

**SPANISH SECURITY  
MARKETS COMMISSION**

Markets Division  
Edison, 4  
28006 MADRID

Madrid, 22 March 2019

Dear Sirs:

In accordance with the provisions of Article 227 of the consolidated text of the Spanish Securities Market Act, we are sending you the following relevant information in relation to Red Eléctrica Corporación, S.A.:

Attached find the complete text of the resolutions adopted by the Ordinary Shareholders' Meeting of the Company held on March 22, 2019, proposed by the Board of Directors of Red Eléctrica de Corporación, S.A.

Very truly yours,

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

**Complete text of the resolutions adopted by the Ordinary Shareholders' Meeting of the Company held on March 22, 2019, proposed by the Board of Directors of Red Eléctrica de Corporación, S.A.**

**I. ITEMS FOR APPROVAL**

**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 RECOGNISED 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 2018.**

To approve the Annual Accounts (Statement of Financial Position, Income Statement, Statement of Changes in Equity, Statement of Recognised Income and Expense, Statement of Cash Flows and Notes to the Financial Statements) and Management Report of Red Eléctrica Corporación, S.A. for the 2018 financial year.

The Annual Accounts and Management Report of Red Eléctrica Corporación, S.A. submitted for approval in this act are those that were authorised for issue by the Board of Directors at its meeting held on 19 February 2019 and have been duly audited by KPMG Auditores, S.L.

**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 2018.**

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 2018 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 authorised for issue by the Board of Directors at its meeting held on 19 February 2019 and have been duly audited by KPMG Auditores, S.L.

**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 2018.**

To approve the proposed allocation of profits adopted by the Board of Directors at its meeting held on 19 February 2019 and consequently allocate the profits for the 2018 financial year, amounting to 645,596,729.32 euros, as follows:

	<u>AMOUNT IN EUROS</u>
TO VOLUNTARY RESERVE	97,256,020.69
TO CAPITALISATION RESERVE	16,707,125.59
TO DIVIDENDS:	
INTERIM DIVIDEND	147,250,351.04
SUPPLEMENTARY DIVIDEND (calculated on all shares)	384,383,232.00
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TOTAL	645,596,729.32

It is expressly resolved to pay to the shares having a par value of fifty cents on the euro (€0.50) with a dividend right the gross amount of 0.9831 euros per share. The dividend will be paid on 1 July 2019, at the banks and financial institutions announced at the appropriate time, deducting from the dividend amount the gross amount of 0.2727 euros per share having a par value of fifty cents on the euro (€0.50), which was paid as an interim dividend on 8 January 2019 under the Board of Directors resolution dated 30 October 2018.

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

**EXAMINATION AND APPROVAL, IF APPLICABLE, OF THE REPORT ON NON-FINANCIAL INFORMATION OF THE CONSOLIDATED GROUP OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE 2018 FINANCIAL YEAR, IN ACCORDANCE WITH THE TERMS OF LAW 11/2018 OF 28 DECEMBER 2018 AMENDING THE COMMERCIAL CODE, THE RECAST TEXT OF THE SPANISH COMPANIES ACT, APPROVED BY LEGISLATIVE ROYAL DECREE 1/2010 OF 2 JULY 2010, AND LAW 22/2015 OF 20 JULY 2015 ON THE AUDITING OF ACCOUNTS, ON MATTERS OF NON-FINANCIAL INFORMATION AND DIVERSITY.**

To approve the report on non-financial information of the Consolidated Group of Red Eléctrica Corporación, S.A. for the 2018 financial year, in accordance with the terms of Law 11/2018 of 28 December 2018 amending the Commercial Code, the recast text of the Spanish Companies Act (Ley de Sociedades de Capital; LSC), approved by Legislative Royal Decree 1/2010 of 2 July 2010, and Law 22/2015 of 20 July 2015 on the auditing of accounts, on matters of non-financial information and diversity.

The report on non-financial information of the Consolidated Group of Red Eléctrica Corporación, S.A., the approval of which is proposed in this act, mirrors the information contained in point 11 of the Directors' Report of the Consolidated Group of Red Eléctrica Corporación, S.A. for the year ended 31 December 2018, that was authorised for its issuance by the Board of Directors at its meeting of 19 February 2019.

The statement of non-financial information contained in that report has been examined by Ernst & Young, S.L. and may be consulted on the corporate website of the company, in the section on the Annual General Meeting of Shareholders.

**RESOLUTION REGARDING POINT FIVE 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 2018 FINANCIAL YEAR.**

To approve the management performance of the Board of Directors of Red Eléctrica Corporación, S.A. during the 2018 financial year.

## **RESOLUTIONS REGARDING POINT SIX OF THE AGENDA:**

### **APPOINTMENT OF DIRECTORS OF THE COMPANY**

#### **One.- Ratification and appointment as a director, in the category of “other external”, of Mr. Jordi Sevilla Segura.**

To ratify the appointment of Mr. Jordi Sevilla Segura as director of Red Eléctrica Corporación, S.A., in the category of “other external”, resolved by the Board of Directors at its meeting of 31 July 2018 and accordingly appoint him as director, within said category of “other external”, for the four-year term stipulated by the Articles of Association, in accordance with Article 529 decies of the LSC.

#### **Two.- Ratification and appointment as a proprietary director of Ms. María Teresa Costa Campi.**

To ratify the appointment of Ms. María Teresa Costa Campi as a proprietary director of Red Eléctrica Corporación, S.A., resolved by the Board of Directors at its meeting of 25 September 2018 and accordingly appoint her as a proprietary director representing the Spanish State's Industrial Holding Company (Sociedad Estatal de Participaciones Industriales; SEPI) for the four-year term stipulated by the Articles of Association, in accordance with Article 529 decies of the Spanish Companies Act.

#### **Three.- Ratification and appointment as a proprietary director of Mr. Antonio Gómez Expósito.**

To ratify the appointment of Mr. Antonio Gómez Expósito as proprietary director of Red Eléctrica Corporación, S.A., resolved by the Board of Directors at its meeting of 25 September 2018 and accordingly appoint him as a proprietary director representing the Spanish State's Industrial Holding Company (Sociedad Estatal de Participaciones Industriales; SEPI) for the four-year term stipulated by the Articles of Association, in accordance with Article 529 decies of the Spanish Companies Act.

#### **Four.- Appointment as an independent director of Mr. José Juan Ruiz Gómez.**

To appoint Mr. José Juan Ruiz Gómez as independent director of Red Eléctrica Corporación, S.A., for the four-year term stipulated by the Articles of Association, for the replacement of Mr. José Luis Feito Higuera as independent director, according to the proposal of the Appointments and Remuneration Committee, in accordance with Article 529 decies of the Spanish Companies Act.

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

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

**One.- Amendment of Article 20 (“Board of Directors”) of the Articles of Association in relation to the remuneration of the Board of Directors of the company.**

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

**“Article 20.- Board of Directors**

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

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

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

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

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

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

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

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

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

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



any membership of Board committees and other objective circumstances deemed relevant.

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

The company may contract civil liability insurance for Directors.

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

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

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

Directors' remuneration will in any case be reasonably proportional to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system established will aim at encouraging the company's profitability and long-term sustainability, including the necessary precautions to avoid undertaking excessive risks and rewarding unfavourable results.

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

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

To approve the Policy on Remuneration of the Directors of Red Eléctrica Corporación, S.A., in accordance with the proposal of the Board of Directors approved at its meeting of 19 February 2019.



**RED ELÉCTRICA**  
CORPORACIÓN

**Board of Directors**

*19 February 2019*

Directors' Remuneration Policy of  
Red Eléctrica Corporación, S.A.

## I. REPORT

### I.1. Background

The Ordinary General **Shareholders' Meeting** held on 15 April **2016** **approved** the amendment of the **Directors' Remuneration Policy** of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "entity", the "company" or "Red Eléctrica") approved by the General Shareholders' Meeting held on 15 April 2015. The **valid term** of such policy encompassed the financial years 2016, 2017 and **2018**.

Since the valid term of the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. **expired** in 2018 (hereinafter referred to as the "remuneration policy" or the "directors' remuneration policy"), the Appointments and Remuneration Committee, as part of the decision-making process, has conducted a **review** of such remuneration **policy** with an overall and thorough approach. The aim of this process was to submit to the Ordinary General Shareholders' Meeting of 2019, for its approval, a directors' remuneration policy that, even though it is a continuation of the previous one, contemplates the possibility of introducing aspects that improve the degree of alignment with the principles and basic conditions defined by Red Eléctrica in remuneration matters.

This report is drawn up according to the provisions in the Spanish Capital Companies' Act (hereinafter referred to by its initials in Spanish "LSC"), which stipulates that the approval of the directors' remuneration policy is an obligation of the General Shareholders' Meeting.

The LSC stipulates that the directors' remuneration policy must be justified and must include a specific report issued by the Appointments and Remuneration Committee. Both documents must be posted on the company's website when the General Shareholders' Meeting is called and expressly entitle the shareholders to request that such documents be delivered or handed over free of charge; this right must be expressly stated in the call notice for the General Shareholders' Meeting.

This document is the **legal report with due grounds justifying the directors' remuneration policy** as detailed below and will be presented for the approval of the Board of Directors to be submitted to the Ordinary General Shareholders' Meeting of 2019.

Pursuant to the provisions in Article 24 of the company's Corporate Bylaws and Article 18 of the Regulation of the Board of Directors, the Appointments and Remuneration Committee is assigned, *inter alia*, the duties of proposing the directors' remuneration policy to the Board of Directors, supervising observation of its compliance and, if need be, its updating.

Red Eléctrica voluntarily submits the **annual remuneration of the Board of Directors** since 2007 and the **Annual Report on Remuneration of directors** since 2010 for a **binding approval** of the Ordinary General Shareholders' Meeting. Red Eléctrica has also submitted the **directors' remuneration policy** since 2015 for the approval of the General Shareholders' Meeting, after this was expressly stipulated in the LSC. Continuing along the same line, the director's remuneration, the directors' remuneration policy and Annual Report on

Remuneration of directors are proposed to be submitted as separate and independent items on the Agenda of the General Shareholders' Meeting.

In this way, Red Eléctrica maintains its level of alignment with the best corporate governance practices, which are aimed at providing the shareholders with sufficient autonomy and independent judgement to individually and separately vote on each of the different kinds of resolutions that fall within the competence of the General Shareholders' Meeting.

## **I.2. Basic conditions for the directors' remuneration policy**

The directors' remuneration policy, as provided below for its approval, is based on the following **basis**, in line with those in the remuneration policy in force up to 2018:

- a) The group's **performance**.
- b) The value of the **contribution of the position and the person** both to the entity and the shareholders.
- c) The following **general principles and internal criteria** of Red Eléctrica:
  - The quality and commitment of the human resources of Red Eléctrica are essential to ensure the successful execution of the Red Eléctrica Group's strategies and, with this in mind, any remuneration policy and practice is applied to the Board of Directors and the senior executives to attract, motivate and retain the best professionals.
  - Balance and moderation.
  - Alignment with the company's strategy.
  - Alignment with the practices required by the shareholders and investors.
  - Alignment with effective time spent, responsibility and performance of duties.
  - The remuneration policies and practices guarantee non-discrimination based on gender, age, culture, religion or race.
  - Alignment with the remuneration applied by comparable companies.
  - Transparency.
  - Voluntarily submitting any decision related to the directors' remuneration to the approval of the General Shareholders' Meeting.
- d) **Internal equity**.

- e) The **market data and the guidelines of institutional investors and proxy advisors**, along with the information received from them in the regular engagement process conducted by the Red Eléctrica Group.
- f) The provisions in Red Eléctrica's **corporate rules** (the Corporate Bylaws and Regulation of the Board of Directors) and the principles determined in the corporate governance policy approved by the company's Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.
- g) The applicable **regulations**. The Appointments and Remuneration Committee has verified that the new directors' remuneration policy is suitable according to that stipulated, in general terms, for capital companies in section 4 of Article 217 of the LSC, which states the following:

"The directors' remuneration must in all cases be in a reasonable proportion to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system applied must be aimed at promoting the company's long-term profitability and sustainability and must include the necessary precautions to avoid excessive risk being undertaken and compensation of unfavourable results."

The Appointments and Remuneration Committee and the Board of Directors review the directors' remuneration policy on an annual basis, including an **analysis of comparable companies** to Red Eléctrica in such review process in order to ensure the suitability and moderation of their remuneration compared with the market. In order to determine the relevant parameters and amounts, the company obtains remuneration benchmarkings conducted by consulting firms of recognised international prestige and presence on the market.

Specifically, as part of the decision-making process to determine the remuneration of the **(non-executive) chairman of the Board of Directors** from the financial year 2019, a comparative analysis has been conducted of the remuneration of non-executive chairpersons on the selective **Ibex-35** index, where Red Eléctrica is listed. This analysis encompasses not only a quantitative approach of the different elements included in the remuneration but also a qualitative analysis of the time spent, origin, experience, etc. for the positions on the benchmark market.

The main **conclusions** drawn from the analysis related to the *(non-executive) chairman of the Board of Directors* are as follows:

- The remuneration of non-executive chairpersons on the Ibex-35 consists of fixed elements, which do not depend on business targets.
- The remuneration, at market median, amounts to €940,000 (although there is a great variation in the amounts). The **remuneration in Red Eléctrica** (€546,412) is positioned at 33<sup>th</sup> percentile, considerably **below this benchmark**.

- In particular qualitative issues related to the specific person that holds the position are taken into account in order to determine the remuneration, such as, *inter alia*, his time spent, experience, knowledge, critical aspects at historic times, the importance from an institutional standpoint, etc. as well as the importance of the corporate duties assigned thereto.

Moreover, as part of the decision-making process to determine the remuneration of the **chief executive officer** (*lead executive*) assigned all the executive duties, a benchmarking of the remuneration compared with **three peer groups** has also been conducted, in line with the analyses conducted in previous years:

- A peer group formed by companies listed on the **Ibex-35**, an index on which Red Eléctrica is listed.
- An **ad-hoc** comparison group formed by companies selected based on the same criteria applied to the remuneration analysis conducted in recent years for the *lead executive*. These criteria are as follows:
  - Geographic scope: Companies that have their headquarters in Spain.
  - Scope of responsibility: Listed companies belonging to either Ibex-35, the main Spanish selective index in which Red Eléctrica is listed, or Ibex Medium Cap.
  - Dimension factors: A group of companies with a revenue range of between 40% and 250% of the Red Eléctrica Group's revenue was selected. Factors, such as market capitalisation, total assets and number of employees, were also taken into account.
  - Business sector: Multi-industry. The companies were excluded from the set of companies that meet the previous criteria if their business is considerably different to that of Red Eléctrica, such as banking institutions.
- A peer group formed by **European energy companies**, which both the company and the proxy advisor, Institutional Shareholder Services (hereinafter referred to as the "ISS"), consider to be comparable with Red Eléctrica in terms of dimension (revenues) and that are important in the sector in terms of the evolution in their performance.

The full lists of companies are published in the relevant Annual Reports on Remuneration of directors.

The main **conclusions** drawn from the analysis related to the *chief executive officer* (*lead executive*) are as follows:

- Bearing in mind the principle of moderation and prudence in remuneration and the general relative positioning of Red Eléctrica compared with the peer groups, the desired target positioning in remuneration terms would be around the 25<sup>th</sup> percentile of the market benchmarks, which is the same considered in the previous director's remuneration policy of the company.

- The target **total remuneration** of Red Eléctrica's *chief executive officer* (the sum of the Fixed Remuneration, Annual Variable Remuneration, Multi-year Variable Remuneration, Long-term Savings Scheme and Remuneration as a member of the Board of Directors) is positioned, in general terms, **below the desired target positioning** (25<sup>th</sup> percentile). Particularly, it is positioned at the minimum of the Ibex-35 peer group, the 3<sup>rd</sup> percentile of the ad-hoc peer group and the 44<sup>th</sup> peer group of European energy companies. This is mainly explained by the following two factors:
  - Red Eléctrica's Fixed Remuneration is positioned below the 10<sup>th</sup> or 25<sup>th</sup> percentile of the peer groups. Other remuneration components (Annual and Multi-year Variable Remuneration and contribution to the Long-term savings scheme) are determined as a percentage of the Fixed Remuneration and are hence also affected by this positioning.
  - The Multi-year Variable Remuneration, defined as a percentage of the Fixed Remuneration and as an absolute amount, is positioned below the market benchmarks.
- The **weight** of the remuneration component in **shares** is **lower** than that observed on the market.

### **I.3. Issues addressed and conclusions of the review process conducted by the Appointments and Remuneration Committee on the directors' remuneration policy**

In the assessment and decision-making process for the new remuneration policy that the Appointments and Remuneration Committee and the Board have conducted, the following issues were taken into account, based on the basic conditions described in the previous section:

- The **progress in the achievement of the 2014-2019 Strategic Plan**.
- The **challenges** posed by the **energy transition** and the strategic priorities that will be presented in the **new Strategic Plan**, which Red Eléctrica will communicate in the first quarter of 2019.
- The degree of **suitability** of the **total remuneration** to reward the **value of the contribution of the position and the person**, both to the company and the shareholders:
  - Regarding the **(non-executive) chairman of the Board of Directors**, his **exclusive time spent**, the **person's importance** from an institutional standpoint, the **critical aspects** of the corporate **duties** under his direct responsibility at the current time of the Red Eléctrica Group and the challenges faced due to the Group's new strategic priorities.



- Regarding the **chief executive officer (lead executive)**, his development and **consolidation in the position**, which is shown through the sustained growth in the Red Eléctrica Group's results, as previously mentioned.
- **Internal equity**, shown by the following:
  - The **relation of the remuneration**, both in components and amounts, **of the (non-executive) chairman of the Board of Directors and the chief executive officer**, which must suitably correspond to the effective separation of their duties.
  - The **relation** between the directors' remuneration policy and the **remuneration conditions of the company's employees**.
- Observing Red Eléctrica's consolidated **salary moderation** practice, as a **fundamental principle** since:
  - The specific Fixed Remuneration for the position of the *(non-executive) chairman of the Board of Directors* has remained unchanged since its creation in 2016.
  - The *chief executive officer (lead executive)*'s Fixed Remuneration has remained unchanged since his appointment in 2016.
- The **information** received from **institutional investors and proxy advisors** in the **regular engagement process** conducted by the Red Eléctrica Group, as well as the general recommendations on corporate governance.

The entity regularly organises briefing meetings (roadshows) conducted by the senior executives of the entity in the main financial centres in Spain and abroad where there is a greater presence of institutional investors. The objective is to inform of their activities and the development of their business, as well as to learn the best corporate governance practices, which come from the investment world. Corporate governance roadshows have been held for years in the months of January and meetings with proxy advisors are attended by the lead independent director. These meetings are extremely useful to obtain feedback from shareholders and proxy advisors, which is analysed and assessed throughout the year in order to maintain a permanent engagement.

- The **review** of the **positioning** of the remuneration compared with the **market**. The report issued by the Appointments and Remuneration Committee and the Board in which the amendments made to the directors' remuneration policy were justified to the General Shareholders' Meeting held in 2016, stipulated the following:
  - Regarding the **(non-executive) chairman of the Board of Directors**, a positioning of the remuneration considerably below the market median, expecting that the Board of Directors could review and update such amount in subsequent financial years, within the valid term of the policy and according to the principles contained therein.

- Regarding the **chief executive officer**, a desired target positioning in the 25<sup>th</sup> percentile of the market benchmarks, in line with the positioning of the senior executives; however, this target positioning has not been achieved up to now with the amendments proposed in 2016.

The previous proposals also respond to what was agreed by the Ordinary General Shareholders' Meetings held in 2017 and 2018, which determined the need to review the adequacy of the remuneration structure of both positions, for the reasons stated.

In conclusion, the Appointments and Remuneration Committee has analysed all the previous issues and grounds, and making prevail the **principle of prudence and moderation of remuneration**, proposes the Board to **maintain in 2019 the remuneration of the Board of Directors, of the chairman of the Board and the chief executive officer, in the same terms and conditions as to date.**

On the other hand, given that the 2014-2019 Long Term Incentive Plan ends on 31 December 2019, the Appointments and Remuneration Committee has proposed to **maintain this multi-year variable remuneration**, applicable to the *chief executive officer*, in a way that the approval of a new Long Term Incentive Plan is facilitated, for its implementation in 2020, in line with the new Strategic Plan which is about to be approved, and that **will maintain the structure of the 2014-2019 Long Term Plan**. It introduces the possibility of establishing the long term incentive, in annualised terms, up to a 50% of the annual Fixed Remuneration –although the level of achievement is not assessed till the end of the Plan-; or the possibility for it to be based, totally or partially, in shares of the company, or that allows including relative metrics which compare the results with other relevant comparable companies.

In any case, the features of this new Long-Term Incentive Plan shall be adjusted to the main lines set out in this directors' remuneration policy, which is submitted for the approval of the Ordinary General Shareholders' Meeting of 2019. The Annual Report on Remuneration of directors, to be published in 2020, will detail the main conditions of the new Plan, once approved, as is the usual practice of the company.

In respect to the remuneration of **directors, in their position as members of the Board of Directors** ("in their position as such", according to the LSC, i.e., for the non-executive duties) **no modifications are either proposed**. It should be noted that only minimum formal adjustments are introduced in the Corporate Bylaws, in the new wording related to the directors' remuneration, which will be also submitted for approval to the General Shareholders' Meeting, so that:

- They provide more detail on the different concepts for which directors are remunerated as members of the Board of Directors (for their non-executive duties).

- They suppress the reference to the share in the company's income as one of the remuneration systems of the directors, as it was a system that was not being used by entity.
- Notwithstanding the above, they maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. for the directors "in their position as such" for the non-executive duties and, for all items, which will be approved by the General Shareholders' Meeting and will not exceed an amount equivalent to 1.5% of the company's net income, approved by the General Shareholders' Meeting, and will remain in force insofar if no change is approved. Thus, it is clearer that the aforementioned maximum amount does not imply a remuneration system by means of share in the company's income, but exclusively a mechanism to statutorily establish the maximum amount of remuneration for directors in their position as members of the Board of Directors, using as a reference the net income figure.
- Finally, it is also maintained that the previous remuneration has, in any case, the maximum nature, corresponding to the Board itself the allocation of its amount among the items provided and among the directors, in such manner, at such time and in such proportion as the Board determines, based on the duties and responsibilities assigned to each director, any membership of Board committees and other objective circumstances deemed relevant.

Therefore, the specified percentage of 1.5% of the company's net income approved by the General Shareholders' Meeting is the limit of the overall annual remuneration and, for all items, payable to the directors in the position as members of the Board of Directors ("for their position as such"), for the purposes stipulated in the Corporate Bylaws and in the LSC.

In any case, the Appointments and Remuneration Committee and the Board of Directors may propose to the General Shareholder's Meeting, in the future, measures which allow adjusting the remuneration of both positions to the size and relevance of the entity and the Group, to their economic situation, comparability, profitability and sustainability, as well as to the desired remuneration positioning and the effective consolidation of both positions, all within the framework of the directors' remuneration policy in force at any given time and in line with that approved by the Ordinary General Shareholders' Meetings of the entity in 2017 and 2018.

#### **I.4. Valid term**

The remuneration policy will come into force on 1 January 2019 and will remain in force in the years 2019, 2020 and 2021, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors pursuant to the contents thereof and the amendments that may be approved by General Shareholders' Meeting of Red Eléctrica from time to time.

## II. PROPOSAL FOR A RESOLUTION

*To submit the following proposal for the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. for the approval of the Ordinary General Shareholders' Meeting, as a separate item on the Agenda thereof.*

### THE DIRECTORS' REMUNERATION POLICY OF RED ELÉCTRICA CORPORACIÓN, S.A.

#### 1. Introduction

This document includes the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "entity", the "company" or "Red Eléctrica"), which will be submitted to a binding vote of the General Shareholders' Meeting of 2019 as a separate item on the Agenda to replace, valid as of 1 January 2019, the Directors' Remuneration Policy approved by the Ordinary General Shareholders' Meeting held on 15 April 2015, amended by the Ordinary General Shareholders' Meeting held on 15 April 2016.

The Directors' Remuneration Policy (hereinafter referred to as the "remuneration policy" or the "directors' remuneration policy") contains the following sections:

- The principles of the remuneration policy.
- The duties undertaken by the Appointments and Remuneration Committee.
- The remuneration policy for the *executive director (chief executive officer)*, including a description of the remuneration components, the remuneration mix and the main contractual conditions for the *chief executive officer*.
- The remuneration policy for the directors in their position as members of the Board of Directors ("in their position as such", according to the Spanish Capital Companies' Act - hereinafter referred to by its initials in Spanish "LSC"- for their non-executive duties).
- The remuneration policy applicable to new directors.
- The relation between the remuneration policy and the conditions of the company's employees.
- The maximum amount of the directors' remuneration, which determines the cap of the annual remuneration payable to all the directors.
- The valid term of the policy.

The remuneration and its corresponding amounts included in this policy are understood in all cases as gross. Each director will bear the applicable withholding according to the personal income tax (referred to by its initials in Spanish IRPF).

A part from the remuneration contemplated in this policy, the directors of Red Eléctrica could receive remuneration, if applicable, coming from other entities of the Red Eléctrica Group for their membership of the Board of Directors of said entities. These remunerations will be subject to the corresponding legal and statutory requirements applicable to each of these entities, and there will be fully disclosed information of their perception by the directors in the corresponding Annual Report on Remuneration of directors of Red Eléctrica.

**2. The principles of the remuneration policy**

The quality and commitment of the members of the Board of Directors and senior executives are essential to ensure the successful execution of the Red Eléctrica Group’s strategies and, with this in mind, the Appointments and Remuneration Committee draws up and proposes the remuneration policy and practices applicable to the Board of Directors and the senior executives to Red Eléctrica’s Board of Directors in order to suitably remunerate the best professionals.

The general principles on which the directors’ remuneration policy is based are as follows:

	<i>Executive director (chief executive officer)</i>	<i>Non-executive directors</i>
Balance and moderation	●	●
Alignment with the practices required by the shareholders and investors	●	●
Transparency	●	●
Voluntarily submitting any decision related to the directors’ remuneration to the approval of the General Shareholders’ Meeting	●	●
Alignment of the remuneration policy with the company’s strategy.	●	●
Alignment with the remuneration determined by comparable companies	●	●
The remuneration policies and practices guarantee non-discrimination based on gender, age, culture, religion or race	●	●
Consideration of the effective time spent on their duties	●	●
Link with the responsibility and performance of their duties as directors	●	●
Maintaining a reasonable balance between the different components of fixed remuneration (short-term) and variable remuneration (annual and long-term) that shows that the risks have been suitably undertaken and that the defined targets have been achieved related to creating sustainable value	●	
Lack of variable components in their remuneration to ensure their full independence related to the remuneration of the <i>chief executive officer</i> and the executive team.		●
Motivating amount, without affecting their independence		●

All the previous principles are coherent with the company’s corporate governance policy approved by the Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.

In addition, such remunerative principles, in general terms, meet the requirements for capital companies in the LSC, regarding their suitability to the company’s dimension and importance, its economic situation, comparability, profitability and sustainability; and regarding excessive risks not being undertaken or unfavourable results not being compensated.

What we do	What we don’t do
<p><b>Executive director (chief executive officer):</b></p> <ul style="list-style-type: none"> <li>• Link the payment of a significant part of the remuneration to the economic and financial results the Group obtains.</li> <li>• Defer a significant part of the remuneration.</li> <li>• Deliver a significant part of the remuneration in the company’s shares.</li> <li>• Include <i>malus</i> and <i>clawback</i> clauses applicable to the short- and long-term variable remuneration.</li> <li>• Determine severance payments for the termination of the legal relationship, limited to one year of fixed and variable remuneration, for achieving 100% of the objectives.</li> <li>• Regularly review the alignment of the total remuneration with comparable companies.</li> <li>• Regularly obtain support from external advisors.</li> </ul> <p><b>Non-executive directors:</b></p> <ul style="list-style-type: none"> <li>• Link the remuneration with the effective time they spend, the responsibilities undertaken and performance of their duties as directors.</li> </ul>	<p><b>Executive director (chief executive officer):</b></p> <ul style="list-style-type: none"> <li>• Guarantee increases in the fixed remuneration and payments of variable remuneration.</li> <li>• Grant discretionary remuneration.</li> <li>• Grant advance payments or loans, as a general rule.</li> <li>• Allow hedging of the value of the shares received in the holding period<sup>(*)</sup></li> <li>• Discriminate in remuneration on the basis of gender, age, culture, religion or race. The professionals of Red Eléctrica are remunerated based on their professional career, the time spent on their duties and the responsibility they undertake.</li> </ul> <p><b>Non-executive directors:</b></p> <ul style="list-style-type: none"> <li>• Participate in remuneration schemes linked to the company’s performance (they are only paid fixed remuneration).</li> <li>• Participate in retirement plans or other social benefit schemes.</li> </ul>

<sup>(\*)</sup> The holding period refers to the time after the vesting of shares that have been granted as remuneration during which they cannot be sold or be accessible.

### 3. The duties undertaken by the Appointments and Remuneration Committee

The Regulation of the Board of Directors, according to the authorisation contained in the entity’s Corporate Bylaws, describe the responsibilities and duties undertaken by the Appointments and Remuneration Committee, including those related to the remuneration of directors and senior executives reporting directly to the Board of Directors.

The tables below summarise the actions of the Appointments and Remuneration Committee in the decision-making process related to determining, applying and reviewing the remuneration policy:

Determining the remuneration policy
<ul style="list-style-type: none"> <li>• It proposes the directors' remuneration policy to the Board of Directors to be submitted to the General Shareholders' Meeting, including the maximum overall amount, remuneration items and amounts.</li> <li>• It proposes to the Board of Directors the remuneration policy of the senior executives that directly report to the Board of Directors, the <i>(non-executive) chairman of the Board of Directors</i> or the <i>executive director (chief executive officer)</i>.</li> <li>• It draws up a specific report, which is provided to the Board of Directors, on the proposal for the director's remuneration policy of the Board of Directors to be submitted for the approval of the General Shareholders' Meeting.</li> </ul>

Applying the remuneration policy
<ul style="list-style-type: none"> <li>• It proposes the executive directors' annual remuneration to the Board of Directors, which will include the part corresponding to the fixed remuneration and the variable remuneration linked to the achievement of the strategies and pre-determined and quantifiable targets determined by the Board of Directors, at the proposal of the Appointments and Remuneration Committee, before the beginning of each financial year, and tied to the actions envisaged in the entity's Strategic Plan.</li> <li>• It proposes the individual remuneration of the executive directors and the other terms and conditions for their contracts.</li> <li>• It proposes the metrics and targets linked to the variable remuneration of the <i>executive director (chief executive officer)</i> and senior executives directly reporting to the Board of Directors, considering their possible impact in the long-term, the sustainability of results and any related risk.</li> </ul> <p>When analysing, selecting and proposing the quantitative and qualitative targets, the Committee takes into account the Red Eléctrica Group's short- and long-term strategic priorities referred to in the Strategic Plan approved by the Board of Directors.</p> <p>In order to determine the suitable weighting and the achievement levels of each target, the Appointments and Remuneration Committee takes into account past analyses, forecasts and the expected performance of the Red Eléctrica Group and regularly monitors them.</p> <ul style="list-style-type: none"> <li>• It regularly monitors the achievement of the predetermined quantifiable targets, aligned with the Strategic Plan, which must be assessed to determine the final amount of the annual variable remuneration and, if any, the multi-year remuneration of the <i>executive director (chief executive officer)</i> and the aforementioned senior executives applicable thereto.</li> <li>• It assesses achievement of the targets linked to the variable remuneration of the <i>chief executive officer</i> and the aforementioned senior executives.</li> </ul> <p>In this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duties of the Red Eléctrica Group and provides information about the audited results of the entity and the consolidated Group.</p> <p>In order to ensure the variable remuneration is effectively linked to the professional performance of the beneficiaries, when determining the level of achievement of the quantitative targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p>

#### Reviewing the remuneration policy

- It regularly reviews the Board of Directors' remuneration policy, which includes the non-executive directors –with the *(non-executive) chairman of the Board of Directors-* and the *executive director (chief executive officer)*, making a comparison with benchmark companies in this review process, selecting groups of comparable companies and it keeps in permanent contact with its shareholders and those casting the votes (proxy advisors) to verify the suitability and moderation of the remuneration of the company's non-executive directors and chief executive officer compared with the market.

In order to carry out this duty, the Committee receives advice from external independent consultants that are experts in remuneration.

Notwithstanding the foregoing, the Board of Directors takes part, in all cases, in the duties related to the remuneration policy assigned thereto by the Spanish Capital Companies' Act, the Corporate Bylaws and the Regulation of the Board of Directors.

#### **4. The remuneration policy for the *executive director (chief executive officer)***

The elements of the remuneration policy for the *chief executive officer* are provided below. The Corporate Bylaws, in the new wording related to the directors' remuneration, which will be submitted for approval to the same General Shareholders' Meeting to which this policy will be submitted, describe the remuneration system applicable to the *chief executive officer* which is described below.



#### 4.1. Table related to the remuneration policy for the *executive director (chief executive officer)*

Table 1. Remuneration policy for the *executive director (chief executive officer)*

	Amount	Operating
<p><b>Fixed Remuneration</b></p> <p><i>Purpose:</i> Reward the executive based on his responsibility and professional career.</p>	<p><b>Amount:</b> Year 2019: €399,170.</p> <p><b>Standard general update:</b> The Fixed Remuneration may be reviewed on an annual basis, according to the criteria approved from time to time by the Appointments and Remuneration Committee, among others, development and consolidation in the position, evolution in the company's performance, complexity of the business, geographic diversity, market benchmarks, etc. Although the updating will take place in the terms described above, the Appointments and Remuneration Committee must always provide justification thereof.</p>	<p>The Fixed Remuneration will be calculated in accordance with his responsibility and leadership in the organisation and in line with the amount paid by comparable companies on the market.</p> <p>In certain exceptional cases, the Appointments and Remuneration Committee may appreciate, for example, the existence of a change in responsibility and/or development in the position and/or special needs for retaining or motivating the executive. Under these circumstances, the Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on Remuneration of directors.</p> <p>The Fixed Remuneration is paid in cash.</p>
<p><b>Long-Term Savings Scheme</b></p> <p><i>Purpose:</i> To offer a total remuneration package that is competitive with market practice.</p>	<p><b>Annual contribution:</b> 20% of the annual Fixed Remuneration.</p>	<p>The defined contribution retirement scheme. The contingencies covered by this scheme are retirement, death and permanent disability.</p> <p>This scheme is funded through an insurance policy underwritten with an external insurer. The benefits consist of the economic rights corresponding to the beneficiary due to any of the contingencies arising covered by this scheme.</p> <p>If the event of termination, the economic rights will be consolidated in favour of the <i>chief executive officer</i>, unless the termination takes place due to misconduct or serious negligence thereby when performing his duties causing damages to the company. Receiving any indemnity will be compatible with the recognition of the economic rights in the retirement scheme.</p> <p>If new regulatory provisions were approved and imply a review of the scheme, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may make the relevant amendments to adapt it to the new regulations. If amendments are made, the reasons must be duly notified in the Annual Report on Remuneration of directors.</p>
<p><b>Social Benefits</b></p> <p><i>Purpose:</i> To offer a total remuneration package that is competitive with market practice.</p>	<p><b>Annual amount:</b> €60,000</p>	<p>An allowance in cash or in kind as social benefits.</p>

	Amount	Metrics	Functioning
<p><b>Annual variable remuneration</b></p> <p><i>Purpose: To incentivise the achievement of the annual targets in line with the Red Eléctrica Group's Strategic Plan.</i></p>	<p><b>Target</b> 75% of the annual Fixed Remuneration. It is attained if 100% of the predetermined targets are achieved.</p> <p><b>Maximum</b> 110% of the Target Incentive (82.5% of the annual Fixed Remuneration). It is attained in the case of overachievement of the maximum pre-determined targets.</p>	<p>It is linked to achieving a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the corporate interests and in line with the Red Eléctrica Group's Strategic Plan. These targets may include, <i>inter alia</i>, economic-financial, business, operational and/or value-creation metrics, as well as indicators linked to sustainability in their social, environmental and/or good corporate governance vectors.</p> <p>In a scenario in which the target objectives are achieved, the qualitative targets imply a maximum weight of 30% of the overall incentive.</p>	<p>The Appointments and Remuneration Committee is responsible for approving the targets at the beginning of each financial year and for assessing the achievement thereof at the end of the year.</p> <p>In order to ensure that the Annual Variable Remuneration is effectively in line with the professional performance of the beneficiaries, when determining the level of achievement of the quantitative targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>The performance scale, set at the beginning of each financial year, includes a minimum threshold below which no incentive is paid, a target level that corresponds to achieving 100% of the targets and a specific maximum level for each metric. The maximum incentive is only payable if it is determined that the targets set at the beginning of the financial year have been achieved and a level of overachievement has been reached, if applicable to the target. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>In order to calculate the amount of the Annual Variable Remuneration, the level of achievement and weighting of each of the targets -individual and/or global- are considered and the internal rules and procedures are applied for assessing targets determined by other companies for its executives. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duties of the Red Eléctrica Group and provides information about the individual and consolidated audited results of the Red Eléctrica Group.</p> <p>The Annual Variable Remuneration is paid by means of a combination of cash and company shares. The number of shares will be equivalent to at least 25% of the Annual Variable Remuneration. The <i>chief executive officer</i> undertakes a commitment with the entity, while he holds such position, to keep the shares received, net of applicable taxes, for at least five (5) years. If the General Shareholders' Meeting does not approve granting the <i>chief executive officer</i> shares as remuneration or determines a maximum amount lower than that specified, an amount equivalent to the remuneration that cannot be paid in shares will be paid in cash.</p>
<p><b>2014-2019 multi-year variable remuneration in cash plan</b> (approved by the Ordinary General Shareholders' Meeting held in 2016)</p>	<p><b>Target</b> 1.8 times the annual Fixed Remuneration for the total term of the Plan (six (6) years).</p> <p><b>Maximum</b> 110% of the target.</p>	<p><b>Metrics</b> The economic, financial and operational targets included in the Strategic Plan 2014-2019.</p> <p>The following targets and weightings are determined:</p> <ul style="list-style-type: none"> <li>- 20% linked to the extension of the business base, measured through the investment volume indicator;</li> <li>- 25% of the incentive depends on the fulfilment of the Investment Plan of the transport network, measured according to commissioned positions, amongst others;</li> <li>- 20% of the incentive is linked to the quality of the system operation; energy that is not supplied is used to calculate this;</li> <li>- 25% of the incentive is linked to the efficiency of operations and two metrics are taken into account: return on fixed assets and earnings per share;</li> <li>- The remaining 10% depends on fulfilment of the Corporate Responsibility Plan (currently called the Sustainability Scheme)</li> </ul>	<p>The Plan is structured on a single cycle of six (6) years. The grant is in cash and equivalent to 1.8 times the annual Fixed Remuneration. This amount is paid in full or partially at the end of the Plan, depending on certain metrics being achieved linked to Red Eléctrica's Strategic Plan.</p> <p>In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target. Similarly, the maximum achievement of all the targets in the Plan is 110%, even if the average weighted achievement of the targets is higher.</p> <p>The Committee will monitor the targets on an annual basis and, once the Plan has terminated, the level of achievement will be calculated. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duty of the Red Eléctrica Group and provides information about the audited results. The Committee also considers any related risk both for determining the targets and for assessing their achievement.</p> <p>When determining the level of achievement of the targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p>

	Amount	Metrics	Functioning
<p><b>Multi-year variable remuneration</b> (applicable from 2020)</p> <p><i>Purpose: To reward the attainment of the long-term strategic priorities of the Red Eléctrica Group, the sustainability of the Red Eléctrica Group's performance and the sustainable value creation for the shareholders.</i></p>	<p><b>Annual Target Incentive</b> Up to 50% of the annual Fixed Remuneration for each year in the period for assessing the targets in the Plan.</p> <p><b>Maximum Annual Incentive</b> 110% of the Target Incentive (55% of the annual Fixed Remuneration for each year in the performance period).</p>	<p>The economic-financial, business and operational targets included in the Red Eléctrica Group's Strategic Plan, value creation targets for the shareholders and non-financial targets linked to the multi-year Sustainability Plans of the Red Eléctrica Group.</p> <p>Some of the metrics can be measured on a relative basis by comparison with competing companies or companies that perform similar business activities.</p>	<p>The incentive may be paid in cash and/or shares, providing the targets set for such purpose are achieved. Payment may be made at one time or gradually over a period longer than one year.</p> <p>The performance period for the targets will be, at least, three (3) years.</p> <p>The performance scale, set at the beginning of the scheme, includes a minimum threshold below which the incentive is not payable, a target amount in the case 100% of the pre-determined targets are achieved and a maximum level, if the targets have been exceeded. Intermediate levels will be calculated by linear interpolation. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>The Appointments and Remuneration Committee monitors the targets on an annual basis and, once the Plan has terminated, the level of achievement will be calculated. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duty of the Red Eléctrica Group and provides information about the individual and consolidated audited results of the Red Eléctrica Group. The Committee also considers any related risk both for determining the targets and for assessing their achievement.</p> <p>When determining the level of achievement of the targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>Once the performance period has finalised, cliff or graded vesting, over a period of more than one year, may be considered.</p> <p>The shares derived from the plan, net of applicable taxes, if any, can be fully or partially subject to a compulsory holding period.</p>

Due to the potential impact on the Red Eléctrica Group's strategic interests, the level of achievement of the targets to which the variable remuneration is linked is considered commercially sensitive information. Therefore, this will be disclosed and published in the corresponding Annual Report on Remuneration of directors, as it is the usual practice of the company, once the year to which these targets are referred to is completed and once the assessment of the levels of achievement has been made by the Appointments and Remuneration Committee.

#### 4.2. Other remuneration components of the *chief executive officer*

The *chief executive officer's* remuneration policy includes the entity granting loans, advance payments and guarantees in line with the policy for the Group's executives.

The remuneration policy of the *chief executive officer* also contemplates the participation in the remuneration systems which implies the delivery of shares from the company or referenced to the value of these, with the prior express authorisation of the General Shareholders' Meeting and within the limits and conditions established by the legislation in force at any time.

In addition, the *chief executive officer* will receive the remuneration corresponding thereto for his supervisory duties as a member of the Board of Directors, as described in Table 4 of this remuneration policy, for the items of “Fixed Remuneration” and “Remuneration for attending the Board of Directors’ meetings”.

#### **4.3. Remuneration mix of the *chief executive officer***

The *chief executive officer* has a fully flexible variable remuneration scheme, which is suitably in accordance with the performance achieved and that, if the pre-determined minimum achievement thresholds are not reached, the variable remuneration would be reduced to zero.

If the targets are exceeded, the weight of the short- and long-term variable remuneration will not exceed 50% of the total remuneration (considering, for this purpose, this means the sum of the Fixed Remuneration, the Long-term Savings Scheme, Social Benefits, Annual Variable Remuneration and Multi-year Variable Remuneration).

#### **4.4. Ex-post control of the variable remuneration (*chief executive officer*)**

The Appointments and Remuneration Committee is responsible for proposing to the Board of Directors cancellation or reimbursement of the short or long-term variable remuneration payment of the relevant beneficiary or beneficiaries or responsible person or persons due to unexpected circumstances that justify that the variable remuneration has been accrued or paid based on inaccurate or erroneous information or data or the corporate internal regulations or applicable law were infringed as subsequently proven. Furthermore, the Appointments and Remuneration Committee will decide whether, due to exceptional circumstances of this kind, the termination of the contractual relationship with the relevant beneficiary or beneficiaries or responsible person or persons can be proposed to the Board of Directors, also being able to propose that all the measures considered appropriate are adopted.

The Appointments and Remuneration Committee may propose to the Board of Directors that adjustments should be made to the elements, criteria, thresholds and limits of the annual or multi-year variable remuneration due to exceptional circumstances caused by extraordinary internal or external factors or events. The details and justification for such adjustments will be recorded in the relevant Annual Report on Remuneration of directors.

#### **4.5. Contractual terms and conditions for the *chief executive officer***

The contract regulating the duties and commitments of the *chief executive officer* is of a commercial nature and includes the clauses that in practice are usually contained in these kinds of contracts. The *chief executive officer's* contract will be updated, if needed, to include the new aspects related to this new remuneration policy.

Both tables below describe, as a summary, the main clauses of the aforementioned *chief executive officer's* contract:

**Table 2. Severance pay in the case of termination of the contractual relationship**

	Dismissal as decided by the entity	Voluntary resignation by the <i>chief executive officer</i>
<b>Prior notice</b>	There is no prior notice period.	Agreed prior notice of 2 months. If the prior notice term is not fulfilled, the <i>chief executive officer</i> shall indemnify the entity with the amount of all the corresponding remuneration for the time remaining to complete the said term.
<b>Severance Pay</b>	Termination of the contractual relationship. The severance pay will be equivalent to one year of pay, which will include the fixed remuneration plus the amount corresponding to the variable remuneration, calculated according to a 100% achievement of objectives. The severance pay will not be applicable if the termination is due to misconduct or serious negligence by the <i>chief executive officer</i> when performing his duties causing damages to the company.	Termination of the contractual relationship.  If the director decides to terminate his relationship with the entity due to serious and culpable breach of contract by the entity or a significant change in his duties not due to a reason caused by the <i>chief executive officer</i> , the latter will be entitled to receive the same severance pay specified for cases of dismissal by the entity.  In a scenario of change of control, the <i>chief executive officer</i> will have the option, within 2 months, to cease his position, automatically terminating his contract and receiving the severance pay indicated in cases of dismissal by the entity.

**Table 3. Exclusivity and non-competition**

	Functioning
<b>Confidentiality</b>	The Regulation of the Board of Directors (Article 31) state that all directors must not disclose the information, data, reports or background that he/she has access to when performing his/her duties, even when he/she has left the company, except in the cases such disclosure is allowed or required by law.
<b>Non-competition</b>	The <i>executive director's</i> contract includes an obligation to not compete with the entity during two (2) years after he is no longer in office, without this entitling him to any indemnification as a post-contractual non-compete obligation, given that this is presumed as covered with his Fixed Remuneration. In his position as director of Red Eléctrica, the <i>chief executive officer</i> must not compete with the entity in the terms in which such obligation is regulated for the company's directors by law and the Regulation of the Board of Directors (Article 32).
<b>Limitation of posts and exclusivity</b>	A full-time working system is determined and he may not render other services of any kind to other enterprises, whether they are in competition or not with the company, while he has a relationship with Red Eléctrica, unless expressly authorised by the Board of Directors. The Board of Directors' Regulations (Article 7.2.a) stipulate that the <i>chief executive officer</i> may only hold the post of director on one (1) Board of Directors of another company (unless Red Eléctrica holds a stake therein).

## 5. Remuneration policy for the directors in their position as members of the Board of Directors(\*) (“in their position as such”, according to the LSC for their non-executive duties)

(\*) This is also applicable to the chief executive officer as a member of the Board of Directors.

The elements of the remuneration policy for the directors in their position as such (for their non-executive duties) are provided below.

To this effect, it should be noted that the Corporate Bylaws, in the new wording related to the directors’ remuneration, which will be submitted for approval to the same General Shareholders’ Meeting to which this policy will be submitted, maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. in their position as members of the Board (“in their position as such” according to the LSC), for all items, which will be approved by the General Shareholders’ Meeting and will not exceed an amount equivalent to 1.5% of the company’s net income, approved by the General Shareholders’ Meeting, and will remain in force insofar if no change is approved.

Therefore, the specified percentage of 1.5% of the company’s net income approved by the General Shareholders’ Meeting is the limit of the overall annual remuneration payable to the directors in the position as members of the Board of Directors (for their non-executive duties), for the purposes stipulated in the Corporate Bylaws and in the LSC.

**Table 4. Remuneration policy for the directors in their position as members of the Board of Directors**

	Purpose	Limits	Functioning
<b>Fixed remuneration</b>	To adequately remunerate the responsibility and time dedicated in the position, without reaching levels that could hinder the director’s independence.	<b>Maximum</b> €130,742 per annum per director.  Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.
<b>Remuneration for attending the Board of Directors’ meetings</b>	To remunerate the personal and effective attendance at the Board of Directors’ meetings.	<b>Maximum</b> The Board of Directors: €1,500 per director and per ordinary meeting.  Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	The remuneration for attending the Board of Directors’ meetings are paid for the personal attendance of each director at each of the ordinary meetings planned for each financial year in the schedule approved by the Board of Directors, being able to delegate his/her duties to a proxy for duly justified reasons at a maximum of twice a year without forfeiting the right to receive the remuneration.  This amount will be paid within fifteen (15) days after the meetings have been held.  Attending extraordinary Board of Directors’ meetings, in person or by electronic means, shall not result in any remuneration being paid for this item.

	Purpose	Limits	Functioning
<b>(Non-executive) chairman of the Board of Directors</b>	To suitably remunerate the time spent as required by the position, the level of special responsibility and the skills and experience required to perform the duties.	<b>Maximum</b> €399,170 per annum for 2019. Annual reviews may be applied within the maximum overall annual limit for all the members of the Board of Directors.	<b>Remuneration in cash</b> It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.
<b>Time assigned to the Board of Directors' Committees</b>	To remunerate the time assigned and attendance at the Board of Directors' Committee meetings.	<b>Maximum</b> - Member of each of the Committees: €27,900 per annum. - Chairpersons of each of the Committees: €15,000 per annum for each one (in addition to their remuneration as members thereof). Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	The remuneration for the time spent and attending the Board of Directors' Committee meetings and the remuneration for the committees' chairpersons will be paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month. The previous amounts are of an annual nature regardless of the number of Committee Meetings held in the financial year.
<b>Lead Independent Director</b>	To suitably remunerate the additional time required by the position.	<b>Maximum</b> €15,000 per annum Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors.	It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.

Directors will be paid or reimbursed for reasonable and duly justified expenses incurred as a result of attending meetings and other duties directly related to the performance of their position, such as travel, accommodation, maintenance and any other that they may incur.

The remuneration policy for the directors in their position as members of the Board of Directors with non-executive duties, does not include granting loans, advance payments or guarantees provided by the entity in their favour.

Nor does it contemplate the participation of the directors with non-executive duties in pension schemes, or indemnities for their supervisory duties or take part in a group decision on the termination of their relationship with the entity due to their position as non-executive directors, or the granting of any other additional remuneration apart from that referred to above.

## 6. Remuneration policy applicable to new directors

The aforementioned remuneration system for the *executive director (chief executive officer)* will be applicable to any director that could become a member of the Board of Directors during the valid term of this remuneration policy for performing executive duties.

When determining the economic system for a new executive director, the Appointments and Remuneration Committee will take into consideration the experience and knowledge of such new executive director, his/her origin and remuneration level prior to his/her appointment.

Table 1 in this policy (see section 4.1) describes the elements to be considered to design and determine the remuneration system for new executive directors. Depending on the remuneration level they had prior to joining the company, the Committee may determine different remuneration to reach an economic system deemed suitable.

Notwithstanding the above, Red Eléctrica's remuneration policy does not contemplate the granting of guaranteed sign-in bonus.

In this respect, the Appointments and Remuneration Committee will determine the basic conditions and justify the new remuneration bearing in mind, *inter alia*, the following factors:

- The regulations applicable from time to time to the remuneration of the members of the Board of Directors that perform executive duties.
- The provisions in the Corporate Bylaws, the Regulation of the Board of Directors and the principles contained in the corporate governance policy approved by the company's Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.
- The principles referred to in section 2 of this remuneration policy applicable to the *executive director*.
- The market data and guidelines of institutional investors and proxy advisors, as well the information received thereby in the engagement process conducted by the Red Eléctrica Group.

The remuneration policy for new appointments includes the possible existence of more than one executive director with different duties and responsibilities being assigned to each of them.

If non-executive members join the Board of Directors during the valid term of this policy, the remuneration system described in Table 4 above shall be applicable thereto.



## **7. Relation between the remuneration policy and the conditions of the company's employees**

The remuneration policy of the group's employees was taken into account in order to determine the remuneration conditions for the *chief executive officer*, as described in this remuneration policy.

In this respect, the remuneration policy of the *chief executive officer* is aligned with that of the rest of the employees, both including the following principles:

- It is a part of Red Eléctrica's equal opportunities policy, which expresses and formalises the company's commitment and strategic positioning to promote equal opportunities, respect of differences and non-discrimination in all the activities related to human resources management and it aims at ensuring that the remuneration policies and practices guarantee at all times non-discrimination due to gender, age, culture, religion or race, or any other circumstance. Therefore, Red Eléctrica's employees are remunerated depending on their professional worth, experience, the time they spend on their duties and the responsibility they undertake.
- The total remuneration offered by Red Eléctrica may consist of fixed elements, short- and long-term variable elements as well as remuneration in kind and other social benefits.
- In the same way as for the rest of the Red Eléctrica Group's executive team, a significant part of the total remuneration of the *chief executive officer* is variable and receiving it is subject to achievement of a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the corporate interests and Strategic Plan of the Red Eléctrica Group.
- The variable remuneration is not guaranteed and is absolutely flexible and hence no amount can be received for this item if the minimum achievement thresholds are not reached.

Therefore, it is considered that the elements included in the remuneration of the *chief executive officer* for his executive duties are aligned with the components contained in the remuneration package for the group's executive team, except for the remuneration received for his supervisory duties as a member of the Board of Directors.

## **8. Maximum amount of the directors' remuneration**

The maximum amount of the remuneration payable by the entity to all its directors every year will be the result of the sum of the following:

- The items specified in section 4.1 above, which remunerate the executive duties performed by the *executive director (chief executive officer)*.

- An amount equivalent to 1.5% of company's net income, approved by the General Shareholders' Meeting for all the directors, as members of the Board of Directors ("in their positions as such", according to the LSC, for their non-executive duties).

If the event of termination of the *chief executive officer*, the amount he is entitled to be paid must be added to the aforementioned amounts, according to the provisions of his contract, in the terms specified in the previous section 4.5.

The maximum amount referred to in this section will continue being applicable during the valid term of this remuneration policy, unless the General Shareholders' Meeting decides to modify it in the future.

## **9. Valid term**

The remuneration policy will come into force on 1 January 2019 and will remain in force in the years 2019, 2020 and 2021, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors pursuant to the contents thereof and the amendments that may be approved by the General Shareholders' Meeting of Red Eléctrica from time to time.

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

To approve the Annual Report on Remuneration of the Directors of the company, in accordance with the proposal of the Board of Directors approved at its meeting of 19 February 2019.



**RED ELÉCTRICA**  
CORPORACIÓN

## **Board of Directors**

*19 February 2019*

Annual Report on Remuneration of Directors

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**Annex III Statistic of the Annual Report on Remuneration of Directors for listed companies (Circular 2/2018, of June 12, of the CNMV), corresponding to Red Eléctrica Corporación S.A. .... 54**

# 1. Presentation of the Report by the chairman of the Appointments and Remuneration Committee

Dear shareholders,

On behalf of the Appointments and Remuneration Committee, I am pleased to present the Annual Report on Remuneration of directors.

This Report includes the implementation of directors' remuneration in 2018, in accordance with the directors' remuneration policy of Red Eléctrica Corporación, S.A. (hereinafter also referred to as the "company", the "entity", the "Group" or "Red Eléctrica"), approved by the General Shareholders' Meeting held on 15 April 15 2015 and subsequently modified by the Ordinary General Shareholders' Meeting held on 15 April 15 2016.

Since the valid term of the directors' remuneration policy expired on 31 December 2018, Red Eléctrica will submit, for approval by the Ordinary General Shareholders' Meeting to be held in 2019, a new directors' remuneration policy that, even though it is a continuation of the previous one, contemplates the possibility of introducing aspects that improve the degree of alignment with the principles and basic conditions defined by Red Eléctrica in remuneration matters.

In this regard, in order to make the corresponding decisions, the Appointments and Remuneration Committee has conducted thorough process, with a global and rigorous approach, in which the following factors, among others, have been considered:

- The results of the Group, which are reflected **in the progress in the achievement of the 2014-2019 Strategic Plan**.
- The **challenges** posed by the **energy sector transition** and the strategic priorities that will be presented in the **new Strategic Plan**, which Red Eléctrica will communicate in the first quarter of 2019.
- Regarding the **(non-executive) chairman of the Board of Directors**, his **exclusive time spent**, the **person's importance** from an institutional standpoint, the **critical aspects** of the corporate **duties** under his direct responsibility at the current time of the Red Eléctrica Group and the challenges faced due to the Group's new strategic priorities.

- Regarding the **chief executive officer (lead executive)**, his development and **consolidation in the position**, which is shown through the sustained growth in the Red Eléctrica Group's results, as previously mentioned.
- **Internal equity.**
- Respect to Red Eléctrica's consolidated **salary moderation** practice, as a **fundamental principle**.
- The **information** received from **institutional investors and proxy advisors** in the **regular engagement process** conducted by the Red Eléctrica Group, the result of the advisory vote from the General Shareholders' Meeting in respect to the Annual Report on Remuneration of directors published in 2018, as well as the general recommendations on corporate governance.
- **The review of the positioning of remuneration** compared to the **market**.

The detail is included in this Report and in the directors' [remuneration policy](#), available on the corporate website in the corporate governance section, relating to the General Shareholders' Meeting.

The above matters also respond to what was agreed by the Ordinary General Shareholders' Meetings held in 2017 and 2018, which determined the need to review the adequacy of the remuneration structure of both positions, for the reasons stated.

In conclusion, the Appointments and Remuneration Committee has analysed all the previous issues and grounds, and making prevail the **principle of prudence and moderation of remuneration**, proposes the Board to **maintain in 2019 the remuneration of the Board of Directors, of the chairman of the Board and the chief executive officer, in the same terms and conditions as to date**.

On the other hand, in relation to the year ended 2018, the Commission has evaluated the economic results achieved by the company, which reflect a growth in respect to the previous year and which are aligned with the objectives to which the *chief executive officer's (executive director)* annual variable remuneration is linked; these results were established at the beginning of the year by the Appointments and Remuneration Committee. This performance is mainly due to the improvement in the operational and financial efficiency of the Group, the growth of the international activity and the progress of the external telecommunications activity.

Given these results and after evaluating the achievement of the aforementioned objectives for the *chief executive officer*, the Appointments and Remuneration Committee has considered an overall achievement level of the objectives of 110%, equivalent to 82.5% of his annual fixed remuneration for the financial year 2018. This report includes details of the objectives, weightings and mechanics applied to determine the corresponding amount of the variable remuneration. Everything in accordance with the provisions of the directors' remuneration policy in force in 2018, and the Annual Report on Remuneration of directors approved by the Ordinary General Shareholders' Meeting held on 22 March 2018.

In accordance with the provisions of Circular 2/2018, of June 12, of the National Securities Market Commission – hereinafter referred to by its initials in Spanish CNMV - and as it is a usual practice in Red Eléctrica, the Statistical Annex is added as an appendix to this Report, which on this occasion, it is adjusted to the new model defined in Annex III Statistic of the aforementioned Circular.

The Board of Directors will submit to the approval of the Ordinary General Shareholders' Meeting, among others, the resolutions of the Board that establish the remuneration for the Board of Directors for the financial year 2019, the new directors' remuneration policy and, separately, will submit this Annual Report on the Remuneration of directors to the approval of the aforementioned General Meeting.

I would like to conclude by thanking the members of the Appointments and Remuneration Committee and to all those who have collaborated with this Committee 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 our shareholders throughout our permanent engagement process that are key factors for continuous improvement in adopting responsible practices related to remuneration.

Signed: Jose Luis Feito Higuera



## 2. Appointments and Remuneration Committee

### Current Members and as 31 December 2018

Jose Luis Feito Higuera  
(Chairman, independent)

Socorro Fernández Larrea  
(independent)

Antonio Gómez Expósito  
(proprietary)

In 2018, the composition of the Committee has undergone the following modifications:

- The Board of Directors of Red Eléctrica Corporación, SA, in a meeting held on 29 May 2018, re-elected the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve as a member of the Appointments and Remuneration Committee of Red Eléctrica Corporación S.A., for the period of 3 years provided for in the Regulation of the Board, in accordance with the provisions of article 24 of the Corporate Bylaw and 17 of the Regulation of the Board of Directors.
- The Board of Directors of Red Eléctrica Corporación, S.A., in a meeting held on 25 September 2018, accepted the resignation of Mr. Santiago Lanzuela Marina as proprietary director of the entity and, consequently, as member of the Appointments and Remuneration Committee.
- The Board of Directors of Red Eléctrica Corporación, S.A., in a meeting held on 27 November 2018, at the proposal of the chairman and after a favorable report from the Appointments and Remuneration Committee, agreed, among others, on the creation of the new Sustainability Commission and the restructuring of the Committees of the Board of Directors. On the occasion of the aforementioned restructuring, the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve and the independent director Mr. Alberto Carbajo Josa, were appointed as members of the new Sustainability Commission of Red Eléctrica Corporación, S.A., ceasing from that moment as members of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. Likewise, the independent director Ms. Socorro Fernández Larrea and the proprietary director on behalf of the State Industrial Participations Company (SEPI), Mr. Antonio Gómez Expósito, were appointed as members of the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A., for the term of 3 years provided for in the Regulation of the Board, in accordance with the provisions of article 24 of the Corporate Bylaws and 17 of the Regulation of the Board of Directors.

In view of the chart above, it should be noted that with such appointments, the Appointments and Remuneration Committee is composed by three (3) members, being formed by two (2) independent directors and one (1) proprietary director, being its chairman an independent director.

In 2018 the Appointments and Remuneration Committee held twelve (12) meetings, being one of them an extraordinary meeting. 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 2019, the Appointments and Remuneration Committee is intended to hold eleven (11) ordinary meetings in the financial year, without prejudice to the possibility of holding extraordinary meetings at any time during such period.

**The most significant activities, related to remunerations, performed by the Committee in 2018 and 2019**

Activities	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Evaluation of the achievement of the objectives linked to the variable remuneration of the <i>chief executive officer and the senior executives</i> for 2017					
Approval of the objectives linked to the variable remuneration of the <i>chief executive officer</i> and the senior executives for 2018					
Monitoring of the objectives linked to the <i>chief executive officer’s</i> and senior executives’ variable remuneration for 2018					
Supervision of the agreements related to the settlement of the outgoing chairman of the Board’s severance payment -generated at the Shareholders’ Meeting of April 2016, once his executive duties were terminated, and required at the time of his resignation as director and chairman- and the contract and remuneration conditions of the new non-executive chairman of the Board					
Evaluation of the achievement of the objectives linked to the <i>chief executive officer’s</i> variable remuneration for 2018					
Evaluation of the achievement of the <i>business’ objectives</i> , Managerial and of the Management Committee, linked to the senior executives’ variable remuneration for 2018					
Approval of the objectives linked to the <i>chief executive officer’s</i> and senior executives’ variable remuneration for 2019					
Proposal of the directors’ remuneration policy to be submitted to the Board and subsequently to the Ordinary General Shareholders’ Meeting, for the years 2019, 2020 and 2021					
Proposals for the remuneration of the Board of Directors and the Annual Reports on Remuneration of directors related to 2018 and 2019 to be submitted to the Board and subsequently to the Ordinary General Shareholders’ Meeting					

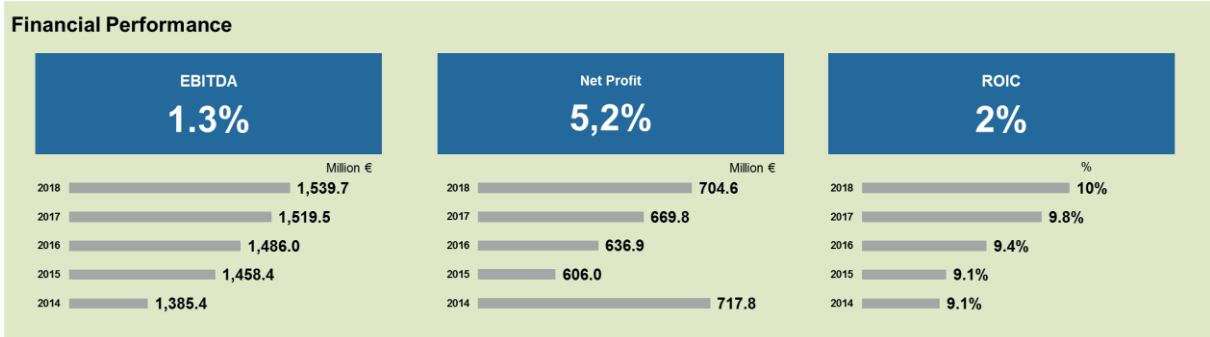
In relation to the process for determining the remuneration policy for directors, the Appointments and Remuneration Committee is supported by the different Corporate Management teams in Red Eléctrica Group (Economic-Financial, Human Resources and the General Counsel and Secretary of the Board of Directors), and by the involvement of the *(non-executive) chairman of the Board of Directors* and the *chief executive officer*. Additionally, in the reflection process, it considers analyses and studies from external advisers, as indicated below. This process is described in detail in the directors' remuneration policy, which will be submitted for the approval of the 2019 General Shareholders' Meeting.

### **External advisers**

In 2018 and 2019 –until the date this report is approved- *Willis Towers Watson*, an independent adviser specialised in directors' and executives' remuneration, has provided its services to the Committee for the following matters: remuneration benchmarking for the *(non-executive) chairman of the Board of Directors*, remuneration benchmarking for the *chief executive officer*, remuneration benchmarking for the non-executive directors and, lastly, assistance in preparing the director's remuneration policy and the Annual Report on Remuneration of Directors. Also the law firm Garrigues has provided advice to the Committee in legal matters, in preparing the director's remuneration policy.

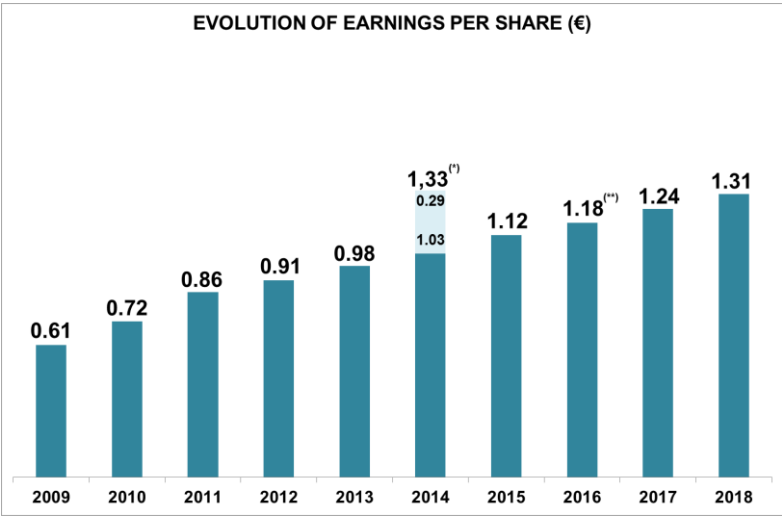
### 3. Results and levels of incentives (“Pay for Performance”)

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



In the financial year 2018, the following information should also be highlighted in relation to the performance of the Group:

- Regarding the dividend policy, the gross dividend for 2018 proposed by the Board of Directors to the next Ordinary General Shareholders’ meeting implies an increase of 7% compared with the gross dividend approved for the financial year 2017.

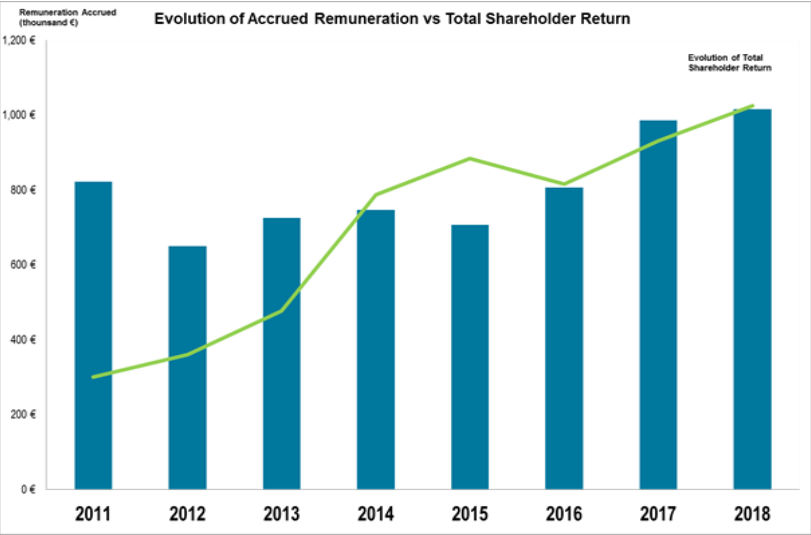


(\*) Note: The net profit specified for 2014 (EUR 1.33 per share) includes exceptional events taking place in that financial year, all of them positive: The Red Eléctrica Group being selected as the successful bidder in the tender for ADIF high speed fibre optic, the final agreement signed with the State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

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

- On 18 September the credit rating agency Fitch Ratings confirmed the long-term rating of Red Eléctrica Corporación, S.A. as 'A' with a stable forecast. Additionally, on 5 June Standard & Poor's maintained the long-term rating level as 'A-' with a stable forecast.
- On 13 September the new ranking of the Dow Jones Sustainability Index (DJSI) was published. Red Eléctrica has been recognised by the prestigious index, as one of the four "utilities" present worldwide (DJSI World) and European-wide (DJSI Europe), and the only company in its sector included in both indices for the last four years.

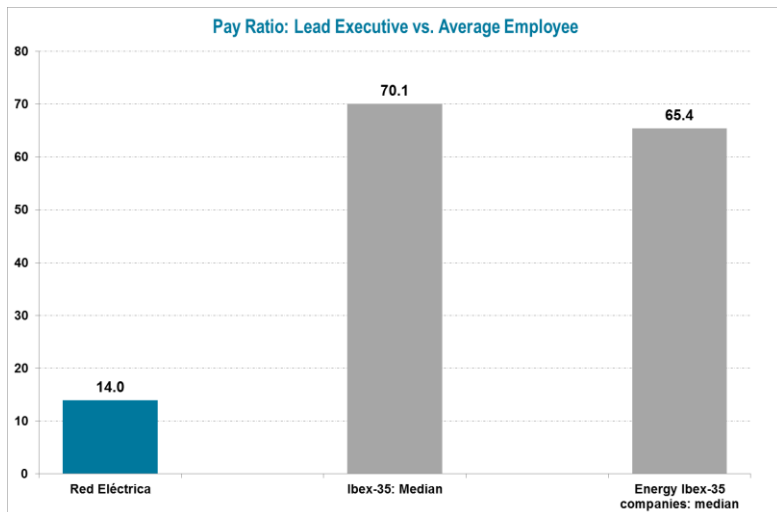
The following graph shows the variation in the total remuneration accrued by the lead executive compared with the variation in the Total Shareholder Return in the last 8 years.



Explanatory notes on the graph:

- The Total Shareholder Return is the total return of the share and includes the share price revaluation and the reinvestment of 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 lead executive and the average remuneration of the staff. This ratio is specified for Red Eléctrica, for the median of Ibex-35 (excluding Red Eléctrica) and for the median of the energy companies listed on the Ibex-35 (excluding Red Eléctrica).



Red Eléctrica's data refers to 2017 and it shows the ratio between the chief executive officer's total remuneration and the average total remuneration for all employees.

In order to calculate the market data, the total remuneration accrued by the lead executive in 2017 has been taken into account and, to estimate the average remuneration of the staff, the personnel expenses disclosed in the consolidated annual accounts have been taken into account, excluding social security charges, and the total number of employees in 2017.

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

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

In this respect, the Committee has conducted in 2018 a benchmarking for the position of *chief executive officer*, considering three comparator groups in line with the analysis conducted in previous years:

- A peer group formed by companies listed on the Ibex-35, an index on which Red Eléctrica is listed.
- An ad-hoc peer group formed by 16 companies which have been selected based on the same criteria applied in the benchmarking conducted in previous years for the lead executive. These criteria (geographic scope, scope of responsibility, activity sector and size) were included, in detail, in the of the directors' remuneration policy, with regard to the *chief executive officer as lead executive*, which will be submitted for approval to the Ordinary General Shareholders' meeting in 2019.

The companies forming the peer group are the following:

Acerinox	Enagás	Mediaset
Amadeus	Grifols	NH Hotel Group
Applus	Indra	Prosegur
Catalana Occidente	Másmóvil	Viscofan
CIE Automotive	Meliá Hotels	Zardoya Otis
Ebro Foods		

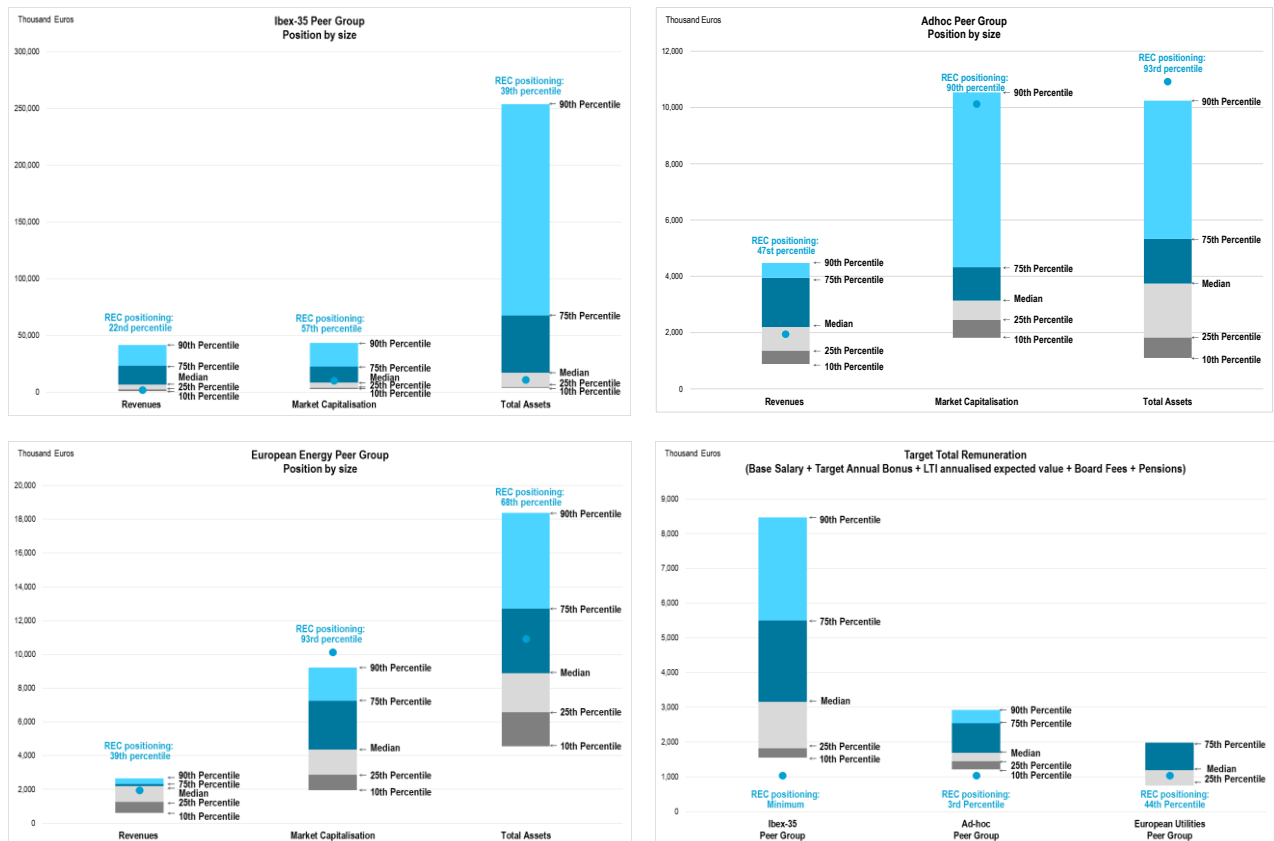
- A peer group formed by 8 European energy companies, which both the company (“REC”) and the proxy advisor Institutional Shareholder Services (“ISS”) consider comparable with Red Eléctrica, in 2018, in terms of size (revenues) and which are relevant in the energy sector in terms of results’ evolution, as detailed below:

BKW (ISS)	Ren (REC)
Elia System Operator (ISS and REC)	Snam Rete Gas (REC)
Enagás (ISS and REC)	Terna (ISS and REC)
EVN (ISS)	Verbund (ISS)

The following graphs show the results of the analyses:

- Analysis of the Ibex-35 group: an overall overview of the data regarding the size of the Red Eléctrica Group points to a market benchmark between the Ibex’s 25<sup>th</sup> percentile and the median. In terms of “target” remuneration (in other words, for a level of achievement of the objectives of 100%), the position of the *chief executive officer* of the Red Eléctrica Group is positioned at the market’s minimum. Once the new remuneration policy is implemented, this positioning remains the same.
- Analysis of the ad-hoc group: an overall 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 the *chief executive officer* of the Red Eléctrica Group is positioned at the 3<sup>rd</sup> percentile. Once the remuneration policy is implemented, this positioning would remain below the 10<sup>th</sup> percentile.

- Analysis of the European energy group: an overview of all the data regarding the size of the Red Eléctrica Group points to a market benchmark between the median and the 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 the *chief executive officer* of the Red Eléctrica Group is positioned at the 44<sup>th</sup> percentile. Once the new remuneration policy is implemented, this positioning would remain below the median.



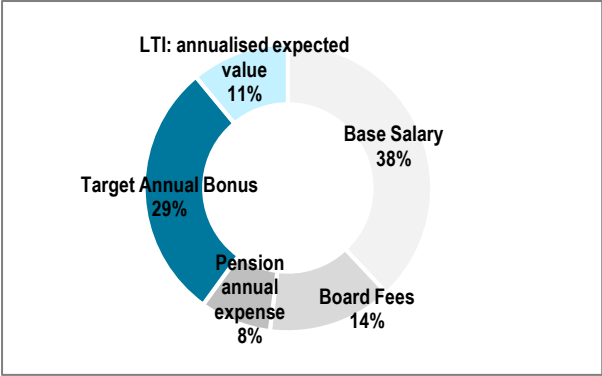
- The target total remuneration includes the following elements:
  - The Base Salary.
  - The Target Annual Bonus, granted to the executive director for the last financial year, if 100% of the objectives are achieved.
  - The Long Term Incentive annualised expected value.
  - The remuneration for being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

The market data are those disclosed in the Annual Report on Remuneration of directors of each company published in 2018.

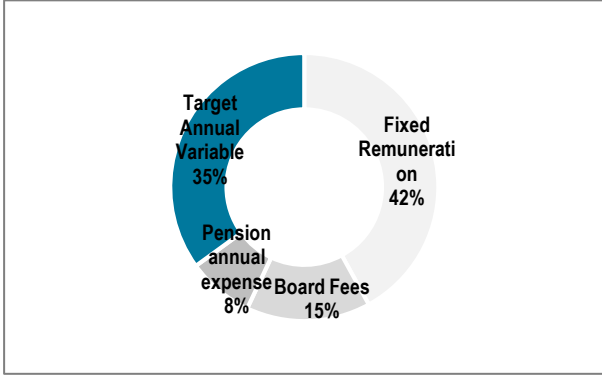


The graphs below show the remuneration mix for the *chief executive officer* and its comparison with the market for a standard scenario of achievement of objectives (target or 100%), as well as the mix for the *chief executive officer* remuneration corresponding to the accrued remuneration in 2018. As a whole, for Red Eléctrica, the target variable remuneration (“pay at risk”), annual and multi-year, represents 40% of the target total direct remuneration (the sum of the base salary and annual and multi-year variable remuneration).

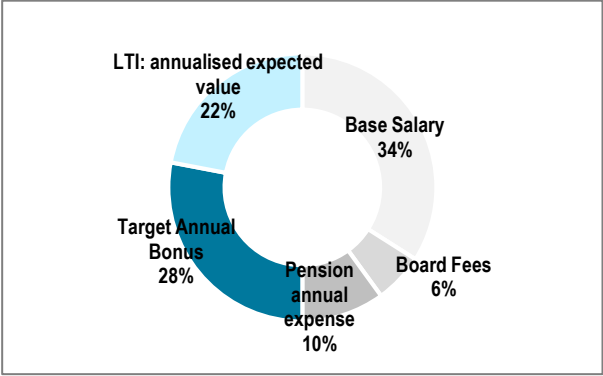
Red Eléctrica: Target Remuneration Mix *chief executive officer*



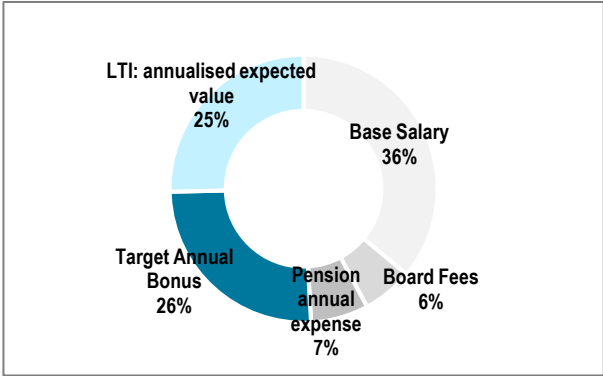
Red Eléctrica: 2018 Accrued Remuneration Mix *chief executive officer*



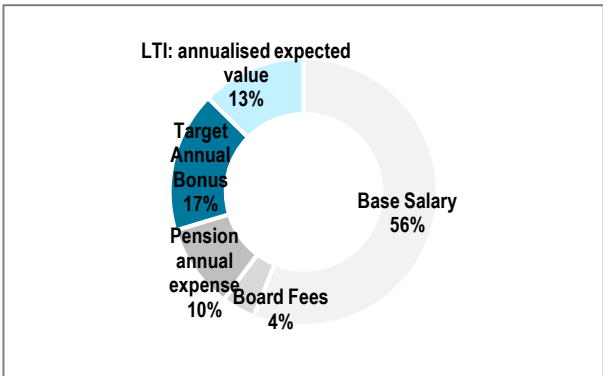
Ibex-35 Group: Target Remuneration Mix Lead Executive



Ad-hoc Group: Target Remuneration Mix Lead Executive

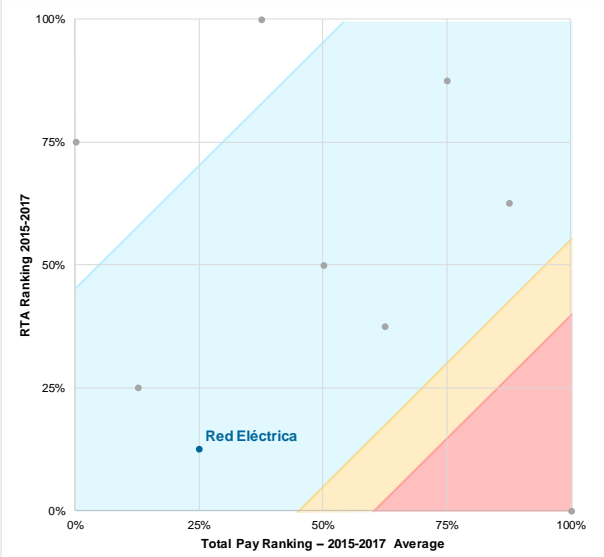


European Energy Group: Target Remuneration Mix Lead Executive



The following graphs show the positioning of the Red Eléctrica Group compared with representative companies in the energy sector. The variation of the EBITDA between 2015 and 2017 and the Total Shareholder Return (TSR) of each company in the last 3 years is compared with the average of the total pay of its lead executive in the same period.

The transversal lines show the proportional correlation range between the growth of the indicator and that of the remuneration. A positioning in the yellow and red areas reveals a non-proportional growth correlation between the indicator considered and the remuneration. A positioning in the red area reveals a more than proportional growth of the remuneration compared to the indicator considered and a positioning in the white area reveals a more than proportional growth in the indicator considered (EBITDA and TSR in each graph) compared to the remuneration.

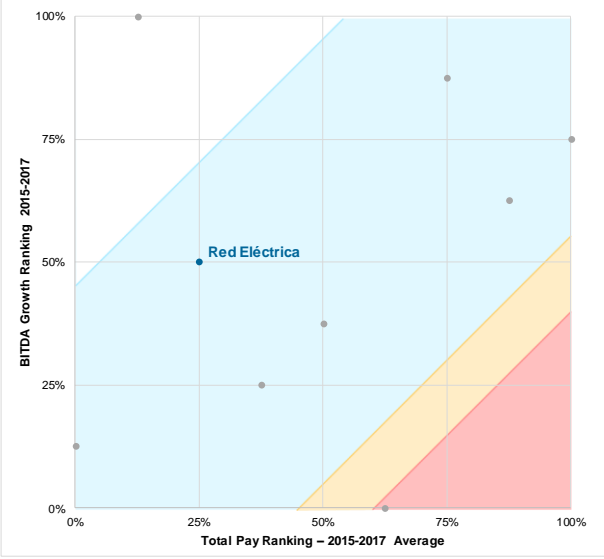


The Total Shareholder Return (TSR) is the total return of the share and includes the price revaluation of the share and the dividends.

The companies included in the European energy peer group are: BKW, Elia System Operator, Enagás, EVN, Ren, Snam Rete Gas, Terna, and Verbund.

The evolution of Red Eléctrica's TSR in the last 3 years positions the company below the 25<sup>th</sup> percentile of the peer group, whereas the average of the total remuneration in the same period is at the 25<sup>th</sup> percentile.

Source of TSR data: Bloomberg.



The companies included in the European energy peer group are: BKW, Elia System Operator, Enagás, EVN, Ren, Snam Rete Gas, Terna, and Verbund.

The variation of Red Eléctrica's EBITDA between 2015 and 2017 positions the company at the median of the peer group, whereas the average of the total remuneration in the same period is below the median.

## 4. Directors' remuneration policy in 2019

The Ordinary General Shareholders' Meeting held on 15 April 2016 approved the amendment of the directors' remuneration policy approved by the General Shareholders' Meeting held on 15 April 2015. The valid term of such policy encompassed the financial years 2016, 2017 and 2018.

Since the valid term of the directors' remuneration policy expired in 2018, the Appointments and Remuneration Committee, as part of the decision-making process, has conducted a review of such remuneration policy with an overall and thorough approach. In that process, the Appointments and Remuneration Committee has taken as the starting point the following **basis**, in line with those in the remuneration policy in force up to 2018:

- a) The group's **performance**.
- b) The value of the **contribution of the position and the person** both to the entity and the shareholders.
- c) The following **general principles and internal criteria** of Red Eléctrica.
- d) **Internal equity**.
- e) The **market data and the guidelines of institutional investors and proxy advisors**, along with the information received from them in the regular engagement process conducted by the Red Eléctrica Group.
- f) The provisions in Red Eléctrica's **corporate rules** (the Corporate Bylaws and Regulation of the Board of Directors) and the principles determined in the corporate governance policy approved by the company's Board of Directors at its meeting held on 25 November 2014 and posted on the corporate website.
- g) The applicable **regulations**.

The detail is included in the directors' remuneration policy that will be submitted for approval to the Ordinary General Shareholders' Meeting of 2019.

Additionally, the Commission has assessed the following issues:

- The **progress in the achievement of the 2014-2019 Strategic Plan**.
- The **challenges** posed by the **energy transition** and the strategic priorities that will be presented in the **new Strategic Plan**, which Red Eléctrica will communicate in the first quarter of 2019.
- The degree of **suitability** of the **total remuneration** to reward the **value of the contribution of the position and the person**, both to the company and the shareholders:
  - Regarding the **(non-executive) chairman of the Board of Directors**, his **exclusive time spent**, the **person's importance** from an institutional standpoint, the **critical aspects** of the corporate **duties** under his direct responsibility at the current time of the Red Eléctrica Group and the challenges faced due to the Group's new strategic priorities.
  - Regarding the **chief executive officer (lead executive)**, his development and **consolidation in the position**, which is shown through the sustained growth in the Red Eléctrica Group's results, as previously mentioned.
- **Internal equity**, shown by the following:
  - The **relation of the remuneration**, both in components and amounts, **of the (non-executive) chairman of the Board of Directors and the chief executive officer**, which must suitably correspond to the effective separation of their duties.
  - The **relation** between the directors' remuneration policy and the **remuneration conditions of the company's employees**.
- Observing Red Eléctrica's consolidated **salary moderation** practice, as a **fundamental principle** since:
  - The specific Fixed Remuneration for the position of the **(non-executive) chairman of the Board of Directors** has remained unchanged since its creation in 2016.
  - The **chief executive officer (lead executive)**'s Fixed Remuneration has remained unchanged since his appointment in 2016.

- The **information** received from **institutional investors and proxy advisors** in the **regular engagement process** conducted by the Red Eléctrica Group, the result of the advisory vote from the General Shareholders' Meeting in respect to the Annual Report on Remuneration of directors published in 2018, as well as the general recommendations on corporate governance.

The entity regularly organises briefing meetings (roadshows) conducted by the senior executives of the entity in the main financial centres in Spain and abroad where there is a greater presence of institutional investors. The objective is to inform of their activities and the development of their business, as well as to learn the best corporate governance practices, which come from the investment world. Corporate governance roadshows have been held for years in the months of January and meetings with proxy advisors are attended by the lead independent director. These meetings are extremely useful to obtain feedback from shareholders and proxy advisors, which is analysed and assessed throughout the year in order to maintain a permanent engagement.

- The **review** of the **positioning** of the remuneration compared with the **market**. The report issued by the Appointments and Remuneration Committee in which the amendments made to the directors' remuneration policy were justified to the General Shareholders' Meeting held in 2016, stipulated the following:
  - Regarding the **(non-executive) chairman of the Board of Directors**, a positioning of the remuneration considerably below the market median, expecting that the Board of Directors could review and update such amount in subsequent financial years, within the valid term of the policy and according to the principles contained therein.
  - Regarding the **chief executive officer**, a desired target positioning in the 25<sup>th</sup> percentile of the market benchmarks, in line with the positioning of the senior executives; however, this target positioning has not been achieved up to now with the amendments proposed in 2016.

The above matters also respond to what was agreed by the Ordinary General Shareholders' Meetings held in 2017 and 2018, which determined the need to review the adequacy of the remuneration structure of both positions, for the reasons stated.

In conclusion, the Appointments and Remuneration Committee has analysed all the previous issues and grounds, and making prevail the **principle of prudence and moderation of remuneration**, proposes the Board to **maintain in 2019 the remuneration of the Board of Directors, of the chairman of the Board and the chief executive officer, in the same terms and conditions as to date.**

On the other hand, given that the 2014-2019 Long Term Incentive Plan ends on December 31, 2019, the Appointments and Remuneration Committee has proposed to **maintain this multi-year variable remuneration**, applicable to the *chief executive officer*, in a way that the approval of a new Long Term Incentive Plan is facilitated, for its implementation in 2020, in line with the new Strategic Plan which is about to be approved, and that **will maintain the structure of the 2014-2019 Long Term Plan**. It introduces the possibility of establishing the long term incentive, in annualised terms, up to a 50% of the annual Fixed Remuneration –although the level of achievement is not assessed till the end of the Plan-; or the possibility for it to be based, totally or partially, in shares of the company, or that allows including relative metrics which compare the results with other relevant comparable companies.

In any case, the features of this new Long-Term Incentive Plan shall be adjusted to the main lines set out in this directors' remuneration policy, which is submitted for the approval of the Ordinary General Shareholders' Meeting of 2019. The Annual Report on Remuneration of directors, to be published in 2020, will detail the main conditions of the new Plan, once approved, as is the usual practice of the company.

In respect to the remuneration of **directors, in their position as members of the Board of Directors** ("in their position as such", according to the LSC, i.e., for the non-executive duties) **no modifications are either proposed**. It should be noted that only minimum formal adjustments are introduced in the Corporate Bylaws, in the new wording related to the directors' remuneration, which will be also submitted for approval to the General Shareholders' Meeting, so that:

- They provide more detail on the different concepts for which directors are remunerated as members of the Board of Directors (for their non-executive duties).
- They suppress the reference to the share in the company's income as one of the remuneration systems of the directors, as it was a system that was not being used by entity.

- Notwithstanding the above, they maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. for the directors “in their position as such” for the non-executive duties and, for all items, which will be approved by the General Shareholders’ Meeting and will not exceed an amount equivalent to 1.5% of the company’s net income, approved by the General Shareholders’ Meeting, and will remain in force insofar if no change is approved. Thus, it is clearer that the aforementioned maximum amount does not imply a remuneration system by means of share in the company’s income, but exclusively a mechanism to statutorily establish the maximum amount of remuneration for directors in their position as members of the Board of Directors, using as a reference the net income figure.
- Finally, it is also maintained that the previous remuneration has, in any case, the maximum nature, corresponding to the Board itself the allocation of its amount among the items provided and among the directors, in such manner, at such time and in such proportion as the Board determines, based on the duties and responsibilities assigned to each director, any membership of Board committees and other objective circumstances deemed relevant.

Therefore, the specified percentage of 1.5% of the company’s net income approved by the General Shareholders’ Meeting is the limit of the overall annual remuneration and, for all items, payable to the directors in the position as members of the Board of Directors (“for their position as such”), for the purposes stipulated in the Corporate Bylaws and in the LSC.

As a result of all the above, the design elements of the remuneration policy respond to a greater alignment with the interests of our shareholders:

What we do	What we don't do
<p><b>Executive director (chief executive officer):</b></p> <ul style="list-style-type: none"> <li>• Link the payment of a significant part of the remuneration to the economic and financial results the Group obtains.</li> <li>• Defer a significant part of the remuneration.</li> <li>• Deliver a significant part of the remuneration in the company's shares.</li> <li>• Include <i>malus</i> and <i>clawback</i> clauses applicable to the short- and long-term variable remuneration.</li> <li>• Determine severance payments for the termination of the legal relationship, limited to one year of fixed and variable remuneration, for achieving 100% of the objectives.</li> <li>• Regularly review the alignment of the total remuneration with comparable companies.</li> <li>• Regularly obtain support from external advisors.</li> </ul> <p><b>Non-executive directors:</b></p> <ul style="list-style-type: none"> <li>• Link the remuneration with the effective time they spend, the responsibilities undertaken and performance of their duties as directors.</li> </ul>	<p><b>Executive director (chief executive officer):</b></p> <ul style="list-style-type: none"> <li>• Guarantee increases in the fixed remuneration and payments of variable remuneration.</li> <li>• Grant discretionary remuneration.</li> <li>• Grant advance payments or loans, as a general rule.</li> <li>• Allow hedging of the value of the shares received in the holding period<sup>(*)</sup></li> <li>• Discriminate in remuneration on the basis of gender, age, culture, religion or race. The professionals of Red Eléctrica are remunerated based on their professional career, the time spent on their duties and the responsibility they undertake.</li> </ul> <p><b>Non-executive directors:</b></p> <ul style="list-style-type: none"> <li>• Participate in remuneration schemes linked to the company's performance (they are only paid fixed remuneration).</li> <li>• Participate in retirement plans or other social benefit schemes.</li> </ul>

(\*) The holding period refers to the time after the vesting of shares that have been granted as remuneration during which they cannot be sold or be accessible.

#### 4.1. Remuneration policy for the executive director (chief executive officer) in 2019

The elements of the remuneration policy for the *chief executive officer* are provided below. The Corporate Bylaws, in the new wording related to the directors' remuneration, which will be submitted for approval to the same General Shareholders' Meeting to which this policy will be submitted, describe the remuneration system applicable to the *chief executive officer* which is described below.

The remuneration system for the *chief executive officer (lead executive)* 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 2019 are detailed below:



## Annual Fixed Remuneration

The amount of the Annual Fixed Remuneration 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 2019 at its meeting held on 22 January 2019, as explained in this section.

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

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

- 60% 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:
  - 30% Consolidated Net Profit of the Red Eléctrica Group.
  - 30% Return on invested capital (*ROIC*) of the Red Eléctrica Group, which measures the net operating profit over the invested capital.
- 20% of the incentive depends on aspects linked to the Total Investment in Transport Network and Diversification of the Group.
- 20% of the incentive depends on the approval and communication of the Red Eléctrica Group's Strategy Plan to the stakeholders.

The following table details the weightings, the thresholds and the maximums applicable to the mentioned metrics.

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

- Development and profitability of the TSO (Transmission System Operator)
  - 48% of the incentive is linked, among others, projects related to the integration at renewable non-manageable energies.
- Other businesses
  - 6% of the incentive depends essentially of the achieved results and the new projects linked to the telecommunications businesses and the international activity.
- Efficiency
  - 10% of the incentive is linked, fundamentally, to the improvement of efficiency in the different businesses of the Red Eléctrica Group.
- Reorganisation of the Group's corporate and businesses
  - 17% of the incentive is linked to the reorganisation of the support services provided by the corporate units to all the entities of the Red Eléctrica Group, as well as to the development of the Group's technological capabilities.
- Safety and People
  - 5% of the incentive is linked, among others, to compliance with certain indices relating to accidents in the Red Eléctrica Group.
- Sustainability
  - 14% of the incentive is linked to the accomplishment of a series of key projects within the framework of the sustainability strategy of the Red Eléctrica Group.

The following table details the weightings, the thresholds and the maximums applicable to the mentioned metrics. The information about such assessment will be included in the Annual Report on Remuneration of directors for the financial year 2019 that will be submitted to the Ordinary General Shareholders' meeting in 2019.

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

METRICS	WEIGHTING	LEVEL OF ACHIEVEMENT			INCENTIVE		
		Minimum	Target	Maximum	Minimum	Target	Maximum
<b>75% Business objectives, quantitaves and qualitatives</b>							
1. Net Profit	30%	95%	100%	100%	0%	100%	100%
2. ROIC	30%	95%	100%	100%	0%	100%	100%
3. Total investment in Transport Network and Diversification of the Group	20%	85%	100%	300%	0%	100%	150%
4. Approval and communication of the new Strategic Plan of the Group	20%	Approval: 31/03 Communication: 31/07	Approval: 28/02 Communication: 30/06	Approval: 28/02 Communication: 30/06	0%	100%	100%
<b>25% Operating objectives linked to the Group's business activities</b>							
1. Development and profitability of the TSO	48%		100%	190%		100%	188%
2. Other businesses	6%		100%	100%		100%	100%
3. Efficiency	10%	Assessed by the Appointments and Remuneration Committee	100%	160%	Assessed by the Appointments and Remuneration Committee	100%	160%
4. Reorganisation of the Group's corporate and businesses	17%		100%	129%		100%	129%
5. Safety and People	5%		100%	100%		100%	100%
6. Sustainability	14%		100%	114%		100%	114%

Note: Intermediate levels (betw een minimum and target and betw een target and maximum) are calculated by linear interpolation

The amount of the Annual 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 entity for its executives.

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

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

The target level, which is reached in the case of achieving 100% of the predetermined objectives, will be equivalent to 75% of the Annual Fixed Remuneration. 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 Fixed Remuneration, corresponding to the overall maximum level of achievement of the objectives (110% of the target level).

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

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

The *chief executive officer* participates in the Multi-year Variable Remuneration Plan in cash addressed to executives and included in the directors' remuneration policy and in the Annual Report on Remuneration of directors, approved by the Ordinary General Shareholders' meeting held in 2016. The Plan has a duration of 6 years, in line with the 2014/2019 Strategic Plan of the Red Eléctrica Group, from 1 January 2014 until 31 December 2019.

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

- 20% of the incentive is linked to extending the business base, mainly international activity, of telecommunications and power storage ("pumping"). The level of investment is considered an indicator to measure this target.
- 25% of the incentive depends on the achievement of the transmission activity targets; among others, number of kilometres of lines and positions commissioned, investment volume and profitability indicators.
- 20% of the incentive is linked to the quality of the system's operation; non-supplied power is considered to measure the same.
- 25% of the incentive is linked to the efficiency of the operations and two metrics are considered: return on invested capital (ROIC) and earnings per share.
- The remaining 10% depends on compliance with the Sustainability Plan.

Upon conclusion of the Plan performance period, the Appointments and Remuneration Committee shall conduct, within the first quarter of 2020, an assessment of the level of achievement for each of the targets, and for the Plan as a whole, considering the information provided by the Company, and will propose the incentive levels linked to the level of achievement, according to the performance scales set. In any case, it is established that the average weighted level of achievement of the set of targets must reach, at least, 70%.

Otherwise, no right to receive the incentive will arise, regardless of the individual achievement of each target. Likewise, the maximum achievement of the set of targets in the Plan will be 110%, although the average weighted achievement of the targets may be higher.

The target remuneration of the *chief executive officer* for this element amounts to 1.8 times his Annual Fixed Remuneration, for the total term of the Multi-year Variable Remuneration Plan, in accordance with the provisions of the approved Executive Directors' remuneration policy applicable to executive directors

Given that the 2014-2019 Long Term Incentive Plan ends on 31 December 2019, the Appointments and Remuneration Committee has proposed to **maintain** this **multi-year variable remuneration**, applicable to the *chief executive officer*, in a way that the approval of a new Long Term Incentive Plan is facilitated, for its implementation in 2020, in line with the new Strategic Plan which is about to be approved, and that **will maintain the structure of the 2014-2019 Long Term Plan**. It introduces the possibility of establishing the long term incentive, in annualised terms, up to a 50% of the annual Fixed Remuneration –although the level of achievement is not assessed till the end of the Plan-; or the possibility for it to be based, totally or partially, in shares of the company, or that allows including relative metrics which compare the results with other relevant comparable companies.

In any case, the features of this new Long-Term Incentive Plan shall be adjusted to the main lines set out in this directors' remuneration policy, which is submitted for the approval of the Ordinary General Shareholders' Meeting of 2019. The Annual Report on Remuneration of directors, to be published in 2020, will detail the main conditions of the new Plan, once approved, as is the usual practice of the company.

### **Ex-post control of the Annual and Multi-Annual Variable Remuneration**

Pursuant to the provisions in the new directors' remuneration policy that will be submitted for approval to the Ordinary General Shareholders' meeting of 2019, the Appointments and Remuneration Committee is responsible for proposing to the Board cancellation 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 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.

The Appointments and Remuneration Committee may propose to the Board of Directors that adjustments should be made to the elements, criteria, thresholds and limits of the annual or multi-year variable remuneration due to exceptional circumstances caused by extraordinary internal or external factors or events. The details and justification for such adjustments will be recorded in the relevant annual report on the directors' remuneration.

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

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

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

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

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

If new regulatory provisions were approved and imply a review of the scheme, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may make the relevant amendments to adapt it to the new regulations. If amendments are made, the reasons must be duly notified in the Annual Report on Remuneration of directors.

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* does not receive any other kind of social benefits.

The remuneration policy of the *chief executive officer* includes the entity granting of loans, advances and guarantees, in line with the policy of the Group's executives.

### **Contractual terms**

The contract regulating the duties and commitments of the *chief executive officer* is of a commercial nature and includes the clauses that in practice are usually contained in these kinds of contracts. The *chief executive officer's* contract will be updated, if needed, to include the new aspects related to this new remuneration policy.

The main severance, exclusivity and non-competition clauses of the aforementioned *chief executive officer's* contract are described below, in the terms that they will be submitted for the approval of the Board of Directors once the new remuneration policy has been approved by the General Shareholders' Meeting.

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 Regulation of the Board of Directors, 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 Regulation of the Board of Directors.

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* in the exercise of his functions) with no prior notice from the company being required. The aforesaid indemnity will also apply if the *chief executive officer* voluntarily resigns due to a serious and culpable breach of the company, or a material modification of the *chief executive officer's* duties for reasons not attributable to the same. In the calculation of such indemnity, the base used will be one year's base salary, plus the amount corresponding to the variable remuneration as *chief executive officer*, calculated considering a 100% achievement of targets.

In the event of voluntary resignation by the *chief executive officer*, he must notify the entity within 2 months' notice and in case of breach of this period, the *chief executive officer* must compensate the entity with the amount of all the corresponding compensation for the remaining time for fulfilling that period.

In a scenario of change of control, the chief executive officer will have the option, within 2 months, to cease his position, automatically terminating his contract and receiving the severance pay indicated in cases of dismissal by the entity.



#### **4.2. Remuneration policy for the directors in their condition as members of the Board of Directors in 2019<sup>(\*)</sup> ("in their capacity as such", in accordance with the Law on Capital Companies -LSC-, for their non-executive functions)**

<sup>(\*)</sup> This is also applicable to the chief executive officer as a member of the Board of Directors.

The elements of the remuneration policy for the directors in their position as such (for their non-executive duties) are provided below.

To this effect, it should be noted that the Corporate Bylaws, in the new wording related to the directors' remuneration, which will be submitted for approval to the same General Shareholders' Meeting to which this policy will be submitted, maintain -with mere formal clarifications in comparison to the previous wording- the reference to the maximum overall annual remuneration for the entire Board, i.e. in their position as members of the Board ("in their position as such" according to the LSC), for all items, which will be approved by the General Shareholders' Meeting and will not exceed an amount equivalent to 1.5% of the company's net income, approved by the General Shareholders' Meeting, and will remain in force insofar if no change is approved.

Likewise it is maintained that the previous remuneration is, in any case, the maximum payable and the Board is responsible for proposing the allotment of its amount among the specified items and among the directors, in the form, 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 specified percentage of 1.5% of the company's net income approved by the General Shareholders' Meeting is the limit of the overall annual remuneration payable to the directors in the position as members of the Board of Directors (for their non-executive duties), for the purposes stipulated in the Corporate Bylaws and in the LSC.

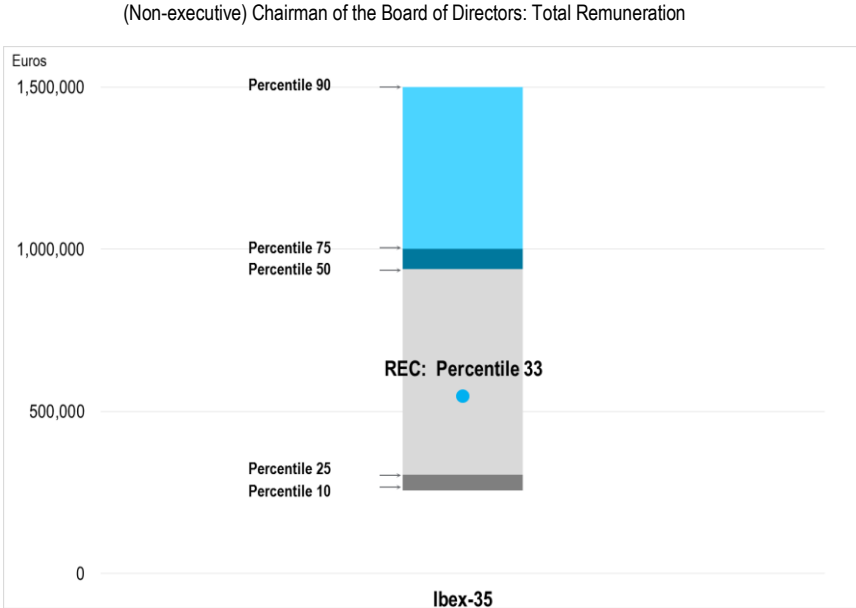
The Appointments and Remuneration Committee regularly reviews the Directors' Remuneration Policy in line with best corporate governance practices adopted by the institutional shareholders and according to the recommendations of the main proxy advisors.

In this respect, the Committee has recently conducted a remuneration benchmarking for the position of the *(non-executive) chairman* of the Board of Directors, in which a peer group formed by 9 of the 14 companies in the Ibex-35 that have appointed a non-executive chairman has been considered. The following companies have been excluded:

- Arcerlomittal, since the Board of Directors is located abroad.
- Merlin Properties, since the chairman is the representative of the bank that is the main shareholder and has received significant dividends for 2017. As a result, no specific remuneration has been established for chairman’s position. This situation is not considered comparable to Red Eléctrica’s.
- DIA, since the chairman position was vacant at the time the analysis was conducted.
- Cellnex, since the remuneration corresponding to the new chairman has not been disclosed.
- Meliá Hotels International, as it does not have a specific remuneration for the chairman of the Board, who has 52% of the company's shares.

In terms of size, Red Eléctrica is positioned between the 25<sup>th</sup> percentile and the median of the peer group.

The following graph shows a comparison of the remuneration of the *chairman of Red Eléctrica’s Board of Directors* with the aforementioned peer group.

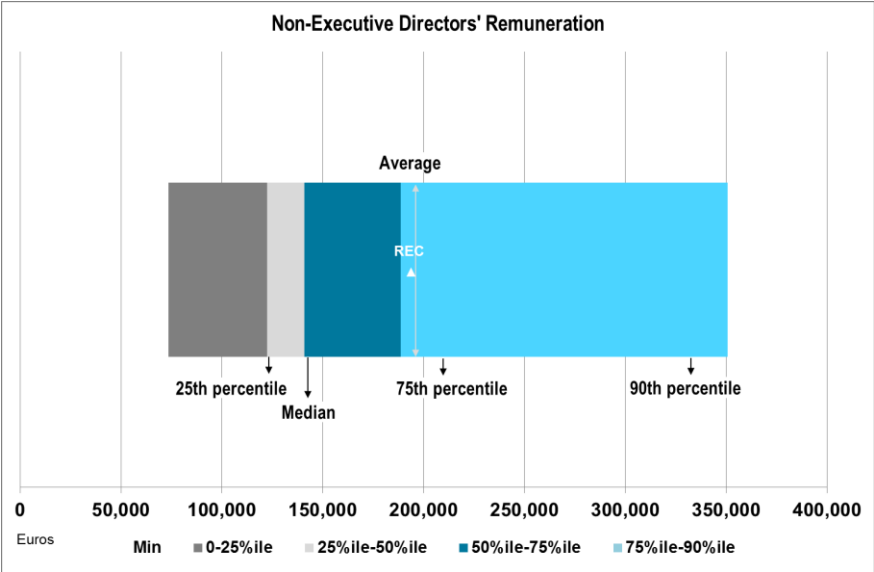


Note: The total remuneration includes the whole amount of the remuneration accrued by the relevant non-executive chairmen in 2017.

In terms of remuneration, Red Eléctrica is positioned at the 33<sup>rd</sup> percentile -considering the 9 companies of the analysis. Once the new remuneration policy is applied, the positioning would remain between Ibex-35's 25<sup>th</sup> percentile and median.

In addition, for the purpose of reviewing the suitability of the directors' remuneration levels (for their non-executive duties) and to ensure they are in a reasonable proportion to the entity'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 2018. In such study, also developed with the support of the independent consulting firm *Willis Towers Watson*, the selected peer 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 peer group<sup>(\*)</sup> in 2018:



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

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

As a result of the previous analyses and based on the principles for prudence in remuneration and the link of the non-executive directors remuneration with the effective time they spend, with their responsibility and the development of their duties as directors, the Board of Directors has decided, according to the Appointments and Remuneration Committee's proposal, for the financial year 2019, to maintain the same remuneration amounts and elements as those determined for 2018 for the members of the Board of Directors.

Therefore, the amounts and remuneration concepts foreseen for 2019 would be as follows:

### **Fixed Remuneration**

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

### **Remuneration 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 2019 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.

### **Non-executive 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 "Remuneration for attendance meetings of the Board of Directors".

### **Time assigned to 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 2019.
- EUR 15,000 per annum for each of the chairmen of the Board Committees (additionally to the remuneration as member of the Committee), 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 2019.

### **Lead Independent Director**

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

Directors will be paid or reimbursed for reasonable and duly justified expenses incurred as a result of attending meetings and other duties directly related to the performance of their position, such as travel, accommodation, maintenance and any other that they may incur.

The remuneration policy for the directors in their position as members of the Board of Directors with non-executive duties, does not include granting loans, advance payments or guarantees provided by the company in their favour.

Nor does it contemplate the participation of the directors with non-executive duties in pension schemes, or indemnities for their supervisory duties or take part in a group decision on the termination of their relationship with the company due to their position as non-executive directors, or the granting of any other additional remuneration apart from that referred to above.

In 2019 the company has underwritten civil liability insurance policies that cover claims by third parties for possible damages and/or losses caused by acts or omissions in the exercise of the position as members of the Board of Directors.

At the date of issuance of this report, in relation to the remuneration of the directors for the year 2019, there is no other type of remuneration concept than those explained in the previous sections.

## 5. Implementation of the remuneration policy in 2018

### 5.1. Implementation of the remuneration policy for the *chief executive officer* (*executive director*) in 2018

During the 2018 the modification of the remuneration policy approved by the Ordinary General Shareholders' meeting held in 15 April 2016 was applied.

#### **Annual fixed remuneration**

The *chief executive officer's* fixed remuneration for 2018 amounted to EUR 399,170. No change has been made since 2016.

#### **Annual variable remuneration**

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

The Appointments and Remuneration Committee, at its meeting of 23 January 2018, established the objectives and their weightings for the determination of the variable remuneration of the *chief executive officer* for the year 2018. These objectives were described in detail in the Annual Report on Remuneration of directors approved at the Annual General Shareholders' meeting held on 2018. The aforementioned Committee have conducted a quarterly performance monitoring and at the end of the financial year, the Committee has conducted a process to assess its achievement, where it has been supported by the Economic-Financial Corporate Management, responsible for the Group's management control and which has provided information about the Company's and the consolidated Group's audited results. In such assessment, the Committee has also considered the possible impact of the objectives in the long term and any risk associated to them.

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

assessment conducted on 14 February 2019 by the Appointments and Remuneration Committee to determine the amount of the annual variable remuneration to be paid:

Types of targets and weightings	Performance measures	Weighting	Performance range	Level of achievement	Incentive pay-out for each metric
<b>BUSINESS</b>  (75%)	<b>1. Net Profit</b>	40%	95% - 100%	100%	100%
	<b>2. ROIC</b>	40%	95% - 100%	100%	100%
	<b>3. Total Investment in Transport Network and Diversification of the Group</b>	20%	85% - 150% <sup>(2)</sup>	150%	150%
<b>SUBTOTAL</b>		100%		110%	110%
<b>OPERATING OBJECTIVES LINKED TO THE GROUP'S BUSINESS ACTIVITIES</b>  (25%)	<b>1. Development, efficiency and profitability of the TSO</b>	60%	Up to 175%. Assessment by the ARC <sup>(1)</sup>	142.5%	142.5%
	<b>2. Growth of business activities</b>	22%	Up to 145%. Assessment by the ARC <sup>(1)</sup>	94.2%	94.2%
	<b>3. People, excellence and innovation</b>	18%	Up to 100%. Assessment by the ARC <sup>(1)</sup>	86.3%	86.3%
<b>SUBTOTAL</b>		100%		121.76%	121.76%
<b>TOTAL (previous to the application of the global maximum limit)</b>		100%		112.94%	112.94%
<b>TOTAL (once the global maximum limit has been applied)</b>					110.00%

(1) Appointments and Remuneration Committee

(2) An error has been identified in the percentage of 115% that was previously included in the table and has been corrected by the 150%, in accordance with the internal procedures for evaluating objectives established by the company for its executives, all of which in accordance with the provisions of the directors' remuneration policy approved by the General Shareholders' Meeting, in force in 2018, and in the Annual Report on Remuneration of directors approved by the Ordinary General Shareholders' Meeting in 2018.



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

1. The book figure gives a consolidated “Net Profit for the Red Eléctrica Group” in the financial year 2018 of EUR 704.6 million, which implies a target achievement of 100%.
2. The “Return on Invested Capital (ROIC) for Red Eléctrica Group”, measured as the net operating profit compared with the capital employed in the financial year 2018, has reached 10%, which entails a degree of target achievement of 100%.
3. The “Total Investment in Transport Network and Diversification of the Red Eléctrica Group” has reached EUR 529.8 million, which entails a degree of target achievement of 150%.

After assessing the level of achievement of the three previous objectives, the Appointments and Remuneration Committee has considered that the degree of weighted achievement for these *business objectives* is 110%.

Regarding the degree of achievement and the amount of the incentive applicable to the financial year 2018 in connection to the *operating objectives linked to the Red Eléctrica Group’s business activities*, the Appointments and Remuneration Committee took into account the following factors:

1. “Development, efficiency and profitability of the TSO” (“Transmission System Operator”): the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 142.5%.
2. “Growth of business activities”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 94.2%.
3. “People, excellence and innovation”: the Appointments and Remuneration Committee, after evaluating the relevant circumstances, considered that the weighted degree of achievement of this objective was 86.3%.

After assessing the degree of achievement of the previous objectives, the Appointments and Remuneration Committee has considered an overall achievement of *operating objectives linked to the Red Eléctrica Group's business activities* of 121.76%.

Based on the foregoing, the Appointments and Remuneration Committee has considered an overall achievement of all the objectives –both, the *business* and the *operating objectives linked to the Group's business activities*- of 112.94%. However, given that the maximum level of overall compliance of all of the *chief executive officer's* objectives is 110%, the Committee has finally considered a level of global achievement of the aforementioned objectives of 110%.

Therefore, the annual variable remuneration for the *chief executive officer* in 2018 amounted to EUR 329,315 (82.5% of the gross annual fixed remuneration).

75% of the gross annual variable remuneration, EUR 246,986, will be settled in cash and the remaining 25%, EUR 82,329, will be delivered in shares of the entity, equivalent to 21% of the annual fixed remuneration. In addition, the *chief executive officer* has undertaken the commitment with the entity, while he holds such position, to maintain the ownership of the shares he receives for at least five years. The aforementioned amount to be paid in shares of the entity would be equivalent to 4,250 shares, considering an estimate of the share price of 19.37 EUR/share - according to the last communication made by the company to the CNMV regarding the share-based remuneration systems of the *chief executive officer* - information that must be updated when the real purchase share price is known in accordance with its quotation on the Stock Exchange on the day of effective delivery of these shares to the *chief executive officer*, foreseeably in the last quarter of the year 2019, in accordance with the annual program of shares for employees.

As at 31 December 2018, once the 25% of his variable remuneration (EUR 71,956), corresponding to the 2017 financial year, was received and materialised in company shares, at said price of 19.37 EUR/share, the *chief executive officer* holds 9,679 shares, equivalent to 0.0018% of the share capital.

## **Multi-year variable remuneration**

The achievement of the multi-year remuneration plan for executives for the 2014-2019 period, in which the *chief executive officer* participates, is linked to the accomplishment of the targets established in the Group's Strategic Plan for such period and, additionally, to the fulfilment of certain conditions.

The fundamental terms and conditions of the aforementioned plan have been explained in detail in the corresponding section of this Report concerning the 2019 executive director's remuneration policy and we thus refer to the same in order to avoid reiterations.

## **Ex-post control of the Annual and Multiannual Variable Remuneration**

In 2018 there were no circumstances that justify the Appointments and Remuneration Committee to consider the application of the reduction, cancellation or reimbursement clauses for the variable remuneration.

## **Social benefits and other remuneration**

From 1 January 2017 the *chief executive officer* participates in a defined contribution retirement scheme. The commitment of Red Eléctrica is limited to the realisation of an annual contribution equivalent to 20% of the *chief executive officer's* annual fixed remuneration. The amount of the contribution made in 2018 by the company amounted to EUR 79,834. The amount of the accumulated funds, as of 31 December 2018 amounts to EUR 159,668.

The features of the *chief executive officer's* welfare system have been disclosed in detail in the section on "Remuneration policy for the *executive director (chief executive officer)* in 2019" of this Report.

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

As at 31 December 2018, the Balance sheet has no credits, advances granted, or guarantees set up by the company in favour of the *chief executive officer*.

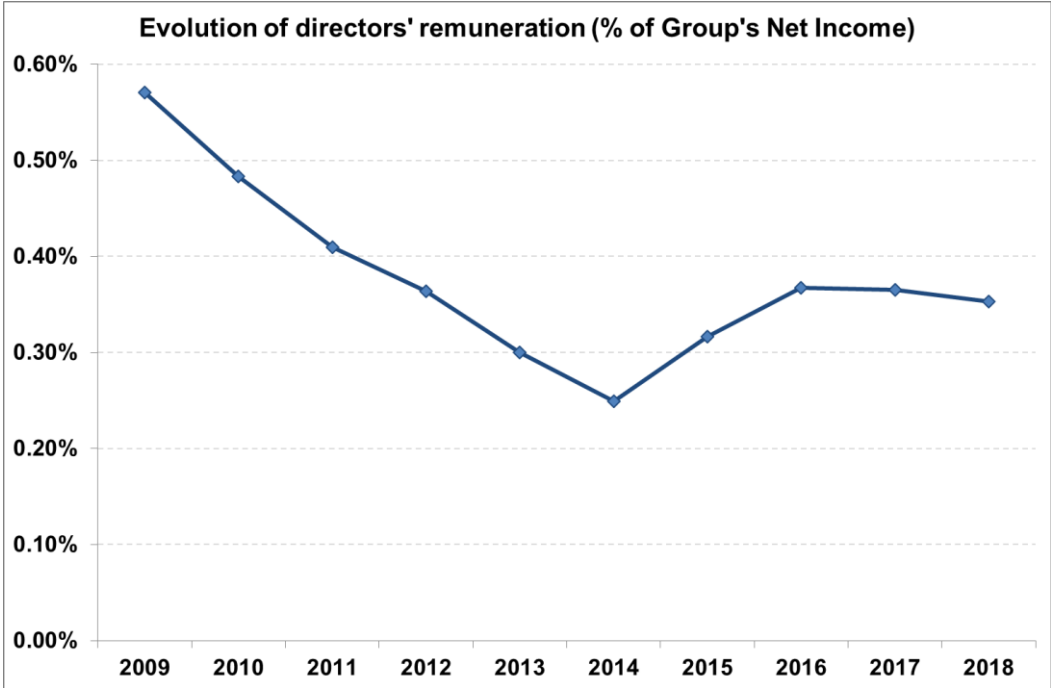
During 2018 there were no changes in the *chief executive officer's* contract.

**5.2. Implementation of the policy for remuneration of non-executive directors (in their condition as members of the Board of Directors) in 2018<sup>(\*)</sup>**

<sup>(\*)</sup>This is also applicable to the *chief executive officer*, for his duties as director.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Remuneration (% Group's net income)	0.57%	0.48%	0.41%	0.36%	0.30%	0.25%	0.32 %	0.37%	0.37%	0.35%



In the year 2018, the amount of overall remuneration of the Board of Directors was EUR 2,485 thousand (EUR 2,448 thousand in 2017). The increase, with respect to the previous year, is mainly due to the fact that during 2018 the Board of Directors was composed of 12 members throughout the year, unlike what happened in fiscal year 2017, and because in 2018 the position of lead independent director ("CIC" according to the initials in Spanish) has received the assigned remuneration.

In addition, in 2018, it was settled in favour of the previous *chairman of the Board of Directors*, when he ceased as chairman and director of the entity, the severance payment he had generated on 15 April 2016. This date is that of the termination, due to the entity's decision, of the commercial contract that the *chairman of the Board of Directors* had with Red Eléctrica until that date, for his executive duties.

The Board of Directors, at the proposal of the Appointments and Remuneration Committee, agreed, for the year 2018, to maintain the same amounts and remuneration items as those established for 2017 for the members of the Board of Directors, as follows:

#### **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 2018 in the calendar approved by the Board of Directors, the total amounting to EUR 16,500. Per diems will not be payable for Extraordinary Board of Directors' meetings, even though none were held in 2018.

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

The Board of Directors, in session held on 31 July 2018, adopted, among others, the following agreements:

I.- Accept the resignation presented by Mr. José Folgado Blanco as a director and non-executive chairman of the Board of Directors and of the company.

II.- Appoint Mr. Jordi Sevilla Segura as a director of the company, in the "other external" category, until the next General Shareholders' Meeting is held, and appoint him as non-executive chairman of the Board of Directors and the company.

Therefore, in 2018 there are two periods to reflect the remunerations of the *chairman of the Board of Directors*:

- From 1 January to 31 July 2018, period in which Mr. José Folgado Blanco held the position of *chairman of the Board of Directors*.
- From 31 July to 31 December 2018, period in which Mr. Jordi Sevilla Segura took up and held the position of *chairman of the Board of Directors*.

Below the remuneration received by each of the aforementioned directors are detailed according to said periods:

***Chairman of the Board of Directors from 1 January to 31 July 2018 (Mr. José Folgado Blanco)***

- Remuneration as a member of the Board of Directors:
  - Fixed Remuneration: EUR 76,266.
  - Per diems for attending the sessions of the Board of Directors: EUR 10,500.
- Specific remuneration as *chairman of the Board of Directors*: EUR 232,849.

Additionally, once Mr. Folgado ceased as a member of the Board of Directors and as non-executive chairman, in 2018, he received the severance payment he had generated on 15 April 2016, the date on which the entity decided to terminate the commercial contract that Mr. Folgado maintained as chairman of the company with executive functions. The indemnity settled according to the terms established in said commercial contract, which amounted to EUR 718 thousand, is equivalent to one year of the fixed remuneration that Mr. Folgado received as an executive director and the amount corresponding to one year of his variable remuneration calculated with a 100% level of achievement of objectives.

***Chairman of the Board of Directors from 31 July to 31 December 2018***

- Remuneration as a member of the Board of Directors:
  - Fixed remuneration: EUR 54,476.
  - Per diems for attending the sessions of the Board of Directors: EUR 7,500.
- Specific remuneration as *chairman of the Board of Directors*: EUR 167,394.

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

There is no supplementary remuneration accrued by the directors as consideration for the services provided other than those inherent to their position.

## **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 (*chief executive officer*) described in this document.

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

### **Annual fixed remuneration**

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**

As at 31 December 2018 there are loans granted to these executives, the detail of which is disclosed in the following section 8.3.

As at 31 December 2018 there are no advances granted to these executives.

### **Contractual terms and conditions**

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



Senior executives, who render services as at 31 December 2018, are included in a Structural Management Plan started by the company in 2015, approved by the Appointments and Remuneration Committee and the Board of Directors. This Plan, which will apply to part of the executive team, has the purpose of managing the replacement and management of the executive positions affected by the same, in an orderly and efficient manner. Participation in the mentioned Plan is subject to the satisfaction of certain conditions and may be amended or revoked in certain cases, among them, a consecutive unfavourable evolution of the Group's results.

## **7. Alignment of the remuneration policy and its application with the risk profile**

The remuneration systems of the directors in their condition as members of the Board of Directors (due to their non-executive functions) do not include measurement elements that encourage excessive risk taking by the entity, given that they are limited to fixed remunerations for belonging and assistance to the Board of Directors and its Committees.

In relation to the *executive director (chief executive officer)*, the remuneration policy has the following features that allow reducing exposure to excessive risks and adjust it to the company's long-term objectives, values and interests, as well as avoiding conflicts of interest:

- The design of the remuneration scheme presents a balanced and efficient relationship between the fixed and the variable components. The proportion of the *chief executive officer's* fixed remuneration is considered sufficient and not excessive, allowing the proportions of variable remuneration as *chief executive officer* reach to a maximum of approximately 50% of his total remuneration (Fixed Remuneration + Maximum Annual Variable Remuneration + Maximum annualised Multi-year Variable Remuneration + Long Term Savings System + Social Benefits and other remuneration).

- The variable remuneration components have sufficient flexibility to allow for their modulation and in a scenario where the minimum level of achievement of the objectives related to variable remuneration is not reached, the *executive director* would only receive fixed remuneration.
- There are no guaranteed variable remunerations.
- The Appointments and Remuneration Committee is responsible for the examination and analysis of compliance with the remuneration policy of the Board and senior executives, which is approved by the Board. The Regulation of the Board of Directors (<https://www.ree.es/en>) establish, among the functions of this Committee, the proposal to the Board of the remuneration policy of the Board of Directors and the senior executives, as well as ensuring compliance with the remuneration policy approved for the Board of Directors, for the executive directors and for the senior executives of the entity. These groups include professionals whose activities may have a material impact on the risk profile of the entity.
- Likewise, 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, since this commission must first verify the economic results of the entity, which, if applicable, are used for the calculation of the corresponding objectives.
- In accordance with the provisions of the directors' remuneration policy, the Appointments and Remuneration Committee has the authority to propose to the Board the cancellation or refund of the long-term and short-term variable remuneration of the beneficiary or the corresponding responsible party(s) when facing unforeseen circumstances that justify that the variable remuneration has been accrued or paid in response to inaccurate or erroneous information or data; or that there have been breaches of the internal corporate regulations or the applicable legislation, which are subsequently proven .

In addition, the Appointments and Remuneration Committee will assess whether, in exceptional circumstances of this type, it could even be proposed to the Board of Directors the termination of the contractual relationship with the corresponding beneficiary(s) or person (s).

- The Appointments and Remuneration Committee may propose adjustments on the variable remuneration under exceptional circumstances, due to internal or external factors to the Board. The detail regarding such adjustments will be disclosed, as the case may be, in the corresponding Annual Report on Remuneration of directors.
- In relation to the necessary measures to avoid conflicts of interest on the part of the directors, in line with the provisions of the Capital Companies Law, the Regulation of the Board of Directors of Red Eléctrica include in its articles 30 (section 2.h), 31 (sections c and e), 32 and 35 (section 3), a set of obligations derived from their duties of diligence and loyalty, the duty to avoid situations of conflict of interest and their duty of information.

## 8. Individual remuneration tables

### 8.1. Remuneration of the executive directors (*chief executive officer*), for all items, for the financial year 2018

The following is a summary of the total gross remuneration, in Euro, accrued by the *chief executive officer*, during the financial year 2018:

Director	Position	Base salary	Annual variable remuneration	Remuneration for his functions as director	Other remuneration	Total
Mr. Juan Lasala Bernad	Chief Executive Officer	399,170	299,378 <sup>(1)</sup>	147,242 <sup>(2)</sup>	139,834 <sup>(3)</sup>	985,624

(1) This amount, recorded in the Annual Accounts for the financial year 2018, is estimated by assuming the accrual of the annual variable remuneration with a degree of achievement of objectives of 100%. The Appointments and Remuneration Committee, held on 14 February 2019, once assessed the overall level of achievement of objectives for the financial year 2018, has approved a level of achievement of 110%, which means a variable remuneration of EUR 329,315 in favour of the chief executive officer. The total remuneration of the chief executive officer, considering this variable remuneration, amounts to EUR 1,015,561.

(2) This includes fixed remuneration as director (EUR 130,742) and per diems for attendance and time dedicated to the Board meetings (EUR 16,500) in the financial year 2018.

(3) This includes the contribution made to the long-term savings scheme in 2018 (EUR 79,834) and the cash allowance in lieu of social benefits (EUR 60,000).

## 8.2. Remuneration for directors in their condition as members of the Board (“in their condition as such” according to the LSC, for their non-executive duties), for all items, for the financial year 2018

The total remuneration of the Board of Directors for the financial year 2018, excluding the remuneration of executive directors due to their contractual relation (executive duties) with the entity, entails, in all categories, 0.35%<sup>1</sup> of the net income of the Red Eléctrica Group allocated to the holding company, for the financial year 2018.

The remuneration accrued by the members of Board of Directors of the entity in the year 2018, in thousands Euros, broken down by director, as disclosed in the Annual Accounts for the financial year 2018, are the following:

Thousands of Euros	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chairperson of committee or board and coordinating independent director	Other remuneration <sup>(6)</sup>	Total 2018	Total 2017
Mr Jordi Sevilla Segura <sup>(1)</sup>	221	-	7	-	-	-	228	-
Mr José Folgado Blanco <sup>(2)</sup>	308	-	10	-	-	-	318	546
Mr Juan Lasala Bernad	530	300	16	-	-	140	986	986
Ms Carmen Gómez de Barreda Tous de Monsalve <sup>(3)</sup>	131	-	16	28	17	-	192	190
Ms María José García Beato	131	-	16	28	-	-	175	175
Ms Socorro Fernández Larrea	131	-	16	28	-	-	175	175
Mr Antonio Gómez Ciria	131	-	16	28	15	-	190	177
Mr José Luis Feito Higuera	131	-	16	28	15	-	190	189
Mr Arsenio Fernández de Mesa Díaz del Río	131	-	16	28	-	-	175	156
Mr Alberto Carbajo Josa	131	-	16	28	-	-	175	129
Ms Mercedes Real Rodríguez <sup>(4)</sup>	131	-	16	28	-	-	175	32
Ms María Teresa Costa Campi <sup>(5)</sup>	35	-	5	3	-	-	43	-
Mr Antonio Gómez Expósito <sup>(5)</sup>	35	-	5	3	-	-	43	-
Mr Fernando Fernández Méndez de Andés <sup>(6)</sup>	96	-	12	21	-	-	129	175
Mr Santiago Lanzuela Marina <sup>(6)</sup>	96	-	12	21	-	-	129	175
Other board members <sup>(7)</sup>	-	-	-	-	-	-	-	181
<b>Total remuneration accrued</b>	<b>2,369</b>	<b>300</b>	<b>195</b>	<b>272</b>	<b>47</b>	<b>140</b>	<b>3,323</b>	<b>3,286</b>

(1) New director since the board meeting held on 31 July 2018.

(2) Stepped down from the board of directors at the board meeting held on 31 July 2018.

(3) Appointed chairwoman of the Sustainability Committee on 27 November 2018.

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

(5) New director since the board meeting held on 25 September 2018.

(6) Stepped down from the board of directors at the board meeting held on 25 September 2018.

(7) Board members in 2017 who have stepped down from the board.

<sup>1</sup> The net income of the RED ELÉCTRICA Group allocated to the holding company in the financial year 2018 amounted to EUR 704,558 thousand (EUR 669,836 thousand in the financial year 2017).

(8) Includes the employee benefits that form part of the managing director's remuneration.

Additionally, in 2018 the indemnity in favor of Mr. José Folgado Blanco, generated in 2016 and which amounts to EUR 718 thousand, was settled since he ceased to be a director of the entity.

### **8.3. Remuneration of senior executives, for all items, for the financial year 2018**

The senior executives who rendered services throughout the year 2018 are the following:

Name	Position	Accrual period in the year 2018
Eva Pagán Díaz	General Manager of Transmission	From 1 January to 31 December 2018
Miguel Duvison García	General Manager of System Operation	From 1 January to 31 December 2018

In the year 2018 the total remuneration accrued by the senior executives has amounted to EUR 657 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 medical and life insurances and pension plans amounted to EUR 14 thousand.

As of 31 December 2018 there are loans granted to these executives with an outstanding balance of EUR 148 thousand, maturing in 2024 and under the same conditions that apply to loans granted to personnel of the Collective Bargaining Agreement, with an equivalent applicable interest rate to this loan of 0.76%.

## 9. Tables of voting results

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

Annual Report on Remuneration of directors: votes (%)			
Date of the Meeting	For	Against	Abstention
22/03/2018	65.090%	1.110%	33.800% <sup>(1)</sup>
31/03/2017	64.618%	0.705%	34.677% <sup>(2)</sup>
15/04/2016	65.925%	0.545%	33.530% <sup>(3)</sup>
15/04/2015	63.903%	0.630%	35.467% <sup>(4)</sup>

(1) 33.35% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

(2) 34.41% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

(3) 33.27% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

(4) 34.95% of the aforementioned percentage corresponds to the votes of Sociedad Estatal de Participaciones Industriales (SEPI), as reported to the company, due to the position of the Sociedad Estatal de Participaciones Industriales (SEPI) in the listed companies with minority participation.

## **10. Complementary information of the tables of the Annex III Statistic of the Annual Report on Remuneration of Directors for listed companies (Circular 2/2018, of June 12, of the CNMV), corresponding to Red Eléctrica Corporación S.A. which appears as an appendix to this report**

The following are the explanatory notes to the tables of the aforementioned Statistical Appendix III:

1. In relation to section C.1.a) i), it should be noted that, in the information contained in the entity's Annual Accounts for the financial year 2018, as regards the remuneration accrued in the year 2017, there is an additional item called "Other Board Members", which refers to the Board members who cease as directors during the year 2017 (therefore, they are not included in the list of directors of the company in 2018 included in Appendix III of this report) and whose overall remuneration amounts to EUR 181 thousand. The information for the year 2017 relating to said members of the Board was presented on an individual basis in the company's Annual Report on Remuneration of directors for the year 2017, which was communicated to the CNMV and is available on the corporate website.
2. Similarly, in relation to section C.1.a) i) it should be noted that, in accordance with and consistent with the content of the note on " Board of Directors' Remuneration" contained in the entity's Annual Accounts, for the financial year 2018, duly audited, deposited in the CNMV and available on the entity's corporate website, the amount corresponding to the severance payment settled in favor of Mr. José Folgado Blanco, on the occasion of his cease as a member of the Board of Directors and as non-executive chairman of the company that occurred on 31 July 2018 has not been included in the table; and that because that amount was generated on 15 April 2016, the date on which the entity decided to terminate the commercial relation with Mr. Folgado as chairman of the company with executive functions. The indemnity settled in 2018 in accordance with the terms established in the aforementioned commercial contract, which amounted to EUR 718 thousand, is equivalent to one year of the fixed remuneration that Mr. Folgado received as an executive director plus the amount corresponding to one year of his variable remuneration calculated with a 100% level of achievement of objectives.

3. In relation to the annual variable remuneration accrued by the *chief executive officer* in the financial year 2018, which amounts to EUR 329,315, it should be noted that the table in section C.1.a) ii), which includes the remunerations accrued in cash, reflects the 75% of the total amount accrued (EUR 246,986), paid in cash. The remaining 25% (EUR 82,329) will be delivered in shares of the entity on the effective date of delivery of shares for all employees of the entity, usually in the last quarter of the year (2019), in accordance with the annual program of shares for employees. On that date the purchase price and the number of shares actually delivered will be known, according to their quotation on the Stock Exchange, and all this will be informed in the corresponding Annual Report on Remuneration of directors that will be approved in 2020.

Given that on the date of approval of this Report said price is not known, in Table C.1.a).ii), a number of shares has been included considering an estimate of the share price of 19.37 EUR/share - according to the last communication made by the company to the CNMV in relation to the remuneration systems in shares of the *chief executive officer*. The estimate of the number of shares in the table (4,233 shares) has been calculated considering the amount rounded in thousands of euros (EUR 82 thousand), as required by the aforementioned table, although this number increases (up to 4,250 shares) if the exact amount in euros (EUR 82,329) is considered.

It should also be noted that, in November 2018, the *chief executive officer* received 3,714 shares, corresponding to 25% of the annual variable remuneration accrued in 2017. The annual variable remuneration of the *chief executive officer* in 2017 amounted to EUR 287,822, as reported in the Annual Report on Remuneration of directors for 2017. 75% of this amount (EUR 215,866) was settled in cash in February 2018 and the remaining 25% (EUR 71,956) was delivered in shares in November 2018. The price used to calculate the number of shares was 19.37 EUR/share, in accordance with the annual program of shares for employees.



**Annex III Statistic of the Annual Report on Remuneration of Directors for listed companies (Circular 2/2018, of June 12, of the CNMV), corresponding to Red Eléctrica Corporación S.A.**



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ISSUER IDENTIFICATION

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Ending date of reference period: ( 31/12/2018 )

CIF: ( A-78003662 )

Corporate Name:

( RED ELÉCTRICA CORPORACIÓN, S.A. )

Registered Office:

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



## ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

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### B. OVERALL SUMMARY OF HOW REMUNERATION POLICY HAS BEEN APPLIED DURING THE YEAR ENDED

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- B.4. Report on the result of the consultative vote at the General Shareholders' Meeting on remuneration in the previous year, indicating the number of votes against that may have been cast:

	Number	% of total
Votes cast	324,501,238	60.25 %

	Number	% Cast
Votes against	3,600,868	1.11%
Votes in favour	211,219,519	65.09%
Abstentions	109,680,851	33.80%

**C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR**

Name	Type	Period of accrual in 2018
MR. JORDI SEVILLA SEGURA	Chairman other external	From 31/07/2018 to 31/12/2018
MR. JUAN FRANCISCO LASALA BERNAD	Executive Director	From 01/01/2018 to 31/12/2018
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	Independent Director	From 01/01/2018 to 31/12/2018
MS. MARÍA JOSÉ GARCÍA BEATO	Independent Director	From 01/01/2018 to 31/12/2018
MS. SOCORRO FERNÁNDEZ LARREA	Independent Director	From 01/01/2018 to 31/12/2018
MR. ANTONIO GÓMEZ CIRIA	Independent Director	From 01/01/2018 to 31/12/2018
MR. JOSÉ LUIS FEITO HIGUERUELA	Independent Director	From 01/01/2018 to 31/12/2018
MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	Independent Director	From 01/01/2018 to 31/12/2018
MR. ALBERTO FRANCISCO CARBAJO JOSA	Independent Director	From 01/01/2018 to 31/12/2018
MS. MERCEDES REAL RODRIGÁLVAREZ	Proprietary Director	From 01/01/2018 to 31/12/2018
MS. MARÍA TERESA COSTA CAMPI	Proprietary Director	From 25/09/2018 to 31/12/2018
MR. ANTONIO GÓMEZ EXPÓSITO	Proprietary Director	From 25/09/2018 to 31/12/2018
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Proprietary Director	From 01/01/2018 to 25/09/2018
MR. SANTIAGO LANZUELA MARINA	Proprietary Director	From 01/01/2018 to 25/09/2018
MR. JOSÉ FOLGADO BLANCO	Chairman other external	From 01/01/2018 to 31/07/2018

- C.1. Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year
- a) Remuneration from the reporting company:
- i) Remuneration in cash (thousand euros)

Name	Fixed Remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance payment	Other items	Total in 2018	Total in 2017
MR. ALBERTO FRANCISCO CARBAJO JOSA	131	16	28						175	129
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	131	16	45						192	190
MR. JOSÉ FOLGADO BLANCO	308	10							318	546
MS. MERCEDES REAL RODRIGÁLVAREZ	131	16	28						175	32
MR. ANTONIO GÓMEZ CIRIA	131	16	43						190	177
MR. SANTIAGO LANZUELA MARINA	96	12	21						129	175
MR. JORDI SEVILLA SEGURA	221	7							228	
MR. JUAN FRANCISCO LASALA BERNAD	131	16		399	247			60	853	903
MR. ANTONIO GÓMEZ EXPÓSITO	35	5	3						43	
MS. MARÍA JOSÉ GARCÍA BEATO	131	16	28						175	175
MS. SOCORRO FERNÁNDEZ LARREA	131	16	28						175	175
MR. ARSENIO FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	131	16	28						175	156
MS. MARÍA TERESA COSTA CAMPÍ	35	5	3						43	
MR. JOSÉ LUIS FEITO HIGUERUELA	131	16	43						190	189
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	96	12	21						129	175

ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Nombre	Name of Plan	Financial instruments at start of 2018		Financial instruments granted at start of 2018		Financial instruments consolidated during the year				Instrument s matured but not exercised	Financial instruments at end of 2018	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares/handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (thousand €)	No. of instruments	No. of instruments	No. of equivalent shares
MR. JUAN FRANCISCO LASALA BERNAD	2018 Annual Variable Remuneration			4,233	4,233	4,233	4,233	19.37	82			

iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
MR. JUAN FRANCISCO LASALA BERNAD	80

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with consolidated economic rights		Systems with consolidated economic rights	
	2018	2017	2018	2017	2018	2017	2018	2017
MR. JUAN FRANCISCO LASALA BERNAD	80	80			160	80		







iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
No data	

Name	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €) Savings systems with consolidated economic rights			
	Savings systems with consolidated economic rights		Savings systems with consolidated economic rights		Systems with Consolidated economic rights		Systems with unconsolidated economic rights	
	2018	2017	2018	2017	2018	2017	2018	2017
No data								

iv) Details of other items

Name	Item	Amount remunerated
No data		

**c) Summary of remunerations (thousand €):**

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director (thousand €).

Name	Remuneration accrued in the company					Remuneration accrued in group companies				
	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018 group
MR. ALBERTO FRANCISCO CARBAJO JOSA	175				175					
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	192				192					
MR. JOSÉ FOLGADO BLANCO	318				318					
MS. MERCEDES REAL RODRIGÁLVAREZ	175				175					
MR. ANTONIO GÓMEZ CIRIA	190				190					
MR. SANTIAGO LANZUELA MARINA	129				129					
MR. JORDI SEVILLA SEGURA	228				228					
MR. JUAN FRANCISCO LASALA BERNAD	853	82	80		1,015					
MR. ANTONIO GÓMEZ EXPÓSITO	43				43					
MS. MARÍA JOSÉ GARCÍA BEATO	175				175					
MS. SOCORRO FERNÁNDEZ LARREA	175				175					
MR. ARSENIÓ FERNÁNDEZ DE MESA Y DÍAZ DEL RÍO	175				175					
MS. MARÍA TERESA COSTA CAMPI	43				43					
MR. JOSÉ LUIS FEITO HIGUERUELA	190				190					



## ANNUAL REPORT ON REMUNERATION OF DIRECTORS OF LISTED COMPANIES

Name	Remuneration accrued in the company					Remuneration accrued in group companies				
	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018 company	Total cash remuneration	Gross profit of consolidated shares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018 group
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	129				129					
<b>TOTAL</b>	<b>3,190</b>	<b>82</b>	<b>80</b>		<b>3,352</b>					

**D. OTHER RELEVANT INFORMATION**

This annual remuneration report has been approved by the Board of Directors of the company on:

( 19 February 2019 )

State whether any director has voted against or abstained from approving this report

(  ) Yes

(  ) No

Name or company name of the member of the Board of Directors who has not voted for the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons
MS. MERCEDES REAL RODRIGÁLVAREZ	Abstention	As informed, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake.
MR. ANTONIO GÓMEZ EXPÓSITO	Abstention	As informed, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake.
MS. MARÍA TERESA COSTA CAMPI	Abstention	As informed, position of Sociedad Estatal de Participaciones Industriales (SEPI) in listed companies in which it holds a minority stake.

#### **Four.- Approval of the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for the 2019 financial year.**

To approve the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for the 2019 financial year that was approved by the Board of Directors at the meeting of 19 February 2019, in accordance with the provisions of the Articles of Association, of the new Policy on Remuneration of the Directors, and of the Annual Report on Remuneration of the Directors, at the proposal of the Appointments and Remuneration Committee, on the following terms:

#### **I.- REMUNERATION OF THE BOARD OF DIRECTORS, IN RESPECT OF ALL ITEMS, FOR THEIR NON-EXECUTIVE FUNCTIONS, FOR THE 2019 FINANCIAL YEAR:**

Without prejudice to the remuneration of the chairman (non-executive) of the Board that is described in the following section, it is proposed that the remuneration of directors for their non-executive functions as members of the Board of Directors and its Committees during 2019 be kept the same in amounts and items as in financial year 2018, as follows:

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

The Fixed Remuneration for the 2019 financial year shall be as follows:

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

##### **2. Compensation for attending meetings of the Board of Directors**

The compensation for attending meetings of the Board of Directors and its Committees during the 2019 financial year will be as follows:

1,500.00 euros for attendance in person by directors at each of the eleven ordinary meetings included in the schedule for 2019 approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the compensation, provided the proxy appointment is for just cause and occurs no more than two times during the year. This amount will be paid within fifteen days of the given meeting being held.

The holding of extraordinary meetings of the Board of Directors, in person or electronically, will not be remunerated by this compensation for attending Board meetings.

##### **3. Service on Board of Directors committees**

The remuneration for service on the committees of the Board of Directors, during the 2019 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 2019.

- b) An additional 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 2019.

#### **4. Lead Independent Director**

Additional 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 Articles of Association, 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 (of the ordinary employee or the 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 his or her executive functions. As noted above, in the proposal submitted to the General Meeting for amendment of the Articles of Association, that wording shall be replaced by a detailed description of the remuneration system that applies to executive directors.

## **II.- REMUNERATION OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER FOR THE 2019 FINANCIAL YEAR**

Taking into account the principles of prudence and moderation embraced by the company in relation to remuneration, and the provisions of the proposed new Policy on the Remuneration of the Directors to be submitted for approval at the Annual General Meeting of Shareholders in 2019, it is proposed that the following resolutions be approved, setting out the remuneration for 2019 of the chairman of the Board of Directors and of the chief executive officer, on the following terms:

### **• Chairman (non-executive) of the Board of Directors**

1. Fixed remuneration (as chairman of the Board)

This is maintained at the same amount as in 2018, i.e. 399,170.00 euros per year, payable in monthly instalments before the fifth (5th) day of the following month.

2. In addition, the chairman of the Board of Directors maintains the annual remuneration stipulated for all directors, as members of the Board of Directors, in respect of "Fixed Remuneration" and of "Compensation for attending meetings of the Board of Directors".

### **• Chief executive officer**

1. Fixed Remuneration (as chief executive officer)

This is maintained at the same amount as in 2018, i.e. 399,170.00 euros per year, payable in monthly instalments before the fifth (5th) day of the following month.

## 2. Short-Term Variable Remuneration

The annual variable remuneration is maintained for the chief executive officer on the same terms as in 2018. The terms and conditions of that remuneration are detailed in the Annual Report on Remuneration of the Directors and in the new proposal for the Policy on Remuneration of the Directors which the Board will submit for approval at the upcoming Annual General Meeting of Shareholders in 2019.

## 3. Long-Term Variable Remuneration

The chief executive officer participates in the multiyear cash variable remuneration plan for executives (Plan 2014-2019) that is envisaged in the directors' remuneration policy and in the annual report on directors' remuneration approved by the 2016 Annual General Meeting of Shareholders. The terms and conditions of that remuneration are detailed in the Annual Report on Remuneration of the Directors and also in the new proposal for the Policy on Remuneration of the Directors.

## 4. Long-term savings system and employee benefits

The chief executive officer participates in a defined-contribution company pension scheme. The company's obligation to make an annual contribution equal to 20% of the chief executive officer's Fixed Remuneration is maintained on the same terms as in 2018.

Likewise maintained on the same terms and in the same amount as in 2018 is the supplement for employee benefits assigned to the chief executive officer, which amounts to 60,000.00 euros in cash or in kind.

## 5. In addition, the chief executive officer maintains the annual remuneration stipulated for all directors, as members of the Board of Directors, in respect of "Fixed Remuneration" and of "Compensation for attending meetings of the Board of Directors".

Also submitted for approval of the Annual General Meeting is the new proposal for the Policy on Remuneration of the Directors that covers the remuneration of the Board of Directors, for all items, as well as the remuneration of the chairman and of the chief executive officer for 2019.

In any event, the Appointments and Remuneration Committee and the Board of Directors may bring a proposal before the shareholders in General Meeting on the future measures to allow the remuneration of both offices to be aligned to the size and importance of the company and the Group, to their economic situation, comparability, profitability and sustainability, as well as to the desired remuneration positioning and to the effective consolidation of both offices, all pursuant to the Policy on Remuneration of the Directors in effect from time to time and in line with what was approved at the 2017 and 2018 Annual General Meetings of Shareholders of the company.

## **RESOLUTION REGARDING POINT EIGHT OF THE AGENDA:**

### **REAPPOINTMENT OF THE STATUTORY AUDITOR OF THE PARENT COMPANY AND OF THE CONSOLIDATED GROUP**

The firm of KPMG Auditores, S.L. (“KPMG Auditores”) has audited the individual and consolidated annual financial statements of Red Eléctrica Corporación and of the Group's subsidiaries since 2013, as well as the requisite Comfort Letters that were issued to renew the Group's debt securities and bond issuance programmes.

The Annual General Meeting of Shareholders of Red Eléctrica Corporación, S.A. (“REC”) held on 18 April 2013, in accordance with the provisions of Article 264 of the Spanish Companies Act, resolved to name KPMG Auditores as statutory auditors of the company and of its Consolidated Group in order to audit the individual annual financial statements of the company and those of its Consolidated Group for the 2013, 2014 and 2015 financial years.

Similarly, after the initial term envisaged in the Spanish Accounting Audit Act (*Ley de Auditoría de Cuentas*) expired, the Annual General Meeting of Shareholders of REC held on 15 April 2016 resolved to reappoint KPMG Auditores as statutory auditors of the company and of its Consolidated Group in order to audit the individual annual financial statements of the company and those of its Consolidated Group for the 2016, 2017 and 2018 financial years.

Consequently, on the expiry of this latest term of three years of KPMG Auditores' appointment as auditor of the company and of the Group, in accordance with the terms of Article 529 quaterdecies, paragraph 4.d) of the Spanish Companies Act and Article 16.3.a) of the Regulations of the Board of Directors, the following resolution is submitted, at the proposal of the Audit Committee:

To reappoint KPMG Auditores, S.L., with tax identification number B-78510153, and registered office at Paseo de la Castellana, 259 C, C.P. 28046 Madrid, registered in the Mercantile Registry of Madrid (volume 11,961, folio 90, section 8, page number M188.007, entry 9) and in the Official Register of Statutory Auditors (Registro Oficial de Auditores de Cuentas — ROAC) under number S0702, as auditors of the accounts of the parent company, Red Eléctrica Corporación, S.A. and of its Consolidated Group, for a term of one (1) year, covering the 2019 financial year, in accordance with the terms of Article 264 of the current Spanish Companies Act.



**RESOLUTION REGARDING POINT NINE OF THE AGENDA:**

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

Without prejudice to the authorisations 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 Shareholders Meeting, 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 such actions as may be necessary or appropriate 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 TEN OF THE AGENDA:**

#### **REPORT TO THE GENERAL MEETING OF SHAREHOLDERS ON THE ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE 2018 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 19 February 2019, approved the Annual Corporate Governance Report (*Informe Annual de Gobierno Corporativo, or "IAGC"*) of Red Eléctrica Corporación S.A. for the 2018 financial year. That report was notified to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) as a material disclosure.

The 2018 IAGC applies the same structure and criteria as the 2017 report, and was prepared after comparative analysis of international best practices of comparable undertakings, seeking elimination of repetition, introducing summaries, graphics and hyperlinks to the corporate website to facilitate its reading, with direct access to related documents that may be of interest.

The Annual Corporate Governance Report for the 2018 financial year consists of a main body of seven sections, which refer to the regulatory framework and corporate governance policy as an expression of the strategy in this regard (Section 1), the commitment to dialogue and the participation of shareholders and other stakeholders (Section 2), the Board of Directors as the control and supervision body (Section 3), the balance of authority on the Board of Directors (Section 4), the remuneration policy and evaluation (Section 5), the application of the system for comprehensive risk control, management and compliance (Section 6) and future prospects (Section 7).

In addition, as was done in prior years, the most relevant aspects of the process of annual self-evaluation of the Board of Directors have been reported (Section 5), as has the roadmap for Corporate Governance established by Red Eléctrica for coming years, which is explained in Section 7, called *Future Prospects*.

Finally, as is customary, an Official Annex is attached in the Form of Annex I to the Circular 2/2018 of 12 June 2018 of the National Securities Market Commission.

The Annual Corporate Governance Report is available, in Spanish and English, from 20 February 2019 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 ELEVEN OF THE AGENDA:**

**REPORT TO THE GENERAL MEETING OF SHAREHOLDERS ON THE AMENDMENT OF THE REGULATION OF THE BOARD OF DIRECTORS OF RED ELÉCTRICA CORPORACIÓN, S.A.**

The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 19 February 2019, approved the amendment of the Regulation of the Board of Directors, due to the strategic approach that the Board of Directors aims to attribute to the sustainability of the Red Eléctrica Group, in the light of the experiences of certain comparable international companies and of the increasing demands of several groups of corporate interests.

The aforesaid reasons have lead the Board of Directors to a restructuring of the Board committees, by means of the creation of a new Sustainability Committee and the update of the functions assigned to the other two Board committees, the Audit Committee and the Appointments and Remuneration Committee, strengthening the responsibilities of the latter by the creation of a new framework for the relationship between the Board of Directors and the labour environment of the companies of Red Eléctrica Group, according to the best international practices of corporate governance. Likewise, the Board of Directors has performed a review of the general supervising functions to be carried out by the Audit Committee, for the purposes of coordinating them with the specific supervising functions assigned to the other Board committees within the context of their specific responsibilities.

Yours sincerely,

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