



Appointments and Remuneration Committee

14 February 2019

Amendment of Article 20 (“Board of Directors”) of the Articles of Association in relation to the remuneration of the Board of Directors



AMENDMENT OF ARTICLE 20 (“BOARD OF DIRECTORS”) OF THE ARTICLES OF ASSOCIATION IN RELATION TO THE REMUNERATION OF THE BOARD OF DIRECTORS (Point Seven section One of the Agenda of the General Meeting)

I. EXPLANATORY REPORT BY THE BOARD OF DIRECTORS ON POINT SEVEN SECTION ONE OF THE AGENDA OF THE GENERAL MEETING REGARDING AMENDMENT OF THE ARTICLES OF ASSOCIATION.

1. Purpose of the report

The Board of Directors of Red Eléctrica Corporación, S.A. (hereinafter, the “Company”), at its meeting of 19 February 2019, resolved to submit to the Annual General Meeting of Shareholders, under point Seven section One of the Agenda, an amendment to Article 20 of the Articles of Association (“Board of Directors”).

This Report is issued by the Board of Directors of the Company in compliance with Article 286 of the Spanish Companies Act (Ley de Sociedades de Capital — “LSC”), which requires that for the articles of association to be amended the directors of public limited companies must draw up the full text of the amendment they are proposing and issue a written report explaining the reasons for the amendment.

According to Article 287 of the Spanish Companies Act, the notice of call of the General Meeting must state with due clarity the points that are to be amended and the right of all shareholders to examine, at the registered office, the full text of the proposed amendment and the report thereon, as well as to request to be given or sent a copy of the documents free of charge. These documents must also be published on an uninterrupted basis on the Company's website as from the time the notice of the call of the General Meeting is published, in accordance with the terms of Article 518 LSC.

2. Explanation of the amendments to the articles of association

The amendment of the Articles of Association that is submitted to the Annual General Meeting of Shareholders for approval is intended, first, to bring the regulations on director remuneration up to date, eliminating possible systems of remuneration that have not been used in the past and providing greater detail on the remuneration payable to all the directors for their directorships per se (i.e., for their non-executive functions) and to the executive directors; and, second, to expressly provide for the payment or reimbursement of expenses incurred in the performance of their duties.

Thus, apart from other terminological or clarifying nuances:

- The new wording eliminates the reference to profit-sharing as one of the systems of remuneration for directorships, given that this system was not being used by the Company.

Notwithstanding the above, the new wording maintains —with some mere formal changes from the previous wording— the mention that the maximum amount of the aggregate annual remuneration for the entire Board for all items, in respect



of their directorships, shall be approved by the Company in General Meeting and shall in no event surpass an amount equal to 1.5 percent of the Company's net profit approved by the General Meeting, and this figure will remain in force insofar as a change is not approved. This makes it clearer that said maximum amount does not imply remuneration in the form of a share in profits, but just a mechanism stipulated in the articles of association for capping the remuneration receivable by directors for their directorships by reference to the profit figure.

- There is further disclosure of the different items for which directors are remunerated as members of the Board of Directors, that is, for their non-executive functions as directors.
- There is further disclosure of the remuneration payable to executive directors.
- The new wording expressly provides for payment or reimbursement of reasonable and duly justified expenses incurred in the performance of their office.

3. Proposed amendment

Consequently, it is proposed that Article 20 of the Articles of Association, "Board of Directors", be amended henceforth to read as shown below, accompanied by the previous wording:

Previous wording	Proposed new wording
<p>Article 20. Board of Directors</p> <p>The Board of Directors shall be formed by at least nine (9) and not more than thirteen (13) members.</p> <p>Directors will be designated by the General Meeting of Shareholders or, if a vacancy arises in advance, the Board will fill it by co-optation. The General Meeting of Shareholders shall set the final number of Directors within the aforesaid maximum and minimum limits.</p> <p>When selecting the Directors, regard shall be had to the Company's capital composition and structure. It shall be sought to have non-executive Directors (independent, proprietary and other external directors) represent a broad majority. In any case, the Board shall be composed in such a way as to ensure that the capital stock is most suitably represented.</p> <p>The Directors appointed shall hold office for four years and may be reappointed indefinitely, notwithstanding the power of</p>	<p>Article 20. Board of Directors</p> <p>The Board of Directors shall be formed by at least nine (9) and not more than thirteen (13) members.</p> <p>Directors will be designated by the General Meeting of Shareholders or, if a vacancy arises in advance, the Board will designate it by co-optation. The General Meeting of Shareholders shall set the final number of Directors within the aforesaid maximum and minimum limits.</p> <p>When selecting the Directors, regard shall be had to the company's capital composition and structure. It shall be sought to have non-executive Directors (independent, proprietary and other external directors) represent a broad majority. In any case, the Board shall be composed in such a way as to ensure that the capital stock is most suitably represented.</p> <p>The Directors appointed shall hold office for four years and may be reappointed indefinitely, notwithstanding the power of</p>



the General Meeting of Shareholders to remove them at any time.

Directors need not be shareholders of the company. Both individuals and legal entities may be appointed as Directors.

Directors shall be elected in observance of Articles 243, 244 and 529 decies of the Spanish Companies Act and other supplemental provisions.

The Appointments and Remuneration Committee will propose the appointment or re-election of independent Directors. The Board will be in charge of proposing the appointment of all other Directors, subject to a prior opinion from the Appointments and Remuneration Committee. In any case, a proposed appointment or re-election of any Director will include an explanatory report from the Board, appraising the competence, experience and merits of the candidate, which will be attached to the minutes of the General Meeting or Board Meeting.

The provisions of this article will also apply to any individuals designated as representatives of a legal entity appointed as a Director. Any proposed representative for a legal entity must be examined by the Appointments and Remuneration Committee.

The position of Director of the company cannot be held by persons who are in a conflict of interest according to the Law.

The remuneration of the members of the Board of Directors as such shall consist of a fixed monthly allotment, per diems for the attendance of meetings of the management bodies and a share in the Company's profit. The maximum overall annual compensation for the entire Board and for all the foregoing items shall be approved by the General Meeting and may in no case exceed 1.5% of the Company's net profit, approved by the Shareholders Meeting; this figure will remain in force insofar as a change is not approved. The foregoing compensation is, in all cases, a maximum figure and the Board itself shall

the General Meeting of Shareholders to remove them at any time.

Directors need not be shareholders of the company. Both individuals and legal entities may be appointed as Directors.

Directors shall be elected in observance of Articles 243, 244 and 529 decies of the Spanish Companies Act and of other supplemental provisions.

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The provisions of this article will also apply to any individuals designated as representatives of a legal entity appointed as a Director. Any proposed representative for a legal entity must be examined by the Appointments and Remuneration Committee.

The position of Director of the company cannot be held by persons who are in a conflict of interest according to the Law.

The remuneration of the members of the Board of Directors as such (~~for their non-executive functions~~) shall consist of: a fixed ~~monthly~~annual allotment; ~~per diems for the attendance~~a compensation for attending Board of Directors meetings~~management bodies and a share in the Company's profit~~; and a sum for membership in Board of Directors committees. In addition, the Chairman of the Board, the Chairs of Board committees and the Lead Independent Director shall be assigned supplementary remuneration for those functions. The maximum overall annual compensation for the entire Board and for



be in charge of allocating its amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as the Board determines, based on the tasks and responsibilities assigned to each Director, any membership of Board committees and other objective circumstances deemed relevant.

Pursuant to Article 218 of the Spanish Companies Act, maximum compensation in the form of a share in profit will also be 1.5% of the net profit and may only be received by Directors after the provisions to the legal and by-law reserves have been covered and the shareholders have been recognised a dividend of not less than 4% of the face value of the shares.

Compensation consisting of the award of shares or stock options or compensation linked to the share value shall require a resolution of the General Meeting of Shareholders. This resolution will include the maximum number of shares that may be allotted during each financial year to this remuneration system, the price for exercising the options and their calculation system, the share value taken as a reference and the term of this compensation system.

The compensation stipulated in this Article shall be compatible with and independent of salaries, wages, severance payments, pensions or compensation of any kind established generally or individually for members of the Board of Directors who perform executive tasks. All items for which these Directors may obtain remuneration for performance of executive tasks, including, if applicable, any future indemnification for early discharge from said tasks and amounts payable by

all the foregoing items shall be approved by the General Meeting and may in no case exceed an amount equal to 1.5% of the company's net income, approved by the General Meeting; this figure will remain in force insofar as a change is not approved. The foregoing compensation is, in all cases, a maximum figure and the Board itself shall be in charge of allocating its amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as the Board determines, based on the tasks and responsibilities assigned to each Director, any membership of Board committees and other objective circumstances deemed relevant.

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~~The compensation stipulated in this Article shall be compatible with and independent of salaries, wages, severance payments, pensions or compensation of any kind established generally or individually for members of the Board of Directors~~ Directors who perform executive functions shall be entitled to receive, in addition, compensation for those functions that will consist of: (i) fixed compensation; (ii) short and long-term variable remuneration, which may include the award of shares, or



the Company as insurance premiums or contributions to a savings plan, must be set out in a contract to be entered into with the company, which shall be previously approved by the Board of Directors with the favourable vote of two-thirds of the Board members, with the Director concerned abstaining from attending the deliberations and from taking part in the vote.

of stock options or compensation linked to the share value, subject to the requirements set out in the applicable laws prevailing from time to time; (iii) a welfare component, which will include the appropriate providential arrangements and insurance, and social security; (iv) company benefits; (v) compensation for post-contractual non-competition; and (vi) an indemnity in the case of removal from their position not due to failure to perform their functions. All of the above items for which said Directors may obtain remuneration for performance of executive functions ~~including, if applicable, any future indemnification for early discharge from said tasks and amounts payable by the Company as insurance premiums or contributions to a savings plan,~~ must be set out in a contract to be entered into with the company, which shall be previously approved by the Board of Directors with the favourable vote of two-thirds of the Board members, with the Director concerned abstaining from attending the deliberations and from taking part in the vote.

The company may contract civil liability insurance for Directors.

Compensation consisting of the award of shares or stock options or compensation linked to the share value shall require a resolution of the General Meeting of Shareholders. This resolution will include the maximum number of shares that may be allotted during each financial year to this remuneration system, the price for exercising the options or the system for calculating the price for exercising the stock options, the share value taken as a reference, where such is the case, and the term of this compensation system.

Directors shall be paid or reimbursed for the reasonable and duly justified expenses they incur for attending meetings and other tasks directly related to the performance of their functions, such as travel, lodging, meals and any other expense they may incur.



<p>All remuneration paid to Directors as such and any received for the performance of executive tasks will conform to the Directors' remuneration policy, to be approved by the General Meeting at least every three years, as a separate point of the agenda, in the terms foreseen in the Spanish Companies Act.</p> <p>Directors' remuneration will in any case be reasonably proportional to the Company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system established will aim at encouraging the Company's profitability and long-term sustainability, including the necessary precautions to avoid undertaking excessive risks and rewarding unfavourable results.</p> <p>The members of the Board of Directors shall discharge their office and their functions with the diligence of an organized businessman and with the loyalty of a loyal representative, acting in good faith and in the Company's best interests, pursuant to the Law and to these Articles of Association.</p>	<p>All remuneration paid to Directors as such and any received for the performance of executive tasks will conform to the Directors' remuneration policy, to be approved by the General Meeting at least every three years, as a separate point of the agenda, in the terms foreseen in the Spanish Companies Act.</p> <p>Directors' remuneration will in any case be reasonably proportional to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system established will aim at encouraging the company's profitability and long-term sustainability, including the necessary precautions to avoid undertaking excessive risks and rewarding unfavourable results.</p> <p>The members of the Board of Directors shall discharge their office and perform their functions with the diligence of an organized businessman and with the loyalty of a loyal representative, acting in good faith and in the company's best interests, pursuant to the Law and to the Articles of Association.</p>
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4. Approval of the report

In view of all of the above, and in accordance with the provisions of Articles 286 of the Spanish Companies Act and Article 158 of the Regulations of the Mercantile Registry, the Board of Directors issues this Report on the amendment of the Articles of Association.

In Madrid, on 19 February 2019.



II. PROPOSED RESOLUTION

PROPOSED RESOLUTION TO AMEND ARTICLE 20 (“BOARD OF DIRECTORS”) OF THE ARTICLES OF ASSOCIATION IN RELATION TO THE REMUNERATION OF THE BOARD OF DIRECTORS OF THE COMPANY. (Point Seven section One of the Agenda of the General Meeting)

It is resolved to propose to the General Meeting of Shareholders the Company's Articles of Association be amended on the terms set out in the report issued by the directors in accordance with Articles 286 of the Spanish Companies Act and Article 158 of the Regulations of the Mercantile Registry, as set forth below:

Amendment of Article 20 (“Board of Directors”) of the Articles of Association in relation to the remuneration of the Board of Directors of the Company.

To amend Article 20 (“Board of Directors”) henceforth to read as follows:

“Article 20.- Board of Directors

The Board of Directors shall be formed by at least nine (9) and not more than thirteen (13) members.

Directors will be designated by the General Meeting of Shareholders or, if a vacancy arises in advance, the Board will designate it by co-optation. The General Meeting of Shareholders shall set the final number of Directors within the aforesaid maximum and minimum limits.

When selecting the Directors, regard shall be had to the company's capital composition and structure. It shall be sought to have non-executive Directors (independent, proprietary and other external directors) represent a broad majority. In any case, the Board shall be composed in such a way as to ensure that the capital stock is most suitably represented.

The Directors appointed shall hold office for four years and may be reappointed indefinitely, notwithstanding the power of the General Meeting of Shareholders to remove them at any time.

Directors need not be shareholders of the company. Both individuals and legal entities may be appointed as Directors.

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The provisions of this article will also apply to any individuals designated as representatives of a legal entity appointed as a Director. Any proposed representative for a legal entity must be examined by the Appointments and Remuneration Committee.

The position of Director of the company cannot be held by persons who are in a conflict of interest according to the Law.



The remuneration of the members of the Board of Directors as such (for their non-executive functions) shall consist of: a fixed annual allotment; compensation for attending Board of Directors meetings; and a sum for membership in Board of Directors committees. In addition, the Chairman of the Board, the Chairs of Board committees and the Lead Independent Director shall be assigned supplementary remuneration for those functions. The maximum overall annual compensation for the entire Board and for all the foregoing items shall be approved by the General Meeting and may in no case exceed an amount equal to 1.5% of the company's net income, approved by the General Meeting; this figure will remain in force insofar as a change is not approved. The foregoing compensation is, in all cases, a maximum figure and the Board itself shall be in charge of allocating its amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as the Board determines, based on the tasks and responsibilities assigned to each Director, any membership of Board committees and other objective circumstances deemed relevant.

Directors who perform executive functions shall be entitled to receive, in addition, compensation for those functions that will consist of: (i) fixed compensation; (ii) short and long-term variable remuneration, which may include the award of shares, or of stock options or compensation linked to the share value, subject to the requirements set out in the applicable laws prevailing from time to time; (iii) a welfare component, which will include the appropriate providential arrangements and insurance, and social security; (iv) company benefits; (v) compensation for post-contractual non-competition; and (vi) an indemnity in the case of removal from their position not due to failure to perform their functions. All of the above items for which said Directors may obtain remuneration for performance of executive functions must be set out in a contract to be entered into with the company, which shall be previously approved by the Board of Directors with the favourable vote of two-thirds of the Board members, with the Director concerned abstaining from attending the deliberations and from taking part in the vote.

The company may contract civil liability insurance for Directors.

Compensation consisting of the award of shares or stock options or compensation linked to the share value shall require a resolution of the General Meeting of Shareholders. This resolution will include the maximum number of shares that may be allotted during each financial year to this remuneration system, the price for exercising the options or the system for calculating the price for exercising the stock options, the share value taken as a reference, where such is the case, and the term of this compensation system.

Directors shall be paid or reimbursed for the reasonable and duly justified expenses they incur for attending meetings and other tasks directly related to the performance of their functions, such as travel, lodging, meals and any other expense they may incur.

All remuneration paid to Directors as such and any received for the performance of executive tasks will conform to the Directors' remuneration policy, to be approved by the General Meeting at least every three years, as a separate point of the agenda, in the terms foreseen in the Spanish Companies Act.

Directors' remuneration will in any case be reasonably proportional to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system established will aim at



encouraging the company's profitability and long-term sustainability, including the necessary precautions to avoid undertaking excessive risks and rewarding unfavourable results.

The members of the Board of Directors shall discharge their office and perform their functions with the diligence of an organized businessman and with the loyalty of a loyal representative, acting in good faith and in the company's best interests, pursuant to the Law and to the Articles of Association."