



**RED ELÉCTRICA**  
CORPORACIÓN

## **Board of Directors**

*25 May 2021*

Directors' Remuneration Policy of  
Red Eléctrica Corporación, S.A.  
2022-2024

## I. REPORT

### I.1. Background

The Ordinary General **Shareholders' Meeting** held on 22 March **2019** approved the **Directors' Remuneration Policy** of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "Entity", the "Company" or "Red Eléctrica"). The **valid term** of such policy encompasses the financial years 2019, 2020 and **2021**.

Section 1 of Article 529 *novodecies* of Act 5 of 12 April 2021, which amended the Redrafted Text of the Spanish Capital Companies' Act<sup>1</sup>, stipulates that the directors' remuneration policy must be approved before the end of the last financial year the previous policy is applicable and will remain in force for a maximum term of three financial years. Although Transitory Provision One of the aforementioned Act 5/2021 stipulates a period of six months from its publication in the Official State Gazette (BOE) for such article to come into force, for reasons of good corporate governance and legal security, the Appointments and Remuneration Committee has considered it appropriate to carry this out early and propose to the Board of Directors, at the time the next Ordinary General Shareholders' Meeting is called in 2021, approval of a new directors' remuneration policy for Red Eléctrica Corporación, S.A. (hereinafter referred to as the "Remuneration Policy" or the "Directors' Remuneration Policy") for the financial years 2022, 2023 and 2024, to be submitted to the General Shareholders' Meeting for its approval.

As part of the process for determining the Remuneration Policy proposed for approval by the Company's General Shareholders' Meeting, the Appointments and Remuneration Committee has considered numerous internal and external perspectives in order to assess the level of suitability of the Remuneration Policy for its purpose. Among other aspects, the Committee considered its level of alignment with all the stakeholders, in particular, the Company's shareholders, the new Strategic Plan 2021-2025 of the Red Eléctrica Group and its long-term sustainability commitment as well as the possible impact of COVID-19 and the level of uncertainty that still exists to some extent due to the pandemic.

As a result, the proposal for the new Remuneration Policy is a continuation of the previous one, without any significant changes being made, even though some sections thereof are reinforced, *inter alia*, its contribution to the Company's long-term business strategy, interests and sustainability, improvement in transparency regarding its determination, the information about managing the possible risks related to the remuneration and its alignment with the remuneration policy of the employees of the Red Eléctrica Group as a whole, in accordance with the requirements stipulated in the Spanish Capital Companies' Act in force.

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<sup>1</sup>Act 5 of 12 April 2021, which amended the Redrafted Text of the Spanish Capital Companies Act, approved by Royal Legislative Decree 1 of 2 July 2010, and other financial regulations, regarding the promotion of the long-term involvement of the shareholders in listed companies.

This report is drawn up according to the provisions in the Spanish Capital Companies' Act (updated by Act 5 of 12 April 2021, which amended the Redrafted Text of the Spanish Capital Companies' Act), which stipulates that the approval of the directors' remuneration policy is an obligation of the General Shareholders' Meeting, as a separate item on the Agenda. The Spanish Capital Companies' Act stipulates that the proposal of the Board of Directors for the directors' remuneration policy must be justified and must include a specific report issued by the Appointments and Remuneration Committee. Both documents must be posted on the company's website when the General Shareholders' Meeting is called and the shareholders are expressly entitled to request that such documents be delivered or handed over free of charge; this right must be expressly stated in the call notice for the General Shareholders' Meeting.

This document is the **legal report with due grounds justifying the proposal for the Directors' Remuneration Policy** as detailed below and will be presented for the approval of the Board of Directors to be submitted to the Ordinary General Shareholders' Meeting held in 2021.

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

Red Eléctrica has voluntarily submitted the annual remuneration of the Board of Directors since 2007 and the Annual Report on Remuneration of Directors since 2010 for the **binding approval** of the Ordinary General Shareholders' Meeting. Red Eléctrica has also submitted the Directors' Remuneration Policy since 2015 for the approval of the General Shareholders' Meeting, after this was expressly stipulated in the Spanish Capital Companies' Act. Continuing along the same lines, it is proposed that the **director's remuneration** for all the items, the **Directors' Remuneration Policy**, the **Annual Report on Remuneration of Directors** and the **share-based remuneration**, referred to in the **new Long-Term Incentive Plan** for Boosting the Energy Transition, Reducing the Digital Gap and Diversifying, are **submitted for approval** as separate and independent items on the Agenda of the General Shareholders' Meeting of 2021.

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

## **I.2. Grounds for the Directors' Remuneration Policy**

The proposed Directors' Remuneration Policy, as provided below for its approval, is based on the following **grounds**, in line with those in the Remuneration Policy in force up to 2021:

- a) The Group's **performance**.

- b) The value of the **contribution by the position and the person** both to the Company and the shareholders.
- c) The following **general principles and internal criteria** of Red Eléctrica:
- The quality and commitment of Red Eléctrica's human resources are essential to ensure the successful execution of the Red Eléctrica Group's strategies and, with this in mind, any remuneration policy and practice is applied to the Board of Directors and the senior executives to attract, motivate and retain the best professionals.
  - Balance and moderation.
  - Alignment with the Company's strategy, including the strategic commitment to its long-term sustainability.
  - Alignment with the practices required by the shareholders and investors.
  - Alignment with the effective time spent, responsibility and performance of duties.
  - The remuneration policies and practices guarantee non-discrimination based on gender, age, culture, religion or race.
  - Alignment with the remuneration applied by comparable companies.
  - Transparency.
  - Submitting any decision related to the directors' remuneration to the approval of the General Shareholders' Meeting.
- d) **Internal equity.**
- e) The **market data and the guidelines of institutional investors and proxy advisors**, along with the information received from them in the regular engagement process conducted by the Red Eléctrica Group.
- f) The provisions in Red Eléctrica's **corporate rules** (the Corporate Bylaws and the Board of Directors' Regulations) and the principles determined in the Corporate Governance Policy approved by the Company's Board of Directors at its meeting held on 24 November 2020 and posted on the corporate website.
- g) The applicable **regulations**. The Appointments and Remuneration Committee has verified that the new Directors' Remuneration Policy is suitable according to that stipulated, in general terms, for capital companies in section 4 of Article 217 of the Spanish Capital Companies' Act, which states the following:
- "The directors' remuneration must in all cases be in a reasonable proportion to the company's importance, its economic situation from time to time and the market standards of comparable companies. The remuneration system applied must be aimed at promoting

the company's long-term profitability and sustainability and must include the necessary precautions to avoid excessive risk being undertaken and compensation of unfavourable results."

Specifically, the Appointments and Remuneration Committee and the Board of Directors have been regularly informed on the **impact of COVID-19** on the Group's activities and its development. This information has been considered in the process of determining the Remuneration Policy proposal. In particular, the Committee and the Board have evaluated the soundness and effectiveness of the current remuneration system, which has enabled the application of the current policy in the extraordinary context of the years 2020 and 2021, according to the established parameters and limits, and no temporary exceptions were necessary.

In addition, the Appointments and Remuneration Committee and the Board of Directors, in the annual review of the Directors' Remuneration Policy, have included, as is standard practice, an **analysis of comparable companies** to Red Eléctrica in order to ensure the suitability and moderation of their remuneration compared with the market. To determine the relevant parameters and amounts, the Company obtains remuneration benchmarking conducted by consulting firms of recognised international prestige and presence on the market.

Specifically, as part of the decision-making process to determine the remuneration of the **Non-Executive Chairwoman of the Board of Directors** from the financial year 2022, inclusive, a comparative analysis has been conducted of the remuneration of the position of non-executive chairpersons on the selective **Ibex-35** index, where Red Eléctrica is listed. This analysis encompasses not only a quantitative approach of the different components included in the remuneration but also a qualitative analysis of the time spent, origin, experience, etc. for such positions on the benchmark market.

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

- The remuneration of non-executive Chairpersons on the Ibex-35 consists of fixed components, which do not depend on business targets.
- There is a very great difference in the amounts observed on the market. Specifically, the 25<sup>th</sup> percentile amounts to €242,000, the median to €447,000 and 75<sup>th</sup> percentile to €1,000,000. The **remuneration at Red Eléctrica** (€546,412, according to the Remuneration Policy in force in 2021) **is positioned** at 54<sup>th</sup> percentile, approximately the market **median** although significantly below 75<sup>th</sup> percentile (Red Eléctrica's data related to the market 75<sup>th</sup> percentile represents 55%).
- In particular, qualitative issues related to the specific person that holds such position are taken into account in order to determine the remuneration, such as, *inter alia*, the time spent, experience, knowledge, critical aspects at historic times, the importance from an institutional standpoint, etc. as well as the importance of the corporate duties assigned thereto.

In addition, for the purpose of reviewing the suitability of the **directors'** remuneration levels **(for their non-executive duties)** and to ensure they are in a reasonable proportion to the entity's importance, its economic situation from time to time and the market standards of comparable companies, the Committee and the Board considered, among other factors, an analysis of external competitiveness conducted in 2020. The selected peer group was comprised of companies belonging to the Ibex-35 stock exchange index, in the same way as in previous years, since the Red Eléctrica Group belongs to this index and is positioned at about the median thereof for market capitalisation. The remuneration of the company's non-executive directors is in line with the **average of the peer group** (Ibex-35), in the same way as in previous years.

Moreover, as part of the decision-making process to determine the remuneration of the **Chief Executive Officer** (lead executive) assigned all the executive duties, as of the financial year 2022 inclusive, a benchmarking of the remuneration compared with **three peer groups** has also been conducted, in line with the analyses conducted in previous years, as follows:

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

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

The main **conclusions** drawn from the analysis related to the position of Chief Executive Officer (lead executive) are as follows:

- Bearing in mind the principle of moderation and prudence in remuneration and the general relative positioning of Red Eléctrica compared with the peer groups, the desired target positioning in remuneration terms would be around the 25<sup>th</sup> percentile of the market benchmarks, which is the same as what has been considered in the previous Director's Remuneration Policies of the Company.
- The target **total remuneration** of Red Eléctrica's Chief Executive Officer (the sum of the Fixed Remuneration, Annual Variable Remuneration, annualised Multi-year Variable Remuneration, Long-Term Savings Scheme and Remuneration as a member of the Board of Directors) is placed, in general terms, **below the desired target positioning** (25<sup>th</sup> percentile). In particular, it is positioned at the minimum of the Ibex-35 peer group, the minimum of the ad-hoc peer group and the 37<sup>th</sup> percentile of the peer group of European energy companies. This is mainly explained by the following two factors:
  - Red Eléctrica's Fixed Remuneration is positioned below the 10<sup>th</sup> or 25<sup>th</sup> percentile of the peer groups. Other remuneration components (Annual and Multi-year Variable Remuneration and contribution to the Long-Term Savings Scheme) are determined as a percentage of the Fixed Remuneration and are hence also affected by this positioning.
  - The Multi-year Variable Remuneration, defined as an absolute amount, is positioned below the market benchmarks.
- The **weight** of the remuneration component in **shares** is **lower** than that observed on the market.

At the end of 2020, the Board of Directors began a process to update the Strategic Plan 2018-2022, which enabled the structure of the **new Long-Term Incentive Plan for Boosting the Energy Transition, Reducing the Digital Gap and Diversifying** to be approved at the meeting held on 24 November 2020. The targets of such plan are linked to the targets included in the Group's new Strategic Plan and are adapted to the lines marked in the Directors' Remuneration Policy in force that will terminate in 2021. Compared with the previous Plan, this incentive places greater weight to the long-term variable remuneration in the whole of the total remuneration of the Chief Executive Officer. Specifically, the amount of the annualised target incentive is equivalent to 50% of the Annual Fixed Remuneration and can be provided in cash and/or in Company's shares. The main aspects of the new Long-Term Incentive Plan are specified in the Annual Report on Remuneration of Directors' published in 2021, which will also be submitted for the approval of the Ordinary General Shareholders' Meeting held in 2021, as a separate item on the Agenda.

In any case, the Appointments and Remuneration Committee and the Board of Directors may propose to the General Shareholder's Meeting in the future measures to allow adjustment of the remuneration of both offices to the size and relevance of the Entity and the Group, their

economic situation, comparability, profitability and sustainability, pursuant to the previous criteria as well as to the desired remuneration positioning all within the framework of the directors' remuneration policy in force at any given time and in line with that approved by the Ordinary General Shareholders' Meetings of the Company in the previous years.

### **I.3. Valid term**

The Remuneration Policy will come into force on 1 January 2022 and will remain in force in the years 2022, 2023 and 2024, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors pursuant to the contents of the Policy and the amendments that may be approved by General Shareholders' Meeting of Red Eléctrica from time to time.

## **II. PROPOSAL FOR A RESOLUTION**

*To submit the following proposal for the Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. for the approval of the Ordinary General Shareholders' Meeting held in 2021, as a separate item on the Agenda thereof.*

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

#### **Introduction**

This document includes the proposed Directors' Remuneration Policy of Red Eléctrica Corporación, S.A. (hereinafter referred to as the "Entity", the "Company" or "Red Eléctrica"), which will be submitted to a binding vote of the General Shareholders' Meeting of 2021 as a separate item on the Agenda and that will be valid as of 1 January 2022, since the Directors' Remuneration Policy approved by the Ordinary General Shareholders' Meeting held on 22 March 2019 will expire at the end of 2021.

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

1. The principles of the Remuneration Policy.
2. The process for determining the Remuneration Policy.
3. The Remuneration Policy for the executive director (Chief Executive Officer), including a description of the remuneration components, the remuneration mix and the main contractual terms and conditions for the Chief Executive Officer.
4. The Remuneration Policy for the directors in their positions as members of the Board of Directors ("in their positions as such", according to the Spanish Capital Companies' Act - hereinafter referred to by its initials in Spanish "LSC"- for their non-executive duties).
5. The remuneration policy applicable to new directors.
6. The maximum amount of the directors' remuneration, which determines the cap of the annual remuneration payable to all the directors.
7. The relation between the Remuneration Policy and the conditions of the employees of the Company and the Red Eléctrica Group.
8. Coherence of the Remuneration Policy with the long-term strategy, interests and sustainability of the Company and the Red Eléctrica Group.
9. The duties undertaken by the Appointments and Remuneration Committee.
10. The valid term of the policy.

The remuneration and its corresponding amounts included in this Remuneration Policy are deemed in all cases as gross amounts. Each director will bear the applicable withholding or payment on account of personal income tax (referred to by its initials in Spanish IRPF).

Apart from the remuneration contemplated in this Remuneration Policy, the directors of Red Eléctrica could receive remuneration, if applicable, from other companies in the Red Eléctrica Group for being members on the Board of Directors of such companies. This remuneration will be subject to the corresponding legal and statutory requirements applicable to each of these companies and there will be fully disclosed information of it being received by the directors in the corresponding Annual Report on Remuneration of Directors of Red Eléctrica.

**1. The principles of the Remuneration Policy**

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

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

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

All the previous principles are coherent with the Company’s Corporate Governance Policy approved by the Board of Directors at its meeting held on 24 November 2020 and posted on the corporate website.

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

What we do	What we don’t do
<p><b>Executive Director (Chief Executive Officer):</b></p> <ul style="list-style-type: none"> <li>• Link the payment of a significant part of the remuneration to the Group’s economic and financial audited results.</li> <li>• Defer a significant part of the remuneration.</li> <li>• Deliver a significant part of the remuneration in the Company’s shares.</li> <li>• Include <i>malus</i> and <i>clawback</i> clauses applicable to the short- and long-term variable remuneration.</li> <li>• Determine severance payments for the termination of the legal relationship, limited to one year of fixed and variable remuneration, for achieving 100% of the objectives.</li> <li>• Regularly review the alignment of the total remuneration with comparable companies.</li> <li>• Regularly obtain support from external advisors.</li> </ul> <p><b>Non-executive Directors:</b></p> <ul style="list-style-type: none"> <li>• Link the remuneration with the effective time they spend, the responsibilities undertaken and performance of their duties as directors.</li> </ul>	<p><b>Executive Director (Chief Executive Officer):</b></p> <ul style="list-style-type: none"> <li>• Guarantee increases in the fixed remuneration and payments of variable remuneration.</li> <li>• Grant discretionary remuneration.</li> <li>• Allow hedging of the value of the shares received in the holding period<sup>(1)</sup></li> <li>• Discriminate in remuneration on the basis of gender, age, culture, religion or race. The professionals of Red Eléctrica are remunerated based on their professional career, the time spent on their duties and the responsibility they undertake.</li> </ul> <p><b>Non-executive Directors:</b></p> <ul style="list-style-type: none"> <li>• Participate in remuneration schemes linked to the Company’s performance (they are only paid fixed remuneration).</li> <li>• Participate in retirement plans or other social benefit schemes.</li> </ul>

<sup>(1)</sup> The holding period refers to the time after the vesting of shares that have been granted as remuneration during which they cannot be sold or be accessible.

**2. Process for determining the Remuneration Policy**

The following aspects were taken into account in the consideration and decision-making process for the proposal of the Remuneration Policy that the Appointments and Remuneration Committee has drawn up, based on the aforementioned principles:

- The strategic pillars and initiatives stipulated in the **Strategic Plan 2021-2025**.

## Strategic Pillars

- The **transversal sustainability strategy** in the Strategic Plan 2021-2025, alignment with the Sustainability Commitment of the Red Eléctrica Group, its Sustainability Policy and the United Nations 2030 Agenda for Sustainable Development, the compliance of which is regularly supervised by the Company's Sustainability Committee.
- The degree of **suitability** of the **total remuneration** to reward the **value of the contribution of the position and the person** to both the company and the shareholders:
  - Regarding the **Non-Executive Chairwoman of the Board of Directors**, the **exclusive time spent**, the **person's importance** from an institutional standpoint, the **critical aspects** of the corporate **duties** under such person's direct responsibility at the current time of the Red Eléctrica Group and the challenges faced due to the Group's new strategic priorities.
  - Regarding the **Chief Executive Officer (lead executive)**, the development and **consolidation in the position**, which is shown through the sustained growth of the Red Eléctrica Group's results, as previously mentioned.
- **Internal equity**, shown by the following:
  - The **relation of the remuneration**, both in components and amounts, **of the Non-Executive Chairwoman of the Board of Directors and the Chief Executive Officer**, which must suitably correspond to the effective separation of their duties.
  - The **coherence** between the Remuneration Policy of the Chief Executive Officer and the **remunerative conditions of the employees of the Company** and the Group, in particular in the companies recently included in the consolidation perimeter. This aspect is explained in further detail in section 7.
- Observing Red Eléctrica's consolidated **salary moderation** practice, as a **fundamental principle**, since:
  - The specific Fixed Remuneration for the position of the Non-Executive Chairwoman of the Board of Directors has remained unchanged since it was created in 2016.
  - The current Fixed Remuneration of the Chief Executive Officer (lead executive) was determined in 2019 at 12% below the maximum amount included in the Remuneration Policy in force.



- The **information** received from **institutional investors and proxy advisors** in the **regular engagement process** conducted by the Red Eléctrica Group as well as the general recommendations on good governance.

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

- The **review** of the **positioning** of the remuneration compared with the market.

As a result of all the previous considerations, the new Remuneration Policy is a continuation of the previous one, without any significant changes being included, even though some sections thereof are reinforced, *inter alia*, its contribution to the Company's long-term business strategy, interests and sustainability, improvement in transparency regarding its determination, information about managing the possible risks related to the remuneration and about its alignment with the remuneration policy of the employees of the Red Eléctrica Group as a whole.

### **3. The Remuneration Policy for the executive director (Chief Executive Officer)**

The components of the Remuneration Policy for the Chief Executive Officer are provided below. The Corporate Bylaws describe the remuneration system applicable to the Chief Executive Officer, as shown below.

### 3.1. Table related to the Remuneration Policy for the executive director (Chief Executive Officer)

**Table 1. Remuneration policy for the executive director (Chief Executive Officer)**

	Amount	Functioning
<p><b>Annual Fixed Remuneration</b></p> <p><i>Purpose: Reward the executive based on responsibility and professional career.</i></p>	<p><b>Maximum:</b> €399,170, no change compared with the previous Remuneration Policies (however, as notified in the Annual Report on Remuneration of Directors, the Annual Fixed Remuneration corresponding to the financial year 2021 amounts to €350,000).</p> <p><b>Standard general update:</b></p> <p>The Fixed Remuneration may be reviewed on an annual basis, according to the criteria approved from time to time by the Appointments and Remuneration Committee, <i>inter alia</i>, the development and consolidation in the position, evolution in the Company's performance, complexity of the business, geographic diversity, market benchmarks, etc.</p> <p>Although the updating will take place in the terms described above, the Appointments and Remuneration Committee must always provide justification for them.</p>	<p>The Annual Fixed Remuneration is calculated in accordance with his responsibility and leadership in the organisation and in line with the amount paid by comparable companies on the market.</p> <p>In certain exceptional cases, the Appointments and Remuneration Committee may appreciate, for example, the existence of a change in responsibility and/or development in the position and/or special needs for retaining or motivating the executive. Under these circumstances, the Committee may decide to apply higher increases. The underlying reasons will be explained in the relevant Annual Report on Remuneration of Directors.</p> <p>The Annual Fixed Remuneration is paid in cash.</p>
<p><b>Long-Term Savings Scheme</b></p> <p><i>Purpose: To offer a total remuneration package that is competitive with market practice.</i></p>	<p><b>Annual contribution:</b></p> <p>20% of the Annual Fixed Remuneration.</p>	<p>The defined contribution retirement scheme. The contingencies covered by this scheme are retirement, death and permanent disability.</p> <p>This scheme is funded through an insurance policy underwritten with an external insurer. The benefits consist of the economic rights corresponding to the beneficiary due to any of the contingencies arising covered by this scheme.</p> <p>In the event of termination of the relationship, the economic rights will be consolidated in favour of the Chief Executive Officer, unless the termination takes place due to misconduct or serious negligence thereby when performing the duties causing damages to the Company. Receiving any indemnity will be compatible with recognition of the economic rights in the retirement scheme.</p> <p>If new regulatory provisions are approved that imply the scheme should be reviewed, according to a proposal made by the Appointments and Remuneration Committee, the Board of Directors may make the relevant amendments to adapt it to the new regulations. If amendments are made, the reasons must be duly notified in the Annual Report on Remuneration of Directors.</p>
<p><b>Social Benefits</b></p> <p><i>Purpose: To offer a total remuneration package that is competitive with market practice.</i></p>	<p><b>Annual amount:</b> €60,000</p>	<p>An allowance in cash or in kind as social benefits.</p>

	Amount	Metrics	Functioning
<p><b>Annual variable remuneration</b></p> <p><i>Purpose: To incentivise the achievement of the annual targets in line with the Red Eléctrica Group's Strategic Plan.</i></p>	<p><b>Target</b> 75% of the Annual Fixed Remuneration. It is attained if 100% of the predetermined targets are achieved.</p> <p><b>Maximum</b> 110% of the Target Incentive (82.5% of the Annual Fixed Remuneration). It is attained in the case of overachievement of the maximum pre-determined targets.</p>	<p>It is linked to achieving a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the corporate interests and in line with the Red Eléctrica Group's Strategic Plan. These targets may include, <i>inter alia</i>, economic-financial, business, operational and/or value-creation metrics, (for example, Net Profit, ROIC, Investments), as well as indicators linked to sustainability in their social, environmental and/or good corporate governance vectors (for example, Culture and People, projects to make progress in the Group's Sustainability Plan).</p> <p>In a scenario in which the target objectives are achieved, the qualitative targets imply a maximum weight of 30% of the overall incentive.</p>	<p>The Appointments and Remuneration Committee is responsible for approving the targets at the beginning of each financial year and for assessing their achievement at the end of the year.</p> <p>In order to ensure that the Annual Variable Remuneration is effectively in line with the professional performance of the beneficiaries, when determining the level of achievement of the quantitative targets, the positive or negative economic effects, related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>The performance scale, set at the beginning of each financial year, includes a minimum threshold below which no incentive is paid, a target level that corresponds to achieving 100% of the targets and a specific maximum level for each metric. The maximum incentive is only payable if it is determined that the targets set at the beginning of the financial year have been achieved and a level of overachievement has been reached, if applicable to the target. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>In order to calculate the amount of the Annual Variable Remuneration, the level of achievement and weighting of each of the individual and/or global targets are considered and the internal rules and procedures are applied for assessing the targets set by other companies for their executives. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duties of the Red Eléctrica Group and provides information about the individual and consolidated audited economic performance of the Red Eléctrica Group.</p> <p>The Annual Variable Remuneration is paid by means of a combination of cash and Company shares. The number of shares will be equivalent to at least 25% of the Annual Variable Remuneration. The Chief Executive Officer undertakes a commitment with the Company, while he holds such position, to keep the shares received, net of applicable taxes, for at least five (5) years. If the General Shareholders' Meeting does not approve granting the Chief Executive Officer shares as remuneration or determines a maximum amount lower than that specified, an amount equivalent to the remuneration that cannot be paid in shares will be paid in cash.</p>
<p><b>Multi-year Variable Remuneration</b></p> <p><i>Purpose: To reward the attainment of the long-term strategic priorities of the Red Eléctrica Group, the sustainability of the Red Eléctrica Group's performance and the sustainable value creation for the shareholders.</i></p>	<p><b>Annualised Target</b> Up to 50% of the annual Fixed Remuneration for each year in the period for assessing the targets in the Plan.</p> <p><b>Annualised Maximum</b> 110% of the Target Incentive (55% of the Annual Fixed Remuneration for each year in the performance period).</p>	<p>The economic-financial, business and operational targets included in the Red Eléctrica Group's Strategic Plan, value creation targets for the shareholders and non-financial targets linked to the multi-year Sustainability Plans of the Red Eléctrica Group (for example, promoting Connectivity, Innovation and Technology, Efficiency, People, Sustainability).</p> <p>Some of the metrics can be assessed on a relative basis by comparison of a peer group of competing companies.</p>	<p>The incentive may be paid in cash and/or shares, providing the targets set for such purpose are achieved.</p> <p>The performance period for the targets will be, at least, three (3) years.</p> <p>The performance scale, set at the beginning of the scheme, includes a minimum threshold below which the incentive is not payable, a target amount in the case 100% of the pre-determined targets are achieved and a maximum level if the targets have been exceeded. Intermediate levels will be calculated by linear interpolation. In any case, it is determined that the average weighted achievement of all the targets must be at least 70%, otherwise no right whatsoever will be granted to receive the incentive, regardless of the individual achievement of each target.</p> <p>The Appointments and Remuneration Committee monitors the targets on an annual basis and, once the Plan has terminated, the level of achievement will be calculated. For this assessment duty, the Committee is supported by the Economic and Financial Corporate Management that is responsible for the management control duty of the Red Eléctrica Group and provides information about the individual and consolidated audited economic performance of the Red Eléctrica Group. The Committee also considers any related risk both for determining the targets and for assessing their achievement.</p> <p>When determining the level of achievement of the targets, the positive or negative economic effects related to extraordinary events that could imply distortions in the results of the assessment, are eliminated.</p> <p>Once the performance period has finalised, cliff or graded vesting, over a period of more than one year, may be considered.</p> <p>The shares derived from the plan, net of applicable taxes, if any, can be fully or partially subject to a compulsory holding period.</p>

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

### **3.2. Other remuneration components of the Chief Executive Officer**

The Chief Executive Officer's Remuneration Policy includes the Company granting loans, advance payments and guarantees in line with the policy for the Group's executives.

The Remuneration Policy of the Chief Executive Officer also contemplates the participation in the remuneration systems that imply the delivery of the Company's shares or referenced to their value, with the prior express authorisation of the General Shareholders' Meeting and within the limits and conditions stipulated by the laws in force at any time.

In addition, the Chief Executive Officer will receive the remuneration corresponding thereto for the supervisory duties as a member of the Board of Directors, as described in Table 4 of this Remuneration Policy, for the items of "Fixed Remuneration" and "Remuneration for attending the Board of Directors' Meetings".

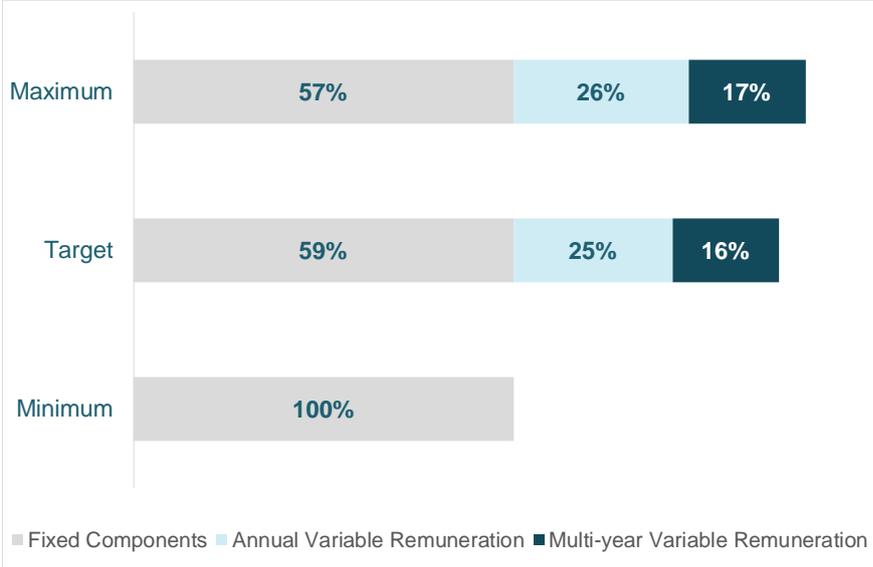
### **3.3. Remuneration mix of the Chief Executive Officer**

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

If the targets are exceeded, the weight of the short- and long-term variable remuneration will not exceed 50% of the total remuneration (considering that, for this purpose, this means the sum of the Annual Fixed Remuneration, the Long-Term Savings Scheme, Social Benefits, Remuneration of the Board, Annual Variable Remuneration and annualised Multi-year Variable Remuneration, excluding any potential fluctuation in the share price).

The following graph shows the possible remuneration scenarios (minimum, target and maximum) according to the following hypothesis:

<b>Fixed Components</b>	All the scenarios	Including the Annual Fixed Remuneration (the amount of €350,000 in 2021 is considered), Long-Term Saving Scheme, Social Benefits and Board's Remuneration.
<b>Annual Variable Remuneration</b> (excluding any potential fluctuation in the share price)	Minimum	No Annual Variable Remuneration is paid.
	Target	75% of the Annual Fixed Remuneration. It is attained if 100% of the pre-determined targets are achieved.
	Maximum	110% of the target. It is attained if the maximum of the pre-determined targets is exceeded.
<b>Multi-year Variable Remuneration</b> (excluding any potential fluctuation in the share price)	Minimum	No Multi-year Variable Remuneration is paid.
	Target	50% of the Annual Fixed Remuneration for each year in the target performance period of the Plan.
	Maximum	110% of the target. It is attained if the maximum of the pre-determined targets is exceeded.



The weight of the shares would amount to 10% of the total remuneration in the target scenario and 11% in the maximum scenario (equivalent to 25% of the variable remuneration).

### 3.4. Ex-post control of the variable remuneration (Chief Executive Officer)

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

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

**3.5. Contractual terms and conditions for the Chief Executive Officer**

The contract regulating the duties and commitments of the Chief Executive Officer is of a commercial nature and includes the clauses that in practice are usually contained in these kinds of contracts. The Chief Executive Officer’s contract will be updated, if needed, to include any new aspects related to this new remuneration policy.

Both tables below describe, as a summary, the main clauses of the aforementioned Chief Executive Officer’s contract:

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

	Dismissal decided by the Company	Resignation by the Chief Executive Officer
<b>Prior notice</b>	There is no prior notice period.	Agreed prior notice of 2 months. If the prior notice term is not fulfilled, the Chief Executive Officer must indemnify the Company with the amount of all the corresponding remuneration for the time remaining to complete such term.
<b>Severance Pay</b>	Termination of the contractual relationship. The severance pay will be equivalent to one year of remuneration, which will include the fixed remuneration plus the amount corresponding to the variable remuneration, calculated according to a 100% achievement of the targets. The severance pay will not be applicable if the termination is due to misconduct or serious negligence by the Chief Executive Officer when performing his duties causing damages to the Company.	Termination of the contractual relationship. If the director decides to terminate the relationship with the Company due to serious and culpable breach of contract by the latter or a significant change in the duties not due to a reason caused by the Chief Executive Officer, the latter will be entitled to receive the same severance pay specified for cases of dismissal by the Company In a scenario of change of control, the Chief Executive Officer will be offered the option, within 2 months, to resign from the position, automatically terminating his contract and receiving the severance pay specified in cases of dismissal by the Company.

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

	Functioning
<b>Confidentiality</b>	The Board of Directors' Regulations (Article 31) state that none of the directors may disclose the information, data, reports or background that he/she has access to when performing their duties, even when they have left the company, except in the cases such disclosure is allowed or required by law.
<b>Non-competition</b>	The executive director's contract includes an obligation not to compete with the Company for two (2) years after he is no longer in the position, without this entitling him to any indemnification as a post-contractual non-compete obligation, given that this is presumed as covered by his Fixed Remuneration. In his position as director of Red Eléctrica, the Chief Executive Officer must not compete with the Company in the terms in which such obligation is regulated for the Company's directors by law and the Board of Directors' Regulations (Article 32).
<b>Limitation of posts and exclusivity</b>	A full-time working system is determined and he may not render other services of any kind to other enterprises, whether they are in competition or not with the company, while he has a relationship with Red Eléctrica, unless expressly authorised by the Board of Directors. The Board of Directors' Regulations (Article 7.2.a) stipulate that the Chief Executive Officer may only hold office as a director on one (1) Board of Directors of another company (unless Red Eléctrica holds a stake therein).

#### **4. Remuneration Policy for the Directors in their positions as members of the Board of Directors<sup>(\*)</sup> (“in their positions as such”, according to the Spanish Capital Companies’ Act for their non-executive duties)**

*(\*) This is also applicable to the Chief Executive Officer as a member of the Board of Directors.*

The components of the Directors’ Remuneration Policy in their positions as such (for their non-executive duties) are provided below.

The Corporate Bylaws, in the text related to the directors’ remuneration, state that the maximum overall annual remuneration for the entire Board, i.e. in their positions as members of the Board (“in their positions as such” according to the Spanish Capital Companies’ Act), for all components, will be approved by the General Shareholders’ Meeting and will not exceed an amount equivalent to 1.5% of the Company’s net income, approved by the General Shareholders’ Meeting, and this cap will remain in force insofar as no change is approved.

The previous remuneration is, in all cases, the maximum, the Board being responsible for allotting its amount among the specified items and among the directors, in the manner, at the time and in the proportion that is determined bearing in mind the duties and responsibilities assigned to each director, whether they are members of the Board’s Committees and other objective circumstances considered relevant.

The directors’ remuneration “in their positions as such” will continue consisting of fixed remunerative items, bearing in mind the trends expressed by the investors and their advisors, pursuant to the best international corporate governance practices. The amount of each remuneration item applicable to directors “in their positions as such” has remained unchanged since 2014 and the specific remuneration component for the role of non-executive Chairman of the Board of Directors has remained unchanged since its approval at the Ordinary General Meeting of Shareholders in 2016, on the date of which the transitional period for the separation of the roles of Chairman of the Board of Directors and Chief Executive Officer of the Company

ended.

**Table 4. Remuneration Policy for the Directors in their positions as members of the Board of Directors**

	Purpose	Limits	Functioning
<b>Fixed remuneration</b>	To adequately remunerate the responsibility and time spent on the duties, without reaching levels that could hinder the director's independence.	<b>Maximum</b> €130,742 per annum per director.  Adjustments may be made on an annual basis within the maximum overall annual cap for all the members of the Board of Directors during the period the policy is in force.	It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.
<b>Remuneration for attending the Board of Directors' Meetings</b>	To remunerate the personal and effective attendance at the Board of Directors' Meetings.	<b>Maximum</b> The Board of Directors: €1,500 per director and per ordinary meeting.  Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors during the period the policy is in force.	The remuneration for attending the Board of Directors' meetings is paid for the personal attendance of each director at each of the ordinary meetings planned in each financial year according to the schedule approved by the Board of Directors, being able to delegate their duties to a proxy for duly justified reasons at a maximum of twice a year without forfeiting the right to receive the remuneration.  This amount will be paid within fifteen (15) days after the meetings have been held.  Attending extraordinary Board of Directors' Meetings, in person or by electronic means, shall not result in any remuneration being payable for this item.
<b>Non-Executive Chairwoman of the Board of Directors</b>	To adequately remunerate the time spent as required by the duties, the level of special responsibility and the skills and experience required to perform such duties.	<b>Maximum</b> €399,170 per annum.  Annual reviews may be conducted within the maximum overall annual cap for all the members of the Board of Directors during the period the policy is in force.	It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.
<b>Time spent on the Board of Directors' Committees</b>	To remunerate the time spent and attendance at the Board of Directors' Committee meetings.	<b>Maximum</b> - Member of each of the Committees: €27,900 per annum.  - Chairpersons of each of the Committees: €15,000 per annum for each one (in addition to their remuneration as members thereof).  Adjustments may be made on an annual basis within the maximum overall annual cap for all the members of the Board of Directors during the period the policy is in force.	The remuneration for the time spent and attending the Board of Directors' Committee meetings and the remuneration for the committees' chairpersons will be paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.  The previous amounts are calculated on an annual basis regardless of the number of Committee Meetings held in the financial year.
<b>Lead Independent Director</b>	To adequately remunerate the additional time required for the duties.	<b>Maximum</b> €15,000 per annum  Adjustments may be made on an annual basis within the maximum overall annual limit for all the members of the Board of Directors during the period the policy is in force.	It is paid by means of monthly instalments before the fifth (5 <sup>th</sup> ) day of the following month.

The directors will be paid or reimbursed for any reasonable and duly justified expenses incurred as a result of attending the meetings and other duties directly related to the performing the duties of their position, such as travel, accommodation, meals and any others they may incur.

The Remuneration Policy for the Directors, in their positions as members of the Board of Directors with non-executive duties, does not include granting loans, advance payments or guarantees being provided by the Company in their favour.

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

In line with what has been described above, the contract of the non-executive Chairwoman of the Board of Directors does not contemplate any additional remuneration and/or indemnity to that indicated in the table above.

## **5. Remuneration Policy applicable to new directors**

The aforementioned remuneration system described for the position of executive director (Chief Executive Officer) will be applicable to any director that could become a member of the Board of Directors during the valid term of this Remuneration Policy for performing executive duties.

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

Table 1 in this Remuneration Policy (see section 3.1) describes the components to be considered to design and determine the remuneration system for new executive directors. Depending on the remuneration level they had prior to joining the Company, the Committee may determine different remuneration to achieve an economic system deemed suitable.

Notwithstanding the foregoing, Red Eléctrica's Remuneration Policy does not contemplate a guaranteed sign-in bonus being granted.

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

- The regulations applicable from time to time to the remuneration of the members of the Board of Directors who perform executive duties.
- The provisions in the Corporate Bylaws, the Board of Directors' Regulations and the principles contained in the Corporate Governance Policy approved by the Company's Board of Directors at its meeting held on 24 November 2020 and posted on the corporate website.

- The principles referred to in section 1 of this Remuneration Policy applicable to the position of executive director.
- The market data and guidelines of institutional investors and proxy advisors, as well the information received from them in the engagement process conducted by the Red Eléctrica Group.

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

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

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

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

- The amounts for the components specified in section 3.1 above, which remunerate the executive duties performed by the position of executive director (Chief Executive Officer).
- An amount equivalent to 1.5% of Company's net profits, approved by the General Shareholders' Meeting for all the directors, as members of the Board of Directors ("in their positions as such", according to the Spanish Capital Companies' Act, for their non-executive duties).

If the event of termination of the Chief Executive Officer, the amount he is entitled to be paid must be added to the aforementioned amounts, according to the provisions in his contract, according to the terms specified in the previous section 3.5.

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

## **7. Relation between the Remuneration Policy and the conditions of the employees of the Company and the Red Eléctrica Group**

The remuneration policy for the employees of the Company and Group was taken into account in order to determine the remuneration conditions for the position of Chief Executive Officer, as described in this Remuneration Policy.

In this respect, the Remuneration Policy of the Chief Executive Officer is aligned with that of the rest of the employees, both including the following principles:

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

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

#### **8. Coherence of the Remuneration Policy with the long-term strategy, interests and sustainability of the Company and the Red Eléctrica Group**

Regarding the executive director (Chief Executive Officer), the Remuneration Policy has the following features that guarantee coherence with the long-term strategy, interests and sustainability of the Company and the Group:

- The design of the remuneration scheme shows a balanced and efficient relation between the fixed and variable components. The proportion of the fixed remuneration for the position of Chief Executive Officer is considered sufficient and not excessive, enabling the proportions of variable remuneration as Chief Executive Officer to reach up to a maximum of approximately 50% of his total remuneration (Annual Fixed Remuneration + maximum Annual Variable Remuneration + maximum annualised Multi-year Variable Remuneration, excluding any potential fluctuation in the share price + Long-Term Savings Schemes + Social Benefits and other items).

- The variable components of the remuneration are sufficiently flexible to enable them to be modulated and, in a scenario in which the minimum level of targets linked to the variable remuneration are not achieved, the executive director would only receive the fixed remuneration.
- Regarding the metrics determined in the variable remuneration, the Annual Variable Remuneration is linked to achieving a combination of specific, pre-determined and quantifiable, quantitative and qualitative targets, aligned with the social interest and in accordance with the Red Eléctrica Group's Strategic Plan. These targets may include, *inter alia*, economic-financial, business, operational and/or value creation metrics, (for example, Net Profit, ROIC, Investments), as well as indicators linked to sustainability in their social, environmental and/or good corporate governance vectors (for example, Culture and People, projects to make progress in the Group's Sustainability Plan). The Multi-year Variable Remuneration is linked to the economic-financial, business and operational targets included in the Red Eléctrica Group's Strategic Plan, value creation targets for the shareholders and non-financial targets linked to the Red Eléctrica Group's Multi-year Sustainability Plans (for example, promoting Connectivity, Innovation and Technology, Efficiency, People, Sustainability).
- The Multi-year Variable Remuneration is encompassed in a multi-year framework to guarantee that the assessment process is based on the long-term results and the Company's underlying economic cycle is taken into account. This remuneration can be granted and paid in cash and/or shares so that the Chief Executive Officer's interests are in line with those of the shareholders.
- The shares provided within the scope of the Annual Variable Remuneration are subject to a holding period of five years.

In addition, the following measures ensure exposure to excessive risks is reduced and that it is adapted to the Company's long-term objectives, values and interests:

- There is no guaranteed variable remuneration for the position of Chief Executive Officer or senior executives.
- The Company's Appointments and Remuneration Committee is responsible for examining and analysing compliance with the Directors' and senior executives' remuneration policy that is approved by the Board. The Board's Regulation determines, among other duties of this Committee, proposing the remuneration policy for the Board of Directors and the senior executives to the Board and supervising observance of compliance with the approved remuneration policy applicable to the Company's Board of Directors, executive directors and senior executives. The professionals whose work could have a significant impact on the Company's risk profile are included in these groups.
- Similarly, the Company's Audit Committee takes part in the decision-making process related to the Annual and Multi-year Variable Remuneration of the executive director by means of verifying the economic-financial data that could be part of the targets determined in such remuneration, since this Committee is required, first of all, to previously verify the

audited economic performance of the Company and the Group that, if need be, are considered in order to calculate the relevant targets.

- Pursuant to the provisions included in the Directors' Remuneration Policy in force, the Appointments and Remuneration Committee is competent for proposing to the Board cancellation or reimbursement of the payment of the short- and long-term variable remuneration of the relevant beneficiary or beneficiaries or person or persons responsible due to unexpected circumstances arising that prove the variable remuneration has been accrued or paid based on inaccurate or erroneous information or data, or the corporate internal regulations or applicable legislation were infringed, as subsequently proven.
- In addition, the Appointments and Remuneration Committee will decide whether, due to exceptional situations of this kind, the termination of the contractual relationship with the relevant beneficiary or beneficiaries or responsible person or persons can be proposed to the Board of Directors.
- The Appointments and Remuneration Committee may also propose adjustments to the variable remuneration to the Board in exceptional situations due to internal or external factors. The details of these adjustments will be listed, if need be, in the relevant Annual Report on Remuneration of Directors.
- Regarding the measures required to avoid conflicts of interest by the directors, according to the provisions in the Spanish Capital Companies' Act, articles 30 (section 2.h), 31 (sections c y e), 32 and 35 (section 3) of the Regulation of the Board of Directors of Red Eléctrica includes a series of obligations based on due diligence and loyalty, the duty to avoid situations of conflict of interest and the duty to provide information.

The directors' remuneration schemes, in their positions as members of the Board of Directors (for their non-executive duties), do not include assessment components that incentivise taking excessive risks by the Company, since they are limits to the fixed remuneration due to belonging to and attending the meetings of the Board of Directors and its Committees.

## **9. The duties undertaken by the Appointments and Remuneration Committee**

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

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

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

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

### Reviewing the Remuneration Policy

- It regularly reviews the Board of Directors' Remuneration Policy, which includes the non-executive directors, –along with the position of Non-Executive Chairperson of the Board of Directors, and the position of executive director (Chief Executive Officer), making a comparison with benchmark companies in this review process, selecting peer groups of comparable companies and it keeps in permanent contact with its shareholders and the proxy advisors to verify the suitability and moderation of the remuneration of the company's non-executive directors and chief executive officer compared with the market.

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

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

#### **10. Valid term**

The Remuneration Policy will come into force on 1 January 2022 and shall remain in force in the years 2022, 2023 and 2024, notwithstanding the adaptations or updates that, if any, are made by the Board of Directors, pursuant to the provisions in the Policy and the amendments that may be approved by the General Shareholders' Meeting of Red Eléctrica from time to time.