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5.1 Assessment

In Article 5 of the Board of Directors Regulations, the Board of Directors has reserved for itself, on a non-delegable basis, an annual assessment of the quality and efficiency of the Board's operation, the performance of the Board chairman and chief executive of the Company of their respective duties, and the effective functioning of the Board committees based on the report brought before it by the Appointments and Remuneration Committee in coordination, where applicable, with the lead independent director or the chairman. The assessment of the performance of the Board, of its chairman, of the Company's chief executive and of the Board committees will be conducted by an outside independent expert at least every two years.

The Board must periodically review the general aspects of the assessment methodology used, the overall results of the assessment and any corrective measures adopted, as the case may be.

For some years now, Red Eléctrica has been carrying out annual evaluations of the operation and performance of the Board of Directors, of the Board chairman and of the Company's chief executive and of Board committees, with the support of external independent advisors. The evaluation for 2016 featured the engagement of a new outside international consultant and was carried out under the supervision of the Appointments and Remuneration Committee, in coordination with the lead

independent director. The following is a summary of the main conclusions reached:

Main conclusions of the 2016 assessment process

Improvements proposed by the Board of Directors

- Increase gender diversity.
- Broaden the diversity of knowledge and experience of independent directors in the international area in accordance with the Strategic Plan.
- Formalise an induction plan for new directors.
- Commitment to continuous improvement and ongoing review of good governance practices embraced.

Improvements proposed by the outside consultant

- The experience and knowledge of future external directors should be aligned with the Strategic Plan.
- Broaden the diversity of independent directors with experience in the infrastructure sector.
- Strengthen the specialized outside advising in the process of reviewing the Group's Strategic Plan.





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The Board of Directors has decided to start a new Board self-assessment process for 2017 with the support of an outside consultant.

In relation to the broadening and updating of the Board's knowledge base, Article 26 of the Board of Directors Regulations provides that the Company will have an information programme that provides new directors with quick and sufficient knowledge of the Company, as well as of its rules of corporate governance, and will also offer directors programmes for updating their knowledge when circumstances so require. A new

development in this regard was the approval in 2017 of a new induction plan for directors that sets out the basic information and documents to be provided to directors who have joined the Company recently and specifies the officers responsible for carrying this out.

Also, internal training programmes may be set up periodically on national and international trends in corporate governance.

One tool that has contributed to enhancing the efficiency of the Board and of its committees is the director's intranet portal, where key information is posted such as documents for the meetings of the Board of Directors and of its committees, as well as corporate information of interest on economic, social and environmental matters.

Also of note in this regard is the full digitization in 2017 of meetings of the Board of Directors and Board committees, so that those meetings can now be held via mobile devices (tablets and smart phones), with a corporate intranet specifically designed for this purpose.





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5.2 Remuneration

The Company applies the principle of setting a remuneration policy for the Board of Directors based on moderation and balance, alignment with the practices of shareholders and investors, transparency and voluntary submission of remuneration proposals and the annual report on director remuneration to the approval of the Annual General Meeting of Shareholders.

For this purpose, a comparative analysis is performed of peer companies and permanent contact is maintained with the Company's shareholders and proxy advisors. As a result of this analysis and of the market research carried out by the Company with the support of an international consultant, in 2014 a new remuneration structure was established replacing the variable remuneration component with a fixed component, such that external directors no longer receive any variable remuneration. Only the remuneration of the

executive director includes variable components tied to short and long-term targets aligned with the Company's prime objectives. It bears emphasis that since 2015 the Company has also considered environmental, social and good corporate governance criteria (ESG) in its calculation of the variable remuneration of the managing director and of senior executives.

The directors' remuneration policy was approved by the Annual General Meeting of Shareholders held on 15 April 2015. With the completion of the process of separating the position of chairman and managing director, on 15 April 2016 the Annual General Meeting of Shareholders approved an amendment of that Policy, which is stipulated to remain in effect until 31 December 2018. Its main principles are:



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GENERAL PRINCIPLES



- Balance and moderation
- Alignment with the practices demanded by shareholders and investors.
- Transparency.
- Voluntary presentation of any decision related to directors' remuneration to the General Meeting's approval.

PRINCIPLES GOVERNING THE REMUNERATION OF THE EXECUTIVE DIRECTOR



- Alignment with the Company's strategy.
- Reasonable balance between the fixed and variable components to reflect an appropriate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value.
- Alignment with the remuneration established by comparable companies.

PRINCIPLES GOVERNING REMUNERATION OF NON-EXECUTIVE DIRECTORS



- Linked to actual time commitment.
- Linked to responsibility and performance of their tasks as directors.
- Absence of variable remuneration components in order to ensure their complete independence.
- Sufficient to act as an incentive, without limiting their independence.

The Appointments and Remuneration Committee deems it appropriate to periodically review the Policy of remuneration of the Board of Directors, including in this review process a comparison with reference companies, selecting groups of benchmark companies, and maintaining permanent contact with its shareholders and proxy advisors, in order to check the adequacy and moderation of the

remuneration paid to directors and executive director in market terms.

All of the foregoing principles conform to the Company's Corporate Governance Policy, approved by the Board of Directors at its meeting of 25 November 2014 and published on the corporate website.

Moreover, said remuneration principles comply with the general rules laid down for companies in Article 217.4 of the LSC, regarding the need for remuneration to be commensurate with a Company's size and importance, economic position, comparability, profitability and sustainability; and the need not to encourage excessive risk taking and not to reward adverse results.

Both the Directors' Remuneration Policy approved in 2015 and the amendment to that policy approved in 2016 are published on the corporate website:

[Directors' Remuneration Policy](#)

[Amendment to Directors' Remuneration Policy](#)



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HIGHLIGHTS OF DIRECTOR REMUNERATION

Since 2010, Red Eléctrica voluntarily submits the Annual Report on Directors Remuneration and, since 2007, the annual remuneration of the Board of Directors to the Annual General Meeting for approval, as separate and independent items on the General Meeting agenda. Consequently, the proposals and reports on these matters are submitted to the shareholders for a binding vote.

This line of action was continued in 2017 and the remuneration of the Board of Directors for that year and the annual directors' remuneration report were submitted

for approval (in a binding vote) of the shareholders as separate and independent points on the agenda of the Annual General Meeting of Shareholders. Red Eléctrica Corporación S.A. thus continues to align itself with corporate governance best practices, giving shareholders the necessary autonomy and independence of opinion to be able to vote on each General Meeting resolutions individually and separately. The proposed Board remuneration was supported by practically all of the shareholders at the Annual General Meeting held on 31 March 2017, with only 0.7% voting against. For years the government-owned shareholder SEPI has abstained from voting on Board remuneration matters at the Annual General Meeting of Shareholders, in line with the policy it follows in all listed companies in which it holds a minority interest.

As in the previous year, at the Annual General Meeting of Shareholders to be held in 2018 the annual directors' remuneration report and the Board of Directors' remuneration for 2018 will be submitted to the shareholders for a binding vote of approval as separate and independent points on the agenda.

The accompanying chart summarises the main components of the current remuneration policy for non-executive directors (including the Board chairman) and for the managing director. For more information, consult the corporate website to see the proposals for the annual remuneration report

of directors and the annual remuneration of the Board of Directors for 2018, which will be submitted to the Annual General Meeting of Red Eléctrica to be held in 2018, as separate points on the agenda, at the following link: [Annual Report on Director Remuneration and remuneration resolutions for 2018](#)



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REMUNERATION OF BOARD OF DIRECTORS IN 2018

	COMPONENT	DESCRIPTION
Non-executive directors		
	Fixed remuneration	130,742 €/yr per director
	Per diems for attending meetings of the Board of Directors	1,500 €/yr for personal attendance by each director of each ordinary Board meeting
	Chairman of the Board of Directors	399,170 €/yr
	Service on Board of Directors Committees	27,900 €/yr for each member of the Board committees 15,000 €/yr in addition to each chairman of the Board committees
	Lead Independent Director	15,000 €/year
Managing Director		
	Annual Fixed Remuneration	399,170 €
	Annual Variable Remuneration	<p>Target: 75% of the annual fixed remuneration. Maximum: 82.5% of annual fixed remuneration Metrics: Tied to achievement of a combination of concrete, predetermined and quantifiable economic-financial, industrial, operational and qualitative targets (including ESG) aligned with the corporate interest and in line with the Strategic Plan of the Red Eléctrica Group</p> <p>Economic-financial targets: Maximum weighting of 70% in the aggregate annual variable remuneration Qualitative targets: Maximum weighting of 30%, which can be raised to 40% in the event of overachievement, in the overall incentive. 75% of the annual variable remuneration is payable in cash and the remaining 25% in shares</p> <p>The managing director has made the commitment to the company for so long as he holds that office to hold the shares received for at least five years. Subject to clawbacks</p>





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REMUNERATION OF BOARD OF DIRECTORS IN 2018 / continued

	COMPONENT	DESCRIPTION
Managing Director		
	Multi-Year Variable Remuneration	<p>Target: 1.8 times the annual fixed remuneration Maximum: 110% of the target Metrics: Economic-financial and operational targets envisaged in the Strategic Plan 2014-2019 The Plan is structured in a single 6-year cycle Payable in cash The weighted average achievement of the targets as a whole must reach at least 70% Subject to clawbacks</p>
	Defined-contribution company retirement plan	Annual contribution equivalent to 20% of annual fixed remuneration
	Supplement in respect of company benefits	Supplement, in cash or in kind, which the managing director assigns to company benefits (life insurance, medical insurance, vehicle, etc.): 60,000 €
	Severance pay	<p>Indemnity for departure: indemnity equal to one year's salary Base salary: fixed and variable remuneration calculated considering 100% achievement of targets</p>