Audit Report on Financial Statements
issued by an Independent Auditor

RED ELÉCTRICA DE ESPAÑA, S.A.U.
Financial Statements and Management Report
for the year ended
December 31, 2023

Ernst & Young, S.L.
C/ Raimundo Fernández Villaverde, 65
28003 Madrid

Tel: 902 365 456
Fax: 915 727 238
ey.com

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 34)

To the shareholders of RED ELÉCTRICA DE ESPAÑA, S.A.U.:

Opinion

We have audited the financial statements of RED ELÉCTRICA DE ESPAÑA, S.A.U. (the Company), which comprise the balance sheet as at December 31, 2023, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Domicilio Social: Calle de Raimundo Fernández Villaverde, 65. 28003 Madrid - Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª. C.I.F. B-78970506.

A member firm of Ernst & Young Global Limited.

Most relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the financial statements of the current period. These risks were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Recording and Valuation of Additions to Property, Plant, and Equipment

Description

As indicated in note 1 of the accompanying financial statements, one of the Company's main activities is the management of the Spanish electricity transmission network.

For the development of the aforementioned activity, and following the Development Plans for the Electricity Transmission Network approved by the Spanish Government (2015-2020; 2021-2026), Red Eléctrica de España, S.A.U. makes significant investments in property, plant, and equipment, reaching 743 million euros in 2023.

The compensation for this activity, which in 2023 amounted to 1,520 million euros, is determined by Circular 5/2019 of the National Commission for Markets and Competition (CNMC), which establishes a methodology based on the costs necessary to build, operate and maintain electricity technical installations.

We have considered this area to be one of the most relevant audit issues due to the existing interrelation between the recognized investments in electrical infrastructure and the income derived from the activity of managing the Spanish electricity transmission network, as well as the relevance of the amounts involved.

Information related to the applied valuation standards and corresponding breakdowns can be found in notes 5, 7 and 24 of the accompanying financial statements.

Our response

Our audit procedures in this regard included, among other, the following:

- Understanding the process established by the Company's Management for recording additions to property, plant, and equipment (specifically, the "recording of additions and disposals of fixed assets" and "acquisition of goods and services, certification of constructions" cycles), evaluating the design and implementation of relevant controls established in the mentioned process and verifying the operational effectiveness of these controls.
- Reviewing the current regulations applicable to the activity of managing the Spanish electricity transmission network
- Analyzing the additions to property, plant and equipment that occurred during the fiscal year along with their corresponding supporting documentation and evaluating their appropriate accounting record and their possible inclusion in the Electricity Transmission Network Development Plan 2021-2026.
- Performing substantive procedures on a sample of ongoing projects, for which the reasonableness of cost allocation has been evaluated through the corresponding supporting documentation.
- Reviewing the breakdowns included in the accompanying financial statements and evaluating their compliance with the applicable financial reporting regulatory framework.

Hedge instruments

Description	As indicated in note 19 of the accompanying financial statements, the Company uses financial instruments, including foreign exchange and interest rate derivatives, to mitigate the risk of exchange rate and interest changes associated with its financial debt and highly probable future transactions. Derivatives designated as accounting hedges must meet strict criteria concerning documentation and hedge effectiveness at the initial stage. Also, the determination of the fair value of derivative financial instruments is conducted using valuation techniques that may consider, among other aspects, unobservable market data or complex valuation models requiring a high degree of judgment. Given the complexity associated with complying with the current financial reporting regulatory framework concerning the identification and valuation of hedge instruments and proper measurement of their effectiveness, we have considered this one of the most relevant audit issues.
Our response	Our audit procedures in this regard included, among other, the following: ▶ Understanding the process established by the Company's Management to identify and value derivative financial instruments designated as accounting hedges. ▶ Evaluating the design, implementation, and effective operation of key controls related to the "derivative financial instruments" and "financial transaction records" cycles. ▶ Involvement of specialists to carry out substantive procedures consisting of the evaluation of the correct classification and valuation of derivative financial instruments, as well as compliance with the criteria for the application of accounting hedges in relation to the identification of hedging items and positions to be hedged. ▶ Review of the reasonableness of the effectiveness measurement for the Company's accounting hedges and if the result of this is in line with the limits established by the current accounting regulations. ▶ Review of the breakdowns included in the accompanying financial statements and evaluation of their conformity with the applicable financial information regulatory framework.

Other matters

On February 27, 2023, other auditors issued their audit report on the annual accounts for fiscal year 2022 in which they expressed a favorable opinion.

Other information: management report

Other information refers exclusively to the 2023 management report, the preparation of which is the responsibility of the Company’s Sole Director and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is to assess and report on the consistency of the management report with the financial statements based on the knowledge of the entity obtained during the audit, and to assess and report on whether the content and presentation of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the management report is consistent with that provided in the 2023 financial statements and its content and presentation are in conformity with applicable regulations.

Sole Directors' responsibilities for the financial statements

The Sole Director are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Sole Director are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Sole Director either intend 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 financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 audit regulations 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 financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 Company's internal control.

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

- 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 financial statements 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Sole Director of the Company 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 with the Company's Sole Director, we determine those that were of most significance in the audit of the financial statements of the current period and are therefore the most significant assessed risks.

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

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(signed on the original version In Spanish)

David Ruiz-Roso Moyano
(Registered in the Official Register of Auditors under No. 18336)

February 27, 2024

Financial statements

for the year ended 31 December 2023

Red Eléctrica de España, S.A.U.

Red Eléctrica de España, S.A.U.

Balance sheet at 31 December 2023

Thousands of euros	Note	31 Dec. 2023	31 Dec. 2022
Non-current assets		9,036,825	8,624,292
Intangible assets	**6**	**62,241**	**53,188**
Computer software		62,241	53,188
Property, plant and equipment	**7**	**8,693,615**	**8,320,893**
Land and buildings		12,483	12,032
Technical installations and other items		7,474,051	7,357,133
Under construction and advances		1,207,081	951,728
Non-current investments in group companies and associates	**8**	**2,401**	**2,401**
Equity instruments		1,000	1,000
Other financial assets		1,401	1,401
Non-current investments	**9**	**247,452**	**215,127**
Equity instruments		468	468
Loans to third parties		3,141	3,669
Derivatives	19	64,757	91,298
Other financial assets		179,086	119,692
Deferred tax assets	**23**	**30,955**	**32,516**
Prepayments for non-current assets	**12**	**161**	**167**
Current assets		1,500,911	1,964,876
Inventories	**10**	**53,848**	**34,115**
Trade and other receivables	**11**	**1,067,879**	**998,692**
Trade receivables from group companies and associates		1,107	672
Other receivables		1,053,167	995,033
Personnel		802	963
Public entities, other		12,803	2,024
Current investments in group companies and associates	**25**	**9,514**	**10,335**
Current investments	**9**	**4,423**	**306,008**
Other financial assets		4,423	306,008
Prepayments for current assets	**12**	**22,564**	**21,369**
Cash and cash equivalents		**342,683**	**594,357**
Cash		342,547	194,029
Cash equivalents		136	400,328
Total assets		**10,537,736**	**10,589,168**

The accompanying notes 1 to 34 and Appendices I and II are an integral part of these financial statements.

Signature of the sole director’s representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.
Balance sheet at 31 December 2023

Thousands of euros	Note	31 Dec. 2023	31 Dec. 2022
Equity	13	3,658,662	3,365,157
Capital and reserves	**13-b**	**2,965,010**	**2,805,003**
Capital		800,006	800,006
Share premium		569,319	569,319
Reserves		1,438,024	922,120
Profit for the year		545,784	513,558
(Interim dividend)		(388,123)	-
Valuation adjustments	**13-c**	**135,527**	**142,642**
Hedging transactions		(4,060)	3,049
Other	23	139,587	139,593
Grants, donations and bequests received	**13-d**	**558,125**	**417,512**
Non-current liabilities		4,648,940	4,943,611
Non-current provisions	**14**	**101,185**	**107,638**
Non-current payables	**15**	**669,091**	**949,022**
Loans and borrowings		668,923	948,854
Other liabilities		168	168
Group companies and associates, non-current	**25**	**3,193,302**	**3,193,615**
Deferred tax liabilities	**23**	**601,248**	**578,062**
Non-current accruals	**16**	**84,114**	**115,274**
Current liabilities		2,230,134	2,280,400
Current payables	**15**	**880,027**	**836,839**
Loans and borrowings		286,731	78,445
Other current payables		593,296	758,394
Group companies and associates, current	**25**	**814,245**	**450,308**
Suppliers of fixed assets – Group companies and associates		11,766	9,934
Payables to group companies and associates		771,992	413,358
Interest on payables to group companies and associates		30,487	27,016
Trade and other payables	**20**	**535,200**	**992,707**
Payables to group companies		44,059	26,311
Other payables		471,236	905,601
Personnel		16,078	17,529
Public entities, other		3,827	43,266
Current accruals	**21**	**662**	**546**
Total equity and liabilities		**10,537,736**	**10,589,168**

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Signature of the sole director’s representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Income statement 2023

Thousands of euros	Note	2023	2022
Revenue	**24-a**	**1,625,164**	**1,599,006**
Services rendered		1,625,164	1,599,006
Self-constructed assets	**6 and 7**	**50,866**	**46,534**
Supplies	**24-c**	**(37,829)**	**(33,199)**
Raw materials and other consumables used		(35,888)	(36,403)
Impairment of other supplies	10	(1,941)	3,204
Other operating income	**24-b**	**64,054**	**75,722**
Non-trading and other operating income		6,180	11,332
Operating grants taken to income		28	165
Concession revenue		57,846	64,225
Personnel expenses	**24-d**	**(113,375)**	**(119,481)**
Salaries and wages		(84,208)	(92,662)
Employee benefits expense		(24,350)	(22,093)
Other items and employee benefits		(4,817)	(4,726)
Other operating expenses	**24-c**	**(447,213)**	**(435,658)**
External services		(412,343)	(402,119)
Taxes		(34,864)	(33,551)
Losses, impairment and changes in trade provisions		(6)	12
Depreciation and amortisation	**6 and 7**	**(384,972)**	**(390,698)**
Non-financial and other capital grants		**11,758**	**11,806**
Impairment and gains on disposal of fixed assets		**-**	**135**
Results from operating activities		**768,453**	**754,167**
Finance income	**24-e**	**43,473**	**7,659**
Marketable securities and other financial instruments		27,750	2,318
Capitalised borrowing costs	7	15,723	5,341
Finance costs	**24-e**	**(101,190)**	**(79,524)**
Group companies and associates	25	(77,038)	(61,534)
Other		(22,826)	(16,399)
Provision adjustments	14	(1,326)	(1,591)
Exchange losses		**(22)**	**(4)**
Net finance cost		**(57,739)**	**(71,869)**
Profit before tax		**710,714**	**682,298**
Income tax	**23**	**(164,930)**	**(168,740)**
Profit from continuing operations		**545,784**	**513,558**
Profit for the year		**545,784**	**513,558**

The accompanying notes 1 to 34 and Appendices I and II are an integral part of these financial statements.

Signature of the sole director's representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Statement of total changes in equity for the year ended 31 December 2023

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 2021	**800,006**	**54,319**	**792,688**	**552,845**	**(435,763)**	**1,764,095**	**74,125**	**409,427**	**2,247,647**
Total recognised income and expense	-	-	12,350	513,558	-	525,908	68,517	8,085	602,510
Transactions with shareholders or owners									
Capital increases	-	515,000	-	-	-	515,000	-	-	515,000
(-) Distribution of dividends	-	-	-	-	-	-	-	-	-
Other changes in equity									
Distribution of prior year's profit	-	-	117,082	(552,845)	435,763	-	-	-	-
Balance at 31 December 2022	**800,006**	**569,319**	**922,120**	**513,558**	**-**	**2,805,003**	**142,642**	**417,512**	**3,365,157**
Total recognised income and expense	-	-	2,346	545,784	-	548,130	(7,115)	140,613	681,628
Transactions with shareholders or owners									
Capital increases	-	-	-	-	-	-	-	-	-
(-) Distribution of dividends	-	-	-	-	(388,123)	(388,123)	-	-	(388,123)
Other changes in equity									
Distribution of prior year's profit	-	-	513,558	(513,558)	-	-	-	-	-
Balance at 31 December 2023	**800,006**	**569,319**	**1,438,024**	**545,784**	**(388,123)**	**2,965,010**	**135,527**	**558,125**	**3,658,662**

The accompanying notes 1 to 34 and Appendices I and II are an integral part of these financial statements.

Signature of the sole director’s representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.
Statement of recognised income and expense 2023

Thousands of euros	2023	2022
Profit for the year	**545,784**	**513,558**
Cash flow hedges	(18,395)	64,008
Grants, donations and bequests received	209,693	32,598
Actuarial gains and losses and other adjustments	3,128	16,468
Tax effect	(42,706)	(9,110)
Income and expense recognised directly in equity	**151,720**	**103,964**
Cash flow hedges	8,917	9,052
Grants, donations and bequests received	(22,208)	(21,819)
Tax effect	(2,585)	(2,245)
Amounts transferred to the income statement	**(15,876)**	**(15,012)**
Total recognised income and expense	**681,628**	**602,510**

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Signature of the sole director’s representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Red Eléctrica de España, S.A.U.

Statement of cash flows 2023

Thousands of euros	2023	2022
Cash flows from operating activities	**208,191**	**1,481,825**
Profit for the year before tax	**710,714**	**682,298**
Adjustments to profit	**407,201**	**452,078**
Depreciation and amortisation	384,971	390,698
Impairment	1,947	(3,216)
Change in provisions	(2,843)	18,644
Gains/(losses) on disposal of fixed assets	-	(135)
Non-financial and other capital grants	(26,866)	(26,458)
Finance income	(43,473)	(2,318)
Finance costs	101,190	79,524
Exchange losses	22	4
Other income and expenses	(7,747)	(4,665)
Changes in operating assets and liabilities	**(710,277)**	**615,584**
Inventories	(21,674)	(7,464)
Trade and other receivables	(69,355)	106,175
Other current assets	(984)	(2,766)
Trade and other payables	(618,828)	517,739
Other non-current assets and liabilities	564	1,900
Other cash flows used in operating activities	**(199,447)**	**(268,135)**
Interest paid	(46,026)	(72,272)
Interest received	29,022	1,045
Income tax paid/received	(178,891)	(184,288)
Other payments/receipts	(3,552)	(12,620)
Cash flows used in investing activities	**(550,763)**	**(783,080)**
Payments for investments	**(1,451,887)**	**(784,270)**
Property, plant and equipment and intangible assets	(799,804)	(421,126)
Other financial assets	(650,099)	(359,560)
Other assets	(1,984)	(3,584)
Proceeds from sale of investments	**901,124**	**1,190**
Property, plant and equipment and intangible assets	-	314
Other financial assets	900,000	-
Other assets	1,124	876
Cash flows from/(used in) financing activities	**90,898**	**(281,229)**
Proceeds from and payments for equity instruments	**209,693**	**547,597**
Issuance of equity instruments	-	515,000
Grants, donations and bequests received	209,693	32,597
Proceeds from and payments for financial liability instruments	**269,328**	**(828,826)**
Repayment of loans and borrowings	(71,517)	(346,517)
Payables to group companies and associates	717,567	17,286
Repayment of payables to group companies and associates	(376,722)	(499,595)
Dividends and interest on other equity instruments paid	**(388,123)**	**-**
Dividends	(388,123)	-
Net increase/(decrease) in cash and cash equivalents	**(251,674)**	**417,516**
Cash and cash equivalents at beginning of year	594,357	176,841
Cash and cash equivalents at year end	342,683	594,357

The accompanying notes 1 to 34 and Appendices I and II are an integral part of these financial statements.

Signature of the sole director's representative in compliance with article 253 of Spain's Corporate Enterprises Act.

Roberto García Merino

Contents

1 Company information

Red Eléctrica de España, S.A.U. (hereinafter, Red Eléctrica or the Company), has operated as the transmission and system operator (TSO) for Spain's electricity system since 2008 under the Electricity Sector Act (Law 17/2007 of 4 July 2007), amending 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.

The Company engages primarily in the following activities:

- System operation.
- Transmission operation, overseeing the construction, operation and maintenance of transmission facilities.
- Transmission network management.

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

2 Basis of preparation

a) True and fair view

The financial statements were authorised for issue by the Company's sole director on 22 February 2024 to give a true and fair view of the Company's equity and financial position at 31 December 2023, as well as the results of its operations, changes in equity and cash flows for the year then ended.

The financial statements are presented in thousands of euros, the Company's functional and presentation currency, rounded to the nearest thousand, and prepared from its accounting records in accordance with prevailing legislation and Spain's General Accounting Plan enacted by Royal Decree 1514/2007 as amended by Royal Decree-Law 1159/2010 and Royal Decree 1/2021.

The Company belongs to a Spanish group of companies, Redeia which, in accordance with article 43.2 of Spain's Code of Commerce, prepares consolidated financial statements and places them on file at the Madrid Companies Register. The consolidated financial statements will be authorised for issue on 27 February 2024. Redeia's parent is Redeia Corporación, S.A. (hereinafter, "the Parent" and formerly Red Eléctrica Corporación, S.A.), with registered office in Alcobendas (Madrid).

Prevailing company law requires certain disclosures in financial statements regarding contracts entered into with the sole shareholder (Redeia Corporación, S.A.). These contracts are described in note 25.

The 2022 financial statements were approved by the sole shareholder on 2 June 2023. The 2023 financial statements are pending ratification. However, the Company's sole director expects them to be approved without any changes.

b) Mandatory accounting policies not applied

The Company has not omitted any mandatory accounting policy with a significant effect on the financial statements.

c) Use of estimates and assumptions

Preparation of the financial statements requires the Company's management to use judgement and make estimates and assumptions that affect application of its accounting policies and the recognised amounts of assets, liabilities, income and expenses. The estimates and assumptions made by the Company are based on past experience and other factors considered reasonable under the circumstances. Actual results may differ from these estimates.

The 2023 financial statements make occasional use of estimates made by the Company's management, which are later ratified by its director, in order to quantify certain of the assets, liabilities, income, expenses and obligations recognised therein. Essentially, those estimates refer to:

- The estimated recoverability of assets (note 5-h).
- The estimated useful lives of property, plant and equipment and intangible asset (notes 6 and 7)
- The assumptions used in actuarial calculations of liabilities and employee benefit obligations (note 14).
- The assumptions and estimates used to calculate the fair value of derivative financial instruments (note 19).
- The calculation of revenue from electricity transmission facilities and system operation (note 11).

As a general rule, liabilities are recognised when it is considered probable that an obligation will result in an outflow of resources. The Company assesses or estimates the amounts payable in the future, including those corresponding to income tax, contractual obligations, the settlement of outstanding lawsuits or other liabilities. These estimates require interpreting current events and circumstances, projecting future developments and estimating what financial impacts those events will have.

For a better understanding of the financial statements, the various estimates and assumptions made are outlined in each note.

Although the estimates were made on the basis of the best information available at 31 December 2023 regarding the facts analysed, future events could make it necessary to revise them (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the General Accounting Plan, recognising the effects of any change in estimates in the related income statement.

The Company has insurance coverage against third-party claims that could arise in the ordinary course of its business activities.

d) Comparative information

For comparative purposes, the Company has included the 2022 figures in addition to those of 2023 for each item of the balance sheet, income statement, statement of changes in equity, statement of cash flows and the accompanying notes. The 2022 figures presented here formed part of the 2022 financial statements.

The accounting policies and measurement rules used to prepare these annual financial statements are identical to those used to prepare the Company's 2022 financial statements.

3 Sector regulation

Enactment of Spain's Electricity Sector Act (Law 54/1997 of 27 November 1997) marked the beginning of the industry's liberalisation. It began with the vertical disintegration of the various activities, segregating those carried out under a natural monopoly (i.e. transmission and distribution) from those operating in a free market (i.e. generation and supply).

In 2013, a reform process began to address the imbalance between electricity system revenue and costs in prior years, which culminated in the enactment of a new Electricity Sector Act, Law 24/2013 of 26 December 2013 (hereinafter, the “Act”). The Act has been updated on several occasions since and partly transposes into Spanish law Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU.

It sets out the following regulatory framework for the activities carried on by the Company:

- For transmission, the Act recognises the Company as the sole transmission agent.

  The Spanish Government sets the remuneration for this activity based on the general principles defined in the Act and the methodology essentially implemented in Spain's National Markets and Competition Commission (CNMC) Circular 5/2019 of 5 December 2019, which establishes the methodology for calculating the remuneration applicable to electricity transmission.

  Moreover, other remuneration parameters for the new model were established for the current regulatory period (2020-2025): Circular 2/2019, which establishes the methodology for calculating the financial rate of return for electricity transmission and distribution, regasification, and natural gas transmission and distribution, and Circular 7/2019, which approves the standard facilities and reference unit values for operation and maintenance per asset used to calculate the remuneration assigned to owners of electricity transmission facilities. Regarding investment reference unit values that were in force in the previous regulatory period, established by Ministry of Industry, Energy and Tourism Order IET/2659/2015, the Circular extended them for the 2020-2025 period.

  Order IET/981/2016 established the definitive regulated revenue for transmission for the first year of application of Royal Decree 1047/2013; i.e. 2016. Subsequently, regulated revenue was established provisionally from 2017 to 2022, extending the amount of remuneration established for 2016 and establishing settlements on account.

  The reason for using provisional amounts was because of the “detriment proceedings” brought by the Spanish State Attorney against Order IET/981/2016 requesting that Spain's Supreme Court declare certain of its articles null and void so that definitive revenue for 2016 can be corrected. The Supreme Court's ruling was published on 29 June 2020, requiring Order IET/981/2016 and revenue for 2016 to be corrected.

  To enforce this ruling, the Ministry for Ecological Transition and the Demographic Challenge (hereinafter, MITERD or the Ministry) published Order TED/1311/2022, establishing Red Eléctrica’s definitive remuneration for 2016.

  After establishing the definitive remuneration for 2016, the Ministry approved Order TED/1343/2022 of 23 December 2022 establishing the remuneration for 2017, 2018 and 2019 for electricity transmission facility owners.

  On 27 July 2023, the CNMC approved a resolution establishing the remuneration of electricity transmission facility owners for 2020, after this authority was attributed to it via Royal Decree-Law 1/2019.

  Therefore, the CNMC had yet to publish the definitive remuneration for 2021, 2022 and 2023 at the end of the reporting period.

- As the operator of the Spanish electricity system, the Company's main duty is to ensure the continuity and security of electricity supply and guarantee the correct coordination of the production and transmission system. It exercise its duties in conjunction with the operators and agents of the Iberian Electricity Market, framed by the principles of transparency, objectivity and independence.

  Law 24/2013 also attributes the function of transmission grid manager to the system operator. In 2015, the process was completed for designating Red Eléctrica as the Spanish electricity system's transmission grid manager, is provided for in the Act. Pursuant to this designation, Red Eléctrica operates under the framework of ownership unbundling as provided for in article 43 of Directive (EU) 2019/944 on common rules for the internal market for electricity.

The Company has also been assigned the functions of settlement, notification of payments and receipts, and management of guarantees relating to security of supply and of effective imbalances between generation and consumption units, as well as short-term energy exchanges aimed at maintaining quality and security of supply.

The Company also oversees the technical and economic dispatch for electricity supply from non-mainland electricity systems (i.e. the Balearic Islands, the Canary Islands, Ceuta and Melilla) and the settlement of payments and receipts arising from the economic dispatch of electricity generated by these systems.

As a result of the publication of Royal Decree-Law 1/2019, the CNMC established the first methodology for remunerating system operation via Circular 4/2019. The core principal underlying this remuneration model is to provide a suitable return for a low-risk activity, considering those costs prudently incurred by an efficient and well-managed company. The CNMC has applied the remuneration methodology provided for in Circular 4/2019 to establish the remuneration of the system operator since 2020. Based on the experience gained, the methodology was updated via the publication of CNMC Circular 1/2023 of 7 February 2023.

Nonetheless, the Ministry has the authority to approve the methodology for calculating the system operator's remuneration for the 2014-2019 period. In the absence of a methodology, the annual remuneration provided for in successive ministerial orders approving the electricity access tolls for the 2014-2019 period was provisional. The aim was to adjust the amounts set out in these orders once the Ministry had approved the methodology. In 2021, the Ministry submitted for public consultation the draft Royal Decree outlining the methodology for calculating the remuneration of the system operator applicable to each year of the specified period.

As for the functions assigned to the Company in respect of the non-mainland electricity systems, in 2015 the 200-MW pumped storage hydropower facility in Salto de Chira in Gran Canary Island was transferred to the system operator, as required by Order IET/728/2014 of 28 April 2014. After taking ownership, in 2016 Red Eléctrica submitted a project to amend the original project that included technical and environmental enhancements aimed at increasing the capacity for integrating renewable energy and reducing the environmental impact of this new infrastructure. On 17 December 2022, Order TED/1243/2022 of 2 December 2022 was published, approving the methodology for calculating the remuneration for the 200-MW pumped storage hydropower facility in Salto de Chira in Gran Canary Island owned by the system operator. Under this methodology, the facility's total cost is calculated considering certain remuneration parameters: the facility's investment value the year it is commissioned; the unit value of variable operation and maintenance costs; and the unit value of the annual payment of fixed operation and maintenance costs. It also states that remuneration will be payable in the five years following the facility's entry into service, thereby reimbursing any financing costs incurred during the construction stage.

The most noteworthy regulatory developments in 2023 included:

- Royal Decree-Law 3/2023 of 28 March 2023, which extends the cost adjustment mechanism to reduce the price of electricity in the wholesale market (the gas cap of Royal Decree-Law 10/2022) and amends the rate of increase in gas reference prices used for its calculation.
- Royal Decree-Law 5/2023, whose measures include maintaining the validity of grid access and connection permits, streamlining the processing of recharging stations, improving the remuneration of renewables compared to the previous remuneration framework and allowing the electricity system surplus of 2022 to be transferred to 2023. It also regulates energy communities and extends the access toll exemption for the electro-intensive industry until the end of the year.
- Royal Decree 445/2023, which amends several annexes of Law 21/2013 regulating projects that must undergo a standard or simplified environmental assessment process, notably includes repowering projects in the simplified environmental assessment.
- Royal Decree-Law 8/2023, extending several temporary measures introduced to tackle the energy crisis, including reduced taxation on electricity and social voucher discounts. It also regulates grid access and connection permits and modifies some of the administrative milestones renewable energy developments must meet.

- Ministry Order TED/1375/2023 initiating the procedure for designing the Electricity Plan for 2023-2030. That Plan will be articulated around the targets published in the draft 2023-2030 Integrated National Energy and Climate Plan (NECP).
- The draft NECP, approved by the Council of Ministers in June 2023, was sent to the European Commission that same month and published by the Ministry for public consultation until September 2023. This draft increases the main targets for renewables by 2030: 48% share in the final energy mix; 81% share in electricity generation. A key highlight is the importance attached in the draft NECP to self-consumption, which increased to 19 GW, and energy, which is now targeted to reach 22 GW. It includes a coal phase-out, whereby it will no longer contribute energy to the system by 2025. Lastly, it notes the importance of interconnections, maintaining the Bay of Biscay interconnection and the one crossing the Pyrenees (France) and adding a new interconnection with Portugal.

4 Proposed distribution of profit

The proposed distribution of profit for the year ended 31 December 2023, subject to ratification at the Annual General Meeting, is as follows:

Thousands of euros

Profit for the year	545,784
Total	**545,784**

Distribution:

Voluntary reserves	63,599
Capitalisation reserve	94,062
Interim dividend	388,123
Total	**545,784**

The interim dividend for 2023 is disclosed in note 13.

5 Significant accounting policies

The significant accounting policies used to prepare these financial statements, applied consistently to the reporting periods presented, are as follows:

a) Intangible assets

Intangible assets are measured at acquisition or production cost, as appropriate, which is reviewed periodically and adjusted for any decrease in value. The Company's intangible assets include:

- **Development costs:** development expenses directly attributable to the design and testing of new or improved computer software that is 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 feasibility and commercial viability, and the cost of the asset can be estimated reliably. Expenditure that does not meet these criteria is recognised as an expense when it is incurred. Development costs are capitalised and amortised when the asset is available for use on a straight-line basis over a period no longer than five years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

- **Computer software:** Computer software user licenses purchased are capitalised based on the cost incurred to acquire them and get them ready for use. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software is amortised on a straight-line basis over a period of between three and five years from when it is put into use.

b) Property, plant and equipment

The main assets under this heading are technical electricity facilities, which have been measured at construction or acquisition cost less accumulated depreciation and any accumulated impairment losses. In its 2013 financial statements, as allowed by Law 16/2012, of 27 December 2012, introducing a range of tax measures designed to consolidate Spain's public finances and shore up economic activity, the Company availed itself of the possibility of restating its property, plant and equipment added as of 1 January 2013.

- **Cost and recognition**

Construction costs include the following items:

- The borrowing costs related directly with facilities under contraction and external financing costs, accrued exclusively during the construction period. However, capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted, unless the temporary delay is a necessary part of the process of getting an asset ready for its intended use.

- Operating expenses related directly with to property, plant and equipment under construction for developments under the Company's control and management, 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 assets from work in progress to property, plant and equipment in use as soon as the asset is ready for its intended use, provided it is in working condition and can generate revenue. Property, plant and equipment under construction are not depreciated.

After initial recognition of the asset, costs incurred are recognised only if it is probable that future economic benefits will flow to the Company and the cost of the items can be measured reliably. Repair and maintenance costs of items of property, plant and equipment that do not increase productivity and/or the related revenue and do not extend the useful life of the asset are recognised in profit or loss as incurred.

- **Depreciation**

Property, plant and equipment are depreciated by distributing the cost of the various items on a straight-line basis over the estimated years of useful life, which is the period over which the Company expects to use the asset, applying the following rates:

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

Property, plant and equipment relates primarily to technical electricity facilities. Most of the undepreciated items of property, plant and equipment are depreciated at an annual rate of 2.5%.

- **Measurement**

The assets' residual values and useful lives are reviewed at least annually and adjusted, if appropriate, to reflect current circumstances. When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and written down immediately to its recoverable amount (note 5-h).

The Company measures and determines the amount of impairment losses to be recognised or reversed on the value of the cash-generating unit (CGU) to which the asset belongs in accordance with the policy disclosed in section h) of this note.

c) Leases

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

Specifically, it classifies arrangements in which it retains substantially all the risks and rewards incidental to ownership of the leased assets as operating leases.

d) Service concession arrangements

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

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

Based on the consideration received, a service concession arrangement is recognised as a financial asset or an intangible asset to the extent that the operator has a contractual right stipulated in the contract clauses.

The operator recognises a financial asset where it has an unconditional right to receive from the grantor (or on the grantor's behalf) cash or another financial asset and little, if any, discretion to avoid payment.

The financial model entails identifying the separate performance obligations in the arrangement and recognising revenue and expenses based on the progress towards completion of the performance obligations in accordance with the policy on revenue expenses explained in section o) of this note, giving rise to a financial asset for the consideration receivable. The carrying amount of the financial asset is adjusted annually in accordance with the implicit financial rate of the concession.

For the Company, only the Salto de Chira concession (note 3) is recognised applying the financial asset model. Since the consideration received for the construction activities carried out by the Company until an unconditional right to receive cash, the Company recognises a financial asset in the balance sheet under non-current financial assets (note 9).

The contractual obligations undertaken by the Company to maintain the infrastructure during the period of operation or restore it before it is handed over to the grantor at the end of the service arrangement, to the extent that they these activities do not generate revenue, are recognised in accordance with the policy for provisions.

e) Financial assets and financial liabilities

Financial assets

For measurement purposes, the Company classifies its financial assets into the following categories:

- **Financial assets at amortised cost**: in general, this category includes trade receivables, which are financial assets arising on the sale of goods and rendering of services in the course of the Company's trade operations with deferred payment, and non-trade receivables, which are financial assets that are neither equity instruments nor derivatives not arising on trade transactions with fixed or determinable payments arising from loans or credit transactions granted by the Company.

  They are non-derivative financial assets 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.

Financial assets at amortised cost are recognised initially at fair value. In the absence of evidence to the contrary, this is the transaction price plus attributable transaction costs. These financial assets are subsequently measured at amortised cost using the effective interest rate 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 net carrying amount of that instrument based on its contractual terms. Interest income from these financial assets is included in finance income. Any gain or loss arising from derecognition is recognised directly in the Company's profit or loss, while impairment losses are presented under a separate line item in the income statement for the year.

- **Financial assets at fair value through equity**: these are equity instruments that the Company has irrevocably elected on initial recognition to classify under this category.

  These assets are recognised at fair value, with any changes in fair value recognised directly in equity until the financial asset is derecognised or determined to be impaired, at which time the cumulative gain or loss previously deferred in equity is taken to profit or loss. Dividends are recognised in profit or loss for the period.

  The Company's policy for determining fair value is explained in section h).

- **Financial assets at cost**: these include equity investments in group companies, jointly controlled entities and associates, and other equity investments whose fair value cannot be estimated reliably.

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or 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 has not retained control of the transferred asset.

Financial liabilities

The Company classifies its financial liabilities into the following category:

- **Financial liabilities at amortised cost**: In general, this category includes payables from trade transactions, which are financial liabilities arising on the purchase of goods and services in the course of the Company's trade transactions with deferred payment, and payables on non-trade transactions, which are financial liabilities that are not derivatives and have no commercial substance, but arise from loans or credit received by the Company. Financial debt is classified under current liabilities unless they mature more than 12 months after the reporting date, in which case they are classified under non-current liabilities.

  Payables falling due within one year for which there is no contractual interest rate expected to be settled in the short term are measured at their nominal amount.

  Financial debt is measured initially at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration received net of attributable transaction costs. These sources of finance are subsequently measured at amortised cost using the effective interest method.

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

f) Cash and cash equivalents

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

g) Inventories

Inventories of materials and spare parts are valued at the lower of cost, determined using the weighted average cost formula, and market value.

The Company assesses the net realisable value of its inventories at each year-end. Where cost exceeds market value or there is uncertainty about whether inventories will be used, they are written down to net realisable value and an expense is recognised in profit or loss. 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 amount of the write-down is reversed and recognised as income in profit or loss.

h) Impairment of assets

The Company assesses the recoverability of its assets at the end of each reporting period and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is impaired when its carrying amount exceeds its recoverable amount. Impairment losses must be recognised immediately in profit or loss. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of:

- the asset's fair vale less costs to sell and
- The asset's value in use. Value in used is calculated based on expected future cash flows.

- **Fixed assets**

Impairment is calculated for individual assets. Where it is not possible to estimate the fair value of an asset, the fair value of the cash-generating unit (CGU) to which the asset belongs is determined.

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

The Company tests assets for impairment when there are observable indications that an impairment loss has occurred, such as when there are changes in sector regulations or in investment plans. In calculating impairment, the Company verifies that the recoverable amount of each cash-generating unit (CGU) to which the assets or individual assets belong exceeds the carrying amount. If it does not, the Company recognises an impairment loss in profit or loss for the difference between the two under impairment and gains/(losses) on disposal of fixed assets up to the limit of the higher of: (i) the CGU's fair value less costs to sell and (ii) its value in use.

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

The Company considers recoverable amount to be value in use. In estimating value in use, the Company assesses the recoverability of the carrying amount allocated to the asset based on past experience and future expectations in accordance with the prevailing regulatory framework.

- **Financial assets**

In the case of impaired financial assets measured at amortised cost, the impairment loss is the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the asset's original effective interest rate. For financial assets with floating interest rates, the effective interest rate at the measurement date, in accordance with the contractual terms, is used.

Impairment losses, and reversals thereof when there is a decrease in the loss that can be objectively related to a subsequent event, are recognised in profit or loss. The loss can only be reversed up to the limit of the amortised cost of the asset that would have been recorded had the impairment loss not been recognised.

In the case of equity investments in group companies and associates, the recoverable amount is determined as the higher of the asset's fair value less costs to sell and the present value of the estimated cash flows from the investment. Unless better evidence of the recoverable amount is available, impairment is based on the investee’s equity, corrected for any unrealised gains existing at the measurement date. Impairments, and reversals thereof, are recognised in profit or loss for the reporting period in which they occur.

i) Capital and reserves

Share capital is represented by ordinary shares.

Start-up expenses and costs of share capital increases are not recognised in profit or loss, but rather in reserves under equity.

Interim dividends are deducted from equity for the year to which the dividend relates on the basis of the sole director's corresponding resolution. The final dividend is not deducted from equity until it is approved at the corresponding Annual General Meeting.

j) Grants and other items

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

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

Tax deductions that are similar to grants related to assets given their economic nature, such as the deduction for investments in fixed assets in the Canary Islands, are classified in other under valuation adjustments in equity and released to profit or loss over the remaining useful life of the related asset.

k) Provisions and contingencies

- **Employee benefits**

  - Pension obligations

The Company has defined contribution plans, meaning plans that define the benefit an employee will receive upon retirement as a function of one or more factors, such as age, fund performance, years of service or pay. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity and has 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 other than pension plans, such as health insurance, for serving and retired Company employees. 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. The effects of changes in actuarial assumptions are recognised, net of tax, in reserves within equity in the year they arise, while past service cost is recognised 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 and any past service cost not yet recognised. The Company recognises actuarial gains and losses in recognised income and expense for the year in which they arise.

Other long-term employee benefits also includes long-term remuneration schemes and the Structural Management Plan (hereinafter, the "Plan"), which are measured each year.

- **Other provisions and contingencies**

The Company recognises provisions to cover present legal or constructive obligations as a result of past events, so long as it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. They are recognised when the liability or obligation arises. No provision is recognised for proceedings where the probability that the event will occur is less than 50% as the Company considers that the outcome of these proceedings will be favourable.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax risk-free rate that reflects current assessments of the time value of money and the risks specific to the obligation. The increase in the carrying amount of a provision due to the passage of time is recognised as interest expense.

l) Derivative financial instruments and hedging transactions

The Company holds derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. It designates certain derivatives as hedging instruments for hedging the exposure to variability in cash flows attributable to a highly probable forecast transaction arising from changes in interest and foreign exchange rates.

The specific rules used for hedge accounting apply only to derivatives entered into when at the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated.

Derivative financial instruments are initially recognised at fair value on the purchase date (acquisition cost) and are subsequently remeasured to fair value at every reporting date. The treatment of the resulting gains or losses depends on whether the financial derivative has been 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, regardless of whether that price is directly observable or estimated using another valuation technique.

The portion of the hedge considered ineffective and the specific component of the gain or loss or related cash flows on the hedging instrument excluded from the assessment of hedge effectiveness (excluded components) is recognised with a debit or credit to finance costs or income.

The Company formally documents the relationship between hedging instruments and the hedged assets or liabilities at the inception of the transaction, along with the risk management objective and strategy for undertaking the hedge. It also documents its evaluation, at the inception and on an ongoing basis, of whether the derivative financial instruments used for hedging purposes are highly effective at offsetting the changes in the fair value or cash flows of the hedged items.

The fair value of the derivative financial instruments used for hedging purposes is disclosed in note 19. Changes in equity are shown in the statement of changes in equity.

When a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in equity remains in equity and is reclassified to profit or loss as the changes in the cash flows of the hedged item are recognised in profit or loss. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in equity is immediately reclassified to profit or loss.

The fair value of the Company's derivative financial instruments is calculated as follows:

- The fair value of derivative financial instruments that have a quoted price on an active market is the quoted price at the end of the reporting period.

- For derivative financial instruments not traded on active markets, the Company estimates fair value using valuation techniques which include the use of recent arm’s length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis using the market interest and exchange rates prevailing at the reporting date and options pricing models enhanced to reflect the issuer’ specific circumstances.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Financial asset and liability fair value measurements are classified using a hierarchy articulated around the relevance of the inputs used to make the corresponding measurements. The hierarchy categorises the inputs used in valuation techniques into three levels:

- **Level 1:** Fair value measurements based on quoted prices in active markets for identical instruments.

- **Level 2:** Fair value measurements based on inputs that are observable for the asset or liability.

- **Level 3:** Measurements based on inputs that are not underpinned by observable market data.

If there is no quoted price from an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. More specifically, for the various financial derivative financial instruments not traded on active markets, the Company estimates fair value using valuation techniques which include the use of recent arm’s length transactions between knowledgeable, willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis discounted using the market interest and exchange rates prevailing at the reporting date and options pricing models enhanced to reflect the issuer’s specific circumstances.

n) Transactions in currency other than the euro

Transactions in currency other than the euro are recognised at the exchange rate prevailing at the transaction date. During the year, the differences arising as a result of movements between the exchange rate used for initial recognition purposes and that prevailing on the date of collection or payment are recognised in profit or loss.

Fixed-income securities and credits and debits denominated in a currency other than the euro are translated at the closing exchange rate each year. Any resulting measurement differences are recognised as exchange gains or losses in profit or loss.

Financial derivative instruments and other instruments arranged in foreign currency to hedge the Company's exposure to exchange rate risk are accounting for as outlined in "Derivative financial instruments and hedging transactions" below.

o) Income and expenses

Revenue is recognised at the fair value of the consideration received or receivable so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

Most of the Company's revenue is regulated revenue from its TSO activities in Spain (notes 3 and 24). The Company has been designated to carry out electricity TSO activities on an exclusive basis. Both of these activities are regulated by the Electricity Sector Act (Law 24/2013). This legislation, as subsequently implemented by Royal Decree 1047/2013 and the CNMC Circulars approved in 2019, sets the annual amount of remuneration receivable for both activities to cover the uninterrupted services provided by the Company to consumers and other electricity sector agents during the year.

The provision of electricity transmission service is considered a single performance obligation. Therefore, the total price is allocated to that obligation. Similarly, the legal obligations included under the electricity system operator's obligation are considered a single performance obligation, identified as "providing the electricity system operation service". Therefore, revenue from TSO services performance obligations is recognised over time on a straight-line basis, for each year.

Revenue and expenses arising from third-party facility contract modifications and from service concession arrangements are recognised when or as the performance obligations stipulated in the contracts are satisfied, based on performance completed at the end of the accounting period.

Interest income and expense is recognised using the effective interest method.

p) Taxation

Tax expense (income) comprises current tax and deferred tax. Current and deferred tax is recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (i) a transaction or event which is recognised, in the same or a different period, directly in equity or (ii) a business combination.

Current tax is the amount expected to be paid, using enacted tax rates, in respect of the current year, as well as any tax payable as a result of prior-year adjustments.

Income tax credit and other tax relief originating from transactions arising during the year are deducted from accrued tax expense unless there is uncertainty about their utilisation.

Deferred tax and tax expense are calculated and accounted for using the liability method considering temporary differences between the amounts recognised for financial reporting purposes and those used for tax purposes. The liability method consists of determining deferred tax assets and liabilities as a function of the differences between the carrying amount and tax bases of assets and liabilities, using the tax rates objectively expected to be prevailing when the assets and liabilities are realised and incurred, respectively.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilised.

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

q) Insurance

The Company has a number of insurance policies to cover the risks to which its activities expose it. The chief risks are potential damage to the Company's facilities and potential third-party claims for damages arising in the course of its activities. The cost of the related insurance premiums is accrued in profit or loss. The income due from insurance companies as a result of claims is recognised in the income statement based on the costs incurred.

r) Environment

Expenses arising from actions taken by the Company to protect and improve the environment are expensed as incurred. Expenses to acquire property, plant and equipment for the purpose of minimising environmental impact and protecting and improving the environment are capitalised as an increase in the value of the assets.

s) Share-based payments

The Company has implemented share purchase plans whereby employees can receive Parent company shares as part of their annual pay packages. That remuneration is measured using the closing Parent company share price as of the date of delivery. Expenses incurred under these plans are recognised within personnel expenses in the income statement. All of the shares delivered to employees come from the Parent's treasury stock.

t) Transactions between group companies

Transactions between group companies are recognised at the fair value of the consideration given or received. Any difference between fair value and the amount agreed is recognised in accordance with the underlying economic substance of the transaction.

6 Intangible assets

The reconciliation of the carrying amounts of the various items of intangible assets and the related accumulated amortisation in 2023 and 2022 is as follows:

Thousands of euros	31 December 2021	Additions	Transfers	31 December 2022	Additions	Derecognitions and other	Transfers	31 December 2023
Development	2,775	-	-	2,775	-	(2,775)	-	-
Computer software	84,173	-	12,489	96,662	-	-	13,250	109,912
Computer software under development	16,222	21,339	(12,489)	25,072	25,489	-	(13,250)	37,311
Total cost	**103,170**	**21,339**	**-**	**124,509**	**25,489**	**(2,775)**	**-**	**147,223**
Development	(2,775)	-	-	(2,775)	-	2,775	-	-
Computer software	(51,638)	(16,908)	-	(68,546)	(16,436)	-	-	(84,982)
Total accumulated amortisation	**(54,413)**	**(16,908)**	**-**	**(71,321)**	**(16,436)**	**2,775**	**-**	**(84,982)**
Carrying amount	**48,757**	**4,431**	**-**	**53,188**	**9,053**	**-**	**-**	**62,241**

Additions to computer software in 2023 and 2022 related to the acquisition and development of software by the Company for TSO activities.

Derecognitions and other in 2023 related to the derecognition of development costs since no future economic benefits were expected and the related assets were fully amortised.

At 31 December 2023, the original cost of fully-amortised intangible assets still in use was 63,195 thousand euros (2022: 34,889 thousand euros).

In 2023, the Company capitalised 1,266 thousand euros of operating expenses directly related with internally generated intangible assets (2022: 1,037 thousand euros).

7 Property, plant and equipment

The reconciliation of the carrying amounts of the various items of property, plant and equipment and the related accumulated depreciation and impairment in 2023 and 2022 is as follows:

Thousands of euros	31 December 2021	Additions and other	Derecognitions and impairment	Transfers	31 December 2022	Additions and other	Derecognitions and impairment	Transfers	31 December 2023
Cost									
Land and buildings	9,123	-	-	8,970	18,093	-	-	824	18,917
Technical electricity facilities and other items	15,391,770	-	(653)	338,709	15,729,826	-	(1,568)	485,081	16,213,339
Under construction and advances	900,783	449,031	-	(398,086)	951,728	742,504	(1,246)	(485,905)	1,207,081
Total cost	**16,301,676**	**449,031**	**(653)**	**(50,407)**	**16,699,647**	**742,504**	**(2,814)**	**-**	**17,439,337**
Accumulated depreciation									
Buildings	(5,761)	(300)	-	-	(6,061)	(373)	-	-	(6,434)
Technical electricity facilities and other items	(7,871,595)	(373,490)	474	-	(8,244,611)	(368,163)	1,568	-	(8,611,206)
Total accumulated depreciation	**(7,877,356)**	**(373,790)**	**474**	**-**	**(8,250,672)**	**(368,536)**	**1,568**	**-**	**(8,617,640)**
Impairment of facilities	(128,082)	-	-	-	(128,082)	-	-	-	(128,082)
Carrying amount	**8,296,238**	**75,241**	**(179)**	**(50,407)**	**8,320,893**	**373,968**	**(1,246)**	**-**	**8,693,615**

- **Gross property, plant and equipment**

Technical electricity facilities encompass assets subject to regulated remuneration (note 3). Additions to technical electricity facilities in 2023 and 2022 related mainly to transmission grid facilities.

Land and buildings relate to properties owned by the Company that are held for use in its main business activities. Of the total, 1,008 thousand euros relates to land and 17,909 thousand euros to buildings.

Property, plant and equipment includes the agreement entered into with Redeia Infraestructuras de Telecomunicación, S.A. for the right to use the dark fibre and associated infrastructure used by the Company (notes 16 and 20). Assets under construction includes the progress on the electricity interconnection between Spain and France through the Bay of Biscay (note 25).

Property, plant and equipment also includes technical installations through third-party financing agreements.

Disclosures of capital grants related to property, plant and equipment are provided in note 13-d.

The amount shown under additions and other at 31 December 2023 and 2022 includes primarily investments made during those years.

Transfers in 2023 and 2022 related primarily to lines, substations, and communication and control systems that were under construction and completed during those years.

Transfers in 2022 included the transfer of 50,407 thousand euros to non-current financial assets (note 9) for the financial asset under the service concession arrangement arising from enactment of Order TED/1243/2022 of 2 December 2022 approving the methodology for calculating the remuneration for the pumped storage hydropower facility in Salto de Chira in Gran Canary Island (note 3).

The amount shown under derecognitions and impairment at 31 December 2023 included mainly the derecognition of certain fully depreciated assets. The gains/(losses) on the disposals in the years ended 31 December 2023 and 2022 were recognised under impairment and gains on disposals of fixed assets in the income statement.

- **Capitalised expenditure**

Capitalised operating costs directly related to property, plant and equipment under construction in 2023 amounted to 49,600 thousand euros (2022: 45,497 thousand euros). The Company includes all operating expenses incurred to provide support to the units directly involved in the activity as capitalised expenditure.

In 2023, the Company capitalised borrowing costs related to construction as an increase in the value of its property, plant and equipment amounting to 15,723 thousand euros (2022: 5,341 thousand euros). A weighted average rate of 1.9% was used in 2023 for the capitalisation of borrowing costs (2022: 1.1%).

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

At 31 December 2023, the original cost of fully depreciated property, plant and equipment still in use was 2,918,092 thousand euros (2022: 2,833,384 thousand euros), of which 2,694,515 thousand euros related to plant and 169,109 thousand euros to IT equipment (2022: 2,629,963 thousand euros and 154,659 thousand euros, respectively).

- **Investment commitments**

The Company does not have any firm commitments to purchase property, plant and equipment for significant amounts relative to its current volume of assets and planned investments. The Company places orders periodically to meet its requirements under its investment plans. The different amounts in these orders will normally result in delivery orders as and when the different projects included in the plans are activated, so that they do not constitute firm purchase commitments when they are placed.

- **Insurance**

The Company has taken out a range of insurance policies to cover the risks to which its property plant and equipment are exposed. These policies provide adequate coverage against the risks covered.

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

No indications of impairment of the Company's assets were identified in 2023 and 2022.

- **Asset restatement**

Spanish Law 16/2012 introduced a range of tax measures designed to consolidate Spain's public finances and shore up economic activity, including the possibility of asset restatements using the coefficients stipulated in the legislation itself, under which the Company revalued its property, plant and equipment and investment properties with a credit to an equity line item named revaluation reserves. As stipulated in an ICAC resolution dated 31 January 2013, the asset restatements, if availed of, had to be recognised in the financial statements for 2013. Under the scope of that law, the Company restated its property, plant and equipment as of 1 January 2013, paying a one-time tax of 5% of the amount of the revaluation.

The amount of the restatement, net of the one-time tax of 5%, was credited to reserves (note 13). The balancing entries were recognised in the line items corresponding to the assets whose carrying amount was restated. The restatements did not affect the amount of accumulated depreciation as of that date (technical electricity facilities and other items, in the amount of 107 million euros, and assets under construction and advances, in the amount of 2 million euros).

The net increase in value resulting from this revaluation exercise is being depreciated during the remaining years of useful life of the revalued assets. The asset restates implied the recognition of an additional depreciation charge in 2023 of 2.6 million euros (2022: 2.7 million euros), leaving accumulated depreciation at 31 December 2023 of 67 million euros (2022: 64 million euros).

8 Non-current investments in group companies and associates

The breakdown of this heading at year-end 2023 and 2022 is as follows:

Thousands of euros	31 December 2023	31 December 2022
Equity instruments	1,000	1,000
Other financial assets	1,401	1,401
Total	**2,401**	**2,401**

Equity instruments in 2023 and 2022 included the interest in Interconexión Eléctrica Francia-España, S.A.S. (hereinafter, INELFE), with registered office in París. This company, which is unlisted, was incorporated in 2008 and is equally owned with Réseau de Transport D'Électricité, S.A. (RTE), the French TSO, for the study and execution of interconnections between Spain and France.

Other financial assets at 31 December 2023 and 2022 related to security deposits provided to Redeia Corporación, S.A. on the property leases entered into with this company (note 25).

9 Non-current and current investments

The breakdown of the Company's non-current and current financial assets is as follows:

Thousands of euros	31 December 2023	31 December 2022
Equity instruments	468	468
Loans to third parties	3,141	3,669
Derivative financial instruments	64,757	91,298
Contract assets (concession arrangements)	172,478	114,632
Other non-current financial assets	6,608	5,060
Non-current investments	**247,452**	**215,127**
Other current financial assets	4,423	306,008
Current investments	**4,423**	**306,008**

Equity instruments at 31 December 2023 and 2022 included the 14.29% ownership interest in ACEFAT, A.I.E., with a carrying amount of 132 thousand euros, and the 15.84% interest in CORESO, S.A., with a carrying amount of 336 thousand euros.

- ACEFAT, A.I.E. is a company with registered office in Spain that engages primarily in the end-to-end management of public road works in Barcelona. The Company took a stake in this economic interest group to streamline management of the processes required to undertake works at the Company's facilities.
- CORESO, S.A., with registered office in Belgium, is owned by the main European TSOs. Its core business is helping European transmission grid operators maintain optimum security of supply in Europe through regional coordination services.

At both year-ends, loans to third parties reflects long-term loans extended by the Company to its staff. The loans accrue interest at Euribor plus a spread, as stipulated in the corresponding collective bargaining agreement.

At year-end 2023 and 2022, the balance recognised under non-current derivative financial instruments reflects the value of cash flow hedges expiring in the long term (note 19).

The balance of contract assets (concession arrangements) at 31 December 2023 and 2022 reflects the non-current balance pending invoice and collection from the grantor (the Gran Canary Island water board) in relation to the 200-MW pumped storage hydropower facility in Salto de Chira in Gran Canary Island in the amount of 172,478 thousand euros (2022: 114,632 thousand euros). Following the publication of the Order approving the methodology for calculating remuneration (note 3), this project was classified as a service concession arrangement, and the financial model set out in Order EHA/3362/2010 was applied. To this end, in 2022 the Company reclassified the cumulative amount recognised in under construction for work performed up to that date (note 7), for an amount of 50,407 thousand euros, and recognised the outstanding amount receivable that year from both construction and the discount of the receivable to present value, for a total amount of de 57,846 thousand in 2023 (2022: 64,225 thousand euros) (note 24-b).

The amount recognised at year-end 2023 and 2022 in other non-current financial assets reflects mainly guarantees and deposits extended by the Company.

Other current financial assets at 31 December 2022 reflected short-term financial investments, specifically time deposits for 300,000 thousand euros, and the accrued interest receivable on those investments. The balance at both year-ends also reflects accrued interest receivable from derivative financial instruments (note 19) and the short-term guarantees and deposits extended by the Company.

10 Inventories

The breakdown of this heading at year-end 2023 and 2022:

Thousands of euros	31 December 2023	31 December 2022
Inventories	89,226	67,552
Write-downs	(35,378)	(33,437)
Total	**53,848**	**34,115**

The Company's inventories comprise mainly materials and spare parts related to technical electricity facilities and other items.

The Company calculates investment impairment losses regularly and recognises any impairments based on the following assumptions:

- Impairment due to ageing, based on inventory turnover ratios.
- Impairment to surplus stock, based on estimated use in future years.

In 2023, as a result of this calculation, the Company recognised an impairment loss of 1,941 thousand euros in profit or loss (2022: reversal of impairment of 3,204 thousand euros).

11 Trade and other receivables

The breakdown of this heading at year-end 2023 and 2022:

Thousands of euros	31 December 2023	31 December 2022
Trade receivables from group companies and associates	1,107	672
Other receivables	1,053,167	995,033
Personnel	802	963
Public entities, other	12,803	2,024
Total	**1,067,879**	**998,692**

The balance of trade receivables from group companies and associates at year-end 2023 and 2022 reflects primarily amounts pending invoice or collection for professional services provided to group companies (note 25).

Trade receivables at both year-ends reflect primarily income pending invoice and/or collection from the provision of regulated transmission and system operation services. Under the settlement system set up by the Spanish regulator, a portion of these receivables are settled and collected in the following year.

The balances also include amounts receivable from applying the methodology provided in the prevailing remuneration model for transmission activities in Spain, which stipulates that remuneration of facilities commissioned in year ‘n’ begins as of year ‘n+2’.

Other receivables at 31 December 2023 and 2022 included current assets from trade receivables due to modifications to electricity facilities requested by third parties.

Personnel at both year-ends mainly reflects the short-term loans extended by the Company to its staff.

Lastly, at 31 December 2023 and 2022 public entities, other reflects mainly value-added tax (VAT) and Canary Island tax (IGIC) receivable by the Company.

No material amounts were past due by more than 12 months at 31 December 2023 and 2022 (note 17).

12 Prepayments for non-current and current assets

Prepayments for non-current and current assets in 2023 and 2022 reflect primarily insurance policies taken out by the Company and fees for the credit facilities entered into.

13 Equity

a) Capital risk management

The Group's capital management objectives are to safeguard the ability of its companies to continue as a going concern in order to generate returns for shareholders and maintain an optimum capital structure to reduce the cost of capital.

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

The Company monitors is capital periodically using a gearing ratio, which in 2023 stood at 55.44% (2022: 52.40%). This ratio is calculated as net financial debt divided by equity plus net financial debt. The calculation is as follow:

Thousands of euros	2023	2022
Non-current payables[(1)]	3,862,225	4,142,469
Current payables[(1)]	1,058,723	491,803
Accrued interest payable (note 15)	(6,767)	(6,953)
Foreign currency derivatives (Note 19)	(20,313)	(28,459)
Cash and cash equivalents	(342,683)	(594,357)
Current investments (note 9)	-	(300,000)
Net financial debt	**4,551,185**	**3,704,503**
Equity	3,658,662	3,365,157
Gearing ratio	**55.44%**	**52.40%**

[(1)] Includes loans and borrowings and payables to group companies and associates. Does not include income tax payable/receivable by the Company vis-à-vis Redeia Corporación SA, the Parent of the Tax Group.

On 2 June 2023, credit rating agency Standard & Poor’s issued a new report on the Company affirming Red Eléctrica’s long-term rating. Therefore, it affirmed its ‘A-/A-2’ long- and short-term issuer credit ratings, stable outlook, on the Parent, Redeia Corporación, S.A., and Group subsidiaries Red Eléctrica Financiaciones S.A.U. and Redeia Financiaciones, S.L.U.

On 9 October 2023, Fitch Ratings affirmed Red Eléctrica's long-term rating. After this announcement, Fitch had “A-/F1” long- and short-term ratings, stable outlook on the Company, its Parent, Redeia Corporación, S.A., and Group companies Red Eléctrica Financiaciones, S.A.U. and Redeia Financiaciones, S.L.U.

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

b) Capital and reserves

- **Share capital**

At 31 December 2023 and 2022, the Company's share capital comprised 400,003,001 registered shares, all fully subscribed and paid in by Redeia Corporación S.A., with a unit par value of 2 euros, carrying the same voting and dividend rights.

In 2022, the Company increased share capital by 2 euros through the issuance of one Company share with a unit par value of 2 euros and of the same class and series and the shares in issue at the time, with a share premium of 515,000 thousand euros.

That share was purchased by the sole shareholder, Redeia Corporación S.A. and paid for by means of the partial forgiveness of the loan described in note 25.

The Parent of the Group, Redeia Corporación S.A., is subject to the shareholder limitations stipulated in additional provision twenty-three of the Spanish Law 54/1997 of 27 November 1997 and article 30 of the Electricity Sector Act.

Specifically, any individual or entity may hold shares in Redeia Corporación S.A., provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3% of the total. These shares may not be syndicated for any purpose. Voting rights in Redeia Corporación, S.A. are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, notwithstanding the limits applicable to generators and agents under article 30 of the Electricity Sector Act. The above limits on shareholdings in Redeia Corporación, S.A. do not apply to the state industrial holding company, SEPI for its acronym in Spanish, which must maintain a shareholding of at least 10%. At 31 December 2023 and 2022, SEPI held 20% of Redeia Corporación, S.A.'s share capital.

- **Share premium**

The balance of the share premium account at 31 December 2023 stood at 569,319 thousand euros (2022: 569,319 thousand euros). This reserve is freely distributable.

- **Reserves**

This heading includes:

  - Legal reserve

Spanish companies must transfer 10% of profit for the year to a legal reserve until this reserve is equivalent to at least 20% of share capital. This reserve cannot be distributed to shareholders and may only be used to offset losses, provided no other reserves are available. Under certain conditions, this reserve may also be used to increase share capital. At 31 December 2023 and 2022, the legal reserve was equal to 20% of share capital (160,001 thousand euros).

  - Revaluation reserve (Law 16/2012 of 27 December 2012).

In 2013, as allowed by Law 16/2012 of 27 December 2012 introducing a range of tax measures designed to consolidate Spain's public finances and shore up economic activity, the Company availed itself of the possibility of restating its property, plant and equipment. The revaluation reserve amounts to 123,959 thousand euros, net of the one-time tax of 5% on the revaluation gain, and there were no changes in the balance in 2023 and 2022.

That reserve can be used to offset losses or increase capital ever since the three-year tax inspection prescription period (counting from presentation of the 2012 return) elapsed. Ten years after that same date it will qualify as an unrestricted reserve. However, this balance may only be distributed, directly or indirectly, when the restated assets have been fully depreciated, sold or derecognised.

- Inalta assets revaluation reserve

The balance at year-end 2023 and 2022 of this reserve was negative in an amount of 20,470 thousand, reflecting the difference between the value for tax purposes of the assets of INALTA, which merged with Red Eléctrica in 2006, and their restated amount in accordance with Law 16/2012 of 27 December 2012. As the carrying amount of the assets recognised in the 2006 business combination exceeded their restated amount in accordance with Law 16/2012 of 27 December 2012, the Company did not recognise an increase in equity, rather recognised the asset revaluation with a charge to this reserve.

The revaluation reserve balance did not change in 2023 and 2022.

- Other reserves

This heading includes voluntary reserves, which at year-end 2023 amounted to 1,126,859 thousand euros (2022: 613,301 thousand euros). These reserves arose primarily from the distribution of prior-year profit.

Also included is the reserve for actuarial gains and losses, which at 31 December was negative in an amount of 1,103 thousand euros (2022: negative 3,449 thousand euros) and arose from the measurement of the Company's commitments with serving and retired employees (see note 14).

Reserves also includes the capitalisation reserve, in the amount of 48,778 thousand euros at 31 December 2023 and 2022 originated from the reclassification of voluntary reserves to the capitalisation reserve in 2015, with a charge against 2019 earnings. The capitalisation reserve for the year ended 31 December 2023 will also be held in the Company, with a charge to profit or loss for 2023 (note 4). This reserve will be restricted for five years. Associated with this reserve, each company in the Tax Group makes the corresponding adjustments to their annual income tax (note 23). The Tax Group to which the Company belongs, as stipulated in article 25 of Spain's Corporate Income Tax Act, Law 27/2014 of 27 November 2014, appropriates the capitalisation reserve in accordance with article 62.1 d) of that same piece of legislation.

- **Own shares**

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

- **Profit for the year**

Profit for 2023 amounted to 545,784 thousand euros (2022: 513,558 thousand euros).

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

The interim dividends approved by the Company's sole director for 2023 were deducted from equity at 31 December 2023. The interim dividends were distributed in accordance with the requirements of article 277 of the Corporate Enterprises Act.

On 25 April 2023, the sole director agreed to pay a first interim dividend from 2023 earnings in the amount of 0.2720 euros per share, payable on 25 April 2023, for a total distribution of 108,801 thousand euros.

The cash flow forecast for the period elapsing between 31 March 2023 and 25 April 2023 showed the existence of sufficient liquidity to substantiate its distribution. As required by article 277 a) of the Corporate Enterprises Act, the sole director authorised the issuance of the following liquidity statement:

Liquidity statement of Red Eléctrica de España, S.A.U.	Thousands of euros
Funds available at 31 March 2023	
Undrawn non-current loans	1,072,000
Undrawn current loans	130,000
Short-term financial investments and cash	523,181
Forecast inflows:	
Operating transactions	28,209
Financing transactions	590
Forecast outflows:	
Operating transactions	(128,196)
Financing transactions	(15,201)
Forecast fund availability at 25 April 2023	**1,610,583**

On 25 July 2023, the sole director agreed to pay a second interim dividend from 2023 earnings in the amount of 0.2681 euros per share, payable on 25 July 2023, for a total distribution of 107,241 thousand euros.

The cash flow forecast for the period elapsing between 30 June 2023 and 25 July 2023 showed the existence of sufficient liquidity to substantiate its distribution. As required by article 277 a) of the Corporate Enterprises Act, the sole director authorised the issuance of the following liquidity statement:

Liquidity statement of Red Eléctrica de España, S.A.U.	Thousands of euros
Funds available at 30 June 2023	
Undrawn non-current loans	1,072,000
Undrawn current loans	130,000
Short-term financial investments and cash	1,052,645
Forecast inflows:	
Operating transactions	46,702
Financing transactions	281
Forecast outflows:	
Operating transactions	(118,936)
Financing transactions	(509,957)
Forecast fund availability at 25 July 2023	**1,672,735**

On 31 October 2023, the sole director agreed to pay a third interim dividend from 2023 earnings in the amount of 0.2571 euros per share, payable on 31 October 2023, for a total distribution of 102,841 thousand euros.

The cash flow forecast for the period elapsing between 30 September 2023 and 31 October 2023 showed the existence of sufficient liquidity to substantiate its distribution. As required by article 277 a) of the Corporate Enterprises Act, the sole director authorised the issuance of the following liquidity statement:

Liquidity statement of Red Eléctrica de España, S.A.U.	Thousands of euros
Funds available at 30 September 2023	
Undrawn non-current loans	1,000,000
Undrawn current loans	202,000
Short-term financial investments and cash	509,416
Forecast inflows:	
Operating transactions	98,330
Financing transactions	1,854
Forecast outflows:	
Operating transactions	(91,460)
Financing transactions	(90,489)
Forecast fund availability at 31 October 2023	**1,629,651**

On 19 December 2023, the sole director agreed to pay a fourth dividend from 2023 earnings in the amount of 0.1731 euros per share, payable on 19 December 2023, for a total distribution of 69,240 thousand euros.

The cash flow forecast for the period elapsing between 30 November 2023 and 19 December 2023 showed the existence of sufficient liquidity to substantiate its distribution. As required by article 277 a) of the Corporate Enterprises Act, the sole director authorised the issuance of the following liquidity statement:

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

	Thousands of euros
Funds available at 30 November 2023	
Undrawn non-current loans	1,000,000
Undrawn current loans	202,000
Short-term financial investments and cash	553,000
Forecast inflows:	
Operating transactions	46,815
Financing transactions	853
Forecast outflows:	
Operating transactions	(242,217)
Financing transactions	(14,009)
Forecast fund availability at 19 December 2023	**1,546,442**

These dividends did not exceed the profit generated by the Company since its last year-end, net of the estimated income tax payable on those earnings, as required under article 277 of the consolidated text of the Corporate Enterprises Act.

In 2023, a total amount of 388,123 thousand euros of interim dividends was distributed to the Parent (2022: no amount). Given the Company's ability to generate cash and its undrawn credit facilities (note 17), it expected to have sufficient liquidity during a period of one year from declaration of each interim dividend.

c) Valuation adjustments

Hedging transactions under this heading reflects changes in the value of derivative financial instruments designated as cash flow hedges. The amount of these changes at year-end 2023 was negative in the amount of 4,060 thousand euros (2022: 3,049 thousand euros).

Other under this heading at 31 December 2023 included 139,587 thousand euros (2022: 139,593 thousand euros) of tax revenue from deferred tax credits and rebates for investment in fixed assets in the Canary Islands (notes 5-j and 23).

d) Grants, donations and bequests received

Grants, donations and bequests received at 31 December 2023 and 2022 related to non-repayable grants related to assets awarded by different official bodies.

This heading also includes amounts received under agreements with third parties to finance or pay for the Company's fixed assets, which were the main additions in 2023

The reconciliation of opening and closing balances of grants in 2023 and 2022:

Thousands of euros	31 December 2021	Additions	Amounts transferred to the income statement	31 December 2022	Additions	Amounts transferred to the income statement	31 December 2023
Grants	409,427	24,449	(16,364)	417,512	157,270	(16,657)	558,125

Amounts transferred to the income statement reflect grants taken to profit or loss during the year based on the useful life of the related facilities (note 5-j).

14 Non-current and current provisions

The reconciliation of the opening and closing balances of non-current provisions in 2023 and 2022:

Thousands of euros	31 December 2021	Additions	Applications/ reversals	Actuarial gains and losses	31 December 2022	Additions	Applications/ reversals	Actuarial gains and losses	Transfers to current	31 December 2023
Provisions for employee benefits	56,595	11,208	(1,367)	(16,467)	49,969	2,872	(1,049)	(3,128)	(4,145)	44,519
Other provisions	54,478	14,445	(11,254)	-	57,669	6,924	(7,927)	-	-	56,666
Total	**111,073**	**25,653**	**(12,621)**	**(16,467)**	**107,638**	**9,796**	**(8,976)**	**(3,128)**	**(4,145)**	**101,185**

- **Provisions for employee benefits**

Provision for employee benefits includes primarily the defined benefit plans, which reflect mainly the Company's future commitments with employees (mostly health insurance) upon their retirement, calculated based on actuarial studies carried out by an independent expert. The assumptions used in 2023 and 2022 were as follows:

	Actuarial assumptions	
	2023	2022
Discount rate	3.31%	2.87%
Cost increase	3.00%	3.00%
Mortality table	PER2020_Col_1er.orden	PER2020_Col_1er.orden

The impact of a one point increase and a one point decrease in the health insurance costs would be as follows:

	2023					
	Health insurance cost (+1%)		Sensitivity	Health insurance cost (-1%)		Sensitivity
Thousands of euros	4%	3%		2%	3%	
Current service cost	697	542	155	425	542	(117)
Interest cost of net post-employment health insurance costs	1,135	1,132	3	1,130	1,132	(2)
Accumulated post-employment benefit obligations for health insurance	39,308	32,653	6,655	27,430	32,653	(5,223)

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

Elsewhere, the impact of a 0.50% decrease in the discount rate used as actuarial assumption in 2023 and 2022 on the costs of the health cover are shown below:

Thousands of euros	2023			2022		
	Discount rate		Sensitivity	Discount rate		Sensitivity
	3.31%	2.81%		2.87%	2.37%	
Current service cost	542	612	70	629	715	86
Interest cost of net post-employment health insurance costs	1,132	962	(170)	1,356	1,120	(236)
Accumulated post-employment benefit obligation for health insurance	32,653	35,695	3,042	34,346	37,765	3,419

The accrued amounts of these defined benefit plans are recognised as personnel expenses or as finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement in 2023 were 618 thousand euros and 1,326 thousand euros, respectively (2022: 725 thousand euros and 1,591 thousand euros, respectively). Changes in the present value of these obligations resulting from actuarial gains and losses are recognised, net of tax, within reserves in equity. The gross amount recognised in 2023 was a negative 4,145 thousand euros (2022: a negative 16,467 thousand euros) and is shown under actuarial gains and losses in the reconciliation above.

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

- **Other provisions**

Other provisions includes primarily the amounts recognised by the Company annually to cover potentially unfavourable rulings, primarily on administrative proceedings, administrative disciplinary proceedings, judicial reviews (mostly expropriation proceedings) and out-of-court claims. The amounts of the provisions recognised for these events are measured considering the economic compensation of the ongoing appeals, litigation, claims and general legal or out-of-court proceedings to which the Company is party.

15 Non-current and current payables

The breakdown of these headings at 31 December 2023 and 2022:

Thousands of euros	31 December 2023	31 December 2022
Loans and borrowings	668,923	948,854
Other non-current liabilities	168	168
Non-current payables	**669,091**	**949,022**

Thousands of euros	31 December 2023	31 December 2022
Loans and borrowings	279,964	71,492
Accrued interest payable	6,767	6,953
Suppliers of fixed assets	297,847	332,736
Other current payables	295,449	425,658
Current payables	**880,027**	**836,839**

Non-current and current loans and borrowings at 31 December 2023 and 2022 comprised non-current and current loans and credit facilities.

At 31 December 2023, the interest accrued but not yet payable on those balances amounted to 5,023 thousand euros (2022: 5,208 thousand euros) and is included under accrued interest payable. This item also reflects the interest accrued but not yet payable on derivative financial instruments amounting to 1,744 thousand euros at 31 December 2023 and 2022.

The average rate of interest accrued on loans and borrowings in 2023 was 1.94% including hedges (2022: 0.94%).

The analysis of the Company's derivative financial instruments is provided in note 19.

Suppliers of fixed assets reflects mainly balances arising on the construction of technical electricity facilities and other items.

Other current payables reflects mainly unsettled amounts with the Spanish electricity system and the year-end balance of the collateral swaps under the collateral assignment agreements entered into to eliminate the credit risk of certain derivative financial instruments (note 19).

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 Redeia Infraestructuras de Telecomunicación, S.A. to transfer the right to use dark fibre amounting to 60,488 thousand euros (2022: 64,587 thousand euros) (note 7). These advance payments received are recognised in profit or loss over the term of the related agreements, which have maturities up to 2041.

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 compromise its objectives and activities are identified, analysed, assessed, managed and controlled, and that these processes are carried out systematically, framed by uniform criteria.

The main guidelines set down in those principles can be summed up as follows:

- Risk management should be fundamentally proactive and directed towards the medium and long term, taking into account possible scenarios in an increasingly global environment.
- Risk should generally be managed in accordance with consistent criteria, distinguishing between the importance of the risk (probability/impact) and the investment and resources needed to mitigate it.
- Financial risk management should be designed to avoid undesirable movements in the Company's fundamental value, rather than generating extraordinary gains.

The Group's finance management is responsible for managing financial risk, ensuring consistency with the Company's stated strategy, 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 financial risks, as well as the performance indicators and measurement and control tools specific to each risk, are set down in the Group's Comprehensive Risk Management System and are formally documented in the Comprehensive Risk Management Policy, the General Management Procedure and the internal risk control system.

The financial risks to which the Company is exposed are:

a) Market risk

Market risk reflects the risk of movements in the financial markets with respect to prices, interest rates, exchange rates, lending terms and conditions and other variables that could affect the Company's finance costs in the short, medium or long term.

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

- **Interest rate risk**

Movements in interest rates affect both the fair value of the assets and liabilities that carry interest at a fixed rate and the future cash flows of assets and liabilities benchmarked to floating rates.

Interest rate risk management focuses primarily on hedging the interest rate on the debt associated with the Company's activity. The structure of financial debt at 31 December 2023 and 2022:

	2023		2022	
Thousands of euros	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**
Total financial debt	3,881,277	1,032,904	4,298,870	328,449
Percentage	79%	21%	93%	7%

The Company's financial debt structure implies low exposure to interest rate risk framed by the Company's borrowing policy, specifically including its target of aligning its cost of debt with the financial rate of return applied to the Company's regulated assets.

The Company's exposure to interest rate risk at year-end 2023 and 2022 affects primarily equity for the year due to changes in the fair value of derivative financial instruments. Sensitivity analysis of this risk (in thousands of euros):

	Effect on equity			
	Market interest rate fluctuations			
Thousands of euros	2023		2022	
Effect on equity:	**0.10%**	**-0.10%**	**0.10%**	**-0.10%**
Interest rate hedges:				
- Cash flow hedges:				
Interest rate swap. EUR interest rate	1,486	(1,498)	1,340	(1,353)
Interest rate and exchange rate hedges				
- Cash flow hedges:				
Cross-currency swap. EUR interest rate	842	(851)	928	(937)
Cross-currency swap. USD interest rate	(854)	862	(1,034)	1,044

A change in either direction of 0.10% in interest rates in 2023 would have increased or decreased earnings by 864 thousand euros (2022: 364 thousand euros).

- **Currency risk**

Management of this financial risk addresses transaction risk derived from having to collect or pay cash in the future in a currency other than the euro.

In order to eliminate the foreign exchange risk derived from loans with Group company Redeia Financiaciones, S.L.U., the Company has arranged cash flow hedges, specifically USD/EUR cross-currency swaps which cover the total amount and duration until October 2035 (note 19).

- **Credit risk**

The exposure of the Company's core activities to credit risk is not material given the nature of revenues from electricity transmission and system operation in Spain, and the solvency of the electricity system agents.

In any case, credit risk is managed through policies stipulating requirements regarding counterparty creditworthiness and the provision of additional guarantees when necessary.

In addition, at year-end the Company's exposure to credit risk due to changes in the fair value of its derivatives was insignificant. Since 2015, it has mitigated this risk by entering into collateral assignment agreements involving collateral swaps with various counterparties.

At 31 December 2023, less than 1% of balances other than regulated revenue are past due (2022: less than 1%). In any event, the Company does not consider there to be any risk regarding recoverability. Considering the disclosure in the first paragraph of this section, it considers the credit quality of its receivables to be high.

b) Liquidity risk

Liquidity risk arises from differences between the amounts and timing of receipts and payments of the Company’s various assets and liabilities.

This risk is managed primarily by controlling the timing of financial debt and holding a considerable volume of available funds throughout the year.

The Company’s liquidity position in 2023 was underpinned by strong cash flow generation, backed by undrawn current and non-current credit facilities at 31 December 2023 amounting to 2,280,008 thousand euros (2022: 2,063,504 thousand euros) and cash surpluses amounting to 342,547 thousand euros (2022: 894,292 thousand euros).

18 Analysis of financial instruments

a) Analysis by category

The carrying amounts of the Company’s financial instruments, other than its equity investments in group companies, by category:

- **Financial assets**

	Financial instruments by category			
	31 Dec. 2023			
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	-	3,141	-	3,141
Derivative financial instruments	-	-	64,757	64,757
Other financial assets	-	179,086	-	179,086
Other financial assets of group companies	-	1,401	-	1,401
Non-current financial assets	468	183,628	64,757	248,853
Trade and other receivables	-	1,053,969	-	1,053,969
Receivables from group companies and associates	-	1,107	-	1,107
Loans to group companies and associates	-	9,514	-	9,514
Other financial assets	-	4,423	-	4,423
Current financial assets	-	1,069,013	-	1,069,013
Total	**468**	**1,252,641**	**64,757**	**1,317,866**

Thousands of euros	Financial instruments by category 31 Dec. 2022			
	Financial assets at fair value through equity	Financial assets at amortised cost	Hedging derivatives	Total
Equity instruments	468	-	-	468
Loans to third parties	-	3,669	-	3,669
Derivative financial instruments	-	-	91,298	91,298
Other financial assets	-	119,692	-	119,692
Other financial assets of group companies	-	1,401	-	1,401
Non-current financial assets	468	124,762	91,298	216,528
Trade and other receivables	-	995,996	-	995,996
Receivables from group companies and associates	-	672	-	672
Loans to group companies and associates	-	10,335	-	10,335
Other financial assets	-	306,008	-	306,008
Current financial assets	-	1,313,011	-	1,313,011
Total	**468**	**1,437,773**	**91,298**	**1,529,539**

- **Financial liabilities**

Thousands of euros	Financial instruments by category 31 Dec. 2023		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Loans and borrowings	668,923	-	668,923
Payables to group companies and associates	3,193,302	-	3,193,302
Other liabilities	168	-	168
Non-current financial liabilities	3,862,393	-	3,862,393
Loans and borrowings	286,731	-	286,731
Payables to group companies and associates	858,304	-	858,304
Trade and other payables	1,080,610	-	1,080,610
Current financial liabilities	2,225,645	-	2,225,645
Total	**6,088,038**	**-**	**6,088,038**

Thousands of euros	Financial instruments by category 31 Dec. 2022		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Loans and borrowings	948,854	-	948,854
Payables to group companies and associates	3,193,615	-	3,193,615
Other liabilities	168	-	168
Non-current financial liabilities	4,142,637	-	4,142,637
Loans and borrowings	78,445	-	78,445
Payables to group companies and associates	476,619	-	476,619
Trade and other payables	1,681,524	-	1,681,524
Current financial liabilities	2,236,588	-	2,236,588
Total	**6,379,225**	**-**	**6,379,225**

b) Analysis by maturity

- **Financial liabilities**

Thousands of euros	2023 Maturity of financial liabilities							
	2024	2025	2026	2027	2028	Thereafter	Valuation adjustments	Total
Payables to group companies in euros	855,816	500,000	500,000	675,000	700,000	615,000	(22,942)	3,822,874
Payables to group companies in foreign currency	2,488	135,747	-	-	-	90,497	-	228,732
Loans and borrowings in euros	286,731	79,993	74,993	63,882	55,549	394,835	(329)	955,654
Other liabilities	-	-	-	-	-	168	-	168
Trade and other payables	1,080,610	-	-	-	-	-	-	1,080,610
Total	**2,225,645**	**715,740**	**574,993**	**738,882**	**755,549**	**1,100,500**	**(23,271)**	**6,088,038**

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

The maturity analysis of the Company's derivative financial instruments is provided in note 19.

19 Derivative financial instruments

Framed by its financial risk management policy, the Group has entered into two types of derivative financial instruments: forward interest rate swaps and cross-currency swaps (or foreign exchange hedges). Forward interest rate swaps hedge the finance cost of highly probable forecast transactions. Similarly, cross-currency swaps allow fixed- or floating-rate debt denominated in USD to be exchanged for fixed- or floating-rate debt denominated in EUR, thereby hedging the interest and principal payments in USD.

The Company layers in adjustments for credit risk in order to reflect own credit risk and counterparty credit risk in the estimated fair value of its derivative financial instruments, calculated using generally accepted valuation models.

To determine the credit risk adjustment, it uses a technique based on the calculation, using simulations, of the total expected exposure (which therefore includes current and potential exposure), adjusted for the probability of default over time and the loss given default assigned to the Company and each of its counterparties.

The total expected exposure of derivative financial instruments is obtained using observable market inputs such as yield, currency and volatility curves, factoring in market conditions at the measurement date.

The inputs used to determine own credit risk and counterparty credit risk (which in turn determine the probability of default) are mainly based on own credit spreads and the spreads of comparable companies currently traded on the market (CDS curves, yields on bond issues).

Also, to adjust fair value for credit risk, the Company factors in credit enhancements from guarantees and collateral when determining the loss given default rate to apply to each position. Loss given default is considered constant in time. If there are no credit enhancements from guarantees or collateral, a minimum recovery rate of 40% was modelled.

To eliminate the credit risk embedded in the cross-currency swaps arranged to hedge the foreign exchange rate from private placements in the US, collateral assignment agreements were entered into with counterparties in 2015 entailing collateral swaps, which remained in force in 2023 and 2022 (note 15).

The Company uses mid-market prices taken from external sources of information widely used in the financial markets as observable inputs.

These derivative financial instruments are classified within Level 2 for fair value hierarchy purposes.

The breakdown of the Company's derivative financial instruments by nature at year-end 2023 and 2022:

				31 Dec. 2023			
				Non-current		Current	
Thousands of euros	Hedged principal		Term to expiry	Assets	Liabilities	Assets	Liabilities
Interest rate hedges:							
- Forward cash flow hedges:							
Interest rate swap beginning in 2024	200,000	thousand euros	Up to 2030	25,049	-	-	-
Interest rate swap beginning in 2025	200,000	thousand euros	Up to 2031	21,780	-	-	-
Interest rate and exchange rate hedges							
- Cash flow hedges: (Cross-currency swap)							
Interest rate hedges	250,000	thousand US dollars	Up to 2035	(2,385)	-	-	-
Exchange rate hedges				20,313	-	-	-
Total				**64,757**	**-**	**-**	**-**

				31 Dec. 2022			
				Non-current		Current	
Thousands of euros	Hedged principal		Term to expiry	Assets	Liabilities	Assets	Liabilities
Interest rate hedges:							
- Forward cash flow hedges:							
Interest rate swap beginning in 2023	100,000	thousand euros	Up to 2029	15,301	-	-	-
Interest rate swap beginning in 2024	100,000	thousand euros	Up to 2030	15,878	-	-	-
Interest rate swap beginning in 2025	200,000	thousand euros	Up to 2031	28,743	-	-	-
Interest rate and exchange rate hedges							
- Cash flow hedges: (Cross-currency swap)							
Interest rate hedges	250,000	thousand US dollars	Up to 2035	2,917	-	-	-
Exchange rate hedges				28,459	-	-	-
Total				**91,298**	**-**	**-**	**-**

The breakdown of these derivative financial instruments by maturity date:

Thousands of euros	31 Dec. 2023									
	Hedged principal		Term to expiry	2024	2025	2026	2027	2028	2029 and thereafter	Total
Interest rate hedges:										
- Forward cash flow hedges:										
Interest rate swap beginning in 2024	200,000	thousand euros	Up to 2030	-	-	-	-	-	25,049	25,049
Interest rate swap beginning in 2025	200,000	thousand euros	Up to 2031	-	-	-	-	-	21,780	21,780
Interest rate and exchange rate hedges										
- Cash flow hedges: (Cross-currency swap)										
Interest rate hedges	250,000	thousand US dollars	Up to 2035	-	(7,550)	-	-	-	5,165	(2,385)
Exchange rate hedges				-	14,106	-	-	-	6,207	20,313
Total				**-**	**6,556**	**-**	**-**	**-**	**58,201**	**64,757**

Thousands of euros	31 Dec. 2022									
	Hedged principal		Term to expiry	2023	2024	2025	2026	2027	2028 and thereafter	Total
Interest rate hedges:										
- Forward cash flow hedges:										
Interest rate swap beginning in 2023	100,000	thousand euros	Up to 2029	-	-	-	-	-	15,301	15,301
Interest rate swap beginning in 2024	100,000	thousand euros	Up to 2030	-	-	-	-	-	15,878	15,878
Interest rate swap beginning in 2025	200,000	thousand euros	Up to 2031	-	-	-	-	-	28,743	28,743
Interest rate and exchange rate hedges										
- Cash flow hedges: (Cross-currency swap)										
Interest rate hedges	250,000	thousand US dollars	Up to 2035	-	-	(78)	-	-	2,995	2,917
Exchange rate hedges				-	-	17,075	-	-	11,384	28,459
Total				**-**	**-**	**16,997**	**-**	**-**	**74,301**	**91,298**

20 Trade and other payables

The breakdown of this heading at year-end 2023 and 2022:

Thousands of euros	31 December 2023	31 December 2022
Payables to group companies	44,059	26,311
Other payables	471,236	905,601
Personnel	16,078	17,529
Public entities, other	3,827	43,266
Total	**535,200**	**992,707**

Payables to group companies at 31 December 2023 and 2022 reflected amounts payable to other Group companies. It also includes amounts related to contracts entered into by the Company to transfer the right to use dark fibre (notes 7 and 25).

Other payables in 2023 and 2022 reflect payables from repair and maintenance work and modifications carried out by the Company to technical electricity facilities and other items. Also included are amounts pending reimbursement in respect of provisional tariffs arising from the difference between the amount settled and collected and the revenue from transmission services accrued.

After approval by the MITERD of Order TED/1311/2022, establishing the definitive remuneration for 2016, and Order TED/1343/2022, establishing the definitive remuneration for 2017, 2018 and 2019, and approval by the CNMC of its Resolution of 27 July 2023 setting the definitive remuneration for 2020, in 2023 the differences between the amount charged and the amount effectively approved for the years from 2016 to 2020 were reimbursed (notes 3 and 24-a).

At year-end 2023, the amount pending reimbursement for the difference between the provisional tariff settled and the revenue from transmission service accrued for the years from 2021 to 2023 was recognised in other payables.

Other payables also reflects current contract liabilities with customers for revenue received in advance for engineering and construction work and modifications to technical electricity facilities for third parties for an amount of 47 million euros.

Personnel reflects to bonuses and other remuneration pending payment to Company employees at 31 December 2023.

At both reporting dates, the balance of public entities, other related primarily to VAT and social security contributions payable by the Company.

21 Current accruals

This heading at 31 December 2023 and 2022 reflects amounts received in advance that accrue in the next reporting period.

22 Disclosures regarding average supplier payment term. Additional Provision Three - "Disclosure requirements" under Law 15/2010 of 5 July.

One of the objectives of Law 18/2022 of 28 September 2022, on business creation and growth, is to reduce late payments on trade debt and enhance access to financing.

Among other things, it amends Law 15/2010 of 5 July 2010, which in turn amended Law 3/2004 of 29 December 2004, establishing measures to tackle supplier non-payment, regulating the deadlines for settling trade transactions between companies or between companies and the public sector, specifically in Additional Provision Three thereof.

The amendments made to Additional Provision Three by Law 18/2022 require:

- All corporate enterprises to expressly disclose in the notes to their annual financial statements their average supplier payment terms.
- Listed companies and unlisted companies that do not present short-form financial statements, are required to publish, in addition to their average payment terms, the monetary value of and number of invoices paid within the legally stipulated deadline and their percentage shares of the corresponding totals. That information must be included in their financial statement notes and on their corporate websites if they have one.

In its official journal no. 132/2022, the ICAC writes that this new legislation expands the disclosures that corporate enterprises must include in their financial statement notes and on their corporate website, to the extent they have one. However, it does not modify the methodology used to calculate the average supplier payment term and therefore does not modify its earlier resolution of 29 January 2016, which sought to clarify and systematise the information companies are required to include in their separate and consolidated financial statements for the purposes of complying with their disclosure requirements under Additional Provision Three of Law 15/2010 of 5 July 2010, amending Law 3/2004 of 29 December 2004.

As required under these regulations, the disclosures regarding the Company's average payment terms in 2023 and 2022 are provided below:

Days	2023	2022
Average supplier payment term	47	41
Transactions paid ratio	48	43
Transactions payable ratio	15	15

Thousands of euros	2023	2022
Total payments made	439,921	364,875
Total payments outstanding	13,015	21,815

Thousands of euros	2023	2022
Amount of invoices paid within the maximum period stipulated	419,638	333,379
Total payments made	439,921	364,875
Amount of invoices paid within the maximum period stipulated as a % of total payments made	95.4%	91.4%

	2023	2022
Number of invoices paid within the maximum period stipulated	22,138	20,365
Total number of invoices paid	23,090	22,773
Number of invoices paid within the maximum period stipulated as a % of total invoices paid	95.9%	89.4%

23 Taxation

Since its incorporation in 2007, the Company files its taxes under the tax consolidation regime as part of Tax Group 57/02, of which it is a subsidiary. The Parent of the Tax Group is Redeia Corporación, S.A.

a) Reconciliation of accounting profit and taxable income

Accounting profit differs from taxable income due to the different treatment afforded certain transactions for tax versus accounting purposes. Below is a reconciliation of accounting profit for 2023 and 2022 and the taxable income the Company expects to report when its annual financial statements have been approved:

Thousands of euros	2023	2022
Accounting profit for the year before tax	**710,714**	**682,298**
Permanent differences	(54,377)	(3,384)
Taxable accounting income	656,337	678,914
Temporary differences:		
Originating in the current year	12,882	14,204
Reversals during the year	70,961	67,917
Total	**83,843**	**82,121**
Offset of tax loss carryforwards	-	-
Taxable income	**740,180**	**761,035**

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

Income tax expense each year was calculated as follows:

Thousands of euros	2023	2022
Accounting profit for the year before tax	710,714	682,298
Permanent differences	(54,377)	(3,384)
Taxable accounting income	656,337	678,914
Tax rate	25%	25%
Tax at the current rate	164,084	169,729
Deductions	(6,610)	(6,550)
Expense for the year	157,474	163,179
Foreign income tax	-	56
Other adjustments	7,456	5,505
Income tax expense	**164,930**	**168,740**
Effective income tax rate	**23.21%**	**24.73%**
Breakdown of income tax:		
Current income tax	183,753	188,602
Deferred income tax	(20,372)	(19,931)
Other adjustments	1,549	69
Income tax expense	**164,930**	**168,740**

The effective income tax rate is shaped by permanent differences, tax relief and foreign income tax. The effective rate in 2023 was 23.21% (2022: 24.73%).

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

The capitalisation reserve endowment for 2023 will be made by the Company as a subsidiary of the same Tax Group, as allowed in article 62.1 d) of Law 27/2014.

Deductions derived mainly to credits for investments in fixed assets in the Canary Islands, research, development and technological innovation expenditure, relief for donations and company contributions to pension schemes.

Given the financial nature of the deduction for investments in fixed assets in the Canary Islands, the Company recognises the impact on profit or loss over several periods based on the useful lives of the assets for which they were granted as stipulated in Recognition and Measurement Standard 13 *Income Tax* of the General Accounting Plan approved by Royal Decree 1514/2007 of 16 November 2007, resolution 636/2008 issued by Spain's Accounting and Auditing Institute (ICAC) on 21 October 2008, and the resolution issued by the ICAC on 9 February 2016.

The amount of deferred deductions recognised in 2023 was 5,890 thousand euros (2022: 5,436 thousand euros) and the amount unrecognised at 31 December 2023 was 139,587 thousand euros (2022: 139,593 thousand euros) (note 13-c).

c) Deferred tax assets and liabilities

Temporary differences in the recognition of income and expenses for accounting and tax purposes at December 2023 and 2022, and their corresponding accumulated tax effect (assets and liabilities), are as follows:

	2023		2022	
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	35,104	(2,588)	32,971	18,777
Originating in the current year	3,415	1,353	4,550	-
Reversals of prior years	(5,712)	(782)	(4,531)	(21,365)
Adjustments of prior years	165	-	2,114	-
Total deferred tax assets	**32,972**	**(2,017)**	**35,104**	**(2,588)**
Deferred tax liabilities:				
Originating in prior years	(437,875)	(140,187)	(455,684)	(136,476)
Originating in the current year	(190)	(46,871)	(1,748)	(3,711)
Reversals of prior years	22,859	1,016	21,660	-
Adjustments of prior years	-	-	(2,103)	-
Total deferred tax liabilities	**(415,206)**	**(186,042)**	**(437,875)**	**(140,187)**

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, introducing a range of tax measures designed to consolidate Spain's public finances and shore up economic activity, and as a result of the start in 2015 of depreciation for tax purposes of the net increase in value resulting from the asset revaluation exercise undertaken at 31 December 2012, as stipulated in article 9 of that same piece of legislation. It also included amounts related to long-term employee benefit obligations.

The deferred tax liabilities derive from the free and accelerated depreciation of certain assets and the inclusion of the assets and liabilities of REDALTA and INALTA, which were taken over and absorbed by Redeia Corporación, S.A. in 2006, as well as the grants related to assets received. In 2023, deferred tax liabilities due to accelerated depreciation, as provided for in additional provision eleven of Royal Legislative Decree 4/2004 and transitional provision thirty-four of Spain's Corporate Income Tax Act, Law 27/2014, amounted to 359,868 thousand euros (2022: 378,530 thousand euros).

The notes to Redeia Corporación, S.A.'s financial statements for 2006 included the disclosures required under 86 of Law 27/2014 regarding the merger between REDALTA and INALTA and its financial statements for 2008 the disclosures regarding the contribution by Redeia Corporación, S.A. of the Company's Spanish grid TSO business.

d) Years open to inspection

In accordance with prevailing tax legislation, tax returns cannot be considered final until they have been inspected by the tax authorities or until the applicable inspection period has elapsed.

In 2022, the tax authorities initiated general inspection proceedings covering the periods between February 2018 and December 2020 in respect of VAT, personal income tax withholdings and non-resident withholdings. In 2023, the Company signed in agreement the personal impact tax and VAT assessments handed down which did not imply any penalties and did not have any impact on its earnings in 2023.

In March 2022, the authorities initiated general inspection proceedings with respect to corporate income tax (consolidated tax regime) covering 2017 to 2020. In 2023, the Company signed assessments, some of which it has challenged, for insignificant amounts and without incurring any penalties whatsoever. The The matter subject to debate that is being contested relates to the tax credit for RDI expenditure and is currently pending ruling by the Tax Inspection Technical Office.

In 2023, the authorities also began partial verification proceedings covering 2021 for other companies within the Tax Group.

The Tax Group has requested the rectification of the tax paid in instalments between 2016 and 2022. In 2020, the tax authorities ruled in favour of the rectification requested in respect of 2016 and 2017 and the Company has appealed its decision regarding the other years requested.

In accordance with prevailing tax legislation, the tax returns presented for the various different taxes cannot be considered final until they have been inspected by the tax authorities or until the applicable inspection period has elapsed (four years).

Since existing tax law and regulations are subject to interpretation, tax inspections initiated in the future for years open to inspection could give rise to tax liabilities that are currently not possible to quantify objectively. However, the Company's sole director estimates that any liabilities that could arise as a result of any such inspections would not have a material impact on its future earnings.

24 Income and expenses

a) Revenue

Breakdown of this income statement heading in 2023 and 2022:

Thousands of euros	2023	2022
Transmission and system operation services rendered	1,585,697	1,562,054
Other services rendered	39,467	36,952
Total	**1,625,164**	**1,599,006**

Transmission and system operation services rendered includes primarily regulated revenue for the provision of electricity transmission and system operation services (note 3).

The CNMC sets the remuneration for both services through Circulars establishing the methods and parameters for calculating the remuneration of the transmission activity based on the costs required to build, operate and maintain the electricity facilities, as well as the remuneration for the system operator, in exercising the authority conferred on the Commission in Royal Decree-Law 1/2019 (note 3).

Revenue from the transmission activity in Spain in 2023 and 2022 was accrued primarily on basis of the Company's calculations in accordance with prevailing regulations, since the CNMC has yet to publish the definitive remuneration for 2023, 2022 and 2021 (note 3).

In 2023, following the publication of Orders TED/1311/2022 and TED/1343/2022 (note 3) regarding transmission revenue for 2016 to 2019, and the issue by the CNMC of its Resolution of 27 June 2023 setting the remuneration of owners of electricity transmission facilities for 2020, an analysis was conducted to determine the potential differences between the definitive amounts approved and the amounts accrued by the Company, with the pertinent adjustments made in 2023 for any such differences. This analysis also covered 2021, 2022 and 2023, all years for which remuneration is still pending final approval by the CNMC.

Moreover, as the latest annual tariff order settled by the CNMC relates to 2020, the balance sheet reflects a liability for the estimated amount to be reimbursed to the system for the difference between the amount settled provisionally and the revenue accrued from 2021 to 2023 (note 20).

Meanwhile, for the system operator, revenue for 2023 and 2022 accrued in accordance with CNMC Circular 4/2019, which establishes the system operator's remuneration for 2020 and beyond. Based on the experience gained, the methodology was updated via the publication of CNMC Circular 1/2023 of 7 February 2023.

Revenue for 2014 to 2019, which is provisional, accrued based on the best estimate using the specific remuneration methodology for each activity. At year-end 2023, as described in note 3, approval of the financial remuneration for those years was still pending.

The Company does not expect the revenue resulting from the final decisions in these processes to differ materially from the estimated revenue recognised.

Other services rendered in 2023 and 2022 related primarily to engineering, construction and maintenance work, modifications to electricity facilities requested by third parties, metering equipment inspection and verification, and certain government grants that form part of the Company's revenue as TSO (note 5-j)

b) Other operating income

In 2023 and 2022, this heading includes revenue recognised using the stage-of-completion method from the construction of the 200-MW pumped storage hydropower station in Salto de Chira, as well as the finance income recognised using the effective interest rate method on the financial asset, which in 2023 amounted to 57,846 thousand euros (2022: 64,225 thousand euros) (note 9).

It also includes in both reporting periods non-trading and other operating income, which amounted to 6,180 thousand euros in 2023 (2022: 11,332 thousand euros) and reflected primarily insurance claims from insurance companies in relation to covered damage, breakdowns and claims, and revenue from the sale of non-hazardous waste.

c) Supplies and other operating expenses

Supplies and other operating expenses in 2023 and 2022 reflect primarily repairs and maintenance work on the Company's own technical electricity facilities and other items. It also includes expenses incurred on the Salto de Chira concession amounting to 50,059 thousand euros (2022: 59,430 thousand euros) (note 24-b).

d) Personnel expenses

The breakdown of this heading in 2023 and 2022:

Thousands of euros	2023	2022
Salaries and wages	84,208	92,662
Social security	22,480	20,440
Contributions to pension funds and similar obligations	1,870	1,653
Other items and employee benefits	4,817	4,726
Total	**113,375**	**119,481**

Salaries and wages include employee remuneration and termination benefits. The decrease from 2022 mainly reflects the provisions recognised in 2022 in relation with collective bargaining agreements that were under negotiation.

At 31 December 2023 and 2022, other items and employee benefits reflect the accrual of employee benefit obligations.

At the ends of both reporting period, the Company capitalised personnel expenses under operating expenses relating to assets under construction (notes 6 and 7).

Headcount

The average headcount in 2023 and 2022 by employee category is as follows:

	2023	2022
Management team	58	58
Senior technicians	380	374
Technicians	492	485
Specialist and administrative staff	355	362
Total	**1,285**	**1,279**

The breakdown by gender and employee category of the Company's headcount at 31 December 2023 and 2022:

	2023			2022		
	Men	Women	Total	Men	Women	Total
Management team	41	18	59	41	17	58
Senior technicians	269	118	387	268	105	373
Technicians	419	75	494	424	74	498
Specialist and administrative staff	310	42	352	316	44	360
Total	**1,039**	**253**	**1,292**	**1,049**	**240**	**1,289**

The average number of employees with a disability of a severity of 33% or higher by gender and employee category in 2023 and 2022:

	2023			2022		
	Men	Women	Total	Men	Women	Total
Senior technicians	3	-	3	-	-	-
Technicians	6	-	6	7	-	7
Specialist and administrative staff	3	2	5	3	1	4
Total	**12**	**2**	**14**	**10**	**1**	**11**

e) Finance costs and finance income

The breakdown of finance costs at 31 December 2023 and 2022 (in thousands of euros) is as follows:

Thousands of euros	2023	2022
Group companies	77,038	61,534
Other	22,826	16,399
Provision adjustments	1,326	1,591
Total	**101,190**	**79,524**

Finance costs reflect basically interest expenses on loans and credit facilities from Group companies, and the interest expenses on loans and borrowings, bonds and other marketable securities.

Financial income includes mainly interest income earned in the year on short-term investments, short-term highly liquid investments and bank accounts.

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 were arranged on an arm's length basis.

The balances outstanding with group companies and associates at year-end were as follows:

Thousands of euros	2023						2022				
	Current accruals	Loans and receivables	Security deposits paid	Non-current accruals	Payables and current accruals	Debt	Loans and receivables	Security deposits paid	Non-current accruals	Payables and current accruals	Debt
Redeia Corporación, S.A.[(1)]	-	9,514	1,401	-	32,399	780,819	10,335	1,401	-	14,950	39,846
Red Eléctrica Internacional, S.A.U.[(2)]	-	-	-	-	-	-	-	-	-	-	19,940
Redeia Infraestructuras de Telecomunicación, S.A. [(2)]	-	716	-	60,488	9,491	-	-	-	64,587	10,102	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. [(2)]	-	-	-	-	1,914	-	-	-	-	1,474	-
Elewit, S.A.U. [(2)]	-	-	-	-	465	-	-	-	-	298	-
Redeia Financiaciones, S.L.U. [(2)]	-	-	-	-	11	228,732	-	-	-	24	236,982
Interconexión Eléctrica Francia-España, S.A.S[(3)]	516	390	-	-	11,507	-	644	-	-	9,336	-
Red Eléctrica Financiaciones, S.A.U. [(2)]	-	-	-	-	-	2,986,230	-	-	-	-	3,298,513
Redcor Reaseguros, S.A. [(2)]	-	-	-	-	-	-	-	-	-	-	38,708
Redeia Sistemas de Telecomunicaciones, S.A.U. [(2)]	-	1	-	-	-	-	28	-	-	-	-
Hispasat, S.A. [(2)]	-	-	-	-	38	-	-	-	-	38	-
Hispasat Canarias, S.L. [(2)]	-	-	-	-	-	-	-	-	-	23	-
Total group companies	**516**	**10,621**	**1,401**	**60,488**	**55,825**	**3,995,781**	**11,007**	**1,401**	**64,587**	**36,245**	**3,633,989**

(1): Parent of the group

(2): Other group companies

(3): Business combinations

Payables and debt vis-à-vis group companies includes primarily non-current debt, which at 31 December 2023 amounted to 3,193,302 thousand euros (2022: 3,193,615 thousand euros) and current debt, which at 31 December 2023 amounted to 771,992 thousand euros (2022: 413,358 thousand euros). Debt vis-à-vis group companies and associates also include interest accrued but not yet payable on this debt and payables to balances payable to group companies and associates as suppliers of fixed assets.

Debt vis-à-vis Redeia Corporación S.A. includes the short-term credit facility arranged with that company in the amount of 850 million euros, which was drawn down by 771,992 thousand euros at 31 December 2023 (2022: 38,311 thousand euros); the average rate of interest on the facility was 3.93% in 2023 (2022: 0.78%).

Loans and receivables vis-à-vis Redeia Corporación, S.A. include the income tax the Company has receivable from Redeia Corporación S.A., the Parent of the Tax Group (note 23).

Debt vis-à-vis Red Eléctrica Internacional, S.A.U. in 2022 includes primarily the short-term credit facility arranged with that company for 25 million euros, which was cancelled in 2023. At 31 December 2022, it was drawn down by 19,853 thousand euros. The average interest rate for the period was 3.17% (2022: 0.78%).

Accruals vis-à-vis Redeia Infraestructuras de Telecomunicación, S.A. reflect the liabilities arising from the contracts entered into by the Company to transfer the right to use dark fibre pending recognition in profit or loss (note 16).

Debt vis-à-vis Redeia Financiaciones, S.L.U. reflects loans for a nominal amount at 31 December 2023 of 250 million US dollars (2022: 250 million US dollars), approximately 226,244 thousand euros (2022: 234,390 thousand euros). These loans were taken out simultaneously and under the same terms as the USD 250 million private bond issue in the United States by Redeia Financiaciones, S.L.U., of which the Company and Redeia Corporación, S.A. are joint and several guarantors, and fall due between 2025 and 2035. The bonds accrued interest at an average rate considering hedges of 4.28% in 2023 (2022: 4.39%). In order to eliminate the foreign exchange risk derived from the USD loans, the Company arranged cash flow hedges, specifically USD/EUR cross-currency swaps on principal and interest (note 19).

Debt vis-à-vis Red Eléctrica Financiaciones, S.A.U. includes loans taken out with this company since 2011, with a nominal amount at year-end 2023 of 2,990 million euros (2022: 3,290 million euros). These loans were taken out simultaneously and under the same terms as the bonds issued on the euromarket by Red Eléctrica Financiaciones, S.A., of which the Company and Redeia Corporación, S.A. are joint and several guarantors, as part of the Guaranteed Euro Medium Term Note Programme (EMTN), which fall due between 2025 and 2033. The bonds accrued interest at an average rate including hedges of 1.49% in 2023 (2022: 1.52%).

Meanwhile, the loan facility entered into with Red Eléctrica Financiaciones, S.A.U. for up to 1 billion euros is still in force. This facility is arranged simultaneously and under the same terms as the commercial paper issued on the Euromarket by Red Eléctrica Financiaciones, S.A., of which the Company and Redeia Corporación, S.A. are joint and several guarantors, as part of the Euro Commercial Paper Programme (ECP). No amounts were drawn down at 31 December 2023 and 2022.

Debt vis-à-vis Red Eléctrica Financiaciones S.A.U. at year-end 2022 included the short-term credit facility arranged in 2016 with this company for 25 million euros, which was cancelled in 2023. At year-end 2022 it was drawn down by 16,778 thousand euros. The average interest rate for the period was 3.17% (2022: 0.78%).

Debt vis-à-vis Redcor Reaseguros, S.A. at 31 December 2022 included the cash pooling agreement entered into with this company for 75 million euros, which was cancelled in 2023. At year-end 2022 it was drawn down by 38,555 thousand euros. The average interest rate for the period was 3.15% (2022: 0.83%).

The Company performed the following transactions with group companies and associates:

Thousands of euros	2023					2022				
	Property, plant and equipment and intangible assets	Services rendered	Other income	Other expenses	Finance costs	Property, plant and equipment and intangible assets	Services rendered	Other income	Other expenses	Finance costs
Redeia Corporación, S.A. (1)	634	-	-	67,071	23,405	-	-	-	65,056	2,779
Red Eléctrica Internacional, S.A.U. (2)	-	-	-	-	338	-	-	-	-	149
Redeia Infraestructuras de Telecomunicación, S.A. (2)	237	2,504	4,700	53,245	-	420	547	4,678	45,698	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (2)	-	-	-	3,190	-	14	-	-	2,871	-
Elewit, S.A.U. (2)	-	-	-	3,106	-	1,100	-	-	1,651	-
Redeia Financiaciones, S.L.U. (2)	-	-	-	-	12,547	-	-	-	-	13,425
Interconexión Eléctrica Francia-España, S.A.S. (3)	164,878	1,795	13	-	-	5,302	2,253	408	-	-
Red Eléctrica Financiaciones, S.A.U. (2)	-	-	-	-	40,141	-	-	-	-	44,016
Redcor Reaseguros, S.A. (2)	-	-	-	-	607	-	-	-	-	1,165
Redeia Sistemas de Telecomunicaciones, S.A.U. (2)	-	-	(17)	-	-	-	-	28	-	-
Hispasat, S.A. (2)	-	-	-	230	-	-	-	-	189	-
Total group companies	**165,749**	**4,299**	**4,696**	**126,842**	**77,038**	**6,836**	**2,800**	**5,114**	**115,465**	**61,534**

(1): Parent of the group
(2): Other group companies
(3): Business combinations

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

The contracts entered into between the Company and its sole shareholder (Redeia Corporación, S.A.) at 31 December 2023, in exchange for consideration, entailed property leases at a fixed price adjusted annually for inflation, and the provision of management support services for the Company's activities. The only financial contract entered into between the Company and Redeia Corporación, S.A. is the short-term credit facility described above.

These contracts between the Company and Redeia Corporación, S.A. are in writing and on file in the register of contracts between the Company and its sole shareholder, as required by company law under article 16 of the Corporate Enterprises Act.

Other expenses payable to Redeia Infraestructuras de Telecomunicación, S.A. reflect mainly telecommunications services provided to the Company.

Finance costs payable to Redeia Financiaciones, S.L.U. and Red Eléctrica Financiaciones, S.A.U. relate primarily to interest on the loans taken out with these companies described above.

Property, plant and equipment with Eléctrica Francia-España, S.A.S. reflect that company's progress on the electricity interconnection between Spain and France through the Bay of Biscay carried out through that Group company (note 8). Construction of the project commenced in 2023, resulting in a considerable increase in the amount of the investment.

- **Other related party balances and transactions**

The Company did not perform any transactions and had no balances with other related parties in 2022 or 2023.

26 Remuneration of the director

The Company's sole director did not accrue any amounts in respect of salaries, attendance fees or other remuneration in 2022 or 2023.

The Company did not recognise any loans, advances or guarantees extended to the sole director on its balance sheet at either 31 December 2023 or 31 December 2022.

Neither the sole director nor any related parties performed any transactions with the Company or its Group companies, either directly or through persons acting on their behalf, outside of the ordinary course of business or other than on an arm's length basis in either reporting period.

At 31 December 2023 and 2022, the Company had arranged civil 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 both the Company's sole director and its senior management. The cost of the premiums in 2023 was 221 thousand euros, including tax (2022: 245 thousand euros). These premiums are calculated based the nature of the Company's activities and as a function of its financial metrics, so that it is not feasible to apportion them between the sole director and senior management or to allocate them to each individual.

The Company's sole director and related parties were not involved in any of the situations of conflict of interest requiring disclosure described in Article 229 of the consolidated text of the Spanish Corporate Enterprises Act.

27 Remuneration of senior management

The senior management personnel who provided services to the Company in 2023 and 2022 and their positions at year-end are as follows:

Name	Position
Concepción Sánchez Pérez	General Manager of Operations
Angel Mahou Fernández	General Manager of Transmission

In 2023, the Company's senior management personnel accrued 600 thousand euros of remuneration, recognised under personnel expenses in the accompanying income statement (2022: 597 thousand euros). These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After delivery of the corresponding objectives has been verified, the variable remuneration is paid out in the early months of the following year, adjusted for the definitive delivery metrics.

Of the total remuneration accrued by senior management personnel in 2023, 17 thousand euros represented contributions to life insurance and pension plans (2022: 7 thousand euros).

The Company had not extended any advances or loans to these executives at either 31 December 2023 or 31 December 2022. At year-end 2023 and 2022, the Company had assumed life insurance commitments on behalf of these executives; the premiums on those policies in 2023 cost it approximately 5 thousand euros (2022: 8 thousand euros)

The senior management personnel also participate in the Long-Term Incentive Plan (LTIP) for Promoting the Energy Transition, Reducing the Digital Divide and Boosting Diversification. That Plan's targets are likewise associated with those set out in the Group's Strategic Plan and are aligned with the key aspects of the Director Remuneration Policy. The LTIP has a duration of six years and will end on 31 December 2025.

Note that in order to reinforce the TSO's independence, the Operations Department of Red Eléctrica de España, S.A.U. has been assigned a series of specific targets that exclude all aspects unrelated to the operation of Spain's electricity system.

The Company's serving senior management personnel do not enjoy any guarantees or golden parachute clauses in the event of dismissal. In the event of the termination of their employment agreements, their severance would be calculated in keeping with applicable labour legislation.

In 2015, the Group implemented a Structural Management Plan that applies to some of its senior management personnel. The beneficiaries of this Plan must comply with certain requirements and their participation can be modified or revoked by the Group under certain circumstances.

The Company had arranged director and officer liability insurance at both reporting dates. These policies cover all of the Company's senior management personnel. The annual cost of the premiums amounted to 221 thousand euros, including tax in 2023 (245 thousand euros in 2022). These premiums are calculated based the nature of the Group's activities and as a function of its financial metrics, so that it is not feasible to apportion them between the senior management personnel and directors or to allocate them to each individual.

28 Segment reporting

The Company provides segment information by activity as stipulated under the Electricity Sector Act. This information was adapted to the rules in the General Accounting Plan enacted by Royal Decree 1514/2007.

For 2023 and 2022, the Company segmented for accounting purposes revenue, expenses, assets and liabilities between transmission, system operation (mainland and non-mainland) and other non-electricity activities.

The main criteria used for the accounting segmentation by operating segment, as described in Appendices I-a, I-b, II-a and II-b, basically comply with the requirements of CNMC Circular 1/2015 of 22 July 2015, which establishes the 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, and are as follows:

- Direct income and expenses are allocated to the operating segments or activities that generated/incurred them.
- Personnel expenses are allocated to the activities based of the area to which each employee is assigned.
- Depreciation and amortisation charges are distributed in accordance with the activity to which the related asset is assigned.
- Finance income and costs are allocated to activities based on financing needs during the period, except those that are directly related to an activity.
- Overhead and other general expenses are distributed based on use of services by each activity using objective criteria, e.g. number of employees, services rendered and materials consumed.
- Fixed assets are allocated directly to the activities. Shared fixed assets are distributed between the activities in accordance with their estimated use using objective allocation criteria.
- Current assets are allocated to the activities that generate them, except cash-pooling accounts and current investments, which are allocated to the activities showing net financing surpluses.
- Equity, excluding profit for the year, is allocated to the activities. Dividends are distributed by the activities that generate profits.
- Government grants and similar are allocated directly to the related activities.
- Financial debt is distributed based on each activity's net financing needs and also reflects inter-segment financing.

- Other outstanding liabilities are allocated directly to the activities and those shared among several activities are allocated using objective criteria.

29 Guarantees and other commitments with third parties and other contingent liabilities

At both year-ends, the Company, together with Redeia Corporación S.A., was a joint and several guarantor of the USD 250 million private bond issue in the United States by Redeia Financiaciones, S.L.U. and of Red Eléctrica Financiaciones, S.A.U.'s eurobond programme in the amount of up to 5 billion euros. A total of 2.99 billion euros had been issued under the latter at 31 December 2023 (3.29 billion euros at year-end 2022).

In addition, at both reporting dates, the Company, together with Redeia Corporación S.A., was a joint and several guarantor of the Euro Commercial Paper (ECP) Programme issued by Red Eléctrica Financiaciones for up to 1 billion euros. There were no drawdowns under that programme at either year-end.

At 31 December 2023, the Company had extended bank sureties in connection with its ordinary course of business to third parties totalling 64,250 thousand euros (2022: 55,900 thousand euros).

The Company was party to a series of proceedings, mainly administrative and disciplinary proceedings. The Company assessed the risks and does not expect any events to arise that would result in liabilities that were not considered in its financial statements or that would have a significant impact on its earnings, estimating a maximum amount for the potential liabilities of around 32 million euros.

30 Environmental information

In 2023, the Company incurred ordinary expenses of 23,923 thousand euros in protecting and improving the environment (2022: 24,378 thousand euros), essentially due to the adoption of measures intended for protecting biodiversity, fire prevention, landscape integration, climate change and pollution prevention.

Also in 2023, a total of 2,512 thousand euros (2022: 4,268 thousand euros) 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 party to any environmental lawsuits that could result in significant contingencies In addition, it did not receive any environmental grants in either 2023 or 2022.

31 Other information

The fees for financial statement audit and other services provided by the Company's auditor, Ernst & Young, S.L. (EY), in 2023, and by its previous auditor, KPMG Auditores S.L., in 2022, are itemised below:

Thousands of euros	2023	2022
Audit services	47	48
Audit-related services	13	5
Non-audit services	17	-
Total services	**77**	**53**

Audit services in 2023 includes fees for the issue of the agreed-upon procedures report on the assessment of the requirements to apply for grants and the translation of the annual financial statements. Non-audit services included the cost of the assurance report issued on the green bond financing in accordance with the ISAE 3000 Standard (revised).

The amounts presented in the table above include all of the fees related to the services approved and rendered in 2023 and 2022, regardless of when they were invoiced.

No other fees were accrued by firms related directly or indirectly with the lead auditor for professional services other than financial statement audit work in 2023 or 2022.

32 Share-based payments

In 2023 the Company delivered 268,273 shares of the Parent to its employees with a fair value of 14.900 euros per share for total expenditure during the year of 3,997 thousand euros. Of the total, 1,610 shares were delivered to senior management.

In 2022 the Company delivered 214,612 shares of the Parent to its employees with a fair value of 17.735 euros per share for total expenditure during the year of 3,806 thousand euros. Of the total, 1,352 shares were delivered to senior management.

The shares were valued at their quoted price on the day they were delivered.

The above share deliveries were carried out under the scope of authorisations given at the Company’s Annual General Meetings and the expense was recognised under personnel expenses in the Company's income statement.

33 Events after the reporting date

On 3 January 2024, Redeia, through its subsidiary Red Eléctrica Financiaciones, S.A.U., and under the scope of the Euro Medium Term Note (EMTN) Programme of the latter, issued 500 million euros of green bonds on the euromarket that are secured by Redeia Corporación, S.A. and Red Eléctrica de España, S.A.U..

The proceeds will be used to finance and/or refinance eligible projects under the umbrella of Red Eléctrica de España, S.A.U.’s green finance framework.

The bonds, which were paid in on 17 January 2024, mature in 10 years and carry an annual coupon of 3.00%; they were issued at a price of 99.405%, implying a yield of 3.07%.

34 Explanation added for translation to english

The abridged Financial Statement are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain. Certain accounting practices applied by the Company that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules.

In the event of a discrepancy, the Spanish-language prevails for legal purposes.

Signature of the sole director’s representative in compliance with article 253 of the Spanish Corporate Enterprises Act.

Roberto García Merino

red eléctrica

APPENDIX I Balance sheet by activity for 2023 and 2022

Balance sheet by activity at 31 December 2023

Appendix I-a

Thousands of euros	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total, %
Non-current assets	8,809,848	97	46,601	1	179,896	2	480	---	9,036,825	100
Intangible assets	26,909	42	31,080	50	4,251	7	1	---	62,241	100
Property, plant and equipment	8,682,971	100	9,689	---	945	---	10	---	8,693,615	100
Non-current investments in group companies and associates	2,395	100	---	---	6	---	---	---	2,401	100
Non-current investments	70,489	29	2,893	1	173,601	70	469	---	247,452	100
Deferred tax assets	26,923	87	2,939	9	1,093	4	---	---	30,955	100
Prepayments for non-current assets	161	100	---	---	---	---	---	---	161	100
Current assets	1,354,808	90	120,577	8	16,244	1	9,282	1	1,500,911	100
Inventories	53,848	100	---	---	---	---	---	---	53,848	100
Trade and other receivables	925,807	87	119,201	11	15,486	1	7,385	1	1,067,879	100
Current investments in group companies and associates	9,476	100	---	---	38	---	---	---	9,514	100
Current investments	4,418	100	---	---	5	---	---	---	4,423	100
Prepayments for current assets	20,957	93	1,300	6	307	1	---	---	22,564	100
Cash and cash equivalents	340,302	99	76	---	408	---	1,897	1	342,683	100
Total assets	**10,164,656**	**96**	**167,178**	**2**	**196,140**	**2**	**9,762**	**---**	**10,537,736**	**100**
Equity	3,753,609	102	(54,716)	(1)	(15,319)	---	(24,912)	(1)	3,658,662	100
Capital and reserves	3,059,968	104	(54,716)	(2)	(15,330)	(1)	(24,912)	(1)	2,965,010	100
Valuation adjustments	135,516	100	---	---	11	---	---	---	135,527	100
Grants, donations and bequests received	558,125	100	---	---	---	---	---	---	558,125	100
Non-current liabilities	4,625,218	100	7,284	---	16,438	---	---	---	4,648,940	100
Non-current provisions	91,039	90	7,284	7	2,862	3	---	---	101,185	100
Non-current payables	668,288	100	---	---	803	---	---	---	669,091	100
Group companies and associates, non-current	3,180,529	100	---	---	12,773	---	---	---	3,193,302	100
Deferred tax liabilities	601,248	100	---	---	---	---	---	---	601,248	100
Non-current accruals	84,114	100	---	---	---	---	---	---	84,114	100
Current liabilities	1,785,829	79	214,610	10	195,021	9	34,674	2	2,230,134	100
Current payables	505,275	57	200,914	23	190,213	22	(16,375)	(2)	880,027	100
Group companies and associates, current	810,988	100	---	---	3,257	---	---	---	814,245	100
Trade and other payables	469,342	88	13,372	2	1,437	---	51,049	10	535,200	100
Current accruals	224	34	324	49	114	17	---	---	662	100
Total equity and liabilities	**10,164,656**	**96**	**167,178**	**2**	**196,140**	**2**	**9,762**	**---**	**10,537,736**	**100**

Balance sheet by activity at 31 December 2022

Appendix I-b

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

APPENDIX II Analytical income statement by activity for 2023 and 2022

Analytical income statement by activity in 2023

Appendix II-a

Thousands of euros

Item	Transmission	%	Mainland system operation	%	Non-mainland system operation	%	Other activities	%	Total Red Eléctrica	Total, %
+ Revenue	1,519,791	94	70,505	4	16,283	1	18,585	1	1,625,164	100
+ Self-constructed assets	49,766	98	1,096	2	4	---	---	---	50,866	100
- Supplies (1)	(36,834)	97	(460)	1	(246)	1	(289)	1	(37,829)	100
+ Other operating income (1)	5,446	9	231	---	57,813	90	564	1	64,054	100
- Personnel expenses	(84,830)	75	(21,790)	19	(6,755)	6	---	---	(113,375)	100
- Other operating expenses (1)	(294,975)	66	(38,538)	9	(60,288)	13	(53,413)	12	(447,214)	100
- Depreciation and amortisation	(369,848)	96	(12,040)	3	(3,079)	1	(4)	---	(384,971)	100
+ Non-financial and other capital grants	11,758	100	---	---	---	---	---	---	11,758	100
(+/-) Impairment and gains/losses on disposal of fixed assets	---	---	---	---	---	---	---	---	---	---
Results from operating activities	**800,274**	**104**	**(996)**	**---**	**3,732**	**---**	**(34,557)**	**(4)**	**768,453**	**100**
+ Finance income	42,432	98	18	---	1,023	2	---	---	43,473	100
- Finance costs	(97,201)	96	(208)	---	(3,768)	4	(13)	---	(101,190)	100
(+/-) Exchange gains/losses	(21)	95	---	---	(1)	5	---	---	(22)	100
Net finance cost	**(54,790)**	**95**	**(190)**	**---**	**(2,746)**	**5**	**(13)**	**---**	**(57,739)**	**100**
Profit/loss before tax	**745,484**	**105**	**(1,186)**	**---**	**986**	**---**	**(34,570)**	**(5)**	**710,714**	**100**
(+/-) Income tax	(172,999)	105	275	---	(229)	---	8,023	(5)	(164,930)	100
Profit/loss for the year	**572,485**	**105**	**(911)**	**---**	**757**	**---**	**(26,547)**	**(5)**	**545,784**	**100**

(1): Under supplies, other operating income and other operating expenses in 2023, the Non-mainland system operation activity includes revenue and expenses based on the measure of progress of construction on the 200-MW pumped storage hydropower station in Salto de Chira.

Analytical income statement by activity in 2022

Appendix II-b

Thousands of euros

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

(1): Under other operating income, other operating expenses and supplies in 2002, the Non-mainland system operation activity includes revenue and expenses based on the measure of progress of construction on the 200-MW pumped storage hydropower station in Salto de Chira in 2022.

red eléctrica

A Redeia company

Management Report

for the year ended 31 December 2023

Red Eléctrica de España, S.A.U.

Contents

The various sections of this management report contain certain forward-looking information reflecting projections and estimates and their underlying assumptions, statements referring to plans, objectives and expectations around future transactions, investments, synergies, products and services, as well as statements concerning future earnings and dividends and estimates made by the director, based on assumptions 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 cautioned that the forward-looking information and statements 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 performance and developments could differ significantly from those expressed, implied or forecast in the forward-looking information and statements.

The forward-looking statements are not guarantees of future performance and have not been reviewed by the Company's external auditors or by other independent third parties. Investors and holders of shares in the Company are cautioned not to take decisions on the basis of forward-looking statements that refer exclusively to information available as at the date of this report. All of the forward-looking statements contained in this report are expressly subject to this disclaimer. The affirmations and statements containing future projections included in this document are based on the information available at the date of this management report. Unless required otherwise under applicable law, the Company undertakes no obligation to publicly update any forward-looking statement or revise its forecasts, whether as a result of new information, future events or otherwise.

In order to make it easier to understand the information provided in this document, certain alternative performance measures have been included. A definition of these is available at: https://www.redeia.com/es/accionistas-e-inversores/informacion-financiera/medidas-alternativas-rendimiento

1 Business performance. Significant developments.

The mission of Red Eléctrica de España, S.A.U. (hereinafter, Red Eléctrica or the Company), as the sole transmission agent and operator (TSO) of the Spanish electricity system, is to guarantee the correct functioning of the electricity system and ensure the continuity of electricity supply, and to manage high voltage electricity transmission. To that end, we supervise and coordinate the generation-transmission system and manage the development of the transmission grid. Its pursuit of this mission is framed by the principles of neutrality, transparency, independence and economic efficiency, so as to offer a secure, efficient and high-quality electricity service to society as a whole.

- **Management and operation of electricity infrastructure**

In 2022, the Council of Ministers, at the request of the Ministry for Ecological Transition and Demographic Challenge (hereinafter "MITERD") approved the Plan for the Development of the Electric Energy Transmission Network with a 2026 horizon. The plan is a fundamental tool for guaranteeing the energy transition and establishes the transmission grid development projects that must be implemented over the coming years in order to achieve the energy objectives of national and European policy. In late 2023, the MITERD initiated the consultation process with a view to making amendments to the Development Plan for the Electricity Transmission Grid looking ahead to 2026. It envisions 64 actions, with a total investment of 321 million euros, with the aim of unlocking strategic projects for the decarbonisation of industry, hydrogen production, integration of renewable energy, support for the materials chain and key technologies linked to the green transition.

The main objective of the 2021-2026 Plan is to boost renewable production and maximise the use of the existing grid, thanks to new technologies such as batteries or power electronics. The environmental dimension takes on special relevance, with the main objective of making grid development compatible with respect for our environment. The plan involves an investment of nearly 7,000 million euros to improve the transmission grid. The largest investment is earmarked to improve the integration of renewable energy sources, providing a clear benefit to society in terms of reducing emissions, saving electricity system costs, and activating the economy.

The Spanish Government has also recently begun to process a new Transmission Grid Development Plan for the 2025-2030 horizon, with the related objectives set out in Order TED/1375/2023, of 21 December 2023, and has initiated a process whereby stakeholders may make proposals on how best to develop the electricity transmission grid.

In 2023 the most significant initiatives in terms of development of the transmission network, by major axes, were as follows:

- **Ibiza – Formentera interconnection.** Commissioning of the underground/underwater 132 kV transmission line spanning a total length of 74 km to interconnect the islands of Ibiza and Formentera, thus improving the inter-island transmission by ensuring supply in optimal conditions of security and quality during the months when demand is greatest in the Balearic Island and, specifically, in the islands of Ibiza and Formentera, and accelerating the energy transition in the Balearic Islands by reducing CO_2 emissions.
- **North – East Axis.** The purpose of this axis is to improve the evacuation of electricity from Asturias to supply Cantabria and the Basque Country. Construction of the Güeñes-Itxaso power line continued in 2023.
- **Cáceres – Los Arenales – Trujillo Axis.** It is designed to improve the quality and reliability of supply in the Cáceres area, preventing overloads in the zone, and to increase the capacity to evacuate hydropower generation (installed in the Cedillo and JM Oriol substations) and boost the Spain-Portugal interconnection capacity.

- **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 394 km submarine direct current dual connection which will raise energy exchange capacity to 5,000 MW. This project is being carried out through the company INELFE, which holds a 50/50 interest alongside French company Réseau de transport d'électricité (RTE). In 2023, the Spanish National Markets and Competition Commission (CNMC) published this project in the Official State Gazette (BOE) as a special undertaking. In relation to the timeline, in 2022 the Environmental Impact Statement was obtained; in 2023 Red Eléctrica secured the necessary Prior Administrative Authorisation from the MITERD, as well as various other mandatory administrative authorisations; and in the first half of 2024 the Administrative Construction Permit and the Declaration of Public Utility are expected to be obtained. RTE, meanwhile, already has all the authorisations needed to carry out the project. The main contracts governing the performance of the construction work were also awarded and signed in 2023, following a review by the national regulatory authorities of both countries.
- **Galicia - Portugal Interconnection Axis.** The aim is to boost the international connection with Portugal. In June, administrative authorisation was obtained to go ahead with the construction of the Fontefría substation (220 kV) and the Beariz substation. Work continues at ground level, which is permitted subject to prior administrative authorisation.
- **Madrid Axis Plan.** This is designed to improve the transmission network mesh and support the distribution network along this stretch of the country. Work on the San Fernando substation was carried out in 2023.
- **Lousame – Tibo – Mazaricos Axis.** With the aim of strengthening the grid, evacuating the power generated and supporting distribution in the northwest of Galicia. Line laying work continued throughout 2023.
- **El Rosario – Guajara Axis.** The aim is to increase the security of supply and reliability of the transmission network in the metropolitan area of Santa Cruz de Tenerife and in the interconnection with the Granadilla and Candelaria nodes. In 2023, civil engineering work continued on the El Rosario – Manuel Cruz – Dique Este and El Rosario – Guajara lines.
- **LAV Lleida – Barcelona 2 Axis.** The aim here is to increase the mesh of the 220 kV transmission network along this stretch by ensuring a broad improvement in transmission efficiency and supporting supply in response to demand, resulting in a reduction in overall T&D losses. In 2023, all the planned actions for the axis were completed and the resulting infrastructure came online.
- **La Gomera – Tenerife interconnection.** The aim is to link up the electricity systems of both islands. The quality and security of supply will be increased and production costs lowered by improving power generation efficiency and enabling greater integration of renewable energy.
- **Asset renewal.** This block of actions has been included for the first time in Plan 2021-2026, with the aim of ensuring the security and continuity of supply given the gradual ageing, technological obsolescence and unavailability of spare parts, while fostering the integration of renewable sources of energy and avoiding any adverse effects on the environment.
- **Special Regime Evacuation (EvRE).** These are actions for the evacuation of renewable power, as envisioned in Royal Decree-Law 15/2018 (on urgent measures to promote the energy transition) and included in the 2021-2026 Plan.

Red Eléctrica's transmission grid ended 2023 with high levels of service quality, within the maximum thresholds set out in Royal Decree 1955/2000. The availability ratio for the national transmission grid in 2023 was 97.63%, (2022: 98.16%). In terms of electrical systems, availability of the mainland transmission grid in 2023 stood at 97.61% (2022: 98.14%). In the Balearic Islands, it was 97.84% (2022: 98.52%) and in the Canary Islands it stood at 98.69%, the same as in 2022 (98.69%).

Highlights of 2023 included the commissioning of 157 kilometres of new transmission line in 2023, bringing Red Eléctrica's total for the national transmission grid to 45,141 kilometres at year-end. Transformation capacity likewise increased by 760 MVA to a nationwide total of 94,981 MVA. Total investment in the transmission network amounted to 744.6 million euros.

- **Electricity system operation**

The most noteworthy developments in 2023 were as follows:

- **Mainland system**

  » Mainland electricity demand ended the year at 229,527 GWh, down 2.5% on 2022. Having corrected for the effect of working patterns and temperatures, demand attributable primarily to economic activity was down by 2.1%. Notably, demand for electricity in 2023 is below that recorded in the year of the pandemic (236,755 GWh) and we would have to go back to 2003 to find a lower figure (225,728 GWh).

  » Peak instantaneous power was recorded at 8:43pm on Tuesday, 24 January, at 39,101 MW, up 2.1% compared to the peak of the previous year and down 14.0% on the all-time high of 45,450 MW recorded on 17 December 2007. Peak hourly demand also happened to occur on 24 January (between 8:00pm and 9:00pm), with 38,615 MWh, 14.0% below the all-time high reached in 2007.

  » Installed capacity on the mainland ended 2023 at 118,990 MW, up 4.5% on December 2022 (+5,104 MW). Additions to the system's installed capacity primarily reflect the incorporation of solar photovoltaic and wind power, with the former increasing by 23.5% with respect to 2022 and the latter up 1.8%. The other technologies had experienced no, or only minor, changes in power.

  » Hydropower capacity stood at 26,489 GWh at the end of December 2023, down 8.2% on the historical average but 36.2% higher than in 2022. Reserves of hydroelectric power represented a fill level of 51.0% of total capacity across all reservoirs at the end of 2023, compared with 44.4% in the prior year.

  » In 2023, wind accounted for 24.2% of total demand for power (22.8% in 2022), nuclear 21.4% (21.3% in 2022), solar 16.3% (12.0% in 2022), combined cycle technology 15.5% (23.1% in 2022) and hydro 10.0% (6.8% in 2022). Meanwhile, cogeneration, pumping turbine, coal, other renewables and waste accounted for less than 10% each, with all of them together making up remaining 12.6% of total demand.

  » Notably, renewable energies increased their share of the overall production mix within the electricity system, registering their highest share to date with 52.2% of total production (43.7% in 2022). In absolute terms, renewable generation reached an all-time high of 132,099 GWh, up 15.3% on the previous year, largely due to a 41.1% increase in hydro power and a 34.0% increase in solar photovoltaic production. In terms of CO_2 emissions in the mainland electricity sector, the increase in renewable generation meant that 2023 reported the lowest CO_2 equivalent emissions on record, with 24.8 million tonnes, down 32.9% on the 37.0 million tonnes reported in 2022.

  » Electricity exchanges through the mainland-Balearic Islands link resulted in a net balance of exports to the islands of 1,426 GWh (down 136.6% compared to 2022), covering 23.8% of demand for power on the islands.

  » International electricity exchanges yielded a net export balance, for the second year running, of 13,958 GWh in 2023. Exports came to 25,274 GWh (27,833 GWh in 2022), while imports stood at 11,316 GWh (8,032 GWh in 2022).

- **Non-mainland systems**

  » At year-end 2023, total annual demand for electricity among non-mainland systems was up 1.1% on 2022. By systems, in the Balearic Islands demand was down 0.7%, in the Canary Islands it increased by 2.5%, in Ceuta it fell by 4.5%, and in Melilla it rose by 2.8%.

  » Installed capacity in non-mainland systems grew by 2.9%, largely driven by the growth in solar photovoltaic and wind technology, which climbed 25.8% and 7.6%, respectively.

The Company, as TSO, is tasked with carrying out the project for the **Salto de Chira pumped-storage hydroelectric power plant** on Gran Canary Island. Red Eléctrica Infraestructuras en Canarias, S.A.U. is tasked with providing certain consultancy, engineering, project management, monitoring and technical support services relating to the implementation, start-up and effective operation of the facilities that make up the hydroelectric power plant complex.

The plant will have a capacity of 200 MW and be able to cover 36% of demand for power during peak hours.

The aim is to maximise the integration of renewable energy into the electricity system in the island of Gran Canaria, while also overcoming the challenge of being able to store it when there is surplus supply. Meanwhile, the desalination plant, which will allow fresh water to be pumped into the Chira and Soria reservoirs, will provide a viable solution to the island's water shortages.

Regarding the possible project to install a pumped-storage hydroelectric power plant in Tenerife, progress was made in 2023 on the necessary actions to draw up the preliminary plans.

2 Key financial figures

Revenue amounted to 1,625.2 million euros in 2023, up 1.6% year-on-year.

EBITDA[1] amounted to 1,141.7 million, up 0.8% from 2022.

EBIT[2] rose 1.9% year-on-year to 768.5 million.

Profit after tax was 545.8 million, up 6.3% from 2022.

Total investment in the year increased by 63.3% to 768.0 million euros.

Interim dividends paid in 2023 to the Company's sole shareholder, Redeia Corporación, S.A., amounted to 388.1 million euros. The Company did not distribute any interim dividends in 2022.

The Company's equity at the year-end stood at 3,658.7 million euros, up 8.7% from year-end 2022.

3 Own shares

The Company does not hold any own shares or any shares of the Parent.

4 Risk management

The Company, as part of Redeia, has assumed the Group's risk management objectives.

The Company has a Comprehensive Risk Management System in place designed to ensure that any risks that could affect the achievement of its strategies and objectives are systematically identified, analysed, assessed, managed and controlled, framed by uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Company.

The Comprehensive Risk Management Policy approved at Group level by the Board of Directors of the Parent of applies to the Company. This Comprehensive Risk Management System, the Policy and the General

[1] EBITDA is calculated as the sum of revenue and self-constructed assets and other operating income less employee benefits expense, cost of sales and other operating expenses.

[2] EBIT is calculated as EBITDA plus non-financial grants recognised in profit or loss and impairment of and gains/(losses) on disposal of fixed assets less amortisation and depreciation, change in fair value of financial instruments, and impairment of and gains/(losses) on disposal of equity instruments.

Procedure regulating it are based on the COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management - Integrated Framework).

The Corporate Risk Map depicts Redeia's, including the Company's, most significant risks and is prepared on the basis of a bottom-up methodology, whereby the risks are identified, analysed and assessed by the different organisational units before being escalated for validation by the executive officers, general managers and corporate heads, before they are ultimately presented to the Chair of the Group, the Executive Committee, the Audit Committee and the Board of Directors.

Redeia's Board of Directors is charged with approving the Comprehensive Risk Management Policy and the Group's accepted risk tolerance level, while the Audit Committee is tasked with overseeing the effectiveness of the comprehensive risk management system. The Executive Committee is responsible for ensuring that the Company's relevant risks and action plans to mitigate them are adequately monitored.

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

The main risks to which the Company is exposed and which could jeopardise delivery of its targets are regulatory risk (including tax risks) since its entire business is regulated; operational risks associated with its investment plan; environmental risks derived from assets under construction and in service; financial risk; and market risk.

5 Environment

The Company's commitment to the environment originates at the Board of Directors and is rooted in the Environmental Policy, which sets out an explicit commitment to the prevention of pollution and the precautionary principle. To deliver on this commitment, all organisational units must be involved and everyone at the Company engaged.

Red Eléctrica has implemented an environmental management system, certified in accordance with ISO 14001, to help ensure the continuous improvement of its environmental performance, thereby meeting the requirements established by the EU Eco-Management and Audit Scheme (EMAS).

Red Eléctrica incurred ordinary expenses of 23.9 million euros in protecting and improving the environment, essentially due to the adoption of measures intended for protecting biodiversity, fire prevention, landscape integration, climate change and pollution prevention. The amount earmarked for environmental aspects related with investment projects was 2.5 million euros.

The Company's main environmental impacts are those related to the construction of facilities and its 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 embraced a specific commitment in relation to the fight against climate change. Thus, the Group’s environmental commitment takes shape across three main fronts: Environmental management and integration of facilities in the environment, Biodiversity protection and Climate change, as described below.

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, electromagnetic field strength is kept within the exposure limits for the general public in accordance with Council Recommendation 1999/519/EC of 12 July 1999.

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

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

b) Protecting biodiversity

The protection and conservation of biodiversity has always been a core concern within the Company's environmental management, including a specific commitment within biodiversity management of generating a positive impact on biodiversity in the areas where the Company operates by 2030.

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

The Company works on new power line and substation projects after carrying out rigorous environmental impact studies, which includes a quantitative assessment as to the impacts (both negative and positive) on biodiversity, defining the baseline impact and designing the projects in such a way that they achieve a positive impact in terms of biodiversity throughout their life cycle. This methodology began to be implemented in 2023 in projects submitted for environmental impact assessment.

The Company carried out an initial identification and assessment of the impacts and main dependencies on biodiversity for the power transmission activity. This exercise yielded a materiality matrix of environmental impacts on biodiversity. To complete the exercise, the Company conducted a preliminary identification of priority ecosystem services in terms of materiality of impact.

The Company manages biodiversity by using the mitigation hierarchy. First and foremost, avoiding areas that are protected or highly biodiverse is essential when deciding on the location of facilities. The second step is to minimise possible repercussions, which is achieved by taking the necessary preventive and corrective action, including the restoration of habitats wherever possible. Lastly, any impacts are offset through a variety of environmental improvement initiatives and conservation projects, undertaken in collaboration with the government, non-governmental bodies and other entities.

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

- Habitat protection and conservation (vegetation).
  - In 2023, the Company updated its explicit commitment to protecting vegetation and combating deforestation, as a result of its own operations and the activities of its supply chain.
  - The Company works tirelessly to prevent and fight forest fires. Aside from the proper maintenance of firebreaks, the Company has strict work and supervision procedures in place to reduce the risk of fire in and around its facilities. It actively and continuously collaborates with the public entities involved in forest management, through formal collaboration agreements that include actions and the provision of material for forest fire monitoring, prevention, training and awareness.

  - Despite the application of best prevention and mitigation practices, the elimination of vegetable species that are incompatible with safety at the facilities is inevitable in some cases. In such scenarios, although this does not affect deforestation, the Company undertakes to compensate the entire amount of trees removed by carrying out various planting and reforestation activities aimed at the conservation of native forests, such as reforestation of degraded areas.
  - Other habitat conservation projects carried out include the Red Eléctrica Marine Forest project to restore posidonia oceanica seagrass.
- Protection and conservation of birdlife:
  - After selecting the best route, the main measure implemented to reduce the risk of birds colliding with ground wires is to use bird-saving devices. Thanks to the “Birds and power lines: Mapping of bird flight paths” project, the Company has identified the top-priority areas (where the risk is highest) and is making progress towards installing bird-saving devices on the lines located within those areas.
  - The Company promotes and performs numerous initiatives to conserve birdlife, primarily geared towards improving their habitats, drawing on knowledge of their behaviour and condition, as well as boosting the population of species that are more sensitive to the presence of power lines, thus helping to offset those impacts that cannot be prevented or mitigated.

c) Climate change

Red Eléctrica is a key and proactive agent in the energy transition towards a zero emissions model, the main elements of which should be: the electrification of the economy, the full integration of renewable energy into the energy mix, and efficiency, while always ensuring the security of supply. Embracing this role, in 2011 the Company made a voluntary commitment to combating climate change, which is embodied in its emission reduction targets and in its Climate Change Action Plan, both of which were updated in 2021 to align them with the global ambition of limiting the average temperature increase to 1.5°C.

Emission reduction targets, validated by the Science Based Targets initiative (SBTi) In 2022:

- Reduction in Scope 1[3] and Scope 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 accounting for 2/3 of supply chain emissions must have science-based targets in place within five years.

These targets are consistent with the commitment to achieve net zero in carbon emissions by 2050 in accordance with SBTi criteria.

Moreover, the Company has set a target of offsetting 100% of its Scope 1 emissions as of 2023.

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

- Contributing to a more sustainable energy model by taking the necessary steps so that the objectives set out in the National Energy and Climate Plan (NECP) can be achieved by 2030:
  - Ongoing investment to develop a robust, smart 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, using artificial intelligence as a decision-making and predictive tool, integrating more evenly-distributed generation, and developing storage systems.

[3] Scope 1 emissions: Direct emissions from sources owned or controlled by the Company (SF6, combustion emissions from vehicles and generators and emissions from air conditioners).

[4] Scope 2 emissions: Indirect emissions from electricity consumption (includes transmission grid losses).

[5] Scope 3 emissions: Indirect emissions, resulting from the Company's activity, which occur in sources that are not controlled by the Group (supply chain, business travel, employee commuting, logistics, waste, etc.).

  - Furthering efficient grid management by fostering technological innovation, incorporating new elements and services and applying new flexibility measures.
- Reduction in greenhouse gas emissions resulting from the Group's activities. The main measures implemented apply to the following areas of action:
  - Reduction in SF6 emissions by controlling and reducing leaks, renewing switchgear equipment, and taking steps to limit the growth of installed gas, including the increased use of alternatives to gas.
  - Reduction in energy consumption and associated emissions: increased use of renewable sources, development of energy-efficiency measures, and more sustainable mobility initiatives.
  - Reduction in the emissions associated with the supply chain:
    - » Roll-out of collaboration programmes with suppliers aimed at setting reduction targets in line with the SBTi.
    - » Incorporating sustainability criteria into procurement decisions, prioritising more sustainable supplies and fostering changes to allow for an effective reduction in emissions.
  - Offsetting of emissions to make progress towards carbon neutrality, mainly through reforestation projects and by purchasing carbon credits in the voluntary market.
- Positioning and outreach: ensuring all stakeholders are involved in the Company's commitment, disseminating knowledge and providing complete and transparent information on the electricity system and its role in the energy transition, as well as on various energy efficiency measures.
- Adaptation: in order to address both the inevitable physical changes in the climate parameters, as well as the social, economic and regulatory changes associated with the fight against climate change, the Company regularly identifies and evaluates the risks and opportunities arising from climate change and applies various measures defined within the framework of this analysis. As per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the financial impacts of the relevant risks and opportunities are quantified, considering different physical and transition scenarios. Details of the TCFD recommendations are provided in note 4 Risk management in the Group's consolidated management report.

6 Research, development and innovation (RDI)

Research, development and innovation (RDI) projects carried out during the year were done by Redeia subsidiary Elewit. The main initiatives carried out under these projects in 2023 were:

- **Venture Client**: completion of the 4th Venture Client Programme, involving the implementation of four pilots focused on the agile development and testing of new solutions to cater to the Company's internal needs. The solutions developed address diverse needs, e.g. improving the design of critical assets such as submarine cables, reducing the risk of power line failures and stepping up tracking of adverse weather conditions and the state of electricity system assets.
- **Ecosystem creation and communication**: Further progress was made throughout 2023 in building an ecosystem that will ultimately unlock a large number of technological opportunities. More precisely, robotics and cybersecurity —two key technologies under Redeia's strategic plan— were prioritised during the year. This meant building new relationship models with allies, partners and collaborators, which should ultimately help to create new project and investment opportunities, in line with the key challenges of technological innovation. Thus, Redeia surrounds itself and works closely with more than 65 different innovation agents (entrepreneurs, investors, universities, research and technology centres, other corporations, opinion leaders, etc.) so as to ensure a constant supply of new ideas and knowledge.

  To ensure the proper management and monitoring of these external relations, Redeia has devised a scorecard containing various key indicators, including the quantification of categories or roles within the Redeia ecosystem, the various types or mechanisms of collaboration, and geographical and technological diversification, thus providing a broad view of the ecosystem from multiple angles.

- **Intrapreneurship**: Launch of the 2nd intrapreneurship programme, with the selection of the following projects:
    - e-Commerland: an online platform and marketplace to help maximise the availability of land for the energy transition through energy communities by matching supply with demand.
    - EFIsite: virtual assistant to help individuals optimise their energy consumption by receiving personalised tips on how to improve levels of energy efficiency at home.

Continuation of the SafeDelimit project (1st Intrapreneurship Programme), with the aim of materialising the letters of interest generated by manufacturing and launching the product.

- **Project Management Office**: monitoring of the innovation funnel, with more than 100 initiatives received, 78 projects ongoing, and 12 innovative technological solutions adopted in 2023.

- **Unlocking value**: Elewit continues to unlock the value of the innovation processes that go on at Redeia. To succeed in this task, Elewit works relentlessly to identify projects that will lead to solutions that can be implemented both internally and at other companies. This activity is carried out with the support of key partners for each R&D project, who can then bring the resulting solutions to market and compensate Redeia in the form of discounts, royalties or fees and commissions.

  Elewit unlocks this value through various initiatives. All of them are key, as they help to improve both Elewit's positioning and that of the solutions stemming from Redeia's R&D activities, thus making Elewit and Redeia key players and touchstones for other companies in their industry. More precisely, the following actions were carried out over the course of the year:
    - Marketing and dissemination actions in relation to DALIA (end-to-end solution for asset inspection using drones and AI), with the submission of bids to ARGO (Brazil), UTE (Uruguay) and CCNCM S.A.C. (Peru), as well as presentations of PDEye (partial discharges) and Overstory (digitalisation of existing plant cover).
    - Expansion of the portfolio to include three new solutions through which Redeia can earn royalties and acquire the solutions at a discount or on other advantageous terms: ZEPAS (portable transformer), SERPAT (tools for improving grounding at substations) and STRATEGOS (solution for optimising the project portfolio).
    - Presentation of two offers for innovation services to third parties (InnaaS – Innovation as a Service): first, the implementation of a Venture Client programme at ARGO and second, an offer made to Grupo Energía de Bogotá, in which Elewit would help the company to develop innovation skills within the organisation. Service propositions were also presented to various Spanish companies, including e-redes and Roadis.
    - Elewit and Redinter both took part in the XIX ERIAC seminar held in Brazil by setting up a stand in the exhibitors' area offering corporate information and innovation solutions. Elewit also presented three technical articles related to the solutions stemming from the innovation projects ZEPAS, PDEye and SF_6-SO_2 Sensorisation, with the sensorisation proposal receiving an award.

  Thanks to the work carried out alongside Redinter and Aerolaser in Latam, the DALIA solution was approved for implementation at ARGO (Brazil) and UTE (Uruguay).

- **Venture Building:** The aim of this project is to spot attractive new business logics present within the market and underutilised assets, technology or knowledge within Redeia with the potential to respond to market needs, provided that investing in a new company is considered the best way forward to unlock the full potential of these businesses. Further progress was made towards the Venture Builder programme in 2023, with the aim of boosting investment in startup companies by harnessing the market opportunities offered by technology.

A sample of the most significant projects carried out during 2023 is briefly described below:

- **Advanced Substation Monitoring (ASUMO)**: application based on technologies such as the Internet of Things, artificial intelligence and data analytics that aims to improve, optimise and automate procedures and activities when it comes to maintenance, engineering and construction of transmission network infrastructure.

Throughout 2023, various asset monitoring systems were installed and brought online at the 220 kV (GIS) and 400 kV (AIS) infrastructure of the Fuencarral substation. The assets monitored include power transformers, reactors, disconnectors, switchgear, circuit breakers and GIS compartments. 3D digital models of both facilities were also drawn up and point clouds and 360º images captured so that this valuable information could be applied to maintenance processes. Last but not least, remote visualisation systems were deployed, consisting of fixed cameras to spot defects in bars and an AGV system enabling infrastructure inspection by an autonomous quadruped robot.

- **New applications – Centralised Protection and Control Platform (EPICS):** this particular project aims to create an executable software platform built around general hardware platforms, applying edge technology and microservices concepts, to create a virtual environment capable of implementing the functions of the automatic substation system and featuring high capacity to integrate new functions into the system.

  In 2023, the new WAMPAC vertical (measurement, protection and control in large areas) for processing phasor measurement units was developed, the platform's microservices infrastructure was consolidated, and the first steps in upgrading the remote control vertical were taken. Notably, a proof of concept of the NearbyOne product for macro-orchestration of the platform is now under way.
- **CASANDRA:** the aim of this project is to provide Red Eléctrica's planning department with a suite of tools with which to optimise the future electricity planning process. Three lines of work were tackled in 2023. The first of these was the development of an electrical calculation and planning software in AWS, capable of linking electrical calculations with optimisation and machine learning for operation and planning purposes. The second was the development of web libraries for the graphical representation of electrical models. And the third involved the generation of a database for: i) storing electrical models in open format; ii) tracking changes to any model; and iii) allowing users to create versions of these and access them at any time.
- **Virtual Synchronous Compensator (ViSynC):** a project funded by PERTE ERHA (Renewable Energies, Hydrogen and Storage) through the first call for innovative energy storage R&D projects within the broader framework of the Recovery, Transformation and Resilience Plan. The project involves the development and full-scale validation of a hybrid storage system combining lithium-ion batteries and ultracapacitors, all managed via a specific control system that allows it to operate in synchronous grid-forming mode, which increases the strength of the grid node to which the developed storage system would be connected. The new storage system will be connected to the high-voltage transmission grid in the Lanzarote-Fuerteventura electricity system, more precisely at the Tías substation (Lanzarote), and will operate as an integrated grid asset, providing a wide range of services to ensure the safe operation of the electricity system and allow for the increased integration of renewable energies. The grouping that will carry out the project will comprise three Redeia companies: Red Eléctrica Infraestructuras en Canarias S.A.U. (as leader of the grouping), Red Eléctrica and Elewit, alongside Hesstec (startup owned by Elewit), CEN Solutions, CERE and S2 Grupo.

7 Our people

Work continued throughout 2023 on the sustainable management model of diverse and committed talent, an essential part of the People and Culture Department's Operational Plan, which uses a systematic approach to attract, discover, develop, train, transform and retain talent and exchange knowledge. The model pursues excellence to ensure that the Company remains a national and international benchmark. This is to be achieved through six lines of action, with the first —transformational leadership— being key to the achievement of the others: attracting talent, learning, development, knowledge management and differentiation.

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

This ongoing transformation is driven and galvanised through leadership and people development through our Leadership Model and Skills Model, which set out how to achieve the objectives and challenges set. The aim of all this is to maintain high commitments that result in excellent employee contributions on the path to achieving the objectives set out in the 2022-2025 Strategic Plan.

On this front, in 2023 efforts were made to:

- Position the Company's leaders as the spearheads of the transformation so that they can promote and develop self-leadership habits among others that foster responsibility, self-management and self-learning. This is carried out through a 360 degree assessment process that identifies areas for improvement and deploys resources and development programmes, such as the new *Lidera* programme, designed on the basis of the leadership model.
- Plan talent needs, by identifying new profiles and positions, treating diversity and inclusion as competitive advantages that bring opportunities and benefits to both the organisation and the broader society through the creation of specific programmes for the new profiles identified.
- Develop talent within the organisation through programmes such as *Talentia* for employees with managerial potential, *Gestores* for those tasked with people management processes, and specific programmes for data analysts and other business IT roles.
- Foster self-development, by offering a bespoke selection of initiatives that allow employees to manage their own development, and by engaging leaders in the achievements of their teams. The new Redeia Skills Model, first rolled out in 2022, continued to be implemented throughout the year, so as to align growth with the Company's objectives.
- Implement the Development Recommendations so that employees can work, either autonomously or accompanied, on the skills chosen in each case in response to the Skills Model. These recommendations include internal mobility (through temporary placements, coverage of vacancies and international mobility), postings to projects and training actions.

a) A stable, engaged and highly qualified team

At year-end 2023, the Company had a headcount of 1,292 employees. The Company's commitment to the professional development of its personnel and to maintaining their employability during their tenure is reflected in the high percentage of employees on permanent contracts (nearly 100%), with the focus on employability and functional mobility as a lever for growth and professional development.

b) Diversity

The Company's commitment to diversity, inclusion and non-discrimination is articulated in its new 2023-2025 Comprehensive Diversity Plan, which is aligned with both the Strategic Plan and the 2030 Sustainability Commitment. The purpose of the plan is to inspire and be a benchmark, both within the organization itself and 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 to:

- Embed diversity across all Redeia's processes, especially people management, taking account of everything that this implies (gender, age, disability, etc.) and thus instilling a culture of diversity, equal opportunities, equity, inclusion and non-discrimination.
- Extend the diversity, equity and inclusion strategy across the entire value chain.
- Partner with official organisations, academic institutions, stakeholders and other social agents in campaigns, observatories and projects that enable the Company to become a benchmark as a social agent that helps to create a more diverse society.
- Reduce any inequalities that may arise (corporate and wage or digital gaps).
- Put mechanisms in place to prevent discriminatory bias.
- Support the inclusion of socially excluded and/or vulnerable people within the job market.

Gender equality is a key topic under the new Comprehensive Diversity Plan and includes 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-based violence. Performance in these areas is monitored using indicators to measure progress towards achieving stated objectives.

c) Talent management

In 2023, the Company continued to work on the talent management model, an essential part of the People and Culture Department's Operational Plan, which uses a systematic approach to attract, discover, develop, train, transform and retain talent and exchange knowledge. The model pursues excellence to ensure that the Company remains a national and international benchmark. This is to be achieved through five lines of action:

- Attracting, selecting and integrating talent: commitment to the future.
- Identifying talent: engagement.
- Professional training and development plans: virtual campus.
- Knowledge management: transfer plan.
- Transformational leadership.

Learning is provided through Campus, which serves as a springboard for rolling out the organisation's strategy, values and culture. It is a meeting place and a space for learning and development, helping to manage stakeholder knowledge and covering the various areas targeted for learning.

d) Management-employee relations

In 2023, the role of the management team as the main channel for internal communication with the teams was further consolidated and specific leadership targets were added to improve matters further.

The Company also designed a methodology for listening to its employees by "taking pulses". This method allows the Company to gauge the opinions of various segments on specific and relevant issues that affect the day-to-day work of the workforce. For example, employees were asked to assess the implementation of the hybrid work model, which started up in May.

On the subject of collective bargaining, Red Eléctrica de España, S.A.U. signed its 12th Collective Bargaining Agreement, which was published in the Official State Gazette, marking an end to the bargaining process that began in 2022.

Following the signing of this agreement, which was unanimously agreed by each negotiating committee, close employer-employee dialogue was struck up through the various committees set up under the terms of the agreements, comprising representatives of the employer and of the employees and which were called upon to address working conditions.

e) Occupational health and safety

Through the engagement and leadership of the management team, the Company promotes best practices in safety, health and wellness. Its healthy company management model has evolved with the new AENOR standard towards a healthy organisation model and is fully aligned with the Strategic Plan, the People Operational Plan and the 2030 Sustainability Commitment.

This system seeks to provide guidelines, not only for people in the organization to view working conditions in a positive light, thereby fostering a safe and healthy workplace, but also so that the various groups of the wider society (e.g. users, customers, suppliers, families) can share and reap these benefits, thereby giving rise to a new wellness- and sustainability-driven leadership strategy.

Therefore, in 2023, with the primary aim of building prevention into the Company's processes and culture on the path to achieving the "zero accidents" objective, the new 2024-2025 Workplace Safety and Wellness Plan was drawn up. The plan is divided into four main areas of action: culture and leadership, innovation and digitalisation, wellness, and collaboration with stakeholders.

f) Work-life balance management

True to its commitment to ensuring a healthy work-life balance, the Company continues to build to a work-life balance management model based on continuous improvement.

Achievement of the objectives set for 2023 came to 80%, with the work-life balance officer playing a key role by delivering personalised responses to more than78% of the personal situations raised by workers.

The work-life balance management model also happens to be one of the central pillars of the Healthy Organisation model and the Diversity model, and includes over 70 work-life balance measures and related actions.

8 Disclosures regarding average supplier payment term. Additional Provision Three - "Disclosure requirements" under Law 15/2010 of 5 July.

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding disclosures that must be included in the notes to financial statements regarding average supplier payment period in commercial transactions, as amended by Law 18/2022 of 28 September, the average supplier payment period in 2023 was 47 days.

The disclosures required by this resolution are provided in note 22 to the Company's 2023 financial statements.

9 Events after the reporting date

On 3 January 2024, Redeia, through its subsidiary Red Eléctrica Financiaciones, S.A.U., and under the scope of the Euro Medium Term Note (EMTN) Programme of the latter, issued 500 million euros of green bonds on the euromarket that are secured by Redeia Corporación, S.A. and Red Eléctrica de España, S.A.U..

The proceeds will be used to finance and/or refinance eligible projects under the umbrella of Red Eléctrica de España, S.A.U.'s green finance framework.

The notes, which were paid in on 17 January 2024, mature in 10 years and carry an annual coupon of 3.00%; they were issued at a price of 99.405%, implying a yield of 3.07%.

10 Outlook

Advancements in TSO regulated activities, aimed at making the energy transition in Spain a reality, were underpinned primarily by the following lines of action:

- Integrating more renewable sources of energy generation within 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.
- Developing storage based on the management needs of the system in order to implement a more flexible electricity system.
- Digitalising and deploying smart networks, making extra efforts on the technology front.
- Achieving a higher degree of interconnection, furthering integration with the European market and improving the functioning of non-mainland systems.

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

The Company will ensure its financial policy in line with the remuneration regime for transmission activities, which involves maintaining a suitable borrowing structure and comfortable liquidity position ahead of forthcoming maturities, seeking to have a robust financial structure that embeds sustainability criteria.

11 Non-financial statement in compliance with Law 11/2018 of 28 December 2018

Regarding Spanish Law 11/2018 of December 28, amending Spain's Code of Commerce, the consolidated text of the Corporate Enterprises Act enacted by Royal Legislative Decree 1/2010 of 2 July 202 and Spain's Audit Act (Law 22/2015 of 20 July 20215) regarding non-financial and diversity information, this information is included in the 2023 consolidated management report placed on file at the Madrid Companies Register.

Signature of the sole director's representative in compliance with article 253 of the Spanish Corporate Enterprises Act.

Roberto García Merino

red eléctrica

A Redeia company