



RED ELÉCTRICA
CORPORACIÓN

Board of Directors

16 February 2018

Annual Report on Remuneration of Directors

General Index

- 1. **Presentation of the report by the Chairman of the Appointments and Remuneration Committee3**
- 2. **Appointments and Remuneration Committee6**
- 3. **Results and levels of incentives (“Pay for Performance”).....9**
- 4. **Directors’ remuneration policy in 2018 16**
- 5. **Implementation of the remuneration policy in 2017 28**
- 6. **Remuneration of the senior executives 34**
- 7. **Individual remuneration tables 36**
- 8. **Tables of voting results 38**

- Annex: Official Form of Annex I of Circular 4/2013 published by the National Securities Market Commission (CNMV) (amended by CNMV Circular 7/2015) 39**

1. Presentation of the report by the Chairman of the Appointments and Remuneration Committee

Dear shareholders,

On behalf of the Appointments and Remuneration Committee, I am pleased to present the Annual Report on Remuneration of Directors, pursuant to the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. (hereinafter also referred to as the company, the corporation, the Group or Red Eléctrica), for the financial year 2018, according to the policy applied in 2017.

The economic performance of the company in 2017 is aligned with the level of achievement of the predetermined, quantifiable objectives set by the Appointments and Remuneration Committee at the beginning of the financial year to calculate the annual variable remuneration of the *chief executive officer* and prove suitable progress has been made in complying 2014-2019 Strategic Plan. In view of these results and after assessing the achievement of the aforementioned objectives, for the *chief executive officer*, the Appointments and Remuneration Committee has considered a global level of achievement of 96.14%, equivalent to 72.1% of his annual base salary for the financial year 2017. This report includes details about the objectives, weightings and the system used to determine the relevant amounts of variable remuneration. All the foregoing pursuant to the contents of the Directors' Remuneration Policy, approved at the last Ordinary General Shareholders' meeting held on 15 April 2016, and the Annual Report on Remuneration of Directors approved at the last Ordinary General Shareholders' meeting held on 31 March 2017.

Furthermore, the Commission has also considered that the aforementioned Ordinary General Shareholders' meeting held on 31 March 2017, agreed that in "2018 the remuneration of the *chairman of the Board* and of the *chief executive officer* will be reviewed to achieve the market positioning and market alignment, established in the Directors' Remuneration Policy approved by the Ordinary General Shareholders' meeting and currently in force, in line with the conclusion of the previous analysis, and thus to serve the purpose pursued of the effective consolidation of the positions".

In accordance with the aforementioned, the Appointments and Remuneration Committee has analysed the position and duties undertaken in the company by the *chairman of the Board* (non-executive) and the *chief executive officer*, in his condition as lead executive, since their appointments at the Extraordinary General Shareholders' meeting held in July 2015.

In this process of analysis the following has been considered: the economic performance achieved by the Group over the last three years, the development in the level of responsibility and leadership assigned to such positions within the organisation, to date, and updated market remuneration information provided by an independent external adviser, specialised in this field.

Notwithstanding the aforementioned Annual Report on Remuneration of Directors approved by the Ordinary General Shareholders' meeting held on 31 March 2017 and although, in view of the conclusions of the studies and analyses carried out, the positioning in terms of remuneration for both Red Eléctrica's *chairman of the Board* and *chief executive officer* is significantly below the market reference regarding the comparable companies in terms of size, among others, it has not been considered appropriate to propose to the Board, at this time, an increase in the current remuneration of the *chairman of the Board* and the *chief executive officer*.

In this regard, taking into account the market analyses carried out in relation to the Ibex-35 companies and applying the principle of prudence in remuneration, it has been proposed that the remuneration of the Board of Directors for the financial year 2018, remains in all its elements and amounts, as in the year 2017.

Since the current Directors' Remuneration Policy ends in 2018, the Committee considers convenient to conduct a review of this policy throughout the current year with a global and rigorous approach in order to submit a new Directors' Remuneration Policy to the 2019 Ordinary General Shareholders' meeting, for approval.

In order to determine the *chairman of the Board's* and the *chief executive officer's* total remuneration structure and levels and ensure that they correspond to the size and complexity of the Group at any time, and so that they enable to attract and retain the best professionals and encourage the achievement of results in a sustainable manner, the following factors, among others, will be considered:

- Group's results.
- The value of the contribution of the position and of the person, for both the company and the shareholder over the time.
- Red Eléctrica's principles and internal criteria.
- Internal equity.
- Competitiveness compared to comparable companies.

To review this policy, external market analyses of remuneration levels and market practises may also be conducted, in line with the decision-making process followed in previous years.

As usual, the company includes the official Annual Report on Remuneration of Directors form as an Annex, duly completed, according to Ministerial Order ECC/461/2013 (amended by Ministerial Order ECC/2575/2015) and Circular 4/2013 published by the National Securities Market Commission (amended by Circular 7/2015 published by such Commission).

As in previous years, the Board of Directors will submit the resolutions adopted by the Board regarding the remuneration of the Board of Directors for the financial year 2018 for the approval of the Ordinary General Shareholders' meeting and, separately, it will submit this Annual Report on Remuneration of Directors to the aforementioned General Shareholders' meeting.

I would like to conclude by thanking the members of the Appointments and Remuneration Committee and, in particular, the preceding chairwoman for her outstanding work and dedication, as well as, all those who have collaborated with it for their commitment, support and assistance throughout the whole year. I would also like to express my appreciation for the comments, recommendations and suggestions received from the shareholders throughout our permanent engagement process that are key factors for continuous improvement in adopting responsible practices related to remuneration. I remain at your entire disposal and I hope to have the chance to greet you at the next Ordinary General Shareholders' meeting to be held in 2018.

Signed: Jose Luis Feito Higuera

2. Appointments and Remuneration Committee

Current members

Jose Luis Feito Higuera
(Chairman, independent)

Santiago Lanzuela Marina
(proprietary)

Carmen Gómez de Barreda Tous de Monsalve
(independent)

Mercedes Real Rodríguez
(proprietary)

Alberto Francisco Carbajo Josa
(independent)

In 2017, the composition of the Committee has undergone the following variations:

At the Board of Directors' meeting held on 25 April 2017, the proprietary director, Mr. Santiago Lanzuela Marina, and the independent director, Mr. Alberto Francisco Carbajosa Josa, were appointed as new members of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., for the following 3 years as foreseen in the Board of Directors Regulations, in order to cover the two existing vacancies in the Appointments and Remuneration Committee as a result of the resignations of the directors Mr. Agustín Conde Bajén and Ms. M^a de los Ángeles Amador Millán.

At the Board of Directors' meeting held on 31 October 2017, Ms. Mercedes Real Rodríguez was appointed proprietary director of Red Eléctrica Corporación, S.A. by cooptation, on behalf of the Sociedad Estatal de Participaciones Industriales (SEPI), in order to cover the existing vacancy in the Appointments and Remuneration Committee as a result of the resignation of the proprietary director on behalf of SEPI, Mr. Jose Angel Partearroyo Martín, which was accepted by the Board of Directors, in the meeting held on 31 October 2017.

In this same meeting, the Board of Directors appointed the independent director, Mr. Jose Luis Feito Higuera as member of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., as a replacement for the vacancy arising by the independent director, Ms. Socorro Fernández Larrea, having resigned as member of such Committee and joined the Auditing Committee.

The Appointments and Remuneration Committee of the Company, at the meeting held on 27 November 2017, appointed the independent director, Mr. Jose Luis Feito Higuera, as its chairman.

With such appointments, the Appointments and Remuneration Committee maintains its composition of five (5) members, being formed by three (3) independent directors and two (2) proprietary director.

In 2017, the Appointments and Remuneration Committee held eleven (11) meetings. The Board is informed of the meetings of the Committee, and upon conclusion of the meeting, the documentation discussed during the same is made available to the Board, through the Director's portal; and the minutes of meetings held are drawn up and, once approved, are made available to all the directors.

According to the calendar schedule set for the financial year 2018, the Appointments and Remuneration Committee is intended to hold eleven (11) ordinary meetings in the financial year, without prejudice to the possibility of holding extraordinary meetings at any time during such period.

The most significant activities, related to remunerations, performed by the Committee in 2017 and 2018

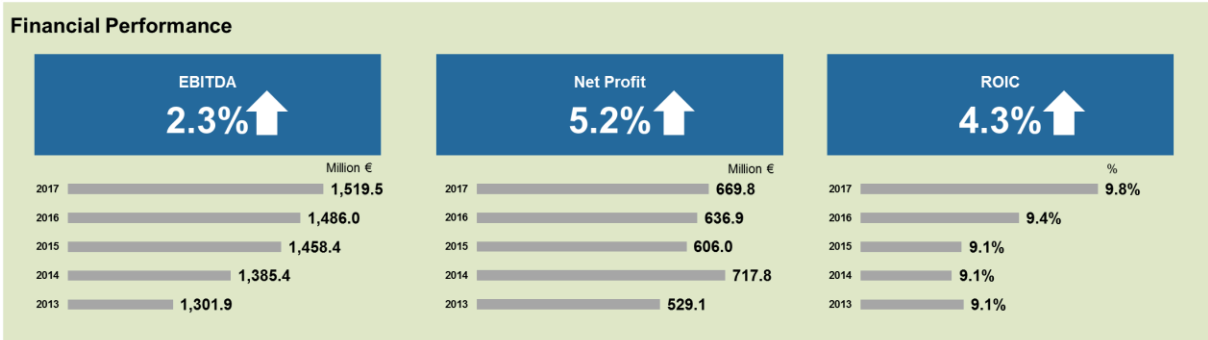
| Activities | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 |
|--|---------|---------|---------|---------|---------|
| Evaluation of the achievement of the objectives linked to the variable remuneration of the <i>chief executive officer</i> , the <i>executive chairman (for his executive duties until the 2016 OGSM)</i> and the <i>senior executives for 2016</i> | | | | | |
| Approval of the objectives linked to the variable remuneration of the <i>chief executive officer</i> and the <i>senior executives for 2017</i> | | | | | |
| Monitoring of the objectives linked to the <i>chief executive officer's</i> and <i>senior executives' variable remuneration for 2017</i> | | | | | |
| Evaluation of the achievement of the objectives linked to the <i>chief executive officer's</i> variable remuneration for 2017 | | | | | |
| Evaluation of performance of the company, managerial and of the Management Committee, linked to the <i>senior executives' variable remuneration for 2017</i> | | | | | |
| Approval of the objectives linked to the <i>chief executive officer's</i> and <i>senior executives' variable remuneration for 2018</i> | | | | | |
| Proposals for the Board Remuneration and the Annual Reports on Remuneration of Directors made in 2017 and 2018 to be submitted to the Board and to be subsequently submitted to the Ordinary General Shareholders' Meeting | | | | | |
| Analysis of the implementation of the <i>chief executive officer's</i> retirement scheme approved by the Ordinary General Shareholders' meeting held on 2017 | | | | | |

External advisers

In 2017 and 2018 –until the date this report is approved- *Willis Towers Watson*, an independent adviser specialised in directors' and executives' remuneration, has rendered its services to the Committee for the following issues: benchmarking of the *chairman of the Board of Directors* and of the *chief executive officer*, benchmarking of the non-executive directors and, lastly, assistance in preparing the Annual Report on Remuneration of Directors.

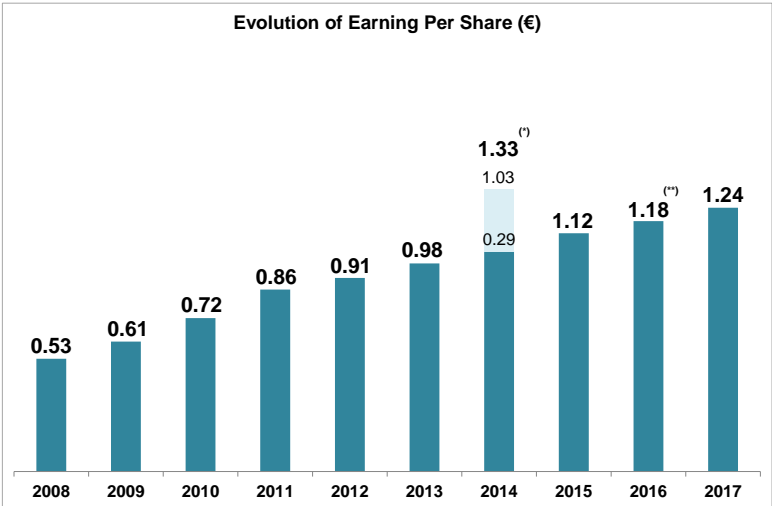
3. Results and levels of incentives ("Pay for Performance")

3.1 Analysis of Red Eléctrica's Pay for Performance in *absolute terms*



In the financial year 2017, the following information should also be highlighted in relation to the performance of the Group:

- Regarding the dividend policy, the gross dividend for 2017 to be proposed by the Board of Directors at the next Ordinary General Shareholders' meeting implies an increase of 7% compared with the gross dividend approved for the financial year 2016.



(* Note: The net profit specified for 2014 (EUR 1.33 per share) includes exceptional events taking place in that financial year, all of them positive: The Red Eléctrica Group being selected as the successful bidder in the tender for ADIF high speed fibre optic, the final agreement signed with the State of Bolivia on compensation for the nationalisation of the Transportadora de Electricidad TDE Bolivian subsidiary and the tax reform taking place in Spain.

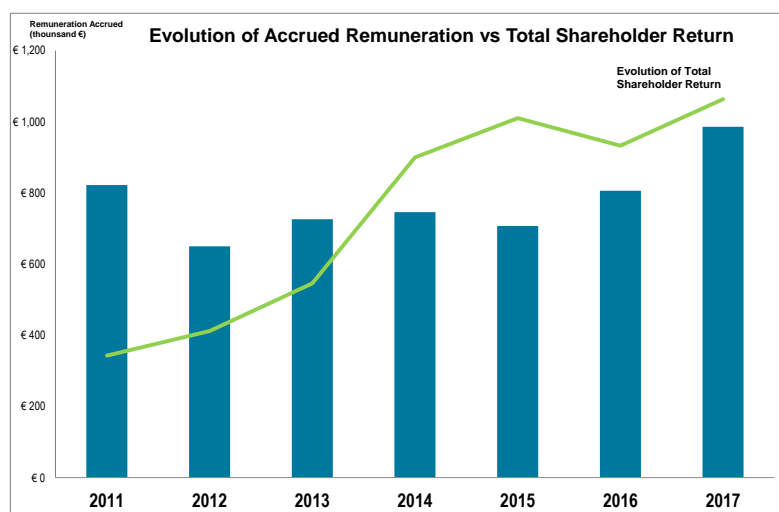
(**) Note: exclusively for the purposes of comparing, the 2016 split has been applied to share price in all financial years.

- On 18 September, the credit rating agency Fitch Ratings confirmed the long-term rating of Red Eléctrica Corporación, S.A. as 'A' with a stable forecast. Additionally, on 4 July Standard & Poor's maintained the long-term rating level as 'A-' and the short-term rating

level as 'A-2' with a stable forecast of Red Eléctrica Corporación, S.A. and its subsidiary Red Eléctrica de España, S.A.U.

- On 9 September, the new ranking of the Dow Jones Sustainability Index (DJSI) was published. Red Eléctrica has been recognised as world leader by occupying the first position in the Electric Utilities sector, reaching an overall score of 93 points out of 100, a score which has also helped it reach the leading in the Utilities super-sector, which encompasses the electricity, gas and water sectors.

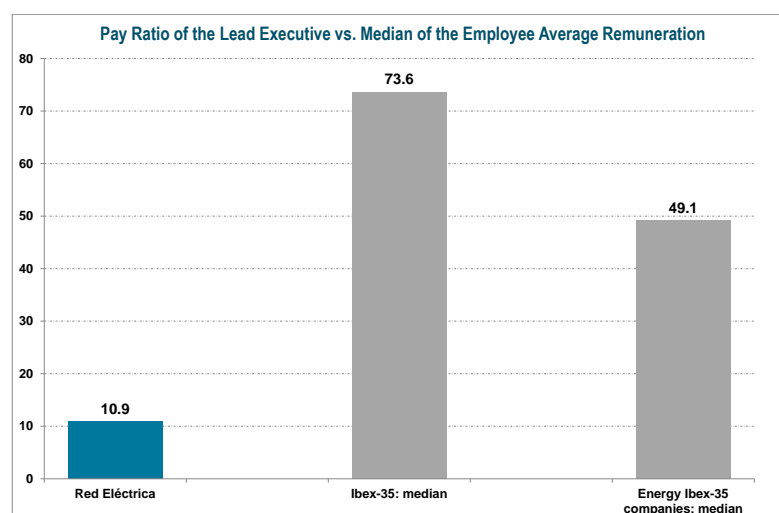
The following graph shows the variation in the total remuneration accrued by the lead executive compared with the variation in the Total Shareholder Return in the last 7 years.



Explanatory notes on the graph:

- The Total Shareholder Return is the total return of the share and includes the share price revaluation and the dividends.
- The data for the remuneration in 2013 includes the accrual of the "Extraordinary Plan, 25th Anniversary 2009-2013" Long-Term Incentive Plan.

The following graph shows the relation between the total remuneration accrued by the lead executive and the average remuneration of the staff. This ratio is specified for Red Eléctrica, for the median of Ibex-35 and for the median of the energy companies listed on the Ibex-35.



In order to calculate the ratio, the total remuneration accrued by the lead executive in 2016 has been taken into account and, to estimate the average remuneration of the staff, the personnel expenses disclosed in the consolidated annual accounts have been taken into account, excluding social security charges, and the total number of employees in 2016.

3.2 Analysis of Red Eléctrica's Pay for Performance in *relative terms*

The Appointments and Remuneration Committee considers it is essential to regularly review the Directors' Remuneration Policy in line with the best corporate governance practices adopted by institutional shareholders and the recommendations of the main proxy advisors.

In this respect, the Committee has conducted in 2017 a benchmarking for the position of *chief executive officer*, considering three comparator groups in line with the analysis carried out in previous years:

- A comparator group formed by the Ibex-35 companies, index in which Red Eléctrica is included.
- An ad-hoc comparator group formed by 18 companies which have been selected based on the same criteria applied in the benchmarking conducted in previous years for the lead executive. These criteria (geographic scope, scope of responsibility, activity sector and size) were included, in detail, in the proposal for modification of the current directors' remuneration policy approved by the Ordinary General Shareholders' meeting in 2016.

The companies forming the comparator group are the following:

| | | |
|--------------------|----------------|-------------------|
| Abertis | CIE automotive | Meliá Hotels |
| Acerinox | Ebro Foods | NH Hotel Group |
| Almirall | Enagás | Prosegur |
| Amadeus | Gamesa Siemens | Técnicas Reunidas |
| Atresmedia | Grifols | Viscofan |
| Catalana Occidente | Mediaset | Zardoya Otis |

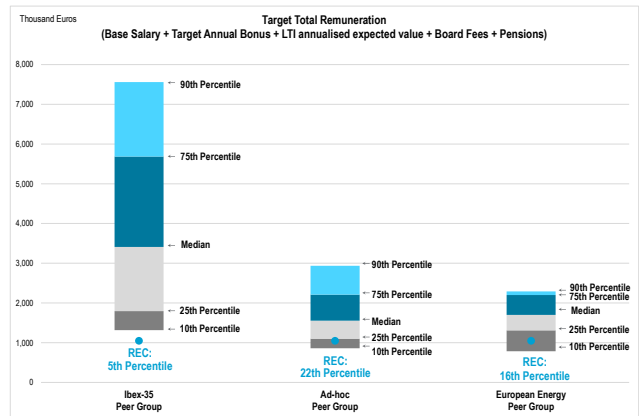
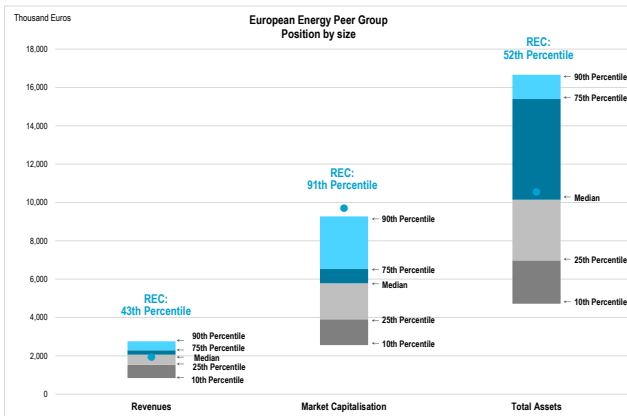
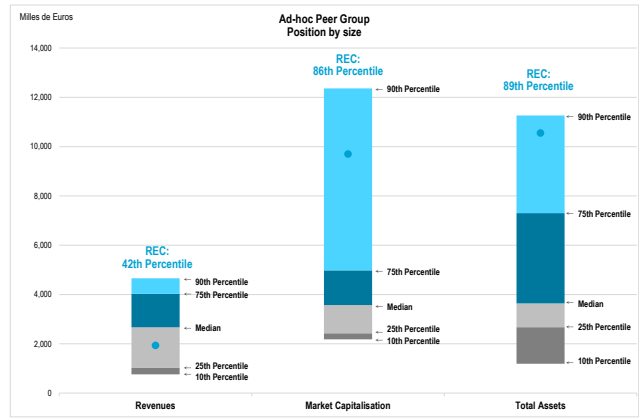
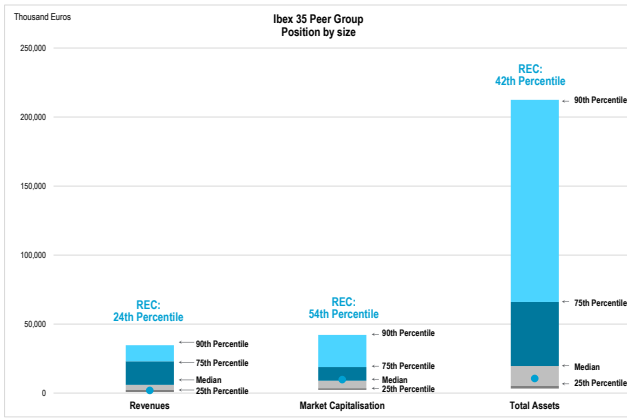
As an additional feature in 2017, previous benchmarkings have been completed with a third market analysis:

- A comparator group formed by 12 European energy companies, which both the company (“REC”) and the proxy advisor Institutional Shareholder Services (“ISS”) consider comparable with Red Eléctrica, in 2017, in terms of size (revenues) and which are relevant in the energy sector in terms of results’ evolution, as detailed below:

| | | |
|----------------------------------|--------------------|------------------------------|
| BKW (ISS) | Pennon Group (ISS) | Snam Rete Gas (REC) |
| EDP Renovaveis (ISS) | Ren (REC) | Terna (ISS + REC) |
| Elia System Operator (ISS + REC) | Rubis (ISS) | United Utilities Group (ISS) |
| Enagás (ISS + REC) | Severn Trent (ISS) | Verbund (ISS) |

The following graphs show the results of the analyses:

- Analysis of the Ibex-35 group: an overview of the data regarding the size of the Red Eléctrica Group points to a market benchmark between the 25th percentile and the median. In terms of “target” remuneration (in other words, for a level of achievement of the objectives of 100%), the position of *chief executive officer* of the Red Eléctrica Group is positioned below the 10th percentile.
- Analysis of the ad-hoc group: an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 75th percentile. In terms of “target” remuneration (in other words, for a level of achievement of the objectives of 100%), the position of *chief executive officer* of the Red Eléctrica Group is positioned around the 25th percentile.
- Analysis of the European energy group: an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 75th percentile. In terms of “target” remuneration (in other words, for a level of achievement of the objectives of 100%), the position of *chief executive officer* of the Red Eléctrica Group is positioned between the 10th percentile and the 25th percentile.

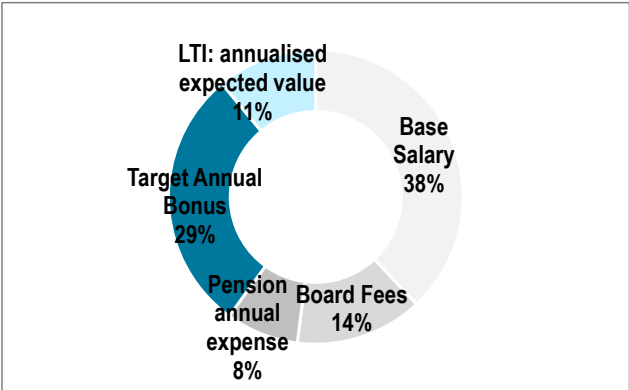


- The target total remuneration includes the following elements:
 - The Base Salary
 - The Target Annual Bonus, granted to the executive director for the last financial year, if 100% of the objectives are achieved
 - The Long Term Incentive annualised expected value
 - The remuneration due to being a member of the Board and for attending the Board meetings and, when applicable, its Committees
 - The pension annual expense

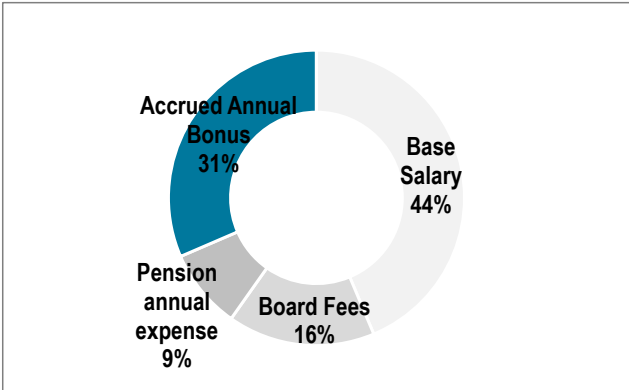
The market data are those disclosed in the Annual Report on Remuneration of Directors of each company published in 2017.

The graphs below show the remuneration mix for the *chief executive officer* and its comparison with the market for a standard scenario of achievement of objectives (target or 100%), as well as the mix for the *chief executive officer* remuneration corresponding to the accrued remuneration in 2017. As a whole, for Red Eléctrica, the target variable remuneration (“pay at risk”), annual and multi-year, represents 40% of the target total direct remuneration (the sum of the base salary and annual and multi-year variable remuneration).

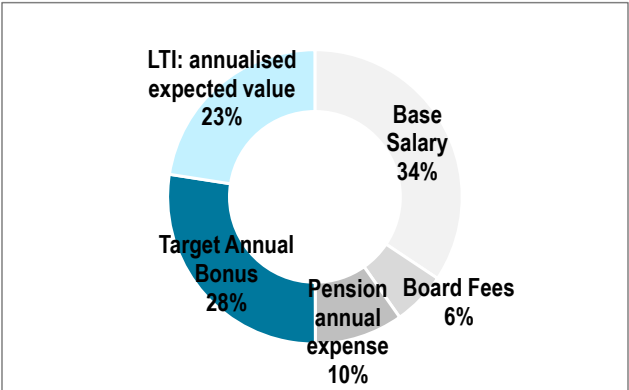
Red Eléctrica: Target Remuneration Mix
Chief Executive Officer



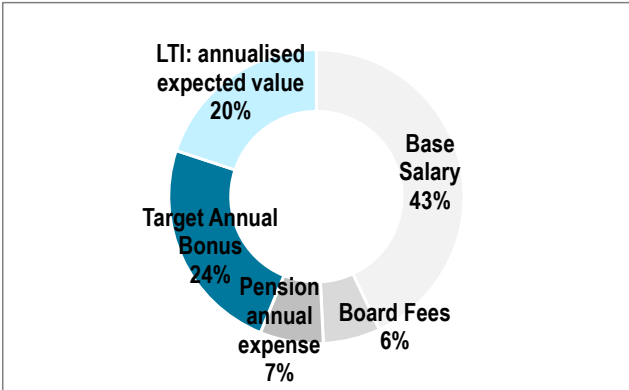
Red Eléctrica: 2017 Accrued Remuneration Mix
Chief Executive Officer



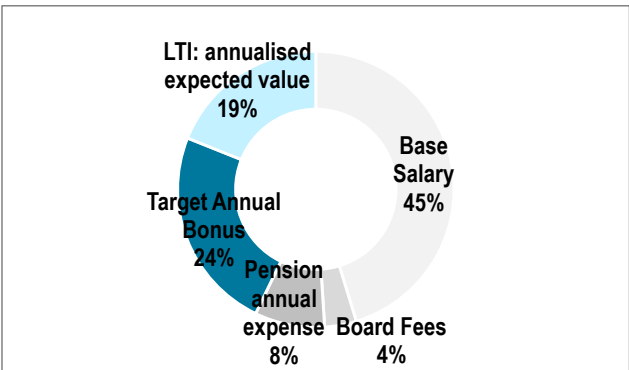
Ibex-35 Group: Target Remuneration Mix
Lead Executive



Ad-hoc Group: Target Remuneration Mix
Lead Executive

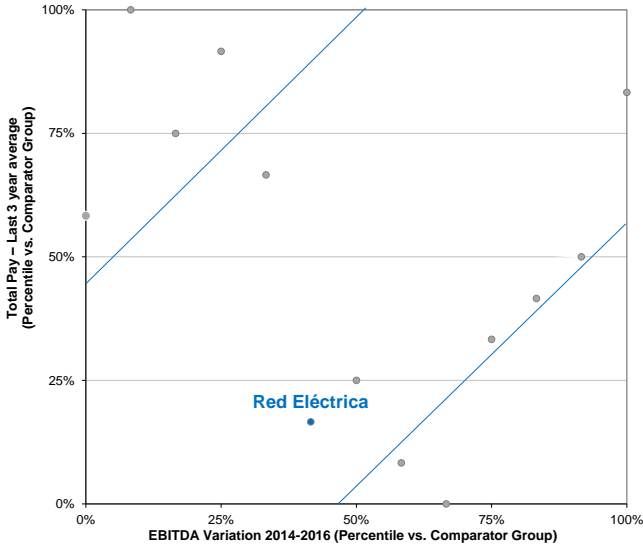


European Energy Group: Target Remuneration Mix
Lead Executive

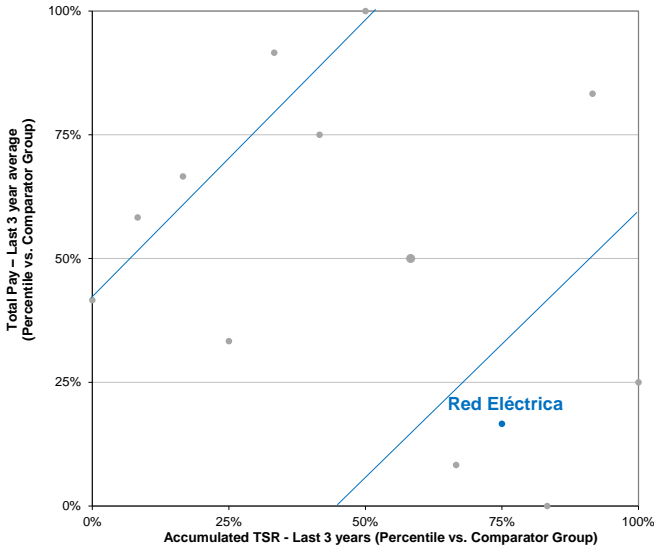


The following graphs show the positioning of the Red Eléctrica Group compared with representative companies in the energy sector. The variation of the EBITDA between 2014 and 2016 and the Total Shareholder Return (TSR) of each company in the last 3 years is compared with the average of the total pay of its lead executive.

The transversal lines show the proportional correlation range between the growth of the indicator and that of the remuneration. A positioning outside the lines reveals a non-proportional growth correlation between the indicator considered and the remuneration. A positioning on the left-hand side reveals a more than proportional growth of the remuneration compared to the indicator considered and a positioning on the right-hand side reveals a more than proportional growth in the indicator considered (EBITDA and TSR in each graph) compared to the remuneration.



The companies included in the European energy comparator group are: BKW, EDP Renovaveis, Elia System Operator, Enagás, Pannon Group, Ren, Rubis, Severn Trent, Snam Rete Gas, Terna, United Utilities Group y Verbund. The variation of Red Eléctrica's EBITDA between 2014 and 2016 positions the company between the 25th percentile and the median of the comparator group, whereas the average of the total remuneration in the same period is below the 25th percentile.



The Total Shareholder Return (TSR) is the total return of the share and includes the price revaluation of the share and the dividends. The companies included in the European energy comparator group are: BKW, EDP Renovaveis, Elia System Operator, Enagás, Pannon Group, Ren, Rubis, Severn Trent, Snam Rete Gas, Terna, United Utilities Group y Verbund. The evolution of Red Eléctrica's TSR in the last 3 years positions the company in the 75th percentile of the comparator group, whereas the average of the total remuneration in the same period is below the 25th percentile. Source of TSR data: Bloomberg.

4. Directors' remuneration policy in 2018

| What we do | What we do not do |
|--|--|
| <p>Executive Director</p> <ul style="list-style-type: none"> • Link the payment of a significant part of the remuneration to the economic and financial performance of the Group • Defer payment of a significant part of the remuneration linked to the variable components • Deliver a significant part of the variable remuneration in company shares • Include clawback clauses applicable to the short- and long-term variable remuneration • Determine severance payments for termination of the legal relation limited to one year of base salary and variable remuneration for achieving 100% of the objectives • Regularly review the alignment of his total compensation with that of comparable companies • Regularly rely on external consulting services <p>Non-Executive Directors</p> <ul style="list-style-type: none"> • Link the remuneration with the effective dedication, the responsibilities undertaken and the exercise of their duties as directors | <p>Executive Director</p> <ul style="list-style-type: none"> • Guarantee increases in his base salary and payments of variable remunerations • Grant advances and loans, as a general rule • Allow hedging on the received shares in the holding period (*) <p>Non-Executive Directors</p> <ul style="list-style-type: none"> • Take part in remuneration formulas linked to the company's performance or changes in the share value (only fixed remuneration is paid) • Take part in retirement schemes or other social benefits |

(*) Holding period refers to the period of time after the vesting of instruments which have been awarded as variable remuneration during which they can not be sold or accessed.

The Ordinary General Shareholders' meeting held on 31 March 2017, agreed that in "2018 the remuneration of the *chairman of the Board* and of the *chief executive officer* will be reviewed to achieve the market positioning and market alignment, established in the Directors' Remuneration Policy approved by the Ordinary General Shareholders' meeting and currently in force, consistent with the conclusion of the previous analysis, and thus to serve the purpose pursued of the effective consolidation of the positions".

Notwithstanding the aforementioned, the remuneration structure of the *chairman of the Board* and the *chief executive officer* proposed for the 2018 is detailed below, having proposed to maintain both remunerations, under the same terms and conditions as in 2017, and despite the fact that both remunerations are significantly below the market reference, it has not been considered appropriate to propose, at this time, an increase in the current remuneration, without prejudice that they will continue to be reviewed in the future -in principle, in 2019- in

order to adapt their remuneration to their effective responsibilities and to the market, when deemed appropriate.

4.1. Remuneration policy for the executive director (*chief executive officer*) in 2018

The remuneration system for the executive director includes fixed and variable elements, the latter short- and long-term, in line with the Group's objectives and strategies.

The elements included in the remuneration system for the *chief executive officer* in 2018 are detailed below:

Annual base salary

The amount of the annual base salary for the *chief executive officer* has been determined at EUR 399,170. It will be paid entirely in cash.

Annual variable remuneration

The annual variable remuneration for the *chief executive officer* is based on achieving a combination of predetermined and quantifiable objectives, measured at Group level. The Appointments and Remuneration Committee is responsible for approving the objectives at the beginning of each financial year. The aforementioned Committee approved the objectives and their weightings for the financial year 2018 at its meeting held on 23 January 2018, as explained in this section.

All the objectives are contemplated in the Budget for the financial year 2018, within the 2014-2019 Group's Strategic Plan, approved by the Board of Directors and are as follows:

I- 75% of the incentive depends on the following *business objectives*, the weightings of which are distributed as follows:

- 80% of the incentive depends on the economic-financial objectives, which measure the Group's capacity to generate profits and are materialised in the following metrics:
 - 40% Consolidated Net Profit of the Red Eléctrica Group.
 - 40% Return on invested capital (*ROIC*) of the Red Eléctrica Group, which measures the net operating profit over the invested capital.

- 20% of the incentive depends on aspects linked to the Total Investment in Group's Transport Network and Diversification. The following table details the weightings, the thresholds and the maximums applicable to the mentioned metrics. The information about such assessment will be included in the Annual Report on Remuneration of Directors for the financial year 2018 that will be submitted to the Ordinary General Shareholders' meeting in 2019.

II- The remaining **25%** depends on *operating objectives linked to the Red Eléctrica Group's business activities*. These are disclosed below with their weightings:

- Development, efficiency and profitability of the TSO (Transmission System Operator)
 - 60% of the incentive is linked, among others, to the implementation of efficiency criteria that enable the optimisation of the safety and quality of the electric system operation.
- Growth of the business activities
 - 22% of the incentive basically depends on the analysis and achievement of new projects that enable the diversification of the Group's traditional businesses.
- People, excellence and innovation
 - 18% of the incentive is linked, among others, to the deployment of the Group's new Digital Transformation Plan and to the achievement of a series of key projects included in the annual Sustainability Plan and in the environmental Plan.

For the *operating objectives linked to the Red Eléctrica Group's business activities*, the Appointments and Remuneration Committee may also assess the minimum threshold of individual achievement and determine a maximum level of individual achievement, which could reach a global maximum of 155% in the case of over-achievement. The Appointments and Remuneration Committee will have the level of autonomy required to evaluate the annual degree of achievement of these objectives.

A summarised table is provided below that includes all the targets that determine the calculation of the annual variable remuneration for the *chief executive officer*.

| PERFORMANCE MEASURES | WEIGHTING | MINIMUM | | TARGET | | MAXIMUM | |
|--|-----------|--------------------------------------|--------------------------------------|-------------|-----------|-------------|-----------|
| | | Achievement | Incentive | Achievement | Incentive | Achievement | Incentive |
| 75% Quantitative and qualitative <u>business</u> objectives | | | | | | | |
| 1. Net Profit | 40% | 95% | 95% | 100% | 100% | 100% | 100% |
| 2. ROIC | 40% | 95% | 95% | 100% | 100% | 100% | 100% |
| 3. Total Investment in Transport Network and Diversification of the Group | 20% | 85% | 85% | 100% | 100% | 115% | 115% |
| 25% <u>Operating</u> objectives linked to the Red Eléctrica Group's business activities | | | | | | | |
| 1. Development, efficiency and profitability of the TSO | 60% | Assessment by the ARC ⁽¹⁾ | Assessment by the ARC ⁽¹⁾ | 100% | 100% | 175% | 175% |
| 2. Growth of business activities | 22% | Assessment by the ARC ⁽¹⁾ | Assessment by the ARC ⁽¹⁾ | 100% | 100% | 145% | 145% |
| 3. People, excellence and innovation | 18% | Assessment by the ARC ⁽¹⁾ | Assessment by the ARC ⁽¹⁾ | 100% | 100% | 100% | 100% |

(1) *Appointments and Remuneration Committee*

The amount of the variable remuneration is calculated taking into account the degree of achievement and weighting of each of the objectives and by applying the internal rules and procedures for evaluating objectives, which are determined by the company for its executives.

Under exceptional circumstances, the Appointments and Remuneration Committee may propose adjustments to the variable remuneration to the Board due to internal or external factors. The details of these adjustments will be disclosed, if appropriate, in the relevant Annual Report on Remuneration of Directors.

The overall maximum performance of the previous objectives (business and operating) may not exceed 110%.

The target level, which is reached in the case of achieving 100% of the predetermined objectives, will be equivalent to 75% of the annual base salary. The maximum level, which is reached in the case of maximum over-achievement of the predetermined objectives will be equivalent to 82.5% of the annual base salary, corresponding to the overall maximum level of achievement of the objectives (110% of the target level).

75% of the gross annual variable remuneration will be settled in cash and the remaining 25% will be delivered in company shares. In addition, the *chief executive officer* has undertaken the commitment with the company, while he holds such position, to maintain the ownership of the shares he receives for at least five (5) years.

Multi-year variable remuneration

The *chief executive officer* takes part in the multi-year variable remuneration plan in cash offered to executives, included in the Directors' Remuneration Policy and in the Annual Report on Remuneration of Directors, approved by the Ordinary General Shareholders' meeting held in 2016. The plan has a duration of 6 years, in line with the 2014/2019 Strategic Plan of the Red Eléctrica Group, from 1 January 2014 until 31 December 2019.

The right to receive the cash incentive is subject to achieving the targets linked to the Strategic Plan 2014/2019 and to the permanence in the company while the plan is in force. The targets and their weightings are listed below:

- 20% of the incentive is linked to extending the business base, mainly international activity, of telecommunications and power storage ("pumping"). The level of investment is considered an indicator to measure this target.
- 25% of the incentive depends on the achievement of the transmission activity targets; among others, number of kilometres of lines and positions commissioned, investment volume and profitability indicators.
- 20% of the incentive is linked to the quality of the system's operation; non-supplied power is considered to measure the same.

- 25% of the incentive is linked to the efficiency of the operations and two metrics are considered: return on invested capital (ROIC) and earnings per share.
- The remaining 10% depends on compliance with the Sustainability Plan.

Upon conclusion of the Plan performance period, the Appointments and Remuneration Committee shall conduct, within the first quarter of 2020, an assessment of the level of achievement for each of the targets, and for the Plan as a whole, considering the information provided by the Company, and will propose the incentive levels linked to the level of achievement, according to the performance scales set. In any case, it is established that the average weighted level of achievement of the set of targets must reach, at least, 70%. Otherwise, no right to receive the incentive will arise, regardless of the individual achievement of each target. Likewise, the maximum achievement of the set of targets in the Plan will be 110%, although the average weighted achievement of the targets may be higher.

The target remuneration of the *chief executive officer* for this element amounts to 1.8 times his base salary, in accordance with the provisions of the approved Executive Directors' Remuneration Policy.

Ex-post control of the annual and multi-annual variable remuneration

Pursuant to the provisions in the Directors' Remuneration Policy approved by the Ordinary General Shareholders' meeting held in 2016, the Appointments and Remuneration Committee is responsible for proposing to the Board cancelation or refund of the payment of the short- and long-term variable remuneration of the beneficiary or beneficiaries or relevant person or people responsible due to circumstances arising that show that the variable remuneration has been accrued or paid on the basis of inaccurate or erroneous information or data, or the internal corporate regulations or applicable laws have been infringed, which are subsequently proven. In addition, the Appointments and Remuneration Committee will assess whether, due to exceptional circumstances of this kind, it could even be proposes to the Board of Directors termination of the contractual relationship with the beneficiary or beneficiaries or relevant person or people responsible, also being able to propose the adoption of any measures it deems appropriate.

Social benefits and other remuneration

The *chief executive officer* participates in a defined contribution retirement scheme. Red Eléctrica's liability is limited to the realisation of an annual contribution equivalent to 20% of the annual base salary of the *chief executive officer*.

The scheme covers the following contingencies: retirement, death and permanent disability.

This scheme is funded through an insurance policy underwritten with an external insurer. The benefit consists of the economic right that corresponds to the beneficiary as a consequence of the occurrence of any of the contingencies covered by the scheme.

In case of termination of the relation, the economic rights will consolidate in favour of the *chief executive officer*, except when a severe negligent conduct has been occurred on his side, in the exercise of his functions, which would have caused damages to the company. The receipt of any severance payment will be compatible with the recognition of the economic right over the retirement scheme in such cases.

The *chief executive officer* is entitled to an allowance in lieu for social benefits, which amounts to EUR 60,000. Such amount may be received in cash or in kind.

The *chief executive officer* will not receive any other kind of social benefits.

Contractual terms

The contract governing the *chief executive officer's* performance of his functions and responsibilities in his relationship with Red Eléctrica is formed under commercial law and includes the clauses constituting standard practice for this type of contract. The contract has been proposed by the Appointments and Remuneration Committee and approved by the Company's Board of Directors.

Without prejudice to the confidentiality obligation expressly established in such contract, the *chief executive officer* is also bound by the duty of confidentiality established in article 31 of the Board of Directors Regulations, applicable to all directors, in accordance to which directors are to refrain from disclosing the information, data, reports or records to which the director has had access in the performance of his duties. The confidentiality obligation shall survive, even after leaving the position.

In his capacity as a director of Red Eléctrica, the *chief executive officer* has the obligation of not developing activities, as an employed or self-employed, which mean an effective competition, current or potential, with the company on the terms in which such obligation is regulated for directors of the company in article 32 of the Board of Directors Regulations.

In addition, the non-compete obligation is expressly set forth in the contract for a term of two (2) years after his termination, such obligation not giving him a right to post-contractual noncompetition indemnity, as it is deemed to have been remunerated by way of his remuneration set form in the contract.

The contract, following common market practices, contemplates an indemnity equivalent to one year of remuneration in the case of termination of the contractual relation as a result of discretionary dismissal by Red Eléctrica (provided that there is no serious, intentional and culpable conduct of the *chief executive officer* in the exercise of his functions) with no prior notice from the company being required. The aforesaid indemnity will also apply if the *chief executive officer* voluntarily resigns due to a serious and culpable breach of the company, or a material modification of the *chief executive officer's* duties for reasons not attributable to the same.

In the calculation of such indemnity, the base used will be one year's base salary, plus the amount corresponding to the variable remuneration as *chief executive officer*, calculated considering a 100% achievement of targets.

4.2. Remuneration policy for the non-executive directors (as members of the Board of Directors) in 2018^(*)

^(*) This is also applicable to the *chief executive officer* for his duties as director.

The Company's Articles of Association specify the limit of the overall and annual remuneration for the whole Board, for all items, at an amount equivalent to 1.5% of the company's net profits approved by the General Shareholders' meeting. The previous remuneration is, in all cases, the maximum payable and the Board is responsible for proposing the allotment of its amount among the items specified in the Company's Articles of Association and among the directors, in the manner, at the time and in the proportion specified, bearing in mind the duties and responsibilities assigned to each director, membership on the Board's Committees and other objective circumstances considered relevant.

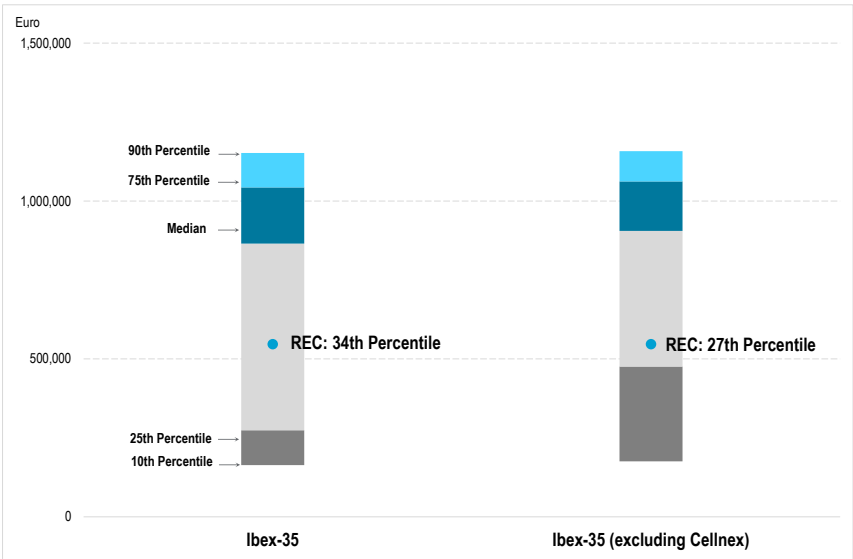
The Appointments and Remuneration Committee regularly reviews the Directors' Remuneration Policy in line with best corporate governance practices adopted by the institutional shareholders and according to the recommendations of the main proxy advisors.

In this respect, the Committee has recently conducted remuneration benchmarking for the position of the *non-executive chairman* of the Board of Directors, which used a comparator group formed by 12 of the 14 companies in the Ibex-35 that have appointed a *non-executive chairman*, and the following was applied in such benchmarking:

- Arcerlomittal was excluded, since the Board of Directors is located abroad.
- Merlin Properties was excluded, since the non-executive chairman is the representative of the bank that is the main shareholder and who has received significant dividends for 2016. As a result, no specific remuneration has been established for chairman's position. This situation is not considered comparable to Red Eléctrica's.

In terms of size, Red Eléctrica is positioned between the 25th percentile and the median of the comparator group.

The following graph shows a comparison of the remuneration of the *chairman of Red Eléctrica's Board of Directors* with the aforementioned comparator group. The results are shown including and excluding Cellnex, due to the specific situation of this company (the non-executive chairman of this company is also the *chief executive officer* of Abertis and the latter company holds 34% of Cellnex' capital):

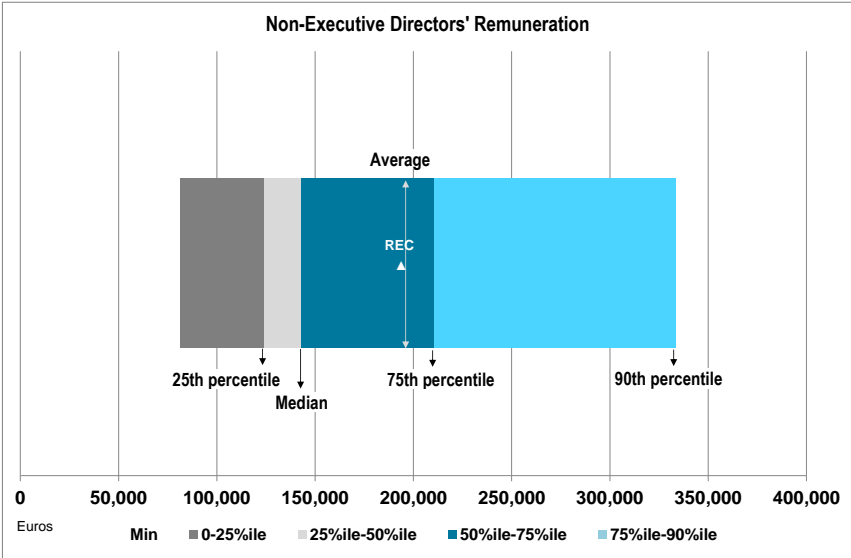


Note: The total remuneration includes the whole amount of the remuneration accrued by the relevant non-executive chairmen in 2016.

In terms of remuneration, Red Eléctrica occupies the 34th percentile -considering the 12 companies of the analysis- and the 27th percentile if Cellnex is excluded.

In addition, for the purpose of reviewing the adequacy of the directors’ remuneration levels to ensure they are in a reasonable proportion to the company’s importance, its economic situation from time to time and the market standards of comparable companies, the Committee considered, among other factors, an analysis of external competitiveness conducted in 2017. In such study, also developed with the support of the independent consulting firm *Willis Towers Watson*, the selected comparator group was comprised of companies belonging to the Ibex-35 stock exchange index, in the same way as in previous years, since the Red Eléctrica Group belongs to this index and is positioned at about the median thereof for market capitalisation.

The following graph shows a comparison between the remuneration of Red Eléctrica’s non-executive directors and the specified comparison group (*) in 2017:



(*) This includes the remuneration that could be paid to a director for being a member of the Board, the Executive Committee (there is none at Red Eléctrica) and any of the Board’s Committees (whether Audit or Appointments and Remuneration).

The remuneration of the company’s non-executive directors is in line with the average of the comparator group (Ibex-35), in the same way as in previous years.

As a result of the previous analysis and based on the principles for prudence in remuneration and the link of the non-executive directors remuneration with the effective time they spend, with their responsibility and the development of their duties as directors, the Board of Directors has decided, according to the Appointments and Remuneration Committee’s proposal, for the financial year 2018, to maintain the same remuneration amounts and elements as those

determined for 2017 for the members of the Board of Directors, including the position of (non-executive) *chairman of the Board of Directors* being determined as follows:

Fixed Remuneration

- EUR 130,742 per annum per director, to be paid monthly before the fifth (5th) day of the following month.

Per diems for attending meetings of the Board of Directors

- EUR 1,500 for personal attendance of each director at each of the eleven (11) ordinary meetings contemplated for the year 2018 in the calendar approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the per diem for just cause, a maximum of two (2) times a year. Such amount shall be paid within fifteen (15) days of the meeting being held.

The holding of extraordinary meetings of the Board of Directors, in person or electronically, does not result in remuneration in the form of per diems.

Chairman of the Board of Directors

- EUR 399,170 per annum, to be paid monthly before the fifth (5th) day of the following month.

The *chairman of the Board* will also maintain the annual remuneration established for all directors, as members of the Board of Directors, as “Fixed remuneration” and “Per Diems for attendance at meetings of the Board of Directors”.

The *chairman of the Board* has accrued a severance payment, which will be payable on the date the *chairman* no longer holds office as director of the company for any reason and therefore, no longer maintains any corporate or commercial relation or of any other kind with the company. This indemnity was accrued on 15 April 2016, the date of the termination, according to the decision adopted by the company, of the commercial contract, which the *chairman of the Board*, for his executive duties, had to date with the company. This indemnity is equivalent to one year of the base salary he was receiving as executive director plus the amount corresponding to his annual variable remuneration, calculated considering a degree of achievement of 100%.

The *chairman* does not participate in any retirement schemes nor has other benefits granted.

Service on Board of Directors Committees

- EUR 27,900 per annum for each member of the Board Committees, to be paid monthly before the fifth (5th) day of the following month. The above amount per year, regardless of the number of meetings of the Committees held during the year 2018.
- EUR 15,000 per annum for each of the chairmen of the Board Committees, to be paid monthly before the fifth (5th) day of the following month. The above amount is per year, regardless of the number of meetings of the Committees held during the year 2018.

Lead Independent Director

- EUR 15,000 per annum, to be paid monthly, before the fifth (5th) day of the following month.

In 2018 the company has underwritten civil liability insurance policies to cover third-party claims for possible damages caused by acts or omissions in the exercise of their duties as Board Members.

5. Implementation of the remuneration policy in 2017

5.1. Implementation of the remuneration policy for the executive director in 2017

During the 2017, the modification of the remuneration policy approved by the Ordinary General Shareholders' meeting held in 15 April 2016 was applied.

Annual base salary

The base salary of the *chief executive officer* for 2017 amounted to EUR 399,170.

Annual variable remuneration

The *chief executive officer* has been granted a target annual variable remuneration equivalent to 75% of his base salary, which is reached in the case of achieving 100% of the objectives predetermined by the Appointments and Remuneration Committee at the beginning of the year, and which can reach up to a maximum level of 82.5% of his base salary.

The Appointments and Remuneration Committee, at its meeting of 23 January 2017, established the objectives and their weightings for the determination of the variable remuneration of the *chief executive officer* for the year 2017. These objectives were described in detail in the Annual Report on Remuneration of Directors approved at the Annual General Shareholders' meeting held on 2017. The aforementioned Committee have conducted a quarterly performance monitoring and at the end of the financial year, the Committee has carried out a process to assess its achievement, where it has been supported by the Economic-Financial Corporate Management, responsible for the Group's management control and which has provided information about the Company's and the consolidated Group's audited results. In such assessment, the Committee has also considered the possible impact of the objectives in the long term and any risk associated to them.

The annual variable remuneration for the *chief executive officer*, established for 2017, is based on achieving a combination of *business objectives*, quantitative and qualitative, measured at the Group level –which weighs 75% of his total annual variable amount- as well as to the fulfilment of the *operational objectives linked to Red Eléctrica Group's business activities*– which weighs 25% of his total annual variable amount-. The following table contains the aforementioned objectives, weightings and the level of achievement for each after the assessment conducted on 13 February 2018 by the Appointments and Remuneration Committee to determine the amount of the annual variable remuneration to be paid:

| Types of targets and weightings | Performance measures | Weighting | Performance range | Level of achievement | Incentive pay-out for each metric |
|--|--|-----------|---|----------------------|-----------------------------------|
| BUSINESS (75%) | 1. Net Profit | 35% | 85% - 100% | 100% | 100% |
| | 2. ROIC | 35% | 95% - 100% | 100% | 100% |
| | 3. Total Investment in Transport Network and Diversification of the Group | 30% | 85% - 133% | 63.92% | 63.92% |
| SUBTOTAL | | 100% | | 89.18% | 89.18% |
| OPERATING OBJECTIVES LINKED TO THE GROUP'S BUSINESS ACTIVITIES (25%) | 1. Development, efficiency and profitability of the TSO | 74% | Up to 169%. Assessment by the ARC ⁽¹⁾ | 118.69% | 118.69% |
| | 2. Growth of business activities | 12% | Up to 100%. Assessment by the ARC ⁽¹⁾ | 100% | 100% |
| | 3. Excellence and innovation | 8% | Up to 150%. Assessment by the ARC ⁽¹⁾ | 140% | 140% |
| | 4. Sustainability | 6% | Up to 100%. Assessment by the ARC ⁽¹⁾ | 100% | 100% |
| SUBTOTAL | | 100% | | 117.03% | 117.03% |
| TOTAL | | 100% | | 96.14% | 96.14% |

(1) Appointments and Remuneration Committee

To determine the level of achievement and the amount of the annual variable remuneration, the Appointments and Remuneration Committee considered the following factors:

1. The book figures gives a consolidated “Net Profit for the Red Eléctrica Group” in the financial year 2017 of EUR 669.8 million, which implies a target achievement of 100%.
2. The “Return on Invested Capital (ROIC) for Red Eléctrica Group”, measured as the net operating profit compared with the capital employed in the financial year 2017, has reached 9.8%, which entails a degree of target achievement of 100%.
3. The “Total Investment in Transport Network and Diversification of the Red Eléctrica Group” has reached EUR 609 million, which entails a degree of target achievement of 63.92%.

After assessing the level of achievement of the three previous objectives, the Appointments and Remuneration Committee has considered that the degree of weighted achievement for these business objectives is 89.18%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2017 in connection to the *operating objectives linked to the Red Eléctrica Group’s business activities*, the Appointments and Remuneration Committee took into account the following factors:

1. “Development, efficiency and profitability of the TSO” (“Transmission System Operator”): the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 118.69%.
2. “Growth of business activities”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.
3. “Excellence and innovation”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 140%.

4. “Sustainability”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee has considered an overall achievement of *operating objectives linked to the Red Eléctrica Group’s business activities* of 117.03%.

Based on the foregoing, the Appointments and Remuneration Committee has considered an overall achievement of all the objectives –both, the *business* and the *operating objectives linked to the Group’s business activities*- of 96.14%. Therefore, the annual variable remuneration for the *chief executive officer* in 2017 amounted to EUR 287,822 (72.1% of the gross annual base salary).

75% of the gross annual variable remuneration (EUR 215,866) will be settled in cash and the remaining 25% (EUR 71,956) will be delivered in shares of the company, equivalent to 18% of the annual base salary. In addition, the *chief executive officer* has undertaken the commitment with the company, while he holds such position, to maintain the ownership of the shares he receives for at least five years.

The corresponding company shares, in concept of annual variable remuneration, will be delivered on the date that the delivery is effective for all employees, regularly on the last quarter of year 2018, pursuant to the delivery of shares program for employees. On that date, the purchase price of the corresponding shares will be recognised, according to the stock exchange listing.

At 31 December 2017 once the 25% of his variable remuneration, corresponding to the 2016 financial year, was received and materialized in company shares, the *chief executive officer* holds 5,965 shares, equivalent to 0.0011% of the share capital.

Multi-year variable remuneration

Compliance with the director’s remuneration plan for the 2014-2019 period, in which the *chief executive officer* participates, is linked to the achievement of the targets established in the Group’s Strategic Plan for such period and, additionally, to the fulfilment of certain conditions.

The fundamental terms and conditions of the aforementioned plan have been explained in the corresponding section of this report concerning the 2018 Director’s Remuneration Policy, and we thus refer to the same in order to avoid reiterations.

Social benefits and other remuneration

From 1 January 2017 the *chief executive officer* participates in a defined contribution retirement scheme. The commitment of Red Eléctrica is limited to the realisation of an annual contribution equivalent to 20% of the annual base salary of the *chief executive officer*. The amount of the contribution made in 2017 by the company and the accumulated funds, as of 31 December 2017, amounted to EUR 79,834.

The *chief executive officer* has received an allowance in cash in lieu of social benefits, which amounts to EUR 60,000.

At 31 December 2017, the Balance sheet has no credits, advances granted, or guarantees set up by the company in favour of the *chief executive officer*.

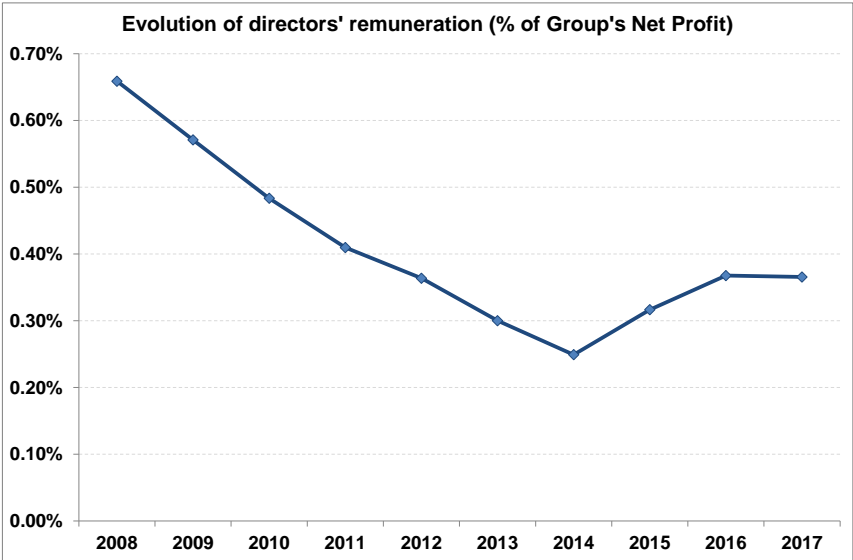
5.2. Implementation of the policy for remuneration of non-executive directors (as members of the Board of Directors) in 2017^(*)

^(*)This is also applicable to the *chief executive officer*, for his functions as director.

Below is a chart with the remuneration of the Board of Directors, expressed as a percentage of net profits of each year, in the last 10 years, and a graph that shows the evolution thereof:

| Year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------|------|------|------|------|------|------|------|------|------|------|
|------|------|------|------|------|------|------|------|------|------|------|

| | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|
| Remuneration (% net profit of the Group) | 0.66% | 0.57% | 0.48% | 0.41% | 0.36% | 0.30% | 0.25% | 0.32 % | 0.37% | 0.37% |
|---|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|



In the year 2017, the amount of overall remuneration of the Board of Directors amounted to EUR 2,448 thousand (EUR 2.341 thousand in 2016). The increase with regard to the previous year is due to essentially the inclusion of the remuneration of the *chairman of the Board of Directors* for 2017, as the remuneration of the *chairman of the Board* was included in “Remuneration of the Directors due to their executive status” during the period 1 January to 14 April 2016, date on which the *chief executive officer* assumed full executive functions.

According to a proposal made by the Appointments and Remuneration Committee, the Board of Directors decided that, for the financial year 2017, the remuneration amounts and components mentioned before for the members of the Board of Directors would remain the same as for 2016:

Fixed Remuneration

- EUR 130,742 per annum per director.

Per diems for attending meetings of the Board of Directors

- EUR 1,500 for personal attendance of each director at each of the eleven (11) ordinary meetings contemplated for 2017 in the calendar approved by the Board of Directors, the total amounting to EUR 16,500. Per diems will not be payable for Extraordinary Board of Directors’ meetings, even though none were held in 2017.

Chairman of the Board of Directors

- EUR 399,170 per annum.

Throughout the whole financial year 2017, the *chairman of the Board* also continued to be paid the annual remuneration determined for all the directors, as members of the Board of Directors, for “Fixed Remuneration” and “Per diems Attending the Board of Directors’ meetings”.

Service on Board of Directors Committees

- EUR 27,900 per annum for each member of the Board’s Committees.
- EUR 15,000 per annum for each of the chairmen of the Board’s Committees.

Lead Independent Director

- EUR 15,000 per annum.

In 2017, the company has underwritten civil liability insurance policies to cover third-party claims for possible damages caused by acts or omissions in the exercise of their duties of Board Members.

6. Remuneration of the senior executives

The purpose of the remuneration policy applicable to this group is to act as an incentive for the achievement of the strategic objectives of value creation at the Company to appropriately recognise the best professionals in the market. The remuneration of the senior executives is aligned with the principles and criteria contained in the remuneration policy applicable to executive directors described in this document.

Set forth below are the categories of the remuneration policy applied by the Company to such executives:

Annual base salary

Base salary is determined on the basis of the executive's level of responsibility and leadership within the organisation, in line with the going rate at comparable companies. This fixed component must represent a sufficient portion of total remuneration to maintain a suitable and balanced remuneration mix.

Annual variable remuneration

Annual variable remuneration is linked to quantifiable and measurable objectives set by the Appointments and Remuneration Committee at the start of the year and monitored on a quarterly basis throughout the year. Said Committee is also responsible, when the period has ended, for evaluating the level of achievement of the objectives previously established. These objectives are related to the strategies and criteria contemplated in the Strategic Plan approved by the Board of Directors.

Multi-year variable remuneration

The senior executives participate in the multi-year variable remuneration Plan, as does the *chief executive officer*.

The basic targets, criteria and components of the remuneration plan for the period 2014-2019 have been explained previously in the sections of this report applicable to the *chief executive officer*.

The participation of the senior executive team in the multi-year variable remuneration Plan will be subject to the conditions established by the company's regulations.

Flexible remuneration pool

All or a part of a remuneration pool may be used for various alternative in-kind products. Such pool includes those products which at the time have a tax benefit.

Other elements

At 31 December 2017 there are no advances to these executives, nor loans granted to such executives.

Contractual terms and conditions

There are no guarantee or golden parachute clauses for dismissals in favour of the senior executives currently servicing within the Group. In the case of termination of the employment relation, the indemnity to which they would be entitled would be calculated in accordance with the applicable labour rules. The contracts for these executives have been approved by the Appointments and Remuneration Committee, and duly notified to the Board of Directors.

Senior executives, who render services as at 31 December 2017, are included in a Structural Management Plan started by the company in 2015 approved by the Appointments and Remuneration Committee and the Board of Directors. This plan, which will apply to part of the executive team, has the purpose of managing the replacement and management of the executive positions affected by the same, in an orderly and efficient manner. Participation in the mentioned Plan is subject to the satisfaction of certain conditions and may be amended or revoked in certain cases, among them, a consecutive unfavourable evolution of the Group's results.

7. Individual remuneration tables

7.1. Remuneration of the executive directors (*chief executive officer*), in all categories, for the year 2017

The following is a summary of the total gross remuneration, in Euro, accrued by the *chief executive officer*, during the year 2017:

| Director | Position | Base salary | Annual variable remuneration | Remuneration for his functions as director | Other remuneration | Total |
|------------------------|-------------------------|-------------|------------------------------|--|------------------------|---------|
| Mr. Juan Lasala Bernad | Chief executive officer | 399,170 | 299,378 ⁽¹⁾ | 147,242 ⁽²⁾ | 139,834 ⁽³⁾ | 985,624 |

(1) This amount, recorded in the Annual Accounts for the financial year 2017, is estimated assuming a degree of achievement of objectives of 100%.

(2) This includes base salary as director (EUR 130,742) and per diems for attendance and time dedicated to the Board meetings (EUR 16,500) in the financial year 2017.

(3) This includes the contribution made to the retirement scheme in 2017 (EUR 79,834) and the cash allowance in lieu of social benefits (EUR 60,000).

The Appointments and Remuneration Committee held on 13 February 2018, once assessed the overall level of achievement of objectives for the financial year 2017, has approved a level of achievement of 96.14%, which means a variable remuneration of EUR 287,822 to be paid to the *chief executive officer*.

7.2. Remuneration for non-executive directors (as members of the Board of Directors), in all categories, for the year 2017

The total remuneration of the Board of Directors for the year 2017, excluding the remuneration of executive directors due to their contractual relation (executive duties) with the company,

entails, in all categories, 0.37%¹ of the net profit of the Red Eléctrica Group allocated to the holding company, for the year 2017.

The remuneration accrued by the members of the company's Board of Directors in the year 2017, in thousands Euros, broken down by director, as disclosed in the Annual Accounts for the year 2017, are the following:

| | <u>Fixed</u> | <u>Variable</u> | <u>Remuneration</u> | <u>Chairman of</u> | <u>Other</u> | <u>Total 2017</u> | <u>Total 2016</u> |
|--|---------------------|---------------------|----------------------|--------------------|---------------------|-------------------|-------------------|
| | <u>remuneration</u> | <u>remuneration</u> | <u>for attending</u> | <u>for work on</u> | <u>remuneration</u> | | |
| | | | <u>board</u> | <u>board of</u> | <u>Committee</u> | | |
| | | | <u>meetings</u> | <u>directors'</u> | <u>and UD</u> | | |
| | | | | <u>committees</u> | | | |
| | | | | | | | |
| | | | | | | | |
| Mr José Folgado Blanco | 530 | - | 16 | - | - | 546 | 575 |
| Mr Juan Lasala Bernad | 530 | 299 | 16 | - | - | 986 | 806 |
| Mrs María de los Ángeles Amador Millán ⁽¹⁾ | 33 | - | 4 | 7 | - | 44 | 175 |
| Mr Fernando Fernández Méndez de Andrés | 131 | - | 16 | 28 | - | 175 | 175 |
| Mrs Carmen Gómez de Barreda Tous de Monsalve | 131 | - | 16 | 28 | 15 | 190 | 190 |
| Mrs María José García Beato | 131 | - | 16 | 28 | - | 175 | 175 |
| Mrs Socorro Fernández Larrea | 131 | - | 16 | 28 | - | 175 | 175 |
| Mr Antonio Gómez Ciria | 131 | - | 16 | 28 | 2 | 177 | 175 |
| Mr Santiago Lanzuela Marina | 131 | - | 16 | 28 | - | 175 | 175 |
| Mr José Luís Feito Higuera | 131 | - | 16 | 28 | 14 | 189 | 190 |
| Mr Arsenio Fernández de Mesa Díaz del Río ⁽²⁾ | 121 | - | 16 | 19 | - | 156 | - |
| Mr Alberto Carbajo Josa ⁽³⁾ | 98 | - | 12 | 19 | - | 129 | - |
| Mr José Ángel Partearroyo Martín ^{(4) (6)} | 103 | - | 12 | 22 | - | 137 | 173 |
| Mrs Mercedes Real Rodríguez ^{(5) (6)} | 22 | - | 5 | 5 | - | 32 | - |
| Other members of the board ⁽⁷⁾ | - | - | - | - | - | - | 159 |
| Total remuneration accrued | 2.354 | 299 | 193 | 268 | 31 | 3.286 | 3.143 |

⁽¹⁾ Left the Group at the General Shareholders' Meeting of 31 March 2017.

⁽²⁾ New Director since the board of directors' meeting of 31 January 2017. Appointment ratified at the General Shareholders' Meeting of 31 March 2017.

⁽³⁾ New Director since the General Shareholders' Meeting of 31 March 2017.

⁽⁴⁾ Left the Company on 16 October 2017.

⁽⁵⁾ New Director since the board of directors' meeting of 31 October 2017.

⁽⁶⁾ Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).

⁽⁷⁾ FY2016 board members who have left.

⁽⁸⁾ Includes costs deriving from social benefits as part of the Chief Executive Officer's remuneration package.

7.3. Remuneration of senior executives, in all categories, for the year 2017

The senior executives who rendered services throughout the year 2017 are the following:

¹ The net profit of the RED ELÉCTRICA Group allocated to the holding company in the financial year 2017 amounted to EUR 669,836 thousand (EUR 636,920 thousand in the financial year 2016).

| Name | Position | Accrual period in the year 2017 |
|-----------------------|-------------------------------------|------------------------------------|
| Eva Pagán Díaz | General Manager of Transmission | From 1 January to 31 December 2017 |
| Miguel Duvison García | General Manager of System Operation | From 1 January to 31 December 2017 |

In the year 2017, the total remuneration accrued by the senior executives has amounted to EUR 649 thousand and is recorded as personnel expenses in the Profit and Loss Consolidated Accounts. These amounts include the linear accrual of annual variable remuneration based on the achievement of the targets fixed for each year. Once achievement of the aforesaid targets has been evaluated, the variable remuneration is paid in the first months of the following year, the remuneration depending on the actual achievement.

Of the total remuneration accrued by these executives, contributions to life insurance and pension plans amounted to EUR 14 thousand.

8. Tables of voting results

The following table sets out the voting percentages obtained at the Company's Annual General meetings of Shareholders held since 2015, in connection with the Annual Report on Remuneration of Directors:

| Annual Report on Remuneration of Directors: votes (%) | | | |
|---|---------|---------|------------------------|
| Date of the Meeting | For | Against | Abstention |
| 31/03/2017 | 64.618% | 0.705% | 34.677% ⁽¹⁾ |
| 15/04/2016 | 65.925% | 0.545% | 33.530% ⁽²⁾ |
| 15/04/2015 | 63.903% | 0.630% | 35.467% ⁽³⁾ |

(1) 34.41% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

(2) 33.27% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

(3) 34.95% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

**Annex: Official Form of Annex I of Circular 4/2013
published by the National Securities Market Commission
(CNMV) (amended by CNMV Circular 7/2015)**

ANNEX 1

ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

ISSUER IDENTIFICATION

| | |
|--|------------|
| ENDING DATE OF REFERENCE PERIOD | 31/12/2017 |
|--|------------|

| | |
|---------------|------------|
| C.I.F. | A-78003662 |
|---------------|------------|

| |
|-----------------------|
| CORPORATE NAME |
|-----------------------|

| |
|---------------------------------|
| RED ELECTRICA CORPORACION, S.A. |
|---------------------------------|

| |
|--------------------------|
| REGISTERED OFFICE |
|--------------------------|

| |
|---|
| PASEO DEL CONDE DE LOS GAITANES, 177 (LA MORALEJA-ALCOBENDAS) MADRID |
|---|

FORM OF ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

A REMUNERATION POLICY OF THE COMPANY FOR THE YEAR IN COURSE

A.1 Explain the company's remuneration's policy. Within this section include information regarding:

- General bases for and principles of the remuneration policy.
- Most significant changes made to the remuneration policy by reference to the policy used during the prior period, and the changes that have been made during the year in the terms for exercise of options already granted.
- Criteria used and composition of the groups of comparable companies the remuneration policies of which have been reviewed in order to establish the company's remuneration policy.
- Relative importance of the variable remuneration categories by reference to the fixed categories, and criteria used to determine the various components of the remuneration package of the directors (remuneration mix).

Explain the remuneration policy

A.1.1. General bases for and principles of the remuneration policy

The quality and commitment of the members of the Board of Directors and senior executives of Red Eléctrica are essential for the success in achieving the strategies of the Red Eléctrica Group and, to that end, the Appointments and Remuneration Committee prepares and proposes to the Board of Directors of Red Eléctrica Corporación, S.A. (hereinafter also referred to as the company, the corporation or "Red Eléctrica") the policy and practices in matters of remuneration to be applied to the Board of Directors and the senior management, to appropriately recognise the best professionals. The general principles underlying the remuneration policy for directors are the following:

- Balance and moderation;
 - Alignment with the practices demanded by the shareholders and investors;
 - Transparency;
 - Voluntary submission of any decision related to the remuneration of directors to the approval of the General Shareholders' Meeting.
- i) Regarding the remuneration of the executive director, the following principles are applied:
- Alignment of the remuneration policy for the executive director with the Company's strategy;
 - Maintenance of a reasonable balance among the various components of the base salary (short-term) and variable remuneration (annual and long-term), reflecting an appropriate assumption of risks combined with the achievement of the objectives established, linked to the creation of sustainable value;
 - Alignment with the remuneration established by comparable companies.
- ii) Regarding the remuneration of non-executive directors, the following are notable:
- Relationship to the effective dedication;
 - Linkage with the responsibility and the exercise of duties as directors.
 - Absence of variable components in their remuneration in order to ensure their complete independence of the remuneration paid to the executive director and the executive team.
 - Incentive effect, without the amount affecting their independence.

The Appointments and Remuneration Committee deems it appropriate to periodically review the remuneration policy of the Board of Directors and the executive director, including in this review process the comparison with reference companies, selecting groups of comparable companies, and maintaining permanent contact with its shareholders and proxy advisors, in order to verify the adequacy and moderation of the remuneration of directors and of the executive director in relation to the market.

All of the foregoing principles are aligned with the contents of the remuneration policy for directors, approved by the Ordinary General Shareholders' Meeting in 2015 and its modification approved by the Ordinary General Shareholders' Meeting in 2016, the Company's corporate governance policy, approved by the Board of Directors at its meeting held the 25 November 2014 and published on the corporate website.

In addition, such remuneration principles comply with what is generally established for capital companies in Article 217.4 of the Spanish Law on Corporations, on adequacy to each company's size and relevance, economic situation, comparability, profitability and sustainability; and on the non-excessive assumption of risks or not rewarding unfavourable results.

A.1.2. Most significant changes made to the remuneration policy in the relation to that applied during the prior year, as well as the changes that have been made during the year in the terms of the exercise of options already granted.

The Appointments and Remuneration Commission has considered that the Ordinary General Shareholders' meeting held on 31 March 2017, agreed that in "2018 the remuneration of the chairman of the Board and of the chief executive officer will be reviewed to achieve the market positioning and market alignment, established in the Directors' Remuneration Policy approved by the Ordinary General Shareholders' meeting and currently in force, in line with the conclusion of the previous analysis, and thus to serve the purpose pursued of the effective consolidation of the positions".

In accordance with the aforementioned, the Appointments and Remuneration Committee has analysed the position and duties undertaken in the company by the chairman of the Board (non-executive) and the chief executive officer, in his condition as lead executive, since their appointments at the Extraordinary General Shareholders' meeting held in July 2015.

In this process of analysis the following has been considered: the economic performance achieved by the Group over the last three years, the development in the level of responsibility and leadership assigned to such positions within the organisation, to date, and updated market remuneration information provided by an independent external adviser, specialised in this field.

Notwithstanding the aforementioned Annual Report on Remuneration of Directors approved by the Ordinary General Shareholders' meeting held on 31 March 2017 and although, in view of the conclusions of the studies and analyses carried out, the positioning in terms of remuneration for both Red Eléctrica's chairman of the Board and chief executive officer is significantly below the market reference regarding the comparable companies in terms of size, among others, it has not been considered appropriate to propose to the Board, at this time, an increase in the current remuneration of the chairman of the Board and the chief executive officer.

In this regard, taking into account the market analyses carried out in relation to the Ibex-35 companies and applying the principle of prudence in remuneration, it has been proposed that the remuneration of the Board of Directors for the financial year 2018, remains in all its elements and amounts, as in the year 2017.

Since the current Directors' Remuneration Policy ends in 2018, the Committee considers convenient to conduct a review of this policy throughout the current year with a global and rigorous approach in order to submit a new Directors' Remuneration Policy to the 2019 Ordinary General Shareholders' meeting, for approval.

In order to determine the chairman of the Board's and the chief executive officer's total remuneration structure and levels and ensure that they correspond to the size and complexity of the Group at any time, and so that they enable to attract and retain the best professionals and encourage the achievement of results in a sustainable manner, the following factors, among others, will be considered:

- Group's results.
- The value of the contribution of the position and of the person, for both the company and the shareholder over the time.
- Red Eléctrica's principles and internal criteria.
- Internal equity.
- Competitiveness compared to comparable companies.

To review this policy, external market analyses of remuneration levels and market practises may also be conducted, in line with the decision-making process followed in previous years.

A.1.3. Criteria used to establish the company's remuneration's policy.

With regards to the remuneration policy in force, the Board, at the proposal of the Committee, considers, among others, the following perspectives when establishing the remuneration policy:

- a) The Company's Articles of Association, the Board of Directors Regulations and the principles established in the corporate governance policy approved by the Board of Directors of the Company, at the General Meeting held the 25 November 2014, published on the corporate website.
 - b) The general principles and internal criteria described in subsection A.1.1.
 - c) The applicable regulations.
 - d) Market data and the guidelines of institutional investors and proxy advisors, as well as the information received by them in the process of engagement undertaken by the Red Eléctrica Group.
- For more details in this regard, see section A.2.

A.1.4. Relative importance of the variable compensation items in relation to the fixed items and criteria followed for determining the different components of the compensation package of the directors (remuneration mix).

The total remuneration of the chief executive officer is comprised of the following remuneration elements: (i) base salary, (ii) contribution to a retirement scheme, (iii) short-term variable remuneration and (iv) long-term variable remuneration. In a scenario of standard achievement of objectives (target), in relation to the remuneration mix, it may be stated that approximately 49% of the total remuneration is fixed and the remaining 51% is variable. In addition, the chief executive officer participates in a defined contribution retirement scheme and receives an allowance in cash in lieu for social benefits.

Regarding non-executive directors, the remuneration policy aims to remunerate them in a manner appropriate to their professionalism and experience, as well as to the dedication and responsibility assumed by them, without the remuneration paid compromising their independence. In this context, the remuneration of directors in their capacity as members of the Board of Directors and/or its committees consists of fixed remuneration, per diems for attending meetings of the Board and a fixed amount for service on Board committees, together with specific remuneration for the Chairmen of committees and the lead independent director. Therefore, all of the remuneration is of a fixed nature. In addition, an annual fixed remuneration has been set for the chairman of the Board of Directors with non-executive functions.

A.2 Information on preparatory work and the decision-making process that has been used to determine the remuneration policy and the role, if any, played by the Remuneration Committee and other supervisory bodies in setting the remuneration's policy. This information if appropriate will include the mandate and composition of the Remuneration Committee and the identity of the outside advisors the services of which have been used in the determination of the remuneration policy. It will also state the nature of the directors, if any, that have participated in determination of the remuneration policy.

Explain the process for determination of the remuneration policy

A.2.1. Preparatory work and decision-making

The Appointments and Remuneration Committee considers it is essential to regularly review the directors' remuneration policy in line with the best corporate governance practices adopted by institutional shareholders and the recommendations of the main proxy advisors.

In this respect, the Committee has conducted in 2017 a benchmarking for the position of chief executive officer, considering three comparator groups in line with the analysis carried out in previous years:

- (i) A comparator group formed by the Ibex-35 companies, index in which Red Eléctrica is included.
- (ii) An ad-hoc comparator group formed by 18 companies which have been selected based on the same criteria applied in the benchmarking conducted in previous years for the lead executive. These criteria (geographic scope, scope of responsibility, activity sector and size) were included, in detail, in the proposal for modification of the current directors' remuneration policy approved by the Ordinary General Shareholders' meeting in 2016. The companies forming the comparator group are the following: Abertis, Acerinox, Almirall, Amadeus, Atresmedia, Catalana Occidente, CIE automotive, Ebro Foods, Enagás, Gamesa Siemens, Grifols, Mediaset, Meliá Hotels, NH Hotel Group, Prosegur, Técnicas Reunidas, Viscofan and Zardoya Otis.

As an additional feature in 2017, previous benchmarkings have been completed with a third market analysis: A comparator group formed by 12 European energy companies, which both the company ("REC") and the proxy advisor Institutional Shareholder Services ("ISS") consider comparable with Red Eléctrica, in 2017, in terms of size (revenues) and which are relevant in the energy sector in terms of results' evolution, as detailed below: BKW (ISS), EDP Renovaveis (ISS), Elia System Operator (ISS + REC), Enagás (ISS + REC), Pennon Group (ISS), Ren (REC), Rubis (ISS), Severn Trent (ISS), Snam Rete Gas (REC), Terna (ISS + REC), United Utilities Group (ISS) and Verbund (ISS).

Regarding the Ibex-35 comparator group, in summary, it could be concluded that an overview of the data regarding the size of the Red Eléctrica Group points to a market benchmark between the 25th percentile and the median. In terms of "target" remuneration (in other words, for a level of achievement of the objectives of 100%), the position of chief executive officer of the Red Eléctrica Group is positioned below the 10th percentile.

Regarding the ad-hoc group, an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 75th percentile. In terms of "target" remuneration (in other words, for a level of achievement of the objectives of 100%), the position of chief executive officer of the Red Eléctrica Group is positioned around the 25th percentile.

With regards to the European energy group, an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 75th percentile. In terms of "target" remuneration (in other words, for a level of achievement of the objectives of 100%), the

position of chief executive officer of the Red Eléctrica Group is positioned between the 10th percentile and the 25th percentile.

Additionally, the Committee has recently conducted remuneration benchmarking for the position of the non-executive chairman of the Board of Directors, which used a comparator group formed by 12 of the 14 companies in the Ibex-35 that have appointed a non-executive chairman, and the following was applied in such benchmarking: (i) Arcerlomittal was excluded, since the Board of Directors is located abroad; (ii) Merlin Properties was excluded, since the non-executive chairman is the representative of the bank that is the main shareholder and who has received significant dividends for 2016. As a result, no specific remuneration has been established for chairman's position. This situation is not considered comparable to Red Eléctrica's. In summary, it could be concluded that an overview of the data regarding the size of the Red Eléctrica Group points to a reference between the 25th percentile and the median of the comparator group. In terms of total remuneration, the chairman of Red Eléctrica's Board of Directors occupies the 34th percentile. If Cellnex is excluded from the comparator group, as the non-executive chairman of this company is also the chief executive officer of Abertis and the latter company holds 34% of Cellnex' capital, Red Eléctrica is positioned at 27th percentile.

In addition, for the purpose of reviewing the adequacy of the directors' remuneration levels to ensure they are in a reasonable proportion to the company's importance, its economic situation from time to time and the market standards of comparable companies, the Committee considered, among other factors, an analysis of external competitiveness conducted in 2017. In such study, the selected comparator group was comprised of companies belonging to the Ibex-35 stock exchange index since the Red Eléctrica Group belongs to this index and is positioned at about the median thereof for market capitalisation. The results of the analysis show that the remuneration of the company's non-executive directors is in line with the average of the comparator group (Ibex-35).

- A.3 Indicate the amount and nature of the fixed components, broken down, if applicable, of the remuneration for performance of duties of senior management of the Executive Directors, the additional remuneration as Chairman or a member of any board committee, of the per diems for participation on the board and its committees or other fixed remuneration as a director, as well as an estimate of the fixed annual remuneration resulting therefrom. Identify other benefits that are not paid in cash and the basic parameters on the basis of which they are granted.

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|---|
| Explain the fixed components of remuneration |
|---|

A. Executive director

The amount of the annual base salary for the chief executive officer has been determined at EUR 399,170. It will be paid entirely in cash.

B. Non-executive directors

The Company's Articles of Association specify the limit of the overall and annual remuneration for the whole Board, for all items, at an amount equivalent to 1.5% of the company's net profits approved by the General Shareholders' meeting. The previous remuneration is, in all cases, the maximum payable and the Board is responsible for proposing the allotment of its amount among the items specified in the Company's Articles of Association and among the directors, in the manner, at the time and in the proportion specified, bearing in mind the duties and responsibilities assigned to each director, membership on the Board's Committees and other objective circumstances considered relevant.

As a result of the previous analysis mentioned in section A.2., based on the principles for prudence in remuneration and the link of the non-executive directors remuneration with the effective time they spend, with their responsibility and the development of their duties as directors, the Board of Directors has decided, according to the Appointments and Remuneration Committee's proposal, for the financial year 2018, to maintain the same remuneration amounts and elements as those determined for 2017 for the members of the Board of Directors, including the position of (non-executive) chairman of the Board of Directors being determined as follows:

a) Fixed Remuneration: EUR 130,742 per annum per director, to be paid monthly before the fifth (5th) day of the following month.

b) Per diems for attending meetings of the Board of Directors: EUR 1,500 for personal attendance of each director at each of the eleven (11) ordinary meetings contemplated for the year 2018 in the calendar approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the per diem for just cause, a maximum of two (2) times a year. Such amount shall be paid within fifteen (15) days of the meeting being held. The holding of extraordinary meetings of the Board of Directors, in person or electronically, does not result in remuneration in the form of per diems.

c) Chairman of the Board of Directors: EUR 399,170 per annum, to be paid monthly before the fifth (5th) day of the following month. The chairman of the Board will also maintain the annual remuneration established for all directors, as members of the Board of Directors, as "Fixed remuneration" and "Per Diems for attendance at meetings of the Board of Directors".

d) Service on Board of Directors Committees:

- d.1.) EUR 27,900 per annum for each member of the Board Committees, to be paid monthly before the fifth (5th) day of the following month. The above amount per year, regardless of the number of meetings of the Committees held during the year 2018.
- d.2.) EUR 15,000 per annum for each of the chairmen of the Board Committees, to be paid monthly before the fifth (5th) day of the following month. The above amount is per year, regardless of the number of meetings of the Committees held during the year 2018.
- e) Lead Independent Director: EUR 15,000 per annum, to be paid monthly, before the fifth (5th) day of the following month.

In 2018 the company has underwritten civil liability insurance policies to cover third-party claims for possible damages caused by acts or omissions in the exercise of their duties as Board Members.

There are no contracted obligations related to pension commitments for the members of the Board of Directors. Also, it is not provided that the directors receive other categories of remuneration in addition to those described above.

A.4 Explain the amount, nature and main features of the variable components of the remuneration schemes.

In particular:

- Identify each of the remuneration plans of which the directors are beneficiaries, the scope thereof, the date of approval, the date of implementation, the term of validity and the main features. In the case of option plans on shares and other financial instruments, the general features of the plan are to include information regarding the conditions for exercise of the options or financial instruments for each plan.
- Indicate any remuneration under profit-sharing or bonus plans, and the reason it is paid.
- Explain the basic parameters and basis for any annual bonus system.
- The types of directors (Executive Directors, proprietary non- Executive Directors, independent non- Executive Directors and other non- Executive Directors) that are beneficiaries of remuneration schemes or plans that incorporate variable remuneration
- The underlying basis of such variable remuneration schemes or plans, the criteria for evaluation of performance that are used, as well as the components of and methods for evaluation to determine whether or not the evaluation criteria have been met, and an estimate of the absolute amount of the variable remuneration resulting from the current remuneration plan, based on the degree of fulfillment of the hypotheses or objectives taken as a reference.
- If applicable, the information is to include a report on the payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments, if any.

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|--|
| Explain the variable components of the remuneration schemes |
|--|

The only director that receives variable remuneration is the executive director.

i) Annual variable remuneration

The annual variable remuneration for the chief executive officer is based on achieving a combination of predetermined and quantifiable objectives, measured at Group level. The Appointments and Remuneration Committee is responsible for approving the objectives at the beginning of each financial year. The aforementioned Committee approved the objectives and their weightings for the financial year 2018 at its meeting held on 23 January 2018, as explained in this section.

All the objectives are contemplated in the Budget for the financial year 2018, within the 2014-2019 Group's Strategic Plan, approved by the Board of Directors and are as follows:

I- 75% of the incentive depends on the following business objectives, the weightings of which are distributed as follows:

- 80% of the incentive depends on the economic-financial objectives, which measure the Group's capacity to generate profits and are materialised in the following metrics: (i) 40% Consolidated Net Profit of the Red Eléctrica Group; (ii) 40% Return on invested capital (ROIC) of the Red Eléctrica Group, which measures the net operating profit over the invested capital.

- 20% of the incentive depends on aspects linked to the Total Investment in Group's Transport Network and Diversification. The following table details the weightings, the thresholds and the maximums applicable to the mentioned metrics. The information about such assessment will be included in the Annual Report on Remuneration of Directors for the financial year 2018 that will be submitted to the Ordinary General Shareholders' meeting in 2019.

II- The remaining 25% depends on operating objectives linked to the Red Eléctrica Group's business activities. These are disclosed below with their weightings:

(i) Development, efficiency and profitability of the TSO (transmission system operator): 60% of the incentive is linked, among others, to the implementation of efficiency criteria that enable the optimisation of the safety and quality of the electric system operation.

(ii) Growth of the business activities: 22% of the incentive basically depends on the analysis and achievement of new projects that enable the diversification of the Group's traditional businesses.

(iii) People, excellence and innovation: 18% of the incentive is linked, among others, to the deployment of the Group's new Digital Transformation Plan and to the achievement of a series of key projects included in the annual Sustainability Plan and in the environmental Plan.

For the operating objectives linked to the Red Eléctrica Group's business activities, the Appointments and Remuneration Committee may also assess the minimum threshold of individual achievement and determine a maximum level of individual achievement, which could reach a global maximum of 155% in the case of over-achievement. The Appointments and Remuneration Committee will have the level of autonomy required to evaluate the annual degree of achievement of these objectives.

The maximum individual levels of achievement for each objective are the following: Development, efficiency and profitability of the TSO (175%), Growth of the business activities (145%) and People, excellence and innovation (100%).

The amount of the variable remuneration is calculated taking into account the degree of achievement and weighting of each of the objectives and by applying the internal rules and procedures for evaluating objectives, which are determined by the company for its executives.

Under exceptional circumstances, the Appointments and Remuneration Committee may propose adjustments to the variable remuneration to the Board due to internal or external factors. The details of these adjustments will be disclosed, if appropriate, in the relevant annual report on remuneration.

The overall maximum performance of the previous objectives (business and operating) may not exceed 110%.

The target level, which is reached in the case of achieving 100% of the predetermined objectives, will be equivalent to 75% of the annual base salary. The maximum level, which is reached in the case of maximum over-achievement of the predetermined objectives will be equivalent to 82.5% of the annual base salary, corresponding to the overall maximum level of achievement of the objectives (110% of the target level).

75% of the gross annual variable remuneration will be settled in cash and the remaining 25% will be delivered in company shares. In addition, the chief executive officer has undertaken the commitment with the company, while he holds such position, to maintain the ownership of the shares he receives for at least five (5) years.

ii) Multi-year variable remuneration:

The chief executive officer takes part in the multi-year variable remuneration plan in cash offered to executives, included in the Directors' Remuneration Policy and in the Annual Report on Remuneration of Directors, approved by the Ordinary General Shareholders' meeting held in 2016. The plan has a duration of 6 years, in line with the 2014/2019 Strategic Plan of the Red Eléctrica Group, from 1 January 2014 until 31 December 2019.

The right to receive the cash incentive is subject to achieving the targets linked to the Strategic Plan 2014/2019 and to the permanence in the company while the plan is in force. The targets and their weightings are listed below:

(i) 20% of the incentive is linked to extending the business base, mainly international activity, of telecommunications and power storage ("pumping"). The level of investment is considered an indicator to measure this target.

(ii) 25% of the incentive depends on the achievement of the transmission activity targets; among others, number of kilometres of lines and positions commissioned, investment volume and profitability indicators.

(iii) 20% of the incentive is linked to the quality of the system's operation; non-supplied power is considered to measure the same.

(iv) 25% of the incentive is linked to the efficiency of the operations and two metrics are considered: return on invested capital (ROIC) and earnings per share.

(v) The remaining 10% depends on compliance with the Sustainability Plan.

Upon conclusion of the Plan performance period, the Appointments and Remuneration Committee shall conduct, within the first quarter of 2020, an assessment of the level of achievement for each of the targets, and for the Plan as a whole, considering the information provided by the Company, and will propose the incentive levels linked to the level of achievement, according to the performance scales set. In any case, it is established that the average weighted level of achievement of the set of targets must reach, at least, 70%. Otherwise, no right to receive the incentive will arise, regardless of the individual achievement of each target. Likewise, the maximum achievement of the set of targets in the Plan will be 110%, although the average weighted achievement of the targets may be higher.

The target remuneration of the chief executive officer for this element amounts to 1.8 times his base salary, in accordance with the provisions of the approved Executive Directors' Remuneration Policy.

- A.5 Explain the principal features of the long-term savings schemes, including retirement and any other survival benefit, financed in whole or in part by the Company, whether funded internally or externally, with an estimate of the amount thereof or the equivalent annual cost, indicating the type of plan, whether it is a defined contribution or defined benefit plan, the conditions for vesting of the economic rights in favor of directors and compatibility thereof with any kind of compensation for early termination of the contractual relationship between the Company and the director.

Also indicate the contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes.

Explain the long-term savings schemes

The chief executive officer participates in a defined contribution retirement scheme. Red Eléctrica's liability is limited to the realisation of an annual contribution equivalent to 20% of the annual base salary of the chief executive officer.

The scheme covers the following contingencies: retirement, death and permanent disability.

This scheme is funded through an insurance policy underwritten with an external insurer. The benefit consists of the economic right that corresponds to the beneficiary as a consequence of the occurrence of any of the contingencies covered by the scheme.

In case of termination of the relation, the economic rights will consolidate in favour of the chief executive officer, except when a severe negligent conduct has been occurred on his side, in the exercise of his functions, which would have caused damages to the company. The receipt of any severance payment will be compatible with the recognition of the economic right over the retirement scheme in such cases.

- A.6 Indicate any compensation agreed or paid in the event of termination of a director's duties

Explain the compensation

No severance payments are agreed or paid in cases of termination of duties as a non-executive director.

Severance payments are contemplated only in cases of termination of the exercise of the executive functions that, if appropriate, may be performed, as described in following section A.7.

- A.7 Indicate the conditions to apply to the contracts of Executive Directors exercising senior management functions. The report is to include, inter alia, the duration, the limits on amounts of compensation, minimum terms of employment (cláusulas de permanencia), terms of advance notice, as well as payment as a substitute for the aforesaid advance notice, and any other clauses related to hiring bonuses, compensation or golden parachutes for early termination of the contractual relationship between the Company and the executive director. Include, inter alia, noncompetition, exclusivity, minimum terms or loyalty and post-contractual noncompetition clauses or agreements.

Explain the terms of the contracts of the executive directors

The contract governing the chief executive officer's performance of his functions and responsibilities in his relationship with Red Eléctrica is formed under commercial law and includes the clauses

constituting standard practice for this type of contract. The contract has been proposed by the Appointments and Remuneration Committee and approved by the Company's Board of Directors. Without prejudice to the confidentiality obligation expressly established in such contract, the chief executive officer is also bound by the duty of confidentiality established in article 31 of the Board of Directors Regulations, applicable to all directors, in accordance to which directors are to refrain from disclosing the information, data, reports or records to which the director has had access in the performance of his duties. The confidentiality obligation shall survive, even after leaving the position. In his capacity as a director of Red Eléctrica, the chief executive officer has the obligation of not developing activities, as an employed or self-employed, which mean an effective competition, current or potential, with the company on the terms in which such obligation is regulated for directors of the company in article 32 of the Board of Directors Regulations.

In addition, the non-compete obligation is expressly set forth in the contract for a term of two (2) years after his termination, such obligation not giving him a right to post-contractual noncompetition indemnity, as it is deemed to have been remunerated by way of his remuneration set form in the contract.

The contract, following common market practices, contemplates an indemnity equivalent to one year of remuneration in the case of termination of the contractual relation as a result of discretionary dismissal by Red Eléctrica (provided that there is no serious, intentional and culpable conduct of the chief executive officer in the exercise of his functions) with no prior notice from the company being required. The aforesaid indemnity will also apply if the chief executive officer voluntarily resigns due to a serious and culpable breach of the company, or a material modification of the chief executive officer's duties for reasons not attributable to the same.

In the calculation of such indemnity, the base used will be one year's base salary, plus the amount corresponding to the variable remuneration as chief executive officer, calculated considering a 100% achievement of targets.

- A.8 Explain any additional remuneration accrued to directors as consideration for services rendered other than those inherent in the position.

Explain the additional remuneration

There is no additional remuneration accrued by the directors as consideration for services rendered other than those inherent in the position.

- A.9 Indicate any remuneration in the form of advances, loans and guarantees granted, indicating the interest rate, the essential features and the amounts eventually repaid, as well as the obligations assumed on their behalf by way of guarantee.

Explain the advances, loans and guarantees granted

At 31 December 2017, the Balance sheet has no credits, advances granted, or guarantees set up by the company in favour of the chairman of the Board of Directors.

- A.10 Explain the main features of in-kind remuneration

Explain the in-kind remuneration

The chief executive officer is entitled to an allowance in lieu for social benefits, which amounts to EUR 60,000. Such amount may be received in cash or in kind.

The chief executive officer will not receive any other kind of social benefits.

- A.11 Indicate the remuneration earned by a director by virtue of payments made by the listed Company to a third party entity within which the director serves, when the purpose of such payments is to remunerate the director's services within the Company.

Explain the remuneration earned by the director by virtue of payments made by the listed Company to a third party entity within which the director serves

At the date of issue of this Report, no remuneration of this nature has been accrued.

- A.12 Any category of remuneration other than those listed above, of whatever nature and provenance within the group, especially when it may be considered to be a related party transaction or when payment thereof distorts the true and fair view of the total remuneration received by the director.

Explain the other remuneration categories

At the date of issue of this Report, other categories of remuneration in addition to those described in the above-mentioned sections are not considered in the remuneration scheme of the directors.

- A.13 Explain the actions taken by the Company regarding the remuneration system to reduce exposure to excessive risk and to adapt it to the long-term interests, values and objectives of the Company. This if applicable is to include reference to: measures contemplated to ensure that the remuneration policy is responsive to the long-term results of the Company, measures establishing appropriate balance between fixed and variable components of remuneration, measures adopted regarding those categories of personnel the professional activities of which have a material impact on the Company's risk profile, recovery clauses or formulas to allow claims for return of variable components of remuneration based on results when those components of remuneration have been paid based on data the inaccuracy of which is thereafter clearly demonstrated, and measures contemplated for the avoidance of conflicts of interest, if applicable.

Explain the actions taken to reduce risks

A.13.1. The remuneration policy of Red Eléctrica is designed considering the strategy and long-term results of the Company:

- The total compensation of the executive director is comprised of different elements of remuneration, basically consisting of (i) base salary, (ii) short-term variable remuneration and (iii) multi-year variable remuneration. For the executive director, this long-term element has a weighting of 15% of the total remuneration in a scenario of achievement of the objectives at 100% (base salary + annual variable + long-term variable).
- The chief executive officer has undertaken the commitment with the company to maintain the ownership of the shares received as a part of his annual remuneration for, at least, five years.
- The long-term variable remuneration plan is contextualised within a multi-year framework to ensure that the evaluation process is based on long-term results and that takes into account the underlying business cycle of the Company. This remuneration is linked to the objectives established in the 2014/2019 Strategic Plan, aligning the interests of the participants with the Company's strategy.

A.13.2. The Red Eléctrica remuneration policy establishes an appropriate balance between the fixed and variable components of the remuneration:

- The design of the remuneration scheme provides a balanced and efficient relationship between the fixed components and variable components. The proportion of the base salary of the chief executive officer is considered to be sufficient and not excessive, allowing the proportions of the annual variable remuneration as chief executive officer to reach a maximum of 53% of the total remuneration (base salary + maximum annual variable remuneration + maximum long-term variable remuneration).
- The variable components of the remuneration are flexible enough to allow adjustments and in an scenario where the minimum level of achievement of the objectives linked to the variable remuneration is not reached, the executive director will only receive the base salary.
- There is no guaranteed variable remuneration.

Regarding the measures adopted in relation to those categories of personnel whose professional activities have a material impact on the risk profile of the entity:

- The Appointments and Remuneration Committee is responsible for the evaluation and analysis of the compliance of the remuneration policy of the Board and, if appropriate, of the Senior Management's, which is approved by the Board. The Board regulations (www.ree.es) establishes, among the functions of this Committee, the proposal to the Board of the remuneration policy for the Board of Directors and, if appropriate, for the Senior Management, as well as ensuring the observance of the compliance of the approved remuneration policy applicable to the Board of Directors, the executive directors and, if appropriate, to the Senior Management and the rest of the Company's executive team. The professionals whose the activities may have a material impact on the risk profile of the entity are include in these groups.

In addition, the Company's Audit Committee participates in the decision-making process related to the annual variable remuneration of the executive director, by verifying the economic-financial data that may be part of the objectives established in such remuneration, due that is necessary that, first of all,

this committee verifies in advance the results of the Company, which, if appropriate, are considered for the calculation of the corresponding objectives.

A.13.3. Regarding recovery clauses or formulas to claim the return of variable components of the remuneration based on results when those components have been paid according to data which inaccuracy has thereafter been clearly demonstrated, and measures contemplated to avoid conflicts of interest, if appropriate, the following should be considered:

Pursuant to the provisions in the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held in 2016, the Appointments and Remuneration Committee is responsible for proposing to the Board cancelation or refund of the payment of the short- and long-term variable remuneration of the beneficiary or beneficiaries or relevant person or people responsible due to circumstances arising that show that the variable remuneration has been accrued or paid on the basis of inaccurate or erroneous information or data, or the internal corporate regulations or applicable laws have been infringed, which are subsequently proven.

In addition, the Appointments and Remuneration Committee will assess whether, due to exceptional circumstances of this kind, it could even be proposed to the Board of Directors the termination of the contractual relation with the beneficiary or beneficiaries or relevant person or people responsible. Under exceptional circumstances, the Appointments and Remuneration Committee may propose adjustments to the variable remuneration to the Board due to internal or external factors. The details of these adjustments will be disclosed, if appropriate, in the relevant annual report on remuneration.

B REMUNERATION POLICY CONTEMPLATED FOR FUTURE YEARS

Repealed

C OVERALL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE MOST-RECENTLY CLOSED PERIOD

- C.1 Explain in a summary manner the main features of the remuneration categories and structure of the remuneration policy applied during the most-recently closed period, which results in the details of individual remuneration earned by each of the directors reflected in section D of this report, and summarise the decisions taken by the Board for application of the aforesaid categories.

Explain the remuneration categories and structure of the remuneration policy applied during the period

During the 2017, the modification of the remuneration policy approved by the Ordinary General Shareholders' meeting held in 15 April 2016 was applied.

Below the remuneration accrued by the chief executive officer in the financial year 2017 is detailed:

a) Annual base salary: The base salary of the chief executive officer for 2017 amounted to EUR 399,170.

b) Annual variable remuneration: The chief executive officer has been granted a target annual variable remuneration equivalent to 75% of his base salary, which is reached in the case of achieving 100% of the objectives predetermined by the Appointments and Remuneration Committee at the beginning of the year, and which can reach up to a maximum level of 82.5% of his base salary.

The Appointments and Remuneration Committee, at its meeting of 23 January 2017, established the objectives and their weightings for the determination of the variable remuneration of the chief executive officer for the year 2017. These objectives were described in detail in the Annual Report on Remuneration of Directors approved at the Annual General Shareholders' meeting held on 2017. The aforementioned Committee have conducted a quarterly performance monitoring and at the end of the financial year, the Committee has carried out a process to assess its achievement, where it has been supported by the Economic-Financial Corporate Management, responsible for the Group's management control and which has provided information about the Company's and the consolidated Group's audited results. In such assessment, the Committee has also considered the possible impact of the objectives in the long term and any risk associated to them.

The annual variable remuneration for the chief executive officer, established for 2017, is based on achieving a combination of business objectives, quantitative and qualitative, measured at the Group level –which weighs 75% of his total annual variable amount- as well as to the fulfilment of the operational objectives linked to Red Eléctrica Group's business activities–which weighs 25% of his total annual variable amount-.

To determine the level of achievement and the amount of the annual variable remuneration, the Appointments and Remuneration Committee considered the following factors:

1. The book figures give a consolidated "Net Profit for the Red Eléctrica Group" in the financial year 2017 of EUR 669.8 million, which implies a target achievement of 100%.
2. The "Return on Invested Capital (ROIC) for Red Eléctrica Group", measured as the net operating profit compared with the capital employed in the financial year 2017, has reached 9.8%, which entails a degree of target achievement of 100%.
3. The "Total Investment in Transport Network and Diversification of the Red Eléctrica Group" has reached EUR 609 million, which entails a degree of target achievement of 63.92%.

After assessing the level of achievement of the three previous objectives, the Appointments and Remuneration Committee has considered that the degree of weighted achievement for these business objectives is 89.18%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2017 in connection to the operating objectives linked to the Red Eléctrica Group's business activities, the Appointments and Remuneration Committee took into account the following factors:

1. "Development, efficiency and profitability of the TSO" ("Transmission System Operator"): the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 118.69%.
 2. "Growth of business activities": the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.
 3. "Excellence and innovation": the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 140%.
 4. "Sustainability": the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.
- After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee has considered an overall achievement of operating objectives linked to the Red Eléctrica Group's business activities of 117.03%.

Based on the foregoing, the Appointments and Remuneration Committee has considered an overall achievement of all the objectives –both, the business and the operating objectives linked to the Group's business activities- of 96.14%. Therefore, the annual variable remuneration for the chief executive officer in 2017 amounted to EUR 287,822 (72.1% of the gross annual base salary).

75% of the gross annual variable remuneration (EUR 215,866) will be settled in cash and the remaining 25% (EUR 71,956) will be delivered in shares of the company, equivalent to 18% of the annual base salary. In addition, the chief executive officer has undertaken the commitment with the company, while he holds such position, to maintain the ownership of the shares he receives for at least five years.

The following company shares, in concept of annual variable remuneration, will be delivered on the date that the delivery is effective for all employees, regularly on the last quarter of year 2018, pursuant to the delivery of shares program for employees. On that date, the purchase price of the corresponding shares will be recognised, according to the stock exchange listing.

At 31 December 2017 once the 25% of his variable remuneration, corresponding to the 2016 financial year, was received and materialized in company shares, the chief executive officer holds 5,965 shares, equivalent to 0.0011% of the share capital.

c) Multi-year variable remuneration: Compliance with the director's remuneration plan for the 2014-2019 period, in which the chief executive officer participates, is linked to the achievement of the targets established in the Group's Strategic Plan for such period and, additionally, to the fulfilment of certain conditions. The fundamental terms and conditions of the aforementioned plan have been explained in detailed in the A.4. section.

d) Social benefits and other remuneration: From 1 January 2017 the chief executive officer participates in a defined contribution retirement scheme. The commitment of Red Eléctrica is limited to the realisation of an annual contribution equivalent to 20% of the annual base salary of the chief executive officer. The amount of the contribution made in 2017 by the company and the accumulated funds, as of 31 December 2017, amounted to EUR 79,834.

The chief executive officer has received an allowance in cash in lieu of social benefits, which amounts to EUR 60,000.

At 31 December 2017, the Balance sheet has no credits, advances granted, or guarantees set up by the company in favour of the chief executive officer.

In respect of non-executive directors, the structure and remuneration elements of the remuneration policy implemented in 2017 are stated below:

In the year 2017, the amount of overall remuneration of the Board of Directors amounted to EUR 2,448 thousand (EUR 2,341 thousand in 2016). The increase with regard to the previous year is due to essentially the inclusion of the remuneration of the chairman of the Board of Directors for 2017, as the remuneration of the chairman of the Board was included in "Remuneration of the Directors due to their

executive status” during the period 1 January to 14 April 2016, date on which the chief executive officer assumed full executive functions.

According to a proposal made by the Appointments and Remuneration Committee, the Board of Directors decided that, for the financial year 2017, the remuneration amounts and components mentioned before for the members of the Board of Directors would remain the same as for 2016:

- a) Fixed Remuneration: EUR 130,742 per annum per director.
- b) Per diems for attending meetings of the Board of Directors: EUR 1,500 for personal attendance of each director at each of the eleven (11) ordinary meetings contemplated for 2017 in the calendar approved by the Board of Directors, the total amounting to EUR 16,500. Per diems will not be payable for Extraordinary Board of Directors’ meetings, even though none were held in 2017.
- c) Chairman of the Board of Directors: EUR 399,170 per annum. Throughout the whole financial year 2017, the chairman of the Board also continued to be paid the annual remuneration determined for all the directors, as members of the Board of Directors, for “Fixed Remuneration” and “Per diems Attending the Board of Directors’ meetings”.

The contract of the chairman of the Board of Directors, for his executive duties until the Ordinary General Shareholders’ Meeting held in April 2016, according to common market practices, includes severance payment equivalent to one year’s remuneration in the case of termination of the contractual relation due to dismissal by Red Eléctrica. On the date the transitory period ended (Ordinary General Shareholders’ Meeting held on 15 April 2016) according to a decision adopted by the company, the commercial contract of the chairman of the Board of Directors (with executive duties up to such date) was automatically terminated, when he ceased in the exercise of his executive duties. At such time, the aforementioned severance pay was accrued in his favour, although this will not be payable until the chairman no longer holds office as director of the company for any reason and therefore, no longer maintains any corporate or commercial relation or of any other kind with the company.

d) Service on Board of Directors Committees

- EUR 27,900 per annum for each member of the Board’s Committees.
- EUR 15,000 per annum for each of the chairmen of the Board’s Committees.

e) Lead Independent Director: EUR 15,000 per annum.

In 2017, the company has underwritten civil liability insurance policies to cover third-party claims for possible damages caused by acts or omissions in the exercise of their duties of Board Members.

D DETAILS OF REMUNERATION INDIVIDUALLY EARNED BY EACH OF THE DIRECTORS

| Name | Type | Earned in 2017 |
|--|----------------|--------------------------------|
| JOSE LUIS FEITO HIGUERUELA | Independent | From 01/01/2017 to 31/12/2017. |
| MARÍA DE LOS ÁNGELES AMADOR MILLÁN | Independent | From 01/01/2017 to 31/03/2017. |
| FERNANDO FERNANDEZ MENDEZ DE ANDÉS | Proprietary | From 01/01/2017 to 31/12/2017. |
| MARIA JOSE GARCIA BEATO | Independent | From 01/01/2017 to 31/12/2017. |
| CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE | Independent | From 01/01/2017 to 31/12/2017. |
| ANTONIO GÓMEZ CIRIA | Independent | From 01/01/2017 to 31/12/2017. |
| SANTIAGO LANZUELA MARINA | Proprietary | From 01/01/2017 to 31/12/2017. |
| SOCORRO FERNANDEZ LARREA | Independent | From 01/01/2017 to 31/12/2017. |
| MERCEDES REAL RODRIGÁLVAREZ | Proprietary | From 31/10/2017 to 31/12/2017. |
| JUAN FRANCISCO LASALA BERNAD | Executive | From 01/01/2017 to 31/12/2017. |
| JOSÉ FOLGADO BLANCO | Other External | From 01/01/2017 to 31/12/2017. |
| ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO | Independent | From 31/01/2017 to 31/12/2017. |
| ALBERTO FRANCISCO CARBAJO JOSA | Independent | From 31/03/2017 to 31/12/2017. |
| JOSE ANGEL PARTEARROYO MARTIN | Proprietary | From 01/01/2017 to 16/10/2017. |

D.1 Complete the following tables regarding the individual remuneration of each of the directors (including remuneration for performance of executive duties) earned during the period.

a) Remuneration earned within the reporting Company:

i) Cash remuneration (€ 000s)

| Name | Salary | Fixed remuneration | Per diems | Short-term variable remuneration | Long-term variable remuneration | Remuneration for service on Board committees | Compensations | Other categories | Total 2017 | Total 2016 |
|--|--------|--------------------|-----------|----------------------------------|---------------------------------|--|---------------|------------------|------------|------------|
| JOSÉ FOLGADO BLANCO | 0 | 530 | 16 | 0 | 0 | 0 | 0 | 0 | 546 | 575 |
| JUAN FRANCISCO LASALA BERNAD | 399 | 131 | 16 | 216 | 0 | 0 | 0 | 141 | 903 | 750 |
| MARIA DE LOS ÁNGELES AMADOR MILLÁN | 0 | 33 | 4 | 0 | 0 | 7 | 0 | 0 | 44 | 175 |
| FERNANDO FERNANDEZ MENDEZ DE ANDES | 0 | 131 | 16 | 0 | 0 | 28 | 0 | 0 | 175 | 175 |
| CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE | 0 | 131 | 16 | 0 | 0 | 43 | 0 | 0 | 190 | 190 |
| MARIA JOSE GARCIA BEATO | 0 | 131 | 16 | 0 | 0 | 28 | 0 | 0 | 175 | 175 |
| SOCORRO FERNANDEZ LARREA | 0 | 131 | 16 | 0 | 0 | 28 | 0 | 0 | 175 | 175 |
| ANTONIO GÓMEZ CIRIA | 0 | 131 | 16 | 0 | 0 | 30 | 0 | 0 | 177 | 175 |
| JOSE LUIS FEITO HIGURUELA | 0 | 131 | 16 | 0 | 0 | 42 | 0 | 0 | 189 | 190 |
| ARSENIO FERNÁNDEZ DE MESA DÍAZ DEL RÍO | 0 | 121 | 16 | 0 | 0 | 19 | 0 | 0 | 156 | 0 |
| ALBERTO FRANCISCO CARBAJO JOSA | 0 | 98 | 12 | 0 | 0 | 19 | 0 | 0 | 129 | 0 |
| JOSE ANGEL PARTEARROYO MARTIN | 0 | 103 | 12 | 0 | 0 | 22 | 0 | 0 | 137 | 173 |
| MERCEDES REAL RODRIGÁLVAREZ | 0 | 22 | 5 | 0 | 0 | 5 | 0 | 0 | 32 | 0 |
| SANTIAGO LANZUELA MARINA | 0 | 131 | 16 | 0 | 0 | 28 | 0 | 0 | 175 | 175 |

ii) Remuneration schemes based on shares

| JUAN FRANCISCO LASALA BERNAD Remuneration Scheme: 2016 Annual Variable Remuneration | | | | | | | | | | | | |
|---|--|-----------------|--|---------------|-----------------|---|-------------------------------|---|-----------------|-----------------|---------------|--|
| Date of implementation | Ownership of options at opening of financial year 2017 | | | | | Options assigned during financial year 2017 | | | | | | |
| | No. options | Affected shares | Exer. price (€) | Exercise term | | No. options | Affected shares | Exer. price (€) | Exercise term | | | |
| 15/11/2017 | 0 | 0 | 0.00 | - | | 0 | 3,537 | 0.00 | - | | | |
| Conditions: - | | | | | | | | | | | | |
| Shares delivered during financial year 2017 | | | Options exercised in the financial year 2017 | | | | Op. expired and not exercised | Options at the end of the financial year 2017 | | | | |
| Nº of shares | Price | Amount | Exer. price (€) | No. options | Affected shares | Gross Profit (m€) | No. options | No. options | Affected shares | Exer. price (€) | Exercise term | |
| 3,537 | 18.00 | 64 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | - | |
| Other requirements for exercise: - | | | | | | | | | | | | |

iii) Long-term savings schemes

| Name | Contribution during financial year by Company (€ 000s) | | Amount of funds accumulated (€ 000s) | |
|------------------------------|--|----------|--------------------------------------|----------|
| | F/Y 2017 | F/Y 2016 | F/Y 2017 | F/Y 2016 |
| JUAN FRANCISCO LASALA BERNAD | 79,834 | 0 | 79,834 | 0 |

iv) Other benefits (€ 000s)

| JOSÉ FOLGADO BLANCO | | | |
|---|-----------------|---|------------------------------------|
| Remuneration in the form of advances and loans granted | | | |
| Interest rate of the transaction | | Essential features of the transaction | Amounts ultimately returned |
| 0.00 | | None | None |
| Life insurance premiums | | Guarantees established by the Company in favour of directors | |
| F/Y 2017 | F/Y 2016 | F/Y 2017 | F/Y 2016 |
| 0 | 10 | None | None |

| JUAN FRANCISCO LASALA BERNAD | | | |
|---|-----------------|---|------------------------------------|
| Remuneration in the form of advances and loans granted | | | |
| Interest rate of the transaction | | Essential features of the transaction | Amounts ultimately returned |
| 0.00 | | None | None |
| Life insurance premiums | | Guarantees established by the Company in favour of directors | |
| F/Y 2017 | F/Y 2016 | F/Y 2017 | F/Y 2016 |
| 0 | 2 | None | None |

b) Remuneration earned by directors of the Company for membership on boards of other group companies:

i) Cash remuneration (€ 000s)

| Name | Salary | Fixed remuneration | Per diems | Short-term variable remuneration | Long-term variable remuneration | Remuneration for membership on Board committees | Compensations | Other categories | Total 2017 | Total 2016 |
|--|--------|--------------------|-----------|----------------------------------|---------------------------------|---|---------------|------------------|------------|------------|
| JOSÉ FOLGADO BLANCO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| JUAN FRANCISCO LASALA BERNAD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MARIA DE LOS ÁNGELES AMADOR MILLÁN | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FERNANDO FERNANDEZ MENDEZ DE ANDES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MARIA JOSE GARCIA BEATO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SOCORRO FERNANDEZ LARREA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ANTONIO GÓMEZ CIRIA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SANTIAGO LANZUELA MARINA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| JOSE LUIS FEITO HIGURUELA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ARSENIO FERNÁNDEZ DE MESA DÍAZ DEL RÍO | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ALBERTO FRANCISCO CARBAJO JOSA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| JOSE ANGEL PARTEARROYO MARTIN | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MERCEDES REAL RODRIGÁLVAREZ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

ii) Remuneration schemes based on shares

iii) Long-term savings schemes

c) Summary of remuneration (€ 000s):

The summary must include the amounts corresponding to all remuneration categories included in this report that have been earned by the director, in thousands of euros.

In the case of long-term savings schemes, the report is to include the contributions to or funding of this kind of scheme:

| Name | Remuneration earned in the Company | | | | Remuneration earned in group companies | | | | Totals | | |
|--|------------------------------------|--------------------------|-----------------------------------|-------------------------|--|----------------------------|-----------------------------------|-----------------------|--------------|--------------|---|
| | Total cash remuneration | Amount of shares granted | Gross profit on options exercised | 2017 Total from Company | Total cash remuneration | Amount of shares delivered | Gross profit on options exercised | 2017 Total from group | 2017 Total | 2016 Total | Contribution to savings schemes during period |
| JOSÉ FOLGADO BLANCO | 546 | 0 | 0 | 546 | 0 | 0 | 0 | 0 | 546 | 575 | 0 |
| JUAN FRANCISCO LASALA BERNAD | 903 | 64 | 0 | 967 | 0 | 0 | 0 | 0 | 967 | 750 | 80 |
| MARIA DE LOS ÁNGELES AMADOR MILLÁN | 44 | 0 | 0 | 44 | 0 | 0 | 0 | 0 | 44 | 175 | 0 |
| FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS | 175 | 0 | 0 | 175 | 0 | 0 | 0 | 0 | 175 | 175 | 0 |
| CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE | 190 | 0 | 0 | 190 | 0 | 0 | 0 | 0 | 190 | 190 | 0 |
| MARIA JOSE GARCIA BEATO | 175 | 0 | 0 | 175 | 0 | 0 | 0 | 0 | 175 | 175 | 0 |
| SOCORRO FERNANDEZ LARREA | 175 | 0 | 0 | 175 | 0 | 0 | 0 | 0 | 175 | 175 | 0 |
| ANTONIO GÓMEZ CIRIA | 177 | 0 | 0 | 177 | 0 | 0 | 0 | 0 | 177 | 175 | 0 |
| SANTIAGO LANZUELA MARINA | 175 | 0 | 0 | 175 | 0 | 0 | 0 | 0 | 175 | 175 | 0 |
| JOSE LUIS FEITO HIGURUELA | 189 | 0 | 0 | 189 | 0 | 0 | 0 | 0 | 189 | 190 | 0 |
| ARSENIO FERNÁNDEZ DE MESA DÍAZ DEL RÍO | 156 | 0 | 0 | 156 | 0 | 0 | 0 | 0 | 156 | 0 | 0 |
| ALBERTO FRANCISCO CARBAJO JOSA | 129 | 0 | 0 | 129 | 0 | 0 | 0 | 0 | 129 | 0 | 0 |
| JOSE ANGEL PARTEARROYO MARTIN | 137 | 0 | 0 | 137 | 0 | 0 | 0 | 0 | 137 | 173 | 0 |
| MERCEDES REAL RODRIGÁLVAREZ | 32 | 0 | 0 | 32 | 0 | 0 | 0 | 0 | 32 | 0 | 0 |
| TOTAL | 3,203 | 64 | 0 | 3,267 | 0 | 0 | 0 | 0 | 3,267 | 2,928 | 80 |

D.2 Report on the relationship between remuneration obtained by directors and the results or other measures of profitability of the entity, if applicable explaining how the changes in profitability of the Company may have influenced in changing the remuneration of directors.

Regarding the annual variable remuneration of the chief executive officer, in the process of evaluation of achievement of business objectives undertaken by the Committee on the basis of the audited results for the complete financial year 2017, the following factors have been taken into account:

1. The book figures gives a consolidated “Net Profit for the Red Eléctrica Group” in the financial year 2017 of EUR 669.8 million, which implies a target achievement of 100%.
2. The “Return on Invested Capital (ROIC) for Red Eléctrica Group”, measured as the net operating profit compared with the capital employed in the financial year 2017, has reached 9.8%, which entails a degree of target achievement of 100%.
3. The “Total Investment in Transport Network and Diversification of the Red Eléctrica Group” has reached EUR 609 million, which entails a degree of target achievement of 63.92%.

After assessing the level of achievement of the three previous objectives, the Appointments and Remuneration Committee has considered that the degree of weighted achievement for these business objectives is 89.18%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2017 in connection to the operating objectives linked to the Red Eléctrica Group’s business activities, the Appointments and Remuneration Committee took into account the following factors:

1. “Development, efficiency and profitability of the TSO” (“Transmission System Operator”): the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 118.69%.
2. “Growth of business activities”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.
3. “Excellence and innovation”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 140%.
4. “Sustainability”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 100%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee has considered an overall achievement of operating objectives linked to the Red Eléctrica Group’s business activities of 117.03%.

Based on the foregoing, the Appointments and Remuneration Committee has considered a an overall achievement of all the objectives –both, the business and the operating objectives linked to the Group’s business activities- of 96.14%. Therefore, the annual variable remuneration for the chief executive officer in 2017 amounted to EUR 287,822 (72.1% of the gross annual base salary).

75% of the gross annual variable remuneration (EUR 215,866) will be settled in cash and the remaining 25% (EUR 71,956) will be delivered in shares of the company, equivalent to 18% of the annual base salary. In addition, the chief executive officer has undertaken the commitment with the company, while he holds such position, to maintain the ownership of the shares he receives for at least five years.

The corresponding company shares, in concept of annual variable remuneration, will be delivered on the date that the delivery is effective for all employees, regularly on the last quarter of year 2018, pursuant to the delivery of shares program for employees. On that date, the purchase price of the corresponding shares will be recognised, according to the stock exchange listing.

D.3 Report on the result of the advisory vote of the General Meeting on the annual report and remuneration for the prior period, indicating the number of negative votes, if any:

| | Number | % of the total |
|-------------------|---------------|-----------------------|
| Votes cast | 314,538,974 | 58.37% |

| | Number | % of the total |
|----------------------|---------------|-----------------------|
| Votes against | 2,216,569 | 0.70% |
| Votes for | 203,251,123 | 64.62% |
| Abstentions | 109,071,282 | 34.68% |

E OTHER INFORMATION OF INTEREST

If there is any relevant aspect of director's remuneration that it has not been possible to include in the other subsections of this report, but that it is necessary to include in order to set forth more complete and reasoned information regarding the remuneration practices and structure of the Company as regards its directors, briefly explain it.

- In relation to subsection A.2.2. Remuneration Committee: Mandate

In 2017, the Appointments and Remuneration Committee held eleven (11) meetings. The Board is informed of the meetings of the Committee, and upon conclusion of the meeting, the documentation discussed during the same is made available to the Board, through the Director's portal; and the minutes of meetings held are drawn up and, once approved, are made available to all the directors.

According to the calendar schedule set for the financial year 2018, the Appointments and Remuneration Committee intended to hold eleven (11) ordinary meetings in the financial year, without prejudice to the possibility of holding extraordinary meetings at any time during such period.

During the 2017 and 2018 financial years, up to the date of approval of this report, the most important actions taken by the Appointments and Remuneration Committee, in matters of remuneration, have been the following:

- Evaluation of the achievement of the objectives linked to the variable remuneration of the chief executive officer, the executive chairman (for his executive duties until the 2016 OGSM) and the senior executives for 2016.
- Approval of the objectives linked to the variable remuneration of the chief executive officer and the senior executives for 2017.
- Monitoring of the objectives linked to the chief executive officer's and senior executives' variable remuneration for 2017.
- Evaluation of the achievement of the objectives linked to the chief executive officer's variable remuneration for 2017.
- Evaluation of performance of the company, managerial and of the Management Committee, linked to the senior executives' variable remuneration for 2017.
- Approval of the objectives linked to the chief executive officer's and senior executives' variable remuneration for 2018.
- Proposals for the Board Remuneration and the Annual Reports on Remuneration of Directors made in 2017 and 2018 to be submitted to the Board and to be subsequently submitted to the Ordinary General Shareholders' Meeting
- Analysis of the implementation of the chief executive officer's retirement scheme approved by the Ordinary General Shareholders' meeting held on 2017.

- In relation to subsection A.2.3. Remuneration Committee: Composition

In 2017, the composition of the Committee has undergone the following variations:

At the Board of Directors' meeting held on 25 April 2017, the proprietary director, Mr. Santiago Lanzuela Marina, and the independent director, Mr. Alberto Francisco Carbajosa Josa, were appointed as new members of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., for the following 3 years as foreseen in the Board of Directors Regulations, in order to cover the two existing vacancies in the Appointments and Remuneration Committee as a result of the resignations of the directors Mr. Agustín Conde Bajén and Ms. M^a de los Ángeles Amador Millán.

At the Board of Directors' meeting held on 31 October 2017, Ms. Mercedes Real Rodríguez was appointed proprietary director of Red Eléctrica Corporación, S.A. by cooptation, on behalf of the Sociedad Estatal de Participaciones Industriales (SEPI), in order to cover the existing vacancy in the Appointments and Remuneration Committee as a result of the resignation of the proprietary director on behalf of SEPI, Mr. Jose Angel Partearroyo Martín, which was accepted by the Board of Directors, in the meeting held on 31 October 2017.

In this same meeting, the Board of Directors appointed the independent director, Mr. Jose Luis Feito Higuera as member of the Appointments and Remuneration Committee of Red Eléctrica Corporación,

S.A., as a replacement for the vacancy arising by the independent director, Ms. Socorro Fernández Larrea, having resigned as member of such Committee and joined the Auditing Committee.

The Appointments and Remuneration Committee of the Company, at the meeting held on 27 November 2017, appointed the independent director, Mr. Jose Luis Feito Higuera, as its chairman.

With such appointments, the Appointments and Remuneration Committee maintains its composition of five (5) members, being formed by three (3) independent directors and two (2) proprietary director.

- In relation to subsection A.2.4: Remuneration Committee: External Advisers.

In 2017 and 2018 –until the date this report is approved- Willis Towers Watson, an independent adviser specialised in directors' and executives' remuneration, has rendered its services to the Committee for the following issues: benchmarking of the chairman of the Board of Directors and of the chief executive officer, benchmarking of the non-executive directors and, lastly, assistance in preparing the Annual Report on Remuneration of Directors.

In respect of the annual variable remuneration accrued by the chief executive officer in the financial year 2017, which amounts to EUR 287,822, the table included in section D.1.a) which includes accrued remuneration in cash, reflects 75% of the total accrued amount (EUR 215,866), which is paid in cash. The remaining 25% (EUR 71,956) will be delivered in shares of the company on the date that the delivery is effective for all employees, regularly on the last quarter of the year (2018), pursuant to the delivery of shares program for employees. On that date the purchase price of the corresponding shares will be recognised, according to the stock exchange listing, and will be disclosed in the Annual Report on Remuneration of Directors to be approved in 2019.

In relation to subsection D.1.c), it should be noted that the information included in the company's Annual Accounts for the financial year 2017, in relation to the remunerations accrued in 2016, shows an additional item named as "Other members of the Board" who ceased during the year 2016 (and thus are not included in the list of directors of the Company in 2017 included in the section D of this report) and for whom aggregate remuneration amounts to EUR 159 thousand. The information for the year 2016 in relation to those members of the Board, was individually presented in the company's Annual Report on Remuneration Report for the year 2016, which was submitted to the CNMV and is available in the corporate website. Therefore, the total remuneration accrued by the members of the Board of Directors in the year 2016, in thousand euros, amount to 3,143.

In relation to subsection D.3: Regarding the 34.677% abstentions, 34.41% correspond to the vote of Sociedad Estatal de Participaciones Industriales (SEPI).

This annual remuneration report was approved by the Board of Directors of the Company at its meeting of 16/02/2018.

State whether there are any directors who voted against or abstained from voting to approve this Report.

Yes

No

| Name or corporate name of the directors who have not approved the present report | Reasons (against, abstention, not attending) | Explain the reasons |
|--|--|--|
| MERCEDES REAL RODRIGÁLVAREZ | ABSTENTION | Considering his explanation, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake. |
| SANTIAGO LANZUELA MARINA | ABSTENTION | Considering his explanation, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake. |
| FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS | ABSTENTION | Considering his explanation, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake. |