



Auditor's
Report on
Red Eléctrica
de España, S.A.U.

(Together with the annual accounts and directors' report of Red Eléctrica de España, S.A.U. for the year ended 31 December 2022)

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259C
24046 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 Sole Shareholder of Red Eléctrica de España, S.A.U.

Opinion

We have audited the annual accounts of Red Eléctrica de España, S.A.U. (the "Company"), which comprise the balance sheet at 31 December 2022, 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 2022, 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 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.



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Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the annual accounts of the current period. These risks 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 risks.

Additions to property, plant and equipment (see note 7)

As mentioned in note 7 to the accompanying annual accounts, the Company's regulated activity mainly consists of managing the transmission network of the Spanish electricity system. Each year the Company makes substantial investments in property, plant and equipment in accordance with the integrated National Energy and Climate Plan (NECP) 2021-2030, which are determined by the change in electricity demand, installed power capacity, and the costs of fuel and emissions. In 2022 additions to property, plant and equipment totalled Euros 449,031 thousand.

Considering the nature of the business carried out by the Company, the remuneration for these services is set by the Spanish National Markets and Competition Commission (CNMC) through Circular 5/2019, which determines the method for calculating the remuneration of the transmission activity based on the costs necessary to construct, operate and maintain the technical electricity facilities, pursuant to the powers bestowed upon this Commission by Royal Decree-Law 1/2019. As the Company's transmission revenues are directly related to the recognised electricity transmission facilities, and bearing in mind the significance of these facilities, we have considered the additions to property, plant and equipment to be a relevant aspect of the audit.

Our audit procedures included evaluating the design, implementation and operating effectiveness of key manual and automated controls related to the cycles of "additions and disposals of fixed assets" and "acquisition of assets and services, progress billings for construction". We also performed substantive procedures on property, plant and equipment, which essentially consisted of analysing asset additions during the year and assessing whether they have been correctly recognised. Furthermore, we analysed documentation supporting the cost allocation for a sample of projects in progress. We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Hedging instruments (see notes 17 and 19)

As indicated in note 17 to the accompanying annual accounts, the Company arranges financial instruments, including foreign currency and interest rate derivatives, to hedge exposures to exchange rate and interest rate fluctuations on its financial debt and on highly probable forecast future transactions.

Derivatives designated as hedging instruments must meet strict criteria with respect to documentation and the effectiveness of the hedge on inception. Furthermore, the fair value of derivative financial instruments is determined using valuation techniques that may take into consideration, among other factors, unobservable market data or complex pricing models that require a high degree of judgement.



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Given the complexity of complying with the financial reporting framework in force as regards the identification and measurement of hedging instruments and the correct measurement of their effectiveness, we have considered this to be a relevant aspect of the audit.

Our procedures included evaluating the design, implementation and operating effectiveness of key controls related to the cycles of “derivative financial instruments” and “recognition of financial transactions”. We also performed substantive procedures, which consisted mainly of evaluating whether derivative financial instruments had been correctly classified and measured; assessing compliance with hedge accounting criteria as regards identifying hedging instruments and positions to be hedged; as well as assessing the reasonableness of the measurement of the effectiveness of the Company's hedges and whether the outcome is within the range defined by accounting legislation. Our specialists in financial instruments were involved in these procedures. We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

Other Information: Directors' Report

Other information solely comprises the 2022 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 regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

- a) Determine, solely, whether the non-financial information statement has been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part 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 above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2022, and that the content and presentation of the report are in accordance with applicable legislation.



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Directors' 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 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 Sole Director.



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- Conclude on the appropriateness of the Sole Director's 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 Sole Director 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.

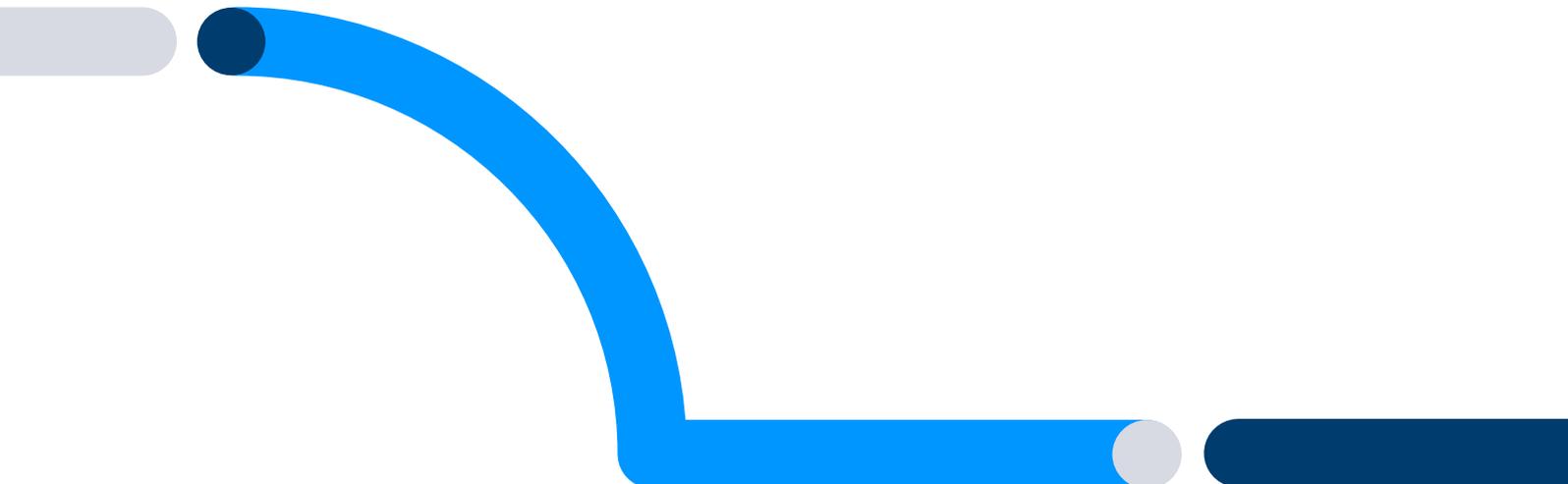
From the significant risks communicated to the Sole Director of Red Eléctrica de España, S.A.U., we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the most significant risks.

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

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. 15,547
27 February 2023



red eléctrica

A Redeia company

Annual Accounts

2022

Red Eléctrica de España, S.A.U.

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

Red Eléctrica de España, S.A.U.

Balance Sheet at 31 December 2022

Thousands of Euros	Note	31.12.2022	31.12.2021
Non-current assets		8,624,292	8,422,633
Intangible assets	6	53,188	48,757
Computer software		53,188	48,757
Property, plant and equipment	7	8,320,893	8,296,238
Land and buildings		12,032	3,362
Technical installations and other items		7,357,133	7,392,093
Under construction and advances		951,728	900,783
Non-current investments in Group companies and associates	8	2,401	2,401
Equity instruments		1,000	1,000
Other financial assets		1,401	1,401
Non-current investments	9	215,127	23,363
Equity instruments		468	468
Loans to third parties		3,669	3,546
Derivatives	19	91,298	16,848
Other financial assets		119,692	2,501
Deferred tax assets	23	32,516	51,748
Prepayments for non-current assets	12	167	126
Current assets		1,964,876	1,328,370
Inventories	10	34,115	23,447
Trade and other receivables	11	998,692	1,104,891
Trade receivables from Group companies and associates		672	1,077
Other receivables		995,033	1,101,472
Personnel		963	939
Public entities, other		2,024	1,403
Current investments in Group companies and associates	25	10,335	-
Current investments	9	306,008	4,387
Other financial assets		306,008	4,387
Prepayments for current assets	12	21,369	18,804
Cash and cash equivalents		594,357	176,841
Cash		194,029	176,841
Cash equivalents		400,328	-
Total assets		10,589,168	9,751,003

Notes 1 to 33 and Appendices I and II form an integral part of these annual accounts.

Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

Red Eléctrica de España, S.A.U. Balance Sheet at 31 December 2022

Thousands of Euros	Note	31.12.2022	31.12.2021
Equity	13	3,365,157	2,247,647
Capital and reserves		2,805,003	1,764,095
Capital		800,006	800,006
Share premium		569,319	54,319
Reserves		922,120	792,688
Profit for the year		513,558	552,845
(Interim dividend)		-	(435,763)
Valuation adjustments		142,642	74,125
Hedging transactions		3,049	(51,745)
Other	23	139,593	125,870
Grants, donations and bequests received	13-d	417,512	409,427
Non-current liabilities		4,943,611	5,423,615
Non-current provisions	14	107,638	111,073
Non-current payables	15	949,022	1,055,483
Loans and borrowings		948,854	1,053,642
Derivatives	19	-	1,673
Other liabilities		168	168
Group companies and associates, non-current	25	3,193,615	3,546,831
Deferred tax liabilities	23	578,062	592,160
Non-current accruals	16	115,274	118,068
Current liabilities		2,280,400	2,079,741
Current payables	15	836,839	857,687
Loans and borrowings		78,445	320,947
Derivatives	19	-	1,544
Other current payables		758,394	535,196
Group companies and associates, current	25	450,308	575,887
Suppliers of fixed assets – Group companies and associates		9,934	13,143
Payables to Group companies and associates due to tax effect		-	4,469
Payables to Group companies and associates		413,358	517,946
Interest on payables to Group companies and associates		27,016	40,329
Trade and other payables	20	992,707	645,642
Payables to Group companies		26,311	4,813
Other payables		905,601	601,017
Personnel		17,529	10,846
Public entities, other		43,266	28,966
Current accruals	21	546	525
Total equity and liabilities		10,589,168	9,751,003

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Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Income Statement. 2022

Thousands of Euros	Note	2022	2021
Revenue	24-a	1,599,006	1,609,689
Services rendered		1,599,006	1,609,689
Self-constructed assets	6 and 7	46,534	39,849
Supplies	24-c	(33,199)	(17,252)
Raw materials and other consumables used		(36,403)	(15,407)
Impairment of other supplies	10	3,204	(1,845)
Other operating income	24-b	75,722	8,122
Non-trading and other operating income		11,332	8,092
Operating grants taken to income		165	30
Concession revenue		64,225	-
Personnel expenses	24-d	(119,481)	(104,783)
Salaries and wages		(92,662)	(77,824)
Employee benefits expense		(22,093)	(21,141)
Other items and employee benefits		(4,726)	(5,818)
Other operating expenses	24-c	(435,658)	(338,136)
External services		(402,119)	(308,442)
Taxes		(33,551)	(29,726)
Losses, impairment and changes in trade provisions		12	32
Depreciation and amortisation	6 and 7	(390,698)	(387,160)
Non-financial and other capital grants		11,806	11,712
Impairment and gains on disposal of fixed assets	7	135	28
Results from operating activities		754,167	822,069
Finance income		7,659	5,249
Marketable securities and other financial instruments		2,318	53
Capitalised borrowing costs	7	5,341	5,196
Finance costs	24-e	(79,524)	(91,957)
Group companies and associates	25	(61,534)	(72,044)
Other		(16,399)	(19,142)
Provision adjustments	14	(1,591)	(771)
Exchange losses		(4)	(2)
Net finance cost		(71,869)	(86,710)
Profit before tax		682,298	735,359
Income tax	23	(168,740)	(182,514)
Profit from continuing operations		513,558	552,845
Profit for the year		513,558	552,845

Notes 1 to 33 and Appendices I and II form an integral part of these annual accounts.

Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Statement of Total Changes in Equity at 31 December 2022

	Subscribed capital	Share premium	Reserves	Profit for the year	(Interim dividend)	Subtotal capital and reserves	Valuation adjustments	Grants received	Total equity
Balance at 31 December 2020	800,006	54,319	701,192	612,779	(463,483)	1,704,813	39,675	402,933	2,147,421
Total recognised income and expense	-	-	6,481	552,845	-	559,326	34,450	6,494	600,270
Transactions with shareholders or owners									
Capital increases	-	-	-	-	-	-	-	-	-
(-) Distribution of dividends	-	-	-	(64,281)	(435,763)	(500,044)	-	-	(500,044)
Other changes in equity									
Distribution of prior year's profit	-	-	85,015	(548,498)	463,483	-	-	-	-
Balance at 31 December 2021	800,006	54,319	792,688	552,845	(435,763)	1,764,095	74,125	409,427	2,247,647
Total recognised income and expense	-	-	12,350	513,558	-	525,908	68,517	8,085	602,510
Transactions with shareholders or owners									
Capital increases	-	515,000	-	-	-	515,000	-	-	515,000
(-) Distribution of dividends	-	-	-	-	-	-	-	-	-
Other changes in equity									
Distribution of prior year's profit	-	-	117,082	(552,845)	435,763	-	-	-	-
Balance at 31 December 2022	800,006	569,319	922,120	513,558	-	2,805,003	142,642	417,512	3,365,157

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Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.
Statement of Recognised Income and Expense. 2022

Thousands of Euros	2022	2021
Profit for the year	513,558	552,845
Cash flow hedges	64,008	21,481
Grants, donations and bequests received	32,598	29,617
Actuarial gains and losses and other adjustments	16,468	8,641
Tax effect	(9,110)	2,030
Income and expense recognised directly in equity	103,964	61,769
Cash flow hedges	9,052	8,356
Grants, donations and bequests received	(21,819)	(20,958)
Tax effect	(2,245)	(1,742)
Amounts transferred to the income statement	(15,012)	(14,344)
Total recognised income and expense	602,510	600,270

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Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Statement of Cash Flows. 2022

Thousands of Euros	2022	2021
Cash flows from operating activities	1,481,825	1,320,839
Profit for the year before tax	682,298	735,359
Adjustments to profit	452,078	460,482
Depreciation and amortisation	390,698	387,160
Impairment	(3,216)	1,813
Change in provisions	18,644	5,077
Gains on disposal of fixed assets	(135)	(28)
Non-financial and other capital grants	(26,458)	(25,446)
Finance income	(2,318)	(53)
Finance costs	79,524	91,957
Exchange losses	4	2
Other income and expenses	(4,665)	-
Changes in operating assets and liabilities	615,584	403,044
Inventories	(7,464)	7,117
Trade and other receivables	106,175	100,588
Other current assets	(2,766)	7,211
Trade and other payables	517,739	288,217
Other non-current assets and liabilities	1,900	(89)
Other cash flows used in operating activities	(268,135)	(278,046)
Interest paid	(72,272)	(70,694)
Interest received	1,045	53
Income tax paid/received	(184,288)	(198,278)
Other payments/receipts	(12,620)	(9,127)
Cash flows used in investing activities	(783,080)	(427,649)
Payments for investments	(784,270)	(429,845)
Property, plant and equipment and intangible assets	(421,126)	(428,701)
Other financial assets	(359,560)	-
Other assets	(3,584)	(1,144)
Proceeds from sale of investments	1,190	2,196
Group companies and associates	-	127
Property, plant and equipment and intangible assets	314	28
Other assets	876	2,041
Cash flows used in financing activities	(281,229)	(760,956)
Proceeds from and payments for equity instruments	547,597	29,617
Issuance of equity instruments	515,000	-
Grants, donations and bequests received	32,597	29,617
Proceeds from and payments for financial liability instruments	(828,826)	(290,529)
Repayment of loans and borrowings	(346,517)	(78,660)
Payables to Group companies and associates	17,286	698,781
Repayment of payables to Group companies and associates	(499,595)	(885,147)
Other payments	-	(25,503)
Dividends and interest on other equity instruments paid	-	(500,044)
Dividends	-	(500,044)
Net increase in cash and cash equivalents	417,516	132,234
Cash and cash equivalents at beginning of year	176,841	44,607
Cash and cash equivalents at year end	594,357	176,841

Notes 1 to 33 and Appendices I and II form an integral part of these annual accounts.

Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

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1 Company Activity

Pursuant to Law 17/2007 of 4 July 2007, which amends Electricity Industry Law 54/1997 of 27 November 1997 to bring its content into line with Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity, since 2008 Red Eléctrica de España, S.A.U. (hereinafter Red Eléctrica or the Company) has performed the activities pertaining to the transmission agent and system operator (TSO) for the Spanish electricity system.

The principal activities carried out by the Company are:

- System operation.
- Transmission agent responsible for the construction, operation and maintenance of transmission facilities.
- Transmission network management.

The Company's registered office is located in Alcobendas (Madrid).

2 Basis of Presentation of the Annual Accounts

a) True and fair view

The accompanying annual accounts were authorised for issue by the sole director of the Company on 23 February 2023 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2022, 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-Law 1159/2010 and Royal Decree 1/2021.

The Company forms part of the Spanish group Redeia, which prepares consolidated annual accounts as required by article 43.2 of the Spanish Code of Commerce. The Parent of Redeia is Red Eléctrica Corporación, S.A. 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 (Red Eléctrica Corporación, S.A.). These contracts are indicated in note 25.

The annual accounts for 2021 were approved by the sole shareholder on 2 June 2022. The annual accounts for 2022 are currently pending approval. However, the sole director of the Company considers that these annual accounts will be approved with no changes.

b) Mandatory accounting principles not applied

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 requires Company management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income

and expenses. Estimates and assumptions are based on past experience and other factors that are considered reasonable under the circumstances. Actual results could differ from these estimates.

The annual accounts for 2022 occasionally include estimates calculated by management of the Company, and subsequently endorsed by its sole director, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein. These estimates are essentially as follows:

- Estimated recoverability of assets.
- Estimated useful lives of fixed assets.
- Assumptions used in the actuarial calculations.
- Assumptions and estimates used in measuring the fair value of derivative financial instruments.
- The calculation of revenue from electricity transmission facilities and system operation (see note 11).

Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Company assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events.

To facilitate comprehension of the annual accounts, details of the different estimates and assumptions are provided in each separate note.

Although estimates are based on the best information available at 31 December 2022, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding income statement as a change in accounting estimates, as required by the Spanish General Chart of Accounts.

The Company has taken out insurance policies to cover the risk of possible claims that might be lodged by third parties in relation to its activities.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2022 include comparative figures for the prior year, which formed part of the annual accounts for 2021.

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 2021.

e) Considerations regarding the macroeconomic scenario

As a result of the tensions in recent years between Russia and Ukraine, an armed conflict broke out on 24 February 2022 and is still ongoing at the date of authorising these annual accounts for issue. In response to this military action, a number of countries have announced various economic sanctions against Russia and have suspended or interrupted the activities carried out by public and private companies in the country.

This has led to much uncertainty and significant global economic volatility, in turn resulting in higher prices, revaluation of various currencies against the Euro, disruption of current market conditions, suspension of trade relations with Russia, in some cases a disruption of the supply chain and, ultimately, increased interest rates both within and outside the European Union.

The Company has no direct or indirect commercial relations with Russia or Ukraine, nor does it have investments in investees or assets in either of these countries. Moreover, its financial risk policy ensures that all risks associated with this conflict are identified, analysed, managed and assessed.

Facilities operation and maintenance was conducted normally in 2022, as was work to build new infrastructure. Furthermore, no significant incidents occurred during the period that posed a risk as regards meeting electricity demand and keeping the system up and running correctly; neither were any transmission network incidents recorded that in any way compromised the operation of the Spanish electricity system.

The electricity sector is currently impacted by tensions in the wholesale market stemming from the armed conflict mentioned above. In Spain, as in neighbouring countries, the average price of electricity has hit record highs. This situation has forced EU and domestic authorities to take steps to mitigate the impact (see note 3).

3 Sector Regulation

The electricity sector liberalisation process in Spain began with Electricity Industry Law 54/1997 of 27 November 1997. This Law prompted the start of a vertical disintegration of the different activities, whereby activities carried out under a natural monopoly regime (transmission and distribution) were segregated from those operating on a free competition basis (generation and supply).

A reform process sparked by the imbalance between revenues and costs of the electricity system in previous years got underway in 2013, culminating in the publication of Electricity Industry Law 24/2013 of 26 December 2013 (hereinafter the Law). This Law has progressively been updated since then and partly transposes into Spanish law Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU.

The Law lays down the following regulatory framework with respect to the activities conducted by the Company:

- For the transmission activity, the Law acknowledges the Company as the sole transmission agent.

The remuneration for this activity is set by the government based on the general principles defined in the Law and on the method essentially enshrined in Spanish National Markets and Competition Commission (CNMC) Circular 5/2019 of 5 December 2019, on the calculation of the remuneration for the electricity transmission activity.

In addition, other remuneration parameters for the new model were set for the current regulatory period (2020-2025): Circular 2/2019 defines the methodology for calculating the financial rate of return for electricity transmission and distribution, regasification, and natural gas transmission and distribution, and Circular 7/2019 approves the standard facilities and reference unit values for operation and maintenance per asset that are to be used in calculating the remuneration allocable to companies that own electricity transmission facilities. This Circular also provided that the reference unit values for investment that were in force in the previous regulatory period, which were established by Ministry of Industry, Energy and Tourism Order IET/2659/2015, were to be extended to cover the 2020-2025 period.

Regulated revenue for the transmission activity for the first year of application of Royal Decree 1047/2013 (i.e. 2016) was determined definitively in Ministry of Industry, Energy and Tourism Order IET/981/2016. Subsequently, between 2017 and 2022, the regulated revenue for this activity was determined on a provisional basis, replicating the amount of remuneration stipulated for 2016, and settled on account.

This provisional approach stems from the “detriment proceedings” brought by the Spanish State Attorney against Ministerial Order IET/981/2016, seeking that the Spanish Supreme Court declare certain articles therein null and void, thus enabling the definitive revenue for 2016 to be corrected. The Spanish Supreme Court Judgment was published on 29 June 2020, ordering that Order IET/981/2016 and the revenue for 2016 be corrected.

To enforce this judgment, the Ministry for the Ecological Transition and Demographic Challenge (hereinafter MITERD) published Order TED/1311/2022, setting the definitive remuneration due to Red Eléctrica for 2016.

Having established the definitive remuneration for 2016, this same Ministry approved Order TED/1343/2022 of 23 December 2022, stipulating the remuneration for 2017, 2018 and 2019 allocable to companies that own electricity transmission facilities.

Thus, at the reporting date the CNMC has only to publish the definitive remuneration for 2020, 2021 and 2022.

- As electricity system operator, the Company's main function is to guarantee the continuity and security of the electricity supply, as well as to ensure the correct coordination of the production and transmission system, exercising its duties in cooperation with the operators and agents of the Iberian Electricity Market (MIBEL) while observing the principles of transparency, objectivity and independence.

Law 24/2013 also bestows upon the system operator the role of transmission network manager. In 2015 the certification process for Red Eléctrica as transmission network manager for the Spanish electricity system, as envisaged in the law, was completed. Under this assignment, Red Eléctrica operates on an ownership unbundling basis as provided for in article 43 of Directive (EU) 2019/944 on common rules for the internal market for electricity.

The Company is also responsible for the functions of settlement, notification of payments and receipts, and management of guarantees relating to security of supply and the effective diversion of units generated and consumed, as well as for short-term energy exchanges aimed at maintaining the quality and security of supply.

Furthermore, the Company manages the technical and economic dispatch for electricity supply from non-mainland electricity systems (Balearic Islands, Canary Islands, Ceuta and Melilla), and is responsible for the settlement of payments and receipts arising from the economic dispatch of electricity generated by these systems.

Following the publication of Royal Decree-Law 1/2019, the CNMC established the first ever remuneration methodology for the system operation activity, through Circular 4/2019. The core principal of this remuneration model is that of providing suitable remuneration for a low-risk activity, considering those costs prudently incurred by an efficient and well-managed company. The CNMC has applied the remuneration methodology laid down in Circular 4/2019 to determine the remuneration of the system operator for 2020 and thereafter.

Nonetheless, the power to approve the methodology applicable to the calculation of the system operator's remuneration for the 2014-2019 period lies with the MITERD, and in the absence of such a methodology, the successive ministerial orders through which the electricity access tolls for the 2014-2019 period were approved stipulated provisional annual remuneration, envisaging the amendment of the amounts reflected therein once the MITERD had approved the methodology. In 2021 the MITERD submitted for public consultation the draft Royal Decree defining the methodology for calculating the remuneration of the system operator applicable to each year of the specified period.

Regarding the Company's remit in the non-mainland electricity systems, in 2015 the Salto de Chira 200 MW pumped-storage hydroelectric power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Having taken ownership, in 2016 Red Eléctrica submitted a project amending the initial project, which included technical and environmental improvements aimed at increasing the capacity for integrating renewable energy and reducing the impact of this new infrastructure on the environment. On 17 December 2022, Ministry for the Ecological Transition and Demographic Challenge Order TED/1243/2022 of 2 December 2022 was published, approving the methodology for calculating the remuneration for the Salto de Chira 200 MW pumped-storage hydroelectric power plant in Gran Canaria, owned by the system operator. This remuneration calculation reflects the total cost of the facility based on certain remuneration parameters, namely: the investment value of the facility in the year in which it comes into service; the unit value of variable operation and maintenance costs; and the unit value of the annual payment in respect of fixed operation and maintenance costs. It also envisages remuneration payable in the five years following the facility's entry into service, such that the financing costs incurred in the construction stage are reimbursed.

In 2021, the new regime of tolls and charges began to be applied, likewise as a consequence of the entry into force of Royal Decree-Law 1/2019. This action was implemented through the publication of Royal Decree 148/2021 of 9 March 2021, establishing the methodology to calculate electricity system charges, and CNMC Circular 3/2020 of 15 January 2020, establishing the methodology to calculate electricity transmission and distribution tolls.

Specifically, this new tolls and charges framework came into force from 1 June 2021 onwards. As a result, all consumers now have a tariff that distinguishes between peak and off-peak times for both the power and energy factors, and the price difference between peak and off-peak hours has increased.

As regards access and connection to electricity networks, following the approval of Royal Decree 1183/2020 of 29 December 2020 on access and connection to the electricity transmission and distribution networks, the CNMC approved Circular 1/2021 establishing the methodology and conditions for electricity generation facilities to access and connect to the transmission and distribution networks, thus completing the general legislative framework on access and connection.

Lastly, regulatory developments in 2022 notably include the following:

- Royal Decree-Law 6/2022 of 29 March 2022, adopting urgent measures in the context of the national plan in response to the economic and social consequences of the war in Ukraine. In view of the decisions laid down in the Supreme Court judgments regarding the previous system for financing the social tariff, this legislation regulates a new system for financing the social tariff. Under this legislation, the social tariff for electricity is to be financed by all of the agents involved in the electricity supply chain (production, transmission, distribution, supply and direct consumers), on the basis of their revenue. The legislation does, however, acknowledge that the remuneration method will need to be adapted in order to take such cost into account. Thus, in practice, this measure is not expected to have a significant economic impact for Red Eléctrica.
- Royal Decree-Law 14/2022 of 1 August 2022, on economic sustainability measures in the field of transport, scholarships and study grants, and measures for energy saving and efficiency and to reduce energy dependence on natural gas, which amends Royal Decree 1955/2000 in order to introduce a number of modifications to speed up the processing of paperwork related to transmission facilities.
- Publication of the 2021 – 2026 Transmission Network Development Plan in the Official State Gazette (“BOE”) of 19 April 2022, which envisages the construction of 2,681 km of new power lines and 733 km of submarine power cables, as well as the repowering of 7,057 km of lines. The electricity planning likewise contemplates the use of new network components, such as systems for monitoring the dynamic line rating (DLR), synchronous condensers, storage as a fully integrated component of the transmission network, as well as elements that are able to change the flow of power (e.g. phase shifters).
- Lastly, Royal Decree-Law 20/2022 of 27 December 2022, on measures in response to the economic and social consequences of the war in Ukraine and to provide support in the reconstruction of the island of la Palma and for other situations of vulnerability, was published. This legislation extends throughout 2023 several temporary measures that were due to expire on 31 December, such as tax cuts in the electricity sector, and includes ad hoc aspects related to transmission network planning, in order to drive the energy transition and develop the industrial value chain.

4 Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2022, prepared by the sole director and pending approval by the sole shareholder at the general meeting, is as follows:

Thousands of Euros

Profit for the year	513,558
Total	513,558

Distribution

Voluntary reserves	513,558
Total	513,558

5 Significant Accounting Policies

The accounting principles used in preparing the accompanying annual accounts have been applied consistently to the reported periods presented and are as follows:

a) Intangible assets

Intangible assets are recognised at cost of acquisition or production, as appropriate, and their value is periodically reviewed and adjusted in the event of a decline in value. Intangible assets include the following:

- **Development:** development expenses directly attributable to the design and execution of tests for new or improved computer programs that are identifiable, unique and likely to be controlled by the Company are recognised as intangible assets when it is probable that the project will be successful, based on its technical and commercial feasibility, and the associated costs can be estimated reliably. Costs that do not meet these criteria are charged as expenses when incurred. Development expenses are capitalised and amortised, from the date the associated asset comes into service, on a straight-line basis over a period of no more than five years. Computer software maintenance costs are charged as expenses when incurred.
- **Computer software:** computer software licences are capitalised at cost of acquisition or cost of preparation for use. Computer software maintenance costs are charged as expenses when incurred. Computer software is amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.

b) Property, plant and equipment

Property, plant and equipment primarily comprise technical electricity facilities and are measured at cost of construction or acquisition, as appropriate, less accumulated depreciation and impairment. The annual accounts for 2013 included the revaluation permitted by Law 16/2012 of 27 December 2012, introducing several tax measures aimed at consolidating public finances and boosting economic activity, of assets recognised up to 1 January 2013.

• Cost and recognition

Cost of construction includes the following:

- Borrowing costs directly related with facilities under construction and external financing used, accrued solely during the construction period. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods, except where a temporary delay is a necessary part of the process of getting an asset ready for its intended use.

- Operating expenses directly related to property, plant and equipment under construction for projects executed under the supervision and management of the Company, including all operating expenses incurred by the Company to provide support to the units directly involved in the activity. These include personnel expenses directly attributable to the construction or manufacture of the assets.

The Company transfers work in progress to property, plant and equipment in use once these items come into service and provided that the assets are in working condition and able to generate income. Property, plant and equipment under construction are not depreciated.

Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Repair and maintenance costs on property, plant and equipment that do not increase productivity and/or the related revenue, or capacity, and which do not lengthen the useful life of the assets are charged as expenses when incurred.

• Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets, which is the period during which the Company expects to use the assets, applying the following rates:

	Annual depreciation rate
Buildings	2% - 10%
Technical electricity facilities	2.5% - 8.33%
Other installations, machinery, equipment, furniture and other items	4% - 25%

Property, plant and equipment primarily comprise technical electricity facilities. Most undepreciated items of property, plant and equipment are depreciated at a rate of 2.5%.

• Measurement

The residual values and useful lives of assets are reviewed at least annually and adjusted, if necessary, to reflect actual circumstances. When the carrying amount of these assets exceeds their estimated recoverable amount, it is immediately written down to the recoverable amount (see note 5-h).

The Company measures and determines impairment to be recognised or reversed in respect of the value of its cash-generating units (CGUs) based on the criteria in section h) of this note.

c) Leases

The Company classifies leases on the basis of whether substantially all the risks and rewards incidental to ownership of the leased asset are transferred.

Leases under which the lessor retains a significant part of the risks and rewards of ownership are classified as operating leases.

d) Concession arrangements

Service concession arrangements, which are regulated under Ministry of Economy and Finance Order EHA/3362/2010, comprise 'public-to-private' service concession arrangements which meet two conditions:

- the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Service concession arrangements are recognised on the basis of the consideration received, as either a financial asset or an intangible asset depending on the type of contractual right stipulated in the contract clauses.

Where the operator has an unconditional right to receive cash or another financial asset from or at the direction of the grantor, and the grantor has little, if any, discretion to avoid payment, a financial asset is recognised.

The financial asset model entails separate identification of the contractual obligations that must be fulfilled and the recognition of income and expenses based on the stage of fulfilment of the obligations, in accordance with the standard for income and expenses explained in section q) of this note, thus generating a financial asset in the form of a receivable. This financial asset is adjusted annually at the implicit financial rate for the concession.

Within the Company, this only affects the Salto de Chira concession (see note 3), which is recognised applying the financial asset model. Inasmuch as the consideration received for the construction activities carried out by the Company is in the form of an unconditional right to receive cash, a financial asset must be recognised, which has been accounted for in non-current investments on the balance sheet (see note 9).

The contractual obligations assumed by the Company to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

e) Financial assets and financial liabilities

Financial assets

The Company classifies its financial assets into the following categories for measurement purposes:

- **Financial assets at amortised cost:** this category generally includes trade receivables, which are financial assets arising from the sale of goods and services in the ordinary course of business with deferred collection. It also includes non-trade receivables, which are financial assets other than equity or derivative instruments, which are non-commercial in nature and have fixed or determinable payments, deriving from loans or credit extended by the Company.

They are non-derivative financial assets that are held to collect contractual cash flows that are solely payments of principal and interest. 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 which, in the absence of evidence to the contrary, is the transaction price plus attributable transaction costs. They are subsequently measured 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.

- **Financial assets at fair value through equity:** these are equity instruments for which the Company made an irrevocable decision upon initial recognition to account for them in this category.

They are recognised at fair value and any fair value gains or losses are recognised in equity until the financial asset is derecognised or impaired, whereupon the amount recorded in equity is taken to the income statement. Dividends from such investments are recognised in profit or loss.

The criteria used by the Company to determine fair value are specified in section h).

- **Financial assets at cost:** these include equity investments in Group companies, jointly controlled entities and associates, as well as all other investments in equity instruments for which the fair value cannot be reliably estimated.

They are measured at cost of acquisition, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs, less any accumulated impairment. The recoverable amount is determined as the higher of the fair value less costs to sell and the present value of estimated cash flows from the investment.

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.

Financial liabilities

The Company classifies its financial liabilities in the following category:

- **Financial liabilities at amortised cost:** this category generally includes trade payables, 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. 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.

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 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.

f) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. Cash equivalents 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. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

g) Inventories

Inventories of materials and spare parts are measured at cost of acquisition, which is calculated as the lower of weighted average price and market value.

The Company assesses the net realisable value of inventories at the end of each reporting period, recognising impairment in the income statement when cost exceeds market value or when it is uncertain whether the inventories will be used. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the previously recognised impairment is reversed and recognised as income.

h) Impairment

The Company analyses the recoverability of its assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised immediately in the income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount.

Recoverable amount is the higher of:

- Fair value less costs to sell.
- Value in use. Value in use is calculated on the basis of expected future cash flows.

• Fixed assets

Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated.

The Company has cash-generating units (CGUs), which are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGUs identified are related to electricity transmission.

The Company tests for impairment when it observes indications, such as amendments to sector regulations or changes in investment plans. In order to calculate impairment, the Company verifies that the recoverable amount of each cash-generating unit with which the assets are associated, or of individual assets, exceeds the carrying amount. Otherwise, an impairment loss is recognised in the income statement for the difference between the two, with a charge to impairment and gains/losses on disposal of fixed assets, up to the limit of the higher of: (i) its fair value less costs to sell and (ii) its value in use.

Impairment losses recognised for an asset in prior years are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, increasing the value of the asset with a credit to profit or loss up to the limit of the carrying amount that would have been determined for the asset had no impairment loss been recognised.

The Company considers the value in use of an asset to be its recoverable amount. To estimate the value in use, the Company analyses the recoverability of the carrying amount allocated to the assets in question, using past experience and future expectations in accordance with the prevailing regulatory framework.

• Financial assets

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 recoverable amount of equity investments in Group companies and associates is measured as the higher of fair value less costs to sell and the present value of estimated cash flows from the investment. Unless better evidence of the recoverable amount is available, impairment is determined based on the investee's equity, corrected for any unrealised gains existing at the measurement date. Impairment losses are recognised and reversed in the corresponding income statement.

i) 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, following the sole director's approval. Supplementary dividends are not deducted from equity until approved at the general meeting.

j) Grants and other

Non-repayable capital grants awarded by different official bodies, and other similar subsidies received to finance the Company's fixed assets, are recognised once the corresponding investments have been made.

The Company recognises these grants under non-financial and other capital grants each year during the period in which depreciation is charged on the assets for which the companies received the grants. Where the grant is awarded on the basis of product units sold and is part of the selling price of the goods and services, the amount is included in the revenue item to which it relates.

Tax deductions that by their economic nature are similar to capital grants, such as the deduction for investments in fixed assets in the Canary Islands, are classified in others, under valuation adjustments within equity, and taken to the income statement over the remaining useful life of the corresponding fixed assets.

k) Provisions

- **Employee benefits**

- Pension obligations

The Company has defined contribution plans, whereby the benefit receivable by an employee upon retirement – usually based on one or more factors such as age, fund returns, years of service or remuneration – is determined by the contributions made. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised under employee benefits when accrued.

- o Other long-term employee benefits

Other long-term employee benefits include defined benefit plans for benefits other than pensions (such as health insurance) for certain serving and retired personnel of the Company. The expected costs of these benefits are recognised under provisions over the working life of the employees. These obligations are measured each year by independent qualified actuaries. Changes in actuarial assumptions are recognised, net of taxes, in reserves under equity in the year in which they arise, while the past service cost is recorded in the income statement.

Defined benefit liabilities recognised in the balance sheet reflect the present value of obligations at the reporting date, less the fair value at that date of plan assets, minus any past service cost not yet recognised. The Company records actuarial gains and losses in recognised income and expense for the year in which they arise.

This item also includes deferred remuneration schemes and the Structural Management Plan (hereinafter the “Plan”), which are measured each year.

- **Other provisions**

The Company makes provision for present obligations (legal or constructive) arising as a result of a past event whenever it is probable that an outflow of resources will be required to settle these obligations and a reliable estimate can be made of the corresponding amounts. Provision is made when the liability or obligation is recognised. No provision is made for proceedings with a probability of occurrence of less than 50% as it is considered that such proceedings will have a favourable outcome.

Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax risk-free discount rate that reflects assessments of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognised as a finance cost in the income statement.

I) Derivative financial instruments and hedging transactions

The Company holds derivative financial instruments to cover its exposure to currency risk and interest rate risk. The Company designates certain derivatives as hedging instruments for covering variability in the cash flows associated with highly probable forecast transactions as a result of fluctuations in interest rates and exchange rates.

The specific rules used for hedge accounting are only applied to the derivatives arranged when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated.

Derivative financial instruments are initially recognised in the balance sheet at their fair value on the date the arrangement is executed (acquisition cost) and this fair value is subsequently adjusted as necessary. The criterion used to recognise the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the hedged item.

Fair value is defined as 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.

Any ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, would be recognised with a debit or credit to finance costs or finance income.

The Company documents the relationship between the hedging instruments and the hedged assets or liabilities, its risk management objectives and its hedging strategy at the inception of the hedge. The Company also documents its assessment, at inception and on an ongoing basis, of whether the hedging derivatives used are highly effective in offsetting changes in the hedged item's fair value or cash flows.

Details of the fair value of the hedging derivatives used are disclosed in note 19. Movement in equity during the year is presented in the statement of changes in equity.

When a hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting, any cumulative gain or loss recorded in equity at that time remains in equity and is reclassified to the income statement in the same period or periods during which the cash flows of the hedged item affect profit or loss. When the forecast transaction is no longer expected to occur, any cumulative gain or loss recognised in equity is immediately reclassified to the income statement.

The market value of the different derivative financial instruments is calculated as follows:

- The fair market value of derivative financial instruments quoted on an organised market is their quoted value at the reporting date.
- The Company calculates the fair value of derivative financial instruments that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

m) 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. Specifically, the Company calculates the fair value of derivative financial instruments that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

n) 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.

Fixed income securities and balances receivable and payable in currencies other than the Euro at 31 December each year are translated at the closing exchange rate. Any exchange differences arising are recognised under exchange gains/losses in profit or loss.

Transactions conducted in foreign currencies for which the Company has chosen to mitigate currency risk by arranging financial derivatives or other hedging instruments are recorded using the criteria for derivative financial instruments and hedging transactions.

o) Income and expenses

Revenue is recognised at the fair value of the consideration received or receivable, and according to the pattern of transfer of goods and services to the customer, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The majority of the Company's revenues are regulated revenues from transmission and system operation activities in Spain (see notes 3 and 24). The Company has been designated to carry out the electricity transmission and system operation activities on an exclusive basis. Both of these activities are regulated by Electricity Industry Law 24/2013. This legislation, which was subsequently implemented by Royal Decree 1047/2013 and by the CNMC Circulars approved in 2019, sets on an annual basis the amount of remuneration to be received for both activities in order to cover the services that the Company renders to consumers and other electricity sector agents on an uninterrupted basis throughout the year.

The obligation arising from rendering the electricity transmission service is considered to be a single performance obligation, and the total price is therefore allocated in full to that obligation. Similarly, the legal obligations included within the obligation of the electricity system operator are understood to comprise a single performance obligation, identified as "providing the electricity system operation service". As a result, revenue from the performance obligations of transmission and system operation services is recognised over time, on a straight-line basis, for each year.

Revenue and expenses arising from contracts for the modification of electricity facilities on behalf of third parties, and from concession arrangements, are recognised based on satisfaction of the performance obligations stipulated in the contracts, whereby revenue is recognised on the basis of work completed at the end of the accounting period.

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

Dividends are recognised when the right to receive payment is established.

p) 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) held by the Company with the Parent is recognised with a credit (debit) to payables to (receivables from) Group companies and associates.

q) Insurance

The Company has taken out various insurance policies to cover the risks to which it is exposed through its activities. These risks mainly comprise damage that could be caused to its facilities and possible claims that might be lodged by third parties due to the Company's activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the income statement on the basis of the costs incurred.

r) Environment

Costs derived from business activities intended to protect and improve the environment are charged as expenses in the year in which they are incurred. Property, plant and equipment acquired to minimise environmental impact and to protect and improve the environment are recognised as an increase in property, plant and equipment.

s) Share-based payments

The Company has implemented share purchase schemes whereby employees can opt to receive part of their annual remuneration in the form of shares in the Parent. This remuneration is measured based on the closing quotation of these Parent shares at the delivery date. The costs incurred on such schemes are recognised under personnel expenses in the income statement. All shares delivered as payment are taken from the own shares held by the Parent.

t) 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.

6 Intangible Assets

Movement in intangible assets during 2022 and 2021 and details of accumulated amortisation are as follows:

	31 December 2020	Additions	Transfers	31 December 2021	Additions	Transfers	31 December 2022
Thousands of Euros							
Cost							
Development	2,775	-	-	2,775	-	-	2,775
Computer software	66,306	-	17,867	84,173	-	12,489	96,662
Computer software under development	13,209	20,127	(17,114)	16,222	21,339	(12,489)	25,072
Total cost	82,290	20,127	753	103,170	21,339	-	124,509
Accumulated amortisation							
Development	(2,775)	-	-	(2,775)	-	-	(2,775)
Computer software	(34,747)	(16,891)	-	(51,638)	(16,908)	-	(68,546)
Total accumulated amortisation	(37,522)	(16,891)	-	(54,413)	(16,908)	-	(71,321)
Carrying amount	44,768	3,236	753	48,757	4,431	-	53,188

In 2022 and 2021 the additions of computer software are due to the acquisition and development of software by the Company for its system operation and transmission activities.

At 31 December 2022 the Company has fully amortised intangible assets amounting to Euros 34,889 thousand (Euros 26,323 thousand at 31 December 2021).

In 2022 operating expenses of Euros 1,037 thousand directly related to intangible assets were capitalised (Euros 956 thousand in 2021).

7 Property, Plant and Equipment

Movement in property, plant and equipment in 2022 and 2021 and details of accumulated depreciation and impairment are as follows:

	31 December 2020	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31 December 2021	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31 December 2022
Thousands of Euros									
Cost									
Land and buildings	9,123	-	-	-	9,123	-	-	8,970	18,093
Technical electricity facilities and other items	15,047,125	-	(123)	344,768	15,391,770	-	(653)	338,709	15,729,826
Under construction and advances	832,877	413,427	-	(345,521)	900,783	449,031	-	(398,086)	951,728
Total cost	15,889,125	413,427	(123)	(753)	16,301,676	449,031	(653)	(50,407)	16,699,647
Accumulated depreciation									
Buildings	(5,579)	(182)	-	-	(5,761)	(300)	-	-	(6,061)
Technical electricity facilities and other items	(7,501,631)	(370,087)	123	-	(7,871,595)	(373,490)	474	-	(8,244,611)
Total accumulated depreciation	(7,507,210)	(370,269)	123	-	(7,877,356)	(373,790)	474	-	(8,250,672)
Impairment of facilities	(128,082)	-	-	-	(128,082)	-	-	-	(128,082)
Carrying amount	8,253,833	43,158	-	(753)	8,296,238	75,241	(179)	(50,407)	8,320,893

- **Gross property, plant and equipment**

Technical electricity facilities are assets that are subject to regulated remuneration (see note 3). The main additions to technical electricity facilities in 2022 and 2021 are investments in electricity transmission facilities.

In addition, property, plant and equipment reflect the agreement entered into with Red Eléctrica Infraestructuras de Telecomunicación, S.A. for the right to use the dark fibre and associated infrastructure that was used by the Company (see notes 16 and 20).

Details of capital grants received in relation to property, plant and equipment are provided in note 13-d.

At 31 December 2022 and 2021 the balance presented in additions and other mainly reflects investments made during these years, as well as any technical facilities received under agreements with third parties.

In 2022 and 2021, transfers basically comprise lines, substations and communication and control systems which were under construction and have been completed.

In 2022, transfers likewise reflect the transfer of Euros 50,407 thousand to non-current investments (see note 9) in respect of the financial asset under the concession arrangement, which arose following the approval of Ministerial Order TED/1243/2022 of 2 December 2022 approving the methodology for calculating the remuneration for the Salto de Chira pumped-storage hydroelectric power plant in Gran Canaria (see note 3).

At 31 December 2022 and 2021, the amount shown under exits, disposals, reductions and write-downs mainly comprises the disposal of certain fully depreciated assets. The gains on these disposals are recognised in impairment and gains on disposal of fixed assets in the income statement.

- **Capitalised expenditure**

Operating expenses of Euros 45,497 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2022 (Euros 38,893 thousand in 2021). The Company's capitalised expenses directly related to the construction of facilities include all operating expenses incurred to provide support to the units directly involved in the activity.

During 2022, the Company capitalised construction-related borrowing costs of Euros 5,341 thousand as an increase in property, plant and equipment (Euros 5,196 thousand in 2021). The weighted average rate used to capitalise borrowing costs was 1.1% in 2022 (1.1% in 2021).

- **Fully depreciated property, plant and equipment**

At 31 December 2022 the Company has fully depreciated property, plant and equipment amounting to Euros 2,833,384 thousand (Euros 2,729,373 thousand at 31 December 2021), of which Euros 2,629,963 thousand comprises technical facilities and Euros 154,659 thousand reflects IT equipment (Euros 2,535,627 thousand and Euros 151,045 thousand, respectively, at 31 December 2021).

- **Investment commitments**

The Company has no firm commitments to purchase significant amounts of property, plant and equipment relative to its present volume of assets, and to the investments it makes and plans to make. The Company periodically places orders to cover needs related to its investment plans. The various amounts in the aforementioned orders will normally materialise in the form of delivery orders as and when the different projects included in the plans are capitalised. Therefore, they do not constitute firm purchase commitments at the time of issue.

- **Insurance**

The Company has taken out insurance policies to cover the risk of damage to its property, plant and equipment. These policies provide adequate protection against the risks covered.

- **Impairment analysis of property, plant and equipment subject to depreciation**

There were no indications of impairment of the Company's assets in 2022 and 2021.

- **Revaluation of balances**

Law 16/2012, which introduced several tax measures to consolidate public finances and boost economic activity, provided for the revaluation of property, plant and equipment and/or investment property using the ratios set forth in this Law, with a credit to a revaluation reserve under equity. According to the Spanish Accounting and Auditing Institute Resolution of 31 January 2013, any revaluation of balances should be recognised in the annual accounts for 2013. Pursuant to this Law, the Company revalued its property, plant and equipment on 1 January 2013, making a single tax payment of 5% of the revalued amount.

The amount resulting from the revaluation, net of the single tax payment of 5%, was credited to reserves (see note 13). The balancing entries were recognised under the pertinent revalued asset items, with no changes to the accumulated depreciation recorded at that date (Euros 107 million under technical electricity facilities and other items and Euros 2 million in under construction and advances).

The net increase in value deriving from the revaluation is depreciated over the remaining useful life of the revalued assets. The revaluation has led to an increase of Euros 2.7 million in the depreciation charge for 2022 (Euros 2.7 million in 2021), while accumulated depreciation at 31 December 2022 totals Euros 64 million (Euros 62 million at 31 December 2021).

8 Non-current Investments in Group Companies and Associates

Details at 31 December 2022 and 2021 are as follows:

Thousands of Euros	31 December 2022	31 December 2021
Equity instruments	1,000	1,000
Other financial assets	1,401	1,401
Total	2,401	2,401

In 2022 and 2021 equity instruments comprise the investment held in Interconexión Eléctrica Francia-España, S.A.S. (hereinafter INELFE) with registered office in Paris. This unlisted company was incorporated in 2008 and is 50% owned by Réseau de Transport d'Électricité, S.A. (RTE), the transmission agent and system operator (TSO) in France. Its statutory activity is the study and execution of electricity interconnections between Spain and France.

At 31 December 2022 and 2021 other financial assets comprise the security deposits provided to Red Eléctrica Corporación, S.A. under the property lease contracts arranged with this company (see note 25).

9 Non-current and Current Investments

Details of non-current and current investments are as follows:

Thousands of Euros	31 December 2022	31 December 2021
Equity instruments	468	468
Loans to third parties	3,669	3,546
Derivative financial instruments	91,298	16,848
Contract assets (concession arrangements)	114,632	-
Other non-current financial assets	5,060	2,501
Non-current investments	215,127	23,363
Other current financial assets	306,008	4,387
Current investments	306,008	4,387

At 31 December 2022 and 2021 equity instruments reflect the 14.29% interest held in ACEFAT, A.I.E. for an amount of Euros 132 thousand and the 15.84% interest held in CORESO, S.A. for an amount of Euros 336 thousand.

- ACEFAT, A.I.E. has its registered office in Spain and its statutory activity comprises the integrated management of public thoroughfare works in the city of Barcelona. The stake held in this economic interest group (A.I.E.) is aimed at simplifying management of the processes required to undertake works at the Company's facilities.
- CORESO, S.A. has its registered office in Belgium and is owned by the main European TSOs. Its statutory activity is to help European transmission network operators maintain optimum security of supply in Europe through regional coordination services.

These investments in equity instruments are classed within Level 3 of the fair value hierarchy.

At 31 December 2022 and 2021 loans to third parties reflect those extended by the Company to its personnel, which fall due in the long term. These loans earn interest at floating rates indexed to Euribor plus a spread, in accordance with the conditions laid down in the collective bargaining agreement.

At 31 December 2022 and 2021 non-current derivative financial instruments reflect the value of cash flow hedging derivatives that expire in the long term (see note 19).

At 31 December 2022 contract assets (concession arrangements) reflect the balance still to be invoiced to and collected from the grantor in the long term in relation to the Salto de Chira 200 MW pumped-storage hydroelectric power plant project in Gran Canaria, amounting to Euros 114,632 thousand. Following the publication of the Ministerial Order approving the methodology for calculating the remuneration (see note 3), this project was classified as a concession and the financial asset model provided in Ministerial Order EHA/3362/2010 was applied. To this end the Euros 50,407 thousand accumulated in under construction in respect of work carried out up to that point (see note 7) was reclassified, and the Euros 64,225 thousand balance receivable accrued during the year in respect of the construction works and the discounting of the receivable was recognised (see note 24-b).

At 31 December 2022 and 2021 other non-current financial assets basically comprise security and other deposits extended by the Company.

At 31 December 2022 other current financial assets reflect current investments in the form of fixed-term deposits amounting to Euros 300,000 thousand. This item also includes accrued interest receivable on those investments and on derivative financial instruments (see note 19), as well as short-term security and other deposits extended by the Company.

These current investments are classed within Level 2 of the fair value hierarchy.

There are no significant differences between the fair value and the carrying amount at 31 December 2022 and 2021.

10 Inventories

Details at 31 December 2022 and 2021 are as follows (in thousands of Euros):

Thousands of Euros	31 December 2022	31 December 2021
Inventories	67,552	60,088
Write-downs	(33,437)	(36,641)
Total	34,115	23,447

Inventories mainly reflect materials and spare parts related to technical electricity facilities and other items.

The Company periodically tests its inventories for impairment, which is then recognised in the income statement based on the following assumptions:

- Impairment of old inventories, using inventory turnover ratios.
- Impairment for excess inventories, on the basis of estimated use in future years.

As a result, the Company reversed impairment losses of Euros 3,204 thousand in the income statement for 2022 (it recorded impairment of Euros 1,845 thousand in 2021).

11 Trade and Other Receivables

Details at 31 December 2022 and 2021 are as follows:

Thousands of Euros	31 December 2022	31 December 2021
Trade receivables from Group companies and associates	672	1,077
Other receivables	995,033	1,101,472
Personnel	963	939
Public entities, other	2,024	1,403
Total	998,692	1,104,891

At 31 December 2022 and 2021 trade receivables from Group companies and associates mainly comprise amounts pending invoice or collection for professional services rendered to Group companies (see note 25).

At 31 December 2022 and 2021 other receivables mostly comprise amounts pending invoicing and/or collection for regulated transmission and system operation activities. Under the settlement system set up by the Spanish regulator, some of these receivables are settled and collected in the following year.

These amounts also include the revenue receivable derived from applying the methodology set forth in the remuneration model in force for transmission activities in Spain, which stipulates that facilities entering into service in year 'n' are to be remunerated from year 'n+2' onwards.

At 31 December 2022 and 2021 other receivables also include current assets arising from contracts with debtors in respect of modifications to electricity facilities requested by third parties.

At 31 December 2022 and 2021, personnel primarily reflects the loans extended by the Company to its personnel, which fall due in the short term.

At 31 December 2022 and 2021 public entities, other mostly include the Canary Island tax (IGIC) recoverable by the Company.

There are no significant differences between the fair value and the carrying amount at 31 December 2022 and 2021. At 31 December 2022 and 2021 there are no significant amounts over 12 months past due (see note 17).

12 Prepayments for Non-current and Current Assets

In 2022 and 2021, prepayments for non-current and current assets reflect advance payments, basically the insurance policies taken out by the Company and fees charged for credit facilities arranged.

13 Equity

a) Capital risk management

The Group's capital management is aimed at safeguarding the capacity of its 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.

The Company controls its capital structure on a gearing ratio basis. The Company's gearing stood at 52.40% in 2022 (69.98% in 2021). This ratio is calculated as net financial debt divided by the sum of equity and net financial debt. The calculation is as follows:

Thousands of Euros	2022	2021
Non-current payables ⁽¹⁾	4,142,469	4,600,473
Current payables ⁽¹⁾	491,803	838,893
Accrued interest payable (note 15)	(6,953)	(7,792)
Foreign currency derivatives (note 19)	(28,459)	(14,800)
Cash and cash equivalents	(594,357)	(176,841)
Current investments (note 9)	(300,000)	-
Net financial debt	3,704,503	5,239,933
Equity	3,365,157	2,247,647
Gearing ratio	52.40%	69.98%

⁽¹⁾ Including loans and borrowings and payables to Group companies and associates. Not including income tax payable/receivable by the Company vis-à-vis Red Eléctrica Corporación, S.A., the parent of the tax group.

On 26 April 2022 the credit rating agency Standard & Poor's issued a new report on the Company maintaining its long-term rating. Accordingly, the Company, together with its Parent Red Eléctrica Corporación, S.A. and the Group companies Red Eléctrica Financiaciones, S.A.U. and Red Eléctrica de España Finance, S.L.U. maintain long-term ratings of 'A-' with a stable outlook, and short-term ratings of 'A-2'.

On 21 November 2022, the credit rating agency Fitch Ratings affirmed Red Eléctrica's long-term rating. Following this announcement, the Company, together with its Parent Red Eléctrica Corporación, S.A. and the Group companies Red Eléctrica Financiaciones, S.A.U. and Red Eléctrica de España Finance, S.L.U. maintain long-term ratings of 'A-' with a stable outlook, and short-term ratings of 'F1'.

The Standard & Poor's rating is based on the stability of the cash flows, which are mostly generated by regulated transmission activities. Fitch Ratings highlights the low level of business risk, given the natural monopoly of the TSO in Spain.

b) Capital and reserves

• Share capital

At 31 December 2022 the Company's share capital is represented by 400,003,001 registered shares (400,003,000 shares at 31 December 2021) with a par value of Euros 2 each, subscribed and fully paid by the sole shareholder Red Eléctrica Corporación, S.A., and carrying the same voting and profit-sharing rights.

In 2022 the Company increased its share capital by Euros 2, by issuing one Company share with a par value of Euros 2, of the same class and series as the shares outstanding at that time, and with a share premium of Euros 515,000 thousand.

This issue was subscribed and paid in full by the sole shareholder, Red Eléctrica Corporación, S.A., through a partial debt-for-equity swap on the loan mentioned in note 25.

The Parent of the Group, Red Eléctrica Corporación, S.A., is subject to the shareholder limitations stipulated in additional provision twenty-three of Law 54/1997 of 27 November 1997 and article 30 of the Electricity Industry Law 24/2013 of 26 December 2013.

Pursuant to this legislation, any individual or entity may hold investments in Red Eléctrica Corporación, S.A., provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at Red Eléctrica Corporación, S.A. are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of the Electricity Industry Law 24/2013 of 26 December 2013. The shareholder limitations with regard to Red Eléctrica Corporación, S.A.'s share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2022 and 2021 SEPI holds a 20% interest in the Red Eléctrica Corporación, S.A.'s share capital.

• Share premium

At 31 December 2022 the share premium amounts to Euros 569,319 thousand (Euros 54,319 thousand at 31 December 2021). The change in 2022 is due to the previously mentioned share capital increase. This reserve is freely distributable.

• 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 shareholders 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 2022 and 2021 the legal reserve amounts to 20% of share capital (Euros 160,001 thousand).

- Revaluation reserve under Law 16/2012 of 27 December 2012

In accordance with Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, in 2013 the Company revalued its property, plant and equipment. The associated revaluation reserve amounted to Euros 123,959 thousand, net of the 5% capital gains tax, and did not vary in 2022 or 2021.

The revaluation is open to inspection by the Spanish taxation authorities for a three-year period from the date of filing the 2012 income tax return. Once this three-year period has elapsed, the balance may be used to offset losses or increase the Company's capital. Once a period of 10 years has elapsed this balance may be released to freely distributable reserves. Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

- INALTA assets revaluation reserve

The balance of this reserve at 31 December 2022 and 2021 was negative in an amount of Euros 20,470 thousand and reflected the difference between the value for tax purposes of the assets of INALTA (merged with Red Eléctrica in 2006) and their revalued amount in accordance with Law 16/2012 of 27 December 2012. Given that the carrying amount of the assets recorded in the business combination in 2006 exceeded their revalued amount in accordance with Law 16/2012 of 27 December 2012, the Company did not recognise an increase in equity, but instead recognised the asset revaluation with a charge to this reserve.

There were no movements in the revaluation reserve during 2022 or 2021.

- Other reserves

These include voluntary reserves of Euros 613,301 thousand at 31 December 2022 (Euros 496,220 thousand at 31 December 2021). These reserves have primarily been generated in the distribution of prior years' profit.

This line item also comprises the reserve for actuarial gains and losses, which is negative in an amount of Euros 3,449 thousand (a negative amount of Euros 15,800 thousand in 2021), deriving from the measurement of the Company's commitments with its serving and retired personnel (see note 14).

Furthermore, reserves also include the capitalisation reserve of Euros 48,778 thousand at 31 December 2022 and 2021, arising from the reclassification of voluntary reserves to the capitalisation reserve in 2015 with a charge to 2019 profit. The capitalisation reserve for the year ended 31 December 2022 will be held in Red Eléctrica Corporación, S.A., as head of the tax group. As provided for by article 25 of Income Tax Law 27/2014 of 27 November 2014, the tax group to which the Company belongs appropriates this capitalisation reserve pursuant to article 62.1 d) of the aforementioned Law. This reserve will be restricted for a period of five years. Each company forming part of the tax group has adjusted income tax for the year in connection with this reserve (see note 23).

- **Own shares**

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

- **Profit for the year**

Profit for the year totals Euros 513,558 thousand (Euros 552,845 thousand at 31 December 2021).

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

No interim dividends were distributed to the Parent in 2022. Total interim dividends of Euros 435,763 thousand were distributed in 2021.

These interim dividends did not exceed the profits generated by the Company since the end of the previous reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

- c) **Valuation adjustments**

This line item reflects, under hedging transactions, the changes in value of derivative financial instruments designated as cash flow hedges. At 31 December 2022 these variations result in an increase of Euros 3,049 thousand (a decrease of Euros 51,745 thousand at 31 December 2021).

At 31 December 2022, under other, this item comprises deferred tax income for deductions and credits of Euros 139,593 thousand (Euros 125,870 thousand in 2021) in respect of investments in fixed assets in the Canary Islands (see notes 5-j and 23).

- d) **Grants, donations and bequests received**

Grants, donations and bequests received at 31 December 2022 and 2021 comprise non-repayable capital grants awarded by different official bodies.

This item also includes amounts received under agreements with third parties to finance or pay for the Company's fixed assets.

Movement in grants in 2022 and 2021 is as follows:

Thousands of Euros	31 December 2020	Additions	Amounts transferred to the income statement	31 December 2021	Additions	Amounts transferred to the income statement	31 December 2022
Grants	402,933	22,213	(15,719)	409,427	24,449	(16,364)	417,512

Amounts transferred to the income statement reflect grants taken to profit or loss on the basis of the useful life of the corresponding facilities (see note 5-j).

14 Non-current and Current Provisions

Movement in non-current provisions during 2022 and 2021 is as follows:

Thousands of Euros	31 December 2020	Additions	Applications / Reversals	Actuarial gains and losses	31 December 2021	Additions	Applications / Reversals	Actuarial gains and losses	31 December 2022
Provisions for employee benefits	64,528	2,538	(1,830)	(8,641)	56,595	11,208	(1,367)	(16,467)	49,969
Other provisions	53,591	14,459	(13,572)	-	54,478	14,445	(11,254)	-	57,669
Total	118,119	16,997	(15,402)	(8,641)	111,073	25,653	(12,621)	(16,467)	107,638

- **Provisions for employee benefits**

Provisions for employee benefits mainly reflect defined benefit plans, which primarily include the Company's future commitments (essentially health insurance) vis-à-vis its personnel from the date of their retirement,

calculated using actuarial studies carried out by an independent expert. The assumptions made with regard to 2022 and 2021 were as follows:

	Actuarial assumptions	
	2022	2021
Discount rate	2.87%	1.21%
Cost increase	3.00%	3.00%
Mortality table	PERM/F 2020 1st rank	PERM/F 2020 1st rank

The effect of a one percentage point increase or decrease in the variations calculated for health insurance costs is as follows:

Thousands of Euros	2022					
	Health insurance cost (+1%)		Sensitivity	Health insurance cost (-1%)		Sensitivity
	4%	3%		2%	3%	
Current service cost	818	629	189	489	629	(140)
Interest cost of net post-employment health insurance costs	1,359	1,356	3	1,354	1,356	(2)
Accumulated post-employment benefit obligation for health insurance	41,804	34,346	7,458	28,554	34,346	(5,792)

Thousands of Euros	2021					
	Health insurance cost (+1%)		Sensitivity	Health insurance cost (-1%)		Sensitivity
	4%	3%		2%	3%	
Current service cost	1,367	1,023	344	774	1,023	(249)
Interest cost of net post-employment health insurance costs	665	663	2	661	663	(2)
Accumulated post-employment benefit obligation for health insurance	59,481	47,413	12,068	38,301	47,413	(9,112)

Meanwhile, the effect of a decrease of 0.50% in the discount rate used in 2022 and 2021 in the actuarial assumption for health insurance costs is as follows:

Thousands of Euros	2022			2021		
	Discount rate		Sensitivity	Discount rate		Sensitivity
	2.87%	2.37%		1.21%	0.71%	
Current service cost	629	715	86	1,023	1,182	159
Interest cost of net post-employment health insurance costs	1,356	1,120	(236)	663	390	(273)
Accumulated post-employment benefit obligation for health insurance	34,346	37,765	3,419	47,413	53,020	5,607

In 2022 and 2021 additions to provisions for employee benefits derive from the annual accrual of these plans, which are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2022 amount to Euros 725 thousand and Euros 1,591 thousand, respectively (Euros 1,178 thousand and Euros 771 thousand, respectively, in 2021). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised, net of tax, as reserves under equity. The gross amount recognised during the year in this connection totals a negative amount of Euros 16,467 thousand (Euros 8,641 thousand in 2021), which has been recorded under actuarial gains and losses in the statement of changes in equity.

Provisions for employee benefits also reflect the annual accrual of long-term remuneration.

- **Other provisions**

Other provisions basically include the amounts recorded by the Company every year to cover the potential unfavourable rulings relating mainly to administrative proceedings, administrative disciplinary proceedings, judicial reviews, primarily of expropriation proceedings, and out-of-court claims. The provisions recognised to cover these events are measured on the basis of the potential economic content of the ongoing appeals, litigation, claims and general legal or out-of-court proceedings to which the Company is party.

The Company has assessed the risks and does not expect any events to arise that would amount to liabilities not considered in its financial statements or that would have a significant impact on its profits.

15 Non-current and Current Payables

Details at 31 December 2022 and 2021 are as follows:

Thousands of Euros	31 December 2022	31 December 2021
Loans and borrowings	948,854	1,053,642
Derivative financial instruments	-	1,673
Other non-current liabilities	168	168
Non-current payables	949,022	1,055,483

Thousands of Euros	31 December 2022	31 December 2021
Loans and borrowings	71,492	313,155
Accrued interest payable	6,953	7,792
Derivative financial instruments	-	1,544
Suppliers of fixed assets	332,736	280,282
Other current payables	425,658	254,914
Current payables	836,839	857,687

At 31 December 2022 and 2021 non-current and current loans and borrowings comprise non-current and current loans and credit facilities.

At 31 December 2022 the interest accrued but not yet payable on these balances amounts to Euros 5,208 thousand (Euros 5,689 thousand in 2021) and has been recognised under accrued interest payable. This item also reflects the interest accrued but not yet payable on derivative financial instruments.

The fair value of all loans and borrowings has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date. The fair value of loans and borrowings at 31 December 2022 is Euros 915,132 thousand (Euros 1,387,739 thousand in 2021). The average interest rate accrued on loans and borrowings during the year was 0.94%, taking into account the hedges arranged (0.85% in 2021, taking into account hedges arranged).

These loans and borrowings are classified within Level 2 of the fair value hierarchy.

An analysis of derivative financial instruments is provided in note 19.

Suppliers of fixed assets essentially reflect balances incurred on the construction of technical electricity facilities and other items.

Other current payables mainly include items pending settlement to the Spanish electricity system and the balance at year end of the collateral swaps under the collateral assignment agreements executed to eliminate the credit risk of certain derivative financial instruments (see note 19).

There are no significant differences between the fair value and the carrying amount of these current payables at 31 December 2022 and 2021.

16 Non-current Accruals

Non-current accruals reflect amounts collected that will accrue in coming years. They mainly include liabilities arising from the contracts entered into by the Company to transfer the right to use dark fibre (see note 7). Non-current accruals also include the compensation paid by Électricité de France (EDF) under the agreement to adapt the electricity supply contract signed in 1997. These are multi-year commitments and could therefore be subject to the construction of facilities.

17 Financial Risk Management Policy

The Company's financial risk management policy is aligned with the Group's policy and establishes principles and guidelines to ensure that any significant risks that could affect its objectives and activities are identified, analysed, assessed, managed and controlled, and that these processes are carried out systematically and adhering to uniform criteria.

A summary of the main guidelines that comprise this policy is as follows:

- Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.
- Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources required to reduce it.
- Financial risk management should be focused on avoiding undesirable variations in the Company's core value, rather than generating extraordinary profits.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Company's strategy, by identifying the main financial risks and defining the initiatives to be taken, based on different financial scenarios.

The methodology for identifying, measuring, monitoring and controlling risk, as well as the management indicators and measurement and control tools specific to each risk, are implemented through the Group's Comprehensive Risk Management System, which is set forth in the General Comprehensive Risk Management Policy and in the General Comprehensive Risk Management and Control Procedure.

The financial risks to which the Company is exposed are as follows:

a) Market risk

Market risk reflects variations in the financial markets in terms of prices, interest and exchange rates, credit conditions and other variables that could affect short-, medium- and long-term finance costs.

Market risk is managed on the borrowings to be arranged (the currency, maturity and interest rates), and through the use of hedging instruments that allow the financial structure to be modified. Market risk specifically includes:

• **Interest rate risk**

Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates.

Interest rate risk management is mostly focused on hedging the interest rate on debt associated with the Company's activity. The financial debt structure at 31 December 2022 and 2021 is as follows:

Thousands of Euros	2022		2021	
	Fixed rate	Floating rate	Fixed rate	Floating rate
Total financial debt	4,298,870	328,449	5,023,664	407,910
Percentage	93%	7%	92%	8%

The financial debt structure is low risk with moderate exposure to fluctuations in interest rates, as a result of the debt policy implemented, which aims to bring the cost of debt into line with the financial rate of return applied to the Company's regulated assets, among other objectives.

The interest rate risk to which the Company is exposed at 31 December 2022 and 2021 arises from changes in the fair value of derivative financial instruments and mostly affects equity. A sensitivity analysis of this risk is as follows (in thousands of Euros):

Thousands of Euros	Effect on equity			
	Market interest rate fluctuations			
	2022		2021	
Effect on equity:	0.10%	-0.10%	0.10%	-0.10%
Interest rate hedges:				
- Cash flow hedges:				
Interest rate swap. EUR interest rate	1,340	(1,353)	1,876	(1,896)
Interest rate and exchange rate hedges:				
- Cash flow hedges:				
Cross-currency swap. EUR interest rate	928	(937)	1,427	(1,443)
Cross-currency swap. USD interest rate	(1,034)	1,044	(1,398)	1,413

This rise or decline of 0.10% in the 2022 interest rates would have decreased or increased profit by Euros 364 thousand (Euros 580 thousand in 2021).

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2022 and 2021.

- **Currency risk**

Currency risk management considers transaction risk arising on cash inflows and outflows in currencies other than the Euro.

With a view to reducing the currency risk on loans arranged with the Group company Red Eléctrica de España Finance S.L.U., the Company has arranged cash flow hedges through US Dollar/Euro cross-currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see note 19).

- **Credit risk**

In light of the nature of revenues from electricity transmission and electricity system operation in Spain, and the solvency of the electricity system agents, the Company's principal activities are not significantly exposed to credit risk.

In any event, credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary.

At each year end the Company's exposure to credit risk in connection with the fair value of its derivatives is insignificant, having entered into collateral assignment agreements entailing collateral swaps with various counterparties since 2015 in order to mitigate this risk.

At 31 December, less than 1% of balances other than regulated revenue are past due, approximately (less than 1% in 2021), and the Company does not consider there to be any risk as regards recoverability. The credit quality of the receivables, based on the contents of the first paragraph of this section, is considered to be high.

- b) **Liquidity risk**

Liquidity risks arise due to differences between the amounts or the collection and payment dates of the different assets and liabilities of the Company.

Liquidity risk is mostly managed by controlling the timing of financial debt and maintaining a considerable volume of available capital during the year.

The Company's liquidity position for the year was based on its robust cash flow generation, supported by undrawn current and non-current credit facilities amounting to Euros 2,063,504 thousand at 31 December 2022 (Euros 2,059,037 thousand at 31 December 2021), and cash surpluses of Euros 894,292 thousand (Euros 176,841 thousand in 2021)..

18 Analysis of Financial Instruments

- a) **Analysis by category**

The carrying amounts of each category of financial instruments, except investments in Group companies and associates, are as follows:

- Financial assets

	Financial instruments by category			
	31.12.2022			
	Financial assets at fair value through equity	Financial assets at amortised cost	Hedging derivatives	Total
Thousands of Euros				
Equity instruments	468	-	-	468
Loans to third parties	-	3,669	-	3,669
Derivative financial instruments	-	-	91,298	91,298
Other financial assets	-	119,692	-	119,692
Non-current financial assets	468	123,361	91,298	215,127
Trade and other receivables	-	995,996	-	995,996
Receivables from Group companies and associates	-	672	-	672
Loans to Group companies and associates	-	10,335	-	10,335
Other financial assets	-	306,008	-	306,008
Current financial assets	-	1,313,011	-	1,313,011
Total	468	1,436,372	91,298	1,528,138

	Financial instruments by category			
	31.12.2021			
	Financial assets at fair value through equity	Financial assets at amortised cost	Hedging derivatives	Total
Thousands of Euros				
Equity instruments	468	-	-	468
Loans to third parties	-	3,546	-	3,546
Derivative financial instruments	-	-	16,848	16,848
Other financial assets	-	2,501	-	2,501
Non-current financial assets	468	6,047	16,848	23,363
Trade and other receivables	-	1,102,411	-	1,102,411
Receivables from Group companies and associates	-	1,077	-	1,077
Loans to Group companies and associates	-	-	-	-
Other financial assets	-	4,387	-	4,387
Current financial assets	-	1,107,875	-	1,107,875
Total	468	1,113,922	16,848	1,131,238

- Financial liabilities

Thousands of Euros	Financial instruments by category		
	31.12.2022		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Loans and borrowings	948,854	-	948,854
Payables to Group companies and associates	3,193,615	-	3,193,615
Derivative financial instruments	-	-	-
Other liabilities	168	-	168
Non-current financial liabilities	4,142,637	-	4,142,637
Loans and borrowings	78,445	-	78,445
Payables to Group companies and associates	476,619	-	476,619
Derivative financial instruments	-	-	-
Trade and other payables	1,681,524	-	1,681,524
Current financial liabilities	2,236,588	-	2,236,588
Total	6,379,225	-	6,379,225

Thousands of Euros	Financial instruments by category		
	31.12.2021		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Loans and borrowings	1,053,642	-	1,053,642
Payables to Group companies and associates	3,546,831	-	3,546,831
Derivative financial instruments	-	1,673	1,673
Other liabilities	168	-	168
Non-current financial liabilities	4,600,641	1,673	4,602,314
Loans and borrowings	320,947	-	320,947
Payables to Group companies and associates	580,700	-	580,700
Derivative financial instruments	-	1,544	1,544
Trade and other payables	1,147,059	-	1,147,059
Current financial liabilities	2,048,706	1,544	2,050,250
Total	6,649,347	3,217	6,652,564

b) Analysis by maturity

- Financial liabilities

Thousands of Euros	2022								
	Maturity of financial liabilities							Valuation adjustments	Total
	2023	2024	2025	2026	2027	Thereafter			
Payables to Group companies in Euros	474,166	-	500,000	500,000	675,000	1,315,000	(30,913)	3,433,253	
Payables to Group companies in foreign currency	2,592	-	140,633	-	-	93,756	-	236,981	
Loans and borrowings in Euros	78,470	279,993	79,993	74,993	63,882	450,384	(416)	1,027,299	
Other liabilities	-	-	-	-	-	168	-	168	
Trade and other payables	1,681,524	-	-	-	-	-	-	1,681,524	
Total	2,236,752	279,993	720,626	574,993	738,882	1,859,308	(31,329)	6,379,225	

	2021								
	Maturity of financial liabilities							Valuation adjustments	Total
	2022	2023	2024	2025	2026	Thereafter			
Thousands of Euros									
Payables to Group companies in Euros	578,276	300,000	-	500,000	575,000	1,990,000	(38,917)	3,904,359	
Payables to Group companies in foreign currency	2,441	-	-	132,439	-	88,292	-	223,172	
Loans and borrowings in Euros	320,976	88,184	296,660	79,993	74,993	514,266	(483)	1,374,589	
Other liabilities	-	-	-	-	-	168	-	168	
Trade and other payables	1,147,059	-	-	-	-	-	-	1,147,059	
Total	2,048,752	388,184	296,660	712,432	649,993	2,592,726	(39,400)	6,649,347	

An analysis by maturity of derivative financial instruments is provided in note 19.

19 Derivative Financial Instruments

In line with its financial risk management policy, the Company has arranged three types of derivative financial instruments: interest rate swaps, forward interest rate swaps and cross-currency swaps. Interest rate swaps consist of exchanging debt at floating interest rates for debt at fixed rates, in a swap where the future cash flows to be hedged are the interest payments. Forward interest rate swaps cover the finance cost of highly probable forecast future transactions. Similarly, cross-currency swaps allow fixed- or floating-rate debt in US Dollars to be exchanged for fixed- or floating-rate debt in Euros, thereby hedging the interest and capital to be paid in US Dollars.

The Company has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivatives using generally accepted measurement models.

When determining the credit risk adjustment, the Company applied a technique based on calculating total expected exposure (which considers current and potential exposure) through the use of simulations, adjusted for the probability of default over time and for loss given default allocable to the Company and to each counterparty.

The total expected exposure of derivative financial instruments is determined using observable market inputs, such as interest rate curves, exchange rates and volatilities based on market conditions at the measurement date.

The inputs used to determine own and counterparty credit risk (probability of default) are mostly based on own credit spreads and those of comparable companies currently traded on the market (credit default swap (CDS) curves, IRR of debt issues, etc.).

Furthermore, adjustments of fair value for credit risk take into account credit enhancements for guarantees and collateral when determining the loss given default to be used for each position. Loss given default is considered to be constant over time. A minimum recovery rate of 40% has been used in cases where there is no credit enhancement for guarantees or collateral.

To eliminate the credit risk from the cross-currency swaps arranged to hedge the exchange rate for USPP issuance, collateral assignment agreements entailing collateral swaps were entered into with the counterparties in 2015 and remained in force in 2022 and 2021.

As regards observable inputs, the Company uses mid-market prices obtained from reputable external information sources in the financial markets.

Derivative financial instruments are therefore classified within Level 2 of the fair value hierarchy.

Details of derivative financial instruments by type at 31 December 2022 and 2021 are as follows:

				31.12.2022			
				Non-current		Current	
Thousands of Euros				Assets	Liabilities	Assets	Liabilities
				Hedged principal	Term to expiry		
Interest rate hedges:							
- Cash flow hedges:							
Interest rate swap	-	-	-	-	-	-	-
- Forward cash flow hedges:							
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	15,301	-	-	-
Forward interest rate swap beginning in 2024	100,000	thousand Euros	Up to 2030	15,878	-	-	-
Forward interest rate swap beginning in 2025	200,000	thousand Euros	Up to 2031	28,743	-	-	-
Interest rate and exchange rate hedges:							
- Cash flow hedges: (Cross-currency swap)							
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	2,917	-	-	-
Exchange rate hedges				28,459	-	-	-
Total				91,298	-	-	-

				31.12.2021			
				Non-current		Current	
Thousands of Euros				Assets	Liabilities	Assets	Liabilities
				Hedged principal	Term to expiry		
Interest rate hedges:							
- Cash flow hedges:							
Interest rate swap	225,000	thousand Euros	Up to 2022	-	-	-	(1,544)
- Forward cash flow hedges:							
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	1,131	(1,673)	-	-
Forward interest rate swap beginning in 2024	100,000	thousand Euros	Up to 2030	1,655	-	-	-
Forward interest rate swap beginning in 2025	200,000	thousand Euros	Up to 2031	2,758	-	-	-
Interest rate and exchange rate hedges:							
- Cash flow hedges: (Cross-currency swap)							
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	(3,496)	-	-	-
Exchange rate hedges				14,800	-	-	-
Total				16,848	(1,673)	-	(1,544)

Details of these derivative financial instruments by expiry date are as follows:

	31.12.2022									
	Hedged principal	Term to expiry	2023	2024	2025	2026	2027	2028 and thereafter	Total	
Thousands of Euros										
Interest rate hedges:										
- Cash flow hedges:										
Interest rate swap	-	-	-	-	-	-	-	-	-	
- Forward cash flow hedges:										
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	-	-	-	-	-	15,301	15,301
Forward interest rate swap beginning in 2024	100,000	thousand Euros	Up to 2030	-	-	-	-	-	15,878	15,878
Forward interest rate swap beginning in 2025	200,000	thousand Euros	Up to 2031	-	-	-	-	-	28,743	28,743
Interest rate and exchange rate hedges:										
- Cash flow hedges: (Cross-currency swap)										
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	-	-	(78)	-	-	2,995	2,917
Exchange rate hedges				-	-	17,075	-	-	11,384	28,459
Total				-	-	16,997	-	-	74,301	91,298

	31.12.2021									
	Hedged principal	Term to expiry	2022	2023	2024	2025	2026	2027 and thereafter	Total	
Thousands of Euros										
Interest rate hedges:										
- Cash flow hedges:										
Interest rate swap	225,000	thousand Euros	Up to 2022	(1,544)	-	-	-	-	-	(1,544)
- Forward cash flow hedges:										
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	-	-	-	-	-	(542)	(542)
Forward interest rate swap beginning in 2024	100,000	thousand Euros	Up to 2030	-	-	-	-	-	1,655	1,655
Forward interest rate swap beginning in 2025	200,000	thousand Euros	Up to 2031	-	-	-	-	-	2,758	2,758
Interest rate and exchange rate hedges:										
- Cash flow hedges: (Cross-currency swap)										
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	-	-	-	(644)	-	(2,852)	(3,496)
Exchange rate hedges				-	-	-	8,880	-	5,920	14,800
Total				(1,544)	-	-	8,236	-	6,939	13,631

20 Trade and Other Payables

Details at 31 December 2022 and 2021 are as follows:

Thousands of Euros	31 December 2022	31 December 2021
Payables to Group companies	26,311	4,813
Other payables	905,601	601,017
Personnel	17,529	10,846
Public entities, other	43,266	28,966
Total	992,707	645,642

Payables to Group companies at 31 December 2022 and 2021 include amounts payable to other companies in the Group. This item also reflects amounts related to the contracts entered into by the Company to transfer the right to use dark fibre (see note 7).

Other payables in 2022 and 2021 reflect payables arising from repair and maintenance work and modifications carried out by the Company to technical electricity facilities and other items. This item also includes amounts pending reimbursement in respect of provisional tariffs, which have arisen due to the difference between the amount settled and collected and the transmission service revenue accrued from 2016 to 2022 (see notes 3 and 24).

Other payables likewise reflect current liabilities under contracts with customers in respect of revenue received in advance for engineering and construction work and modifications to electricity facilities for third parties.

Personnel reflects the amounts payable to the Company's staff.

At 31 December 2022 and 2021 the balance of public entities, other mostly includes value added tax (VAT) payable by the Company.

There are no significant differences between the fair value and the carrying amount at 31 December 2022 and 2021.

21 Current Accruals

At 31 December 2022 and 2021 this item reflects amounts collected in advance that will accrue in the coming year.

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

On 29 September 2022, Law 18/2022 of 28 September 2022 on the creation and growth of companies was published in the Official State Gazette (BOE). The objectives of this law include reducing commercial delinquency and improving access to financing.

Law 18/2022 of 28 September 2022 amends, among other legislation, Law 15/2010 of 5 July 2010, which amended Law 3/2004 of 29 December 2009, containing measures to combat late payments in commercial transactions, which, inter alia, regulates payment periods in commercial relations between companies or between companies and public entities. Specifically, it amends additional provision three.

With regard to the amendments to additional provision three, Law 18/2022 states that:

- All trading companies shall expressly disclose their average supplier payment period in the notes to the annual accounts.
- Listed trading companies, and unlisted companies that do not present abbreviated annual accounts, shall publish their average supplier payment period, the monetary volume and number of invoices paid within the maximum period stipulated by legislation on late payments, and the percentage they represent with

respect to the total number of invoices and the total monetary payments to their suppliers. This information shall be disclosed in the notes to their annual accounts, and published on their website if they have one.

The Spanish Accounting and Auditing Institute (ICAC) has published the Spanish Accounting and Auditing Institute's Official Gazette (BOICAC) no. 132/2022, which states that Law 18/2022 of 28 September 2022 extends the information that trading companies must disclose in the notes to their annual accounts, and which they must also publish on their website, if they have one. However, it does not modify the methodology for calculating the average supplier payment period. Therefore, its previous resolution of 29 January 2016, which clarified and systematised the information that trading companies must disclose in the notes to individual and consolidated annual accounts, in compliance with the reporting requirement of additional provision three of Law 15/2010 of 5 July 2010, which amended Law 3/2004 of 29 December 2004 establishing measures to combat late payments in commercial transactions, remains unchanged.

Pursuant to the legislation, the information on the average supplier payment period for 2022 and 2021 is as follows:

Days	2022	2021
Average supplier payment period	41	46
Transactions paid ratio	43	47
Transactions payable ratio	15	5

Thousands of Euros	2022	2021
Total payments made	364,875	297,268
Total payments outstanding	21,815	12,151

Thousands of Euros	2022	2021
Amount of invoices paid within the maximum period stipulated	333,379	262,705
Total payments made	364,875	297,268
Amount of invoices paid within the maximum period stipulated as a % of total payments made	91.4%	88.4%

	2022	2021
Number of invoices paid within the maximum period stipulated	20,365	18,287
Total number of invoices paid	22,773	21,208
Number of invoices paid within the maximum period stipulated as a % of total invoices paid	89.4%	86.2%

23 Taxation

Since its incorporation in 2007 the Company has filed consolidated tax returns as one of the subsidiaries in the tax group 57/02. The parent of the tax group is Red Eléctrica Corporación, S.A.

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 2022 and 2021 with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2022	2021
Accounting profit for the year before tax	682,298	735,359
Permanent differences	(3,384)	1,634
Taxable accounting income	678,914	736,993
Temporary differences:		
Originating in current year	14,204	427
Reversals during the year	67,917	60,133
Total	82,121	60,560
Offset of tax loss carryforwards	-	-
Taxable income	761,035	797,553

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	2022	2021
Accounting profit for the year before tax	682,298	735,359
Permanent differences	(3,384)	1,634
Taxable accounting income	678,914	736,993
Tax rate	25%	25%
Tax at the current rate	169,729	184,248
Deductions	(6,550)	(6,060)
Expense for the year	163,179	178,188
Foreign income tax	56	257
Other adjustments	5,505	4,069
Income tax expense	168,740	182,514
Effective income tax rate	24.73%	24.82%
Breakdown of income tax:		
Current income tax	188,602	197,855
Deferred income tax	(19,931)	(14,516)
Other adjustments	69	(825)
Income tax expense	168,740	182,514

The effective rate of income tax is influenced by permanent differences, deductions and foreign income tax. The effective tax rate in 2022 is 24.73% (24.82% in 2021).

Permanent differences primarily relate to provisions for liabilities and the capitalisation reserve. The capitalisation reserve adjustment is due to the increase in equity, in accordance with article 25 of Law 27/2014.

As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2022 will be held in Red Eléctrica Corporación, S.A., as head of the tax group.

Deductions mainly comprise those for investments in fixed assets in the Canary Islands, research, development and technological innovation expenditure, as well as international double taxation relief.

Given the financial nature of the deduction for investments in fixed assets in the Canary Islands, the Company recognises the impact on the income statement over several years based on the useful lives of the assets for which they were granted, in accordance with Recognition and Measurement Standard 13, Income Tax, of the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007, resolution 636/2008 issued by the Spanish Accounting and Auditing Institute (ICAC) on 21 October 2008, and the resolution issued by the ICAC on 9 February 2016.

Deferred deductions in 2022 amount to Euros 5,436 thousand (Euros 4,892 thousand in 2021) and the amount still to be recognised at 31 December 2022 is Euros 139,593 thousand (Euros 125,870 thousand in 2021).

c) Deferred tax assets and liabilities

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2022 and 2021, and the corresponding cumulative tax effect (assets and liabilities), are as follows:

	2022		2021	
	Income statement	Income and expense recognised directly in equity	Income statement	Income and expense recognised directly in equity
Thousands of Euros				
Deferred tax assets:				
Originating in prior years	32,971	18,777	36,798	28,396
Originating in current year	4,550	-	434	-
Reversals of prior years	(4,531)	(21,365)	(4,249)	(9,619)
Adjustment of prior years	2,114	-	(12)	-
Total deferred tax assets	35,104	(2,588)	32,971	18,777
Deferred tax liabilities:				
Originating in prior years	(455,684)	(136,476)	(474,016)	(134,311)
Originating in current year	(1,748)	(3,711)	(2,257)	(2,165)
Reversals of prior years	21,660	-	20,589	-
Adjustment of prior years	(2,103)	-	-	-
Total deferred tax liabilities	(437,875)	(140,187)	(455,684)	(136,476)

Deferred tax assets include reversals of tax prepaid in 2013 and 2014 as a result of applying the limitation on the tax deductibility of depreciation and amortisation charges stipulated in article 7 of Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity, and those arising as a result of the commencement, in 2015, of depreciation and amortisation for tax purposes of the net increase in value resulting from the revaluations applied to the balance sheet at 31 December 2012, pursuant to article 9 of the same Law. This item also reflects amounts in respect of long-term employee benefits.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of REDALTA and INALTA, the companies absorbed by Red Eléctrica Corporación, S.A. in 2006, as well as capital grants received. In 2022, deferred tax liabilities due to accelerated depreciation, as provided for in additional provision eleven of Royal Legislative Decree 4/2004 and transitional provision thirty-four of Income Tax Law 27/2014, amounted to Euros 378,530 thousand (Euros 396,760 thousand in 2021).

The notes to Red Eléctrica Corporación, S.A.'s annual accounts for 2006 contained disclosures on the merger by absorption of REDALTA and INALTA, as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts included disclosures on Red Eléctrica Corporación, S.A.'s contribution to the Company of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system.

d) 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.

In 2022, general inspection proceedings commenced in relation to VAT, personal income tax withholdings and non-resident withholdings for tax periods from February 2018 to December 2020. The years open to inspection with respect to income tax (under the consolidated tax regime) encompass 2017 to 2020.

The Company has tax proceedings ongoing in respect of personal income tax withholdings for 2012 and 2013, which are currently undergoing judicial review. The Company considers that its conduct was lawful based on reasonable interpretations of the applicable legislation, and that no penalties will be imposed and no significant tax liabilities will arise for the Company.

In addition, in 2020 the tax group applied for rectification of the instalments for 2016 to 2020. At the end of that year, the taxation authorities resolved to uphold the rectification applied for in respect of 2016 and 2017, while the decision received with regard to the remaining years is being appealed.

In general, and pursuant to Spanish tax legislation, at the date of authorising these annual accounts for issue, the Company has open to inspection by the taxation authorities all the main applicable taxes for the last four years that are not subject to the proceedings referred to in the preceding paragraphs.

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

24 Income and Expenses

a) Revenue

Details for 2022 and 2021 are as follows (in thousands of Euros):

Thousands of Euros	2022	2021
Transmission and system operation services rendered	1,562,054	1,579,728
Other services rendered	36,952	29,961
Total	1,599,006	1,609,689

Transmission and system operation services rendered essentially reflect the regulated revenue for electricity transmission and electricity system operation services (see note 3).

The remuneration for both of these services is set by the CNMC through Circulars that determine the methods and parameters for calculating the remuneration of the transmission activity based on the costs necessary to construct, operate and maintain the technical electricity facilities, as well as the remuneration for the system operator, pursuant to the powers bestowed upon this Commission by Royal Decree-Law 1/2019 (see note 3).

Revenue from the transmission activity in Spain in 2022 and 2021 was mainly accrued on the basis of the Company's calculations pursuant to the regulations in force, given that the CNMC has yet to publish the definitive remuneration for 2022, 2021 and 2020 (see note 3).

In 2022, following the publication in December of Ministerial Orders TED/1311/2022 and TED/1343/2022 (see note 3) in relation to transmission revenue for 2016, and for 2017, 2018 and 2019, respectively, an analysis was undertaken to determine possible differences between the definitive amounts approved and the amounts accrued by the Company, and the pertinent adjustments were made in 2022 for any such possible differences. This analysis also encompassed 2020, 2021 and 2022, for which the CNMC has yet to approve the definitive remuneration.

Moreover, inasmuch as the annual tariff orders have been provisionally rolling forward the amount stipulated in Ministerial Order IET/981/2016 (see note 3) since 2017, the balance sheet includes a liability reflecting the estimated figure to be reimbursed to the system in respect of the difference between the amount settled provisionally and the revenue accrued from 2016 to 2022 (see note 20).

Furthermore, as regards the remuneration for the system operator, the revenue for 2022 and 2021 has been accrued in accordance with CNMC Circular 4/2019, which determines the system operator's remuneration for 2020 and thereafter. However, revenue for 2014 to 2019, which is provisional, was accrued on a best estimate basis applying the remuneration methodology for the activity in question. Thus, in 2022 and 2021 the remuneration calculation methodology laid down in the draft Royal Decree, which MITERD submitted for public consultation in 2021, has been considered. At the reporting date this legislation had yet to be published, as mentioned in note 3.

The Company considers that the revenue resulting from the final decisions in these processes will not differ significantly from the estimated revenue recognised.

Other services rendered in 2022 and 2021 basically include engineering, construction and maintenance work, modifications to electricity facilities requested by third parties, inspection and verification of metering equipment, and certain grants that form part of the selling price of goods and services (see note 5-j).

b) Other operating income

At 31 December 2022, this item includes revenue associated with the stage of completion of the construction work on the Salto de Chira 200 MW pumped-storage hydroelectric power plant and the discounting of the financial asset at the effective rate for the project, totalling Euros 64,225 thousand (see note 9).

This item likewise includes non-trading and other operating income amounting to Euros 11,332 thousand in 2022 (Euros 8,092 thousand in 2021), primarily reflecting insurance payouts for accidents, breakdowns and claims covered by the policies arranged.

c) Supplies and other operating expenses

Supplies and other operating expenses in 2022 and 2021 mainly comprise repair and maintenance costs for technical electricity facilities and other items owned by the Company. In 2022 this item also includes expenses incurred on the Salto de Chira concession amounting to Euros 59,430 thousand (see note 24-b)

d) Personnel expenses

In 2022 and 2021 this item comprises the following (in thousands of Euros):

Thousands of Euros	2022	2021
Salaries and wages	92,662	77,824
Social security	20,440	19,516
Contributions to pension funds and similar obligations	1,653	1,625
Other items and employee benefits	4,726	5,818
Total	119,481	104,783

Salaries and wages reflect employee remuneration and termination benefits (Euros 10,525 thousand in 2022 and Euros 1,063 thousand in 2021), and the accrual of deferred remuneration.

At 31 December 2022 and 2021, other items and employee benefits reflect the accrual of employee benefits.

At 31 December 2022 and 2021 the Company has capitalised personnel expenses, under operating expenses, in relation to assets under development or construction (see notes 6 and 7).

Workforce

The average headcount of the Company in 2022 and 2021, distributed by professional category, is as follows:

	2022	2021
Management team	58	54
Senior technicians	374	329
Technicians	485	500
Specialist and administrative staff	362	370
Total	1,279	1,253

The distribution of the Company's employees at 31 December 2022 and 2021 by gender and category is as follows:

	2022			2021		
	Men	Women	Total	Men	Women	Total
Management team	41	17	58	42	17	59
Senior technicians	268	105	373	252	98	350
Technicians	424	74	498	417	75	492
Specialist and administrative staff	316	44	360	324	44	368
Total	1,049	240	1,289	1,035	234	1,269

The average number of employees with a disability rating of 33% or higher in 2022 and 2021, distributed by gender and category, is as follows:

	2022			2021		
	Men	Women	Total	Men	Women	Total
Senior technicians	-	-	-	1	-	1
Technicians	7	-	7	5	-	5
Specialist and administrative staff	3	1	4	3	1	4
Total	10	1	11	9	1	10

e) Finance costs

Details at 31 December 2022 and 2021 are as follows (in thousands of Euros):

Thousands of Euros	2022	2021
Group companies	61,534	72,044
Other	16,399	19,142
Provision adjustments	1,591	771
Total	79,524	91,957

This item basically reflects finance costs on loans and credit facilities from Group companies. It also includes finance costs on loans and borrowings, bonds and other marketable securities.

25 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 2022 and 2021 are as follows:

Thousands of Euros	2022					2021				
	Non-current accruals	Loans and receivables	Security deposits paid	Payables and current accruals	Debt	Non-current accruals	Loans and receivables	Security deposits paid	Payables and current accruals	Debt
Red Eléctrica Corporación, S.A.	-	10,335	1,401	14,950	39,846	-	-	1,401	345	67,445
Red Eléctrica Internacional, S.A.U.	-	-	-	-	19,940	-	-	-	-	17,461
Red Eléctrica Infraestructuras de Telecomunicación, S.A.	64,587	-	-	10,102	-	67,381	-	-	8,491	-
Red Eléctrica Infraestructuras en Canarias, S.A.U.	-	-	-	1,474	-	-	-	-	2,928	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U.	-	-	-	298	-	-	-	-	403	-
Red Eléctrica de España Finance, S.L.U.	-	-	-	24	236,982	-	-	-	13	223,172
Interconexión Eléctrica Francia-España, S.A.S	-	644	-	9,336	-	-	890	-	10,215	-
Red Eléctrica Financiaciones, S.A.U.	-	-	-	-	3,298,513	-	-	-	-	3,702,454
Redcor Reaseguros, S.A.	-	-	-	-	38,708	-	-	-	-	99,043
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.	-	28	-	-	-	-	-	-	-	-
Red Eléctrica del Sur, S.A.	-	-	-	-	-	-	187	-	-	-
Hispasat, S.A.	-	-	-	38	-	-	-	-	26	-
Hispasat Canarias, S.L.	-	-	-	23	-	-	-	-	22	-
Total Group companies	64,587	11,007	1,401	36,245	3,633,989	67,381	1,077	1,401	22,443	4,109,575

Payables and debt vis-à-vis Group companies mainly include non-current debt amounting to Euros 3,193,615 thousand at 31 December 2022 (Euros 3,546,831 thousand at 31 December 2021) and current debt totalling Euros 413,358 thousand at 31 December 2022 (Euros 517,946 thousand at 31 December 2021). Debt vis-à-vis Group companies and associates also includes the interest accrued but not yet payable on such debt, and balances payable to Group companies and associates as suppliers of fixed assets.

Debt vis-à-vis Red Eléctrica Corporación, S.A. includes the short-term credit facility arranged with this company amounting to Euros 850 million, of which Euros 38,311 thousand had been drawn down at 31 December 2022 (Euros 62,906 thousand at 31 December 2021). The average interest rate for the period was 0.78% (0.41% in 2021).

In addition, loans and receivables vis-à-vis Red Eléctrica Corporación, S.A. reflect the income tax receivable by the Company from Red Eléctrica Corporación, S.A., the head of the tax group (see note 23).

Debt vis-à-vis Red Eléctrica Internacional, S.A.U. basically includes the short-term credit facility arranged with this company for Euros 25 million, of which Euros 19,853 thousand had been drawn down at 31 December 2022 (Euros 17,443 thousand at 31 December 2021). The average interest rate for the period was 0.78% (0.41% in 2021).

Accruals vis-à-vis Red Eléctrica Infraestructuras de Telecomunicación, S.A. reflect the liabilities arising from the contracts entered into by the Company to transfer the right to use dark fibre, which have yet to be taken to the income statement.

Debt vis-à-vis Red Eléctrica de España Finance, S.L.U. reflects loans for a nominal amount of US Dollars 250 million (US Dollars 250 million in 2021), equivalent to Euros 234,390 thousand at 31 December 2022 (Euros 220,731 thousand in 2021). These loans fall due between 2025 and 2035 and were arranged simultaneously and with conditions similar to those of the bonds issued by Red Eléctrica de España Finance, S.L.U., jointly and severally guaranteed by the Company and Red Eléctrica Corporación, S.A., in the US private placement (USPP) market. The fair value of these loans is Euros 242,305 thousand at 31 December 2022 (Euros 264,640 thousand at 31 December 2021). The average interest rate accrued on these loans in the year was 4.39%, considering hedges (4.37% in 2021, considering hedges). With a view to reducing the risk on US Dollar loans, the Company has arranged cash flow hedges through US Dollar/Euro cross-currency swaps on the principal and interest (see note 19).

Debt vis-à-vis Red Eléctrica Financiaciones, S.A.U. includes loans arranged with this company since 2011 with a nominal amount of Euros 3,290 million in 2022 (Euros 3,690 million in 2021). These loans fall due between 2023 and 2033 and were arranged simultaneously and with conditions similar to those of the bonds issued by Red Eléctrica Financiaciones, S.A.U. in the Euromarket, jointly and severally guaranteed by the Company and Red Eléctrica Corporación, S.A., as part of the Guaranteed Euro Medium Term Note Programme (EMTN Programme). The fair value of these loans is Euros 2,918,292 thousand at 31 December 2022 (Euros 3,782,122 thousand at 31 December 2021). The average interest rate accrued on these loans in the year was 1.52%, considering hedges (1.82% in 2021, considering hedges).

Furthermore, the loan agreement entered into with Red Eléctrica Financiaciones, S.A.U. for an amount of Euros 1,000 million remains in force. This loan agreement was arranged simultaneously and with conditions similar to those of the promissory notes issued by Red Eléctrica Financiaciones, S.A.U. in the Euromarket, jointly and severally guaranteed by the Company and Red Eléctrica Corporación, S.A., as part of the Euro Commercial Paper Programme (ECP Programme). There are no drawn down loans at 31 December 2022 and 2021, although drawdowns were made over the course of 2021. The average interest rate on this debt in 2021 was minus 0.31%.

Debt vis-à-vis Red Eléctrica Financiaciones, S.A.U. includes the short-term credit facility arranged with this company in 2016 for Euros 25 million, of which Euros 16,778 thousand had been drawn down at 31 December 2022 (Euros 13,941 thousand at 31 December 2021). The average interest rate for the period was 0.78% (0.41% in 2021).

Debt vis-à-vis Redcor Reaseguros, S.A. includes the current cash pooling agreement arranged with this company amounting to Euros 75 million, of which Euros 38,555 thousand had been drawn down at 31 December 2022 (Euros 23,673 thousand at 31 December 2021). The average interest rate accrued on this facility was 0.83% in 2022 (0.41% in 2021). In 2021, this item also reflected another loan arranged with this company for Euros 75 million, which was cancelled during the year. The average interest rate for the period was 1.35% (0.87% in 2021).

There are no significant differences between the fair value and the carrying amount of short-term facilities with Group companies at 31 December 2022 and 2021.

This debt is classified within Level 2 of the fair value hierarchy.

Details of transactions with Group companies and associates during 2022 and 2021 are as follows:

Thousands of Euros	2022					2021				
	Fixed assets	Services rendered	Other income	Other expenses	Finance costs	Fixed assets	Services rendered	Other income	Other expenses	Finance costs
Red Eléctrica Corporación, S.A.	-	-	-	65,056	2,779	135	-	-	59,652	1,446
Red Eléctrica Internacional, S.A.U.	-	-	-	-	149	-	-	-	332	68
Red Eléctrica Infraestructuras de Telecomunicación, S.A.	420	547	4,678	45,698	-	-	-	4,525	41,436	-
Red Eléctrica Infraestructuras en Canarias, S.A.U.	14	-	-	2,871	-	2,928	-	-	77	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U.	1,100	-	-	1,651	-	411	-	-	1,716	-
Red Eléctrica de España Finance, S.L.U.	-	-	-	-	13,425	-	-	-	-	11,749
Interconexión Eléctrica Francia-España, S.A.S.	5,302	2,253	408	-	-	5,512	2,180	395	-	-
Red Eléctrica Financiaciones, S.A.U.	-	-	-	-	44,016	-	-	-	-	58,128
Redcor Reaseguros, S.A.	-	-	-	-	1,165	-	-	-	-	653
Red Eléctrica del Sur, S.A.	-	-	-	-	-	-	680	-	-	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.	-	-	28	-	-	-	-	-	-	-
Hispasat, S.A.	-	-	-	189	-	-	-	-	178	-
Hispasat Canarias, S.L.	-	-	-	-	-	-	-	-	23	-
Total Group companies	6,836	2,800	5,114	115,465	61,534	8,986	2,860	4,920	103,414	72,044

Other expenses payable to Red Eléctrica Corporación, S.A. relate to property leases and to services rendered by this company.

The contracts arranged between the Company and its sole shareholder (Red Eléctrica Corporación, S.A.) at 31 December 2022, in exchange for consideration, are for the lease of properties at a fixed price that is updated annually in line with the CPI, and for the provision of management support services for the Company's activities. The only contract of a financial nature arranged between the Company and Red Eléctrica Corporación, S.A. is the short-term credit facility mentioned above.

These contracts between the Company and Red Eléctrica Corporación, S.A. have 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.

Other expenses payable to Red Eléctrica Infraestructuras de Telecomunicación, S.A. mainly reflect telecommunications services rendered to the Company.

Finance costs payable to Red Eléctrica de España Finance, S.L.U. and Red Eléctrica Financiaciones, S.A.U. essentially comprise interest on the aforementioned loans extended by these companies.

- **Related party balances and transactions**

In 2022 and 2021 no balances or transactions with related parties were identified.

26 Remuneration of the Director

In 2022 and 2021 the sole director did not accrue any salary, allowances or remuneration at the Company.

At 31 December 2022 and 2021 no loans or advances have been granted to the sole director and no guarantees have been extended on behalf thereof.

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

At 31 December 2022 and 2021 the Company 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 the sole director of the Company. These policies cover the Company's sole director and senior management and the premiums amount to Euros 245 thousand, inclusive of tax, in 2022 (Euros 217 thousand at 31 December 2021). These premiums are calculated based on the nature of the Company's activity and its financial indicators, thus they cannot be broken down individually or allocated to the sole director and senior management separately.

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

27 Remuneration of Senior Management

The senior management personnel who have rendered services for the Company during 2022 and 2021, and the positions they hold at the 2022 reporting date, are as follows:

Name	Position
Ms. Concepción Sánchez Pérez ⁽¹⁾	General Manager of Operations
Mr. Angel Mahou Fernández	General Manager of Transmission

⁽¹⁾ Effective 29 June 2022, Ms. Concepción María Sánchez Pérez replaced Mr. Miguel Duvisón García as General Manager of Operations.

In 2022, total remuneration accrued by senior management personnel amounted to Euros 597 thousand and is recognised as personnel expenses in the Company's income statement. In 2021, total remuneration accrued by senior management personnel amounted to Euros 642 thousand. These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

Euros 4 thousand of the total remuneration accrued by these executives in 2022 consisted of contributions to life insurance and pension plans (Euros 9 thousand in 2021).

No advances or loans have been extended to these executives at 31 December 2022 and 2021. At the 2022 and 2021 reporting dates, the Company has life insurance commitments vis-à-vis these executives with annual premiums totalling approximately Euros 8 thousand (Euros 6 thousand in 2021).

Senior management personnel participate in the Long-Term Incentive Plan for Promoting the Energy Transition, Reducing the Digital Divide and for Diversification. The objectives of this Plan are linked to those contained in the Group's Strategic Plan and are consistent with the guidelines laid down in the directors' remuneration policy. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

In order to strengthen the commitment to the independence of the System Operator, specific objectives have been laid down for the General Management of Operations of Red Eléctrica de España, S.A.U., which exclude those aspects that are not related to the activity of the Electricity System Operator.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses in the event of dismissal. Were the employment relationship to be terminated, the indemnity to which senior management personnel would be entitled would be calculated in accordance with applicable legislation.

In 2022 the Group began to roll out a Structural Management Plan, which applies to part of its senior management personnel. Inclusion in this Plan is subject to certain conditions being met and it may be amended or revoked by the Group under certain circumstances.

At 31 December 2022 and 2021 the Company has taken out public liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as senior management of the Group. These policies cover all the Company's directors and senior management and the annual premiums amount to Euros 245 thousand, inclusive of tax, in 2022 (Euros 217 thousand in 2021). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

28 Segment Reporting

The Company has prepared segment reporting by activity, in accordance with Electricity Industry Law 24/2013 of 26 December 2013. This information has been adapted to the Spanish General Chart of Accounts approved by Royal Decree 1514/2007.

For 2022 and 2021, for accounting purposes, the Company has allocated its income, expenses, assets and liabilities between the transmission, system operation (mainland and non-mainland) and other non-electricity activities.

The main criteria used for the accounting segmentation of activities, which are detailed in Appendices I-a, I-b, II-a and II-b and basically meet the requirements of CNMC Circular 1/2015 of 22 July 2015, which establishes a new regulatory reporting system for costs related to the regulated activities of transmission, regasification, storage and technical management of the natural gas system, and for transmission and electricity system operation, were as follows:

- Direct income and expenses have been allocated to the activities that generated/incurred these items.
- Personnel expenses have been allocated to activities on the basis of the area to which the employees are assigned.
- Depreciation and amortisation charges have been distributed based on the activity to which the corresponding asset is assigned.
- Finance income and costs have been assigned to the activities on the basis of the financing needs during the period, unless there is a direct relation between the item and the activity.
- Overheads and other general costs have been distributed using criteria such as number of employees, services rendered and materials consumed, etc.

- Fixed assets are directly allocated to activities. Shared fixed assets have been distributed between the activities on the basis of their estimated use, applying objective allocation criteria.
- Current assets have been assigned to the activities that generate them, except treasury accounts and current investments, which have been allocated to the activities with net financing surpluses.
- Equity, excluding profit for the year, has been allocated to the activities. Dividends are allocated to the activities that generate profits.
- Grants and other such items have been assigned directly to the related activities.
- Financial debt has been distributed on the basis of the net financing needs of each activity and also reflects financing between activities.
- Other outstanding liabilities have been allocated directly to the activities, and those pertaining to more than one activity have been assigned using objective criteria.

Note that in 2022 the investment accumulated in the Salto de Chira hydroelectric power plant up to 2021, which was recognised under property, plant and equipment of the Transmission activity in an amount of Euros 50.4 million, was reclassified to non-current investments (see notes 7 and 24) and reassigned to the Non-mainland system operation activity (see Appendix I).

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

The Company, together with Red Eléctrica Corporación, S.A., has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 250 million in 2022 and 2021 carried out by the Group company Red Eléctrica de España Finance S.L.U., and Red Eléctrica Financiaciones S.A.U.'s Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2022 and 2021. At 31 December 2022, Eurobonds issued under this programme total Euros 3,290 million (Euros 3,690 million in 2021).

Furthermore, at 31 December 2022 and 2021 the Company and Red Eléctrica Corporación, S.A. have jointly and severally guaranteed the promissory notes issued under the Euro Commercial Paper Programme (ECP Programme) by Red Eléctrica Financiaciones, S.A.U. for an amount of up to Euros 1,000 million. At 31 December 2022 and 2021 no amounts have been drawn down under this programme.

At 31 December 2022 the Company has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 55,900 thousand (Euros 55,523 thousand in 2021).

30 Environmental Information

In 2022 the Company incurred ordinary expenses of Euros 24,378 thousand in protecting and improving the environment (Euros 22,687 thousand in 2021), essentially due to the implementation of environmental initiatives intended for protecting biodiversity, fire prevention, landscape integration, climate change and pollution prevention.

In 2022 a total of Euros 4,268 thousand (Euros 3,339 thousand in 2021) was spent on environmental issues associated with investment projects (including environmental impact studies, landscape simulations, environmental oversight of work, and the adoption of preventive, corrective and accompanying measures).

The Company is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Company received no significant environment-related grants in 2022 or 2021.

31 Other Information

KPMG Auditores, S.L., the auditor of the Company's annual accounts, and other entities affiliated with KPMG accrued the following fees and expenses for professional services during the years ended 31 December 2022 and 2021:

Thousands of Euros	2022	2021
Audit services	48	46
Audit-related services	5	5
Total services	53	51

The amounts detailed in the above table include the total fees for services approved and rendered in 2022 and 2021, irrespective of the date of invoice.

No other fees were accrued in 2022 and 2021 by companies directly or indirectly related to the audit firm in respect of professional services other than the audit of the annual accounts.

32 Share-based Payments

In 2022, a total of 214,612 Parent shares with a fair value of Euros 17.735 each were delivered to employees, resulting in an expense for the year of Euros 3,806 thousand. Of these shares, 1,352 correspond to senior management personnel.

In 2021, a total of 199,171 Parent shares with a fair value of Euros 18.000 each were delivered to employees, resulting in an expense for the year of Euros 3,585 thousand. Of these shares, 1,332 corresponded to senior management personnel.

This remuneration is measured based on the quotation of these shares on the day they were delivered.

The shares delivered were approved by the Parent's shareholders at their general meeting, and the related costs incurred have been recognised under personnel expenses in the Company's income statement.

33 Events after 31 December 2022

No significant events have occurred between the reporting date and the date on which these annual accounts were authorised for issue.

Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

APPENDIX I Balance Sheet by Activity for 2022 and 2021

Balance Sheet by Activity at 31 December 2022

Appendix I-a

Thousands of Euros	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total %
Non-current assets	8,460,476	99	41,843	---	121,390	1	583	---	8,624,292	100
Intangible assets	24,254	46	25,583	48	3,350	6	1	---	53,188	100
Property, plant and equipment (1)	8,308,985	100	10,600	---	1,298	---	10	---	8,320,893	100
Non-current investments in Group companies and associates	2,395	100	---	---	6	---	---	---	2,401	100
Non-current investments (1)	96,601	45	2,398	1	115,642	54	486	---	215,127	100
Deferred tax assets	28,074	87	3,262	10	1,094	3	86	---	32,516	100
Prepayments for non-current assets	167	100	---	---	---	---	---	---	167	100
Current assets	1,866,478	94	71,501	4	14,203	1	12,694	1	1,964,876	100
Inventories	34,115	100	---	---	---	---	---	---	34,115	100
Trade and other receivables	911,765	92	70,190	7	12,809	1	3,928	---	998,692	100
Current investments in Group companies and associates	10,294	100	---	---	41	---	---	---	10,335	100
Current investments	305,641	100	---	---	367	---	---	---	306,008	100
Prepayments for current assets	19,843	93	1,235	6	291	1	---	---	21,369	100
Cash and cash equivalents	584,820	99	76	---	695	---	8,766	1	594,357	100
Total assets	10,326,954	98	113,344	1	135,593	1	13,277	---	10,589,168	100
Equity	3,433,358	102	(54,166)	(2)	(15,654)	---	1,619	---	3,365,157	100
Capital and reserves	2,873,246	103	(54,166)	(2)	(15,696)	(1)	1,619	---	2,805,003	100
Valuation adjustments	142,600	100	---	---	42	---	---	---	142,642	100
Grants, donations and bequests received	417,512	100	---	---	---	---	---	---	417,512	100
Non-current liabilities	4,917,099	100	7,845	---	18,417	---	250	---	4,943,611	100
Non-current provisions	95,040	89	7,845	7	4,503	4	250	---	107,638	100
Non-current payables	947,883	100	---	---	1,139	---	---	---	949,022	100
Group companies and associates, non-current	3,180,841	100	---	---	12,774	---	---	---	3,193,615	100
Deferred tax liabilities	578,061	100	---	---	1	---	---	---	578,062	100
Non-current accruals	115,274	100	---	---	---	---	---	---	115,274	100
Current liabilities	1,976,497	86	159,665	7	132,830	6	11,408	1	2,280,400	100
Current payables	578,030	69	142,096	17	129,236	15	(12,523)	(1)	836,839	100
Group companies and associates, current	448,507	100	---	---	1,801	---	---	---	450,308	100
Trade and other payables	949,960	96	17,165	2	1,651	---	23,931	2	992,707	100
Current accruals	---	---	404	74	142	26	---	---	546	100
Total equity and liabilities	10,326,954	98	113,344	1	135,593	1	13,277	---	10,589,168	100

(1): The investment accumulated in the Salto de Chira hydroelectric power plant up to 2021, which was recognised under property, plant and equipment of the Transmission activity (in an amount of Euros 50.4 million), was reclassified to non-current investments in 2022 (see note 7) and reassigned to the Non-mainland system operation activity (see note 28). At 31 December 2022, the investment accumulated in the Salto de Chira hydroelectric power plant amounts to Euros 114,632 thousand.

Balance Sheet by Activity at 31 December 2021

Appendix I-b

Thousands of Euros	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total %
Non-current assets	8,379,208	100	37,435	---	5,419	---	571	---	8,422,633	100
Intangible assets	23,250	48	22,594	46	2,913	6	---	---	48,757	100
Property, plant and equipment	8,285,238	100	10,156	---	844	---	---	---	8,296,238	100
Non-current investments in Group companies and associates	2,395	100	---	---	6	---	---	---	2,401	100
Non-current investments	20,869	90	1,457	6	551	2	486	2	23,363	100
Deferred tax assets	47,330	92	3,228	6	1,105	2	85	---	51,748	100
Prepayments for non-current assets	126	100	---	---	---	---	---	---	126	100
Current assets	1,161,377	88	96,212	7	11,371	1	59,410	4	1,328,370	100
Inventories	23,447	100	---	---	---	---	---	---	23,447	100
Trade and other receivables	991,304	90	95,017	9	10,982	1	7,588	---	1,104,891	100
Current investments in Group companies and associates	---	---	---	---	---	---	---	---	---	---
Current investments	4,382	100	---	---	5	---	---	---	4,387	100
Prepayments for current assets	17,398	93	1,139	6	267	1	---	---	18,804	100
Cash and cash equivalents	124,846	71	56	---	117	---	51,822	29	176,841	100
Total assets	9,540,585	98	133,647	1	16,790	---	59,981	1	9,751,003	100
Equity	2,305,659	103	(58,832)	(3)	(20,022)	(1)	20,842	1	2,247,647	100
Capital and reserves	1,821,938	103	(58,832)	(3)	(19,853)	(1)	20,842	1	1,764,095	100
Valuation adjustments	74,294	100	---	---	(169)	---	---	---	74,125	100
Grants, donations and bequests received	409,427	100	---	---	---	---	---	---	409,427	100
Non-current liabilities	5,321,834	98	10,256	---	23,005	---	68,520	2	5,423,615	100
Non-current provisions	92,127	83	10,256	9	7,551	7	1,139	1	111,073	100
Non-current payables	1,054,216	100	---	---	1,267	---	---	---	1,055,483	100
Group companies and associates, non-current	3,532,644	100	---	---	14,187	---	---	---	3,546,831	100
Deferred tax liabilities	592,160	100	---	---	---	---	---	---	592,160	100
Non-current accruals	50,687	43	---	---	---	---	67,381	57	118,068	100
Current liabilities	1,913,092	91	182,223	9	13,807	1	(29,381)	(1)	2,079,741	100
Current payables	724,767	84	177,610	21	10,436	1	(55,126)	(6)	857,687	100
Group companies and associates, current	573,583	100	---	---	2,304	---	---	---	575,887	100
Trade and other payables	614,742	95	4,092	1	1,063	---	25,745	4	645,642	100
Current accruals	---	---	521	99	4	1	---	---	525	100
Total equity and liabilities	9,540,585	98	133,647	1	16,790	---	59,981	1	9,751,003	100

APPENDIX II Analytical Income Statement by Activity for 2022 and 2021

Analytical Income Statement by Activity for 2022

Appendix II-a

Thousands of Euros

Item	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total %
+ Revenue	1,503,592	94	62,061	4	15,982	1	17,371	1	1,599,006	100
+ Self-constructed assets	45,744	98	784	2	6	---	---	---	46,534	100
- Supplies ⁽¹⁾	(31,406)	95	(276)	1	(1,023)	3	(494)	1	(33,199)	100
+ Other operating income ⁽¹⁾	10,221	14	134	---	64,331	85	1,036	1	75,722	100
- Personnel expenses	(89,439)	75	(23,286)	19	(6,756)	6	---	---	(119,481)	100
- Other operating expenses ⁽¹⁾	(287,165)	66	(34,972)	8	(68,054)	16	(45,467)	10	(435,658)	100
- Depreciation and amortisation	(376,785)	96	(11,132)	3	(2,776)	1	(5)	---	(390,698)	100
+ Non-financial and other capital grants	11,806	100	---	---	---	---	---	---	11,806	100
(+/-) Impairment and gains/losses on disposal of fixed assets	124	92	8	6	1	1	2	1	135	100
Results from operating activities	786,692	105	(6,679)	(1)	1,711	---	(27,557)	(4)	754,167	100
+ Finance income	7,642	100	7	---	10	---	---	---	7,659	100
- Finance costs	(78,858)	99	(240)	---	(412)	1	(14)	---	(79,524)	100
(+/-) Exchange gains/losses	(4)	100	---	---	---	---	---	---	(4)	100
Net finance cost	(71,220)	99	(233)	---	(402)	1	(14)	---	(71,869)	100
Profit/loss before tax	715,472	105	(6,912)	(1)	1,309	---	(27,571)	(4)	682,298	100
(+/-) Income tax	(176,886)	105	1,709	(1)	(324)	---	6,761	(4)	(168,740)	100
Profit/loss for the year	538,586	105	(5,203)	(1)	985	---	(20,810)	(4)	513,558	100

(1): Under other operating income, other operating expenses, and supplies the Non-mainland system operation activity includes the income and expenses associated with the stage of completion of the construction work on the Salto de Chira 200 MW pumped-storage hydroelectric power plant in 2022 (see note 24).

Analytical Income Statement by Activity for 2021

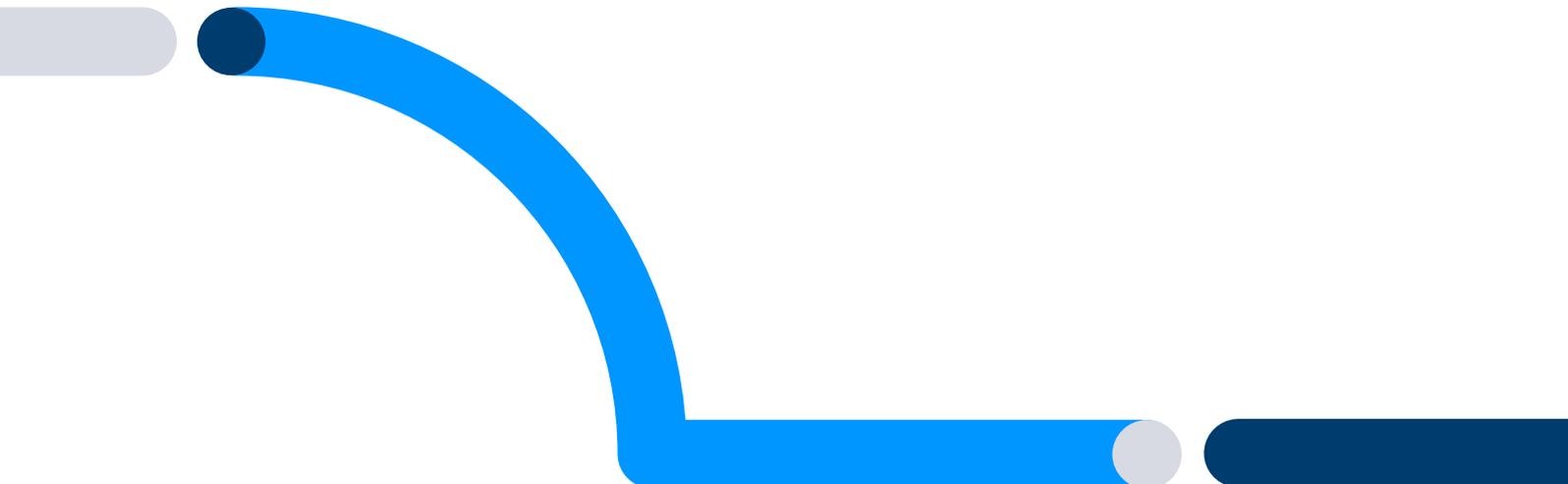
Appendix II-b

Thousands of Euros

Item	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total %
+ Revenue	1,545,135	96	44,082	3	10,844	1	9,628	---	1,609,689	100
+ Self-constructed assets	39,283	99	566	1	---	---	---	---	39,849	100
- Supplies	(16,719)	97	(210)	1	(187)	1	(136)	1	(17,252)	100
+ Other operating income	4,906	61	92	1	160	2	2,964	36	8,122	100
- Personnel expenses	(76,889)	74	(21,473)	20	(6,421)	6	---	---	(104,783)	100
- Other operating expenses	(289,881)	85	(32,777)	10	(8,925)	3	(6,553)	2	(338,136)	100
- Depreciation and amortisation	(373,298)	96	(11,028)	3	(2,832)	1	(2)	---	(387,160)	100
+ Non-financial and other capital grants	7,225	62	---	---	---	---	4,487	38	11,712	100
(+/-) Impairment and gains/losses on disposal of fixed assets	25	89	2	7	---	---	1	4	28	100
Results from operating activities	839,787	103	(20,746)	(3)	(7,361)	(1)	10,389	1	822,069	100
+ Finance income	5,245	100	3	---	1	---	---	---	5,249	100
- Finance costs	(91,420)	100	(121)	---	(412)	---	(4)	---	(91,957)	100
(+/-) Exchange gains/losses	(2)	100	---	---	---	---	---	---	(2)	100
Net finance cost	(86,177)	100	(118)	---	(411)	---	(4)	---	(86,710)	100
Profit/loss before tax	753,610	103	(20,864)	(3)	(7,772)	(1)	10,385	1	735,359	100
(+/-) Income tax	(187,180)	103	5,171	(3)	1,928	(1)	(2,433)	1	(182,514)	100
Profit/loss for the year	566,430	103	(15,693)	(3)	(5,844)	(1)	7,952	1	552,845	100

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Directors' Report

2022

Red Eléctrica de España, S.A.U.

(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 director and based on assumptions that the director considers 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.redeia.com/es/accionistas-e-inversores/informacion-financiera/medidas-alternativas-rendimiento>

1 Business performance. Most significant events

The mission of Red Eléctrica de España, S.A.U. (hereinafter Red Eléctrica or the Company), as transmission agent and system operator for the Spanish electricity system, is that of guaranteeing the security and continuity of the electricity supply at all times and managing high voltage electricity transmission. To this end, it oversees and coordinates the generation and transmission system and manages the development of the transmission network. The Company seeks to fulfil its mission while adhering to the principles of neutrality, transparency, independence and economic efficiency, so as to offer a secure, efficient and high quality electricity service to society as a whole.

• Management and operation of electricity infrastructure

During 2022, 325.8 kilometres of new lines came into service, bringing the Company's total for the national transmission network to 45,019 kilometres at year end. Transformation capacity likewise increased by 725 MVA to a nationwide total of 94,221 MVA. Overall investment in the transmission network amounted to Euros 450.0 million.

In March 2022 the Council of Ministers approved the Electricity Transmission Network Development Plan, which was proposed by the Ministry for the Ecological Transition and Demographic Challenge (MITERD). The Plan covers the period up until 2026 and is essential to ensure the energy transition. It sets out the transmission network development projects that need to be carried out in the coming years in order to achieve the energy goals of national and European policy.

The main mission of the 2021-2026 Plan is to increase renewable energy production and maximise the use of the existing network thanks to new technologies such as batteries and power electronics. The environmental side of things take on particular importance, with the overriding aim of making network development compatible with respect for the environment. The Plan includes almost Euros 7,000 million of investment to improve the transmission network. The bulk of the investment is earmarked to enhance the integration of renewable energy, providing clear benefits for society in the form of reducing emissions, cutting electricity system costs and activating the economy.

In 2022 the most significant initiatives in terms of development of the transmission network, by major axes, were as follows:

- **Ibiza - Formentera Interconnection.** This involves the laying of a 132 kV underground-submarine transmission line to interconnect the islands of Ibiza and Formentera, thus strengthening the inter-island transmission grid, the Torrent substation having come online in May of this year.
- **Lanzarote - Fuerteventura Interconnection.** This involves the laying of a 132 kV underground-submarine transmission line to bolster the interconnection that has been in place since 2005 between the islands of Lanzarote and Fuerteventura, thus allowing for an electricity system with an installed capacity of 476 MW at present, combining both conventional and renewable generation, and reinforcing the inter-island transmission grid. Operating authorisation for the interconnection was granted in June 2022.
- **Caparacena - Baza - Ribina Axis.** Its purpose is to facilitate the evacuation of energy from the ordinary regime, renewable sources, cogeneration and waste, as well as to improve the transmission network mesh and support distribution and the structural function. The 244 km, 400 kV Baza-Caparacena line and the Baza substation, with 8 bays, came into operation on 28 November.
- **North - East Axis.** The purpose of this axis is to improve the evacuation of electricity from Asturias to supply Cantabria and the Basque Country. Construction of the Güeñes-Itxaso line continued in 2022.
- **Caletillas - El Rosario Axis.** Its purpose is to increase the security of supply and transmission network reliability in the Santa Cruz de Tenerife metropolitan area, as well as to make the transmission grid more robust and reduce its vulnerability to incidents. 2022 saw the entry into service of the Caletillas substation and the Caletillas-El Rosario line, with overhead and underground sections.

- **Cáceres - Los Arenales - Trujillo Axis.** It is designed to improve the quality and reliability of supply in the Cáceres area, preventing overloads in the zone, and to increase the capacity to evacuate hydropower generation (installed in the Cedillo and JM Oriol substations) and boost the Spain-Portugal interconnection capacity. The 220 kV Los Arenales substation came into service in 2022.
- **Interconnection with France via the Bay of Biscay.** The purpose of this axis is to further increase the interconnection capacity with Europe in order to achieve European energy targets. It consists of a 393 km submarine direct current dual connection which will raise energy exchange capacity to 5,000 MW. The Environmental Impact Statement was obtained in Spain in December.
- **Morella- La Plana Axis** The aim is to facilitate the continuity of the mesh between the autonomous regions of Aragón and Valencia, which has been submitted for authorisation. The 400 kV Morella substation entered into service this year.
- **Sabinal Axis.** It is designed to improve the electricity supply of the metropolitan and northern area of the island of Gran Canaria by strengthening the transmission network mesh and burying the lines that crossed over the highway on the outskirts of the capital. The Sabinal substation expansion came online this year.
- **Galicia - Portugal Interconnection Axis.** The aim is to boost the international connection with Portugal. The environmental impact statement (EIS) for the interconnection was obtained in September, with administrative authorisation for construction of the remaining axis work pending, except for the Pazos substation, which was authorised in 2021 and came online in November 2022.
- **Madrid Plan Axis.** It is designed to improve the transmission network mesh and support the distribution network in this area. The Morata-Morata input/output line came partially online in September 2022.
- **Lousame - Tibo - Mazaricos Axis.** The aim is to reinforce the network, evacuate electricity generated, and support distribution in the northwest of Galicia. In 2022 administrative authorisation for construction of the Lousame-Tibo line was obtained and assembly and construction work commenced.
- **El Rosario - Guajara Axis.** Its purpose is to increase the security of supply and transmission network reliability in the Santa Cruz de Tenerife metropolitan area and in the interconnection with the Granadilla and Candelaria nodes, as well as reinforcing the transmission network in the zone and reducing its vulnerability to incidents.
- **High voltage Lleida - Barcelona 2 Line Axis.** This is designed to increase the mesh of the 220 kV transmission network in the area, facilitating a widespread improvement in efficiency in transmission and in supporting supply for demand, resulting in a reduction in overall T&D losses.

● Electricity system operation

The most notable events in 2022 were as follows:

○ Mainland system

- » Mainland electricity demand closed the year at 235,459 GWh, down 2.9 % on 2021. Having corrected for the effect of working patterns and temperatures, demand attributable primarily to economic activity was down by 3.9%.
- » Maximum instantaneous power was recorded on Thursday 14 July at 14:19 hours, at a rate of 38,284 MW. This is down 9.3% on the maximum for the prior year, and down 15.8% compared with the record 45,450 MW documented on 17 December 2007. Peak demand in terms of time of day was likewise posted on 14 July (between 14:00 and 15:00 hours) at 38,003 MWh, which is 15.3% below the all-time high recorded in 2007.
- » Installed capacity on the mainland has risen compared to the prior year, ending 2022 at 112,681 MW, which is 4,527 MW more than at December 2021 (up 4.2%). Additions to the system's installed capacity primarily reflect the incorporation of solar photovoltaic and wind power, with the former increasing by 25% with respect to the prior year, while the latter posted year-on-year growth of 4%.
- » Hydropower capacity stood at 19,407 GWh at the end of December 2022, down 33.4% on the historical average and 27.8% lower than in 2021. Reserves of hydroelectric power represented a fill level of 44.4% of total capacity across all reservoirs at the end of 2022, compared with 36.0% in the prior year.

- » In 2022, 23.1% of demand was met by combined cycle generation (15.2% in 2021), 22.8% by wind power (24.0% in 2021), 21.4% by nuclear technology (21.9% in 2021), 12.0% by solar power (10.2% in 2021), 6.8% by hydroelectric power (12.0% in 2021), and 6.8% by cogeneration (10.6% in 2021). With a contribution of less than 10%, coal, other renewable sources, waste and pump-as-turbine jointly covered the remaining 7.1 % of demand.
- » Renewable energy accounted for 43.7% of the total generation (48.4% in 2021). In absolute terms, renewable generation is down 4.2% on the prior year, essentially due to the 39.7% drop in hydropower output and the 12.4% decline in solar thermal output.
- » Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 603 GWh (down 32.3% compared to 2021), covering 10.0% of their demand.

International electricity exchanges resulted in a net export balance of 19,802 GWh in 2022, breaking a six-year trend.

The transmission network performance ended the year with a stable level in excess of 98% in all the electricity systems, which is above the 97% threshold set in article 26.2 of Royal Decree 1955/2000. Availability of the national transmission network in 2022 was 98.15% (98.5% in 2021). The mainland transmission network posted a level of 98.13% in 2022 (98.48% in 2021).

o Non-mainland systems

- » At the 2022 year end, total annual demand for electricity in non-mainland systems had risen by 6.9% vis-à-vis the prior year. By individual system, demand climbed by 9.3% in the Balearic Islands and by 5.7% in the Canary Islands, and dropped 0.8% in Ceuta and 4.4% in Melilla.
- » Installed capacity in non-mainland systems grew by 1.8%, essentially driven by the expansion of solar photovoltaic and wind technology, which climbed 27.3% and 1.5%, respectively.
- » Availability of the Balearic Islands and Canary Islands transmission systems was 98.53% (98.61% in 2021) and 98.86% (99.23% in 2021), respectively.
- » Pursuant to Law 17/2013 Red Eléctrica is tasked with developing pumped-storage hydroelectric power plants in the Canary Islands, geared towards security of supply, system security and the integration of non-dispatchable renewable energies.

As System Operator, the Company is executing the Salto de Chira pumped-storage hydroelectric power plant project in Gran Canaria. Red Eléctrica Infraestructuras en Canarias, S.A.U. is tasked with providing certain consultancy, engineering, project management, monitoring and technical assistance services relating to the implementation, start-up and effective operation of the facilities that make up the hydroelectric power plant complex.

The project received a favourable Environmental Impact Statement (EIS) in 2021 and the Declaration of Public Interest was issued, obtaining the operating permits to get the works underway.

Definitive authorisation for the project was granted in January 2022 and the Ministry for the Ecological Transition and Demographic Challenge (MITERD) approved the project's remuneration methodology in December 2022.

Regarding the possible project to install a pumped-storage hydroelectric power plant in Tenerife, in 2022 progress was made on the necessary actions to draw up the draft project.

2 Key financial indicators

Revenue for 2022 amounted to Euros 1,599.0 million, sliding 0.7% compared to 2021. This figure denotes a decline in Spain due to the application of the new remuneration parameters.

Gross operating profit (EBITDA)¹ totalled Euros 1,132.9 million, a fall of 5.4% vis-à-vis 2021.

Results from operating activities (EBIT)² amounted to Euros 754.2 million, falling 8.3% compared to 2021.

Profit after tax for 2022 amounted to Euros 513.6 million, down 7.1% on 2021.

Total investments undertaken in the year amount to Euros 534.6 million, up 23.3% compared to 2021.

In 2022 the Company did not pay any interim dividends to the sole shareholder, Red Eléctrica Corporación, S.A. (REC). In 2021 interim dividends totalled Euros 435.8 million.

The Company's equity was Euros 3,365.2 million at year end, up 49.7% on 2021.

3 Own shares

The Company does not hold own shares or shares in the Parent.

4 Risk management

The Company, as part of Redeia, 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 fulfilment of the Group's strategies and objectives.

The Comprehensive Risk Management Policy applicable to the Company was approved at Group level by the Board of Directors of the Parent. The Comprehensive Risk Management System, the Policy and the General Procedure regulating it are based on the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management – Integrated Framework (COSO ERM).

The Corporate Risk Map depicts the Group's most significant risks, including those of the Company, and is prepared applying a bottom-up methodology, whereby the risks are identified, analysed and assessed by the different organisational units before being escalated for validation by Directors, General Managers and Corporate Directors, until their final presentation to the Chair's Office of the Group, the Executive Committee, the Audit Committee and the Board of Directors.

The Board of Directors of Redeia is responsible for approving the Comprehensive Risk Management Policy and an acceptable level of risk for the Group, while the Audit Committee is tasked with overseeing the effectiveness of the Comprehensive Risk Management System. The Executive Committee is responsible for implementing adequate monitoring of the Group's significant risks and the action plans to mitigate these risks.

The Comprehensive Risk Management Policy also covers financial risk management, as detailed in note 17 to the annual accounts on the Financial Risk Management Policy. The Company's Sustainability Report provides further details of the main risks at present, as well as risks which could emerge in the future.

The main risks to which the Company is exposed and that could affect achievement of its objectives are regulatory risk, which includes tax risks, inasmuch as all of the Company's business activities are subject to regulation; operational risk relating to the Investment Plan; environmental risk derived from its construction and service-related assets; financial risk; and market risk.

¹ Gross operating profit or EBITDA is calculated as the sum of revenue, self-constructed assets and other operating income less personnel expenses, supplies and other operating expenses.

² Results from operating activities or EBIT is calculated as EBITDA plus any non-financial capital grants recognised and gains/losses or impairment on asset disposals, less depreciation and amortisation, changes in the fair value of financial instruments, impairment and gains/losses on disposals of equity instruments.

5 Environment

The Company's commitment to the environment is reflected in its environmental policy, which includes an explicit commitment to the prevention of pollution and the precautionary principle. The involvement of all of the organisational units and the commitment of all of the Company's employees are essential to the implementation of this commitment.

Red Eléctrica has an Environmental Management System in place (ISO 14001 certified) to facilitate the continuous improvement of its environmental performance, thereby also meeting the requirements established by the EU Eco-Management and Audit Scheme (EMAS).

Red Eléctrica's ordinary expenses for the protection and improvement of the environment amounted to Euros 24.4 million, largely due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution. Euros 4.3 million was earmarked for environmental aspects associated with investment projects.

The Company's main environmental impacts are those related to the construction of the facilities and their physical presence in the area. The Company works to minimise these impacts, considering the entire life cycle of its facilities and paying special attention to the protection of biodiversity.

In view of its role as a leading player in the transition towards a carbon-free energy model, the Company has taken on board a specific commitment in relation to the fight against climate change. The Group's environmental commitment is based on three pillars: environmental management and the integration of electricity facilities into the environment, the protection of biodiversity and climate change.

a) Environmental management and integration of electricity facilities into the environment

The main approach for making facilities compatible with the environment is the selection of routes and sites so that the environmental impact is as low as possible. Additionally, the application of preventive and corrective measures and the monitoring of strict environmental criteria make it possible for potential effects on the environment to be reduced significantly. The best tool to guarantee this process is an Environmental Impact Assessment. By law, most of the Company's projects are subject to this procedure.

The measures implemented include those carried out during the construction of facilities to minimise land clearing and the impact on vegetation, fauna and the socio-economic environment (infrastructure, crops and archaeological heritage), as well as pollution prevention measures.

Actions during the maintenance phase aimed at mitigating the noise generated by certain electrical substations (programmes for measuring and adjusting the operating parameters of certain power equipment to reduce noise levels and the design of acoustic screens) and reducing light pollution are also noteworthy. To address the latter issue, in recent years the Company has worked on implementing the necessary measures to enable facilities to be shut down at night, thereby limiting light pollution as much as possible while also achieving significant energy savings.

Thanks to the criteria considered when designing the facilities, the electromagnetic field strength is kept within the exposure limits for the general public as per the Official Journal of the European Communities 1999/519/EC.

Lastly, visual impact assessment methodologies and tools have been improved, areas affected by works have been restored and specific landscape integration projects have been undertaken so as to mitigate the visual impact of the facilities.

In addition to the measures aimed at making facilities compatible with the environment, we should highlight the importance to the Company of working towards and making significant headway on the sustainable use of resources.

b) Protecting biodiversity

Protecting and preserving biodiversity has always been a priority in the Company's environmental management strategy. The specific commitment to biodiversity management includes the goal of having a positive impact on biodiversity wherever the Company is present by 2030.

To meet this ambitious goal, a 2030 biodiversity roadmap has been drawn up based on a natural capital approach which takes shape in the form of specific steps and goals laid out in the different action plans.

The Company is already working on one of the projects in this roadmap: development of the methodology to quantify its impacts (positive and negative) on biodiversity, allowing it to measure progress and ensure its 2030 target is met.

The Company manages biodiversity applying the mitigation hierarchy. First and foremost, avoiding areas that are protected or highly biodiverse is fundamental when deciding on the location of facilities. The second step is to minimise possible repercussions and is achieved through the application of the corresponding preventive and corrective measures, including the restoration of habitats wherever possible. Lastly, any impacts that may arise are compensated through a variety of environmental improvement initiatives and conservation projects, undertaken in collaboration with the government, non-governmental bodies and other entities.

The main effects of the Company's activities on biodiversity can be seen on habitats and species. The former are primarily associated with the impacts on vegetation of felling and pruning to open up firebreaks, while the latter stem from the risk of birds colliding with earth wires. The following actions are noteworthy in this respect:

- Habitat protection and conservation (vegetation).
 - In 2022 the Company formally and explicitly committed to protecting vegetation and combatting deforestation, both in its own operating activities and those of its supply chain.
 - The Company works intensively on preventing and fighting forest fires. Aside from the proper maintenance of firebreaks, the Company has strict work and supervision procedures in place to reduce the risk of fire in and around its facilities. It actively and continuously collaborates with the public entities involved in forest management, through formal collaboration agreements that include actions and the provision of material for forest fire monitoring, prevention, training and awareness.
 - Despite the application of best prevention and mitigation practices, the elimination of plant species that are incompatible with safety in the facilities is inevitable in some cases. In such scenarios, although this does not affect deforestation, the Company undertakes to compensate the entire amount of trees removed, through a range of activities aimed at conserving native woodland, such as the reforestation of the degraded areas.
 - Other habitat conservation projects carried out include the Red Eléctrica Marine Forest project to restore *posidonia oceanica* seagrass.
- Protection and conservation of birdlife:
 - After selecting the best route, the main measure implemented to reduce the risk of birds colliding with ground wires is to use bird-saving devices. Thanks to the "Birds and power lines: Mapping of bird flight paths" project, Red Eléctrica has identified the top-priority areas (where the risk is highest) and is making progress towards installing bird-saving devices on the lines therein.
 - The Company promotes and performs numerous initiatives to conserve birdlife, primarily geared towards improving their habitats, drawing on knowledge of their behaviour and condition, as well as boosting the population of species that are more sensitive to the presence of electricity lines, thus helping to compensate for impacts that cannot be prevented or mitigated.

c) Climate change

Red Eléctrica is a key and proactive agent in the energy transition towards a zero emissions model, the main elements of which should be the electrification of the economy, the full integration of renewable energy into the energy mix and efficiency, while always ensuring the security of supply. Taking on this role, in 2011 it decided to formalise a voluntary commitment in the fight against climate change, which is reflected in the goals to reduce emissions and the Climate Change Action Plan, which were both updated in 2021 to bring them into

line with the global mission to limit the rise in average temperature to no more than 1.5°C.

The emission reduction targets were validated by the Science Based Targets initiative (SBTi) in 2022:

- Reduction in scope 1³ and 2⁴ emissions of 55% by 2030 with respect to 2019.
- Reduction in scope 3⁵ emissions of 28% by 2030 with respect to 2019.
- Suppliers that account for 2/3 of supply chain emissions must have science-based targets in place within five years.

These targets are in keeping with the commitment to achieving net-zero carbon emissions by 2050 in accordance with the SBTi criteria.

The Company has also set an objective of offsetting 100% of its scope 1 emissions from 2023 onwards.

The Climate Change Action Plan covers the following lines of action:

- Contribution to a more sustainable energy model, taking the necessary actions to achieve the objectives of the National Energy and Climate Plan (NECP) for 2030:
 - Ongoing investor involvement to develop a robust, intelligent and interconnected transmission network that enables the electrification and connection of new renewable energy capacity.
 - Maximum integration of renewables by optimising the operation of the electricity system, the use of artificial intelligence as a decision-making and predictive tool, the integration of more evenly-distributed generation and the development of storage systems.
 - Furthering efficient network management by encouraging technological innovation, incorporating new elements and services and applying new flexibility measures.
- Reduction in greenhouse gas emissions resulting from the Company's activities. The main measures implemented apply to the following areas of action:
 - Reduction in SF6 emissions through the control and reduction of leaks, the renewal of switchgear equipment and the establishment of measures to limit the growth of installed gas, including the increased use of alternatives to gas.
 - Reduction in energy consumption and the associated emissions: increased use of renewable sources, the development of energy-efficiency measures and more sustainable mobility initiatives.
 - Reduction in the emissions associated with the supply chain:
 - » Roll-out of collaboration programmes with suppliers aimed at setting reduction targets in line with the SBTi.
 - » The incorporation of sustainability criteria into procurement decisions, prioritising more sustainable supplies and promoting changes that make the reduction of emissions possible.
 - Offsetting of emissions to make progress towards carbon neutrality, primarily through reforestation projects and the purchase of carbon credits in the voluntary market.
- Positioning and outreach: ensuring all stakeholders are involved in the Company's commitment, disseminating knowledge and providing complete and transparent information on the electricity system and its role in the energy transition, as well as on various energy efficiency measures.

³ Scope 1 emissions: direct emissions from sources owned or controlled by the Company (SF6, emissions associated with vehicle fuel combustion, generators and air conditioning).

⁴ Scope 2 emissions: indirect emissions from electricity consumption (including T&D losses).

⁵ Scope 3 emissions: indirect emissions linked to the Company's operations, arising from sources not controlled by the Group (supply chain, business trips, employee commuting, logistics, waste, etc.).

- **Adaptation:** in order to address both the inevitable physical changes in the climate parameters, as well as the social, economic and regulatory changes associated with the fight against climate change, the Company regularly identifies and evaluates the risks and opportunities arising from climate change and applies various measures defined within the framework of this analysis. As per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the financial impacts of the relevant risks and opportunities are quantified, considering different physical and transition scenarios. Details of the TCFD recommendations are provided in note 4 on risk management of the Group's consolidated directors' report.

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

All research, development and innovation (R&D&i) projects undertaken during the year were carried out through Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (Elewit). The main lines of action in respect of these projects in 2022 are as follows:

- **Venture Client:** Completion of the 3rd Venture Client Programme and commencement of the 4th Programme.
- **Ecosystem generation and communication:** This has allowed the Company to surround itself with a constellation of agents (suppliers, customers, universities, research and technology centres, experts, consultants, opinion leaders, entrepreneurs, etc.) that ensure a constant supply of new ideas and knowledge, building relationships with more than 40 partners/collaborators. Among these, Elewit has 12 current collaborations with universities and technology centres, and in 2022 it signed five new collaboration agreements to develop projects in the key technologies identified for this year (IoT and AI). Notable in this connection was Elewit joining the Indesia association to promote the use of data and artificial intelligence in Spanish industry and the X Cross Industry partnership set up between European electricity network companies.
- **Intrapreneurship:** The DESPEGA programme —Redeia's first intrapreneurship programme— kept running in 2022.
- **Project management office:** This office centralises the planning and management of Elewit's innovation projects and programmes, while also providing the lab with specific management tools and resources.
- **Global Innovation Hub:** In 2022, the Global Innovation Hub hosted various sessions, including the "SF6 from all Redeia perspectives" session at Caixa Day One on 31 March, the 1 June session at the Vodafone Business LAB that shared all the 5G use cases carried out in Spain under the National 5G Plan and the 15 September session held at the Morvedre substation with the System Reliability team to jointly design its technology roadmap.
- **Highlighting value:** In addition to the internal value generated by innovation activities within the Redeia Group, Elewit is constantly working to identify projects with marketing potential beyond Redeia. Identifying this type of project means entering into collaboration and marketing agreements with key development partners in order to jointly develop products in which Redeia holds full or shared ownership of the intellectual or industrial property.
- **Venture Building:** This seeks to identify both attractive new business logics in the market as well as underutilised assets, technology or knowledge within Redeia that have the potential to meet market needs. In 2022, while maintaining a medium/long-term horizon for the portfolio, this tool continued to be deployed together with an operational partner with the goal of driving investment in at least one start-up company per year for the next three to four years.

A sample of the most significant projects carried out during 2022 is briefly described below:

- **5G/maximising the use of electricity infrastructures and use cases:** In 2022, the four innovation pilots that Redeia was conducting in Sagunto to analyse 5G use in managing electricity infrastructures were successfully completed. The objective of Red Eléctrica, Elewit and Hispasat within the National 5G Plan was to test 5G use in the management and remote visual inspection of high-voltage transmission grid infrastructures.

- **EPICS:** In 2022, the centralised protection and control platform in the EPICS project was installed at the Sagunto 220 kV substation with differential and overcurrent protection and remote control functions.
- **Met4DLR project:** In 2022, the meteorological variables prediction models were expanded and their accuracy improved, developing a robust and scalable solution based on the use of different meteorological forecasts that combine deep learning and machine learning models. This provides major benefits in the meteorological estimation necessary for dynamic line rating.
- **REVIEW project:** In 2022, the design process for electricity models was centralised, thus enabling integration with third parties and the possibility of viewing changes in and customising electricity grid data.

7 Our people

In 2022 work continued on the sustainable management of diverse and committed talent, an essential part of the People and Culture Department's Operational Plan, which uses a systematic approach to attract, discover, develop, train, transform and retain talent and exchange knowledge. Through the deployment of the following six lines of action, this work pursues excellence in these processes, thus ensuring that the Company retains a foremost position both at home and abroad: Attraction, learning, development, knowledge management, differentiation and transformative leadership.

Supported by digitalisation, technology, innovation, sustainability and diversity, the Company seeks to become a leader in the transformation of talent and corporate culture while involving society in the organisation's challenges, fostering actions that galvanise, motivate and inspire within the Company and beyond.

This transformation is evidenced through the Leadership Model and the Skills Model. On this front, in 2022 efforts were made to:

- Position leaders as model agents of transformation in order to develop self-leadership habits in people that promote responsibility, self-management and self-learning.
- Plan talent needs, identifying new profiles and positions, considering diversity and inclusion as a competitive advantage that brings opportunities and benefits to the organisation and society and creating specific programmes to hire and develop the new profiles identified.
- Develop the organisation's talent, promoting internal mobility and training people for them to maintain employability in the current environment of change.
- The implementation of the Development Recommendations, which include internal mobility applicable to the entire Company through temporary work stays, vacancy-filling and international mobility, or assignment to projects and training actions.

The efficiency and effectiveness of the people management processes deployed are continuously monitored through key indicators, thus enabling the Company to marry its short-term objectives with its long-term goals and driving improvements in the processes.

a) A stable, committed and highly qualified team

At the end of 2022, the Company's workforce consisted of 1,289 professionals. The Company's commitment to developing its professionals by maintaining their internal employability skills throughout their life as professionals is reflected in the high levels of permanent employment contracts (nearly 100%), prioritising employability and functional mobility as levers for growth and professional development.

b) Diversity

The Company's commitment to diversity, inclusion and non-discrimination is materialised in the form of its 2018-2022 Comprehensive Diversity Plan, which is aligned with the Strategic Plan and the 2030 Sustainability Commitment. It seeks to inspire and become a benchmark for the organisation itself and in the wider social, labour and human environment, through the commitment to talent diversity, social inclusion, employment and non-discrimination, breaking down stereotypes and cultural barriers. The goals of the Comprehensive Diversity Plan are:

- Create a corporate culture that encourages diversity among employees and other stakeholders.
- Integrate diversity into all processes, especially people management.
- Involve, raise awareness and promote the Company's mission and approach to diversity among collaborators and suppliers.
- Participate with official organisations, academic institutions and other social agents in campaigns and projects that enable the Company to become a leading social agent that will contribute to building a more diverse society.

Gender equality is one of the facets included in the Comprehensive Diversity Plan and refers to the principles of equal employment opportunities, the promotion of women to positions of responsibility, equal pay between men and women, the promotion of shared family responsibility, the prevention of harassment on moral, sexual and gender grounds and the prevention of gender violence. These aspects are monitored through indicators that enable the Company to measure the progress of the objectives defined.

c) Talent management

In 2022 work continued on the talent management model, an essential part of the People and Culture Department's Operational Plan, which uses a systematic approach to attract, discover, develop, train, transform and retain talent and exchange knowledge. Through the deployment of the following five lines of action, the model pursues excellence in these processes, thus ensuring that the Company retains a foremost position both at home and abroad:

- Attracting, Selecting and Integrating Talent: Commitment to the future.
- Identifying Talent: Bonding.
- Professional Training and Development Plans: Virtual campus.
- Knowledge Management: Transfer plan.
- Transformative Leadership.

Learning is coordinated through the Campus, which serves as a platform to deploy the organisation's strategy, values and culture and as a meeting place and catalyst for learning and development, helping to manage stakeholder knowledge by covering the various areas on which learning is focused.

d) Labour relations

In 2022, we continued to explore new internal communication channels to reinforce and complement the messages and scope of the corporate intranet (NuestraRED), such as the Company Communicator, which complements and reinforces the existing mix of channels and provides information in an agile and direct manner. It offers full accessibility, as messages are delivered directly to the Teams chat application, which has become the main working tool.

e) Health and safety

Through the commitment and leadership of the management team, the Company promotes best practices in safety, health and well-being. Its healthy company management model has evolved with the new AENOR standard towards a healthy organisation management system and is aligned with the Strategic Plan, the People Department's Operational Plan and the 2030 Sustainability Commitment.

This system focuses on creating a reference framework, not only so that the people in the organisation perceive working conditions in a positive way, generating a safe and healthy work environment, but also so that the numerous groups that make up society (users, customers, suppliers, families, etc.) can share and participate in these benefits, thus establishing a new leadership strategy focused on well-being and sustainability.

f) Management of work-life balance

2022 has been characterised by the integration of the work-life balance in diversity, which has become part of the Comprehensive Diversity Plan. 2022 also stood out for the achievement of the objectives identified for the year in the 3rd Comprehensive Work-Life Balance Plan 2018-2022, with 90% achievement of these objectives. Of particular importance was the work-life balance survey, which evaluated people's perception of the work-life balance management model and existing measures.

8 Average Supplier Payment Period. "Reporting Requirement". Additional Provision Three 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, and the amendments thereto in Law 18/2022 of 28 September 2022, the average supplier payment period is 41 days at the 2022 year end.

The disclosures required by this resolution are contained in note 22 to the Company's annual accounts for 2022.

9 Events after 31 December 2022

No significant events have occurred between the reporting date and the date on which these annual accounts were authorised for issue.

10 Outlook

The regulated activities of the TSO, aimed at making the energy transition in Spain possible, primarily observe the following lines of action:

- The integration of more renewable sources of energy generation in the electricity system, supporting the change to zero emission carriers and greater energy efficiency.
- Making the user the centre of the electricity system, providing new services for an increasingly demanding and discerning user in terms of data and information.
- Development of storage based on the management needs of the system in order to implement a more flexible electricity system.
- The digitalisation and roll-out of smart networks, committing to technology.
- A higher degree of interconnection, furthering integration with the European market and improving the functioning of non-mainland systems.

All of these challenges will require a significant level of investment in the transmission network in the coming years, with a considerable technological component, which will be rolled out in an increasingly strict regulatory and remuneration environment.

The Company will apply a financial policy adapted to the remuneration model for the transmission activity, ensuring that financial debt is diversified and its liquidity position can comfortably cover upcoming maturities, aiming for a robust financial structure that incorporates sustainability criteria.

11 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 Group for 2022, which is filed at the Madrid Mercantile Registry.

Signature of the representative of the sole director, pursuant to article 253 of the Spanish Companies Act.

Roberto García Merino

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A Redeia company