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 2021)

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

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

Independent Auditor's Report on the Annual Accounts

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

To the 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 2021, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

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

Basis for Opinion

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

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

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

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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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, and it has started to move forward with certain initiatives laid down in the draft 2021-2026 Planning published by the Ministry for the Ecological Transition and Demographic Challenge in February 2021. In 2021 additions to property, plant and equipment totalled Euros 413,427 thousand.

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

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

Hedging instruments (see notes 17 and 19)

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

Derivatives designated as hedging instruments must meet strict criteria with respect to documentation and the effectiveness of the hedge on inception. Furthermore, the fair value of derivative financial instruments is determined using valuation techniques that may take into consideration, among other factors, unobservable market data or complex pricing models that require a high degree of judgement. Given the complexity of complying with the financial reporting framework in force as regards the identification and measurement of hedging instruments and the correct measurement of their effectiveness, we have considered this to be a relevant aspect of the audit.

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

Other Information: Directors' Report

Other information solely comprises the 2021 directors' report, the preparation of which is the responsibility of the Company's Sole Director's 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 2021, and that the content and presentation of the report are in accordance with applicable legislation.

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Sole Director's and Audit Committee's Responsibility for the Annual Accounts

The Sole Director is 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 Sole Director's is 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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Sole Director.

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- Conclude on the appropriateness of the Sole Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

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

(Signed on original in Spanish)

Ana Fernández Poderós

On the Spanish Official Register of Auditors ("ROAC") with No. 15547

22 February 2022

Annual Accounts

2021

(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 2021

Thousands of Euros

	Note	31.12.2021	31.12.2020
Non-current assets		8,422,633	8,373,855
Intangible assets	6	**48,757**	**44,768**
Computer software		48,757	44,768
Property, plant, and equipment	7	**8,296,238**	**8,253,833**
Land and buildings		3,362	3,544
Technical installations and other items		7,392,093	7,417,412
Under construction and advances		900,783	832,877
Non-current investments in Group companies and associates	8	**2,401**	**2,528**
Equity instruments		1,000	1,000
Other financial assets		1,401	1,528
Non-current investments	9	**23,363**	**7,494**
Equity instruments		468	468
Loans to third parties		3,546	3,241
Derivatives	19	16,848	-
Other financial assets		2,501	3,785
Deferred tax assets	23	**51,748**	**65,194**
Prepayments for non-current assets	12	**126**	**38**
Current assets		1,328,370	1,312,856
Inventories	10	**23,447**	**32,409**
Trade and other receivables	11	**1,104,891**	**1,205,623**
Trade receivables from Group companies and associates		1,077	2,066
Other receivables		1,101,472	1,201,117
Personnel		939	856
Public entities, other		1,403	1,584
Current investments	9	**4,387**	**14,697**
Other financial assets		4,387	14,697
Prepayments for current assets	12	**18,804**	**15,520**
Cash and cash equivalents		**176,841**	**44,607**
Cash		176,841	44,607
Total assets		**9,751,003**	**9,686,711**

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 2021

Thousands of Euros

	Note	31.12.2021	31.12.2020
Equity	13	2,247,647	2,147,421
Capital and reserves		**1,764,095**	**1,704,813**
Capital		800,006	800,006
Share premium		54,319	54,319
Reserves		792,688	701,192
Profit for the year		552,845	612,779
(Interim dividend)		(435,763)	(463,483)
Valuation adjustments		**74,125**	**39,675**
Hedging transactions		(51,745)	(74,123)
Other		125,870	113,798
Grants, donations, and bequests received		**409,427**	**402,933**
Non-current liabilities		5,423,615	5,523,761
Non-current provisions	14	**111,073**	**118,119**
Non-current payables	15	**1,055,483**	**1,417,267**
Loans and borrowings		1,053,642	1,366,748
Derivatives	19	1,673	50,351
Other liabilities		168	168
Group companies and associates, non-current	25	**3,546,831**	**3,257,493**
Deferred tax liabilities	23	**592,160**	**608,327**
Non-current accruals	16	**118,068**	**122,555**
Current liabilities		2,079,741	2,015,529
Current provisions	14	**-**	**37,925**
Current payables	15	**857,687**	**493,952**
Loans and borrowings		320,947	86,547
Derivatives	19	1,544	-
Other current payables		535,196	407,405
Group companies and associates, current	25	**575,887**	**1,036,333**
Suppliers of fixed assets – Group companies and associates		13,143	8,789
Payables to Group companies and associates due to tax effect		4,469	22,933
Payables to Group companies and associates		517,946	966,079
Interest on payables to Group companies and associates		40,329	38,532
Trade and other payables	20	**645,642**	**429,022**
Payables to Group companies		4,813	6,406
Other payables		601,017	348,778
Personnel		10,846	10,682
Public entities, other		28,966	63,156
Current accruals	21	**525**	**18,297**
Total equity and liabilities		**9,751,003**	**9,686,711**

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

Roberto García Merino

Red Eléctrica de España, S.A.U.

Income Statement. 2021

Thousands of Euros

	Note	2021	2020
Revenue	24-a	**1,609,689**	**1,668,263**
Services rendered		1,609,689	1,668,263
Self-constructed assets	6 and 7	**39,849**	**41,501**
Supplies	24-c	**(17,252)**	**(21,136)**
Raw materials and other consumables used		(15,407)	(19,744)
Impairment of other supplies	10	(1,845)	(1,392)
Other operating income	24-b	**8,122**	**12,370**
Non-trading and other operating income		8,092	12,215
Operating grants taken to income		30	155
Personnel expenses	24-d	**(104,783)**	**(134,253)**
Salaries and wages		(77,824)	(99,966)
Employee benefits expense		(21,141)	(26,095)
Other items and employee benefits		(5,818)	(8,192)
Other operating expenses	24-c	**(338,136)**	**(291,286)**
External services		(308,442)	(263,411)
Taxes		(29,726)	(27,875)
Losses, impairment, and changes in trade provisions		32	-
Depreciation and amortisation	6 and 7	**(387,160)**	**(385,385)**
Non-financial and other capital grants		**11,712**	**25,237**
Impairment and gains/(losses) on disposal of fixed assets	7	**28**	**163**
Results from operating activities		822,069	915,474
Finance income		**5,249**	**8,277**
Marketable securities and other financial instruments		53	3,398
Capitalised borrowing costs	7	5,196	4,879
Finance costs	24-e	**(91,957)**	**(105,381)**
Group companies and associates	25	(72,044)	(85,436)
Other		(19,142)	(19,336)
Provision adjustments	14	(771)	(609)
Exchange gains/(losses)		**(2)**	**55**
Net finance cost		**(86,710)**	**(97,049)**
Profit before tax		**735,359**	**818,425**
Income tax	23	**(182,514)**	**(205,646)**
Profit from continuing operations		**552,845**	**612,779**
Profit for the year		**552,845**	**612,779**

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 2021

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 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**
Total recognised income and expense	-	-	6,481	552,845	-	559,326	34,450	6,494	600,270
Transactions with shareholders or owners									
Capital increases	-	-	-	-	-	-	-	-	-
(-) Distribution of dividends	-	-	-	(64,281)	(435,763)	(500,044)	-	-	(500,044)
Other changes in equity									
Distribution of prior year's profit	-	-	85,015	(548,498)	463,483	-	-	-	-
Balance at 31 December 2021	**800,006**	**54,319**	**792,688**	**552,845**	**(435,763)**	**1,764,095**	**74,125**	**409,427**	**2,247,647**

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. 2021

Thousands of Euros

	2021	2020
Profit for the year	**552,845**	**612,779**
Cash flow hedges	21,481	(11,115)
Grants, donations, and bequests received	29,617	20,911
Actuarial gains and losses and other adjustments	8,641	(6,273)
Tax effect	2,030	10,671
Income and expense recognised directly in equity	**61,769**	**14,194**
Cash flow hedges	8,356	7,046
Grants, donations, and bequests received	(20,958)	(20,660)
Tax effect	(1,742)	(1,096)
Amounts transferred to the income statement	**(14,344)**	**(14,710)**
Total recognised income and expense	**600,270**	**612,263**

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. 2021

Thousands of Euros

	2021	2020
Cash flows from operating activities	**1,320,839**	**1,110,931**
Profit for the year before tax	**735,359**	**818,425**
Adjustments to profit	**480,482**	**474,697**
Depreciation and amortisation	387,160	385,385
Impairment	1,813	1,392
Change in provisions	5,077	11,392
Gains on disposals of fixed assets	(28)	(163)
Non-financial and other capital grants	(25,446)	(25,237)
Finance income	(53)	(3,398)
Finance costs	91,957	105,381
Exchange (gains)/losses	2	(55)
Changes in operating assets and liabilities	**403,044**	**123,664**
Inventories	7,117	6,564
Trade and other receivables	100,588	(22,693)
Other current assets	7,211	(14,817)
Trade and other payables	288,217	153,027
Other non-current assets and liabilities	(89)	1,583
Other cash flows used in operating activities	**(278,046)**	**(305,855)**
Interest paid	(70,694)	(107,045)
Interest received	53	3,398
Income tax paid/received	(198,278)	(200,329)
Other payments	(9,127)	(1,879)
Cash flows used in investing activities	**(427,649)**	**(442,980)**
Payments for investments	**(429,845)**	**(444,398)**
Property, plant and equipment and intangible assets	(428,701)	(442,870)
Other assets	(1,144)	(1,528)
Proceeds from sale of investments	**2,196**	**1,418**
Group companies and associates	127	-
Property, plant and equipment and intangible assets	28	168
Other assets	2,041	1,250
Cash flows used in financing activities	**(760,956)**	**(684,130)**
Proceeds from and payments for equity instruments	**29,617**	**20,911**
Grants, donations, and bequests received	29,617	20,911
Proceeds from and payments for financial liability instruments	**(290,529)**	**(187,229)**
Repayment of loans and borrowings	(78,660)	(84,633)
Payables to Group companies and associates	698,781	1,897,513
Repayment of payables to Group companies and associates	(885,147)	(1,978,812)
Other payments	(25,503)	(21,297)
Dividends and interest on other equity instruments paid	**(500,044)**	**(517,812)**
Dividends	(500,044)	(517,812)
Net increase/(decrease) in cash and cash equivalents	**132,234**	**(16,179)**
Cash and cash equivalents at beginning of year	44,607	60,786
Cash and cash equivalents at year end	176,841	44,607

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, which amends Electricity Industry Law 54/1997 of 27 November 1997 to bring its content into line with Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity, since 2008 the Company has performed the activities pertaining to the transmission agent and system operator (TSO) for the Spanish electricity system and has had its present corporate structure.

The principal activities carried out by the Company are:

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

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

2 Basis of Presentation of the Annual Accounts

a) True and fair view

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

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

The Company forms part of the Spanish Red Eléctrica Group, which prepares consolidated annual accounts as required by article 43.2 of the Spanish Code of Commerce. The Parent of the Red Eléctrica Group is Red Eléctrica Corporación, S.A. (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 2020 were approved by the sole shareholder on 8 June 2021. The annual accounts for 2021 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 experience and other factors that are considered reasonable under the circumstances. Actual results could differ from these estimates.

The annual accounts for 2021 occasionally include estimates calculated by management of the Company, and subsequently endorsed by its sole director, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein. These estimates are essentially as follows:

- Estimated recoverability of assets.

- Estimated useful lives of fixed assets.
- Assumptions used in the actuarial calculations.
- Assumptions and estimates used in measuring the fair value of derivative financial instruments.
- The calculation of revenue from electricity transmission facilities (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 2021, 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 2021 include comparative figures for the prior year, which formed part of the annual accounts for 2020.

All the accounting principles and measurement methods used to prepare these annual accounts are the same as those used in preparing the Company's annual accounts for 2020 except for the application with effect from 1 January 2021 of Royal Decree 1/2021 of 12 January 2021, amending the Spanish General Chart of Accounts, and the Spanish Accounting and Auditing Institute's Resolution of 10 February 2021, setting out the standards with regard to recognition, measurement and the preparation of annual accounts for the purpose of recognising revenue from the delivery of goods and rendering of services.

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

Categories of financial assets and financial liabilities

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

To a large extent the new standard maintains the previous requirements for the classification and measurement of financial liabilities, only changing the names of the categories. Under Royal Decree 1/2021 the previous classifications of financial assets have been replaced, such that these assets are now classified according to the business model in which they are held and their contractual cash flow characteristics. Thus, the previous categories of held to maturity, loans, and receivables and available for sale have been eliminated.

The Company has applied the requirements, including its financial assets in the following categories:

Category	
At amortised cost	Financial assets: - that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and - whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
Carried at cost	These include equity investments in Group companies, jointly controlled entities and associates, as well as all other investments in equity instruments for which the fair value cannot be reliably estimated.
At fair value through equity	Equity instruments that represent investments that the Company intends to hold in the long term for strategic purposes and for which the Company made an irrevocable decision upon initial recognition to account for them in this category.
At fair value through profit or loss	This category includes the financial assets that do not meet the conditions for classification in the previous categories.

Details of the equivalence between the previous and new categories are as follows:

Type of instrument	Previous category	Present category	31.12.2021 (Thousands of Euros)
Equity instruments	Available for sale	Financial assets at fair value through equity	468
Equity instruments	Equity investments in Group companies and associates	Financial assets carried at cost	1,000
Loans, receivables and other financial assets	Loans and receivables	Financial assets at amortised cost	1,113,922

There have been no changes in the classification of the Company's financial liabilities with respect to the contents of the annual accounts for 2020, except for "Debts and payables" being renamed as "Financial liabilities at amortised cost", with the previously applied measurement criteria remaining unaffected.

Except for the changes in the names of the financial asset and financial liability categories, Royal Decree 1/2021 has had no impact on assets and liabilities.

Hedge accounting

The Company has opted to apply hedge accounting pursuant to the requirements of Royal Decree 1/2021. However, this requirement has had no impact on the Company's annual accounts inasmuch as the Company has not amended its hedge accounting model and has confirmed that its existing hedging relationships continue to be classified as such following adoption of the new standard.

Revenue recognition

Under the new recognition model, revenue is recognised when the customer obtains control of the goods or services. Determining the transfer of control, at a point in time or over time, requires judgement. The new standard provides a comprehensive framework for the recognition of revenue from contracts with customers, setting out a five-step application model: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the different performance obligations; and recognise revenue when a performance obligation is satisfied.

Applying the balance sheet presentation criteria provided under the new standard, the Company now presents contract assets and contract liabilities in accordance with the new standard. The Company has applied the new revenue recognition standard for the first time with effect from 1 January 2021, availing of the practical expedient whereby it is not required to restate comparative figures from prior periods. Thus, contract liabilities that were recognised under "Current accruals" in 2020 are presented under "Other payables" within "Trade and other payables" in 2021 (see note 20).

e) Considerations regarding COVID-19

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

All facilities operation and maintenance were conducted normally in 2021, as was wrought to build new infrastructure. Moreover, no incidents occurred 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 electricity system.

In 2021 the Company has continued to act in coordination with the other companies in the RED ELÉCTRICA Group and has followed the guidelines that have been adapted to the recommendations issued by the various pertinent authorities. The priority in all cases was to safeguard the health and safety of all of its workers, customers and suppliers. The measures adopted have always been geared towards guaranteeing:

- The health of its professionals, applying the action protocols adapted to the recommendations issued by the various competent authorities.
- A heightened commitment to digitalisation, ensuring the infrastructure is now widely in place to allow staff that need to work from home to do so, while maintaining the focus on cybersecurity.
- Active collaboration with the groups most affected by the healthcare crisis and its collateral effects, through various initiatives.

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

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

3 Sector Regulation

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

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

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

a) Transmission activity

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 a regulated access charge.

The remuneration for this activity is set by the government based on the general principles defined in the Law and on the method essentially enshrined in Spanish National Markets and Competition Commission (CNMC) Circular 5/2019 of 5 December 2019, on the calculation of the remuneration for the electricity transmission activity. Until the 2019 regulatory period, the calculation method was set forth in Royal Decree 1047/2013 of 27 December 2013;

however, due to the change in remit introduced through Royal Decree-Law 1/2019 of 11 January 2019, the CNMC approved Circular 5/2019, which stipulates the methodology for the 2020-2025 regulatory period.

In addition, other remuneration parameters for the new model were set for the current regulatory period (2020-2025): Circular 2/2019, which defines the methodology for calculating the financial rate of return (FRR) for electricity transmission and distribution, regasification, and natural gas transmission and distribution, and 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. 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 2021, 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 onwards) provisionally opted to replicate the amount of remuneration stipulated for 2016, and this therefore remained constant until 2021. This provisional approach stems from the "detriment proceedings" brought by the Spanish State Attorney against Ministerial Order IET/981/2016, seeking that the Spanish Supreme Court declare certain articles therein null and void, thus enabling the definitive revenue for 2016 to be corrected. The Spanish Supreme Court Judgment was published on 29 June 2020, ordering that Order IET/981/2016 and the revenue for 2016 be corrected.

To comply with this Judgment, at the end of 2021 the Ministry for the Ecological Transition and Demographic Challenge (MITERD) submitted for public consultation the proposed Order stipulating the remuneration for 2017, 2018 and 2019 allocable to companies that own electricity transmission facilities. The CNMC is still to publish the remuneration for 2020 and 2021. Both processes are expected to be finalised in 2022.

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

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

b) System operator and transmission network manager activity

As electricity system operator, the Company's main function is to guarantee the continuity and security of the electricity supply, as well as to ensure the correct coordination of the production and transmission system, exercising its duties in cooperation with the operators and agents of the Iberian Electricity Market (MIBEL) while observing the principles of transparency, objectivity, and independence. Law 24/2013 also bestows upon the system operator the role of transmission network manager.

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. 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 such designation. Under this assignment, Red Eléctrica de España S.A.U. operates on an ownership unbundling basis as provided for in article 43 of Directive 2019/944 on common rules for the internal market for electricity (formerly article 9 of Directive 2009/72/EC).

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

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

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

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

Regarding the Company's remit in the non-mainland electricity systems, in 2015 the Salto de Chira 200 MW pumped-storage hydroelectric power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Having taken ownership, in 2016 Red Eléctrica submitted a project amending the initial project, which included technical and environmental improvements aimed at increasing the capacity for integrating renewable energy and reducing the impact of this new infrastructure on the environment.

The Canary Islands government declared the new project to be of strategic interest, and on 15 December 2021 the Department for Ecological Transition, the Fight against Climate Change and Territorial Planning of the Canary Islands government, through the Directorate-General for Energy, issued the administrative authorisation for the project.

As regards access and connection to electricity networks, on 1 July 2021 the moratorium on new access requests, introduced by Royal Decree-Law 23/2020 of 23 June 2020, came to an end. Following the approval of Royal Decree 1183/2020 of 29 December 2020 on access and connection to the electricity transmission and distribution networks, the CNMC approved Circular 1/2021 establishing the methodology and conditions for electricity generation facilities to access and connect to the transmission and distribution networks, and the Resolution establishing the detailed specifications for determining network access capacity. This latter piece of legislation requires transmission and distribution network managers to publish the available capacity at each network node and to accept new requests as of 1 July.

4 Proposed Distribution of Profit

The proposed distribution of profit for the year ended 31 December 2021, 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	552,845
Total	**552,845**
Distribution	
Voluntary reserves	117,082
Dividends:	
Interim dividend	435,763
Total	**552,845**

The interim dividend for 2021 is explained in note 13.

This proposed distribution entails a total dividend of Euros 1.0894 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, and their value is periodically reviewed and adjusted in the event of a decline in value. Intangible assets include the following:

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

b) Property, plant, and equipment

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

- **Cost and recognition**

Cost of construction includes the following:

- Borrowing costs directly related with facilities under construction and external financing used, accrued solely during the construction period. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods, except where a temporary delay is a necessary part of the process of getting an asset ready for its intended use.
- Operating expenses directly related to property, plant, and equipment under construction for projects executed under the supervision and management of the Company, including all operating expenses incurred by the Company to provide support to the units directly involved in the activity. These include personnel expenses directly attributable to the construction or manufacture of the assets.

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

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

- **Depreciation**

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

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

In 2020 the Company conducted a study on the useful life of transmission assets that came into service before 1998, in the light of the amended 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 reflected the impact of this change in estimate from 1 January 2020 onwards. The average remaining useful life of these assets was changed to 14 years.

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

- Measurement

The residual values and useful lives of assets are reviewed at least annually and adjusted, if necessary, to reflect actual circumstances. When the carrying amount of these assets exceeds their estimated recoverable amount, it is immediately written down to the recoverable amount. The Company performs complementary analyses of these indicators in view of the substantial changes to the remuneration regime applicable to electricity transmission assets in Spain.

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.

d) Financial assets

The Company classifies its financial assets into the following categories:

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

  They are non-derivative financial assets that are held to collect contractual cash flows that are solely payments of principal and interest. They are included under current assets unless they mature more than 12 months after the reporting date, in which case they are classified as non-current assets.

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

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

  They are recognised at fair value and any changes therein are recognised in equity. However, valuation allowances for impairment and dividends from such investments are recognised in profit or loss. Gains or losses on disposal are reclassified to profit or loss.

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

  They are measured at cost of acquisition, which is equivalent to the fair value of the consideration paid plus any directly attributable transaction costs.

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 because of expected future cash flows.

- Fixed assets

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

The Company has cash-generating units (CGUs) 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 2021 and 2020.

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 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 the value in use, the Company analyses the recoverability of the carrying amount allocated to the assets in question, using experience and future expectations in accordance with the prevailing regulatory framework.

- Financial assets

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

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

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

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, and other similar subsidies received to finance the Company's fixed assets, are recognised once the corresponding investments have been made.

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

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

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, less the fair value at that date of plan assets, minus any past service cost not yet recognised. The Company records actuarial gains and losses in recognised income and expense for the year in which they arise.

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

- Other provisions

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

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

j) Financial liabilities

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

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

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

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

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) Fair value measurement

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

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

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

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Specifically, the Company calculates the fair value of derivative financial instruments that are not traded on organised markets using valuation techniques, including recent arm's length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analyses using the market interest rates and exchange rates in force at the reporting date, and option pricing models enhanced to reflect the particular circumstances of the issuer.

n) Income and expenses

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

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

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

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

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

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

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 based on 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 accrual's basis. Payouts from insurance companies in respect of claims are recognised in the income statement based on the costs incurred.

q) Environment

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

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.

t) Cash and cash equivalents

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

6 Intangible Assets

Movement in intangible assets during 2021 and 2020 and details of accumulated amortisation are as follows:

Thousands of Euros	31 December 2019	Additions	Disposals and other	Transfers	31 December 2020	Additions	Disposals and other	Transfers	31 December 2021
Cost									
Development	2,775	-	-	-	2,775	-	-	-	2,775
Computer software	53,044	-	(3,892)	17,154	66,306	-	-	17,867	84,173
Computer software under development	7,011	23,369	-	(17,171)	13,209	20,127	-	(17,114)	16,222
Total cost	**62,830**	**23,369**	**(3,892)**	**(17)**	**82,290**	**20,127**	**-**	**753**	**103,170**
Accumulated amortisation									
Development	(2,775)	-	-	-	(2,775)	-	-	-	(2,775)
Computer software	(23,636)	(13,177)	2,066	-	(34,747)	(16,891)	-	-	(51,638)
Total accumulated amortisation	**(26,411)**	**(13,177)**	**2,066**	**-**	**(37,522)**	**(16,891)**	**-**	**-**	**(54,413)**
Carrying amount	**36,419**	**10,192**	**(1,826)**	**(17)**	**44,768**	**3,236**	**-**	**753**	**48,757**

In 2021 and 2020 the additions of computer software are due to the acquisition and development of software by the Company for its system operation and transmission activities.

In 2020, disposals and other consisted 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 2021 the Company has fully amortised intangible assets amounting to Euros 26,323 thousand (Euros 17,788 thousand at 31 December 2020).

In 2021 operating expenses of Euros 956 thousand directly related to intangible assets were capitalised (Euros 3,375 thousand in 2020).

7 Property, Plant and Equipment

Movement in property, plant, and equipment in 2021 and 2020 and details of accumulated depreciation and impairment are as follows:

Thousands of Euros	31 December 2019	Additions and other	Exits, disposals, reductions and write-downs	Transfers to REC	Transfers	31 December 2020	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31 December 2021
Cost										
Land and buildings	9,123	-	-	-	-	9,123	-	-	-	9,123
Technical electricity facilities and other items	14,777,216	-	(158)	(1,850)	271,917	15,047,125	-	(123)	344,768	15,391,770
Under construction and advances	716,516	388,261	-	-	(271,900)	832,877	413,427	-	(345,521)	900,783
Total cost	**15,502,855**	**388,261**	**(158)**	**(1,850)**	**17**	**15,889,125**	**413,427**	**(123)**	**(753)**	**16,301,676**
Accumulated depreciation										
Buildings	(5,396)	(183)	-	-	-	(5,579)	(182)	-	-	(5,761)
Technical electricity facilities and other items	(7,131,286)	(372,025)	154	1,526	-	(7,501,631)	(370,087)	123	-	(7,871,595)
Total accumulated depreciation	**(7,136,682)**	**(372,208)**	**154**	**1,526**	**-**	**(7,507,210)**	**(370,269)**	**123**	**-**	**(7,877,356)**
Impairment of facilities	(128,082)	-	-	-	-	(128,082)	-	-	-	(128,082)
Carrying amount	**8,238,091**	**16,053**	**(4)**	**(324)**	**17**	**8,253,833**	**43,158**	**-**	**(753)**	**8,296,238**

- **Gross property, plant, and equipment**

Technical electricity facilities are assets that are subject to regulated remuneration (see note 3). The main additions to technical electricity facilities in 2021 and 2020 are investments in electricity transmission facilities.

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

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

At 31 December 2021 and 2020 the balance presented in additions and other mainly reflects investments made during these years, as well as any technical facilities received under agreements with third parties.

In 2021 and 2020, transfers basically comprise lines, substations and communication and control systems which were under construction and have been completed. In 2020, transfers to REC reflected 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.

At 31 December 2021 and 2020, the amount shown under exits, disposals, reductions and write-downs mainly includes the disposal of certain fully depreciated assets.

- **Capitalised expenditure**

Operating expenses of Euros 38,893 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2021 (Euros 38,126 thousand in 2020). The Company's capitalised expenses directly related to the construction of facilities include all operating expenses incurred to provide support to the units directly involved in the activity.

During 2021, the Company capitalised construction-related borrowing costs of Euros 5,196 thousand as an increase in property, plant and equipment (Euros 4,879 thousand in 2020). The weighted average rate used to capitalise borrowing costs was 1.1% in 2021 (1.2% in 2020).

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

At 31 December 2021 the Company has fully depreciated property, plant and equipment amounting to Euros 2,729,373 thousand (Euros 2,640,287 thousand at 31 December 2020), of which Euros 2,535,627 thousand comprises technical facilities and Euros 151,045 thousand reflects IT equipment (Euros 2,451,876 thousand and Euros 146,512 thousand, respectively, at 31 December 2020).

- **Investment commitments**

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

- **Insurance**

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

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

There were no indications of impairment of the Company’s assets in 2021 and 2020.

- **Revaluation of balances**

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

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

The net increase in value deriving from the revaluation is depreciated over the remaining useful life of the revalued assets. The revaluation has led to an increase of Euros 2.7 million in the depreciation charge for 2021 (Euros 3.0 million in 2020), while accumulated depreciation at 31 December 2021 totals Euros 62 million (Euros 59 million at 31 December 2020).

8 Non-current Investments in Group Companies and Associates

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Equity instruments	1,000	1,000
Other financial assets	1,401	1,528
Total	**2,401**	**2,528**

In 2021 and 2020 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 2021 and 2020 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 2021	31 December 2020
Equity instruments	468	468
Loans to third parties	3,546	3,241
Derivative financial instruments	16,848	-
Other non-current financial assets	2,501	3,785
Non-current investments	**23,363**	**7,494**
Other current financial assets	4,387	14,697
Current investments	**4,387**	**14,697**

At 31 December 2021 and 2020 equity instruments reflect the 14.29% interest held in ACEFAT, A.I.E. for an amount of Euros 132 thousand and the 15.84% interest held in CORESO, S.A. for an amount of Euros 336 thousand.

ACEFAT, A.I.E. has its registered office in Spain and its statutory activity comprises the integrated management of public thoroughfare works in the city of Barcelona. The stake held in this economic interest group (A.I.E.) is aimed at simplifying management of the processes required to undertake works at the Company's facilities.

CORESO, S.A. has its registered office in Belgium and is owned by the main European TSOs. Its statutory activity is to help European transmission network operators maintain optimum security of supply in Europe through regional coordination services.

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

At 31 December 2021 and 2020 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 2021 and 2020 non-current derivative financial instruments reflect the value of cash flow hedging derivatives (see note 19).

Other non-current financial assets at 31 December 2021 and 2020 basically comprise security and other deposits extended by the Company.

At 31 December 2021 other current financial assets mainly reflect the accrued interest receivable on derivative financial instruments (see note 19), as well as short-term security and other deposits extended by the Company. At 31 December 2020, this item 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 2021, this amount is recognised under other current payables (see note 15).

There are no significant differences between the fair value and the carrying amount at 31 December 2021 and 2020.

10 Inventories

Details at 31 December 2021 and 2020 are as follows (in thousands of Euros):

Thousands of Euros	31 December 2021	31 December 2020
Inventories	60,088	67,205
Write-downs	(36,641)	(34,796)
Total	**23,447**	**32,409**

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, based on estimated use in future years.

As a result, the Company recorded impairment losses of Euros 1,845 thousand in the income statement for 2021 (Euros 1,392 thousand in 2020).

11 Trade and Other Receivables

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Trade receivables from Group companies and associates	1,077	2,066
Other receivables	1,101,472	1,201,117
Personnel	939	856
Public entities, other	1,403	1,584
Total	**1,104,891**	**1,205,623**

At 31 December 2021 and 2020 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 CNMC in these years for regulated activities as a result of changes in collections and payments. At 31 December 2021 and 2020 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 for transmission activities in Spain, which stipulates that facilities entering service in year 'n' are to be remunerated from year 'n+2' onwards.

At 31 December 2021 and 2020 other receivables also include current assets arising from contracts with customers in respect of modifications to electricity facilities requested by third parties.

At 31 December 2021 and 2020, personnel primarily reflects the loans extended by the Company to its personnel, which fall due in the short term

At 31 December 2021 and 2020 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 2021 and 2020. At 31 December 2021 and 2020 there are no significant amounts over 12 months past due (see note 17).

12 Prepayments for Non-current and Current Assets

In 2021 and 2020, prepayments for non-current and current assets reflect advance payments, basically the insurance policies taken out by the Company and fees charged for credit facilities arranged.

13 Equity

a) Capital risk management

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

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

The Company controls its capital structure on a gearing ratio basis. The Company's gearing stood at 69.98% in 2021 (72.38% in 2020). 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	2021	2020
Non-current payables (1)	4,600,473	4,624,241
Current payables(1) (note 25)	838,893	1,052,626
Accrued interest payable (note 15)	(7,792)	(7,910)
Foreign currency derivatives (note 19)	(14,800)	2,199
Cash and cash equivalents	(176,841)	(44,607)
Net financial debt	**5,239,933**	**5,626,549**
Equity	2,247,647	2,147,421
Gearing ratio	**69.98%**	**72.38%**

(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 15 March 2021 the credit rating agency Standard & Poor's issued a new report on the Company maintaining its long-term rating. Accordingly, the Company, together with its Parent REC and the Group companies Red Eléctrica Financiaciones, S.A.U. (REF) and Red Eléctrica de España Finance, S.L.U. (REEF) maintain long-term ratings of 'A-' with a stable outlook, and short-term ratings of 'A-2'.

On 31 March 2021, 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 REEF, 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 2021 and 2020 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 regarding 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 2021 and 2020 SEPI holds a 20% interest in REC's share capital.

- **Share premium**

  At 31 December 2021 and 2020 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 2021 and 2020 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 2021 or 2020.

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

- INALTA assets revaluation reserve

  The balance of this reserve at 31 December 2021 and 2020 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 2021 or 2020.

- Other reserves

  These include voluntary reserves of Euros 496,220 thousand at 31 December 2021 (Euros 411,205 thousand at 31 December 2020). 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, fixed 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 15,800 thousand (a negative amount of Euros 22,281 thousand in 2020), 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 2021 and 2020, arising from the reclassification of voluntary reserves to the capitalisation reserve in 2015 with a charge to 2019 profit. The capitalisation reserve for the year ended 31 December 2021 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 552,845 thousand (Euros 612,779 thousand at 31 December 2020).

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

  Interim dividends approved by the sole director in 2021 are recognised as a reduction in equity at 31 December 2021. Interim dividends are distributed in accordance with the requirements set forth in article 277 of the Spanish Companies Act.

  On 29 June 2021 the sole director of the Company agreed to pay an initial interim dividend of Euros 0.3375 per share with a charge to 2021 profit, which was paid on 29 June 2021 for a total amount of Euros 135,001 thousand.

  The cash flow forecast for the period from 30 April 2021 to 29 June 2021 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:

Thousands of Euros

Available funds at 30/04/2021	
Non-current credit facilities available	1,142,000
Current credit facilities available	60,000
Current investments and cash	110,414
Forecast receipts:	
Current transactions	498,127
Financial transactions	759,489
Forecast payments:	
Current transactions	(181,153)
Financial transactions	(869,717)
Forecast available funds at 29/06/2021	**1,519,160**

On 21 December 2021 the sole director of the Company agreed to pay a second interim dividend of Euros 0.7519 per share with a charge to 2021 profit, which was paid on 21 December 2021 for a total amount of Euros 300,762 thousand.

The cash flow forecast for the period from 30 November 2021 to 21 December 2021 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:

Thousands of Euros

Available funds at 30/11/2021	
Non-current credit facilities available	1,177,000
Current credit facilities available	25,000
Current investments and cash	249,221
Forecast receipts:	
Current transactions	84,249
Financial transactions	2
Forecast payments:	
Current transactions	(64,056)
Financial transactions	(13,831)
Forecast available funds at 21/12/2021	**1,457,585**

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 2021 a total of Euros 435,763 thousand was distributed as interim dividends to the Parent (Euros 463,483 thousand in 2020). Moreover, the previously mentioned 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 2021 these variations result in a decrease of Euros 51,745 thousand (decrease of Euros 74,123 thousand at 31 December 2020).

At 31 December 2021, under other, this item comprises deferred tax income for deductions and credits of Euros 125,870 thousand (Euros 113,798 thousand in 2020) in respect of investments in fixed assets in the Canary Islands (see notes 5-h and 23).

d) Grants, donations, and bequests received

Grants, donations and bequests received at 31 December 2021 and 2020 comprise non-repayable capital grants awarded by different official bodies.

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

Movement in grants in 2021 and 2020 is as follows:

Thousands of Euros	31 December 2019	Additions	Derec-ognitions	Amounts transferred to the income statement	31 December 2020	Additions	Derec-ognitions	Amounts transferred to the income statement	31 December 2021
Grants	402,745	15,726	(43)	(15,495)	402,933	22,213	-	(15,719)	409,427

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

14 Non-current and Current Provisions

Movement in non-current provisions during 2021 and 2020 is as follows:

Thousands of Euros	31 December 2019	Additions	Applications / Reversals	Actuarial gains and losses	Transfers	31 December 2020	Additions	Applications / Reversals	Actuarial gains and losses	31 December 2021
Provisions for employee benefits	69,726	3,336	(1,819)	6,272	(12,987)	64,528	2,538	(1,830)	(8,641)	56,595
Other provisions	78,430	13,146	(60)	-	(37,925)	53,591	14,459	(13,572)	-	54,478
Total	**148,156**	**16,482**	**(1,879)**	**6,272**	**(50,912)**	**118,119**	**16,997**	**(15,402)**	**(8,641)**	**111,073**

Provisions for employee benefits

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 2021 and 2020 were as follows:

	Actuarial assumptions	
	2021	2020
Discount rate	1.21%	0.87%
Cost increase	3.00%	3.00%
Mortality table	PERM/F 2020 1st rank	PERM/F 2020 1st rank

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

	2021		2020	
Thousands of Euros	+1%	-1%	+1%	-1%
Current service cost	344	(249)	436	(313)
Interest cost of net post-employment health insurance costs	2	(2)	4	(3)
Accumulated post-employment benefit obligation for health insurance	12,068	(9,112)	15,023	(11,184)

Meanwhile, the effect of a decrease of 0.50% in the discount rate used in 2021 and 2020 in the actuarial assumption for health insurance costs is as follows:

	2021			2020		
	Discount rate		Sensitivity	Discount rate		Sensitivity
Thousands of Euros	1.21%	0.71%		0.87%	0.37%	
Current service cost	1,023	1,182	159	1,689	1,890	201
Interest cost of net post-employment health insurance costs	663	390	(273)	538	230	(308)
Accumulated post-employment benefit obligation for health insurance	47,413	53,020	5,607	55,085	62,060	6,975

In 2021 and 2020 additions to provisions for employee benefits derive from the annual accrual of these plans, which are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2021 amount to Euros 1,178 thousand and Euros 771 thousand, respectively (Euros 1,861 thousand and Euros 609 thousand, respectively, in 2020). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised, net of tax, as reserves under equity. The gross amount recognised during the year in this connection totals a negative amount of Euros 8,641 thousand (Euros 6,272 thousand in 2020), 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 reflected 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

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.

Current provisions in 2020 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 to other payables in 2021 (see note 20).

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 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Loans and borrowings	1,053,642	1,366,748
Derivative financial instruments	1,673	50,351
Other non-current liabilities	168	168
Non-current payables	**1,055,483**	**1,417,267**

Thousands of Euros	31 December 2021	31 December 2020
Loans and borrowings	313,155	78,637
Accrued interest payable	7,792	7,910
Derivative financial instruments	1,544	-
Suppliers of fixed assets	280,282	279,785
Other current payables	254,914	127,620
Current payables	**857,687**	**493,952**

At 31 December 2021 and 2020 non-current and current loans and borrowings comprise non-current and current loans and credit facilities.

At 31 December 2021 the interest accrued but not yet payable on these balances amounts to Euros 5,689 thousand (Euros 5,830 thousand in 2020) 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 2021 is Euros 1,387,739 thousand (Euros 1,488,850 thousand in 2020). The average interest rate accrued on loans and borrowings during the year was 0.85%, taking into account the hedges arranged (1.12% in 2020, taking into account hedges arranged).

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

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

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

Other current payables mainly include items pending settlement to the Spanish electricity system and the balance at year end of the collateral swaps under the collateral assignment agreements executed to eliminate the credit risk of certain derivative financial instruments (see note 19). At 31 December 2020, this amount was recognised under other current financial assets (see note 9).

There are no significant differences between the fair value and the carrying amount of these current payables at 31 December 2021 and 2020.

16 Non-current Accruals

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

17 Financial Risk Management Policy

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

The Company has continued to apply the same financial risk management policies as in previous years, which were updated because of the health crisis stemming from COVID-19. In this regard, a contingency plan was launched with the primary objectives of protecting employee health, always guaranteeing electricity supply, and preserving the Group's liquidity. This plan continued to be applied in 2021.

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, considering 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 using 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 2021 and 2020 is as follows:

	2021		2020	
Thousands of Euros	**Fixed rate**	**Variable rate**	**Fixed rate**	**Variable rate**
Total financial debt	5,023,664	407,910	4,487,938	1,181,019
Percentage	92%	8%	79%	21%

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 2021 and 2020 arises from changes in the fair value of derivative financial instruments and mostly affects equity. A sensitivity analysis of this risk is as follows (in thousands of Euros):

	Effect on equity			
	Market interest rate fluctuations			
Thousands of Euros	2021		2020	
Effect on equity:	**0.10%**	**-0.10%**	**0.10%**	**-0.10%**
Interest rate hedges:				
- Cash flow hedges:				
Interest rate swap. EUR interest rate	1,876	(1,896)	4,390	(4,425)
Interest rate and exchange rate hedges:				
- Cash flow hedges:				
Cross-currency swap. EUR interest rate	1,427	(1,443)	2,301	(2,329)
Cross-currency swap. USD interest rate	(1,398)	1,413	(2,079)	2,102

This rise or decline of 0.10% in the 2021 interest rates would have decreased or increased profit by Euros 580 thousand (Euros 1,730 thousand in 2020).

The fair value sensitivity has been estimated using a valuation technique based on discounting future cash flows at prevailing market rates at 31 December 2021 and 2020.

- **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 REEF, 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 2020), and the Company does not consider there to be any risk as regards recoverability. The credit quality of the receivables, based on the contents of the first paragraph of this section, is considered to be high.

b) Liquidity risk

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

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

The Company's liquidity position for the year was based on its robust cash flow generation, supported by undrawn current and non-current credit facilities amounting to Euros 2,059,037 thousand at 31 December 2021 (Euros 1,250,921 thousand at 31 December 2020).

18 Analysis of Financial Instruments

a) Analysis by category

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

- Financial assets

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

	Financial instruments by category			
	31.12.2020			
Thousands of Euros	Financial assets at fair value through equity	Financial assets at amortised cost	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	-	1,201,973	-	1,201,973
Receivables from Group companies and associates	-	2,066	-	2,066
Other financial assets	-	14,697	-	14,697
Current financial assets	-	1,218,736	-	1,218,736
Total	**468**	**1,225,762**	**-**	**1,226,230**

- Financial liabilities

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

Thousands of Euros	Financial instruments by category 31.12.2020 Financial liabilities at amortised cost	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	766,865	-	766,865
Current financial liabilities	1,896,151	-	1,896,151
Total	**6,520,560**	**50,351**	**6,570,911**

b) Analysis by maturity

- Financial liabilities

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

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	766,865	-	-	-	-	-	-	766,865
Total	**1,896,174**	**713,184**	**388,184**	**296,660**	**702,232**	**2,560,921**	**(36,795)**	**6,520,560**

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) using 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 2021 and 2020.

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

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

Details of derivative financial instruments by type at 31 December 2021 and 2020 are as follows:

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

Thousands of Euros	Hedged principal		Term to expiry	31.12.2020 Non-current Assets	31.12.2020 Non-current Liabilities	31.12.2020 Current Assets	31.12.2020 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)**	**-**	**-**

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

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

Thousands of Euros	31.12.2020									
	Hedged principal		Term to expiry	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)**

20 Trade and Other Payables

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Payables to Group companies	4,813	6,406
Other payables	601,017	348,778
Personnel	10,846	10,682
Public entities, other	28,966	63,156
Total	**645,642**	**429,022**

Other payables in 2021 and 2020 reflect payables arising from repair and maintenance work and modifications carried out by the Company to technical electricity facilities and other items. This item also includes amounts pending reimbursement in respect of provisional tariffs, which have arisen due to the difference between the amount settled and collected and the revenue accrued from 2016 to 2021 (see notes 3 and 24).

In addition, in 2021 other payables reflect current liabilities arising from contracts with customers, relating to 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).

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

At 31 December 2021 and 2020 the balance of public entities, other mostly includes value added tax (VAT) payable by the Company.

There are no significant differences between the fair value and the carrying amount at 31 December 2021 and 2020.

21 Current Accruals

At 31 December 2021 and 2020 this item reflects amounts collected in advance that will accrue in the coming year. In 2020 this item reflected 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, as mentioned in the previous note.

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 2021 and 2020 is as follows

Days	2021	2020
Average supplier payment period	46	47
Transactions paid ratio	47	48
Transactions payable ratio	5	11

Thousands of Euros	2021	2020
Total payments made	297,268	315,260
Total payments outstanding	12,151	11,828

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 2021 and 2020 with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2021	2020
Accounting profit for the year before tax	735,359	818,425
Permanent differences	1,634	8,563
Taxable accounting income	736,993	826,988
Temporary differences:		
Originating in current year	427	(606)
Reversals during the year	60,133	54,021
Total	60,560	53,415
Offset of tax loss carryforwards	-	-
Taxable income	**797,553**	**880,403**

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

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

Thousands of Euros	2021	2020
Accounting profit for the year before tax	735,359	818,425
Permanent differences	1,634	8,563
Taxable accounting income	736,993	826,988
Tax rate	25%	25%
Tax at the current rate	184,248	206,747
Deductions	(6,060)	(5,752)
Expense for the year	178,188	200,995
Foreign income tax	257	100
Other adjustments	4,069	4,551
Income tax expense	**182,514**	**205,646**
Effective income tax rate	**24.82%**	**25.13%**
Breakdown of income tax:		
Current income tax	197,855	218,277
Deferred income tax	(14,516)	(12,684)
Other adjustments	(825)	53
Income tax expense	**182,514**	**205,646**

The effective rate of income tax is influenced by permanent differences, deductions and foreign income tax. The effective tax rate in 2021 is 24.82% (25.13% in 2020).

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 2021 will be held in REC, as head of the tax group.

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

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

Deferred deductions in 2021 amount to Euros 4,892 thousand (Euros 4,500 thousand in 2020) and the amount still to be recognised at 31 December 2021 is Euros 125,870 thousand (Euros 113,798 thousand in 2020).

c) Deferred tax assets and liabilities

Temporary differences in the recognition of income and expenses for accounting and tax purposes at 31 December 2021 and 2020, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

	2021		2020	
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	36,798	28,396	41,982	29,549
Originating in current year	434	-	241	1,017
Reversals of prior years	(4,249)	(9,619)	(5,516)	(2,170)
Prior year adjustments	(12)	-	91	-
Total deferred tax assets	**32,971**	**18,777**	**36,798**	**28,396**
Deferred tax liabilities:				
Originating in prior years	(474,016)	(134,311)	(491,938)	(134,248)
Originating in current year	(2,257)	(2,165)	(2,619)	(63)
Reversals of prior years	20,589	-	20,578	-
Prior year adjustments	-	-	(37)	-
Total deferred tax liabilities	**(455,684)**	**(136,476)**	**(474,016)**	**(134,311)**

Deferred tax assets include reversals of tax prepaid in 2013 and 2014 as a result of applying the limitation on the tax deductibility of depreciation and amortisation charges stipulated in article 7 of Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity, and those arising as a result of the commencement, in 2015, of depreciation and amortisation for tax purposes of the net increase in value resulting from the revaluations applied to the balance sheet at 31 December 2012, pursuant to article 9 of the same Law. This item also 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 2021, 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 396,760 thousand (Euros 415,377 thousand in 2020).

The notes to REC's annual accounts for 2006 contained disclosures on the merger by absorption of REDALTA and INALTA, as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts included disclosures on 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 2018, except income tax, which is open to inspection since 2017.

The Company has tax proceedings ongoing in respect of personal income tax withholdings for 2012 and 2013, which are 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. At the end of that year, the taxation authorities resolved to uphold the rectification applied for in respect of 2016 and 2017, while the decision received regarding the remaining years is being appealed.

Moreover, limited verification proceedings have been undertaken with respect to the tax group concerning income tax for 2011 to 2016.

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 2021 and 2020 are as follows (in thousands of Euros):

Thousands of Euros	2021	2020
Transmission and system operation services rendered	1,579,728	1,650,500
Other services rendered	29,961	17,763
Total	**1,609,689**	**1,668,263**

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

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

According to the Company's calculations, transmission activity revenue in 2021 and 2020 was mainly accrued on the basis of the regulations in force, given that, in view of the detriment proceedings described in note 3, the CNMC provisionally opted to replicate the amount of remuneration stipulated for 2016, and this remained constant until 2021, with settlements on account.

Moreover, inasmuch as the annual tariff orders have been provisionally rolling forward the amount stipulated in Ministerial Order IET/981/2016 (see note 3) since 2017, the balance sheet includes a liability reflecting the estimated figure to be reimbursed to the system in respect of the difference between the amount settled provisionally and the revenue accrued from 2016 to 2021 (see note 20).

In November 2021 the MITERD, which is tasked with approving the remuneration for 2017 to 2019, published the definitive remuneration proposal for the transmission activity for those years. The revenue stipulated in this proposal, which is expected to be approved in 2022, is broadly in line with the Company's calculations. The CNMC is tasked with approving the definitive remuneration for 2020 and 2021. Both processes were still to be finalised at the 2021-year end.

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

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

Other services rendered in 2021 and 2020 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 2021 and 2020 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 2021 and 2020 mainly comprise repair and maintenance costs for technical electricity facilities and other items owned by the Company.

d) Personnel expenses

In 2021 and 2020 this item comprises the following (in thousands of Euros):

Thousands of Euros	2021	2020
Salaries and wages	77,824	99,966
Social security	19,516	24,132
Contributions to pension funds and similar obligations	1,625	1,963
Other items and employee benefits	5,818	8,192
Total	**104,783**	**134,253**

At 31 December 2021, salaries and wages reflect expenses of Euros 1,063 thousand in respect of termination benefits (Euros 751 thousand in 2020).

At 31 December 2021 and 2020, other items and employee benefits reflect accrual of employee benefits.

At 31 December 2021 and 2020 the Company has capitalised personnel expenses, under operating expenses, in relation to assets under development or construction (see notes 6 and 7).

Workforce

The average headcount of the Company in 2021 and 2020, distributed by professional category, is as follows:

	2021	2020
Management team	54	96
Senior technicians	329	484
Technicians	500	547
Specialist and administrative staff	370	440
Total	**1,253**	**1,567**

The decrease in the headcount at 31 December 2021 is essentially due to the transfer of employees to the Parent, REC, at the 2020 year end as a result of the distribution of the dividend in kind, explained in note 13-b.

The distribution of the Company's employees at 31 December 2021 and 2020 by gender and category is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management team	42	17	59	39	14	53
Senior technicians	252	98	350	237	89	326
Technicians	417	75	492	433	74	507
Specialist and administrative staff	324	44	368	330	48	378
Total	**1,035**	**234**	**1,269**	**1,039**	**225**	**1,264**

The average number of employees with a disability rating of 33% or higher in 2021 and 2020, distributed by gender and category, is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Senior technicians	1	-	1	1	-	1
Technicians	5	-	5	4	-	4
Specialist and administrative staff	3	1	4	2	1	3
Total	**9**	**1**	**10**	**7**	**1**	**8**

e) Finance costs

Details at 31 December 2021 and 2020 are as follows (in thousands of Euros):

Thousands of Euros	2021	2020
Group companies	72,044	85,436
Other	19,142	19,336
Provision adjustments	771	609
Total	**91,957**	**105,381**

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 2021 and 2020 are as follows:

Thousands of Euros	2021				2020			
	Receivables	Security deposits paid	Payables	Debts	Receivables	Security deposits paid	Payables	Debts
Red Eléctrica de España Corporación, S.A. (REC)	-	1,401	345	67,445	-	1,528	873	872,586
Red Eléctrica Internacional, S.A.U. (REI)	-	-	-	17,461	-	-	-	15,489
Red Eléctrica Infraestructura Telecomunicaciones, S.A.U. (REINTEL)	-	-	4,004	-	150	-	3,118	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	-	2,928	-	-	-	1,692	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología S.A.U. (RETIT)	-	-	403	-	-	-	606	-
Red Eléctrica de España Finance, S.L.U. (REEF)	-	-	13	223,172	-	-	9	205,985
Interconexión Eléctrica Francia-España, S.A.S. (INELFE)	890	-	10,215	-	880	-	8,789	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	-	-	3,702,454	-	-	-	3,100,687
REDCOR Reaseguros, S.A. (REDCOR)	-	-	-	99,043	-	-	-	90,290
Red Eléctrica del Sur, S.A. (REDESUR)	187	-	-	-	332	-	-	-
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4)	-	-	-	-	234	-	-	-
Red Eléctrica Chile, SpA (RECH)	-	-	-	-	23	-	-	-
Red Eléctrica Andina, S.A. (REA)	-	-	-	-	246	-	-	-
Red Eléctrica del Norte Dos S.A. (REDENOR 2)	-	-	-	-	201	-	-	-
Hispasat, S.A.	-	-	26	-	-	-	40	-
Hispasat Canarias, S.L.	-	-	22	-	-	-	68	-
Total Group companies	**1,077**	**1,401**	**17,956**	**4,109,575**	**2,066**	**1,528**	**15,195**	**4,285,037**

Payables and debt vis-à-vis Group companies mainly include non-current debt amounting to Euros 3,546,831 thousand at 31 December 2021 (Euros 3,257,493 thousand at 31 December 2020) and current debt totalling Euros 517,946 thousand at 31 December 2021 (Euros 966,079 thousand at 31 December 2020). Debt vis-à-vis Group companies and associates also includes the interest accrued but not yet payable on this debt, balances payable to Group companies and associates as suppliers of fixed assets, and the income tax payable by the Company to REC, the head of the tax group (see note 23).

Debt vis-à-vis REEF reflects loans for a nominal amount of US Dollars 250 million (US Dollars 250 million in 2020), equivalent to Euros 220,731 thousand at 31 December 2021 (Euros 203,732 thousand in 2020). These loans fall due between 2025 and 2035 and were arranged simultaneously and with conditions similar to those of the bonds issued by REEF, jointly and severally guaranteed by the Company and REC, in the US private placement (USPP) market. The fair value of these loans is Euros 264,640 thousand at 31 December 2021 (Euros 272,452 thousand at 31 December 2020). The average interest rate accrued on these loans in the year was 4.37%, considering hedges (4.25% in 2020, 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 3,690 million (Euros 3,090 million in 2020). These loans fall due between 2022 and 2033 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 3,782,122 thousand at 31 December 2021 (Euros 3,263,744 thousand at 31 December 2020). The average interest rate accrued on these loans in the year was 1.82%, considering hedges (2.08% in 2020, considering hedges).

Furthermore, the loan agreement entered into with REF for an amount of Euros 1,000 million remains in force. This loan agreement was arranged simultaneously and with conditions similar to those of the promissory notes issued by REF in the Euromarket, jointly and severally guaranteed by the Company and REC, as part of the Euro Commercial Paper Programme (ECP Programme). There are no drawn down loans at 31 December 2021 and 2020, although drawdowns were made over the course of both years. The average interest rate accrued on this loan in the year was a negative 0.31% (a negative 0.15% in 2020).

Debt vis-à-vis REF includes the current credit facility arranged with this company in 2016 for Euros 25 million, of which Euros 13,941 thousand had been drawn down at 31 December 2021 (Euros 11,685 thousand at 31 December 2020). The average interest rate for the period was 0.41% (0.41% in 2020).

In 2021 and 2020, debt vis-à-vis REC includes the current credit facility arranged with REC for an amount of Euros 850 million (Euros 850 million in 2020). Euros 62,906 thousand had been drawn down at 31 December 2021 (Euros 848,825 thousand at 31 December 2020). The average interest rate for the period was 0.41% (0.41% in 2020).

Debt vis-à-vis REI basically includes the current credit facility arranged with REI for Euros 25 million, of which Euros 17,443 thousand had been drawn down at 31 December 2021 (Euros 15,486 thousand at 31 December 2020). The average interest rate for the period was 0.41% (0.41% in 2020).

Debt vis-à-vis REDCOR essentially includes the loans arranged with this company for an amount of Euros 75 million (Euros 40 million in 2020), with an average interest rate for the period of 0.87% (0.79% in 2020). It also includes the current cash pooling agreement arranged with this company amounting to Euros 75 million, of which Euros 23,673 thousand had been drawn down at 31 December 2021 (Euros 50,083 thousand at 31 December 2020). The average interest rate accrued on this facility was 0.41% in 2021 (0.41% in 2020).

There are no significant differences between the fair value and the carrying amount of these facilities with Group companies at 31 December 2021 and 2020.

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

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

	2021					2020				
Thousands of Euros	**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)	135	-	-	59,652	1,446	-	943	-	18,881	2,669
Red Eléctrica Internacional, S.A.U. (REI)	-	-	-	332	68	-	92	-	333	17
Red Eléctrica Infraestructura Telecomunicaciones, S.A.U. (REINTEL)	-	-	38	41,436	-	-	288	106	41,959	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	2,928	-	-	77	-	5,406	1,558	-	77	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	411	-	-	1,716	-	-	602	-	606	-
Red Eléctrica de España Finance, S.L.U. (REEF)	-	-	-	-	11,749	-	-	-	-	18,427
Interconexión Eléctrica Francia-España, S.A.S. (INELFE)	5,512	2,180	395	-	-	4,357	1,818	-	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	-	-	-	-	58,128	-	89	-	-	63,821
REDCOR Reaseguros, S.A. (REDCOR)	-	-	-	-	653	-	-	1	-	502
Red Eléctrica del Sur, S.A. (REDESUR)	-	680	-	-	-	-	671	-	-	-
Transmisora Eléctrica del Sur 4, S.A. (TESUR 4)	-	-	-	-	-	-	43	-	-	-
Red Eléctrica Chile, SpA (RECH)	-	-	-	-	-	-	-	23	-	-
Red Eléctrica Andina, S.A. (REA)	-	-	-	-	-	-	20	78	-	-
Transmisora Eléctrica del Norte (TEN)	-	-	-	-	-	-	18	-	-	-
Red Eléctrica del Norte 2 S.A. (REDENOR 2)	-	-	-	-	-	-	201	-	-	-
Hispasat, S.A.	-	-	-	178	-	-	-	-	36	-
Hispasat Canarias, S.L.	-	-	-	23	-	-	-	-	68	-
Total Group companies	**8,986**	**2,860**	**433**	**103,414**	**72,044**	**9,763**	**6,343**	**208**	**61,960**	**85,436**

Other expenses payable to REC relate to property leases and, 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 2021 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 REEF and REF essentially comprise interest on the loans extended by these companies.

Related party balances and transactions

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

26 Remuneration of the Director

In 2021 and 2020 the sole director did not accrue any salary, allowances or remuneration at the Company.

At 31 December 2021 and 2020 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 2021 and 2020 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 217 thousand, inclusive of tax, in 2021 (Euros 135 thousand at 31 December 2020). These premiums are calculated based on the nature of the Company's activity and its financial indicators, thus they cannot be broken down individually or allocated to the sole director and senior management separately.

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

27 Remuneration of Senior Management

The senior management personnel who have rendered services for the Company during 2021 and 2020 are as follows:

Name	Position
Ms. Eva Pagán Díaz (1)	General Manager of Transmission
Mr. Ángel Luis Mahou Fernández (1)	General Manager of Transmission
Mr. Miguel Duvison García	General Manager of Operations

(1) Mr. Ángel Luis Mahou Fernández replaced Ms. Eva Pagán Díaz as General Manager of Transmission on 1 April 2021.

In 2021 total remuneration accrued by senior management personnel of the Company amounted to Euros 642 thousand and is recognised as personnel expenses in the Company's income statement (Euros 662 thousand in 2020). These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

Euros 9 thousand of the total remuneration accrued by these executives consisted of contributions to life insurance and pension plans.

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

At the end of 2020, the board of directors began the process of updating the 2018-2022 Strategic Plan in force at that time. 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, which encompasses senior management personnel. The objectives of this latter plan are linked to those contained in the Group's new Strategic Plan and are consistent with the guidelines laid down in the Directors' Remuneration Policy. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

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

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

In 2015 the Company began to roll out a Structural Management Plan, which applies to the Company's senior management personnel. Inclusion in this Plan is subject to certain conditions being met and it may be amended or revoked by the Company under certain circumstances.

At 31 December 2021 and 2020 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 217 thousand, inclusive of tax, in 2021 (Euros 135 thousand in 2020). 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 directors 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 2021 and 2020, 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 based on 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 in 2021 and 2020 carried out by the Group company REEF, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2021 and 2020. At 31 December 2021, Eurobonds issued under this programme total Euros 3,690 million (Euros 3,090 million in 2020).

Furthermore, at 31 December 2021 and 2020 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 2021 and 2020 no amounts have been drawn down under this programme.

At 31 December 2021 the Company has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 55,523 thousand (Euros 50,984 thousand in 2020).

30 Environmental Information

In 2021 the Company incurred ordinary expenses of Euros 22,687 thousand in protecting and improving the environment (Euros 23,287 thousand in 2020), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution.

In 2021 a total of Euros 3,339 thousand (Euros 4,913 thousand in 2020) 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 2021 or 2020.

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 2021 and 2020:

Thousands of Euros	2021	2020
Audit services	46	39
Audit-related services	5	5
Other services	-	15
Total services	**51**	**59**

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

32 Share-based Payments

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

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. Of these shares, 1,456 corresponded to senior management personnel.

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

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

33 Events after 31 December 2021

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

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

Roberto García Merino

Appendix I Balance Sheet by Activity for 2021 and 2020

Balance sheet by activity at 31 December 2021

Appendix I-a

Thousands of Euros

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

Balance sheet by activity at 31 December 2020

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**

Appendix II Analytical Income Statement by Activity for 2021 and 2020

Analytical income statement by activity at 31 December 2021

Appendix II-a

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

Analytical income statement by activity at 31 December 2020

Appendix II-b

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

Red Eléctrica de España

www.ree.es

Directors' Report

2021

(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.

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

1 Business performance. Most significant events

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 2015-2020 Planning, and has started to move forward with certain initiatives laid down in the draft 2021-2026 Planning published by the Ministry for the Ecological Transition and Demographic Challenge (MITERD) in February 2021.

Investments in transmission network facilities in 2021 totalled Euros 391.0 million and were basically to address security of supply issues, resolve technical restrictions, execute specific projects for international interconnections and inter-island submarine connections, supply the high-speed rail system, provide access for the evacuation of wind power and to increase transmission line capacity.

During the year, 187 km of new lines came into service, bringing REE's total transmission network to 44,687 km at year end. Transformation capacity likewise increased by 850 MVA to a nationwide total of 93,871 MVA.

In 2021 the most significant initiatives in terms of development of the transmission network, by major axes, were as follows:

- Ibiza - Formentera Interconnection. This involves the laying of a 132 kV underground-submarine transmission line to interconnect the islands of Ibiza and Formentera, thus strengthening the inter-island transmission grid.
- Caletillas - El Rosario Axis. Its purpose is to increase the security of supply and transmission network reliability in the Santa Cruz de Tenerife metropolitan area, as well as to make the transmission grid more robust and reduce its vulnerability to incidents. The El Rosario substation came into service in December 2021.
- Caparacena - Baza - Ribina Axis. Its purpose is to facilitate the evacuation of energy from the ordinary regime, renewable sources, cogeneration and waste, as well as to improve the transmission network mesh and support distribution and the structural function. The Caparacena substation came into service in March 2021.
- 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, which came into service in September 2021, and the Güeñes - Itxaso line.
- Mainland - Balearic Islands Interconnection. This involves the laying of a second 220 kV underground-submarine transmission line to interconnect the Spanish mainland (Valencia) with the island of Mallorca, thus strengthening the inter-island transmission grid.
- Viesgo - Eastern Cantabria Axis. The purpose is to reinforce the transmission network with 220 kV lines in the area around Cantabria, and to support the distribution network. The Cicero-Solórzano line came into service in 2015 and the Astillero substation started up in December 2021.
- Lousame – Tibo – Mazaricos Axis. The aim is to reinforce the network, evacuate electricity generated, and support distribution in the northwest of Galicia. The Mazaricos and Lousame substations and the Lousame 220 kV input and output came into service in 2019, while the Lousame - Mazaricos line entered service in 2021.
- Oriol Axis. It is designed to improve the quality and reliability of supply in the Cáceres area, to increase the capacity to evacuate hydropower generation and to boost Spain-Portugal interconnection capacity; these facilities came into service in June 2021.
- Carmonita Axis. Its purpose is to supply power for the high-speed train service and to facilitate the evacuation of renewable energy. The substation came into service in October 2021 and the line in December 2021.
- Lanzarote - Fuerteventura Interconnection. This involves the laying of a 132 kV underground-submarine transmission line to bolster the interconnection that has been in place since 2005 between the islands of Lanzarote and Fuerteventura, thus allowing for an electricity system with present installed capacity of 476 MW, combining both conventional and renewable generation, and reinforcing the inter-island transmission grid.

- Tías – Playa Blanca Axis. Its purpose 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. The Playa Blanca and Tías substations came into service in 2019 and 2020, respectively, and the Tías - Playa Blanca line is currently under construction.
- Interconnection with France via the Bay of Biscay. The purpose of this axis is to further increase the interconnection capacity with Europe in order to achieve European energy targets. It consists of a submarine direct current dual connection of 393 km in length which will raise energy exchange capacity to 5,000 MW. The project is currently at the pre-construction stage, which entails the archaeological, technical and environmental studies required before it can be submitted for administrative authorisation. In parallel, the public consultation period also got underway in 2021.

The most notable occurrences in 2021 in terms of **electricity system operation** were as follows:

Mainland system

- Mainland electricity demand closed the year at 242,401 GWh, up 2.4% on 2020. Having corrected for the effect of working patterns and temperatures, demand attributable primarily to economic activity was also up by 2.4%. Electricity demand is thus embarking upon a period of recovery in the wake of the COVID-19 pandemic impact. In comparison with a pre-COVID-19 period (2019) and after correcting for the effect of working patterns and temperatures, mainland electricity demand has declined by 2.8%.
- Maximum instantaneous power was recorded on Friday 8 January at 14:05 hours, at a rate of 42,225 MW. This is up 4.5% on the maximum for the prior year, and down 7.1% compared with the record 45,450 MW documented on 17 December 2007. Peak demand in terms of time of day was likewise posted on 8 January (between 13:00 and 14:00 hours) at 41,483 MWh, which is 7.6% below the all-time high recorded in 2007.
- Installed capacity on the mainland has risen compared to the prior year, ending 2021 at 106,981 MW, which is 1,369 MW more than at December 2020 (up 1.3%). In terms of additions, the increase was primarily driven by the incorporation of solar photovoltaic and wind power to the system's installed capacity, with the former increasing by almost 25% with respect to the prior year, while the latter posted year-on-year growth of 2%. 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 1,969 MW. The capacity of other technologies either did not vary or changed only insignificantly.
- Hydropower capacity stood at 26,839 GWh at the end of December 2021, down 9.4% on the historical average and 12.3% lower than in 2020. Reserves of hydroelectric power represented a fill level of 36.0% of total capacity across all reservoirs at the end of 2021, compared with 50.8% in the prior year.
- In 2021, 24.0% of demand was met by wind power (22.5% in 2020), 21.9% by nuclear technology (23.3% in 2020), 15.2% by combined cycle generation (16.0% in 2020), 12.0% by hydroelectric power (12.8% in 2020), 10.6% by cogeneration (11.3% in 2020), and 10.2% by solar technologies (8.1% in 2020). With a contribution of less than 10%, coal, other renewable sources, waste and pump-as-turbine jointly covered the remaining 6.1% of demand.
- Renewable energy's percentage contribution to total energy generation in the electricity system rose to 48.4% (45.5% in 2020). In absolute terms, renewable generation is up 9.6% on the prior year, essentially due to the 29.3% rise in solar power output and the 10.0% growth in wind power output.
- With respect to CO_2 emissions by the mainland electricity industry, the decline in combined cycle and cogeneration and, conversely, the increase in generation from renewable sources, except hydropower, place emission levels for 2021 at 29.1 million tonnes, down 1.4% compared to the 29.6 million tonnes recorded in 2020. This made 2021 the year with the cleanest energy since the Red Eléctrica Group's records began (2007).
- Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 890 GWh (down 37.6% compared to 2020), covering 16.1% of their demand.
- International electricity exchanges resulted in a net import balance for the sixth year running, totalling 884 GWh in 2021.
- Exports amounted to 16,505 GWh (14,649 GWh in 2020) and imports totalled 17,389 GWh (17,928 GWh in 2020).

The quality indicators posted for the transmission network were particularly high in 2021, closing the year at levels well below the upper thresholds stipulated in Royal Decree 1955/2000. Availability of the national transmission network in 2021 was 98.50%, similar to the 2020 indicator (98.57%). By system, availability of the mainland transmission network in 2021 was 98.48% (98.57% in 2020).

Non-mainland systems

At the 2021 year end, total annual demand for electricity in non-mainland systems had risen by 5.2% vis-à-vis the prior year. Per individual system, demand climbed by 11.8% in the Balearic Islands and by 1.4% in the Canary Islands, and dropped by 1.2% and 1.3% in Ceuta and Melilla, respectively.

Installed capacity in non-mainland systems grew by 1.8%, essentially driven by the expansion of solar photovoltaic and wind technology, which climbed 10.3% and 16.8%, respectively.

Availability of the Balearic Islands transmission system in 2021 was 98.6% (98.66% in 2020). Lastly, network availability in the Canary Islands was 99.21% (99.17% in 2020).

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

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

In 2019 and 2020 the construction project for the hydroelectric power plant was submitted for administrative authorisation, as was the associated Environmental Impact Assessment, and the tender process for the Seawater Desalination Plant ("EDAM" per the Spanish acronym) was launched. In 2021 the tenders for the main equipment (water-to-wire (WtW)) and civil engineering works (civil EPC) contracts, the works to be carried out on the Santa Águeda substation and the high-voltage 220 kV dual-circuit line, both of which are intended for connection to the plant network, as well as the tender for the water pumping system to propel water from the EDAM to the Soria dam, were launched.

A favourable Environmental Impact Statement (EIS) for the project was received in July 2021. In August the Canary Islands government issued the Declaration of Public Interest for the project, which was ratified by the government cabinet in November. The operating permits were then obtained in December, enabling the works to get underway.

Regarding the possible project to install a pumped-storage hydroelectric power plant in Tenerife, the draft project was drawn up in 2021 and will be submitted to the Ministry for the Ecological Transition and Demographic Challenge (hereinafter MITERD) pursuant to article 74 of Royal Decree 738/2015.

2 Key financial indicators

Revenue for 2021 amounted to Euros 1,609.7 million, sliding 3.5% compared to 2020. This figure denotes a decline in Spain due to the application of the new remuneration parameters.

Gross operating profit (EBITDA)[1] totalled Euros 1,197.5 million, a fall of 6.1% vis-à-vis 2020.

Results from operating activities (EBIT)[2] amounted to Euros 822.1 million, falling 10.2% compared to 2020.

Profit after tax for 2021 amounted to Euros 552.8 million, down 9.8% on 2020.

Total investments undertaken in the year amount to Euros 433.6 million, up 5.3% compared to 2020.

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

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

Interim dividends paid in 2021 amounted to Euros 435.8 million, dropping 6.0% compared to 2020. This amount reflects the interim dividends for 2021 paid to the sole shareholder, Red Eléctrica Corporación, S.A. (REC).

The Company's equity was Euros 2,247.6 million at year end, up 4.7% on 2020.

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.

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 Environment

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

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 22.7 million, largely due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution. An amount in excess of Euros 3.3 million was earmarked for environmental aspects associated with investment projects.

The Company's main environmental impacts are those related to the construction of the facilities and their physical presence in the area. The Company works to minimise these impacts, considering the entire life cycle of its facilities and paying special attention to the protection of biodiversity. In view of its role as a leading player in the transition towards a carbon-free energy model, the Company has taken on board a specific commitment in relation to the fight against climate change. The Group's environmental commitment is based on three pillars: environmental management and the integration of electricity facilities into the environment; the protection of biodiversity; and climate change.

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

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

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

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

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

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

In addition to the measures aimed at making facilities compatible with the environment, we should highlight the importance to the Company of working towards and making significant headway on the sustainable use of resources. The Group's 2030 sustainability objectives include becoming a leading player in 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 zero 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.

Major actions undertaken in 2021 include the definition of circular economy criteria as regards the consumption of raw materials, water, energy and waste production for REE's supply chain and their inclusion in certain purchase processes for large equipment in 2021. These steps contribute towards the Group's goal of having a circular supply network by 2030.

Major progress has also been made on the "zero landfill waste" project, thanks to the adoption of measures that resulted in 88% of all waste generated being recycled (this generic category includes reuse, recycling, composting, anaerobic digestion and regeneration).

b) Protecting biodiversity

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

To meet this ambitious goal, a **2030 biodiversity roadmap** has been drawn up based on a natural capital approach (nature versus society). The roadmap is centred around five strategic pillars that involve lines of action for which specific measures and steps need to be defined.

The two supporting pillars (governance and management) make up the framework for the coordination, execution and monitoring of the roadmap. They also envisage questions related to governance, financing, accounting and measurement, reporting and management of risks and opportunities in natural capital.

The three operational pillars include actions designed to create social and environmental value and to strengthen the positive impact on biodiversity. Details are as follows:

- Habitats and species: actions aimed at protecting and conserving significant habitats and species, and at rolling out the mitigation and conservation hierarchy to all Company activities.
- Social value: the contribution to social development encompasses various environmental awareness-raising and training initiatives, and cooperation with public bodies and other stakeholders. Noteworthy is the line of action aimed at developing the green economy in rural, urban and industrial settings based on the sustainable management of natural capital.
- Supply chain: measures designed to reduce the impact of the Company's supply chain on biodiversity.

Biodiversity management is carried out taking into account the mitigation and conservation hierarchy. Avoiding areas that are protected or highly biodiverse is a fundamental criterion when deciding on the location of facilities (in electricity transmission infrastructure, only 15.45% of lines and 5.7% 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 arise.

The main impacts of REE's activities on biodiversity are the risk of birds colliding with earth wires in power lines and the effect on vegetation of felling and pruning to open up firebreaks. The **multi-year Action Plan (2017-2021)** contains, among other things, various actions associated with these aspects:

- 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 790 km of lines) has been devised, installing them for 71.1% of critical priority lines by the end of 2021.
- Prevention of forest fires, through the appropriate design and maintenance of firebreaks and the joint efforts of the pertinent authorities in this field. There are currently 11 fire prevention agreements in force with an overall associated budget of more than Euros 880 thousand allocated for a four-year period and channelled into cleaning up forest land, acquiring fire extinguishing and fire-fighting equipment, training and awareness.
- Offsetting the loss of native woodland affected by the construction of new facilities through reforestation efforts. The Company entered into a collaboration agreement in 2021 with the Vizcaya Provincial Authorities and the town halls of Garai and Alonsotegui in respect of a reforestation and restoration project covering approximately 100 hectares of mountainous terrain to be carried out in 2022.
- 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 Forest" project, with more than 915 hectares restored since 2009 and an investment in excess of Euros 2,127 thousand, and the "Red Eléctrica Marine Forest" project to restore posidonia oceanica seagrass, with 2 hectares restored in the bay of Pollensa, Mallorca.

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.

In order to ramp up its climate ambitions and in keeping with the overall goal of limiting the average rise in temperature to no more than 1.5°, the Company has updated its **emission-reduction targets** in accordance with the criteria put out by the Science Based Targets initiative (SBTi). It is worth underlining at this point that in addition to ramping up efforts to cut scope 1 and 2 emissions, targets associated with the reduction of scope 3 emissions have been added for the first time.

Approved objectives:

- Reduction in scope 1[3] and 2[4] emissions of 55% by 2030 with respect to 2019.
- Reduction in scope 3[5] emissions of 28% by 2030 with respect to 2019.
- Suppliers that account for 2/3 of supply chain emissions must have science-based targets in place within five years.

In order to define the steps required to meet these new goals, the **Climate Change Action Plan** has been duly updated.

The plan covers the following lines of action:

- Contribution to a more sustainable energy model, taking the necessary actions to achieve the objectives of the National Energy and Climate Plan (NECP) for 2030:
    - Ongoing investor involvement to develop a robust, intelligent and interconnected transmission network that enables the electrification and connection of new renewable energy capacity.
    - Maximum integration of renewables by optimising the operation of the electricity system, the use of artificial intelligence as a decision-making and predictive tool, the integration of more evenly-distributed generation and the development of storage systems.
    - Furthering efficient network management by encouraging technological innovation, incorporating new elements and services and applying new flexibility measures.
- Reduction in greenhouse gas emissions resulting from the Company's activities. The main measures implemented apply to the following areas of action:
    - Reduction in SF6 emissions through the control and reduction of leaks, the renewal of switchgear equipment and the establishment of measures to limit the growth of installed gas, including the increased use of alternatives to gas.
    - Reduction in energy consumption and the associated emissions: increased use of renewable sources, the development of energy-efficiency measures and more sustainable mobility initiatives.
    - Reduction in the emissions associated with the supply chain:
        - Roll-out of collaboration programmes with suppliers aimed at setting reduction targets in line with the Science Based Targets initiative (SBTi). On this front, the Group has already embarked upon a working programme with its leading suppliers, which will be continued and expanded over the coming years.
        - The incorporation of sustainability criteria into procurement decisions, prioritising more sustainable supplies and promoting changes that make the reduction of emissions possible.
    - Offsetting of emissions to make progress towards a carbon neutral position for the Group, primarily through the Red Eléctrica Forest project.

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

[4] Scope 2 emissions: indirect emissions from electricity consumption (including transmission network losses).

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

- Positioning and outreach: ensuring all stakeholders are involved in Red Eléctrica's commitment, disseminating knowledge and providing complete and transparent information on the electricity system and its role in the energy transition, as well as on various energy efficiency measures.
- Adaptation: in order to address both the inevitable physical changes in the climate parameters, as well as the social, economic and regulatory changes associated with the fight against climate change, the Company regularly identifies and evaluates the risks and opportunities arising from climate change and applies various measures defined within the framework of this analysis. 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. Details of the TCFD recommendations are provided in note 4 on risk management of the Group's consolidated directors' report.

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

All research, development and innovation (R&D&i) projects undertaken during the year were carried out through Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT), a subsidiary of the Red Eléctrica Group. The main lines of action in respect of these projects in 2021 are as follows:

- **Venture Client programmes**, which focus on the speedy introduction of innovation within the Company, through different start-up solutions that are selected to explore different uses and applications that can benefit Group activity and improve existing technologies and processes.
- **Intraentrepreneurship**, a programme launched in 2021 that allows employees to contribute directly to the generation of new products and services.
- **Tech labs** to explore new technologies and provide over-arching support to initiatives.
- **A technology factory** to industrialise minimal viable products swiftly.
- **Project management office** to plan and manage innovation projects and programmes.

A sample of the most significant projects carried out during 2021 is briefly described below:

- **Project DALIA:** aiming to make overhead cable inspections more efficient through technological developments and the redesigning of information capture and management processes, with anomalies being processed and diagnosed using AI (artificial intelligence).
- **Cyber deception platform:** a pilot programme has been launched with the start-up Countercraft, which has developed a cyber deception platform.

7 Our people

Work continued in 2021 on the objectives of the People and Culture Department's Operational Plan, which is tied to the Strategic Plan, through initiatives that seek to foster and further the cultural aspects of the transformation process in which the organisation is immersed.

In this context, efforts are being made to adapt personnel to make REE more digital and efficient as part of the cultural transformation project, "Imagina", which is driving an innovative, agile and collaborative culture powered by self-leadership with the aim of making the organisation more resilient to change and equipped to take on the major challenges of the Strategic Plan: energy transition, connectivity drive, innovation and technology, all underpinned by the talent of our people, efficiency and commitment to sustainability.

The Company is fully committed to the professional development of our personnel and to maintaining their internal employability during their tenure, through integration, development and mobility programmes.

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

A stable, committed and highly qualified team

At the end of 2021, the Company's workforce consisted of 1,269 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

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

- Create a corporate culture that encourages diversity among employees and other stakeholders.
- Integrate diversity into all processes, especially people management.
- Involve, raise awareness and promote the Company's mission and approach to diversity among collaborators and suppliers.
- Participate with official organisations, academic institutions and other social agents in campaigns and projects that enable the Company to become a leading social agent that will contribute to building a more diverse society.
- The Comprehensive Diversity Plan has the following specific objectives:
  - 35% of all senior management positions to be held by women (at Group level).
  - Reduction in the pay gap.
  - Family-Responsible Company (EFR) classification A.
  - 70% of LGD (General Law on the Rights of People with Disabilities) compliance through direct employment.

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, equal pay between men and women, the promotion of shared family responsibility, the prevention of harassment on moral, sexual and gender grounds and the prevention of gender violence. These aspects are monitored through indicators that enable the Company to measure the progress of the objectives defined.

At the end of 2021, the percentage of women in REE's workforce was 18%. The percentage of women in management positions has reached 28%.

2021 saw the launch of a training and awareness programme called Management of diversity and Female leadership, aimed at promoting leadership among the women employed by the Company.

In 2021 disabled persons employed on an equal basis made up 2.62% of personnel, of whom 0.64% were direct employees.

Talent management

In 2021 work continued the talent management model, an essential part of the People and Culture Department's Operational Plan, which uses a systematic approach to attract, discover, develop, train, transform and retain talent and exchange knowledge. Through the deployment of the following five lines of action, the model pursues excellence in these processes, thus ensuring that the company retains a foremost position both at home and abroad:

- Attracting, Selecting and Integrating Talent: Commitment to the future.
- Identifying Talent: Bonding.
- Professional training and development plans: Red Eléctrica virtual campus.
- Knowledge Management: Transfer plan.
- Transformative Leadership.

On this front, the Company worked on various initiatives in 2021, such as developing the transformative leadership of the management team; rolling out the Individual Learning Plan, which allows employees to create their own training programmes; consolidating the virtual campus as the central jump-off point for learning; and implementing 360º feedback as the key tool for people to receive input regarding their contribution and skills.

Work has also been undertaken to roll out the Sustainable People Management project, which provides a new people management model that adapts the organisational structure to the new realities of the organisation, geared towards the demands of the business, management team and people.

Labour relations

In 2021 the Company continued to explore new internal channels of communication that bolster and complement the messages and reach of the corporate intranet, NuestraRED. These have included the employee mailing and new instant messaging channels through Teams chats, which has become the go-to collaboration space for all staff.

The Company has continued to increase leader communication cascading, giving it a closer, more personal touch and designing new listening channels between collaborators and their superiors.

In November 2021 a Climate Survey was conducted to learn about how employees perceived different aspects of the Company (commitment, leadership, development, communication, etc.) and to identify opportunities for improvement.

The methodology and the questionnaire have remained the same as in prior years to provide continuity when tracking results, although new items and categories have been incorporated in response to current needs, for example cultural or digital transformation and innovation.

The results will be published during the first quarter of 2022 through the intranet (NuestraRED) and the results for each area will be presented to the organisation in person by the management team, fostering constructive dialogue.

Throughout 2022, work will continue apace on the design, development and communication of action plans for areas needing improvement, whether the area as a whole or the area leader.

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 People and Culture Department's Operational Plan and the 2030 Sustainability Commitment.

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

- Physical work environment: providing all the means necessary in order to perform our professional duties in the best possible safety conditions.
- Participation in the community: through actions performed by the Company that have an impact on improving the 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 REE 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 allowed the contingency plans to be rolled out promptly and effectively that year.

Since the start of the high-alert situation triggered by the pandemic, reported cases have been monitored both in terms of illness and possible contact. 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 in-person: consultations on nutrition and physical fitness, access to yoga classes, Pilates and mindfulness workshops.

During the last quarter of the year talks began with workers' representatives to adapt REE's Equality Plan in order to bring it into line with new legislation in this field.

Management of work-life balance

Following the approval in 2018 of the third Comprehensive Work-Life Balance Plan, 2021 saw the continued roll-out of the objectives defined for the year, with 75% of the planned programme being executed, and the further expansion of the culture promoting new ways of working.

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:

- Leadership and management styles
- Quality of employment
- Flexible working time and workplace
- Family support
- Personal and professional development
- Equal opportunities

Another highlight of 2021 was the satisfactory result of the audit to renew the Family-Responsible Company certificate, once again being recognised as a proactive company (B+).

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 days at the 2021-year end.

The disclosures required by this resolution are contained in note 22 to the Company's annual accounts for 2021.

9 Events after 31 December 2021

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

10 Outlook

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

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

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

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

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

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