

RED ELÉCTRICA
CORPORACIÓN

Board of Directors

March 13, 2013

Annual Report on Directors' Compensation

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1. INTRODUCTION

This report on compensation policy for the Directors of Red Eléctrica Corporación, S.A. ("Red Eléctrica" or "the Company") has been prepared in accordance with the provisions of the Corporate Bylaws and the Board Regulations. For Red Eléctrica, it is a high priority to make ongoing progress in the field of Corporate Governance, and for this reason it conducts procedures for continuous improvement of the scheme of compensation and alignment with best practices in the market. To create this policy, Red Eléctrica has examined and considered the requirements and recommendations of the regulatory environment applicable to listed corporations, the expectations and requirements of international investors, and Corporate Governance best practices at the domestic and international scales.

This report, in compliance with Article 61 ter of the Securities Market Law and with the Corporate Bylaws, provides an account of the application of compensation policy for Directors (including Executive Directors) in 2012, and outlines planned policy for the current year (2013) and later years. Supplementary information has also been included on the remuneration of senior management.

As proposed by the Corporate Responsibility and Governance Committee at its meeting of March 7, 2013, this report has been adopted by the Board of Directors of the Company at its meeting of March 13, 2013.

Since 2007, the Board of Directors submits its own proposed compensation to the Shareholders' Meeting for approval. Since 2010, the Board resolved also to submit the Annual Report on Directors' Compensation to a binding vote of the Shareholders' Meeting as a separate item on the agenda. In 2013, both Board compensation for 2012 and 2013 and this report on Directors' compensation policy, as two separate items on the agenda, will be laid before the Shareholders' Meeting for the purpose of being put to a binding vote.

The following table sets out the voting percentages that resulted at the Shareholders' Meetings of 2011 and 2012 in relation to the Annual Report on Directors' Compensation:

Annual Report on Directors Compensation: Votes (%)			
Date of Shareholders' Meeting	For	Against	Abstentions
13/04/2011	68.68%	30.60%	0.72%
19/04/2012	94.54%	5.39%	0.07%

In light of recent trends in the focus of concern of international investors and proxy voting agencies, and with the aim of becoming aligned with the best practices in the market at the domestic and international levels, in early 2013 the Corporate Responsibility and Governance Committee resolved to undertake an in-depth review of the scheme of compensation of the Board of Directors. The immediate consequence was that the Board adopted a new scheme of compensation, applicable immediately in 2013, as explained below.

2. CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE

2.1. COMPOSITION

The Regulations of the Board of Directors and the Corporate Bylaws of Red Eléctrica establish that the Corporate Responsibility and Governance Committee must be formed by a minimum of three and a maximum of five Directors, who must be External Directors, with at least a majority of members being Independent Directors.

In 2012, the Shareholders' Meeting of April 19, 2012 approved a restructuring of the Board of Directors. This required the concomitant restructuring of the Board Committees, including the Corporate Responsibility and Governance Committee. To lend further strength and forward movement to Corporate Governance policies and achieve improved efficiency and agility, the Board resolved that all Committee members be External Directors, that Committee membership be limited to three – down from four – and that the Committee Chairman be an Independent Director.

As a result, 2012 witnessed a thorough overhaul of the Corporate Responsibility and Governance Committee:

	From January 1 April 19, 2012	From April 26 until the date of approval of this report
Chairman	- Antonio Garamendi Lecanda (external independent director)	- Juan Irazo Martín (External Independent Director)
Members	- Maria Ángeles Amador Millán (External Independent Director) -Luis María Atienza Serna ¹ (Executive Chairman) - Manuel Alves Torres (External Nominee Director)	-Carmen Gómez de Barreda Tous de Monsalve (External Independent Director) - Alfredo Parra García-Moliner (External Nominee Director)
Non-Director Secretary	- Rafael García de Diego Barber	- Rafael García de Diego Barber

This composition was unchanged as of the date of adoption of this report.

The Committee members have been appointed for a term of three years by the Board of Directors at the proposal of its Chairman, following a report by the Corporate Responsibility and Governance Committee.

All of the Committee members are demonstrably qualified to perform their functions within the Committee in light of their extensive track records and expertise, including in the field of executive compensation.

¹ Up to March 8, 2012, when the Board accepted his resignation as a Director.

2.2 FUNCTIONS

In accordance with the authorization contained in the Corporate Bylaws of Red Eléctrica, the basic responsibility of the Corporate Responsibility and Governance Committee as regards compensation is to propose the compensation policy for Directors and senior managers to the Board of Directors and ensure its observance.

Article 16 of the Board Regulations sets out the above-mentioned basic responsibility in the context of the authorization under Article 24.2 of the Company Bylaws, attributing the following compensation functions to the Corporate Responsibility and Governance Committee:

- a) To propose to the Board:
 - 1) the compensation policy applicable to Directors and Senior Managers of the Company and of Red Eléctrica de España, S.A.U.;
 - ii) the individual compensation and other contractual conditions of Executive Directors;
 - iii) the basic terms and conditions of the contracts of senior executives of the Company and of Red Eléctrica de España, S.A.U.
- b) To consult the Chairman of the Company, especially where dealing with matters relating to Executive Directors and Senior Managers of the Company and of Red Eléctrica de España, S.A.U.
- c) To ensure compliance with the compensation policy established by the Company.

In 2012, the Committee reviewed its own functions and duties as specified in the Board Regulations in the context of the process of review of those regulations, and is considering whether or not to take on new roles as to compensation policy of Directors and Senior Management in line with the newest Corporate Governance practices, which are expected to be implemented throughout 2013 if approved by the Board of Directors.

2.3 FUNCTIONING

The Committee meets as often as is appropriate for the proper performance of its functions and, in all cases, at least once every quarter, as required by the Board Regulations, whenever called by its Chairman or so requested by two of its members, and whenever the Board of Directors or its Chairman requests that a report be issued or proposals be adopted.

The Committee shall meet on any other occasions that are appropriate in order to consider the suggestions made by the Chairman, the members of the Board of Directors, the executives of the Company or shareholders in matters affecting the appointment of Directors, including Managing or Executive Directors, or compliance with Corporate Governance principles, the Corporate Bylaws and the Board Regulations.

The Committee met twenty (20) times in 2012. 8 of those meetings took place from January 1 to April 26. The remaining 12 meetings took place from April 19 to December 31. In each of 2010 and 2011, the Committee met eleven times. The increased number of meetings in 2012 resulted from the key changes within the Board in that year, including changes in the composition of the

Committee itself; and from the Company's intensive activity in order to improve its Corporate Governance practices.

The details of attendance throughout 2012 at meetings of the Corporate Responsibility and Governance Committee were as follows:

Percent attendance (up to 19/04/2012)		Percent attendance (since 26/04/2012)	
Antonio Garamendi Lecanda	100%	Juan Iranzo Martín	100%
Maria Ángeles Amador Millán	100%	Carmen Gómez de Barreda Tous de Monsalve	100%
Luis María Atienza Serna ¹	100%	Alfredo Parra García-Moliner	100%
Manuel Alves Torres	100%		

Meetings of the Corporate Responsibility and Governance Committee are immediately reported to the entire Board over the Directors' website. Minutes are taken, adopted and circulated to all Directors.

According to the schedule established for 2013, the Corporate Responsibility and Governance Committee will hold at least eleven (11) meetings during the year, without prejudice to any special meetings that may be held in the same period.

In 2012 the most significant actions taken by the Corporate Responsibility and Governance Committee concerning compensation matters were:

- Approval of the proposed Business, Managerial and Management Committee objectives for 2012.
- Analysis of performance of the proposed Business, Managerial and Management Committee objectives for 2012.
- Analysis of the 2009-2013 long-term objective monitoring report.
- Approval of proposals for submission to the Board of Directors relating to total remuneration for the Board of Directors and Executive Chairman of Red Eléctrica Corporación, S.A., and the senior managers of Red Eléctrica de España, S.A.U., in 2012.
- Approval of proposed remuneration for the management team.
- Analysis and approval of the contract with the Company's Chairman.
- Analysis of the proposed annual share award program for non-executive personnel, reporting favourably to the Board of Directors.

¹ Resigned as Executive Director on March 8, 2012, after 4 meetings.

- Approval of the proposed new compensation structure and content for the Board of Directors and the Executive Director for 2013 for submission to the Board of Directors, in accordance with international Corporate Governance recommendations (resolutions adopted following 2012 year-end).

3. EXTERNAL ADVISERS

In accordance with the provisions of the Board Regulations, in order to better perform its functions the Corporate Responsibility and Governance Committee may request that the Board of Directors engage independent advisers (legal, accounting, financial or other experts) at the expense of the Company.

For the preparation of this report, the Corporate Responsibility and Governance Committee has engaged the assistance of a consultancy firm specializing in Directors' and senior executives' compensation, Towers Watson.

4. COMPENSATION POLICY

4.1. EXECUTIVE SUMMARY

As proposed by the Corporate Responsibility and Governance Committee, the Board of Directors has decided, despite the Company's outstanding performance, to keep in place a balanced compensation policy bearing the hallmarks of moderation and transparency, in line with the present economic scenario.

Performance-related compensation continues to be a key principle of our compensation program. Executives must be accountable for their performance and the Group's results. Compensation is accordingly tied to results using the metrics set out in the Group's Strategic Plan.

In line with this policy, the following steps were taken in 2012:

- The total compensation of the Board of Directors, of the Executive Chairman of Red Eléctrica Corporación, and of the Senior Officers (*Directores Generales*) of Red Eléctrica de España, S.A. was cut by approximately 5% with respect to 2011; Board compensation had in any event remained unchanged since 2007.
- Variable compensation was approved in line with expectations and targets.
- In line with best Corporate Governance practices, Red Eléctrica Corporación has enhanced the transparency of its compensation policies by making more detailed disclosures about its policy on variable compensation.
- In addition, with a view to 2013 and later years, Red Eléctrica will continue to review the compensation it pays to its Directors and Executive Chairman so as to modify its compensation schemes in alignment with market requirements as and when they emerge.

In addition to individual assessment of the targets and criteria laid down at the beginning of the financial period for the Board and the Executive Chairman, the following factors determine the amounts of their variable compensation:

- 2012 revenue came to €1,755.3 million, 7.2% up year on year, driven chiefly by the proceeds of bringing assets into operation in 2011, and offset in the amount of EUR 45 million by the impact of the measures under Royal Decree-Law 20/2012, enacted July 13, 2012, and of the removal from the Group's scope of consolidation of the Bolivian company Transportadora de Electricidad, S.A. (TDE), due to its expropriation by the Bolivian government.
- Gross operating earnings or EBITDA came to €1,299.2 million, 6.9% more than in 2011. The increase in EBITDA reflected the fact that revenue and operating costs grew at similar rates.
- Net operating earnings or EBIT were 1.9% above the 2011 figure, growing at a slower rate than EBITDA due to the recognition of a €46.4 million impairment of property, plant and equipment as a result of a conservative appraisal in the second quarter of certain auxiliary transmission assets. Depreciation and amortization in 2012 grew 6.0% year on year.
- Group investments in 2012 came to €705.8 million, 16.4% less than in 2011. The greater part of investments in the period were accounted for by domestic grid development projects worth €671.6 million.
- The dividend payout as of December 31, 2012 totalled €297.7 million, 17.8% year on year increase.
- Finally, consolidated earnings for the year were 6.9% higher than in 2011.

4.2 PRINCIPLES OF COMPENSATION POLICY

As part of its compensation policy principles, and in line with international best practice in the field of Corporate Governance, the Red Eléctrica Corporate Responsibility and Governance Committee sees to it that compensation policy follows the principle of adherence to the Company's long-term values and objectives.

Board compensation policy is guided by the following basic principles:

- Moderation.
- Linked to actual dedication.
- Partly linked to the Company's performance.
- Acts as an incentive but without conditioning Directors' independence (particularly in the case of Independent Directors).
- Transparency.
- Linked to attendance at meetings and performance of duties as Directors.
- Aligned with the practices most in demand among international investors.
- Board compensation approved by the Shareholders' Meeting.
- Binding approval of the Annual Report on Directors' Compensation by the Shareholders' Meeting.

4.3 APPLICATION OF COMPENSATION POLICY IN 2012

4.3.1. Policy on Directors' compensation for their collegial supervisory and decision-making functions

- General principles and guidelines

The principles guiding Directors' compensation – including compensation to executives in their capacity as Directors – for their collegial supervisory and decision-making functions were the following:

- Directors' compensation for performing their collegial supervisory and decision-making functions breaks down into the following components:
 - Fixed fees for attendance at and dedication to the Board.
 - Compensation for dedication to the Board Committees.
 - Compensation linked to the results of the Company.
- The Corporate Bylaws set a cap on overall annual compensation for the entire Board, for all items, of 1.5% of the Company's net income, as approved by the Shareholders' Meeting. The above compensation is, in all cases, a maximum figure and the Board itself is in charge of apportioning the amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as it freely decides.

The specific amount awarded to each Director for the above items is determined on the basis of his or her attendance at Board meetings and membership of the various Board Committees.

In addition, each Director's variable compensation is calculated with reference to the year's results, after an assessment of the extent to which the targets set at the beginning of 2012 were reached and having regard to the number of days during which the Director held office.

– Overall compensation to the Board of Directors for all applicable items in 2012

At its meeting of February 1, 2013, the Board of Directors resolved to set total compensation for all applicable items in 2012 at an amount approximately 5% lower than in 2011: the previous year's figure of €1,886 thousand decreased to €1,790 thousand in 2012. Moreover, €61 thousand out of total approved compensation for all applicable items in 2012 finally went unallocated, in so far as it related to Board vacancies during a certain period of the year. Directors' compensation in their executive capacity in 2012 totaled €610 thousand (€640 thousand in 2011). The structure of compensation payable to the Board of Directors in 2012 and 2011, in thousands of euros, is as follows:

Item	2012 (€Thousand)	2011 (€Thousand)
Total compensation to the Board of Directors for all applicable items	1,790	1,886
Compensation to Directors in their executive capacity	610	640

Total compensation for all functions listed above	2,400	2,526
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To determine the overall amount, the Corporate Responsibility and Governance Committee assessed the extent to which Board targets for 2012 had been achieved, as set out in the Annual Report on Directors' Compensation adopted by the Board of Directors at its meeting of March 12, 2012, and by the annual Shareholders' Meeting of April 19, 2012.

The targets were as follows:

- 1. Consolidated EBITDA of the Red Eléctrica Group.
- 2. Consolidated income of the Red Eléctrica Group.
- 3. Progress achieved with reference to the Strategic Plan.

Having evaluated the extent of attainment of these targets, the Corporate Responsibility and Governance Committee determined that target 1 (50% weighting) and target 2 (30% weighting) had been 100% fulfilled; and that the upper level had been achieved of target 3 as specified when the targets were set (20% initial weighting, reviewable to 30% if the upper level were achieved).

As a result, the Committee found that overall fulfillment of targets was 110%.

The amounts paid individually to Directors over the past two financial periods in their capacities as Directors – with compensation as executive Directors stated separately – and for their membership of the various Board Committees were as follows:

Director	2012 (€ Thousand)						2011 (€ Thousand)					
	Fixed compensation	Attendance fees per Board meeting	Committee dedication	Variable compensation	Contributions to life policies and pension plans	Total	Fixed compensation	Attendance fees per Board meeting	Committee dedication	Variable compensation	Contributions to life policies and pension plans	Total
José Folgado Blanco ⁽³⁾	325	71	9	245		650		56	12	97		165
Luis María Atienza Serna ⁽²⁾	77	15	5	55	4	156	404	56	29	316	17	822
Alfredo Parra García-Moliner ⁽¹⁾		40	18	57		115						
Francisco Ruiz Jiménez ⁽¹⁾		40		57		101						
Fernando Fernández Méndez de Andés		40	20	57		117						
Maria de los Ángeles Amador Millán		71	29	82		182		56	29	97		182
Miguel Boyer Salvador		71		82		153		56		97		153
Rui Manuel Janes Carfaxo		71		82		153		56		97		153
Paloma Sendín de Cáceres		40	20	57		117						
Carmen Gómez de Barreda Tous de Monsalve		40	20	57		117						
Juan Iranzo Martín		40	20	57		117						
Maria José García Beato		5		7		12						
Rafael Suñol Trepal ⁽²⁾		10		13		23		56		97		153
Antonio Garamendi Lecanda ⁽²⁾		31	9	24		64		56	29	97		182
Arantza Mendizabal Gorostiaga ⁽²⁾		31	9	24		64		56	29	97		182
Maria Jesús Álvarez González ^{(1) (2)}		31	9	24		62		56	29	97		182
Manuel Alves Torres ^{(1) (2)}		31	9	24		62		56	29	97		182
Francisco Javier Salas Collantes ⁽²⁾		40		34		74		56	17	97		170
Unallocated amount relating to Board vacancies	-	-	-	-	-	61	-	-	-	-	-	-
TOTAL	402	718	177	1038	4	2400	404	616	203	1286	17	2526

(1) Amounts paid to Sociedad Estatal de Participaciones Industriales (SEPI)

(2) Not a member of the Board of Directors of the Company as of December 31, 2012

(3) Amounts paid to José Folgado for Committee dedication relate to the period in which he was an independent external Director of the Company

Total compensation, by item, as of December 31, 2012 and 2011, in thousands of euros, is as follows:

Item	2012 (€Thousand)	2011 (€Thousand)
Fixed compensation	402	404
Variable compensation	1,038	1,286
Attendance fees ⁽¹⁾	895	819
Contributions to life policies and pension plans	4	17
Unallocated owing to Board vacancies	61	
Total	2,400	2,526

(1) This difference is due to the fact that 14 Board meetings were held in 2012, compared to 11 in 2011.

Total compensation by type of Director as of December 31, 2012 and 2011, in thousands of euros, is as follows:

Type of Director	2012 (€Thousand)	2011 (€Thousand)
Executive	767	822
External Nominee	480	517
Independent External ⁽¹⁾	1,092	1,187
Unallocated owing to Board vacancies ⁽²⁾	61	
Total	2,400	2,526

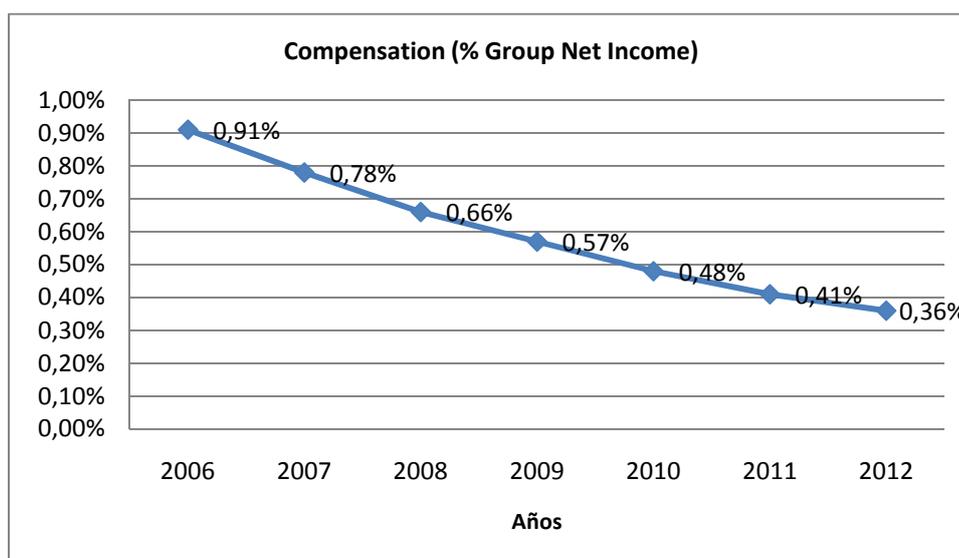
(1) José Folgado Blanco was appointed Executive Chairman of the Company on March 8, 2012. Before this, he had been an Independent External Director, having accrued EUR 39 thousand in this role over this period.

(2) This amount of €61 thousand relates to independent and nominee Director vacancies in 2012.

The total amount of all Board compensation items in 2012, excluding the compensation payable to the two executive chairmen who held office in the year under their contractual relationships with the Company, amounted to 0.36%¹ of the net income attributable to shareholders of the parent company of the Red Eléctrica Group in 2012.

The following chart graphically represents Board compensation as a proportion of net income in each of the past few years:

¹ The income obtained by the RED ELÉCTRICA Group and attributed to the parent company in 2012 amounted to €492,288 thousand (€460,348 thousand in 2011).



As of December 31, 2012 there were no loans, advances or guarantees granted by the Company in favor of members of the Board of Directors reflected on the balance sheet. There were also no pension liabilities incurred vis-à-vis members of the Board of Directors. The Directors have not received any other compensation items in addition to those set out in this Report.

4.3.2. Compensation policy applicable to the Chairman in his capacity as Executive Director

- General principles and guidelines

The compensation policy applicable to the Executive Chairman is in line with the general compensation policy of the Company, as adapted to the level of responsibility and functions inherent in the position. The following table sets out the components and limits determining policy on compensation to the Company's chief executive:

Component	Key points	Limits
Fixed compensation	<p>Fixed compensation is determined on the basis of the executive's level of responsibility and leadership within the organization, in line with the going rate at comparable companies. The fixed component must represent a sufficient portion of total compensation to make for a suitable and balanced remuneration mix.</p> <p>The compensation for the executive functions of the Chairman is compatible with the compensation he receives as a Director of Red Eléctrica and this is expressly established in Article 20 of the Corporate Bylaws.</p>	<p>Pay raises are in line with usual market practices.</p>

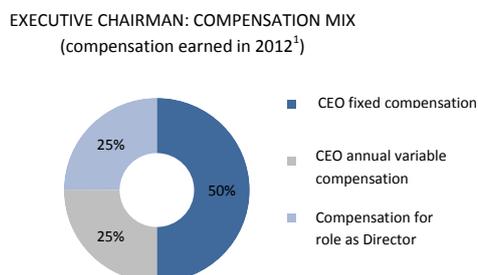
<p>Annual Variable Compensation</p>	<p>The annual variable compensation plan is designed as an incentive to achieve the Company's annual targets. 80% of this compensation component is linked to achieving quantitative metrics measuring the Group's performance (50% EBITDA and 30% Group consolidated income); 20% is linked to qualitative metrics determined by the Corporate Responsibility and Governance Committee in alignment with the Company's Strategic Plan adopted by the Board.</p> <p>A quantitative target must be fulfilled to 95% of its extent; the maximum fulfillment is 100%. The Corporate Responsibility and Governance Committee assesses whether or not qualitative targets have been fulfilled at the threshold level. If the targets have been fulfilled at their upper level – up to 30% fulfillment – the Committee may find that total fulfillment of all targets has reached 110%.</p> <p>It is the Corporate Responsibility and Governance Committee's role to set targets at the beginning of the year and assess the extent of their fulfillment at the end of the year. All targets are contemplated in the Strategic Plan adopted by the Board.</p>	<p>Cap on annual variable compensation payable to the Executive Chairman for those executive functions: 50% of fixed compensation.</p>
<p>Multi-year Variable Compensation</p>	<p>The executive compensation plan for the period 2009-2013, known as "Plan Extraordinario 25 aniversario", is a management tool and an incentive to drive fulfillment of the five-year Strategic Plan. The Corporate Responsibility and Governance Committee will evaluate the outcomes of this program – which includes the Executive Chairman – in 2014, once its term expires. Where 100% of the targets established for such purpose are met, the amount of the incentive to be received by the Executive Chairman may reach a maximum of 1.8 times the annual fixed compensation, pro rata the time elapsed since his/her joining the plan.</p> <p>A threshold of overall achievement of the targets has been set, below which the Executive Chairman and the executives beneficiaries of the Plan will not be entitled to receive any incentive.</p> <p>As with the annual targets, this plan takes into account quantifiable and pre-determined objective criteria that are in keeping with the vision of the Company's Strategic Plan. The role of setting the criteria and appraising the extent to which they are fulfilled rests with the Corporate Responsibility and Governance Committee. The Strategic Plan envisions the fulfillment of major milestones that underpin the program of long-term targets over the period 2009-2013:</p> <ul style="list-style-type: none"> - Acquisition of electricity transmission system assets from electricity companies at prices specified in the plan. - Implementation of the Investment Plan in the electricity transmission system in the period 2009-2013. - Start-up of the electricity interconnection with the Balearic Islands by the date specified at the start of the program. - Implementation of the interconnection project with France in accordance with the rate of progress stipulated in the plan. - Maintenance of electricity system operation quality at the level specified in the plan over the period 2009-2013. - Achievement of target returns on electricity transmission assets over the period 2009-2013 as measured in terms of operating returns. 	<p>Ceiling: 1.8 x fixed compensation.</p>

- Application of compensation policy in 2012

- Current Executive Chairman.

At its meeting of March 8, 2012, the Board of Directors approved the appointment of the Director José Folgado Blanco as the Chairman of the Board of Directors and the Company's chief

executive. The application of compensation policy as regards the Executive Chairman as from that date is set out below.



(1) Note: the long-term component is excluded because fulfillment will be appraised at the end of its term in 2014, as indicated on the following page.

In 2012, the following principles were applied to compensation payable to the chairman for performance of his executive functions:

- Moderation in overall compensation: At its meeting of July 26, 2012, the Board of Directors resolved that total compensation for all applicable items payable to the Executive Chairman of Red Eléctrica in 2012 was to be 5% less than in 2011.
- Fixed compensation represented a significant portion of total compensation, commensurate with the services provided and responsibilities taken on.
- Annual variable compensation was set on the basis of the fulfillment of targets reflecting progress in terms of the Strategic Plan and Group income.
- Linked to the long-term Strategic Plan and the sustainability of Group performance via the multi-year variable compensation plan.

The following is a summary of total gross payments to the Executive Chairman in 2012:

Compensation to the Executive Chairman (from March 8 to December 31, 2012)				
Director	Fixed compensation	Annual variable compensation	Compensation for functions as a Director ⁽¹⁾	Total
José Folgado	325,000	163,000	162,000	650,000

(1) Includes attendance and dedication fees for the Board (71,000) and Board Committees (9,000), and variable compensation (82,000)

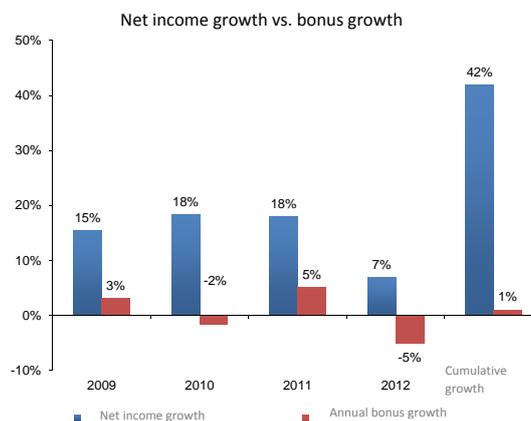
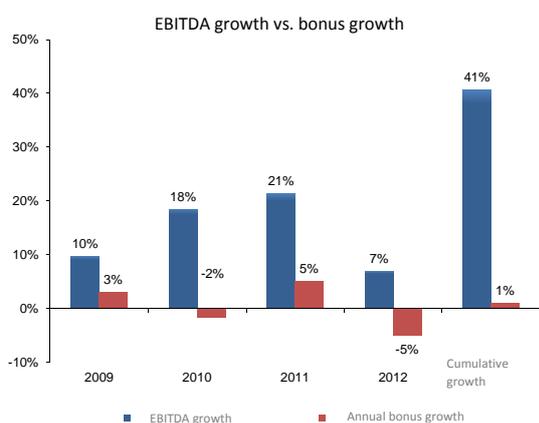
The Executive Chairman's fixed compensation for 2012 under the contract approved by the Board at the proposal of the Corporate Responsibility and Governance Committee came to

€325 thousand. This amount relates to the period running from his appointment as Executive Chairman on March 8, through to December 31, 2012.

Annual variable compensation was approved by the Corporate Responsibility and Governance Committee in reliance on its findings as to the extent of fulfillment of quantitative and qualitative targets. Performance-related compensation for 2012 was set at €245,000, of which €82,000 related to his role as a Director and €163,000 to his role as chief executive.

The considerations related to the appraisal of the fulfilment of the above-mentioned targets, made by the Corporate Responsibility and Governance Committee, are applicable to the Executive Chairman, as they refer to the same scheme of targets as that adopted for the Board as a whole.

The following charts graphically illustrate a comparison between the evolution of the earnings magnitudes considered as key targets when calculating the Executive Chairman's annual variable compensation, and incentives paid as a result of fulfillment:



In relation to the multiyear variable compensation plan, the Corporate Responsibility and Governance Committee will evaluate the outcomes in 2014, once its term expires in 2013.

The Executive Chairman has not received any manner of social provision benefits.

As of December 31, 2012 the balance sheet carried no loans, advances or guarantees granted by the Company in favour of the Executive Chairman, nor are there any pension obligations owed to him.

- Previous Executive Chairman.

Until March 8, 2012, Luis María Atienza Serna held office as chairman of the Board of Directors and chief executive of the Company. On that date, the Board of Directors resolved to remove him as chairman of the Board and chief executive of the Company and to accept his resignation as a Director.

From January 1, 2012 to the day of his removal, Luis María Atienza Serna received the following gross amounts in his capacity as a Director and as chief executive of the Company.

Compensation to the Executive Chairman (from January 1 to March 8, 2012)					
Director	Fixed compensation	Annual variable compensation	Compensation for functions as a Director ⁽¹⁾	Other compensation ⁽²⁾	Total
Luis María Atienza Serna	77,000	41,000	34,000	4,000	156,000

(1) Includes attendance and dedication fees for the Board (15,000) and Board Committees (5,000), and variable compensation (14,000)

(2) Includes contributions to life policy and pension plan

In 2012, expenses associated with the departure of Mr. Atienza during the year were recognised amounting to €2.3 million. This includes accrual of the corresponding part of the multi-year compensation plan ("Plan Extraordinario 25 aniversario" 2009-2013).

4.3.3. Compensation policy for senior executives

The senior managers who rendered services throughout 2012 are detailed below:

Name	Position
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Andrés Seco García	Director-General of System Operation
Esther María Rituerto Martínez ⁽¹⁾	Director-General of Administration and Finance
Alberto Carbajo Josa ⁽¹⁾	Director-General of System Operation

(1) Ceased to work for the Company in the course of 2012

The purpose of the compensation policy applicable to this group is to act as an incentive for the achievement of the strategic targets of value creation at the Company by attracting, retaining and motivating the best talent available in the market.

Compensation for the Company's senior executives is based on the principles of moderation, actual dedication and linkage to the results of the Company.

In 2012, compensation to senior executives under all headings amounted to 1,023 thousand euros (1,023 thousand euros at 31 December 2011).

Compensation to these executives in 2012 came to €996 thousand (€966 thousand in 2011), while contributions to life policies and pension plans totaled €27 thousand (€57 thousand in 2011):

Year	2012 (€Thousand)	2011 (€Thousand)	Change (%)
Compensation	996	966	3%
Contributions to life policies and pension plans	27	57	-53%
Total	1,023	1,023	0%

The agreed decrease, described in section 4.1 of this report, will become effective in 2013, charging it against the settlement of the variable compensation of financial year 2012 for the two senior managers that currently provide services to the Company.

The component items are set out below:

1. Annual fixed compensation

Fixed compensation is determined on the basis of the executive's level of responsibility and leadership within the organization, in line with the going rate at comparable companies. The fixed component must represent a sufficient portion of total compensation to make for a suitable and balanced remuneration mix.

2. Annual variable compensation

Annual variable compensation is linked to quantifiable and measurable targets set by the Corporate Responsibility and Governance Committee at the start of the year and monitored on a quarterly basis throughout the year. The Corporate Responsibility and Governance Committee is also responsible, in early 2013, for evaluating the level of achievement of the targets previously set for 2012. These targets are related to the strategies and criteria established in the Strategic Plan approved at the end of 2011 by the Board of Directors.

3. Multi-year variable compensation

Senior executives are involved in the "Plan Extraordinario 25 aniversario" 2009-2013 executive compensation plan linked to the Company's 25th anniversary, as is the Executive Chairman.

Depending on the level of achievement of the targets set, the overall assessment for the five years with a level of achievement of 100% would amount to 1.8 times fixed annual compensation.

As of December 31, 2012 the Company has recorded an accrual proportional to the period elapsed under the assumption that the targets set in the Plan will be met in 2013. This accrual will not be recognized individually as compensation until compliance with the Plan in 2014 is assessed, or failing this, if prior to that date the relationship between the Company and the Executives included in the program ends, for the causes envisaged in the Plan.

4. Flexible compensation pool

Some or all of a compensation pool may be allocated to various benefits in kind, such as medical insurance, IT equipment, savings insurance, etc.

5. Other benefits

There were no loans or advances to senior executives as of December 31, 2012.

There are safeguard or golden parachute clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of up to one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Corporate Responsibility and Governance Committee and they were duly notified to the Board of Directors.

In 2012, costs associated with the departure of two senior executives during the year were recognised amounting to €2.2 million. This includes accrual of the corresponding part of the aforementioned executive compensation plan ("Plan Extraordinario 25th aniversario" 2009-2013).

4.4 COMPENSATION POLICY IN 2013 AND LATER YEARS

The Corporate Responsibility and Governance Committee of Red Eléctrica plays a key role in reviewing and proposing to the Board the compensation policy for the Board itself and the Company's senior management, and each one of the items making up the policy, having regard to applicable laws and regulations and to the latest international recommendations on Corporate Governance.

4.4.1 Board of Directors

In light of the above, and against the background of the latest trends in international investors' focus of concern as to raising the proportion of the Board's fixed compensation while cutting back on the hitherto excessive significance of variable compensation, a new scheme of Board compensation has been proposed, which the Board adopted at its meeting of February 1, 2013. The new scheme, which is already in force in 2013, stipulates the following compensation components:

— Fixed components:

– Fixed compensation

€49,080 annually per Director paid in monthly instalments of €4,090 by the 10th day of the following month.

– Fees for attending meetings of the Board of Directors.

€4,462 for each Director's attendance at each of the eleven (11) ordinary meetings of 2013. This amount is paid within fifteen days of the given meeting being held.

In-person and remote extraordinary Board meetings do not give rise to attendance fees.

– Fees for attending meetings of Board Committees.

€27,900 annually per Board Committee member paid in monthly instalments of €2,325 each by the 10th day of the following month.

This amount is payable annually regardless of the number of Committee meetings held in 2013.

— Variable compensation:

Variable compensation to the Board in 2013 is set at €49,080 per Director assuming that approved targets are fulfilled.

The approved targets for the Board are:

- Quantitative targets measuring Group's ability to generate income, on the basis of the following metrics:
 - Consolidated EBITDA of the Red Eléctrica Group.
 - Consolidated income of the Red Eléctrica Group.
- Qualitative targets consisting of an annual assessment with reference to the Strategic Plan Review and Improvement conducted by the Corporate Responsibility and Governance Committee.

The target-linked parameters stipulated for calculating variable compensation to the Board are:

<u>Target</u>	Weighting	Threshold	Overweighting
Red Eléctrica Group consolidated EBITDA	50%	95%	--
Red Eléctrica Group consolidated income	30%	95%	--
Review and Improvement of the Strategic Plan	20%	Assessment by the CRGC	30%

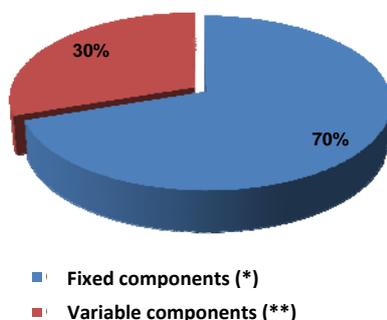
Variable compensation is calculated on the basis of the extent of fulfillment and weighting of each target, with reference to internal target assessment standards and procedures stipulated by the Company for its executives.

This amount is triggered if targets are fulfilled at an overall rate of 90% and the fulfillment threshold for each target has been hit. Up to 110% of that amount may be payable if targets are over-fulfilled if so determined upon target-setting.

After year-end 2013, the Corporate Responsibility and Governance Committee must assess the fulfillment of the targets set for the Board and submit its assessment to the Board. This assessment will determine the final amount of Board compensation.

The following chart graphically represents the compensation mix for Directors in 2013:

DIRECTORS COMPENSATION MIX 2013



(*) Includes fixed compensation, attendance fees to the Board and dedication fees for Committees

(**) Includes variable compensation if targets are 100% fulfilled

In accordance with Article 20 of the Corporate Bylaws, the compensation stipulated in the above resolutions is compatible with and independent from any salaries, emoluments, indemnities, pensions or other compensation of any kind established in general or in particular for members of the Board who are tied to the Company by virtue of an employment relationship – whether ordinary or of the special category applicable to senior management – or under a service provision contract.

No compensation has been agreed in relation to termination of ties with the Company through termination of Directorships; however, compensation has been agreed for the Executive Chairman under the terms specified in the following section.

4.4.2 Executive Chairman

The basic principles of compensation policy for the **Executive Chairman** in 2013 are as follows:

- Fixed compensation will continue to account for a significant proportion of total compensation. Annual gross compensation for the entire period of 2013 is expected to reach €399 thousand.
- The expected variable compensation for his executive functions is capped at 50% of fixed compensation. The Corporate Responsibility and Governance Committee will set the specific amount of annual variable compensation at the start of 2014 with reference to the fulfillment of targets, parameters and indicators as described above for the Board, subject to the qualifications set out below, after the Committee evaluates the extent of such fulfillment in January 2014.

The Corporate Responsibility and Governance Committee has decided to set the fulfillment threshold of quantitative targets that triggers the Executive Chairman's entitlement to variable compensation at 95%; the maximum possible fulfillment is 100%. The Corporate Responsibility and Governance Committee assesses whether or not qualitative targets have been fulfilled at the threshold level. If the targets have been fulfilled at their upper level, the Committee may find that total fulfillment of all targets has reached 110%.

As of today, no substantial change is expected in the basic principles of the compensation policy applicable to **Directors or the Executive Chairman**, as described above. Such principles will accordingly continue to apply in future years, unless in view of emerging circumstances the competent organs of the Company decide to modify the principles on regulatory, economic, strategic, Corporate Governance-related or other grounds. For this purpose, the Board and the Corporate Responsibility and Governance Committee, in the exercise of their powers, will continue regularly to review the principles of compensation policy applicable at the Company.

It is in any event the prerogative of the Board, in response to a proposal submitted by the Corporate Responsibility and Governance Committee, to draw up a proposal for Directors' compensation within the framework established by the Corporate Bylaws (fixed monthly allocation, fixed Board attendance and dedication fees, Board Committee dedication fees and compensation linked to the Company's annual income), subject to a ceiling of 1.5% of the Company's net income approved by the Shareholders' Meeting.

In addition, for the purposes of drawing up reports and proposals on Directors' and executives' compensation policy for future years the Corporate Responsibility and Governance Committee will continue to consider the state of affairs of the Company, the economic and financial background and, in particular, the economic downturn affecting global capital markets – this scenario has prompted the Board to halt the growth of its total compensation in the past four years and, in 2012, even to reduce its compensation by approximately 5%.

4.5 TERMS OF THE EXECUTIVE CHAIRMAN'S CONTRACT

The contract governing the Executive Chairman's performance of his functions and duties in his relationship with Red Eléctrica is formed under commercial law and includes the clauses constituting standard practice for this type of contract.

In addition to the duty of confidentiality expressly stipulated in that contract, the Executive Chairman is bound by the duty of confidentiality set out in Article 29.1 of the Board Regulations, which applies to all Directors. Under that provision, a Director must keep in confidence the discussions of the Board and of any Committees of which he or she is a member, and must abstain from disclosing any information, data, reports or background material to which he or she may have gained access in the performance of his or her office. The duty of confidentiality survives a Director's departure from office.

In his capacity as a Director of Red Eléctrica, the chairman is under a duty of non-competition with the Company under the terms governing such duty binding company Directors under Article 29 of the Board Regulations. In addition, the duty of non-competition is expressly set out in the contract with the Executive Chairman and has a term of two (2) years as from his departure from office. The Executive Chairman is not entitled to any indemnity for post-contractual non-competition.

The contract with the current Executive Chairman was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. Following usual practice on market, the contract contemplates an indemnity equal to one (1) year's compensation in the event of the commercial relationship with the Executive Chairman coming to an end by reason of dismissal or a change of control.

This indemnity would be calculated on the basis of his annual fixed and variable compensation as Executive Chairman; his compensation as a Director is excluded from the calculation.