

**SPANISH SECURITY  
MARKETS COMMISSION**  
Markets Division  
Pº de La Castellana, 19  
28046 MADRID

Madrid, 3 April 2014

Dear Sirs:

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

## **I. CALL NOTICE FOR THE ANNUAL SHAREHOLDERS' MEETING**

The Board of Directors of Red Eléctrica Corporación, S.A. (the "Company"), at a meeting held on April 2, 2014, resolved to call the Annual Shareholders' Meeting, to be held on first call on **May 8, 2014**, at **12.30 p.m.** at **Auditorio del Complejo de los Duques de Pastrana**, Paseo de la Habana 208, Madrid and, as the case may be, on second call on **May 9, 2014**, at the same time and venue, with a view to deliberating and resolving on the items contained on the following

### **AGENDA**

#### **I. ITEMS FOR APPROVAL**

**One.** Examination and approval, as the case may be, of the Financial Statements (Balance sheet, Income Statement, Statement of Changes in Total Equity, Statement of Recognized Income and Expense, Cash Flow Statement, and Notes to Financial Statements) and the Management Report for Red Eléctrica Corporación, S.A. for the year ended December 31, 2013.

**Two.** Examination and approval, as the case may be, of the Consolidated Financial Statements (Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Overall Income Statement, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, and Notes to the Consolidated Financial Statement) and the Consolidated Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A., and subsidiary companies for the year ended December 31, 2013.

**Three.** Examination and approval, as the case may be, of the application of the result of Red Eléctrica Corporación, S.A., for the year ended December 31, 2013.

**Four.** Examination and approval, as the case may be, of management by the Board of Directors of Red Eléctrica Corporación, S.A., in 2013.

**Five.** Appointment of Company directors.

**5.1** Ratification and appointment of Mr. José Ángel Partearroyo Martín as proprietary director.

**5.2** Appointment of Ms. Socorro Fernández Larrea as independent director.

**5.3** Appointment of Mr. Antonio Gómez Ciria as independent director.

**Six.** Authorizations granted to the Board of Directors for the derivative acquisition of treasury stock:

**6.1** Authorization for the derivative acquisition of treasury stock by the Company or by companies of the Red Eléctrica Group, and for the direct award of treasury stock to employees and Executive Directors of the Company and of the companies of the Red Eléctrica Group, as compensation.

**6.2** Approval of a Compensation Plan for members of Management and the Executive Directors of the Company and of the companies of the Red Eléctrica Group.

**6.3** Revocation of previous authorizations.

**Seven.** Compensation for the Board of Directors of the Company:

**7.1** Approval of the Annual Report on Compensation and compensation policy for the Board of Directors of Red Eléctrica Corporación, S.A.

**7.2** Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A., for 2013.

**7.3** Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A., for 2014.

**Eight.** Delegation of authority to fully implement the resolutions adopted at the General Shareholders' Meeting.

## **II. ITEMS FOR INFORMATION**

**Nine.** Information to the General Shareholders' Meeting on the 2013 Annual Corporate Governance Report of Red Eléctrica Corporación, S.A.

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

In accordance with the provisions of Articles 172 and 519 of the Corporate Enterprises Law, the Corporate Bylaws and the Regulations of the Shareholders' Meeting, shareholders representing at least five percent of the capital stock are informed that they may request the publication of a supplement to the call notice for the Annual Shareholders' Meeting, including one or more items on the agenda, provided that the new items are accompanied by a justification or, as the case may be, a justified proposed resolution. This right must be exercised by serving duly authenticated notice on the Company which must be received at the registered office, Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid, within five days after the publication of the call notice. The supplement to the call notice must be published at least fifteen days prior to the date set for holding the Shareholders' Meeting.

Shareholders representing at least five percent of the capital stock may submit reasoned proposals for resolutions on items already included or to be included in the agenda for the Shareholders' Meeting called. Moreover, they may make suggestions regarding those activities and interests of the Company that they believe should be discussed at the Shareholders' Meeting. In both cases they will be entitled to make these proposals and suggestions via the Shareholder Information Office (the details of which are published at the end of this announcement in the "General Information" section) within five days as of the publication of this call.

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

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

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

In accordance with the provisions of the Electricity Industry Law and Article 5 of the Corporate Bylaws, no shareholder may exercise voting rights exceeding three percent of the capital stock. Parties that engage in activities in the electricity industry, and individuals or legal entities that directly or indirectly hold more than five percent of the capital of such

parties, may not exercise voting rights exceeding one percent of the capital stock. Pursuant to the Electricity Industry Law, the above limits will not apply to the State-Owned Industrial Holdings Company (SEPI).

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

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

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

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

Personal attendance at the Shareholders' Meeting by the shareholder represented shall revoke any vote or proxy cast or granted beforehand.

Proxy-holders may hold the proxies of more than one shareholder with no limit on the number of shareholders they may represent. Where a proxy-holder holds several proxies, he may cast votes in different directions, in accordance with the instructions received from each shareholder. Prior to his appointment, the proxy-holder must provide detailed information to the shareholder on whether he has any conflict of interest, in accordance with the provisions of Article 523 of the Corporate Enterprises Law. If the conflict arises after his appointment and the proxy-holder has not warned the represented shareholder of its potential existence, he must inform the shareholder immediately. In both cases, if no new specific voting instructions have been received for each of the items on which the proxy-holder is to vote in the name of the shareholder, the proxy-holder must refrain from casting the vote.

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

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

In accordance with the provisions of Article 524 of the Corporate Enterprises Law, a firm that provides investment services, in its capacity as professional financial intermediary, may exercise the right to vote in the name of its individual or corporate clients who have conferred

a proxy on it. In this case, a financial intermediary may, in the name of its clients, cast differing votes, in accordance with the different voting instructions received, if any. For such purpose, it must notify the Company of the direction in which it will cast the votes. The financial intermediary may delegate the vote to a third person designated by the client, with no limitation on the number of proxies conferred. Intermediaries upon whom proxies are conferred must communicate to the Company within the seven days prior to the date set for holding the Shareholders' Meeting a list indicating the identity of each client, the number of shares with respect to which it exercises the right to vote in the client's name, and the voting instructions received, as the case may be.

No person may accumulate proxies in the name of the same shareholder which confer on him voting rights in the name of that shareholder that exceed the limits established in Article 5 of the Bylaws.

## **RIGHT TO INFORMATION**

Pursuant to the provisions of the Corporate Enterprises Law, the Corporate Bylaws and the Regulations of the Shareholders' Meeting, any shareholders who so wish may examine and obtain, immediately and free of charge, as from publication of this notice, at the registered office (Paseo del Conde de los Gaitanes, 177, 28109 Alcobendas, Madrid), on the Company website ([www.ree.es](http://www.ree.es)) under the *Shareholders and investors* section or under the *Corporate Governance* section, and from the Shareholder Information Office located at the above-mentioned registered office of the Company, and in the offices and times of the Regional Offices, indicated in the "General Information" section below of this notice, and request the delivery or sending, also immediately and free of charge, of: the individual and consolidated financial statements and directors' reports to be submitted for approval by the Shareholders' Meeting, together with the respective auditors' reports; the full text of the call notice and of all such proposed resolutions as may already have been adopted by the Board of Directors, without prejudice in this last-mentioned case to the fact that they may be amended up to the date of the Shareholders' Meeting, where legally possible; as well as any proposed resolutions presented by shareholders, as they are received; and, in particular, the professional profile of the directors whose appointment and/or ratification is submitted to the Shareholders' Meeting, the Annual Corporate Governance Report of the Company corresponding to year 2013, regulated under Article 61 bis of the Securities Market Law (included in full as a schedule to the individual and consolidated Management Reports); and the Annual Report on Compensation and compensation policy of the Board of Directors of the Company regulated under Article 61 ter of the Securities Market Law.

The relevant documentation will be provided to the shareholders on the day the Shareholders' Meeting is held.

Pursuant to the provisions of Articles 197 and 520 of the Corporate Enterprises Law and Article 8 of the Regulations of the Shareholders' Meeting, the shareholders may pose questions to the Directors in writing, until the seventh day prior to the date set for holding the Meeting, or verbally during the Meeting, or request information or clarification concerning the items on the Agenda or concerning any publicly available information furnished by the Company to the National Securities Market Commission since April 18, 2013, the date of the last Shareholders' Meeting, and on the auditor's report. The shareholders will be entitled to formulate their queries through the Shareholder Information Office, after registering their identity as shareholders, subject to the due verification.

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

## **SHAREHOLDERS' ELECTRONIC FORUM**

Pursuant to Article 539.2 of the Corporate Enterprises Law, the Company has set up on its website—[www.ree.es](http://www.ree.es)—a Shareholders' Electronic Forum on the occasion of holding its Shareholders' Meetings, the Operating Rules for which were approved by the Board of Directors at the meeting on April 2, 2014.

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

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

The personal data furnished by shareholders in using the Shareholders' Electronic Forum will be included in a filing system belonging to the Company, the purpose of which is to manage and supervise the functioning of the Forum, as well as manage the Shareholders' Meetings of the Company and carry out statistical studies on the shareholder structure of the Company.

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

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

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

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

#### **1.1. PROXIES BY REMOTE MEANS.**

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

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

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

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

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

*To be effective and valid, the electronic proxy must be granted after zero hours (00:00) on **April 23, 2014** and must be received by the Company before twenty-four hours (24:00) on the day immediately preceding the day on which the Shareholders' Meeting is scheduled to be held on first call, that is, before twenty-four hours (24:00) on **May 7, 2014**. Proxies received outside this period will be deemed not granted.*

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

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

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

*To be effective and valid, electronic proxies must be accepted by each proxy-holder, for which purpose they must be printed, signed and presented by the designated proxy-holder in each case to the Company personnel in charge of the share register, no later than **up to one hour before the start of the Shareholders' Meeting, on first or second call**, with the exception of those granted to a Director, which will be deemed accepted once they are received by the Company.*

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

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

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

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

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

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

### **1.1.3 Revocation**

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

## **1.2 Voting by remote means**

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



### **1.2.1. Electronic means**

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

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

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

*To be effective and valid, votes cast electronically must be cast after zero hours (00:00) **on April 23, 2014** and must be received by the Company before twenty-four hours (24:00) on the day immediately preceding the day on which the Shareholders' Meeting is scheduled to be held on first call, that is, before twenty-four hours (24:00) on **May 7, 2014**. Votes received outside this period will be deemed not cast.*

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

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

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

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

*The duly completed and signed card must be delivered or sent to the Company, either to its registered office – Paseo del Conde de los Gaitanes, 177, 28.109 Alcobendas, Madrid – or through the shareholder information service.*

*To be effective and valid, votes cast by postal correspondence must be received by the Company **before twenty-four hours (24:00) on the day immediately preceding the day on which the Shareholders' Meeting is scheduled to be held on first call, that is, before twenty-four hours (24:00) on May 7, 2014**. Votes received outside this period will be deemed not cast.*

### **1.2.3 Revocation**

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

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

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

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

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

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

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

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

## **3. AVAILABILITY OF SERVICE**

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

*The Company will not be liable for any damage caused to shareholders as a result of malfunctions, overloads, line failures, failed connections or any other contingency of*

*the same or a similar nature, beyond the control of the Company, which hinder the use of the procedure for proxies, voting and information requests by remote means.*

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

*In accordance with Personal Data Protection Organic Law 15/1999, of December 13, 1999, the Company informs its shareholders that the personal data obtained throughout the procedure for proxies, voting and information requests by remote means, whether they originate from electronic user certificates or from any other data storage and retrieval device on shareholder computer terminals, with or without their involvement, or whether such data is furnished by the shareholder directly, will be included in a filing system controlled by the Company, for the purpose of managing the procedure for proxies, voting and information requests by remote means at the 2013 Annual Shareholders' Meeting and, in particular, to monitor, verify and validate the proxies granted and votes cast by remote means, the duplicate cards issued and the information requests made electronically by the shareholders at such Shareholders' Meeting.*

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

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

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

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

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

#### **GENERAL INFORMATION**

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

In addition, as from publication of this notice, a Shareholder Information Office will be made available at the registered office of the Company and in the Regional Offices (La Coruña, Barcelona, Bilbao, Seville, Valencia, Zaragoza, the Balearic Islands and the Canary Islands)

with the following opening hours: Monday through Thursday from 9:00 a.m. to 2:00 p.m. and from 3:00 p.m. to 6:00 p.m., and Fridays from 9:00 a.m. to 2:00 p.m.

**As from April 23, 2014, an Office will be made available at Hotel Aitana AC (Paseo de la Castellana, 152, Madrid)** to facilitate the shareholders the delivery of documentation, with the following opening hours: Monday through Friday from 10:00 a.m. to 2:30 p.m. and from 4:00 p.m. to 7:30 p.m., and Saturdays from 10:00 a.m. to 2:00 p.m.

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

The Shareholders' Meeting will be broadcast live in the Internet, with simultaneous translation into English and, once ended, it may be followed on a deferred basis on the website [www.ree.es](http://www.ree.es). Moreover, in order to facilitate participation and follow up for impaired hearing persons, translation into Spanish sign language will also be available.

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

Shareholders are informed that, in light of previous years' experience, the Shareholders' Meeting is expected to be held on **SECOND CALL** on **May 9, 2014**, at the time and venue stipulated above.

Alcobendas (Madrid), April 4, 2014.  
The General Secretary and Secretary of the Board of Directors  
Rafael García de Diego Barber

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

The resolutions proposed by the Board of Directors in the above-mentioned meeting held on April 2, 2014, to be submitted to the Annual Shareholders' meeting, are the following:

### **I. ITEMS FOR APPROVAL**

#### **PROPOSED RESOLUTION RELATING TO ITEM ONE ON THE AGENDA:**

**EXAMINATION AND APPROVAL, AS THE CASE MAY BE, OF THE FINANCIAL STATEMENTS (BALANCE SHEET, INCOME STATEMENT, STATEMENT OF CHANGES IN TOTAL EQUITY, STATEMENT OF RECOGNIZED INCOME AND EXPENSE, CASH FLOW STATEMENT, AND NOTES TO FINANCIAL STATEMENTS) AND THE MANAGEMENT REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE YEAR ENDED DECEMBER 31, 2013.**

The following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

To approve the financial statements (balance sheet, income statement, statement of changes in total equity, statement of recognized income and expense, cash flow statement and notes to the financial statements) and the directors' report of Red Eléctrica Corporación, S.A. for the year ended 2013.

The Financial Statements and Directors' Report of Red Eléctrica Corporación, S.A., the approval of which is proposed in this act, correspond to the Financial Statements and Directors' Report drawn up by the Board of Directors at the meeting held on February 25, 2014.

**PROPOSED RESOLUTION RELATING TO ITEM TWO ON THE AGENDA:**

**EXAMINATION AND APPROVAL, AS THE CASE MAY BE, OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONSOLIDATED STATEMENT OF FINANCIAL POSITION, CONSOLIDATED INCOME STATEMENT, CONSOLIDATED OVERALL INCOME STATEMENT, CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, CONSOLIDATED CASH FLOW STATEMENT, AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS) AND THE CONSOLIDATED MANAGEMENT REPORT OF THE CONSOLIDATED GROUP OF RED ELÉCTRICA CORPORACIÓN, S.A., AND SUBSIDIARY COMPANIES FOR THE YEAR ENDED DECEMBER 31, 2013.**

The following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

To approve the Consolidated Financial Statements (Consolidated Statement of Financial Position, consolidated income statement, consolidated overall income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements) and the Consolidated Directors' Report of the Consolidated Group of Red Eléctrica Corporación, S.A. and subsidiary companies for the year ended December 31, 2013.

The Financial Statements and Directors' Report of the Consolidated Group of Red Eléctrica Corporación, S.A., the approval of which is proposed in this act, correspond to those drawn up by the Board of Directors at the meeting held on February 25, 2014.

**PROPOSED RESOLUTION RELATING TO ITEM THREE ON THE AGENDA:**

**EXAMINATION AND APPROVAL, AS THE CASE MAY BE, OF THE APPLICATION OF THE RESULT OF RED ELÉCTRICA CORPORACIÓN, S.A. FOR THE YEAR ENDED DECEMBER 31, 2013.**

The following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

To approve the application of the result proposed by the Board of Directors at the meeting held on February 25, 2014, and as a result, to distribute 2013 income, amounting to €487,181,849.55 euros, as follows:

	<u>AMOUNT IN EUROS</u>
TO VOLUNTARY RESERVES	143,326,228.26
TO DIVIDENDS:	
INTERIM DIVIDEND	97,867,126.29
SUPPLEMENTARY DIVIDEND (calculated over the total number of shares)	245,988,495.00
<hr/>	
TOTAL	487,181,849.55

It is expressly resolved to pay the shares entitled to a dividend a gross dividend of €2.5422 per share. Payment of the dividend will be made on July 1, 2014, at the banks and financial institutions to be duly announced, with a deduction therefrom of the gross amount of €0.7237 per share, which was paid as an interim dividend on January 2, 2014, pursuant to the Board resolution dated December 17, 2013.

## **PROPOSED RESOLUTION RELATING TO ITEM FOUR ON THE AGENDA:**

### **EXAMINATION AND APPROVAL, AS THE CASE MAY BE, OF MANAGEMENT BY THE BOARD OF DIRECTORS OF RED ELÉCTRICA CORPORACIÓN, S.A. IN 2013.**

The following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

To approve the management by the Board of Directors of Red Eléctrica Corporación, S.A. in 2013.

## **PROPOSED RESOLUTIONS RELATING TO ITEM FIVE ON THE AGENDA:**

### **APPOINTMENT OF COMPANY DIRECTORS**

The following resolutions are proposed to the Board of Directors for submission to the General Shareholders' Meeting:

#### **One.- Ratification and appointment of Mr. José Ángel Partearroyo Martín as proprietary director.**

To ratify the appointment of Mr. José Ángel Partearroyo Martín as proprietary director of Red Eléctrica Corporación, S.A. on behalf of the State Industrial Holding Company (SEPI), which was agreed by the Board of Directors at its meeting on February 25, 2014, pursuant to the provisions of Article 244 of the Spanish Corporate Enterprises Law, to replace and as a consequence of the resignation as proprietary director representing the State Industrial Holding Company (SEPI), of Mr. Alfredo Parra García-Moliner and thus proceed to appoint him as a proprietary director of Red Eléctrica Corporación, S.A., on behalf of the State Industrial Holding Company (SEPI), for the four-year term stipulated in the corporate bylaws, pursuant to the report issued by the Corporate Responsibility and Governance Committee.

#### **Two.- Appointment of Ms. Socorro Fernández Larrea as independent director.**

To appoint Ms. Socorro Fernández Larrea as independent director of Red Eléctrica Corporación, S.A., for the four-year term stipulated in the corporate bylaws, in replacement of the independent director Mr Miguel Boyer Salvador, pursuant to the report and proposal made by the Corporate Responsibility and Governance Committee.

#### **Three.- Appointment of Mr. Antonio Gómez Ciria as independent director.**

To appoint Mr. Antonio Gómez Ciria as independent director of Red Eléctrica Corporación, S.A., for the four-year term stipulated in the corporate bylaws, in replacement of the independent director Mr Rui Manuel Janes Cartaxo, pursuant to the

report and proposal made by the Corporate Responsibility and Governance Committee.

## **PROPOSED RESOLUTIONS RELATING TO ITEM SIX ON THE AGENDA:**

### **AUTHORIZATIONS GRANTED TO THE BOARD OF DIRECTORS FOR THE DERIVATIVE ACQUISITION OF TREASURY STOCK.**

As in previous years, a proposal is made to shareholders to renew the authorization granted by the Ordinary General Shareholders' Meeting to the Board of Directors for the derivative acquisition of treasury stock by the Company or by companies of the Red Eléctrica Group, and for the direct allocation of treasury stock to employees and executive directors of the Company and of the companies of the Red Eléctrica Group, as compensation, with the limits contemplated in the proposal.

In addition, as a separate sub-item on the agenda within this item, it is also intended to establish a Compensation Plan for the members of Senior Management and the Executive Directors of Red Eléctrica Corporación, S.A., which may be extended to companies in its consolidated Group, allowing part of their annual compensation to be awarded in the form of Company shares, on the same terms as the preceding year. This Plan requires the establishment of a number of basic conditions which are included in the resolution proposed.

As a result the following resolutions are proposed for submission to the General Shareholders' Meeting:

#### **One.- Authorization for the derivative acquisition of treasury stock by the Company or by companies of the Red Eléctrica Group, and for the direct award of treasury stock to employees and Executive Directors of the Company and of the companies of the Red Eléctrica Group, as compensation**

To authorize, pursuant to the provisions of Article 146 and related provisions of the Spanish Corporate Enterprises Law and other applicable legislation, the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group directly or indirectly, insofar as the Board of Directors considers that the circumstances so advise, subject to the following conditions:

- (i) The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- (ii) Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.



- (iii) The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for a consideration or without a consideration, as the circumstances so advise. In the case of acquisition without a consideration, pursuant to the provisions of Article 146.4 of the Spanish Corporate Enterprises Law, the shares acquired may be partially paid up.
- (iv) Pursuant to the provisions of Article 146.1 b) of the Spanish Corporate Enterprises Law, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net worth below the amount of capital stock plus legal reserves or restricted reserves pursuant to the bylaws.

For these purposes, 'net worth' will be considered the amount classified as such pursuant to the criteria used to prepare the financial statements, less the amount of income attributed directly to it, plus the amount of uncalled subscribed capital stock, and also plus the nominal amount and the subscribed additional paid-up capital recorded for accounting purposes as liabilities.

In accordance with paragraph three of Article 146.1 a) of the Spanish Corporate Enterprises Law, the Board of Directors of the Company may use some or all of the treasury stock acquired pursuant to this authorization and the treasury stock already owned by the Company on the date of approval of the resolution to implement compensation programs consisting of the direct award of shares to employees and Executive Directors of the Company and of companies belonging to the Red Eléctrica Group.

For all of the foregoing, the Board of Directors is granted the broadest powers to request any authorizations and adopt any resolutions that may be necessary or appropriate for the purposes of compliance with the legislation in force, and the implementation and successful outcome of this resolution.

The term of this authorization will be five (5) years as from the date of this General Shareholders' Meeting.

## **Two.- Approval of a Compensation Plan for members of Management and the Executive Directors of the Company and of the companies of the Red Eléctrica Group**

To approve the participation of members of Management and Executive Directors of the Company and companies belonging to the Red Eléctrica Group in a compensation system whereby part of their compensation may be awarded in the form of Company shares.

The main characteristics of this system are as follows:

- Beneficiaries: members of Management and Executive Directors of the Company and members of management of companies belonging to the Red Eléctrica Group.
- Voluntary nature: joining the compensation plan is voluntary.
- Maximum limit: the maximum amount of compensation that may be received in shares is €12,000 per participant per year.
- Award date: the shares will be awarded within the term of validity of this authorization.
- Number of shares to be received by each participant: calculated according to the amount of the compensation, with a maximum limit of €12,000 per year, and the price of the share at the close of trading on the award date.
- Maximum number of shares authorized: the maximum total number of shares to be awarded will be that arising from the share value at the close of trading on the award date and the amount of the total compensation paid using this method for all participants, with the aforementioned limit of €12,000 per participant per year.
- Share value: the share price of Red Eléctrica Corporación, S.A. at close of trading on the award date.
- Origin of the shares: the shares will be taken from treasury stock, new or existing, either directly or through companies in the Red Eléctrica Group.
- Term: this compensation system will apply for the next eighteen (18) months.

### **Three.- Revocation of previous authorizations**

To revoke and thus render null and void the authorization for the derivative acquisition of treasury stock granted to the Board of Directors at the Ordinary General Shareholders' Meeting held on April 18, 2013.

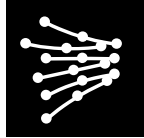
## **PROPOSED RESOLUTIONS RELATING TO ITEM SEVEN ON THE AGENDA:**

### **COMPENSATION FOR THE BOARD OF DIRECTORS OF THE COMPANY.**

First, the following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

**One.- Approval of the Annual Report on Compensation and compensation policy for the Board of Directors of Red Eléctrica Corporación, S.A.**

To approve the Annual Report on Compensation and Compensation Policy for the Board of Directors of the Company, approved by the Board in a session held on February 25, 2014, which was drafted keeping as a reference the recommendations of international investors and proxy advisers in matters of Corporate Governance, best practices followed by international listed companies and the regulation established in Ministerial Order ECC/461/2013, of 20 March, and in Circular 4/2013, of June 12, of the National Securities Market Commission.



**RED ELÉCTRICA**  
CORPORACIÓN

*Board of Directors*

*25 February 2014*

**Annual report on Board of  
Directors compensation and**

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# 1. Letter from the Chairman of the Corporate Responsibility and Governance Committee

Dear Shareholders:

I am pleased to provide you with the new Annual Report on Board of Directors Compensation and Compensation Policy, which includes extensive information on the compensation policy for the board, the chief executive and the senior executives of the company (hereinafter also called the "Company" or "Red Eléctrica").

2013 was particularly complex, marked by Royal Decree Laws 2/2003 and 9/2013, affecting compensation for electricity transmission and implying a reduction of transmission revenue. In addition, approval of the Electricity Sector Act (Act 24/2013) and Royal Decree 1047/2013 clarified the methodology for calculation of compensation for electricity transmission, in line with comparable European companies.

Revenue and EBITDA grew in 2013 by reference to 2012, by 0.2%. These figures include the effect of Royal Decree Laws 2/2013 and 9/2013, which reduced the Company's transmission revenue. However, excluding the extraordinary non-recurring events in 2013 and 2012 (among others, the aforesaid adjustment of compensation, revaluation, changes in the scope of consolidation, etc.), revenue and EBITDA grew by 4.4% and 5.9%, respectively, on comparable terms. Meanwhile, net profit increased by 7.5% (8.8% excluding the aforesaid non-recurring exceptional events).

Regarding the dividend payment policy, it remained at 65% of net profit, resulting in a gross dividend 7.5% higher than in 2012 (in line with the growth of profit).

The share price in 2013 rose by 30% (8.6% above the Ibex 35). During the course of 2014 it has continued to rise (on 3 February 2014 it was 7.2% higher than at the close of 2013).

In 2013 we launched a revision of the current 2013-2017 Strategic Plan, focused on operational excellence and fulfilment of our commitments, which are to ensure the quality and security of electricity supply and contribute to the efficiency and sustainability of the Spanish energy model. However, the recent legislative changes, among other factors, resulted in the opening of an internal process of revision of the Strategic Plan, which is expected to end in coming months.

At Red Eléctrica we are fully aware of the importance of good corporate governance. Last year we undertook a detailed study on compensation policies and practices and other aspects of corporate governance in 17 international companies that are recognised as being excellent in this area. In

addition, we performed compensation benchmarking for both the position of the chairman and chief executive (*presidente ejecutivo*) of the Group and external directors for their own responsibilities as such. Also in 2013, and at the beginning of 2014, I had an opportunity to meet with certain proxy advisors to discuss our compensation policy and hear their opinions on the future of compensation of directors and senior executives of listed companies.

Based on the conclusions, we decided to make a series of changes to the board compensation policy for 2014, as follows:

- To separate external director compensation from business objectives. Thus, from 2014 all external director compensation will consist of fixed elements ensuring their independence and long-term commitment.
- As was disclosed to the markets in May 2013, the Board of Directors appointed a lead independent director. This position is given broad authority, functioning as a counterweight to the authority of the Chairman of the Board of Directors and chief executive. It carries a specific level of dedication and responsibilities in addition to those of an ordinary director. It therefore has been decided to approve annual fixed compensation of 15,000 euros for this new position, in addition to the compensation established for service as a director.
- In the same vein, with the increase of duties and responsibilities that have been attributed to the board committees in recent years, it has been decided that it would be appropriate to set specific compensation for the chairmen thereof, by reason of the special dedication required for performance their responsibilities. This compensation has been set at 15,000 euros per annum for each of them.

The multi-year variable compensation plan, called the "Plan Extraordinario 25º Aniversario 2009-2013", concluded on 31 December 2013. The final incentive, which will be paid in 2014, applicable to the executive director and senior executives, was determined based on a combined level of achievement of certain pre-established objectives, based on quantitative and qualitative business criteria, of 106.3%, after the corresponding evaluation of achievement thereof undertaken by the Corporate Responsibility and Governance Committee. In 2014 various long-term compensation alternatives are being analysed for the executive director (*consejero ejecutivo*) and senior executives, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.

The Corporate Responsibility and Governance Committee also aims to further improve transparency. In this regard, this report has been prepared, as to its structure and content, taking as a reference, inter alia, the recommendations of institutional investors and proxy advisors, as



well as the best practices of international listed companies that have earned excellent ratings on corporate governance. In addition we have taken account of the local regulations set forth in new Ministerial Order ECC/461/2013 and Circular 4/2013 of the National Securities Market Commission, approving the new form of report. Thus as an annex to this report we include the "Form Annex I" established in that circular.

As proposed by the Corporate Responsibility and Governance Committee at its meeting held on 20 February 2014, this report was approved by the Company's Board of Directors at its meeting held on 25 February 2014. Since 2010, the annual report of director compensation, and since 2007, the annual compensation of the Board of Directors, have voluntarily been submitted to a vote of our shareholders, on a binding basis, as separate and independent points on the agenda for the General Meeting. It is expected that this also will be done this year.

Signed: Juan Iranzo

## **2. Corporate Responsibility and Governance Committee**

The Corporate Responsibility and Governance Committee consists of 3 members, all external directors, chaired by an independent director. The members of the committee at 31 December 2013 were as follows:

- Mr. Juan Iranzo Martín, independent external director and chairman of the committee.
- Ms. Carmen Gómez de Barreda Tous de Monsalve, independent external director and Lead Independent Director.
- Mr. Alfredo Parra García-Moliner, external proprietary director. (\*)
- Mr. Rafael García de Diego Barber, non-director secretary.

(\*) On 28 January 2014, the Board of Directors accepted the resignation of Mr. Parra García-Moliner, as proprietary director in representation of Sociedad Estatal de Participaciones Industriales (SEPI), the position on the Corporate Responsibility and Governance Committee of which was occupied by the proprietary director in representation of SEPI, Mr. Francisco Ruiz Jiménez, by virtue of a resolution of the Board of Directors adopted at the meeting of 25 February 2014.

The members of the committee were appointed by the Board of Directors on proposal of the Chairman of the Board, after a report from the Corporate Responsibility and Governance Committee, for a term of three years. They may be reappointed.

During 2013 the committee met 12 times, with all of its members in attendance. Meetings of the Corporate Responsibility and Governance Committee are reported immediately to the full board, making the documentation dealt with by the committee available thereto, by way of the director

portal. Minutes of the meetings held are prepared and, once approved, are made available to all directors.

The following table sets out the voting percentages that resulted at the general shareholders meetings of the Company held in 2011, 2012 and 2013, in relation to the annual report on directors' compensation:

<b>Annual Report on Compensation of Directors: Votes (%)</b>			
<b>Meeting Date</b>	<b>For</b>	<b>Against</b>	<b>Abstention</b>
<b>18/04/2013</b>	95.70%	4.12%	0.18%
<b>19/04/2012</b>	94.54%	5.39%	0.07%
<b>13/04/2011</b>	68.68%	30.60%	0.72%

According to the schedule established for 2014, the Corporate Responsibility and Governance Committee will hold eleven (11) meetings during the year, without prejudice to holding extraordinary meetings during that period.

In 2013 the most significant actions taken by the Corporate Responsibility and Governance Committee, concerning compensation matters, were as follows:

- Approval of the proposed Business, Managerial and Management Committee objectives for 2013.
- Evaluation of the proposed Business, Managerial and Management Committee objectives for 2012.
- Analysis of achievement of the proposed Business, Managerial and Management Committee objectives for 2013.
- Approval of proposal for compensation of the management team.
- Analysis of the report on monitoring the long-term objectives of the 2009-2013 Plan.
- Analysis of the model and proposal for board compensation for 2012 and 2013, for submission to the board.
- Analysis of the proposed annual share award programme for non-executive personnel, reporting favourably to the Board of Directors.
- Approval of the preliminary draft of the proposal, for submission to the Board of Directors, on compensation of the Board of Directors for 2014, in accordance with international corporate governance recommendations.
- Favourable report to the Board of Directors on the Annual Report on Compensation of Directors, for submission to the General Meeting.

- Analysis and study of the earning of director compensation in the form of allowances for attendance at meetings of the board, in certain cases.
- Analysis of the international benchmarking related to the compensation scheme for the board and the executive director of Red Eléctrica, in collaboration with the consultant Towers Watson.

In 2013 and 2014 (up to the date of approval of this report) Towers Watson has rendered services to the Corporate Responsibility and Governance Committee regarding compensation matters. It is an independent consultant specialised in compensation of directors and senior executives. It has advised the committee in the preparation of the study of compensation policies and practices and other aspects of corporate governance, in compensation benchmarking for the chairman and chief executive, in compensation benchmarking for external directors and in preparation of this annual report on compensation policy and compensation of the board.

### **3. Compensation policy**

The quality and commitment of the Company's human capital is essential to success in fulfilling the strategies of the Red Eléctrica Group. To this end, the Corporate Responsibility and Governance Committee prepares and proposes to the Board of Directors the policy and practices regarding compensation matters that are applied to the Board of Directors and senior management, in order to attract, motivate and retain the best professionals.

As noted above, in 2013 the aforesaid committee, with the advice of Towers Watson, engaged in a thorough study of the compensation policies and practices for executive and external directors and other aspects of corporate governance, followed within 17 international companies that have been recognised as being excellent in this area. The following criteria were used in constructing that comparison group:

- European and Anglo-Saxon (including the United States) geographical scope, since the Company's major shareholders are from these areas.
- Mainly energy sector (82%). The sample was supplemented by banking institutions, the regulation of that sector submitting them to strict requirements regarding transparency and corporate governance as related to director compensation.
- Excellent rating in the "2012 compensation policy report", of the sample chosen, by the proxy advisors.
- Size comparability factors that have been considered: invoicing, capitalisation, total assets and employees.

The 17 companies comprising this comparison group are as follows:

<i>BNP Paribas</i>	<i>Enagás</i>	<i>Questar Corporation</i>
<i>BBVA</i>	<i>Enel</i>	<i>RWE AG</i>
<i>CLH</i>	<i>E-on</i>	<i>Snam Rete Gas</i>
<i>CMS Corporation</i>	<i>Iberdrola</i>	<i>Terna</i>
<i>Deutsche Bank</i>	<i>National Grid</i>	<i>United Utilities</i>
<i>Duke Energy</i>	<i>PG&amp;E Corporation</i>	

As a part of the study the reference regulations in effect were also analysed, at the European and local levels, as were the guidelines and recommendations of the principal proxy advisors, institutional investors that are shareholders of the Company and prestigious international institutions (*ISS, Glass Lewis, Proxinvest, BlackRock, Amundi, Legal & General, State Street, Natixis, International Corporate Governance Network*).

This study provided the Corporate Responsibility and Governance Committee with relevant, updated and in-depth information which, together with other aspects and elements taken into consideration, are the basis for the decisions regarding the Company's compensation policy for 2014 and future years.

These decisions are explained in detail in the sections of this report corresponding to the executive director and external directors.

## **1. Compensation policy for the executive director**

The Board of Directors continues to apply the same compensation policies for the executive director as were discussed in the report approved by the General Meeting in 2013, which constitute the core of the compensation policy followed for years by the Company:

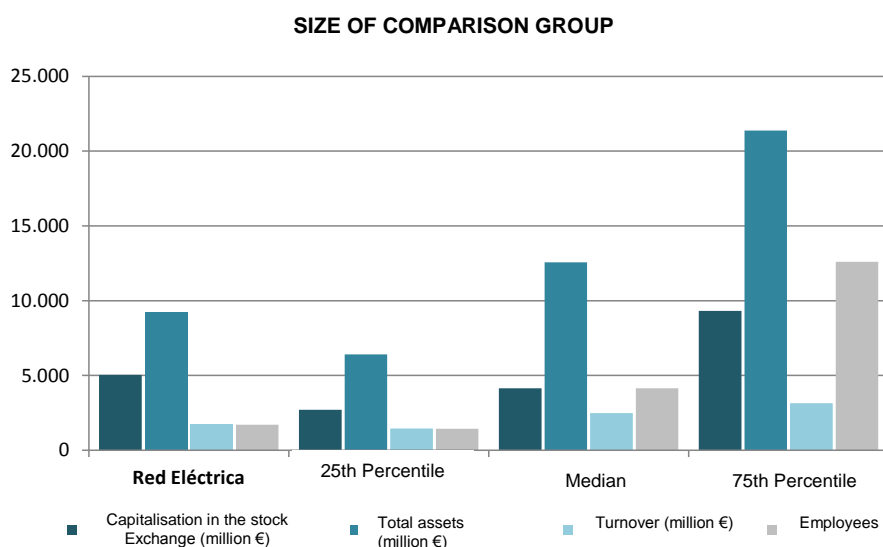
- Balance and moderation.
- Alignment of the compensation policy with the Company's strategy.
- Alignment with the practices most insisted upon by international investors.
- Transparency.
- Voluntary submission of the aforesaid criteria and principles, by way of the annual report on director compensation, for approval by the General Shareholders Meeting.

The Corporate Responsibility and Governance Committee believes it is essential to review the compensation policy for the Board of Directors and chief executive periodically, including within this review process a comparison with reference companies, to verify the appropriateness and moderation of the compensation of its directors relative to the market.

To meet this objective, the Corporate Responsibility and Governance Committee has undertaken benchmarking regarding the compensation of the chairman and chief executive. A comparison group of 16 companies was chosen, based on the following criteria:

- Geographical scope: companies headquartered in Spain.
- Area of responsibility: listed companies (with one exception, included to give greater strength to the comparison sample).
- Business sector: multi-sector, with most of the companies in the energy (48%), construction (15%) and services (11%) sectors.
- Size factors, reflecting the complexity of the business, such as turnover (ranging from 1,140 million euros to 4,600 million euros), assets, number of employees and market capitalisation.

By reference to the size of the comparison group, the remuneration of the executive director of Red Eléctrica falls between the 25th percentile and the median of the market, as shown below:



The position of chairman and chief executive in Red Eléctrica was compared with the position of chief executive in companies in the comparison group. In order to have a comparison group that is sufficiently robust and obtain statistically reliable results, within the comparison group there also was comparison with the heads of certain business units the size of which is comparable to the size of Red Eléctrica<sup>1</sup>.

<sup>1</sup> It should be noted, however, that the head of a business unit does not have the same level of responsibility as a chief executive. In this sense, one might consider an upward adjustment of the market results obtained from the benchmarking.

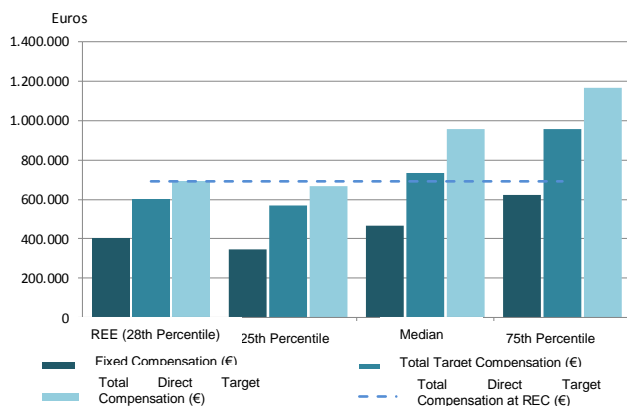
The companies for which the position of chief executive was considered are as follows:

<i>CLH</i>	<i>Indra</i>	<i>Técnicas Reunidas</i>
<i>Enagás</i>	<i>OHL</i>	<i>Grupo Familiar</i>
<i>Iberia</i>	<i>Prisa</i>	

The companies for which business units the size of which is comparable to the size of Red Eléctrica were considered are as follows:

<i>Abertis</i>	<i>Cepsa</i>	<i>Repsol</i>
<i>Acciona</i>	<i>Gas Natural</i>	<i>Telefónica</i>
<i>Amadeus</i>	<i>Grupo Ferrovial</i>	

The following graph shows the comparison between the compensation "target", that is, considering variable compensation for a standard level of achievement of objectives of the chairman and chief executive, in 2012, compared to the described comparison group.



- Fixed Compensation: those compensation categories that are of a fixed nature stated in euros
- Total Target Compensation: Fixed Compensation and Target Variable Compensation. The latter is the variable compensation assigned to the employee for the most recent period, assuming 100% achievement of objectives.
- Total Direct Compensation: Total Target Compensation plus the annualised expected value of the long-term incentive.

In summary, after the comparative study it may be concluded that the total target direct compensation of the executive director of Red Eléctrica is slightly above the 25th percentile of the market.

**Alignment of compensation policy for executive director with the Group's strategy**

One of the principal objectives of the Corporate Responsibility and Governance Committee regarding compensation is to align the compensation policy for the executive director and senior managers of the Company with the Company's strategy and the key business objectives.

To ensure such alignment between compensation and business strategy, the individual compensation is determined by way of evaluation of the results obtained by comparison with

certain quantitative and qualitative business objectives. The committee also sees to it that no excessive risks are assumed by directors and executives.

During 2013, the business results were influenced by the approval of Royal Decree Law 2/2013 and, in particular, more directly by Royal Decree Law 9/2013, establishing a new methodology for compensation of electricity transmission, implying a reduction of transmission revenue in an amount of approximately 72 million euros in 2013.

The main financial results are summarised below:

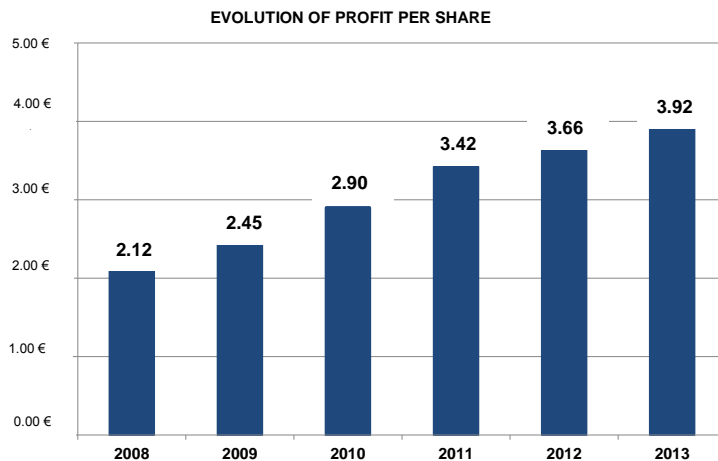
- Revenue and EBITDA grew in 2013 by reference to 2012, by 0.2%, respectively. These figures include the effect of Royal Decree Laws 2/2013 and 9/2013, which reduced the Company's transmission revenue. However, excluding the extraordinary non-recurring events in 2013 and 2012 (among others, the aforesaid adjustment of compensation, revaluation, changes in the scope of consolidation, etc.), revenue and EBITDA grew by 4.4% and 5.9%, respectively, on comparable terms. Meanwhile, net profit increased by 7.5% (8.8% excluding the aforesaid non-recurring exceptional events).
- The investments made by the Group in 2013 reached 596 million euros. The majority of that figure is attributable to development of the national electricity transmission network.
- ROA<sup>2</sup> increased by 5 tenths (9.3%) by comparison with 2012, and ROE<sup>3</sup> decreased by 9 tenths (23.8%) by comparison with 2012.
- The ratio of net financial debt to EBITDA<sup>4</sup> decreased from 3.8 to 3.5, and the Fitch credit rating agency maintained the rating of Red Eléctrica Corporación, S.A. at A- with a stable outlook, despite the situation in our country.
- The Company made very successful debt issues in 2013, with the objective of strengthening liquidity and advancing with coverage of financial needs for the next two years. The size of these issues amounted to a total of 800 million euros, at an average rate of 3.15%. In addition, with these issues there is a sufficient amount of available funds to maintain the solvency levels and financial strength required to engage in the Company's business in an efficient manner.
- Regarding the dividend payment policy, it remained at 65% of net profit, resulting in a payment 7.5% higher than in 2012 (in line with the growth of profit).

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<sup>2</sup> ROA: Return On Assets

<sup>3</sup> ROE: Return On Equity

<sup>4</sup> EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation



- The share price in 2013 rose by 30% (8.6% above the Ibex 35). During the course of 2014 it has continued to rise (on 3 February 2014 it was 7.2% higher than at the close of 2013).



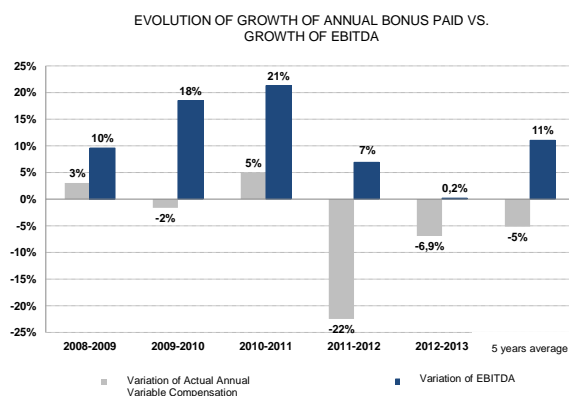
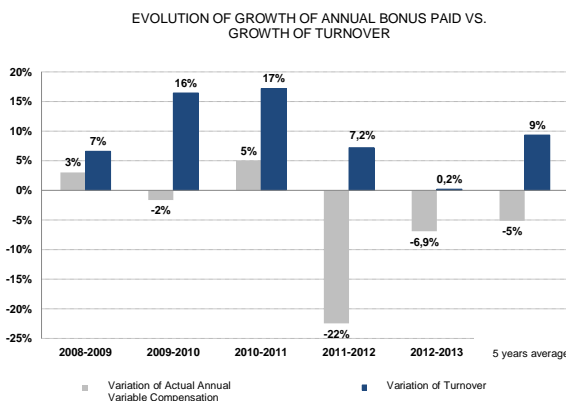
- Red Eléctrica during 2013 earned significant international recognition regarding corporate responsibility and good governance, with the following, among others, being notable:
  - Inclusion, for the eighth consecutive year, in the distinguished *Dow Jones Sustainability World Indexes (DJSI)* with a score of 80 out of 100.
  - Recognition as a "Member" of the *Sustainability Yearbook 2014*, a publication that annually analyses the evolution of the sustainability of the companies included in the DJSI.

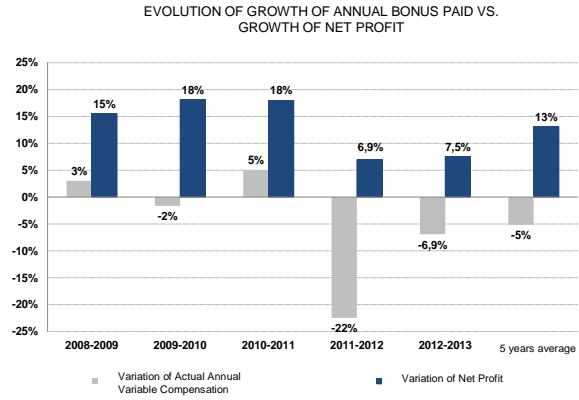
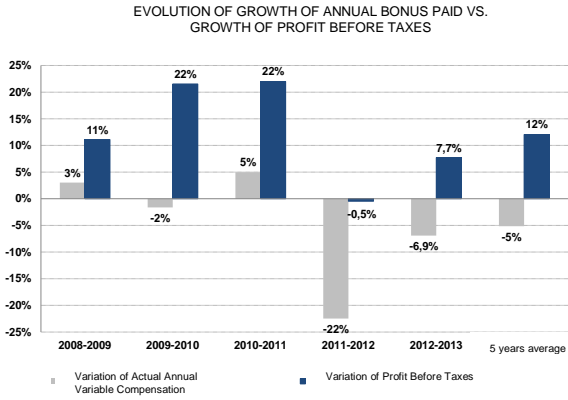


- Renewal of the *European Seal of Excellence 500+* in accordance with the *EFQM model*, with an outstanding score that confirms the Company as the Spanish company with the highest score out of the 43 currently recognised by this Seal.
- Maintaining the *FTSE4Good* sustainability Index with an overall score of 4.5 out of 5, and a relative score of 100 out of 100, placing it among the leading companies in the utility sector. The index includes listed companies from throughout the world that meet the requirements pre-established by the stock index.
- Inclusion of the Company in 2008 in the *ECPI* indexes, which monitor performance in terms of sustainability of companies of greater capitalisation. Regarding these indexes, Red Eléctrica remains in the *ECPI EMU (Economic and Monetary Union) Ethical Equity* index. In addition, Red Eléctrica has been selected to be a part of the new *ECPI Global ESG Best in Class Equity* index.
- Inclusion for the third consecutive year in the *STOXX Global ESG Leaders* family of indexes, which offers a globally representative sample of leading companies in sustainability.

In coming years the Company's strategy will be consolidated with a focus on operational excellence and meeting our commitments, ensuring the quality and security of electricity supply and contributing to the efficiency and sustainability of the Spanish energy model, by way of development of international interconnections and adaptation of the investment plan to the new regulatory compensation model for electricity transmission, representing an annual investment of around 550 million euros in 2014.

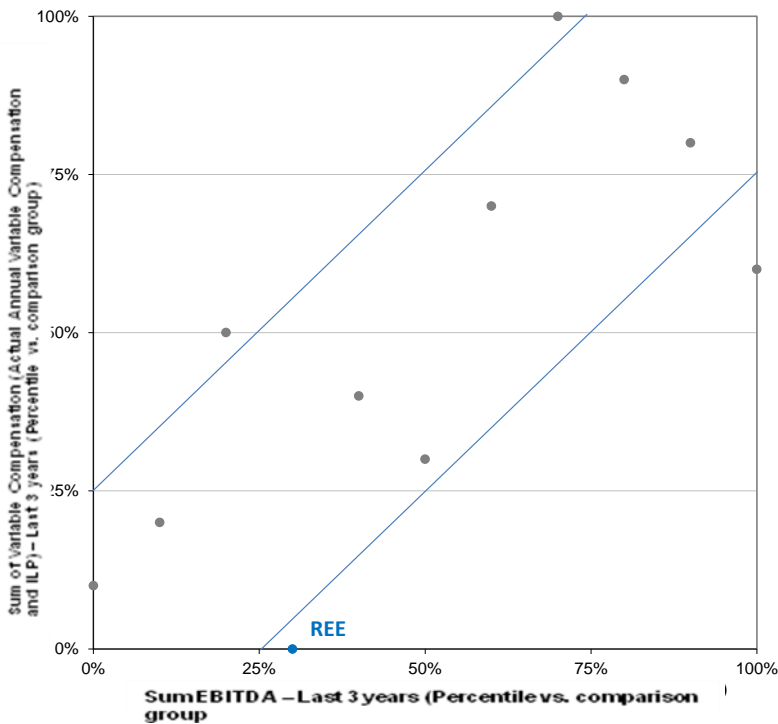
The following graphs illustrate the comparison between the evolution of the Company's profits, taken as objectives in the calculation of annual variable compensation of the executive director, and the evolution of the annual incentive levels paid to the executive director from 2008 to 2013.





The following graph illustrates the positioning of the Company by reference to representative companies in the energy sector. The evolution of EBITDA of each company over the last 3 years is compared to the growth of variable compensation (annual and long-term) of the executive director.

The transverse lines indicate the range of proportional correlation between growth in EBITDA and compensation. A position outside the lines shows a correlation of growth that is not proportional as between EBITDA and compensation. A position on the left indicates growth of compensation that is more than proportional as against EBITDA, and a position to the right indicates a growth of EBITDA that is more than proportional as against compensation.



The companies included in the comparison group are as follows: CLH, Enagás, Enel, Eon, Iberdrola, National Grid, RWE AG, Snam Rete Gas, Terna, United Utilities.

The evolution of the EBITDA of Red Eléctrica over the last 3 years places the Company above the 25th percentile in the comparison group, while the growth of variable compensation (annual and long-term) over the same period has been more moderate

## **2. Compensation policy for external directors**

The Board of Directors, on proposal of the Corporate Responsibility and Governance Committee, has changed its principles regarding compensation of external directors in 2014. In view of the preferences expressed by investors and their advisors and in accordance with best international corporate governance practices, it resolved to eliminate the variable part of annual compensation of directors, adding the corresponding amount to the fixed annual part of compensation of directors, so henceforth all compensation of the Board of Directors will be comprised of fixed categories of compensation. Therefore, the principle of compensation tied to the Company's performance has been definitively excluded.

In addition, within the context of the compensation policy for the board, a remuneration that will accrue for personal attendance at meetings of the board has been established for 2014. It also has been proposed to pay certain compensation to the chairmen of the board committees and to the new Lead Independent Director.

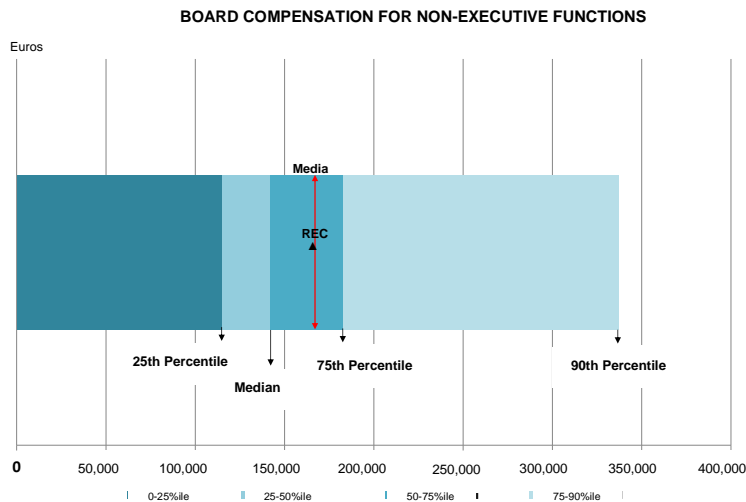
Without prejudice to the compensation it has been decided to establish for the aforesaid chairmen of the board committees and for the Lead Independent Director, for 2014 the overall compensation of the Board of Directors in the other categories comprising that compensation has been maintained at the same level as in 2013.

As a result, the principles to be applied are as follows:

- Balance and moderation.
- Relationship to actual dedication.
- Linked to attendance at meetings and performance of duties as directors.
- Approval of compensation of the Board of Directors by the General Shareholders Meeting.

As has been done for the executive director, the Corporate Responsibility and Governance Committee has undertaken compensation benchmarking as regards external directors. The committee has deemed it to be appropriate to compare with companies in the IBEX-35 stock index. The Red Eléctrica Group is a part of this index, standing at the median of market capitalisation.

The following graph shows the comparison between the compensation of the Red Eléctrica Board of Directors for non-executive duties, in 2013, compared to the described comparison group:



The compensation of the Company's directors, for their non-executive duties, is in line with the average of the comparison group (IBEX-35).

## 4. Compensation of the executive director

The compensation package of the chairman and chief executive includes compensation elements of a fixed nature and of a variable nature, the latter tied to the short and long-term and in alignment with the key objectives of the Company, as described below:

Element	Key Points	Limits
<b>Annual Fixed Compensation</b>	Fixed compensation is determined on the basis of the level of responsibility and leadership within the organisation, in line with the going rate at comparable companies. This fixed amount must constitute a sufficient part of total compensation to maintain an appropriate and balanced compensation mix and appropriate variability of the variable compensation.	N/A
<b>Annual Variable Compensation</b>	<p>The annual variable compensation plan is designed to incentivise fulfilment of the annual objectives established by the Company. Thus, 80% is tied to <i>quantitative</i> objectives, consolidated EBITDA of the Group (50%) and consolidated profits of the Group (30%); and 20% to <i>qualitative</i> metrics aligned with revision and improvement of the Company's Strategic Plan.</p> <p>A minimum individual compliance threshold of 95% is established for the <i>quantitative</i> objectives, the maximum compliance being 100%. Regarding the <i>qualitative</i> objective, the Corporate Responsibility and Governance Committee will evaluate the minimum individual compliance threshold, and may determine a maximum level of achievement thereof of 150%.</p>	Maximum incentive: 50% of fixed compensation

<b>Multi-Year Variable Compensation</b>	On 31 December 2013 the "Plan Extraordinario 25º Aniversario 2009-2013" ended. The target incentive (100% achievement of objectives) is equivalent to 1.8 times annual fixed compensation, prorated based on the time elapsed since the executive director joined the plan, that is, 0.66. This target may be increased up to 110% in the event of exceeding 100% achievement of objectives.	Maximum incentive: 0.73 times annual fixed compensation, calculated in proportion to the time elapsed since the executive director joined the plan
	In 2014 various long-term compensation alternatives are being analysed for the executive director ( <i>consejero ejecutivo</i> ) and senior executives, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.	N/A
<b>Pensions</b>	The Group has not implemented a pension plan for the executive director	N/A

## 1. Annual fixed compensation

The fixed compensation represents a significant portion of total compensation, and is appropriate to the duties and responsibilities assumed.

### 1.1 2014 Policy

In 2014 the intention is to maintain the same amount as established in 2013.

### 1.2 Implementation of the policy in 2013

In 2013, pursuant to the contract approved by the Board of Directors, on proposal of the Corporate Governance and Responsibility Committee, fixed compensation amounted to 400,000 euros.

## 2. Annual variable compensation

### 2.1 2014 Policy

The annual variable compensation for the executive director is based on achievement of a combination of business objectives measured at the group level. For the executive director a maximum incentive of 50% of annual fixed compensation is established.

It is up to the Corporate Responsibility and Governance Committee to approve the objectives, at the beginning of each period, and to evaluate achievement thereof, at the end of the period. All of the objectives are contemplated in the 2014 Budget, approved by the board. They are as follows:

- 80% of the incentive depends on "quantitative" financial objectives, which measure the Group's capacity to generate profits, reflected in the following metrics:
  - 50% consolidated EBITDA of the Red Eléctrica Group.
  - 30% consolidated profit of the Red Eléctrica Group.
- 20% of the incentive depends on a "qualitative" objective called *Board Approval of the new 2014-2018 Strategic Plan*.

The Corporate Responsibility and Governance Committee has decided to set the individual fulfilment threshold of "quantitative" targets that triggers the entitlement to variable compensation at 95%; the maximum possible level of achievement is 100%. In the "qualitative" objective, the Corporate Responsibility and Governance Committee will evaluate the minimum individual achievement threshold, and may determine a maximum individual level of achievement of 150%.

METRICS	MINIMUM		TARGET		MAXIMUM	
	Achievement	Incentive	Achievement	Incentive	Achievement	Incentive
1. EBITDA	95%	95%	100%	100%	100%	100%
2. Net Profit	95%	95%	100%	100%	100%	100%
3. Approval by Board of new 2014-2018 Strategic Plan	Evaluation by the CRGC(1)	Evaluation by the CRGC(1)	100%	100%	150%	150%

(1) Corporate Responsibility and Governance Committee

Variable compensation is calculated on the basis of the level of achievement and weighting of each objective, using the internal objective assessment standards and procedures established by the Company for its executives.

The overall maximum achievement of the three foregoing objectives may not exceed 110%.

## 2.2 Implementation of the policy in 2013

The Corporate Responsibility and Governance Committee tracks the objectives quarterly throughout the year. At the end of the year it determines the degree to which the objectives have been achieved. In this evaluation function the committee has the support of the Corporate Finance Office, which is responsible for the management control function within the Group. It provides audited results. For both establishment of objectives and evaluation of achievement thereof, the Commission also considers the long-term impact and any associated risk.

To determine the amount of the incentive applicable to 2013, as regards the "quantitative objectives", the Corporate Responsibility and Governance Committee must evaluate the level of achievement of the objectives taking into account the positive and negative economic effects derived from extraordinary events not included within the definition of those quantitative objectives. Regarding the aforesaid "quantitative objectives":

1. The book figure results in 2013 EBITDA of 1,301.9 million euros, representing 80.3% achievement of the objective. However, the Group's EBITDA, before applying the impact of nonrecurring exceptional events, amounted to 1,330 million euros, representing 100% achievement of the objective based on budget.
2. The book figure for net profit of the Group in 2013 was 529.1 million euros, representing 0% achievement of the objective, as it was below the established minimum level of achievement (95%). However, the Group's EBITDA, before applying the impact of extraordinary events, amounted to 571.1 million euros, representing 100% achievement of the objective based on budget.

As is indicated in the definition of "quantitative objectives", in evaluation of achievement thereof the economic consequences deriving from exceptional events are to be disregarded. In this sense, 100% of the foregoing two objectives was deemed to have been achieved.

Regarding objective 3. "Revision and Improvement of the Strategic Plan" ("qualitative objective") the committee considered the following questions:

- 2014-2020 planning of the transmission network
- Implementation of the strategic infrastructure and investment plan
- Expansion of the business base
- Financing investments
- Process of revision and preparation of the Strategic Plan

Overall, the degree of weighted achievement of this "qualitative objective", in accordance of the criteria established in the "Objective no. 3. Revision and Improvement of the 2013-2017 Strategic

Plan. Principal Lines of Action for 2013" document, assessed by the Corporate Responsibility and Governance Committee at its meeting of 20 May 2013, is 100%.

Set forth below are details of the process of evaluation of the aforesaid "quantitative and qualitative" objectives:

METRICS	Performance level	Weighting	Level Achieved	Incentive Payment Level
1. EBITDA	95%-100%	50%	100%	100%
2. Net Profit	95%-100%	30%	100%	100%
3. Strategic Plan Review and Improvement	Up to 150%, evaluation by the CRGC(1)	20%	100%	100%

(1) Corporate Responsibility and Governance Committee

After the evaluation of achievement of the foregoing three objectives, the Corporate Responsibility and Governance Committee concludes that the degree of individual achievement of objectives 1. (50% of total weighting), 2. (30% of total weighting) and 3. (20% of initial weighting) is 100%. Therefore, the evaluation by the Corporate Responsibility and Governance Committee of the foregoing business objectives of the Company for 2013, quantitative and qualitative, is that there was a 100% level of overall achievement of objectives. As a result the annual variable compensation for the Executive Director amounts to 179,000 euros (100% of the target incentive).

### 3. Multi-year variable compensation plan

#### 3.1 2014 Policy

Currently the Corporate Responsibility and Governance Committee is analysing various alternatives for long-term compensation for the executive director, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.

#### 3.2 Implementation of the policy in 2013

In 2013 the "Plan Extraordinario 25º Aniversario 2009-2013" ended. It was tied to objectives contemplated in the Strategic Plan and the sustainability of the group results for that period. At the time of approval of the Plan an overall 70% minimum threshold was set for achievement of the pre-



established objectives, and it was determined that maximum achievement thereof could not exceed 110%. The plan was linked to fulfilment of certain milestones of great importance, on the basis of which the programme was designed. They are described below, together with the corresponding evaluation thereof:

- Acquisition of electricity transmission system assets from electricity companies at prices specified in the Plan. In July 2011 agreements were formalised for acquisition of assets of Endesa, Unión Fenosa and Hidrocantábrico, as provided in Act 17/2007, finally closed between December 2010 and January 2011. The objective has been found to have been achieved at its maximum level (130%).
- Fulfilment of the Investment Plan for the electricity transmission network, in the amount determined for the 2009-2013 period. The amount of the foreseen investments to be made in the 5 years of the Plan amounted to 3,649 million euros (8.7% below the 4,000 million euros of investment contemplated in the Plan), representing 82.4% achievement of the objective.
- Start-up of the electricity interconnection with the Balearic Islands by the date specified at the start of the programme. On 31 August 2011 the commissioning certificate for the second cable of the interconnection with the Balearic Islands was obtained, thereby achieving the objective at the maximum level (130%).
- Implementation of the electricity interconnection with France. The degree of progress of the project at 31 December 2013 was 79.2%. On that basis the objective is deemed to have been achieved to the extent of 109.2%.
- Maintenance of electricity system operation quality at the level specified in the Plan over the 2009-2013 period. This translates into the following metrics: TIM (Tiempo de Interrupción Medio, Average Interruption Time), stated in minutes. The aggregate actual figure for 2009-2013 was 7.3 minutes, on which basis the objective is deemed to have been achieved at a level of 126.6%.
- Achievement of target returns on electricity transmission assets over the 2009-2013 period as measured in terms of operating returns. This translates into the following metrics: Cumulative ROA. The ROA obtained from 2009 to 2013 was 8.69%, by comparison with the 9.0% contemplated in the objective for the same period, representing 74.1% achievement of the objective.

The term of the aforesaid Plan ended on 31 December 2013. At the meeting of 20 February 2014 the Corporate Responsibility and Governance Committee went through the evaluation process to determine the degree of achievement of each of the aforesaid objectives established in the Plan, as described above. In carrying out its evaluation function, the Committee had the support of the Corporate Finance Office, responsible for management control of the group, which provides the economic results of the group, duly audited.

Accordingly, the Corporate Responsibility and Governance Committee determined an overall level of achievement of objectives of 106.3%, equivalent to approximately 0.70 times the annual fixed compensation of the executive director, resulting in an amount of 278 thousand euros, calculated in proportion to the time elapsed from his appointment as executive director, 8 March 2012, to the end of the plan, 31 December 2013. This amount will be paid in 2014 and is included within the amounts that the Company has been accruing annually against the plan since 2009.

#### **4. Pensions and Other Benefits**

The chairman and chief executive has not received any kind of pension.

At 31 December 2013 the balance sheet of the Company reflected no loans, advances or guarantees granted by the Company in favour of the chairman and executive director, nor are there any pension obligations owed to him.

#### **5. Termination Clauses**

The contract governing the chairman and chief executive's performance of his functions and duties in his relationship with Red Eléctrica is formed under commercial law and includes the clauses constituting standard practice for this type of contract.

Without prejudice to the confidentiality obligation expressly established in that contract, the chairman and chief executive also is bound by the duty of confidentiality established in article 34.a) of the Board Regulations, applicable to all directors, in accordance with which a director is to keep the deliberations of the Board of Directors and the committees to which he/she belongs secret and, in any event, refrain from disclosing the information, data, reports or records to which the director has had access in the performance of his or her duties. The confidentiality obligation survives departure from office.

In his capacity as a director of Red Eléctrica, the chairman has a noncompete obligation to the Company, on the terms in which that obligation is regulated for directors of the Company in article 33 of the Board of Directors Regulations. In addition, the noncompete obligation is expressly set forth in the contract with the chairman and chief executive, for a term of two (2) years after his departure, that obligation not giving him a right to post-contractual noncompetition indemnification, as it is deemed to have been compensated by way of his fixed compensation.

The contract with the current executive director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. This contract, following the customary market practices, contemplates indemnification equivalent to one year's

compensation in the event of termination of the commercial relationship by reason of dismissal or change of control.

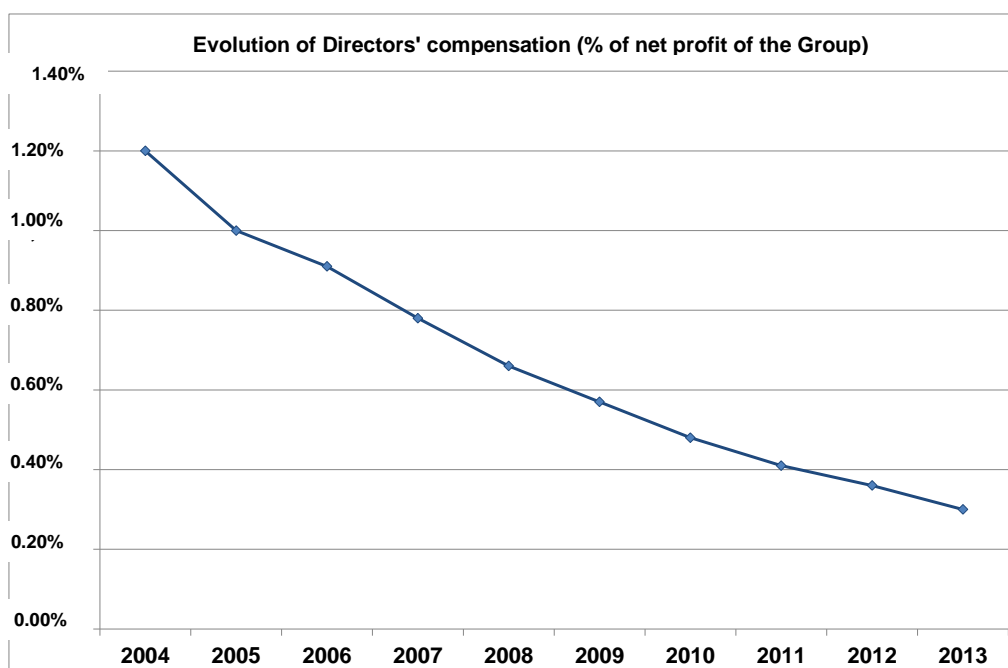
In the calculation of that indemnification the base is one year's fixed compensation, plus the amount corresponding to variable compensation as chairman and chief executive, calculated assuming a 100% level of achieving objectives.

## 5. Compensation of external directors

The Articles of Association set a cap on overall annual compensation for the entire board, in all categories, of 1.5% of the Company's net income, as approved by the General Meeting. The above compensation is, in all cases, a maximum figure and the Board itself is in charge of apportioning the amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion as it freely decides.

The following tables show board compensation as a percentage of the net profit of each of the last 10 years:

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Compensation (% of net profit of the Group)</b>	1.20%	1.00%	0.91%	0.78%	0.66%	0.57%	0.48%	0.41%	0.36%	0.30%



## 5.1 2014 Policy

The compensation policy applicable from 1 January 2014 is as follows:

- Fixed Compensation: 130,742 euros per annum per director, to be paid monthly before the 10th of the month.
- Allowances for attending meetings of the Board of Directors: 1,500 euros for personal attendance of each director at each of the eleven ordinary meetings contemplated for 2014 in the schedule approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the allowance for just cause, a maximum of two times per year. This amount is paid within fifteen days of the given meeting being held.

The holding of extraordinary meetings of the Board of Directors, in person or electronically, does not result in compensation in the form of allowances.

- Service on Board of Directors committees.
  - 27,900 euros per annum to each member of a board committee, to be paid monthly before the 10th of each month.

The foregoing amount is an annual amount, regardless of the number of meetings of the committees held during 2014.

- 15,000 euros per annum to each chairman of a board committee, to be paid monthly before the 10th of each month.

The foregoing amount is an annual amount, regardless of the number of meetings of the committees held during 2014.

- Lead Independent Director: 15,000 euros per annum, to be paid monthly before the 10th of the month.

Without prejudice to the compensation it has been decided to establish for the aforesaid chairmen of the board committees and for the Lead Independent Director, for 2014 the overall compensation of the Board of Directors in the other categories comprising that compensation has been maintained at the same level as in 2013.

## *5.2 Implementation of the policy in 2013*

In 2013 the total amount of compensation of directors for their non-executive duties amounted to 1,787,062 euros, broken down as follows:

- Fixed Compensation: 539,880.00 euros.
- Allowances for attending meetings of the Board of Directors: 539,902.00 euros
- Allowances for attending meetings of committees of the Board of Directors: 167,400.00 euros.
- Variable compensation: 539,880 euros.

The objectives approved for the Board of Directors are the same (quantitative and qualitative) as those established for the executive director, with the same weightings and individual minimum thresholds per objective established for him (which are not reproduced in order to avoid unnecessary repetition).

At the time of approval of the objectives it was established that there could be a maximum payment of 110% of the aforesaid amount of variable compensation, in the event of overall over-achievement of the objectives.

After the evaluation of achievement of the foregoing three objectives, the Corporate Responsibility and Governance Committee concluded that the degree of individual achievement of objectives 1. (50% of total weighting), 2. (30% of total weighting) and 3. (20% of initial weighting) is 100%.

As a result, the evaluation by the Corporate Responsibility and Governance Committee of the foregoing business objectives of the Company for 2013, quantitative and qualitative, is that there was a 100% level of overall achievement of objectives.

And in view of the aforesaid amount corresponding to annual variable compensation of the Board of Directors, the overall amount of the compensation of the Board of Directors, in all categories, for 2013, is set at 1,787,062 euros.

## **6. Compensation of senior executives**

The purpose of the compensation policy applicable to this group is to act as an incentive for the achievement of the strategic objectives of value creation at the Company by attracting, retaining and motivating the best talent available in the market.

Compensation for the Company's senior executives is based on the principles of moderation, actual dedication and linkage to the results of the Company.

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

1. Annual fixed compensation

Fixed compensation 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. The fixed component must represent a sufficient portion of total compensation to make for a suitable and balanced remuneration mix.

2. Annual variable compensation

Annual variable compensation is linked to quantifiable and measurable objectives set by the Corporate Responsibility and Governance Committee at the start of the year and monitored on a quarterly basis throughout the year. The Corporate Responsibility and Governance Committee is also responsible, at the end of the period, for evaluating the level of achievement of the objectives previously established. These objectives are related to the strategies and criteria established in the Strategic Plan approved by the Board of Directors. For 2014, the objectives are contemplated in the 2014 Budget, approved by the board.

3. Multi-year variable compensation

Senior executives have participated in the "Plan Extraordinario 25<sup>o</sup> Aniversario 2009-2013" linked to the Company's 25th anniversary, as has the executive director.

Depending on the level of achievement of the objectives set, the overall assessment for the five years with a level of achievement of 100% also would amount to 1.8 times the fixed annual compensation thereof.

Once the Corporate Responsibility and Governance Committee, in its meeting of 20 February 2014, had evaluated achievement of the objectives, predetermined and quantifiable, aligned with the medium and long-term vision in the Company's Strategic Plan, which coincides with what was undertaken and described above for the executive director (as the objectives contemplated in the Plan are the same), it was decided to fix compensation for the two senior executives, against the aforesaid plan, of 579 thousand euros, reflecting an objectives achievement percentage of 106.3% and the time elapsed from appointment of the executives subject to the plan to the conclusion thereof on 31 December 2013. This amount will be paid in 2014 and is included within the amounts that have been accrued annually against the plan since 2009.

In 2014, as for the executive director, the Corporate Responsibility and Governance Committee is analysing various alternatives for long-term compensation for senior executives, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.

4. Flexible compensation pool

All or a part of a compensation pool may be used for various alternative in-kind products, such as medical insurance, computer equipment, savings insurance, etc.

5. There are no "Other Categories" of compensation applicable to these executives.

There are guarantee or golden parachute clauses for dismissals in favour of the executives currently serving within the group. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of up to one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Corporate Responsibility and Governance Committee and they were duly notified to the Board of Directors.

## 7. Individual compensation tables

### 1. Compensation of the chairman and chief executive, in all categories, for 2013

The following is a summary of total gross payments, in euros, to the chairman and chief executive in 2013:

Director	Fixed compensation	Annual variable compensation	Compensation for duties as director <sup>(1)</sup>	Total
José Folgado	400,000	179,000	147,242	726,242
Blanco				

*(1) Includes fixed director compensation (49,080 euros), allowances for attendance and dedication of the director (49,082 euros) and variable compensation as a director (49,080 euros)*

In addition, the total value earned by the executive director, as long-term variable compensation, deriving from the "Plan Extraordinario 25º Aniversario", after evaluation of the objectives by the Corporate Responsibility and Governance Committee, at the meeting of 20 February 2014, calculated in proportion to the time elapsed from his appointment as executive director, 8 March 2012, until the ending date of the plan, 31 December 2013, amounts to 278 thousand euros. That amount will be paid in 2014.

## **2. Compensation of directors for their duties of supervision and collegial decision-making (external directors), in all categories, for 2013**

The total amount of the compensation of the Board of Directors for 2013, excluding the compensation of the chairman and chief executive by reason of his contractual relationship (executive duties) with the Company, is, in all categories, 0.30%<sup>5</sup> of the net profits of the Red Eléctrica Group attributable to the controlling company, for 2013.

At 31 December 2013 the consolidated statement of financial situation reflected no loans, advances or guarantees established by the Company in favour of members of the Board of Directors. Nor at that date were there any pension liabilities incurred vis-à-vis members of the Board of Directors. In addition the directors have not received any category of compensation in addition to those described in this report.

No indemnification is agreed in favour of the directors, by reason of their duties of supervision and collegial decision-making (external directors), related to termination of their relationship with the Company by reason of status as a director, without prejudice to the indemnification contractually agreed for the executive director, as described above.

The Board of Directors of the Company, in view of the preferences of investors regarding the appropriateness of increasing the weight of the fixed compensation of the Board of Directors, as against the weight of variable compensation, in order to ensure the independence and long-term commitment of members of the board, adopted a new compensation scheme for 2013, which was approved by the General Shareholders Meeting held on 18 April 2013. The new scheme maintains the total compensation of members of the Board of Directors at levels comparable to those for 2012.

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<sup>5</sup> The profits obtained by the RED ELÉCTRICA Group and attributed to the controlling company in 2013 amounted to 529,139 thousand euros (492,288 thousand euros in 2012).



The compensation earned by the members of the Board of Directors of the Company in 2013, in thousands of euros, broken down by director, as appearing in the annual accounts for 2013, is as follows:

	<u>Fixed compensation</u>	<u>Variable compensation</u>	<u>Allowances for attending Board meetings</u>	<u>Devoting to committees</u>	<u>Contributions life insurance and pension plans</u>	<u>Total</u>
Mr José Folgado Blanco	449.08	228.08 (1)	49.08	-	-	726.24
Ms María de los Angeles Amador Millán	49.08	49.08	49.08	27.90	-	175.14
Mr Miguel Boyer Salvador	49.08	49.08	49.08	-	-	147.24
Mr Rui Manuel Janes Cartaxo	49.08	49.08	49.08	-	-	147.24
Mr Fernando Fernández Méndez de Andés	49.08	49.08	49.08	27.90	-	175.14
Ms Paloma Sendín de Cáceres	49.08	49.08	49.08	27.90	-	175.14
Ms Carmen Gómez de Barreda	49.08	49.08	49.08	27.90	-	175.14
Mr Juan Emilio Iranzo Martín	49.08	49.08	49.08	27.90	-	175.14
Ms María José García Beato	49.08	49.08	49.08	-	-	147.24
Mr Alfredo Parra García-Moliner <sup>(2)</sup>	49.08	49.08	49.08	27.90	-	175.14
Mr Francisco Ruíz Jiménez <sup>(2)</sup>	49.08	49.08	49.08	-	-	147.24
Total accrued compensation	939.88	718.88	539.88	167.40	0.00	2,366.04

(1) The variable compensation of the Chairman includes both his annual variable compensation as executive director of the Company and the one corresponding to the variable compensation allocated to the members of the Board of Directors

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

### 3. Compensation of senior executives, in all categories, for 2013

The senior executives who rendered services throughout 2013 are as follows:

<b>Name (1)</b>	<b>Position</b>
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Andrés Seco García	Director-General of Operations

In 2013, compensation to senior executives under all headings amounted to 664 thousand euros.

Compensation to these executives in 2013 came to 649 thousand euros, while contributions to life policies and pension plans totalled 15 thousand euros.

At 31 December 2013 there were no loans or advances to these executives.

After completion of the compensation plan for executives ("Plan Extraordinario 25º Aniversario 2009-2013") tied to the Company's 25th anniversary, the Corporate Responsibility and Governance Committee, at its meeting held on 20 February 2014, evaluated achievement of the objectives therein and resolved to fix compensation for the two senior executives, against the aforesaid plan, of 579 thousand euros, based on the time elapsed between appointment of the executives subject to the plan and the conclusion thereof on 31 December 2013. This amount will be paid in 2014.

## 8. Official annex: *Form Annex I per Circular 4/2013*

### ANNEX 1

#### ANNUAL REPORT ON COMPENSATION OF DIRECTORS OF LISTED COMPANIES

##### IDENTITY DETAILS OF ISSUER

<b>ENDING DATE OF REFERENCE PERIOD</b>	31/12/2013
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<b>C.I.F.</b>	A-78003662
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##### **CORPORATE NAME**

RED ELECTRICA CORPORACION, S.A.

##### **REGISTERED OFFICE**

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

## FORM OF ANNUAL REPORT ON COMPENSATION OF DIRECTORS OF LISTED COMPANIES

### **A** **COMPENSATION POLICY OF THE COMPANY FOR THE YEAR IN COURSE**

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

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

#### **Explain the compensation policy**

The Board of Directors continues to use the same compensation principles for the executive director (consejero ejecutivo) as in 2013. These constitute the core of the compensation policy used for some time by the board: balance and moderation, alignment of the compensation policy with the company's strategy, alignment with the policies most demanded by international investors, transparency and voluntary submission of the aforesaid criteria and principles to approval by the General Shareholders Meeting by way of the annual report on compensation of directors. Regarding external directors, the board, on proposal of the committee, amended the principles for 2014. In view of the preferences expressed by investors and their advisors and in accordance with best international corporate governance practices, it resolved to eliminate the variable part of annual compensation of directors, adding the corresponding amount to the fixed annual part of compensation of directors, so henceforth all compensation of the board will be comprised of fixed categories of compensation. In addition, within the framework of the compensation policy for the board, there is a new requirement for 2014 of personal attendance at board meetings in order for an external director to be entitled to receive the fixed allowance compensation for attending meetings of the board. It also has been proposed to pay certain compensation to the chairmen of the board committees and for the new position of Lead Independent Director. As a result, the remaining principles are as follows: balance and moderation, relationship to actual dedication, linkage with attendance at meetings and performance of functions as directors and approval of compensation of the board by the General Shareholders Meeting. As regards the compensation policy for external directors a series of changes has been made to the compensation policy of the board for 2014, as follows: a) Making compensation of external directors independent of business objectives. Thus from 2014 all of their compensation will be comprised of fixed components guaranteeing

their independence and long-term commitment b) As disclosed to the markets in May 2013, the board appointed a Lead Independent Director. This position is given broad authority, functioning as a counterweight to the authority of the Chairman of the Board and chief executive. It carries a specific level of dedication and responsibilities in addition to those of an ordinary director. In this regard, it has been decided to approve annual fixed compensation of 15,000 euros for this new position, in addition to the compensation established for the position as a director. c) In the same vein, given the increase in tasks and responsibilities that have been attributed to the board committees over recent years, it has been deemed to be appropriate to assign additional specific fixed compensation for the chairmen thereof, given their special dedication, necessary for preparation, organisation, management and performance of the duties assigned to the committees. This has been set at 15,000 euros per annum, respectively. The board, on proposal of the committee, starts from three basic sources when establishing the compensation policy: a) The provisions of the articles of association and the board regulations. The articles of association set a cap on overall annual compensation for the entire board, in all categories, of 1.5% of the company's net profits, as approved by the general meeting. The above compensation is, in all cases, a maximum figure and the board itself is in charge of apportioning the amount among the aforesaid items and among the directors in such manner, at such time and in such proportion as it freely decides. The aforesaid compensation, deriving from membership on the board, is compatible with the other amounts received by a director for performance of executive functions within the company b) The applicable regulations. c) The objectives established based on the budget for the period which allow for, inter alia, the establishment of the metrics to which annual, medium and long-term variable compensation is tied; d) Market data. For more details in this regard, see section A.2. In 2014, as at the date of approval of this report, the total compensation of an executive director is comprised of the following compensation components: (i) fixed compensation and (ii) short term variable compensation. In a scenario of standard achievement of objectives (targets), as regards the compensation mix, it may be stated that approximately 70% of total compensation is fixed, the remaining 30% being variable. However, various long-term compensation alternatives are being analysed for executive directors, parallel to the current revision of the Strategic Plan. Regarding external directors, the compensation policy seeks to compensate them in a manner appropriate to their professionalism and experience, and the dedication and responsibility assumed by them, without the compensation paid compromising their independence. Along these lines, the compensation of directors in their capacity as members of the board and/or its committees consists of fixed compensation, allowances for attendance at meetings and a fixed amount for serving on board committees. Together with the specific compensation recognised in 2014 for the chairmen of the committees and the Lead Independent Director. Therefore, all of the compensation is of a fixed nature.

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

<b>Explain the process for determination of the compensation policy</b>
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As a part of the process of periodic revision of the board compensation policy, and in order to verify the appropriateness and moderation of the compensation of directors by reference to the market, the following analytical exercises have been used: 1) Analysis of the compensation of the executive director. For determination of the reference market, the committee established the following objective criteria: a) companies headquartered in Spain; b) listed companies (with the exception of a company included to lend greater strength to the comparison sample); c) multi-sector, with the majority of the companies in the energy (48%), construction (15%) and services (11%) sectors; d) size factors, reflecting the complexity of the

business, such as turnover (ranging from 1,140 million euros to 4,600 million euros), assets, number of employees and market capitalisation. They have been used to determine the 16 companies comparable to Red Eléctrica. By reference to the size of the comparison group, Red Eléctrica falls between the 25th percentile and the median of the market. The position of chairman and chief executive (*presidente ejecutivo*) in Red Eléctrica was compared with the position of chief executive in companies in the comparison group (OLH, Indra, Técnicas Reunidas, Enagás, OHL, Grupo Familiar, Iberia and Prisa). In order to have a group that is sufficiently robust and obtain statistically reliable results, there also was comparison with the heads of certain business units the size of which is comparable to the size of Red Eléctrica (Abertis, Cepsa, Repsol, Acciona, Gas Natural, Telefónica, Amadeus and Ferrovial). In summary, after the comparative study it may be concluded that the total target direct compensation of the executive director of Red Eléctrica is slightly above the 25th percentile of the market. 2) Compensation benchmarking of the compensation of external directors. The committee has deemed it to be appropriate to compare with companies in the IBEX-35 stock index. Red Eléctrica is a part of this index, standing at the median of market capitalisation. In conclusion, the compensation of the Company's directors, for their non-executive duties, is in line with the average of the comparison group (IBEX-35). 3) The committee engaged in a thorough study of the compensation policies and practices for executive and external directors and other aspects of corporate governance, in 17 international companies recognised as being excellent in this area. To build that group, the following criteria were considered: a) European and Anglo-Saxon (including the United States) geographical scope, since the Company's major shareholders are from these areas. b) Mainly energy sector (82%). The sample was supplemented by banking institutions, the regulation of that sector submitting them to strict requirements regarding transparency and corporate governance as related to compensation. c) Excellent rating in the proxy advisors' "2012 compensation policy report". d) Size factors: turnover, capitalisation, total assets and employees. The companies in this group are as follows: BNP Paribas, Enagás, Questar Corporation, BBVA, Enel, RWE AG, CLH, E-on, Snam Rete Gas, CMS Corporation, Iberdrola, Terna, Deutsche Bank, National Grid, United Utilities, Duke Energy and PG&E Corporation. The reference regulations in effect were also analysed, at the European and local levels, as were the guidelines and recommendations of the principal proxy advisors and institutional investors. This study provided the committee with relevant information serving as the basis for the decisions regarding the compensation policy for 2014 and in the future. During 2013 the committee met 12 times, with all of its members in attendance. Meetings of the committee are reported immediately to the full board, making the most important documentation dealt with by the committee available thereto, by way of the director portal. Minutes are prepared and, once approved, are made available to all directors. In 2013 the most significant actions taken by the committee were related to: i) Approval of the proposed Business, Managerial and Management Committee objectives for 2013 and evaluation thereof for 2012; ii) Analysis of the model for and proposal of compensation of the board for 2012 and 2013, for submission to the board; iii) Favourable report to the board on the Annual Report on Director Compensation, for submission to the Meeting; iv) Analysis and study of the accrual of director compensation in the category of allowances for attendance at meetings of the board, in certain cases; v) Analysis of the international benchmarking regarding the compensation scheme for the board and the executive director of Red Eléctrica. The Corporate Responsibility and Governance Committee consists of 3 members, all external directors, chaired by an independent director. The members of the committee at 31 December 2013 were as follows: Mr. Juan Iranzo Martín, independent external director and chairman of the committee; Ms. Carmen Gómez de Barreda Tous de Monsalve, independent external director and Lead Independent Director; Mr. Alfredo Parra García-Moliner, proprietary external director; Mr. Rafael García de Diego Barber, non-director secretary. On 28 January 2014, the Board of Directors accepted the resignation of Mr. Parra García-Moliner. In 2013 and 2014 Towers Watson, an independent consultant specialised in compensation of directors and senior executives, advised the committee in the preparation of the study of compensation policies and practices and other aspects of corporate governance, in the compensation benchmarking of the executive director, in the compensation benchmarking of the external directors and in preparation of this report.

**A.3 Indicate the amount and nature of the fixed components, broken down, if applicable, of the compensation for performance of duties of senior management of the executive directors, the additional compensation as chairman or a member of any board committee,**

of the allowances for participation on the board and its committees or other fixed compensation as a director, as well as an estimate of the fixed annual compensation resulting therefrom. Identify other benefits that are not paid in cash and the basic parameters on the basis of which they are granted.

<b>Explain the fixed components of compensation</b>
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Regarding external directors, the compensation policy applicable from 1 January 2014 includes the following components of compensation: a) Fixed Compensation: 130,742 euros per annum per director, to be paid monthly before the 10th of each month. b) Allowances for attendance at meetings of the Board of Directors: 1,500 euros for personal attendance of each director at each of the eleven ordinary meetings contemplated for 2014 in the schedule approved by the Board of Directors. Proxies may be granted without losing the entitlement to receive the allowance for just cause, a maximum of two times per year. This amount is paid within fifteen days of the given meeting being held. The holding of extraordinary meetings of the Board of Directors, in person or electronically, does not result in compensation in the form of allowances. c) Service on Board of Directors committees: c.1) 27,900 euros per annum to each member of the board committees, to be paid monthly, before the 10th of each month. The foregoing amount is an annual amount, regardless of the number of meetings of the committees held during 2014. c.2) 15,000 euros per annum to each chairman of a board committee, to be paid monthly before the 10th of each month. The foregoing amount is an annual amount, regardless of the number of meetings of the committees held during 2014. d) Lead Independent Director: 15,000 euros per annum, to be paid monthly before the 10th of the month.

Without prejudice to the compensation it has been decided to establish for the aforesaid chairmen of the board committees and for the Lead Independent Director, for 2014 the overall compensation of the Board of Directors in the other categories comprising that compensation has been maintained at the same level as in 2013.

There are no pension obligations undertaken vis-à-vis members of the Board of Directors. Also, it is not provided that the directors will receive categories of compensation in addition to those described above. As regards the executive director, the fixed compensation represents a significant portion of total compensation, and is appropriate to the duties and responsibilities assumed. In 2014 the intention is to maintain the same amount as established in 2013 (400,000 euros).

No other kind of social benefit is established for the chairman and chief executive.

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

In particular:

- Identify each of the compensation plans of which the directors are beneficiaries, the scope thereof, the date of approval, the date of implementation, the term of validity and the main features. In the case of option plans on shares and other financial instruments, the general features of the plan are to include information regarding the conditions for exercise of the options or financial instruments for each plan.
- Indicate any compensation under profit-sharing or bonus plans, and the reason why it is paid.
- Explain the basic parameters and basis for any annual bonus system.

- The classes of directors (executive directors, proprietary external directors, independent external directors and other external directors) that are beneficiaries of compensation schemes or plans that incorporate variable compensation
- The underlying basis of such variable compensation schemes or plans, the criteria for evaluation of performance that are used, as well as the components of and methods for evaluation to determine whether or not the evaluation criteria have been met, and an estimate of the absolute amount of the variable compensation resulting from the current compensation plan, based on the degree of fulfilment of the hypotheses or objectives taken as a reference.
- If applicable, the information is to include a report on the payment deferral periods that have been established and/or the periods for retaining shares or other financial instruments, if any.

<b>Explain the variable components of the compensation schemes</b>
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The annual variable compensation for the executive director is based on achievement of a combination of business objectives measured at the group level. For the executive director a maximum incentive of 50% of fixed compensation is established.

It is up to the Corporate Responsibility and Governance Committee to approve the objectives, at the beginning of each period, and to evaluate achievement thereof, at the end of the period. All of the objectives are contemplated in the 2014 Budget approved by the board. They are as follows: a) 80% of the incentive depends on "quantitative" financial objectives, measuring the capacity of the group to generate profits, reflected in the following metrics: a. 1.) 50% consolidated EBITDA of the Red Eléctrica Group; a.2.) 30% consolidated profit of the Red Eléctrica Group; b.) 20% of the incentive depends on a "qualitative" objective called Board Approval of the new 2014-2018 Strategic Plan.

The Corporate Responsibility and Governance Committee has decided to set the individual fulfilment threshold of "quantitative" targets that triggers the entitlement to variable compensation at 95%; the maximum possible level of achievement is 100%. In the "qualitative" objective, the Corporate Responsibility and Governance Committee will evaluate the minimum individual achievement threshold, and may determine a maximum individual level of achievement of 150%. The overall maximum achievement of the three foregoing objectives may not exceed 110%.

The Corporate Responsibility and Governance Committee monitors the objectives quarterly throughout the year. At the end of the year it determines the degree to which the objectives have been achieved. In this evaluation function the committee has the support of the Corporate Finance Office, which is responsible for the management control function within the Group. It provides audited results. For both establishment of objectives and evaluation of achievement thereof, the Commission also considers the long-term impact and any associated risk.

Currently the Corporate Responsibility and Governance Committee is analysing various alternatives for long-term compensation for the executive director, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.

**A.5 Explain the principal features of the long-term savings schemes, including retirement and any other survival benefit, financed in whole or in part by the company, whether funded internally or externally, with an estimate of the amount thereof or the equivalent annual cost, indicating the type of plan, whether it is a defined contribution or**



defined benefit plan, the conditions for vesting of the economic rights in favour of directors and compatibility thereof with any kind of indemnification for early termination of the contractual relationship between the company and the director.

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

<b>Explain the long-term savings schemes</b>
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At 31 December 2013, there are no pension obligations undertaken vis-à-vis any member of the Board of Directors.

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

<b>Explain the indemnification</b>
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No indemnification is agreed or paid in the case of termination of duties as an external director.

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

<b>Explain the terms of the contracts of the executive directors</b>
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The contract with the current Chairman and Chief Executive was proposed by the Corporate Responsibility and Governance Committee and approved by the company's Board of Directors. This contract, following the customary market practices, contemplates indemnification equivalent to one year's compensation in the event of termination of the commercial relationship by reason of dismissal or change of control.

In the calculation of that indemnification the base is one year's fixed compensation, plus the amount corresponding to variable compensation as chairman and chief executive, calculated assuming a 100% level of achieving the objectives.

Without prejudice to the confidentiality obligation expressly established in that contract, the chairman and chief executive also is bound by the duty of confidentiality established in article 34.a) of the Board Regulations, applicable to all directors, in accordance with which a director is to keep the deliberations of the Board of Directors and the committees to which he/she belongs secret and, in any event, refrain from disclosing the information, data, reports or records to which the director has had access in the performance of his or her duties. The confidentiality obligation survives departure from office.

In his capacity as a director of Red Eléctrica, the chairman has a noncompete obligation to the Company, on the terms in which that obligation is regulated for directors of the Company in article 33 of the Board of Directors Regulations. In addition, the noncompete obligation is expressly set forth in the contract with the chairman and chief executive, for a term of two (2) years after his departure, that obligation not giving him a right to post-contractual noncompetition indemnification, as it is deemed to have been compensated by way of his fixed compensation.

In 2013 and 2014 (up to the date of approval of this report) no indemnification in this category has been paid.

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

**Explain the additional compensation**

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

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

**Explain the advances, loans and guarantees granted**

At 31 December 2013 the company's balance sheet reflected no loans, advances or guarantees established by the company in favour of members of the company's Board of Directors.

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

**Explain the in-kind compensation**

At 31 December 2013 the balance sheet of the Company reflected no loans, advances or guarantees granted by the Company in favour of the chairman and chief executive, nor are there any pension obligations owed to him.

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

**Explain the compensation earned by the director by virtue of payments made by the listed company to a third party entity within which the director serves**

At the date of issue of this Report, no compensation of this nature has been earned.

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

**Explain the other compensation categories**

At the date of issue of this Report, no compensation category other than those explained in the preceding sections is contemplated in the director compensation scheme.

A.13 Explain the actions taken by the company regarding the compensation system to reduce exposure to excessive risk and to adapt it to the long-term interests, values and objectives of the company. This if applicable is to include reference to: measures contemplated to ensure that the compensation policy is responsive to the long-term results of the company, measures establishing appropriate balance between fixed and variable components of compensation, measures adopted regarding those categories of personnel

the professional activities of which have a material impact on the company's risk profile, recovery clauses or formulas to allow claims for return of variable components of compensation based on results when those components of compensation have been paid based on data the inaccuracy of which is thereafter clearly demonstrated, and measures contemplated for the avoidance of conflicts of interest, if applicable.

#### **Explain the actions taken to reduce risks**

The total compensation of the executive director is comprised of different elements of compensation, basically consisting of (i) fixed compensation, (ii) short-term variable compensation and (iii) multi-year variable compensation. Given the fact that the "Plan Extraordinario 25º Aniversario" ended in 2013, currently the Corporate Responsibility and Governance Committee is analysing various alternatives for long-term compensation for the executive director, taking account of legal, economic, corporate governance and other aspects thereof. The analysis phase continues because it appears to be appropriate to engage in in-depth study of the various possible models for multi-year compensation before taking a decision in this regard, all in parallel with the process of revision of the Company's Strategic Plan.

The medium and long-term variable compensation plans are placed within a multi-year context to ensure that the process of evaluation is based on long-term results and to take account of the underlying business cycle of the Company.

The design of the compensation scheme provides a balanced and efficient relationship between fixed components and variable components. The portion of the compensation of the executive director that is fixed is considered to be sufficient and not excessive, allowing the portions of annual variable compensation as executive director to reach up to a maximum of 50% of the annual fixed compensation.

The variable components of compensation are sufficiently flexible to allow compensation to be adjusted. If the minimum level of achievement of objectives tied to variable compensation is not reached, the executive director will only receive fixed compensation.

There is no variable compensation that is guaranteed in any case.

The committee is responsible for examination and analysis of the compensation policy and its application. The Board Regulations ([www.ree.es](http://www.ree.es)) establish, among the functions of the committee, the proposal of the compensation policy for the Board of Directors and, if applicable, for senior management, as well as ensuring observance of the approved compensation policy applicable to the Board of Directors, the executive directors and, if applicable, senior management and the remainder of the Company's executive team. These groups include the professionals the activities of which may have a material impact on the risk profile of the entity.

Regarding recovery clauses or formulas to claim return of variable components of compensation based on results when those components have been paid based on data the inaccuracy of which has thereafter been clearly demonstrated, and measures contemplated to avoid conflicts of interest, if any, note the following:

- The committee, within the context of its duty to ensure compliance with the approved compensation policy applicable to the Board of Directors, the executive directors and, if applicable, senior management and the remainder of the executive team, can propose to the Board of Directors the cancellation of payment of variable compensation in proven cases of this kind.
- In addition, the committee may assess whether exceptional circumstances of this kind may result even in termination of the legal relationship with the corresponding responsible person or persons, proposing the adoption of such measures as may be appropriate to the Board of Directors.

#### **B**

#### **COMPENSATION POLICY CONTEMPLATED FOR FUTURE YEARS**

**B.1** Make a general forecast of the compensation policy for future years that describes that policy in respect of: fixed components and allowances and compensation of a variable nature, relationship between compensation and results, retirement schemes, terms of

contracts of executive directors, and a forecast of the most significant changes in the compensation policy by comparison with preceding periods.

#### **General forecast of compensation policy**

At the date of approval of this Report it is contemplated that the principles and criteria governing the current compensation policy, described in the preceding sections, will remain on terms comparable to those currently in effect, unless the competent corporate bodies resolve to make changes upon occurrence of circumstances or events of a regulatory, strategic, financial or other nature making that advisable. It is for this reason that, as has been explained above, the Corporate Responsibility and Governance Committee periodically revises that policy and the components thereof.

**B.2 Explain the decision-making process for establishment of compensation policy contemplated for future years, and the role, if any, played by the compensation committee.**

#### **Explain the decision-making process for establishment of the compensation policy**

It is contemplated that the decision-making process for establishment of the compensation policy for future years, and the role, if any, played by the Corporate Responsibility and Governance Committee will proceed on terms comparable to those described in sections A.1. and A.2, no changes being contemplated in respect thereto.

**B.3 Explain the incentives created by the company in the compensation scheme to reduce exposure to excessive risk and adapt it to the long-term interests, values and objectives of the company.**

#### **Explain the incentives created to reduce risks**

The Corporate Responsibility and Governance Committee monitors the objectives quarterly throughout the year. At the end of the year it determines the degree to which the objectives have been achieved. In this monitoring and evaluation function the committee has the support of the Corporate Finance Office, which is responsible for the management control function within the Group. It provides audited results. For both establishment of objectives and their monitoring and evaluation, the Commission also considers the long-term impact and any associated risk.

### **C OVERALL SUMMARY OF HOW THE COMPENSATION POLICY WAS APPLIED DURING THE MOST-RECENTLY CLOSED PERIOD**

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

#### **Explain the compensation categories and structure of the compensation policy applied during the period**

1. In 2013 fixed compensation of the executive director amounted to 400,000 euros.
2. Annual Variable Compensation (executive director)

The committee monitors the objectives quarterly throughout the year. At the end of the year it determines the degree to which the objectives have been achieved. In this evaluation function the committee has the

support of the Corporate Finance Office, which is responsible for the management control function within the Group. It provides audited results. For both establishment of objectives and evaluation of achievement thereof, the Commission also considers the long-term impact and any associated risk.

In 2013, to determine the amount of the incentive, the committee evaluated the level of achievement of the following objectives: a) "Quantitative" financial objectives (with a weight of 80%), which measure the Group's capacity to generate profits and are reflected in the following metrics: a.1.) 50% consolidated EBITDA of the Red Eléctrica Group; a.2.) 30% consolidated profit of the Red Eléctrica Group. b) "Qualitative" objectives (with a weight of 20%) consisting of annual evaluation of the Revision and Improvement of the Strategic Plan, undertaken by the committee. This section includes both the progress in 2013 in implementation of the current Strategic Plan and the conduct of the process of revision of the 2013-2017 Strategic Plan, for the purpose of strengthening the strategic positioning of the Company and identifying and analysing the most important matters that could affect its evolution over the next five years.

At the beginning of the period the committee set the fulfilment threshold of "quantitative" targets that triggers the entitlement to variable compensation at 95%; the maximum possible fulfilment is 100%. In the "qualitative" objectives the committee will evaluate the minimum achievement threshold, and may determine a maximum level of achievement of 150%.

To determine the amount of the incentive applicable to 2013, related to evaluation of the "quantitative objectives", as indicated in the definition thereof the positive and negative economic effects deriving from exceptional events not included within the definition of those quantitative objectives is to be excluded. Therefore, the committee has considered the level of achievement of the objectives based on the pro forma results (before applying the impact of nonrecurring exceptional events such as the compensation adjustment and the change in the scope of consolidation) and the accounting results (having applied the impact of the aforesaid nonrecurring extraordinary events). In this sense, 100% of the two quantitative objectives was deemed to have been achieved.

Regarding the objective of "Revision and Improvement of the Strategic Plan" (qualitative objective) the committee evaluated the level of achieving this objective in accordance with the criteria established in the "Objective no. 3. Revision and Improvement of the 2013-2017 Strategic Plan. Principal Lines of Action for 2013" document, assessed by the Corporate Responsibility and Governance Committee at its meeting of 20 May 2013. As a result, the weighted level of achievement of this "qualitative objective" is 100%.

Therefore, in 2013 the overall level of achievement of the 3 objectives would be 100%, and the annual variable compensation for the Executive Director amounts to 179,000 euros (100% of the target incentive).

The levels of achievement of each objective are set forth in section D.2.

### 3. Multi-Year Variable Compensation

In 2013 the "Plan Extraordinario 25º Aniversario 2009-2013" ended. It was applicable to the executive director, tied to objectives contemplated in the Strategic Plan and the sustainability of the results of the group for that period: a) Acquisition of electricity transmission assets from the electricity companies, at prices determined in the Plan; b) Fulfilment of the Investment Plan for the electricity transmission network, in the amount determined for the 2009-2013 period; c) Commissioning of the electricity interconnection with the Balearic Islands, on the date predetermined at the beginning of the programme; d) Implementation of the electricity interconnection with France; e) Maintenance of the quality of operation of the electricity system, at the level defined in the Plan, for the 2009-2013 period; f) Achievement of the profitability level objective for the electricity transmission assets, during the 2009-2013 period, measured in terms of operating profitability.

The committee has undertaken the evaluation to determine the degree of achievement of each of the aforesaid objectives established in the Plan. In this process the committee had the support of the Corporate Finance Office, responsible for management control of the group, which provides the economic results of the group, duly audited. The committee determined an overall level of achievement of objectives of 106.3%, equivalent to approximately 0.70 times the annual fixed compensation of the Executive Director, equivalent to an amount of 278 thousand euros, in proportion to the time elapsed from his appointment as executive director (8 March 2012), to the end of the plan (31 December 2013). This amount will be paid in 2014 and is included within the amounts that the Company has been accruing annually against the plan since 2009.

The levels of achievement of each objective are set forth in section D.2.

In 2013 the total amount of compensation of directors for their non-executive duties amounted to 1,787,062 euros, broken down as follows:

- a) Fixed Compensation: 539,880 euros.
- b) Allowances for attending meetings of the Board of Directors: 539,902 euros.
- c) Allowances for attending meetings of committees of the Board of Directors: 167,400 euros.
- d) Variable compensation: 539,880 euros. The variable compensation is tied to the same quantitative and qualitative objectives as those established for the executive director, with the same weightings and individual minimum thresholds per objective established for him (which are not reproduced in order to avoid unnecessary repetition). As a result, the overall evaluation by the committee regarding the foregoing objectives of the company is 100%. This level of achievement of objectives corresponds to an annual variable compensation amount of 539,880 euros.



MIGUEL BOYER SALVADOR	0	49	49	49	0	0	0	0	147	
PALOMA SENDÍN DE CÁCERES	0	49	49	49	0	28	0	0	175	
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	49	49	49	0	28	0	0	175	
ALFREDO PARRA GARCÍA-MOLINER	0	49	49	49	0	28	0	0	175	
JOSÉ FOLGADO BLANCO	400	49	49	228	0	0	0	0	726	
MARIA DE LOS ANGELES AMADOR MILLAN	0	49	49	49	0	28	0	0	175	
RUI MANUEL JANES CARTAXO	0	49	49	49	0	0	0	0	147	
JUAN EMILIO IRANZO MARTIN	0	49	49	49	0	28	0	0	175	
MARÍA JOSÉ GARCÍA BEATO	0	49	49	49	0	0	0	0	147	
FRANCISCO RUIZ JIMÉNEZ	0	49	49	49	0	0	0	0	147	
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	49	49	49	0	28	0	0	175	

**ii) Compensation schemes based on shares**

**iii) Long-term savings schemes**



**b) Compensation earned by directors of the company for membership on boards of other group companies:**

**i) Cash compensation (€ 000s)**

Name	Salary	Fixed compensation	Allowances	Short-term variable compensation	Long-term variable compensation	Compensation for membership on board committees	Indemnifications	Other categories	Total 2013	Total 2012
MIGUEL BOYER SALVADOR	0	0	0	0	0	0	0	0	0	
PALOMA SENDÍN DE CÁCERES	0	0	0	0	0	0	0	0	0	
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0	0	0	0	0	0	0	
ALFREDO PARRA GARCÍA-MOLINER	0	0	0	0	0	0	0	0	0	
JOSÉ FOLGADO BLANCO	0	0	0	0	0	0	0	0	0	
MARIA DE LOS ANGELES AMADOR MILLAN	0	0	0	0	0	0	0	0	0	
RUI MANUEL JANES CARTAXO	0	0	0	0	0	0	0	0	0	
JUAN EMILIO IRANZO MARTIN	0	0	0	0	0	0	0	0	0	
MARÍA JOSÉ GARCÍA BEATO	0	0	0	0	0	0	0	0	0	
FRANCISCO RUIZ JIMÉNEZ	0	0	0	0	0	0	0	0	0	
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0	0	0	0	0	0	0	

**ii) Compensation schemes based on shares**

**iii) Long-term savings schemes**

**c) Summary of compensation (€ 000s):**

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

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

Name	Compensation earned in the Company				Compensation earned in group companies				Totals		
	Total cash compensation	Amount of shares granted	Gross profit on options exercised	2013 Total from company	Total cash compensation	Amount of shares delivered	Gross profit on options exercised	2013 Total from group	2013 Total	2012 Total	Contribution to savings schemes during period
MIGUEL BOYER SALVADOR	147	0	0	147	0	0	0	0	147		0
PALOMA SENDÍN DE CÁCERES	175	0	0	175	0	0	0	0	175		0
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	175	0	0	175	0	0	0	0	175		0
ALFREDO PARRA GARCÍA-MOLINER	175	0	0	175	0	0	0	0	175		0
JOSÉ FOLGADO BLANCO	726	0	0	726	0	0	0	0	726		0
MARIA DE LOS ANGELES AMADOR MILLAN	175	0	0	175	0	0	0	0	175	0	0
RUI MANUEL JANES CARTAXO	147	0	0	147	0	0	0	0	147		0
JUAN EMILIO IRANZO MARTIN	175	0	0	175	0	0	0	0	175		0
MARÍA JOSÉ GARCÍA BEATO	147	0	0	147	0	0	0	0	147		0
FRANCISCO RUIZ JIMÉNEZ	147	0	0	147	0	0	0	0	147		0
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	175	0	0	175	0	0	0	0	175		0
<b>TOTAL</b>	<b>2,364</b>	<b>0</b>	<b>0</b>	<b>2,364</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,364</b>	<b>0</b>	<b>0</b>

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

Regarding annual variable compensation, applicable to external directors and the executive director, in the process of evaluation undertaken by the committee based on the audited results for the complete 2013 period, the following have been taken into account:

- a) The book figure results in 2013 EBITDA of 1,301.9 million euros, representing 80.3% achievement of the objective. However, the Group's EBITDA, before applying the impact of nonrecurring exceptional events, amounted to 1,330 million euros, representing 100% achievement of the objective based on budget.
- b) The book figure for net profit of the Group in 2013 was 529.1 million euros, representing 0% achievement of the objective, as it was below the established minimum level of achievement (95%). However, the Group's net profit, before applying the impact of extraordinary events, amounted to 571.1 million euros, representing 100% achievement of the objective based on budget.

As is indicated in the definition of "quantitative objectives", in evaluation of achievement thereof the economic consequences deriving from exceptional events are to be disregarded. In this sense, 100% of the foregoing two objectives was deemed to have been achieved. Regarding the qualitative objective "Revision and Improvement of the Strategic Plan", the committee considers the following matters: a) 2014-2020 planning of the transmission network; b) Implementation of the plan for investment and strategic infrastructure; c) Expansion of the business base; d) Financing of investments; e) Process of revision and preparation of the Strategic Plan. Overall, the degree of weighted achievement of this "qualitative objective", in accordance of the criteria established in the "Objective no. 3. Revision and Improvement of the 2013-2017 Strategic Plan. Principal Lines of Action for 2013" document, assessed by the Corporate Responsibility and Governance Committee at its meeting of 20 May 2013, is 100%.

Therefore, in 2013 the overall level of achievement of the 3 objectives would be 100%, and the associated incentive also would be 100%. Regarding the multi-year variable compensation applicable to the executive director, in 2013 the "Plan Extraordinario 25º Aniversario 2009-2013" ended. It was linked with objectives contemplated in the Strategic Plan and with the sustainability of the results of the group for that period. They are described below, together with the corresponding evaluation: a) Acquisition of electricity transmission assets of electricity companies, at prices determined in the Plan. In July 2011 agreements were formalised for acquisition of assets of Endesa, Unión Fenosa and Hidrocantábrico, as provided in Act 17/2007, finally closed between December 2010 and January 2011. The objective has been deemed to have been achieved at its maximum level (130%). b) Fulfilment of the electricity transmission network Investment Plan, in the amount determined for the period from 2009 to 2013. The amount of the foreseen investments to be made in the 5 years of the Plan amounts to 3,649 million euros (8.7% below the 4,000 million euros of investment contemplated in the Plan), representing 82.4% achievement of the objective.

c) Start-up of the electricity interconnection with the Balearic Islands by the date specified at the start of the programme. On 31 August 2011 the commissioning certificate for the second cable of the interconnection with the Balearic Islands was obtained, thereby achieving the objective at the maximum level (130%).

d) Implementation of the electricity interconnection with France. The degree of progress of the project at 31 December 2013 was 79.2%. On that basis the objective is deemed to have been achieved to the extent of 109.2%.

e) Maintenance of electricity system operation quality at the level specified in the Plan over the 2009-2013 period. This translates into the following metrics: TIM (Tiempo de Interrupción Medio, Average Interruption Time), stated in minutes. The actual aggregate figure for the period from 2009 to 2013 was 7.3 minutes, for which reason the objective is deemed to have been achieved at a level of 126.6%. f) Achievement of the target level of return on the electricity transmission assets during the period from 2009 to 2013, measured in terms of operating profitability. This translates into the following metrics: Cumulative ROA. The ROA obtained from 2009 to 2013 was 8.69%, by comparison with the 9.0% contemplated in the objective for the same period, representing 74.1% achievement of the objective. At the meeting of 20 February 2014 the committee went through the evaluation process to determine the degree of achievement of each of the aforesaid objectives established in the Plan. In carrying out its evaluation function, the Committee had the support of the Corporate Finance Office, responsible for management control of the group, which provides the economic results of the group, duly audited. Accordingly, the Corporate Responsibility and Governance Committee determined an overall level of achievement of objectives of 106.3%, equivalent to 0.70 times the annual fixed compensation of the executive director, resulting in an amount of 278 thousand euros, calculated in proportion to the time elapsed from his appointment as executive director, 8 March 2012, to the end of the plan, 31 December 2013. This amount will be paid in 2014 and is included within the amounts that the Company has been accruing annually against the plan since 2009.

### D.3 Report on the result of the advisory vote of the general meeting on the annual report and compensation for the prior period, indicating the number of negative votes, if any:

	<b>Number</b>	<b>% of total</b>
<b>Votes cast</b>	76,593,879	100.00%
<b>Votes against</b>	3,152,950	4.12%
<b>Votes for</b>	73,303,998	95.71%
<b>Abstentions</b>	136,931	0.18%

### **E OTHER INFORMATION OF INTEREST**

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

The amounts appearing in section "D. DETAILS OF INDIVIDUAL COMPENSATION EARNED BY EACH OF THE DIRECTORS" of this report were rounded to the nearest thousand euros, solely to comply with the requirements of the form established in CNMV Circular 4/2013 and the computer programme implemented by that agency, which does not allow the entry of numbers with decimals. The exact amounts actually booked by the Company in accordance with the applicable accounting rules were set forth in the annual accounts for 2013, submitted to the

CNMV. They also appear in the Annual Report on Compensation Policy and Compensation of the Board of Directors prepared voluntarily by the Company based on the highest international standards of good corporate governance, approved by the Board of Directors on 25 February 2014, which is available at its corporate website ([www.ree.es](http://www.ree.es)) in the section on "Corporate Governance/Reports and Other Documents".

Also, regarding section D.1.a) i), it is noted that in 2009 a compensation plan for directors was established ("Plan Extraordinario 25º aniversario 2009-2013"), the coverage of which includes the executive director, tied to the 25th anniversary of the Company, as a management tool and mechanism to promote fulfilment of the five-year Strategic Plan. Fulfilment of this plan was to be evaluated in 2014 at the end of its term. Depending on the level of achievement of the objectives set, the overall assessment for the five years with a level of achievement of 100% would amount to 1.8 times fixed annual compensation. As in the case of annual objectives, this plan takes account of predetermined and quantifiable objective criteria, aligned with the medium and long-term vision in the Company's Strategic Plan, and establishment and evaluation thereof correspond to the Corporate Responsibility and Governance Committee. After completion of the plan in 2013, the Corporate Responsibility and Governance Committee, at its meeting held on 20 February 2014, evaluated achievement of the objectives therein and resolved to fix compensation of the executive director against that plan of 278 thousand euros, reflecting an objectives achievement percentage of 106.3% and the time elapsed from appointment of the executive director subject to the plan to the conclusion thereof on 31 December 2013. This amount will be paid in 2014 and is included within the amounts that the Company has been accruing annually against the plan since 2009.

Also, the table corresponding to section D.1.b) i) does not apply to the Company's directors, and was completed by reason of requirements of the aforesaid CNMV computer programme.

This annual compensation report was approved by the board of directors of the company at its meeting of 25/02/2014.

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

Yes  No

## **Two.- Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A., for 2013**

Pursuant to the provisions of Article 20 of the Corporate Bylaws, the Board of Directors is responsible for proposing the amount of annual compensation among the possible different items established (fixed monthly fee, fee for attendance of meetings and dedication to the management bodies and compensation linked to the Company's annual income) and within the Bylaw limit on the overall annual compensation for the entire Board established in the aforementioned Article as a maximum of 1.5% of the Company's net income approved by the General Shareholders' Meeting. This proposal is formulated annually by the Board of Directors, following a proposal by the Corporate Responsibility and Governance Committee for submission to the General Shareholders' Meeting, which annually approves the compensation of the Board of Directors.

In the session of the Board of Directors held on February 1, 2013, an overall compensation for the Board of Directors for all items for the **2013 financial year** was approved, and which was invariable (even slightly lower) in its overall amount with regard to the 2012 financial year, in case of reaching 100% of the pre-established objectives for the variable compensation of the Board.

The Board of Directors, in due consideration of the tendencies manifested by investors in general, agreed on a proposal for a **new compensation scheme for the Board of Directors**, which was approved by the Annual General Shareholders Meeting. This scheme set the fixed annual compensation of the Board at two thirds of the overall compensation of the Board, for all items.

The resolutions that fixed the Board's annual compensation for the 2013 financial year, contained detailed information on the fixed and variable items making up the Board's compensation, and on the objectives and parameters for the calculation of the variable component of the Board of Directors' compensation.

With the end of the 2013 financial year, the Corporate Responsibility and Governance Committee, in its session on February 20, 2014, evaluated the Board of Directors' compliance with the objectives linked to the calculation of its variable annual compensation for the 2013 financial year; and consequently, once the amount corresponding to their annual variable compensation was determined, the Board of Directors, in its session on February 25, 2014, proceeded to set the overall amount for the compensation of the Board, for all items, for the 2013 financial year.

As a result, the following resolution is proposed for submission to the Ordinary General Shareholders' Meeting:

To approve, with effect as of January 1, 2013, the Board of Directors' compensation agreed at the Board meeting of February 25, 2014, which established compensation for 2013 in accordance with the stipulations of the Corporate Bylaws and the Board Regulations, following a proposal by the Corporate Responsibility and Governance Committee, in the following terms:

Variable Board compensation, for all items, in 2013.

The Ordinary General Shareholders' Meeting held on April 18 2013, adopted the following resolution:

*The variable component of the Board's compensation for 2013 will be established in accordance with achievement of the strategic objectives set by the Board of Directors at the beginning of the year.*

*The sum of the variable component for the year 2013 is set at €49,080.00 per director, if the objectives established are achieved.*

*For the purposes of calculation of the variable component of compensation, consideration will be taken of the level of achievement and the weighting of each of the objectives, and the internal procedures and regulations for assessment of objectives established by the Company will be applied.*

*The aforementioned amount will be attained if there is 90% overall achievement of objectives, provided the minimum achievement thresholds for all objectives have been exceeded. The possibility is established of a weighting of up to 110% of this amount in the event of a global overachievement of the objectives, when this is determined at the time the annual objectives are set.*

*The objectives and parameters to calculate the variable compensation of the Board of Directors for 2013 are as follows:*

<b><u>Objective</u></b>	<b><u>Weighting</u></b>	<b><u>Minimum threshold</u></b>	<b><u>Overweighting</u></b>
1. Consolidated EBITDA of the Red Eléctrica Group	50%	95%	-
2. Consolidated income of the Red Eléctrica Group	30%	95%	-
3. Review and improvement of the Strategic Plan	20%	Valuation by the CRGC <sup>(1)</sup>	30%

(1) Corporate Responsibility and Governance Committee.

*At year-end 2013, the Corporate Responsibility and Governance Committee must perform an assessment of the Board of Directors' achievement of the objectives, and this will determine the final sum of the Board's variable compensation.*

By virtue of the foregoing, the Corporate Responsibility and Governance Committee, with the end of 2013, in its meeting on February 20, 2014, carried out the corresponding evaluation of compliance with the aforementioned objectives approved by the Ordinary General Shareholders' Meeting of the Company.

In order to establish the amount of variable compensation for the Board of Directors, those other conditions in force applicable to the compensation of the Board of Directors and its Committees, were likewise taken into account.

To determine the amount of the incentive applicable to the 2013 financial year, with regard to “quantitative objectives” (1. and 2.), the Corporate Responsibility and Governance Committee evaluated the level of attainment of the objectives, keeping in mind the positive and negative economic effects, derived from extraordinary events not covered by the definition of said quantitative objectives.

<b><u>Objective</u></b>	<b><u>Weighting</u></b>	<b><u>Minimum threshold</u></b>	<b><u>Overweighting</u></b>
<b>1. Consolidated Ebitda of the Red Eléctrica Group</b>	50%	95%	-

The accounting number determines an EBITDA for 2013 of 1,309.1 million euros, which is an objective achievement rate of 80.3%. However, the Group EBITDA, prior to the application of the impact of exceptional, non-recurrent events, reached 1,330 million euros, which is an objective achievement rate of 100% over the budget established.

<b><u>Objective</u></b>	<b><u>Weighting</u></b>	<b><u>Minimum threshold</u></b>	<b><u>Overweighting</u></b>
<b>2. Consolidated result of the Red Eléctrica Group</b>	30%	95%	-

The accounting figure for the Group net Income in 2013 reached 529.1 million euros, which would be an objective achievement rate of 0%, as it is below the minimum established level for compliance (95%). However, the Group net Income, prior to the application of the impact of exceptional events, reached 571.1 million euros, meaning an objective achievement rate of 100% over the budget established.

As indicated in the definition of “quantitative objectives”, in the evaluation of compliance with these, the economic effects of exceptional events must be discounted. In this regard, it has been considered that 100% of the previous objectives have been reached.

<b><u>Objective</u></b>	<b><u>Weighting</u></b>	<b><u>Minimum threshold</u></b>	<b><u>Overweighting</u></b>
<b>3. Review and improvement of the Strategic Plan</b>	20%	Assessment by the CRGC(1)	30%

(1) Corporate Responsibility and Governance Committee



With regard to objective 3. (“qualitative objective”), the Committee took the following into account:

- Planning of a transport network 2014-2020
- Execution of an investment plan and a strategic infrastructure plan
- Expansion of the business base
- Financing of investments
- Process of review and elaboration of a Strategic Plan

Overall, the degree of weighted compliance for this “qualitative objective” according to the criteria established in the document “Objective no. 3. Review and improvement of the 2013-2017 strategic plan. Main lines of action 2013”, evaluated by the Corporate Responsibility and Governance Committee in its session of May 20, 2013, is 100%.

Following the compliance assessment for the three previous objectives, the Corporate Responsibility and Governance Committee considered the degree of individual compliance with objectives 1. (50% weighting of the total), 2. (30 % weighting of the total), and 3. (20% initial weighting) is 100%.

As a result, the Corporate Responsibility and Governance Committee considered an overall compliance with objectives of 100%.

Once the compliance assessment is conducted on the three previous objectives and taking into account all the previous circumstances, the amount of variable compensation for the Board of Directors for 2013 is set at 539,880.00 euros.

And in view of the cited amount of annual variable compensation for the Board of Directors, the overall amount of compensation for the Board of Directors is set at 1,787,062.00 euros, for all items, for 2013.

### **Three.- Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A., for 2014.**

The Board of Directors, in the session held February 25, 2014, at the proposal of the Corporate Responsibility and Governance Committee adopted in the session of February 20, 2014, established the annual overall compensation for the Board of Directors, for all items for the **2014 financial year**.

As changes in the compensation scheme of the Board of Directors proposed for 2014, it must be noted that, considering the tendencies expressed by investors and their advisors and, in compliance with international best practices for Corporate Governance, it has been considered appropriate to eliminate the variable annual compensation of the Board and incorporate the corresponding amount into the Board's fixed annual compensation, so that from now on the total compensation for the Board of Directors is made up of fixed compensated items.

Without prejudice to the compensation that was agreed for the chairman of the Board Committees and for the role of the Lead Independent Director, the overall amount for the Board of Directors for all other items will remain the same for 2014 as it was for 2013.

In view of the gradual increase in tasks, functions and responsibilities attributed to Board committees (Audit Committee and Corporate Responsibility and Governance Committee) in recent years, it has been deemed pertinent to allocate the specific amount of 15,000 euros/year to the chairpersons of these, due to the special dedication required to perform their responsibilities.

As a final change to the compensation scheme of the Board for 2014, within the framework of attendance and service to the Company's administrative bodies, it has been deemed pertinent to set the same amount of compensation as that of the chairpersons of the Committees for the new role of Lead Independent Director, created by virtue of the agreements adopted in the last Ordinary General Shareholders' Meeting, and by the Board of Directors in 2013.

Therefore, the following resolution is proposed for approval by the Ordinary General Shareholders Meeting:

To approve, with effect as of January 1, 2014, the compensation of the Board of Directors agreed at the Board meeting of February 25, 2014, which established compensation for 2014 in accordance with the provisions of the Corporate Bylaws and the Board Regulations, following a proposal by the Corporate Responsibility and Governance Committee, in the following terms:

Overall compensation of the Board of Directors, for all items for 2014.

The overall compensation of the Board of Directors for 2014, will be maintained, at its overall amount, the same as it was for 2013, modifying its structure, which will be set as follows:

1. Fixed Compensation.

Fixed Compensation, in 2014, is set as follows:

130,742.00 euros annually per director, to be paid in monthly installments, before the 10th of the month.

2. Fees for attending meetings of the Board of Directors.

The fees for attending meetings of the Board of Directors and its Committees, during 2014, are as follows:

1,500.00 euros for the personal attendance of each director to each one of the eleven ordinary sessions anticipated for 2014 in the schedule approved by the Board of Directors, and representation may be delegated without prejudice to the right to receive the fee a maximum of twice a year for causes duly justified. This amount will be paid within fifteen days following the session.

Attendance at any extraordinary sessions of the Board of Directors, whether in person or electronically, will not give cause for payment of fees.

### 3. Dedication to the Board Committees.

Compensation for dedication to the Board of Directors committees, in 2014, is established as follows:

- a) 27,900.00 euros annually to each member of the Board committees, to be paid in monthly installments, before the 10th of the month.

This amount will be annual, independent of the number of sessions of the Committees held in 2014.

- b) 15,000.00 euros annually to each Board Committee chairperson, to be paid in monthly installments, before the 10th of the month.

This amount will be annual, independent of the number of Committee sessions held in 2014.

### 4. Lead Independent Director.

It is agreed to allocate annual compensation to the Lead Independent Director, in the amount of 15,000.00 euros annually, to be paid in monthly installments, before the 10th of the month.

Without prejudice to the compensations that were agreed for the chairpersons of the Board Committees and for the role of the Lead Independent Director, the overall amount for the Board of Directors for all other items will remain the same for 2014 as they were for 2013.

Pursuant to article 20 of the Corporate Bylaws, the amounts indicated in the prior resolutions are compatible with and independent of salaries, compensations, indemnities, pensions or compensations of any type, established generally or singularly, for those members of the Board of Directors who have a working relationship with the Company - whether ordinary or special for senior management - or for provision of services.

**PROPOSED RESOLUTION RELATING TO ITEM EIGHT ON THE AGENDA:**

**DELEGATION OF AUTHORITY TO FULLY IMPLEMENT THE RESOLUTIONS ADOPTED AT THE GENERAL SHAREHOLDERS' MEETING.**

In order to implement any of the above resolutions which may be adopted by the Ordinary General Shareholders' Meeting, the following resolution is proposed to the Board of Directors for submission to the General Shareholders' Meeting:

Without prejudice to the authorizations expressly conferred by the General Shareholders' Meeting on the Board of Directors, the broadest powers are delegated to the Chairman and to each member of the Company's Board of Directors, and also the Secretary and Deputy Secretary of the Board, so that they may exercise them, jointly and severally, with a view to the implementation, execution and registration of each and every resolution adopted by this General Shareholders' Meeting, including the signature of the corresponding contracts and documents, with the clauses and conditions they deem appropriate, and interpret, rectify and complete the aforementioned resolutions and make arrangements for them to be notarized, according to their effectiveness and the observations of any body or authority, in particular the oral or written observations of the Commercial Registrar, taking all measures that may be necessary or appropriate to ensure a successful outcome and, in particular, to ensure that resolutions that may be registered are entered in the Commercial Registry.

**II. ITEMS FOR INFORMATION**

**MATTER RELATING TO ITEM NINE ON THE AGENDA:**

**INFORMATION TO THE GENERAL SHAREHOLDERS' MEETING ON THE 2013 ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A.**

The General Shareholders' Meeting is informed that, in accordance with the provisions of Article 61 bis of Spanish Securities Market Law 24/1988, of July 28 ("LMV") and other applicable regulations, at its meeting on February 25, 2014 the Board of Directors unanimously approved the 2013 Annual Corporate Governance Report of Red Eléctrica Corporación S.A. The Report has been disclosed to the National Securities Market Commission as a material event.

The 2013 Annual Corporate Governance Report is made up of a main body comprising five Titles, divided into Chapters. The Titles refer to the History of Corporate Governance of RED ELÉCTRICA (Title I), to the Legal Framework applicable to RED ELÉCTRICA (Title II), to the main corporate governance aspects and principles at RED ELÉCTRICA (Title III), to the year 2013 at RED ELÉCTRICA in terms of Corporate Governance (Title IV), and to RED ELÉCTRICA's outlook in terms of corporate governance (Title V).

A notable effort was made this year to extend and improve the quality of the content of the report in different areas such as management and risk control of the Group and the level of attendance of the directors at Board meetings, which is detailed individually for the first time.

In these lines of improved information contained in the report and given that 2014 is the fifteenth anniversary of the Company since its Initial Public Offering, a new section has been included (Title I) with the objective of reviewing the historical evolution of the Corporate Governance of Red Eléctrica since 1999, highlighting the main advances of each year until now. Also, it is intended to continue to report (as was done in 2013) on the roadmap in terms of the Corporate Governance established by Red Eléctrica for the coming years, explained in Title V denominated *The Corporate Governance Outlook of Red Eléctrica*.

Last, as is usual, the Report Includes an Official Annex, which has been completed this year in compliance with the new format established in the Annex 1 Form of the Spanish National Securities Market Commission's Circular 5/2013, of June 12.

The Annual Corporate Governance Report is available in Spanish and English from 26 February 2014 on the Company website ([www.ree.es](http://www.ree.es)) and in the General Shareholders' Meeting documentation made available to shareholders.

Yours sincerely,

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