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 2020)

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

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

Independent Auditor's Report on the Annual Accounts

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

To the 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 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

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.

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Paseo de la Castellana, 259C 28046 Madrid

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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

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 Electricity Transmission Network Development Plan for 2015 – 2020 approved by agreement of the Council of Ministers on 16 October 2015. In 2020 additions to property, plant and equipment totalled Euros 388,261 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 additions to fixed assets for the year and assessing the accuracy of their accounting recognition. 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.

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 applicable hedge accounting criteria with respect to 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 2020 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 2020, and that the content and presentation of the report are in accordance with applicable legislation.

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 economic decisions of users taken on the basis of these annual accounts.

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

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

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

From the significant risks communicated to the Directors 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)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20435

23 February 2021

RED ELÉCTRICA DE ESPAÑA

Grupo Red Eléctrica

Annual Accounts

2020

(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 2020

Thousands of Euros

	Note	31.12.2020	31.12.2019
Non-current assets		8,373,855	8,366,870
Intangible assets	6	**44,768**	**36,419**
Computer software		44,768	36,419
Property, plant and equipment	7	**8,253,833**	**8,238,091**
Land and buildings		3,544	3,727
Technical installations and other items		7,417,412	7,517,848
Under construction and advances		832,877	716,516
Non-current investments in Group companies and associates	8	**2,528**	**2,528**
Equity instruments		1,000	1,000
Other financial assets		1,528	1,528
Non-current investments	9	**7,494**	**18,301**
Equity instruments		468	468
Loans to third parties		3,241	4,179
Derivatives	19	-	10,246
Other financial assets		3,785	3,408
Deferred tax assets	23	**65,194**	**71,531**
Prepayments for non-current assets	12	**38**	**-**
Current assets		1,312,856	1,312,923
Inventories	10	**32,409**	**40,365**
Trade and other receivables	11	**1,205,623**	**1,183,387**
Trade receivables		1,147	187
Trade receivables from Group companies and associates		2,066	2,600
Other receivables		1,199,970	1,177,628
Personnel		856	1,206
Public entities, other		1,584	1,766
Current investments	9	**14,697**	**16,492**
Derivatives	19	-	11,152
Other financial assets		14,697	5,340
Prepayments for current assets	12	**15,520**	**11,893**
Cash and cash equivalents		**44,607**	**60,786**
Cash		44,607	60,786
Total assets		**9,686,711**	**9,679,793**

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 2020

Thousands of Euros

	Note	31.12.2020	31.12.2019
Equity	13	2,147,421	2,042,682
Capital and reserves		**1,704,813**	**1,604,263**
Capital		800,006	800,006
Share premium		54,319	54,319
Reserves		701,192	675,941
Profit for the year		612,779	636,921
(Interim dividend)		(463,483)	(562,924)
Valuation adjustments		**39,675**	**35,674**
Hedging transactions		(74,123)	(71,071)
Other		113,798	106,745
Grants, donations and bequests received		**402,933**	**402,745**
Non-current liabilities		5,523,761	5,010,615
Non-current provisions	14	**118,119**	**148,156**
Non-current payables	15	**1,417,267**	**1,492,267**
Loans and borrowings		1,366,748	1,445,336
Derivatives	19	50,351	46,781
Other liabilities		168	150
Group companies and associates, non-current	25	**3,257,493**	**2,618,415**
Deferred tax liabilities	23	**608,327**	**626,186**
Non-current accruals	16	**122,555**	**125,591**
Current liabilities		2,015,529	2,626,496
Current provisions	14	**37,925**	**-**
Current payables	15	**493,952**	**560,488**
Loans and borrowings		86,547	95,192
Derivatives	19	-	4,384
Other current payables		407,405	460,912
Current payables to Group companies and associates	25	**1,036,333**	**1,789,260**
Suppliers of fixed assets – Group companies and associates		8,789	8,437
Payables to Group companies and associates due to tax effect		22,933	16,519
Payables to Group companies and associates		966,079	1,707,257
Interest on payables to Group companies and associates		38,532	57,047
Trade and other payables	20	**429,022**	**259,224**
Payables to Group companies		6,406	5,928
Other payables		348,778	202,487
Personnel		10,682	19,200
Public entities, other		63,156	31,609
Current accruals	21	**18,297**	**17,524**
Total equity and liabilities		**9,686,711**	**9,679,793**

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.

Income Statement. 2020

Thousands of Euros

	Note	2020	2019
Revenue	24-a	**1,668,263**	**1,806,997**
Services rendered		1,668,263	1,806,997
Self-constructed assets	6 and 7	**41,501**	**40,509**
Supplies	24-c	**(21,136)**	**(27,576)**
Raw materials and other consumables used		(19,744)	(27,066)
Impairment of other supplies	10	(1,392)	(510)
Other operating income	24-b	**12,370**	**19,597**
Non-trading and other operating income		12,215	19,065
Operating grants taken to income		155	532
Personnel expenses	24-d	**(134,253)**	**(139,629)**
Salaries and wages		(99,966)	(102,653)
Employee benefits expense		(26,095)	(27,162)
Other items and employee benefits		(8,192)	(9,814)
Other operating expenses	24-c	**(291,286)**	**(294,038)**
External services		(263,411)	(271,091)
Taxes		(27,875)	(22,920)
Losses, impairment and changes in trade provisions		-	(27)
Depreciation and amortisation	6 and 7	**(385,385)**	**(463,670)**
Non-financial and other capital grants		**25,237**	**24,801**
Impairment and gains on disposals of fixed assets	7	**163**	**983**
Results from operating activities		**915,474**	**967,974**
Finance income		**8,277**	**5,026**
Marketable securities and other financial instruments		3,398	97
Capitalised borrowing costs	7	4,879	4,929
Finance costs	24-f	**(105,381)**	**(124,630)**
Group companies and associates	25	(85,436)	(102,154)
Other		(19,336)	(21,884)
Provision adjustments	14	(609)	(592)
Exchange gains		**55**	**4**
Net finance cost		**(97,049)**	**(119,600)**
Profit before tax		**818,425**	**848,374**
Income tax	23	**(205,646)**	**(211,453)**
Profit from continuing operations		**612,779**	**636,921**
Profit for the year		**612,779**	**636,921**

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 2020

Thousands of Euros

	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 2018	**800,006**	**54,319**	**627,411**	**632,900**	**(574,399)**	**1,540,237**	**37,704**	**399,060**	**1,977,001**
Total recognised income and expense	-	-	(9,971)	636,921	-	626,950	(2,030)	3,685	628,605
Transactions with shareholders or owners									
Capital increases	-	-	-	-	-	-	-	-	-
(-) Distribution of dividends	-	-	-	(574,399)	11,475	(562,924)	-	-	(562,924)
Other changes in equity									
Distribution of prior year's profit	-	-	58,501	(58,501)	-	-	-	-	-
Balance at 31 December 2019	**800,006**	**54,319**	**675,941**	**636,921**	**(562,924)**	**1,604,263**	**35,674**	**402,745**	**2,042,682**
Total recognised income and expense	-	-	(4,705)	612,779	-	608,074	4,001	188	612,263
Transactions with shareholders or owners									
Capital increases	-	-	-	-	-	-	-	-	-
(-) Distribution of dividends (note 13-b)	-	-	10,288	(54,329)	(463,483)	(507,524)	-	-	(507,524)
Other changes in equity									
Distribution of prior year's profit	-	-	19,668	(582,592)	562,924	-	-	-	-
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**

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 Recognised Income and Expense. 2020

Thousands of Euros

	2020	2019
Profit for the year	**612,779**	**636,921**
Cash flow hedges	(11,115)	(17,567)
Grants, donations and bequests received	20,911	25,308
Actuarial gains and losses and other adjustments	(6,273)	(13,295)
Tax effect	10,671	12,772
Income and expense recognised directly in equity	**14,194**	**7,218**
Cash flow hedges	7,046	4,974
Grants, donations and bequests received	(20,660)	(20,394)
Tax effect	(1,096)	(114)
Amounts transferred to the income statement	**(14,710)**	**(15,534)**
Total recognised income and expense	**612,263**	**628,605**

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 Cash Flows. 2020

Thousands of Euros

	2020	2019
Cash flows from operating activities	**1,110,931**	**930,204**
Profit for the year before tax	**818,425**	**848,374**
Adjustments to profit	**474,697**	**579,548**
Depreciation and amortisation	385,385	463,670
Impairment	1,392	537
Change in provisions	11,392	16,596
Gains on disposals of fixed assets	(163)	(983)
Non-financial and other capital grants	(25,237)	(24,801)
Finance income	(3,398)	(97)
Finance costs	105,381	124,630
Exchange gains	(55)	(4)
Changes in operating assets and liabilities	**123,664**	**(180,323)**
Inventories	6,564	(8,159)
Trade and other receivables	(22,693)	(181,277)
Other current assets	(14,817)	5,322
Trade and other payables	153,027	3,791
Other non-current assets and liabilities	1,583	-
Other cash flows used in operating activities	**(305,855)**	**(317,395)**
Interest paid	(107,045)	(116,891)
Interest received	3,398	96
Income tax paid/received	(200,329)	(193,404)
Other payments	(1,879)	(7,196)
Cash flows used in investing activities	**(442,980)**	**(435,542)**
Payments for investments	**(444,398)**	**(439,278)**
Property, plant and equipment and intangible assets	(442,870)	(438,042)
Other assets	(1,528)	(1,236)
Proceeds from sale of investments	**1,418**	**3,736**
Property, plant and equipment and intangible assets	168	1,121
Other assets	1,250	2,615
Cash flows used in financing activities	**(684,130)**	**(544,330)**
Proceeds from and payments for equity instruments	**20,911**	**25,308**
Grants, donations and bequests received	20,911	25,308
Proceeds from and payments for financial liability instruments	**(187,229)**	**(6,714)**
Loans and borrowings	-	177,800
Repayment of loans and borrowings	(84,633)	(77,099)
Payables to Group companies and associates	1,897,513	1,743,957
Repayment of payables to Group companies and associates	(1,978,812)	(1,836,377)
Other payments	(21,297)	(14,995)
Dividends and interest on other equity instruments paid	**(517,812)**	**(562,924)**
Dividends	(517,812)	(562,924)
Net increase/(decrease) in cash and cash equivalents	**(16,179)**	**(49,668)**
Cash and cash equivalents at beginning of year	60,786	110,454
Cash and cash equivalents at year end	44,607	60,786

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

Contents

1 Company Activity

Pursuant to Law 17/2007 of 4 July 2007, amending 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 the Company or REE) has had its present corporate structure and 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 throughout Spain.
- 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 19 February 2021 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2020, 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.

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

Mercantile legislation in force requires that certain disclosures be made in the annual accounts relating to contracts signed with the Company's sole shareholder (REC). These contracts are indicated in note 25.

The annual accounts for 2019 were approved by the sole shareholder on 28 April 2020. The annual accounts for 2020 are currently pending approval. However, the sole director of the Company considers that these annual accounts will be approved with no changes.

b) Non-mandatory accounting principles

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

c) Estimates and assumptions

The preparation of the annual accounts 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 2020 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 property, plant and equipment.
- Assumptions used in the actuarial calculations.
- Assumptions and estimates used in measuring the fair value of derivative financial instruments.
- Estimated revenue from electricity transmission facilities for periods prior to n+2 (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.

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.

Although estimates are based on the best information available at 31 December 2020, 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.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2020 include comparative figures for the prior year, which formed part of the annual accounts for 2019.

e) Considerations regarding COVID-19

The emergence of Coronavirus disease 2019 (COVID-19) in China early in the year and its rapid spread to a number of countries across the globe led the World Health Organization (WHO) to declare the viral outbreak a pandemic by mid-March.

Considering the complexity of the health crisis and the substantially global nature of the markets in this day and age, the short- and medium-term outlook remains uncertain, and economic growth around the world could differ depending on how the spread of infections and the roll-out of vaccines unfold. The pandemic is lingering beyond initial expectations, and its consequences will largely depend on the amount of time needed to completely eradicate the virus. The ability to move forward from the pandemic will largely depend on the rate at which vaccines are authorised and produced, and the pace at which States and their healthcare systems roll out the vaccines to high percentages of the population in a bid to achieve herd immunity. These are the pivotal factors in play if global economic activity is to recover and resume pre-crisis levels.

In Spain, the healthcare predicament stemming from the pandemic called for the government to take exceptional measures. It did so in March by publishing Royal Decree 463/2020 declaring a nationwide state of emergency, which was subsequently extended on more than one occasion and ultimately lifted in June. At the end of the summer season, new outbreaks occurring nationwide in Spain prompted the government to declare a new state of emergency in October, through Royal Decree 926/2020, which was then extended until 9 May 2021. As highlighted by both Royal Decrees and the accompanying regulations issued during this period, the need to guarantee the supply of energy in general, and electricity in particular, continues to be a priority.

Red Eléctrica de España, as the electricity transmission infrastructure owner and system manager, has remained fully committed to achieving the targets defined by the Spanish authorities, having implemented a number of extraordinary measures in order to meet its obligations as laid down in Law 24/2013, aimed at ensuring continuity and security of supply. These measures have been executed in parallel with the priority of guaranteeing the health of the Company's employees and observing the health authorities' policy to slow the spread of infections. Red Eléctrica de España has spared no efforts or resources when it comes to deploying whatever measures have become necessary to ensure that the electricity system remains up and running in these critical times. By way of example, the Company set up a third electricity control centre in record time.

Once the toughest lockdown in the first half of the year was lifted, all facilities operation and maintenance activities in Spain were fully resumed and the construction of new infrastructure is now underway again, while all measures temporarily put in place to ensure network availability and to resolve incidents and faults have come to an end.

No incidents occurred in Spain in 2020 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.

However, the decline in demand for electricity in Spain in 2020, by 5.1% in the mainland system and 13.7% in non-mainland systems, has posed a significant challenge as regards system operation. In the first half of the year, drops of up to 20% vis-à-vis equivalent periods in the prior year were seen in some cases. These fluctuations in demand have required voltage controls to be implemented in the Spanish electricity system. Additional energy scheduling in view of technical restrictions due to voltage controls and more intensive use of available resources in the transmission network have enabled the exceptional situation stemming from COVID-19 to be managed with no incidents.

Within this context, REE has followed the guidelines adapted to the recommendations issued by the different pertinent authorities in Spain, with the priority of preserving the health and safety of all of its employees, customers and suppliers.

With this in mind, measures were implemented at the onset of the health crisis to allow for flexibility and to enable all staff whose physical presence in the workplace was not strictly necessary to work from home, so as to guarantee the security of the electricity supply. Implementation of this measure was only possible thanks to the digitalisation process developed in recent years, which has entailed considerable efforts in terms of employee training and to equip all staff with the IT and communications resources needed to address a situation such as the present one. All people in the high-risk group continue to work from home, and office-based work resumed in September.

The situation brought on by COVID-19 has not had a significant impact on the continuity of operations in Spain. Nonetheless, in early February a monitoring committee was activated, enabling the implementation of an exhaustive contingency plan.

Since the onset of the crisis, the Company has been continuously monitoring the estimated impact that the situation arising from management of the COVID-19 fall-out could have on its profits and its investments in projects underway. The main conclusions drawn from the analyses performed and from the impact assessment are as follows:

- REE's essential activities are electricity transmission and electricity system operation. As such, and despite lingering uncertainties as to the impact of the pandemic on the economy, it has not had an effect on revenue from the Company's regulated activities, which is the major component of its overall revenue.
- The construction of new electricity transmission infrastructure experienced temporary delays due to the total or partial stoppage of economic activities imposed by the authorities. These activities resumed practically in full in the closing months of the year.
- The Company began to resume activity once the strictest lockdown was lifted, as mentioned above, and at no point did it stop providing the essential services that are its remit. Therefore, REE's operations were not interrupted to any great extent during the state of emergency, employment was maintained, and it has not had to resort to furlough measures (see note 24).
- Likewise, considering the Company's liquidity position, it has not been necessary to resort to the financial aid offered by the different authorities (see note 17), and the financial covenants written into the contracts signed have been met.
- Moreover, no lease agreements have been amended.
- During the year, the Company incurred extraordinary expenditure due to contributions made to the healthcare authorities and other organisations, essentially for the purchase of healthcare supplies to fight the pandemic, and also for purchases of personal protective equipment and additional cleaning of workplaces.

The Company is setting its sights on a green recovery as the only way out of the economic crisis brought on by the COVID-19 pandemic. For the Group, the focal point of this model is to foster an inclusive and fair energy transition. In this regard, the Red Eléctrica Group has joined forces with initiatives both in Spain and in the international arena that endorse sustainability as a springboard to post-crisis economic recovery. These include the "Manifesto for a

Sustainable Recovery", championed by representatives from the political, corporate, trade union, scientific and third sector communities in Spain, and which is aligned with the Green Recovery Alliance in Europe, and the "Uniting Business and Governments to Recover Better" statement, promoted by the prestigious Science Based Targets initiative and supported by the United Nations. These two initiatives are seeking to pave a way forward out of the COVID-19 crisis that places people, achievement of the United Nations 2030 Agenda, and an ambitious climate-related action plan at the very heart.

The Company will continue to assess the situation and closely monitor any incidents arising in the infrastructure it manages, as well as trends in other external factors and the impact such factors could have on the financial statements.

3 Sector Regulation

The 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 series of reforms was embarked upon in 2013, which culminated in the enactment of the current Electricity Industry Law 24/2013 of 26 December 2013. These reforms and the new Law were introduced principally to address the imbalance between revenues and costs of the electricity system in previous years, which in turn resulted from certain energy and tariff policy decisions and was aggravated by the impact of the financial crisis on electricity demand. The Law lays down the following regulatory framework with respect to the activities conducted by the Company:

- The Law acknowledges the natural monopoly in the transmission activity, arising from the economic efficiency afforded by a sole grid. Transmission is liberalised by granting widespread third-party access to the network, which is made available to the different electricity system agents and consumers in exchange for payment of an access charge.

  The remuneration for this activity is set by the government based on the general principles defined in the Law and, until 2019, on the method set forth in Royal Decree 1047/2013 of 27 December 2013, which sets out the methodology for calculating the remuneration for electricity transmission activities. However, due to the change in remit introduced through Royal Decree-Law 1/2019, on urgent measures to adapt the powers of the Spanish National Markets and Competition Commission (CNMC) to the requirements of Community law in respect of Directives 2009/72/EC and 2009/73/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity and natural gas, respectively, for the new regulatory period commencing in 2020 the CNMC has approved a new methodology, set forth in Circular 5/2019 of 5 December 2019, which defines the methodology for calculating the remuneration for electricity transmission activities.

  In addition to this Circular, the parameters of the remuneration model for the 2020-2025 regulatory period were set forth in Circular 2/2019, which defines the methodology for calculating the financial rate of return for electricity transmission and distribution, regasification, and natural gas transmission and distribution, and in Circular 7/2019, approving 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. With respect to the reference unit values for investment, this Circular further stipulated that the values in force in the prior regulatory period – which were determined through Ministry of Industry, Energy and Tourism Order IET/2659/2015 of 11 December 2015, approving the standard facilities and reference unit values for investment, operation and maintenance per asset that are to be used in calculating the remuneration allocable to companies that own electricity transmission facilities – would remain in force for the 2020-2025 period.

  In addition to this Circular, for the 2020-2025 regulatory period certain other remuneration parameters have been defined under the new model. 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 2020, the regulated revenue for this activity was determined on a provisional basis and settled on account. The regulators (the Ministry until 2019 and the CNMC for revenue pertaining to 2020) provisionally opted to repeat what was stipulated for 2016 in terms of the amount of remuneration, and this has therefore remained constant. This provisional approach (for the 2017-2020 period) stems from the "detriment proceedings" brought by the Spanish State Attorney against the aforementioned 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 Supreme Court delivered its judgment on 29 June 2020, ruling in part for the State, and thus requiring Ministerial Order IET/981/2016 and the revenue for 2016 to be corrected. This is expected to occur in 2021, and will thus allow for the definitive transmission activity revenue for 2017-2020 to be established (see note 14).

- 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 Spanish 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.

  As provided in article 31.1 of the aforementioned law, the Ministry shall assign the role of transmission network manager for the Spanish electricity system to Red Eléctrica following certification by the CNMC, and the European Commission shall be notified in order for such assignment to be published in the Official Journal of the European Union. In 2015 the certification process for Red Eléctrica as transmission network manager for the Spanish electricity system, as envisaged in the law, was completed following publication in the Official Journal of the European Union of 12 February 2015 of the Notification of the Spanish Government regarding the designation of Red Eléctrica de España, S.A.U. as transmission system operator in Spain. Under this assignment, Red Eléctrica de España, S.A.U. operates on an ownership unbundling basis as stipulated in article 9 of the old Directive 2009/72/EC, and reiterated in article 43 of the new Directive 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 enactment of Royal Decree-Law 1/2019, the CNMC assumed its new remit and published a number of circulars in 2019 and 2020 defining the new remuneration methodologies for network activities (electricity and gas alike) as well as the methodology for tolls. The CNMC also established the first ever remuneration model for the system operation activity, through Circular 4/2019, which defines the remuneration methodology for the electricity system operator. 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 2021. With the publication of the new remuneration methodology, the regulator should now proceed to estimate the definitive remuneration for 2014-2019, which previously was estimated on a provisional basis in the absence of a calculation methodology (see note 24).

Regarding the Company's remit in the non-mainland electricity systems, in 2015 the Chira-Soria 200 MW reversible 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. In 2016 the

Canary Islands government declared the new project to be of strategic interest and it has been subject to administrative consideration since then, before construction gets underway.

4 Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2020, 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	612,779
Total	**612,779**
Distribution	
Voluntary reserves	85,016
Dividends:	
Interim dividend	463,483
Supplementary dividend	64,280
Total	**612,779**

The interim dividend for 2020 is explained in note 13.

This proposed distribution entails a total dividend of Euros 1.3194 per share for the year.

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, which is periodically reviewed and adjusted in the event of a decline in value. Intangible assets include the following:

- 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.
- 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 economic 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.

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, which contained several tax measures aimed at consolidating public finances and boosting economic activity, of assets recognised until 1 January 2013.

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.

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%

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. The Company has performed complementary analyses of these indicators in view of the entry into force of the new remuneration regime applicable to electricity transmission assets in Spain (see note 3).

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%.

In 2020 the Company conducted a study on the useful life of transmission assets that came into service before 1998, in view of the new remuneration model. This study was based on internal and external sources and demonstrated that, if certain operating conditions and appropriate operating and maintenance programmes were upheld, these facilities may have a longer useful life than that initially determined, ensuring security of operations in accordance with legal requirements. Consequently, depreciation and amortisation in the income statement includes the impact of this change in estimate from 1 January 2020 onwards, which has entailed a reduction in the depreciation charge of approximately Euros 50 million at the 2020 reporting date. The average remaining useful life of these assets is now 14 years.

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 f) 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 maintains a significant part of the risks and rewards of ownership are classified as operating leases.

Leases under which the significant risks and rewards of ownership of the goods are transferred to the Company are classified as finance leases. Assets recognised as finance leases are presented in the balance sheet based on the nature of the leased asset.

d) Financial assets

The Company classifies its financial assets into the following categories:

- Loans and receivables: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not intended for trading in the near term. These assets are classified as current, except those maturing in over 12 months after the reporting date, which are classified as non-current.

  Loans are initially recognised at fair value, including transaction costs incurred in arranging the loan, and are subsequently measured at amortised cost using the effective interest method, which is basically the amount granted, less repayments of the principal, plus accrued interest receivable.

  Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

- Available-for-sale financial assets: investments that the Company intends to hold for an unspecified period of time which are likely to be disposed of to meet one-off liquidity needs or in response to interest rate fluctuations. They are classified as non-current, unless they are expected to be disposed of in less than one year and such disposal is feasible. These financial assets are measured at fair value, which is the quoted price at the reporting date in the case of securities quoted in an active market. Any gains or losses arising from changes in the fair value of these assets at the reporting date are recognised directly in equity until the assets are disposed of or impaired, whereupon the accumulated gains and losses are recognised in profit or loss. Dividends from equity investments classified as available-for-sale are recognised in the income statement when the Company's right to receive payment is established. Impairment, where applicable, is calculated on the basis of discounted expected future cash flows.

- Equity investments in Group companies and associates: these investments are measured at cost less any accumulated impairment. If there is objective evidence that the carrying amount is not recoverable, the amount of the impairment loss is measured as the difference between the carrying amount and the recoverable amount, the latter of which is understood as the higher of the fair value less costs to sell and the present value of estimated future cash flows from the investment. Unless better evidence of the recoverable amount is available, when estimating impairment of such investments, the investee's equity is taken into consideration, corrected for any net unrealised gains existing at the measurement date. Impairment losses are recognised and reversed in the corresponding income statement. The Company has not identified any indications of impairment of investments in Group companies in its analysis.

- Cash and cash equivalents: including cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

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.

e) 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.

f) 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. 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. Any reversals are recognised in the income statement.

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. For held-to-maturity debt instruments the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

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 to the limit of the amortised cost of the assets had the impairment loss not been recognised.

g) Capital and reserves

Share capital is represented by ordinary shares.

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

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

For a dividend in kind in the form of a business distributed to the Parent, recognition and measurement standards 19 and 21 of the Spanish General Chart of Accounts approved through Royal Decree 1514/2007 are applicable, entailing the derecognition of the assets and the dividend payable at their carrying amounts. Any difference between the carrying amount and the fair value of the business distributed is recognised in reserves. Consequently, the fair value of the business distributed as a dividend must be equal to the payable settled by payment of the dividend (see note 13-b).

h) Grants and other

Non-repayable capital grants awarded by different official bodies 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 grants were received.

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

i) 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.

- 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, minus 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 their future resolution will not have a significant impact on the Company's financial statements.

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.

j) Financial debt

Loans and similar payment obligations are initially recognised at the cash amount received, less transaction costs. Such debt is subsequently measured at amortised cost, using the effective interest method.

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 as non-current.

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.

The exchange of debt instruments between the Company and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, provided that the instruments have substantially different terms.

The Company considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

k) 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.

l) 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.

The 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, are 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) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. However, trade 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.

n) Income and expenses

Revenue is measured at the fair value of the consideration received or receivable. Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

The majority of the Company's revenues are regulated revenues from transmission and system operation activities in Spain. Details of the implementing legislation governing the calculation of these revenues are provided in note 3.

Revenue and expenses from construction contracts are recognised using the percentage of completion method, whereby revenue is recognised based on the percentage of the contract work completed at the end of the accounting period.

Collections and payments arising from long-term contracts or commitments are recognised in the income statement over the term of the contract or commitment.

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

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

o) 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.

p) 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.

q) Environmental issues

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.

r) 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.

s) 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 2020 and 2019 and details of accumulated amortisation are as follows:

Thousands of Euros	31 December 2018	Additions	Disposals and other	Transfers	31 December 2019	Additions	Disposals and other	Transfers	31 December 2020
Cost									
Development	2,775	-	-	-	2,775	-	-	-	2,775
Computer software	41,718	18,337	-	-	60,055	23,369	(3,892)	(17)	79,515
Total cost	**44,493**	**18,337**	**-**	**-**	**62,830**	**23,369**	**(3,892)**	**(17)**	**82,290**
Accumulated amortisation									
Development	(2,775)	-	-	-	(2,775)	-	-	-	(2,775)
Computer software	(18,591)	(5,045)	-	-	(23,636)	(13,177)	2,066	-	(34,747)
Total accumulated amortisation	(21,366)	(5,045)	-	-	(26,411)	(13,177)	2,066	-	(37,522)
Carrying amount	**23,127**	**13,292**	**-**	**-**	**36,419**	**10,192**	**(1,826)**	**(17)**	**44,768**

In 2020 and 2019 the additions of computer software are due to the acquisition and development of software for the Company's system operation and transmission activities.

In 2020, disposals and other consist of intangible assets transferred to the Parent, REC, by way of the distribution of a dividend in kind in the form of the corporate services business, as explained in note 13-b.

At 31 December 2020 the Company has fully amortised intangible assets amounting to Euros 17,788 thousand (Euros 18,550 thousand at 31 December 2019). The reduction at 31 December 2020 compared to 31 December 2019 is due to the transaction referred to in the preceding paragraph.

In 2020 operating expenses of Euros 3,375 thousand directly related to intangible assets were capitalised (Euros 2,629 thousand in 2019).

7 Property, Plant and Equipment

Movement in property, plant and equipment during 2020 and 2019 and details of accumulated depreciation and impairment are as follows:

Thousands of Euros	31 December 2018	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31 December 2019	Additions and other	Exits, disposals, reductions and write-downs	Transfers to REC	Transfers	31 December 2020
Cost										
Land and buildings	9,123	-	-	-	9,123	-	-	-	-	9,123
Technical electricity facilities and other items	14,291,623	-	(4,205)	489,798	14,777,216	-	(158)	(1,850)	271,917	15,047,125
Under construction and advances	804,758	401,556	-	(489,798)	716,516	388,261	-	-	(271,900)	832,877
Total cost	**15,105,504**	**401,556**	**(4,205)**	**-**	**15,502,855**	**388,261**	**(158)**	**(1,850)**	**17**	**15,889,126**
Accumulated depreciation										
Buildings	(5,214)	(182)	-	-	(5,396)	(183)	-	-	-	(5,579)
Technical electricity facilities and other items	(6,676,910)	(458,443)	4,067	-	(7,131,286)	(372,025)	154	1,526	-	(7,501,631)
Total accumulated depreciation	**(6,682,124)**	**(458,625)**	**4,067**	**-**	**(7,136,682)**	**(372,208)**	**154**	**1,526**	**-**	**(7,507,210)**
Impairment of facilities	(128,082)	-	-	-	(128,082)	-	-	-	-	(128,082)
Carrying amount	**8,295,298**	**(57,069)**	**(138)**	**-**	**8,238,091**	**16,053**	**(4)**	**(324)**	**17**	**8,253,833**

Technical electricity facilities are assets that are subject to regulated remuneration (see note 3). The main additions to technical electricity facilities in 2020 and 2019 are investments in electricity transmission facilities.

At 31 December 2020 and 2019 the balance presented in additions and other mainly reflects investments made during the year as well as any technical facilities received under agreements with third parties.

During 2020, the Company capitalised construction-related borrowing costs of Euros 4,879 thousand as an increase in property, plant and equipment (Euros 4,929 thousand in 2019). The weighted average rate used to capitalise borrowing costs was 1.2% in 2020 (1.6% in 2019). Operating expenses of Euros 38,126 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2020 (Euros 37,880 thousand in 2019). 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.

In 2020, transfers to REC reflect items of property, plant and equipment transferred to the Parent, REC, by way of the distribution of a dividend in kind in the form of the corporate services business, as explained in note 13-b.

In 2020 and 2019, transfers basically comprise lines, substations and communication and control systems which were under construction and have been completed.

At 31 December 2020 and 2019, the amount shown under exits, disposals, reductions and write-downs mainly includes the disposal of certain fully-depreciated assets.

In addition, property, plant and equipment reflect the agreement entered into with Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) for the right to use the dark fibre and associated infrastructure that was used by the Company (see notes 16 and 21).

The Company has cash-generating units (CGUs) that group together items of property, plant and equipment. CGUs 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 in property, plant and equipment are related to electricity transmission and certain individual assets. The CGUs identified are the same in 2020 and 2019.

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 disposals 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 when a change arises in the estimate of its recoverable amount, increasing the value of the asset with a credit to results up to the limit of the carrying amount that the asset would have had if no impairment loss had been recognised.

The recoverable amount is the higher of fair value less costs to sell and value in use, which is understood to be the present value of estimated future cash flows. The Company considers the value in use of an asset to be its recoverable amount. Value in use is calculated using the methodology described below.

To estimate value in use, the Company prepares forecasts of future cash flows after tax based on the best available estimates. These forecasts include the best available estimates of income, expenses and investments, using past experience and future expectations in accordance with the prevailing regulatory framework.

There were no indications of impairment of the Company's facilities in 2020 and 2019.

At 31 December 2020 the Company has fully depreciated property, plant and equipment amounting to Euros 2,640,287 thousand (Euros 2,500,559 thousand at 31 December 2019), of which Euros 2,451,876 thousand comprises technical facilities and Euros 146,512 thousand reflects IT equipment (Euros 2,335,545 thousand and Euros 124,298 thousand, respectively, at 31 December 2019).

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

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.

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.

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 3.0 million in the depreciation charge for 2020 (Euros 6.4 million in 2019), while accumulated depreciation at 31 December 2020 totals Euros 59 million (Euros 56 million at 31 December 2019).

8 Non-current Investments in Group Companies and Associates

Details at 31 December 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Equity instruments	1,000	1,000
Other financial assets	1,528	1,528
Total	**2,528**	**2,528**

In 2020 and 2019 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 2020 and 2019 other financial assets comprise the security deposits provided to REC 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 2020	31 December 2019
Equity instruments	468	468
Loans to third parties	3,241	4,179
Derivative financial instruments	-	10,246
Other non-current financial assets	3,785	3,408
Non-current investments	**7,494**	**18,301**
Derivative financial instruments	-	11,152
Other current financial assets	14,697	5,340
Current investments	**14,697**	**16,492**

At 31 December 2020 and 2019 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.

At 31 December 2020 and 2019 loans to third parties include 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 2020 and 2019 non-current and current derivative financial instruments reflect the value of cash flow hedging derivatives (see note 19).

Other non-current financial assets at 31 December 2020 and 2019 basically comprise security and other deposits extended by the Company.

At 31 December 2020, other current financial assets mainly reflect 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. At 31 December 2019, this amount was recognised under other current payables (see note 15). At 31 December 2020 and 2019, this item also includes the accrued interest receivable on derivative financial instruments (see note 19).

10 Inventories

Details at 31 December 2020 and 2019 are as follows (in thousands of Euros):

Thousands of Euros	31 December 2020	31 December 2019
Inventories	67,205	73,769
Write-downs	(34,796)	(33,404)
Total	**32,409**	**40,365**

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 recorded impairment losses of Euros 1,392 thousand in the income statement for 2020 (Euros 510 thousand in 2019).

11 Trade and Other Receivables

Details at 31 December 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Trade receivables	1,147	187
Trade receivables from Group companies and associates	2,066	2,600
Other receivables	1,199,970	1,177,628
Personnel	856	1,206
Public entities, other	1,584	1,766
Total	**1,205,623**	**1,183,387**

At 31 December 2020 and 2019 trade receivables from Group companies and associates mainly comprise amounts pending invoice or collection for professional services rendered to various Group companies (see note 25).

Other receivables primarily reflect the trend in settlements made by the regulator (CNMC) in these years for regulated activities as a result of changes in collections and payments. At 31 December 2020 and 2019 the balances 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, which stipulates that facilities entering into service in year 'n' are to be remunerated from year 'n+2' onwards.

At 31 December 2020 and 2019 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 2020 and 2019. At 31 December 2020 and 2019 there are no significant amounts over 12 months past due (see note 17).

12 Prepayments for Non-current and Current Assets

In 2020 and 2019, prepayments for non-current and current assets reflect advance payments for the coming years, 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 72.38% in 2020 (73.84% in 2019). 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	2020	2019
Non-current payables [(1)]	4,624,241	4,063,751
Current payables[(1)] (note 25)	1,052,626	1,802,449
Accrued interest payable (note 15)	(7,910)	(10,586)
Foreign currency derivatives (note 19)	2,199	(28,566)
Cash and cash equivalents	(44,607)	(60,786)
Net financial debt	**5,626,549**	**5,766,262**
Equity	2,147,421	2,042,682
Gearing ratio	**72.38%**	**73.84%**

(1) Including loans and borrowings and payables to Group companies and associates. Not including income tax payable by the Company to REC, the parent of the tax group.

On 6 March 2020 the credit rating agency Standard & Poor's issued a new report on the Company maintaining its long-term rating. Accordingly, the Company, its Parent REC and the Group companies Red Eléctrica Financiaciones, S.A.U. (REF) and Red Eléctrica de España Finance, B.V. (RBV) maintain long-term ratings of 'A-' with a stable outlook, and short-term ratings of 'A-2'.

On 6 April 2020, the credit rating agency Fitch Ratings issued a new report on the Company, maintaining Red Eléctrica's long-term rating. Following this announcement, the Company, together with its Parent REC and the Group companies REF and RBV, 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 2020 and 2019 the Company's share capital is represented by 400,003,000 bearer shares with a par value of Euros 2 each, subscribed and fully paid by the sole shareholder REC, and carrying the same voting and profit-sharing rights.

  The Parent of the Group, REC, is subject to the shareholder limitations stipulated in the twenty-third additional provision 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 REC, 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 REC 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 REC'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 2020 and 2019 SEPI holds a 20% interest in REC's share capital.

- **Share premium**

  At 31 December 2020 and 2019 the share premium amounts to Euros 54,319 thousand. This reserve is freely distributable.

- **Reserves**

  This item includes:

  - 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 2020 and 2019 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 2020 or 2019.

  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 ten 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 2020 and 2019 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 REE 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 2020 or 2019.

- Other reserves

  These include voluntary reserves of Euros 411,205 thousand at 31 December 2020 (Euros 400,917 thousand at 31 December 2019). These reserves have primarily been generated in the distribution of prior years' profit. In 2020, voluntary reserves increased by Euros 10,288 thousand due to the distribution of a dividend in kind to the Parent during the year, in the form of the business unit comprising the corporate services that the Company provided to the various Group companies. The transfer essentially encompassed the employees, assets and liabilities associated with the business.

  This increase in voluntary reserves is the result of the difference between the fair value of the business distributed as corroborated by an independent expert (Euros 17,716 thousand) and the amount derecognised from the Company's balance sheet in respect of the assets and liabilities associated with the business transferred (Euros 28,004 thousand).

  This line item also comprises the reserve for actuarial gains and losses, which is negative in an amount of Euros 22,281 thousand (a negative amount of Euros 17,576 thousand in 2019), 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 2020 (Euros 29,110 thousand at 31 December 2019), arising from the reclassification of voluntary reserves to the capitalisation reserve between 2015 and 2019. The capitalisation reserve for the year ended 31 December 2020 will be held in REC, 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 612,779 thousand (Euros 636,921 thousand at 31 December 2019).

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

Interim dividends approved by the sole director in 2020 are recognised as a reduction in equity at 31 December 2020. Interim dividends are distributed in accordance with the requirements set forth in article 277 of the Spanish Companies Act.

On 28 April 2020 the sole director of the Company agreed to pay an initial interim dividend of Euros 0.3610 per share with a charge to 2020 profit, which was paid on 28 April 2020 for a total amount of Euros 144,401 thousand.

The cash flow forecast for the period from 31 March 2020 to 28 April 2020 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica de España, S.A.U.	**Thousands of Euros**
Available funds at 31/03/2020:	
Non-current credit facilities available	1,017,000
Current credit facilities available	85,000
Current investments and cash	79,512
Forecast receipts:	
Current transactions	64,117
Financial transactions	233,785
Forecast payments:	
Current transactions	(175,984)
Financial transactions	(24,667)
Forecast available funds at 28/04/2020	**1,278,763**

On 28 July 2020 the sole director of the Company agreed to pay a second interim dividend of Euros 0.2954 per share with a charge to 2020 profit, which was paid on 28 July 2020 for a total amount of Euros 118,161 thousand.

The cash flow forecast for the period from 30 June 2020 to 28 July 2020 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica de España, S.A.U.	**Thousands of Euros**
Available funds at 30/06/2020	
Non-current credit facilities available	972,000
Current credit facilities available	230,000
Current investments and cash	51,070
Forecast receipts:	
Current transactions	151,324
Financial transactions	105,639
Forecast payments:	
Current transactions	(79,121)
Financial transactions	(37,655)
Forecast available funds at 28/07/2020	**1,393,257**

On 27 October 2020 the sole director of the Company agreed to pay a third interim dividend of Euros 0.3328 per share with a charge to 2020 profit, which was paid on 27 October 2020 for a total amount of Euros 133,121 thousand.

The cash flow forecast for the period from 30 September 2020 to 27 October 2020 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica de España, S.A.U. Thousands of Euros

Available funds at 30/09/2020:	
Non-current credit facilities available	972,000
Current credit facilities available	230,000
Current investments and cash	80,726
Forecast receipts:	
Current transactions	110,315
Financial transactions	25,012
Forecast payments:	
Current transactions	(55,049)
Financial transactions	(181,335)
Forecast available funds at 27/10/2020	**1,181,669**

On 22 December 2020 the sole director of the Company agreed to pay a fourth interim dividend of Euros 0.1695 per share with a charge to 2020 profit, which was paid on 22 December 2020 for a total amount of Euros 67,800 thousand.

The cash flow forecast for the period from 30 November 2020 to 22 December 2020 indicated sufficient liquidity to allow the distribution of this dividend. As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica de España, S.A.U. Thousands of Euros

Available funds at 30/11/2020:	
Non-current credit facilities available	972,000
Current credit facilities available	230,000
Current investments and cash	59,853
Forecast receipts:	
Current transactions	209,981
Financial transactions	87,510
Forecast payments:	
Current transactions	(79,580)
Financial transactions	(294,797)
Forecast available funds at 22/12/2020	**1,184,967**

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.

In 2020 a total of Euros 463,483 thousand was distributed as interim dividends to the Parent (Euros 562,924 thousand in 2019). Moreover, the aforementioned dividend in kind was paid in 2020. In addition, given the Company's cash generation capacity and the amount of undrawn credit facilities (see note 17), the Company will have sufficient liquidity within one year after each interim dividend distribution was agreed.

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 2020 these variations result in a decrease of Euros 74,123 thousand (decrease of Euros 71,071 thousand at 31 December 2019).

At 31 December 2020, under other, this item comprises deferred tax income for deductions and credits of Euros 113,798 thousand (Euros 106,745 thousand in 2019) (see notes 5-h and 23).

d) Grants, donations and bequests received

Grants, donations and bequests received at 31 December 2020 and 2019 comprise the non-repayable capital grants awarded by different official bodies and under agreements with third parties to finance or pay for the Company's fixed assets.

Movement in grants in 2020 and 2019 is as follows:

Thousands of Euros	31 December 2018	Additions	Derecognitions	Amounts transferred to the income statement	31 December 2019	Additions	Derecognitions	Amounts transferred to the income statement	31 December 2020
Grants	399,060	18,981	-	(15,296)	402,745	15,726	(43)	(15,495)	402,933

Amounts transferred to the income statement reflect grants taken to profit or loss on the basis of the useful life of the corresponding facilities.

14 Non-current Provisions

Movement in non-current provisions during 2020 and 2019 is as follows:

Thousands of Euros	31 December 2018	Additions	Applications	Actuarial gains and losses	Transfers	31 December 2019	Additions	Applications	Actuarial gains and losses	Transfers	31 December 2020
Provisions for employee benefits	60,068	3,156	(1,664)	13,296	(5,130)	69,726	3,336	(1,819)	6,272	(12,987)	64,528
Other provisions	60,764	18,068	(402)	-	-	78,430	13,146	(60)	-	(37,925)	53,591
Total	**120,832**	**21,224**	**(2,066)**	**13,296**	**(5,130)**	**148,156**	**16,482**	**(1,879)**	**6,272**	**(50,912)**	**118,119**

Provisions for employee benefits mainly reflect defined benefit plans, which essentially include the future commitments (specifically health insurance) undertaken by the Company on behalf of its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert. The assumptions made with regard to 2020 and 2019 were as follows:

	Actuarial assumptions	
	2020	2019
Discount rate	0.87%	1.05%
Cost increase	3.00%	3.00%
Mortality table	PERM/F 2020 1st rank	PERM/F 2000 new production

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

Thousands of Euros	2020		2019	
	+1%	-1%	+1%	-1%
Current service cost	436	(313)	527	(386)
Interest cost of net post-employment health insurance costs	4	(3)	6	(4)
Accumulated post-employment benefit obligation for health insurance	15,023	(11,184)	16,278	(12,240)

Conversely, the effect of a decrease in the discount rate used in 2020 for health insurance costs from 0.87% to 0.37% is as follows:

Thousands of Euros	2020			2019		
	Discount rate		Sensitivity	Discount rate		Sensitivity
	0.87%	0.37%		1.05%	0.55%	
Current service cost	1,689	1,890	201	1,661	1,914	253
Interest cost of net post-employment health insurance costs	538	230	(308)	524	276	(248)
Accumulated post-employment benefit obligation for health insurance	55,085	62,060	6,975	61,592	69,492	7,900

In 2020 and 2019 additions to provisions for employee benefits derive from the annual accrual of these benefits, which are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2020 amount to Euros 1,861 thousand and Euros 609 thousand, respectively (Euros 1,818 thousand and Euros 592 thousand, respectively, in 2019). 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 totalled Euros 6,272 thousand (negative amount of Euros 13,296 thousand in 2019), 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.

In 2020, provisions for employee benefits under the transfers column reflect the provisions transferred to the Parent, REC, due to the distribution of the dividend in kind in the form of a business, as explained in note 13-b.

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.

In 2019, this item also included the provisions made to cover potential unfavourable rulings in relation to the application of the remuneration model for transmission activities (detriment proceedings, see note 3), which were reclassified as current in 2020.

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 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Loans and borrowings	1,366,748	1,445,336
Derivative financial instruments	50,351	46,781
Other non-current liabilities	168	150
Non-current payables	**1,417,267**	**1,492,267**

Thousands of Euros	31 December 2020	31 December 2019
Loans and borrowings	78,637	84,606
Accrued interest payable	7,910	10,586
Derivative financial instruments	-	4,384
Suppliers of fixed assets	279,785	311,375
Other current payables	127,620	149,537
Current payables	**493,952**	**560,488**

At 31 December 2020 and 2019 non-current and current loans and borrowings comprise non-current and current loans and credit facilities.

At 31 December 2020 the interest accrued but not yet payable on these balances amounts to Euros 5,830 thousand (Euros 6,388 thousand in 2019) 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 2020 is Euros 1,488,850 thousand (Euros 1,555,931 thousand in 2019). The average interest rate accrued on loans and borrowings during the year was 1.12%, taking into account the hedges arranged (1.52% in 2019, taking into account hedges arranged).

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

Other current payables basically comprise items pending settlement with respect to the Spanish electricity system and security deposits received. In 2019, other payables also reflected 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). At 31 December 2020, this amount was recognised under other current financial assets (see note 9).

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

16 Non-current Accruals

Non-current accruals reflect amounts collected that will accrue in coming years. These amounts mainly relate to 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.

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 2020 and 2019 is as follows:

	2020		2019	
Thousands of Euros	**Fixed rate**	**Variable rate**	**Fixed rate**	**Variable rate**
Total financial debt	4,487,938	1,181,019	4,539,034	1,316,582
Percentage	79%	21%	78%	22%

  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 2020 and 2019 derives 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			
	2020		2019	
Effect on equity:	**0.10%**	**-0.10%**	**0.10%**	**-0.10%**
Interest rate hedges:				
- Cash flow hedges:				
Interest rate swap EUR interest rate	4,390	(4,425)	4,802	(4,846)
Interest rate and exchange rate hedges:				
- Cash flow hedges:				
Cross-currency swap EUR interest rate	2,301	(2,329)	2,558	(2,588)
Cross-currency swap USD interest rate	(2,079)	2,102	(2,423)	2,451

This rise or decline of 0.10% in the 2020 interest rates would have decreased or increased profit by Euros 1,730 thousand (Euros 1,156 thousand in 2019).

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2020 and 2019.

- **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 B.V., 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 are past due, approximately (less than 1% in 2019), 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 1,250,921 thousand at 31 December 2020 (Euros 1,445,237 thousand at 31 December 2019).

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

Thousands of Euros	Financial instruments by category 31.12.2020			
	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Equity instruments	468	-	-	468
Loans to third parties	-	3,241	-	3,241
Derivative financial instruments	-	-	-	-
Other financial assets	-	3,785	-	3,785
Non-current financial assets	468	7,026	-	7,494
Trade and other receivables	-	1,203,557	-	1,203,557
Receivables from Group companies and associates	-	2,066	-	2,066
Derivative financial instruments	-	-	-	-
Other financial assets	-	14,697	-	14,697
Current financial assets	-	1,220,320	-	1,220,320
Total	**468**	**1,227,346**	**-**	**1,227,814**

Thousands of Euros	Financial instruments by category 31.12.2019			
	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Equity instruments	468	-	-	468
Loans to third parties	-	4,179	-	4,179
Derivative financial instruments	-	-	10,246	10,246
Other financial assets	-	3,408	-	3,408
Non-current financial assets	468	7,587	10,246	18,301
Trade and other receivables	-	1,180,787	-	1,180,787
Receivables from Group companies and associates	-	2,600	-	2,600
Derivative financial instruments	-	-	11,152	11,152
Loans to Group companies and associates	-	-	-	-
Other financial assets	-	5,340	-	5,340
Current financial assets	-	1,188,727	11,152	1,199,879
Total	**468**	**1,196,314**	**21,398**	**1,218,180**

- Financial liabilities

Thousands of Euros	Financial instruments by category 31.12.2020		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	1,366,748	-	1,366,748
Payables to Group companies and associates	3,257,493	-	3,257,493
Derivative financial instruments	-	50,351	50,351
Other liabilities	168	-	168
Non-current financial liabilities	4,624,409	50,351	4,674,760
Loans and borrowings	86,547	-	86,547
Payables to Group companies and associates	1,042,739	-	1,042,739
Derivative financial instruments	-	-	-
Trade and other payables	830,021	-	830,021
Current financial liabilities	1,959,307	-	1,959,307
Total	**6,583,716**	**50,351**	**6,634,067**

Thousands of Euros	Financial instruments by category 31.12.2019		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	1,445,336	-	1,445,336
Payables to Group companies and associates	2,618,415	-	2,618,415
Derivative financial instruments	-	46,781	46,781
Other liabilities	150	-	150
Non-current financial liabilities	4,063,901	46,781	4,110,682
Loans and borrowings	95,192	-	95,192
Payables to Group companies and associates	1,795,188	-	1,795,188
Derivative financial instruments	-	4,384	4,384
Trade and other payables	714,208	-	714,208
Current financial liabilities	2,604,588	4,384	2,608,972
Total	**6,668,489**	**51,165**	**6,719,654**

b) Analysis by maturity

- Financial liabilities

Thousands of Euros	2020 Maturity of financial liabilities							
	2021	2022	2023	2024	2025	Thereafter	Valuation adjustments	Total
Payables to Group companies in Euros	1,040,486	400,000	300,000	-	500,000	1,890,000	(36,239)	4,094,247
Payables to Group companies in foreign currency	2,253	-	-	-	122,239	81,493	-	205,985
Loans and borrowings in Euros	86,570	313,184	88,184	296,660	79,993	589,260	(556)	1,453,295
Other liabilities	-	-	-	-	-	168	-	168
Trade and other payables	830,021	-	-	-	-	-	-	830,021
Total	**1,959,330**	**713,184**	**388,184**	**296,660**	**702,232**	**2,560,921**	**(36,795)**	**6,583,716**

Thousands of Euros	2019							
	Maturity of financial liabilities							
	2020	2021	2022	2023	2024	Thereafter	Valuation adjustments	Total
Payables to Group companies in Euros	1,630,670	40,000	400,000	300,000	-	1,690,000	(33,953)	4,026,717
Payables to Group companies in foreign currency	164,347	-	-	-	-	222,539	-	386,886
Loans and borrowings in Euros	95,219	78,660	313,184	88,184	296,660	669,253	(632)	1,540,528
Other liabilities	-	-	-	-	-	150	-	150
Trade and other payables	714,208	-	-	-	-	-	-	714,208
Total	**2,604,444**	**118,660**	**713,184**	**388,184**	**296,660**	**2,581,942**	**(34,585)**	**6,668,489**

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 variable 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 variable-rate debt in US Dollars to be exchanged for fixed- or variable-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 2020 and 2019.

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

Details of derivative financial instruments by type at 31 December 2020 and 2019 are as follows:

Thousands of Euros	Hedged principal		Term to expiry	31.12.2020 Non-current Assets	Non-current Liabilities	Current Assets	Current Liabilities
Interest rate hedges: - Cash flow hedges:							
Interest rate swap	225,000	thousand Euros	Up to 2022	-	(3,597)	-	-
- Forward cash flow hedges:							
Forward interest rate swap beginning in 2021	260,000	thousand Euros	Up to 2027	-	(17,523)	-	-
Forward interest rate swap beginning in 2022	300,000	thousand Euros	Up to 2028	-	(15,096)	-	-
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	-	(3,639)	-	-
Interest rate and exchange rate hedges - Cash flow hedges (cross-currency swaps):							
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	-	(8,297)	-	-
Exchange rate hedges				-	(2,199)	-	-
Total				**-**	**(50,351)**	**-**	**-**

Thousands of Euros	Hedged principal		Term to expiry	31.12.2019 Non-current Assets	Non-current Liabilities	Current Assets	Current Liabilities
Interest rate hedges: - Cash flow hedges:							
Interest rate swap	325,000	thousand Euros	Up to 2022	-	(4,029)	-	(4,384)
- Forward cash flow hedges:							
Forward interest rate swap beginning in 2020	450,000	thousand Euros	Up to 2029	-	(24,677)	-	-
Forward interest rate swap beginning in 2021	200,000	thousand Euros	Up to 2027	1,325	(6,017)	-	-
Forward interest rate swap beginning in 2022	300,000	thousand Euros	Up to 2028	2,718	(8,352)	-	-
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	1,369	(1,346)	-	-
Interest rate and exchange rate hedges - Cash flow hedges (cross-currency swaps):							
Interest rate hedges	430,000	thousand US Dollars	Up to 2035	(5,131)	(9,003)	(806)	-
Exchange rate hedges				9,965	6,643	11,958	-
Total				**10,246**	**(46,781)**	**11,152**	**(4,384)**

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

Thousands of Euros	Hedged principal		Term to expiry	31.12.2020 2021	2022	2023	2024	2025	2026 and thereafter	Total
Interest rate hedges: - Cash flow hedges:										
Interest rate swap	225,000	thousand Euros	Up to 2022	-	(3,597)	-	-	-	-	(3,597)
- Forward cash flow hedges:										
Forward interest rate swap beginning in 2021	260,000	thousand Euros	Up to 2027	-	-	-	-	-	(17,523)	(17,523)
Forward interest rate swap beginning in 2022	300,000	thousand Euros	Up to 2028	-	-	-	-	-	(15,096)	(15,096)
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	-	-	-	-	-	(3,639)	(3,639)
Interest rate and exchange rate hedges - Cash flow hedges (cross-currency swaps):										
Interest rate hedges	250,000	thousand US Dollars	Up to 2035	-	-	-	-	379	(8,676)	(8,297)
Exchange rate hedges				-	-	-	-	(1,319)	(880)	(2,199)
Total				**-**	**(3,597)**	**-**	**-**	**(940)**	**(45,814)**	**(50,351)**

Thousands of Euros	Hedged principal		Term to expiry	31.12.2019 2020	2021	2022	2023	2024	2025 and thereafter	Total
Interest rate hedges: - Cash flow hedges:										
Interest rate swap	325,000	thousand Euros	Up to 2022	(4,384)	-	(4,029)	-	-	-	(8,413)
- Forward cash flow hedges:										
Forward interest rate swap beginning in 2020	450,000	thousand Euros	Up to 2029	-	-	-	-	-	(24,677)	(24,677)
Forward interest rate swap beginning in 2021	200,000	thousand Euros	Up to 2027	-	-	-	-	-	(4,692)	(4,692)
Forward interest rate swap beginning in 2022	300,000	thousand Euros	Up to 2028	-	-	-	-	-	(5,634)	(5,634)
Forward interest rate swap beginning in 2023	100,000	thousand Euros	Up to 2029	-	-	-	-	-	23	23
Interest rate and exchange rate hedges - Cash flow hedges (cross-currency swaps):										
Interest rate hedges	430,000	thousand US Dollars	Up to 2035	(806)	-	-	-	-	(14,134)	(14,940)
Exchange rate hedges				11,958	-	-	-	-	16,608	28,566
Total				**6,768**	**-**	**(4,029)**	**-**	**-**	**(32,506)**	**(29,767)**

20 Trade and Other Payables

Details at 31 December 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Payables to Group companies	6,406	5,928
Other payables	348,778	202,487
Personnel	10,682	19,200
Public entities, other	63,156	31,609
Total	**429,022**	**259,224**

Other payables in 2020 and 2019 essentially reflect payables arising from repair and maintenance work and modifications carried out by the Company to technical electricity facilities and other items.

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

Furthermore, at 31 December 2020 and 2019 the balance of public entities, other mostly includes value added tax (VAT) payable by the Company.

21 Current Accruals

Current accruals at 31 December 2020 and 2019 primarily reflect income received in advance for engineering and construction work and modifications to electricity facilities for third parties and the income related to the contracts signed by the Company to transfer the right to use dark fibre (see note 7).

22 Average Supplier Payment Period. “Reporting Requirement”, Third Additional Provision of Law 15/2010 of 5 July 2010

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

Pursuant to the resolution, the information on the average supplier payment period for 2020 and 2019 is as follows

Days	2020	2019
Average supplier payment period	46.8	49.2
Transactions paid ratio	48.2	50.2
Transactions payable ratio	11.4	12.2

Thousands of Euros	2020	2019
Total payments made	315,260	360,506
Total payments outstanding	11,828	9,115

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 REC.

a) Reconciliation of accounting profit and taxable income

Due to the treatment permitted by fiscal legislation of certain transactions, accounting profit differs from the tax base. A reconciliation of accounting profit for 2020 and 2019 with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2020	2019
Accounting profit for the year before tax	818,425	848,374
Permanent differences	8,563	2,289
Taxable accounting income	826,988	850,663
Temporary differences:		
Originating in current year	(606)	167
Reversals during the year	54,021	54,527
Total	53,415	54,694
Offset of tax loss carryforwards	-	-
Taxable income	**880,403**	**905,357**

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	2020	2019
Accounting profit for the year before tax	818,425	848,374
Permanent differences	8,563	2,289
Taxable accounting income	826,988	850,663
Tax rate	25%	25%
Tax at the current rate	206,747	212,666
Deductions	(5,752)	(5,398)
Expense for the year	200,995	207,268
Foreign income tax	100	267
Other adjustments	4,551	3,918
Income tax expense	**205,646**	**211,453**
Effective income tax rate	**25.13%**	**24.92%**
Breakdown of income tax:		
Current income tax	218,277	224,035
Deferred income tax	(12,684)	(12,447)
Other adjustments	53	(135)
Income tax expense	**205,646**	**211,453**

The effective rate of income tax is influenced by permanent differences, deductions and foreign income tax. The effective tax rate in 2020 is 25.13% (24.92% in 2019).

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 2020 will be held in REC, as head of the tax group.

Deductions mainly comprise those for investments 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 2020 amount to Euros 4,500 thousand (Euros 3,969 thousand in 2019) and the amount still to be recognised at 31 December 2020 is Euros 113,798 thousand (Euros 106,745 thousand in 2019).

c) Deferred tax assets and liabilities

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2020 and 2019, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

	2020		2019	
Thousands of Euros	Income statement	Income and expense recognised directly in equity	Income statement	Income and expense recognised directly in equity
Deferred tax assets:				
Originating in prior years	41,982	29,549	49,320	23,077
Originating in current year	241	1,017	1,069	6,472
Reversals of prior years	(5,516)	(2,170)	(8,457)	-
Prior year adjustments	91	-	50	-
Total deferred tax assets	**36,798**	**28,396**	**41,982**	**29,549**
Deferred tax liabilities:				
Originating in prior years	(491,938)	(134,248)	(511,661)	(133,020)
Originating in current year	(2,619)	(63)	(3,254)	(1,228)
Reversals of prior years	20,578	-	23,089	-
Prior year adjustments	(37)	-	(112)	-
Total deferred tax liabilities	**(474,016)**	**(134,311)**	**(491,938)**	**(134,248)**

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 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 comprises amounts relating to changes in value of cash flow hedges and 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 REC in 2006, as well as capital grants received. In 2020, deferred tax liabilities due to accelerated depreciation as provided for in the 11th additional provision of Royal Legislative Decree 4/2004, and the 34th transitional provision of Income Tax Law 27/2014, amounted to Euros 415,377 thousand (Euros 433,881 thousand in 2019).

The notes to REC's annual accounts for 2006 contain 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 include disclosures on REC'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.

The Company has open to inspection by the taxation authorities all the main applicable taxes since 2017, except income tax, which is open to inspection since 2016.

The Company has a tax proceeding ongoing in respect of income tax for 2012 and 2013, which is currently being heard at economic-administrative level. 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. The Constitutional Court ruled that Royal Decree-Law 2/2016, which approved an amendment to the instalment calculation method, among other measures, was unconstitutional.

At the end of 2020, the taxation authorities resolved the request and refunded the late payment interest related to the instalments for 2016 and 2017. The resolution delivered with respect to the remaining years has been appealed.

Moreover, limited verification proceedings have been undertaken with respect to the tax group concerning income tax for 2011 to 2014.

Due to the different possible interpretations of tax legislation, additional tax liabilities could arise as a result of future inspections, which cannot be objectively quantified at present. Nevertheless, the Company's 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 2020 and 2019 are as follows (in thousands of Euros):

Thousands of Euros	2020	2019
Transmission and system operation services rendered	1,650,500	1,791,864
Other services rendered	17,763	15,133
Total	**1,668,263**	**1,806,997**

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

Other services rendered in 2020 and 2019 basically include engineering, construction and maintenance work, modifications to electricity facilities requested by third parties, inspection and verification of metering facilities, and services rendered to Group companies.

b) Other operating income

At 31 December 2020 and 2019 other operating income mostly includes insurance payouts for accidents, breakdowns and claims covered by the policies arranged.

c) Supplies and other operating expenses

Supplies and other operating expenses in 2020 and 2019 mainly comprise repair and maintenance costs for technical electricity facilities and other items owned by the Company.

d) Personnel expenses

In 2020 and 2019 this item comprises the following (in thousands of Euros):

Thousands of Euros	2020	2019
Salaries and wages	99,966	102,653
Social Security	24,132	25,101
Contributions to pension funds and similar obligations	1,963	2,061
Other items and employee benefits	8,192	9,814
Total	**134,253**	**139,629**

At 31 December 2020, salaries and wages reflect expenses of Euros 751 thousand in respect of termination benefits (Euros 799 thousand in 2019).

At 31 December 2020 and 2019, other items and employee benefits reflect accrual of employee benefits.

At 31 December 2020 and 2019 the Company has capitalised personnel expenses, included in operating expenses, in relation to assets under development or construction (see notes 6 and 7).

Workforce

The average headcount of the Company in 2020 and 2019, distributed by professional category, is as follows:

	2020	2019
Management team	96	116
Senior technicians	484	514
Technicians	547	531
Specialist and administrative staff	440	464
Total	**1,567**	**1,625**

This distribution of the Company's employees at 31 December 2020 and 2019, by gender and category, is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Management team	39	14	53	76	42	118
Senior technicians	237	89	326	340	180	520
Technicians	433	74	507	448	97	545
Specialist and administrative staff	330	48	378	375	97	472
Total	**1,039**	**225**	**1,264**	**1,239**	**416**	**1,655**

The decrease in the headcount at 31 December 2020 is essentially due to the transfer of employees to the Parent, REC, as a result of the distribution of the dividend in kind, as explained in note 13-b.

The average number of employees with a disability rating of 33% or higher in 2020 and 2019, distributed by gender and category, is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Senior technicians	1	-	1	3	2	5
Technicians	4	-	4	5	1	6
Specialist and administrative staff	2	1	3	2	1	3
Total	**7**	**1**	**8**	**10**	**4**	**14**

e) Finance costs

Details at 31 December 2020 and 2019 are as follows (in thousands of Euros):

Thousands of Euros	2020	2019
Group companies	85,436	102,154
Other	19,336	21,884
Provision adjustments	609	592
Total	**105,381**	**124,630**

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 2020 and 2019 are as follows:

Thousands of Euros	2020				2019			
	Receivables	Security deposits paid	Payables	Debts	Receivables	Security deposits paid	Payables	Debts
Red Eléctrica de España Corporación, S.A. (REC)	-	1,528	873	872,586	-	1,528	-	760,624
Red Eléctrica Internacional, S.A.U. (REI)	-	-	-	15,489	-	-	-	3,860
Red Eléctrica Infraestructura Telecomunicaciones, S.A.U. (REINTEL)	150	-	3,118	-	83	-	3,915	90
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	-	1,692	-	564	-	1,982	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	-	-	606	-	-	-	31	-
Red Eléctrica de España Finance, B.V. (RBV)	-	-	9	205,985	-	-	-	386,886
Interconexión Eléctrica Francia-España, S.A.S (INELFE)	880	-	8,789	-	743	-	8,437	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	-	-	3,100,687	-	-	-	3,182,491
REDCOR Reaseguros, S.A. (REDCOR)	-	-	-	90,290	-	-	-	65,287
Red Eléctrica del Sur, S.A. (REDESUR)	332	-	-	-	531	-	-	-
Transmisora Eléctrica del Sur 2, S.A. (TESUR 2)	-	-	-	-	-	-	-	-
Transmisora Eléctrica del Sur 3, S.A. (TESUR 3)	-	-	-	-	79	-	-	-
Transmisora Eléctrica del Sur 4, S.A. (TESUR 4)	234	-	-	-	223	-	-	-
Red Eléctrica Chile, SpA (RECH)	23	-	-	-	96	-	-	-
Red Eléctrica Andina, S.A. (REA)	246	-	-	-	206	-	-	-
Transmisora Eléctrica del Norte (TEN)	-	-	-	-	75	-	-	-
Red Eléctrica del Norte 2, S.A. (REDENOR 2)	201	-	-	-	-	-	-	-
Hispasat, S.A.	-	-	40	-	-	-	-	-
Hispasat Canarias, S.L.	-	-	68	-	-	-	-	-
Total Group companies	**2,066**	**1,528**	**15,195**	**4,285,037**	**2,600**	**1,528**	**14,365**	**4,399,238**

Payables and debt vis-à-vis Group companies mainly include non-current debt amounting to Euros 3,257,493 thousand at 31 December 2020 (Euros 2,618,415 thousand at 31 December 2019) and current debt totalling Euros 966,079 thousand at 31 December 2020 (Euros 1,707,257 thousand at 31 December 2019). Debt vis-à-vis Group companies and associates also includes the interest accrued but not yet payable on this debt, balances payable to suppliers of fixed assets of Group companies and associates, and the income tax payable by the Company to REC, the head of the tax group (see note 23).

In 2020 and 2019, debt vis-à-vis REC includes the current credit facility arranged with REC for an amount of Euros 850 million (Euros 850 million in 2019). Euros 848,825 thousand had been drawn down at 31 December 2020 (Euros 743,543 thousand at 31 December 2019). The average interest rate for the period was 0.41% (0.41% in 2019).

Debt vis-à-vis REI basically includes the current credit facility arranged with REI for Euros 25 million, of which Euros 15,486 thousand had been drawn down at 31 December 2020 (Euros 3,857 thousand at 31 December 2019). The average interest rate for the period was 0.41% (0.41% in 2019).

Debt vis-à-vis REINTEL primarily comprised the current credit facility arranged with this company for an amount of Euros 50 million. At 31 December 2020 this facility has been cancelled, while an amount of Euros 90 thousand had been drawn down at 31 December 2019. The average interest rate for the period was 0.41% (0.41% in 2019).

Debt vis-à-vis RBV reflects loans of US Dollars 250 million (US Dollars 430 million in 2019), equivalent to Euros 203,732 thousand at 31 December 2020 (Euros 382,767 thousand in 2019). These loans fall due between 2025 and 2035 and were arranged simultaneously and with conditions similar to those of the bonds issued by RBV, jointly and severally guaranteed by the Company and REC, in the US private placement (USPP) market. The fair value of these loans is Euros 272,452 thousand at 31 December 2020 (Euros 448,467 thousand at 31 December 2019). The average interest rate accrued on these loans in the year was 4.25%, considering hedges (4.22% in 2019, 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 REF includes loans arranged with this company since 2011 for a nominal amount of Euros 3,090 million (Euros 2,940 million in 2019). These loans fall due between 2022 and 2029 and were arranged simultaneously and with conditions similar to those of the bonds issued by REF in the Euromarket, jointly and severally guaranteed by the Company and REC, as part of the Guaranteed Euro Medium Term Note Programme (EMTN Programme). The fair value of these loans is Euros 3,263,744 thousand at 31 December 2020 (Euros 3,108,462 thousand at 31 December 2019). The average interest rate accrued on these loans in the year was 2.08%, considering hedges (2.68% in 2019, considering hedges).

At 31 December 2019, debt vis-à-vis REF also included loans of Euros 215,096 thousand (no amount drawn down at 31 December 2020) under the loan agreement entered into with this company in July 2017 with a total limit of Euros 1,000 million. This loan falls due in 2022 and was arranged simultaneously and with conditions similar to those of the promissory notes issued by REF in the Euromarket, jointly and severally guaranteed by the Company and REC, as part of the Euro Commercial Paper Programme (ECP Programme). The fair value of this loan at 31 December 2019 was Euros 215,080 thousand. The average interest rate accrued on this loan in the year was a negative 0.15% (a negative 0.08% in 2019).

Debt vis-à-vis REF includes the current credit facility arranged with this company in 2016 for Euros 25 million, of which Euros 11,685 thousand had been drawn down at 31 December 2020 (Euros 9,190 thousand at 31 December 2019). The average interest rate for the period was 0.41% (0.41% in 2019).

Debt vis-à-vis REDCOR essentially includes the loans arranged with this company for an amount of Euros 40 million (Euros 40 million in 2019). The average interest rate for the period was 0.79% (0.82% in 2019). It also includes the current cash pooling agreement arranged with this company amounting to Euros 75 million, of which Euros 50,083 thousand had been drawn down at 31 December 2020 (Euros 25,083 thousand at 31 December 2019). The average interest rate accrued on this facility was 0.41% in 2020 (0.41% in 2019).

Details of transactions with Group companies and associates during 2020 and 2019 are as follows:

Thousands of Euros	2020					2019				
	Under construction or development	Services rendered	Other operating income	Other expenses	Finance costs	Under construction or development	Services rendered	Other operating income	Other expenses	Finance costs
Red Eléctrica de España Corporación, S.A. (REC)	-	943	-	18,881	2,669	-	1,122	-	9,550	2,047
Red Eléctrica Internacional, S.A.U. (REI)	-	92	-	333	17	-	110	-	331	9
Red Eléctrica Infraestructura Telecomunicaciones, S.A.U. (REINTEL)	-	288	106	41,959	-	-	343	237	40,738	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	5,406	1,558	-	77	-	5,217	1,783	-	77	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	-	602	-	606	-	-	-	181	-	-
Red Eléctrica de España Finance, B.V. (RBV)	-	-	-	-	18,427	-	-	-	-	20,481
Interconexión Eléctrica Francia-España, S.A.S (INELFE)	4,357	1,818	-	-	-	5,806	2,447	531	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	89	-	-	63,821	-	106	-	-	79,125
REDCOR Reaseguros, S.A. (REDCOR)	-	-	1	-	502	-	-	-	-	492
Red Eléctrica del Sur, S.A. (REDESUR)	-	671	-	-	-	-	759	-	-	-
Transmisora Eléctrica del Sur 2, S.A. (TESUR 2)	-	-	-	-	-	-	24	-	-	-
Transmisora Eléctrica del Sur 3, S.A. (TESUR 3)	-	-	-	-	-	-	16	-	-	-
Transmisora Eléctrica del Sur 4, S.A. (TESUR 4)	-	43	-	-	-	-	253	-	-	-
Red Eléctrica Chile, SpA (RECH)	-	-	23	-	-	-	-	-	-	-
Red Eléctrica Andina, S.A. (REA)	-	20	78	-	-	-	55	-	-	-
Transmisora Eléctrica del Norte (TEN)	-	18	-	-	-	-	75	-	-	-
Red Eléctrica del Norte 2, S.A. (REDENOR 2)	-	201	-	-	-	-	-	-	-	-
Hispasat, S.A.	-	-	-	36	-	-	-	-	-	-
Hispasat Canarias, S.L.	-	-	-	68	-	-	-	-	-	-
Total Group companies	**9,763**	**6,343**	**208**	**61,960**	**85,436**	**11,023**	**7,093**	**949**	**50,696**	**102,154**

Other expenses payable to REC relate to property leases and also, since November 2020, the provision of services by this company (see note 13-b).

The contracts arranged between the Company and its sole shareholder (REC) at 31 December 2020 are for the lease of properties and the provision of management support services for the Company's activities, in exchange for fixed consideration that is updated annually in line with the CPI. The only contract of a financial nature arranged between the Company and REC is the current credit facility mentioned above.

These contracts between the Company and REC 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 REINTEL mainly reflect telecommunications services rendered to the Company. Furthermore, the Company and REINTEL have carried out transactions associated with the transfer of dark fibre optic described in note 7.

Finance costs payable to RBV and REF essentially comprise interest on the loans extended by these companies.

Related party balances and transactions

In 2020 and 2019 no balances or transactions with related parties were identified.

26 Remuneration of the Director

In 2020 and 2019 the sole director did not accrue any salary, allowances or remuneration at the Company.

At 31 December 2020 and 2019 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 2020 and 2019 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 135 thousand, inclusive of tax, in 2020 (Euros 60 thousand at 31 December 2019). 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

In 2020, total remuneration accrued by senior management personnel of the Company amounted to Euros 662 thousand (Euros 664 thousand in 2019) and is recognised as personnel expenses in the income statement. 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.

The senior management personnel who have rendered services for the Company during 2020 and 2019 are as follows:

Name	Position
Eva Pagán Díaz	General Manager of Transmission
Miguel Duvison García	General Manager of Operations

Euros 15 thousand of the total remuneration accrued by these senior managers consisted of contributions to life insurance and pension plans (Euros 14 thousand in 2019).

No advances or loans have been extended to these senior managers at 31 December 2020. The outstanding balance on loans granted to these senior managers at 31 December 2019 is Euros 123 thousand and they are subject to the same terms and conditions as loans granted to personnel under the collective bargaining agreement. The equivalent interest rate applicable to these loans is 0.7%.

On 31 December the senior management remuneration plan for 2014-2019 drew to a close. The amount paid to the senior management personnel included in this plan was Euros 665 thousand.

At the end of 2020, the board of directors began the process of updating the current 2018-2022 Strategic Plan. This enabled it to approve, in November 2020, the structure of the new Long-Term Incentive Plan for Promoting the Energy Transition, Reducing the Digital Divide and for Diversification, the objectives of which are linked to the objectives set out in the Group's new Strategic Plan. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

The contracts in place with serving senior management personnel do not include guarantee or golden parachute clauses, in the event of dismissal. In the event the employment relationship were terminated, the indemnity to which senior management personnel would be entitled would be calculated in accordance with applicable legislation. The contracts for these executives have been approved by the Appointments and Remuneration Committee and the Parent's board of directors has received notice thereof.

Senior management personnel who rendered services in the Company as at 31 December 2020 are included in the Structural Management Plan implemented by the Company in 2015.

At 31 December 2020 and 2019 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 senior management of the Company. These policies cover the Company's director and senior management and the annual premiums amount to Euros 135 thousand, inclusive of tax, in 2020 (Euros 60 thousand in 2019). 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 senior management and the sole director 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 2020 and 2019, 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 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 activities, and those pertaining to more than one activity have been assigned using objective criteria.

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

The Company, together with REC, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 250 million (US Dollars 430 million in 2019) carried out by the Group company RBV, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2020 (Euros 5,000 million at 31 December 2019). At 31 December 2020, Eurobonds issued under this programme total Euros 3,090 million (Euros 2,940 million in 2019).

Furthermore, at 31 December 2020 and 2019 the Company and REC have jointly and severally guaranteed the promissory notes issued under the Euro Commercial Paper Programme (ECP Programme) by REF for an amount of up to Euros 1,000 million. At 31 December 2020 no amounts have been drawn down under this programme (Euros 215,096 thousand at 31 December 2019).

At 31 December 2020 the Company has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 50,984 thousand (Euros 43,799 thousand in 2019).

30 Environmental Information

In 2020 the Company incurred ordinary expenses of Euros 23,287 thousand in protecting and improving the environment (Euros 25,806 thousand in 2019), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution.

In 2020 a total of Euros 4,913 thousand (Euros 1,741 thousand in 2019) 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 2020 or 2019.

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 2020 and 2019:

Thousands of Euros	2020	2019
Audit services	39	34
Audit-related services	5	3
Other services	15	40
Total services	**59**	**77**

The amounts detailed in the above table include the total fees for services approved and rendered in 2020 and 2019, irrespective of the date of invoice.

32 Share-based Payments

In 2020, a total of 200,679 Parent shares were delivered to employees, with a fair value of Euros 16.480 each, resulting in an expense for the year of Euros 3,307 thousand.

In 2019, a total of 228,314 Parent shares were delivered to employees, with a fair value of Euros 17.255 each, resulting in an expense for the year of Euros 3,940 thousand.

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 costs incurred have been recognised under personnel expenses in the Company's income statement.

33 Events after 31 December 2020

30 January 2021 saw the publication of Royal Decree 1/2021 of 12 January 2021, amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007; the Spanish General Chart of Accounts for small and medium-sized enterprises approved by Royal Decree 1515/2007 of 16 November 2007; the standards for the preparation of consolidated annual accounts approved by Royal Decree 1159/2010 of 17 September 2010; and the standards for the adaptation of the Spanish General Chart of Accounts for non-profit entities approved by Royal Decree 1491/2011 of 24 October 2011.

The changes to the Spanish General Chart of Accounts are applicable to accounting periods beginning on or after 1 January 2021 and focus on the criteria for recognition, measurement and disclosure of revenues from the delivery of goods and services, financial instruments, hedge accounting, valuation by intermediaries of inventories of listed commodities traded by them, and the definition of fair value.

The annual accounts for the first accounting period beginning on or after 1 January 2021 shall be presented including comparative information, although there is no obligation to restate the information from the previous period. Comparative information need only be restated if all the criteria approved by the Royal Decree can be applied without incurring a retrospective bias, without prejudice to the exceptions established in the transitional provisions.

The application of the standard is generally retrospective, albeit with alternative practical expedients. However, the application of hedge accounting is prospective, the classification criteria for financial instruments can be applied prospectively and the sales and service revenue criteria can be applied prospectively to contracts executed on or after 1 January 2021.

The sole director of the Company is in the process of assessing the applicable transition options and the accounting impacts of these changes, although at the date of authorising these annual accounts for issue sufficient information is not yet available to conclude on the results of this analysis.

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 2020 and 2019

Balance sheet by activity at 31 December 2020

Appendix I-a

Thousands of Euros

	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	REE	Total %
Non-current assets	8,331,030	100	35,156	---	6,752	---	917	---	8,373,855	100
Intangible assets	22,647	51	18,913	42	3,208	7	---	---	44,768	100
Property, plant and equipment	8,242,150	100	9,872	---	1,811	---	---	---	8,253,833	100
Non-current investments in Group companies and associates	2,522	100	---	---	6	---	---	---	2,528	100
Non-current investments	4,335	58	2,010	27	616	8	533	7	7,494	100
Deferred tax assets	59,338	91	4,361	7	1,111	2	384	---	65,194	100
Prepayments for non-current assets	38	100	---	---	---	---	---	---	38	100
Current assets	1,182,446	90	63,054	5	19,123	1	48,233	4	1,312,856	100
Inventories	32,409	100	---	---	---	---	---	---	32,409	100
Trade and other receivables	1,119,464	93	61,282	5	18,834	2	6,043	---	1,205,623	100
Current investments	14,679	100	---	---	18	---	---	---	14,697	100
Prepayments for current assets	14,422	93	888	6	210	1	---	---	15,520	100
Cash and cash equivalents	1,472	3	884	2	61	---	42,190	95	44,607	100
Total assets	**9,513,476**	**98**	**98,210**	**1**	**25,875**	**---**	**49,150**	**1**	**9,686,711**	**100**
Equity	2,184,827	102	(42,324)	(2)	(13,878)	(1)	18,796	1	2,147,421	100
Capital and reserves	1,741,969	102	(42,324)	(2)	(13,628)	(1)	18,796	1	1,704,813	100
Valuation adjustments	39,925	101	---	---	(250)	(1)	---	---	39,675	100
Grants, donations and bequests received	402,933	100	---	---	---	---	---	---	402,933	100
Non-current liabilities	5,415,856	98	11,835	---	22,741	---	73,329	2	5,523,761	100
Non-current provisions	96,842	82	11,835	10	7,981	7	1,461	1	118,119	100
Non-current payables	1,415,537	100	---	---	1,730	---	---	---	1,417,267	100
Group companies and associates, non-current	3,244,463	100	---	---	13,030	---	---	---	3,257,493	100
Deferred tax liabilities	608,327	100	---	---	---	---	---	---	608,327	100
Non-current accruals	50,687	41	---	---	---	---	71,868	59	122,555	100
Current liabilities	1,912,793	95	128,699	6	17,012	1	(42,975)	(2)	2,015,529	100
Current provisions	37,925	100	---	---	---	---	---	---	37,925	100
Current payables	421,693	85	122,505	25	11,539	2	(61,785)	(12)	493,952	100
Group companies and associates, current	1,032,188	100	---	---	4,145	---	---	---	1,036,333	100
Trade and other payables	420,987	98	5,560	2	1,322	---	1,153	---	429,022	100
Current accruals	---	---	634	3	6	---	17,657	97	18,297	100
Total equity and liabilities	**9,513,476**	**98**	**98,210**	**1**	**25,875**	**---**	**49,150**	**1**	**9,686,711**	**100**

Balance sheet by activity at 31 December 2019

Appendix I-b

Thousands of Euros

	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	REE	Total %
Non-current assets	8,325,797	100	33,650	---	6,427	---	996	---	8,366,870	100
Intangible assets	19,538	54	14,059	38	2,822	8	---	---	36,419	100
Property, plant and equipment	8,223,894	100	12,514	---	1,683	---	---	---	8,238,091	100
Non-current investments in Group companies and associates	2,522	100	---	---	6	---	---	---	2,528	100
Non-current investments	15,042	82	2,063	11	644	4	552	3	18,301	100
Deferred tax assets	64,801	90	5,014	7	1,272	2	444	1	71,531	100
Current assets	1,233,470	94	18,307	2	5,004	---	56,142	4	1,312,923	100
Inventories	40,365	100	---	---	---	---	---	---	40,365	100
Trade and other receivables	1,155,437	97	16,355	2	4,761	---	6,834	1	1,183,387	100
Current investments	16,472	100	---	---	20	---	---	---	16,492	100
Prepayments for current assets	11,130	94	616	5	147	1	---	---	11,893	100
Cash and cash equivalents	10,066	17	1,336	2	76	---	49,308	81	60,786	100
Total assets	**9,559,267**	**98**	**51,957**	**1**	**11,431**	**---**	**57,138**	**1**	**9,679,793**	**100**
Equity	2,089,414	102	(48,150)	(2)	(15,477)	(1)	16,895	1	2,042,682	100
Capital and reserves	1,650,761	103	(48,150)	(3)	(15,243)	(1)	16,895	1	1,604,263	100
Valuation adjustments	35,908	101	---	---	(234)	(1)	---	---	35,674	100
Grants, donations and bequests received	402,745	100	---	---	---	---	---	---	402,745	100
Non-current liabilities	4,905,563	97	12,771	---	15,812	1	76,469	2	5,010,615	100
Non-current provisions	130,279	88	12,771	9	3,541	2	1,565	1	148,156	100
Non-current payables	1,490,470	100	---	---	1,797	---	---	---	1,492,267	100
Group companies and associates, non-current	2,607,941	100	---	---	10,474	---	---	---	2,618,415	100
Deferred tax liabilities	626,186	100	---	---	---	---	---	---	626,186	100
Non-current accruals	50,687	40	---	---	---	---	74,904	60	125,591	100
Current liabilities	2,564,290	97	87,336	4	11,096	---	(36,226)	(1)	2,626,496	100
Current payables	531,282	95	80,590	15	2,451	---	(53,835)	(10)	560,488	100
Group companies and associates, current	1,782,103	100	---	---	7,157	---	---	---	1,789,260	100
Trade and other payables	250,905	97	6,173	2	1,472	1	674	---	259,224	100
Current accruals	---	---	573	3	16	---	16,935	97	17,524	100
Total equity and liabilities	**9,559,267**	**98**	**51,957**	**1**	**11,431**	**---**	**57,138**	**1**	**9,679,793**	**100**

Appendix II Analytical Income Statement by Activity for 2020 and 2019

Analytical income statement by activity at 31 December 2020

Appendix II-a

Thousands of Euros

Item	Transmission	%	Mainland System operation	%	Non-mainland system operation	%	Other activities	%	REE	Total %
+ Revenue	1,528,852	92	102,771	6	25,090	2	11,550	---	1,668,263	100
+ Self-constructed assets	39,271	95	1,909	5	321	---	---	---	41,501	100
- Supplies	(20,304)	96	(392)	2	(101)	---	(339)	2	(21,136)	100
+ Other operating income	11,903	96	108	1	31	---	328	3	12,370	100
- Personnel expenses	(101,030)	74	(26,193)	20	(6,349)	5	(681)	1	(134,253)	100
- Other operating expenses	(249,175)	85	(28,026)	10	(9,096)	3	(4,989)	2	(291,286)	100
- Depreciation and amortisation	(370,357)	96	(11,644)	3	(3,381)	1	(3)	---	(385,385)	100
+ Non-financial and other capital grants	20,660	82	---	---	---	---	4,577	18	25,237	100
(+/-) Impairment and gains/losses on disposal of fixed assets	161	99	2	1	---	---	---	---	163	100
Results from operating activities	**859,981**	**94**	**38,535**	**4**	**6,515**	**1**	**10,443**	**1**	**915,474**	**100**
+ Finance income	8,258	100	4	---	15	---	---	---	8,277	100
- Finance costs	(104,824)	100	(98)	---	(455)	---	(4)	---	(105,381)	100
(+/-) Exchange gains/losses	55	100	---	---	---	---	---	---	55	100
Net finance cost	**(96,511)**	**100**	**(94)**	**---**	**(440)**	**---**	**(4)**	**---**	**(97,049)**	100
Profit/loss before tax	**763,470**	**93**	**38,441**	**5**	**6,075**	**1**	**10,439**	**1**	**818,425**	100
(+/-) Income tax	(191,765)	93	(9,656)	5	(1,527)	1	(2,698)	1	(205,646)	100
Profit/loss for the year	**571,705**	**93**	**28,785**	**5**	**4,548**	**1**	**7,741**	**1**	**612,779**	100

Analytical income statement by activity at 31 December 2019

Appendix II-b

Thousands of Euros

Item	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	REE	Total %
+ Revenue	1,727,598	96	56,683	3	14,829	1	7,887	---	1,806,997	100
+ Self-constructed assets	38,640	95	1,696	5	173	---	---	---	40,509	100
- Supplies	(26,206)	95	(880)	3	(76)	---	(414)	2	(27,576)	100
+ Other operating income	16,738	86	352	2	136	---	2,371	12	19,597	100
- Personnel expenses	(105,347)	75	(26,930)	19	(6,485)	5	(867)	1	(139,629)	100
- Other operating expenses	(254,592)	86	(28,150)	10	(6,447)	2	(4,849)	2	(294,038)	100
- Depreciation and amortisation	(450,497)	97	(9,756)	2	(3,417)	1	---	---	(463,670)	100
+ Non-financial and other capital grants	20,395	82	---	---	---	---	4,406	18	24,801	100
(+/-) Impairment and gains/losses on disposal of fixed assets	983	100	---	---	---	---	---	---	983	100
Results from operating activities	**967,712**	**100**	**(6,985)**	**(1)**	**(1,287)**	**---**	**8,534**	**1**	**967,974**	**100**
+ Finance income	5,020	100	5	---	1	---	---	---	5,026	100
- Finance costs	(123,995)	99	(99)	---	(532)	1	(4)	---	(124,630)	100
(+/-) Exchange gains/losses	4	100	---	---	---	---	---	---	4	100
Net finance cost	**(118,971)**	**99**	**(94)**	**---**	**(531)**	**1**	**(4)**	**---**	**(119,600)**	**100**
Profit/loss before tax	**848,741**	**100**	**(7,079)**	**(1)**	**(1,818)**	**---**	**8,530**	**1**	**848,374**	**100**
(+/-) Income tax	(211,344)	100	1,761	(1)	452	---	(2,322)	1	(211,453)	100
Profit/loss for the year	**637,397**	**100**	**(5,318)**	**(1)**	**(1,366)**	**---**	**6,208**	**1**	**636,921**	**100**

Red Eléctrica de España

www.ree.es

Directors' Report

2020

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

Contents

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.

1 Business performance. Most significant events

The mission of Red Eléctrica de España, S.A.U. (hereinafter REE 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.

The Group has executed its Investment Plan in Spain, entailing investments in the transmission network, as per the Electricity Transmission Network Development Plan for 2015-2020.

A new remuneration model applicable to the transmission activity for the 2020-2025 regulatory period was approved at the end of 2019. The new remuneration framework applicable to the system operation activity for the 2020-2022 period was likewise approved at the end of 2019.

Investments in transmission network facilities in 2020 totalled Euros 383.1 million and were basically to address security of supply issues, to resolve technical restrictions, to execute specific projects for international interconnections and inter-island submarine connections, to supply the high-speed rail system and to provide access for the evacuation of wind power.

During the year, approximately 116 km of new lines came into service, bringing the total transmission network in terms of domestic electricity infrastructure to 44,468 km. Transformation capacity was also increased by 1,080 MVA to a total of 93,545 MVA.

In 2020 the most significant initiatives in terms of development of the transmission network, by major axes relating to assets due to enter service in the coming years, were as follows:

- Mallorca - Menorca interconnection 2. 132 kV underground - submarine transmission line to interconnect the islands of Mallorca and Menorca and to integrate renewable energy. The entire axis entered service in 2020.
- Caparacena - Baza - Ribina Axis. The purpose of this axis is to facilitate the evacuation of energy from the ordinary regime, renewable sources, co-generation and waste, as well as to improve the transmission network mesh and support distribution in the province of Granada.
- Los Leones Axis. The purpose of this axis is to bolster the 220 kV mesh in the area surrounding Zaragoza, to improve the stability of the electricity system and to guarantee distribution supply.
- North - East Axis. The purpose of this axis is to improve the evacuation of electricity from Asturias to supply Cantabria and the Basque Country. The initiatives in progress are the expansion of the Itxaso substation and the Güeñes - Itxaso line.
- Beniferri - La Eliana Axis. The purpose of this axis is to reduce the intensity of the short circuit current in Valencia and expand the network mesh, improving transmission efficiency and supporting supply for demand in adjacent nodes. Part of this axis entered service in 2020, specifically the expansion of the Beniferri substation.
- Oriol Axis. The purpose of this axis is to guarantee the electricity supply, support distribution, and resolve technical restrictions in Caceres. The axis is related to the Navalmoral - Badajoz high-speed rail line, which forms part of the connection envisaged between Madrid and Lisbon.
- Caletillas - El Rosario Axis. The purpose of this axis it 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.
- Lanzarote - Fuerteventura Interconnection. This axis involves the laying of a 132 kV underground-submarine transmission line to interconnect the islands of Lanzarote and Fuerteventura, thus strengthening the inter-island transmission grid.
- Lousame – Tibo – Mazaricos Axis. The purpose of this axis is to reinforce the network, evacuate electricity generated, and support distribution in the northwest of Galicia. Part of this axis entered service in 2019 (the Mazaricos and Lousame substations and the Lousame 220 kV input/output line). Construction of the Lousame-Mazaricos line continued in 2020.
- Tías – Playa Blanca Axis. The purpose of this axis is to guarantee electricity supply in the south of Lanzarote and to reinforce the connection with Fuerteventura. These measures, together with the 132 kV submarine

cable interconnecting Lanzarote and Fuerteventura, will increase security of supply in the Lanzarote electricity system. Part of this axis came into service in 2020, specifically the Tías 132/66 kV substation and the associated Tías input/output line of the 66 kV Mácher-Punta Grande line.

The most notable occurrences in 2020 in terms of electricity system operation were as follows:

Mainland system

- Mainland electricity demand closed the year at 236,525 GWh, down 5.1% on 2019, mainly due to the COVID-19 pandemic, which slowed down economic activity. This decline in some cases was by up to 20% with respect to equivalent periods the previous year. Having corrected for the effect of working patterns and temperatures, demand attributable primarily to economic activity was also down by 5.1% YoY.
- Maximum instantaneous power was recorded on Wednesday 22 January at 20:22 hours, at a rate of 40,423 MW. This is down 0.1% on the maximum for the prior year, and down 11.1% compared with the record 45,450 MW documented on 17 December 2007. Peak demand in terms of time was posted on 20 January (between 20:00 and 21:00 hours) at 39,997 MWh, 10.9% below the all-time high obtained in 2007.
- Installed capacity on the mainland has risen slightly compared to the prior year, ending 2020 at 105,224 MW, which is 229 MW more than at December 2019 (up 0.2%). In terms of additions, the increase was driven by the incorporation of solar photovoltaic and wind power to the system's installed capacity, with the former increasing by 30% with respect to the prior year, while the latter posted year-on-year growth of 5.4%. On the decommissioning side, there was a sharp drop in coal-fired installed capacity in the wake of the closure of various electrical generators that supplied a total of 3,723 MW. The capacity of other technologies either did not vary or changed only insignificantly.
- Hydropower capacity stood at 30,512 GWh at the end of December 2020, up 2.6% on the historical average and 17.4% higher than in 2019. Reserves of hydroelectric power represented a fill level of 50.8% of total capacity across all reservoirs at the end of 2020, compared with 51.0% in the prior year.
- In 2020, 23.3% of demand was met by nuclear technology (22.6% in 2019), 22.5% by wind power (21.5% in 2019), 16.0% by combined cycle generation (20.7% in 2019), 12.8% by hydroelectric power (10.0% in 2019) and 11.2% by cogeneration (12.0% in 2019). With a contribution of less than 10%, coal, solar technologies, other renewable sources, waste and pump-as-turbine jointly covered the remaining 14.2% of demand.
- Renewable energy's percentage contribution to total energy generation in the electricity system rose to 45.5% (38.9% in 2019).
- In absolute terms, renewable generation is up 13.1% on the prior year, essentially due to the 23.6% rise in hydropower output and the 68.2% growth in solar photovoltaic output.
- With respect to CO_2 emissions by the mainland electricity industry, the decline in nuclear, coal, cogeneration and waste-based generation and, conversely, the increase in generation from renewable sources, except solar thermal and renewable waste, place emission levels for 2020 at 29.5 million tonnes, down 27.9% on the 40.9 million tonnes recorded in 2019. 2020 was the year with the cleanest energy since Red Eléctrica de España's records began (2007).
- Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 1,427 GWh (down 15.8% compared to 2019), covering 28.9% of their demand.
- International electricity exchanges resulted in a net import balance for the fifth year running, totalling 3,280 GWh in 2020.
- Exports amounted to 14,649 GWh (11,859 GWh in 2019) and imports totalled 17,097 GWh (18,721 GWh in 2019).

Non-mainland systems

- At the 2020 year end, total annual demand for electricity in non-mainland systems had declined by 13.7% vis-à-vis the prior year. Per individual system, demand declined by 19.2% in the Balearic Islands and by 10.5% in the Canary Islands, dropping by 3.3% in Ceuta and 1.4% in Melilla.
- The installed capacity of the non-mainland systems slid by 3.5%, due primarily to the closure of two coal-fired generators in the Balearic Islands, which led to a drop of 227 MW.

Pursuant to Law 17/2013 the Group, through REE, is tasked with developing hydroelectric pumping power plants in the Canary Islands, geared towards security of supply, system security and the integration of unmanageable renewable energies.

Red Eléctrica Infraestructuras en Canarias, S.A.U. (hereinafter REINCAN) is, in turn, the Red Eléctrica Group company responsible for executing the development of those hydroelectric pumping power plants in the Canary Islands.

The feedback received during the public consultation stage of the project submitted in 2019 (Modified Project I), primarily the request to bury the 220 kV DC line that evacuates power from the generating plant, led Red Eléctrica to present a new project for submission (Modified Project II).

Modified Project II was prepared during the first half of 2020, as was the new associated environmental impact study. They were both submitted on 13 July 2020 to set the administrative procedure in motion once again. The public information and consultation process was completed in the second half of 2020, with all objections and queries duly answered in a timely manner. The file was then submitted for assessment by the environmental authorities on 14 December with a view to obtaining the pertinent Environmental Impact Statement.

Major headway was also made as regards the requirements for goods and services. The tender process for the Seawater Desalination Plant ("EDAM" per the Spanish acronym) was launched and the consultation phase with bidders in now underway. Progress was also made on adapting the main contracts (equipment and civil engineering works) with a view to these being put out for tender in 2021.

With respect to the possible project to establish a hydroelectric pumping plant in Tenerife, work continued in 2020 to find a suitable location and on possible design configurations, to which end preliminary implementation and feasibility studies were carried out.

2 Key financial indicators

Revenue for 2020 amounted to Euros 1,668.3 million, sliding 7.7% compared to 2019. This figure denotes a decline in transmission revenue in Spain due to the application of the new remuneration parameters, which is partly offset by higher system operation remuneration in Spain following the entry into force of Circular 4/2019.

EBITDA[1] totalled Euros 1,275.5 million, a fall of 9.3% vis-à-vis 2019.

EBIT [2] amounted to Euros 915.5 million, falling 5.4% compared to 2019.

Profit after tax for 2020 amounted to Euros 612.8 million, down 3.8% on 2019.

Total investments undertaken in the year amount to Euros 411.6 million, a drop of 2.0% compared to 2019.

Interim dividends paid in 2020 amounted to Euros 463.5 million, dropping 17.7% compared to 2019. This amount reflects the interim dividends for 2019 paid to the sole shareholder, Red Eléctrica Corporación, S.A. (REC).

The Company's equity was Euros 2,147.4 million at year end, up 5.1% on 2019.

3 Own shares

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

4 Risk management

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

The Company has implemented a Comprehensive Risk Management System, which aims to ensure that any risks that might affect its strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Group.

The Comprehensive Risk Management Policy applicable to REE was approved at Group level by the board of directors of the Parent. This Comprehensive Risk Management System, the Policy and the General Procedure regulating it are based on the COSO ERM 2017 (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management – Integrated Framework.

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

[2] EBIT is calculated as EBITDA plus any non-financial capital grants recognised and gains/losses or impairment on asset disposals, less depreciation and amortisation.

The Corporate Risk Map depicts the Group's most significant risks, including those of REE, 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 Red Eléctrica Group, the Executive Committee, the Audit Committee and the Board of Directors.

The Board of Directors is responsible for approving the Comprehensive Risk Management Policy and an acceptable level of risk of 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 main risks to which the Company is exposed and that could affect achievement of its objectives are regulatory risk, including tax risks, inasmuch as the Company's principal activities are subject to regulation; operational risk, primarily arising from its two lines of activity; financial risk; and environmental risk.

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

5 Environmental issues

The Company's commitment to the environment stems from Red Eléctrica Group management and is based on environmental policy, which includes an explicit commitment to the prevention of pollution and to precautionary principles. 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.

Furthermore, REE 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).

REE's ordinary expenses for the protection and improvement of the environment amounted to Euros 23.3 million (Euros 25.8 million in 2019) largely due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution. The amount allocated to environmental aspects associated with investment projects exceeded Euros 4.9 million, significantly more than in prior years (Euros 1.7 million in 2019), due to work carried out on future submarine links.

The Company's main environmental impacts are those associated with the presence of the facilities in the area and, therefore, the Company is working to ensure they are compatible with the environment, considering their entire life cycle 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 the Group's specific commitment in relation to the fight against climate change. This 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 excavation and the impact on vegetation, fauna and the socio-economic environment (infrastructure, crops and archaeological heritage), and those related to the prevention of pollution. Actions aimed at mitigating the noise generated by certain electrical substations (plans for measuring and adjusting the operating parameters of certain power equipment to reduce noise levels) 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.

In addition, 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 reduce the visual impact of the facilities.

Lastly, we should highlight the importance for the Company of working towards and making significant headway on the sustainable use of resources. The Group's sustainability ambitions with a view to 2030 are to become the leading player in the circular economy. The goals to be achieved and the actions to be carried out are enshrined in the Circular Economy Roadmap, which focuses on improvement in various dimensions:

- Materials: reduction in raw material consumption, promoting the use of materials that are or can be recycled. This notion includes action related to eco-design, which entails close cooperation with suppliers.
- Waste: a target of 0% landfill waste has been set for 2030.
- Land: steps aimed at minimising the risk of land or groundwater contamination due to hydrocarbon leaks or spills, as well as the cleaning up of land affected by accidents using sustainable techniques.
- Water: seeking solutions to improve efficiency and optimise the use of water.

Actions undertaken in 2020 include the development of a methodology for monetising the measures set out in the Roadmap, and Project DIN2020, the purpose of which is to optimise electrical equipment design and increase the efficiency of processes applicable to electricity infrastructure, applying circular economy criteria to raw material consumption, water and energy, waste production and land.

b) Protecting biodiversity

Protecting and preserving biodiversity has always had a high priority in the Company's environmental management strategy. The specific commitment to biodiversity management was revised in 2020 and now includes the goal of having a positive impact on biodiversity wherever the Company is present.

To meet this ambitious goal, the Company has set out a series of strategic steps, which include the "Development of the 2030 biodiversity roadmap". The goal of this project is to develop a strategy and a number of action steps aimed at improving the relationship with natural capital, and to strengthen the commitment to protect, preserve and improve biodiversity.

The main effects on biodiversity are associated with the presence of facilities in the area. Most notable is the risk of birds colliding with earth wires in power lines and the effect on vegetation of felling and pruning to open up firebreaks.

Biodiversity management is carried out taking into account the impact mitigation hierarchy. Avoiding areas that are protected or highly biodiverse is a fundamental criterion when deciding on the location of facilities (in energy transmission infrastructure, 15.5% of lines and 5.73% of substations are located in protected areas). 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, different environmental improvement initiatives and projects are implemented, aimed at offsetting any impacts that may occur.

The multiannual Action Plan (2017-2021) currently in force contains the main activities to be executed in this period. The initiatives relating to the following areas are noteworthy:

- Protection of birdlife, the primary objective being to minimise the risk of birds colliding with earth wires, as mentioned above. A plan to use bird-saving devices in sections with the greatest potential impact for birds (more than 760 km of lines) has been devised and is due to be completed in 2023. Flagging of 66.5% of critical priority areas was completed in 2020.
- Prevention of forest fires, through appropriate design and maintenance of firebreaks and the joint efforts of the pertinent authorities in this field. There are currently 12 fire prevention agreements in place and two are being renewed. These agreements have an overall associated budget of more than Euros 960 thousand which is allocated for a four-year period and channelled into cleaning up forest land, acquiring fire extinguishing and fire-fighting equipment, training and awareness.

- Implementation of conservation projects in cooperation with the government, NGOs and other bodies, notably including projects relating to birdlife conservation or those devised for the restoration of degraded areas. The latter include the "Red Eléctrica Marine Forest" project to restore posidonia oceanica seagrass (planting of 2 hectares in the bay of Pollensa, Mallorca was completed in 2020), and the "Red Eléctrica Forest", with an investment of over Euros 2 million, through which more than 860 hectares have been restored since 2009.

c) Climate change

REE 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 a voluntary commitment was undertaken in the fight against climate change, which materialised into a Climate Change Action Plan, the latest version of which was approved in 2015.

The plan includes the objectives for Horizon 2020 and Horizon 2030, as well as the main initiatives that will be undertaken to achieve them.

As a general objective, the Company is committed to reducing Scope 1 and 2 emissions per MWh transported by 40% in 2030 with respect to 2015. This objective was approved in 2018 by the Science Based Targets initiative (SBTi) and is equivalent to a net reduction of Scope 1 and 2 emissions of 30% by 2030.

The plan covers the following lines of action:

- Contribution to a low-emissions energy model, taking the necessary actions to achieve European objectives for 2020 and 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 and progressing with storage systems.
    - Furthering efficient network management by applying new measures for managing demand, incorporating new elements and services and encouraging technological innovation.
- 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 gas emissions (mainly by renewing switchgear and improving the detection and control of leaks).
    - Reduction in electricity consumption (energy-efficiency measures for buildings, such as the renovation of the La Lomba building in 2020) and associated emissions (acquisition of 100% renewable energy).
    - Sustainable mobility: reduction in emissions associated with the Company's vehicles, business trips and employee travel.
    - Involvement of the supply chain in the Company's commitments. A programme has been started in this regard with the Company's main suppliers to include their data in the overall scope 3 emissions calculation and to set an ambitious target to reduce them.
    - Progress in including efficiency criteria and reducing materials when designing facilities.
    - Offsetting of emissions, primarily through the Red Eléctrica Forest project.
- Positioning and outreach: dissemination of knowledge of the electricity system and demand management measures, and promotion of other energy efficiency measures.
- Adaptation: 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. In 2018 work began on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which gave rise to a thorough review of the assessment, considering different scenarios and intensifying the economic quantification of risks and opportunities identified.

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. (RETIT), a subsidiary of the Red Eléctrica Group. The main projects carried out in 2020 are as follows:

- The Venture Client programmes establish mechanisms to contact, interact, identify and explore innovative business opportunities. In the current climate of innovation and change, the acceleration programmes for start-ups and investment in venture capital are pivotal tools to strengthen the presence and impact within the innovation and entrepreneurship ecosystem. The following programmes were launched in 2020:
  - **1st Venture Client Programme:**

    The first accelerator programme concluded in June, the feedback from which has been very positive. The value proposal revolved around exploring a business idea with the Group in order to launch a pilot scheme.

    On the back of the first programme, six pilot projects were launched through four startups:

    - Sigma Rail - Track inspection and maintenance using computer vision.
    - Onirix - Digitalisation of engineering processes based on additional augmented reality data; and visualisation of electricity-related risks using augmented reality.
    - Neurodigital - Training on a local site that entails an electricity risk using virtual reality; and training on jobs carried out at height with the aid of virtual reality.
    - FlexiDAO - Visualisation of self-supply investor data <1MW.

  - **2nd Venture Client Programme**

    The call to participate in the 2nd Venture Client Programme was announced at the end of 2020. Over 120 startups in more than 10 countries that could potentially respond to the needs of the Group's business units were identified. Eight startups were selected to take part in the programme, exploring the proposed use cases and launching pilot projects with various business areas in 2021.
- **Centre for Construction Knowledge, the C3 Project:** this new platform will enable the digital transformation of the Group's construction activities in areas such as health and safety, control and monitoring of employees, project control, quality management, control of assets, materials and machinery, and sustainability.
- **Project EPICS (Edge Protection and Intelligent Control Solution):** this project consists of integrating, on a single piece of hardware, the safeguard and control functions of an electricity substation, securing major efficiencies and new functionalities.
- **Project for robotic installation of spacers on overhead cables:** use of robotics to install spacers on overhead cables as an alternative to traditional installation techniques and to improve employee efficiency and their health and safety.
- **Project DALIA:** improvements to the overhead cable maintenance process through the use of drone imagery, AI to analyse the images captured and an integrated management platform for the entire inspection process.
- **Positive Energy:** against the backdrop of the pandemic and in conjunction with other energy companies, a process was opened to get other companies and institutions on board to look for ways to mitigate the economic and social impact of COVID-19 through innovation and from an energy perspective.

7 Our people

In 2020, work continued on the objectives set out in the Human Resources Master Plan linked to the Strategic Plan.

In this context, in keeping with its strategic objectives, the Group has encouraged the adaptation of its human capital to orient its companies towards greater efficiency and digitalisation. The process of corporatisation stands out this year, whereby part of the workforce of REE has been transferred to REC to provide corporate services to all the Group's subsidiaries, thereby strengthening the independence of the TSO and optimising the operational and economic structure of the Group as a whole, taking advantage of the synergies and know-how of all the subsidiaries that comprise it.

The Imagina project continued to roll out its functionality in 2020, promoting the transformation of the people management function so as to add value to the Company, as a strategic lever for change and to facilitate the achievement of objectives through its various projects: the implementation of a digital mailroom, digital signatures, the introduction of the Agile Mindset in several areas of the Company and the definition and implementation of the Transformational Leadership Model.

In this context, in keeping with its strategic objectives, the Company has encouraged the adaptation of its human capital, with a view to becoming a more digitalised and efficient operation.

A stable, committed and highly qualified team.

At the end of 2020, the Company's workforce consisted of 1,264 professionals. Its commitment to stable employment is reflected in the high levels of permanent employment contracts (nearly 100%), prioritising employability and functional mobility as levers for growth and professional development.

Diversity

Promoting a quality working environment, founded on ethical behaviour, respect, diversity and equality, is a priority for Red Eléctrica.

The Company's commitment to diversity, inclusion and non-discrimination has 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 Red Eléctrica 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.

Gender equality is one of the facets included in the new Comprehensive Diversity Plan and refers to the principles of equal employment opportunities, the promotion of women to positions of responsibility, salary equivalence 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.

At the end of 2020, the percentage of women in REE's workforce was 18%. The percentage of women in management positions at the end of 2020 was 26%.

In 2020 disabled persons employed on an equal basis with others made up 2.47% of personnel, and 0.86% of these employees were on the payroll.

Talent management

In 2020, the Red Eléctrica Group's Campus was the main hub of Learning and Professional Development within the Group, with REE as the primary recipient of its initiatives.

The Company's transformation continues to be promoted through the new leadership approach and the development of employees' capacities through specific programmes developed by the three institutions (business knowledge and technical training, strategy and leadership, and transformation and innovation).

As a result of the "push yourself" (*Impúlsate*) philosophy, a high component of self-development is encouraged in training, with the launch of programmes and learning spaces wherein the employees themselves decide how and when to participate based on their own interests. This new direction has translated into a new training catalogue composed of more than 200 online courses on different technical, management and skills-based subjects, as part of the "Digital by Campus" programme aimed at the acquisition of skills and knowledge related to digital transformation and the "Self-development Ecosystem" designed to improve the personal and professional skills of all employees.

In 2020 the implementation of the challenge-based management model gained ground. This has contributed towards giving each professional clearer guidance about their work, with greater autonomy and flexibility, allowing employees to work when, where and how they require and with whoever needs them.

The voluntary and proactive internal mobility plan has become well established, together with the use of the LinkRED tool that can be accessed by all employees to share their experiences and interests in relation to development and mobility.

In addition, to help students on higher vocational training courses to obtain qualifications, the Company has been actively involved in creating a vocational training programme with theoretical and practical content, as part of the dual vocational training system leading to the qualification of Senior Power Plant Technician. In 2020, the second graduating class completed their training.

Social relationships

At the beginning of 2020, the general results of the Climate Survey were shared with the workforce via the intranet, and results by area were communicated through the management team in face-to-face sessions, thus encouraging constructive dialogue.

Throughout 2020, work has been carried out to devise improvement plans for each area and for the company as a whole.

In addition, during 2020, two surveys were carried out to gauge employees' experiences in view of the situation caused by the pandemic.

They represent a barometer that enables the Company to make decisions quickly against a backdrop of uncertainty in which most employees are working off-site from home and those who perform critical functions for the business are also doing so in an exceptional context.

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, deployed through a multi-year plan, is aligned with the Company's strategic plan, the Human Resources Master Plan and the 2030 Sustainability Commitment.

Within this framework, the healthy company model revolves around four main lines of action:

- Physical work environment: within the definition of the future energy model, identifying opportunities to generate value in the services offered.
- Participation in the community: through actions performed by the company that have an impact on improving the state of health and well-being of its employees' families and the communities in which it operates.
- Health resources: providing the workforce with tools to improve their physical and mental health, contributing to their well-being and quality of life.
- Psychosocial work environment: implementing management and work organisation tools and resources that favour the physical and psychosocial well-being of workers.

The model is deployed through annual programmes that aim to facilitate the continuity of the management model through continuous improvement and to consolidate Red Eléctrica as a leader in best practices for safety, health and well-being, prevention, and promoting health.

In 2020, measures were taken at the first news of the spread of COVID-19, which has allowed the contingency plans to be rolled out promptly and effectively.

Since the start of the pandemic alert, reported cases have been monitored both in terms of illness and possible contact, and essential personnel, system operators and technical maintenance specialists have been identified and are subject to special monitoring.

In addition, personnel have been provided with the necessary protective health and safety equipment to carry out their duties and adhere to all requisite safety protocols (masks, gloves and sanitiser gels).

In the specific area of health and health promotion, in addition to the basic actions of individual health monitoring, different campaigns aimed at guaranteeing physical, psychological and social well-being have continued with the aim of improving the overall well-being of people who have been forced to adapt to the circumstances of the pandemic, offering various services through digital platforms in lieu of face-to-face: consultations on nutrition and physical fitness, access to yoga classes, Pilates and mindfulness workshops.

Furthermore, the result of the 2020 audit of the Healthy Company model was satisfactory.

Work-life balance

2020 saw the roll-out of objectives defined for the year and the extension of a flexible working culture.

This management model is one of the fundamental pillars of the Healthy Company model and the Diversity model and includes over 70 work-life balance measures, structured into different blocks:

1. Leadership and management styles
2. Quality of employment
3. Flexibility of time and location
4. Family support
5. Personal and professional development
6. Equal opportunities

The satisfactory result of the audit of the Family-Responsible Company Model in 2020 was noteworthy, and a survey was conducted to gauge familiarity with the model, as well as use and satisfaction.

8 Average supplier payment period. "Reporting Requirement", third additional provision of Law 15/2010 of 5 July 2010

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average supplier payment period was 46.8 days at the 2020 year end.

The disclosures required by this resolution are contained in note 22 to the Company's annual accounts for 2020.

9 Events after 31 December 2020

30 January 2021 saw the publication of Royal Decree 1/2021 of 12 January 2021, amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007; the Spanish General Chart of Accounts for small and medium-sized enterprises approved by Royal Decree 1515/2007 of 16 November 2007; the standards for the preparation of consolidated annual accounts approved by Royal Decree 1159/2010 of 17 September 2010; and the standards for the adaptation of the Spanish General Chart of Accounts for non-profit entities approved by Royal Decree 1491/2011 of 24 October 2011.

The changes to the Spanish General Chart of Accounts are applicable to accounting periods beginning on or after 1 January 2021 and focus on the criteria for recognition, measurement and disclosure of revenues from the delivery of goods and services, financial instruments, hedge accounting, valuation by intermediaries of inventories of listed commodities traded by them, and the definition of fair value.

The annual accounts for the first accounting period beginning on or after 1 January 2021 shall be presented including comparative information, although there is no obligation to restate the information from the previous period. Comparative information need only be restated if all the criteria approved by the Royal Decree can be applied without incurring a retrospective bias, without prejudice to the exceptions established in the transitional provisions.

The application of the standard is generally retrospective, albeit with alternative practical expedients. However, the application of hedge accounting is prospective, the classification criteria for financial instruments can be applied prospectively and the sales and service revenue criteria can be applied prospectively to contracts executed on or after 1 January 2021.

The sole director of the Company is in the process of assessing the applicable transition options and the accounting impacts of these changes, although at the date of authorising these annual accounts for issue sufficient information is not yet available to conclude on the results of this analysis.

10 Outlook

The regulated activities of the TSO, aimed at making the energy transition in Spain possible, are primarily sustained by 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 a new, stricter regulatory and remuneration environment

REE will apply a financial policy adapted to the new 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 Red Eléctrica Group for 2020, 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

Red Eléctrica de España

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