



Auditors' Report on Red Eléctrica Financiaciones, S.A.U.

(Together with the annual accounts and directors' report of Red Eléctrica Financiaciones, S.A.U. for the year ended 31 December 2021)

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)



KPMG Auditores, S.L.
Pº. de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Red Eléctrica Financiaciones, S.A.U.:

Opinion

We have audited the annual accounts of Red Eléctrica Financiaciones, S.A.U. (the "Company"), which comprise the balance sheet at 31 December 2021, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Accounts section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Non-current and current investments in Group companies and associates:
Euros 3,251,100 thousand and Euros 451,354 thousand
See notes 4a), 4c), 5 and 6 to the annual accounts**

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As mentioned in notes 5 and 6 to the annual accounts, the Company has extended loans to Group companies, Euros 3,251,100 thousand of which are recognised in the balance sheet under non-current investments in Group companies and associates and Euros 451,354 thousand under current investments in Group companies and associates. As required by the applicable financial reporting framework, each year the Company assesses whether there are indications that these investments may be impaired, and if this is the case, calculates the recoverable amount of the investments.</p> <p>As mentioned in note 4c) to the accompanying annual accounts, as a result of this assessment, the Company has concluded that there are no indications of these investments being impaired.</p> <p>Due to the significance of the investments in Group companies, this has been considered a key audit matter.</p>	<p>Our audit procedures included performing substantive tests on movement in investments in Group companies and associates during the year; evaluating documentation supporting additions and disposals, which essentially reflect movements in loans to Group companies; and assessing the criteria used by the Directors and Group Management in determining whether there are indications that the investments may be impaired.</p> <p>We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>



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Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2021 and the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain



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will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Directors of the entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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From the matters communicated to the Joint Directors of Red Eléctrica Financiaciones, S.A.U., we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



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KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Ana Fernández Poderós
On the Spanish Official Register of Auditors ("ROAC") with No. 15547
22 February 2022



Red Eléctrica Financiaciones, S.A.U.

Annual Accounts

2021

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)



Red Eléctrica Financiaciones, S.A.U.
Balance Sheet at 31 December 2021

Thousands of Euros

	Note	31.12.2021	31.12.2020
Non-current assets		3,251,100	3,053,761
Non-current investments in Group companies and associates	5	3,251,100	3,053,761
Current assets		451,580	47,141
Current investments in Group companies and associates	6	451,354	46,926
Prepayments for current assets	7	167	145
Cash and cash equivalents		59	70
Cash		59	70
Total assets		3,702,680	3,100,902
Equity	8	15,493	12,963
Capital and reserves		15,493	12,963
Capital		60	60
Reserves		12,903	10,473
Profit for the year		2,530	2,430
Non-current liabilities		3,251,177	3,053,837
Non-current payables	9	3,251,177	3,053,837
Bonds and other marketable securities		3,251,177	3,053,837
Current liabilities		436,010	34,102
Current payables	10	434,957	33,153
Current payables to Group companies and associates	11	79	71
Trade and other payables	13	974	878
Payables to Group companies		-	11
Other payables		960	860
Public entities, other		14	7
Total equity and liabilities		3,702,680	3,100,902

Notes 1 to 24 form an integral part of the accompanying annual accounts.

Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frías Montejo

Tomás José Gallego Arjiz



Red Eléctrica Financiaciones, S.A.U. Income Statement. 2021

Thousands of Euros

	Note	2021	2020
Other operating expenses	16	(161)	(205)
External services		(158)	(202)
Taxes		(3)	(3)
Results from operating activities		(161)	(205)
Finance income	16	58,128	63,832
Marketable securities and other financial instruments		58,128	63,832
Group companies and associates		58,128	63,821
Other		-	11
Finance costs	16	(54,606)	(60,401)
Other		(54,606)	(60,401)
Net finance income		3,522	3,431
Profit before income tax		3,361	3,226
Income tax	15	(831)	(796)
Profit from continuing operations		2,530	2,430
Profit for the year		2,530	2,430

Notes 1 to 24 form an integral part of the accompanying annual accounts.

Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frías Montejo

Tomás José Gallego Arjiz



Red Eléctrica Financiaciones, S.A.U.
Statement of Total Changes in Equity at 31 December 2021

Thousands of Euros

	Subscribed capital	Reserves	Profit for the year	(Interim dividend)	Total equity
Balance at 31 December 2019	60	10,040	2,433	(2,000)	10,533
Total recognised income and expense	-	-	2,430	-	2,430
Transactions with shareholders or owners					
Distribution of dividends	-	-	-	-	-
Other changes in equity					
Distribution of prior year's profit	-	433	(2,433)	2,000	-
Balance at 31 December 2020	60	10,473	2,430	-	12,963
Total recognised income and expense	-	-	2,530	-	2,530
Transactions with shareholders or owners					
Distribution of dividends	-	-	-	-	-
Other changes in equity					
Distribution of prior year's profit	-	2,430	(2,430)	-	-
Balance at 31 December 2021	60	12,903	2,530	-	15,493

Notes 1 to 24 form an integral part of the accompanying annual accounts.

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Fernando Frías Montejo

Tomás José Gallego Arjiz



Red Eléctrica Financiaciones, S.A.U.
Statement of Recognised Income and Expense. 2021

Thousands of Euros

	2021	2020
Profit for the year	2,530	2,430
Income and expense recognised directly in equity	-	-
Amounts transferred to the income statement	-	-
Total recognised income and expense	2,530	2,430

Notes 1 to 24 form an integral part of the accompanying annual accounts.

Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frías Montejo

Tomás José Gallego Arjiz



Red Eléctrica Financiaciones, S.A.U.
Statement of Cash Flows. 2021

Thousands of Euros

	2021	2020
Cash flows from operating activities	2,192	2,507
Profit for the year before tax	3,361	3,226
Adjustments to profit	(3,522)	(3,431)
Finance income	(58,128)	(63,832)
Finance costs	54,606	60,401
Changes in operating assets and liabilities	74	(8)
Other current assets	(22)	(51)
Trade and other payables	96	43
Other cash flows from operating activities	2,279	2,720
Interest paid	(45,012)	(70,241)
Interest received	48,114	73,702
Income tax paid/received	(823)	(741)
Cash flows from (used in) investing activities	(591,753)	71,933
Payments for investments	(591,753)	(478,067)
Group companies and associates	(591,753)	(478,067)
Proceeds from sale of investments	-	550,000
Group companies and associates	-	550,000
Cash flows from/(used in) financing activities	589,550	(74,384)
Payments for financial liability instruments	(105,018)	(1,830,556)
Bonds and other marketable securities	(105,018)	(1,830,556)
Proceeds from financial liability instruments	694,568	1,756,172
Bonds and other marketable securities	694,568	1,756,172
Net increase/decrease in cash and cash equivalents	(11)	56
Cash and cash equivalents at beginning of year	70	14
Cash and cash equivalents at year end	59	70

Notes 1 to 24 form an integral part of the accompanying annual accounts.

Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frías Montejo

Tomás José Gallego Arjiz



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1 Company Activity

Red Eléctrica Financiaciones, S.A.U. (hereinafter the Company) was incorporated on 17 June 2009 and commenced operations during 2010. Its registered office is located in Alcobendas (Madrid).

The Company's sole statutory and principle activity is the issuance of ordinary or unsubordinated debt instruments, subordinated or any other type of debt instruments, and preference shares or other hybrid instruments guaranteed by other Red Eléctrica Group companies where applicable, as well as extending loans and credit facilities to Red Eléctrica Group companies. All of the foregoing are carried out in accordance with additional provision one of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions and the legislation that implements or replaces it. All activity is conducted in accordance with and as permitted by the prevailing legislation applicable to each type of instrument. The statutory activity shall be carried out in compliance with the requirements laid down in each case in the applicable legislation in force. The National Classification of Economic Activities (CNAE) code of the principal activity is 6499 - Other financial services, except insurance and pension funding.

2 Basis of Presentation of the Annual Accounts

a) True and fair view

The accompanying annual accounts were authorised for issue by the Company's joint directors on 21 February 2022 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2021, as well as the results of its operations, changes in equity and cash flows for the year then ended.

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand. The annual accounts have been prepared on the basis of the accounting records of the Company in accordance with prevailing legislation and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the amendments thereto contained in Royal Decree 1159/2010 and Royal Decree 1/2021, as well as the Spanish Accounting and Auditing Institute's Resolution of 10 February 2021.

The Company forms part of the Spanish Red Eléctrica Group, which prepares consolidated annual accounts as required by article 43.2 of the Spanish Code of Commerce. The Parent of the Red Eléctrica Group is Red Eléctrica Corporación, S.A. (REC) with registered office in Alcobendas (Madrid).

Mercantile legislation in force requires that certain disclosures be made in the annual accounts relating to contracts signed with the Company's sole shareholder (REC). These contracts are indicated in note 17.

The annual accounts for 2020 were approved by the sole shareholder, REC, on 8 June 2021. The annual accounts for 2021 are currently pending approval. However, the joint directors of the Company consider that these annual accounts will be approved with no changes.

b) Mandatory accounting principles

The Company has not omitted any mandatory accounting principle with a significant effect on the annual accounts.

c) Estimates and assumptions

The preparation of the annual accounts did not require Company management to make relevant judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2021 include comparative figures for the prior year, which formed part of the annual accounts for 2020.

All the accounting principles and measurement methods used to prepare these annual accounts are the same as those used in preparing the Company's annual accounts for 2020 except for the application with effect from 1



January 2021 of Royal Decree 1/2021 of 12 January 2021, amending the Spanish General Chart of Accounts, and the Spanish Accounting and Auditing Institute's Resolution of 10 February 2021, setting out the standards with regard to recognition, measurement and the preparation of annual accounts for the purpose of recognising revenue from the delivery of goods and rendering of services.

The Company has applied the new standards for the first time with effect from 1 January 2021. In accordance with transitional provision two of Royal Decree 1/2021, the Company has applied the new criteria for the classification and measurement of financial assets and financial liabilities retrospectively, in compliance with Recognition and Measurement Standard 22 "Changes in accounting criteria, errors and accounting estimates" of the Spanish General Chart of Accounts.

The main changes in accounting criteria in the Company's annual accounts are as follows:

Categories of financial assets and financial liabilities

Under Royal Decree 1/2021 the previous classifications of financial assets have been replaced, such that these assets are now classified according to the business model in which they are held and their contractual cash flow characteristics. Thus, the previous categories of held to maturity, loans and receivables and available for sale have been eliminated.

To a large extent the new standard maintains the previous requirements for the classification and measurement of financial liabilities, only changing the names of the categories.

The Company has applied the classification requirements retrospectively, including its financial assets in the following category:

Category	
At amortised cost	Financial assets: - that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and - whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Thus, amounts that were previously included under "Loans and receivables" are now classified in the equivalent new category of "Financial assets at amortised cost". Except for the changes in the names of the categories, Royal Decree 1/2021 has had no impact on the Company's financial assets.

The Company's financial liabilities have not been affected by any change with respect to the contents of the annual accounts for 2020, except for "Debts and payables" being renamed as "Financial liabilities at amortised cost", with the previously applied measurement criteria remaining unaffected.

e) Considerations regarding COVID-19

The emergence of the coronavirus disease (COVID-19) in 2020 and its rapid spread to a number of countries across the globe led the World Health Organization (WHO) to declare the viral outbreak a pandemic.

In 2021, the Company has continued to act in coordination with the other Group companies, and has followed the guidelines that have been adapted to the recommendations issued by the various pertinent authorities, prioritising safety.

From a financial and economic perspective, throughout this period the Group's financial position has been robust, enabling it to confront these trying times and support the Group companies through measures aimed at bolstering its liquidity.

The situation brought on by COVID-19 has not had a significant impact on the Company's activity. Based on the most up-to-date estimates and on the cash position and availability of financing, the directors consider that the situation caused by COVID-19 does not compromise the application of the going concern principle.



3 Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2021, prepared by the directors and pending approval by the sole shareholder at the general meeting, is as follows:

Thousands of Euros

Profit for the year	2,530
Total	2,530

Distribution:

Voluntary reserves	2,530
Total	2,530

4 Significant Accounting Policies

The main accounting principles used in preparing the accompanying annual accounts are as follows:

a) Financial assets

The Company classifies its financial assets according to their measurement category, which is determined on the basis of the business model and the contractual cash flow characteristics, and reclassifies the financial assets when, and only when, it changes its business model for managing these assets.

Acquisitions and disposals of investments are accounted for at the date on which the Company undertakes to purchase or sell the asset. The asset is classified upon acquisition in the following categories:

- **Financial assets at amortised cost:** generally loans and receivables are included in this category. These are non-derivative financial assets that are held to collect contractual cash flows and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. They are included under current assets unless they mature more than 12 months after the reporting date, in which case they are classified as non-current assets.

They are initially recognised at fair value and subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument to the carrying amount of that financial instrument based on its contractual terms. Interest income from these financial assets is included in finance income, any gain or loss that arises upon derecognition is recognised directly in the Company's profit or loss and impairment losses are presented as a separate item in the income statement for the year.

The Company derecognises a financial asset when the contractual rights to receive cash flows from the asset expire or are transferred in a transaction in which it transfers substantially all the risks and rewards of ownership of the financial asset or it neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the transferred assets.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



c) Impairment

At the reporting date the Company recognises any necessary impairment when there is objective evidence that a financial asset may be impaired as a result of one or more events that occurred after initial recognition and have led to a reduction or delay in estimated future cash flows that could be due to debtor insolvency.

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed up to the limit of the amortised cost of the assets had the impairment loss not been recognised.

The Company has not identified any indications of impairment of loans extended to Group companies in its analysis.

d) Capital and reserves

Share capital is represented by ordinary shares.

Start-up expenses and share capital increases are recognised in reserves under equity, rather than in profit or loss.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, as approved by the directors. Supplementary dividends are not deducted from equity until approved by the sole shareholder.

e) Transactions in currency other than the Euro

Transactions in currency other than the Euro are translated by applying the exchange rate in force at the transaction date. Exchange gains and losses arising during the year due to balances being translated at the exchange rate at the transaction date rather than the exchange rate prevailing on the date of collection or payment are recognised as income or expenses in the income statement.

f) Financial liabilities

The Company has classified its financial liabilities in the following category:

- **Financial liabilities at amortised cost:** generally trade payables are included in this category, which are financial liabilities arising on the purchase of goods and services in the ordinary course of business with deferred payment. It also includes non-trade payables, which are financial liabilities other than derivative instruments, which are non-commercial in nature and derive from loans or credit received by the Company. Payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount. Financial debt is classified under current liabilities unless the debt falls due more than 12 months after the reporting date, in which case it is classified under non-current liabilities.

Financial debt is initially measured at fair value which, in the absence of evidence to the contrary, is the transaction price and equates to the fair value of the consideration received, net of the costs incurred in the transaction. Such debt is subsequently measured at amortised cost, using the effective interest method.

The Company derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

Loans, bonds and similar commitments are jointly and severally guaranteed by REE and REC (see notes 9 and 10).

g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether that price is directly observable or estimated using another valuation technique.



The fair value measurements of financial assets and financial liabilities are classified on the basis of a hierarchy that reflects the relevance of the inputs used in measuring the fair value. The hierarchy comprises three levels:

- Level 1: measurement is based on quoted prices for identical instruments in active markets.
- Level 2: measurement is based on inputs that are observable for the asset or liability.
- Level 3: measurement is based on inputs derived from unobservable market data.

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

h) Income and expenses

Revenue from contracts with customers should be recognised based on fulfilment of the performance obligations with the customers.

Interest income and expenses are recognised using the effective interest method.

i) Taxation

The income tax expense or tax income for the year comprises current tax and deferred tax. Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised in the same year, directly in equity, or from a business combination.

Current tax is the estimated tax payable for the year using the enacted tax rates applicable to the current year and to any adjustment to tax payable in respect of previous years.

Tax credits and deductions arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised.

Deferred taxes and the income tax expense are calculated and recognised using the liability method, based on temporary differences arising between the balances recognised in the financial information and those used for tax purposes. This method entails calculating deferred tax assets and liabilities on the basis of the differences between the carrying amount of the assets and liabilities and their tax base, applying the tax rates that are objectively expected to apply to the years when the assets are realised and the liabilities settled.

Deferred tax assets are recognised provided that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised.

The amount of the debt (credit) with the Parent (REC) is recognised with a credit (debit) to payables to (receivables from) Group companies and associates.

j) Insurance

The Company has taken out various insurance policies to cover the risks to which it is exposed through its activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Payouts from insurance companies in respect of accidents or third-party claims are recognised in the income statement applying the matching of income and expenses principle.

k) Transactions between Group companies

Transactions between Group companies are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

5 Non-current Investments in Group Companies and Associates

Non-current investments in Group companies and associates reflect the loans arranged with Red Eléctrica de España, S.A.U. (hereinafter REE) since 2013 for a nominal amount of Euros 3,290.0 million at the 2021 year end (Euros



3,090.0 million at the 2020 year end). These loans were arranged at the same time as the bonds issued by the Company in the Euromarket, and with similar conditions (see note 9).

The loans mature from 2022 to 2033 and have a fair value of Euros 3,782,122 thousand at 31 December 2021 (Euros 3,263,744 thousand at 31 December 2020). The average interest rate on this investment in Group companies in the year was 1.64% (1.94% in 2020). This debt is classified within Level 2 of the fair value hierarchy.

6 Current Investments in Group Companies and Associates

Current investments in Group companies and associates at 31 December 2021 and 2020 reflect those loans mentioned in the preceding note which fall due in the short term (see note 5). At 31 December 2021, the nominal amount of these loans falling due in 2022 is Euros 400 million (there were no loans with current maturities in 2020).

Furthermore, the agreement entered into with REE for an amount of Euros 1,000 million remains in force. This loan was arranged at the same time as the promissory notes issued by the Company in the Euromarket, and with similar conditions (see note 10). No amounts had been drawn down on this loan at 31 December 2021 or at 31 December 2020. The average interest rate on this investment in 2021 was a negative 0.31% (a negative 0.15% in 2020).

This item also includes a current credit facility arranged with REE for Euros 25 million, of which Euros 13,941 thousand had been drawn down at 31 December 2021 (Euros 11,685 thousand in 2020), and on which the average interest rate for the period was 0.41% (0.41% in 2020). Furthermore, this item reflects the accrued interest receivable on the loans arranged with REE.

There is no significant difference between the fair value and the carrying amount of this facility with Group companies at 31 December 2021 and 2020.

7 Prepayments for Current Assets

At 31 December 2021 and 2020 prepayments for current assets include advance payments for the insurance policies taken out by the Company.

8 Equity

a) Capital risk management

The Group's capital risk management is aimed at safeguarding the capacity of the Group companies to continue operating as a going concern, so as to provide shareholder remuneration while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Company can adjust the amount of dividends payable to the sole shareholder, reimburse capital or issue shares.

b) Capital and reserves

• Share capital

At 31 December 2021 and 2020 the Company's share capital is represented by 602 bearer shares with a par value of Euros 100 each, subscribed and fully paid by the sole shareholder REC, and carrying the same voting and profit-sharing rights.

• Reserves

This item comprises the following:

○ Legal reserve

Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to the sole shareholder and may only be used to offset losses if no other reserves are available. Under certain circumstances, it may



also be used to increase share capital. At 31 December 2021 and 2020 the legal reserve has been appropriated in full and is equivalent to 20% of share capital (Euros 12 thousand).

- **Other reserves**

Other reserves comprise the Company's voluntary reserves, which amount to Euros 12,891 thousand at 31 December 2021 (Euros 10,461 thousand at 31 December 2020). This reserve is freely distributable.

- **Profit for the year**

Profit for the year totals Euros 2,530 thousand (Euros 2,430 thousand in 2020).

- **Interim dividends and proposed distribution of dividends by the Company**

No interim dividend was approved at 31 December 2021 or 2020.

- **Own shares**

The Company does not hold, nor has it held, own shares or shares in the Parent.

9 Non-current Payables

Non-current payables reflect the bonds issued by the Company in the Euromarket since 2013, which amounted to Euros 3,690.0 million at 31 December 2021 (Euros 3,090.0 million at 31 December 2020). These bonds have been jointly and severally guaranteed by REE and REC and were issued as part of the Guaranteed Euro Medium Term Note Programme (EMTN Programme). The bonds mature from 2022 to 2033 (from 2022 to 2029 at 31 December 2020).

A bond issue amounting to Euros 600 million was carried out in 2021, with the bonds maturing in 2033. In 2020 a bond issue amounting to Euros 700 million was carried out, with the bonds maturing in 2028. Both of these bond issues were carried out under the Green Finance Framework. This Framework, under which financial instruments are issued to finance and/or refinance projects to promote environmental progress, is aligned with the 2018 Green Bond Principles (GBP) of the International Capital Market Association (ICMA), and with the Green Loan Principles (GLP) of the Loan Market Association (LMA).

The fair value of these payables is Euros 3,763,033 thousand at 31 December 2021 (Euros 3,248,138 thousand at 31 December 2020). The average interest rate accrued on these payables in the year was 1.54% (1.84% in 2020). This debt is classified within Level 2 of the fair value hierarchy.

10 Current Payables

Current payables at 31 December 2021 and 2020 comprise the bonds referred to in the preceding note that mature in the short term (see note 9). At 31 December 2021, the nominal amount of these bond issues maturing in 2022 is Euros 400 million (there were no bond issues with current maturities in 2020).

In 2021 and 2020, the Company issued promissory notes in the Euromarket as part of the Euro Commercial Paper Programme (ECP Programme), maturing in 2022, which were jointly and severally guaranteed by REE and REC. No amounts had been drawn down at 31 December 2021 or at 31 December 2020. The issue and redemption of these promissory notes in 2021 totalled a nominal amount of Euros 105 million. Promissory notes issued and redeemed in 2020 amounted to Euros 1,065 million and Euros 1,280 million, respectively. The average interest rate in 2021 was a negative 0.41% (a negative 0.25% in 2020). This debt is classified within Level 2 of the fair value hierarchy.

Current payables at 31 December 2021 and 2020 also include the accrued interest payable on these debt items.

11 Current Payables to Group Companies and Associates

At 31 December 2021 and 2020 payables to Group companies and associates reflect income tax payable to the sole shareholder REC, the parent of the tax group (see note 15).



12 Analysis of Financial Instruments

a) Analysis by category

At 31 December 2021 and 2020 the carrying amounts of each category of financial instruments are as follows:

- Financial assets

Thousands of Euros	Financial instruments by category	
	31.12.2021	31.12.2020
	Financial assets at amortised cost	Financial assets at amortised cost
Loans to Group companies and associates	3,251,100	3,053,761
Non-current financial assets	3,251,100	3,053,761
Loans to Group companies and associates	451,354	46,926
Current financial assets	451,354	46,926
Total	3,702,454	3,100,687

- Financial liabilities

Thousands of Euros	Financial instruments by category	
	31.12.2021	31.12.2020
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Bonds and other marketable securities	3,251,177	3,053,837
Non-current financial liabilities	3,251,177	3,053,837
Bonds and other marketable securities	434,957	33,153
Payables to Group companies and associates	79	82
Trade and other payables	960	860
Current financial liabilities	435,996	34,095
Total	3,687,173	3,087,932

b) Analysis by maturity

- Financial assets

Thousands of Euros	2021							
	Maturity of financial assets						Valuation adjustments	Total
	2022	2023	2024	2025	Thereafter			
Loans to Group companies and associates	451,354	300,000	-	500,000	2,490,000	(38,900)	3,702,454	
Total	451,354	300,000	-	500,000	2,490,000	(38,900)	3,702,454	



Thousands of Euros	2020						
	Maturity of financial assets						
	2021	2022	2023	2024	Thereafter	Valuation adjustments	Total
Loans to Group companies and associates	46,926	400,000	300,000	-	2,390,000	(36,239)	3,100,687
Total	46,926	400,000	300,000	-	2,390,000	(36,239)	3,100,687

- Financial liabilities

Thousands of Euros	2021						
	Maturity of financial liabilities						
	2022	2023	2024	2025	Thereafter	Valuation adjustments	Total
Bonds and other marketable securities	434,957	300,000	-	500,000	2,490,000	(38,823)	3,686,134
Payables to Group companies and associates	79	-	-	-	-	-	79
Trade and other payables	960	-	-	-	-	-	960
Total	435,996	300,000	-	500,000	2,490,000	(38,823)	3,687,173

Thousands of Euros	2020						
	Maturity of financial liabilities						
	2021	2022	2023	2024	Thereafter	Valuation adjustments	Total
Bonds and other marketable securities	33,153	400,000	300,000	-	2,390,000	(36,163)	3,086,990
Payables to Group companies and associates	82	-	-	-	-	-	82
Trade and other payables	860	-	-	-	-	-	860
Total	34,095	400,000	300,000	-	2,390,000	(36,163)	3,087,932

13 Trade and Other Payables

At 31 December 2021 and 2020, this item reflects amounts pending invoicing by or balances payable to various suppliers, essentially payables relating to the bonds and promissory notes issued by the Company. These payables amount to Euros 974 thousand at 31 December 2021 (Euros 878 thousand at 31 December 2020).

Thousands of Euros	31 December 2021	31 December 2020
Payables to Group companies	-	11
Other payables	960	860
Public entities, other	14	7
Total	974	878

There is no significant difference between the fair value and the carrying amount of trade and other payables at 31 December 2021 and 2020.



14 Average Supplier Payment Period. "Reporting Requirement". Third Additional Provision of Law 15/2010 of 5 July 2010

The Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016, concerning the information that must be disclosed in the notes to the annual accounts in relation to the average supplier payment period in commercial transactions, clarifies and systematises the information that trading companies must include in the notes to individual and consolidated annual accounts, in compliance with the reporting requirement of the third additional provision of Law 15/2010 of 5 July 2010, which amends Law 3/2004 of 29 December 2004, establishing measures to combat late payments in commercial transactions.

Pursuant to the resolution, the information on the average supplier payment period for 2021 and 2020 is as follows

Days	2021	2020
Average supplier payment period	30	46
Transactions paid ratio	30	46
Transactions payable ratio	-	-

Thousands of Euros	2021	2020
Total payments made	1,160	1,471
Total payments outstanding	-	-

15 Taxation

Since its incorporation in 2009 the Company has filed consolidated tax returns as one of the subsidiaries of the tax group 57/02. The parent of the tax group is REC.

a) Reconciliation of accounting profit and taxable income

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit differs from the tax base. A reconciliation of accounting profit for 2021 and 2020 with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2021	2020
Accounting profit for the year before tax	3,361	3,226
Permanent differences	(38)	(43)
Taxable accounting income	3,323	3,183
Temporary differences:		
Originating in current year	-	-
Reversals during the year	-	-
Taxable income	3,323	3,183

b) Effective income tax rate and reconciliation of accounting profit with the income tax expense



The income tax expense for each year is calculated as follows:

Thousands of Euros	2021	2020
Accounting profit for the year before tax	3,361	3,226
Permanent differences	(38)	(43)
Taxable accounting income	3,323	3,183
Tax rate	25%	25%
Tax at the current rate	831	796
Income tax expense	831	796
Effective income tax rate	24.72%	24.67%
Current income tax	831	796
Deferred income tax	-	-
Income tax expense	831	796

The effective rate of income tax is influenced by permanent differences. Permanent differences in 2021 and 2020 reflect the capitalisation reserve adjustment, as a result of the increase in equity, in accordance with article 25 of Income Tax Law 27/2014 of 27 November 2014.

As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2021 will be held in REC, as head of the tax group.

c) Years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period has elapsed.

The Company has open to inspection by the taxation authorities all applicable taxes since 2018, except income tax, which is open to inspection since 2017.

Due to the different possible interpretations of tax legislation, additional tax liabilities could arise as a result of future inspections, which cannot be objectively quantified at present. Nevertheless, the Company's directors do not expect that any additional liabilities that could arise in the event of inspection would significantly affect the Company's future results.

16 Income and Expenses

At 31 December 2021 and 2020 the expenses recognised in the income statement essentially reflect interest and costs related to the bonds issued as part of the Guaranteed Euro Medium Term Note Programme (EMTN Programme) and the promissory notes issued as part of the Euro Commercial Paper Programme (ECP Programme) (see notes 9 and 10).

Income basically comprises the interest earned on the loans extended to REE (see notes 5 and 6).

17 Balances and Transactions with Group Companies, Associates and Related Parties

Balances and transactions with Group companies and associates

All transactions with Group companies and associates have been carried out at market prices.

Details of receivables from and payables to Group companies and associates in 2021 and 2020 are as follows:



Thousands of Euros	2021			2020		
	Receivables	Payables	Debts	Receivables	Payables	Debts
Red Eléctrica de España, S.A.U. (REE)	3,702,454	-	-	3,100,687	-	-
Red Eléctrica Corporación, S.A. (REC)	-	-	79	-	11	71
Total Group companies	3,702,454	-	79	3,100,687	11	71

At 31 December 2021 and 2020 receivables from REE include the loans arranged with this company (see notes 5 and 6).

Details of transactions with Group companies and associates during 2021 and 2020 are as follows:

Thousands of Euros	2021		2020	
	Finance income	Operating expenses	Finance income	Operating expenses
Red Eléctrica de España, S.A.U. (REE)	58,128	-	63,821	89
Red Eléctrica Corporación, S.A. (REC)	-	56	-	9
Total Group companies	58,128	56	63,821	98

Finance income receivable from REE at 31 December 2021 and 2020 reflects the interest on the loans arranged with this company.

Operating expenses in 2021 include the management support services provided to the Company by REC. In 2020, management support services were rendered by REE until October 2020 and by REC thereafter.

The contract arranged between the Company and its sole shareholder (REC) at 31 December 2021 is for the provision of management support services for the Company's activities, in exchange for fixed consideration that is updated annually in line with the CPI.

This contract between the Company and REC has been documented and recorded in the register of contracts between the Company and its sole shareholder, as required by article 16 of the Spanish Companies Act.

Related party balances and transactions

In 2021 and 2020 no balances or transactions with related parties were identified.

18 Directors' Remuneration

During 2021 and 2020 the directors did not accrue any salary, allowances or remuneration at the Company.

At 31 December 2021 and 2020 no loans or advances had been granted to the directors, nor had the Company extended any guarantees on their behalf.

During the year the directors and their related parties did not engage in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

The directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

At 31 December 2021 and 2020 the Red Eléctrica Group has taken out public liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as directors of the Company. These premiums are calculated based on the nature of the Company's activity and its financial indicators.

The Company is managed by its directors. Corporate services are provided by the Group's parent. At 31 December 2021 and 2020 the Company has no senior management personnel.



19 Segment Reporting

The Company does not consider it relevant to disclose information on the financial statements by category of activity and geographical market, as its sole activity has been the issuance of debt instruments and the extending of loans and credit facilities to Red Eléctrica Group companies.

20 Guarantees and Other Commitments with Third Parties and Other Contingent Liabilities

At 31 December 2021 and 2020 the Company has no commitments with third parties and no contingent liabilities other than those disclosed in these annual accounts.

21 Environmental Information

At 31 December 2021 and 2020 the Company has no assets for the protection and improvement of the environment, nor did it incur any environmental costs during the year.

The Company is not involved in any litigation relating to environmental protection or improvement. No environment-related grants were received in the year.

22 Application of International Accounting Standards

Article 107 of Law 62/2003 of 30 December 2003, on tax, administrative and social measures, introduces provision sixteen to article 525 of the Spanish Companies Act, stipulating that companies which have issued securities that are admitted to trading on a regulated market of any European Union member state, and which only prepare individual annual accounts, in accordance with prevailing legislation, are to disclose the main changes in equity and profit or loss that would have arisen had International Financial Reporting Standards as adopted by European Union regulations (IFRS-EU) been applied. At 31 December 2021 and 2020 there are no differences in equity and profit or loss with respect to the balances that would be presented under IFRS.

23 Other Information

KPMG Auditores, S.L., the auditor of the Company's annual accounts, accrued the following fees and expenses for professional services during the years ended 31 December 2021 and 2020:

Thousands of Euros	2021	2020
Audit services	42	42
Other audit-related services	33	33
Total	75	75

The amounts detailed in the above table include the total fees for services rendered in 2021 and 2020, irrespective of the date of invoice.

24 Events after 31 December 2021

At the date these annual accounts were authorised for issue no significant events have occurred after the reporting period.



Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frías Montejo

Tomás José Gallego Arjiz



Red Eléctrica Group

www.ree.es



Red Eléctrica Financiaciones, S.A.U.

Directors' Report

2021

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)



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The various sections of this directors' report contain certain prospective information that reflects projections and estimates based on underlying assumptions, statements referring to plans, objectives and expectations associated with future transactions, investments, synergies, products and services, as well as statements concerning results or future dividends, or estimates calculated by the directors and based on assumptions that those directors consider reasonable.

While the Company considers the expectations reflected in those statements to be reasonable, investors and holders of shares in the Company are advised that the information and statements containing future projections are subject to risks and uncertainties, many of which are difficult to foresee and generally beyond the Company's control. As a result of such risks, actual results and developments could differ substantially from those expressed, implied or forecast in the information and statements containing future projections.

The affirmations and statements containing future projections do not provide any guarantee as to future results and have not been reviewed by auditors outside the Company or by other independent third parties. It is recommended that no decisions be made on the basis of the affirmations and statements containing future projections that refer exclusively to the information available at the date of this report. All of the affirmations and statements containing future projections that are reflected in this report are expressly subject to the warnings given. The affirmations and statements containing future projections included in this document are based on the information available at the date of this directors' report. Except as required by applicable legislation, the Company is not obligated to publicly update its statements or review the information containing future projections, even where new data is published or new events arise.

In order to facilitate comprehension of the information provided in this document, certain alternative performance measures have been included. A definition of these is available at <https://www.ree.es/es/accionistas-e-inversores/informacion-financiera/medidas-alternativas-rendimiento>



1 Business performance. Most significant events

Red Eléctrica Financiaciones, S.A.U. (hereinafter REF) was incorporated on 17 June 2009 and its registered office is located in Alcobendas (Madrid).

The Company's statutory activity is the issuance of ordinary or unsubordinated debt instruments, subordinated or any other type of debt instruments, and preference shares or other hybrid instruments guaranteed by other Red Eléctrica Group companies where applicable, as well as extending loans and credit facilities to Red Eléctrica Group companies. All of the foregoing are carried out in accordance with additional provision one of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions and the legislation that implements or replaces it. All activity is conducted in accordance with and as permitted by the prevailing legislation applicable to each type of instrument. The statutory activity shall be carried out in compliance with the requirements laid down in each case in the applicable legislation in force. The National Classification of Economic Activities (CNAE) code of the principal activity is 6499 – Other financial services, except insurance and pension funding.

In the course of its activity in 2021, REF carried out a bond issue in the Euromarket for an amount of Euros 600 million. These bonds have been jointly and severally guaranteed by Red Eléctrica de España, S.A.U. (hereinafter REE) and REC, and were issued as part of the Euro Medium Term Note Programme (EMTN Programme) under the Green Finance Framework. This Framework, which will be used to issue financial instruments to finance and/or refinance projects to promote environmental progress, is aligned with the 2018 Green Bond Principles (GBP) of the International Capital Market Association (ICMA) and with the Green Loan Principles (GLP) of the Loan Market Association (LMA).

As a result of these issues, in 2021 REF extended loans to REE for an amount of Euros 600 million. These loans were arranged at the same time as the bond issues, and with similar conditions.

In 2021 REF issued promissory notes in the Euromarket for an amount of Euros 105 million, maturing in the same year. These issues were jointly and severally guaranteed by REE and REC as part of the Euro Commercial Paper Programme (ECP Programme), which was registered in March 2012 and is renewed annually.

As a result of these issues, in 2021 REF extended loans to REE for an amount of Euros 105 million. These loans were arranged at the same time as the promissory note issues, and with similar conditions.

2 Key financial indicators

In 2021, profit after tax was Euros 2,530 thousand (Euros 2,430 thousand in 2020).

This profit is essentially composed of finance income on the loans granted by the Company to REE and finance costs on the bonds issued.

3 Own shares

REF does not hold own shares or shares in the Parent.

4 Risk management

As part of the Red Eléctrica Group, REF has assumed the Group's risk management objectives.

The Company has implemented a Comprehensive Risk Management System, which aims to ensure that any risks that might affect its strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Group. The Comprehensive Risk Management Policy applicable to REF was approved by the board of directors of the Group. The Comprehensive Risk Management System, the Policy and the General Procedure regulating it are based on the COSO ERM 2017 (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management – Integrated Framework.



5 Environment

At 31 December 2021 the Company has no assets for the protection and improvement of the environment, nor did it incur any environmental costs during the year.

REF is not involved in any litigation relating to environmental protection or improvement. No environment-related grants were received in the year.

6 Research, development and innovation (R&D&i)

REF does not carry out research, development or innovation activities (R&D&i).

7 Average supplier payment period. "Reporting Requirement". Third additional provision of Law 15/2010 of 5 July 2010

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average supplier payment period is 30 days at the 2021 year end.

The disclosures required by this resolution are contained in note 14 to the Company's annual accounts for 2021.

8 Events after 31 December 2021

At the date these annual accounts were authorised for issue no significant events have occurred after the reporting period.

9 Outlook

As part of the Red Eléctrica Group, REF will continue to focus its activity on analysing and arranging new transactions with the aim of financing the activities carried out by the different Group companies.

10 Non-Financial Information Statement in compliance with Law 11/2018 of 28 December 2018

In relation to Law 11/2018 of 28 December 2018, amending the Spanish Code of Commerce, the Revised Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010, and Audit Law 22/2015 of 20 July 2015, as regards non-financial information and diversity, the information relating to the Company's non-financial information statement is included in the Consolidated Director's Report of the Red Eléctrica Group for 2021, which is filed at the Madrid Mercantile Registry.

Directors' signatures, pursuant to article 253 of the Spanish Companies Act.

Fernando Frias Montejo

Tomás José Gallego Arjiz



Red Eléctrica Group

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