

**SPANISH SECURITY  
MARKETS COMMISSION**

Markets Division  
Edison, 4  
28006 MADRID

Madrid, 24 February 2017

Dear Sirs:

In accordance with the provisions of Article 82 of the Securities Market Act, we are sending you the following relevant event in relation to Red Eléctrica Corporación, S.A.:

**I. CALL NOTICE FOR THE ORDINARY GENERAL SHAREHOLDERS MEETING**

The Board of Directors of Red Eléctrica Corporación, S.A. (the "Company"), at a meeting held on 22 February 2017, resolved to call the Shareholders' Annual General Meeting, to be held on first call on 30 March 2017, at **12.30 p.m.** at **Auditorio del Complejo de los Duques de Pastrana**, Paseo de la Habana 208, Madrid and, as the case may be, on second call on **31 March 2017**, at the same time and venue, with a view to deliberating and resolving on the items contained on the following

**AGENDA**

**I. ITEMS FOR APPROVAL**

**One.** Examination and approval, as the case may be, of the Financial Statements (Balance sheet, Income Statement, Statement of Changes in Total Equity, Statement of Recognized Income and Expense, Cash Flow Statement, and Notes to Financial Statements) and the Management Report for Red Eléctrica Corporación, S.A. for the year ended 31 December 2016.

**Two.** Examination and approval, as the case may be, of the Consolidated Financial Statements (Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Overall Income Statement, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, and Notes to the Consolidated Financial Statement) and the Consolidated Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A., and subsidiary companies for the year ended 31 December 2016.

**Three.** Examination and approval, as the case may be, of the application of the result of Red Eléctrica Corporación, S.A., for the year ended 31 December 2016.

**Four.** Examination and approval, as the case may be, of management by the Board of Directors of Red Eléctrica Corporación, S.A. during the 2016 financial year.

**Five.** Appointment of Company directors.

**5.1** Re-election of Ms. María José García Beato as independent director.

**5.2** Ratification and appointment of Mr. Arsenio Fernández de Mesa y Díaz del Río as independent director.

**5.3** Appointment of Mr. Alberto Carbajo Josa as independent director.

**Six.** Remuneration of the Board of Directors of the Company:

**6.1** Approval of the remuneration of to the Board of Directors of Red Eléctrica Corporación, S.A. for the 2017 financial year.

**6.2** Approval of the Annual Report on Remuneration of Directors of Red Eléctrica Corporación, S.A.

**Seven.** Delegation for the full execution of the resolutions adopted at the Shareholders' Annual General Meeting.

## **II. ITEMS FOR INFORMATION**

**Eight.** Information to the Shareholders' Annual General Meeting on the 2016 Annual Corporate Governance Report of Red Eléctrica Corporación, S.A.

**Nine.** Information to the Shareholders' Annual General Meeting on the amendment of the Board of Directors Regulations.

## **SUPPLEMENT TO CALL NOTICE FOR THE SHAREHOLDERS' GENERAL MEETING AND PRESENTATION OF PROPOSED RESOLUTIONS**

In accordance with the provisions of Article 519 of the Spanish Companies Act, shareholders representing at least three percent of the share capital are informed that they may request the publication of a supplement to the call notice for the Shareholders' Annual General Meeting, including one or more items on the Agenda, provided that the new items are accompanied by a justification or, as the case may be, a justified proposed resolution. This right must be exercised by serving duly authenticated notice on the Company which must be received at the registered office, Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid, within five days after the publication of the call notice. The supplement to the call notice must be published at least fifteen days prior to the date set for holding the General Meeting.

Shareholders representing at least three percent of the share capital may submit reasoned proposals for resolutions on items already included or to be included in the Agenda for the General Meeting called. Moreover, they may make suggestions regarding those activities and interests of the Company that they believe should be discussed at the General Meeting. In both cases they will be entitled to make these proposals and suggestions by serving duly authenticated notice on the Company which must be received at the registered office, Paseo del Conde de los Gaitanes, 117, 28109 Alcobendas, Madrid, or via the Shareholder Information Office (the details of which are published at the end of this announcement in the "General Information" section) within five days as of the publication of this call.

## **RIGHT TO ATTEND, RIGHT TO VOTE AND RIGHT OF REPRESENTATION**

According to the Corporate Articles of Association, the Regulations of the Shareholders' General Meeting and the Spanish Companies Act, shareholders may attend the General

Meeting if they prove their share ownership by means of a certificate issued in their name on the accounting record of book entries five days before the date on which the General Meeting is to be held. Shareholders may request, through any of the member institutions (banks, savings banks, financial institutions, in general) of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Unipersonal (Iberclear), the appropriate certificate of entitlement or equivalent document from the accounting record of book entries of the Company's securities in order to obtain, as the case may be, the relevant attendance card.

Shareholders who are entitled to attend may cast their vote by attending the General Meeting and casting their vote in person, or by postal or electronic correspondence or by any other means of remote communication, provided that the identity of the individual exercising his right to vote and the security of the electronic communications are duly guaranteed, in accordance with the provisions of the applicable legislation, as well as of the Corporate Articles of Association, the Regulations of the Shareholders' General Meeting and all such supplementary rules and rules implementing the aforementioned Regulations as may be approved by the Board of Directors.

In accordance with the provisions of the Electricity Sector Act and Article 5 of the Company's Articles of Association, no shareholder may exercise voting rights exceeding three percent of the share capital. Parties that engage in activities in the electricity industry, and individuals or legal entities that directly or indirectly hold more than five percent of the capital of such parties, may not exercise voting rights exceeding one percent of the share capital. The above limits will not apply to Sociedad Estatal de Participaciones Industriales (SEPI), according to the Electricity Sector Act.

Shareholders who are entitled to attend may be represented at the General Meeting by another person, even where such person is not a shareholder. Where instructions are issued by the represented shareholder, the proxy-holder shall cast his vote in accordance with such instructions and shall be obliged to keep the instructions for a period of one year as from the date of the General Meeting.

Representation will be conferred in writing and the proxy clause on the attendance cards issued specifically for this Shareholders' General Meeting by the Iberclear participant entities or by the Company, if applicable, may be used.

The appointment and revocation of the proxy-holder may also be made by means of postal or electronic correspondence or by any other means of remote communication, provided that the identity of the individual granting the proxy and the security of the electronic communications is duly guaranteed, pursuant to the provisions of the applicable legislation and subject, if appropriate, to the provisions of Article 17 bis of the Company's Articles of Association and Article 15.8 of the Regulations of the Shareholders' General Meeting on the casting of votes by the aforesaid means, insofar as this is not incompatible with the nature of the proxy granted.

The same means as provided in the preceding paragraph may be used to notify the Company of the appointment of the proxy-holder and of the revocation of the appointment.

Personal attendance at the General Meeting by the shareholder represented shall revoke any vote or proxy cast or granted beforehand, both inclusive.

Proxy-holders may hold the proxies of more than one shareholder with no limit on the number of shareholders they may represent. Where a proxy-holder holds several proxies, he may cast votes in different directions, in accordance with the instructions

received from each shareholder. Prior to his appointment, the proxy-holder must provide detailed information to the shareholder on whether he has any conflict of interest, in accordance with the provisions of Article 523 of the Spanish Companies Act. If the conflict arises after his appointment and the proxy-holder has not warned the represented shareholder of its potential existence, he must inform the shareholder immediately. In both cases, if no new specific voting instructions have been received for each of the items on which the proxy-holder is to vote in the name of the shareholder, the proxy-holder must refrain from casting the vote.

Where a public proxy solicitation is made, the director obtaining it may not exercise the right to vote attaching to the shares represented on those items on the Agenda in respect of which he has a conflict of interest unless he has received specific voting instructions from the represented shareholder for each item.

The proxy may include items which, while not included on the Agenda, may be addressed as permitted by Law, and the provisions on conflict of interests contained in the preceding paragraphs will also apply in these cases.

In accordance with the provisions of Article 524 of the Spanish Companies Act, any entities that hold shareholder status by virtue of the share accounting register, but which act on account of several persons, may in any case fraction their vote and cast their vote in a different direction, further to different voting instructions, if received as such. Said financial intermediaries may delegate the vote to each indirect holder or third party designated by the same, without there being any limit on the number of proxies granted.

No person may accumulate proxies in the name of the same shareholder which confer on him voting rights in the name of that shareholder that exceed the limits established in Article 5 of the Articles of Association and pursuant to the Electricity Sector Act.

## **RIGHT TO INFORMATION**

Pursuant to the provisions of the Spanish Companies Act, the Company's Articles of Association and the Regulations of the Shareholders' General Meeting, any shareholders who so wish may examine and obtain, immediately and free of charge, as from publication of this notice, at the registered office (Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid), on the Company website ([www.ree.es](http://www.ree.es)) under the *Shareholders and investors* section or under the *Corporate Governance* section, and from the Shareholder Information Office located at the above-mentioned registered office of the Company, and in the offices and times of the Regional Offices, referred to in the "General Information" section below of this notice, and request the delivery or sending, also immediately and free of charge, of: the individual and consolidated financial statements and directors' reports to be submitted for approval by the Shareholders' General Meeting in points One and Two of the Agenda, respectively, together with the respective auditors' reports; the full text of the call notice and of all such proposed resolutions as may already have been adopted by the Board of Directors, without prejudice in this last-mentioned case to the fact that they may be amended up to the date of the Shareholders' General Meeting, where legally possible; as well as any proposed resolutions presented by shareholders, as they are received; and, in particular, also delivered immediately and cost-free, the professional profiles, including the identity, CV and category or status of the directors whose appointment, ratification and/or re-election is submitted to the Shareholders' General Meeting in point Five of the Agenda, the relevant proposals and reports of the Appointments and Remuneration Committee and the Board of Directors on the appointment, ratification and re-election of such directors; the proposal regarding the remuneration of the Company Board of Directors for the 2017 financial year and the Annual Report on Remuneration of Directors of the Company,

regulated in Article 541 of the Spanish Companies Act, examined in point Six, sections one and two of the Agenda, respectively; and of the full version of the Company's Annual Corporate Governance Report for the 2016 financial year, regulated in Article 540 of the Spanish Companies Act, and the full version of the Board of Directors Regulations currently in force, both presented to the Shareholders' General Meeting for information purposes in points Eight and Nine of the Agenda, respectively.

The relevant documentation will be provided to the shareholders on the day their General Meeting is held.

Pursuant to the provisions of Articles 197 and 520 of the Spanish Companies Act, the shareholders may pose questions to the directors in writing, until the fifth day prior to the date set for holding the Shareholders' General Meeting, or verbally during the General Meeting, or request information or clarification concerning the items on the Agenda. Furthermore, the shareholders may request from the directors, in writing and within the same period of time, or verbally whilst the Shareholders' General Meeting is held, any clarifications they may deem necessary on publicly available information furnished by the Company to the National Securities Market Commission ("CNMV", standing for *Comisión Nacional del Mercado de Valores*) since 15 April 2016, the date of the last Shareholders' General Meeting, and on the auditor's report. All valid requests for information, clarification or questions, made in writing, and any replies provided by the directors in writing, will be uploaded on the Company's website ([www.ree.es](http://www.ree.es)). The shareholders will be entitled to formulate their queries through the Shareholder Information Office, after registering their identity as shareholders, subject to the due verification.

Any other supplementary information concerning the holding of the Shareholders' General Meeting that is not expressly contained in this notice may be consulted on the Company website ([www.ree.es](http://www.ree.es)).

## **SHAREHOLDER'S ELECTRONIC FORUM**

Pursuant to Article 539.2 of the Spanish Companies Act as well as Article 8.4 of the Regulations of the Shareholders' Annual General Meeting, the Company has set up on its website—[www.ree.es](http://www.ree.es)—a Shareholder's Electronic Forum on the occasion of holding its General Meetings, the Operating Rules for which were approved by the Board of Directors at its meeting held on 22 February 2017.

The Forum will go live on the date of the call for the Shareholders' General Meeting and will be open through the date on which the Shareholders' General Meeting is held.

The Forum is not a mechanism for on-line electronic conversations among shareholders, nor is it a venue for virtual debates. The Forum does not constitute a channel of communication between the Company and its shareholders, either. The Forum's aim is to facilitate communication among the Company's shareholders on the occasion of the holding of the next Shareholders' Annual General Meeting. In this connection, shareholders may send, for posting on the Forum, communications which, in accordance with the Act, consist of posting proposals that are intended to be submitted as a supplement to the Agenda announced in the call notice, requests for seconding such proposals, initiatives for achieving a sufficient percentage to exercise a minority right provided for in the Law, or offers or solicitations for voluntary proxies.

The personal data furnished by shareholders in using the Shareholder's Electronic Forum will be included in a filing system belonging to the Company, the purpose of which is to manage and supervise the functioning of the Forum, as well as manage the

Shareholders' Annual General Meeting of the Company and carry out statistical studies on the shareholder structure of the Company.

The shareholders who use the Forum may exercise their rights of access, rectification, objection and cancellation in the terms established in the current legislation, by contacting the Shareholder Information Office of Red Eléctrica Corporación, S.A., at the address indicated at the end of this call notice in the section on General Information, during the Office opening hours on business days, by telephone on number 900 100 182 or using the telephone numbers made available by the Company for such purpose and indicated on its website, or by sending an e-mail to [juntaacconistas@ree.es](mailto:juntaacconistas@ree.es), attaching a copy of his/her National Identity Card or equivalent, and accrediting their status as shareholders.

For more information on accessing and using the Shareholder's Electronic Forum, the Operating Rules can be consulted on the Company website ([www.ree.es](http://www.ree.es)) in the section called *Shareholder's Electronic Forum*.

## **PROCEDURE FOR PROXIES, VOTING AND INFORMATION BY REMOTE MEANS**

### **1. PROXIES AND VOTING BY REMOTE MEANS.**

#### ***1.1. Proxies by remote means.***

The means of remote communication that are valid for granting proxies at the Shareholders' General Meeting are: (i) electronic and (ii) delivery or postal correspondence.

##### ***1.1.1. Electronic means***

Shareholders wishing to use the electronic proxy must be in possession of an electronic national identity card or of an electronic user certificate issued by the Spanish Royal Mint (FNMT-RCM), in accordance with Electronic Signature Act 59/2003, of 19 December, in its capacity as a Certificate Services Provider.

The user certificate will be obtained by the shareholder, at no cost to the Company, and must be in force when the proxy is granted.

Shareholders who have an electronic national identity card or user certificate evidencing their identity may, through the remote proxies, voting and information service available in the section provided for such purpose on the Company's website ([www.ree.es](http://www.ree.es)), grant the proxy by completing the "proxy form" according to the instructions indicated on such form, as well as any others that may be specified on each of the relevant screens of the computer application, and must effect the electronic signature by using their electronic national identity card or user certificate.

To be effective and valid, the electronic proxy must be granted after **zero hours (00:00) on 15 March 2017** and must be received by the Company **before twenty-four hours (24:00) on the day immediately preceding the day on which the Shareholders' General Meeting is scheduled to be held on first call, that is, before twenty-four hours (24:00) on 29 March 2017**. Proxies received outside this period will be deemed not granted.

For these purposes, the Company will implement an electronic date system, through a third party and based on an objective time source (a *time stamping* system) to evidence the time of receipt of the electronic proxy, as well, as the case may be, of the acceptance or rejection of such proxy.

The reason for establishing the above-mentioned period is to enable the Company to verify the shareholder status of the person granting the proxy electronically and that the number of shares corresponding to the proxy granted is correct; for such purpose, the Company will check the information furnished by each shareholder against that which is furnished to it by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Unipersonal (Iberclear), in its capacity as the entity in charge of the accounting register of book entries representing the Company's shares.

Shareholders who grant a proxy electronically must notify the designated proxy-holder of the proxy granted. Where the proxy is granted to a director, the notice will be deemed served when the Company receives the electronic proxy.

To be effective and valid, electronic proxies must be accepted by each proxy-holder, for which purpose they must be printed, signed and presented by the designated proxy-holder in each case to the Company personnel in charge of the share register, **up to the time scheduled for the start of the Shareholders' General Meeting, on first or second call**, respectively, with the exception of those granted to a director, which will be deemed accepted once they are received by the Company.

Electronic proxies that meet all of the conditions established in this procedure and are granted and received by the Company within the time period established for such purpose will only be deemed valid once the shareholder status of the person granting the proxy is verified.

#### **1.1.2. Delivery or postal correspondence**

Shareholders wishing to use this form of proxy must complete and sign the "proxy" section of the attendance, proxy and voting card issued by the relevant depositories of their shares or by the Company through the mechanism established for such purpose on its website in the section on proxies, voting and information by remote means.

Proxies must be accepted by the proxy-holder, therefore, unless they are granted to a director, they must be signed by each proxy-holder to indicate acceptance; the person to whom the vote is delegated may only cast it by attending the Shareholders' General Meeting in person.

The relevant card, duly completed and signed, must be sent by postal correspondence to the registered office of the Company or through the shareholder information service.

In addition, the proxy card, duly completed and signed, may also be submitted by the proxy-holder who physically attends the General Meeting, to the personnel in charge of the shareholder register on the day and at the venue of the General Meeting, **up to the time scheduled for the start of the Shareholders' General Meeting, on first and second call, respectively.**

#### **1.1.3 Revocation**

The revocation of the appointment of the proxy-holder and its notification to the Company may be made using the same means indicated for proxies.

## **1.2 Voting by remote means**

Shareholders may use the following means to vote remotely: (i) electronic and (ii) delivery or postal correspondence:

### **1.2.1. Electronic means**

Shareholders wishing to vote electronically must be in possession of an electronic national identity card or of an electronic user certificate issued by the Spanish Royal Mint (FNMT-RCM), in accordance with Electronic Signature Act 59/2003, of 19 December, in its capacity as a Certificate Services Provider.

The user certificate will be obtained by the shareholder, at no cost to the Company, and must be in force when the vote is cast.

Shareholders who have an electronic national identity card or user certificate evidencing their identity may, through the electronic voting service provided for such purpose on the Company's website ([www.ree.es](http://www.ree.es)), cast their vote by completing the "vote form" according to the instructions indicated on such form, as well as any others that may be specified on each of the relevant screens of the computer application, and must effect the electronic signature by using their electronic national identity card or user certificate.

To be effective and valid, votes cast electronically must be cast after **zero hours (00:00) on 15 March 2017** and must be received by the Company **before twenty-four hours (24:00) on the day immediately preceding the day on which the Shareholders' General Meeting is scheduled to be held on first call, that is, before twenty-four hours (24:00) on 29 March 2017**. Votes received outside this period will be deemed not cast.

As with the electronic proxy and for the same purpose, the Company will implement an electronic date system to evidence the time of receipt of the electronic vote, as well, as the case may be, of the acceptance or rejection of such vote.

Votes cast electronically that meet the conditions established in this procedure and are received by the Company within the time period established for such purpose will only be deemed valid once the shareholder status of the voter is verified.

### **1.2.2. Delivery or postal correspondence.**

To cast a remote vote by delivery or postal correspondence, shareholders must complete and sign the "voting by remote means" section of the attendance, proxy and vote card issued on paper, either by the relevant depositaries, or by the Company through the mechanism established for such purpose on its website ([www.ree.es](http://www.ree.es)) in the section on proxies, voting and information by remote means.

The duly completed and signed card must be delivered or sent to the Company, either to its registered office– Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid– or through the shareholder information service.

To be effective and valid, votes cast by postal correspondence must be received by the Company **up to the time scheduled for the start of the Shareholders' General Meeting, on first or second call, respectively**. Votes received outside this period will be deemed not cast.



### **1.2.3 Revocation**

Remote voting carried out by electronic means or by delivery or postal correspondence shall be revocable by the same means.

### **1.3. Issuance of duplicates of the attendance, proxy and voting card**

Shareholders who do not have the appropriate attendance, proxy and voting card on paper, either to be able to physically attend the Shareholders' Annual General Meeting or to be able to grant a proxy or vote by postal correspondence, may obtain a duplicate of the card through the section provided for such purpose on the Company's website ([www.ree.es](http://www.ree.es)) in the section on proxies, voting and information by remote means.

In order to guarantee the security of the system used and the identity of the shareholder wishing to use this option, the issuance of duplicate cards will require the shareholder to have an electronic national identity card or the relevant user certificate issued by the Spanish Royal Mint, subject to the same conditions established in this procedure for electronic proxies and voting.

## **2. REQUEST FOR INFORMATION BY ELECTRONIC MEANS**

Notwithstanding the usual communication and information channels that the Company makes available to its shareholders, through ordinary e-mail and the shareholder information service, shareholders may exercise their right to information by electronic means through mechanism specially established by the Company on its website ([www.ree.es](http://www.ree.es)) in the section on proxies, voting and information by remote means relating to the Shareholders' Annual General Meeting.

Shareholders wishing to use this procedure must have an electronic national identity card or the relevant user certificate issued by the Spanish Royal Mint (referred to above) for the same purposes of guaranteeing authenticity and identification of each shareholder.

The Company may attend to the request for information by replying to the e-mail address designated by the requesting shareholder or by delivering or sending the response by mail to the address indicated by the shareholder.

## **3. AVAILABILITY OF SERVICE**

The Company reserves the right to modify, suspend, cancel or restrict this procedure for proxies, voting and information requests by remote means where technical or security reasons prevent it from guaranteeing the safeguards indicated in the procedure and such circumstance is made public in the proper manner and sufficiently in advance by any means the Company may consider appropriate.

The Company will not be liable for any damage caused to shareholders as a result of malfunctions, overloads, line failures, failed connections or any other contingency of the same or a similar nature, beyond the control of the Company, which hinder the use of the procedure for proxies, voting and information requests by remote means.

## **4. PROTECTION OF PERSONAL DATA**

In accordance with Personal Data Protection Organic Act 15/1999, of 13 December, the Company informs its shareholders that the personal data obtained throughout the

procedure for proxies, voting and information requests by remote means, whether they originate from electronic user certificates or from any other data storage and retrieval device on shareholder computer terminals, with or without their involvement, or whether such data is furnished by the shareholder directly, will be included in a filing system controlled by the Company, for the purpose of managing the procedure for proxies, voting and information requests by remote means at the 2016 Shareholders' Annual General Meeting and, in particular, to monitor, verify and validate the proxies granted and votes cast by remote means, the duplicate cards issued and the information requests made electronically by the shareholders at such Shareholders' General Meeting.

Shareholders also expressly consent to the processing and disclosure of their personal data exclusively for the purpose described above, to authorized certificate service providers and to any of the companies forming part of the Red Eléctrica Group and operating in the electricity industry.

Data subjects are informed that the consent given above is revocable and that they may exercise their rights of access, rectification, objection and cancellation by writing to the registered office of the Company, located at Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid, through the shareholder information service or through the Company's website ([www.ree.es](http://www.ree.es)).

For more information on using the procedure for proxies, voting and information by remote means, shareholders may consult it on the Company website ([www.ree.es](http://www.ree.es)) in the section called *remote voting*.

## **PRESENCE OF A NOTARY AT THE SHAREHOLDERS' ANNUAL GENERAL MEETING**

The Board of Directors has resolved to request the presence of a Notary to draw up the Minutes of the Shareholders' General Meeting.

## **GENERAL INFORMATION**

For all aspects relating to the Shareholders' General Meeting not contained in this call notice, shareholders may consult the Company's Articles of Association and the Regulations of the Shareholders' Annual General Meeting available on the Company website ([www.ree.es](http://www.ree.es)).

In addition, as from publication of this notice, a Shareholder Information Office will be made available at the registered office of the Company and in the Regional Offices (La Coruña, Barcelona, Bilbao, Seville, Valencia, Zaragoza, Palma de Mallorca and Las Palmas de Gran Canaria) with the following opening hours: Monday through Fridays from 9:00 a.m. to 2:00 p.m.

**As from 21 March 2017, an Office will be made available at Hotel Aitana AC (Paseo de la Castellana, 152, Madrid)** to facilitate the shareholders the delivery of documentation, with the following opening hours: Monday through Friday from 10:00 a.m. to 2:30 p.m. and from 4:00 p.m. to 7:30 p.m., and Saturdays from 10:00 a.m. to 2:00 p.m.

**For further information, please call the Shareholder Hotline: 900 100 182 or send an e-mail to: [accionistas@ree.es](mailto:accionistas@ree.es) - [www.ree.es](http://www.ree.es)-.**

The Shareholders' Annual General Meeting of will be broadcast live in the Internet, with simultaneous translation into English and, once ended, it may be followed on a deferred

basis on the website [www.ree.es](http://www.ree.es). Moreover, in order to facilitate participation and follow up for impaired hearing persons, translation into Spanish sign language will also be available.

## **EXPECTED DATE OF THE SHAREHOLDERS' GENERAL MEETING**

Shareholders are informed that, in light of previous years' experience, their General Meeting is expected to be held on **SECOND CALL** on **31 March 2017**, at the time and venue stipulated above.

Alcobendas (Madrid), 24 February 2017  
The General Secretary and Secretary of the Board of Directors  
Rafael García de Diego Barber

## **II. PROPOSED RESOLUTIONS SUBMITTED BY THE BOARD OF DIRECTORS TO THE ANNUAL SHAREHOLDERS' MEETING**

The resolutions proposed by the Board of Directors in the above-mentioned meeting held on February 22, 2017, to be submitted to the Annual Shareholders' meeting, are the following:

### **I. MATTERS FOR APPROVAL**

#### **PROPOSED RESOLUTION REGARDING POINT ONE OF THE AGENDA:**

**EXAMINATION AND APPROVAL, IF APPLICABLE, OF THE ANNUAL ACCOUNTS (STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT, STATEMENT OF CHANGES IN EQUITY, STATEMENT OF RECOGNIZED INCOME AND EXPENSE, STATEMENT OF CASH FLOWS AND NOTES TO THE FINANCIAL STATEMENTS) AND MANAGEMENT REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE YEAR ENDED 31 DECEMBER 2016.**

To approve the Annual Accounts (Statement of Financial Position, Income Statement, Statement of Changes in Equity, Statement of Recognized Income and Expense, Statement of Cash Flows and Notes to the Financial Statements) and Management Report of Red Eléctrica Corporación, S.A. for the 2016 financial year.

The Annual Accounts and Management Report of Red Eléctrica Corporación, S.A. submitted for approval in this act are those that were authorized for issue by the Board of Directors at its meeting held on 22 February 2017.

**PROPOSED RESOLUTION REGARDING POINT TWO OF THE AGENDA:**

**EXAMINATION AND APPROVAL, IF APPLICABLE, OF THE CONSOLIDATED ANNUAL ACCOUNTS (CONSOLIDATED STATEMENT OF FINANCIAL POSITION, CONSOLIDATED INCOME STATEMENT, CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, CONSOLIDATED STATEMENT OF CASH FLOWS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS) AND CONSOLIDATED MANAGEMENT REPORT OF THE CONSOLIDATED GROUP OF RED ELÉCTRICA CORPORACIÓN, S.A. AND SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2016.**

To approve the Consolidated Annual Accounts (Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements) and Consolidated Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A. and subsidiaries for the 2016 financial year.

The Annual Accounts and Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A. submitted for approval in this act are those that were authorized for issue by the Board of Directors at its meeting held on 22 February 2017.

**PROPOSED RESOLUTION REGARDING POINT THREE OF THE AGENDA:**

**EXAMINATION AND APPROVAL, IF APPLICABLE, OF THE PROPOSED ALLOCATION OF THE PROFIT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE YEAR ENDED 31 DECEMBER 2016.**

To approve the proposed allocation of profits adopted by the Board of Directors at its meeting held on 22 February 2017 and consequently allocate the profits for the 2016 financial year, amounting to 551,835,670.49 euros, as follows:

	<u>AMOUNT IN EUROS</u>
TO VOLUNTARY RESERVE	72,272,176.15
TO CAPITALIZATION RESERVE:	15,406,478.62
TO DIVIDENDS:	
INTERIM DIVIDEND	128,416,875.72
SUPPLEMENTARY DIVIDEND (calculated on the total number of shares)	335,740,140.00
<hr/>	
TOTAL	551,835,670.49

It is expressly resolved to pay on shares of fifty cents of euro (0.50 €) of face value with a dividend right the gross amount of 0.8587 euros per share. The dividend will be paid on 3 July 2017, at the banks and financial institutions announced at the appropriate time, deducting from the dividend amount the gross amount of 0.2382 euros per share of fifty cents of euro (0.50 €) of face value, which was paid as an interim dividend on 5 January 2017 under the Board of Directors resolution dated 20 December 2016.

**PROPOSED RESOLUTION REGARDING POINT FOUR OF THE AGENDA:**

**EXAMINATION AND APPROVAL, IF APPLICABLE, OF THE MANAGEMENT PERFORMANCE OF THE BOARD OF DIRECTORS OF RED ELÉCTRICA CORPORACIÓN, S.A. DURING THE 2016 FINANCIAL YEAR.**

To approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2016 financial year.

**PROPOSED RESOLUTIONS REGARDING POINT FIVE OF THE AGENDA:**

**APPOINTMENT OF DIRECTORS OF THE COMPANY.**

**One.- Re-election of Ms. María José García Beato as an independent director.**

To re-elect Ms. María José García Beato as an independent director of Red Eléctrica Corporación, S.A. for the four-year term stipulated by the Bylaws, in accordance with Article 529 *decies* of the Spanish Companies Act.

**Two.- Ratification and appointment of Mr. Arsenio Fernández de Mesa y Díaz del Río as an independent director.**

To ratify the appointment of Mr. Arsenio Fernández de Mesa y Díaz del Río, agreed by the Board of Directors at its meeting on 31 January 2017, as an independent director of Red Eléctrica Corporación, S.A. and accordingly appoint him as an independent director for the four-year term stipulated by the Bylaws, in accordance with Article 529 *decies* of the Spanish Companies Act.

**Three.- Appointment of Mr. Alberto Carbajo Josa as an independent director.**

To appoint Mr. Alberto Carbajo Josa as independent director of Red Eléctrica Corporación, S.A. for the four year term stipulated by the Bylaws, in accordance with Article 529 *decies* of the Spanish Companies Act.

## **PROPOSED RESOLUTION REGARDING POINT SIX OF THE AGENDA:**

### **REMUNERATION OF THE BOARD OF DIRECTORS OF THE COMPANY:**

#### **One.- Approval of the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for the 2017 financial year.**

To approve the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for the 2017 financial year, which was approved by the Board of Directors at the meeting of 22 February 2017, in accordance with the provisions of the Bylaws and the Board of Directors Regulations, at the proposal of the Appointments and Remuneration Committee, on the following terms:

#### **I.- REMUNERATION OF THE BOARD OF DIRECTORS IN ALL CATEGORIES FOR THE 2017 FINANCIAL YEAR:**

It is proposed that the remuneration of directors for the performance of their functions as members of the Board of Directors and its committees during 2017, as to all categories and amounts, be maintained as in financial year 2016, as follows:

##### **1. Fixed Remuneration.**

The Fixed Remuneration for the 2017 financial year is established as follows:

130,742.00 euros per annum per director, to be paid monthly before the 5th day of the following month.

##### **2. Per diems for attending meetings of the Board of Directors.**

The per diems for attending the meetings of the Board of Directors and its committees during the 2017 financial year will be as follows:

1,500.00 euros for attendance in person by each director at each of the eleven ordinary meetings included in the schedule for 2017 approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the per diem, provided the proxy appointment is for just cause and occurs no more than two times during the year. This amount is paid within fifteen days of the meeting being held.

No per diems are payable for extraordinary meetings of the Board of Directors, whether in person or electronically.



3. Service on Board of Directors' committees.

The remuneration for service on the committees of the Board of Directors, during the 2017 financial year, is established as follows:

- a) 27,900.00 euros per annum to each member of a Board committee, to be paid monthly before the 5th day of the following month.

The foregoing amount is an annual amount, regardless of the number of committee meetings held during 2017.

- b) 15,000.00 euros per annum to each chairman of a Board committee, to be paid monthly before the 5th day of the following month.

The foregoing amount is an annual amount, regardless of the number of committee meetings held during 2017.

4. Lead Independent Director:

Remuneration of 15,000.00 euros per annum is assigned to the position of Lead Independent Director, to be paid monthly before the 5th day of the following month.

In accordance with Article 20 of the Bylaws, which applies to the remuneration of the chief executive officer, the remuneration indicated in the preceding resolutions is compatible with and independent of any salaries, remuneration, indemnities, pensions or other compensation of any kind payable, in general or in particular, for the performance of executive functions, to members of the Board of Directors who are bound to the Company by an employment relationship (ordinary employee relationship or special senior management kind) or a contract for the provision of services or a commercial contract of any kind. Said remuneration is attributed to the chief executive officer for the performance of its executive functions.

**II.- REMUNERATION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND OF THE CHIEF EXECUTIVE OFFICER.**

Taking into account the principles of prudence and moderation which the Company adheres to in regard to remuneration and the provisions of the amended Directors' Remuneration Policy, as approved by the Annual General Meeting of Shareholders held on 15 April 2016, it is proposed that the following resolutions be referred to the Board of Directors for submission to the Annual General Meeting of Shareholders:

1. To maintain the remuneration of the chairman of the Board of Directors for 2017 the same, in the terms and the amount, as was established in the abovementioned Remuneration Policy for 2016.
2. To maintain the fixed and variable remuneration of the chief executive officer for 2017 the same, in the terms and the amount, as was established in that Remuneration Policy; to maintain the supplement for employee benefits, which can be received in cash or in kind, at the amount currently established; and to supplement this remuneration, as provided in the Remuneration Policy approved by the General Meeting of Shareholders in April 2016, with a defined contribution retirement scheme with an annual contribution equivalent to 20% of the annual base salary.

In 2018 the remuneration of the chairman of the Board and of the chief executive officer will be revised to meet the targets, in terms of market positioning and market alignment, set in the Directors' Remuneration Policy approved by the Annual General Meeting of Shareholders and currently in force and so achieve the objective of effective consolidation of the remuneration of the two positions.

For that purpose, it will be included in the Annual Report on Remuneration of Directors, which will be submitted to the 2017 Annual General Meeting of Shareholders for approval, information on the Company's current market positioning and the analyses, assessments and reflections the Appointments and Remuneration Committee is currently considering in relation to the abovementioned possibility of adjusting the amounts of the remuneration of the chairman and the chief executive officer in 2018.

## **Two.- Approval of the Annual Report on Remuneration of Directors of Red Eléctrica Corporación, S.A.**

To approve the Annual Report on Remuneration of Directors of the Company, approved by the Board of Directors at its meeting on 22 February 2017.



**RED ELÉCTRICA**  
CORPORACIÓN

## **Board of Directors**

*22 February 2017*

Annual Report on Remuneration of Directors

# General Index

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# 1. Presentation of the report by the Chairwoman of the Appointments and Remuneration Committee

Dear shareholders,

On behalf of the Appointments and Remuneration Committee, I am pleased to present the Annual Directors' Remuneration Report, 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 2017, according to the policy applied in 2016.

In 2016 and 2017, we have carried out our usual process of dialogue and engagement with our shareholders. After listening to their suggestions and recommendations, in line with our philosophy of continuous improvement in corporate governance and, in particular, transparency in matters related to remuneration, and having conducted the relevant analysis, we have included certain additional information in this report that reinforces the application of the "pay for performance" equation in Red Eléctrica.

The economic performance of the company in 2016 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 executive directors (the *executive chairman* until the last Ordinary General Shareholders' Meeting –when he lost his position as executive director – and the *chief executive officer* for the whole year 2016) 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 *executive chairman* the Appointments and Remuneration Committee has considered a global level of achievement of 100%, which has meant an annual variable remuneration equivalent to 25% of his annual base salary for its executive functions, until the Ordinary General Shareholders' Meeting held on 15 April 2016; and, for the *chief executive officer*, the Appointments and Remuneration Committee has considered a global level of achievement of 103.18%, equivalent to 72.41% of his annual base salary for the financial year 2016. This report includes details about the objectives, weightings and the system used to determine the relevant amounts of variable remuneration applicable to both

positions in the aforementioned periods. All the foregoing pursuant to the contents of the Directors' Remuneration Policy and the Directors' Remuneration Report, approved at the last Ordinary General Shareholders' Meeting held on 15 April 2016.

In 2017, the Appointments and Remuneration Committee has analysed the position and duties undertaken in the company by the *chief executive officer*, in his condition as top executive, since his appointment as executive director at the Extraordinary General Shareholders' Meeting held in July 2015. The following has been considered in this process of analysis: the economic performance achieved by the Group over the last two years, the development in the level of responsibility and leadership assigned to such position within the organisation and market remuneration information provided by an independent external adviser, specialised in this field. As a result of such analysis, the Appointments and Remuneration Committee has proposed the Board of Directors to adopt following measures that, within the framework of the current Directors' Remuneration Policy approved at the last Ordinary General Shareholders' Meeting:

- Maintain the current level of base salary.
- Maintain the levels and structure of his annual and multi-annual variable remuneration, pursuant to the provisions in the current Directors' Remuneration Policy.
- Implement a defined contribution retirement scheme where Red Electrica's liability is limited to an annual contribution equivalent to 20% of the annual base salary of the *chief executive officer*. The scheme is funded through an insurance policy underwritten with an external insurer. In certain cases of termination, as detailed later in this report, economic rights will be consolidated in favour of the *chief executive officer* and will be compatible with the severance payment.

In 2018, the Appointments and Remuneration Committee will review the remuneration of the *chairman* and the *chief executive officer* to achieve the market positioning and market alignment established in the current remuneration policy approved by the past General Shareholder's Meeting, in line with the conclusions of the previous analysis and thus to serve the purpose of the effective consolidation of the positions.

As usual, the company includes the official Directors' Remuneration Report 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 2017 for the approval of the Ordinary General Shareholders' Meeting and, separately, it will submit this Directors' Remuneration Report to the aforementioned General Shareholders' Meeting.

I would like to conclude by thanking the members of the Appointments and Remuneration Committee and 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 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 2017.

Signed: Ms. Carmen Gómez de Barreda Tous de Monsalve

## 2. Appointments and Remuneration Committee

### Current members

Carmen Gómez de Barreda Tous de Monsalve  
(Chairwoman, independent)

Socorro Fernández Larrea  
(independent)

M<sup>a</sup> Ángeles Amador Millán  
(independent)

José Ángel Partearroyo Martín  
(proprietary)

In 2016, the composition of the Committee has undergone the following variations:

At the Board of Directors' Meeting held on 26 January 2016, the proprietary director, Mr. José Ángel Partearroyo Martín, was appointed as a new member of the Appointments and Remuneration Committee to cover the vacancy therein.

At the Board of Directors' Meeting held on 26 April 2016, the independent director, Mr. Agustín Conde Bajén, was appointed as a new member of the Appointments and Remuneration Committee as a replacement for the vacancy arising by the independent director, Ms. M<sup>a</sup> José García Beato, having resigned as member of such Committee, who joined the Auditing Committee to fill the vacancy therein after the independent director, Ms. Paloma Sendín de Cáceres, resigned. With such appointment, the Appointments and Remuneration Committee is now composed of five (5) members as decided by the Board of Directors at its meeting held on 24 November 2015, in other words, four (4) independent directors and one (1) proprietary director.

At the Board of Directors' Meeting held on 29 November 2016, Mr. Agustín Conde Bajén's resignation as independent director was accepted, who was proposed for appointment as Secretary of State for Defence in Spain, which resulted in the relevant vacancies on the Board of Directors and the Appointments and Remuneration Committee. The vacancy has not been covered on the date this report is approved.

In 2016, the Appointments and Remuneration Committee held thirteen (13) 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 2017, 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 performed by the Committee in 2016 and 2017**

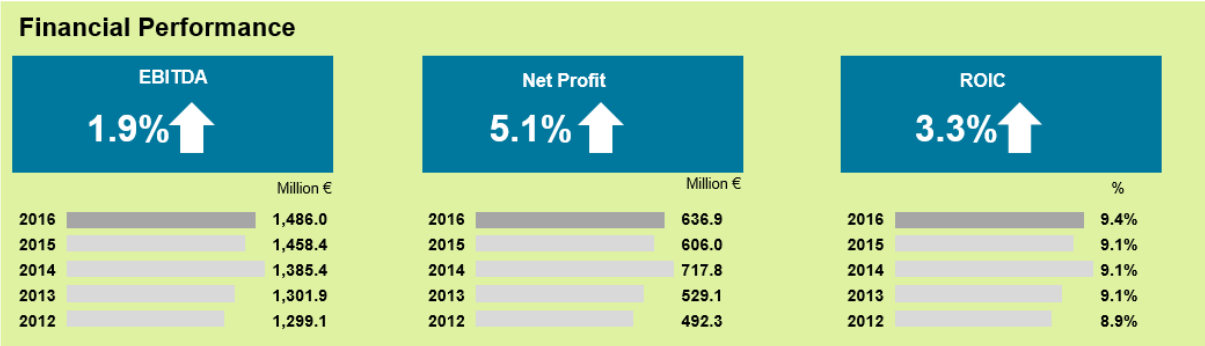
Activities	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Evaluation of the achievement of the objectives linked to the <i>chief executive officer's</i> and the <i>executive chairman's</i> variable remuneration for the financial year 2015					
Approval of the objectives linked to the variable remuneration of the <i>chairman</i> (for his executive duties until the 2016 OGSM), the <i>chief executive officer</i> and the senior executives in 2016					
Monitoring of the objectives linked to the variable remuneration of the <i>chairman</i> for his executive duties until the 2016 OGSM					
Evaluation of the achievement of the objectives linked to the <i>chairman's</i> variable remuneration for his executive duties until the 2016 OGSM					
Monitoring of the objectives linked to the <i>chief executive officer's</i> and senior executives' variable remuneration in 2016					
Evaluation of the achievement of the objectives linked to the <i>chief executive officer's</i> variable remuneration in 2016					
Evaluation of performance of the company, managerial and Management Committee targets linked to the senior executives' variable remuneration for the financial year 2016					
Approval of the objectives linked to the <i>chief executive officer's</i> and senior executives' variable remuneration for 2017					
Review of the <i>chief executive officer's</i> remuneration structure in 2017					
Proposed Annual Directors' Remuneration Reports made in 2016 and 2017 to be submitted to the Board and to be subsequently submitted to the Ordinary General Shareholders' Meeting					

**External advisers**

In 2016 and 2017 –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 Directors’ Remuneration Report.

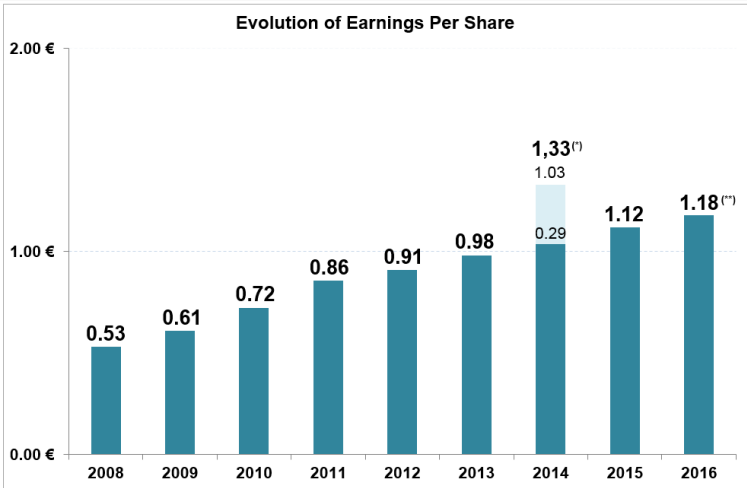
### 3. Results and levels of incentives (“Pay for Performance”)

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



In the financial year 2016, the following information should also be highlighted in relation to the performance of the Group:

- Regarding the dividend policy, the gross dividend for 2016 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 2015.



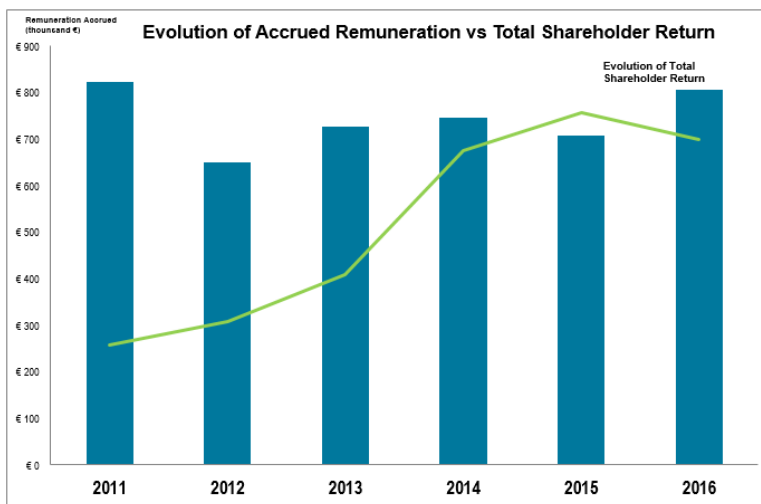
(\*) Note: The net profit specified for 2014 (EUR 1.33 per share) includes exceptional events taking place in that financial year, all of them positive: The Red Eléctrica Group being selected as the successful bidder in the tender for ADIF high speed fibre optic, the final agreement signed with the State 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 3 August 2016, the credit rating agency Standard & Poor’s maintained its rating for Red Eléctrica as ‘A-’ in the long-term and ‘A-2’ in the short-term with a stable forecast.

- On 27 May 2016, the credit rating agency Fitch Ratings raised the long-term rating of Red Eléctrica from 'A-' to 'A' with a stable forecast.
- Red Eléctrica consolidates its position in Global and European Dow Jones sustainability indexes –Dow Jones Sustainability World Index and Dow Jones Sustainability Index Europe-, according to the results in the 2016 edition. Red Eléctrica has obtained an overall score of 90 points out of 100, improving the results of the previous year, leading nine areas of sustainability and is positioned one point behind the leading company in its sector, *Electric Utilities*.

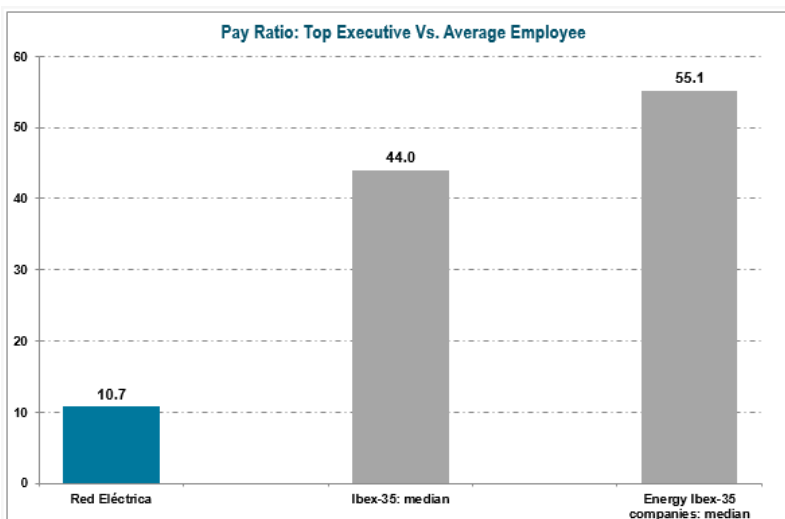
The following graph shows the variation in the total remuneration accrued by the top executive compared with the variation in the Total Shareholder Return in the last 5 years.



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, 25<sup>th</sup> Anniversary 2009-2013" Long-Term Incentive Plan

The following graph shows the relation between the total remuneration accrued by the top 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.

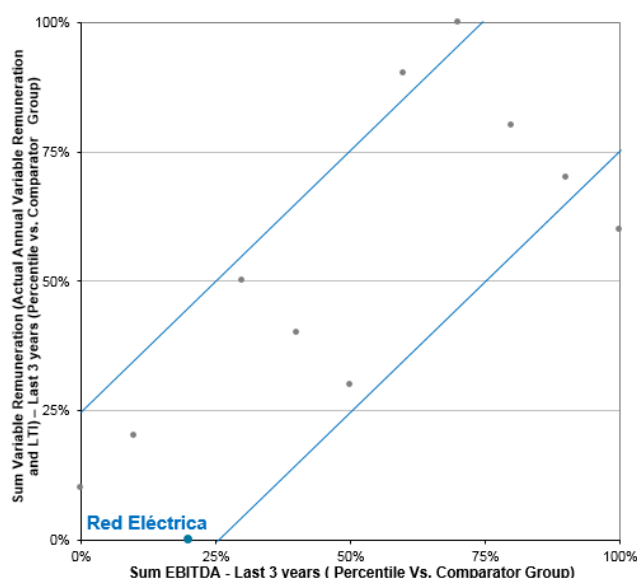


In order to calculate the ratio, the total remuneration accrued by the top executive in 2015 has been taken into account and, to estimate the average remuneration of the staff, the personnel expenses disclosed in the consolidated annual accounts have been taken into account, excluding social security charges

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

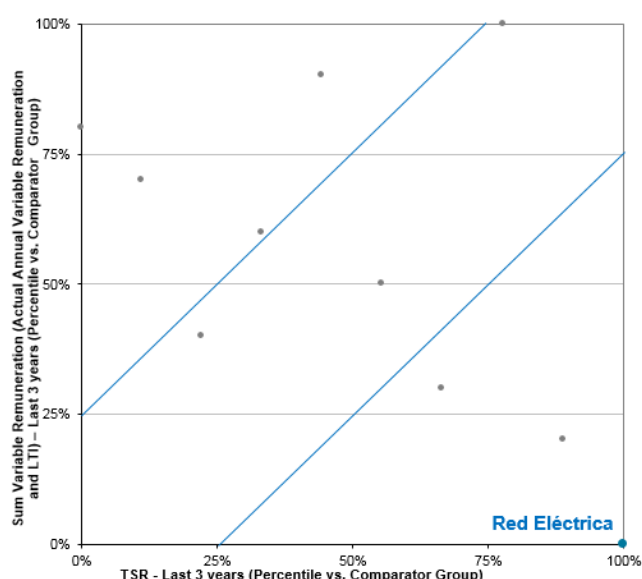
The following graphs show the positioning of the Red Eléctrica Group compared with representative companies in the energy sector. Evolution of the EBITDA and the Total Shareholder Return (TSR) of each company is compared, over the last 3 years, with the increase in the variable remuneration (annual and long-term) of its top 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 comparator group are: CLH, Enagás, Enel, Eon, Iberdrola, National Grid, RWE AG, Snam Rete Gas, Terna and United Utilities.

The evolution of Red Eléctrica's EBITDA in the last 3 years positions the company in the 25<sup>th</sup> percentile of the comparator group, whereas the evolution of the variable remuneration (annual and long-term) in the same period has been more moderate.



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 comparator group are: Enagás, Enel, Eon, Iberdrola, National Grid, RWE AG, Snam Rete Gas, Terna and United Utilities. CLH has been excluded from this analysis, given that it is not a listed company.

The evolution of Red Eléctrica's TSR in the last 3 years positions the company at the top of the comparator group, whereas the evolution in the variable remuneration (annual and long-term) in the same period has been the most moderate one.

Source of TSR data: Bloomberg

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 2016 a benchmarking for the position of chief executive officer, considering two 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 the years 2015 and 2014 for the top 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.

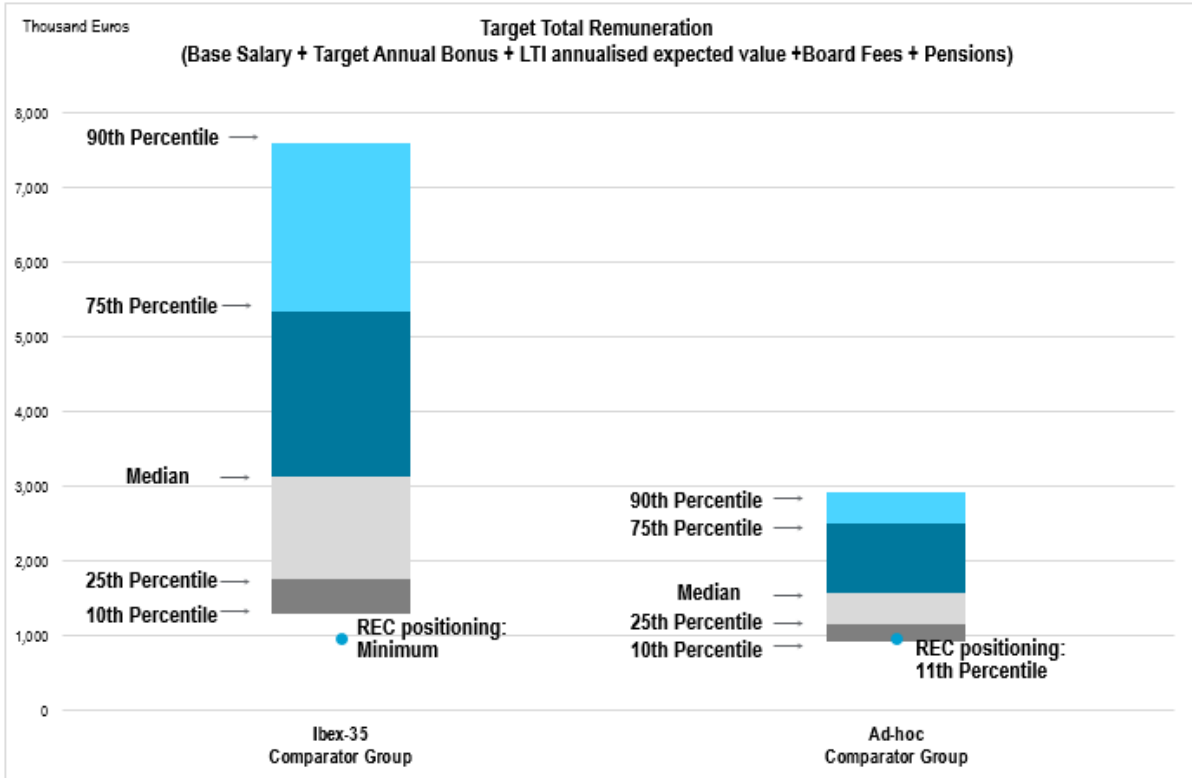
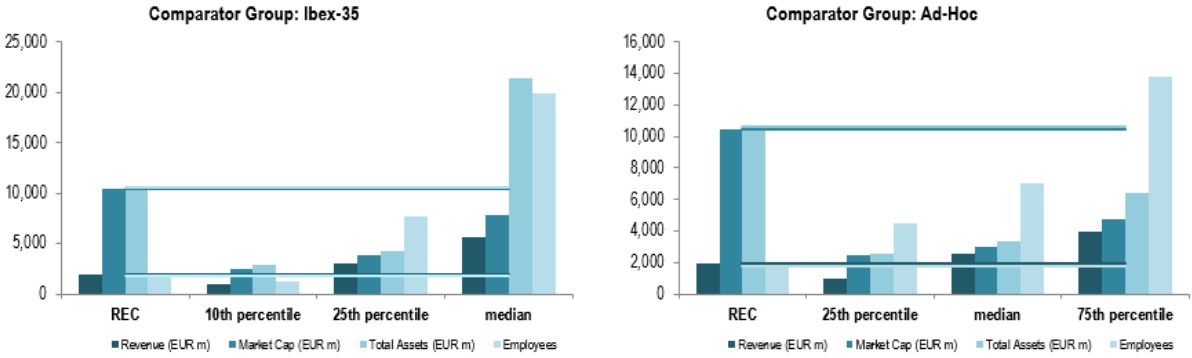
The companies forming the comparator group are the following:

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

The following graph shows the results of the analysis:

- Analysis of the Ibex-35 group: an overview of the data regarding to the size of the Red Eléctrica Group points to a market benchmark between the Ibex-35 25th percentile and 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 among the lowest market values.

- 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 75<sup>th</sup> 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 10<sup>th</sup> percentile.

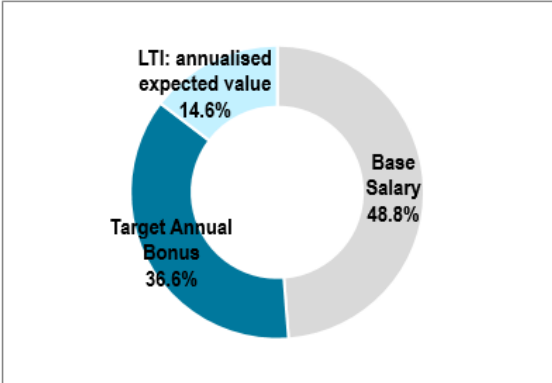


- The total target remuneration includes the following elements:
  - The Base Salary
  - The Target Annual Bonus, assigned to the executive director for the last financial year, 100% of the objectives are achieved
  - Long Term Incentive annualised expected value
  - The remuneration due to being a member of the Board and for attending the Board Meetings and, when applicable, its Committees
  - The annual cost of pensions (Red Eléctrica does not include the cost of the retirement scheme implemented from 2017 onwards)

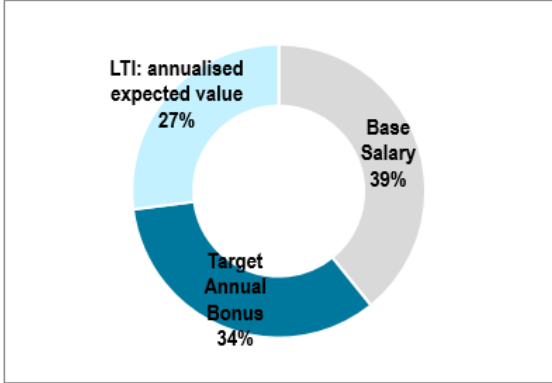
The market data are those disclosed in the annual reports on remuneration of each company published in 2016, corresponding to the financial year 2015.

The graphs below show the remuneration mix for the *chief executive officer* (after the Ordinary General Shareholders' Meeting held in 2016) 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 system corresponding to the accrued remuneration in 2016. As a whole, for Red Eléctrica, the variable remuneration ("pay at risk"), annual and multi-year, represents 51.2% of the total direct remuneration (the sum of the base salary and annual and multi-year variable remuneration).

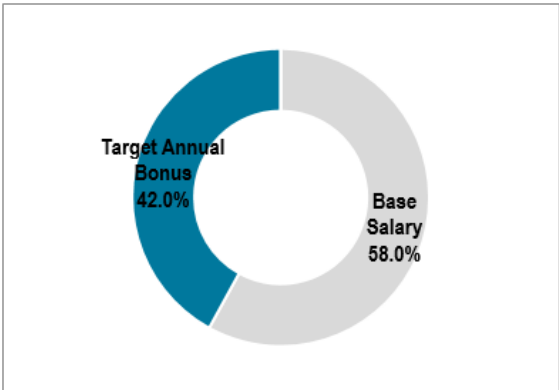
Red Eléctrica: Target Remuneration Mix Chief Executive Officer



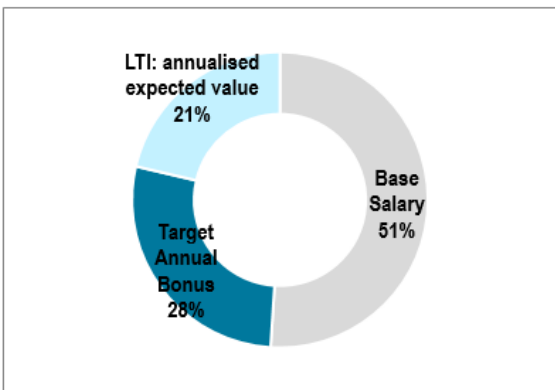
Group Ibex-35: Target Remuneration Mix Top Executive



Red Eléctrica: Target Remuneration Mix (2016 accrued remuneration) Chief Executive Officer



Ad-hoc Group: Target Remuneration Mix Top Executive



## 4. Directors' remuneration policy in 2017

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

### 4.1. Remuneration policy for the executive director (*chief executive officer*) in 2017

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 2017 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 2017 at its meeting held on 23 January 2017, as explained in this section.

All the objectives are contemplated in the Budget for the financial year 2017, 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 company objectives, the weightings of which are distributed as follows:

- 70% 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:
  - 35% Consolidated Net Profit of the Red Eléctrica Group.
  - 35% Return on invested capital (*ROIC*) of the Red Eléctrica Group, which measures the net operating profit over the invested capital.
- 30% of the incentive depends on aspects linked to the Total Investment in 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 Directors' Remuneration Report for the financial year 2017 that will be submitted to the Ordinary General Shareholders' Meeting in 2018.

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

- Development, efficiency and profitability of the TSO (transmission system operator)
  - 74% of the incentive is linked, among others, to the implementation of efficiency criteria and to the development of specific maintenance plans that enable the optimisation of the safety and quality of the electric system operation.
- Growth of the business activities
  - 12% of the incentive basically depends on the analysis and achievement of new projects that enable the diversification of the Group's traditional businesses.

- Excellence and innovation
  - 8% of the incentive is linked, among others, to the deployment of a new technological development plan and to the improvement of the Group's cyber-security processes.
- Sustainability
  - 6% of the incentive depends on the achievement of a series of key projects included in the annual Sustainability Plan and environmental Plan.

For the operating objectives linked to the Red Eléctrica Group's businesses, 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 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
<b>75% Quantitative and qualitative <u>company</u> objectives</b>							
<b>1. Net Profit</b>	35%	85%	85%	100%	100%	100%	100%
<b>2. ROIC</b>	35%	95%	95%	100%	100%	100%	100%
<b>3. Total Investment in Transport Network and Diversification of the Group</b>	30%	85%	85%	100%	100%	133%	133%

PERFORMANCE MEASURES	WEIGHTING	MINIMUM		TARGET		MAXIMUM	
		Achievement	Incentive	Achievement	Incentive	Achievement	Incentive
<b>25% <u>Operating</u> objectives linked to the Red Eléctrica Group's businesses</b>							
<b>1. Development, efficiency and profitability of the TSO</b>	74%	Assessment by the ARC <sup>(1)</sup>	Assessment by the ARC <sup>(1)</sup>	100%	100%	169%	169%
<b>2. Growth of business activities</b>	12%	Assessment by the ARC <sup>(1)</sup>	Assessment by the ARC <sup>(1)</sup>	100%	100%	100%	100%
<b>3. Excellence and innovation</b>	8%	Assessment by the ARC <sup>(1)</sup>	Assessment by the ARC <sup>(1)</sup>	100%	100%	150%	150%
<b>4. Sustainability</b>	6%	Assessment by the ARC <sup>(1)</sup>	Assessment by the ARC <sup>(1)</sup>	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 directors' remuneration report.

The overall maximum performance of the previous objectives (company 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 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 directors' remuneration report, 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 Board of Directors, at the Appointments and Remuneration Committee's proposal, approved, at its meeting held on 22 February 2017, with effect from 1 January 2017, the participation of the *chief executive officer* in a defined contribution retirement scheme.

Red Electrica'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.

The 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* in the same cases that are established for severance payment in case of termination of the relation (see next section). 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**

Since 1 January 2016, 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 new Board 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 forth 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*) 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 2017<sup>(\*)</sup>**

<sup>(\*)</sup> 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.

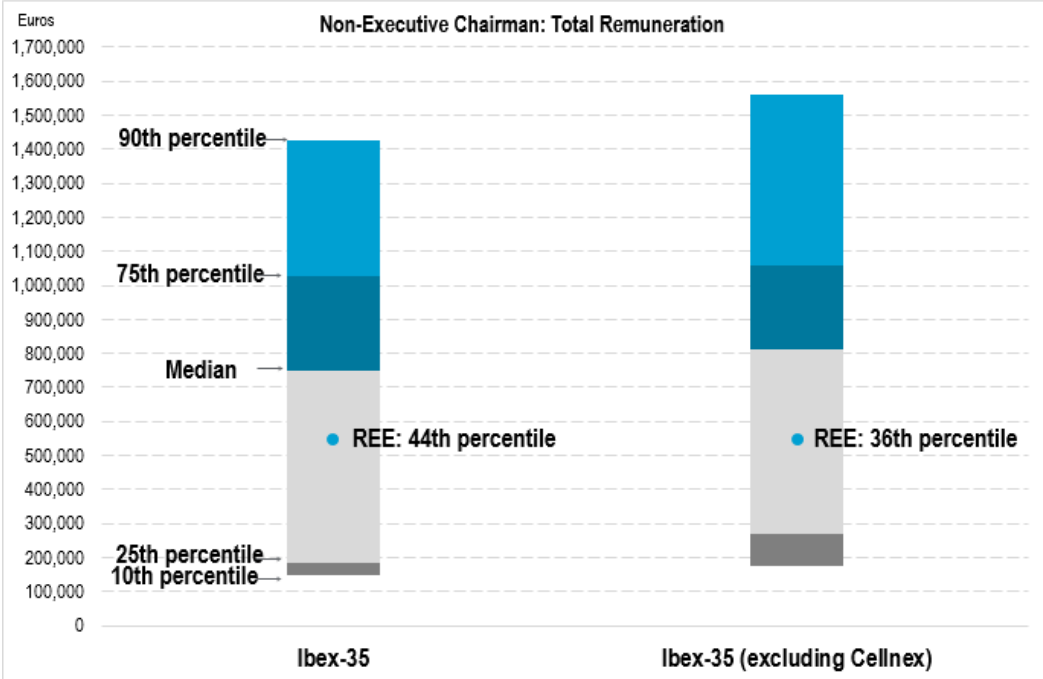
The Appointments and Remuneration Committee regularly reviews the Directors' Remuneration Policy in line with best corporate governance practices adopted by the institutional shareholders and according to the recommendations of the main proxy advisors.

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 9 of the 13 companies in the Ibex-35 that have appointed a *non-executive chairman*, and the following was applied in such benchmarking:

- IAG and Arcerlomittal were excluded, since their Boards of Directors are located abroad.
- Merlin Properties and Gas Natural Fenosa were excluded, since the non-executive chairmen in such companies were appointed during 2016 and their remuneration is not available.

In terms of size, Red Eléctrica is positioned between the 25<sup>th</sup> 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):

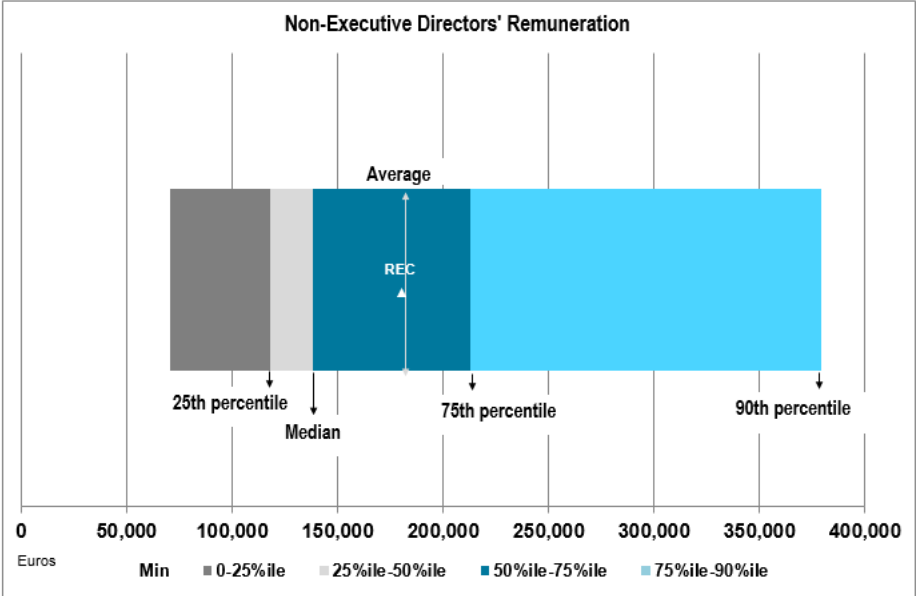


Note: The total remuneration includes the whole amount of the remuneration accrued by the relevant non-executive chairmen in 2015.



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 2016. 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 2016:



(\*) 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 Auditing or Appointment 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 remuneration of the non-executive directors related to the effective time they spend, the link with the 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 2017, to

maintain the same remuneration amounts and elements as those determined for 2016 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 2017 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”.

#### **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 2017.
- 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 2017.

### **Lead Independent Director**

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

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 as Board Members.

## **5. Implementation of the remuneration policy in 2016**

### **5.1. Implementation of the remuneration policy for executive directors in 2016**

There were two different periods in 2016 -concerning the remuneration of the *chairman of the Board of Directors* and the *chief executive officer*- marked by certain corporate milestones linked to the progressive transfer of executive duties from the *chairman* to the *chief executive officer*, a process that ended with the transfer of all the executive duties at the Ordinary General Shareholders' Meeting held on 15 April 2016:

1) From 1 January 2016 to 14 April 2016 (both inclusive), day before the date when the Ordinary General Shareholders' Meeting for 2016 was held, when the transitory period for transferring all the executive duties to the *chief executive officer* ended. In such period, the remuneration policy applied was in line with the principles and criteria contained in the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015 and with the resolutions adopted by the Extraordinary General Shareholders' Meeting held on 17 July 2015, to determine the process for separating the position of *chairman of the Board of Directors* and the top executive of the company.

2) As of the date of the Ordinary General Shareholders' Meeting was held, i.e. 15 April 2016, until 31 December 2016 (both inclusive), time when the *chairman of the Board of Directors* performed non-executive duties and the *chief executive officer* performed full executive duties.

The modification of the remuneration policy, approved by the Ordinary General Shareholders' Meeting held on 15 April 2016, was applied during such period.

Below is specified the accrued and received remuneration by the *chairman of the Board of Directors* (with executive duties) in the aforementioned first period of 2016 and for the *chief executive officer*, distinguishing between the two periods.

**5.1.1. Chairman of the Board of Directors (with executive duties from 1 January 2016 until 14 April 2016 (both inclusive), day before the date when the Ordinary General Shareholders' Meeting was held)**

**Annual base salary**

The base salary of the *chairman of the Board of Directors*, for his executive duties, amounted to EUR 115,316 (it remained at EUR 399,170 in annual terms), prorated for the period between 1 January to 14 April (both inclusive).

**Annual variable remuneration**

According to the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held in April 2015 and in line with the resolutions approved by the Extraordinary General Shareholders' Meeting held in July 2015; from 1 January to 14 April 2016 (both inclusive), the *chairman of the Board of Directors* is entitled to a target annual bonus, providing that he achieved 100% of the pre-determined objectives, equivalent to 25% of his annual base salary. The maximum level of his annual variable remuneration could not exceed 27.5% of his annual base salary.

After the Ordinary General Shareholders' Meeting held in 2016, the remuneration of the *chairman of the Board of Directors*, in addition to his remuneration exclusively for his position as non-executive chairman of the Board, has been solely fixed remuneration.

The date on which the transitorial period ends (date when the Ordinary General Shareholders' Meeting was held on 15 April 2016), by decision of the company, the annual variable remuneration was automatically settled to the *chairman of the Board of Directors*, who had performed executive duties up to such date. This variable remuneration is based on him

achieving a combination of quantitative and qualitative objectives (company objectives), measured at a Group level, determined by the Appointments and Remuneration Committee at its meeting held on 17 February 2016.

These objectives were described in detail in the Directors' Remuneration Report approved at the Company's Annual General Shareholders' Meeting held on 2016, and the aforementioned Committee having conducted a quarterly performance monitoring. 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 following table contains the aforementioned objectives, weightings and the level of achievement for each after the assessment conducted on 21 February 2017 by the Appointments and Remuneration Committee to determine the amount of the annual variable remuneration to be paid:

Types of Targets	Performance measures	Weighting	Performance Range	Degree of achievement	Incentive Pay-out for each Metric
<b>BUSINESS (COMPANY)</b>	<b>1. Consolidated Group Results</b>	35%	95% - 100%	100%	100%
	<b>2. ROIC</b>	35%	95% - 100%	100%	100%
	<b>3. Strategic Plan Level of Progress</b>	30%	Up to 133%. Assessment by the ARC <sup>(1)</sup>	100%	100%
<b>TOTAL</b>		100%		100%	100%

(1) Appointments and Remuneration Committee

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

1. The book figures gives a consolidate Net Profit for the Red Eléctrica Group in the financial year 2016 of EUR 636.9 million, which implies a target achievement of 100%.
2. The Return on Invested Capital (ROIC, measured as the net operating profit compared with the capital employed) of the Red Eléctrica Group in the financial year 2016 has reached 9.4%, which entails a degree of target achievement of 100%.

Regarding target 3, “Strategic Plan Level of Progress”, given the definition of the target, upon assessing the relevant circumstances, the Appointments and Remuneration Committee has considered that the degree of weighted achievement with this objective is 100%.

After the assessment of achievement of the above-mentioned three targets, the Appointments and Remuneration Committee has considered an overall achievement of objectives of 100%. Accordingly, the annual variable remuneration of the *chairman* amounts to EUR 28,829 (100% of the target incentive). This amount is the result of calculating the proportion of the amount corresponding to the variable remuneration in annual terms for the number of days expired from 1 January 2016 until 14 April 2016 (both inclusive), according to the remuneration policy approved by the Ordinary General Shareholders’ Meeting for such period, consisting of a variable remuneration of 25% of his annual base salary for achieving 100% of the objectives.

### **Multi-year variable remuneration**

As approved by the Extraordinary General Shareholders’ Meeting held on 17 July 2015, the *chairman of the Board of Directors* does not participate in the multi-year variable remuneration plan in 2016 as a consequence of the splitting positions of *chairman of the Board of Directors* and top executive undergone by the company.

### **Social benefits and other amounts payable**

The *chairman of the Board of Directors* is the beneficiary of a life insurance policy, the premium of which amounted to EUR 9,942 for the financial year 2016 and that matured on 31 December 2016.

The *chairman of the Board of Directors* has not received any other kind of benefits in 2016.

At 31 December 2016, 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*, nor are there any acquired commitments in matters of pensions.

### **Severance pay**

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 (providing no serious misconduct or negligence committed by the executive director), with no need for prior notice by the company. This contract also states that the aforementioned severance pay would also be payable if the executive director resigns from his position due to serious wilful breach of contract by the company or a significant modification of his duties for reasons not caused by the executive director. It is also determined that his base salary will be used as the basis for calculating such severance pay, plus the amount corresponding to his variable remuneration as executive director, calculated considering a degree of achievement of 100%.

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, corresponding to the variable remuneration calculated considering an achievement level of 100%.

Notwithstanding the above, without prejudice to the accrual of the indemnity on the date the commercial contract of the *chairman of the Board of Directors* was terminated (with executive duties up to such time), 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.

## 5.1.2. Chief executive officer

### Annual base salary

The base salary of the *chief executive officer* in 2016 amounted to EUR 351,743. This amount is the result of proportionally dividing the following amounts:

- EUR 235,000, in annual terms, for the number of days elapsed from 1 January to 14 April 2016 (both inclusive), the latter, the day before the date when the Ordinary General Shareholders' Meeting was held at which the final separation of the duties of the *chairman of the Board of Directors* and top executive of the company took place, and
- EUR 399,170, in annual terms, for the number of days elapsed from the date when the aforementioned Ordinary General Shareholders' Meeting was held, on 15 April 2016, to 31 December 2016 (both inclusive).

### Annual variable remuneration

From 1 January 2016 to the day before the date when the Ordinary General Shareholders' Meeting was held, on 14 April 2016 (both inclusive), *the chief executive officer* has been assigned target annual bonus equivalent to 50% of his base salary, in case of a level of achievement of 100% of the targets predetermined at the beginning of the year by the Appointments and Remuneration Committee, in line with the contents of the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015. In this period, the maximum annual variable remuneration could not exceed 55% of his annual base salary. From the Ordinary General Shareholders' Meeting held on 15 April 2016 on, the target level has been equivalent to 75% of his annual base salary with a maximum at 82.5%, all the foregoing in accordance with the modifications made to the Directors' Remuneration Policy approved by the aforementioned Ordinary General Shareholders' Meeting.

At its meeting held on 17 February 2016, the Appointments and Remuneration Committee set the objectives for the financial year 2016, which determined the annual variable remuneration of the *chief executive officer* in such financial year, such targets were described in detail in the Directors' Remuneration Report approved by the Ordinary General Shareholders' Meeting held in 2016. The Committee conducted quarterly assessment of the level of achievement. At the



end of the financial year, the Committee conducted an evaluation process of their level of performance, in which 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 the same.

The annual variable remuneration for the *chief executive officer*, determined for 2016, is based on achieving a combination of quantitative and qualitative business objectives (company), assessed at a Group level, which is weighted at 75% of his total annual variable remuneration and performance of the operating targets linked to the business activities of the Red Eléctrica Group, which are weighted at 25% of his total annual variable remuneration.

The following table contains the objectives set, weightings and the level of achievement for each after the assessment conducted at the meeting held on 21 February 2017 by the Appointments and Remuneration Committee to determine the amount of the annual variable remuneration to be paid:

Type of Targets and Weighting	Performance measures	Weighting	Performance Range	Level of Achievement	Incentive Pay-out for each Metric
<b>BUSINESS (COMPANY)</b>  (75%)	<b>1. Consolidated Group Result</b>	35%	95% - 100%	100%	100%
	<b>2. ROIC</b>	35%	95% - 100%	100%	100%
	<b>3. Strategic Plan Level of Progress</b>	30%	Up to 133%. Assessment by the ARC <sup>(1)</sup>	100%	100%
<b>SUB-TOTAL</b>		100%		100%	100%

Type of Targets and Weighting	Performance measures	Weighting	Performance Range	Level of Achievement	Incentive Pay-out for each Metric
OPERATING OBJECTIVES LINKED TO THE GROUP'S BUSINESS ACTIVITIES (25%)	1. Development, efficiency and profitability of the TSO	74%	Up to 129%	117.20%	117.20%
	2. Growth of the activities business	12%	Up to 100%	100%	100%
	3. Excellence and innovation	9%	Up to 100%	100%	100%
	4. Corporate responsibility	5%	Up to 100%	100%	100%
<b>SUB-TOTAL</b>		100%		112.73%	112.73%
<b>TOTAL</b>		100%		<b>103.18%</b>	<b>103.18%</b>

(1) Appointments and Remuneration Committee

To determine the level of achievement and the incentive amount applicable to the financial year 2016, regarding the business objectives (company), due to being the same objectives set to determine the variable remuneration of the *chairman* for his executive duties (up to the date the last Ordinary General Shareholders' Meeting was held in April 2016), we refer to the previous section of this report applicable to the *chairman*, in which the evaluation of the degree of achievement thereof is detailed.

We should only repeat here that, as a conclusion of such evaluation, the Appointments and Remuneration Committee considered overall performance of business objectives (company) at a level of 100%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2016, in connection with the *operating targets 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": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 117.20%.

2. “Growth of the business activities”: after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
3. “Excellence and innovation”: after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
4. “Corporate responsibility”: after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee considered overall achievement of objectives – both the business (company) and operating objectives linked to the Group’s business activities –at a level of 103.18%. Therefore, the annual variable remuneration of the *chief executive officer* in 2016 amounted to EUR 254.691 (103.18% of the target incentive), disclosed below:

- From 1 January to 14 April 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders’ Meeting for such period.
- From 15 April to 31 December 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders’ Meeting for such period.

75% of the amount of the gross annual variable remuneration (EUR 191,018) will be paid in cash and the remaining 25% (EUR 63,673) will be provided 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 the year, 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.

### **Multi-year variable remuneration**

Compliance with the directors' 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 satisfaction of certain conditions.

The fundamental terms and conditions of such plan have been explained in the relevant section of this report concerning the policy for remuneration of executive directors in 2017, and we thus refer to the same to avoid reiterations.

### **Social benefits and other remuneration**

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

Additionally, he is the beneficiary of a life insurance with a premium of EUR 1,845 and that matured on 31 December 2016.

At 31 December 2016, the Balance sheets has no credits, advances granted, or guarantees set up by the Company in favour of the *chief executive officer*, nor are there any acquired commitments in matters of pensions.

**5.2. Implementation of the policy for remuneration of non-executive directors (as members of the Board of Directors) in 2016<sup>(\*)</sup>**

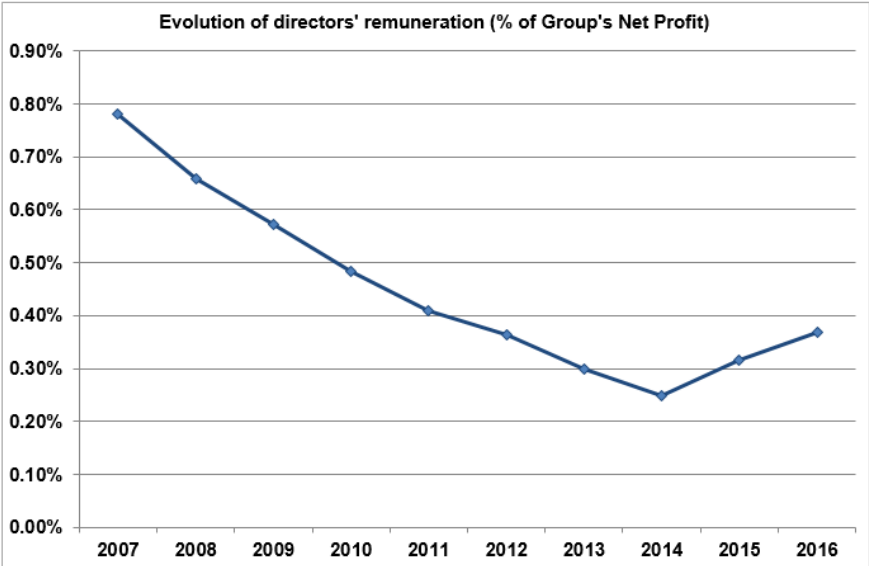
<sup>(\*)</sup>This is also applicable to the *chairman* with executive duties until the OGSM held on 15/04/2016 and to the *chief executive officer*, for their functions as directors.

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:

Año	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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**Remuneration**

(% net profit of the Group)	0.78%	0.66%	0.57%	0.48%	0.41%	0.36%	0.30%	0.25%	0.32%	0.37%
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In the year 2016, the amount of overall remuneration of the Board of Directors amounted to EUR 2,341 thousand (EUR 1.916 thousand in 2015). The increase with regard to the previous year (EUR 425 thousand) is due to essentially the establishment, as of the date of the Annual General Meeting held the 15 April 2016, of a component of fixed remuneration for the *chairman* (non-executive) of the Board of Directors, having waived to perceive annual variable remuneration, together with the appointment to the Board of Directors of one more director (*chief executive officer*) during the whole financial year of 2016, and also due to the increase of one more member in each of the two commissions (Audit and Appointments and Remunerations) the 24 November 2015.

According to a proposal made by the Appointments and Remuneration Committee, the Board of Directors decided that, for the financial year 2016, the remuneration amounts and components mentioned before for the members of the Board of Directors would remain the same as for 2015 and it also set a fixed remuneration for the position of (non-executive) *chairman of the Board of Directors*, approved at the Ordinary General Shareholders' Meeting held in 2016, as stated below:

#### **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 2016, the total amounting to EUR 16,500. Remuneration for expenses will not be payable for Extraordinary Board of Directors' Meetings, even though none were held in 2016.

#### **Chairman of the Board of Directors**

- EUR 283,854 (EUR 399,170 per annum), corresponding to the period from 15 April 2016, the date when Ordinary General Shareholders' Meeting was held appointing him as *chairman of the Board of Directors* with non-executive functions, to 31 December 2016 (both inclusive).

Throughout the whole financial year 2016, 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 2016, 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 2016 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 are included in a Structural Management Plan started by the company in 2015. 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, in all categories, for the year 2016

The following is a summary of the total gross remuneration, in euros, accrued by the *chief executive officer* and *executive chairman* (the latter only with executive duties from 1 January 2016 to 14 April 2016, both inclusive), during the year 2016:

Director	Position	Base salary	Annual variable remuneration	Remuneration for his functions as director	Other remuneration	Total
Mr. José Folgado Blanco	Executive chairman <sup>(*)</sup>	115,316 <sup>(1)</sup>	28,829 <sup>(1)</sup>	431,096 <sup>(2)</sup>	0	575,241
Mr. Juan Lasala Bernad	Chief executive officer	351,743 <sup>(3)</sup>	246,841 <sup>(4)</sup>	147,242 <sup>(5)</sup>	60,000 <sup>(6)</sup>	805,826

(\*) Only until the Ordinary General Shareholders' Meeting was held on 15 April 2016.

(1) The base salary and annual variable remuneration of the executive chairman corresponds to the period between 1 January 2016 and 14 April 2016 (both inclusive), day before the date when the Ordinary General Shareholders' Meeting was held. The base salary is the proportion of the remuneration of EUR 399,170, in annual terms, for such period. The annual variable remuneration corresponds to the amount specified in the Remuneration Policy approved by the General Shareholders' Meeting for such period (target incentive equivalent to 25% of the annual base salary) for achieving the targets by 100% in such period.

(2) This includes base salary as director (EUR 130,742) and per diems for attendance and serving the Board (EUR 16,500) in the financial year 2016. It also includes specific remuneration for the chairman of the Board of Directors from 15 April 2016 until the end of the financial year (both inclusive).

(3) The annual base salary for the chief executive officer is the sum of the amount prorated for the period from 1 January to 14 April 2016 (both inclusive), and the period from 15 April to 31 December 2016 (both inclusive).

(4) This amount, recorded in the Annual Accounts for the financial year 2016, is estimated assuming a degree of achievement of objectives of 100%.

(5) 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 2016.

(6) This includes the allowance in lieu of benefits, which amounts to EUR 60,000.

The Appointments and Remuneration Committee held 21 February 2017, once assessed the overall level of achievement of objectives for the financial year 2016, has approved a level of achievement of 103.18%, which means a variable remuneration of EUR 254,691 to be paid to the *chief executive officer*.

In addition, the *chairman* and the *chief executive officer*, in the financial year 2016, are beneficiaries of a life insure which premium amounts to EUR 9,942 and EUR 1,845, respectively, and which matured on 31 December 2016.

## 7.2. Remuneration for non-executive directors (as members of the Board of Directors), in all categories, for the year 2016

The total remuneration of the Board of Directors for the year 2016, excluding the remuneration of executive directors due to their contractual relation (executive duties) with the company, entails, in all categories, 0.37%<sup>1</sup> of the net profit of the Red Eléctrica Group allocated to the holding company, for the year 2016.

The remuneration accrued by the members of the company's Board of Directors in the year 2016, in thousands of euros, broken down by director, as disclosed in the Annual Accounts for the year 2016, are the following:

	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chairperson of committee or board and coordinating independent director	Other remuneration <sup>(5)</sup>	Total 2016	Total 2015
Mr José Folgado Blanco	530	29	16	0	0	0	575	707
Mr Juan Lasala Bernad	483	247	16	0	0	60	806	244
Ms. María de los Angeles Amador Millán	131	0	16	28	0	0	175	162
Mr Fernando Fernández Méndez de Andrés	131	0	16	28	0	0	175	175
Ms. Paloma Sendín de Cáceres <sup>(1)</sup>	38	0	5	8	0	0	51	182
Ms. Carmen Gómez de Barreda	131	0	16	28	15	0	190	190
Ms. María José García Beato	131	0	16	28	0	0	175	175
Ms. Socorro Fernandez Larrea	131	0	16	28	0	0	175	175
Mr Antonio Gómez Ciria	131	0	16	28	0	0	175	175
Mr Santiago Lanzuela Marina	131	0	16	28	0	0	175	150
Mr Agustín Conde Bajén <sup>(2)</sup>	82	0	9	17	0	0	108	0
Mr Jose Luis Feito Higuera	131	0	16	28	15	0	190	155
Mr Jose Angel Partearroyo Martin <sup>(3)</sup>	131	0	16	26	0	0	173	5
Other board members <sup>(4)</sup>	0	0	0	0	0	0	0	158
Total remuneration accrued	2,312	276	190	275	30	60	3,143	2,653

<sup>(1)</sup> Departure announced at the general shareholders meeting on 15 April 2016.

<sup>(2)</sup> New director since the general shareholders meeting on 15 April 2016, stepped down from the board of directors on 29 November 2016.

<sup>(3)</sup> Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).

<sup>(4)</sup> Board members in 2015 who have stepped down from the board.

<sup>(5)</sup> Includes the employee benefits that form part of the managing director's remuneration.

<sup>1</sup> The net profit of the RED ELÉCTRICA Group attributable to the parent company in the financial year 2016 amounted to EUR 636,920 thousand (EUR 606,013 thousand in the financial year 2015).

As previously mentioned, the *chairman* and the *chief executive officer* are beneficiaries of a life insurance which premium amounts to EUR 10 thousand and EUR 2 thousand, respectively, in 2016, and which matured on 31 December 2016.

### 7.3. Remuneration of senior executives, in all categories, for the year 2016

The senior executives who rendered services throughout the year 2016 are the following:

Name	Position	Accrual period in the year 2016
Eva Pagán Díaz	General Manager of Transmission	From 1 January to 31 December 2016
Carlos Collantes Pérez-Ardá	General Manager of Transmission	From 1 January to 31 March 2016
Miguel Duvison García	General Manager of System Operation	From 1 January to 31 December 2016

In the year 2016, the total remuneration accrued by the senior executives has amounted to EUR 731 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 16 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 in the years 2014, 2015 and 2016, in connection with the Annual Report on remuneration of directors:

Annual Directors' Remuneration Report: votes (%)			
Date of the Meeting	For	Against	Abstention
15/04/2016	65.925%	0.545%	33.530% <sup>(1)</sup>
15/04/2015	63.903%	0.630%	35.467% <sup>(2)</sup>
9/05/2014	61.295%	2.752%	35.953% <sup>(3)</sup>

- (1) 33.27% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI) (State Public Law Holding Corporation).
- (2) 34.95% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI) (State Public Law Holding Corporation).
- (3) 35.64% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI) (State Public Law Holding Corporation).

**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

<b>ENDING DATE OF REFERENCE PERIOD</b>	31 December 2016
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<b>C.I.F.</b>	A-78003662
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<b>CORPORATE NAME</b>
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RED ELECTRICA CORPORACION, S.A.
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<b>REGISTERED OFFICE</b>
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PASEO DEL CONDE DE LOS GAITANES, 177 (LA MORALEJA-ALCOBENDAS) MADRID
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## 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.

In 2017, the Appointments and Remuneration Committee has analysed the position and duties undertaken in the company by the chief executive officer, in his condition as top executive, since his appointment as executive director at the Extraordinary General Shareholders' Meeting held in July 2015. The following has been considered in this process of analysis: the economic performance achieved by the Group over the last two years, the development in the level of responsibility and leadership assigned to such position within the organisation and market remuneration information provided by an independent external adviser, specialised in this field. As a result of such analysis, the Appointments and Remuneration Committee has proposed the Board of Directors to adopt following measures that, within the framework of the current Directors' Remuneration Policy approved at the last Ordinary General Shareholders' Meeting:

- Maintain the current level of base salary.

- Maintain the levels and structure of his annual and multi-annual variable remuneration, pursuant to the provisions in the current Directors' Remuneration Policy.

- Implement a defined contribution retirement scheme where Red Eléctrica's liability is limited to an annual contribution equivalent to 20% of the annual base salary of the chief executive officer. The scheme is funded through an insurance policy underwritten with an external insurer. In certain cases of termination, as detailed later in this report, economic rights will be consolidated in favour of the chief executive officer and will be compatible with the severance payment.

The other elements and features of the remuneration's policy to be applied during the 2017 financial year will be on terms similar to those that were applied in the financial year 2016.

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

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) short-term variable remuneration and (iii) 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.

<b>Explain the process for determination of the remuneration policy</b>
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#### 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 2016 a remuneration benchmarking for the position of chief executive officer, considering two 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 the years 2015 and 2014 for the top 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, Grifols, Mediaset, Meliá Hotels, NH Hotel Group, Prosegur, Viscofan and Zardoya Otis. Regarding the Ibex-35 comparator group, in summary, it could be concluded that an overview of the data regarding to the size of the Red Eléctrica Group points to a market benchmark between the Ibex-35 25<sup>th</sup> percentile and 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 among the lowest market values. Regarding the ad-hoc comparator group, in summary, it could be concluded that an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 75<sup>th</sup> 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 10<sup>th</sup> percentile. Regarding the non-executive directors, 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 non-executive directors is in line with the average of the comparator group (Ibex-35). In addition, the Committee conducted in 2016 a remuneration benchmarking for the position of the non-executive chairman, which used a comparator group formed by 9 companies in the Ibex-35 that have appointed a non-executive chairman and is located in Spain. Merlin Properties and Gas Natural Fenosa were excluded, since the non-executive chairmen in such companies were appointed during 2016 and their remuneration was not available at the time of conducting the benchmarking. In summary, it could be concluded that an overview of the data regarding to the size of the Red Eléctrica Group points to a market benchmark between the 25<sup>th</sup> percentile and median. In terms of total remuneration, the position of non-executive chairman of the Red Eléctrica Group is positioned at the 44<sup>th</sup> percentile. If the sample excludes Cellnex, since that 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 the 36<sup>th</sup> percentile.

#### A.2.2. Remuneration Committee: Mandate

In 2016, the Committee held thirteen (13) 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 2017, 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. During the 2016 and 2017 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 chief executive officer's and the executive chairman's variable remuneration for the financial year 2015.
- Approval of the objectives linked to the variable remuneration of the chairman (for his executive duties until the 2016 Ordinary General Shareholders' Meeting), the chief executive officer and the senior executives in 2016.
- Monitoring of the objectives linked to the variable remuneration of the chairman for his executive duties until the 2016 Ordinary General Shareholders' Meeting.
- Evaluation of the achievement of the objectives linked to the chairman's variable remuneration for his executive duties until the 2016 Ordinary General Shareholders' Meeting.
- Monitoring of the objectives linked to the chief executive officer's and senior executives' variable remuneration in 2016.
- Evaluation of the achievement of the objectives linked to the chief executive officer's variable remuneration in 2016. (continues in section E).

**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.

<b>Explain the fixed components of remuneration</b>
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**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**

Regarding the 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 it freely considers relevant.

The Board of Directors has decided, according to the Appointments and Remuneration Committee's proposal, for the financial year 2017, to maintain the same remuneration amounts and elements as those determined for 2016 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 2017 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 2017.

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 2017.

e) Lead Independent Director: EUR 15,000 per annum, to be paid monthly, before the fifth (5th) day of the following month.

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 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.

<b>Explain the variable components of the remuneration schemes</b>
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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 2017 at its meeting held on 23 January 2017, as explained in this section.

All the objectives are contemplated in the Budget for the financial year 2017, 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 company objectives, the weightings of which are distributed as follows:

- 70% 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:
- 35% Consolidated Net Profit of the Red Eléctrica Group.
- 35% Return on invested capital (ROIC) of the Red Eléctrica Group, which measures the net operating profit over the invested capital.
- 30% of the incentive depends on aspects linked to the Total Investment in Transport Network and Diversification. The information about such assessment will be included in the Annual Directors' Remuneration Report for the financial year 2017 that will be submitted to the Ordinary General Shareholders' Meeting in 2018

The Appointments and Remuneration Committee has decided to establish the minimum threshold of individual achievement for each of the economic-financial objectives above-indicated, from which the right to variable remuneration is generated, at 85% in the case of Net Profit and 95% in the case of the ROIC, with the possibility of reaching the maximum achievement of 100%. Regarding the objectives linked to the Total Investment in Transport Network and Diversification of the Group, the Appointments and Remuneration Committee will evaluate the minimum threshold of individual achievement (85%) and may determine a maximum level of individual achievement of 133%.

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

- Development, efficiency and profitability of the TSO (transmission system operator)

74% of the incentive is linked, among others, to the implementation of efficiency criteria and to the development of specific maintenance plans that enable the optimisation of the safety and quality of the electric system operation.

- Growth of the business activities

12% of the incentive basically depends on the analysis and achievement of new projects that enable the diversification of the Group's traditional businesses.

- Excellence and innovation

8% of the incentive is linked, among others, to the deployment of a new technological development plan and to the improvement of the Group's cyber-security processes.

- Sustainability

6% of the incentive depends on the achievement of a series of key projects included in the annual Sustainability Plan and environmental Plan.

For the operating objectives linked to the Red Eléctrica Group's businesses, 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 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 (169%), Growth of the business activities (100%), Excellence and innovation (150%) and Sustainability (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 (company 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 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 directors' remuneration report, 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.

- 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 Board of Directors, at the Appointments and Remuneration Committee's proposal, approved, at its meeting held on 22 February 2017, with effect from 1 January 2017, the participation of the chief executive officer in a defined contribution retirement scheme.

Red Electrica'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.

The 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 in the same cases that are established for severance payment in case of termination of the relation (see section A.7). 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**

Since 1 January 2016, 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 new Board 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 with the executive director, 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) 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 2016, 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.

- 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](http://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**

In 2016, there were two different periods -concerning the remuneration of the chairman of the Board of Directors and the chief executive officer- marked by certain corporate milestones linked to the progressive transfer of executive duties from the chairman to the chief executive officer, a process that ended with the transfer of all the executive duties at the Ordinary General Shareholders' Meeting held on 15 April 2016:

1st) From 1 January 2016 to 14 April 2016 (both inclusive), day before the date when the Ordinary General Shareholders' Meeting for 2016 was held, when the transitory period for transferring all the executive duties to the chief executive officer ended. In such period, the remuneration policy applied was in line with the principles and criteria contained in the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015 and with the resolutions adopted by the Extraordinary General Shareholders' Meeting held on 17 July 2015, to determine the process for separating the position of chairman of the Board of Directors and the top executive of the company.

2nd) As of the date of the Ordinary General Shareholders' Meeting was held, i.e. 15 April 2016, until 31 December 2016 (both inclusive), time when the chairman of the Board of Directors performed non-executive duties and the chief executive officer performed full executive duties. The modification of the



remuneration policy, approved by the Ordinary General Shareholders' Meeting held on 15 April 2016, was applied during such period.

Below the remuneration accrued and received by the chairman of the Board of Directors (with executive duties) in the aforementioned first period of 2016 and for the chief executive officer, distinguishing between the two periods, are detailed below.

1. Chairman of the Board of Directors (with executive duties from 1 January 2016 until 14 April 2016 - both inclusive, day before the date when the Ordinary General Shareholders' Meeting was held)

a) Annual base salary

The base salary of the chairman of the Board of Directors, for his executive duties, amounted to EUR 115,316 (it remained at EUR 399,170 in annual terms), prorated for the period between 1 January to 14 April (both inclusive).

b) Annual variable remuneration:

According to the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held in April 2015 and in line with the resolutions approved by the Extraordinary General Shareholders' Meeting held in July 2015; from 1 January to 14 April 2016 (both inclusive), the chairman of the Board of Directors has been entitled to a target annual bonus, providing that he achieved 100% of the pre-determined objectives, equivalent to 25% of his annual base salary. The maximum level of his annual variable remuneration could not exceed 27.5% of his annual base salary.

After the Ordinary General Shareholders' Meeting held in 2016, the remuneration of the chairman of the Board of Directors, in addition to his remuneration exclusively for his position as non-executive chairman of the Board, has been solely fixed remuneration.

The date on which the transitorial period ends (date when the Ordinary General Shareholders' Meeting was held on 15 April 2016), by decision of the company, the annual variable remuneration was automatically settled to the chairman of the Board of Directors, who had performed executive duties up to such date. This variable remuneration is based on him achieving a combination of quantitative and qualitative objectives (company objectives), measured at a Group level, determined by the Appointments and Remuneration Committee at its meeting held on 17 February 2016.

These objectives were described in detail in the Directors' Remuneration Report approved at the Company's Annual General Shareholders' Meeting held on 2016, and the aforementioned Committee having conducted a quarterly performance monitoring. 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.

To determine the level achieved and the amount of the incentive applicable to the financial year 2016, the Appointments and Remuneration Committee, in its meeting held on 21 February 2017, has considered the following factors:

1. The book figures gives a consolidate Net Profit for the Red Eléctrica Group in the financial year 2016 of EUR 636.9 million, which implies a target achievement of 100%.

2. The Return on Invested Capital (ROIC, measured as the net operating profit compared with the capital employed) of the Red Eléctrica Group in the financial year 2016 has reached 9.4%, which entails a degree of target achievement of 100%.

3. Regarding the target "Strategic Plan Level of Progress", given the definition of the target, upon assessing the relevant circumstances, the Appointments and Remuneration Committee has considered that the degree of weighted achievement with this objective is 100%.

After the assessment of the achievement of the above-mentioned three targets, the Appointments and Remuneration Committee has considered an overall achievement of objectives of 100%. Accordingly, the annual variable remuneration of the chairman amounts to EUR 28,829 (100% of the target incentive). This amount is the result of calculating the proportion of the amount corresponding to the variable remuneration in annual terms for the number of days expired from 1 January 2016 until 14 April 2016 (both inclusive), according to the remuneration policy approved by the Ordinary General Shareholders' Meeting for such period, consisting of a variable remuneration of 25% of his annual base salary for achieving 100% of the objectives.

c) Multi-year variable remuneration

As approved by the Extraordinary General Shareholders' Meeting held on 17 July 2015, the chairman of the Board of Directors does not participate in the multi-year annual variable remuneration plan in 2016 as a consequence of the splitting positions of chairman of the Board of Directors and top executive undergone by the company.

d) Social benefits and other amounts payable

The chairman of the Board of Directors is the beneficiary of a life insurance policy, the premium of which amounted to EUR 9,942 for the financial year 2016 and that matured on 31 December 2016.

The chairman of the Board of Directors has not received any other kind of benefits in 2016.

At 31 December 2016, 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, nor are there any acquired commitments in matters of pensions.

e) Severance pay

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 (providing no serious misconduct or negligence committed by the executive director), with no need for prior notice by the company. This contract also states that the aforementioned severance pay would also be payable if the executive director resigns from his position due to serious wilful breach of contract by the company or a significant modification of his duties for reasons not caused by the executive director. It is also determined that his base salary will be used as the basis for calculating such severance pay, plus the amount corresponding to his variable remuneration as executive director, calculated considering a degree of achievement of 100%.

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, corresponding to one year's base salary paid for his position as executive director, plus an amount corresponding to the variable remuneration calculated considering an achievement level of 100%.

Notwithstanding the above, without prejudice to the accrual of the indemnity on the date the commercial contract of the chairman of the Board of Directors was terminated (with executive duties up to such time), 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.

2. Chief executive officer

a) Annual base salary

The base salary of the chief executive officer in 2016 amounted to EUR 351,743. This amount is the result of proportionally dividing the following amounts: - EUR 235,000, in annual terms, for the number of days elapsed from 1 January to 14 April 2016 (both inclusive), the latter, the day before of the Ordinary General Shareholders' Meeting was held at which the final separation of the duties of the chairman of the Board of Directors and top executive of the company took place, and

- EUR 399,170, in annual terms, for the number of days elapsed from the date when the aforementioned Ordinary General Shareholders' Meeting was held, on 15 April 2016, to 31 December 2016, both inclusive.

b) Annual variable remuneration: From 1 January 2016 to the day before the date when the Ordinary General Shareholders' Meeting was held, on 14 April 2016 (both inclusive), the chief executive officer has been assigned target annual bonus equivalent to 50% of his base salary, in case of a level of achievement of 100% of the targets predetermined at the beginning of the year by the Appointments and Remuneration Committee, in line with the contents of the directors' remuneration policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015. In this period, the maximum annual variable remuneration could not exceed 55% of his annual base salary. From the Ordinary General Shareholders' Meeting held on 15 April 2016 on, the target level has been equivalent to 75% of his annual base salary with a maximum at 82.5%, all the foregoing in accordance with the modifications made to the directors' remuneration policy approved by the aforementioned Ordinary General Shareholders' Meeting. At its meeting held on 17 February 2016, the Appointments and Remuneration Committee set the objectives for the financial year 2016, which determined the annual variable remuneration of the chief executive officer in such financial year, such targets were described in detail in the Directors' Remuneration Report approved by the Ordinary General Shareholders' Meeting held in 2016. The Committee conducted quarterly assessment of the level of achievement. At the end of the financial year, the Committee conducted an evaluation process of their level of performance, in which 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 the same. The annual variable remuneration for the chief executive officer, determined for 2016, is based on achieving a combination of quantitative and qualitative business objectives (company), assessed at a Group level: 35% Consolidated Group Result; 35% ROIC and 30% Strategic Plan Level of Progress - which are weighted at 75% of his total annual variable remuneration - as well as on the achievement of the operating targets linked to the business activities of the Red Eléctrica Group: 74% Development, efficiency and profitability of the TSO; 12% Growth of the activities business; 9% Excellence and innovation and 5% Corporate responsibility - which are weighted at 25% of his total annual variable remuneration-. To determine the level of achievement and the incentive amount applicable to the financial year 2016, regarding the business

objectives (company), due to being the same objectives set to determine the variable remuneration of the chairman for his executive duties (up to the date the last Ordinary General Shareholders' Meeting was held in April 2016), we refer to the previous subsection of this section applicable to the chairman, in which the evaluation of the degree of achievement thereof is detailed.

We should only repeat here that, as a conclusion of such evaluation, the Appointments and Remuneration Committee considered overall performance of business objectives (company) at a level of 100%. Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2016, in connection with the operating targets 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": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 117.20%.
2. "Growth of the business activities": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
3. "Excellence and innovation": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
4. "Corporate responsibility": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee considered overall achievement of objectives – both the business (company) and operating objectives linked to the Group's business activities – at a level of 103.18%. Therefore, the annual variable remuneration of the chief executive officer in 2016 amounted to EUR 254.691 (103.18% of the target incentive), disclosed below:

- From 1 January to 14 April 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders's Meeting for such period.

-From 15 April to 31 December 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders's Meeting for such period.

75% of the amount of the gross annual variable remuneration (EUR 191,018) will be paid in cash and the remaining 25% (EUR 63,673) will be provided 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 the year, 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. (continues in section E).

**D** DETAILS OF REMUNERATION INDIVIDUALLY EARNED BY EACH OF THE DIRECTORS

<b>Name</b>	<b>Type</b>	<b>Earned in 2016</b>
JOSÉ LUIS FEITO HIGUERUELA	Independent	From 01/01/2016 to 31/12/2016.
JUAN FRANCISCO LASALA BERNAD	Executive	From 01/01/2016 to 31/12/2016.
JOSÉ FOLGADO BLANCO	Other External	From 01/01/2016 to 31/12/2016.
MARIA DE LOS ÁNGELES AMADOR MILLAN	Independent	From 01/01/2016 to 31/12/2016.
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Proprietary	From 01/01/2016 to 31/12/2016.
MARÍA JOSÉ GARCÍA BEATO	Independent	From 01/01/2016 to 31/12/2016.
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	Independent	From 01/01/2016 to 31/12/2016.
ANTONIO GÓMEZ CIRIA	Independent	From 01/01/2016 to 31/12/2016.
SANTIAGO LANZUELA MARINA	Proprietary	From 01/01/2016 to 31/12/2016.
SOCORRO FERNÁNDEZ LARREA	Independent	From 01/01/2016 to 31/12/2016.
JOSÉ ÁNGEL PARTEARROYO MARTÍN	Proprietary	From 01/01/2016 to 31/12/2016.
AGUSTÍN CONDE BAJÉN	Independent	From 15/04/2016 to 29/11/2016.
PALOMA SENDÍN DE CÁCERES	Independent	From 01/01/2016 to 15/04/2016.

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 2016	Total 2015
PALOMA SENDÍN DE CÁCERES	0	38	5	0	0	8	0	0	51	182
MARIA DE LOS ÁNGELES AMADOR MILLAN	0	131	16	0	0	28	0	0	175	162
FERNANDO FERNÁNDEZ MÉNDEZ 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 JOSÉ GARCIA BEATO	0	131	16	0	0	28	0	0	175	175
SOCORRO FERNÁNDEZ LARREA	0	131	16	0	0	28	0	0	175	175
SANTIAGO LANZUELA MARINA	0	131	16	0	0	28	0	0	175	150
AGUSTÍN CONDE BAJÉN	0	82	9	0	0	17	0	0	108	0
JOSÉ ÁNGEL PARTEARROYO MARTIN	0	131	16	0	0	26	0	0	173	5
ANTONIO GÓMEZ CIRIA	0	131	16	0	0	28	0	0	175	175
JOSÉ FOLGADO BLANCO	115	415	16	29	0	0	0	0	575	707
JUAN FRANCISCO LASALA BERNAD	352	131	16	191	0	0	0	60	750	244
JOSÉ LUIS FEITO HIGUERUELA	0	131	16	0	0	43	0	0	190	155

**ii) Remuneration schemes based on shares**

**iii) Long-term savings schemes**

iv) Other benefits (€ 000s)

<b>JOSÉ FOLGADO BLANCO</b>			
<b>Remuneration in the form of advances and loans granted</b>			
<b>Interest rate of the transaction</b>		<b>Essential features of the transaction</b>	<b>Amounts ultimately returned</b>
0.00		None	None
<b>Life insurance premiums</b>		<b>Guarantees established by the Company in favour of directors</b>	
<b>F/Y 2016</b>	<b>F/Y 2015</b>	<b>F/Y 2016</b>	<b>F/Y 2015</b>
10	4	None	None

<b>JUAN FRANCISCO LASALA BERNAD</b>			
<b>Remuneration in the form of advances and loans granted</b>			
<b>Interest rate of the transaction</b>		<b>Essential features of the transaction</b>	<b>Amounts ultimately returned</b>
0.00		None	None
<b>Life insurance premiums</b>		<b>Guarantees established by the Company in favour of directors</b>	
<b>F/Y 2016</b>	<b>F/Y 2015</b>	<b>F/Y 2016</b>	<b>F/Y 2015</b>
2	1	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 2016	Total 2015
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 FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0	0	0	0	0	0	0	0
PALOMA SENDÍN DE CÁCERES	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 JOSÉ GARCÍA BEATO	0	0	0	0	0	0	0	0	0	0
SOCORRO FERNÁNDEZ 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
AGUSTÍN CONDE BAJÉN	0	0	0	0	0	0	0	0	0	0
JOSÉ LUIS FEITO HIGUERUELA	0	0	0	0	0	0	0	0	0	0
JOSÉ ÁNGEL PARTEARROYO MARTÍN	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	2016 Total from Company	Total cash remuneration	Amount of shares delivered	Gross profit on options exercised	2016 Total from group	2016 Total	2015 Total	Contribution to savings schemes during period
MARIA DE LOS ÁNGELES AMADOR MILLÁN	175	0	0	175	0	0	0	0	175	162	0
JOSÉ FOLGADO BLANCO	575	0	0	575	0	0	0	0	575	707	0
JUAN FRANCISCO LASALA BERNAD	750	0	0	750	0	0	0	0	750	244	0
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	175	0	0	175	0	0	0	0	175	175	0
PALOMA SENDÍN DE CÁCERES	51	0	0	51	0	0	0	0	51	182	0
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	190	0	0	190	0	0	0	0	190	190	0
MARIA JOSÉ GARCÍA BEATO	175	0	0	175	0	0	0	0	175	175	0
SOCORRO FERNÁNDEZ LARREA	175	0	0	175	0	0	0	0	175	175	0
ANTONIO GÓMEZ CIRIA	175	0	0	175	0	0	0	0	175	175	0
SANTIAGO LANZUELA MARINA	175	0	0	175	0	0	0	0	175	150	0
AGUSTÍN CONDE BAJÉN	108	0	0	108	0	0	0	0	108	0	0
JOSÉ LUIS FEITO HIGUERUELA	190	0	0	190	0	0	0	0	190	155	0
JOSÉ ÁNGEL PARTEARROYO MARTÍN	173	0	0	173	0	0	0	0	173	5	0
<b>TOTAL</b>	<b>3,087</b>	<b>0</b>	<b>0</b>	<b>3,087</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,087</b>	<b>2,495</b>	<b>0</b>



## 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, in the process of evaluation undertaken by the Committee on the basis of the audited results for the complete financial year 2016, 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 2016 of EUR 636.9 million, which implies a target achievement of 100%.
2. The Return on Invested Capital (ROIC, measured as the net operating profit compared with the capital employed) of the Red Eléctrica Group in the financial year 2016 has reached 9.4%, which entails a degree of target achievement of 100%.

Regarding target 3, "Strategic Plan Level of Progress", given the definition of the target, upon assessing the relevant circumstances, the Appointments and Remuneration Committee has considered that the degree of weighted achievement with this objective is 100%.

After the assessment of the achievement of the above-mentioned three targets, the Appointments and Remuneration Committee has considered an overall achievement of objectives of 100%. Accordingly, the annual variable remuneration of the chairman amounts to EUR 28,829 (100% of the target incentive). This amount is the result of calculating the proportion of the amount corresponding to the variable remuneration in annual terms for the number of days expired from 1 January 2016 until 14 April 2016 (both inclusive), according to the remuneration policy approved by the Ordinary General Shareholders' Meeting for such period, consisting of a variable remuneration of 25% of his annual base salary for achieving 100% of the objectives.

### A. Annual Variable Remuneration of the Chief Executive Officer

To determine the level of achievement and the incentive amount applicable to the financial year 2016, regarding the business objectives (company), due to being the same objectives set to determine the variable remuneration of the chairman for his executive duties (up to the date the last Ordinary General Shareholders' Meeting was held in April 2016), we refer to the aboved-mentioned information applicable to the chairman, in which the evaluation of the degree of achievement thereof is detailed.

We should only repeat here that, as a conclusion of such evaluation, the Appointments and Remuneration Committee considered overall performance of business objectives (company) at a level of 100%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2016, in connection with the operating targets 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": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 117.20%.
2. "Growth of the business activities": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
3. "Excellence and innovation": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.
4. "Corporate responsibility": after evaluating the relevant circumstances, the Appointments and Remuneration Committee considered that the degree of achievement of this objective was 100%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee considered overall achievement of objectives – both the business (company) and operating objectives linked to the Group's business activities – at a level of 103.18%. Therefore, the annual variable remuneration of the chief executive officer in 2016 amounted to EUR 254.691 (103.18% of the target incentive), disclosed below:

- From 1 January to 14 April 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders's Meeting for such period.

-From 15 April to 31 December 2016 (both inclusive), a proportional amount according to the remuneration policy approved by the Ordinary General Shareholders's Meeting for such period.

75% of the amount of the gross annual variable remuneration (EUR 191,018) will be paid in cash and the remaining 25% (EUR 63,673) will be provided 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 the year, 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:

	<b>Number</b>	<b>% of the total</b>
<b>Votes cast</b>	81,311,231	0.00%

	<b>Number</b>	<b>% of the total</b>
<b>Votes against</b>	443,163	0.55%
<b>Votes for</b>	53,604,790	65.93%
<b>Abstentions</b>	27,263,278	33.53%

## **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 (continuation): - Evaluation of performance of the company, managerial and Management Committee targets linked to the senior executives' variable remuneration for the financial year 2016.

- Approval of the objectives linked to the chief executive officer's and senior executives' variable remuneration for 2017
- Review of the chief executive officer's remuneration structure in 2017
- Proposed Annual Directors' Remuneration Reports made in 2016 and 2017 to be submitted to the Board and to be subsequently submitted to the Ordinary General Shareholders' Meeting
- In relation to subsection A.2.3: Remuneration Committee: Composition.

In 2016, the composition of the Committee has undergone the following variations:

At the Board of Directors' Meeting held on 26 January 2016, the proprietary director, Mr. José Ángel Partearroyo Martín, was appointed as a new member of the Appointments and Remuneration Committee to cover the vacancy therein.

At the Board of Directors' Meeting held on 26 April 2016, the independent director, Mr. Agustín Conde Bajén, was appointed as a new member of the Appointments and Remuneration Committee as a replacement for the vacancy arising by the independent director, Ms. M<sup>a</sup> José García Beato, having resigned as member of such Committee, who joined the Auditing Committee to fill the vacancy therein after the independent director, Ms. Paloma Sendín de Cáceres, resigned. With such appointment, the Appointments and Remuneration Committee is now composed of five (5) members as decided by the Board of Directors at its meeting held on 24 November 2015, in other words, four (4) independent directors and one (1) proprietary director.

At the Board of Directors' Meeting held on 29 November 2016, Mr. Agustín Conde Bajén's resignation as independent director was accepted, who was proposed for appointment as Secretary of State for Defence in Spain, which resulted in the relevant vacancies on the Board of Directors and the Appointments and Remuneration Committee. The vacancy has not been covered on the date this report is approved.

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

In 2016 and 2017 –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 Directors' Remuneration Report.

- In relation to subsection C.1. (cont'd.): c) Multi-year variable remuneration:

Compliance with the directors' 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 satisfaction of certain conditions. In section A.4. of this report the fundamental terms and conditions of such plan have been widely explained.

d) Social benefits and other remuneration

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

Additionally, he is the beneficiary of a life insurance with a premium of EUR 1,845 and that matured on 31 December 2016.

At 31 December 2016, the Balance sheets has no credits, advances granted, or guarantees set up by the Company in favour of the chief executive officer, nor are there any acquired commitments in matters of pensions.

In respect of non-executive directors, the structure and remuneration elements of the remuneration policy implemented in 2016 are stated below:

In the year 2016, the amount of overall remuneration of the Board of Directors amounted to EUR 2,341 thousand (EUR 1,916 thousand in 2015). The increase with regard to the previous year (EUR 425 thousand) is due to essentially the establishment, as of the date of the Annual General Meeting held the 15 April 2016, of a component of fixed remuneration for the chairman (non-executive) of the Board of Directors, having waived to perceive annual variable remuneration, together with the appointment to the Board of Directors of one more director (chief executive officer) during the whole financial year of 2016, and also due to the increase of one more member in each of the two commissions (Audit and Appointments and Remunerations) the 24 November 2015.

According to a proposal made by the Appointments and Remuneration Committee, the Board of Directors decided that, for the financial year 2016, the remuneration amounts and components mentioned before for the members of the Board of Directors would remain the same as for 2015 and it also set a fixed remuneration for the position of (non-executive) chairman of the Board of Directors, approved at the Ordinary General Shareholders' Meeting held in 2016, as stated below:

i) Fixed Remuneration: EUR 130,742 per annum per director.

ii) 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 2016, the total amounting to EUR 16,500. Remuneration for expenses will not be payable for Extraordinary Board of Directors' Meetings, even though none were held in 2016.

iii) Chairman of the Board of Directors:

- EUR 283,854 (EUR 399,170 per annum), corresponding to the period from 15 April 2016, the date when Ordinary General Shareholders' Meeting was held appointing him as chairman of the Board of Directors with non-executive functions, to 31 December 2016 (both inclusive).

Throughout the whole financial year 2016, 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".

iv) 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.

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

In 2016, 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.

In relation to subsection D.1.a):

In respect of the annual variable remuneration accrued by the chief executive officer, the table included in section D, which includes remuneration in cash, reflects 75% of the total accrued amount, which is paid in cash. The remaining 25% will be provided in shares of the company on the date that the delivery is effective for all employees, regularly on the last quarter of the year, 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.

In relation to subsection D.1.c):

In 2016, the chairman and the chief executive officer are beneficiaries of a life insurance which premium amounts to EUR 9,942 and EUR 1,845, respectively, in 2016, and which matured on 31/12/ 2016.

It should be noted that the information included in the company's Annual Accounts for the financial year 2016, in relation to the remunerations accrued in 2015, shows an additional item named as "Other members

of the Board” who ceased during the year 2015 and for whom aggregate remuneration amounts to EUR 158 thousand. The information for the year 2015 in relation to those members of the Board, was individually presented in the company’s Annual Remuneration Report for the year 2015, 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 2015, in thousand euros, amount to 2,653.

In relation to subsection D.3: Regarding the 33.53% abstentions, 33.27% 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 22/02/2017.

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
JOSÉ ÁNGEL PARTEARROYO MARTÍN	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.
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.

**PROPOSED RESOLUTION REGARDING POINT SEVEN OF THE AGENDA:**

**DELEGATION FOR FULL IMPLEMENTATION OF RESOLUTIONS ADOPTED AT THE GENERAL MEETING OF SHAREHOLDERS.**

For the implementation of the foregoing resolutions, if any, that the Annual General Meeting of Shareholders may adopt, the Board of Directors submits the following resolution to the General Meeting:

Without prejudice to the authorizations expressly given by the Annual General Meeting of Shareholders to the Board of Directors, the chairman and each of the members of the Company's Board of Directors, and the secretary of the Board and vice-secretary thereof, are granted the broadest authority, to be exercised jointly or separately, to implement, perform and register each and every one of the resolutions adopted by this Annual General Meeting of Shareholders, including signing the corresponding agreements and documents, with the clauses and conditions they deem to be appropriate, and interpreting, correcting and completing the aforesaid resolutions and recording them as public documents, based on their effectiveness and the comments of any agency or authority, in particular the verbal or written comments of the Mercantile Registrar, taking the necessary or appropriate actions to successfully implement them, in particular to achieve registration with the Mercantile Registry of those resolutions that are susceptible of registration.

## II. REPORTING ITEMS

### **ITEM RELATED TO POINT EIGHT OF THE AGENDA:**

#### **REPORT TO THE GENERAL MEETING OF SHAREHOLDERS ON THE ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE 2016 FINANCIAL YEAR.**

The General Meeting of Shareholders is advised that, in accordance with the provisions of Article 540 of the LSC and other applicable regulations, the Board of Directors, at a meeting held on 22 February 2017, unanimously approved the Annual Corporate Governance Report (*Informe Anual de Gobierno Corporativo*) de Red Eléctrica Corporación S.A. for the 2016 financial year. That report was filed with the National Securities Market Commission (CNMV) as a Relevant Event.

The main body of the Annual Corporate Governance Report for 2016 has four Titles, each of which is divided into Chapters. The titles refer to the legal framework applicable to Red Eléctrica (Title I), the main aspects of corporate governance and related principles and practices at Red Eléctrica (Title II), the year 2016 in Red Eléctrica (Title III) and the future plans of Red Eléctrica in matters of corporate governance (Title IV).

As in previous years, information is included on the main points of the annual self-assessment of the Board of Directors (Title II) and the roadmap for corporate governance established by Red Eléctrica for the years ahead (Title IV, "Future plans of Red Eléctrica in matters of corporate governance").

Finally, as is customary, an Official Annex is attached in the Form of Annex I to CNMV Circular 7/2015 of 22 December 2015.

The Annual Corporate Governance Report is available, in Spanish and English, from 23 February 2017 in the Corporate Governance section of the Company's website ([www.ree.es](http://www.ree.es)), and in the documentation made available to shareholders for this General Meeting of Shareholders.

## **ITEM RELATED TO POINT NINE OF THE AGENDA:**

### **REPORT TO THE GENERAL MEETING OF SHAREHOLDERS ON THE AMENDMENT OF THE BOARD OF DIRECTORS REGULATIONS.**

The Board of Directors Regulations was recently amended by resolution of the Board of Directors at its meeting held on 20 March 2016. The purpose of these amendments was to update the content of the regulations in the light of certain legislative reforms that have affected recently the rules governing public limited companies, in line with the reforms of the Bylaws and the General Meeting of Shareholders Regulations approved by the Annual General Meeting of Shareholders of 15 April 2015; make certain adaptations to best practices, especially international best practices, in corporate governance; make improvements to the organization and functioning of the Board of Directors and its committees; and adapt the regulations to the current organization of the Red Eléctrica Group. Specifically, the main objective of the reform has been to adapt the Board of Directors Regulations to the provisions of Act 31/2014 of 3 December, amending the Spanish Companies Act for the improvement of corporate governance, and the new Code of Good Governance of Listed Companies (Código de Buen Gobierno de las Sociedades Cotizadas, hereinafter "CBGSC"), which was approved by the CNMV on 24 February 2015. The initiative for the reform came from the Appointments and Remuneration Committee, which is one of the bodies with the power to initiate reforms under Article 3 of the current regulations.

The most important aspects of the amendment of the Board of Directors Regulations are:

- Adaptation of the functions of the Board of Directors (broadening its reserved responsibilities) and the two Board committees (Audit Committee and Appointments and Remuneration Committee) to the latest reforms of the LSC and to the CBGSC, while also including organizational and functional improvements.
- Addition of a specific article (Article 11) to regulate the functions and responsibilities of the chief executive officer separately from those of the chairman of the Board of Directors (Article 9), whose roles and responsibilities have also been changed, since separation of the positions of chairman and chief executive officer was completed at the Annual General Meeting of Shareholders held on 15 April 2016.
- Adaptation of the functions of the lead independent director (Article 10, formerly Article 9 *bis*) to the LSC and the CBGSC, strengthening those functions by adding the functions of coordinating the preparation of the Succession Plan for the chairman and, the chief executive officer and maintaining contacts with investors and shareholders in order to form an opinion as to their concerns in relation to corporate governance.
- Strengthening of the independence of the external auditor by adapting the regulations to the LSC and the CBGSC, and giving the Audit Committee the task of receiving from the external auditors each year a statement that they have no criminal convictions (Article 16.3 c), and including the obligation of the external auditors of the Company and, where applicable, the Group to formalise, if the Board so decides, their resignation and dismissal as such if they are convicted on criminal charges (Article 42.5).

For more information, see the Annual Corporate Governance Report for 2016 and the full text of the new Board of Directors Regulations, available in Spanish and in English, on the corporate website, in the section containing the documentation for the next Annual General Meeting of Shareholders.

Yours sincerely,

Signed: Rafael García de Diego Barber  
Secretary General and of the Board of Directors