulated, in general terms, for capital companies in section 4 of Article 217 of the LSC, which states the following:

"The directors' remuneration must in all cases be in a reasonable proportion to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system applied must be aimed at promoting the company's long-term profitability and sustainability and must include the necessary precautions to avoid excessive risk being undertaken and compensation of unfavourable results."

The Appointments and Remuneration Committee reviews the directors' remuneration policy on an annual basis, including an **analysis of comparable companies** to Red Eléctrica in such review process in order to ensure the suitability and moderation of their remuneration compared with the market. In order to determine the relevant parameters and amounts, the company obtains remuneration benchmarkings conducted by consulting firms of recognised international prestige and presence on the market.

Specifically, as part of the decision-making process to determine the remuneration of the **(non-executive) chairman of the Board of Directors** from the financial year 2019, a comparative analysis has been conducted of the remuneration of non-executive chairpersons on the selective **Ibex-35** index, where Red Eléctrica is listed. This analysis encompasses not only a quantitative approach of the different elements included in the remuneration but also a qualitative analysis of the time spent, origin, experience, etc. for the positions on the benchmark market.

The main **conclusions** drawn from the analysis related to the *(non-executive) chairman of the Board of Directors* are as follows:

- The remuneration of non-executive chairpersons on the Ibex-35 consists of fixed elements, which do not depend on business targets.
- The remuneration, at market median, amounts to €940,000 (although there is a great variation in the amounts). The **remuneration in Red Eléctrica** (€546,412) is positioned at 33th percentile, considerably **below this benchmark**.

- In particular qualitative issues related to the specific person that holds the position are taken into account in order to determine the remuneration, such as, *inter alia*, his time spent, experience, knowledge, critical aspects at historic times, the importance from an institutional standpoint, etc. as well as the importance of the corporate duties assigned thereto.

Moreover, as part of the decision-making process to determine the remuneration of the **chief executive officer** (*lead executive*) assigned all the executive duties, a benchmarking of the remuneration compared with **three peer groups** has also been conducted, in line with the analyses conducted in previous years:

- A peer group formed by companies listed on the **Ibex-35**, an index on which Red Eléctrica is listed.
- An **ad-hoc** comparison group formed by companies selected based on the same criteria applied to the remuneration analysis conducted in recent years for the *lead executive*. These criteria are as follows:
 - Geographic scope: Companies that have their headquarters in Spain.
 - Scope of responsibility: Listed companies belonging to either Ibex-35, the main Spanish selective index in which Red Eléctrica is listed, or Ibex Medium Cap.
 - Dimension factors: A group of companies with a revenue range of between 40% and 250% of the Red Eléctrica Group's revenue was selected. Factors, such as market capitalisation, total assets and number of employees, were also taken into account.
 - Business sector: Multi-industry. The companies were excluded from the set of companies that meet the previous criteria if their business is considerably different to that of Red Eléctrica, such as banking institutions.
- A peer group formed by **European energy companies**, which both the company and the proxy advisor, Institutional Shareholder Services (hereinafter referred to as the "ISS"), consider to be comparable with Red Eléctrica in terms of dimension (revenues) and that are important in the sector in terms of the evolution in their performance.

The full lists of companies are published in the relevant Annual Reports on Remuneration of directors.

The main **conclusions** drawn from the analysis related to the *chief executive officer* (*lead executive*) are as follows:

- Bearing in mind the principle of moderation and prudence in remuneration and the general relative positioning of Red Eléctrica compared with the peer groups, the desired target positioning in remuneration terms would be around the 25th percentile of the market benchmarks, which is the same considered in the previous director's remuneration policy of the company.

- The target **total remuneration** of Red Eléctrica's *chief executive officer* (the sum of the Fixed Remuneration, Annual Variable Remuneration, Multi-year Variable Remuneration, Long-term Savings Scheme and Remuneration as a member of the Board of Directors) is positioned, in general terms, **below the desired target positioning** (25th percentile). Particularly, it is positioned at the minimum of the Ibex-35 peer group, the 3rd percentile of the ad-hoc peer group and the 44th peer group of European energy companies. This is mainly explained by the following two factors:
 - Red Eléctrica's Fixed Remuneration is positioned below the 10th or 25th percentile of the peer groups. Other remuneration components (Annual and Multi-year Variable Remuneration and contribution to the Long-term savings scheme) are determined as a percentage of the Fixed Remuneration and are hence also affected by this positioning.
 - The Multi-year Variable Remuneration, defined as a percentage of the Fixed Remuneration and as an absolute amount, is positioned below the market benchmarks.
- The **weight** of the remuneration component in **shares** is **lower** than that observed on the market.

I.3. Issues addressed and conclusions of the review process conducted by the Appointments and Remuneration Committee on the directors' remuneration policy

In the assessment and decision-making process for the new remuneration policy that the Appointments and Remuneration Committee has conducted, the following issues were taken into account, based on the basic conditions described in the previous section:

- The **progress in the achievement of the 2014-2019 Strategic Plan**.
- The **challenges** posed by the **energy transition** and the strategic priorities that will be presented in the **new Strategic Plan**, which Red Eléctrica will communicate in the first quarter of 2019.
- The degree of **suitability** of the **total remuneration** to reward the **value of the contribution of the position and the person**, both to the company and the shareholders:
 - Regarding the **(non-executive) chairman of the Board of Directors**, his **exclusive time spent**, the **person's importance** from an institutional standpoint, the **critical aspects** of the corporate **duties** under his direct responsibility at the current time of the Red Eléctrica Group and the challenges faced due to the Group's new strategic priorities.

- Regarding the **chief executive officer (lead executive)**, his development and **consolidation in the position**, which is shown through the sustained growth in the Red Eléctrica Group's results, as previously mentioned.
- **Internal equity**, shown by the following:
 - The **relation of the remuneration**, both in components and amounts, **of the (non-executive) chairman of the Board of Directors and the chief executive officer**, which must suitably correspond to the effective separation of their duties.
 - The **relation** between the directors' remuneration policy and the **remuneration conditions of the company's employees**.
- Observing Red Eléctrica's consolidated **salary moderation** practice, as a **fundamental principle** since:
 - The specific Fixed Remuneration for the position of the *(non-executive) chairman of the Board of Directors* has remained unchanged since its creation in 2016.
 - The *chief executive officer (lead executive)*'s Fixed Remuneration has remained unchanged since his appointment in 2016.
- The **information** received from **institutional investors and proxy advisors** in the **regular engagement process** conducted by the Red Eléctrica Group, as well as the general recommendations on corporate governance.

The entity regularly organises briefing meetings (roadshows) conducted by the senior executives of the entity in the main financial centres in Spain and abroad where there is a greater presence of institutional investors. The objective is to inform of their activities and the development of their business, as well as to learn the best corporate governance practices, which come from the investment world. Corporate governance roadshows have been held for years in the months of January and meetings with proxy advisors are attended by the lead independent director. These meetings are extremely useful to obtain feedback from shareholders and proxy advisors, which is analysed and assessed throughout the year in order to maintain a permanent engagement.

- The **review** of the **positioning** of the remuneration compared with the **market**. The report issued by the Appointments and Remuneration Committee in which the amendments made to the directors' remuneration policy were justified to the General Shareholders' Meeting held in 2016, stipulated the following:
 - Regarding the **(non-executive) chairman of the Board of Directors**, a positioning of the remuneration considerably below the market median, expecting that the Board of Directors could review and update such amount in subsequent financial years, within the valid term of the policy and according to the principles contained therein.

- Regarding the **chief executive officer**, a desired target positioning in the 25th percentile of the market benchmarks, in line with the positioning of the senior executives; however, this target positioning has not been achieved up to now with the amendments proposed in 2016.

The previous proposals also respond to what was agreed by the Ordinary General Shareholders' Meetings held in 2017 and 2018, which determined the need to review the adequacy of the remuneration structure of both positions, for the reasons stated.

In conclusion, the Appointments and Remuneration Committee has analysed all the previous issues and grounds, and making prevail the **principle of prudence and moderation of remuneration**, proposes the Board to **maintain in 2019 the remuneration of the Board of Directors, of the chairman of the Board and the chief executive officer, in the same terms and conditions as to date.**

On the other hand, given that the 2014-2019 Long Term Incentive Plan ends on 31 December 2019, the Appointments and Remuneration Committee has proposed to **maintain this multi-year variable remuneration**, applicable to the *chief executive officer*, in a way that the approval of a new Long Term Incentive Plan is facilitated, for its implementation in 2020, in line with the new Strategic Plan which is about to be approved, and that **will maintain the structure of the 2014-2019 Long Term Plan**. It introduces the possibility of establishing the long term incentive, in annualised terms, up to a 50% of the annual Fixed Remuneration –although the level of achievement is not assessed till the end of the Plan-; or the possibility for it to be based, totally or partially, in shares of the company, or that allows including relative metrics which compare the results with other relevant comparable companies.

In any case, the features of this new Long-Term Incentive Plan shall be adjusted to the main lines set out in this directors' remuneration policy, which is submitted for the approval of the Ordinary General Shareholders' Meeting of 2019. The Annual Report on Remuneration of directors, to be published in 2020, will detail the main conditions of the new Plan, once approved, as is the usual practice of the company.

In respect to the remuneration of **directors, in their position as members of the Board of Directors** ("in their position as such", according to the LSC, i.e., for the non-executive duties) **no modifications are either proposed**. It should be noted that only minimum formal adjustments are introduced in the Corporate Bylaws, in the new wording related to the directors' remuneration, which will be also submitted for approval to the General Shareholders' Meeting, so that:

- They provide more detail on the different concepts for which directors are remunerated as members of the Board of Directors (for their non-executive duties).

- They suppress the reference to the share in the company's income as one of the remuneration systems of the directors, as it was a system that was not being used by entity.
- Notwithstanding the above, they maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. for the directors "in their position as such" for the non-executive duties and, for all items, which will be approved by the General Shareholders' Meeting and will not exceed an amount equivalent to 1.5% of the company's net income, approved by the General Shareholders' Meeting, and will remain in force insofar if no change is approved. Thus, it is clearer that the aforementioned maximum amount does not imply a remuneration system by means of share in the company's income, but exclusively a mechanism to statutorily establish the maximum amount of remuneration for directors in their position as members of the Board of Directors, using as a reference the net income figure.
- Finally, it is also maintained that the previous remuneration has, in any case, the maximum nature, corresponding to the Board itself the allocation of its amount among the items provided and among the directors, in such manner, at such time and in such proportion as the Board determines, based on the duties and responsibilities assigned to each director, any membership of Board committees and other objective circumstances deemed relevant.

Therefore, the specified percentage of 1.5% of the company's net income approved by the General Shareholders' Meeting is the limit of the overall annual remuneration and, for all items, payable to the directors in the position as members of the Board of Directors ("for their position as such"), for the purposes stipulated in the Corporate Bylaws and in the LSC.

In any case, the Appointments and Remuneration Committee and the Board of Directors may propose to the General Shareholder's Meeting, in the future, measures which allow adjusting the remuneration of both positions to the size and relevance of the entity and the Group, to their economic situation, comparability, profitability and sustainability, as well as to the desired remuneration positioning and the effective consolidation of both positions, all within the framework of the directors' remuneration policy in force at any given time and in line with that approved by the Ordinary General Shareholders' Meetings of the entity in 2017 and 2018.

I.4. Valid term

The remuneration policy will come into force on 1 January 2019 and will remain in force in the years 2019, 2020 and 2021, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors pursuant to the contents thereof and the amendments that may be approved by General Shareholders' Meeting of Red Eléctrica from time to time.

II. PROPOSAL FOR A RESOLUTION

To submit the following proposal for the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. for the approval of the Ordinary General Shareholders' Meeting, as a separate item on the Agenda thereof.

THE DIRECTORS' REMUNERATION POLICY OF RED ELÉCTRICA CORPORACIÓN, S.A.

1. Introduction

This document includes the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "entity", the "company" or "Red Eléctrica"), which will be submitted to a binding vote of the General Shareholders' Meeting of 2019 as a separate item on the Agenda to replace, valid as of 1 January 2019, the Directors' Remuneration Policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015, amended by the Ordinary General Shareholders' Meeting held on 15 April 2016.

The Directors' Remuneration Policy (hereinafter referred to as the "remuneration policy" or the "directors' remuneration policy") contains the following sections:

- The principles of the remuneration policy.
- The duties undertaken by the Appointments and Remuneration Committee.
- The remuneration policy for the *executive director (chief executive officer)*, including a description of the remuneration components, the remuneration mix and the main contractual conditions for the *chief executive officer*.
- The remuneration policy for the directors in their position as members of the Board of Directors ("in their position as such", according to the Spanish Capital Companies' Act - hereinafter referred to by its initials in Spanish "LSC"- for their non-executive duties).
- The remuneration policy applicable to new directors.
- The relation between the remuneration policy and the conditions of the company's employees.
- The maximum amount of the directors' remuneration, which determines the cap of the annual remuneration payable to all the directors.
- The valid term of the policy.

The remuneration and its corresponding amounts included in this policy are understood in all cases as gross. Each director will bear the applicable withholding according to the personal income tax (referred to by its initials in Spanish IRPF).

A part from the remuneration contemplated in this policy, the directors of Red Eléctrica could receive remuneration, if applicable, coming from other entities of the Red Eléctrica Group for their membership of the Board of Directors of said entities. These remunerations will be subject to the corresponding legal and statutory requirements applicable to each of these entities, and there will be fully disclosed information of their perception by the directors in the corresponding Annual Report on Remuneration of directors of Red Eléctrica.

2. The principles of the remuneration policy

The quality and commitment of the members of the Board of Directors and senior executives are essential to ensure the successful execution of the Red Eléctrica Group's strategies and, with this in mind, the Appointments and Remuneration Committee draws up and proposes the remuneration policy and practices applicable to the Board of Directors and the senior executives to Red Eléctrica's Board of Directors in order to suitably remunerate the best professionals.

The general principles on which the directors' remuneration policy is based are as follows:

	<i>Executive director (chief executive officer)</i>	<i>Non-executive directors</i>
Balance and moderation	●	●
Alignment with the practices required by the shareholders and investors	●	●
Transparency	●	●
Voluntarily submitting any decision related to the directors' remuneration to the approval of the General Shareholders' Meeting	●	●
Alignment of the remuneration policy with the company's strategy.	●	●
Alignment with the remuneration determined by comparable companies	●	●
The remuneration policies and practices guarantee non-discrimination based on gender, age, culture, religion or race	●	●
Consideration of the effective time spent on their duties	●	●
Link with the responsibility and performance of their duties as directors	●	●
Maintaining a reasonable balance between the different components of fixed remuneration (short-term) and variable remuneration (annual and long-term) that shows that the risks have been suitably undertaken and that the defined targets have been achieved related to creating sustainable value	●	
Lack of variable components in their remuneration to ensure their full independence related to the remuneration of the <i>chief executive officer</i> and the executive team.		●
Motivating amount, without affecting their independence		●

All the previous principles are coherent with the company’s corporate governance policy approved by the Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.

In addition, such remunerative principles, in general terms, meet the requirements for capital companies in the LSC, regarding their suitability to the company’s dimension and importance, its economic situation, comparability, profitability and sustainability; and regarding excessive risks not being undertaken or unfavourable results not being compensated.

What we do	What we don't do
<p>Executive director (chief executive officer):</p> <ul style="list-style-type: none"> • Link the payment of a significant part of the remuneration to the economic and financial results the Group obtains. • Defer a significant part of the remuneration. • Deliver a significant part of the remuneration in the company's shares. • Include <i>malus</i> and <i>clawback</i> clauses applicable to the short- and long-term variable remuneration. • Determine severance payments for the termination of the legal relationship, limited to one year of fixed and variable remuneration, for achieving 100% of the objectives. • Regularly review the alignment of the total remuneration with comparable companies. • Regularly obtain support from external advisors. <p>Non-executive directors:</p> <ul style="list-style-type: none"> • Link the remuneration with the effective time they spend, the responsibilities undertaken and performance of their duties as directors. 	<p>Executive director (chief executive officer):</p> <ul style="list-style-type: none"> • Guarantee increases in the fixed remuneration and payments of variable remuneration. • Grant discretionary remuneration. • Grant advance payments or loans, as a general rule. • Allow hedging of the value of the shares received in the holding period^(*) • Discriminate in remuneration on the basis of gender, age, culture, religion or race. The professionals of Red Eléctrica are remunerated based on their professional career, the time spent on their duties and the responsibility they undertake. <p>Non-executive directors:</p> <ul style="list-style-type: none"> • Participate in remuneration schemes linked to the company's performance (they are only paid fixed remuneration). • Participate in retirement plans or other social benefit schemes.

^(*) The holding period refers to the time after the vesting of shares that have been granted as remuneration during which they cannot be sold or be accessible.

3. The duties undertaken by the Appointments and Remuneration Committee

The Regulation of the Board of Directors, according to the authorisation contained in the entity’s Corporate Bylaws, describe the responsibilities and duties undertaken by the Appointments and Remuneration Committee, including those related to the remuneration of directors and senior executives reporting directly to the Board of Directors.

The tables below summarise the actions of the Appointments and Remuneration Committee in the decision-making process related to determining, applying and reviewing the remuneration policy:

Determining the remuneration policy
<ul style="list-style-type: none"> • It proposes the directors' remuneration policy to the Board of Directors to be submitted to the General Shareholders' Meeting, including the maximum overall amount, remuneration items and amounts. • It proposes to the Board of Directors the remuneration policy of the senior executives that directly report to the Board of Directors, the <i>(non-executive) chairman of the Board of Directors</i> or the <i>executive director (chief executive officer)</i>. • It draws up a specific report, which is provided to the Board of Directors, on the proposal for the director's remuneration policy of the Board of Directors to be submitted for the approval of the General Shareholders' Meeting.

Applying the remuneration policy
<ul style="list-style-type: none"> • It proposes the executive directors' annual remuneration to the Board of Directors, which will include the part corresponding to the fixed remuneration and the variable remuneration linked to the achievement of the strategies and pre-determined and quantifiable targets determined by the Board of Directors, at the proposal of the Appointments and Remuneration Committee, before the beginning of each financial year, and tied to the actions envisaged in the entity's Strategic Plan. • It proposes the individual remuneration of the executive directors and the other terms and conditions for their contracts. • It proposes the metrics and targets linked to the variable remuneration of the <i>executive director (chief executive officer)</i> and senior executives directly reporting to the Board of Directors, considering their possible impact in the long-term, the sustainability of results and any related risk. <p>When analysing, selecting and proposing the quantitative and qualitative targets, the Committee takes into account the Red Eléctrica Group's short- and long-term strategic priorities referred to in the Strategic Plan approved by the Board of Directors.</p> <p>In order to determine the suitable weighting and the achievement levels of each target, the Appointments and Remuneration Committee takes into account past analyses, forecasts and the expected performance of the Red Eléctrica Group and regularly monitors them.</p> <ul style="list-style-type: none"> • It regularly monitors the achievement of the predetermined quantifiable targets, aligned with the Strategic Plan, which must be assessed to determine the final amount of the annual variable remuneration and, if any, the multi-year remuneration of the <i>executive director (chief executive officer)</i> and the aforementioned senior executives applicable thereto. • It assesses achievement of the targets linked to the variable remuneration of the <i>chief executive officer</i> and the aforementioned senior executives. <p>In this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duties of the Red Eléctrica Group and provides information about the audited results of the entity and the consolidated Group.</p> <p>In order to ensure the variable remuneration is effectively linked to the professional performance of the beneficiaries, when determining the level of achievement of the quantitative targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p>

Reviewing the remuneration policy

- It regularly reviews the Board of Directors' remuneration policy, which includes the non-executive directors –with the *(non-executive) chairman of the Board of Directors-* and the *executive director (chief executive officer)*, making a comparison with benchmark companies in this review process, selecting groups of comparable companies and it keeps in permanent contact with its shareholders and those casting the votes (proxy advisors) to verify the suitability and moderation of the remuneration of the company's non-executive directors and chief executive officer compared with the market.

In order to carry out this duty, the Committee receives advice from external independent consultants that are experts in remuneration.

Notwithstanding the foregoing, the Board of Directors takes part, in all cases, in the duties related to the remuneration policy assigned thereto by the Spanish Capital Companies' Act, the Corporate Bylaws and the Regulation of the Board of Directors.

4. The remuneration policy for the *executive director (chief executive officer)*

The elements of the remuneration policy for the *chief executive officer* are provided below. The Corporate Bylaws, in the new wording related to the directors' remuneration, which will be submitted for approval to the same General Shareholders' Meeting to which this policy will be submitted, describe the remuneration system applicable to the *chief executive officer* which is described below.

4.1. Table related to the remuneration policy for the *executive director (chief executive officer)*

Table 1. Remuneration policy for the *executive director (chief executive officer)*

	Amount	Operating
<p>Fixed Remuneration</p> <p><i>Purpose:</i> Reward the executive based on his responsibility and professional career.</p>	<p>Amount: Year 2019: €399,170.</p> <p>Standard general update: The Fixed Remuneration may be reviewed on an annual basis, according to the criteria approved from time to time by the Appointments and Remuneration Committee, among others, development and consolidation in the position, evolution in the company's performance, complexity of the business, geographic diversity, market benchmarks, etc. Although the updating will take place in the terms described above, the Appointments and Remuneration Committee must always provide justification thereof.</p>	<p>The Fixed Remuneration will be calculated in accordance with his responsibility and leadership in the organisation and in line with the amount paid by comparable companies on the market.</p> <p>In certain exceptional cases, the Appointments and Remuneration Committee may appreciate, for example, the existence of a change in responsibility and/or development in the position and/or special needs for retaining or motivating the executive. Under these circumstances, the Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on Remuneration of directors.</p> <p>The Fixed Remuneration is paid in cash.</p>
<p>Long-Term Savings Scheme</p> <p><i>Purpose:</i> To offer a total remuneration package that is competitive with market practice.</p>	<p>Annual contribution: 20% of the annual Fixed Remuneration.</p>	<p>The defined contribution retirement scheme. The contingencies covered by this scheme are retirement, death and permanent disability.</p> <p>This scheme is funded through an insurance policy underwritten with an external insurer. The benefits consist of the economic rights corresponding to the beneficiary due to any of the contingencies arising covered by this scheme.</p> <p>If the event of termination, the economic rights will be consolidated in favour of the <i>chief executive officer</i>, unless the termination takes place due to misconduct or serious negligence thereby when performing his duties causing damages to the company. Receiving any indemnity will be compatible with the recognition of the economic rights in the retirement scheme.</p> <p>If new regulatory provisions were approved and imply a review of the scheme, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may make the relevant amendments to adapt it to the new regulations. If amendments are made, the reasons must be duly notified in the Annual Report on Remuneration of directors.</p>
<p>Social Benefits</p> <p><i>Purpose:</i> To offer a total remuneration package that is competitive with market practice.</p>	<p>Annual amount: €60,000</p>	<p>An allowance in cash or in kind as social benefits.</p>

	Amount	Metrics	Functioning
<p>Annual variable remuneration</p> <p><i>Purpose: To incentivise the achievement of the annual targets in line with the Red Eléctrica Group's Strategic Plan.</i></p>	<p>Target 75% of the annual Fixed Remuneration. It is attained if 100% of the predetermined targets are achieved.</p> <p>Maximum 110% of the Target Incentive (82.5% of the annual Fixed Remuneration). It is attained in the case of overachievement of the maximum pre-determined targets.</p>	<p>It is linked to achieving a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the corporate interests and in line with the Red Eléctrica Group's Strategic Plan. These targets may include, <i>inter alia</i>, economic-financial, business, operational and/or value-creation metrics, as well as indicators linked to sustainability in their social, environmental and/or good corporate governance vectors.</p> <p>In a scenario in which the target objectives are achieved, the qualitative targets imply a maximum weight of 30% of the overall incentive.</p>	<p>The Appointments and Remuneration Committee is responsible for approving the targets at the beginning of each financial year and for assessing the achievement thereof at the end of the year.</p> <p>In order to ensure that the Annual Variable Remuneration is effectively in line with the professional performance of the beneficiaries, when determining the level of achievement of the quantitative targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>The performance scale, set at the beginning of each financial year, includes a minimum threshold below which no incentive is paid, a target level that corresponds to achieving 100% of the targets and a specific maximum level for each metric. The maximum incentive is only payable if it is determined that the targets set at the beginning of the financial year have been achieved and a level of overachievement has been reached, if applicable to the target. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>In order to calculate the amount of the Annual Variable Remuneration, the level of achievement and weighting of each of the targets -individual and/or global- are considered and the internal rules and procedures are applied for assessing targets determined by other companies for its executives. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duties of the Red Eléctrica Group and provides information about the individual and consolidated audited results of the Red Eléctrica Group.</p> <p>The Annual Variable Remuneration is paid by means of a combination of cash and company shares. The number of shares will be equivalent to at least 25% of the Annual Variable Remuneration. The <i>chief executive officer</i> undertakes a commitment with the entity, while he holds such position, to keep the shares received, net of applicable taxes, for at least five (5) years. If the General Shareholders' Meeting does not approve granting the <i>chief executive officer</i> shares as remuneration or determines a maximum amount lower than that specified, an amount equivalent to the remuneration that cannot be paid in shares will be paid in cash.</p>
<p>2014-2019 multi-year variable remuneration in cash plan (approved by the Ordinary General Shareholders' Meeting held in 2016)</p>	<p>Target 1.8 times the annual Fixed Remuneration for the total term of the Plan (six (6) years).</p> <p>Maximum 110% of the target.</p>	<p>Metrics The economic, financial and operational targets included in the Strategic Plan 2014-2019.</p> <p>The following targets and weightings are determined:</p> <ul style="list-style-type: none"> - 20% linked to the extension of the business base, measured through the investment volume indicator; - 25% of the incentive depends on the fulfilment of the Investment Plan of the transport network, measured according to commissioned positions, amongst others; - 20% of the incentive is linked to the quality of the system operation; energy that is not supplied is used to calculate this; - 25% of the incentive is linked to the efficiency of operations and two metrics are taken into account: return on fixed assets and earnings per share; - The remaining 10% depends on fulfilment of the Corporate Responsibility Plan (currently called the Sustainability Scheme) 	<p>The Plan is structured on a single cycle of six (6) years. The grant is in cash and equivalent to 1.8 times the annual Fixed Remuneration. This amount is paid in full or partially at the end of the Plan, depending on certain metrics being achieved linked to Red Eléctrica's Strategic Plan.</p> <p>In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target. Similarly, the maximum achievement of all the targets in the Plan is 110%, even if the average weighted achievement of the targets is higher.</p> <p>The Committee will monitor the targets on an annual basis and, once the Plan has terminated, the level of achievement will be calculated. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duty of the Red Eléctrica Group and provides information about the audited results. The Committee also considers any related risk both for determining the targets and for assessing their achievement.</p> <p>When determining the level of achievement of the targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p>

	Amount	Metrics	Functioning
<p>Multi-year variable remuneration (applicable from 2020)</p> <p><i>Purpose:</i> To reward the attainment of the long-term strategic priorities of the Red Eléctrica Group, the sustainability of the Red Eléctrica Group's performance and the sustainable value creation for the shareholders.</p>	<p>Annual Target Incentive Up to 50% of the annual Fixed Remuneration for each year in the period for assessing the targets in the Plan.</p> <p>Maximum Annual Incentive 110% of the Target Incentive (55% of the annual Fixed Remuneration for each year in the performance period).</p>	<p>The economic-financial, business and operational targets included in the Red Eléctrica Group's Strategic Plan, value creation targets for the shareholders and non-financial targets linked to the multi-year Sustainability Plans of the Red Eléctrica Group.</p> <p>Some of the metrics can be measured on a relative basis by comparison with competing companies or companies that perform similar business activities.</p>	<p>The incentive may be paid in cash and/or shares, providing the targets set for such purpose are achieved. Payment may be made at one time or gradually over a period longer than one year.</p> <p>The performance period for the targets will be, at least, three (3) years.</p> <p>The performance scale, set at the beginning of the scheme, includes a minimum threshold below which the incentive is not payable, a target amount in the case 100% of the pre-determined targets are achieved and a maximum level, if the targets have been exceeded. Intermediate levels will be calculated by linear interpolation. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>The Appointments and Remuneration Committee monitors the targets on an annual basis and, once the Plan has terminated, the level of achievement will be calculated. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duty of the Red Eléctrica Group and provides information about the individual and consolidated audited results of the Red Eléctrica Group. The Committee also considers any related risk both for determining the targets and for assessing their achievement.</p> <p>When determining the level of achievement of the targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>Once the performance period has finalised, cliff or graded vesting, over a period of more than one year, may be considered.</p> <p>The shares derived from the plan, net of applicable taxes, if any, can be fully or partially subject to a compulsory holding period.</p>

Due to the potential impact on the Red Eléctrica Group's strategic interests, the level of achievement of the targets to which the variable remuneration is linked is considered commercially sensitive information. Therefore, this will be disclosed and published in the corresponding Annual Report on Remuneration of directors, as it is the usual practice of the company, once the year to which these targets are referred to is completed and once the assessment of the levels of achievement has been made by the Appointments and Remuneration Committee.

4.2. Other remuneration components of the *chief executive officer*

The *chief executive officer's* remuneration policy includes the entity granting loans, advance payments and guarantees in line with the policy for the Group's executives.

The remuneration policy of the *chief executive officer* also contemplates the participation in the remuneration systems which implies the delivery of shares from the company or referenced to the value of these, with the prior express authorisation of the General Shareholders' Meeting and within the limits and conditions established by the legislation in force at any time.

In addition, the *chief executive officer* will receive the remuneration corresponding thereto for his supervisory duties as a member of the Board of Directors, as described in Table 4 of this remuneration policy, for the items of “Fixed Remuneration” and “Remuneration for attending the Board of Directors’ meetings”.

4.3. Remuneration mix of the *chief executive officer*

The *chief executive officer* has a fully flexible variable remuneration scheme, which is suitably in accordance with the performance achieved and that, if the pre-determined minimum achievement thresholds are not reached, the variable remuneration would be reduced to zero.

If the targets are exceeded, the weight of the short- and long-term variable remuneration will not exceed 50% of the total remuneration (considering, for this purpose, this means the sum of the Fixed Remuneration, the Long-term Savings Scheme, Social Benefits, Annual Variable Remuneration and Multi-year Variable Remuneration).

4.4. Ex-post control of the variable remuneration (*chief executive officer*)

The Appointments and Remuneration Committee is responsible for proposing to the Board of Directors cancellation or reimbursement of the short or long-term variable remuneration payment of the relevant beneficiary or beneficiaries or responsible person or persons due to unexpected circumstances that justify that the variable remuneration has been accrued or paid based on inaccurate or erroneous information or data or the corporate internal regulations or applicable law were infringed as subsequently proven. Furthermore, the Appointments and Remuneration Committee will decide whether, due to exceptional circumstances of this kind, the termination of the contractual relationship with the relevant beneficiary or beneficiaries or responsible person or persons can be proposed to the Board of Directors, also being able to propose that all the measures considered appropriate are adopted.

The Appointments and Remuneration Committee may propose to the Board of Directors that adjustments should be made to the elements, criteria, thresholds and limits of the annual or multi-year variable remuneration due to exceptional circumstances caused by extraordinary internal or external factors or events. The details and justification for such adjustments will be recorded in the relevant Annual Report on Remuneration of directors.

4.5. Contractual terms and conditions for the *chief executive officer*

The contract regulating the duties and commitments of the *chief executive officer* is of a commercial nature and includes the clauses that in practice are usually contained in these kinds of contracts. The *chief executive officer's* contract will be updated, if needed, to include the new aspects related to this new remuneration policy.

Both tables below describe, as a summary, the main clauses of the aforementioned *chief executive officer's* contract:

Table 2. Severance pay in the case of termination of the contractual relationship

	Dismissal as decided by the entity	Voluntary resignation by the <i>chief executive officer</i>
Prior notice	There is no prior notice period.	Agreed prior notice of 2 months. If the prior notice term is not fulfilled, the <i>chief executive officer</i> shall indemnify the entity with the amount of all the corresponding remuneration for the time remaining to complete the said term.
Severance Pay	Termination of the contractual relationship. The severance pay will be equivalent to one year of pay, which will include the fixed remuneration plus the amount corresponding to the variable remuneration, calculated according to a 100% achievement of objectives. The severance pay will not be applicable if the termination is due to misconduct or serious negligence by the <i>chief executive officer</i> when performing his duties causing damages to the company.	Termination of the contractual relationship. If the director decides to terminate his relationship with the entity due to serious and culpable breach of contract by the entity or a significant change in his duties not due to a reason caused by the <i>chief executive officer</i> , the latter will be entitled to receive the same severance pay specified for cases of dismissal by the entity. In a scenario of change of control, the <i>chief executive officer</i> will have the option, within 2 months, to cease his position, automatically terminating his contract and receiving the severance pay indicated in cases of dismissal by the entity.

Table 3. Exclusivity and non-competition

	Functioning
Confidentiality	The Regulation of the Board of Directors (Article 31) state that all directors must not disclose the information, data, reports or background that he/she has access to when performing his/her duties, even when he/she has left the company, except in the cases such disclosure is allowed or required by law.
Non-competition	The <i>executive director's</i> contract includes an obligation to not compete with the entity 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 his position as director of Red Eléctrica, the <i>chief executive officer</i> must not compete with the entity in the terms in which such obligation is regulated for the company's directors by law and the Regulation of the Board of Directors (Article 32).
Limitation of posts and exclusivity	A full-time working system is determined and he may not render other services of any kind to other enterprises, whether they are in competition or not with the company, while he has a relationship with Red Eléctrica, unless expressly authorised by the Board of Directors. The Board of Directors' Regulations (Article 7.2.a) stipulate that the <i>chief executive officer</i> may only hold the post of director on one (1) Board of Directors of another company (unless Red Eléctrica holds a stake therein).

5. Remuneration policy for the directors in their position as members of the Board of Directors(*) (“in their position as such”, according to the LSC for their non-executive duties)

(*) This is also applicable to the chief executive officer as a member of the Board of Directors.

The elements of the remuneration policy for the directors in their position as such (for their non-executive duties) are provided below.

To this effect, it should be noted that the Corporate Bylaws, in the new wording related to the directors’ remuneration, which will be submitted for approval to the same General Shareholders’ Meeting to which this policy will be submitted, maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. in their position as members of the Board (“in their position as such” according to the LSC), for all items, which will be approved by the General Shareholders’ Meeting and will not exceed an amount equivalent to 1.5% of the company’s net income, approved by the General Shareholders’ Meeting, and will remain in force insofar if no change is approved.

Therefore, the specified percentage of 1.5% of the company’s net income approved by the General Shareholders’ Meeting is the limit of the overall annual remuneration payable to the directors in the position as members of the Board of Directors (for their non-executive duties), for the purposes stipulated in the Corporate Bylaws and in the LSC.

Table 4. Remuneration policy for the directors in their position as members of the Board of Directors

	Purpose	Limits	Functioning
Fixed remuneration	To adequately remunerate the responsibility and time dedicated in the position, without reaching levels that could hinder the director’s independence.	Maximum €130,742 per annum per director. Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	It is paid by means of monthly instalments before the fifth (5 th) day of the following month.
Remuneration for attending the Board of Directors’ meetings	To remunerate the personal and effective attendance at the Board of Directors’ meetings.	Maximum The Board of Directors: €1,500 per director and per ordinary meeting. Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	The remuneration for attending the Board of Directors’ meetings are paid for the personal attendance of each director at each of the ordinary meetings planned for each financial year in the schedule approved by the Board of Directors, being able to delegate his/her duties to a proxy for duly justified reasons at a maximum of twice a year without forfeiting the right to receive the remuneration. This amount will be paid within fifteen (15) days after the meetings have been held. Attending extraordinary Board of Directors’ meetings, in person or by electronic means, shall not result in any remuneration being paid for this item.

	Purpose	Limits	Functioning
(Non-executive) chairman of the Board of Directors	To suitably remunerate the time spent as required by the position, the level of special responsibility and the skills and experience required to perform the duties.	Maximum €399,170 per annum for 2019. Annual reviews may be applied within the maximum overall annual limit for all the members of the Board of Directors.	Remuneration in cash It is paid by means of monthly instalments before the fifth (5 th) day of the following month.
Time assigned to the Board of Directors' Committees	To remunerate the time assigned and attendance at the Board of Directors' Committee meetings.	Maximum - Member of each of the Committees: €27,900 per annum. - Chairpersons of each of the Committees: €15,000 per annum for each one (in addition to their remuneration as members thereof). Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	The remuneration for the time spent and attending the Board of Directors' Committee meetings and the remuneration for the committees' chairpersons will be paid by means of monthly instalments before the fifth (5 th) day of the following month. The previous amounts are of an annual nature regardless of the number of Committee Meetings held in the financial year.
Lead Independent Director	To suitably remunerate the additional time required by the position.	Maximum €15,000 per annum Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	It is paid by means of monthly instalments before the fifth (5 th) day of the following month.

Directors will be paid or reimbursed for reasonable and duly justified expenses incurred as a result of attending meetings and other duties directly related to the performance of their position, such as travel, accommodation, maintenance and any other that they may incur.

The remuneration policy for the directors in their position as members of the Board of Directors with non-executive duties, does not include granting loans, advance payments or guarantees provided by the entity in their favour.

Nor does it contemplate the participation of the directors with non-executive duties in pension schemes, or indemnities for their supervisory duties or take part in a group decision on the termination of their relationship with the entity due to their position as non-executive directors, or the granting of any other additional remuneration apart from that referred to above.

6. Remuneration policy applicable to new directors

The aforementioned remuneration system for the *executive director (chief executive officer)* will be applicable to any director that could become a member of the Board of Directors during the valid term of this remuneration policy for performing executive duties.

When determining the economic system for a new executive director, the Appointments and Remuneration Committee will take into consideration the experience and knowledge of such new executive director, his/her origin and remuneration level prior to his/her appointment.

Table 1 in this policy (see section 4.1) describes the elements to be considered to design and determine the remuneration system for new executive directors. Depending on the remuneration level they had prior to joining the company, the Committee may determine different remuneration to reach an economic system deemed suitable.

Notwithstanding the above, Red Eléctrica's remuneration policy does not contemplate the granting of guaranteed sign-in bonus.

In this respect, the Appointments and Remuneration Committee will determine the basic conditions and justify the new remuneration bearing in mind, *inter alia*, the following factors:

- The regulations applicable from time to time to the remuneration of the members of the Board of Directors that perform executive duties.
- The provisions in the Corporate Bylaws, the Regulation of the Board of Directors and the principles contained in the corporate governance policy approved by the company's Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.
- The principles referred to in section 2 of this remuneration policy applicable to the *executive director*.
- The market data and guidelines of institutional investors and proxy advisors, as well the information received thereby in the engagement process conducted by the Red Eléctrica Group.

The remuneration policy for new appointments includes the possible existence of more than one executive director with different duties and responsibilities being assigned to each of them.

If non-executive members join the Board of Directors during the valid term of this policy, the remuneration system described in Table 4 above shall be applicable thereto.

7. Relation between the remuneration policy and the conditions of the company's employees

The remuneration policy of the group's employees was taken into account in order to determine the remuneration conditions for the *chief executive officer*, as described in this remuneration policy.

In this respect, the remuneration policy of the *chief executive officer* is aligned with that of the rest of the employees, both including the following principles:

- It is a part of Red Eléctrica's equal opportunities policy, which expresses and formalises the company's commitment and strategic positioning to promote equal opportunities, respect of differences and non-discrimination in all the activities related to human resources management and it aims at ensuring that the remuneration policies and practices guarantee at all times non-discrimination due to gender, age, culture, religion or race, or any other circumstance. Therefore, Red Eléctrica's employees are remunerated depending on their professional worth, experience, the time they spend on their duties and the responsibility they undertake.
- The total remuneration offered by Red Eléctrica may consist of fixed elements, short- and long-term variable elements as well as remuneration in kind and other social benefits.
- In the same way as for the rest of the Red Eléctrica Group's executive team, a significant part of the total remuneration of the *chief executive officer* is variable and receiving it is subject to achievement of a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the corporate interests and Strategic Plan of the Red Eléctrica Group.
- The variable remuneration is not guaranteed and is absolutely flexible and hence no amount can be received for this item if the minimum achievement thresholds are not reached.

Therefore, it is considered that the elements included in the remuneration of the *chief executive officer* for his executive duties are aligned with the components contained in the remuneration package for the group's executive team, except for the remuneration received for his supervisory duties as a member of the Board of Directors.

8. Maximum amount of the directors' remuneration

The maximum amount of the remuneration payable by the entity to all its directors every year will be the result of the sum of the following:

- The items specified in section 4.1 above, which remunerate the executive duties performed by the *executive director (chief executive officer)*.

- An amount equivalent to 1.5% of company's net income, approved by the General Shareholders' Meeting for all the directors, as members of the Board of Directors ("in their positions as such", according to the LSC, for their non-executive duties).

If the event of termination of the *chief executive officer*, the amount he is entitled to be paid must be added to the aforementioned amounts, according to the provisions of his contract, in the terms specified in the previous section 4.5.

The maximum amount referred to in this section will continue being applicable during the valid term of this remuneration policy, unless the General Shareholders' Meeting decides to modify it in the future.

9. Valid term

The remuneration policy will come into force on 1 January 2019 and will remain in force in the years 2019, 2020 and 2021, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors pursuant to the contents thereof and the amendments that may be approved by the General Shareholders' Meeting of Red Eléctrica from time to time.