Auditor's Report on Red Eléctrica Corporación, S.A. and subsidiaries

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

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

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

Audit Report on the Consolidated Annual Accounts issued by an Independent Auditor

To the Shareholders of Red Eléctrica Corporación, S.A.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Red Eléctrica Corporación, S.A. (the "Parent") and subsidiaries (together the "Group") which comprise the consolidated statement of financial position at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Additions to property, plant and equipment (Euros 413,427 thousand) **See note 8 to the consolidated annual accounts**	
Key audit matter	*How the matter was addressed in our audit*
Most of the Group's property, plant and equipment pertain to Red Eléctrica de España, S.A.U., the regulated activity of which mainly consists of managing the transmission network of the Spanish electricity system. Each year, Red Eléctrica de España, S.A.U. makes substantial investments in property, plant and equipment in accordance with the Electricity Transmission Network Development Plan for 2015 – 2020 approved by agreement of the Council of Ministers on 16 October 2015, and it has started to move forward with certain initiatives laid down in the draft 2021-2026 Planning published by the Ministry for the Ecological Transition and Demographic Challenge in February 2021. In 2021 additions to the Group's property, plant and equipment totalled Euros 537,586 thousand, of which Euros 413,427 thousand pertains to the investee Red Eléctrica de España, S.A.U. Considering the nature of the business carried out by this investee, the remuneration for these services is set by the Spanish National Markets and Competition Commission (CNMC) through Circular 5/2019, which determines the method for calculating the remuneration of the transmission activity based on the costs necessary to construct, operate and maintain the technical electricity facilities, pursuant to the powers bestowed upon this Commission by Royal Decree-Law 1/2019. As the Parent's transmission revenues are directly related to the recognised electricity transmission facilities, and bearing in mind the significance of these facilities, we have considered the additions to property, plant and equipment to be a key audit matter.	Our audit procedures included evaluating the relevant controls associated with processes involving fixed assets and acquisitions, as well as performing substantive procedures on property, plant and equipment. We also assessed the consistency of the Group's accounting policies on fixed assets and acquisitions with the applicable accounting framework. Our procedures for evaluating and analysing the control environment were focused on: - Testing the design, implementation and operating effectiveness of key manual and automated controls related to the cycles of "additions and disposals of fixed assets" and "acquisition of goods and services, progress billings for construction". Our substantive procedures on property, plant and equipment mainly consisted of: - Analysing asset additions during the year and assessing whether they have been correctly recognised. - Analysing documentation supporting the cost allocation for a sample of projects in progress. We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Company.

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Recoverable amount of goodwill and other non-current assets

See notes 7, 8, 11 and 19 to the consolidated annual accounts

Key audit matter	*How the matter was addressed in our audit*
As mentioned in notes 7 and 8 to the consolidated annual accounts, at 31 December 2021, the Group's property, plant and equipment, intangible assets and goodwill amount to Euros 9,576 million, Euros 489 million and Euros 232 million, respectively, allocated to the various cash-generating units (CGUs) or, in the case of Hispasat, S.A. goodwill, to groups of CGUs. Furthermore, as mentioned in notes 11 and 19 to the consolidated annual accounts, the Group holds an investment of Euros 210 million in Transmisora Eléctrica del Norte, S.A., which is accounted for using the equity method, and has extended a loan of Euros 12 million to this investee. The Group tested both of these items for impairment after identifying indications thereof. There is a risk that the carrying amount of the CGUs may exceed their recoverable amount in the case of CGUs or groups of CGUs that show indications of impairment. The Group calculates the recoverable amount of goodwill and intangible assets with indefinite useful lives annually and tests property, plant and equipment and intangible assets for indications of impairment, for the purposes of determining their recoverable amount. The mentioned recoverable amounts are calculated considering their value in use or fair value less costs to sell, applying valuation techniques which require the exercising of judgement by the Directors and management and the use of estimates. Due to the high level of judgement, the uncertainty associated with these estimates, and the significance of the carrying amount of non-current assets subject to impairment testing, this has been considered a key audit matter.	Our audit procedures included the following: Assessing the design and implementation of key controls related to the process of evaluating the criteria used to identify indications of impairment and for estimating the recoverable amount of goodwill and other non-current assets. - Evaluating the methodology and reasonableness of the assumptions used by management and the Directors to estimate the recoverable amount using the discounted cash flow method at cash-generating unit level, with the involvement of our valuation specialists and based on the reports drawn up by the independent experts engaged by the Group to contrast the reasonableness of the assumptions used. - Contrasting the information contained in the model used to calculate the recoverable amount with the business plans of the companies. - Analysing the sensitivity of the estimated recoverable amount to changes in the relevant assumptions and judgements. We also assessed whether the disclosures in the consolidated annual accounts meet the requirements of the financial reporting framework applicable to the Entity.

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Other Information: Consolidated Directors' Report

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

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

In accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, which was subsequently amended by CNMV Circular 7/2015 of 22 December 2015, by CNMV Circular 2/2018 of 12 June 2018 and by CNMV Circular 3/2021 of 28 of September 2021, which provides the models for the Annual Corporate Governance Report for listed corporations; and for the purposes of the description of Internal Control over Financial Reporting in Annual Corporate Governance Reports; and as mentioned in section F.7.1 of the Annual Corporate Governance Report, which forms part of the accompanying consolidated directors' report for 2021; on 22 February 2022, at the Company's request, we issued our Independent Reasonable Assurance Report on the Internal Control over Financial Reporting (ICOFR) of the Red Eléctrica Group for 2021, based on our examination, which was performed in accordance with ISAE 3000 (Revised) (International Standard on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), for the issue of reasonable assurance reports.

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Directors' and audit committee's responsibility for the consolidated annual accounts

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

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

The Parent's Audit Committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

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

Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

Conclude on the appropriateness of the use by the Parent's Directors 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 Group'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 consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent 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.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

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

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Red Eléctrica Corporación, S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

The Directors of Red Eléctrica Corporación, S.A. are responsible for the presentation of the 2021 annual financial report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and Annual Report on Directors' Remuneration by means of a reference thereto in the directors' consolidated report.

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit Committee dated 22 February 2022.

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 29 June 2021 for a period of two years, from the year commenced 1 January 2021.

Previously, we had been appointed for a period of three years, by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2013.

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

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

(Signed on original in Spanish)

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

22 February 2022

Annual Accounts

2021

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

Red Eléctrica Group
Consolidated Statement of Financial Position at 31 December 2021

Thousands of Euros

Assets	Note	31/12/2021	31/12/2020
Non-current assets			
Intangible assets	7	**720,619**	**690,850**
Property, plant and equipment	8	**9,575,848**	**9,511,245**
Investment property	10	**1,772**	**1,325**
Equity-accounted investees	11	**587,983**	**519,312**
Non-current financial assets	19	**114,689**	**116,205**
At fair value through other comprehensive income		85,368	79,363
At fair value through profit or loss		5,379	7,973
At amortised cost		23,942	28,869
Non-current derivatives	20	**23,592**	**146**
Deferred tax assets	23	**70,567**	**88,015**
Other non-current assets		**1,998**	**2,442**
Total non-current assets		**11,097,068**	**10,929,540**
Current assets			
Inventories	12	**26,535**	**34,875**
Trade and other receivables	13	**1,260,956**	**1,342,099**
Trade receivables		59,709	43,054
Other receivables		1,193,686	1,288,342
Current tax assets	23	7,561	10,703
Other current financial assets	19	**25,401**	**35,812**
At fair value through other comprehensive income		-	-
At fair value through profit or loss		-	-
At amortised cost		25,401	35,812
Current derivatives	20	**91**	**19,991**
Cash and cash equivalents		**1,574,427**	**481,772**
Total current assets		**2,887,410**	**1,914,549**
Total assets		**13,984,478**	**12,844,089**

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group
Consolidated Statement of Financial Position at 31 December 2021

Thousands of Euros

Equity and Liabilities	Note	31/12/2021	31/12/2020
Equity			
Capital and reserves		**3,762,199**	**3,613,425**
Capital		270,540	270,540
Reserves		2,989,711	2,905,234
Own shares (-)		(31,618)	(36,550)
Profit attributable to the Parent		680,627	621,185
Interim dividend (-)		(147,061)	(146,984)
Valuation adjustments		**(131,117)**	**(177,823)**
Financial assets at fair value through other comprehensive income		18,766	12,761
Hedging transactions		(62,170)	(93,559)
Translation differences		(87,713)	(97,025)
Equity attributable to the Parent		**3,631,082**	**3,435,602**
Non-controlling interests		**54,049**	**56,351**
Total equity	14	**3,685,131**	**3,491,953**
Non-current liabilities			
Grants and other	15	**726,002**	**707,920**
Non-current provisions	16	**129,965**	**135,986**
Non-current financial liabilities	19	**5,953,434**	**6,485,404**
Loans and borrowings, bonds and other marketable securities		5,896,170	6,427,644
Other non-current financial liabilities		57,264	57,760
Deferred tax liabilities	23	**397,811**	**417,353**
Non-current derivatives	20	**16,436**	**50,350**
Other non-current liabilities	17	**102,288**	**96,233**
Total non-current liabilities		**7,325,936**	**7,893,246**
Current liabilities			
Current provisions	16	**21,202**	**57,183**
Current financial liabilities	19	**2,144,425**	**823,767**
Loans and borrowings, bonds and other marketable securities		1,391,722	214,973
Other current financial liabilities		752,703	608,794
Trade and other payables	21	**802,655**	**577,720**
Suppliers		382,309	460,502
Other payables		409,459	92,257
Current tax liabilities	23	10,887	24,961
Current derivatives	20	**5,129**	**220**
Total current liabilities		**2,973,411**	**1,458,890**
Total equity and liabilities		**13,984,478**	**12,844,089**

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group
Consolidated Income Statement. 2021

Thousands of Euros

	Note	31/12/2021	31/12/2020
Revenue	24.a	1,952,958	1,985,751
Self-constructed assets	7 and 8	55,737	57,690
Share of profit of equity-accounted investees (with a similar activity to that of the Group)	11	29,546	27,980
Supplies	24.c	(18,655)	(27,307)
Other operating income	24.b	10,644	17,189
Personnel expenses	24.d	(187,341)	(175,915)
Other operating expenses	24.c	(344,252)	(316,870)
Depreciation and amortisation	7, 8 and 10	(522,114)	(548,184)
Non-financial and other capital grants		14,717	30,248
Impairment and gains/(losses) on disposal of fixed assets	8	730	(121,575)
Results from operating activities		**991,970**	**929,007**
Finance income	24.e	10,488	16,014
Finance costs	24.e	(115,453)	(133,613)
Change in fair value of financial instruments		376	-
Exchange gains/(losses)		696	(5,417)
Net finance cost		**(103,893)**	**(123,016)**
Share of profit of equity-accounted investees	11	-	-
Profit before tax		**888,077**	**805,991**
Income tax	23	(201,793)	(194,751)
Consolidated profit for the year		**686,284**	**611,240**
A) Consolidated profit for the year attributable to the Parent		**680,627**	**621,185**
B) Consolidated profit/(loss) for the year attributable to non-controlling interests	14	**5,657**	**(9,945)**
Earnings per share in Euros			
Basic earnings per share in Euros	33	1.26	1.15
Diluted earnings per share in Euros	33	1.26	1.15

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group
Consolidated Statement Of Comprehensive Income. 2021

Thousands of Euros

	Note	31/12/2021	31/12/2020
A) Consolidated profit for the year (income statement)		**686,284**	**611,240**
B) Other comprehensive income – Items that will not be reclassified to profit or loss:		**14,460**	**(18,425)**
Actuarial gains and losses	16	11,273	(8,781)
Equity instruments through other comprehensive income	19	6,005	(11,843)
Tax effect		(2,818)	2,199
C) Other comprehensive income – Items that could be reclassified to profit or loss:		**40,960**	**(119,858)**
Hedging transactions:		**9,935**	**1,233**
a) Revaluation gains/(losses)		3,987	(4,380)
b) Amounts transferred to the income statement		5,948	5,613
Translation differences:		**12,760**	**(145,334)**
a) Revaluation gains/(losses)		12,760	(145,334)
Share of other comprehensive income from investments in joint ventures and associates:		**23,938**	**(11,807)**
a) Revaluation gains/(losses)	11	23,938	(11,807)
Tax effect		**(5,673)**	**36,050**
Total comprehensive income for the year (A + B + C)		**741,704**	**472,957**
a) Attributable to the Parent		735,789	489,246
b) Attributable to non-controlling interests		5,915	(16,289)

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group
Consolidated Statement of Changes in Equity at 31 December 2021

Thousands of Euros

Equity	Note	Sub-scribed capital	Reserves	Interim dividend	Own shares	Profit attributable to the Parent	Valuation adjust-ments	Equity attributable to the Parent	Non-controlling interests	Total equity
Balances at 1 January 2020		270,540	2,763,196	(147,002)	(36,504)	714,752	(52,466)	3,512,516	72,640	3,585,156
I. Comprehensive income for the year		-	(6,582)	-	-	621,185	(125,357)	489,246	(16,289)	472,957
II. Transactions with shareholders or owners		-	(421,939)	18	(46)	(146,984)	-	(568,951)	-	(568,951)
- Distribution of dividends	14	-	(421,609)	18	-	(146,984)	-	(568,575)	-	(568,575)
- Transactions with own shares	14	-	(330)	-	(46)	-	-	(376)	-	(376)
III. Other changes in equity		-	570,559	-	-	(567,768)	-	2,791	-	2,791
- Transfers between equity line items		-	567,768	-	-	(567,768)	-	-	-	-
- Other changes	14	-	2,791	-	-	-	-	2,791	-	2,791
Balances at 31 December 2020		270,540	2,905,234	(146,984)	(36,550)	621,185	(177,823)	3,435,602	56,351	3,491,953
Balances at 1 January 2021		270,540	2,905,234	(146,984)	(36,550)	621,185	(177,823)	3,435,602	56,351	3,491,953
I. Comprehensive income for the year		-	8,456	-	-	680,627	46,706	735,789	5,915	741,704
II. Transactions with shareholders or owners		-	(393,318)	(77)	4,932	(147,061)	-	(535,524)	(8,217)	(543,741)
- Distribution of dividends	14	-	(393,450)	(77)	-	(147,061)	-	(540,588)	-	(540,588)
- Transactions with own shares	14	-	132	-	4,932	-	-	5,064	(8,217)	(3,153)
III. Other changes in equity		-	469,339	-	-	(474,124)	-	(4,785)	-	(4,785)
- Transfers between equity line items		-	474,124	-	-	(474,124)	-	-	-	-
- Other changes	14	-	(4,785)	-	-	-	-	(4,785)	-	(4,785)
Balances at 31 December 2021		270,540	2,989,711	(147,061)	(31,618)	680,627	(131,117)	3,631,082	54,049	3,685,131

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Red Eléctrica Group
Consolidated Statement of Cash Flows. 2021

Thousands of Euros

	Note	31/12/2021	31/12/2020
Cash flows from operating activities		**1,605,176**	**1,380,422**
Profit before tax		**888,077**	**805,991**
Adjustments to profit:		**584,630**	**745,792**
Depreciation and amortisation	7, 8 and 10	522,114	548,184
Other adjustments (net)		62,516	197,608
Equity-accounted investees		(29,546)	(27,980)
(Gains)/losses on disposal/impairment of non-current assets and financial instruments		(1,106)	121,575
Accrued finance income	24.e	(10,488)	(16,014)
Accrued finance costs	24.e	115,453	133,613
Charge to/surplus provisions	12, 14 and 16	16,654	16,662
Capital and other grants taken to income	15	(28,451)	(30,248)
Changes in operating assets and liabilities		**426,768**	**173,528**
Changes in inventories, receivables, current prepayments and other current assets		98,582	8,821
Changes in trade payables, current contract liabilities and other current liabilities		328,186	164,707
Other cash flows used in operating activities:		**(294,299)**	**(344,889)**
Interest paid		(121,920)	(158,909)
Dividends received	24.e	4,848	4,848
Interest received		4,867	7,907
Income tax received/(paid)		(181,263)	(196,903)
Other proceeds from and payments for operating activities		(831)	(1,832)
Cash flows used in investing activities		**(537,638)**	**(905,547)**
Payments for investments		**(581,435)**	**(925,379)**
Property, plant and equipment, intangible assets and investment property	7, 8 and 10	(555,905)	(545,329)
Group companies, associates and business units	11	(9,316)	(374,262)
Other financial assets	19	(16,214)	(5,788)
Proceeds from sale of investments		**11,031**	**(1,641)**
Property, plant and equipment, intangible assets and investment property	7, 8 and 10	317	755
Other financial assets	19	10,714	(2,396)
Other cash flows from investing activities	15	**32,766**	**21,473**
Other proceeds from investing activities	15	32,766	21,473
Cash flows from (used in) financing activities		**22,323**	**(314,666)**
Proceeds from and payments for equity instruments	14	**6,075**	**(376)**
Issue		1,011	-
Redemption		-	-
Acquisition		-	(22,851)
Disposal		5,064	22,475
Proceeds from and payments for financial liability instruments	19	**587,301**	**276,095**
Issue and drawdowns		1,094,790	2,590,079
Redemption and repayment		(507,489)	(2,313,984)
Dividends and interest on other equity instruments paid	14	**(538,995)**	**(566,773)**
Other cash flows used in financing activities		**(32,058)**	**(23,612)**
Interest paid		-	(174)
Other proceeds from and payments for financing activities		(32,058)	(23,438)
Effect of exchange rate fluctuations on cash and cash equivalents		**2,794**	**(7,007)**
Net increase/(decrease) in cash and cash equivalents		**1,092,655**	**153,202**
Cash and cash equivalents at beginning of year		481,772	328,570
Cash and cash equivalents at year end		1,574,427	481,772

Notes 1 to 35 and Appendix I form an integral part of these consolidated annual accounts.

Contents

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

1 Activities of the Group Companies

Red Eléctrica Corporación, S.A. (hereinafter the Parent or the Company) is the Parent of a Group formed by subsidiaries. The Group is also involved in joint operations along with other operators. The Parent and its subsidiaries form the Red Eléctrica Group (hereinafter the Group or Red Eléctrica Group). The Company's registered office is located at Paseo del Conde de los Gaitanes, 177, Alcobendas (Madrid) and its shares are traded on the Spanish automated quotation system as part of the selective IBEX 35 index.

The Group's activity is focused on three main segments:

- **Management and operation of domestic electricity infrastructure**, which includes electricity transmission, system operation and management of the transmission network for the Spanish electricity system. These regulated activities are carried out through Red Eléctrica de España, S.A.U. (hereinafter REE).
- **Management and operation of international electricity infrastructure**: electricity transmission activities performed outside Spain through Red Eléctrica Internacional, S.A.U. (hereinafter REI) and its investees.
- **Telecommunications (fibre optics and satellites)**: furthermore, the Group provides telecommunications services to third parties through Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL), essentially via dark fibre backbone network rental, and through the HISPASAT subgroup (hereinafter HISPASAT), by means of satellite infrastructure operation.

In addition, the Group carries out activities through its subsidiaries aimed at financing its operations and covering risks by reinsuring its assets and activities. It also develops and builds electricity infrastructure and facilities through its subsidiaries and/or investees, Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) and Interconexión Eléctrica Francia-España, S.A.S. (INELFE). Moreover, the Group carries out activities aimed at driving and fostering technological innovation through its subsidiary Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT).

Appendix I provides details of the activities and registered offices of the Parent and its subsidiaries, as well as the direct and indirect investments held by the Parent in the subsidiaries.

2 Basis of Presentation of the Consolidated Annual Accounts

a) General information

The accompanying consolidated annual accounts have been prepared by the directors of the Parent to give a true and fair view of the consolidated equity and consolidated financial position of the Company and its subsidiaries at 31 December 2021, as well as the consolidated results of operations and consolidated cash flows and changes in consolidated equity for the year then ended.

The accompanying consolidated annual accounts, authorised for issue by the Company's directors at their board meeting held on 22 February 2022, have been prepared on the basis of the individual accounting records of the Company and the other Group companies, which together form the Red Eléctrica Group (see Appendix I). Each company prepares its annual accounts applying the accounting principles and criteria in force in its country of operations. Accordingly, the adjustments and reclassifications necessary to harmonise these principles and criteria with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) have been made on consolidation. The accounting policies of the consolidated companies are changed when necessary to ensure their consistency with the principles adopted by the Company.

The consolidated annual accounts for 2020 were approved by the shareholders at their general meeting held on 29 June 2021. The consolidated annual accounts for 2021 are currently pending approval by the shareholders. However, the directors of the Company consider that these consolidated annual accounts will be approved with no changes.

These consolidated annual accounts have been prepared on the historical cost basis, except in the case of financial assets measured at fair value through other comprehensive income, financial assets at fair value through profit or loss, financial instruments at fair value through profit or loss and business combinations.

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest thousand. The consolidated annual accounts have been prepared in accordance with IFRS-EU, and other applicable provisions in the financial reporting framework.

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

b) New IFRS-EU and IFRIC

The consolidated annual accounts have been prepared in accordance with IFRS-EU and taking into consideration the standards, amendments and interpretations adopted by the European Union which came into force on 1 January 2021, albeit with no significant effect on the consolidated annual accounts of the Group:

Effective from:	Amendments adopted by the EU
1 January 2021	• Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform - Phase 2
	• Amendment to IFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9 until 2023
1 April 2021	• Amendment to IFRS 16 Leases – Covid-19-Related Rent Concessions beyond 30 June 2021

The amendments adopted are as follows:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform - Phase 2**

  These amendments provide for certain exceptions in relation to the interest rate benchmark reform (IBOR). The exceptions pertain to hedge accounting and the outcome is that the IBOR reform should not generally give rise to the discontinuation of hedge accounting. However, any hedge ineffectiveness must continue to be recognised in the income statement.

  With regard to the IBOR reform, the Group has various hedging relationships to hedge interest rate risk, using derivatives and underlyings whose benchmark rate is generally the EURIBOR. No hedging relationships have been affected, and moreover, the Group is only minimally exposed to intraday benchmark interest rates (EONIA). With respect to the EURIBOR, in 2019 a new hybrid calculation methodology was developed based on actual market transactions, which distinguishes between three levels of estimates, depending on the extent to which such transactions are observable. This new methodology was approved by the authorities, and therefore no amendments to existing or future contracts are expected to be required, on considering that these financial instruments are not exposed to a high level of uncertainty at 31 December 2021.

  The remaining benchmark interest rates are undergoing a reform on a global scale, although this is not expected to affect the long-term hedging relationships currently in place. The Group has adopted a proactive stance with respect to this process, carrying out its monitoring and analysis sufficiently in advance to prevent any negative impacts that may arise. On this basis, the changes in benchmark interest rates have not had a significant impact on the Group's consolidated annual accounts.

  The amendments to IFRS 4 and IFRS 16 have not had an impact on the consolidated annual accounts of the Group at 31 December 2021.

- **New requirements or amendments effective as of 1 January 2022**

  The new standards not yet adopted by the European Union for which application is not mandatory in 2021 but which will enter into force for annual periods beginning on or after 1 January 2022 are as follows:

Effective from:	New requirements or amendments
1 January 2022	• Amendment to IFRS 3 – Reference to the Conceptual Framework • Amendment to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use • Amendment to IAS 37 – Onerous Contracts - Cost of Fulfilling a Contract • Annual Improvements to IFRS. 2018-2020 Cycle
1 January 2023	• New standard - IFRS 17 Insurance Contracts • Amendment to IAS 1 – Classification of Liabilities as Current or Non-current • Amendment to IAS 1 – Disclosure of Accounting Policies • Amendment to IAS 8 – Definition of Accounting Estimates • Amendment to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

None of these standards or amendments have been early applied. The Company is analysing these impacts in detail and application of these amendments is not expected to have a significant impact in 2022 or 2023.

c) Estimates and assumptions

The preparation of the consolidated annual accounts in accordance with IFRS-EU requires Group management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and judgements are assessed continually and are based on past experience and other factors, including expectations of future events that are considered reasonable given the circumstances. Actual results could differ from these estimates.

The consolidated annual accounts for 2021 occasionally include estimates calculated by management of the Group and of the consolidated companies, and subsequently endorsed by their directors, to quantify certain assets, liabilities, income, expenses and commitments disclosed therein.

These estimates are essentially as follows:

- Estimated asset recovery calculated by determining the recoverable amount thereof. The recoverable amount is understood to be the higher of fair value less costs to sell and value in use. Asset impairment is generally calculated using discounted cash flows based on financial projections used by the Group. The discount rate applied is the weighted average cost of capital (see notes 7 and 8).
- Estimated useful lives of property, plant and equipment (see note 4.c).
- The assumptions used in the actuarial calculations of liabilities and obligations to employees (see note 16).
- The assumptions used to calculate the fair value of derivatives (see note 20).
- The calculation of revenue from electricity transmission facilities in Spain (see note 3).
- The assumptions used to calculate the fair value of assets and liabilities acquired in a business combination (see note 6).

Liabilities are generally recognised when it is probable that an obligation will give rise to an indemnity or a payment. The Group assesses and estimates amounts to be settled in the future, including additional amounts for income tax, contractual obligations, pending lawsuit settlements and other liabilities. These estimates are subject to the interpretation of existing facts and circumstances, projected future events and the estimated financial effect of those events (see note 16). The Company has taken out insurance policies to cover the risk of possible claims that might be lodged by third parties in relation to its activities.

In the absence of International Financial Reporting Standards (IFRS) that give guidance on the accounting treatment for a particular situation, in accordance with IAS 8, management uses its best judgement based on the economic substance of the transaction and considering the most recent pronouncements of other standard-setting bodies that use the same conceptual framework as IFRS. Accordingly, as tax credits for investments are not within the scope of IAS 12 and IAS 20, after analysing the related facts and circumstances, Group management has considered that credits for fixed asset investments in the Canary Islands granted to the Group by public entities are similar to capital grants. Therefore, in these cases management has taken into account IAS 20 on government grants (see note 4j).

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

Although estimates are based on the best information available at 31 December 2021, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding consolidated income statement as a change in accounting estimates, as required by IFRS.

d) Consolidation principles

The types of companies included in the consolidated Group and the consolidation method used in each case are as follows:

- **Subsidiaries**

  Subsidiaries are entities over which the Company, either directly or indirectly through subsidiaries, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

  The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control, until the date that control ceases.

  Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

- **Joint arrangements**

  Joint arrangements are those in which there is a contractual agreement to share the control over an economic activity, in such a way that decisions about the relevant activities require the unanimous consent of the Group and the remaining venturers or operators. The existence of joint control is assessed considering the definition of control over subsidiaries.

  The Group assesses all the facts and circumstances relating to each joint arrangement for the purpose of its classification as a joint venture or joint operation, including whether the arrangement contains rights over the assets and obligations for liabilities.

  In joint operations there is a joint arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. For joint operations, the Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, and the expenses, including its share of any expenses incurred jointly, in the consolidated annual accounts.

  Joint ventures are those in which there is a contractual agreement with a third party to share control over an activity and the strategic financial and operating decisions relating to the activity require the unanimous consent of all the venturers that share control. The Group's interests in jointly controlled entities are accounted for using the equity method in accordance with IFRS 11.

  The Group's acquisition of an initial and subsequent share in a joint operation that is a business is recognised following the same criteria used for business combinations, at the percentage of ownership of each individual asset and liability. However, in subsequent acquisitions of additional shares in a joint operation, the previous share in each asset and liability is not subject to revaluation.

  In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

In purchases by the Group from a joint operation, it only recognises the resulting gains and losses when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

- Associates

  Associates are entities over which the Company, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

  Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. However, if on the acquisition date all or part of the investment qualifies for recognition as non-current assets or disposal groups held for sale, it is recognised at fair value less costs of disposal.

  Investments in associates are initially recognised at cost of acquisition, including any cost directly attributable to the acquisition and any consideration receivable or payable contingent on future events or on compliance with certain conditions. Any excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable net assets at the acquisition date is recognised as goodwill under equity-accounted investees in the consolidated statement of financial position. Any excess of the Group's share of the net fair value of the associate's identifiable net assets over the cost of the investment at the acquisition date (bargain purchase) is recognised as income in the period in which the investment is acquired.

  The Group classifies the profit or loss of these companies in results from operating activities when the entity's activity is similar to the Group's operating activities. Conversely, when their activity is different, the profit or loss of these companies is classified outside results from operating activities.

Appendix I provides details of the Company's subsidiaries, joint arrangements, joint ventures and associates, as well as the consolidation or measurement method used in preparing the accompanying consolidated annual accounts and other relevant information.

The financial statements of the subsidiaries, joint arrangements, joint ventures and associates used in the consolidation process have the same reporting date and refer to the same period as those of the Parent.

The operations of the Company and its subsidiaries have been consolidated applying the following basic principles:

- The accounting principles and criteria used by the Group companies have been harmonised with those applied by the Parent.
- Translation of foreign operations:
  - Balances in the financial statements of foreign companies have been translated using the closing exchange rate for assets and liabilities, the average exchange rate for income and expenses and the historical exchange rate for capital and reserves.
  - All resulting exchange differences are recognised as translation differences in other comprehensive income.
  - These criteria are also applicable to the translation of the financial statements of equity-accounted investees, with translation differences attributable to the Group recognised in other comprehensive income.
- All balances and transactions between fully consolidated companies have been eliminated on consolidation.
- Margins on invoices between Group companies for capitalisable goods or services were eliminated at the transaction date.

e) Non-controlling interests

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Company. Non-controlling interests' share in consolidated profit or loss for the year and in consolidated comprehensive income for the year is disclosed separately.

Transactions with non-controlling interests are recognised as transactions with equity holders of the Group. As such, the difference between the consideration paid in the acquisition of a non-controlling interest and the corresponding proportion of the carrying amount of the subsidiary's net assets is recognised in equity. Similarly, the gains or losses on disposal of non-controlling interests are also recognised in the Group's equity.

f) Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows in these consolidated annual accounts include comparative figures for the prior year.

g) Changes in the consolidated Group

The changes in the consolidated Group in 2021 are as follows:

- On 15 January 2021, the Peruvian company Hispasat Perú S.A.C. was incorporated. Its principal activity is the provision of telecommunications services. This company is a wholly owned subsidiary of Hispasat, S.A. and is fully consolidated. On 1 May 2021, Hispasat Peru acquired a series of assets for the management and transmission of video signals in Latin America.
- In 2021, through its subsidiary Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT), the Company included Nearby Computing, S.L, Zeleros Global, S.L., Hybrid Energy Storage Solutions, S.L. and Aerolaser System, S.L. in its consolidated group, in view of the significant influence it holds over all of these companies. These companies are accounted for in the Group's financial statements using the equity method.
- On 28 December 2021, Hispasat, S.A. and Hispasat Brasil, Ltda. acquired the entire non-controlling interest (19.04%) held in Hispamar Satélites, S.A. As a result, the Hispasat Group became the sole shareholder of both the acquired company Hispamar Satélites, S.A. and the latter's investee Hispamar Exterior, S.L.U. Following this acquisition, the Red Eléctrica Group now holds 89.68% of both companies. This transaction has no impact on the consolidation method, which continues to be full consolidation.

The Group has also entered into the following agreements, which are still to be completed:

- On 3 November 2021, Argo Energia Empreendimentos e Participações S.A. ("Argo"), in which Red Eléctrica Brazil holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A., subject to certain conditions being met and to the regulatory authorities approving the acquisition. This company will be accounted for in the Group's financial statements using the equity method, through the interest held in Argo.
- On 16 December 2021, the Company announced the agreement, subject to the pertinent authorisations, for the sale of a minority stake of 49% in REINTEL. On completion of the agreed transaction, the Red Eléctrica Group will maintain a 51% stake in REINTEL, as well as control and management of this company. Thus, once the conditions precedent has been met, there will be no impact on the consolidation method applied to REINTEL, which will continue to be fully consolidated (see note 14.c).

The changes in the consolidated Group in 2020 were as follows:

- On 31 January 2020 the Brazilian company "Red Eléctrica Brasil Holding LTDA" (hereinafter REB) was incorporated. This company's statutory activity mainly consists of the acquisition, holding, management and administration of securities. This company is wholly owned by Red Eléctrica Internacional, S.A.U.
- On 25 March 2020, once the conditions precedent laid down in the purchase agreement had been met, a 50% interest was acquired in the Brazilian company Argo and its subsidiaries. This company's statutory activity mainly consists of the acquisition, holding, management and administration of securities. This company is the parent of a group of electricity transmission concession operator companies in Brazil. REB holds a 50% interest in this company. It is accounted for using the equity method.

3 Sector Regulation

a) Electricity sector in Spain

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

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

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

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

  The remuneration for this activity is set by the government based on the general principles defined in the Law and on the method essentially enshrined in Spanish National Markets and Competition Commission (CNMC) Circular 5/2019 of 5 December 2019, *on the calculation of the remuneration for the electricity transmission activity*. Until the 2019 regulatory period, the calculation method was set forth in Royal Decree 1047/2013 of 27 December 2013; however, due to the change in remit introduced through *Royal Decree-Law 1/2019 of 11 January 2019, on urgent measures to adapt powers to the requirements of Community law in respect of Directives 2009/72/EC and 2009/73/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in electricity and natural gas, respectively*, the CNMC approved Circular 5/2019, which stipulates the methodology for the 2020-2025 regulatory period.

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

  Regulated revenue for the transmission activity for the first year of application of Royal Decree 1047/2013 (i.e., 2016) was determined definitively in Ministry of Industry, Energy and Tourism Order IET/981/2016. Subsequently, between 2017 and 2021, the regulated revenue for this activity was determined on a provisional basis and settled on account. The regulators (the Ministry until 2019 and the CNMC for revenue pertaining to 2020 onwards) provisionally opted to replicate the amount of remuneration stipulated for 2016, and this therefore remained constant until 2021. This provisional approach stems from the "detriment proceedings" brought by the Spanish State Attorney against the aforementioned Ministerial Order IET/981/2016, seeking that the Spanish Supreme Court declare certain articles therein null and void, thus enabling the definitive revenue for 2016 to be corrected. The Spanish Supreme Court Judgment was published on 29 June 2020, ordering that Order IET/981/2016 and the revenue for 2016 be corrected. To comply with this Judgment, at the end of 2021 the Ministry for the Ecological Transition and Demographic Challenge (MITERD) submitted for public consultation the proposed Order stipulating the remuneration for 2017, 2018 and 2019 allocable to companies that own electricity transmission facilities. The CNMC is still to publish the remuneration for 2020 and 2021. Both processes are expected to be finalised in 2022.

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

As provided in article 31.1 of the aforementioned law, the Ministry shall assign the role of transmission network manager for the Spanish electricity system to Red Eléctrica following certification by the CNMC, and the European Commission shall be notified in order for such assignment to be published in the Official Journal of the European Union. In 2015 the certification process for Red Eléctrica as transmission network manager for the Spanish electricity system, as envisaged in the law, was completed following publication in the Official Journal of the European Union of 12 February 2015 of the Notification of the Spanish Government regarding the designation of Red Eléctrica de España, S.A.U. as transmission system operator in Spain. Under this assignment, Red Eléctrica de España S.A.U operates on an ownership unbundling basis as provided for in article 43 of Directive 2019/944 on common rules for the internal market for electricity (formerly article 9 of Directive 2009/72/EC).

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

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

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

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

Regarding the Company's remit in the non-mainland electricity systems, in 2015 the Salto de Chira pumped-storage hydroelectric power plant project in Gran Canaria was transferred to the system operator, as stipulated in Order IET/728/2014 of 28 April 2014. Having taken ownership, in 2016 Red Eléctrica submitted a project amending the initial project, which included technical and environmental improvements aimed at increasing the capacity for integrating renewable energy and reducing the impact of this new infrastructure on the environment. The Canary Islands government declared the new project to be of strategic interest, and on 15 December 2021 the Department for Ecological Transition, the Fight against Climate Change and Territorial Planning of the Canary Islands government, through the Directorate-General for Energy, issued the administrative authorisation for the project.

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

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

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

b) International electricity sector

The Red Eléctrica Group has built and acquired electricity transmission facilities through REI. At international level, it now operates and maintains these facilities in Peru, Chile and Brazil. Various electricity transmission facilities were also under construction by subsidiaries of REI in these countries at the end of 2020.

Electricity sector in Peru

In Peru, the liberalisation of the electricity sector began in 1992 with the publication of the "Electricity Concessions Law" (LCE). The shaping of the electricity sector was subsequently completed by the 2006 reform (Law 28832, "Law for the Efficient Development of Electricity Generation", LGE).

These two laws and certain amendments and/or extensions, together with the Regulation implementing the Electricity Concessions Law (Supreme Decree No. 009-93-EM enacted in 1993), make up the basic regulatory framework for the electricity sector in Peru.

The basic regulatory framework for the transmission activity also includes the "Transmission Regulation" (Supreme Decree No. 027-2007-EM). Certain major regulatory developments instituted by the regulatory agency OSINERGMIN should also be highlighted, such as the Resolutions approving the annual settlement procedure for electricity transmission service revenue (Resolutions No. 055-2020-OS/CD and No. 056-2020-OS/CD), as well as Resolution No. 217-2013-OS/CD, regulating "Tariffs and Remuneration for Secondary Transmission Systems (STS) and Complementary Transmission Systems (CTS)".

For the transmission activity, the 2006 reform (LGE) entailed the introduction of auctions as a mechanism for awarding contracts to construct new facilities in the backbone transmission network. The auction procedure required an energy planning process to be developed, which did not exist prior to the publication of the LGE.

The Peruvian regulatory framework is currently open to discussion. On 20 June 2019 Supreme Resolution No. 006-2019-EM was published, which created the CRSE (multi-sector power reform commission), for the purpose of reviewing and adjusting the existing legal and regulatory framework in order to optimise the efficient development of the Peruvian electricity market while adhering to international standards and best practice, seeking to guarantee the sustainability of the electricity subsector. At the 2021 reporting date this process is still ongoing.

Electricity sector in Chile

The legal framework governing the electricity transmission business in Chile is contained in Decree with Force of Law (DFL) No. 4/2006, which sets out the revised, coordinated and systematised text of Ministry of Mining Decree with Force of Law (DFL) No. 1 of 1982, the General Electricity Services Law (DFL No. 1/1982) and subsequent amendments thereto. Such amendments include Law 19,940 (Short Law I) enacted on 13 March 2004, Law 20,018 (Short Law II) enacted on 19 May 2005, and Law 20,257 (Generation through Non-conventional Renewable Energy Sources) enacted on 1 April 2008. These regulations are supplemented by the Regulation of the General Electricity Services Law of 1997 (Ministry of Mining Supreme Decree No. 327 of 1997) and respective amendments thereto, and by the Technical Standard for Safety and Quality of Service (Exempt Ministerial Resolution No. 40 of 16 May 2005) and subsequent amendments thereto.

The new Transmission Law was enacted on 11 July 2016. This law provides for a new independent coordinating body for the National Electricity System, known as the National Electricity Coordinator ("CEN"). It also defines a new electricity transmission system wherein the facilities forming part of the Backbone, Sub-transmission and Additional Transmission Systems were amalgamated into the National, Zonal and Dedicated Transmission Systems, respectively.

One of the most relevant processes carried out during 2021, which got underway in 2019, is the National Value Assessment for the 2020-2023 period, conducted by the National Energy Commission (CNE) in Chile. Pursuant to Chilean Law 20,936, a review must be conducted every four years to determine the annual remuneration for transmission assets, including both local transmission networks and the national transmission grid.

The review of the useful life of installed facilities and the discount rate was completed in 2019, whereas the task of determining the investment values, and the annual cost of operation and maintenance, had yet to be concluded in 2021.

In August 2021, the CNE in Chile published the Final Technical Report (FTR) reducing the return on investment. Subsequently, on 12 January 2022, the Expert Panel published its decision regarding the discrepancies presented to the CNE in view of the FTR on the transmission valuation process for the 2020-2023 period. The CNE will apply this decision when publishing its Definitive Technical Report on the valuation.

At the date of authorising the issue of these annual accounts, the CNE has not yet issued its definitive report, which will serve as the basis for the Ministry of Energy to set the annual value of transmission facilities through a decree. In 2021, therefore, the Group recognised its Chilean subsidiaries' revenue based on its best estimate of the final figures to be approved in the aforementioned process and considers that the revenue resulting from the final resolution of this process will not differ significantly from the estimated revenue recognised.

Electricity sector in Brazil

The transmission model in Brazil is based on government concessions, for which the core principles of public service are enshrined in the Constitution of 1988, and the principles that govern concessions in Law 8,987 and Law 9,974 of 1995, respectively. This framework provides that concession agreements are administrative contracts entered into with the federal government (national), represented by the regulatory agency ANEEL, which cannot be amended or early terminated by the government, except for duly supported reasons deemed to be in the public interest.

Under this model, the concession for backbone network facilities is put out for tender by ANEEL through auctions. The auctions determine which transmission companies will build, maintain and operate the electricity assets during the concession period. By way of remuneration for the service rendered during this period, transmission companies receive the revenue specified in the auction, i.e., the *Receita Anual Permitida* (Annual Permitted Remuneration – RAP as per the Portuguese acronym).

In terms of sector regulations, there are no laws that govern the transmission activity in general; rather, specific aspects are regulated (e.g., extension of concession terms under Law 12,783 of 2013). There are also ministerial and government orders, and specific rules are included in the concession agreements themselves.

c) Telecommunications

Telecommunications in Spain

The telecommunications sector in Spain is regulated by General Telecommunications Law 9/2014 of 9 May 2014 (GTL), which mainly seeks to foster competition in the market and guarantee access to the networks, and by Royal Decree 330/2016 of 9 September 2016, on measures to reduce the actual cost of deploying high-speed electronic communications networks.

Aforementioned Law 9/2014 is developed by Royal Decree 123/2017 of 24 February 2017 approving the regulation on the use of public domain radio, which in turn also regulates the award of the right to use the orbit and spectrum resource and the permits for the satellite ground segment and the related spectrum. Accordingly, REINTEL and HISPASAT have been entered on the CNMC's Register of Electronic Communications Operators. HISPASAT, meanwhile, has been awarded the permits for the ground segment and the concessions to use the related radio spectrum, as well as concessions to operate various orbit and spectrum resources.

The European regulatory framework comprises Directive (EU) 2018/1972 establishing the European Electronic Communications Code (Recast), Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 (regarding users' rights), and Directive 2009/140/EC (regulatory improvements). Based on this legislation, the General Telecommunications Law introduces measures aimed at creating an appropriate framework for investing in the deployment of new generation networks, thereby enabling operators to offer innovative services that are more technologically adapted to people's needs.

At present, the draft General Telecommunications Law, which is essentially intended to transpose those aspects of aforementioned Directive (EU) 2018/1972 that have not yet been transposed into Spanish law, is being processed through the upper and lower chambers (Senate and Congress of Deputies, respectively) of Spanish parliament.

In line with the foregoing, special note should also be taken of Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks, which mainly seeks to expedite implementation of the "Digital Agenda" of the European Union (EU), published in May 2010. This directive was transposed into Spanish law by Royal Decree 330/2016, on measures to reduce the cost of deploying high-speed electronic communications networks. The legislation (Directive 2014/61/EU and Royal Decree 330/2016) stipulates that access to infrastructure that may be used to host public electronic communications networks must be guaranteed for operators of public electronic communications networks. In this respect, the legislation requires owners and managers of, and holders of rights-of-use to, infrastructure that may be used to host public high-speed electronic communications networks (including network operators that provide physical infrastructure for electricity transmission) to address all requests from telecommunications operators to access such infrastructure applying fair and reasonable terms and conditions.

On 11 January 2022 the CNMC published Communication 1/2021 of 20 December 2021, which contains guidelines regarding the resolution of conflicts concerning access to physical infrastructure that may be used to host high-speed electronic communications networks (Communication/DTSA/001/21). As the CNMC indicates in the text, the Communication is intended to serve as guidance with respect to the content of the applicable legislation (Royal Decree 330/2016) and existing administrative practices and could be revised periodically in the light of amendments to that legislation, new pronouncements issued by this body, and such jurisprudence as may be enacted in this regard.

Telecommunications in Latin America

The Group provides services in different Latin American countries. In most Latin American countries, an entitlement must be obtained in order to provide satellite capacity to telecommunications service providers. Such entitlement may be in the form of permits, concessions, entry in a register or inclusion on a list of authorised satellites. The satellites in the fleet are duly authorised in all countries where this is required, except where there is no commercial interest or no satellite coverage.

The main countries where such entitlements are held are as follows:

- In Brazil, the Group holds rights to operate various orbit and spectrum resources, as well as a multimedia communications permit that entitles it to provide electronic communications services. The applicable legislation in this case is Resolution no. 220 of 5 April 2000 approving the Regulation on Satellite Operation Rights for the Transmission of Telecommunication Signals, Resolution no. 614 of 28 May 2013 approving the Multimedia Communications Service Regulation, and General Telecommunications Law no. 9,472 of 16 July 1997.
- In Mexico the Group is authorised to provide wholesale satellite internet services and satellite cellular backhaul services. To this end, it holds the sole concession for commercial use, in accordance with the Federal Telecommunications and Broadcasting Law of 14 July 2014.
- In Colombia the Group has been authorised by the ICT Single Register of providers of telecommunications networks and services to render satellite telecommunications services. The applicable legislation is essentially Law 1978 of 2019 on the modernisation of ICT, and Law 1341 of 2009 defining principles and concepts relating to the information society and the organisation of information and communication technologies.

4 Significant Accounting Policies

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

a) Business combinations

The Group accounts for business combinations by applying the acquisition method when control is transferred to the Group. The acquisition date is the date on which the Group obtains control of the acquiree. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree. The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

At the acquisition date the Group recognises the assets acquired and liabilities assumed and any non-controlling interest at the amount of the proportionate share of the net assets acquired. This criterion is only applicable for non-controlling interests which grant present access to economic benefits and entitlement to the proportionate share of net assets of the acquiree in the event of liquidation. Otherwise, non-controlling interests are measured at fair value or value based on market conditions. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The Group also recognises indemnification assets transferred by the seller at the same time and following the same measurement criteria as the item that is subject to indemnification from the acquiree, taking into consideration, where applicable, the insolvency risk and any contractual limit on the indemnity amount.

Any excess of the consideration given, plus the value assigned to non-controlling interests, over the value of net assets acquired and liabilities assumed is recognised as goodwill. Any shortfall, after evaluating the consideration given and the value assigned to non-controlling interests, and after identifying and measuring the net assets acquired, is recognised separately in the consolidated income statement.

If the business combination can only be determined provisionally the identifiable net assets are initially recognised at their provisional values and adjustments made during the measurement period are recognised as if they had been known at the acquisition date. Comparative figures for the previous year are restated where applicable. In any event, adjustments to provisional amounts only reflect information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

After a period of one year, the initial measurement is only adjusted when correcting errors.

b) Intangible assets

Intangible assets are recognised at acquisition cost, which is periodically reviewed and adjusted in the event of a decline in value. Amortisation for the year is expensed and determined on a straight-line basis over the estimated useful life allocated to each item or type of intangible asset.

Intangible assets include the following:

- **Administrative concessions**

  The Group operates various assets, located mainly in Peru, under service concession contracts awarded by different public entities. Based on the characteristics of the contracts, the Group analyses whether they fall within the scope of IFRIC 12 Service Concession Arrangements.

  For concession arrangements subject to IFRIC 12, construction and other services rendered are recognised using the criteria applicable to income and expenses.

  The consideration received by the Group is recognised at the fair value of the service rendered, as a financial asset or intangible asset, based on the contract clauses. The Group recognises the consideration received for construction contracts as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service, or it has no unconditional contractual right to receive cash or another financial asset. Where it does have an unconditional right to receive cash or another financial asset from or at the direction of the grantor, and the grantor has little, if any, discretion to avoid payment, the consideration for the service is recognised as a financial asset applying a financial model.

  Upon initial recognition, an intangible asset received as consideration for construction or upgrade services rendered is recognised at fair value. The intangible asset is subsequently recognised at cost, including capitalised borrowing costs, less accumulated amortisation and accumulated impairment.

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

Concession arrangements not subject to IFRIC 12 are recognised using general criteria.

Administrative concessions have a finite useful life and are recognised at acquisition cost, less accumulated amortisation and any impairment.

Concessions are amortised on a straight-line basis over the concession period, as detailed in note 7.

- **Licences and industrial property**

  Licences have a finite useful life and are recognised at acquisition cost, less accumulated amortisation and any impairment. Licences are amortised on a straight-line basis to allocate the cost over their estimated useful lives of five years.

  Industrial property is initially measured at cost of acquisition or production and is subsequently carried at cost less accumulated amortisation and any impairment. These assets are amortised over their useful lives of five years.

- **Trademark**

  Amounts recognised under trademark reflect the cost incurred in acquiring trademarks, less any accumulated amortisation and any impairment. This item is amortised over a period of 10 years.

- **Development expenses**

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

- **Computer software**

  This item includes computer software licences acquired, which are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. Computer software must be amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.

  Computer software maintenance costs are charged as expenses when incurred.

- **Goodwill**

  Goodwill is determined using the same criteria as for business combinations. Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Internally generated goodwill is not recognised as an asset.

- **Other intangible assets**

  This item primarily reflects the right to regulated tariffs arising from the business combination, specifically the right to receive revenue in perpetuity, as well as the purchase price allocation attributable to customers acquired in business combinations (see note 6, “Business Combinations”). These assets are initially measured at fair value.

  The right to regulated tariffs has an indefinite useful life and is tested for impairment on an annual basis.

  The customer portfolio is amortised on a straight-line basis over the estimated period during which the customers are expected to be retained, which in this case is deemed to be 20 months.

- **Intangible assets under development**

  Administrative concessions at the construction stage are recognised as intangible assets under development and measured in line with the amount to be disbursed until completion of the construction works, in accordance with IFRIC 12.

c) Property, plant and equipment

Property, plant and equipment primarily comprise technical electricity and telecommunications facilities and are measured at cost of production or acquisition, as appropriate, less accumulated depreciation and impairment. Property, plant and equipment acquired in a business combination are initially recognised at fair value.

This cost includes the following items, where applicable:

- Borrowing costs directly related to property, plant and equipment under construction accrued on external financing solely during the construction period. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods, except where a temporary delay is a necessary part of the process of getting an asset ready for its intended use.
- Operating expenses directly related to property, plant and equipment under construction for projects executed under the supervision and management of Group companies.
- The initial estimate of the costs of decommissioning and retiring items of property, plant and equipment.

Assets under construction (works underway) are capitalised as work in progress. Work in progress is transferred to property, plant and equipment in use once these items come into service and provided that the assets are in working condition. Property, plant and equipment under construction are not depreciated.

After initial recognition, items of property, plant and equipment are measured on a cost basis, and recognised at cost less accumulated depreciation and any accumulated impairment.

Enlargement or improvement expenses which lead to an increase in productivity or capacity and lengthen the useful life of the assets are stated as an increase in the carrying amount of the asset.

Repair and maintenance costs on property, plant and equipment that do not increase productivity or capacity and which do not lengthen the useful life of the assets are charged directly as expenses when incurred.

- **Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets, which is the period during which the assets are expected to be used, and in any case applying the following ranges of depreciation rates:

	Annual depreciation rate
Buildings	2% - 10%
Technical electricity facilities	2% - 8.5%
Technical telecommunications facilities (fibre optics)	5% - 12.5%
Technical telecommunications facilities (satellite)	As per depreciation schedule
Other installations, machinery, equipment, furniture and other items	4% - 33%

Most undepreciated items of property, plant and equipment are depreciated at a rate of 2.5%. The depreciation charge for each period is recognised in profit or loss.

The residual values and useful lives of assets are reviewed at least annually and adjusted, if necessary, to reflect actual circumstances. Thus, in 2021 the Group decided to re-estimate prospectively as of 1 January 2021 the useful life of its fleet of satellite assets, except for the Hispasat 55W-1, Hispasat 74W-1 and Amazonas 2 satellites, which continue to have a useful life of between 13 and 15 years, and adjusted annual depreciation to a useful life of 16.5 years based on the technical analyses performed. The impact of this change in estimate is a Euros 16 million reduction in the depreciation charge (see note 8).

In 2020 the Company conducted a study on the useful life of transmission assets that came into service before 1998, in the light of the modified remuneration model. This study was based on internal and external sources and demonstrated that, if certain operating conditions and appropriate operating and maintenance programmes were upheld, these facilities may have a longer useful life than that initially determined, ensuring security of operations in accordance with legal requirements. Consequently, depreciation and amortisation in the consolidated income statement at December 2020 included the impact of this change in estimate from 1 January 2020 onwards, which entailed a reduction of approximately Euros 50 million in the depreciation charge at the 2020 reporting date. The average remaining useful life of these assets was 14 years at that point (see note 8).

- **Impairment**

When the carrying amount of assets exceeds their estimated recoverable amount, it is immediately written down to the recoverable amount. Recoverable amount is understood to be the higher of:

  - Fair value less costs to sell.
  - Value in use, i.e. the present value of the estimated future cash flows from continued use of the asset and disposal thereof.

The Group performs complementary analyses of these indicators in view of the substantial changes to the remuneration regime applicable to electricity transmission assets in Spain.

In 2020 the Group recognised an impairment loss in respect of the assets allocated to the traditional satellite business (Legacy) CGU. This resulted in a Euros 12 million reduction in the depreciation charge for those assets in 2021 (see note 8).

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

- **Other aspects**

Government grants and similar subsidies received in relation to the acquisition of these assets are recognised as deferred income and taken to the income statement over the useful lives of the assets.

Property, plant and equipment are derecognised when retired; or when no future economic benefits are expected from their use or disposal. Gains or losses on disposal of an item are calculated based on the difference between any net proceeds from selling the asset and its carrying amount (initial cost less depreciation and impairment). The gains or losses are taken to profit or loss in the year when the item is derecognised. These gains and losses are not included within results from ordinary activities.

d) Investment property

The Group companies measure their investment property at cost of acquisition. When the carrying amount of these assets exceeds their estimated recoverable amount, it must be written down immediately. The market value of the Group's investment property is disclosed in note 10 to the consolidated annual accounts.

Investment property, except land, is depreciated on a straight-line basis over the estimated useful life, which is the period during which the companies expect to use the assets. Investment property is depreciated at a rate of 2%.

e) Leases

As a result of applying IFRS 16, the Group assesses at the inception of a contract whether that contract contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The period of time during which the Group uses an asset includes consecutive and non-consecutive periods of time. The Group only reassesses the terms and conditions when the contract is modified.

- **Lessee**

  In contracts that contain one or more lease components or non-lease components, the Group assigns the consideration of the contract to each lease component in accordance with the independent sale price of the lease component and the aggregate individual price of the non-lease components.

Payments made by the Group that do not constitute a transfer of goods or services thereto by the lessor, do not constitute a separate lease component, but form part of the total consideration of the contract.

At the commencement date of the lease the Group recognises a right-of-use asset and a lease liability. The right-of-use asset comprises the amount of the lease liability; any lease payments made at or before the commencement date, less incentives received; initial direct costs incurred; and an estimate of dismantling or restoration costs to be incurred, pursuant to the criteria for provisions.

The Group measures the lease liability at the present value of the lease payments that are not paid at the commencement date. The Group discounts lease payments at the appropriate incremental borrowing rate, unless the implicit interest rate of the lessor can be determined reliably.

Outstanding lease payments comprise fixed payments, less any incentive receivable, variable payments that depend on an index or rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, providing the lease term reflects the lessee exercising the option to terminate the lease.

The Group measures right-of-use assets at cost, less accumulated depreciation and accumulated impairment losses, adjusted for any remeasurement of the lease liability.

If the contract transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies the impairment criteria for non-current assets described in section 4.c) to the right-of-use asset.

The Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The Group recognises variable payments not included in the initial measurement of the lease liability in profit or loss in the period in which the event or condition that triggers those payments occurs.

The Group recognises remeasurements of the lease liability as an adjustment to the right-of-use asset, until the latter is reduced to zero, after which, it is taken to profit or loss.

The Group remeasures the lease liability by discounting the lease payments at a revised discount rate, if there has been a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

The Group remeasures the lease liability if there is a change in the amounts expected to be payable under a residual value guarantee or a change in the index or rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review.

The Group accounts for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets; and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group allocates the consideration in the modified contract applying the criteria described above, determines the lease term of the modified lease and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The Group decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group adjusts the carrying amount of the right-of-use asset for all other lease modifications.

The Group has elected not to apply the accounting policies indicated for short-term leases and leases in which the value of the underlying asset is less than Euros 5,000.

In the statement of cash flows, payments associated with leases that fall within the scope of IFRS 16, included in the above-mentioned policy, are recognised at the amount of the principal under Other payments for financing activities, within Cash flows from financing activities. Interest payments associated with the lease are classified under Interest paid and other, within Cash flows from operating activities.

- Lessor

  The Group recognises operating lease income on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefits deriving from the leased asset are diminished.

f) Financial assets and financial liabilities

Initial recognition and measurement

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 Financial Instruments: Presentation.

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

A financial asset or financial liability is initially measured at its fair value plus, in the case of an item not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not contain a significant financing component are initially measured at their transaction price.

Classification and subsequent measurement

- Financial assets:

  Upon initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. Assets are classified on the basis of the business model and contractual terms of the assets.

  A financial asset shall be measured at amortised cost if both of the following conditions are met and it is not measured at fair value through profit or loss:

  - The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met and it is not measured at fair value through profit or loss:

  - The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Upon initial recognition of an investment in an equity instrument that is not held for trading, the Group may make an irrevocable election to present in other comprehensive income changes in the fair value. This election is made on an instrument-by-instrument basis.

  All financial assets not classified as measured at amortised cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

  Financial assets shall not be reclassified after initial recognition, unless the Group changes its business model for managing financial assets.

  The Group classifies financial assets, excluding equity-accounted investments, into the following categories:

- ○ Amortised cost: financial assets classified under this category are subsequently measured at amortised cost using the effective interest method. Amortised cost is reduced for impairment losses. Interest income, exchange gains and losses and impairment are recognised in profit or loss. Any gains or losses arising on derecognition are recognised directly in the consolidated income statement.
- ○ Fair value through other comprehensive income: these assets are subsequently measured at fair value. The resulting net gain or loss is recognised in other comprehensive income. Cumulative gains or losses in other comprehensive income are not reclassified to profit or loss upon derecognition. In the case of equity instruments classified in this category, gains or losses arising from changes in fair value at the reporting date are recognised directly in other comprehensive income and are never reclassified to profit or loss.

  Dividends from equity investments classified as at fair value through other comprehensive income are recognised in the consolidated income statement when the Company's right to receive payment is established.
- ○ Fair value through profit or loss: these assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

- Financial liabilities:

  Financial liabilities, which include loans, payment obligations and similar commitments, are initially recognised at fair value less any transaction costs incurred. Such debt is subsequently measured at amortised cost, using the effective interest method, except in the case of transactions for which hedges have been arranged (see section n).

  Financial debt is classified under current liabilities unless the debt falls due more than 12 months after the reporting date, in which case it is classified as non-current.

Derecognition

- Financial assets:

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

  The Group derecognises a financial liability when the obligation in the contract is discharged or cancelled or expires. The Group also derecognises a financial liability when the terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognised at fair value, based on the new terms. Upon derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

g) Inventories

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

The cost of acquisition comprises the purchase price, import duties and other non-recoverable taxes, as well as transport, handling and other costs directly attributable to the acquisition of the materials or services. Trade discounts, rebates and other similar items are deducted in determining the cost of acquisition.

The cost of any financing used to acquire the inventories can be recognised as an increase in the cost of the inventories until the assets are substantially ready for use or sale.

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

h) Impairment

- **Financial assets**

Impairment is calculated by applying the general approach used to calculate expected credit losses on financial assets; except trade receivables, for which the simplified approach set out in IFRS 9 is used, whereby impairment is measured at an amount equal to the lifetime expected credit losses of the asset.

In order to determine whether there has been a significant increase in credit risk of a financial asset since its initial recognition, or to estimate the lifetime expected credit losses of the asset, the Group considers all reasonable and supportable information that is relevant and available without undue cost and effort. This includes quantitative and qualitative information based on the experience of the Group or of other entities of historical credit losses, and observable market information about the credit risk of the specific financial instrument or similar financial instruments. The Group assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due. The Group also considers that a financial asset is in default when it is more than 90 days past due, unless there is reasonable and supported information that demonstrates its recoverability.

The Group considers that a debt instrument presents a low level of risk when its credit rating is at least "investment grade" at one of the prestigious rating agencies. The maximum period over which expected credit losses are measured is the maximum contractual period over which the Group is exposed to credit risk.

In general terms, IFRS 9 defines expected credit losses as the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit losses are measured as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

In broad terms, expected loss is calculated as follows:

EAD (exposure at default) x PD (probability of default) x LGD (loss given default) x DF (discount factor).

Where EAD is the exposure to risk and is measured based on the accounting balances (outstanding balances receivable in the form of a cash flow or other financial asset) less any prepayments and any bank or other guarantees provided by the customer. PD is the probability of default. LGD is the loss that would be incurred in the event of debtor default and is calculated as (1 – recovery rate). The recovery rate depends on the specific guarantees of the receivable or loan. DF is the time value of money.

Following a hierarchy in accordance with IFRS 13, i.e. from most observable inputs to least observable inputs, the following methods are used:

- If the debtor has quoted credit default swaps (CDS), the probability of default is generally obtained from the CDS, as this is the most objective market credit measure of the probability of default of a company at a specific point in time.
- If the debtor does not have a quoted CDS, the company's rating from each credit rating agency that has issued a report is selected and used to calculate the probability of default.
- If the debtor does not have a rating, a theoretical rating can be calculated by comparing the debtor's ratios with those of other companies that do have a rating.

Provisions for impairment of financial assets measured at amortised cost are deducted from the gross carrying amount of these assets.

Impairment related to trade and other receivables, including, where appropriate, contract assets under IFRS 15, is presented in the consolidated income statement.

- **Non-financial assets**

The Group companies analyse the recoverability of their assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Assets with indefinite useful lives are tested for impairment at least annually and the remaining assets are tested whenever there are indications of impairment.

Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount of the assets is the higher of their fair value less costs of disposal and their value in use. Value in use is calculated on the basis of expected future cash flows.

Impairment losses recognised for an asset in prior years are reversed when a change arises in the estimate of its recoverable amount, increasing the value of the asset with a credit to results up to the limit of the carrying amount that the asset would have had if no impairment loss had been recognised. Impairment losses on goodwill are not reversed in subsequent years.

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

The Group has cash-generating units (CGUs) that group together items of property, plant and equipment and intangible assets. CGUs are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGUs identified in property, plant and equipment and intangible assets are related to electricity transmission in Spain and Chile, fibre optic telecommunications in Spain, the satellite business and certain individual assets.

Within the Group's satellite telecommunications business, a new strategy was approved at the end of 2020 that brought in a particularly relevant change as regards the management of that business. In this respect, the assets of the traditional business (Legacy) continue to be allocated to the Legacy cash-generating unit (CGU), while investments associated with new business are grouped in other CGUs, inasmuch as the new satellite assets are unlikely to be able to be operated in conjunction with those of the traditional (Legacy) fleet in view of foreseeable differences in their technical characteristics and the different services they will provide, and because they will also generate inflows that are separate from those obtained from the traditional business using the Legacy fleet (see note 5).

The Group tests for impairment when it observes indications, such as amendments to sector regulations, changes in investment plans, or changes in business performance, that could bring to light possible impairment losses on non-financial assets subject to amortisation or depreciation. In order to calculate impairment, the Group verifies that the recoverable amount of each cash-generating unit with which the assets are associated, or of individual assets, exceeds the carrying amount.

Otherwise, an impairment loss is recognised in the consolidated income statement for the difference between the two, with a charge to impairment and gains/losses on disposal of fixed assets, up to the limit of the higher of: (i) its fair value less costs to sell and (ii) its value in use.

i) Share capital, own shares and dividends

Share capital is represented by ordinary shares. The cost of issuing new shares, net of taxes, is deducted from equity.

Own shares are measured at cost of acquisition and recognised as a reduction in equity in the consolidated statement of financial position. Any gains or losses on the purchase, sale, issue or redemption of own shares are recognised directly in equity.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Supplementary dividends are not deducted from equity until approved by the shareholders at their general meeting.

j) Grants and other

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

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

Government assistance provided in the form of income tax deductions and considered as government capital grants is recognised applying the general criteria described in the preceding sections.

k) Contract liabilities

Non-current contract liabilities, generally arising from long-term contracts or commitments, are recognised in the appropriate revenue item over the term of the contract or commitment.

l) Provisions

- **Employee benefits**
  - Pension obligations

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

  - Other long-term employee benefits

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

    This item also includes deferred remuneration schemes, which are approved by the competent bodies in each of the Group companies (see note 16).

    In 2015 the Group's Appointments and Remuneration Committee approved the implementation of a Structural Management Plan (hereinafter the "Plan") for certain members of the management team, with the aim of processing, in an orderly and efficient manner, the replacement and administration of the management positions covered in the Plan. Upon reaching the age stipulated in the Plan, the executives included in the Plan will be entitled to receive an amount equal to a maximum of 3.5 times their annual salary, depending on their category and annual fixed and variable remuneration at the date of leaving the Group. Participation in the Plan is subject to meeting certain conditions, and the Plan may be modified or withdrawn by the Group under certain circumstances, including a prolonged decline in the Group's results (see note 16).

- **Other provisions**

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

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

m) Transactions in currency other than the Euro

- **Foreign currency transactions**

  Foreign currency transactions are translated to the respective functional currency of the Group companies at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency using the closing exchange rate. Exchange gains and losses arising during the year due to balances being translated at the exchange rate at the transaction date rather than the exchange rate prevailing on the date of collection or payment are recognised as income or expenses in the consolidated income statement.

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

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

- Foreign operations

  The assets and liabilities of foreign operations are translated to Euros using the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Euros using the exchange rates at the transaction dates.

  Translation differences are recognised in other comprehensive income and presented within equity.

n) Derivative financial instruments and hedging transactions

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

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges.

Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated.

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

When a hedging instrument expires or is sold, or when it no longer qualifies for hedge accounting, any cumulative gain or loss recorded in equity at that time remains in equity, and is immediately reclassified to the consolidated income statement as and when changes in cash flows of the hedged item occur. Any cumulative gain or loss is also reclassified from equity to the consolidated income statement if the forecast transaction is no longer expected to occur.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance costs the amount that is not expected to be recovered.

Details of the fair value of the hedging derivatives used are disclosed in note 20. Details of changes in equity are provided in note 14.

o) Fair value measurement

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

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

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

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

p) Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables falling due in less than one year that have no contractual interest rate and are expected to be settled in the short term are measured at their nominal amount.

q) Income and expenses

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

The majority of the Group's revenues are regulated revenues from transmission and system operation activities in Spain (see notes 3, 24 and 28). The Group subsidiary Red Eléctrica de España, S.A.U. (REE) has been designated by the Spanish electricity sector regulator (currently the Ministry for the Ecological Transition and Demographic Challenge – MITERD) to carry out the electricity transmission and system operation activities on an exclusive basis. Both of these activities are regulated by Electricity Industry Law 24/2013. This legislation, which was subsequently enacted by Royal Decree 1047/2013 and by the CNMC Circulars approved in 2019, sets on an annual basis the amount of remuneration to be received for both activities in order to cover the services that REE renders to consumers and other electricity sector agents on an uninterrupted basis throughout the year.

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

Revenue associated with the telecommunications business essentially derives from the following:

- contracts to provide satellite capacity lease services to different customers in the telecommunications sector, which are considered to be a single performance obligation for which the revenue is recognised on a straight-line basis over time, as the service is rendered to the customer.
- contracts whereby the rights to use the fibre optic backbone network and cables are granted to different customers in the telecommunications sector, as well as services rendered to those customers, which are considered to be a single performance obligation. Revenue from these contracts is recognised over time, as the service is rendered to the customer.

Initial estimates of revenue are reviewed where circumstances so require. These reviews may result in an increase or reduction in revenue, which would be recognised in profit or loss for the period in which the circumstances giving rise to the review become known to and are agreed upon by the parties.

Interest income is recognised using the effective interest method.

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

r) Taxation

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

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

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

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

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

Deferred tax assets and liabilities are recognised in respect of the temporary differences that arise from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will reverse in the foreseeable future.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
- Deductions and credits corresponding to each company forming the consolidated tax group. For these purposes, deductions and credits are allocated to the company that carried out the activity or generated the profit necessary to obtain the right to the deduction or tax credit.
- Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are recognised by the company that generates the profit or loss, using the applicable tax rate.
- The Parent of the Group records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.
- The amount of the debt (credit) relating to the subsidiaries is recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

If the Group considers that it is not probable that the taxation authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, this uncertainty is taken into account when determining taxable income, tax bases, tax loss carryforwards, deductions or tax rates. Tax assets or tax liabilities calculated using these criteria that exceed the amount presented in the self-assessments are presented in the consolidated statement of financial position. Changes in events or circumstances relating to tax uncertainties are recognised as a change in accounting estimates.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts, and they relate to income taxes levied by the same taxation authority on the same taxable entity or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

s) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

According to the consolidated annual accounts of the Red Eléctrica Group at 31 December 2021 and 2020, basic earnings per share are the same as diluted earnings per share, as no transactions that could have resulted in a change in those figures were conducted during those years.

t) Insurance

The Red Eléctrica Group companies have taken out various insurance policies to cover the risks to which the companies are exposed through their activities. These risks mainly comprise damage that could be caused to the Group companies' facilities and possible claims that might be lodged by third parties due to the companies' activities. Insurance premium expenses and income are recognised in the consolidated income statement on an accrual's basis. Payouts from insurance companies in respect of claims are recognised in the consolidated income statement when they are receivable.

u) Environment

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

v) Share-based payments

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

w) Contingent assets and liabilities

Contingent assets are not recognised in financial statements since this could result in the recognition of income that may never be realised, except in business combinations to the extent that they represent indemnification assets. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Contingent liabilities are not recognised in the financial statements, except in business combinations to the extent that they represent present obligations arising from past events for which the fair value can be reliably measured. Contingent liabilities are assessed continually and if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

5 Considerations Regarding COVID-19 in the Consolidated Annual Accounts

The onset of Coronavirus (COVID-19) in 2020 and its subsequent declaration as a pandemic by the World Health Organization (WHO) had a major impact around the world in 2020 and continued to do so in 2021 due to the emergence of new variants. The recovery of global economic activity back to pre-pandemic levels is largely dependent on the vaccination rates of the population in order to reach herd immunity and the effectiveness of vaccination against new variants of the virus.

All operation and maintenance of the facilities was conducted normally in 2021, as was work to build new infrastructure. No incidents occurred during the year that posed a risk as regards meeting electricity demand and keeping the system up and running correctly; neither were any transmission network incidents recorded that in any way compromised the operation of the Spanish electricity system.

Moreover, both the international electricity infrastructure business and the telecommunications business have been providing essential services with no incidents arising. As regards international business, in 2021 and 2020 the availability of facilities remained at its consistently high level and no service quality incidents were reported.

Within this context, the Red Eléctrica Group has continued to apply the guidelines adapted to the recommendations issued by the different pertinent authorities in Spain as well as in each market of operations, with the priority of preserving the health and safety of all of its employees, customers and suppliers.

With this in mind, these flexibility and remote working measures remain in place for all staff, although they have varied in line with the progression of the pandemic and the recommendations of the health authorities in each market of operations, thus guaranteeing security of supply for electricity and telecommunications at any given time. The measures implemented have been aimed at ensuring the health and safety of employees, customers and suppliers.

From a financial and economic perspective, the Group's financial position remains robust, enabling it to continue to address these circumstances, and the measures aimed at bolstering its liquidity continue to be applied. In 2021 the Group carried out a bond issue for an amount of Euros 600 million (two issues in 2020 for a total amount of Euros 1,100 million), and arranged loan agreements amounting to Euros 610 million and US Dollars 30 million. Following these transactions, and having already settled due debts and the payments arising from the Group's activity, the Group's liquidity position at December 2021 stands at Euros 3,427 million, specifically Euros 1,574 million in available cash and Euros 1,853 million in undrawn credit facilities. This position ensures the Group's ability to meet its operating cash flow requirements and to honour forecast debt maturities up to 2025.

The situation brought on by COVID-19 did not have a significant impact on the continuity of the Group's operations in 2021 nor on its financial-economic indicators. The forecasts laid out across all the Group's business units at the beginning of the year, which are aligned with the Strategic Plan, have been met at 31 December 2021.

Over the course of 2021, the Group has been continuously monitoring the estimated possible impact that the situation arising from management of the COVID-19 fall-out could have on its profits and its investments in projects underway. The main conclusions drawn from the analyses performed and from the impact assessment are as follows:

- Most of the sectors in which the Group has its operations in Spain and Latin America are regulated sectors. As such, and despite lingering uncertainties as to the impact of the pandemic on the economies of the different countries in which the Group operates, it has not had an effect on revenue from the Group's regulated activities, which makes up most of the overall revenue. The pandemic did have an impact on the revenue of the telecommunications activity, primarily in 2020.
- The construction of new electricity transmission and telecommunications infrastructure was not significantly impacted by the pandemic situation in 2021. However, these activities were impacted in 2020, especially at the beginning of the pandemic, by temporary delays due to the total or partial stoppage of economic activities imposed by the authorities. The time lost through these delays was almost entirely recovered in the closing months of the year
- At no point in 2021 or 2020 did the Group stop providing the essential services that are its remit. Therefore, the Group's operations were not interrupted to any great extent, employment was maintained, and it has not had to resort to furlough measures (see note 16).
- Likewise, considering the Group's liquidity position, it was not necessary to resort to the financial aid offered by the different authorities in 2021 or 2020 (see note 18). The financial covenants written into the contracts signed were also met at all times (see note 14).
- Neither were any lease agreements arranged within the scope of IFRS 16 amended in 2021 or 2020 (see note 9).
- The Group incurred extraordinary expenditure in 2021 and 2020 to purchase personal protective equipment and for additional cleaning of workplaces. Contributions were also made to the healthcare authorities and other organisations in 2020, essentially for the purchase of healthcare supplies to fight the pandemic. These expenses amount to approximately Euros 0.6 million in 2021 (Euros 5 million in 2020) (see note 24).
- The satellite telecommunications activity was affected in 2020 both by the duration of the crisis, which proved far more protracted and severe than could have initially been foreseen, and the situation in the Latin American markets where it operates. This situation was exacerbated in the second half of the year particularly. There were price renegotiations, contract rescissions, delays or cancellations of government projects, whether announced or already awarded and underway, and certain customers filed for insolvency. This impact was expected to continue affecting revenue in the coming years. Another factor that could largely be attributed to the COVID-19 crisis

was the deterioration of exchange rates in terms of both the US Dollar and the Brazilian Real, currencies in which HISPASAT receives a substantial portion of its revenue.

These factors – price renegotiations, cancellations of contracts and projects, and the performance of the US Dollar and the Brazilian Real – had a negative impact of around Euros 20 million on revenue from the Group's satellite business in 2020.

All of these factors prompted HISPASAT to engage in a strategic reflection process, which culminated in the approval, at the end of 2020, of new strategies aimed at repositioning HISPASAT as a benchmark operator in the provision of advanced satellite communications services (new business), while also endeavouring to protect its traditional activity centred on the operation of communications satellites and the wholesale lease of spatial capacity, maximising the useful life of the existing fleet (see note 4.h). On the basis of this new strategy, a new Strategic Plan for the 2021-2025 period was approved.

In view of this situation and given the indications of impairment, at the 2020 year end the Group tested the assets of the Legacy CGU for impairment, considering the cash flows obtained under the new Business Plan. As a result of this exercise and the effects of the pandemic, the Group had to recognise a provision of approximately Euros 122 million for impairment of the intangible assets and property, plant and equipment pertaining to the Legacy CGU.

Both the industry context and the main assumptions underpinning this Business Plan remained largely unchanged in 2021, enabling satisfactory commercial performance and results for the telecommunications business with respect to the forecasts laid out in the Business Plan. Trends in exchange rates of the main currencies in which revenue is received also contributed to this situation.

Consequently, as a result of the analyses performed no additional indications of impairment have been identified.

Notes 7 and 8 detail the analyses performed in 2021 and the assumptions used to test non-financial assets for impairment in 2020.

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

6 Business Combinations

Business combinations carried out in 2021

- **Acquisition of a satellite television broadcast business in Peru.**

  On 1 May 2021, through Hispasat Perú S.A.C. (hereinafter Hispasat Peru), a wholly owned subsidiary of Hispasat, S.A., a series of assets for the management and transmission of video signals in Latin America were acquired.

  The transaction consisted of the transfer of fixed assets and customer agreements, as well the operational infrastructure required to provide the service and employees, who will now form part of the Hispasat Peru workforce.

  The transaction price totalled Euros 6.7 million (US Dollars 7.7 million), which was fully paid on 31 December 2021; consequently, no liability is now recognised in connection with this purchase.

  The transaction was considered a business combination, and, at the reporting date of these consolidated financial statements, the Red Eléctrica Group had completed the purchase price allocation (PPA), for which purpose an independent expert was engaged.

  The table below summarises the amounts recognised for the assets acquired and liabilities assumed at the acquisition date:

Thousands of Euros	01/05/2021
Intangible assets	3,788
- Customer portfolio	3,788
Property, plant and equipment	2,890
- Technical telecommunications facilities	1,957

- Under construction and advances	933
Total net assets	**6,678**

Consolidated revenue and consolidated net profit at 31 December 2021, contributed since the date of acquisition, amount to Euros 19.1 million and Euros 3.5 million, respectively.

The Group incurred acquisition costs of Euros 0.8 million. These costs were included under other operating expenses in the consolidated income statement.

In addition to the price paid for the assets to manage the above-mentioned video signal transmission business in Latin America, the sale-purchase agreement stipulates that the Hispasat Perú, S.A.C. Group, as the buyer, undertakes to pay the vendor an amount in 2024 and 2025 that is subject to and contingent on achieving a certain business indicator at 31 December 2023 and 2024, respectively. At the 2021 year end this indicator is considerably below the level that would entitle the seller to receive these payments and, consequently, management of the Hispasat Perú, S.A.C. Group and their business advisors consider that the risk of this contingency materialising has a probability of occurrence of less than 50% and have not therefore recognised any provision for liabilities in this respect.

Business combinations carried out in 2019 for which the purchase price allocation was completed in 2020

- **Acquisition of HISPASAT S.A.**

On 12 February 2019 Red Eléctrica Corporación, S.A. announced the agreement reached with Abertis Infraestructuras, S.A. (hereinafter Abertis) for Red Eléctrica Corporación, through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (hereinafter RESTEL), a wholly owned subsidiary of Red Eléctrica Corporación, S.A., to acquire an 89.68% interest in HISPASAT from Abertis. The purchase price for 89.68% of the share capital of HISPASAT was Euros 933 million. In accordance with applicable legislation, the parties sought the pertinent authorisation for the transaction, this being one of the conditions precedents for the agreement signed by the two parties to come into effect. The transaction payment was made, and the Red Eléctrica Group assumed control of HISPASAT on 3 October 2019, once the conditions precedent had been fulfilled.

The acquiree's statutory and principal activity consists of the operation of satellite communications systems.

The business combination was recognised provisionally in 2019, as indicated in note 6 to the consolidated annual accounts for that year. After completing the purchase price allocation (PPA) in 2020, the Group recognised the measurement period adjustments as if they had been known at the acquisition date, i.e. 3 October 2019, and restated the comparative figures for the prior year. In any case, the adjustments only included information relating to events and circumstances that existed at the acquisition date.

At the acquisition date the Group recognised the assets acquired and liabilities assumed at their fair value as determined by an independent expert. The non-controlling interest in the acquiree was recognised in the amount of the percentage interest in the fair value of the net assets acquired, inasmuch as a non-controlling interest gives the holder a present entitlement to the economic benefits and the right to the proportionate share of the net assets of the acquiree in the event of liquidation.

The total cost of the business combination was Euros 933 million, reflecting the purchase price for 89.68% of the share capital of HISPASAT. Goodwill was calculated as the difference between the purchase price and the share of the fair value of the identifiable assets and liabilities existing at the transaction date, i.e., Euros 228.1 million.

The table below summarises the net assets acquired at the acquisition date:

Thousands of Euros	03/10/2019	Adjustments	Fair value
Intangible assets	51,727	15,234	66,961
Property, plant and equipment	929,344		929,344
Other non-current assets	91,397	27,402	118,799
Other current assets	59,956	24,021	83,977
Cash and cash equivalents	29,911		29,911

Total assets	**1,162,335**	**66,657**	**1,228,992**
Non-current liabilities	(274,394)	(19,897)	(294,291)
Current liabilities	(118,957)	(29,061)	(148,018)
Total liabilities	**(393,351)**	**(48,958)**	**(442,309)**
Total net assets	**768,984**	**17,699**	**786,683**
Price paid (89.68%)	-	-	933,000
Goodwill	-	-	228,072

As a result of the purchase price allocation, a portion of the price paid in excess was not allocated to the property, plant and equipment and intangible assets pertaining to the fleet being operated at the acquisition date, in view of the maturity of the satellite market at that time, particularly the video business. The fair value of the assets was analysed and the business projections allocable to these assets were adjusted, considering reductions in capacity lease revenue. The outcome of the calculations did not differ significantly from the carrying amount of the assets at the acquisition date.

The main fair value adjustments applied to the identifiable assets and liabilities of HISPASAT were as follows:

- Recognition of an intangible asset amounting to Euros 15.2 million, reflecting the value of the "HISPASAT" trademark. This intangible asset has a finite useful life of 10 years. The intangible asset representing the HISPASAT trademark was essentially measured using the following methodology:
  - The businesses were measured using the income approach, and in particular using the discounted cash flow method, based on Level 3 (i.e., unobservable) inputs.
  - The main measurement parameters used were as follows:
    - Post-tax discount rate for intangible assets: 8.5%
    - Royalty rate: 1%
  - The most sensitive assumptions included in the projections, which are based on sector forecasts and the analysis of HISPASAT's historical data, were trends in royalties for use of the assets by the licensees, operating and maintenance costs, and investments. In general terms the projections for the acquired businesses could be reasonably estimated on the basis of the agreements in place.
- Recognition of non-current and current assets amounting to Euros 51.4 million, mainly comprising the following:
  - Euros 23.7 million of deferred tax assets, primarily reflecting tax deductions available at the transaction date, based on the Group's assessment of their future recoverability. These deferred tax assets are expected to be recovered within a period of no more than 10 years. In any case, most of the capitalised deductions would qualify for monetisation.
  - Euros 25.3 million of contingent assets as the balancing entry for the contingent liabilities arising from tax litigation in Brazil, which are guaranteed by the seller under the sale-purchase agreement.
  - Euros 3.7 million of deferred tax assets arising from the tax effect of fair value adjustments.
- Increase of Euros 13.6 million in financial liabilities, reflecting the difference between the estimated market value of financial debt and it carrying amount, of which Euros 9.8 million were non-current and Euros 3.8 million were current.
- Recognition of Euros 25.3 million under current liabilities, reflecting the contingent liabilities arising from tax litigation in Brazil related to the ICMS (Brazilian tax on the circulation of goods and services) as well as other taxes, mainly of an indirect nature, which have been contested and which are in turn guaranteed by Abertis under the sale-purchase agreement. As these contingencies were guaranteed by the seller, the corresponding indemnification asset was recognised for the same amount.
- Euros 10.1 million of deferred tax liabilities arising from the tax effect of fair value adjustments.

The goodwill resulting from this business combination is attributable to the benefits and synergies expected to arise in the Red Eléctrica Group from the acquisition and integration of Hispasat.

7 Intangible Assets

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

Thousands of Euros	31 December 2019	Exchange differences	Additions	Transfers	31 December 2020	Exchange differences	Changes in the consolidated Group	Additions	Disposals	Transfers	31 December 2021
Administrative concessions and industrial property	402,262	(46,544)	673	47,233	388,390	29,462	-	275	-	75	418,202
Trademark	15,234	-	-	-	15,234	-	-	-	-	-	15,234
Development expenses and computer software	65,327	(602)	25,336	430	90,491	360		-	(662)	5,704	95,893
Goodwill	231,724	(309)	-	-	231,415	279	-	-	-	-	231,694
Other intangible assets	49,418	(4,176)			45,242	3,774	3,788	-	-	-	52,804
Intangible assets under development	54,891	(2,443)	7,629	(47,064)	13,013	1,085	-	36,301		(6,380)	44,019
Total intangible assets	**803,622**	**(54,074)**	**33,638**	**599**	**783,785**	**34,960**	**3,788**	**36,576**	**(662)**	**(601)**	**857,846**
Accumulated amortisation of administrative concessions and industrial property	(40,171)	13,581	(17,806)	-	(44,396)	(4,639)	-	(18,027)	-	-	(67,062)
Accumulated amortisation of trademark	(382)	-	(1,523)	-	(1,905)	-	-	(1,523)	-	-	(3,428)
Accumulated amortisation of development expenses and computer software	(25,927)	327	(15,355)	-	(40,955)	(18)	-	(18,900)	343		(59,530)
Accumulated amortisation of other intangible assets	-	-	-	-	-	-	-	(1,528)			(1,528)
Total accumulated amortisation	**(66,480)**	**13,908**	**(34,684)**	**-**	**(87,256)**	**(4,657)**	**-**	**(39,978)**	**343**	**-**	**(131,548)**
Impairment of administrative concessions and industrial property	-	-	(5,357)	-	(5,357)	-	-	-	-	-	(5,357)
Impairment of trademark	-	-	-	-	-	-	-	-	-	-	-
Impairment of development expenses and computer software	-	-	(322)	-	(322)	-	-	-	-	-	(322)
Total impairment	**-**	**-**	**(5,679)**	**-**	**(5,679)**	**-**	**-**	**-**	**-**	**-**	**(5,679)**
Carrying amount	**737,142**	**(40,166)**	**(6,725)**	**599**	**690,850**	**30,303**	**3,788**	**(3,402)**	**(319)**	**(601)**	**720,619**

- **Gross intangible assets**

Administrative concessions and industrial property mainly include the service concession agreements awarded by different public entities to the Group companies for the construction and operation of technical electricity facilities in Peru, different bandwidth licences awarded to the Group for the use of orbital slots above Brazilian territory, and the renewal of satellite orbital rights at 61º west.

Details of agreements for concessions under operation and/or construction in Peru at 31 December 2021 are as follows:

Thousands of Euros	Redesur	Tesur	Tesur 2	Tesur 3	Tesur 4	CCNCM
Grantor	Peruvian State	Peruvian State	Peruvian State	Peruvian State	Peruvian State	Peruvian State
Activity	Electricity transmission	Electricity transmission	Electricity transmission	Electricity transmission	Electricity transmission	Electricity transmission
Concession period from start-up of commercial operations	30 years	30 years	30 years	30 years	30 years	30 years
Remaining useful life	10 years	23 years	27 years	29 years	6 months construction + 30 years operation	26 years operation
Tariff review frequency	Annual	Annual	Annual	Annual	Annual	Annual
Carrying amount at 31/12/2021	32,756	50,637	45,447	27,519	22,553	145,377
Carrying amount at 31/12/2020	33,480	48,822	43,534	26,302	13,014	139,359
Revenue in 2021	15,843	6,204	4,966	2,333	0	14,653
Revenue in 2020	16,375	6,266	5,116	1,895	9	15,123
Profit/(loss) for 2021	4,951	250	1,222	207	(259)	(4,531)
Profit/(loss) for 2020	5,337	3,061	799	103	(116)	(4,358)
Renewal options	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract	Not stipulated in contract

Trademark includes the HISPASAT trademark arising from the recognition of the business combination resulting from the acquisition of HISPASAT in October 2019 for Euros 15,234 thousand. This item is amortised over a period of 10 years.

Other intangible assets include the perpetual right to regulated tariffs arising from the acquisition of transmission facilities forming part of the Chilean National Transmission System, included in REDENOR 2, in an amount of Euros 49,016 thousand (Euros 45,242 thousand in 2020). This item is not amortised as it has an indefinite useful life, and is tested for impairment annually.

This item also includes the customer portfolio recognised as a result of the business combination arising from the acquisition of the signal management and transmission business in Peru (see note 6). An amount of Euros 3,788 thousand is recognised under changes in the consolidated Group in 2021. The customer portfolio is amortised over 20 months.

Goodwill amounting to Euros 228 million and Euros 4 million at 31 December 2021 (Euros 228 million and Euros 3 million in 2020) derives from the HISPASAT and CCNCM business combinations, respectively. The goodwill does not give rise to any deferred tax liability as it is not expected to be tax deductible in the future. This item is not amortised and is tested for impairment annually.

Intangible assets under development at 31 December 2021 and 2020 mainly include the acquisition and development of computer software for the Group's system operation and transmission activities, and the construction of facilities under concession agreements, which is being carried out by the Peruvian company TESUR 4.

- **Capitalised expenditure**

Operating expenses of Euros 9,559 thousand incurred directly in connection with intangible assets were capitalised in 2021 (Euros 12,105 thousand in 2020). The Group also recognised innovation and development expenditure amounting to Euros 11,401 thousand in the consolidated income statement in 2021.

During 2021 the Group capitalised borrowing costs of Euros 262 thousand as an increase in intangible assets (Euros 388 thousand in 2020).

- **Fully amortised intangible assets**

At 31 December 2021 the Group has fully amortised intangible assets amounting to Euros 27,943 thousand (Euros 17,788 thousand in 2020), most of which comprise development expenses and computer software.

- **Investments in intangible assets located outside Spain**

At 31 December 2021 the carrying amount of intangible assets located outside of Spain is Euros 407,505 thousand (Euros 383,962 thousand in 2020).

- **Investment commitments**

The Group has no firm commitments to purchase significant amounts of intangible assets relative to its present volume of assets, and to the investments it makes and plans to make.

- **Insurance**

The Group has taken out insurance policies to cover the risks to which its intangible assets are exposed. These policies provide adequate protection against the risks covered.

- **Impairment analysis of intangible assets subject to amortisation or depreciation**

In 2021, the Group tested these assets for possible indications of impairment and concluded from this analysis that there have been no events that would require any changes to the impairment provision recognised in 2020.

In 2020, in view of intangible assets presenting indications of impairment, coupled with the results of the impairment tests, the assets allocated to the traditional satellite business (Legacy) CGU were written down by Euros 5.7 million to reflect the impairment identified. With respect to the assets allocated to the traditional satellite business (Legacy) CGU, the assumptions used in the calculation thereof are explained in note 8.

As a result of recognising impairment losses on assets in 2020, the amortisation charge in 2021 was reduced by approximately Euros 0.7 million.

- **Impairment analysis of intangible assets with indefinite useful lives**

At the 2021 and 2020 reporting dates, the Group has tested intangible assets with indefinite useful lives (goodwill and the right to regulated tariffs) for impairment in order to determine their recoverability, and has not identified the need for any write-downs as a result.

Goodwill

The goodwill arising on the business combination entailing the acquisition of the Hispasat subgroup for Euros 228 million in October 2019, in the telecommunications segment, was allocated to the group of CGUs pertaining to the satellite business, more specifically the traditional satellite business (Legacy) CGU and the CGU(s) for new business and satellite services, as this is the level of aggregation at which goodwill is controlled for internal management purposes of the Red Eléctrica Group.

At 31 December 2021 the Group first tested the traditional business (Legacy) CGU, excluding goodwill, for indications of impairment, and did not identify the need for any further write-downs on the assets associated with this CGU in addition to those recorded in 2020 (Euros 122 million, of which Euros 5.7 million and Euros 116.6 million pertain to intangible assets and to property, plant and equipment, respectively) (see note 8).

The Group then tested for impairment, also in 2021, the group of CGUs to which goodwill was allocated (the Legacy CGU and the CGU(s) for new business and satellite services).

No impairment was detected or recognised at 31 December 2020 on the basis of the projections made, for which the assumptions used and the measurement performed were contrasted with prestigious independent experts.

As a basis for the aforementioned impairment testing, in 2021 the Group took the projections used in the prior year, updating them as necessary.

Overall, the Group considers that these baseline assumptions continue to be valid for the 2021 impairment test, on the basis of the following analysis:

- There were no substantial changes in the satellite business in 2021.
- The results of the satellite business for 2021 and the latest updated forecasts for this business for 2022 are consistent with the results and cash flows contained in the baseline projections.
- Exchange rates of the currencies that make up a significant portion of the business revenue have performed favourably with respect to the assumptions used in 2020, supported by the arrangement of long-term exchange rate hedges to minimise volatility.

In view of the foregoing, the Group has concluded that, as in 2020, it is not necessary to recognise any impairment.

The key assumptions used in the calculations for the impairment test on the Group's satellite business are similar to those used in the prior year and are as follows:

- The test was performed estimating the fair value less costs to sell, taking an income approach for the purpose of determining the recoverable amount of the satellite business.

  The income approach indicates the recoverable amount of a business based on the present value of the future cash flows it is expected to generate, calculated using a discounted cash flow (DCF) methodology. The DCF method is used to discount the future free cash flow (FCF) to its estimated present value, applying a discount rate (weighted average cost of capital or WACC) that reflects the time value of money and the risks associated with the expected cash flows.

  Costs to sell have been estimated considering the costs incurred on previous transactions carried out by the Group.

  In terms of the fair value hierarchy under IFRS 13, the fair value measurement has been entirely categorised within Level 3, without consideration of whether the costs of disposal are observable.

- The cash flow projections used are for the 2022-2040 period, which is consistent with the useful life of the existing satellites, as well as that of the new satellite assets expected to be launched in the coming years and the HISPASAT subgroup's expected adoption of new business models and technologies.

  Cash flows estimated beyond five years are deemed to be reliable on the basis of the Group's experience of investments with a considerable technological component that entail long-term contracts and commitments. The satellite business gives rise to long-term contractual commitments with customers, and it is commonplace for contracts covering a substantial portion of the useful life of the satellites to be signed, with a view to obtaining a minimum return before the new satellites are launched, which then serves as a solid foundation on which to secure the return expected from the satellite according to the estimates made before undertaking the project.

  The terminal value associated with the traditional technology is zero, given that the infrastructure supporting this business will cease to generate revenue and expenses once it reaches the end of its useful life. For new business and services, a terminal value with a perpetuity growth rate of 0.75% has been applied, which is in line with that considered by analysts for comparable companies.

- The EBITDA margin considered for traditional business and new business jointly is in line with the prior year and averages 55%.
- The main exchange rates considered for foreign currency cash flows were the forward rates based on the inflation rate spread between different currencies, starting from the closing spot exchange rate on the day of the

test: 1.16 EUR/USD and 6.57 EUR/BRL. As regards the impairment test at the 2020-year end, the main exchange rates considered for foreign currency cash flows were 1.23 EUR/USD and 6.38 EUR/BRL.

- A discount rate based on the weighted average cost of capital (WACC) has been used to discount the cash flows, specifically a pre-tax rate of 7.60% has been applied (7.95% in 2020) for the traditional satellite business, and an additional risk premium has been included for new business, giving a pre-tax rate of 9.10% (9.45% in 2020).

The Group has performed a sensitivity analysis considering reasonable variations in the main operating and financial assumptions used in the calculation. The following increases and decreases are assumed:

Revenue	**-2.5%**	**+2.5%**
Gross margin	**-130 b.p.**	**+130 b.p.**
USD exchange rate	**-5%**	**+5%**
BRL exchange rate	**-15%**	**+15%**
Discount rate	**+40 b.p.**	**-40 b.p.**

The range of variation for the sensitivity analysis of the main operating assumptions has been estimated by weighting the relative weight of each one in the different CGUs to which goodwill was allocated.

For the revenue sensitivity range, the sensitivity analysis performed considers the impact of variations in revenue on the recoverable amount, applying a baseline variation in revenue from services rendered of ± 4% and ± 2% for the Legacy CGU and the new business CGU, respectively. These sensitivities are in line with those used in the prior year.

A sensitivity analysis was also performed on the EBITDA margin reflected in the projections supporting the recoverable amount, applying an increase/decrease in operating expenses that entails a variation in the annual EBITDA margin over the time horizon of the projections of ± 200 b.p. and ±100 b.p. for the Legacy CGU and the new business CGU, respectively. This range of variation for the EBITDA margin was deemed reasonable, considering that HISPASAT made a detailed estimate of the cost structure necessary to carry out the projects considered in the Strategic Plan, and taking as a reference the variation used by other operators with a degree of verticalisation similar to that envisaged in the projections.

The currencies considered in the sensitivity analysis reflecting the impact of a variation in the exchange rate used in the projections supporting the calculation of the recoverable amount are those which represent virtually the entire currency risk, namely the US Dollar (USD) and the Brazilian Real (BRL). The variations included in the sensitivity analysis are ± 5% for EUR/USD and ± 15% for EUR/BRL. These references are in line with those used for the prior year's calculation.

For the discount rate sensitivity range, the sensitivity analysis performed considers the impact on the recoverable number of variations in the rate of ± 10 b.p. and ± 50 b.p. for the Legacy CGU and the new business CGU, respectively. These variations consider the risk spread associated with these two CGUs.

The analysis performed reveals that at 31 December 2021 any reasonably possible variation in any of the key assumptions considered, on which the recoverable amount of the Group's satellite business is based, would not result in the aggregate carrying amount of the group of CGUs (Euros 1,036 million in 2021 and Euros 1,037 million in 2020), to which the goodwill has been allocated, exceeding the aggregate recoverable amount of the CGUs. The recoverable amount at 31 December 2021 and 2020 is approximately 30% higher than the carrying amount.

Other intangible assets

With regard to the perpetual right to regulated tariffs included in this line item, impairment testing did not bring to light the need for any write-downs at 31 December 2021, despite the indications of impairment detected as a result of the valuation process ongoing in Chile (see note 3.b). No write-downs were recognised at 31 December 2020.

When testing for impairment, the Group considered projections of future cash flows. The projections refer to the 2022-2070 period and consider a perpetuity growth rate thereafter. Cash flows estimated beyond five years are deemed to be reliable on the basis of the Group's experience of regulated business in the Chilean electricity transmission market, which involves a perpetual right to regulated tariffs.

The assumptions included in the projections used, based on updated business forecasts and own past experience, are in line with those used in the previous year, except for the regulated remuneration, which has been updated as explained in note 3.b). The main assumptions used are as follows:

- Regulated remuneration was calculated taking into account the Final Technical Report (FTR) published by Chile's CNE in August 2021 (see note 3.b) and has been updated for subsequent years based on the updating mechanisms established by Chilean legislation.
- Investment: the best information available on the asset investment and maintenance plans for the infrastructure throughout the estimated time period has been used.
- Operating and maintenance costs: projected in line with the growth expected to derive from the investment plan.
- Other costs: projected based on knowledge of the sector and past experience and in line with the growth expected to derive from the investment plan.
- Growth rate: a perpetuity growth rate of 2% has been estimated.
- Weighted average cost of capital (WACC) discount rate: a pre-tax rate of 7.26% has been used.

The sensitivity analysis was performed considering reasonably possible changes in the main assumptions, such that a 0.5% increase in the discount rate and a 0.5% decrease in the growth rate would not entail impairment. No sensitivities have been applied to other assumptions, in view of the activity's regulated nature.

8 Property, Plant and Equipment

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

Thousands of Euros	31.12.2019	Exchange differences	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31.12.2020	Exchange differences	Changes in the consolidated Group	Additions and other	Exits, disposals, reductions and write-downs	Transfers	31.12.2021
Cost												
Land and buildings	118,221	(3,667)	2,465	(2,658)	1,404	115,765	122	-	221	(2,506)	477	114,079
Technical telecommunications facilities	1,407,796	(8,436)	2,327	(242)	5,802	1,407,247	865	1,957	16,680	(4,668)	6,473	1,428,554
Technical electricity facilities	14,514,286	(4,522)	-	(334)	278,183	14,787,613	5,693	-	547	-	345,960	15,139,813
Other installations, machinery, equipment, furniture and other items	247,722	(592)	4,536	(213)	15,656	267,109	1,524	-	18,573	(3,890)	(306)	283,010
Under construction and advances	752,747	(2,887)	479,070	(800)	(301,644)	926,486	1,665	933	501,565	(1,956)	(352,003)	1,076,691
Total cost	**17,040,772**	**(20,104)**	**488,398**	**(4,247)**	**(599)**	**17,504,220**	**9,869**	**2,890**	**537,586**	**(13,020)**	**601**	**18,042,147**
Accumulated depreciation												
Depreciation of buildings	(25,785)	373	(5,551)	1,093	-	(29,870)	(12)		(3,473)	2,208		(31,147)
Depreciation of technical telecommunications facilities	(142,876)	3,175	(132,936)	-		(272,637)	(447)		(104,901)	3,220		(374,765)
Depreciation of technical electricity facilities	(6,881,674)	40	(358,522)	-	-	(7,240,156)	(314)		(360,089)	-		(7,600,559)
Depreciation of other installations, machinery, equipment, furniture and other items	(220,556)	600	(16,471)	251	-	(236,176)	(18)		(13,651)	2,203		(247,642)
Total accumulated depreciation	**(7,270,891)**	**4,188**	**(513,480)**	**1,344**	**-**	**(7,778,839)**	**(791)**	**-**	**(482,115)**	**7,631**	**-**	**(8,254,114)**
Impairment												
Impairment of land and buildings	-	-	(1,091)	-	-	(1,091)	-	-	-	-	-	(1,091)
Impairment of technical telecommunications facilities	(1,202)	(60)	(104,832)	-	-	(106,094)	(37)	-	(89)	2,077	-	(104,143)
Impairment of technical electricity facilities	(95,544)	-	-	-	-	(95,544)	-	-	-	-	-	(95,544)
Impairment of other installations, machinery, equipment, furniture and other items	-	-	(11,407)	-	-	(11,407)	-	-	-	-	-	(11,407)
Impairment	**(96,746)**	**(60)**	**(117,330)**	**-**	**-**	**(214,136)**	**(37)**	**-**	**(89)**	**2,077**	**-**	**(212,185)**
Carrying amount	**9,673,135**	**(15,976)**	**(24,358)**	**(2,903)**	**(599)**	**9,511,245**	**9,041**	**2,890**	**55,382**	**(3,312)**	**601**	**9,575,848**

- **Gross property, plant and equipment**

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

Technical telecommunications facilities essentially consist of the investments associated with the Group's satellite fleet and the concession of the rights to use and manage the operation of the fibre optic cable network and other related items, pursuant to the 20-year agreement entered into by REINTEL with ADIF-AV in 2014. Changes in the consolidated Group include the facilities incorporated into the business combination following the acquisition of the satellite television broadcast business in Peru (see note 6).

Property, plant and equipment include right-of-use assets in an amount of Euros 27,379 thousand at 31 December 2021 (Euros 15,053 thousand at 31 December 2020). These assets are included under the various property, plant and equipment headings based on their nature ("Land and buildings", "Technical telecommunications facilities" and "Other installations, machinery, equipment, furniture and other items") as detailed in note 9.

- **Capitalised expenditure**

Operating expenses of Euros 46,178 thousand incurred directly in connection with property, plant and equipment under construction were capitalised in 2021 (Euros 45,585 thousand in 2020). The Group's capitalised expenses directly related to the construction of facilities include all operating expenses incurred to provide support to the units directly involved in the activity.

Moreover, during 2021 the Group companies capitalised construction-related borrowing costs of Euros 7,412 thousand as an increase in property, plant and equipment (Euros 7,100 thousand in 2020). The weighted average rate used to capitalise borrowing costs was 1.1% in 2021 (1.2% in 2020).

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

At 31 December 2021, the Group has fully depreciated property, plant and equipment amounting to Euros 2,737,381 thousand (Euros 2,645,950 thousand in 2020), of which Euros 2,535,627 thousand are technical electricity facilities (Euros 2,451,876 thousand in 2020).

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

- **Investments in property, plant and equipment located outside Spain**

At 31 December 2021 the carrying amount of property, plant and equipment located outside of Spain is Euros 190,390 thousand (Euros 143,097 thousand in 2020).

- **Investment commitments**

The Group periodically places orders to cover needs related to its investment plans. The various amounts in the aforementioned orders will normally materialise in the form of delivery orders as and when the different projects included in the plans are capitalised. Therefore, they do not constitute firm purchase commitments at the time of issue.

The Group has no firm commitments to purchase significant amounts of property, plant and equipment relative to its present volume of assets, and to the investments it makes and plans to make.

Details of capital grants and other non-current revenue received in advance, in relation to property, plant and equipment, are provided in note 15.

- **Insurance**

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

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

The Group assesses whether there are indications of possible impairment losses on assets subject to amortisation or depreciation to determine whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use (see note 4 h).

As regards the traditional satellite business (Legacy) CGU, in 2021 the Group updated the calculation of the recoverable amount of assets that had been impaired in 2020 in order to identify possible adjustments to impairment recognised in the prior year. To that end, the Group corroborated that the context of the industry in which the Group operates and the assumptions underpinning the estimated future performance of the traditional business (Legacy), contained in the financial projections approved at the end of 2020 (see note 5), remain substantially the same, considering past experience and estimates based on the best information available.

These projections covered a five-year period. After five years, cash flows were extrapolated on the assumption that the cash flows of the traditional business ("Legacy") will remain constant, without growth, until the end of the re-estimated useful life of the satellites that make up the current fleet (see note 4.c) and which served as the basis for the impairment test in 2020, the key assumptions of which are described later in these notes to the consolidated annual accounts.

At the 2021 reporting date, the Group concluded that there were no indications of further impairment in addition to that recognised in 2020, on considering that:

- the commercial performance and results of the Legacy CGU in 2021 and the Group's forecasts for 2022 are consistent with the forecast business performance, cash flows and EBITDA margins contained in the approved financial projections referred to in the preceding point.
- the exchange rates of the currencies in which a substantial portion of the Group's revenue is received have performed favourably against the Euro, with respect to the assumptions used in the 2020 impairment test, supported by the arrangement of long-term exchange rate hedges that minimise the volatility of the financial projections.

In view of the circumstances that arose during 2020 and the transformation of the industry in which the Group operates (see note 5), indications of impairment were identified in the traditional business (Legacy) CGU, in respect of which the Group calculated its recoverable amount, which is its fair value less costs of disposal.

The calculation was based on discounted cash flow projections, the underlying assumption being the estimated future performance of the traditional business (Legacy) contained in the new financial projections approved at the end of 2020.

The key assumptions used to calculate the recoverable amount included estimates of sales, operating margins and exchange rates for the explicit projection period and the weighted average cost of capital (WACC), which was corroborated by independent financial experts. The discount rates used were pre-tax values and reflected the specific risks related to the markets and currencies in which the Group operates.

The Group applied the following key assumptions in calculating the recoverable amount (fair value less costs to sell) of the traditional satellite business (Legacy):

- Revenue estimated on the basis of the portfolio of existing contracts, the historical renewal rate, past experience from renegotiations of contracts executed in the second half of 2020 and new sales forecast for the expanding vertical markets identified by sector market research and included in the Strategic Plan of the Hispasat subgroup. Revenue after the five-year period was extrapolated on the assumption that the cash flows of the traditional business (Legacy) would remain constant, without growth.
- Useful lives: 16.5 years as of the date of entry into commercial service for the fleet of satellites that make up the CGU, with the exception of the Amazonas-2, H74W-1 and H55W-2 satellites, which have an estimated useful life of between 13 and 15 years (see note 4.c).

- Gross margin: the average gross margin for the projected period used in the analysis was 66%.
- 2020 year-end exchange rate for sales in foreign currency: 1.23 USD/EUR, 6.38 BRL/EUR and 24.36 MXN/EUR.
- Pre-tax discount rate (WACC): 7.95%.

On the basis of the analysis performed using the foregoing assumptions, the present value of the projected future cash flows generated by the CGU was Euros 122 million lower than the carrying amount of the assets in the CGU (Euros 769 million after impairment). Accordingly, impairment was recognised in an amount of Euros 6 million for intangible assets (see note 7) and Euros 116 million for property, plant and equipment.

The events and circumstances that led to the recognition of these impairment losses were as follows:

- The traditional business – which essentially centres on video applications using wide beam capacity – is gradually being replaced by new data services based on new technical solutions, although these have yet to become consolidated. This has a significant impact on the Group given the substantial contribution of video to its revenue.
- In this context, the crisis brought on by the COVID-19 pandemic aggravated the conditions in which the commercial activity is carried out, having a particular impact in the second half of 2020. Moreover, new outbreaks in the second half of last year led to additional limitations as regards the fulfilment of certain projects or commercial opportunities identified, which in many cases were cancelled, resulting in the loss of forecast revenue.
- The deterioration of exchange rates triggered by COVID-19 in 2020, generally as regards the currencies of the Latin American countries in which the Group operates, had a sizeable impact on estimated future revenue.
- In consideration of these factors, HISPASAT redefined its strategy, the new approach being approved by its board of directors in December 2020, for the purpose of repositioning HISPASAT as a benchmark operator in the provision of advanced satellite communications services (new business), while also endeavouring to protect its traditional activity.

  The new strategies identify business levers that will enable the loss of traditional business to be offset while also protecting the remaining business, centred on the operation of communications satellites and the wholesale lease of spatial capacity, maximising the useful life of the existing fleet. The implementation and consolidation of these business models calls for greater verticalisation with a wider operating cost structure and, therefore, tighter margins.

The assets composing the traditional business (Legacy) cash-generating unit have not changed since the previous estimate of the recoverable amount of this CGU.

The fair value measurement of the asset (CGU) has been entirely categorised within Level 3 (in terms of the fair value hierarchy under IFRS 13), without consideration of whether the costs of disposal are observable.

The sensitivity analysis reflecting the impact on the recoverable amount (in millions of Euros) of reasonable possible variations in the key assumptions used in the 2020 impairment test is presented below:

Revenue	**-4.0%**	**+4.0%**
Variation in recoverable amount	-31.6	+31.6

Gross margin	**-200 b.p.**	**+200 b.p.**
Variation in recoverable amount	-24.5	+24.5

USD exchange rate	**-5%**	**+5%**
Variation in recoverable amount	42.9	-38.5

BRL exchange rate	-15%	+15%
Variation in recoverable amount	10.9	-7.8

Discount rate	-10 b.p.	+10 b.p.
Variation in recoverable amount	+5.1	-5.1

The sensitivity analysis reflecting the impact on the recoverable number of variations in revenue used a variation of ± 4% in revenue from services rendered as the baseline. This reference value was obtained by identifying revenue that is subject to greater uncertainty depending on past experience and the estimates calculated using the most recent information available at the time.

The sensitivity analysis on the variation in revenue was based on the assumption that EBITDA margins would remain the same as those considered in the approved financial projections.

A sensitivity analysis was also performed on the EBITDA margin, applying an increase/decrease in operating expenses that entails an annual variation of ± 200 b.p. in this margin over the time horizon of the projections. This range of variation was deemed reasonable to cover potential upward or downward deviations in operating expenses in the most probable scenarios, considering that a detailed estimate was made of the cost structure necessary to carry out the projects considered in the Strategic Plan.

The currencies considered in the sensitivity analysis reflecting the impact of a variation in the exchange rate used in the projections supporting the calculation of the recoverable amount are those which represent virtually the entire currency risk, namely the US Dollar (USD) and the Brazilian Real (BRL). The variations included in the sensitivity analysis were ± 5% for EUR/USD and ± 15% for EUR/BRL. These references were obtained on the basis of the average annual daily variations, in absolute terms, in each exchange rate during the 2015-2020 period: 1.14 for the US Dollar and 4.42 for the Brazilian Real.

As regards the electricity transmission in Chile CGU, in view of the indications of impairment identified during the year as a consequence of the regulatory change discussed in note 3.b, the Group tested the assets pertaining to this CGU for impairment to ascertain their recoverability.

The test showed that the recoverable amount exceeds the carrying amount and, consequently, the assets are not impaired (see note 7).

9 Right-of-Use Assets and Lease Liabilities

The most significant finance leases arranged by the Group at 31 December 2021 are as follows:

- A satellite recognised under property, plant and equipment, which is leased from the satellite operator Intelsat for an amount of Euros 31 million (Euros 35 million in 2020) until 2030.
- The technical telecommunications facilities in respect of which REINTEL entered into a right-of-use agreement with ADIF-AV to manage the operation of the fibre optic cable network and associated items. This agreement was signed in 2014 for a 20-year period. At 31 December the net value reflected in the consolidated statement of financial position amounts to Euros 303 million (Euros 321 million in 2020).

In both cases the amount was fully disbursed in advance and, consequently, no future minimum lease payments are recognised in respect of these assets.

There are also right-of-use assets under property, plant and equipment and lease liabilities within other financial liabilities; The Group's main assets to which IFRS 16 Leases applies are as follows:

- Vehicles: primarily vehicles under operating leases.
- Buildings: offices, premises and land needed to carry out the Group's activity.
- Technical telecommunications facilities: these correspond to the lease of satellite capacity.

- **Right-of-use assets**

  Details of right-of-use assets and movement in 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Total at start of year	15,053	16,821
Additions during the year	18,920	5,353
Derecognitions during the year	(1,478)	(1,132)
Depreciation for the year	(5,180)	(5,989)
Translation differences	64	-
Total at year end	**27,379**	**15,053**

The main addition during the year is the lease of HTS satellite capacity in the Ka-Konnect band from a satellite operator in November 2021 for an amount of Euros 12,743 thousand.

- **Amounts recognised in profit or loss**

  Details of the amounts recognised in the consolidated income statement for 2021 and 2020 in relation to the application of IFRS 16 are as follows:

Thousands of Euros	2021	2020
Interest on lease liabilities	277	174
Depreciation charges	5,180	5,989
Total	**5,457**	**6,163**

Euros 4,554 thousand has been recognised as operating expenses in respect of leases not falling within the scope of IFRS 16 (Euros 3,662 thousand in 2020).

- **Amounts recognised in the statement of cash flows**

  Details of lease payments made in 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Lease payments	6,525	4,392
Interest paid on leases	277	174
Total	**6,802**	**4,566**

- **Future minimum lease payments**

  Details of committed future minimum lease payments are provided in note 19.

10 Investment Property

Movement in the Group's investment property in 2021 and 2020 is as follows:

Thousands of Euros	31 December 2019	Additions	31 December 2020	Additions	Disposals	31 December 2021
Cost	-	-	-			-
Investment property	2,397	-	2,397	-	-	2,397
Total cost	**2,397**	**-**	**2,397**	**-**	**-**	**2,397**
Accumulated depreciation						
Investment property	(499)	(20)	(519)	(21)	-	(540)
Total accumulated depreciation	**(499)**	**(20)**	**(519)**	**(21)**	**-**	**(540)**
Impairment	**(553)**		**(553)**		**468**	**(85)**
Carrying amount	**1,345**	**(20)**	**1,325**	**(21)**	**468**	**1,772**

At the 2021 year end, analysis of the market value of investment property led the Group to reverse impairment associated with one of its buildings, on ascertaining that the recoverable amount exceeded its carrying amount. The impairment reversal is recognised under impairment and gains/(losses) on disposal of fixed assets in the accompanying consolidated income statement in an amount of Euros 468 thousand. No impairment losses have come to light in respect of the remaining investment property.

Investment property has a market value of approximately Euros 2.6 million in 2021 (Euros 1.9 million in 2020) and does not generate or incur significant operating income or expenses.

11 Equity-accounted Investees

This heading includes investments over which the Group has significant influence and which, accordingly, are accounted for in the consolidated financial statements using the equity method (see note 2.d):

- Argo Energia Empreendimentos e Participações S.A. (ARGO), in which the Red Eléctrica Group holds a 50% interest through Red Eléctrica Brasil Holding, Ltda. ARGO was incorporated in Brazil in 2016 and holds three electricity concessions in that country, encompassing 1,460 km of 500 kV and 230 kV voltage lines and 11 substations.
- Transmisora Eléctrica del Norte, S.A. (TEN), in which the Group holds a 50% interest through Red Eléctrica Chile SpA. TEN was incorporated on 1 March 2007 and undertook the project in Chile for the construction of a transmission line spanning approximately 580 km and the corresponding substations. This project has connected the Far North Interconnection System to the Central Interconnected System in Chile since 2018. TEN currently operates and maintains the facilities constructed. The acquisition price was US Dollars 217,560 thousand (Euros 199,816 thousand).
- Hisdesat Servicios Estratégicos, S.A. (HISDESAT), in which the Red Eléctrica Group holds a 38.56% interest through HISPASAT, S.A. HISDESAT engages in the commercialisation of spatial systems for government use. This company forms part of HISPASAT, which joined the Red Eléctrica Group on 3 October 2019.
- Grupo de Navegación Sistemas y Servicios, S.L. (GSS), in which the Red Eléctrica Group holds a 12.82% interest through HISPASAT, S.A. GSS engages in the operation of satellite systems. This company forms part of HISPASAT, which joined the Red Eléctrica Group on 3 October 2019.
- RETIT's investments involving significant influence, which encompass the investments made by RETIT in various innovative startups. The acquisition price was Euros 4,150 thousand.

  ARGO was included in the consolidated Group in 2020, because although at the end of 2019 Red Eléctrica Internacional, S.A.U. (through its subsidiary Red Eléctrica Brazil) and Grupo Energía Bogotá (GEB) jointly acquired, on a fifty-fifty basis, all of the shares held by the funds managed by Patria Investments and Temasek in Argo Energia Empreendimentos e Participações S.A. ("Argo Energia"), this acquisition was subject to compliance with certain conditions.

In accordance with applicable legislation, the parties sought the pertinent authorisation for the transaction, this being one of the conditions precedents for the agreement signed by the two parties to come into effect. This condition precedent was fulfilled on 25 March 2020, the date on which payment of the transaction was made, and on which Red Eléctrica Corporación and GEB assumed effective control of the board of directors of Argo Energia. Thus, on 25 March 2020 the Brazilian company in which the Group holds a 50% interest joined the Red Eléctrica consolidated Group. This company is the parent of a group of electricity transmission concession operator companies in Brazil.

The purchase price for 50% of the share capital of Argo Energia was Euros 374.3 million (Brazilian Reais 1,678.2 million).

The investment in Argo Energia was considered as a joint venture and was therefore accounted for using the equity method, in accordance with IAS 28.

In 2020, the Group performed a preliminary PPA through an independent expert, which resulted in provisional implicit goodwill of Euros 238 million (Brazilian Reais 930 million) being allocated to the concession as an intangible asset.

On 11 March 2021, within the 12-month deadline established in IFRS 3, which would have fallen on 25 March 2021, the Group completed the PPA work, which did not give rise to differences with respect to the amount recognised for 2020.

Movement in these investments in 2021 and 2020 was as follows:

Company	31.12.2020	Exchange differences	Changes in the consolidated Group	Dividends	Profit/(loss) attributable to the investment	Valuation adjustments and other	31.12.2021
Transmisora Eléctrica del Norte S.A. (TEN)	174,034	16,210	-	-	(4,251)	23,938	209,931
Argo Energia Empreendimentos e Participações S.A.	282,041.0	2,760	-	(780)	24,069	(7,153)	300,937
Hisdesat Servicios Estratégicos, S.A.	63,118.0	-	-	-	9,759	-	72,877
Grupo de Navegación Sistemas y Servicios S.L.	119.0	-	-	-	-	-	119
Interests constituting significant influence RETIT	-	-	4,150	-	(31)	-	4,119
	519,312	**18,970**	**4,150**	**(780)**	**29,546**	**16,785**	**587,983**

Company	31.12.2019	Exchange differences	Changes in the consolidated Group	Profit/(loss) attributable to the investment	Valuation adjustments	31.12.2020
Transmisora Eléctrica del Norte S.A. (TEN)	199,026	(18,065)	-	4,880	(11,807)	174,034
Argo Energia Empreendimentos e Participações S.A.	-	(112,652)	374,262	20,431	-	282,041
Hisdesat Servicios Estratégicos, S.A.	60,449	-	-	2,669	-	63,118
Grupo de Navegación Sistemas y Servicios S.L.	119	-	-	-	-	119
Interests constituting significant influence RETIT	-	-	-	-	-	-
	259,594	**(130,717)**	**374,262**	**27,980**	**(11,807)**	**519,312**

The key indicators of these companies at 31 December 2021 and 2020 are as follows:

Thousands of Euros	Transmisora Eléctrica del Norte S.A. (TEN)		Argo Energia Empreendimentos e Participações S.A.		Hisdesat Servicios Estratégicos, S.A.		Grupo de Navegación Sistemas y Servicios S.L.	
Year	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Non-current assets	627,480	601,889	869,808	891,470	504,429	394,376	1,139	1,139
Current assets	45,685	70,090	236,560	82,987	270,200	257,013	156	156
Cash and cash equivalents	45,318	42,151	3,236	167	237,318	235,574	152	152
Total assets	**673,165**	**671,979**	**1,106,368**	**974,457**	**774,629**	**651,389**	**1,296**	**1,295**
Non-current liabilities	563,316	602,457	701,745	674,266	466,462	364,199	-	-
Current liabilities	42,160	32,508	68,582	19,080	56,442	59,436	360	360
Total liabilities	**605,476**	**634,965**	**770,327**	**693,346**	**522,904**	**423,635**	**360**	**360**
Net assets	**67,690**	**37,015**	**336,041**	**281,111**	**251,725**	**227,754**	**936**	**935**
Revenue from ordinary activities	32,767	64,956	158,145	177,753	53,939	71,404	-	-
Gross operating profit	24,474	54,144	143,918	105,743	60,186	61,702	-	-
Net operating profit	10,136	39,470	142,819	105,414	33,899	17,386	-	-
Profit/(loss) after tax	**(8,503)**	**9,760**	**61,180**	**41,057**	**26,995**	**6,357**	**-**	-
Comprehensive income	**40,996**	**(17,598)**	**61,180**	**41,057**	**23,972**	**3,334**	**-**	-
Dividends received by the Group	-	-	780		-	-	-	-

At 31 December 2021 and 2020 the balance of the loan extended by the Group to TEN was Euros 12,338 thousand and Euros 17,457 thousand, respectively (see note 19).

The interest in TEN was tested in 2021 to determine its recoverability, in view of the indications of possible impairment arising from the regulatory change discussed in note 3. The test showed that the recoverable amount exceeded the carrying amount and it was therefore concluded that the investment was not impaired.

The most representative assumptions included in the projections used, based on business forecasts and own past experience, are as follows:

- Regulated remuneration: in 2021 revenue was calculated on the basis of the best estimate, taking into account the process to review the annual remuneration for the transmission assets in Chile, as mentioned in note 3. Moreover, the same update mechanisms as those set out in the legislation in force have been used for subsequent years.
- Investment: the best information available on the asset investment and maintenance plans for the infrastructure throughout the estimated time period has been used.
- Operating and maintenance costs: projected in line with the growth expected to derive from the investment plan.
- Other costs: projected based on knowledge of the sector and past experience and in line with the growth expected to derive from the investment plan.

In order to calculate present value, the projected cash flows are discounted using a pre-tax rate that considers the weighted average cost of capital (WACC) of the business and the geographical area in which it is carried out. A pre-tax discount rate of 7.4% has been estimated at 31 December 2021 based on the Group's internal methodology for calculating the WACC, with a residual value that assumes constant growth at 2% as the rate of change into perpetuity for the cash flows generated by the assets analysed; and an investment in fixed assets equal to the amount of depreciation to stabilise net assets.

12 Inventories

Details of inventories at 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Inventories	63,175	69,671
Write-downs	(36,640)	(34,796)
Total	**26,535**	**34,875**

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

The Group companies regularly test inventories for impairment based on the following assumptions:

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

As a result, the Group recorded impairment losses of Euros 1,844 thousand in the consolidated income statement for 2021 (Euros 1,392 thousand in 2020).

13 Trade and Other Receivables

Details of trade and other receivables at 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Trade receivables	59,709	43,054
Other receivables	1,193,686	1,288,342
Current tax assets (note 22)	7,561	10,703
Total	**1,260,956**	**1,342,099**

Trade receivables primarily comprise balances receivable on the lease of satellite capacity and related services. This item also includes assets arising from contracts with customers in an amount of Euros 4,904 thousand at 31 December 2021.

Other receivables at 31 December 2021 and 2020 mainly reflect the trend in settlements made by the CNMC in those years for regulated activities in Spain as a result of changes in collections and payments. At 31 December 2021 and 2020 the balances mostly comprise amounts pending invoicing and/or collection for regulated transmission and system operation activities. Under the settlement system set up by the Spanish regulator, some of these receivables are settled and collected in the following year. These amounts also include the revenue receivable derived from applying the methodology set forth in the remuneration model in force for transmission activities in Spain, which stipulates that facilities entering into service in year 'n' are to be remunerated from year 'n+2' onwards. Such revenue amounts to Euros 595 million at 31 December 2021.

Fair value estimates reflect the assumptions of market participants based on the information available and market conditions at the estimation date and incorporate any risk premiums related to the COVID-19 crisis. There are no significant differences between the fair value and the carrying amount at 31 December 2021 and 2020.

At 31 December 2021 and 2020 there are no significant amounts over 12 months past due (see note 19). In connection with COVID-19, no communications concerning breach of a contract in its entirety and having a significant impact on the Company have been received.

At 31 December 2021 no rights to trade receivables affected by COVID-19 and having a relevant impact on the Group have been identified, other than those detailed in note 5, although provisions recognised during the year are not significant.

In 2021, an impairment provision of Euros 634 thousand was recognised (an impairment reversal of Euros 423 thousand in 2020). Impairment of trade and other receivables based on the expected loss accumulated at 31 December 2021 amounts to Euros 1,947 thousand (Euros 1,170 thousand in 2020).

14 Equity

a) Capital risk management

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

To maintain and adjust the capital structure, the Group can adjust the number of dividends payable to shareholders, reimburse capital or issue shares.

The Group controls its capital structure on a gearing ratio basis, in line with sector practice. This ratio is calculated as net financial debt divided by the sum of the Group's equity and net financial debt. Net financial debt is calculated as follows:

Thousands of Euros	2021	2020
Non-current payables (*)	5,896,053	6,427,589
Current payables (*)	1,341,053	165,325
Foreign currency derivatives	(14,800)	2,199
Cash and cash equivalents	(1,574,427)	(481,772)
Net financial debt	**5,647,879**	**6,113,341**
Equity	3,685,131	3,491,953
Gearing ratio	**60.5%**	**63.6%**

(*) In both 2021 and 2020 interest payable has been excluded.

At 31 December 2021 and 2020, the financial covenants stipulated in the contracts entered into have been met.

On 15 March 2021 the credit rating agency Standard & Poor's issued a new report on the Company maintaining its long-term rating of 'A-' and short-term rating of 'A-2', with a stable outlook.

On 31 March 2021 the credit rating agency Fitch Ratings gave the Company a short-term rating of 'F1', with a stable outlook. Following this announcement, the Company and its subsidiary Red Eléctrica de España, S.A.U. maintain long-term ratings of 'A-' and short-term ratings of 'F1', with a stable outlook.

b) Equity attributable to the Parent

- Capital and reserves
  - Share capital

At 31 December 2021 and 2020 the Company's share capital is divided into 541,080,000 shares of Euros 0.50 par value each represented by book entries, all subscribed and fully paid-in, and carrying the same voting and profit-sharing rights (notwithstanding the limits stipulated in the following paragraph). The shares are quoted on the four Spanish stock exchanges and traded through the SIBE (Spanish Stock Exchange Interlinking System).

The Company is subject to the shareholder limitations stipulated in the twenty-third additional provision of Law 54/1997 of 27 November 1997 and article 30 of Electricity Industry Law 24/2013 of 26 December 2013.

Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of the aforementioned Law 24/2013. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2021 and 2020 SEPI holds a 20% interest in the Company's share capital.

- Reserves

This item comprises the following:

- Legal reserve

Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. Until this reserve exceeds this limit, it is not distributable to shareholders and may only be used to offset losses, provided no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 31 December 2021 and 2020 the legal reserve amounts to 20% of the Parent's share capital (Euros 54,199 thousand).

- Other reserves

This heading includes voluntary reserves of the Parent, reserves in consolidated companies and first-time application reserves. At 31 December 2021 they amount to Euros 2,570,603 thousand (Euros 2,513,953 thousand in 2020).

In addition, this item includes statutory reserves amounting to Euros 364,909 thousand (Euros 337,081 thousand in 2020), particularly the following:

- The property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996 (this reserve may be used, free of taxation, to offset accounting losses and increase share capital or, 10 years after its creation, it may be transferred to freely distributable reserves, in accordance with Royal Decree-Law 2607/1996). Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

- As provided for by article 25 of Law 27/2014 of 27 November 2014, the tax group headed by the Company has appropriated a capitalisation reserve of Euros 100,363 thousand, which is held by REE and REC, as permitted by article 62.1 d) of the aforementioned Law, corresponding to 2015 (Euros 29,110 thousand), 2016 (Euros 15,406 thousand), 2017 (Euros 11,312 thousand), 2018 (Euros 16,707 thousand), 2019 (Euros 19,668 thousand) and 2020 (Euros 8,160 thousand). This reserve will be restricted for a period of five years. Pursuant to article 62.1.d) of the aforementioned Law, the proposed capitalisation reserve for the year ended 31 December 2021, in an amount of Euros 4,548 thousand, will be appropriated in REC, as the parent of the tax group. Each company forming part of the tax group has adjusted income tax for 2021 in connection with this reserve (see note 23).

- Own shares

At 31 December 2021 the Parent held 1,803,403 own shares representing 0.33% of its share capital, with a par value of Euros 0.50 per share and a total par value of Euros 902 thousand, and an average acquisition price of Euros 17.53 per share (at 31 December 2020 the Parent held 2,084,729 own shares representing 0.39% of its share capital, with a par value Euros 0.50 per share and a total par value of Euros 1,042 thousand, and an average acquisition price of Euros 17.53 per share).

These shares have been recognised as a reduction in equity for an amount of Euros 31,618 thousand at 31 December 2021 (Euros 36,550 thousand in 2020).

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides, except in the case of freely acquired own shares, that in listed companies the par value of own shares acquired directly or indirectly by the Company, plus the par value of the shares already held by the Parent and its subsidiaries, must not exceed 10% of subscribed share capital. The subsidiaries do not hold own shares or shares in the Parent.

- Profit attributable to the Parent

Profit for 2021 attributable to the Parent totals Euros 680,627 thousand (Euros 621,185 thousand at 31 December 2020).

○ Interim dividends and proposed distribution of dividends by the Parent

The interim dividend authorised by the board of directors in 2021 has been recognised as a Euros 147,061 thousand reduction in consolidated equity at 31 December 2021 (Euros 146,984 thousand at 31 December 2020) (see note 19).

On 26 October 2021 the Company's board of directors agreed to pay an interim dividend of Euros 0.2727 (gross) per share with a charge to 2021 profit, which was paid on 7 January 2022 (Euros 0.2727 (gross) per share in 2020).

Details of the dividends paid during 2021 and 2020 are as follows:

	2021			2020		
Thousands of Euros	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	200.00%	1.0000	538,995	210.38%	1.0519	566,773
Total dividends paid	**200.00%**	**1.0000**	**538,995**	**210.38%**	**1.0519**	**566,773**
Dividends charged to profit	**200.00%**	**1.0000**	**538,995**	**210.38%**	**1.0519**	**566,773**

The cash flow forecast for the period from 30 September 2021 to 7 January 2022 indicated sufficient liquidity to allow the distribution of this dividend in accordance with article 277 section a) of the Spanish Companies Act.

As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

Liquidity statement of Red Eléctrica Corporación, S.A.	Thousands of Euros
Available funds at 30.09.2021:	
Non-current credit facilities available	342,449
Current credit facilities available	100,000
Current investments and cash	637,682
Forecast receipts:	
Current transactions	-
Financial transactions	125,125
Forecast payments:	
Current transactions	(141,490)
Financial transactions	(728)
Forecast available funds at 07.01.2022	**1,063,038**

The Parent's board of directors proposed to the shareholders at their general meeting the distribution of a supplementary dividend of Euros 0.7273 per share, which would result in a total dividend for 2021 of Euro 1 per share (Euro 1 in 2020).

In addition, given the Company's cash generation capacity and the amount of undrawn credit facilities (see note 18), the Company will have sufficient liquidity within one year after the interim dividend distribution has been agreed.

- **Valuation adjustments**
  - **Financial assets at fair value through other comprehensive income**

    At 31 December 2021 and 2020 this item reflects valuation adjustments to equity instruments classified as financial assets measured at fair value through other comprehensive income due to fluctuations in the share price of the Group's 5% investment in the listed company Redes Energéticas Nacionais, S.G.P.S., S.A. (hereinafter REN), the benchmark index for which is the Portuguese PSI 20. At 31 December 2021 this item totals Euros 18,766 thousand (Euros 12,761 thousand in 2020).

  - **Hedging transactions**

    This line item reflects changes in the value of derivative financial instruments.

    At 31 December 2021 this item totals a negative amount of Euros 62,170 thousand (a negative amount of Euros 93,559 thousand in 2020).

  - **Translation differences**

    This line item mainly comprises the exchange gains and losses arising from translation of the financial statements of foreign operations whose functional currency is not the Euro. At 31 December 2021 the balance of this item was negative in an amount of Euros 87,713 thousand (a negative balance of Euros 97,025 thousand in 2020). This increase is primarily due to the performance of the US Dollar and, to a lesser extent, the Brazilian Real against the Euro in 2021.

c) Non-controlling interests

Non-controlling interests under equity in the consolidated statement of financial position reflect the non-controlling interests in all the HISPASAT subgroup companies and in the Chilean company REDENOR in 2021 and 2020.

Movement in 2021 and 2020 is as follows:

Thousands of Euros	31 December 2019	Net translation differences	Profit/(loss) for the year	31 December 2020	Changes in consolidated Group and other	Net translation differences	Profit/(loss) for the year	31 December 2021
Non-controlling interests	72,640	(6,344)	(9,945)	56,351	(8,217)	258	5,657	54,049

Changes in consolidated Group and other include the acquisition of the entire non-controlling interest of 19.04% in Hispamar Satélites, S.A., which resulted in the Hispasat Group becoming the sole shareholder of this company (see note 2 g).

In addition, on 16 December 2021 Red Eléctrica Corporación, S.A. (REC) announced the agreement, subject to the pertinent authorisations being obtained, with Kohlberg Kravis Roberts & Co. L.P. (KKR), through its subsidiary Rudolph Bidco S.À.R.L., for the sale of a minority stake of 49% in Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL), a wholly owned subsidiary of the Parent, for Euros 971 million.

At the date of authorising these annual accounts for issue, and in accordance with applicable legislation, the parties have sought the pertinent authorisation for the transaction, this being one of the conditions precedents for the agreement signed by the two parties to come into effect.

On completion of the agreed transaction, given that the Red Eléctrica Group will retain a 51% stake in REINTEL, as well as control and management of this company, the agreement will be considered a transaction with non-controlling shareholders. This will result in an increase in non-controlling interests in the Group in 2022, once the conditions precedent have been met, albeit with no impact on the consolidated income statement nor on the consolidation method applied to REINTEL, which will continue to be fully consolidated.

Regarding the main non-controlling interests referred to above, a summary of the financial information on assets, liabilities and profit/loss at 31 December 2021 and 2020 of the investees is as follows:

	REDENOR		HISPASAT SUBGROUP	
Thousands of Euros	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Non-current assets	117,630	103,908	925,011	916,569
Current assets	14,684	8,262	143,254	127,654
Assets	**132,314**	**112,170**	**1,068,265**	**1,044,223**
Non-current liabilities	91,050	81,207	226,527	242,432
Current liabilities	13,892	5,289	121,959	117,028
Liabilities	**104,942**	**86,496**	**348,486**	**359,459**
Equity	**27,372**	**25,674**	**719,779**	**684,764**
Income	1,331	1,194	181,017	157,528
Expenses	1,450	1,464	57,380	41,393
Gross operating profit	(119)	(271)	123,637	116,135
Profit/(loss) after tax	**117**	**(584)**	**55,375**	**(92,491)**
Profit/(loss) attributable to non-controlling interests	**-**	**(2)**	**5,631**	**(9,769)**

15 Grants and Other Non-current Revenue Received in Advance

Movement in grants and other non-current revenue received in advance in 2021 and 2020 is as follows:

Thousands of Euros	31.12.2019	Additions	Derec-ogni-tions	Amounts transferred to the income statement	31.12.2020	Additions	Amounts transferred to the income statement	31.12.2021
Capital grants	235,519	13,353	(57)	(18,360)	230,455	3,523	(9,812)	224,166
Other grants and revenue received in advance	470,243	19,110	-	(11,888)	477,465	43,010	(18,639)	501,836
Total	**705,762**	**32,463**	**(57)**	**(30,248)**	**707,920**	**46,533**	**(28,451)**	**726,002**

Capital grants mainly include the amounts received by REE for the construction of electricity facilities and by HISPASAT for the construction of satellite assets.

Amounts transferred to the income statement reflect the amounts taken to consolidated profit or loss each year based on the useful life of these facilities.

Other grants and revenue received in advance include income tax deductions for investments in fixed assets in the Canary Islands, which by their nature are similar to capital grants (see note 2 c). This heading also includes amounts or technical facilities received by the Group as a result of agreements with third parties.

Amounts transferred to the income statement reflect the amounts taken to consolidated profit or loss each year on the basis of the useful life of the assets associated with those deductions and agreements.

16 Non-current and Current Provisions

Movement in 2021 and 2020 is as follows:

Thousands of Euros	31.12.2020	Additions	Applications	Transfers	Actuarial gains/(losses)	Exchange differ-ences	31.12.2021
Non-current provisions							
Provisions for employee benefits	81,723	6,268	(2,141)		(11,273)		74,577
Other provisions	54,263	8,578	(7,453)		-		55,388
Total non-current	135,986	14,846	(9,594)	-	(11,273)	-	129,965
Current provisions							
Other provisions	57,183	2,530	(947)	(37,925)	-	361	21,202
Total current	57,183	2,530	(947)	(37,925)	-	361	21,202
Total provisions	**193,169**	**17,376**	**(10,541)**	**(37,925)**	**(11,273)**	**361**	**151,167**

Thousands of Euros	31.12.2019	Additions	Applications	Transfers	Actuarial gains/(losses)	Exchange differ-ences	31.12.2020
Non-current provisions							
Provisions for employee benefits	72,625	3,908	(1,894)	(1,697)	8,781		81,723
Other provisions	78,781	13,556	(92)	(37,925)	-	(57)	54,263
Total non-current	151,406	17,464	(1,986)	(39,622)	8,781	(57)	135,986
Current provisions							
Provisions for employee benefits	-	-	(1,697)	1,697	-	-	-
Other provisions	27,345	-	-	37,925	-	(8,087)	57,183
Total current	27,345	-	(1,697)	39,622	-	(8,087)	57,183
Total provisions	**178,751**	**17,464**	**(3,683)**	**-**	**8,781**	**(8,144)**	**193,169**

Provisions for employee benefits reflect defined benefit plans, which essentially include the future commitments – specifically health insurance – undertaken by the Group vis-à-vis its personnel from the date of their retirement, calculated using actuarial studies carried out by an independent expert. Details of the aforementioned defined benefit plans are as follows:

Thousands of Euros	31.12.2020	Additions	Applications	Actuarial gains/(losses)	31.12.2021
Non-current liabilities under defined benefit plans	80,823	2,621	(1,799)	(11,273)	70,372

Thousands of Euros	31.12.2019	Additions	Applications	Actuarial gains/(losses)	31.12.2020
Non-current liabilities under defined benefit plans	71,297	2,639	(1,894)	8,781	80,823

In 2021 and 2020 the increase is mainly due to the annual accrual of these commitments, as well as changes in the actuarial assumptions used. These additions are recognised as personnel expenses or finance costs, depending on their nature. Changes in actuarial assumptions are recognised in reserves.

The personnel expenses and finance costs recognised in this connection in the consolidated income statement for 2021 amount to Euros 1,646 thousand and Euros 975 thousand, respectively (Euros 2,014 thousand and Euros 625 thousand, respectively, in 2020.

In 2021 actuarial losses of Euros 11,273 were recognised (actuarial gains of Euros 8,781 thousand in 2020). The actuarial gains and losses recognised are due to changes in financial assumptions in a negative amount of Euros 5,670 thousand (positive amount of Euros 3,365 thousand in 2020) and changes in demographic assumptions in a negative amount of Euros 5,603 thousand (positive amount of Euros 5,416 thousand in 2020).

The assumptions made with regard to 2021 and 2020 were as follows:

	Actuarial assumptions	
	2021	2020
Discount rate	1.21%	0.87%
Cost increase	3.0%	3.0%
Mortality table	PERM/F2020 1st rank	PERM/F2020 1st rank

Details of the effect of an increase/decrease of one percentage point in the cost of health insurance are as follows:

	2021	
Thousands of Euros	+1%	-1%
Current service cost	494	(359)
Interest cost of net post-employment medical costs	3	(2)
Accumulated post-employment benefit obligation for health insurance	16,266	(12,243)

Conversely, the effect of a decrease of half a percentage point in the discount rate used in 2021 for health insurance costs from 1.21% to 0.71%, in thousands of Euros, is as follows:

	Discount rate		
Thousands of Euros	1.21%	0.71%	Sensitivity
Current service cost	1,490	1,718	228
Interest cost of net post-employment medical costs	863	507	(356)
Accumulated post-employment benefit obligation for health insurance	61,695	69,254	7,559

Provisions for employee benefits also include deferred remuneration schemes (see note 4 l). At 31 December 2021 personnel expenses recognised in the consolidated income statement in this regard amount to Euros 2,138 thousand (Euros 1,269 thousand in 2020).

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

In 2020, this item also included current provisions made to cover potential unfavourable rulings in relation to the application of the remuneration model for transmission activities in Spain (see note 3), which were reclassified to trade payables in 2021 (see note 21).

This heading likewise reflects provisions relating to the fair value of the contingent liabilities identified in the business combination resulting from the acquisition of the HISPASAT subgroup, mainly those associated with legal and tax contingencies in Brazil which have yet to be resolved.

At the 2021 reporting date, the Group is involved in a number of ongoing proceedings, primarily judicial reviews and disciplinary proceedings. The Group has assessed the risks and does not expect any events to arise that would amount to liabilities not considered in its financial statements or that would have a significant impact on its profits.

17 Other Non-current Liabilities

Other non-current liabilities basically include contract liabilities for the revenue received in advance under agreements with various telecommunications operators for the use of the telecommunications network capacity, recognised in the consolidated income statement based on the duration of the agreements, with expiry dates up to 2046, and amounting to Euros 26,714 thousand at 31 December 2021 (Euros 28,290 thousand at 31 December 2020).At 31 December 2021 this item also includes Euros 23,716 thousand of revenue received in advance on account of future satellite capacity services to be rendered (Euros 22,293 thousand at 31 December 2020).

This item likewise includes the non-current liabilities arising from the compensation paid by Électricité de France (hereinafter EDF) under the agreement signed in 1997 for the adaptation of electricity supply contracts, which amounted to Euros 23,625 thousand at 31 December 2021 and 2020. These are multi-year commitments and are therefore subject to the construction of facilities.

18 Financial Risk Management Policy

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

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

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

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

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

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

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

a) Market risk

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

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

- Interest rate risk

  Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. The financial debt structure at 31 December 2021 and 2020 is as follows:

	2021		2020	
Thousands of Euros	**Fixed rate**	**Variable rate**	**Fixed rate**	**Variable rate**
Non-current issues	3,966,864	14,947	3,756,014	14,940
Non-current bank borrowings	1,041,714	857,729	1,516,216	1,142,618
Current issues	405,027	-	4,329	-
Current bank borrowings	418,292	517,734	131,694	29,303
Total gross financial debt	**5,831,897**	**1,390,409**	**5,408,253**	**1,186,860**
Percentage	**81%**	**19%**	**82%**	**18%**

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

The interest rate risk to which the Group is exposed at 31 December 2021 and 2020 derives from changes in the fair value of derivative financial instruments and mostly affects equity, but not consolidated profit for the year. A sensitivity analysis of this risk is as follows (in thousands of Euros):

	Effect on consolidated equity of market interest rate fluctuations			
	2021		2020	
Thousands of Euros	**+0.10%**	**-0.10%**	**+0.10%**	**-0.10%**
Interest rate hedges:				
- Cash flow hedges. Interest rate swap	2,071	(2,042)	4,396	(4,431)
Interest rate and exchange rate hedges:				
- Cash flow hedges. Cross-currency swap	29	(30)	222	(226)

This rise or decline of 0.10% in interest rates would have decreased or increased consolidated profit by Euros 1,482 thousand in 2021 and by Euros 2,312 thousand in 2020.

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

- **Currency risk**

  Currency risk management considers transaction risk arising on cash inflows and outflows in currencies other than the Euro (essentially USD and BRL), and translation risk, to which the Company is exposed when consolidating its subsidiaries and/or assets located in countries where the functional currency is not the Euro.

  With a view to reducing the currency risk on issues in the US private placements (USPP) market, the Group has arranged cash flow hedges through US Dollar/Euro cross-currency swaps on the principal and interest, which cover the amount and total term of the issue up to October 2035 (see notes 19 and 20).

  To mitigate transaction risk, in 2021 and 2020 the Group companies arranged forward cash flow hedges in the form of cross-currency swaps and currency forwards to hedge highly probable cash flows of certain revenue in US Dollars and Brazilian Reais and certain payment commitments in Brazilian Reais (see note 20). Consequently, a strengthening or weakening of the Euro by 10% against the hedged currencies would have given rise to the following changes in the market value of these derivatives at 31 December 2021:

	Effect on consolidated equity of exchange rate fluctuations	
Thousands of Euros	+10% appreciation of Euro	-10% depreciation of Euro
US Dollar	21,152	(25,730)
Brazilian Real	494	(604)
Total	**21,647**	**(26,334)**

  In order to mitigate the translation risk on assets located in countries whose functional currency is not the Euro, the Group finances a portion of such investments in the functional currency of those countries. The Group has also arranged hedges of net investments in US Dollars using cross-currency swaps up to January 2026 (see note 20). Consequently, had the Euro simultaneously strengthened or weakened by 10% against the currencies to which the Group is exposed at year end, equity attributable to the Parent would have decreased or increased by approximately Euros 34 million, of which Euros 10 million would have been caused by the US Dollar and Euros 23 million by the Brazilian Real (Euros 32 million at 31 December 2020, of which Euros 9 million would have been caused by the US Dollar and Euros 23 million by the Brazilian Real).

- **Price risk**

  The Group is exposed to price risk relating to equity instruments classified as financial assets at fair value through other comprehensive income in the consolidated statement of financial position. Equity investments on quoted markets basically comprise the 5% interest held by the Group in REN. At 31 December 2021 had the listed share price of the Portuguese company REN been 10% higher or lower, equity would have increased or decreased, respectively, by approximately Euros 6 million (Euros 6 million in 2020).

b) Credit risk

In light of the nature of revenues from electricity transmission and electricity system operation, and the solvency of the electricity system agents, the Red Eléctrica Group's principal activities are not significantly exposed to credit risk. For the Group's other activities, credit risk is mainly managed through instruments to reduce or limit such risk.

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

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

At 31 December 2021, less than 1% of balances are past due (less than 2% in 2020), and the companies do not consider there to be any risk as regards recoverability. The credit quality of the receivables is considered to be high.

c) Liquidity risk

Liquidity risk arises due to differences between the amounts or dates of collection and payment of the Group companies' assets and liabilities.

Liquidity risk is mostly managed by controlling the timing of financial debt and maintaining a considerable volume of available capital during the year, setting maximum limits of amounts falling due for each period defined. This process is carried out at Group company level, in accordance with the practices and limits set by the Group. The limits established vary according to the geographical area, so as to ensure that the liquidity of the market in which the companies operate is taken into account. Furthermore, the liquidity risk management policy entails preparing cash flow projections in the main currencies in which the Group operates, taking into consideration the level of liquid assets and funds available according to these projections, and monitoring the liquidity indicators as per the consolidated statement of financial position and comparing these with market requirements.

The Group's financial debt at 31 December 2021 has an average maturity of 5.0 years (5.3 years at 31 December 2020). Details of the maturities of issues and bank borrowings are provided in note 19.

The Group has a robust financial position which has been consistently strengthened since the previous year to tackle the COVID-19 health crisis. Moreover, liquidity has been bolstered through the issue of new bonds in an amount of Euros 600 million in 2021 and Euros 1,100 million in 2020 (see note 19).

The Group's liquidity position for 2021 was based on its robust capacity to generate cash flows, supported by undrawn credit facilities. At 31 December 2021 the undrawn amount of these credit facilities is Euros 1,853 million (non-current balance of Euros 1,717 million and current balance of Euros 136 million). The Group's liquidity position ensures it will be able to meet operating cash flow requirements, honour debt maturities in 2022 and 2023, and address any adverse situations that might arise in the financial markets in the coming months.

Thanks to its solid financial position, the Group has not had to request state aid to alleviate the economic effects of the COVID-19 crisis.

19 Financial Assets and Financial Liabilities

a) Financial assets

Details of the Red Eléctrica Group's current and non-current financial assets at 31 December 2021 and 2020 are as follows:

	31/12/2021				
Thousands of Euros	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging derivatives	Total
Equity instruments	85,368	4,329	-	-	89,697
Derivatives	-	-	-	23,592	23,592
Other financial assets	-	1,050	23,942	-	24,992
Non-current	**85,368**	**5,379**	**23,942**	**23,592**	**138,281**
Other financial assets	-	-	25,401	-	25,401
Derivatives	-	-	-	91	91
Current	**-**	**-**	**25,401**	**91**	**25,492**
Total	**85,368**	**5,379**	**49,343**	**23,683**	**163,773**

Thousands of Euros	31/12/2020				
	At fair value through other comprehensive income	At fair value through profit or loss	At amortised cost	Hedging derivatives	Total
Equity instruments	79,363	4,078	-	-	83,441
Derivatives	-	-	-	146	146
Other financial assets	-	3,895	28,869	-	32,764
Non-current	**79,363**	**7,973**	**28,869**	**146**	**116,351**
Other financial assets	-	-	35,812	-	35,812
Derivatives	-	-	-	19,991	19,991
Current	**-**	**-**	**35,812**	**19,991**	**55,803**
Total	**79,363**	**7,973**	**64,681**	**20,137**	**172,154**

- **Equity instruments**

  Equity instruments essentially comprise the 5% interest held by the Group in REN, a holding company that encompasses the operation and use of electricity transmission assets and various gas infrastructure in Portugal. This interest was acquired in 2007 for Euros 98,822 thousand. In 2017 the Group subscribed 6,659,563 new shares in the share capital increase carried out by REN for an amount of Euros 12,500 thousand, thereby maintaining its 5% interest in this company.

  At 31 December 2020 REN's consolidated equity totalled Euros 1,407,700 thousand and the profit after tax amounted to Euros 109,249 thousand.

  These instruments were classified as financial assets measured at fair value through other comprehensive income (see note 2 b). The value of this investment is subject to the listed share price (Level 1). In 2021 the fair value of this equity instrument increased, and the corresponding valuation adjustment was recognised directly under equity.

  At 31 December 2021 the Group has calculated the increase in value of this investment as Euros 6,005 thousand (a Euros 11,843 thousand decrease in 2020).

  In 2021 this item also includes the investments made by the Group company Red Eléctrica de Telecomunicaciones, Innovación y Tecnología, S.A.U. (hereinafter RETIT) in various innovative entities, primarily the investments in Adara Ventures III, S.C.A. and Cardumen Fund I, FCRE, which are measured at fair value through profit or loss. Gains of Euros 376 thousand were recognised in the consolidated income statement in 2021 in relation to these investments.

- **Derivatives**

  Details of derivative financial instruments are provided in note 20.

- **Other financial assets**

  Other financial assets at amortised cost primarily reflect the loan of Euros 12,338 thousand extended to TEN (Euros 17,457 thousand at 31 December 2020), which earns interest at a Libor-pegged rate plus 270 b.p., and guarantees and loans extended by the Group to its personnel, which fall due in the long term. There are no significant differences between the fair value and the carrying amount at 31 December 2021 and 2020.

  Other financial assets at fair value through profit or loss also comprise the investment in economic interest groups (EIGs), measured at Euros 1,050 thousand (Euros 3,895 thousand in 2020). These EIGs engage in the lease of assets operated by an unrelated party, which retains most of the risks and rewards of the activity, while the Group only avails of the tax incentives pursuant to Spanish legislation. The Group recognises the tax losses incurred by these EIGs against the investments, together with the corresponding finance income (see note 24 e) reflecting the difference compared to income tax payable to the taxation authorities.

- **Fair value hierarchy levels**

  Details of the Group's financial assets measured at fair value using the inputs defined for this calculation at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31/12/2021			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	84,900	-	4,797	89,697
Derivatives	-	23,683	-	23,683
Other financial assets	-	1,050	-	1,050

Thousands of Euros	31/12/2020			
	Level 1	Level 2	Level 3	Total balance
Equity instruments	78,895	-	4,546	83,441
Derivatives	-	20,137	-	20,137
Other financial assets	-	3,895	-	3,895

Level 1 equity instruments reflect the 5% interest held by the Group in the listed company REN. Level 3 includes the equity investments in ACEFAT and CORESO, and the investments made by RETIT in innovative investment funds and companies.

Other financial assets classified within Level 2 comprise the investments in economic interest groups (EIGs).

b) Financial liabilities

Details of the Red Eléctrica Group's current and non-current financial liabilities at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31/12/2021		
	Financial liabilities	Hedging derivatives	Total
Loans and borrowings	1,899,560	-	1,899,560
Bonds and other marketable securities	3,996,610	-	3,996,610
Derivatives	-	16,436	16,436
Other financial liabilities	57,264	-	57,264
Non-current	**5,953,434**	**16,436**	**5,969,870**
Loans and borrowings	945,757	-	945,757
Bonds and other marketable securities	445,965	-	445,965
Derivatives	-	5,129	5,129
Other financial liabilities	752,703	-	752,703
Current	**2,144,425**	**5,129**	**2,149,554**
Total	**8,097,859**	**21,565**	**8,119,424**

Thousands of Euros	31/12/2020		
	Financial liabilities	Hedging derivatives	Total
Loans and borrowings	2,658,888	-	2,658,888
Bonds and other marketable securities	3,768,756	-	3,768,756
Derivatives	-	50,350	50,350
Other financial liabilities	57,760	-	57,760
Non-current	**6,485,404**	**50,350**	**6,535,755**
Loans and borrowings	171,799	-	171,799
Bonds and other marketable securities	43,174	-	43,174
Derivatives	-	220	220
Other financial liabilities	608,794	-	608,794
Current	**823,767**	**220**	**823,987**
Total	**7,309,171**	**50,570**	**7,359,742**

- **Loans and borrowings, bonds and other marketable securities**

The carrying amount and fair value of loans and borrowings and issues of bonds and other marketable securities at 31 December 2021 and 2020, excluding interest payable, are as follows:

Thousands of Euros	Carrying amount		Fair value	
	2021	2020	2021	2020
Issues in Euros	4,026,747	3,422,760	4,172,723	3,664,320
Issues in US Dollars	374,890	350,324	471,183	475,298
Bank borrowings in Euros	2,439,008	2,458,241	2,463,081	2,502,412
Bank borrowings in foreign currency	396,461	361,589	421,014	387,388
Total	**7,237,106**	**6,592,914**	**7,528,001**	**7,029,418**

The fair value of all bank borrowings and issues has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date (Level 2 of the hierarchy).

At 31 December 2021 the accrued interest payable amounts to Euros 50,787 thousand (Euros 49,702 thousand in 2020).

Issues in Euros at 31 December 2021 reflect the Eurobonds issued by Red Eléctrica Financiaciones, S.A.U. (hereinafter REF) and REC, totalling Euros 4,026,747 thousand (Euros 3,422,759 thousand in 2020). The Group issued debt in an amount of Euros 600 million in 2021 under the Euro Medium Term Note (EMTN) Programme in the Euromarket.

Issues in US Dollars at 31 December 2021 amounted to Euros 374,890 thousand (Euros 350,324 thousand in 2020), comprising a US Dollars 500 million issue on the US private placement (USPP) market, of which US Dollars 250 million is still payable (Euros 220,731 thousand at the 2021 year end), as well as three US Dollar bond issues made in Peru, of which Euros 179 million is still payable at 31 December 2021 (Euros 147 million in 2020) (see note 18 for an analysis of currency risk).

Bank borrowings in Euros at 31 December 2021 include non-current loans and credit facilities totalling Euros 1,939,008 thousand (Euros 1,929,870 thousand in 2020) and syndicated credit facilities amounting to Euros 500,000 thousand (Euros 525,000 thousand in 2020).

Bank borrowings in foreign currency at 31 December 2021 mainly include non-current loans and credit facilities in US Dollars amounting to Euros 396,461 thousand (Euros 361,589 thousand in 2020).

Details of the maturities of bond issues and bank borrowings at 31 December 2021 are as follows:

Thousands of Euros	Maturities at 31 December 2021							
	2022	2023	2024	2025	2026	Thereafter	Amortised cost and other adjustments	Total
Issues in Euros	400,000	300,000	-	900,000	500,000	1,990,000	(63,253)	4,026,747
Issues in US Dollars	5,197	5,583	5,992	138,858	6,874	216,001	(3,615)	374,890
Bank borrowings in Euros	842,189	195,120	331,527	114,866	413,522	543,573	(1,789)	2,439,008
Bank borrowings in US Dollars	91,816	91,436	152,590	725	854	62,014	(2,974)	396,461
Total	**1,339,202**	**592,139**	**490,109**	**1,154,449**	**921,250**	**2,811,588**	**(71,631)**	**7,237,106**

The average interest rate of loans and borrowings and bond issues was 1.52% in 2021 (1.74% in 2020).

At 31 December 2021 Group companies have undrawn credit facilities amounting to Euros 1,853 million, of which Euros 1,717 million expire in the long term (Euros 1,645 million at 31 December 2020) and Euros 136 million in the short term (Euros 285 million at 31 December 2020).

Details of bonds and other marketable securities at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31/12/2021				
	Opening outstanding balance at 31/12/2020	(+) Issues	(-) Repurchases or redemptions	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2021
Debt securities requiring a prospectus to be filed	3,422,760	600,000	-	3,987	4,026,747
Debt securities not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	350,324		(4,586)	29,152	374,890
Total	**3,773,084**	**600,000**	**(4,586)**	**33,139**	**4,401,637**

31/12/2020

Thousands of Euros	Opening outstanding balance at 31/12/2019	(+) Issues	(-) Repurchases or redemptions	(+/-) Exchange rate and other adjustments	Closing outstanding balance at 31/12/2020
Debt securities requiring a prospectus to be filed	3,086,602	2,165,356	(1,830,452)	1,254	3,422,760
Debt securities not requiring a prospectus to be filed	-	-	-	-	-
Other debt securities issued outside EU member states	544,496	-	(152,752)	(41,420)	350,324
Total	**3,631,098**	**2,165,356**	**(1,983,204)**	**(40,166)**	**3,773,084**

In 2021 and 2020 changes in debt securities requiring a prospectus to be filed relate to issues registered in Dublin and Luxembourg.

Details of changes in liabilities related to financing instruments during 2021, distinguishing between those that entailed cash flows and those that did not, are as follows:

Thousands of Euros	31/12/2020	Movements entailing cash flows	Movements not entailing cash flows		31/12/2021
			Exchange differences	Other changes	
Issues in Euros	3,422,760	600,000	-	3,987	4,026,747
Issues in US Dollars	350,324	(4,586)	29,275	(123)	374,890
Bank borrowings in Euros	2,458,241	(11,867)	-	(7,366)	2,439,008
Bank borrowings in foreign currency	361,589	3,754	30,668	450	396,461
Total debt	**6,592,914**	**587,301**	**59,943**	**(3,052)**	**7,237,106**

- **Derivatives**

  Details of derivative financial instruments are provided in note 20.

- **Other financial liabilities**

  Details of other financial liabilities at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31/12/2021	31/12/2020
Non-current lease payables	19,865	13,079
Suppliers of fixed assets and other payables	37,399	44,681
Total non-current	**57,264**	**57,760**

Dividend payable (note 13)	147,061	146,984
Current lease payables	8,068	2,490
Suppliers of fixed assets	315,374	310,901
Other payables	282,200	148,419
Total current	**752,703**	**608,794**
Total other financial liabilities	**809,967**	**666,554**

Suppliers of fixed assets essentially reflect balances incurred on the construction of electricity and telecommunication facilities.

As regards lease payables, details of the future minimum lease payments are as follows:

Thousands of Euros	2022	2023	2024	2025	2026	Thereafter	Total
Future minimum lease payments	8,068	7,865	4,154	2,768	827	4,250	27,933

In its position as lessee, the Group does not forecast significant future cash outflows to which it may potentially be exposed, and it considers that all estimated lease liabilities are duly detailed.

Other payables basically comprise certain items pending settlement with respect to the Spanish electricity system and security deposits received.

- **Fair value hierarchy levels**

The fair value hierarchy levels at 31 December 2021 and 2020 of non-current and current financial liabilities measured at fair value are as follows:

	31/12/2021			
Thousands of Euros	Level 1	Level 2	Level 3	Total balance
Loans and borrowings	-	2,835,469	-	2,835,469
Bonds and other marketable securities	-	4,401,637	-	4,401,637
Derivatives	-	21,565	-	21,565
Total	**-**	**7,258,671**	**-**	**7,258,671**

	31/12/2020			
Thousands of Euros	Level 1	Level 2	Level 3	Total balance
Loans and borrowings	-	2,819,830	-	2,819,830
Bonds and other marketable securities	-	3,773,084	-	3,773,084
Derivatives	-	50,571	-	50,571
Total	**-**	**6,643,485**	**-**	**6,643,485**

Loans and borrowings, bonds and other issuances, and exchange rate and interest rate derivatives are all categorised within Level 2. There are no significant differences between the fair value and the carrying amount at 31 December 2021 and 2020.

The Group's fair value estimates reflect the assumptions of market participants based on the information available and market conditions at the date these financial statements were drawn up, incorporating, where appropriate, risk premiums arising from the increased uncertainty and other impacts caused by the COVID-19 crisis, adjusting the estimates for own and counterparty credit risk and taking into consideration the fact that unobservable inputs have become significant.

20 Derivative Financial Instruments

In line with its financial risk management policy, the Red Eléctrica Group has arranged four types of derivative financial instruments: interest rate swaps, forward interest rate swaps, cross-currency swaps and currency forwards. Interest rate swaps consist of exchanging debt at variable interest rates for debt at fixed rates, in a swap where the future cash flows to be hedged are the interest payments. Forward interest rate swaps cover the finance cost of highly probable forecast future transactions. Similarly, cross-currency swaps allow fixed- or variable-rate debt in US Dollars to be exchanged for fixed- or variable-rate debt in Euros, thereby hedging future interest and capital flows in US Dollars, future variable-rate interest flows in Euros and currency risk related with highly probable forecast transactions in US Dollars. Lastly, currency forwards hedge currency risk related with highly probably forecast transactions denominated in a currency other than the Euro.

As regards the measurement of derivative financial instruments and hedging instruments disclosed in these notes, the application of IFRS 13 (see note 4 n) entails an adjustment to the valuation techniques used to calculate the fair value of derivative financial instruments. The Group has incorporated a credit risk adjustment to reflect own and counterparty risk in the fair value of derivatives using generally accepted measurement models.

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

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

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

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

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

Based on the fair value hierarchy levels detailed in note 4, the Group has considered that the majority of the inputs used to determine the fair value of derivative financial instruments are categorised within Level 2, including the data used to calculate the own and counterparty credit risk adjustment.

The Group has observed that the impact of using Level 3 inputs for the overall measurement of derivative financial instruments is not significant. Consequently, the Group has determined that the entire derivative financial instrument portfolio can be categorised within Level 2 of the fair value hierarchy.

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

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

					2021			
			Average rate per derivative		Non-current		Current	
Thousands of Euros	Principal	Term to expiry	Payable	Receivable	Assets	Liabilities	Assets	Liabilities
Interest rate hedges:								
- Cash flow hedges:								
Interest rate swap	Euros 225,000 thousand	Up to 2022	0.34%	EURIBOR	-	-	-	(1,544)
Interest rate swap	Euros 43,621 thousand	Up to 2031	0.72%	EURIBOR+0.38%	438	-	-	-
- Forward cash flow hedges:								
Forward interest rate swap beginning in 2022	Euros 20,921 thousand	Up to 2031	0.72%	EURIBOR+0.38%	207	-	-	-
Forward interest rate swap beginning in 2023	Euros 100,000 thousand	Up to 2029	0.32%	EURIBOR	1,131	(1,673)	-	-
Forward interest rate swap beginning in 2024	Euros 100,000 thousand	Up to 2030	0.06%	EURIBOR	1,655	-	-	-
Forward interest rate swap beginning in 2025	Euros 200,000 thousand	Up to 2031	0.20%	EURIBOR	2,758	-	-	-
Exchange rate hedges:								

- Hedges of a net investment:								
Cross-currency swap	US Dollars 150,000 thousand	Up to 2026	-	-	6,099	-	-	-
- Forward cash flow hedges:								
Cross-currency swap	US Dollars 161,432 thousand	Up to 2031	-	-	-	(9,535)	-	-
Currency forward	US Dollars 189,598 thousand	Up to 2025	-	-	-	(5,228)	33	(3,585)
Currency forward	Brazilian Reais 45,885 thousand	Up to 2022	-	-	-	-	58	-
Interest rate and exchange rate hedges:								
- Cash flow hedges (cross-currency swaps):								
Interest rate hedges	US Dollars 250,000 thousand	Up to 2035	4.12% EUR	5.35% USD	(3,496)	-	-	-
Exchange rate hedges			-	-	14,800	-	-	-
Total					**23,592**	**(16,436)**	**91**	**(5,129)**

			2020			
			Non-current		Current	
Thousands of Euros	**Principal**	**Term to expiry**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate hedges:						
- Cash flow hedges:						
Interest rate swap	Euros 225,000 thousand	Up to 2022	-	(3,597)	-	-
Interest rate swap	Euros 21,249 thousand	Up to 2021	-	-	-	(220)
- Forward cash flow hedges:						
Forward interest rate swap beginning in 2021	Euros 260,000 thousand	Up to 2027	-	(17,523)	-	-
Forward interest rate swap beginning in 2022	Euros 300,000 thousand	Up to 2028	-	(15,096)	-	-
Forward interest rate swap beginning in 2023	Euros 100,000 thousand	Up to 2029	-	(3,639)	-	-
Exchange rate hedges:						
- Hedges of a net investment:						
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	-	-	16,228	-
- Forward cash flow hedges:						
Currency forward	US Dollars 40,833 thousand	Up to 2021	146	-	3,713	-
Currency forward	Brazilian Reais 11,075 thousand	Up to 2021	-	-	50	-
Interest rate and exchange rate hedges:						
- Cash flow hedges (cross-currency swaps):						
Interest rate hedges	US Dollars 250,000 thou-sand	Up to 2035	-	(8,297)	-	-
Exchange rate hedges			-	(2,198)	-	-
Total			**146**	**(50,350)**	**19,991**	**(220)**

Details of expected cash flows from derivatives at 31 December 2021 and 2020, which are similar to the expected impact on profit or loss, by year of occurrence, are as follows:

	Maturities at 31 December 2021								
Thousands of Euros	**Principal**	**Term to expiry**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027 and thereafter**	**Total**
Interest rate hedges:									
- Cash flow hedges:									
Interest rate swap	Euros 225,000 thousand	Up to 2022	(1,544)	-	-	-	-	-	(1,544)

Interest rate swap	Euros 43,621 thousand	Up to 2031	-	-	-	-	-	438	433
- Forward cash flow hedges:									
Forward interest rate swap beginning in 2022	Euros 20,921 thousand	Up to 2031	-	-	-	-	-	207	207
Forward interest rate swap beginning in 2023	Euros 100,000 thousand	Up to 2029	-	-	-	-	-	(542)	(542)
Forward interest rate swap beginning in 2024	Euros 100,000 thousand	Up to 2030	-	-	-	-	-	1,655	1,655
Forward interest rate swap beginning in 2025	Euros 200,000 thousand	Up to 2031	-	-	-	-	-	2,758	2,758
Exchange rate hedges: - Hedges of a net investment:									
Cross-currency swap	US Dollars 150,000 thousand	Up to 2026	-	-	-	-	6,099	-	6,099
- Forward cash flow hedges:									
Cross-currency swap	US Dollars 161,432 thousand	Up to 2031	-	-	-	-	-	(9,535)	(9,535)
Currency forward	US Dollars 189,598 thousand	Up to 2025	(3,552)	(3,486)	(1,383)	(359)	-	-	(8,781)
Currency forward	Brazilian Reais 45,885 thousand	Up to 2022	58	-	-	-	-	-	58
Interest rate and exchange rate hedges: - Cash flow hedges (cross-currency swaps):									
Interest rate hedges	US Dollars 250,000 thousand	Up to 2035	-	-	-	(644)	-	(2,852)	(3,496)
Exchange rate hedges			-	-	-	8,880	-	5,920	14,800
Total			**(5,038)**	**(3,486)**	**(1,383)**	**7,877**	**6,099**	**(1,951)**	**2,118**

	Maturities at 31 December 2020								
Thousands of Euros	**Principal**	**Term to expiry**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**	**Total**
Interest rate hedges: - Cash flow hedges:									
Interest rate swap	Euros 225,000 thousand	Up to 2022	-	(3,597)	-	-	-	-	(3,597)
Interest rate swap	Euros 21,249 thousand	Up to 2021	(220)	-	-	-	-	-	(220)
- Forward cash flow hedges:									

Forward interest rate swap beginning in 2021	Euros 260,000 thousand	Up to 2027	-	-	-	-	-	(17,523)	(17,523)
Forward interest rate swap beginning in 2022	Euros 300,000 thousand	Up to 2028	-	-	-	-	-	(15,096)	(15,096)
Forward interest rate swap beginning in 2023	Euros 100,000 thousand	Up to 2029	-	-	-	-	-	(3,639)	(3,639)
Exchange rate hedges: - Hedges of a net investment:									
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	16,228	-	-	-	-	-	16,228
- Forward cash flow hedges:									
Currency forward	US Dollars 40,833 thousand	Up to 2021	3,713	146	-	-	-	-	3,859
Currency forward	Brazilian Reais 11,075 thousand	Up to 2020	50	-	-	-	-	-	50
Interest rate and exchange rate hedges: - Cash flow hedges (cross-currency swaps):									
Interest rate hedges	US Dollars 250,000 thousand	Up to 2035	-	-	-	-	379	(8,676)	(8,297)
Exchange rate hedges			-	-	-	-	(1,319)	(879)	(2,198)
Total			**19,771**	**(3,451)**	**-**	**-**	**(940)**	**(45,813)**	**(30,433)**

The Group has recognised the following amounts in 2021 and 2020 as a result of the cash flow hedges:

	2021				2020			
	Financial liabilities at amortised cost	Hedging derivatives (*)	Equity-accounted investees	Total	Financial liabilities at amortised cost	Hedging derivatives (*)	Equity-accounted investees	Total
Gains/(Losses) recognised in the consolidated income statement	3,540	2,408	-	5,948	4,094	1,519	-	5,613
Gains/(Losses) recognised in the consolidated statement of comprehensive income	12,503	(8,516)	23,938	27,925	(18,486)	2,299	(11,807)	(16,187)
Total	**16,043**	**(6,108)**	**23,938**	**33,873**	**(14,392)**	**3,818**	**(11,807)**	**(10,574)**

*Cash flow hedge for a highly probably forecast transaction

21 Trade and Other Payables

Details of this item at 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Suppliers	382,309	460,502
Other payables	409,459	92,257
Current tax liabilities (note 22)	10,887	24,961
Total	**802,655**	**577,720**

Suppliers comprise amounts not yet due for the purchase of goods and services in the course of trade operations, essentially payables arising from repairs, maintenance work and modifications to facilities.

Suppliers include current liabilities arising from contracts with customers in an amount of Euros 54,541 thousand at 31 December 2021. These liabilities were recognised as advances on account of future services to be rendered, essentially telecommunication capacity, work to modify third-party lines and the provision of insurance services. An amount of Euros 36,251 thousand was recognised in profit or loss under current liabilities from contracts with customers in 2021.

Other payables mainly reflect items pending reimbursement in respect of provisional tariffs, which have arisen due to the difference between the amount settled and collected and the revenue accrued from 2016 to 2021 (see notes 3 and 24). This item also includes VAT payable to the taxation authorities, salaries payable and other amounts not yet due for the purchase of goods and services.

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

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

The scope of this resolution also extends to trading companies that prepare consolidated annual accounts, although only with respect to fully consolidated subsidiaries or equity-accounted investees registered in Spain, irrespective of the financial reporting framework under which the accounts are prepared.

The information on the average supplier payment period for 2021 and 2020 is as follows:

Days	2021	2020
Average supplier payment period	43	46
Transactions paid ratio	45	47
Transactions payable ratio	10	13

Thousands of Euros	2021	2020
Total payments made	362,944	372,430
Total payments outstanding	15,498	14,187

23 Taxation

The tax group headed by Red Eléctrica Corporación, S.A. has filed consolidated tax returns in Spain since 2002 (tax group No. 57/02). At 31 December 2021 the tax group includes the Parent, REE, REI, REEF, REF, REINTEL, REINCAN, RESTEL, RETIT, HISPASAT S.A. and Hispasat Canarias S.L.

In 2021, Red Eléctrica de España Finance, S.L.U. (formerly Red Eléctrica de España Finance B.V.) relocated its registered office to Spain, joining the Red Eléctrica tax group as a subsidiary with effect from 1 January 2021. Companies that do not form part of the tax group are subject to the legislation applicable in their respective countries.

A reconciliation of the prevailing tax rate in Spain with the tax rate applicable to the Group is as follows:

Thousands of Euros	2021	2020
Consolidated accounting profit for the year before tax	888,077	805,991
Permanent differences and consolidation adjustments	(12,979)	(41,651)
Consolidated taxable accounting income	875,098	764,340
Tax rate	**25%**	**25%**
Consolidated taxable accounting income multiplied by tax rate	218,775	191,085
Effect of applying different tax rates	8,248	6,667
Tax calculated at the tax rate of each country	227,022	197,752
Deductions	(8,423)	(8,115)
Other adjustments	(16,806)	5,114
Income tax	201,793	194,751
Current income tax	212,378	225,669
Deferred income tax	(10,585)	(30,918)
Effective tax rate	**22.72%**	**24.16%**

The effective rate of income tax is primarily influenced by permanent differences and by deductions in tax payable. The effective tax rate in 2021 is 22.72% (24.16% in 2020).

In 2021 permanent differences essentially pertain to investment management expenses associated with dividends from the subsidiaries in the year, regulated in article 21.10 of Income Tax Law 27/2014 of 17 November 2014, which are considered non-deductible, and to the capitalisation reserve adjustment arising from the increase in equity in accordance with article 25 of Law 27/2014. As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2021 will be appropriated by the Parent (see note 14).

In 2020, permanent differences, not including consolidation adjustments, mainly related to the adjustment in respect of the capitalisation reserve, which was likewise appropriated by the Parent, in accordance with article 62.1 d) of Law 27/2014.

In 2021 and 2020 permanent differences arising from consolidation adjustments primarily stem from gains/losses on equity-accounted investments, associated with different Group entities, which have no tax effect at consolidated level.

Deductions mainly relate to international double taxation relief, research, development and technological innovation expenditure, and donations.

Given the financial nature of the deduction for investments in fixed assets in the Canary Islands, it is treated as a grant, and its impact on the consolidated income statement is deferred over several years based on the useful lives of the assets associated with this incentive (see note 4 j).

Deductions recognised as grants in 2021 amount to Euros 4,892 thousand (Euros 4,500 thousand in 2020) and the amount still to be recognised at 31 December 2021 is Euros 125,871 thousand (Euros 113,798 thousand in 2020).

Other adjustments essentially comprise the income tax expense from prior years. The deduction for research and development expenditure applied in 2020, amounting to Euros 19,570 thousand, was recognised in 2021.

Current receivables from and payables to public entities at 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021			2020		
	Income statement, Business combinations and other	Income and expense recognised directly in equity	Total	Income statement	Income and expense recognised directly in equity	Total
	Variation	Variation		Variation	Variation	
Deferred tax assets:						
Originating in prior years	118,889	72,545	191,433	107,845	33,411	141,256
Movement in the year	(8,062)	(8,491)	(16,553)	11,044	39,134	50,178
Total gross deferred tax assets	110,827	64,054	174,880	118,889	72,545	191,433
Offsetting of deferred taxes from the tax group in Spain			(104,313)			(103,418)
Total net deferred tax assets			**70,567**			**88,015**
Deferred tax liabilities:						
Originating in prior years	505,522	15,249	520,771	525,396	16,134	541,530
Movement in the year	(18,647)	-	(18,647)	(19,874)	(885)	(20,759)
Total gross deferred tax liabilities	486,875	15,249	502,124	505,522	15,249	520,771
Offsetting of deferred taxes from the tax group in Spain			(104,313)			(103,418)
Total net deferred tax liabilities			**397,811**			**417,353**

Deferred tax assets and liabilities at 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Commitments with personnel	22,857	24,944
Impairment of fixed assets	28,004	30,942
Financial derivatives	22,277	24,763
Unused deductions	18,741	22,842
Translation differences	29,238	32,279
Balance sheet revaluations - Law 16/2012	17,797	18,715
Limit on deductible depreciation/amortisation - Law 16/2012	13,643	17,302
Other	22,325	19,646
Offsetting of deferred assets and liabilities	(104,313)	(103,418)
Total deferred tax assets	**70,567**	**88,015**
Accelerated depreciation and amortisation	455,364	473,717
Non-deductible assets	11,711	13,251
Other	35,049	33,803
Offsetting of deferred assets and liabilities	(104,313)	(103,418)
Total deferred tax liabilities	**397,811**	**417,353**

In the consolidated statement of financial position the Group has offset deferred tax assets and deferred tax liabilities arising from the Spanish tax group in an amount of Euros 104,313 thousand, as permitted by IAS 12 (Euros 103,418 thousand in 2020).

At 31 December 2021, deferred tax assets and liabilities are expected to be recovered and settled as follows:

	Gross total	More than 1 year	Less than 1 year	Adjustment for offsetting of assets and liabilities	Net total
Deferred tax assets	174,880	169,270	5,610	(104,313)	70,567
Deferred tax liabilities	502,124	481,689	20,435	(104,313)	397,811

The recovery/settlement of the Group's deferred tax assets/liabilities is dependent on certain assumptions, which could change.

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

At 31 December 2021 the Group has unrecognised deferred tax assets amounting to Euros 10,045 thousand in respect of unused deductions for R&D&i expenditure (Euros 10,365 thousand in 2020). These assets were generated in 2011-2019 and are available until 2030-2038.

In 2021, the Group applied for monetisation of unused deductions of Euros 1,279 thousand (Euros 10,565 thousand in 2020) in respect of R&D&i expenditure. Moreover, the Group has deferred tax assets totalling Euros 6,947 thousand (Euros 8,226 thousand in 2020) for R&D&i deductions, for which it may request a refund from the taxation authorities in future tax returns.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets and the inclusion of the assets and liabilities of REDALTA and INALTA, the companies absorbed by REC in 2006. In 2020, deferred tax liabilities due to accelerated depreciation/amortisation as provided for in the 11th additional provision of Royal Legislative Decree 4/2004, and the 34th transitional provision of Income Tax Law 27/2014, amounted to Euros 396,760 thousand (Euros 415,377 thousand in 2020).

The notes to REC's annual accounts for 2006 contain disclosures on the merger by absorption of REDALTA and INALTA, as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts include disclosures on REC's contribution to REE of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system.

The notes to the annual accounts of REC and REINTEL for 2015 also include the disclosures stipulated in article 86 of Law 27/2014 regarding the spin-off of the telecommunications services business from REI to REINTEL, while the notes to the annual accounts of REC and REI for 2015 contain the disclosures regarding the non-monetary contribution of shares in REN.

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

Therefore, in general, Group companies in Spain have open to inspection by the taxation authorities all main applicable taxes since 2018, except income tax, which is open to inspection since 2017. However, this period may be different for Group companies that are subject to other tax legislation.

In Spain, the Group has certain tax proceedings ongoing in respect of income tax for 2011 to 2016, which are currently undergoing judicial review. The Company considers that its conduct was lawful based on reasonable interpretations of the applicable legislation, and does not expect that any penalties will be imposed or that any significant tax liabilities will arise for the Group.

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

As a result of the HISPASAT acquisition, the Group has open tax proceedings in Brazil relating to ICMS (Brazilian tax on the circulation of goods and services), as well as other taxes, mainly of an indirect nature. These proceedings stem from inspection assessments, which the Group companies have appealed. Moreover, the Group has specific guarantees to cover this contingency (see note 16).

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

24 Income and Expenses

a) Revenue

Details of this item in 2021 and 2020, by geographical area, are as follows:

Thousands of Euros	2021	2020
Domestic market	1,798,597	1,860,663
International market	154,361	125,088
a) European Union	23,463	21,951
a.1) Eurozone	23,463	21,951
b) Other countries	130,898	103,137
Total	**1,952,958**	**1,985,751**

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

According to the calculations made by Red Eléctrica de España S.A.U. (REE), transmission activity revenue in Spain in 2021 and 2020 was mainly accrued on the basis of the regulations in force, given that, in view of the detriment proceedings described in note 3.a, the CNMC provisionally opted to replicate the amount of remuneration stipulated for 2016, and this remained constant until 2021, with settlements on account.

Moreover, inasmuch as the annual tariff orders have been provisionally rolling forward the amount stipulated in Ministerial Order IET/981/2016 (see note 3.a) since 2017, the consolidated statement of financial position includes a liability reflecting the estimated figure to be reimbursed to the system in respect of the difference between the amount settled provisionally and the revenue accrued from 2016 to 2021 (see note 21).

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

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

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

International market in 2021 and 2020 primarily includes revenue from reinsurance services, presented under European Union; and revenue of the Peruvian and Chilean companies from the rendering of transmission services, and revenue mainly recognised in Brazil from satellite telecommunications services, presented under other countries.

b) Other operating income

At 31 December 2021 and 2020 other operating income mostly includes insurance payouts for accidents and breakdowns covered by the policies arranged and other non-trading income of the Group.

c) Supplies and other operating expenses

Details of these items in 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Supplies	18,655	27,307
Other operating expenses	344,252	316,870
Total	**362,907**	**344,177**

Supplies and other operating expenses mainly comprise repair and maintenance costs incurred at facilities as well as IT, advisory, lease and other service costs.

d) Personnel expenses

Details of this item in 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Salaries, wages and other remuneration	147,180	135,451
Social security	29,974	29,762
Contributions to pension funds and similar obligations	2,308	2,375
Other items and employee benefits	7,879	8,327
Total	**187,341**	**175,915**

Salaries, wages and other remuneration include employee remuneration, termination benefits and the accrual of deferred remuneration. This item also includes the remuneration of the board of directors.

The Group companies have capitalised personnel expenses (see notes 7 and 8) totalling Euros 41,160 thousand at 31 December 2021 (Euros 42,904 thousand at 31 December 2020).

In 2021 and 2020 the Group did not apply for any furlough schemes ("ERTEs" per the Spanish acronym) or carry out any dismissals or personnel restructuring as a result of the COVID-19 crisis. Moreover, it has not changed any employee remuneration policies due to the crisis.

- **Workforce**

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

	2021	2020
Management team	156	152
Senior technicians and middle management	638	627
Technicians	764	740
Specialist and administrative staff	517	522
Total	**2,075**	**2,041**

The distribution of the Group's employees at 31 December, by gender and category, is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management team	108	56	164	101	49	150
Senior technicians and middle management	436	223	659	435	220	655
Technicians	613	163	776	579	146	725
Specialist and administrative staff	395	123	518	390	131	521
Total	**1,552**	**565**	**2,117**	**1,505**	**546**	**2,051**

Most of the increase in the headcount in 2021 is due to the employees transferred in the acquisition process carried out in Peru by Hispasat Peru (see note 6).

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

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management team	-	-	-	-	-	-
Senior technicians and middle management	1	2	3	3	2	5
Technicians	11	1	12	10	1	11
Specialist and administrative staff	3	2	5	3	1	4
Total	**15**	**5**	**20**	**16**	**4**	**20**

At 31 December 2021 the Parent's board of directors, which is not included in the employees of the Group, comprises 12 members (12 members in 2020), of which 6 are men and 6 are women (6 men and 6 women in 2020).

e) Finance income and costs

Finance income in 2021 mainly comprises the dividends received on the Group's 5% interest in REN, amounting to Euros 5,704 thousand (Euros 5,704 thousand in 2020).

In 2021 this item also includes Euros 3,257 thousand of finance income (Euros 2,918 thousand in 2020) on the investments in the EIGs (see notes 19 and 23) and Euros 368 thousand of finance income (Euros 759 thousand in 2020) on the loans extended to TEN (see note 24), as well as income accrued on fixed-term deposits. In 2020 this item included finance income of Euros 3,977 thousand arising from late payment interest relating to tax instalments settled in prior years.

Finance costs basically reflect those incurred on loans and borrowings, net of any amounts capitalised, and on bonds and other marketable securities for an amount of Euros 123,127 thousand (see note 19) (Euros 141,101 thousand in 2020).

Capitalised borrowing costs (see notes 7 and 8) totalled Euros 7,674 thousand in 2021 (Euros 7,488 thousand in 2020).

f) Extraordinary expenses resulting from the COVID-19 crisis

The Group has spent an additional Euros 0.6 million in 2021, approximately (Euros 5 million in 2020), as a result of the pandemic triggered by COVID-19, mainly on the acquisition of personal protective equipment, as well as for additional cleaning of workplaces.

The amount recognised in 2020 also included the contributions made to the healthcare authorities and other organisations mainly for the purchase of materials to fight the pandemic.

25 Transactions with Equity-accounted Investees and Related Parties

a) Balances and transactions with equity-accounted investees

These balances and transactions reflect operations carried out with TEN and Hisdesat. All transactions have been carried out at market prices. The main transactions carried out by Group companies with TEN and Hisdesat in 2021 and 2020 were as follows:

	2021				2020			
	Balances		Transactions		Balances		Transactions	
	Receivables	Payables	Expenses	Income	Receivables	Payables	Expenses	Income
Transmisora Eléctrica del Norte S.A. (TEN)	12,503	-	(138)	368	17,706	12	(91)	777
Hisdesat Servicios Estratégicos, S.A.	8	-	-	2,170	540	40	-	1,594
Total	**12,511**	**-**	**(138)**	**2,537**	**18,246**	**52**	**(91)**	**2,371**

b) Transactions with related parties

Related party transactions are carried out under normal market conditions. Details are as follows:

	2021		
Thousands of Euros	Directors and management	Other related parties	Total
Expenses and income:			
Leases	-	-	-
Other expenses		138	138
Expenses	-	**138**	**138**
Services rendered	-	2,170	2,170
Finance income	-	368	368
Income	-	**2,538**	**2,538**
Other transactions:			
Financing agreements, loans and capital contributions (lender)	-	12,338	12,338
Other transactions	**-**	**12,338**	**12,338**

Thousands of Euros	2020		
	Directors and management	Other related parties	Total
Expenses and income:			
Leases	-	4	4
Other expenses		87	87
Expenses	-	**91**	**91**
Services rendered	-	1,612	1,612
Finance income	-	759	759
Income	-	**2,371**	**2,371**
Other transactions:			
Financing agreements, loans and capital contributions (lender)	-	17,457	17,457
Other transactions	**-**	**17,457**	**17,457**

Transactions with other related parties comprise those with TEN and Hisdesat described in section a) of this note. The balance under financing agreements, loans and capital contributions (lender) at 31 December 2021 and 2020 reflects the amount receivable in respect of the credit facility extended to TEN (see note 19). The maximum amount drawn down on this facility in 2021 was Euros 17,651 thousand (maximum drawdown of Euros 28,474 thousand in 2020).

There were no transactions with directors and management in 2021 or 2020.

26 Remuneration of the Board of Directors

At the proposal of the board of directors and in accordance with the articles of association, the Annual Report on Directors' Remuneration, which includes the remuneration of the board of directors for 2021, was approved by the shareholders at their general meeting on 29 June 2021. The remuneration policy for directors of Red Eléctrica Corporación, S.A. for 2022, 2023 and 2024 was also approved (the previous remuneration policy for 2019-2021 was approved in 2019).

The new remuneration policy is a continuation of the previous one and does not introduce significant changes. However, certain items have been reinforced, such as the directors' contribution to the corporate strategy and to the interests and sustainability of the Company over the long term, greater transparency as to how the policy is determined, information on the management of possible remuneration-related risks and their alignment with the remuneration policy for Red Eléctrica Group employees as a whole, pursuant to the requirements of the Spanish Companies Act.

The approved remuneration of the board of directors, including the remuneration of the board members, the chairwoman and the CEO, has not changed vis-à-vis 2020.

The chairwoman receives fixed annual remuneration in respect of the non-executive chair duties associated with this position, in addition to remuneration for being a member of the board of directors. The remuneration scheme for this position consists solely of fixed amounts, with no annual or multi-year variable remuneration and no termination benefit. As mentioned already, in 2021 both remuneration components are under the same terms as in 2020.

Further, in its meeting held on 25 February 2020 the board of directors approved, inter alia, the appointment of Ms. Beatriz Corredor Sierra as a director of the Company, in the category of "other external directors", until the next general shareholders' meeting, and her appointment as non-executive chairwoman of the board of directors and of the Company. At their general meeting held on 14 May 2020, the shareholders ratified the appointment of Ms. Beatriz Corredor Sierra as a director of the Company.

As regards Mr. Jordi Sevilla Segura, at its meeting held on 28 January 2020, the board of directors recorded the irrevocable resignation tendered by the latter from his position as a director, and therefore as non-executive chairman of the board of directors and of the Company. In accordance with his contract approved by the board of directors on 31 July 2018, he did not receive any termination benefit as a result of the end of his legal and labour relations with the Company as chairman of the board of directors and of the Company.

The remuneration allocated to the CEO includes the fixed and variable annual and multi-year components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. Employee benefits form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.

Moreover, the CEO has been included in a defined contribution benefit scheme. This scheme covers the retirement, death and permanent disability contingencies. Red Eléctrica's obligation is limited to an annual contribution equal to 20% of the CEO's fixed annual remuneration.

The annual variable remuneration of the CEO is set by the Appointments and Remuneration Committee of the Parent at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's Strategic Plan and the degree of fulfilment is assessed by the Committee.

At the end of 2020, the board of directors began the process of updating the 2018-2022 Strategic Plan in force at that time. This enabled it to approve, in November 2020, the structure of the new Long-Term Incentive Plan for Promoting the Energy Transition, Reducing the Digital Divide and for Diversification, which encompasses the CEO. The objectives of this latter plan are linked to those contained in the Group's new Strategic Plan and are consistent with the guidelines laid down in the Directors' Remuneration Policy. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

Pursuant to the remunerations policy and in line with standard market practices, the CEO's contract provides for a termination benefit equal to one year's salary in the event that labour relations are terminated at the discretion of the Parent or due to changes of control.

In line with market practices in such cases, as a result of the appointment of the CEO, the pre-existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Group up to the date he was appointed CEO (15 years), plus the period in which he rendered services – if any – following his termination as CEO, would be taken into consideration, in accordance with employment legislation in force. Following the corporatisation carried out in 2020, this obligation was taken on by Red Eléctrica Corporación, S.A.

The remuneration of the board of directors includes fixed annual remuneration, remuneration for attending board meetings, remuneration for work on the board of directors' committees and specific annual remuneration both for the chairs of the committees and the coordinating independent director. The components and amounts of this remuneration have not changed in 2021.

Reasonable and duly supported expenses incurred as a result of their attendance at meetings and other tasks directly related to carrying out their duties, such as travel expenses, accommodation, meals and any other such costs that may be incurred, will also be paid or reimbursed to the directors.

The total amounts accrued by the members of the Parent's board of directors in 2021 and 2020 are as follows:

Thousands of Euros	**2021**	**2020**
Total remuneration of the board of directors	2,502	2,463
Directors' remuneration in respect of executive duties (1)	743	743
Total	**3,245**	**3,206**

(1) Includes fixed and variable annual remuneration accrued during the year.

The slight increase in total remuneration of the board of directors with respect to the prior year is primarily because during a certain period in 2020 there was no chair of the board.

A breakdown of remuneration by type of director at 31 December 2021 and 2020 is as follows:

Thousands of Euros	2021	2020
Executive directors	890	890
External proprietary directors	524	525
External independent directors	1,285	1,285
Other remuneration	546	506
Total remuneration	**3,245**	**3,206**

The remuneration accrued by individual members of the Company's board of directors in 2021 and 2020, by components and director, is as follows:

Thousands of Euros	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chair of committee	Board and coordinating independent director	Other remuneration (5)	Total 2021	Total 2020
Ms. Beatriz Corredor Sierra	530	-	16	-	-	-	-	546	464
Mr. Roberto García Merino	481	263	16	-	-	-	130	890	890
Ms. Carmen Gómez de Barreda Tous de Monsalve	131	-	16	28	15	15	-	205	205
Ms. Socorro Fernández Larrea	131	-	16	28	15	-	-	190	190
Mr. José Juan Ruiz Gómez	131	-	16	28	14	-	-	189	176
Mr. Antonio Gómez Ciria	131	-	16	28	1	-	-	176	189
Ms. María Teresa Costa Campi	131	-	16	28	-	-	-	175	175
Ms. Mercedes Real Rodrigálvarez (1)	131	-	16	28	-	-	-	175	175
Mr. Ricardo García Herrera	131	-	16	27	-	-	-	174	3
Mr. Marcos Vaquer Caballería (2)	66	-	9	14	-	-	-	89	-
Ms. Elisenda Malaret García (2)	66	-	9	14	-	-	-	89	-
Mr. José María Abad Hernández (2)	66	-	9	14	-	-	-	89	-
Ms. María José García Beato (3)	65	-	7	14	-	-	-	86	175
Mr. Arsenio Fernández de Mesa y Díaz del Río (3)	65	-	7	14	-	-	-	86	175
Mr. Alberto Carbajo Josa (3)	65	-	7	14	-	-	-	86	175
Other board members (4)	-	-	-	-	-	-	-	-	214
Total remuneration accrued	**2,321**	**263**	**192**	**279**	**45**	**15**	**130**	**3,245**	**3,206**

(1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).
(2) New director since the general shareholders' meeting held on 29 June 2021.
(3) Stepped down from the board of directors at the general shareholders' meeting held on 29 June 2021.
(4) Board members who stepped down in 2020.
(5) Includes the employee benefits that form part of the CEO's remuneration.

In addition to the foregoing, on 31 December 2019 the directors' remuneration scheme for 2014-2019, which encompassed the CEO, drew to a close. The amount paid to the CEO in 2020 under this plan, for his duties as CEO from 27 May 2019, was Euros 59 thousand.

At 31 December 2021 and 2020 no loans or advances have been granted to the members of the board of directors, nor have any guarantees been extended on their behalf. The Group has no pension or life insurance obligations with the members of the board of directors at those dates, other than those previously mentioned, nor have any loans or advances been extended to board members.

At 31 December 2021 and 2020 the Group has taken out public liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as Group directors. These policies cover the Group's directors and senior management and the annual premiums amount to Euros 519 thousand, inclusive of tax, in 2021 (Euros 328 thousand at 31 December 2020). These premiums are calculated based on the nature of the Group's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

In 2021 and 2020 the members of the board of directors did not engage in transactions with the Company or Group companies, either directly or through intermediaries, other than ordinary operations under market conditions.

27 Remuneration of Senior Management

In late 2020 the Group started a reorganisation process to address the challenges posed by the new 2021-2025 Strategic Plan, involving the centralisation of corporate activities in the Parent of the Group and culminating in 2021 in the definition and approval of a new Group organisational structure geared towards ensuring fulfilment of the Strategic Plan.

This reorganisation has entailed, inter alia, certain professionals who already formed part of the Red Eléctrica Group, and who were carrying out management duties, being acknowledged as senior management personnel.

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

Name	Position
D. Miguel Duvisón García	General Manager of Operations
D. Angel Luis Mahou Fernández	General Manager of Transmission
Mr. Mariano Aparicio Bueno	General Manager of Telecommunications Business
Ms. Eva Pagán Díaz	General Manager of International Business
Mr. Emilio Cerezo Díez	Chief Financial Officer
Mr. José Antonio Vernia Peris	Corporate Director of Transformation and Resources
Ms. Fátima Rojas Cimadevila	Corporate Director of Sustainability and Research
Ms. Miryam Aguilar Muñoz	Corporate Director of External Relations, Communication and Territory
Ms. Laura de Rivera García de Leániz	Manager of Regulatory Affairs and Legal Services
Ms. Silvia María Bruno De la Cruz	Chief Innovation and Technology Officer
Mr. Carlos Puente Pérez	Manager of Corporate Development
Ms. Eva Rodicio González	Manager of Internal Audit and Risk Control Management

In 2021 total remuneration accrued by senior management personnel amounted to Euros 3,103 thousand and is recognised as personnel expenses in the consolidated income statement. In 2020, total remuneration accrued by senior management personnel, applying the criteria resulting from the organisational changes, amounted to Euros 2,939 thousand. These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

Euros 38 thousand of the total remuneration accrued by these executives in 2021 consisted of contributions to life insurance and pension plans.

No advances or loans have been extended to these executives at 31 December 2021. At 31 December 2021, the Group has life insurance commitments vis-à-vis these executives with annual premiums totalling approximately Euros 19 thousand.

At the end of 2020, the board of directors began the process of updating the 2018-2022 Strategic Plan in force at that time. This enabled it to approve, in November 2020, the structure of the new Long-Term Incentive Plan for Promoting the Energy Transition, Reducing the Digital Divide and for Diversification, which encompasses the CEO. The objectives of this latter plan are linked to those contained in the Group's new Strategic Plan and are consistent with the guidelines laid down in the Directors' Remuneration Policy. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

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

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

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

At 31 December 2021 and 2020 the Group has taken out public liability insurance to cover claims from third parties in respect of possible damage and loss caused by actions or omissions in performing duties as senior management of the Group. These policies cover all the Group's directors and senior management and the annual premiums amount to Euros 519 thousand, inclusive of tax, in 2021 (Euros 328 thousand in 2020). These premiums are calculated based on the nature of the Group's activity and its financial indicators; thus, they cannot be broken down individually or allocated to directors and senior management separately.

28 Segment Reporting

The Red Eléctrica Group segments its business activities based on their nature, reflecting the main branches of activity used by the Group in its management and decision-making.

At 31 December 2021, the Group's operating segments and their main products, services and operations are as follows:

- **Management and operation of domestic electricity infrastructure:**

  This segment comprises the Group's principal activity, as sole transmission agent and system operator for the Spanish electricity system (TSO). Its mission is to guarantee the security and continuity of the electricity supply at all times and manage high-voltage electricity transmission.

  The Group engages in the high-voltage transmission of electricity, through REE. To this end, it manages the electricity transmission network infrastructure that connects the power plants to the consumer distribution points. As transmission network manager, REE is responsible for the development and expansion of the network, its maintenance, managing the transfer of electricity between external systems and the mainland, and guaranteeing third-party access to the transmission network under equal conditions.

  In addition, REE operates the mainland Spanish electricity system and the non-mainland systems in the Canary Islands, Balearic Islands, Ceuta and Melilla, guaranteeing the security and continuity of the electricity supply at all times. Operation of the system encompasses the necessary activities to guarantee such security and continuity, as well as proper coordination between the generation system and transmission network, ensuring that the energy produced by generators is transmitted to the distribution networks with the requisite quality under applicable legislation.

- **Management and operation of international electricity infrastructure:**

  This segment comprises activities related to international business development as a natural form of growth, mainly focused on the construction and operation of electricity transmission networks outside Spain; at 31 December 2021, in Peru, Chile and Brazil specifically.

- **Telecommunications (satellites and fibre optics):**

  The telecommunications segment comprises the operation of satellite infrastructure in Spain, Portugal and South America, as well as the lease in Spain of a broad dark fibre backbone network, and technical sites and spaces for housing customers' telecommunications equipment.

The Group also carries out reinsurance activities and fosters innovation in the electricity and telecommunications sectors. These activities do not meet the quantitative thresholds to be presented separately.

Inter-segment sales prices are established based on the normal commercial terms and conditions with unrelated third parties.

The key indicators of the operating segments identified are as follows:

Business segments at 31 December 2021

Thousands of Euros	Management and operation of domestic electricity infrastructure	Management and operation of international electricity infrastructure	Telecommunications (fibre optics and satellites)		Other, corporate and adjustments	Total
			Satellites	Fibre optics		
Revenue	1,609,689	51,550	177,413	134,411	(20,105)	1,952,958
External customers	1,606,828	51,218	177,413	92,975	24,524	1,952,958
Inter-segment revenue	2,860	332	-	41,436	(44,628)	-
Investments in equity-accounted associates (similar activity)	-	19,818	9,759	-	(31)	29,546
Depreciation and amortisation	(387,160)	(16,442)	(91,366)	(23,562)	(3,583)	(522,114)
Impairment and gains/(losses) on disposal of fixed assets	28	-	234	-	469	730
Results from operating activities	**822,068**	**34,309**	**44,852**	**75,249**	**15,490**	**991,970**
Interest income	53	7,148	92	1	3,195	10,488
Interest expense	(86,761)	(18,935)	(6,603)	(1,091)	(2,064)	(115,453)
Income tax	(182,514)	(1,762)	15,043	(18,510)	(14,050)	(201,793)
Profit/(loss) of the Parent after tax	**552,845**	**20,096**	**49,013**	**55,649**	**3,024**	**680,627**
Segment assets	**9,751,003**	**1,295,144**	**1,367,286**	**411,732**	**1,159,314**	**13,984,478**
Equity-accounted investees	-	510,867	72,997	-	4,119	587,983
Segment liabilities	**7,503,356**	**738,897**	**818,713**	**372,374**	**866,007**	**10,299,347**

Business segments at 31 December 2020

Thousands of Euros	Management and operation of domestic electricity infrastructure	Management and operation of international electricity infrastructure	Telecommunications (fibre optics and satellites)		Other, corporate and adjustments	Total
			Satellites	Fibre optics		
Revenue	1,668,263	50,926	154,994	137,312	(25,743)	1,985,751
External customers	1,661,902	50,591	154,994	95,353	22,912	1,985,751
Inter-segment revenue	6,361	335	-	41,959	(48,655)	-
Investments in equity-accounted associates (similar activity)	-	25,311	2,669	-	-	27,980
Depreciation and amortisation	(385,385)	(16,522)	(120,411)	(23,204)	(2,663)	(548,184)
Impairment and gains/(losses) on disposal of fixed assets	164	534	(122,273)	-	-	(121,575)
Results from operating activities	**915,474**	**45,592**	**(118,807)**	**80,500**	**6,245**	**929,004**
Interest income	3,398	8,488	1,104	111	2,914	16,014
Interest expense	(100,502)	(23,305)	(7,874)	(2,436)	503	(133,613)
Income tax	(205,646)	(2,005)	37,457	(18,158)	(6,399)	(194,751)
Profit/(loss) of the Parent after tax	**612,779**	**27,954**	**(82,722)**	**60,017**	**3,155**	**621,183**
Segment assets	**9,686,711**	**1,172,871**	**1,355,788**	**441,180**	**187,538**	**12,844,087**
Equity-accounted investees	-	456,075	63,237	-	-	519,312
Segment liabilities	**7,539,289**	**669,242**	**833,091**	**354,349**	**(43,835)**	**9,352,136**

Details of revenue and non-current assets by geographical area are as follows:

Thousands of Euros

Revenue	**2021**	**2020**
Spain	1,798,597	1,860,663
Other	154,361	125,089
Total	**1,952,958**	**1,985,751**

Thousands of Euros

Fixed assets (*)	**2021**	**2020**
Spain	9,791,652	9,737,164
Other	1,111,082	989,545
Total	**10,902,734**	**10,726,709**

(*) Excludes non-current investments, deferred tax assets, and non-current trade and other receivables.

29 Interests in Joint Arrangements

The Group (through REE) and Réseau de Transport d'Électricité (RTE), the French transmission system operator, each hold a 50% investment in the INELFE joint arrangement, which has its registered office in Paris. Its statutory activity is the study and execution of interconnections between Spain and France that will increase the electricity exchange capacity between the two countries. Decisions are taken with the unanimous consent of the parties. RTE and REE both have rights to the assets and obligations for the liabilities of INELFE. The joint arrangement has therefore been classified as a joint operation. The Group recognises the assets, including its interest in the jointly controlled assets, and the liabilities, including its share of the liabilities that have been incurred jointly in INELFE, in its consolidated annual accounts (see note 2 d).

The Group has an interest in a joint arrangement through Red Eléctrica Chile S.P.A., which holds a 50% stake in the Chilean company TEN, alongside Engie Energía Chile, S.A. (E.C.L. S.A.). The Group has classified this joint arrangement as a joint venture, inasmuch as the parties have rights to the net assets (see note 11).

Since 2020, the Group has held a stake – through Red Eléctrica Brasil Holding Ltda., which holds a 50% interest alongside Grupo Energía Bogotá S.A E.S.P. – in the Brazilian company Argo Energia Emprendimientos y Participaciones S.A. ("Argo"), which in turn owns Argo Transmisión de Energia S.A. ("Argo I"), Argo II Transmisión de Energia S.A. ("Argo II") and Argo III Transmisión de Energia S.A. ("Argo III"). The Group has classified this arrangement as a joint venture, inasmuch as the parties have rights to the net assets (see note 11).

Due to the existence of contractual arrangements under which decisions on relevant activities require the unanimous consent of both parties, the Group has joint control of the "UTE" (Unión Temporal de Empresas – a form of temporary business association) Balalink, through REINTEL. The Group has classified the investments as joint operations because the parties have rights to the assets and obligations for the liabilities. The UTE has been formed to provide dark fibre services, with an availability guarantee, between the Balearic Islands and the Mediterranean Coast of the Spanish mainland.

30 Guarantees and Other Commitments with Third Parties and Other Contingent Assets and Liabilities

In 2021 and 2020 the Company, together with REE, jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 250 million (US Dollars 250 million in 2020) carried out by the Group company REEF, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2021 and 2020. At 31 December 2021, Eurobonds issued under this programme total Euros 3,690 million (Euros 3,090 million in 2020).

Furthermore, at 31 December 2021 and 2020 the Company and REE have jointly and severally guaranteed the promissory notes issued under the Euro Commercial Paper Programme (ECP Programme) by REF for an amount of up to Euros 1,000 million. At 31 December 2021 and 2020 no amounts have been drawn down under this programme.

On 19 February 2015, REDESUR, TESUR and Scotia Sociedad Titulizadora S.A. created a securitisation trust to hold the REDESUR-TESUR trust assets, in order to back the obligations arising from the bond issues amounting to US Dollars 82 million at 31 December 2021 (US Dollars 87 million at 31 December 2020).

At 31 December 2021 the Group has extended bank guarantees to third parties in relation to its normal business operations, amounting to Euros 191,656 thousand (Euros 212,019 thousand in 2020).

The Group has no significant contingent liabilities that could entail an outflow of resources for which the probability of occurrence is not remote.

31 Environmental Information

In 2021 Group companies incurred ordinary expenses of Euros 23,421 thousand in protecting and improving the environment (Euros 23,702 thousand in 2020), essentially due to the implementation of environmental initiatives aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution.

In 2021 a total of Euros 3,498 thousand (Euros 5,448 thousand in 2020) was spent on environmental issues associated with investment projects (including environmental impact studies, environmental oversight of work, and the adoption of preventive, corrective and accompanying measures).

The Group companies are not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. The Group companies received no significant environment-related grants in 2021 or 2020.

32 Other Information

The main auditor of the accounts of the Group companies is KPMG. The total fees accrued for audit services rendered to the Group companies in 2021 amounted to Euros 710.0 thousand (Euros 657.5 thousand in 2020).

Details of the contractual fees for services provided to the Red Eléctrica Group by the audit firm KPMG Auditores, S.L. in the years ended 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Audit services	451.0	362.8
Audit-related services	156.3	181.0
Other services	14.5	14.4
Total	**621.8**	**558.2**

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

Audit services include the fees for the audit of the individual and consolidated annual accounts of Red Eléctrica Corporación and of certain Group companies.

Other audit-related services primarily include the limited review of the Group's consolidated interim financial statements, assurance services related to the issuance of comfort letters, the reasonable assurance audit report on the effectiveness of the Group's ICOFR under ISAE 3000, covenant certificates for the annual accounts and translations.

Other services include agreed-upon procedures performed for certain Group companies.

Details of the contractual fees for services provided to the Red Eléctrica Group by other entities affiliated with KPMG in the years ended 31 December 2021 and 2020, both in Spain and abroad, are as follows:

Thousands of Euros	2021	2020
Audit services	250.7	289.8
Audit-related services	13.2	24.2
Total	**263.9**	**314.0**

Details of the contractual fees for audit services provided to the Group by PwC for the audit of INELFE in the years ended 31 December 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Audit services	8.3	4.9
Total	**8.3**	**4.9**

In addition, the auditors of the equity-accounted investees are KPMG in the case of Hisdesat and Argo, and EY with regard to TEN.

33 Earnings per Share

Details of earnings per share in 2021 and 2020 are as follows:

	2021	2020
Net profit (thousands of Euros)	680,627	621,185
Number of shares	541,080,000	541,080,000
Average number of own shares	2,050,819	2,239,931
Basic earnings per share (Euros)	1.26	1.15
Diluted earnings per share (Euros)	1.26	1.15

At 31 December 2021 and 2020 the Group has not conducted any operations that would result in any difference between basic earnings per share and diluted earnings per share.

34 Share-based Payments

Details of share-based payments for management and employees at 31 December 2021 and 2020 are as follows:

	2021			2020 (*)		
	Number of shares	Average price (Euros)	Amount in thousands of Euros	Number of shares	Average price (Euros)	Amount in thousands of Euros
Senior management personnel	6,671	18.000	120	6,429	16.480	106
Employees	274,625	18.000	4,943	267,668	16.480	4,411
Total	**281,296**	**18.000**	**5,063**	**274,097**	**16.480**	**4,517**

(*) Figures based on the changes made in 2021 which modified the Group's organisational structure (see note 27).

These payments are those made to employees who have requested payment by such means, with a charge to the salary for the year, and there are no assets or liabilities associated with such payments. The 2021 management structure was also taken into consideration for 2020.

These shares have been valued at the listed price on the delivery date. All shares delivered were approved by the Parent's shareholders at the general meeting, and the related costs incurred have been recognised under personnel expenses in the consolidated income statement.

35 Events after 31 December 2021

On 3 November 2021, as indicated in note 2 g), Argo Energia Empreendimentos e Participações S.A. ("Argo"), in which Red Eléctrica Brazil holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A. ("Rialma III"), subject to certain conditions being met and to the regulatory authorities approving the acquisition.

At 31 January 2022, the conditions precedent laid down in the aforementioned agreement have been fulfilled and the acquisition of all of the ordinary registered shares, representing 100% of the share capital of Rialma III, has thus been completed. Accordingly, the acquiree will change its name to "Argo IV Transmissão de Energia S.A.".

Appendix I: Details of equity investments at 31 December 2021 and 2020

Red Eléctrica Group

Details of equity investments at 31 December 2021 and 2020

- Company - Registered office - Principal activity	2021 Percentage ownership (1)		2020 Percentage ownership (1)	
	Direct	Indirect	Direct	Indirect
Red Eléctrica Corporación, S.A., Parent, incorporated in 1985. - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Management of the business group, rendering of assistance or support services to investees and operation of the property owned by the Company.				
A) Fully consolidated subsidiaries				
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-	100%	-
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition and holding of international equity investments. Rendering of advisory, engineering and construction services. Performance of electricity activities outside the Spanish electricity system.	100%	-	100%	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Rendering of advisory, engineering, construction and telecommunications services.	100%	-	100%	-
Red Eléctrica Infraestructuras en Canarias, S.A.U (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Management of the construction of energy storage facilities and the water cycle.	100%	-	100%	-
Red Eléctrica de España Finance, S.L. (REEF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100% (2)	-	100%	-
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	100%	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition, holding, management and administration of Spanish and foreign equity securities.	100%	-	100%	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Activities geared towards driving and accelerating technological innovation.	100%	-	100%	-
Redcor Reaseguros, S.A (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.	100%	-	100%	-
Red Eléctrica Andina, S.A.C. (REA) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Rendering of line and substation maintenance services.	-	100%(a)	-	100%(a)

- Company - Registered office - Principal activity	2021		2020	
	Percentage ownership (1)		Percentage ownership (1)	
	Direct	Indirect	Direct	Indirect
Red Eléctrica del Sur, S.A. (REDESUR) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(a)	-	100%(a)
Transmisora Eléctrica del Sur, S.A.C. (TESUR) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	100%(c)
Transmisora Eléctrica del Sur 2, S.A.C. (TESUR 2) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	100%(c)
Transmisora Eléctrica del Sur 3, S.A.C. (TESUR 3) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(c)	-	100%(c)
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(j)	-	100%(j)
Red Eléctrica del Norte Perú, S.A.C. (REDELNOR) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(a)	-	100%(a)
Concesionaria Línea de Transmisión CCNCM, S.A.C. (CCNCM) -Av. Javier Prado Este 492 Int. 1001 Urb. Jardín San Isidro. Lima (Peru) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(d)	-	100%(d)
Red Eléctrica Chile S.P.A. (RECH) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Acquisition, holding, management and administration of securities.	-	100%(a)	-	100%(a)
Red Eléctrica del Norte S.A. (REDENOR) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	69.9%(e)	-	69.9%(e)
Red Eléctrica del Norte 2 S.A. (REDENOR 2) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100%(e)	-	100%(e)
Red Eléctrica Brasil Holding Ltda. (REB) -Calle Libero Badaró, 293. Sao Paulo. (Brazil) - Acquisition, holding, management and administration of securities.		100%(a)	-	100%(a)
Hispasat, S.A. - Calle de Anabel Segura, 11. Alcobendas. Madrid. (Spain). - Parent of HISPASAT. Operation of the satellite communications system and rendering of space segment services for the geostationary orbital slots allocated to the Spanish state.	-	89.68%(f)(3)	-	89.68%(f)(3)
Hispasat Canarias, S.L.U. -Calle Practicante Ignacio Rodriguez s/n Edificio Polivalente IV. Las Palmas de Gran Canaria (Spain) - Sale and lease of satellites and spatial capacity	-	89.68%(g)(3)	-	89.68%(g)(3)

- Company - Registered office - Principal activity	2021		2020	
	Percentage ownership (1)		Percentage ownership (1)	
	Direct	Indirect	Direct	Indirect
Hispasat Brasil, Ltda. - Praia do Flamengo, 200 Rio de Janeiro (Brazil) - Commercialisation of satellite capacity	-	89.68%(g)(3)	-	89.68%(g)(3)
Hispamar Satélites, S.A. - Praia do Flamengo, 200 Rio de Janeiro (Brazil) - Commercialisation of satellite capacity	-	89.68% (h)(3)	-	72.60% (h)(3)
Hispamar Exterior, S.L.U. - Paseo de la Castellana 39, 28046 Madrid (Spain). - Commercialisation of satellite capacity	-	89.68%(i)(3)	-	72.60%(i)(3)
Hispasat de México, S.A. de C.V. - Agustín Manuel Chávez 1-001 Col. Centro de Ciudad Santa Fe, México D.F. (Mexico) - Use of radio spectrum, telecommunications networks and satellite communication.	-	89.68%(g)(3)	-	89.68%(g)(3)
Hispamar Satélites, S.A. (Venezuela) - Torre Phelps, piso 10 ofic. 10, Caracas (Venezuela) - Commercialisation and rendering of satellite telecommunications services	-	89.68%(i)(3)	-	72.60%(i)(3)
Hispasat Perú, S.A.C. -Jr. Baca Flor N° 307, Dpto. N° 701, distrito de Magdalena del Mar. Lima (Peru) - Commercialisation and rendering of satellite telecommunications services	-	89.68%(g)(3)	-	-
Consultek Inc. - 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America) - Technical consultancy services	-	89.68%(g)(3)	-	89.68%(g)(3)
Hispasat UK, LTD. 30 Finsbury Square, London. (England) - Commercialisation and rendering of satellite telecommunications services	-	89.68%(g)(3)	-	89.68%(g)(3)
B) Proportionately consolidated companies				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Inmueble Window, 7 C Place du Dôme. Paris. (France) - Study and execution of Spain-France interconnections	-	50%(b)	-	50%(b)
C) Equity-accounted investees				
Transmisora Eléctrica del Norte S.A. (TEN) - Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50%(e)	-	50%(e)
Argo Energía Emprendimientos y Participaciones S.A. - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Acquisition, holding, management and administration of securities.	-	50% (k)	-	50% (k)
Argo Transmisión de Energia S.A. ("Argo I") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	50% (l)

- Company - Registered office - Principal activity	2021		2020	
	Percentage ownership (1)		Percentage ownership (1)	
	Direct	Indirect	Direct	Indirect
Argo II Transmisión de Energia S.A. ("Argo II") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	50% (l)
Argo III Transmisión de Energia S.A. ("Argo III") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	50% (l)
Hisdesat Servicios Estratégicos, S.A. - Paseo de la Castellana 143, 28046 Madrid (Spain) - Commercialisation of spatial systems for government use.	-	38.56%(g)(3)	-	38.56%(g)(3)
Grupo de Navegación Sistemas y Servicios, S.L. - Calle Isaac Newton 1, Madrid (Spain) - Operation of satellite systems	-	12.82%(g)(3)	-	12.82%(g)(3)
Zeleros Global, S.L. - Muelle de la Aduana s/n, Edificio Lanzadera, 46024, Valencia - Research and development of new technologies applied to the transport sector	-	6.62% (m)	-	-
Nearby Computing, S.L. - Travessera de Gràcia 18, 3r, 3a, 08021 Barcelona - Development of software and/or IT applications	-	11.71% (m)	-	-
Hybrid Energy Storage Solutions, S.L. - Av. Benjamín Franklin, 12, Mód. Nº24, 46980 Paterna, Valencia - Design, production and sale of technological energy storage solutions for the new generation of electricity grids	-	19.61% (m)	-	-
Aerolaser System, S.L. - Av. José Mesa y López, 45, L. D4, 35010 Las Palmas de Gran Canaria. - Development and commercialisation of sensory technological solutions for geospatial technology	-	15.79% (m)	-	-

(1) Equivalent to voting rights.

(2) Company changed its registered office and company name in 2021. At 31 December 2020, Red Eléctrica de España Finance, B.V. with registered office in Amsterdam (Netherlands).

(3) Company forming part of the Hispasat subgroup.

(a) Investment through Red Eléctrica Internacional, S.A.U.

(b) Investment through Red Eléctrica de España, S.A.U.

(c) Investment through Red Eléctrica del Sur, S.A.

(d) Investment through Red Eléctrica del Norte Perú, S.A.C.

(e) Investment through Red Eléctrica Chile SpA.

(f) Investment through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.

(g) Investment through Hispasat, S.A.

(h) Investment through Hispasat, S.A. and Hispasat Brasil, Ltda.

(i) Investment through Hispamar Satélites, S.A.

(j) Investment through Red Eléctrica del Sur, S.A. and Red Eléctrica Internacional, S.A.U.

(k) Investment through Red Eléctrica Brasil Holding Ltda.

(l) Investment through Argo Energia Empreendimentos y Participaciones S.A.

(m) Investment through Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U.

Consolidated Directors' Report

2021

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

Contents

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

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

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

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

1 Position of the entity

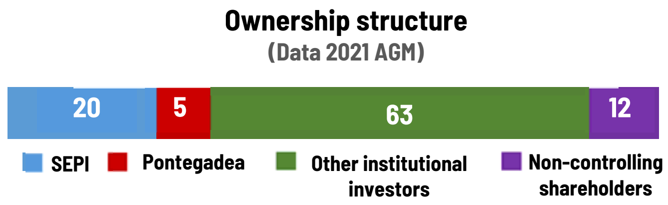
1.1 Organisational structure

Corporate bodies

The Board of Directors and the shareholders are responsible for governing and managing the Red Eléctrica Group and its Parent, Red Eléctrica Corporación, S.A. (hereinafter REC).

The shareholders' general meeting is governed by the articles of association and the general meeting regulations, in accordance with the Spanish Companies Act.

The ownership structure at the date of the 2021 shareholders' ordinary general meeting was as follows:



The Company has three board committees, namely: the Audit Committee, the Appointments and Remuneration Committee and the Sustainability Committee. These three essentially technical committees created by the Board of Directors to support it in its duties are designed to enhance efficiency and transparency.

The structure, composition, roles and responsibilities of the three board committees are specified in articles 22 to 24 bis of the articles of association and are implemented in articles 14 to 18 TER of the regulations of the Board of Directors. Both sets of corporate regulations have been fully brought into line with the latest reforms of the Spanish Companies Act, the Good Governance Code of Listed Companies and the most up-to-date international practices and recommendations on committee composition and committee member independence and qualifications.

At its meeting on 25 May 2021, the Board of Directors agreed to amend the regulations of the Company's Board of Directors in line with the reform of the Spanish Companies Act introduced by Law 5/2021 of 12 April 2021, which amends the Revised Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010, and other financial standards, as regards the encouragement of long-term shareholder engagement in listed companies in matters essentially pertaining to related party transactions, directors' remuneration, the directors' duty of care and the content of the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration. This amendment has likewise served to adjust the regulations of the Board of Directors to the wording of certain recommendations set forth in the Good Governance Code of Listed Companies, amended in June 2020. Lastly, the amendment has enabled the introduction of certain clarifications and complementary information, as well as technical specifications and other formal or style-related enhancements.

Furthermore, the articles of association and the general meeting regulations were put before the shareholders at their general meeting held on 29 June 2021, likewise with a view to adjusting them to Law 5/2021 of 12 April 2021, which amends the Revised Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010, and other financial standards, as regards the encouragement of long-term shareholder engagement in listed companies (essentially with respect to the possibility of holding virtual general meetings; the powers of the general shareholders' meeting, the Board of Directors and the Audit Committee as regards related party transactions; forecasts relating to preferential rights in capital increases; directors' remuneration; split voting by intermediaries; and confirmation of votes cast at the general meeting; inter alia), and the partial modification of the Good Governance Code of Listed Companies issued by the Spanish National Securities Market Commission (CNMV) on 26 June 2020, and also to introduce certain technical specifications and clarifications of the wording.

At 31 December 2021 the Board of Directors of REC has 12 members.

At its meeting held on 26 January 2021, the Board of Directors agreed to appoint the proprietary director (representing SEPI) Mr. Ricardo García Herrera to the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. for the three-year period envisaged in the regulations of the Board of Directors. This appointment was proposed by the board chairwoman, following a report from the Appointments and Remuneration Committee, to fill the vacancy on this committee.

At their general meeting on 29 June 2021 the shareholders adopted the following agreements regarding appointments to the Board of Directors:

- Appointment of Mr. Marcos Vaquer Caballería as an independent director of Red Eléctrica Corporación, S.A. for the four-year term envisaged in the articles of association, to replace the independent director Ms. María José García Beato. This appointment was proposed by the Appointments and Remuneration Committee, pursuant to article 529 decies of the Spanish Companies Act.
- Appointment of Ms. Elisenda Malaret García as an independent director of Red Eléctrica Corporación, S.A. for the four-year term envisaged in the articles of association, to replace the independent director Mr. Alberto Francisco Carbajo Josa. This appointment was proposed by the Appointments and Remuneration Committee, pursuant to article 529 decies of the Spanish Companies Act.
- Appointment of Mr. José María Abad Hernández as an independent director of Red Eléctrica Corporación, S.A. for the four-year term envisaged in the articles of association, to replace the independent director Mr. Arsenio Fernández de Mesa y Díaz del Río. This appointment was proposed by the Appointments and Remuneration Committee, pursuant to article 529 decies of the Spanish Companies Act.
- Ratification of the appointment of Mr. Ricardo García Herrera as a proprietary director of Red Eléctrica Corporación, S.A., as agreed by the Board of Directors at their meeting held on 22 December 2020, thus appointing him as a proprietary director to represent Sociedad Estatal de Participaciones Industriales (SEPI) for the four-year term envisaged in the articles of association, pursuant to article 529 decies of the Spanish Companies Act.

At its meeting held on 2 July 2021, the Board of Directors agreed, inter alia, to appoint the independent director Mr. Marcos Vaquer Caballería to the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. for the new four-year term envisaged in the regulations of the Board of Directors, pursuant to article 24 of the articles of association and article 17 of the regulations of the Board of Directors; to appoint the independent director Ms. Elisenda Malaret García to the Sustainability Committee of Red Eléctrica Corporación, S.A. for the new four-year term envisaged in the regulations of the Board of Directors, pursuant to article 24 bis of the articles of association and article 18 BIS of the regulations of the Board of Directors; and to appoint the independent director Mr. José María Abad Hernández to the Audit Committee of Red Eléctrica Corporación, S.A. for the new four-year term envisaged in the regulations of the Board of Directors, pursuant to article 23 of the articles of association and article 15 of the regulations of the Board of Directors.

Subsequently, at its meeting held on 30 November 2021, the Board of Directors agreed, inter alia, to re-appoint the proprietary director Ms. Mercedes Real Rodrigálvarez to the Audit Committee of Red Eléctrica Corporación, S.A. for a four-year term; to re-appoint the independent director Ms. Socorro Fernández Larrea to the Appointments and Remuneration Committee of Red Eléctrica Corporación, S.A. for a four-year term; to re-appoint the proprietary director Ms. María Teresa Costa Campi to the Sustainability Committee of Red Eléctrica Corporación, S.A. for a four-year term; to appoint the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve to the Sustainability Committee of Red Eléctrica Corporación, S.A., replacing Mr. José Juan Ruiz Gómez, for a four-year term, thus terminating Ms. Gómez de Barreda's seat on the Audit Committee; and to appoint the independent director Mr. José Juan Ruiz Gómez to the Audit Committee of Red Eléctrica Corporación, S.A., replacing Ms. Carmen Gómez de Barreda Tous de Monsalve, for a four-year term, and thus terminating Mr. Ruiz Gómez's seat on the Sustainability Committee.

Lastly, also on 30 November 2021, the Sustainability Committee and the Audit Committee agreed, respectively, to appoint the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve, and the independent director Mr. Antonio Gómez Ciria, as the respective chairs of the Sustainability Committee and the Audit Committee for a four-year term.

The composition of the board committees at 31 December 2021 was therefore as follows:

- Audit Committee:
  - Antonio Gómez Ciria (independent director and chairman)

  - Mercedes Real Rodrigálvarez (proprietary director)
  - José María Abad Hernández (independent director)
  - José Juan Ruiz Gómez (independent director)
- Appointments and Remuneration Committee:
  - Socorro Fernández Larrea (independent director and chairwoman)
  - Ricardo García Herrera (proprietary director)
  - Marcos Vaquer Caballería (independent director)
- Sustainability Committee:
  - Carmen Gómez de Barreda Tous de Monsalve (independent director and chairwoman)
  - María Teresa Costa Campi (proprietary director)
  - Elisenda Malaret García (independent director)

The composition and powers of the Board of Directors and the various committees are as follows:

BOARD OF DIRECTORS

58.33% independent

50% women (54.54% external directors)

Segregation of the positions of Chair of the Board of Directors and CEO

Coordinating independent director

MAIN POWERS

Approval of the general strategies and policies of both the Company and the Group.

Group and Company risk control.

Authorisation for issue of the annual accounts and presentation thereof to the shareholders at their general meeting.

Annual assessment of the quality and efficiency of the Board and functioning of its committees.

AUDIT COMMITTEE

75% independent

25% proprietary

25% women

Chair:

Independent director

Powers relating to:

The process to prepare the Company's and the Group's financial-economic and non-financial information.

The effectiveness of the internal control and risk management systems.

External auditor independence.

Compliance with legal provisions and internal regulations on aspects within its remit.

Company shareholders.

APPOINTMENTS AND REMUNERATION COMMITTEE

66.7% independent

33.3% proprietary

33.3% women

Chair:
Independent director

Powers relating to:

Appointments and dismissals of directors and certain members of management.

The remuneration policy for directors.

Directors' compliance with their duties.

Management of the process of assessing the board and its committees.

The diversity report.

SUSTAINABILITY COMMITTEE

66.7% independent

33.3% proprietary

100% women

Chair: independent director

Powers relating to:

Ethical leadership, compliance with the Group's sustainability policy and its relationship with the Strategic Plan, the 2030 Sustainability Commitment, the Group's Annual Report on Ethical Management and oversight of compliance with the Code of Ethics.

In view of the commitment undertaken by the Company chairman at the shareholders' general meeting held in April 2012, and considering international best practice in the field of corporate governance, at the extraordinary meeting held on 17 July 2015, called specifically for this purpose, the Board of Directors of Red Eléctrica Corporación, S.A. (REC) submitted for the approval of the shareholders a proposal to segregate the positions of chair of the Board of Directors and chief executive of the Company, and to appoint an executive director. The two motions were passed, with votes in favour from 99% of the shareholders, compared to the required quorum of 58%. At its meeting held on 28 July 2015, the Board of Directors appointed the new executive director as CEO of the Company.

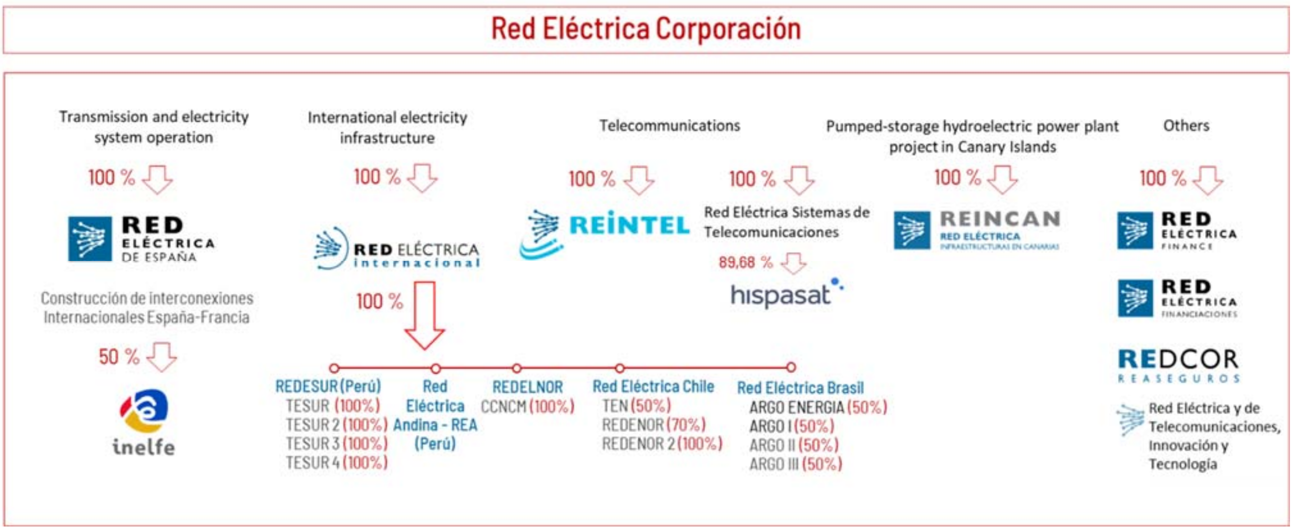
Since 2016, following the specified transition period, the position of chair of the Board of Directors has only had the responsibilities inherent in that position.

Moreover, the position of coordinating independent director created in 2013 has been maintained, since the shareholders and proxy advisors consider that this position embodies an efficient corporate governance practice through the responsibilities attributed to it.

The Annual Corporate Governance Report, which is attached hereto, contains detailed information regarding the composition and operation of the governing bodies of the Parent.

Composition of the Red Eléctrica Group

The structure of the Group at 31 December 2021 is as follows:



1.2 Activities and business performance

The Group carries out activities both in Spain and abroad. Most notably, its principal activities comprise the management and operation of electricity infrastructure in Spain, Peru, Chile and Brazil, and the rendering of telecommunications services, entailing both the operation of satellite infrastructure in Spain, Portugal and Latin America, as well as the lease in Spain of a broad dark fibre backbone network, and technical sites and spaces for housing customers' telecommunications equipment.

Management and operation of domestic electricity infrastructure

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

The Group has executed its Investment Plan in Spain, entailing investments in the transmission network, as per the 2015-2020 Planning, and has started to move forward with certain initiatives laid down in the draft 2021-2026 Planning published by the Ministry for the Ecological Transition and Demographic Challenge (MITERD) in February 2021.

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

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

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

- Ibiza - Formentera Interconnection. This involves the laying of a 132 kV underground-submarine transmission line to interconnect the islands of Ibiza and Formentera, thus strengthening the inter-island transmission grid.
- Caletillas - El Rosario Axis. The purpose of this axis it to increase the security of supply and transmission network reliability in the Santa Cruz de Tenerife metropolitan area, as well as to make the transmission grid more robust and reduce its vulnerability to incidents. The El Rosario substation came into service in December 2021.
- Caparacena - Baza - Ribina Axis. The purpose of this axis is to facilitate the evacuation of energy from the ordinary regime, renewable sources, cogeneration and waste, as well as to improve the transmission network mesh and support distribution and the structural function. The Caparacena substation came into service in March 2021.
- North - East Axis. The purpose of this axis is to improve the evacuation of electricity from Asturias to supply Cantabria and the Basque Country. The initiatives in progress are the expansion of the Itxaso substation, which came into service in September 2021, and the Güeñes - Itxaso line.
- Mainland - Balearic Islands Interconnection. This axis involves the laying of a second 220 kV underground-submarine transmission line to interconnect the Spanish mainland (Valencia) with the island of Mallorca, thus strengthening the inter-island transmission grid.
- Viesgo - Eastern Cantabria Axis. The purpose of this axis is to reinforce the transmission network with 220 kV lines in the area around Cantabria, and to support the distribution network. The Cicero-Solórzano line came into service in 2015 and the Astillero substation started up in December 2021.
- Lousame - Tibo - Mazaricos Axis. The purpose of this axis is to reinforce the network, evacuate the electricity generated, and support distribution in the northwest of Galicia. The Mazaricos and Lousame substations and the Lousame 220 kV input and output came into service in 2019, while the Lousame - Mazaricos line entered service in 2021.
- Oriol Axis. The purpose of this axis is to improve the quality and reliability of supply in the Cáceres area, to increase the capacity to evacuate hydropower generation and to boost Spain-Portugal interconnection capacity. These facilities came into service in June 2021.
- Carmonita Axis. The purpose of this axis is to supply power for the high-speed train service and to facilitate the evacuation of renewable energy. The substation came into service in October 2021 and the line in December 2021.
- Lanzarote - Fuerteventura Interconnection. This axis involves the laying of a 132 kV underground-submarine transmission line to bolster the interconnection that has been in place since 2005 between the islands of Lanzarote and Fuerteventura, thus allowing for an electricity system with present installed capacity of 476 MW, combining both conventional and renewable generation, and reinforcing the inter-island transmission grid.
- Tías - Playa Blanca Axis. The purpose of this axis is to guarantee electricity supply in the south of Lanzarote and to reinforce the connection with Fuerteventura. These measures, together with the 132 kV submarine cable interconnecting Lanzarote and Fuerteventura, will increase security of supply in the Lanzarote electricity system. The Playa Blanca and Tías substations came into service in 2019 and 2020, respectively, and the Tías - Playa Blanca line is currently under construction.
- Interconnection with France via the Bay of Biscay. The purpose of this axis is to further increase the interconnection capacity with Europe in order to achieve European energy targets. It consists of a submarine direct current dual connection of approximately 400 km in length which will raise energy exchange capacity to 5,000 MW. The project is currently at the pre-construction stage, which entails the archaeological, technical and

environmental studies required before it can be submitted for administrative authorisation. In parallel, the public consultation period also got underway in 2021.

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

Mainland system

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

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

Non-mainland systems

- At the 2021 year end, total annual demand for electricity in non-mainland systems had risen by 5.2% vis-à-vis the prior year. Per individual system, demand climbed by 11.8% in the Balearic Islands and by 1.4% in the Canary Islands, and dropped 1.2% in Ceuta and 1.3% in Melilla.
- Installed capacity in non-mainland systems grew by 1.8%, essentially driven by the expansion of solar photovoltaic and wind technology, which climbed 10.3% and 16.8%, respectively.

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

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

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

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

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

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

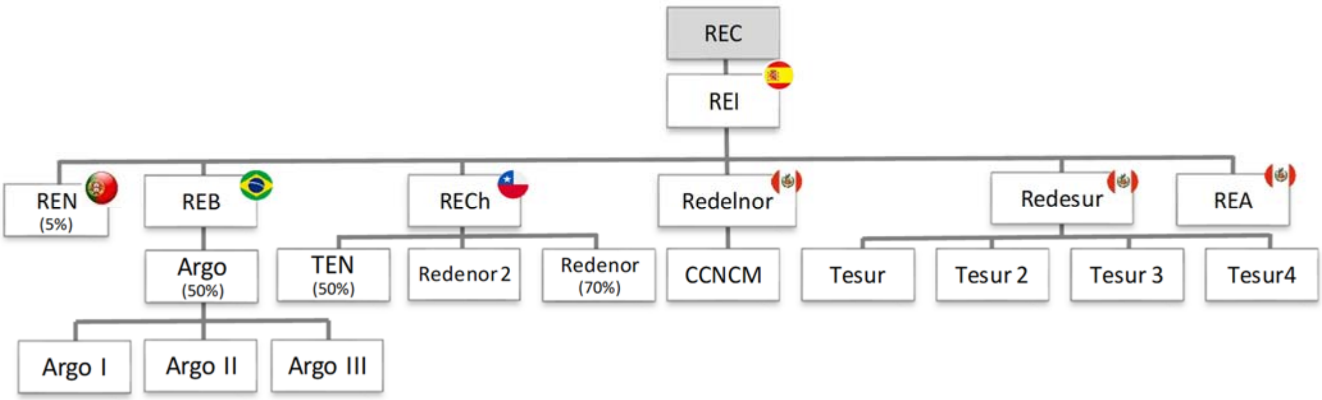
Management and operation of international electricity infrastructure

In addition to its principal activity as the transmission agent and system operator in Spain, the Red Eléctrica Group has been engaged for over 20 years now in other businesses as a way to create value for shareholders through expansion into the infrastructure management field and the provision of new services to the Group. This vision saw the Group expand internationally into Peru in 1999 and Portugal in 2007, through its ownership interest in Redes Energéticas Nacionais, SGPS, S.A. (hereinafter REN), before moving into the Chilean market in 2016 and Brazil in 2020.

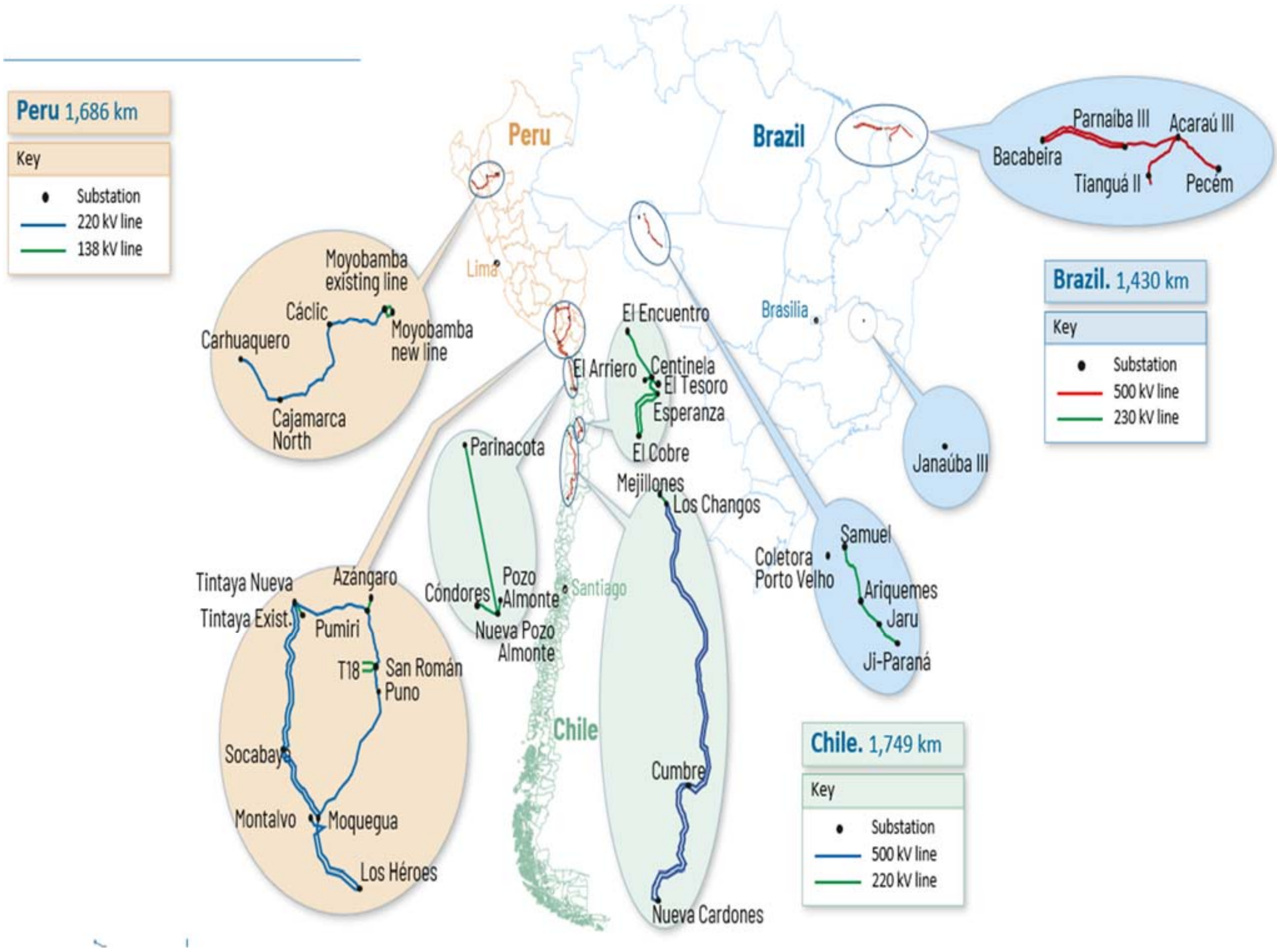
The Group's business entailing the management and operation of international electricity infrastructure is conducted through its subsidiary Red Eléctrica Internacional, S.A.U. (hereinafter REI) with a presence in Peru, Chile and Brazil.

The start-up of operations in Peru, Chile and Brazil is the outcome of an ongoing analysis of business opportunities, and meets the Group's criterion of undertaking investments in countries with a favourable economic situation and a stable regulatory framework that ensures an appropriate return on the investments.

Overall, the Company manages a network spanning 4,865 km in Peru, Chile and Brazil, of which 4,479 km are up and running at present.



Presence of Red Eléctrica Internacional in Peru, Chile and Brazil:



Activity in Peru

In Peru, the Red Eléctrica Group operates electricity transmission infrastructure under a 30-year concession. It is the main transmission agent in the south of Peru and since 2019, following REDELNOR's acquisition of CCNCM, it has also operated in the north of the country. The network spans a total of 1,686 km of transmission lines, of which 1,558 km are in commercial operation and 128 km are under construction.

In 2021, the management excellence of REDESUR, TESUR, TESUR 2, TESUR 3 and CCNCM, which all manage electricity transmission infrastructure on a commercial operation basis, enabled them to offer an energy transmission service with maximum availability, while supporting development in their operating environment.

During this period, the average voltage levels remained within the limits set out in the Technical Standard for Quality of Electricity Services, no incidents were recorded in quality of service during the period, and network availability stood at 99,83% in REDESUR, 99.88% in TESUR, 99.91% in TESUR 2, 99.88% in TESUR 3 and 99.92% in CCNCM.

The project awarded to TESUR 4 in 2018 is at the construction stage, the Environmental Impact Assessment (EIA) having been approved in March 2021. The project is rolling out as envisaged and is scheduled to be completed and come into service in 2022.

In addition, REA renders maintenance services for the concessions under operation, namely REDESUR, TESUR, TESUR 2, TESUR 3 and CCNCM, and is also tasked with supervision and site management for the TESUR 4 works.

REA also carries out facilities maintenance and works supervision for other customers, positioning it among the benchmark companies for such services in the south of Peru.

Activity in Chile

The transmission business in Chile comes under the umbrella of the parent company in that country, Red Eléctrica Chile (RECH), which was incorporated by REI in 2015. This company holds 50% of Transmisora Eléctrica del Norte (TEN), 69.9% of Red Eléctrica del Norte (REDENOR) and 100% of Red Eléctrica del Norte 2 (REDENOR 2). Overall, RECH operates 1,749 km of transmission lines, of which 1,491 km are in commercial operation and 258 km are under construction.

TEN operates the 500 kV Changos – Cumbre – Nueva Cardones axis, which forms part of the National Transmission System, as well as the 220 kV Mejillones – Changos dedicated line. In 2021, TEN reported an availability factor for its facilities of 99.92%, surpassing prior years' availability.

REDENOR has continued its construction of the transmission facilities in northern Chile, awarded in 2017. In 2020 the first stage of the project entered service (Nuevo Pozo Almonte 220 kV substation), and at year end the availability of the facilities stood at 100%. REDENOR has also forged ahead with Stage 2 of the project, which involves the construction of 258 km of 220 kV power lines and is scheduled for completion in 2022.

REDENOR 2 reported an availability factor for its transmission facilities of 99.92% in 2021. The Seccionadora Centinela substation entered service in 2021.

In August 2021, the National Energy Commission (CNE) in Chile published the Final Technical Report (FTR) reducing the return on investment. Subsequently, on 12 January 2022, the Expert Panel published its decision regarding the discrepancies presented to the CNE in view of the FTR on the transmission valuation process for the 2020-2023 period. The CNE will apply this decision when publishing its Definitive Technical Report on the valuation.

Activity in Brazil

On 25 March 2020, the Company (through its subsidiary Red Eléctrica Brazil (REB)) and Grupo Energía Bogotá (GEB) each acquired 50% of the Brazilian holding company Argo, which in turn owns the Argo I, Argo II and Argo III concessions. This acquisition enabled Red Eléctrica to kick off operations in Brazil where it jointly manages, with GEB, three concessions encompassing high-voltage power lines (500 kV and 230 kV) spanning a total of 1,430 km and 11 electrical substations.

Argo I operates 1,110 km of 500 kV power lines and five substations in the northeast of Brazil (availability factor of 99.28% in 2021).

Argo II is a project to expand a substation in the state of Minas Gerais. Synchronous condenser 2 (SC2) came into service in 2021, while SC1 is expected to enter service in 2022.

Argo III operates 320 km of 230 kV power lines and five substations in the state of Rondônia (availability factor of 96.66% in 2021). The final stage of the project came into service in 2021 (the Jaru substation and the Colectora Porto Velho substation).

On 3 November 2021, Argo entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A., subject to certain conditions being met and to the regulatory authorities approving the acquisition, as indicated in section 6 Events after the reporting period.

Telecommunications

Satellite business

Red Eléctrica Sistemas de Telecomunicaciones, S.A. (RESTEL) holds an 89.68% interest in the Hispasat subgroup (hereinafter Hispasat). The other Hispasat shareholders are SEPI, with a 7.41% interest, and the CDTI, which holds 2.91%.

Hispasat's principal activity consists of leasing spatial capacity and providing managed services for video and broadband data through the operation and commercial exploitation of its fleet of satellites in orbit and the related ground segment, primarily in Spain, Brazil, Peru and Mexico.

In view of the situation triggered by the COVID-19 pandemic, and the transformation process in which the satellite sector is immersed, Hispasat embarked upon a strategic rethink, which led to the approval of a new 2021-2025 Strategic Plan at the end of 2020. The new strategy aims to reposition Hispasat and shift it from an infrastructure operator to a provider of satellite services.

2021 saw the consolidation of certain trends that had already surfaced in the market, such as the verticalisation of satellite operators, which continue to evolve towards a service provider role in certain segments and/or geographical areas. Hispasat is no stranger to this strategic repositioning, having completed the acquisition in Peru, in 2021, of the signal management and transmission business in the satellite audio-visual sphere, thus enabling the company to position itself as a leading provider of wholesale video services in South America. In addition, backhaul projects have continued to be rolled out, with Hispasat taking on the role of turnkey service provider and offering comprehensive projects in the fields of tele-education and telemedicine to Latin America governments.

Bolstered by its managed video services business in Latin America, Hispasat posted a rise in commercial revenues of almost 15% in 2021. Excluding the effect of this acquisition, commercial revenues have risen, testament to a positive commercial trend that is outperforming the sector.

Fibre optics business

The Group's telecommunications business primarily operates in Spain, doing so through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (hereinafter REINTEL), which is the Group company responsible for operating telecommunications networks and rendering telecommunications services to third parties.

REINTEL is a neutral provider of telecommunications infrastructure. Its principal activity is leasing dark fibre and associated infrastructure. REINTEL also provides maintenance services for fibre optic cables and telecommunications equipment. At present, the company operates a fibre optic network in excess of 52,000 km rolled out over the electricity transmission grid and the railway network, guaranteeing transparent access on equal terms to its customers and to telecommunications sector players.

In addition, on 16 December 2021 REC announced the agreement, subject to the pertinent authorisations being obtained, with Kohlberg Kravis Roberts & Co. L.P. (KKR), through its subsidiary Rudolph Bidco S.À.R.L., for the sale of a minority stake of 49% in Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL), a wholly owned subsidiary of the Parent, for Euros 971 million.

The parties sought the pertinent authorisation for the transaction, this being one of the conditions precedents for the agreement signed by the two parties to come into effect. At the 2021-year end authorisation has yet to be given.

Given that the Red Eléctrica Group will retain a 51% stake in REINTEL, as well as control and management of this company, the agreement will be considered a transaction with non-controlling shareholders. This will result in an increase in non-controlling interests in the Group in 2022, once the conditions precedent have been met, albeit with no impact on the consolidation method applied to REINTEL, which will continue to be fully consolidated.

5G business

The Red Eléctrica Group's Strategic Plan envisages, among other initiatives, the development of new opportunities associated with the roll-out of 5G networks, a process in which the Group will be a significant player. 5G mobile communication technology is not only revolutionary for telecommunications services, but also for production and economic processes, where its speed, immediacy and capacity to connect thousands of devices simultaneously come into play.

In 2021 an enterprise-wide project was carried out within the Red Eléctrica Group, which served to assess the Group's infrastructure in terms of its capacity to host 5G network equipment. In addition, the value proposal for such networks was defined and both the operating and commercial models were designed, with a view to bringing the networks into commercial operation.

2 Business performance

2.1 Key financial indicators

Revenue

Total amalgamated revenues and profits of the investees amounted to Euros 1,982.5 million, down 1.6% on the prior year. Details by activity are as follows:

- Management and operation of domestic electricity infrastructure: this activity generated revenues of Euros 1,609.7 million, compared to Euros 1,668.3 million in the previous year. The variation arises for two fundamental reasons. On the one hand, the financial rate of return applied to electricity transmission assets in Spain has dropped from 6% in 2020 to 5.58% in 2021, as stipulated in CNMC Circular 5/2019. On the other hand, the System Operator's revenue for the 2014-20 period has been re-estimated, applying the best information available at the reporting date until such time as the Ministry for the Ecological Transition has issued its definitive settlement.
- International electricity transmission: revenues from this activity totalled Euros 51.6 million (Euros 50.9 million in 2020), whereas the investees' profits amounted to Euros 19.8 million, as opposed to Euros 25.3 million in the prior year. The sum of these two figures is down 6.4% on the figure posted in 2020.
  - The rise in revenue is thanks to greater income reported by the Chilean companies REDENOR and REDENOR 2 and the Peruvian company TESUR 3, partially offset by the negative impact of the new remuneration parameters proposed by the Chilean regulator in respect of REDENOR 2.
  - The profits of investees in the international business notably indicate the positive performance of the Brazilian company Argo, whose earnings were Euros 3.6 million higher than in the prior year. Conversely, the contribution to earnings from TEN's investees was Euros 9.1 million lower, mainly as a result of the new remuneration parameters; Euros 5.9 million of this amount corresponds to prior years.
- Telecommunications: this activity generated revenues of Euros 311.8 million in 2021, which is a year-on-year increase of Euros 19.5 million. The share of profits of equity-accounted investees amounted to Euros 9.8 million, compared to Euros 2.7 million in 2020. The sum of these two figures is 9.0% higher than the figure posted in 2020.
  - Satellite business: the revenue of the satellite business, of which Hispasat forms part, has improved significantly, coming in at Euros 177.4 million in 2021, a rise of 14.5%. This increase is largely explained by the Euros 13.3 million contribution of the video management business acquired in Latin America, while the rest of the rise is thanks to new contracts of the organic business, which has expanded 6.5% year on year. Profits of the investees, including Hisdesat, surged from Euros 2.7 million in 2020 to Euros 9.8 million in 2021, thanks to the sale of a minority stake in the Canadian company ExactEarth, which generated a gain of close to Euros 8 million.
  - Fibre optics: the fibre optics business, which encompasses REINTEL, posted revenues of Euros 134.4 million, down Euros 2.9 million year-on-year. This trend was mainly because certain contracts are indexed to inflation, which was negative in 2020.

Operating expenses

Operating expenses amounted to Euros 550.2 million in 2021, up 5.8% on the previous year due to trends in these costs in the fourth quarter of the year and the effect of certain non-recurring adjustments. In annual like-for-like terms, this rise in operating expenses would stand at 3.6% The reasons for this increase are as follows:

- The cost of supplies and other operating expenses totalled Euros 362.9 million, up 5.4% on the prior year. This increase is largely due to higher maintenance costs associated with regulated activities (specifically, bringing forward certain maintenance work on critical assets to strengthen security of supply), higher insurance premiums and higher costs in Hispasat due to the acquisition of the inorganic business in Peru. If these effects were eliminated, the rise in these expenses would have stood at 4.0% in 2021 versus the prior year.
- Personnel expenses totalled Euros 187.3 million, an increase of 6.5% compared to 2020, rising 20.7% in the fourth quarter of the year with respect to the same quarter in 2020. Higher personnel expenses had to be factored in due to the addition of the workforce of the business acquired in Peru and the effect of the

transformation plan underway at Hispasat. On a like-for-like basis and eliminating these elements, personnel expenses would have risen by 2.9% in 2021.

The increase in operating expenses in the fourth quarter reflects some of the impacts described above, such as the transformation plan and the stepped-up maintenance. The performance of these items is responsible for 50% of the rise in costs in the quarter.

The headcount at 31 December was 2,117 employees, compared with 2,051 in the prior year. The average headcount was 2,075 employees, and 2,041 in 2020. This variation is mainly due to the addition of 40 employees from the satellite business acquired in Peru.

Earnings

As a result, EBITDA totalled Euros 1,498.6 million, down by 4.5% on the figure for the prior year. As already mentioned, the Group's EBITDA includes the profits of the investees of the Chilean electricity transmission company TEN and the Brazilian electricity transmission company Argo, and those of HISDESAT, this latter company being an investee through Hispasat. EBITDA trends broken down by activity are as follows:

- Management and operation of domestic electricity infrastructure: the contribution to EBITDA is down by Euros 78.0 million. This decline is due to the above-mentioned remuneration adjustments in an amount of Euros 62.8 million, a Euros 5.9 million drop in "other income" in view of insurance payouts and other non-recurring income received in 2020, and operating income coming in Euros 9.3 million lower. Operating income has been impacted by the slight increase in expenses, despite the high inflation scenario, rising insurance premiums in a complex insurance market, and certain critical asset maintenance tasks being brought forward in order to mitigate risks and bolster security of supply.
- International electricity transmission: the contribution to EBITDA from the international business is down by Euros 10.8 million, essentially due to two aspects. On the one hand, the previously mentioned revenue adjustment in Chile; Euros 7.0 million of this amount relates to 2020 adjustments. On the other hand, in 2020, unlike in the current year, other operating income included an amount of Euros 3.3 million received from the Peruvian Ministry of Energy and Mines when arbitration proceedings were resolved in favour of TESUR.
- Telecommunications: the improvements in the satellite business have increased the contribution to EBITDA by Euros 14.6 million. Meanwhile, the drop in revenues of the fibre optics business has reduced the contribution to EBITDA by Euros 5.0 million.

Results from operating activities (EBIT) amounted to Euros 992.0 million, up 6.8% on 2020. This increase is largely due to no assets being impaired in 2021, whereas in the prior year asset impairment of Euros 121.7 million was posted.

The net finance cost amounted to Euros 103.9 million, compared to Euros 123.0 million in 2020. The lion's share of this improvement is explained by the decline in the average cost of debt from 1.74% in 2020 to 1.52% in 2021. Average gross financial debt was Euros 6,844 million versus Euros 6,953 million in the same period of the prior year.

The effective income tax rate applicable to the Group was 22.7%, whereas in the previous year it was 24.2%. This lower tax rate is essentially due to the recognition of R&D&i deductions amounting to Euros 19.5 million in respect of the investment in the Amazonas Nexus satellite.

Lastly, profit for the year totalled Euros 680.6 million, up 9.6% compared to 2020. Performance of this item by line of business is as follows:

- Management and operation of domestic electricity infrastructure: the net profit attributable to this activity is Euros 552.8 million, which is Euros 59.9 million less than in 2020. The decline is mainly due to lower EBITDA, as explained above.
- International electricity transmission: profit of Euros 20.1 million was attributed to this activity, compared with Euros 28.0 million in the prior year. This variation primarily stems from the negative impact sustained by the Chilean investees.
- Telecommunications: the net profit of this activity has surged to Euros 104.7 million, compared with a net loss of Euros 22.7 million in the prior year. This change is largely thanks to Hispasat, improved business performance, tax credits and deductions in respect of R&D&i recognised in 2021 and the effect of including asset impairment in 2020, mentioned above.

Investments

The investments undertaken by the Group in 2021 amounted to Euros 575.8 million, which is 10.6% higher than the investments made in the prior year, not taking into consideration the Euros 374.3 million set aside for the acquisition of the Brazilian company ARGO.

Euros 425.8 million were channelled into investments associated with the management and operation of domestic electricity infrastructure, 5.1% more than in the previous year. The commencement of works for the previously mentioned storage-related facilities in the Canary Islands, and the headway being made on the Ibiza-Formentera interconnection, feature strongly.

Investments related with the management and operation of international electricity infrastructure totalled Euros 44.5 million, just edging ahead of the Euros 43.2 million invested in the prior year, if, once again, the ARGO acquisition is not taken into consideration. The REDENOR and REDENOR 2 projects in Chile benefitted from 80% of the investments, with the remaining amount being funnelled into rolling out the TESUR 4 project in Peru.

As regards the telecommunications activity in the satellite segment, investments totalled Euros 73.2 million, of which Euros 59.8 correspond to the investment in the Amazonas Nexus satellite, and include the acquisition of the assets of the managed video services business in Latin America. Investment in the fibre optics business, meanwhile, totalled Euros 1.6 million, similar to the amount invested in the prior year.

In addition, Euros 30.8 million was channelled into other investments, predominantly infrastructure and buildings for the Group. This item also includes the investments made by Elewit, the Red Eléctrica Group's venture capital investment vehicle, amounting to Euros 4 million, a similar figure to that reported in 2020.

Cash flows

Post-tax operating cash flows (funds from operations – FFO) stood at Euros 1,178.4 million, reflecting a decline of 2.4% with respect to the prior year. The growth in pre-tax profit and the improved performance of other cash flows, primarily as a result of lower income tax payments, was offset by the lesser adjustments to profits, an item that in 2020 reflected impairment of Hispasat assets.

Changes in operating assets and liabilities at December 2021 reflect a contribution of Euros 426.8 million, compared with Euros 173.5 million in the previous year, principally due to higher amounts being collected in respect of the transmission tariff and items pending settlement vis-à-vis the system. The higher amounts collected will revert over the coming quarters.

All of this has prompted cash flows from operating activities to climb by 16.3% from Euros 1,380.4 million in 2020 to Euros 1,605.2 million in 2021. The variation in this item coupled with lower investments (2020 included the acquisition of 50% of Argo) are the main drivers that have placed free cash flow to equity at Euros 1,044.3 million, versus the Euros 443.9 million generated in 2020.

Dividends paid with a charge to the prior year's profit totalled Euros 539.0 million, equivalent to Euro 1.0 per share.

The performance of these items has enabled a Euros 465.5 million reduction in net financial debt, compared to a Euros 75.3 million increase in 2020.

Net financial debt

Net financial debt stood at Euros 5,647.8 million at 31 December, down 7.6% on the Euros 6,113.3 million reported at the 2020 year end.

At 31 December 2021, all of the Group's financial debt is non-current. In terms of interest, 81% of the Group's debt is fixed-rate and the remaining 19% is variable-rate.

In 2021, the average cost of the Group's financial debt was 1.52%, compared to 1.74% in the prior year.

Average gross debt was Euros 6,843 million in 2021, compared with Euros 6,953 million in the previous year.

The Red Eléctrica Group has set itself a target of arranging 100% of its financial debt under ESG criteria by 2030. On the path to achieving this target, it is worth highlighting that 35% of the Group's financing at 31 December had been arranged under ESG criteria, compared with 23% at 31 December in the prior year.

Equity

At 31 December 2021 the Red Eléctrica Group's equity totalled Euros 3,685 million, which is 5.5% more than at December 2020. This increase is mainly due to the positive contribution of profit for the year and the variation in valuation adjustments, stemming from better performance of interest rates and exchange rates.

Financial indicators (millions of Euros)	2021	2020	Δ%
Revenue	1,953.0	1,985.8	-1.7%
Gross operating profit (EBITDA)	1,498.6	1,568.5	-4.5%
Results from operating activities (EBIT)	992.0	929.0	6.8%
Net profit	680.6	621.2	9.6%
ROE (post-tax profit/Equity)	18.5%	17.8%	3.9%
Cash flows from operating activities	1,605.2	1,380.4	16.3%
Dividends paid	539.0	566.8	-4.9%
Equity	3,685.1	3,492.0	5.5%
Gearing (Net financial debt / Net financial debt+Equity)	60.5%	63.6%	-4.9%
Total assets	13,984.5	12,844.1	8.9%
Debt service coverage ratio (Net debt / EBITDA)	3.77	3.90	-3.3%

3 Liquidity and capital

The Group's liquidity policy has been designed to ensure payment obligations are met, by diversifying how financing requirements are covered and when debt matures.

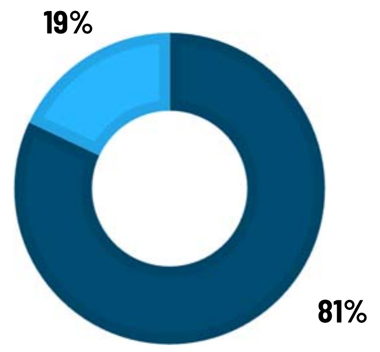
The Group's robust liquidity position allows for prudent liquidity risk management. This position is essentially based on cash flow generation, primarily through regulated activities; appropriate management of collection and payment periods; and the financial capacity obtained through short- and long-term credit facilities.

At 31 December 2021 the undrawn balance on credit facilities amounts to Euros 1,853 million and cash surpluses of Euros 1,574 million are available.

The average maturity of the debt drawn down at the end of the year is 5.0 years.

The Group's financial strategy has aimed to reflect the nature of its businesses, at all times adhering to the legislation in force. The activities conducted by the Group are very capital-intensive, wherein a major portion of investments mature over extensive periods. In addition, these assets are remunerated over long periods of time, meaning that financial debt is primarily long-term and fixed-rate. The Group's strategic commitment to long-term, enterprise-wide sustainability is also present in its responsible and transparent management style, which promotes sustainable sources of financing.

Fixed vs. variable financial debt structure



The Group's capital structure policy ensures a financial structure that optimises the cost of capital through a sound financial position, which balances the generation of value for shareholders with competitive costs of financing. Capital is periodically monitored through the gearing ratio, which in 2021 stood at 60.5%, compared to 63.6% in 2020. This ratio is calculated as net financial debt divided by equity plus net financial debt.

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

4 Risk management

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

The risk management system is implemented in accordance with ISO 31000 on risk management principles and guidelines, which is comprehensive and ongoing in nature. Risk management is also strengthened at the business unit, subsidiary, support area and corporate level.

The types of risk to which the Group is exposed (corporate risks) as regards the achievement of its strategies and objectives can be classified as follows:

a) Strategic

- Risks related to the regulatory framework in which the Group operates.
- Business risks associated with the business context itself or with decisions of a strategic nature.
- Risks related to sustainability and good governance.

b) Operational

- Risks associated with planned assets and/or those in progress.
- Risks associated with assets currently in service.
- Risks related to information systems.
- Risks related to personnel and the organisation thereof.

- Compliance risks.

c) Financial

- Market risk.
- Risks related to the solvency of the Company.
- Counterparty risk.
- Assurance risks.

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

The main risks to which the Group is exposed and that could affect achievement of its objectives are regulatory risk, including tax risks, inasmuch as the Group's principal business lines are subject to regulations, operational risk, primarily arising from the activity carried out in the electricity and telecommunications sectors, financial risk and environmental risk.

The Comprehensive Risk Management Policy includes the policy for controlling and managing tax risks. It also covers financial risk management, as detailed in the note to the consolidated annual accounts on the Financial Risk Management Policy.

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.

Climate change risks

The Group has taken various steps to adapt the management of climate change risks and opportunities to the recommendations of the Task Force on Climate related Financial Disclosures (TCFD). In addition to reviewing the governance criteria, the Group has a specific methodology to prioritise these criteria and quantify their economic impact, which was implemented by taking into account different scenarios.

Governance

Significant risks relating to climate change have been included in the Corporate Risk Map, adopting the governance model described above. Moreover, the information on climate change risks and opportunities has been passed on to the Sustainability Committee for supervision, in collaboration with the Audit Committee, as part of its oversight role over the comprehensive risk control system. The Sustainability Committee also supervises the corporate responsibility and climate change policies in order to integrate the results of the climate change risks and opportunities analysis into the Group's decision-making.

The Group's strategic plans reflect the climate change strategy, considering the risks and opportunities identified, detailing the lines of action, setting out the objectives and defining high-level responsibilities.

Based on the strategic guidelines, the business areas will establish specific climate change initiatives within their operational plans with a view to keeping the exposure to these risks below acceptable levels. Such plans will include specific objectives and responsibilities.

Identification and quantification of risks and opportunities

Climate change risks and opportunities comprise both physical risks and opportunities related to changes in climate variables (which could have a direct effect on the facilities or on the services rendered by the Group) and transition risks and opportunities (related to changes stemming from the fight against climate change: regulatory, technological, market and reputational).

The Group has a specific methodology for identifying, assessing and monetising these risks and opportunities.

A prioritisation process is carried out based on a catalogue of potential risks and opportunities. This process takes into consideration exposure, sensitivity and adaptation capacity variables. Risks and opportunities can thus be prioritised based on their importance.

For the purpose of quantifying the Group's exposure, relevant risks and opportunities are analysed in-depth, evaluating both the economic variables and other business variables (impact on electricity supply or on telecommunications services).

The process to identify and quantify risks and opportunities is reviewed and updated at least annually.

As indicated by the recommendations, the analysis is carried out taking into account different physical and transition scenarios.

- The physical scenarios considered were the Assessment Report AR5[1] of the Intergovernmental Panel on Climate Change (IPCC) (Representative Concentration Pathways RCP2.6, RCP 4.5 and RCP 8.5). Projections by the Agencia Estatal de Meteorología (AEMET) in the case of Spain and by the World Bank in the case of LATAM have been used to adjust the values of climate variables.
- Scenarios published by the International Energy Agency (IEA) in its WEO2020 report are used as a reference for transition scenarios. These scenarios are completed by additional information referring to relevant variables based on the business and geographical area. Scenarios included in the integrated National Energy and Climate Plan (NECP) (trend and target scenarios), which would correspond to the International Energy Agency's STEPS and NZE2050 scenarios, are used in the case of electricity business risks in Spain.

The transition risks and opportunities analysis focuses on the 2020-2030 horizon, while the physical risks and opportunities analysis focuses on a longer time frame (2030-2050-2070). The economic impact or monetisation of the risks has been quantified for a period of ten years in both cases.

Conclusions: risks and opportunities

High-priority risks are as follows:

Physical:

- Impact of extreme events (wind) on outdoor facilities (power lines).
- Fires beneath the lines and near substations.

The impact of these risks would materialise as damage to infrastructure with or without affecting the electricity supply; an increase in maintenance costs, affecting third parties or the environment; and impacts on reputation.

The estimated economic impact of these risks is significantly reduced and does not exceed 2% of the Group's results. This is due to the roll-out of specific projects and the application of different measures, including insurance policies.

Transition:

- Claims due to caps on renewable energy production and incidents which could affect the security of the supply in the Canary Islands, associated with the significant rise in the share of renewables in the energy mix forecast for future years.
- Loss of energy generation due to the closure of coal, combined cycle and nuclear plants.

The impact of these risks would be associated with more difficulties with regard to system operation, increased caps on production and additional technical restrictions and a possible effect on supply, which in turn would be detrimental to the Company's reputation.

Red Eléctrica works hard to integrate renewables safely into the electricity system, thus minimising the materialisation and impact of these risks.

- Stricter legal requirements related to the use of fluorinated gases (SF6).

[1] IPCC Fifth Assessment Report (2014) drawn up by scientists from various countries. RCP 4.5 is a target scenario and RCP 8.5 is a trend scenario contemplating greater changes in climate parameters.

The new requirements could lead to a rise in taxes associated with the use of gas, as well as increased management and maintenance costs to ensure that new requirements are met. In extreme circumstances, restrictions on the use of gas could entail technical problems and high costs.

It should be highlighted that the Company has implemented a raft of measures to reduce SF6 leaks as much as possible, and to roll out projects focused on sourcing alternative solutions. Of particular relevance is the Company's participation in work groups and with the implementation of legislation, and its close collaboration with the authorities, all of which paves the way for anticipating risk.

- Difficulties in bringing into service the necessary infrastructure for the energy transition (this risk is identified and analysed specifically for international interconnections).

The latter has been identified as the most significant climate change transition risk for the Group. In order to meet the objectives of the energy transition, the transmission network must be developed, mainly in respect of the evacuation and integration of renewable power generation. However, due to social aversion to this type of infrastructure and the long waits to obtain the necessary authorisations for its development, there could be difficulties in bringing the required facilities into service.

In this regard, preliminary studies are key for analysing the viability of the infrastructure proposed in the planning. A large number of programmes have also been implemented relating to management of stakeholders and public participation, together with other projects to improve infrastructure development processes, such as planning the materials supply and service requirements.

The annual economic impact estimated for these transition risks would be less than 2% of the Group's profit.

Meanwhile, energy transition policies provide huge opportunities for the Group, connected to the development of infrastructure to make the transition possible: integration of new renewable energy capacity, interconnections, high-speed trains and support for an increased electrification of society. Investment opportunities have been identified in the transmission network (lines and substations), storage and other technical solutions to address the energy transition challenges (protection systems, FACTS equipment, and other control and monitoring equipment).

To a lesser extent, the Group's improved performance in respect of mitigating and adapting to climate change could be a boon for its reputation, leading to better financing opportunities or higher stock prices.

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

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average supplier payment period in the case of Spanish Group companies was 43 days at the 2021 year end.

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

6 Events after 31 December 2021

On 3 November 2021, as indicated in note 2 g) to the Group's consolidated annual accounts, Argo Energia Empreendimentos e Participações S.A. ("Argo"), in which Red Eléctrica Brazil holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A. ("Rialma III"), subject to certain conditions being met and to the regulatory authorities approving the acquisition.

At 31 January 2022, the conditions precedent laid down in the aforementioned agreement have been fulfilled and the acquisition of all of the ordinary registered shares, representing 100% of the share capital of Rialma III, has thus been completed. Accordingly, the acquiree will change its name to "Argo IV Transmissão de Energia S.A.".

7 Outlook

As regards the management of the different businesses, the Group will continue to undertake its activities, implementing a model encompassing two major lines of action in equal proportion: operations subject to market risk which offset the concentration of regulatory risk, and regulated operations which offset market risk. To this end, the Group will continue to carry out the role of Spanish TSO, helping to make the energy transition in Spain a reality; continue to foster connectivity as a leading operator of both fibre optic and satellite telecommunications infrastructure; consolidate its international business; and invest in technological acceleration and innovation.

Executing the strategy, underpinned by efficiency, digital transformation and personnel development, will enable the Group to adapt to the new, stricter regulatory and remuneration environment, and to generate more ways of creating value.

The Group will uphold its commitment to maximising value for its shareholders, offering an attractive return in the form of dividends and generating value through efficient management of its activities, analysing alternatives for expanding its core business, maintaining a robust capital structure and working to guarantee supply with the utmost level of quality.

The Group will therefore continue to seek the generation of long-term value, creating lasting, competitive advantages and improving our corporate reputation, whilst focusing on providing optimum service to society – the differentiating feature of the Group's management.

Likewise, the Group will concentrate on unlocking shared value by working in collaboration with stakeholders and combatting inequality in territorial and digital areas and with regard to gender.

The Group is determined to forge ahead with its fulfilment of the 2030 Sustainability Commitment and to leverage the contribution of all Group companies in order to meet the global targets, noteworthy among which are the United Nations Sustainable Development Goals (SDGs).

Outlook for the management and operation of domestic electricity infrastructure

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

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

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

The Group will ensure its financial policy is in line with the remuneration regime for transmission activities, which involves maintaining a suitable financial structure to safeguard the Group’s financial solvency, its compliance with the ratios laid down by the Spanish National Markets and Competition Commission (CNMC) and having a solid credit position.

Outlook for the management and operation of international electricity infrastructure

The Group will continue to focus its international business activity on strengthening its outreach in countries where it has a presence, specifically Peru, Chile and Brazil, as a way to diversify business.

Work will also remain ongoing to explore viable and alternative financing streams at opportune market junctures in order to optimise the Group's capital structure and as a way of expanding the core business.

Outlook for telecommunication activities

The satellite sector is undergoing a transformation due to structural changes in demand for communications services: on the one hand, satellite video services, a significant source of revenue for the industry over an extended period of time, are immersed in a transformation process; on the other hand, data transmission services are on an upward trend, but require a much higher level of involvement by operators when providing an all-inclusive service.

Hispasat made progress in 2021 on the key lines of action defined in its new Strategic Plan, based on shifting Hispasat's commercial activity away from the traditional business in an orderly and measured fashion, while gradually and simultaneously bringing on board a new focus and direction towards vertical business models with greater future growth potential.

The activities performed most notably include the acquisition of the managed video services business in Latin America; the launch of the *Conéctate* initiative for the provision of a wholesale service to furnish 100 Mbps Internet access to the entire population across the whole territory in question; the strengthening of the Hispasat subgroup's satellite capacity through agreements with other operators, such as Eutelsat; and Hispasat's focus on expanding into the mobility business through the new Amazonas Nexus satellite, which is scheduled to be launched at the end of 2022.

A Transformation Plan has also been launched, the main objective of which was to identify how Hispasat's current structure should evolve, both in terms of technical and human capacity, so as to expand its provision of higher added value services. The aforementioned Plan is expected to enable the Company to scale up and become a provider of services and solutions via satellite to meet the growing demand for global connectivity and data services with a guarantee of quality, security and resilience, whilst pushing the Group forward to become the go-to supplier of innovating products and services, ensuring yield and growth, and responding to the current and future challenges of its customers and shareholders.

In addition, the telecommunications activities carried out by REINTEL, as a provider of telecommunications infrastructure, will focus on the backbone fibre network market, specifically the lease of dark fibre in the infrastructure associated with telecommunications sector players.

The incorporation of KKR as a strategic long-term shareholder in REINTEL will contribute towards enabling the Group to benefit from growth opportunities and maximising its capacity to generate value from its telecommunications business.

REINTEL will continue to implement its commercial plan and undertake the investments requested by customers, as well as broadening its portfolio of fibre products, in order to generate greater revenues. Furthermore, REINTEL will keep making progress on interconnecting rail and electrical fibre networks with the aim of offering new solutions to customers, such as new redundant sources and access points, whilst continuing to uphold the high standard of service quality offered to its customers.

In relation to the roll-out of 5G networks, in 2021 Project 5G was devised, with a view to pursuing the line of work already underway. This project is intended to drive the development of the 5G business in line with the initiatives envisaged in the Red Eléctrica Group's Strategic Plan, as well as to take the business to market and maintain a multi-disciplinary overview of the actions necessary to execute the project.

Other business

As regards innovation, RETIT will help the Group to capitalise on its commitment to innovative initiatives, entrepreneurship and technological development, which are the cornerstones of sustainability against a changing backdrop in both the energy and telco sectors.

Through RETIT, the Group will harness the potential of technology to further the Group's business and activity, as well as to explore new value-added business segments. Initiatives focused on new tech niches will be explored, such as cybersecurity, energy, AI and advanced analytics, industry X.0, the Internet of Thing (IoT), new communication technology and satellites, platforms and networks of the future, and any other potential technology detected by the Group while it is constantly scanning and interacting with the tech ecosystem.

RETIT will thus enable the Group to forge stronger ties with society, to increase the availability of its infrastructure, to enhance system security, to maximise the integration of renewables and the use of its assets, to improve the efficiency and sustainable management of its assets, and to improve the health and safety of people.

8 Innovation

Since its incorporation in 2019, Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología (RETIT) has strengthened its position, under the Elewit brand, as the Group's tech platform and transformation engine. Elewit drives innovation, entrepreneurship and technological development, which are the cornerstones of sustainability against a changing backdrop in both the energy and telco sectors.

Through Elewit, the Group harnesses the potential of technology to further the Group's business and activity, as well as to explore new value-added business segments.

To achieve the objectives and take advantage of internal and external opportunities, whether at a very incipient or a mature stage, Elewit has rolled out the following tools or capacities:

- **Venture Client programmes**, which focus on the speedy introduction of innovation within the Group, through different startup solutions that are selected to explore different uses and applications that can benefit Group activity and improve existing technologies and processes. In 2021, the programmes involving the main work were as follows:
    - 2nd Venture Client Programme

      Programme finished in June 2021. Nine pilot programmes were conducted (six with REE and three with HISPASAT), with six of the eight startups chosen from among over 120 companies filtered and analysed in detail, from more than 10 countries. After the programme, different interviews and satisfaction surveys were held, with excellent results and testimonies.
    - 3rd Venture Client Programme

      The Company has pre-selected eight startups which will present their solution to the Selection Committee at the beginning of 2022, and from which between four and six companies will be chosen, depending on their fit and response to the needs of the different startups and the Red Eléctrica Group.
- **Corporate Venture Capital (CVC)** to invest in tech-based venture capital funds or to acquire a stake in a tech startup, whose activity could potentially be used as a launchpad to explore new digital businesses that are a strategic fit for the energy and telco transition process.

  The main activities performed by Elewit in this field in 2021 are as follows:
    - Direct investments:
        - Hesstec (Hybrid Energy Storage Solutions Ltd.)**:** a company specialised in providing energy storage solutions, specifically, the development and exploitation of advanced energy management algorithms and asset operation and degradation models, which allow storage systems to offer a range of optimised services, ensuring that electricity grid connection requirements are met and the return on assets is improved.
        - Aerolaser: a Spanish company specialising in providing innovative technological solutions for the development of advanced geospatial sensors and applications. Specifically, Aerolaser renders services in the areas of geomatics and inspection based on very high-definition mass geospatial data, designing, developing and creating proprietary systems thanks to its marked technological and R&D&i experience.
    - Collaboration:
        - Space camp**:** collaboration agreement with the Seraphim Space Camp accelerator. The accelerator seeks out companies in the aerospace sector so that they can contribute all their sector experience to ensure that companies which are at early stages can begin to scale and are ready for the investment process. It also forges relationships with some of the most important space companies and agencies in the world.

- **Creation of an ecosystem**

  In 2021, Elewit continued to position the Red Eléctrica Group within the innovation ecosystem through collaboration with startups, universities, technological centres and other corporations. As a member of the ecosystem, Elewit identifies and generates opportunities and shared value via collaboration between internal talent of the Red Eléctrica Group and external talent, including:

Universities and Technological Centres	Elewit signed two new framework agreements with universities for the development of projects in different areas of interest. Consequently, Elewit currently has nine collaboration agreements with universities and technological centres.
Companies and Institutions	Elewit has signed 12 new collaboration agreements with companies and institutions for project development and corporate scouting.
Communities and innovation networks	Elewit has signed up to the High Commissioner for Spain Entrepreneurial Nation.
Other interactions with our ecosystem	Elewit has rolled out a new tool, the launch of technological challenges on the ecosystem, contributing to technological surveillance and providing novel and disruptive solutions to some of our business challenges.

- **Intraentrepreneurship**, DESPEGA is the Red Eléctrica Group's first intraentrepreneurship programme. Launched in 2021, it allows employees to contribute directly to the generation of new products and services that could result in new lines of business and even new companies.

  Employees with an entrepreneurial spirit have the opportunity to convert their ideas into actual projects, spearheading their development with the support and resources of the Red Eléctrica Group, with the possibility of dedicating 100% of their time to the project.

- **Tech labs** to explore new technologies and provide over-arching support to initiatives.

- **A technology factory** to industrialise minimal viable products swiftly and to put into practice opportunities for the Group that stem from technological innovation.

- **Project management office** to plan and manage innovation projects and programmes.

- **Global Innovation Hub** to promote transformation, digitalisation and support the growth of the Red Eléctrica Group's innovation ecosystem. During 2021 six sessions were held on satellite innovation, REINTEL, artificial intelligence, overview of digital platforms, intrapreneurship and 5G.

- **Go to Market** to offer third parties added-value technological solutions resulting from the Red Eléctrica Group's innovation and technological development process.

  SAGA, a more mature product of the Elewit portfolio, took up a substantial proportion of the sales effort. In this regard, during the first half of 2021 the collaboration agreement between Red Eléctrica de España and its Belgian counterpart Elia was signed and sealed. Both TSOs will create an 'Asset Management Expertise Centre' to jointly design innovative solutions for managing their electricity grids, and since signing, they have been working together to evolve the SAGA platform, the software developed by Red Eléctrica that uses artificial intelligence to optimise management of assets in use.

  In 2021 an analysis was conducted of the commercial potential of and market interest in various technological solutions developed by the Group, including the programme for the detection of overhead cable anomalies (DALIA as per its Spanish acronym) or the programme for automatically identifying species of trees and bushes.

- **Venture Building**, whose aim is to drive the creation of startups from zero, involving us in their design, validation and governance.

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

- **Project 5G:** with the aim of satisfying the new needs of mobile operators in locating equipment and 5G antennae, projects have been carried out in the Red Eléctrica Group with a twofold objective: gain experience in installing 5G systems; and analyse from a technical and economic perspective whether the installation of mobile/5G infrastructure to support the electricity transmission network allows this equipment to function under the terms of service required by the telecommunications operators, using FWA (Fixed Wireless Access) technology.

- **The call for bids under RED.es's 5G National Plan banner:** an initiative that seeks to develop and assess various use cases for 5G technology.
- **Project DALIA:** this project aims to make overhead cable inspections more efficient through technological developments and the redesigning of information capture and management processes, with anomalies being processed and diagnosed using AI (artificial intelligence), irrespective of how the information is obtained (images and data).
- **Cyber deception platform:** a pilot programme has been launched with the startup Countercraft, which has developed a cyber deception platform.

As regards the **satellite telecommunications business**, in 2021 Hispasat continued to dedicate time and effort to innovation activities. This entailed carrying out initiatives in the company's main business areas, as well as in new lines, business models and new infrastructure. Highlights of the main projects and activities carried out include:

- **Europe:** during 2021, Hispasat continued to bolster its presence in the European institutional arena, becoming a relevant player within the European space ecosystem The most relevant initiatives include the following:
  - Preparation of the "European Secure Space Connectivity" study. The purpose of this European Commission study is to scale and design the future European multi-orbital satellite infrastructure, which will enable it to provide, inter alia, secure and resilient communications in the institutional arena to protect and support critical infrastructure, surveillance tasks, European external action and crisis management.
  - Presentation of the proposal for the development of the GOVSATCOM HUB. The purpose of this European Commission project is to develop the ground infrastructure necessary to put the secure satellite communications infrastructure into place.
  - Preparation of the proposal and awarding of the ESA's ITT Pool and Share project for the joint development of interfaces among satellite operators in preparation for future GOVSATCOM (provision of government satellite services) systems through "Pool and Share".
- **5G:** Hispasat is undertaking an important task in the 5G ecosystem with the aim of ensuring satellite integration. These activities include developing the 5G standard via 3GPP, as well as participating in projects that depict the value of satellites in the future network.
- **Rural/remote solutions:** through the sourcing and incorporation of satellite connectivity-based solutions that provide added value for rural or remote environments such as telemedicine or the digitalisation of primary sectors.

Innovation investment

During 2021, the Red Eléctrica Group managed 124 innovation projects, entailing an investment of Euros 9.1 million. Additionally, startup investment processes were launched to the tune of Euros 2.3 million, bringing the total investment in innovation and technological development to Euros 11.4 million, Euros 11.4 million in keeping with the average spend on innovation over the past five years.

9 Own shares

At their meeting on 31 March 2020, the Board of Directors of Red Eléctrica decided to suspend own share transactions as of 14 April 2020, except where such transactions are associated with employee remuneration.

Consequently, in 2021 only one transaction took place, for the sale of 281,296 own shares associated with Group employee remuneration, with a par value of Euros 0.14 million and a cash value of Euros 5.06 million.

At 31 December 2021 the Company held 1,803,433 own shares, with a par value of Euros 0.50 per share, representing 0.33% of its share capital. These shares had an overall par value of Euros 0.90 million and an acquisition price of Euros 17.53 per share (see note 14 to the consolidated annual accounts), and the market value was Euros 34.31 million.

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold own shares or shares in the Parent.

10 Other relevant information

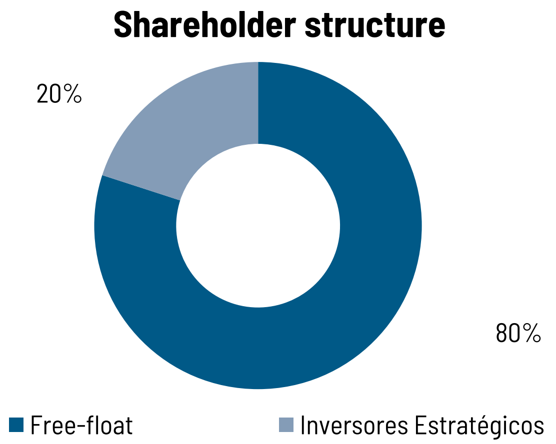
10.1 Stock market performance and shareholder returns

All of the shares in REC, the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system.

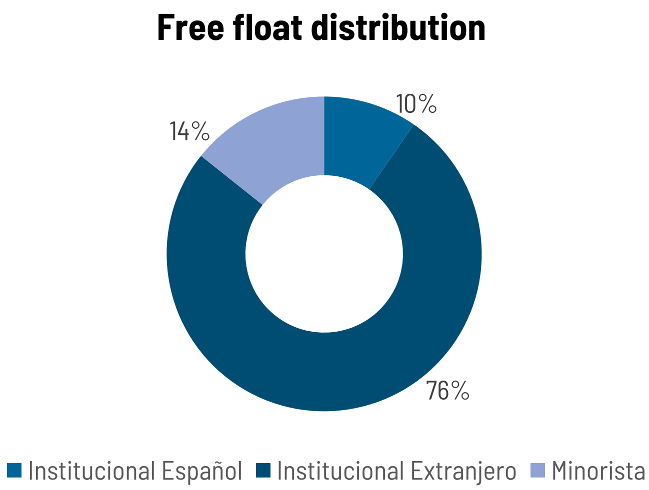
REC also forms part of the IBEX 35 index, of which it represented 2.16% at the end of 2021.

At 31 December 2021 and 2020, the share capital of REC amounted to Euros 270.5 million and was represented by 541,080,000 shares with a par value of Euros 0.50 each, subscribed and fully paid.

During the year REC's free float was 80%.



At the date of the last shareholders' meeting – 29 June 2021 – the free float comprised 432,864,000 shares, of which an estimated 14% is held by non-controlling shareholders, 10% by Spanish institutional investors and 76% by foreign institutional investors, primarily in the United Kingdom and the United States.



For yet another year COVID-19 has, to a large extent, scarred the performance of stock markets throughout the period, and the main downturns recorded by stock markets during the year have coincided with the emergence of new waves of the pandemic, for example in January, July and at the end of 2021.

In addition to the pandemic, issues such as inflation and its effect on the monetary policy followed by central banks or uncertainty regarding economic growth caused by bottlenecks in the production system have been of concern to investors throughout 2021. Following the standstill of the previous year the economy has taken off and business results have become the real market driver.

Despite the pandemic, the year could be defined as the year of recovery. Economic recovery has been accompanied by a stock market rebound. Following the slowdown triggered by COVID-19 in 2020, it is estimated that the global economy grew at a rate of more than 5% in 2021, which will enable global GDP to exceed that reached in 2019.

Global stock markets have, on average, made headway at a rate of more than 15%, which has led other indexes, such as the main US indexes or the French CAC 40 and German DAX, to report all-time highs. The good performance of the financial, energy and technology sectors can be highlighted, in contrast to the telecommunications and utility sectors which are amongst those sectors losing most ground during the year.

By geographical areas, noteworthy are the rises in the US and European stock markets, with performance of the French CAC and US Standard & Poor's indexes standing out, both of which have had annual gains exceeding 25%. Performance of the Asian stock markets has been more moderate. The Japanese stock market has risen by approximately 5%, whilst the Chinese stock market has ended the year with losses, with the Shanghai stock exchange recording a downturn of slightly more than 5%. With regard to the stock markets of emerging countries, the Mexican stock market gains exceeding 20% can be highlighted.

Spain's selective index has closed the year with a 7.9% rise. The poor performance of the Spanish market can be explained, to a large extent, by the significant weight on our economy and, as a result, on our stock market indexes, of sectors such as tourism, which have been harshly affected by the pandemic.

Red Eléctrica's share performance has been notable this year. The share topped the Spanish selective index in 2021 with a gain of 13.4%, after closing the year at a price of Euros 19.025. The share price has fluctuated between a minimum of Euros 13.565, reported on 26 February and a maximum of Euros 19.470 posted on 17 December.

A total of 427.8 million shares were traded on the Madrid Stock Exchange during the year as a whole, which is equivalent to 79% of the number of shares comprising its share capital. Cash transactions amounted to Euros 6,980.2 million.

10.2 Dividend policy

Red Eléctrica will apply the dividend policy described in its 2021-2025 Strategic Plan, which sets out a dividend payment of Euro 1 per share for 2021.

The dividend paid in 2021 with a charge to the prior year's profit amounted to Euros 539.0 million.

The dividend with a charge to 2021 profit proposed by the Board of Directors and pending approval by the shareholders at their annual general meeting is Euro 1 per share.

The dividend will be paid in two instalments – an interim dividend in January and a supplementary dividend halfway through the year following approval of the annual accounts by the shareholders at their general meeting.

10.3 Credit rating

On 15 March 2021 the credit rating agency Standard & Poor's issued a new report on the Company maintaining not only the same rating but also the outlook. This means that REC and its subsidiary REE maintain long-term ratings of 'A-' and short-term ratings of 'A-2', with a stable outlook.

On 22 April 2021 the credit rating agency Fitch Ratings gave the Company a long-term rating of 'A-' with a stable outlook. Following this announcement, REC and REE maintain long-term ratings of 'A-' and short-term ratings of 'F1', with a stable outlook.

10.4 Excellence

One of the cornerstones of the Red Eléctrica Group's corporate culture is its commitment to management excellence. The Group has a Policy of Excellence, which was last reviewed in 2021. This policy sets out the organisation's principles in relation to its commitment to management excellence, which is focused on the creation of sustainable value that meets or surpasses the requirements and expectations of the stakeholders within the Red Eléctrica Group's ecosystem, acting as a lever for achieving excellent results in both the present and future.

In 1999 Red Eléctrica adopted the EFQM (European Foundation for Quality Management) excellence management model as a tool to improve management, to which end external assessments are performed periodically in accordance with the model. Until 2020, Red Eléctrica retained its EFQM 500+ European Seal of Excellence, following the external assessment carried out in 2017, with a score of more than 700 points.

Following the publication of the EFQM 2020 model, Red Eléctrica developed a project for adaptation to the new model, prior to the external assessment that is scheduled to take place in 2022.

The Group's commitment to excellence is corroborated through external certifications from prestigious certifying entities, which guarantee that the organisation successfully implements certifiable management systems in the performance of its activities. The Group has quality systems in place in its main subsidiaries that are certified in accordance with the ISO 9001 standard.

Of particular note is the certification under the international standard UNE-ISO 19650-1 and 2 for information management in buildings and civil engineering works using the BIM collaborative work methodology (Building Information Modelling) in relation to the construction project for the Salto de Chira pumped-storage hydroelectric power plant in Gran Canaria; which complements the certification of project management systems under the international standards ISO 10006 for quality management in projects and ISO 21500 for project management.

Also noteworthy is the certification of Red Eléctrica's criminal and anti-bribery compliance system, in accordance with the standards UNE 19601 for criminal compliance management systems and UNE 37001 for anti-bribery management systems.

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

11.1 About the Non-Financial Information Statement

In compliance with Law 11/2018 of 28 December 2018, the Non-Financial Information Statement forms an integral part of the directors' report and can be viewed at the following address:

Section 11.9 of this document, "Content index required by Law 11/2018 of 28 December 2018 on non-financial and diversity information", details the specific reporting framework for each item required by the Law. For those requirements that do not pertain to any specific reporting framework, the company uses an internal framework and details in the respective section what this internal framework entails in order to facilitate understanding.

The scope of the NFIS encompasses the entire consolidated Group formed by Red Eléctrica Corporación, S.A. and Subsidiaries. Law 11/2018 of 28 December 2018 stipulates that the Group's subsidiaries are not required to prepare an NFIS as their information is included in the Group's Consolidated NFIS.

As regards information on the main risks associated with the significant investments accounted for using the equity method, the Group carries out a risk assessment that takes into consideration both financial and non-financial aspects, both at the point the investments are made and subsequently as part of the Group's regular monitoring of its risks. The results of these analyses are not considered significant to warrant their inclusion in the NFIS for 2021.

In 2021 the Group worked with the subsidiary Argo on defining the criteria and methodology to identify and assess the risks inherent to this Group company.

Please also note that, subsequent to this NFIS, the Red Eléctrica Group publishes a sustainability report which supplements this document; this sustainability report is also subjected to external assurance.

Materiality Study

In 2019, with a view to making progress in the 2030 Sustainability Commitment, the Group updated its Materiality Study in accordance with the Global Reporting Initiative (GRI) standards for the purpose of identifying relevant issues.

The Materiality Study is based on an analysis of the Group's sustainability context in order to build an overall picture of the environment in which the organisation operates. This then allows the Group to review sustainability planning for the 2019-2022 period. To define the context, the Group considers all the business activities and the geographical areas where it operates.

The sustainability context includes: a trend analysis that defines and/or will define the overall sustainability, industry and geographical framework in which the Group carries out its activity; the identification of good practices to ascertain the level of maturity of the Group's sustainability performance with respect to comparable benchmark companies; and an analysis of internal information to identify the requirements and expectations of stakeholders and other issues of relevance with a view to their incorporation in the commitments and corporate planning. Please note that the Group's stakeholders were involved in this study in order to gauge their requirements and expectations. In this respect, strategic interviews were conducted with Group management, key technical personnel and representatives of external stakeholders in order to collect knowledge on the challenges, risks and opportunities regarding sustainability from both an internal and external perspective. Specifically, representatives of the following stakeholder groups were involved in the 2019 analysis of the sustainability context: business partners, suppliers, technology research and development centres, social agents and associations, environmental groups, consumer associations and end consumers, rating agencies, the media, industry associations, professional and business bodies and associations, other companies in the sector and competitors.

This analysis led to the identification of a total of 16 relevant issues.

2021 update

Various events have occurred since then, such as the creation of the new technology company (Elewit), the acquisition of a 89.68% stake in Hispasat, S.A., the acquisition of Argo, the situation triggered by COVID-19 and the approval of the new 2021-2025 Strategic Plan, among others. The foregoing factors make it necessary to update the Materiality Study.

The 2021 update of the Materiality Study builds upon the 16 relevant issues identified previously and focuses on defining criteria to prioritise them in a more technical manner so as to better reflect the Group's current reality.

The issues are prioritised based on the concept of double materiality, as defined by the European Commission, the Spanish National Securities Market Commission (CNMV) and the GRI, among others, which considers:

- How sustainability topics influence enterprise value (financial materiality or outside-in impacts) and;
- How the company affects the economy, the environment and society (environmental and social materiality or inside-out impacts).

On the basis of this dual approach, the table below details the technical criteria used for the 2021 update of the Materiality Study.

Financial materiality and outside-in impacts
Contribution to the Group's Strategic Plan
Contribution to the Group's 2030 Sustainability Objectives
Input of the management team (1)
Inclusion in the corporate risk map (*)
Environmental and social materiality or inside-out impacts
Contribution to the Sustainable Development Goals (SDGs)
Impact of the ISO 26000 guidance on social responsibility on the criteria (2) (*)
Results of the perception studies undertaken with external stakeholders (3) (*)

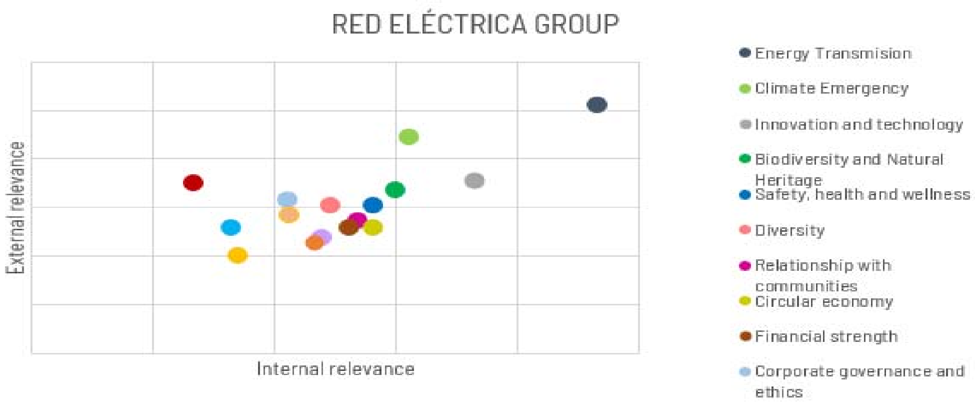
(*) New assessment criteria for the 2021 update of the Materiality Study.

(1) A survey was conducted in 2021 with the Group's management team (52% of which responded) in order to gain their insight as regards the priority and relevance of the issues.

(2) The ISO 26000 guidance establishes whether poor management or a failure to address the issue represents: non-compliance with the law; inconsistency with international norms of behaviour; potential violations of human rights; practices that could endanger life or health; and/or practices that could seriously affect the environment.

(3) As part of the initiative to update the perception studies, a section on materiality was added in 2019 where participating stakeholders can assess the relevance and priority of issues in terms of sustainability and score how they believe the company has performed on each one.

Relevant issue prioritisation matrix



The following remain priority issues: Energy Transition, Climate Emergency and Innovation and Technology. Talent and the Digital Divide are still considered issues with a lower priority. A change in the priority of the social issues can also be observed. Notable in this respect is the greater relevance of Safety, Health and Well-being (up from 11th to 5th place) and Community Relations (from 12th to 7th place).

The definition of a new 2023-2025 Sustainability Plan has been slated for 2022, which will be in line with the Group's Strategic Plan and the 2030 Sustainability Objectives; to this end materiality will be thoroughly reviewed.

The Red Eléctrica Group's response to COVID-19

The emergence of Coronavirus (COVID-19) in 2020 and its subsequent declaration as a pandemic by the World Health Organization (WHO) had a major impact around the world in 2020 and continued to do so in 2021. The recovery of global economic activity back to pre-pandemic levels will largely depend on the vaccination rates of the population in order to reach herd immunity, and on the emergence of new variants.

All operation and maintenance of the facilities was conducted normally in 2021, as was work to build new infrastructure. No incidents occurred during the year that posed a risk as regards meeting electricity demand and keeping the system up and running correctly; neither were any transmission network incidents recorded that in any way compromised the operation of the Spanish electricity system.

Moreover, both the international electricity infrastructure business and the telecommunications business have been providing essential services with no incidents arising. As regards international business, in 2021 the availability of facilities remained at its consistently high level and no service quality incidents were reported.

Within this context, Red Eléctrica has continued to apply the guidelines adapted to the recommendations issued by the different pertinent authorities in Spain as well as in each market of operations, with the priority of preserving the health and safety of all of its employees, customers and suppliers.

With this in mind, measures remain in place to allow for flexibility and to enable all staff whose physical presence in the workplace is not strictly necessary (essential personnel) to work from home, thus guaranteeing security of supply for electricity and telecommunications at any given time. The rest of the workforce has continued to work in-situ since September 2020, albeit with the necessary flexibility (shift work, essentially) to ensure compliance with the health and safety measures established at any given time by the pertinent authorities, with particular attention paid to the health situation in each market of operations, inasmuch as different measures could be required to ensure the health and safety of employees, customers and suppliers.

From a financial and economic perspective, the Group's financial position remains robust, enabling it to continue to address these circumstances through measures aimed at bolstering its liquidity. In 2021 the Group carried out a bond issue for an amount of Euros 600 million (two issues in 2020 for a total amount of Euros 1,100 million), and arranged loan agreements amounting to Euros 860 million and US Dollars 200 million. Following these transactions, and having already settled due debts and the payments arising from the Group's activity, the Group's liquidity position at December 2021 stands at Euros 3,427 million, specifically Euros 1,574 million in available cash and Euros 1,853 million in undrawn credit facilities. This position ensures the Group's ability to meet its operating cash flow requirements and to honour forecast debt maturities up to 2025.

The situation brought on by COVID-19 did not have a significant impact on the continuity of the Group's operations in 2021 nor on its financial-economic indicators. The forecasts laid out across all the Group's business units at the beginning of the year, which are aligned with the Strategic Plan, have been met at 31 December 2021.

The Red Eléctrica Group continues to set its sights on a green recovery as the cornerstone of the economic rebuilding process, given its massive potential to generate activity and create jobs. In this vein, the pandemic has clearly brought to the fore the need to up the pace of the ecological transition and digital transformation in order to advance with the decarbonisation of the economy. The Red Eléctrica Group, as operator and sole transmission agent for the Spanish electricity system, plays an essential role in this process by working towards and achieving the goals set in the European Green Deal and the integrated National Energy and Climate Plan (PNIEC).

The Red Eléctrica Group is responding to this new paradigm through its 2021-2025 Strategic Plan, which is focused on making the ecological transition a reality in order to advance towards an efficient decarbonisation of the economy, while also simultaneously strengthening the Group's position in major growth vectors, such as international operations and driving connectivity through telecommunications. All of the above is underpinned by a corporate culture in which innovation, talent and a commitment to sustainability act as the levers to ensure the Group's continuity going forward.

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

11.2 Description of the Group's business model

The Group has consolidated itself as a global operator of essential infrastructure, managing electricity transmission networks in Spain and Latin America, and telecommunications networks (fibre optics and satellites).

Management and operation of domestic electricity infrastructure

Construction and maintenance of power lines and electricity substations forming part of the transmission network (including international and inter-island interconnections) that match generation with consumption and operation in real time in the Spanish electricity system, guaranteeing continuity of supply and the safe integration of renewable energy.

This also includes the design and construction of storage infrastructure in the Canary Islands, which serves as a tool for the operation of the electricity system to improve the integration of renewable energy and the security of supply on the islands.

Management and operation of international electricity infrastructure

Construction and operation of energy transmission infrastructure in Peru, Chile and Brazil, and provision of electricity infrastructure maintenance services in Peru.

Telecommunications

Satellite communications services for video, data transmission and mobility services through satellites in operation.

Commercial operation of the excess fibre optic network capacity associated with both the electricity transmission network and the rail network, as well as technical spaces for hosting telecommunications equipment in Spain.

Development of new opportunities stemming from the roll-out of 5G networks.

Innovation and technology

The Group is committed to innovation and technology, based on the acceleration of technological innovation, the generation of competitive advantages and business opportunities to turn the Group into a technological benchmark in the energy transition, the traceability and accessibility of information, as well as the provision of innovation and technological development services to third parties.

2030 Sustainability Commitment

The Group has made a strategic commitment to long-term, enterprise-wide sustainability. In 2017, the Board of Directors approved the Group's 2030 Sustainability Commitment. Through this commitment, the Group aims to achieve long-term continuity through a business model that is capable of responding to the challenges of the future and putting the principles set out in the Sustainability Policy into practice.

The 2030 Sustainability Commitment is backed by the Board of Directors and the Group's management team, whose message is transmitted to the entire organisation with a view to encouraging a proactive attitude that incorporates sustainability into day-to-day decision-making. It is worth noting the creation of the Sustainability Committee within the Board of Directors in 2018 as a result of the strategic importance of sustainability for the Group. The key role of the Sustainability Steering Committee and the Corporate Division for Sustainability and Studies reinforces the participation of the highest decision-making levels and the involvement of all areas of the organisation in the implementation, supervision and monitoring of the 2030 Sustainability Commitment.

In 2019, the Board of Directors approved the Group's 2030 sustainability objectives, which lay out 11 proposals to measure fulfilment of the commitments established in the four sustainability priorities, focusing on those aspects that provide answers to the great global challenges on the horizon for 2030. The objectives, which are defined by the Sustainability Steering Committee and validated by the Sustainability Committee of the Board of Directors, are aligned with the priorities of the 2030 Sustainability Commitment, the Group's Strategic Plan and the United Nations Sustainable Development Goals (SDGs).

The Red Eléctrica Group's sustainability priorities and objectives for 2030

DECARBONISATION OF THE ECONOMY	
Act as a proactive agent in the energy transition towards a zero emissions model, based on the electrification of the economy and the efficient integration of renewable energy through a robust and better-connected network and the development and operation of energy storage systems.	
Objectives for 2030	**1.** Reduce scope 1[2] and 2[3] emissions by 55% and scope 3[4] emissions by 28% with respect to 2019.
	2. Empower 100% of society to be actively involved in the energy transition process.
	3. Safely integrate 100% of the renewable energy available in the electricity system, minimising waste and accelerating progress towards meeting the energy transition objectives.
RESPONSIBLE VALUE CHAIN	
Extend our responsibility commitment to all the links in the value chain, from employees to our suppliers and customers, by forging alliances, all underpinned by our model of good governance and integrity.	
Objectives for 2030	**4.** Be a catalyst for change in our suppliers.
	5. Receive (socially responsible) ESG financing in 2030.
CONTRIBUTION TO THE DEVELOPMENT OF THE LOCAL AREA	
Contribute to economic, environmental and social progress in the local area, by providing an essential service in a safe and efficient way, fostering environmental conservation, enhancing people's quality of life and social well-being and involving communities in the development of our activities so as to generate tangible mutual benefits.	
Objectives for 2030	**6.** Be a benchmark in gender equality: parity in the management team by 2030.
	7. Be a benchmark in diversity: inclusion of collectives at risk of social and workplace exclusion.
	8. Have a net positive impact on the natural capital of the area surrounding our facilities.
	9. Fully eradicate the digital divide: 100% connection rate for people in the areas surrounding our facilities.
ANTICIPATION AND ACTION FOR CHANGE	
Foster a corporate culture of innovation and flexibility that enables us to identify growth opportunities and tackle future challenges by staying ahead of and adapting to global trends and to the regulatory environment emerging from the new energy model.	
Objectives for 2030	**10.** Become a benchmark technological player, pushing at least 120 technological innovation initiatives that contribute to the energy transition and telecommunications, making the world a more connected, intelligent and sustainable place.
	11. Become a leading company in circular economy.

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

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

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

The Group's main objective is to achieve a lasting relationship of trust with its stakeholders.

The Red Eléctrica Group's stakeholder management model incorporates the requirements of regulations and benchmarks in the field, such as AA1000, IQNet SR10, ISO26000 and Global Reporting Initiative standards. This model ensures adequate management of the significant economic, social and environmental impacts of the activities and services of the Red Eléctrica Group on its stakeholders, avoiding the risk of not rapidly identifying any problem that may affect the relationship with them. This model is composed of the following stages: identification and segmentation of stakeholders, prioritisation, definition of the framework and relationship channels, and ways to identify requirements and expectations.

The Group undertakes an annual programme of perception studies aimed at assessing stakeholders' satisfaction with its performance and ascertaining their requirements and expectations. As well as being a tool to foster dialogue and closer relationships with stakeholders, the studies are also an important driver of continuous improvement for the Group.

The thorough review of the stakeholder management model, which began in 2020, continued apace through 2021. The final aim is to build an up-to-date and prioritised inventory for each Red Eléctrica Group company, which will serve as the starting point to define new stakeholder relationship frameworks that are tailored to each subsidiary and in line with the Group's actual situation.

The work carried out in this area in 2021 has led to the identification of the following stakeholder categories: regulatory bodies and public administration, the economic-financial ecosystem, suppliers, customers, the corporate ecosystem, the social ecosystem and people.

Work will continue in 2022 on the next stages of the project, consolidating the new stakeholder management model through its progressive roll-out at various Group companies.

11.3 Information on environmental issues

The Red Eléctrica Group's commitment to the environment stems from management and is based on environmental policy, which includes an explicit commitment to the prevention of pollution and the precautionary principle. The involvement of all of the organisational units and the commitment of all of the Group's employees are essential to the implementation of this commitment.

REE and REA have an Environmental Management System in place (ISO 14001 certified) to facilitate the continuous improvement of their environmental performance. REE also meets the requirements established by the EU Eco-Management and Audit Scheme (EMAS).

The Group companies incurred ordinary expenses of Euros 23.4 million in protecting and improving the environment in 2021 (Euros 23.7 million in 2020), essentially due to the adoption of measures aimed at protecting biodiversity, fire prevention, landscape integration, climate change, and prevention of pollution. As regards the business pertaining to the management and operation of domestic electricity infrastructure (REE), these expenses amounted to Euros 22.7 million (Euros 23.3 million in 2020).

A total of Euros 3.5 million (Euros 5.4 million in 2020) was spent on environmental issues associated with investment projects (including environmental impact studies, environmental oversight of work, and the adoption of preventive, corrective and accompanying measures).

The Red Eléctrica Group's main environmental impacts are those related to the construction of the electricity transmission network facilities and their physical presence in the area. The Group 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 Red Eléctrica Group has taken on board a specific commitment in relation to the fight against climate change. The Group's environmental commitment is based on three pillars: environmental management and the integration of electricity facilities into the environment; the protection of biodiversity; and climate change.

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

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

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

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

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

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

In addition to the measures aimed at making facilities compatible with the environment, we should highlight the importance to the Group of working towards and making significant headway on the sustainable use of resources. The Group's 2030 sustainability objectives include becoming a leading player in circular economy. The goals to be achieved and the actions to be carried out are enshrined in the Circular Economy Roadmap, which focuses on improvement in various dimensions:

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

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

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

b) Protecting biodiversity

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

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

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

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

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

Biodiversity management is carried out taking into account the mitigation and conservation hierarchy. Avoiding areas that are protected or highly biodiverse is a fundamental criterion when deciding on the location of facilities (in electricity transmission infrastructure, only 15.45% of lines and 5.7% of substations are located in protected areas). The second step is to minimise possible repercussions and is achieved through the application of the corresponding preventive and corrective measures, including the restoration of habitats wherever possible. Lastly, different environmental improvement initiatives and projects are implemented, aimed at offsetting any impacts that may arise.

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

- Protection of birdlife, the primary objective being to minimise the risk of birds colliding with earth wires, as mentioned above. A plan to use bird-saving devices in sections with the greatest potential impact for birds (more than 790 km of lines) has been devised, installing them for 71.1% of critical priority lines by the end of 2021.
- Prevention of forest fires, through the appropriate design and maintenance of firebreaks and the joint efforts of the pertinent authorities in this field. There are currently 11 fire prevention agreements in force with an overall associated budget of more than Euros 880 thousand allocated for a four-year period and channelled into cleaning up forest land, acquiring fire extinguishing and fire-fighting equipment, training and awareness.
- Offsetting the loss of native woodland affected by the construction of new facilities through reforestation efforts. The Group entered into a collaboration agreement in 2021 with the Vizcaya Provincial Authorities and the town halls of Garai and Alonsotegui in respect of a reforestation and restoration project covering approximately 100 hectares of mountainous terrain to be carried out in 2022.
- Implementation of conservation projects in cooperation with the government, NGOs and other bodies, notably including projects relating to birdlife conservation or those devised for the restoration of degraded areas. The latter include the "Red Eléctrica Forest" project, with more than 915 hectares restored since 2009 and an investment in excess of Euros 2,127 thousand, and the "Red Eléctrica Marine Forest" project to restore posidonia oceanica seagrass, with 2 hectares restored in the bay of Pollensa, Mallorca.

c) Climate change

The Group, mainly through its activities in the electricity business, is a key and proactive agent in the energy transition towards a zero emissions model, the main elements of which should be: the electrification of the economy, the full integration of renewable energy into the energy mix and efficiency, while always ensuring the security of supply. Taking on this role, in 2011 the Group decided to formalise a voluntary commitment in the fight against climate change, which is reflected in the goals to reduce emissions and the Climate Change Action Plan.

In 2021, in order to ramp up its climate ambitions and in keeping with the global goal of limiting the average rise in temperature to no more than 1.5°, the Group has updated **its emission-reduction targets in accordance with the criteria put out by the** Science Based Target initiative (SBTi). It is worth underlining at this point that in addition to ramping up efforts to cut scope 1 and 2 emissions, targets associated with the reduction of scope 3 emissions have been added for the first time.

Approved objectives:

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

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

The plan covers the following lines of action:

- Contribution to a more sustainable energy model, taking the necessary actions to achieve the objectives of the National Energy and Climate Plan (NECP) for 2030:
  - o Ongoing investor involvement to develop a robust, intelligent and interconnected transmission network that enables the electrification and connection of new renewable energy capacity.
  - o Maximum integration of renewables by optimising the operation of the electricity system, the use of artificial intelligence as a decision-making and predictive tool, the integration of more evenly distributed generation and the development of storage systems.
  - o Furthering efficient network management by encouraging technological innovation, incorporating new elements and services and applying new flexibility measures.
- Reduction in greenhouse gas emissions resulting from the Group's activities. The main measures implemented apply to the following areas of action:
  - o Reduction in SF6 emissions through the control and reduction of leaks, the renewal of switchgear equipment and the establishment of measures to limit the growth of installed gas, including the increased use of alternatives to gas.
  - o Reduction in energy consumption and the associated emissions: increased use of renewable sources, the development of energy-efficiency measures and more sustainable mobility initiatives.
  - o 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. On this front, the Group has already embarked upon a working programme with its leading suppliers, which will be continued and expanded over the coming years.
    - ♦ The incorporation of sustainability criteria into procurement decisions, prioritising more sustainable supplies and promoting changes that make the reduction of emissions possible.
  - o Offsetting of emissions to make progress towards a carbon neutral position for the Group, primarily through the Red Eléctrica Forest project.
- Positioning and outreach: ensuring all stakeholders are involved in Red Eléctrica's commitment, disseminating knowledge and providing complete and transparent information on the electricity system and its role in the energy transition, as well as on various energy efficiency measures.
- Adaptation: in order to address both the inevitable physical changes in the climate parameters, as well as the social, economic and regulatory changes associated with the fight against climate change, the Group regularly identifies and evaluates the risks and opportunities arising from climate change and applies various measures defined within the framework of this analysis. In 2018 work began on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which gave rise to a thorough review of the assessment, considering different scenarios and intensifying the economic quantification of risks and opportunities identified. Details of the TCFD recommendations are provided in note 4 of the consolidated directors' report.

Environmental indicators

Non-financial indicators	2021	2020	Var. %
Direct greenhouse gas emissions (scope 1) (tCO_2 eq.)(1)	23,632	25,557	-7.5
Indirect greenhouse gas emissions (scope 2) (tCO_2 eq.)(1)	646,531	600,824	7.6
Power consumption (MWh)(2)	19,770	18,255	8.3
Fuel consumption (MWh) (3)	11,015	9,438	16.7
Consumption of energy from renewable sources as a percentage of total energy consumption (%)(1)(4)	52	52	0
Water consumption (m^3) (5)	34,894	27,195	28.3
Hazardous waste (kg) (6)	584,894	236,654	147.2
Non-hazardous waste (kg) (6)	696,535	794,664	-12.3
Recycled waste (%) (7)	88	63	39.7
Number of environmental accidents (8)	8	10	-20.0
Lines with bird-saving devices installed in critical priority areas (accumulated kilometres at the end of each year).	562.5 (71.1% of the total to be installed)	508.4 (66.5% of the total to be installed)	10.6

(1) The data on emissions and energy consumption includes information for all Group companies.

(2) Most of the energy supply contracts managed by the company are for green energy or offer guarantees of the renewable origin of the energy, which represents 80.6% of the electricity consumed in 2021 (the remaining consumption corresponds to workplaces that are leased, workplaces in Latin America or that do not have electrical hook-ups and therefore receive their supply from the transmission network).

(3) Fuel consumption of fleet vehicles, generators and heating.

(4) Includes renewable energy as a percentage of total energy consumed (electricity and fuels). It does not include the percentage of renewable energy corresponding to the energy mix of each country (only that acquired contractually) or the percentage of biofuel contained in vehicle fuels.

(5) The data has a coverage of 97.7% in terms of personnel, including collaborators. The water consumed comes from the municipal supply network (49.1%), wells (48.5%) and cisterns (2.4%). In some centres there are reservoirs for the accumulation of rainwater for sanitary use, fire prevention and irrigation. The reservoirs do not have mechanisms to record the stored water, so it is not possible to calculate the percentage usage of rainwater. While water is not a material issue for the Red Eléctrica Group, the decision was made to disclose information in this respect and to seek assurance thereon, as it is nonetheless an aspect required by some sustainability indexes.

(6) When analysing the difference between the 2020 and 2021 data, it must be borne in mind that 2020 was anomalous due to the halt in maintenance and renovation activities because of the pandemic. Thus, 2021 does not represent an increase in hazardous waste based on historical data, but rather a return to figures from previous years in which this activity was carried out normally.

(7) % of waste generated (hazardous and non-hazardous) that has been recycled (this generic category includes reuse, recycling, composting, anaerobic digestion and regeneration).

(8) Relevant accidents are considered to be those categorised as significant, severe or major in the internal classification (level 3 accidents and above on a scale of 1 to 5). They do not include birds striking equipment.

11.4 Information on labour and employee-related issues

Our people

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

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

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

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

The Group has also worked on rolling out the Sustainable People Management project, which provides a new people management model that adapts the organisational structure to the new realities of the Group, geared towards the demands of the business, management and people.

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

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

Details of the key indicators for people management in 2020 and 2021 are as follows:

INDICATOR	2021	2020
Total headcount	2,117	2,051
Women (%)	26.7	26.6
Men (%)	73.3	73.4
Women in management positions (%)	34.1	32.7
People with disabilities (%)	0.9	1.0

INDICATOR	2021	2020
Net job creation (no. of positions)	66	-5
Average age	45.9	45.0
Average length of service (years)	15.8	15.6
Overall turnover (%)	4.9	0.5
Internal movement (%)	12.1	5.0
Permanent contracts (%)	98.6	98
Management team as % of total headcount	7.7	7.3
Pay gap	7.0	9.8
Training hours per employee	65	67
Average investment in training per employee (€)	2,407	3,042
Accident frequency rate	2.0	2.9
Accident severity rate	0.1	0.1

a) Employment

At the end of 2021, the Group's workforce consisted of 2,117 professionals. Of these, 90.6% (1,917 employees) work in Spain, 9.4% work in Latin America (199 employees) and 1 person works in Luxembourg. Staff enjoy stable, high-quality employment (98.6% of staff are on a permanent contract), with the focus on employability and functional mobility as a lever for growth and professional development (12.1% moved internally in 2021).

Our commitment to stable, high-quality employment is also reflected in our low unwanted external turnover (4.9%) and the average length of service of our employees (16 years).

Structure of the workforce by country where the Group is present

2021	Women			Men			Total
Spain	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	34	21	0	43	53	151
Technicians	36	246	75	46	837	411	1,651
Administrative personnel	0	28	65	0	1	21	115
Total	**36**	**308**	**161**	**46**	**881**	**485**	**1,917**

2021	Women			Men			Total
Peru	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	2	4	6
Technicians	0	29	1	1	62	6	99
Administrative personnel	0	3	0	1	3	0	7
Total	**0**	**32**	**1**	**2**	**67**	**10**	**112**

2021	Women			Men			Total
Chile	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	4	0	4
Technicians	0	5	0	2	17	2	26
Administrative personnel	0	1	0	0	0	0	1
Total	**0**	**6**	**0**	**2**	**21**	**2**	**31**

2021	Women			Men			Total
Luxembourg	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	0	0	0
Technicians	0	0	1	0	0	0	1
Administrative personnel	0	0	0	0	0	0	0
Total	**0**	**0**	**1**	**0**	**0**	**0**	**1**

2021	Women			Men			Total
Argentina	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	0	0	0
Technicians	0	1	0	0	1	0	2
Administrative personnel	0	0	0	1	0	0	1
Total	**0**	**1**	**0**	**1**	**1**	**0**	**3**

2021	Women			Men			Total
Brazil	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	1	0	0	1	1	3
Technicians	4	4	3	1	11	4	27
Administrative personnel	3	3	1	5	5	4	21
Total	**7**	**8**	**4**	**6**	**17**	**9**	**51**

2021	Women			Men			Total
Colombia	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	0	0	0
Technicians	0	0	0	0	1	0	1
Administrative personnel	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**1**	**0**	**1**

2021	Women			Men			Total
Mexico[5]	**Under 30**	**30 to 50**	**Over 50**	**Under 30**	**30 to 50**	**Over 50**	
Management team	0	0	0	0	0	0	0
Technicians	0	0	0	0	1	0	1
Administrative personnel	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**1**	**0**	**1**

[5] New country since 2021

The information for 2020 is as follows:

2020	Women			Men			Total
Spain	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	30	19	0	43	48	140
Technicians	39	247	63	52	836	399	1,636
Administrative personnel	0	38	59	0	4	20	121
Total	**39**	**315**	**141**	**52**	**883**	**467**	**1,897**

2020	Women			Men			Total
Peru	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	3	3	6
Technicians	0	14	1	2	42	6	65
Administrative personnel	0	3	0	0	0	0	3
Total	**0**	**17**	**1**	**2**	**45**	**9**	**74**

2020	Women			Men			Total
Chile	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	3	0	3
Technicians	0	6	0	2	12	1	21
Administrative personnel	0	2	0	0	0	0	2
Total	**0**	**8**	**0**	**2**	**15**	**1**	**26**

2020	Women			Men			Total
Luxembourg	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	0	0	0
Technicians	0	0	1	0	0	0	1
Administrative personnel	0	0	0	0	0	0	0
Total	**0**	**0**	**1**	**0**	**0**	**0**	**1**

2020	Women			Men			Total
Argentina	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	0	0	0
Technicians	1	1	0	0	0	0	2
Administrative personnel	0	0	0	0	0	0	0
Total	**1**	**1**	**0**	**0**	**0**	**0**	**2**

2020	Women			Men			Total
Brazil	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	1	0	1
Technicians	6	4	3	1	12	3	29
Administrative personnel	6	2	1	3	4	4	20
Total	**12**	**6**	**4**	**4**	**17**	**7**	**50**

2020	Women			Men			Total
Colombia	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	
Management team	0	0	0	0	0	0	0
Technicians	0	0	0	0	1	0	1
Administrative personnel	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**1**	**0**	**1**

Details of the Group's total workforce in 2021 and 2020 by age, gender and professional category are as follows:

Age	2021	2020
Under 30	100	112
30 to 50	1,344	1,308
Over 50	673	631
Total	**2,117**	**2,051**

Gender	2021	2020
Women	565	546
Men	1,552	1,505
Total	**2,117**	**2,051**

Professional category	2021	2020
Management team	164	150
Technicians	1,808	1,755
Administrative personnel	145	146
Total	**2,117**	**2,051**

Workforce by contract type

Age	Permanent contracts		Temporary contracts	
	2021	2020	2021	2020
Under 30	82	82	18	30
30 to 50	1,333	1,298	11	10
Over 50	672	631	1	0
Total	**2,087**	**2,011**	**30**	**40**

Gender	Permanent contracts		Temporary contracts	
	2021	2020	2021	2020
Women	555	527	10	19
Men	1,532	1,484	20	21
Total	**2,087**	**2,011**	**30**	**40**

Professional category	Permanent contracts		Temporary contracts	
	2021	2020	2021	2020
Management team	164	150	0	0
Technicians	1,778	1,715	30	40
Administrative personnel	145	146	0	0
Total	**2,087**	**2,011**	**30**	**40**

Details of the average number of permanent and temporary contracts by gender, professional category and age range in 2021, and a comparison with the previous year, are shown below. The age ranges are different to those used in 2020 (detailed further below) as a result of improvements being made to the information systems in 2020 and 2021:

Gender	2021		2020	
	Average permanent contracts	Average temporary contracts	Average permanent contracts	Average temporary contracts
Women	542.85	9.78	521.8	18.8
Men	1,503.01	19.62	1,479.5	20.9

Professional category	2021		2020	
	Average permanent contracts	Average temporary contracts	Average permanent contracts	Average temporary contracts
Management team	162.40	0	149.3	0
Technicians	1,737.26	29.31	1,706.9	39.8
Administrative personnel	146.28	0	145.3	0

Age	2021	
	Average permanent contracts	Average temporary contracts
Under 30	91.18	20.02
30 to 50	1,368.53	11.29
Over 50	583.35	0.87

	2020	
	Average permanent contracts	Average temporary contracts
Under 25	13.4	7.5
26 to 35	201.5	23.8
36 to 45	847.6	4.0
46 to 55	548.7	1.0
Over 55	394.5	0.0

In 2021 and 2020, the Group's workforce did not include any part-time personnel.

Details of dismissals[6] in the year

Age	2021	2020
Under 30	0	0
30 to 50	6	15
Over 50	3	7
Total	**9**	**22**

Gender	2021	2020
Women	3	5
Men	6	17
Total	**9**	**22**

Professional category	2021	2020
Management team	4	6
Technicians	5	16
Administrative personnel	0	0
Total	**9**	**22**

Remuneration in the Red Eléctrica Group

The Group is working to consolidate a remuneration model across every company in the Group, which reflects the following common principles:

- Internal fairness and external competitiveness.
- Consistency with the organisational and development model.
- Opportunity for salary progression.
- Differentiating recognition of superior performance.
- Equal pay between men and women.

[6] Information pertaining to Group employees: including employees who have an employment relationship with a Group company under the provisions of Article 1 of the Workers' Statute, and excluding those engaged under a service contract.

The Group has a flexible remuneration system that can be configured to provide personalised employee remuneration, offering its personnel products such as health insurance, training, life insurance, travel cards, luncheon vouchers and childcare vouchers, as well as REC (Red Eléctrica Corporación, S.A.) stock option programmes.

Red Eléctrica's remuneration model for non-management personnel comprises a fixed portion with broad pay bands that enable wage differentiation and a variable portion or extraordinary bonus that allows for outstanding contributions to be recognised.

The remuneration model for the management team includes a fixed portion and a variable annual element which considers the contribution made to the achievement of individual objectives, the company's overall targets, and leadership goals that promote and link the variable remuneration to the management leadership model. Long-term variable remuneration is also available to the management team at the level of director and above, the purpose of which is to maximise motivation and commitment to achieving the Strategic Plan and to develop leaders.

Moreover, the Group continues to make progress with the "total remuneration" model, which consists of different elements (economic, financial, intangible and emotional), and which enables and supports new ways of working and the organisational and cultural transformation of the Group.

This approach includes recognition programmes linked to the development of innovative and efficient ideas, as well as revenue generation, in order to encourage the participation of all of the Group's professionals.

Details of the average remuneration of the Red Eléctrica Group's workforce

When calculating the average remuneration, all elements of employee remuneration are included, as follows:

- Fixed remuneration.
- Annual variable remuneration.
- Remuneration in kind.
- Personal supplements.
- Job-related supplements.
- Expatriate supplements.
- Benefits.
- Indemnities.
- Payments into long-term savings schemes.
- Long-term variable remuneration.
- Overtime.
- Allowances.

The detail of the average remuneration of the Group's workforce for 2021 would be the following (in Euros):

	Women			Men					
Average total salary for 2021	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	Average total for women	Average total for men	Average total
Management team	0	121,878	197,368	0	137,814	175,826	143,839	155,576	**151,591**
Technicians	35,346	53,879	62,990	35,815	54,854	68,319	53,349	57,716	**56,738**
Administrative personnel	12,387	37,644	44,421	16,830	31,065	48,927	40,517	38,398	**39,928**
Total	**33,471**	**59,219**	**70,364**	**33,832**	**59,200**	**79,195**	**59,807**	**63,973**	**62,862**

The information for 2020 is as follows:

	Women			Men					
Average total salary for 2020	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	Average total for women	Average total for men	Average total
Management team	0	121,550	199,155	0	144,021	176,098	151,642	160,218	**157,417**
Technicians	33,711	55,321	62,861	36,408	56,169	69,949	54,104	59,447	**58,277**
Administrative personnel	11,774	36,571	44,247	13,698	34,511	46,811	39,380	41,161	**39,807**
Total	**31,130**	**58,616**	**72,948**	**35,291**	**60,560**	**79,987**	**59,886**	**65,780**	**64,216**

The Red Eléctrica Group rewards its professionals under principles of fairness based on their level of responsibility and professional experience, and its annual salary review processes differentiate on the basis of the contribution made over the year and the results of their achievements, never on the basis of gender.

With a view to promoting transparency and complying with market recommendations and best practices, the Red Eléctrica Group includes all elements of remuneration and all amounts received by its employees when calculating the gross pay gap, included allowances, overtime and supplements for expatriate assignments. The calculation formula is as follows:

$$\frac{\text{Average salary for men} - \text{Average salary for women}}{\text{Average salary for women}}$$

The gross pay gap in the Red Eléctrica Group in 2020 and 2021 is shown in the following table:

Red Eléctrica Group	2021	2020
Gross pay gap	6.96%	9.84%

The Group takes great care as regards equal pay for men and women, which has enabled it to reduce the gross pay gap by approximately three percentage points this year.

In 2021 the Group has also worked on keeping record of remuneration, as set out in RD 902/2020, with the aim of guaranteeing equal pay in equivalent positions and ensuring transparency, following consultation with the workers' representatives in the pertinent Red Eléctrica Group companies.

Over the coming years, the Group will continue working to develop initiatives that enable us to make further progress in improving these values.

Details of the average remuneration in 2020 and 2021 by gender and age are as follows:

Gender	2021	2020
Women	59,807	59,886
Men	63,973	65,780
Total	**62,862**	**64,216**

Age	2021	2020
Under 30	33,679	33,397
30 to 50	59,205	60,044
Over 50	77,083	78,356
Total	**62,862**	**64,216**

As regards the remuneration of the Board of Directors, there is no gender-based pay difference amongst the members of the Board, as disclosed in note 26 to the consolidated annual accounts.

As regards senior management, according to note 27 to the Group's consolidated annual accounts, in late 2020 the Group started a reorganisation process to address the challenges posed by the new 2021-2025 Strategic Plan, involving the centralisation of corporate activities in the Group's parent company and culminating in the approval of a new Group organisational structure in the first quarter of 2021, geared towards ensuring fulfilment of the Strategic Plan.

This reorganisation has entailed, inter alia, certain professionals who already formed part of the Red Eléctrica Group, and who were carrying out management duties, being acknowledged as senior management personnel.

In 2021 total remuneration accrued by senior management personnel amounted to Euros 3,103 thousand and is recognised as personnel expenses in the consolidated income statement. In 2020, total remuneration accrued by senior management personnel, applying the criteria resulting from the organisational changes, amounted to Euros 2,939 thousand. These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

Implementation of policies on disconnecting from work

Article 88, the Right to Digital Disconnection from the Working Environment, of the Spanish Data Protection and Digital Rights Act (Organic Law 3/2018 of 5 December 2019), includes an obligation for companies to meet with workers' representatives and draft an internal policy for employees (including those in management positions) that defines how this right to disconnect can be exercised and the actions taken to train employees and raise awareness about the reasonable use of technology to prevent the risk of IT fatigue.

The Red Eléctrica Group's Digital Disconnection Protocol, which defines how the right to disconnect can be exercised and the actions to be taken to train employees and raise awareness about the reasonable use of technology, entered into effect in the first quarter of 2021.

b) Organisation of working time

The actual effective working day established for employees complies with legal standards of minimum required rights and with the conventional framework applicable at the corresponding Group company.

A real and effective timetable of 1,690 hours per annum is established for 78% of the Group's workforce. This is distributed according to the circumstances at each work centre, with a basic 7-hour day schedule on every working day of the year, and flexible starting and finishing times.

Number of hours of absenteeism

The number of working hours lost due to common illness or occupational accident are shown in the table below:

	2021		
	Men	Women	TOTAL
Hours lost due to occupational accidents	2,148	250	**2,398**
Hours lost due to common illness	63,720	30,165	**93,885**
Hours lost due to health and safety	**65,868**	**30,415**	**96,283**

No hours have been lost due to occupational accidents at Hispasat or at the Latin American companies.

Hours of absence due to occupational accidents include occupational accidents + commuting accidents

Hours lost due to common illness is the sum of days of temporary disability due to common illness + illness < 3 days

Hours lost due to health and safety is the sum of days of common temporary disability + illness < 3 days + commuting accidents

When calculating this data, the number of calendar days of absence was multiplied by 5.20, which is the coefficient deemed appropriate to take into account all days of absence without considering whether they are working days or not in order to make them equivalent to the number of days actually lost.

Information on Group companies in 2020 is as follows:

	2020		
	Men	Women	TOTAL
Hours lost due to occupational accidents	1,207	884	**2,091**
Hours lost due to common illness	64,724	22,932	**87,656**
Hours lost due to health and safety	**65,931**	**23,816**	**89,747**

The number of hours lost due to common illness is 1,071.2 hours in Peru and 171.6 in Chile

For the Group as a whole, 87,656 hours were lost due to common illness. Zero hours were lost due to occupational accidents in Hispasat and the Latin American companies.

Hours of absence due to occupational accidents include occupational accidents + commuting accidents

Hours lost due to common illness is the sum of days of temporary disability due to common illness + illness < 3 days

Hours lost due to health and safety is the sum of days of common temporary disability + illness < 3 days + commuting accidents

Management of work-life balance

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

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

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

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

Health and safety

Through the commitment and leadership of the management team, the Red Eléctrica Group promotes best practices in safety, health and well-being. Its healthy company management model is aligned with the Group's Strategic Plan, the People Department's Operational Plan and the 2030 Sustainability Commitment of the Red Eléctrica Group.

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

- Physical work environment: providing all the means necessary in order to perform our professional duties in the best possible safety conditions.
- Participation in the community: through actions performed by the company that have an impact on improving the health and well-being of its employees' families and the communities in which it operates.
- Health resources: providing the workforce with tools to improve their physical and mental health, contributing to their well-being and quality of life.
- Psychosocial work environment: implementing management and work organisation tools and resources that favour the physical and psychosocial well-being of workers.

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

The Group has a strategy and a specific action plan that promotes best practices in relation to occupational risk during activities and work carried out at its facilities. The objective is to go beyond mere legal compliance, by training, informing, and raising awareness about the obligations and responsibilities that exist and to engage the whole Group to achieve this goal.

In this context, higher risk tasks and activities are monitored on an ongoing basis by means of safety inspection programmes, which are essential to achieving the high levels of safety required. Accordingly, in 2021, 11,004 safety inspections were carried out on works and facilities (10,285 inspections in 2020), incidents having been detected in 11.34% of cases. As a result of all the activities performed to control and monitor works, over 1,800 corrective actions were required, of which 89.78% were resolved while the rest are in the process of being resolved.

To minimise the risks associated with construction and maintenance tasks at electricity facilities, the Group places special emphasis on training, awareness, consultation and participation (through the Health & Safety Committee, internal audits and working groups), improving safe conduct and the safety measures employed while work is being carried out by internal and external (contractors) personnel. In recent years, several initiatives aimed at reducing accidents during the works execution phases have been implemented.

In 2021 the initiatives set out in the 2020-2023 Health and Safety Action Plan have been undertaken, aimed at addressing the strategic challenge of being a Zero Accidents group. Two main lines of work have been established: Culture of Prevention and Innovation.

- **Culture of Prevention:** to instil a culture of prevention focused on the well-being of the people working at Red Eléctrica's facilities, promoting a safe working environment, strengthening the communication of all the aspects that contribute to increased safety when performing an activity.
- **Innovation:** focusing on innovation as a driver of digital transformation in the field of occupational safety. We manage innovation in health and safety, putting technology to work for people.

As part of the *Culture of Prevention*, efforts have been made in 2021 to ingrain communication as one of the essential facets for creating and fostering a long-lasting culture of prevention, with the aim of imbuing and sharing the message across the organisation, raising awareness among the Group's personnel regarding the importance of prevention.

In this respect, the following actions were carried out in 2021 to develop a Culture of Prevention:

- ✓ Strengthening of internal and external communication channels.
- ✓ Management of communication to improve the culture of prevention.
- ✓ Synergies and shared experiences across companies.

- ✓ Transfer of knowledge.
- ✓ Improvement and optimisation of communication protocols.

On the *Innovation* front, and in view of the opportunities offered by digitalisation, the aim is to improve the health and safety conditions and well-being of the Group's employees and stakeholders, strengthening the strategic areas where technology and people converge, as the most important assets of the companies.

The Group drew up an innovation strategy in 2021 to develop an innovative organisation as regards health and safety, making it possible to design, explore and execute specific actions in a proactive and shared manner within the Group's coordinated environment of innovation. The Group has also put into motion various pilot projects seeking to make an impact on health and safety processes and promote the use of technology, with the help of Elewit, the Group's technology company, and supported by the IT Department.

One of the main areas of development revolves around the concept of "connected workers" and the underlying technology: from IoT devices (through sensors that send alerts) to the roll-out of communication networks providing connectivity. The value of this technology has been explored with the startup ENGIDI in order to validate its usefulness in pre-empting and avoiding situations that could compromise workers in electrical environments, such as the Group's critical infrastructure facilities.

Likewise, artificial intelligence applied to knowledge management has been used in a pilot project called ZAPIENS-CIRIS, and its use in employee well-being has been investigated through a proof of concept with the startup ERUDIT.

Such testing allows results to be obtained swiftly and facilitates decision-making for future escalation. Following on from a pilot project carried out in 2020 *("Protected Areas", which applied blockchain technology)* and the usefulness proven during the testing, the Group launched a new platform in 2021 to continue to improve the execution of "Protected Areas" and increase traceability in the process.

In the specific area of Health and Health Promotion, in addition to the basic actions of health monitoring, various campaigns aimed at guaranteeing physical, psychological and social well-being have continued, offering certain services through digital platforms and gradually resuming some in-person activities: consultations on nutrition, physical condition, physiotherapy and other sports activities.

Red Eléctrica conducts preventive monitoring of the health of its employees on an ongoing basis through its in-house medical service, which is responsible for checking employees' health through periodic medical examinations and consultations. As a result of the preventive measures applied, no incidents or risks of specific illnesses associated with the professional activities carried out or related to the workplace have been identified.

Another highlight of 2021 was the satisfactory result of the audit to renew the Healthy Company certificate and ISO 45001. Regulatory audits have also been performed on the companies that form part of the Red Eléctrica Group's Joint Health and Safety Service.

Lastly, this year a psychosocial risk assessment was performed with 64% of employees completing the evaluation survey. Furthermore, 13 workshops and interview sessions were held involving the direct participation of over 120 people.

Workplace accidents and occupational illnesses

In 2021, the key accident rates for Group employees were 1.98 (frequency) and 1.33 (severity). In 2020 the frequency rate stood at 2.87 and the severity rate was 0.10.

Unfortunately, in 2021 a Group employee suffered an accident classed as very serious due to falling from a height while working on power lines. The worker is currently recovering.

	2021			2020		
Red Eléctrica Group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Accidents with leave	7	0	**7**	9	1	**10**
Fatal accidents	0	0	**0**	0	0	**0**
Days lost due to accidents [1]	4,699	0	**4,699**	173	170	**343**
Accident frequency rate	2.70	0	**1.98**	3.52	1.08	**2.87**
Accident severity rate	1.84	0	**1.33**	0.07	0.18	**0.10**

Frequency rate: number of work-related accidents resulting in leave per million hours worked.

Severity rate: number of working days lost due to occupational accidents + incapacity scale, per thousand hours worked.

[1] The calculation is based on 6,000 working days for a fatal accident and 4,500 days for total permanent disability.

Moreover, there were no cases of occupational illness in either 2021 or 2020.

Red Eléctrica implemented measures at the first news of the spread of COVID-19, which has allowed the contingency plans to be rolled out promptly and effectively.

Since the start of the high-alert situation triggered by the pandemic, reported cases have been monitored both in terms of illness and possible contact. Essential personnel, system operators and technical maintenance specialists have been identified and are subject to special monitoring. Exhaustive monitoring of positive cases continued in 2021, equipping personnel with the necessary protective equipment to perform their duties (face masks and sanitiser gels), and adapting buildings in line with health recommendations.

c) Labour relations

Red Eléctrica considers internal communication a key factor for sharing its mission and strategic goals, involving employees in the organisation's various projects and improving the work climate, thus helping to boost pride in belonging.

The main focus of internal communications was as an adjunct to the company's transformation and the introduction of new, more agile, flexible and collaborative ways of working that enable the company to achieve the challenges set out in the new Strategic Plan.

The various internal channels include NuestraRED, a new collaborative intranet integrated with Office 365 that was launched in 2021. It contains the most relevant news related to the company and offers users information on their day-to-day activity (meetings, pending tasks, etc.), all without leaving the corporate environment.

NuestraRED also has an exclusive area for the management team, the leaders portal, providing all the specific information related to their team management, people management processes, development and training, thus helping to galvanise their leadership.

Users also have direct access to applications, areas and tools geared towards boosting innovation and agility in the organisation, making it a simple, useful and easy-to-access tool that is on hand for all employees during the cultural transformation.

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

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

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

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

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

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

Employees covered by a collective bargaining agreement

The Group guarantees its employees the right to trade union membership, association and collective bargaining within the framework of the provisions of the International Labour Organization (ILO), current labour laws and the applicable collective bargaining agreement. This involves having workers' representatives at several Group companies as well as collective bargaining agreements and holding talks and meetings on this topic.

Employees covered by a collective bargaining agreement	2021	2020
Employees in Spain	86%	91%
Employees in Brazil	94%	98%

In 2021, the aggregate figure for the other countries where the Group is present (Peru, Chile, Argentina, Colombia and Luxembourg) is as follows:

Employees covered by a collective bargaining agreement (Peru + Chile + Argentina + Colombia + Luxembourg)	2021	2020
	3%	3%

In the second half of 2021 talks began regarding a framework collective bargaining agreement for REE, REC, REINTEL, REINCAN and Elewit, as well as individual equality plans for REE (adapting the existing equality plan), REC and REINTEL.

2021 saw a significant number of union elections, resulting in the renewal of directly elected representatives for the majority of REE's workforce, as well as the appointment of a Workers' Committee for REC and an employee delegate for REINCAN.

Also, the Red Eléctrica de España Intercentre Committee has met and the sitting workers' representative has been briefed on matters of general interest to the workforce. Other committees have also held various meetings which have included the workers' representatives of REE and the workers' committees of REC and REINTEL.

Consequently, labour relations in 2021 featured a high degree of union activity.

The Red Eléctrica Group promotes the involvement of workers in the company's management through various internal channels of communication (as indicated above) and through social dialogue in the form of briefings, consultations and participation of workers' representatives via the different committees in place.

Summary of the collective bargaining agreements in the area of health and safety

Red Eléctrica de España has an occupational health and safety committee whose composition and functions are set out in Chapter 7 of the 11th Collective Bargaining Agreement.

This committee is a collegiate body with equal representation intended to provide regular and periodic consultation regarding the company's occupational health and safety actions. The committee consists of six representatives nominated by the company and six health and safety delegates chosen from among the workers' representatives, who represent 100% of the employees. Specialists from the company's health and safety service also attend the committee's meetings.

The committee meets every quarter (in accordance with Occupational Risk Prevention Law 31/1995) and at the request of any of the parties. In 2021 the committee held four meetings as planned and two extraordinary meetings at the behest of the company's representatives and the health and safety delegates to report on accidents that had occurred.

These meetings serve to monitor all health and safety activities, any new applicable legislation, the reviews of processes and internal regulations, as well as analysing and tracking the results and the occupational health and safety programmes and monitoring safety equipment and materials. The minutes to these meetings are available to all employees under a dedicated section of the NuestraRED corporate intranet. This committee also receives the results of the internal and external audits that are carried out and any improvement actions that are implemented.

The REINTEL Health and Safety Committee was set up in 2021, consisting of two representatives nominated by the company and two health and safety delegates chosen from among the workers' representatives, who represent 100% of the employees. Specialists from the Group's joint health and safety service also attend the committee's meetings.

d) Training

As regards training, our commitment focuses on the "Sustainable management of diverse and committed talent", through the development and fostering of knowledge and continuous learning of the Red Eléctrica Group's employees.

To do this, every year a Training and Development Plan is defined within the framework of the Talent Management Model to combine the planning and implementation of professional development programmes and training actions, which will help achieve both the goals of the organisation and the people in it. The content is aligned with the three levers of the philosophy of the Red Eléctrica Group Campus: knowledge of the business and technical training; strategy and leadership; cultural transformation and innovation.

A high component of self-development is encouraged in training, with the launch of programmes and learning spaces this year wherein the employees themselves decide how and when to participate based on their own interests. This was formalised for the first time in 2021 through the new Individual Learning Plan process.

This year, 137,010 hours of training were undertaken, equivalent to 65 hours per employee, at an investment of Euros 2,406.86 per person.

Training hours by professional category and gender:

	2021			2020		
Red Eléctrica Group	Men	Women	Total	Men	Women	Total
Management team	7,940	4,900	12,840	8,708	4,987	13,695
Technicians	98,955	20,756	119,711	94,164	23,178	117,342
Administrative personnel	1,779	2,680	4,459	1,995	3,716	5,711
Total	**108,674**	**28,336**	**137,010**	**104,867**	**31,881**	**136,748**

To help students on higher vocational training courses obtain qualifications, the Group has remained actively involved in the vocational training programme with theoretical and practical content, as part of the dual vocational training system leading to the qualification of Senior Power Plant Technician. The third graduating class completed their training on 30 November 2021.

The aims of this initiative is to produce professionals who are available to immediately take up maintenance specialist technician positions; to furnish the sector with trained professionals equipped with Red Eléctrica know-how; and to enhance the job opportunities of young people in the Spanish industry.

Because the preventative measures applied by the Group as a result of COVID-19 remained in place, the programme for the third graduating class was designed and executed drawing on experience from the second year. This entailed a mixed format which combined a wide range of virtual technical and safety training with traineeships at the work centres.

Lastly, the Red Eléctrica Group runs a nine-month theoretical and practical programme led by the company's operators, that enables young engineering graduates to qualify as Electricity Control Centre Operators.

e) Integration and universal accessibility for people with disabilities

Disabilities are one of the main areas of focus of the 2018-2022 Comprehensive Diversity Plan.

The General Law on the Rights of People with Disabilities (LGD) is applicable to four of the Group's companies, one of which complies with the law through direct employment (REINTEL, 3.33%).

REE achieves legal compliance through alternative, exceptional measures, reaching 2.62%. Of this percentage, 0.54% corresponds to direct employment and the remainder to the application of exceptional alternative measures within the framework of the LGD, consisting of contracting goods and services from Special Employment Centres and making donations to entities whose mission is the social and labour integration of people with disabilities, and which support the Group in carrying out actions related to disabilities as part of the annual diversity programme and contribute to its social initiatives.

At present, 1.28% of REC's workforce have a disability, thus, in addition to its efforts to hire a greater number of differently abled employees, the Group is working on obtaining the certificate of exceptional circumstances so as to achieve legal compliance through alternative measures.

Hispasat's direct employment percentage is 1.95% and it complies with the LGD by also applying alternative, exceptional measures.

The number of Group employees with disabilities is as follows:

	2021	2020
People with disabilities	20	20

The corporate website of Red Eléctrica was developed using website accessibility criteria with Level AA Conformance to Web Content Accessibility Guidelines 2.0 (WCAG 2.0) of the World Wide Web Consortium (W3C) Web Accessibility Initiative (WAI).

One of the most valuable disability projects is the Family Plan, consisting of personalised assistance to improve the social and labour integration of any Group employees' family members with disabilities. Red Eléctrica participates in institutional and private campaigns fostering the employment of differently abled people, as well as awareness campaigns.

f) Equality and diversity

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

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

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

2021 saw the launch of a training and awareness programme called *Management of diversity and Female leadership*, aimed at promoting leadership among the women employed by the Group, separated into two different modules:

- The first, aimed at the entire workforce without exception, to raise awareness regarding the importance of diversity and foster inclusion in the organisation, reducing unconscious bias.
- The second, aimed at ascertaining the opinion of the Group's professionals regarding the opportunities offered in the organisation for professional advancement and development, to discover potential individual limitations.

Focus groups and questionnaires have been used in both cases, making enquiries with both management and non-management personnel. The first phase of the programme ends in January 2022 and it will continue throughout the year along with other actions.

Stemming from the Group's commitment to equality, the percentage of women in the workforce stood at 26.69% in 2021 (26.62% in 2020). The number of women in management positions has once again increased, totalling 34.15% in 2021 (32.67% in 2020). These results are nearing the targets set for 2022.

The significant female presence on the Executive Committee is notable, with 50% women, as well as on the Board of Directors, where women have a 50% representation, the highest among the IBEX 35 companies.

Accordingly, efforts remain ongoing to achieve equality between men and women. Details of the key indicators for 2020 and 2021 are as follows:

	2021	2020
Hiring opportunities index	1.0	1.1
Selection opportunities index	1.0	1.0
Training opportunities index	1.0	1.0
Promotion opportunities index	1.7	1.4
Opportunities for internal promotion to the management team index	1.8	1.6

During the last quarter of the year talks began with workers' representatives to adapt REE's Equality Plan and to establish Equality Plans for REINTEL and REC in line with new legislation on equality.

This year the Group has collaborated with a number of entities related to this subject matter and has participated in various observatories and academic forums on diversity.

11.5 Information on respect for human rights

Respect for human rights

The Group has an explicit and public commitment to respecting and promoting human rights in every country in which it operates, with special emphasis on the freedoms and rights of vulnerable groups such as indigenous people, women, children and ethnic minorities, among others.

This commitment is included in the rules of conduct and guidelines established in the Code of Ethics and Conduct and in the Sustainability Policy, and it applies to the whole supply chain through the Code of Conduct for Group suppliers. Lastly, as a member of the Spanish network of the United Nations Global Compact, the Group has strengthened its commitment to human rights by signing up to the ten principles of the Global Compact.

In 2017 Red Eléctrica formalised its human rights management model, approved by the Group's Sustainability Steering Committee. This Model follows the methodology defined by the United Nations (UN) Guiding Principles on Business and Human Rights. The Model covers all of the Red Eléctrica Group's activities and establishes global commitments and grievance mechanisms for all of its business activities and in all the geographical areas in which it operates.

Human rights are managed from a continuous improvement perspective. In this connection, the Group has been conducting regular due diligence assessments since 2013 in order to identify the actual and potential impact of its activities on human rights. In 2020, due to the opening up of new markets and the sourcing of supplies outside Europe, the company carried out a project to update its due diligence mechanisms in order to identify and analyse new direct or indirect risks that its activities might pose to human rights. Among other things, it was ascertained that the company's presence in Peru and its more recent expansion to Chile and Brazil underlines the need to consider the possible impact on local communities, with particular emphasis on indigenous people, and it was determined that investment in new projects increases the number of business partners in countries with different standards and job markets, which could give rise to the violation of labour rights or of the right to equality and non-discrimination.

In 2021 progress was made in various projects carried out in this connection, aimed at contributing to improved management of potential and actual impacts on human rights. Any impacts identified in respect of the Group's relations with its stakeholders will be assessed in the course of 2022 with the ultimate aim of designing measures to prevent the violation of human rights in its area of activity.

The Group takes an approach based on control and continuous improvement, implementing actions that help to prevent potential human rights violations, while searching for solutions and redressing them in the event that they arise. In 2021 a total of 35 social audits were performed and seven action plans were designed to redress the most significant non-conformances, affecting six suppliers, for whom a specific deadline has been granted to remedy the non-conformances identified, facilitating supplier development and verification of the improvements made. The results of these audits and their findings are shared internally, placing special emphasis on the detection of significant non-conformances. As regards human rights commitments, improvements aimed at fostering supplier development are agreed, and changes are measured so as to verify whether such improvements have been made, and otherwise to ban the supplier temporarily or permanently. In 2021 the company did not receive any external complaints through the channels established for that purpose, and it did not cancel any contracts or orders on grounds of respect for human rights in its supply chain.

The Group has set up a whistleblowing channel that is available to all stakeholders as a formal mechanism for addressing any human rights-related enquiries or complaints. The company also has the DÍGAME and ASA services (Procurement Support Services), through which stakeholders can express their concerns about any grievances in this area. The DÍGAME Service did not receive any human rights-related complaints in 2021.

The whistleblowing channels available to stakeholders have not received any human rights-related complaints in respect of Hispasat. None were received in previous years either.

Lastly, we highlight that in 2021 a total of 144 users from 104 suppliers took part in the human rights training programme developed by the Group in cooperation with the Spanish network of the United Nations Global Compact.

11.6 Information on the fight against corruption and bribery

Ethics and Compliance in the Red Eléctrica Group

Ethics and compliance are fundamental pillars of the proper course of business at the Group. This means acting with the utmost integrity in discharging the Group's obligations and commitments, and in relations and cooperation with its stakeholders.

The Group has a series of corporate rules of conduct establishing the values, principles and standards of conduct that must be adhered to by all persons in the Group in the performance of their professional activities.

Code of Ethics and Conduct

The Group's Code of Ethics and Conduct applies to all Group personnel. It establishes and facilitates commitment to the ethical values, principles and standards of conduct that must govern our professional activity within the organisation.

The latest version of the Red Eléctrica Group's Code of Ethics and Conduct, approved by the Board of Directors on 26 May 2020, addresses the ethics management requirements and recommendations established by the United Nations (primarily through the Sustainable Development Goals, the Ten Principles of the Global Compact and the Universal Declaration of Human Rights and its implementing conventions), the Organization for Economic Cooperation and Development (OECD), the International Labour Organization (ILO) and Transparency International, among others.

Ethics and Compliance Channel

The Red Eléctrica Group has set up an Ethics and Compliance Channel available to all the organisation's members and stakeholders, through which they can:

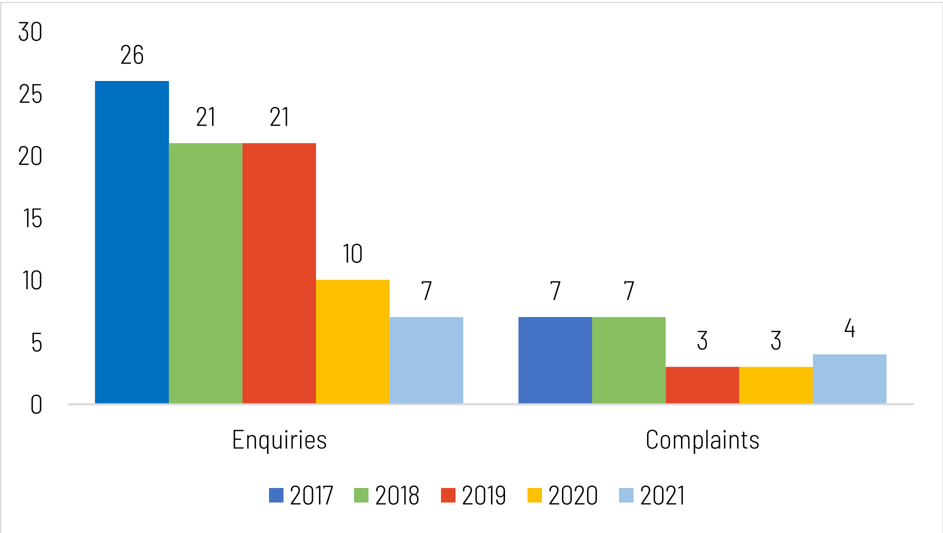
- Raise any queries regarding interpretation of the ethical values, principles and standards of conduct laid down in the Code, or propose improvements.
- Report any non-conformances in respect of the Code, legislation, internal regulations or commitments taken on by the organisation.
- Report any potential irregularities or non-conformances related to financial, accounting or business malpractice.

The Red Eléctrica Group's Ethics and Compliance Channel is managed by the Ethics Office in coordination with the Compliance area and its activity is governed by guidelines on the channel's management, which are in line with the Spanish Data Protection and Digital Rights Act and the EU Directive on the protection of persons who report breaches of Union law.

Enquiries and complaints processed in 2021

A total of seven enquiries were made to the Ethics Officer via the Ethics and Compliance Channel in 2021. Four complaints were received in relation to compliance with the Code of Ethics and Conduct in 2021. None of the complaints concerned non-conformances linked to the organisation's criminal risks.

The chart below shows the number of queries and complaints made in each of the last five years.



Compliance system

The Group's Compliance System is aligned with the best practices in this area, so as to support the organisation in fulfilling its obligations and commitments.

The Red Eléctrica Group's Compliance Policy, the latest version of which was approved by the Board of Directors on 27 July 2021, expresses the organisation's commitment to the prevention and detection of, and response to, any conduct that contravenes the legal obligations and commitments assumed voluntarily, in accordance with the values, principles and behaviour guidelines of the Code of Ethics and Conduct. The Policy sets out the Red Eléctrica Group's express commitment to compliance with the criminal and anti-bribery laws applicable to the organisation and its rejection of any form of criminal conduct, in keeping with the values, principles and behaviour guidelines established in the Red Eléctrica Group's Code of Ethics and Conduct.

The Group has a Compliance area that is entrusted with the design, development, implementation and monitoring of the organisation's compliance system.

The main goals of the compliance system are:

- Establish a control and supervision system to mitigate compliance risks, optimising and improving their management.
- Make available to the entire organisation the content of the principles and rules that should govern their performance within the Group and the instruments required to this end.
- Raise awareness among Group members of the importance of the Compliance System and the necessary adaptation of their conduct to the values and behaviour guidelines of the Code of Ethics and Conduct.
- Formalise the Group's commitment to the prevention of any conduct that is contrary to the applicable legislation and to the commitments assumed voluntarily.
- Inform the persons subject to the Compliance System that violation of the principles and guidelines of the System will lead to disciplinary measures.
- Establish appropriate control measures to mitigate the Group's compliance risk, as well as reactive and corrective measures when non-conformances are detected.
- Maintain supporting evidence of compliance with the Group's obligations and commitments.

Criminal and anti-bribery compliance system

The Group has a criminal and anti-bribery compliance system that aims to identify the rules, procedures and tools in place in the Group to prevent non-compliance with the criminal legislation applicable to the Group and its personnel. The management and prevention of criminal risks that could affect the Group, based on its activities and business sectors, are thus incorporated into the Group's control processes.

The Board of Directors, as the ultimate body in charge of the Group's risk management, in accordance with applicable regulations, has designated the Criminal Compliance Committee as the specific body in control of the Group's Criminal Compliance System. The Criminal Compliance Committee is responsible for the supervision and monitoring of the Group's criminal and anti-bribery compliance system and its objective is for the main criminal risks to be properly identified, managed and disseminated internally.

The Criminal Compliance Committee is an independent body which reports its activities to the Board of Directors, via the Audit Committee. It also provides the Board of Directors with information on the adequacy and effectiveness of the criminal and anti-bribery compliance system.

The criminal and anti-bribery compliance systems of the Parent of the Red Eléctrica Group (REC) and its subsidiary REE have been certified under UNE 19601 and ISO 37001. The certification process for these systems was carried out by AENOR in accordance with the aforementioned standards.

In 2021, none of the Group companies were investigated or found guilty of acts of non-compliance linked to the organisation's criminal risks. Likewise, no complaints were filed in connection with potential cases of corruption and no Group company was investigated or found guilty by any court in connection with acts of non-compliance linked to corruption.

Prevention of corruption and money laundering

The Code of Ethics and Conduct and the criminal and anti-bribery compliance system, which include aspects related to the fight against corruption and money laundering, constitute an effective mechanism for the detection and treatment of possible cases of corruption and fraud. The Group has a guide for the prevention of corruption: zero tolerance, approved by the Board of Directors in 2015, which establishes behaviour guidelines and commitments, as well as the performance criteria and main controls in place at the company associated with corruption, including money laundering.

No complaints were filed in 2021 in connection with potential cases of corruption or money laundering, and no Group company was investigated or found guilty by any court in connection with acts of non-compliance linked to corruption or money laundering.

11.7 Information on social issues

Impact of the activity on employment and local development

The activities carried out by the Red Eléctrica Group in the different territories undoubtedly have benefits for society, notably that they maintain the continuity and security of electricity supply in conditions of high quality.

Once again this year, the Red Eléctrica Group's investment has benefitted society due to its dynamic effect on economic activity because, by encouraging production, it leads to an increase in wealth (as measured by GDP) and, as a result, in jobs and tax revenue, which can be used to improve the general well-being of society. All this stems not only from the Group's direct investments, but also the increase in activity driven by the circular flows of the economy.

Since 2017, the Red Eléctrica Group has used a methodology based on multipliers to estimate the level of general activity generated as a result of an initial investment. The calculations take into account the direct, indirect and induced effects.

Effects of investments

Direct effect	Indirect effect	Induced effect
Estimation and valuation of the production chain and of jobs and income generated in the economic system by an initial investment.	Income and jobs created when the beneficiaries of the initial investments acquire other goods and services (intermediate consumption) from other production systems, which in turn acquire goods and services from their own suppliers.	Impact arising from all the income generated in the previous stages. This effect thus incorporates the effect of the final consumption arising from the wage income generated and the tax revenue obtained by governments when taxing the different economic activities and the income generated.

Socio-economic contribution in Spain

In 2021 the Red Eléctrica Group's total investment in Spain, through the activity of REE, REINTEL, Elewit and Hispasat, amounted to Euros 531 million, of which an estimated Euros 122 million was spent on importing the products and services needed for such investment.

The remainder, totalling around Euros 409 million, consisted of direct investment in Spain, the effect of which, after applying the chosen methodology, is broken down in the following table:

	Direct	Indirect	Induced	Total
Production (millions of Euros)	408.6	326.7	48.0	**783.3**
Income - GDP (millions of Euros)	184.0	150.1	23.0	**357.1**
Employment (no. of jobs)	3,000	2,384	341	**5,725**
Tax revenue (millions of Euros)	72.6	56.6	8.1	**137.3**

The investment in Spain has generated Euros 783.3 million of output in the business sectors concerned, which is almost double the investment made (Euros 409 million). This represents a contribution of some Euros 357 million to Spanish GDP (around 18% of the Red Eléctrica Group's revenues in 2021), generating activity equivalent to 5,725 jobs. All of this combined has generated tax revenue of Euros 137.3 million (approximately 12.6 % of the amount provisionally collected in 2021 in respect of the special electricity tax).

Socio-economic contribution in Chile

In 2021, through its subsidiary Red Eléctrica Chile, the Red Eléctrica Group invested a total of US Dollars 41 million, approximately, in the transmission network, reflecting direct investment in Chile the effect of which, after applying the chosen methodology, is broken down in the following table:

	Direct	Indirect	Induced	Total
Production (millions of US$)	40.5	28.2	6.9	**75.6**
Income - GDP (millions of US$)	20.9	13.1	3.5	**37.5**
Employment (no. of jobs)	535	378	95	**1,008**
Tax revenue (millions of US$)	4.6	2.5	0.7	**7.8**

The investment made has generated US Dollars 75.6 million of output in the business sectors concerned. This represents a contribution of US Dollars 37.5 million to GDP, generating activity equivalent to 1,008 jobs. All of this combined has generated tax revenue of US Dollars 7.8 million.

Socio-economic contribution in Peru

In 2021, through its subsidiaries in Peru, the Red Eléctrica Group invested a total of US Dollars 10 million, approximately, in the transmission network, almost all of which was direct investment in Peru the effect of which, after applying the chosen methodology, is broken down in the following table:

	Direct	Indirect	Induced	Total
Production (millions of US$)	9.8	7.1	1.8	**18.7**
Income - GDP (millions of US$)	4.4	3.4	0.9	**8.7**
Employment (no. of jobs)	216	328	80	**624**
Tax revenue (millions of US$)	0.8	0.7	0.2	**1.7**

The investment in Peru has generated around US Dollars 19 million of output in the business sectors concerned, which is almost double the investment made (US Dollars 9.8 million). This represents a contribution of US Dollars 8.7 million to GDP, generating activity equivalent to 624 jobs. All of this combined has generated tax revenue of US Dollars 1.7 million.

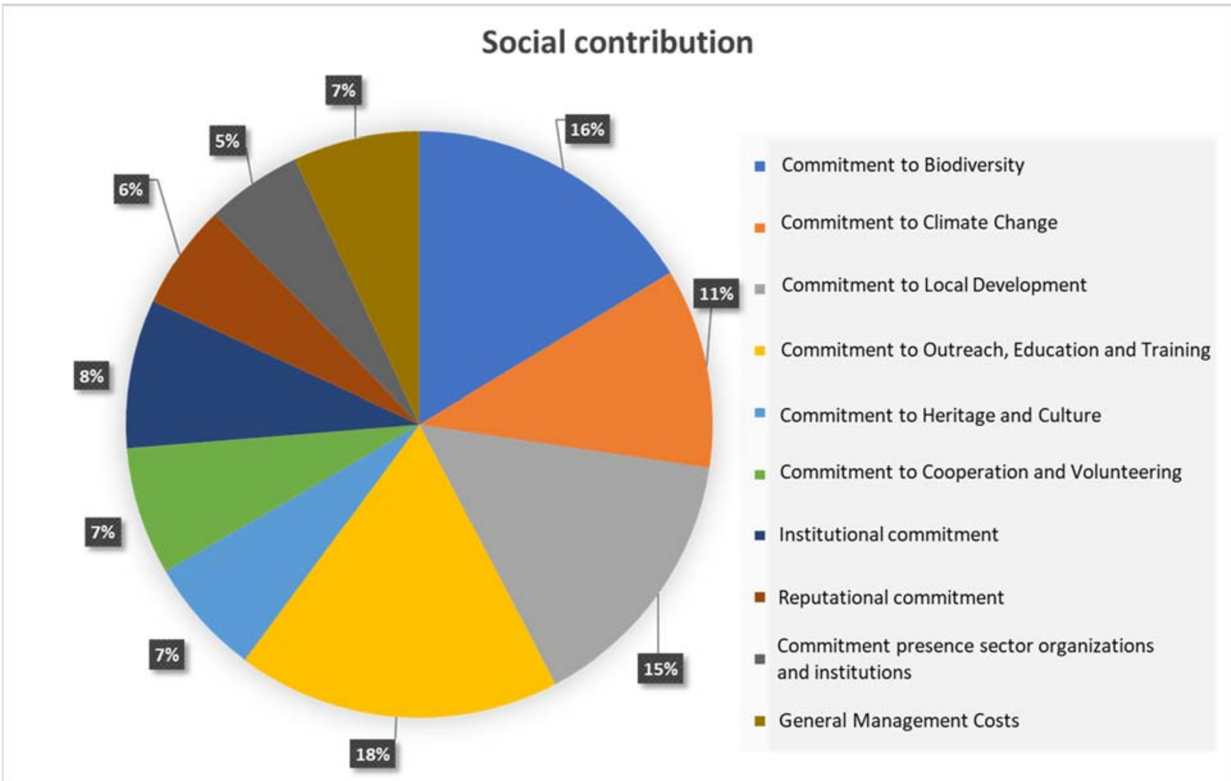
Impact of the activity on local communities and the local area

The Group focuses its socio-environmental commitment towards unlocking shared value with society by pursuing actions and investments that are aligned with its business goals and, while generating value for the Group, also have a positive impact on society, the local area and its inhabitants. It also helps tackle various challenges, such as the UN's Sustainable Development Goals or those envisaged as part of the European energy strategy.

Shared value is created by the Group both in the way it develops and builds infrastructure and in the way it operates and delivers services to the effective systems in which it operates and to its customers. This activity generates opportunities to unlock shared value throughout the infrastructure life cycle.

In addition, the Group supplements its projects in the area with collaboration schemes to nurture institutional and social relationships, transparently seeking collaboration agreements, disseminating information about the electricity network's performance and fostering involvement in projects and initiatives that boost socio-economic development, education, social well-being, biodiversity and the conservation, protection and enhancement of natural and cultural heritage in the local areas.

In 2021 the Group contributed over Euros 8.5 million (amount calculated using the London Benchmarking Group methodology) to social initiatives.



In 2021 REE signed 86 agreements with public and social entities, mainly to execute socio-economic, environmental, educational and cultural development projects.

Of the 457 social initiatives undertaken, 244 were focused on the socio-economic development of the local area, including, among others, municipal infrastructure construction or improvement projects, efforts to nurture the area's cultural wealth and restoration of emblematic and socially significant buildings with an impact on tourism.

To further strengthen the Red Eléctrica Group's commitment to local areas, in 2021 a new Social Innovation approach has been defined, placing a greater importance on the "S" of society, with a view to making it one of the transformative levers capable of generating solutions to real needs.

The new approach aims to reduce digital, territorial, generational and gender inequality so as to improve the lives of citizens in local communities. It is deployed in an Action Plan with 11 lines of work linked to the UN's Sustainable Development Goals; the Demographic Challenge Action Plan of the Spanish Ministry for the Ecological Transition and the Demographic Challenge (MITERD); the company's 2021-2025 Strategic Plan; and the 2030 Sustainability Commitment.

With regard to knowledge-sharing, the Group has always played an important role through activities that seek to enhance knowledge of the Spanish electricity system. This now takes on even greater importance given the sizeable challenge posed by the new energy transition model through the decarbonisation of the economy, since a better-informed society has greater capacity to develop and maintain the new sustainable energy model.

In this respect, the company welcomed 40 visits in 2021, adapting to the new requirements brought about by the health crisis triggered by COVID-19. Over 800 people have visited Red Eléctrica's facilities and the control centres (CECOEL, CECRE and island control centres), both in person and virtually. School children can learn through the educational game "entreREDes", which aims to teach children to be efficient consumers and environmentally friendly in the future. Over 14,000 school children from eight autonomous regions participated in 2021.

The company has 14 collaboration agreements with universities and educational institutions.

Corporate volunteering

The Group's corporate volunteering model was updated in 2021, extending its social action by driving and reinforcing collaboration in solidarity activities that respond to the social needs, problems and interests defined in its action guidelines.

The actions carried out in 2021 were in response to the interest shown by participating volunteers and were targeted primarily at improving the quality of life for groups at risk of social exclusion, fostering employability and meeting specific, real needs of society.

The situation triggered by the COVID-19 pandemic has significantly affected such actions as they have only been possible in virtual formats or small family groups. Nevertheless, the company reached a level of participation of individual volunteers of 23% (26.48% in 2020), which was once again higher than the target set at the beginning of the year (20%).

Main corporate volunteering actions in 2021

Social volunteering	
Experiment kits with Escuelab	Fostering interest in science among disadvantaged groups with volunteers preparing experiment kits: • 53 employees and 95 children participated. • 72 experiment kits sent. • Funding for scholarships of children in situations of social exclusion.
Aldeas Infantiles [Children's Villages] landing page	Virtual campaign to raise money (donations) for the purchase of school material for children at risk of social exclusion ahead of the 2021-2022 school year: • 41 volunteers. • Euros 1,110 raised.
Christmas activities with Cruz Roja Española [Spanish Red Cross]	Book drive for families at risk of social exclusion. • 230 books collected.
Environmental volunteering	
"Diary of a Naturalist", Telesforo Bravo – Juan Coello Foundation in the Canary Islands	Creation of a field notebook from nature outings of employees and their children during their holidays or free time. • 28 volunteers and their children.
"Great waste cleanup" challenge with HandsOn Spain	Cleaning of waste by the volunteers in any area close to their home. The volunteers received a collection kit and scales to weigh the kilos of waste cleaned up. • 50 volunteers and their families. • 293 kg of waste cleaned up.
Educational workshops on seeds with the Global Nature Foundation	Workshops aimed at fostering knowledge of the natural processes in food production, focusing on the need to promote zero-mile diets, eco-friendly production, and aspects such as food safety. • 8 volunteers and their families.

Participation in organisations

The Group is an active member of various international organisations and associations, particularly within the European Union, with a view to raising awareness of its stance on fundamental aspects of its activity, building strong alliances and contributing to the achievement of common objectives.

The Group participates in international electricity-related organisations such as ENTSO-E (European Network of Transmission System Operators for Electricity), RGI (Renewable Grid Initiative), IESOE (Electricity Interconnection in South-Western Europe), Med-TSO (Mediterranean Transmission System Operators), EASE (European Association for the Storage of Energy), and CIGRE (International Council on Large Electric Systems). Regarding the satellite business, Hispasat participates in the International Telecommunication Union (ITU), the Spanish Association of Technology Companies for Defence, Aeronautics and Space (TEDAE), the Inter-American Telecommunications Commission (CITEL), the Spanish Aerospace Technological Platform (PAE), the EMEA Satellite Operators Association (ESOA), and the Inter-American Association of Telecommunications Companies (ASIET).

The Group participates in national organisations and associations that seek different objectives:

- Share and extend best business practices

Spanish Quality Association (AEC)	An association aimed at defending and promoting quality as a driver of competitiveness in business and improvement in society.
Spanish Compliance Association (ASCOM)	The first association created to professionalise the compliance function and facilitate the exchange of ideas and best practices.
Spanish Association for Standardisation and Certification (AENOR)	An association that contributes to improving the quality and competitiveness of companies by developing technical standards and certifications.
Spanish Issuers (Emisores Españoles)	An association that fosters measures to reinforce legal certainty in the issue of listed securities and contributes to the development of high standards of corporate governance.

- Enhance knowledge of the Group's activities
  - Electricity sector

Spanish Energy Club (ENERCLUB)	An association that contributes to a better understanding of various energy-related issues among interested parties in society.
Madrid Energy Foundation (Fundación de la Energía de la Comunidad de Madrid)	A foundation that drives initiatives and programmes for the research, development and application of energy technologies.
Energy Cluster (Clúster de la Energía) of various autonomous regions	A group that promotes the development and competitiveness of energy companies in Spain.

  - Telecommunications and aerospace sector

Madrid aerospace cluster (Clúster aeroespacial)	An association that fosters and contributes to development and innovation in the aerospace industry in the Madrid Region.
Spanish Association of Technology Companies for Defence, Aeronautics and Space (TEDAE)	This Spanish association brings together technology companies in the fields of defence, security, aeronautics and space, encompassing the Spanish tech industries in these domains, and makes a meaningful contribution to the national objective of changing the Spanish economy's production model.
Spanish Aerospace Technological Platform (PAE)	A group which furthers aeronautics and space research consultancy in Spain, currently charged with updating the Strategic Aerospace Research Agenda.

- **Promote the Group's commitment to sustainability**

Sustainability Excellence Club (Club de Excelencia en Sostenibilidad)	A business association aimed at driving sustainability by sharing and building awareness of good practices.
Forética	An association of companies and sustainability professionals promoting the integration of environmental, social and good governance issues in companies' strategy and management.
Excellence in Management and Innovation Club (Club Excelencia en Gestión e Innovación)	A business association aimed at strengthening the global competitiveness of organisations and professionals through the values of excellence.
Integrity Forum (Foro de Integridad) of Transparency International Spain	A think tank for improving compliance and ethical management in companies.
Voluntare Foundation	A global corporate volunteering network that helps to connect companies with third sector organisations.

Subcontracting and suppliers

The globalisation of markets has extended the limits of companies' responsibilities and triggered a change in the role of suppliers, which have become a pivotal element. The Red Eléctrica Group focuses on the scope of its responsibility over the supply chain and adheres to a responsible management model based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment, transparency and free competition, as well as a framework of legislation and internal Group codes, policies and rules.

A new aspect this year is the reporting on Hispasat supplies, both for the parent in Spain and the subsidiaries in various countries in Latin America[7].

In 2021 the Red Eléctrica Group worked with 2,157 suppliers in transactions worth Euros 702.8 million[8] (accredited investment and spending). Of that amount, 80.7% relates to services and works, while the remaining 19.3% pertains to materials and equipment.

In addition to these suppliers, there are a further 880 subcontractors authorised to perform work in the electricity transmission network facilities.

The overall local purchases indicator (percentage of purchases from suppliers based in the same country as the company) of the Red Eléctrica Group is 85.6%. The breakdown of this indicator is 86.5% for Group companies based in Spain, 98.3% in Chile, 66.9% in Peru, 68.9% in Brazil, 92.5% in Argentina, 62.3% in Colombia and 91.4% in Mexico[9]. This enables the Group to act as a driver of local growth, fostering business, industrial and social development through job creation across the supply chain.

The Group verifies that approved suppliers meet the minimum requirements, which vary depending on the supply contract: they must have accepted the Code of Conduct for Suppliers, show evidence of a stable financial position, fulfil certain minimum quality guarantee criteria, have adequate public liability insurance, and provide references and records of previous work.

[7] For subsidiaries domiciled outside the European Union which operate in US Dollars, a conversion rate of 1 USD = 1 EUR is applied for all purposes.

[8] As an indication, the incorporation of Hispasat has increased the number of suppliers of the rest of the Red Eléctrica Group companies by 65% and the expenditure by 25%.

[9] The volume of purchases is very low in the latter three countries: Argentina (Euros 78 thousand), Colombia (Euros 362 thousand) and Mexico (Euros 1,714 thousand).

Should more specific environmental and social criteria be needed (in addition to those required for approval), these are conveyed by the Group's technical areas as part of the technical specifications that will form part of the tender process. Their evaluation would form part of the technical assessment of the tender bids received.

The monitoring process verifies the suppliers' performance in the context of the contracts with the company and the ongoing fulfilment of the requirements made upon approval. The main areas screened are: (1) business (monitoring of the financial solvency of all approved suppliers and application of mitigating measures, continuous oversight of legal matters such as being up-to-date with payments to the Spanish taxation authorities, Social Security, public liability insurance, etc.); (2) technical; (3) compliance (criminal risk, privacy and cybersecurity); (4) integrity; (5) sustainability (ESG scoring); and (6) social responsibility (verification of proper adherence to the Code of Conduct for Suppliers through social audits).

Social audits were conducted at 35 suppliers during 2021 (45 in 2020) to verify compliance with the Code of Conduct for Suppliers. As a result of the audits, seven action plans have been agreed with six suppliers, facilitating supplier development and verification of the improvements made. The results of these audits and their findings are shared internally, placing special emphasis on the detection of major non-conformances.

The effects of the pandemic triggered by COVID-19 have not had a notable negative impact on the Group's supply chain thanks to the actions taken, such as continuous monitoring of the status of suppliers and their ability to supply, analysis of the minimum stock of materials and equipment for the resolution of breakdowns, giving suppliers more visibility regarding future purchase plans, and bringing forward the purchase of some material.

Consumers

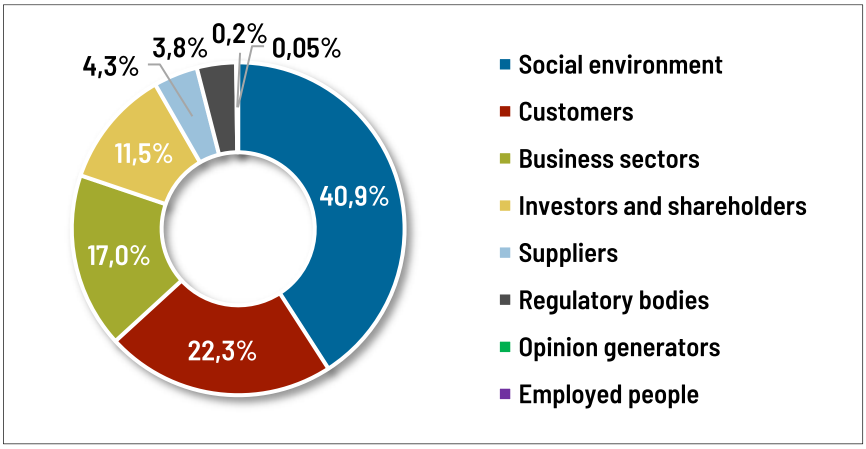
Throughout 2021, the Group's services that receive enquiries from external stakeholders worked on defining a corporate procedure to determine the guidelines for managing all incoming communications. This shared procedure has been adapted to the Group's various incoming communication channels in order to reflect the specific characteristics of each of the different businesses.

Red Eléctrica de España (REE)

Since 2008 the "Dígame" service has provided a professional response to enquiries from external stakeholders, who have several channels of communication at their disposal (telephone, email, online contact form, post or certified fax), regarding REE's electricity system operation and transmission network management services. The service is manned by employees of Fundación Juan XXIII Roncalli, a non-profit entity that facilitates the workplace integration of people with disabilities.

Enquiries received through the Dígame service in 2021

In 2021 a total of 3,843 enquiries were received and managed[10], with stakeholders from the local area accounting for the highest number (1,571), followed by customers (858), business sectors and associations (653), and then investors and shareholders (442). To a lesser extent the Group has recorded interactions with regulatory bodies and governments, suppliers and other stakeholders.



[10] "Enquiries" comprise any communication between the Red Eléctrica Group and a stakeholder. Enquiries are classified into: claims, incidents, queries, requests, grievances, suggestions, information notifications and recognitions.

Claims admitted and handled through the Dígame service in 2021

Of the 103 claims received, 44 fell under REE's remit and were admitted. Of these, 34 were upheld (accepted on correct and reasonable grounds, whether fully or partially).

The bulk of the claims admitted referred to the impact of REE's facilities in relation to felling and clearing of vegetation or damage to infrastructure.

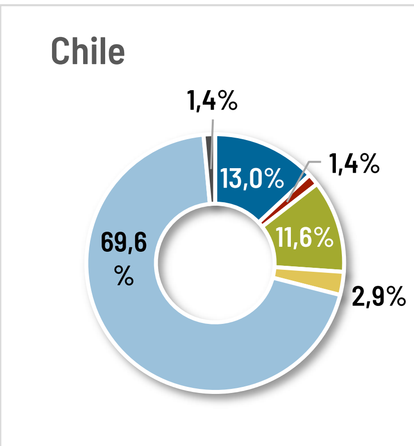
By type	2021	2020[11]
Quality and continuity of supply	13	0
Impacts of facilities	29	41
Measures	-	2
Other	2	3
Total	**44**	**46**
By stakeholder		
Local area	36	42
Business sectors and associations	6	1
Customers	2	3
Total	**44**	**46**

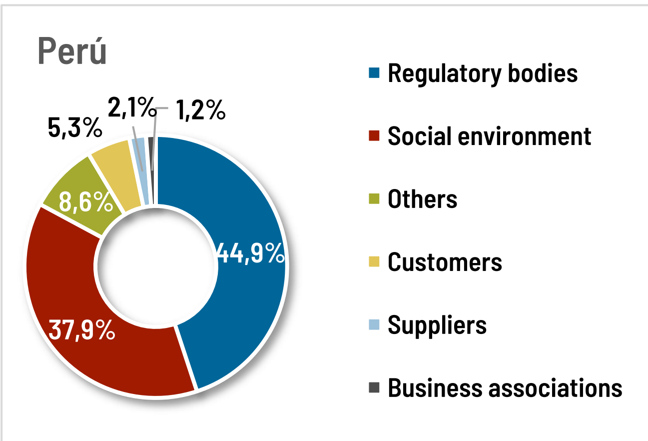
Of the claims admitted, 89% had been resolved by year end. Of the 11 claims that remained open at the end of 2020, nine were fully closed in 2021 and the other two more complex claims, relating to the impact of the facilities, are in the process of being resolved.

Red Eléctrica de España regularly conducts perception studies among its customers and business agents. A new study was devised in 2021 in which 450 customers and business agents were invited to take part. The results indicate an overall satisfaction rate of 8.7 out of 10.

International business

In 2021 the Group consolidated the channel for queries, enquiries, grievances and claims through a Latin America-wide procedure that establishes the response times and prioritisation of communications received from external stakeholders.





[11] The 2020 figures shown are different to those presented in the 2020 Non-Financial Information Statement since various rulings have been handed down in favour of REE, ordering the distributor to pay the damages resulting from the complete blackouts in Tenerife (the so-called "cero") by virtue of the contracts binding it to consumers. Consequently, the 170 claims previously admitted were deemed inadmissible. Possible changes in the future cannot be ruled out because the Canary Islands government might yet make a decision on the penalties.

By type	Peru	Chile
Requests	532	29
Queries	46	35
Grievances	5	-
Claims	-	5
Total	**583**	**69**

No claims were logged in Peru in 2021, whereas five were filed in Chile, two related to REDENOR and three to REDENOR 2. Five grievances were received in Peru, two pertaining to REDESUR, one to CCNCM, one to TESUR and one to TESUR 4. Chile, por su parte, no ha reportado este tipo de solicitud.

At the reporting date of this report, 13 enquiries in Peru are still being resolved and one in Chile.

REINTEL

REINTEL has its own 24/7 service and supervision centre, which controls and monitors the status of the network and handles incidents and scheduled work of customers, with the aim of offering a reliable service of the utmost quality. In 2021 a total of 506 network incidents affecting customers were handled. Of these, 64% stemmed from power failures, third party works, natural causes and vandalism, while the remaining 36% were due to scheduled network work.

These incidents were handled and resolved as part of normal business within the timeframes established in the customers' contracts.

Hispasat

Hispasat also maintains an ongoing dialogue with its customers, providing them with various tools for direct communication: 24/7 customer service call centre offered in three languages (Spanish, Portuguese and English) with local phone numbers, a support centre and a web portal, allowing customers to open service incidents or request information.

In 2021 it received a total of 5,113 enquiries, primarily queries (57%).

By type	2021	2020
Queries[12]	2,928	2,207
Incidents[13]	2,182	1,558
Grievances - Claims	3	4
Total	**5,113**	**3,769**

Hispasat surveys customer satisfaction every two years. The overall net satisfaction rate was 84.1% in 2021. This year saw participation rise to 257 responses (47%), compared to 175 in 2020 thanks to Hispasat's social incentive of donating Euros 2 to the UNHCR's Afghanistan Emergency programme for each survey completed.

Lastly, it is worth highlighting that the activity of the Group companies has no impact on the health and safety of consumers. In the case of the electricity transmission activity, it should be noted that due to the criteria applied in the design of the facilities, the levels of the electric and magnetic fields (EMFs) remain below those recommended by the Council of the European Union (Official Journal of the European Communities 1999/519/EC: limitation of exposure of the general public in areas where they spend significant time – 5 kV/m for the electric field and 100 μt for the magnetic field). The main criteria applied are as follows:

- Construction of double circuits and phased translocation in lines.
- Raising the height of supports, thereby increasing the safety distances.

[12] Includes operational matters, information requests, alignments, changes, service provisions and others.

[13] Includes incidents, problems, terminal-related incidents, platform-related incidents, service incidents and scheduled work.

- Minimum distances from the lines to population centres and isolated homes.

To verify compliance with recommendations, the Group has a tool that uses certain line parameters to accurately gauge the maximum levels of EMFs that the facilities can generate.

Tax information

The Group is committed to compliance with tax laws and the fulfilment of its tax obligations, seeks a cooperative relationship with the taxation authorities and considers it important to contribute to economic and social development by paying taxes in all the countries in which it operates.

The Red Eléctrica Group has been recognised by the Commitment and Transparency Foundation for the second year running, topping the tax transparency and responsibility ranking in the Transparency in Tax Responsibility Management Report on the IBEX 35 in 2020. This analyses the voluntary transparency of content related to the tax obligations of IBEX 35 companies. The Red Eléctrica Group scored maximum points and led the transparent companies category.

The Group's tax strategy was approved by the Board of Directors on 30 June 2015 and is intended to define a consistent approach to tax matters in line with the Group's strategy. It embodies the Group's vision and objectives in tax matters and is based on three core values: transparency, good governance and responsibility.

On 29 September 2015 the Board of Directors approved the Group's Tax Risk Control and Management Policy and its inclusion in the Comprehensive Risk Management Policy. The tax risk control and management systems are described in the Corporate Governance Report.

The Group's Tax Strategy and Comprehensive Risk Management Policy may be consulted on the corporate website.

Both the Code of Ethics and Conduct and the Tax Strategy state the Group's commitment not to create companies in countries considered tax havens in order to evade tax.

The Group has no presence and carries out no activity in countries considered tax havens under applicable laws and regulations [14].

Considering the applicable legislation for the preparation of the CBCR (Country-By-Country-Report) in Spain, details of aggregate profits and taxes, by country, of the Red Eléctrica Group entities included in the consolidated financial statements, except for those accounted for using the equity method, are provided below.

This information is prepared on the basis of the respective individual financial statements.

Profit/(loss) before corporate income tax comprises the pre-tax income and expenses of each company, excluding dividends received from Group entities, aggregated at country level.

Millions of Euros

Pre-tax profits obtained by country	2021	2020
Spain	844	726
Peru	11	10
Chile	-4	-5
Brazil	3	-2
Argentina	-	-1
Other (*)	-	-

(*) Includes France, Luxembourg and the United Kingdom in Europe and other countries in the Americas, with amounts under Euros 1 million.

Income tax paid

With a view to following best practices in sustainability and voluntarily providing greater transparency in tax matters for its various stakeholders, since 2014 the Group has calculated and published its total tax contribution, highlighting the significant economic and social importance of its tax contribution.

[14] *Royal Decree 1080/91 of 5 July 1991, subsequently amended by Royal Decree 116/2003 of 31 January 2003; EU list of non-cooperative countries and jurisdictions in taxation matters and list of non-cooperative tax havens drawn up by the OECD.*

The Group's total 2021 tax contribution in all the countries in which it operates amounted to Euros 775 million, consisting of Euros 244 million paid and Euros 531 million collected.

The corporate income tax paid in each country in 2020 and 2021 is as follows:

Millions of Euros

Corporate income tax paid	2021	2020
Spain	177	192
Peru	4	3
Mexico	-	2
Other (*)	-	-
Total	**181**	**197**

(*) Includes France, Luxembourg and the United Kingdom in Europe and other countries in the Americas, with amounts under Euros 1 million.

Corporate income tax in 2021 accounts for 74% of the taxes paid by the Group to governments, mainly the Spanish government.

Government grants received

In 2021 Euros 3.5 million was received in grants from official bodies (Euros 1.8 million in 2020). The grants received in 2020 and 2021, broken down by country, are as follows:

Millions of Euros

Government grants received	2021	2020
Spain	3.5	1.8
Total	**3.5**	**1.8**

11.8 Taxonomy information

In 2018 the European Commission published its "Action Plan: Financing Sustainable Growth", thereby setting in motion a comprehensive strategy with regard to sustainable finance. One of the objectives established in that action plan was to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth.

The most important and urgent measure envisaged in the action plan was the establishment of a unified classification system for sustainable activities. The action plan acknowledges that the reorientation of cash flows towards more sustainable activities should be underpinned by a shared understanding of what is meant by environmental sustainability of activities and investments.

The first step, consisting of establishing clear guidance on activities potentially qualifying as contributing to the achievement of environmental objectives, helps to provide investors with information on investments that finance environmentally sustainable economic activities.

Building on the aforementioned Action Plan, the European Parliament and the Council of the European Union approved Regulation (EU) 2020/852 of 18 June on the establishment of a framework to facilitate sustainable investment (or Taxonomy Regulation) in June 2020.

This is a key milestone in the development of sustainable finance in the European Union (EU), since it establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable by establishing a list of environmentally sustainable activities.

The Taxonomy Regulation establishes that the economic activities should be in line with the following technical screening criteria in order to qualify as sustainable:

1. They must contribute significantly to at least one of the following six environmental objectives:
   - Climate change mitigation.
   - Climate change adaptation.
   - The sustainable use and protection of water and marine resources.
   - Circular economy.
   - Pollution prevention.
   - Healthy ecosystems (biodiversity).
2. Not causing significant harm to any of the other environmental objectives.
3. Compliance with minimum social safeguards (human rights).

June 2021 saw the approval of the European Commission Taxonomy Delegated Act implementing the environmental objectives relating to climate change mitigation and adaptation and, in particular, establishing a list of activities qualifying as environmentally sustainable.

The approved list includes electricity transmission, more specifically, the "construction and operation of transmission systems that transport electricity on the extra high-voltage and high-voltage interconnected system", as an activity that contributes to climate change mitigation.

The European Commission Delegated Act on Article 8 of the Taxonomy Regulation, concerning the transparency of undertakings in non-financial statements, was later approved in July 2021.

Under Article 8, non-financial undertakings are required to disclose the following information:

a) The proportion of their turnover (Revenues) derived from products or services associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.
b) The proportion of their capital expenditure (CAPEX) and the proportion of their operating expenditure (OPEX) related to assets or processes associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.

The quantitative and qualitative information to be reported (KPIs) and the criteria for preparing such indicators are also described at length, and the mandatory reporting date for the KPIs is partially set back.

Based on the aforementioned legislation, the RE Group's information for 2021, in accordance with the Taxonomy Regulation, is as follows:

% of Revenues at 2021 year-end corresponding to qualifying activities: 81.8% (79.6% in 2020).

% of CAPEX at 2021 year-end corresponding to qualifying activities: 75.6% (89.4% in 2020).

% of OPEX at 2021 year-end corresponding to qualifying activities: 75.1% (76.6% in 2020).

Although the aforementioned delegated act makes no mention of the telecommunications activities carried out by the Group, based on the established parameters, we believe that such activities would not cause significant harm to the environmental objectives laid down in the Taxonomy Regulation.

Methodology for calculating Revenue, CAPEX and OPEX ratios.

As regards calculation of the Revenue, CAPEX and OPEX figures for Transmission activities, as described in note 28 to the consolidated annual accounts on segment reporting, the Red Eléctrica Group segments its business activities based on their nature, reflecting the main branches of activity used by the Group in its management and decision-making.

At 31 December 2021, the Group's operating segments and their main products, services and operations are as follows:

- **Management and operation of domestic electricity infrastructure:**

  This segment comprises the Group's principal activity, as sole transmission agent and system operator for the Spanish electricity system (TSO). Its mission is to guarantee the security and continuity of the electricity supply at all times and manage high-voltage electricity transmission.

  Since the activity included in the Taxonomy Regulation is specifically Transmission (and does not include System Operation), the following legislation is observed in order to separate the various activities:

- Article 20.2 of Electricity Industry Law 24/2013 of 26 December 2013 (Title III, "Economic and Financial Sustainability of the Electricity System") provides as follows: "Red Eléctrica de España, S.A.U. shall keep separate accounts for transmission activities and system operation (mainland and non-mainland)".
- National Energy Commission (currently the Spanish National Markets and Competition Commission ("CNMC")) Circular 5/2009, of 16 July 2009, on the procurement of accounting, economic and financial information of companies that carry out activities relating to electricity, natural gas and pipeline gas.
- CNMC Circular 1/2015 of 22 July 2015, which establishes a 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.

Therefore, the information relating to the separation of REE's activities into Transmission, System Operation and Other activities is already included in the company's annual accounts and is currently being reported to the CNMC on a quarterly basis.

The balances taken into account for the calculation of the ratios established by the Taxonomy Regulation were those relating to domestic Transmission activities.

- **Management and operation of international electricity infrastructure:**

This segment comprises activities related to international business development as a natural form of growth, mainly focused on the construction and operation of electricity transmission networks outside Spain; at 31 December 2021, in Peru, Chile and Brazil specifically.

The international electricity infrastructure management and operation activities relate in full to the Transmission activities provided for in the Taxonomy Regulation.

- **Telecommunications (satellites and fibre optics):**

Activities not covered by the Taxonomy Regulation.

The Group also carries out reinsurance activities and fosters innovation in the electricity and telecommunications sectors. These activities are not covered by the Taxonomy Regulation.

11.9 Content index required by Law 11/2018 of 28 December 2018 on non-financial and diversity information

CONTENT	Page	Reporting framework
Description of the business model. Business environment. Organisation and structure. Markets served. Objectives and strategies. Key factors and trends that could affect future performance.	31 and thereafter	(*) 102-1, 102-2, 102-4, 102-6, 102-7, 102-40, 102-43, 102-44, 102-46, 102-47, 102-49
I. Information on environmental matters		
Management approach.	34 and thereafter	(*) 103-1, 103-2.103-3
Present and foreseeable impact of the company's activities on the environment, health and safety.	34 and thereafter	103-1,
Environmental assessment or certification procedures.	34 and thereafter	UNE-EN ISO Standard 14001. Certified Environmental Management System.
Resources allocated to preventing environmental risks.	34 and thereafter	Environmental accounting regulations.
Application of the precautionary principle.	34 and thereafter	(*) 102-11
Provisions and guarantees for environmental risks.	34 and thereafter	Internal framework. Amount spent on environmental aspects associated with investment projects.
Pollution		
Measures to prevent, mitigate or remediate the effects of carbon emissions (also includes noise and light pollution).	34 and 37	Internal framework. Measures for the prevention of noise, light and atmospheric pollution, as well as measures for the reduction of carbon emissions. The company's activities do not cause emissions of ozone-depleting substances, such as NOx, SOx or other significant air emissions, since they do not involve the burning of fossil fuels (the company does not generate electricity), with the exception of the fuels used in certain generators and in vehicles, which are not considered to be significant under this approach.
Circular economy and waste prevention and management		
Measures for the prevention, recycling, reuse and other recovery and disposal of waste.	35	103-2
Actions to combat food waste.	Not material.	These types of actions are not carried out due to the nature of the Group's activities, which do not involve food management or therefore waste.
Sustainable use of resources		
Water consumption and supply.	38	(*) 303-1
Consumption of raw materials and measures to improve efficiency.	Not material.	The company's activities do not entail direct consumption of raw materials.
Direct and indirect energy consumption.	38	(*) 302-1 / 302-2
Measures taken to improve energy efficiency.	37	103-2. Internal framework. Initiatives to combat climate change and energy efficiency measures.
Use of renewable energies.	37	103-2. Internal framework. Qualitative/quantitative information on the use of renewable energy.
Climate change		
Key elements of the greenhouse gas emissions generated.	37 and 38	(*) 305-1 / 305-2 / 305-3 / 305-4
Measures taken to adapt to the consequences of climate change.	37 and 38	(*) 305-5
Voluntary medium and long-term emission reduction targets set and steps taken.	37 and 38	103-2 Internal framework. Objective for reducing emissions and combating climate change.

Protection of biodiversity		
Measures to preserve and restore biodiversity.	35, 36 and 38	(*) 304-1 / 304-3
Impacts caused by activities or operations in protected areas.	35, 36 and 38	(*) 304-2
II. Information on labour and employee-related issues		
Management approach.	39 and thereafter	(*) 103-1, 103-2.103-3
Employment		
Total number and distribution of employees by gender, age, country and professional category.	40 and thereafter	(*) 102-8
Total number and distribution of employment contract types by gender, age and professional category.	44	(*) 102-8
Average annual number of permanent, temporary and part-time contracts by gender, age and professional category.	44	Law 11/2018 on non-financial and diversity information: Average annual number of contracts by type, broken down by gender, age and professional category.
Number of dismissals by gender, age and professional category.	45	Law 11/2018 on non-financial and diversity information: Number of dismissals in the year by gender, age and professional category.
Pay gap.	47	(*) 405-2
Average pay by gender, age and professional category.	47	Law 11/2018 on non-financial and diversity information: Average total salary by gender, age and professional category.
Remuneration of like positions or average remuneration in the company.	48	(*) 405-2
Average remuneration of directors by gender.	48	Law 11/2018 on non-financial and diversity information: Average remuneration of members of the Board of Directors by gender.
Average remuneration of management personnel by gender	48	Law 11/2018 on non-financial and diversity information: Average remuneration of senior management personnel by gender.
Implementation of policies on disconnecting from work.	48 and 49	Internal framework. Measures to disconnect from work.
Employees with disabilities.	55	General Law on the Rights of Persons with Disabilities (LGD). Percentage of employees with a disability.
Organisation of work		
Organisation of working time.	49	Internal framework. Real and effective working day.
Number of hours of absenteeism.	49	Internal framework. Number of hours of absenteeism
Measures aimed at facilitating a work-life balance and encouraging sharing of responsibilities between both parents.	49 and 50	(*) 401-2
Health and safety		
Occupational health and safety conditions.	50 and thereafter	(*) 403-10 / 404-1 / 404-2
Number of work-related accidents and ill health by gender, frequency and severity.	52	Related regulations per Ministry of Work standards. https://herramientasprl.insst.es/Accidentesdetrabajo/RecursosAdicionales.aspx
Labour relations		
Organisation of social dialogue, including procedures on worker communication, consultation and negotiation.	52 and thereafter	(*) 402-1
Percentage of employees covered by collective bargaining agreements by country.	53	(*) 102-41
Summary of collective bargaining agreements, particularly in the field of health and safety.	54	(*) 403-4 / 403-8
Training		

Policies implemented.	54 and 55	(*) 404-2
Total hours of training by professional category.	54	(*) 404-1
Universal accessibility for people with disabilities.		
Universal accessibility for people with disabilities.	55	Internal framework. Accessibility measures.
Equality		
Measures taken to promote equal treatment and equal opportunities for women and men.	55 and thereafter	Internal framework. Measures adopted to promote diversity.
Equality plans: job stimulation measures, protocols against sexual harassment and gender bias.	55 and thereafter	Internal framework. Diversity plan.
Integration and universal accessibility for people with disabilities.	55	Internal framework. Hiring of people with disabilities and integration and accessibility measures.
Policies against all kinds of discrimination and, as the case may be, diversity management.	55 and thereafter	406.
III. Information on respect for human rights		
Management approach.	57 and 58	(*) 103-1, 103-2.103-3
Implementation of human rights due diligence procedures.	57 and 58	(*) 407-1 / 408-1 / 409-1
Prevention of risks of human rights violations and, where applicable, measures to mitigate, manage and redress any such violations.	57 and 58	(*) 411-1 / 412-1 / 412-3
Reported human rights violations.	57 and 58	(*) 102-17
Promotion of and compliance with the provisions of the conventions of the International Labour Organization with regard to respect for freedom of association and the right to collective bargaining; elimination of discrimination in employment and occupation; elimination of forced or compulsory labour; effective abolition of child labour.	53	406, 407, 408, 409
IV. Information on the fight against corruption and bribery		
Management approach.	58 and thereafter	(*) 103-1, 103-2.103-3
Measures to prevent corruption and bribery.	58 and thereafter	(*) 102-16 / 102-17 / 406-1
Anti-money laundering measures.	58 and thereafter	(*) 102-16 / 102-17 / 406-1
Contributions to foundations and non-profit organisations.	62	Internal framework. Contributions to foundations and non-profit organisations.
V. Information on social issues		
Management approach.	60 and thereafter	(*) 103-1, 103-2.103-3
The company's commitments to sustainable development.		
Impact of the company's activity on employment and local development.	60 and thereafter	(*) 413-1
Impact of the company's activity on local populations and the local area.	62 and thereafter	(*) 413-1
Relations with local community players and types of dialogue.	64 and 65	(*) 413-1
Association and sponsorship actions.	62 and thereafter	(*) 102-13
Subcontracting and suppliers		

Inclusion of social, gender equality and environmental issues in the purchasing policy.	66 and 67	(*) 414-1
Attention given to social and environmental responsibility in relations with suppliers and subcontractors.	66 and 67	(*) 414-1
Supervision systems and audits and results.	66 and 67	(*) 308-1 / 308-2
Consumers		
Consumer health and safety measures.	67 and thereafter	(*) 416-1
Grievance mechanisms in place.	67 and thereafter	(*) 102-43 / 102-44
Complaints received and resolution thereof.	67 and thereafter	(*) 102-43 / 102-44
Tax information		
Country-by-country earnings.	70 and thereafter	(*) 207-4
Income tax paid.	70 and thereafter	(*) 207-4
Government grants received.	70 and thereafter	Internal framework. Government grants received
VI. Alignment with the Taxonomy Regulation on sustainable finance in the European Union		
Proportion of turnover (Revenues) derived from products or services associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.	72 and thereafter	European Commission Delegated Act on Article 8 of the Taxonomy Regulation, concerning the transparency of undertakings in non-financial statements.
Proportion of capital expenditure (CAPEX) related to assets associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.	72 and thereafter	European Commission Delegated Act on Article 8 of the Taxonomy Regulation, concerning the transparency of undertakings in non-financial statements.
Proportion of operating expenditure (OPEX) related to assets or processes associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.	72 and thereafter	European Commission Delegated Act on Article 8 of the Taxonomy Regulation, concerning the transparency of undertakings in non-financial statements.

(*) This table shows the equivalence between the requirements of Law 11/2018 and the GRI standards. Red Eléctrica has published non-financial information since 2003 in accordance with successive versions of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI).

12 Annual Corporate Governance Report

The Annual Corporate Governance Report forms an integral part of the directors' report and can be viewed at the following address:

http://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A-78003662

13 Annual Report on Directors' Remuneration

The Annual Report on Directors' Remuneration forms an integral part of the directors' report and can be viewed at the following address:

https://www.cnmv.es/Portal/Consultas/EE/InformacionGobCorp.aspx?TipoInforme=6&nif=A-78003662

Red Eléctrica Group

www.ree.es

Red Eléctrica Corporación, S.A. and Subsidiaries

Independent Reasonable Assurance Report on the System of Internal Control over Financial Reporting (ICOFR) of Red Eléctrica Corporación, S.A. and subsidiaries for 2021

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

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

Independent Reasonable Assurance Report on the System of Internal Control over Financial Reporting

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

To the Shareholders of Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 12 November 2021, we have examined the Internal Control over Financial Reporting (hereinafter "ICOFR") information of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the Red Eléctrica consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2021. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

Directors' and Management's Responsibility

The Board of Directors of the Parent and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and preparing and defining the content of the ICOFR information attached hereto.

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

Our Responsibility

Our responsibility is to express an opinion on the effectiveness of the Group's Internal Control over Financial Reporting based on our examination.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

Our firm applies International Standard on Quality Control (ISQC) 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international standards on independence) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Inherent Limitations

Due to the limitations inherent in any internal control system, there is always a possibility that ICOFR may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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

Conclusion

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2021, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, the disclosures contained in the ICOFR information included in note F of the Group's Annual Corporate Governance Report at 31 December 2021 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 5/2013 of 12 June 2013, and subsequent amendments thereto, the most recent being CNMV Circular 1/2020 of 6 October 2020, with respect to the description of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Other Matters

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 22 February 2022 we issued our unqualified auditor's report on the consolidated annual accounts of the Group for 2021, in accordance with the legislation regulating the audit of accounts in Spain.

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

(Signed on original in Spanish)

Ana Fernández Poderós

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

22 February 2022

RED ELÉCTRICA CORPORACIÓN, S.A. AND SUBSIDIARIES

Independent Assurance Report on the Consolidated Non-Financial Statement and Information on Sustainability for the year ended December 31, 2021

Building a better working world

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Translation of a report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

INDEPENDENT ASSURANCE REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT AND INFORMATION ON SUSTAINABILITY

To the shareholders of RED ELÉCTRICA CORPORACIÓN, S.A.:

In accordance with article 49 of the Commercial Code, we have verified, with a limited scope, the Consolidated Non-Financial Statement (hereinafter NFS) for the year ended December 31, 2021 of RED ELÉCTRICA CORPORACIÓN, S.A. and subsidiaries (hereinafter the Group), which is part of the Group's accompanying Consolidated Management Report

The content of the Consolidated Management Report contains information in addition to that required by prevailing company law in respect of non-financial information that was not included in the scope of our assurance work. Consequently, our work was limited exclusively to verifying the information identified in the section 11.9 "Content index required by Law 11/2018 of 28 December 2018 on non-financial and diversity information" included in the accompanying Consolidated Management Report.

Responsibility of the directors

The preparation of the NFS included in the Group's Consolidated Management Report and its content is the responsibility of the directors of the Group. The NFS was prepared in accordance with the content required by prevailing company law and in conformity with the criteria outlined in the GRI Sustainability Reporting Standards (GRI standards), selected GRI, as well as other criteria described according to that mentioned for each subject in the section 11.9 "Content index required by Law 11/2018 of 28 December 2018 on non-financial and diversity information" of said Report.

This responsibility likewise includes the design, implementation, and maintenance of the internal control considered necessary to ensure that the NFS is free of material misstatement, due to fraud or error.

The directors of the Group are also responsible for defining, implementing, adapting, and maintaining the management systems from which the necessary information for preparing the NFS is obtained.

Our independence and quality control

We have complied with the independence and other Code of Ethics requirements for accounting professionals issued by the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and applicable regulatory provisions.

The EY team is made up of experts in non-financial information engagements and specifically, information on economic, social, and environmental performance.

Our responsibility

Our responsibility is to express our conclusions on the Independent Assurance Report with limited assurance, based on the work performed. We have carried out our work in accordance with the requirements established in the International Standard on Assurance Engagements (ISAE) 3000 (revised), "Assurance Engagements Other than Audits and Review of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the Guidelines on performing non-financial statement assurance engagements issued by Spain's Institute of Auditors.

In a limited assurance engagement, the procedures carried out vary in their nature and timing, and are less in extent than those carried out for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is also substantially lower.

Our work consisted in making inquiries of management and of the Group's various business units participating in the preparation of the NFS, reviewing the processes for compiling and validating the information presented therein, and applying certain analytical procedures and sample review tests as described in general terms below. These procedures included:

- Holding meetings with Group personnel to gain an understanding of the business model, the policies and management approaches applied, and the main risks related to these matters, as well as to gather the information needed to perform the independent assurance work.
- Analyzing the scope, relevance, and integrity of the contents of the 2021 NFS, based on the materiality assessment performed by the Group and described under 11.1 "About the Non-Financial Information Statement", in light of the content required under prevailing company law.
- Analyzing the processes used to compile and validate the data presented in the 2021 NFS.
- Reviewing the disclosures relating to the risks, policies, and management approaches applied with respect to the material matters presented in the 2021 NFS.
- Checking, via tests of a selected sample, the information underlying the contents of the 2021 NFS and the satisfactory compilation of the NFS based on data taken from information sources.
- Obtaining a representation letter from the directors and management.

Conclusions

Based on the procedures performed and the evidence obtained, no additional matter came to our attention that would lead us to believe that the NFS of the Society for the year ended December 31, 2021 has not been prepared, in all material respects, in accordance with the content established in prevailing mercantile regulations and following the criteria of the selected GRI standards as well as those other criteria described as mentioned for each subject in the section 11.9 "Content index required by Law 11/2018 of 28 December 2018 on non-financial and diversity information" of the report.

Use and distribution

This report was prepared in response to the requirement established by prevailing company law in Spain and may not be appropriate for other uses and jurisdictions.

ERNST & YOUNG, S.L.

(Signature on the original in Spanish)

____
Alberto Castilla Vida

February 22, 2022

Auditor's Report on Red Eléctrica Corporación, S.A.

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

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

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

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of Red Eléctrica Corporación, S.A.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Recoverability of non-current and current investments in Group companies and associates: Euros 2,754,283 thousand and Euros 78,800 thousand, respectively See notes 4 e), 4 g), 8 and 21 to the annual accounts.	
Key audit matter	*How the matter was addressed in our audit*
As mentioned in notes 8 and 21 to the annual accounts, the Company holds investments in Group companies and has extended loans to these companies, Euros 2,754,283 thousand of which are recognised in the balance sheet under non-current investments in Group companies and associates, and Euros 78,800 thousand under current investments in Group companies and associates. As required by the applicable financial reporting framework, each year the Company assesses whether there are indications that these investments may be impaired, and if this is the case, calculates the recoverable amount of the investments. The Company calculates the recoverable amount by applying valuation techniques that often require the exercising of judgement by the Directors and the use of assumptions and estimates. Due to the uncertainty associated with these estimates, this has been considered a key audit matter.	Our audit procedures included the following: - Evaluating the design and implementation of key controls related to the process of measuring investments. - Assessing the criteria used by the Company's Directors and management to identify indications of impairment of the investments. - Evaluating the methodology and reasonableness of the assumptions used by management and the Directors and considered in the impairment testing of the investments in Group companies, with the involvement of our valuation specialists, and based on the reports drawn up by the independent experts engaged by the Company to contrast the reasonableness of the assumptions used. We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.

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

Other Information: Directors' Report

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

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility as regards the content of the directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) Determine, solely, whether the non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts. Also, assess and report on whether the content and presentation of this part of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the specific information mentioned in section a) above has been provided in the directors' report, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

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

The Audit Committee is responsible for overseeing the preparation and presentation of the annual accounts.

Auditor's Responsibilities for the Audit of the Annual Accounts

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

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

Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

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

We communicate with the Audit Committee of Red Eléctrica Corporación, S.A. 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.

We also provide the entity's Audit Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee of the entity, we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the key audit matters.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Red Eléctrica Corporación, S.A. for 2021 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual accounts for the aforementioned year, which will form part of the annual financial report.

The Directors of Red Eléctrica Corporación, S.A. are responsible for the presentation of the 2021 annual report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

Our responsibility consists of examining the digital file prepared by the Company's Directors, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the annual accounts included in the aforementioned digital file fully corresponds to the annual accounts we have audited, and whether the annual accounts have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the audit committee

The opinion expressed in this report is consistent with our additional report to the Company's Audit Committee dated 22 February 2022.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 29 June 2021 for a period of two years, from the year commenced 1 January 2021.

Previously, we had been appointed for a period of three years, by consensus of the shareholders at their general meeting, and have been auditing the annual accounts since the year ended 31 December 2013.

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

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

(*Signed on original in Spanish*)

Ana Fernández Poderós

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

22 February 2022

RED ELÉCTRICA CORPORACIÓN

Grupo Red Eléctrica

Annual Accounts

2021

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

Red Eléctrica Corporación, S.A.

Balance Sheet at 31 December 2021

Thousands of Euros

	Note	31.12.2021	31.12.2020
Non-current assets		2,849,848	2,733,406
Intangible assets	5	**7,786**	**3,312**
Computer software		7,786	3,312
Property, plant and equipment	5	**70,837**	**70,059**
Land and buildings		63,381	64,955
Other installations, machinery, equipment, furniture and other items		895	1,157
Under construction and advances		6,561	3,947
Investment property	6	**1,773**	**1,325**
Land		558	558
Buildings		1,215	767
Non-current investments in Group companies and associates		**2,754,283**	**2,646,582**
Equity instruments	8	2,152,488	2,196,905
Loans to companies	21	601,795	449,677
Non-current investments	12	**8,159**	**5,109**
Equity instruments		1,050	3,895
Loans to third parties		988	1,192
Derivatives	11	6,099	-
Other financial assets		22	22
Deferred tax assets	17	**7,010**	**7,019**
Current assets		1,344,112	1,648,399
Trade and other receivables	13	**2,915**	**1,118**
Trade receivables from Group companies and associates	21	509	873
Other receivables		357	30
Personnel		316	215
Current tax assets		1,733	-
Current investments in Group companies and associates	21	**78,800**	**1,333,654**
Loans to companies		78,800	1,333,654
Current investments	12	**5**	**16,229**
Derivatives	11	-	16,228
Other financial assets		5	1
Prepayments for current assets		**1,127**	**1,488**
Cash and cash equivalents		**1,261,265**	**295,910**
Cash		1,261,265	295,910
Total assets		**4,193,960**	**4,381,805**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.

Balance Sheet at 31 December 2021

Thousands of Euros

	Note	31.12.2021	31.12.2020
Equity	14	2,913,334	2,886,471
Capital and reserves		**2,894,335**	**2,867,472**
Capital		270,540	270,540
Reserves		2,243,366	2,050,203
(Own shares)		(31,618)	(36,550)
Profit for the year		559,108	730,263
(Interim dividend)		(147,061)	(146,984)
Valuation adjustments		**18,999**	**18,999**
Non-current liabilities		577,333	1,290,244
Non-current provisions	15	**19,876**	**20,118**
Non-current payables	16	**554,203**	**1,266,796**
Bonds and other marketable securities		398,227	397,699
Loans and borrowings		155,960	869,081
Other liabilities		16	16
Group companies and associates, non-current	21	**1,502**	**1,565**
Deferred tax liabilities	17	**1,752**	**1,765**
Current liabilities		703,293	205,090
Current payables	16	**669,303**	**161,975**
Bonds and other marketable securities		2,512	2,512
Loans and borrowings		500,784	811
Other current payables		166,007	158,652
Group companies and associates, current	21	**13,165**	**7,380**
Trade and other payables	18	**20,825**	**35,735**
Payables to Group companies	21	-	726
Other payables		10,950	9,641
Personnel		6,942	5,968
Current tax liabilities		-	16,413
Public entities, other		2,933	2,987
Total equity and liabilities		**4,193,960**	**4,381,805**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.

Income Statement. 2021

Thousands of Euros

	Note	2021	2020
Revenue	20.a	**636,215**	**758,382**
Services rendered		67,851	20,708
Finance income on investments in equity instruments		559,039	727,926
Finance income on securities and other financial instruments of Group companies and associates		9,325	9,748
Self-constructed assets	5	**521**	**69**
Supplies		**(83)**	**(69)**
Raw materials and other consumables used		(83)	(69)
Other operating income		**337**	**-**
Non-trading and other operating income		337	-
Personnel expenses	20.b	**(43,390)**	**(10,858)**
Salaries and wages		(33,183)	(8,117)
Employee benefits expense		(6,226)	(1,119)
Other items and employee benefits		(3,981)	(1,622)
Other operating expenses		**(17,145)**	**(11,104)**
External services		(16,658)	(10,584)
Taxes		(487)	(520)
Depreciation and amortisation	5 and 6	**(3,023)**	**(1,887)**
Impairment and gains/(losses) on disposal of fixed assets	20.d	**469**	**-**
Impairment and losses		469	-
Results from operating activities		573,901	734,533
Finance income	20.c	**3,262**	**2,919**
Marketable securities and other financial instruments		3,262	2,919
Other		3,262	2,919
Finance costs	20.c	**(9,464)**	**(9,841)**
Group companies and associates		(5)	-
Other		(9,283)	(9,840)
Provision adjustments		(176)	(1)
Change in fair value of financial instruments	11	**69**	**482**
Trading portfolio and other		69	482
Exchange gains/(losses)		**(244)**	**2,602**
Net finance cost		(6,377)	(3,838)
Profit before tax		567,524	730,695
Income tax	17	**(8,416)**	**(432)**
Profit from continuing operations		**559,108**	**730,263**
Profit for the year		**559,108**	**730,263**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.

Statement of Total Changes in Equity at 31 December 2021

Thousands of Euros

	Subscribed capital	Reserves	(Own shares)	Profit for the year	(Interim dividend)	Subtotal capital and reserves	Valuation adjustments	Total equity
Balance at 31 December 2019	**270,540**	**2,058,684**	**(36,504)**	**570,669**	**(147,002)**	**2,716,387**	**18,999**	**2,735,386**
Total recognised income and expense	-	(1,759)	-	730,263	-	728,504	-	728,504
Transactions with shareholders or owners								
(-) Distribution of dividends	-	(419,772)	-	-	(146,984)	(566,756)	-	(566,756)
Transactions with own shares (net)	-	(330)	(46)	-	-	(376)	-	(376)
Other changes in equity								
Distribution of prior year's profit	-	423,667	-	(570,669)	147,002	-	-	-
Other (Note 14-b)	-	(10,287)	-	-	-	(10,287)	-	(10,287)
Balance at 31 December 2020	**270,540**	**2,050,203**	**(36,550)**	**730,263**	**(146,984)**	**2,867,472**	**18,999**	**2,886,471**
Total recognised income and expense	-	1,763	-	559,108	-	560,871	-	560,871
Transactions with shareholders or owners								
(-) Distribution of dividends	-	1,516	-	(393,527)	(147,061)	(539,072)	-	(539,072)
Transactions with own shares (net)	-	132	4,932	-	-	5,064	-	5,064
Other changes in equity								
Distribution of prior year's profit	-	189,752	-	(336,736)	146,984	-	-	-
Other	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**270,540**	**2,243,366**	**(31,618)**	**559,108**	**(147,061)**	**2,894,335**	**18,999**	**2,913,334**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.

Statement of Recognised Income and Expense 2021

Thousands of Euros	2021	2020
Profit for the year	**559,108**	**730,263**
Actuarial gains and losses and other adjustments	2,351	(2,345)
Tax effect	(588)	586
Income and expense recognised directly in equity	**1,763**	**(1,759)**
Amounts transferred to the income statement	**-**	**-**
Total recognised income and expense	**560,871**	**728,504**

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Red Eléctrica Corporación, S.A.

Statement of Cash Flows. 2021

Thousands of Euros	2021	2020
Cash flows from operating activities	**584,416**	**750,191**
Profit for the year before tax	**567,524**	**730,695**
Adjustments to profit	**(557,241)**	**(731,193)**
Depreciation and amortisation	3,023	1,887
Impairment	(469)	-
Change in provisions	2,192	756
Finance income	(571,626)	(740,593)
Finance costs	9,464	9,841
Exchange (gains)/losses	244	(2,602)
Fair value measurement of financial instruments	(69)	(482)
Changes in operating assets and liabilities	**1,852**	**2,000**
Trade and other receivables	37	(297)
Other current assets	356	18
Trade and other payables	1,459	2,279
Other cash flows from operating activities	**572,281**	**748,689**
Interest paid	(8,371)	(7,616)
Dividends received	559,039	727,926
Interest received	4,874	6,822
Income tax paid/received	16,996	21,632
Other payments/receipts	(257)	(75)
Cash flows from/(used in) investing activities	**1,133,949**	**(710,342)**
Payments for investments	**(23,745)**	**(810,558)**
Group companies and associates	(5,593)	(792,898)
Property, plant and equipment, intangible assets and investment property	(8,130)	(1,539)
Other financial assets	(9,872)	(15,857)
Other assets	(150)	(264)
Proceeds from sale of investments	**1,157,694**	**100,216**
Group companies and associates	1,156,652	100,150
Other assets	1,042	66
Cash flows from (used in) financing activities	**(753,016)**	**106,159**
Proceeds from and payments for equity instruments	**5,064**	**(376)**
Acquisition and sale of own equity instruments	5,064	(376)
Proceeds from and payments for financial liability instruments	**(219,085)**	**673,308**
Bonds and other marketable securities	-	397,324
Loans and borrowings	(220,742)	275,984
Payables to Group companies and associates	1,657	-
Dividends and interest on other equity instruments paid	**(538,995)**	**(566,773)**
Dividends	(538,995)	(566,773)
Effect of exchange rate fluctuations	**6**	**(13)**
Net increase in cash and cash equivalents	**965,355**	**145,995**
Cash and cash equivalents at beginning of year	295,910	149,915
Cash and cash equivalents at year end	1,261,265	295,910

Notes 1 to 29 form an integral part of the accompanying annual accounts.

Contents

1 Company Activity

Red Eléctrica Corporación, S.A. (hereinafter the Company) was incorporated in 1985 and its registered office is located in Alcobendas (Madrid). The Company's principal activities are as follows:

- Managing the corporate Group, which comprises investments in the share capital of its Group companies and investees.
- Rendering assistance and support services to its investees.
- Operating the buildings owned by the Company.

2 Basis of Presentation of the Annual Accounts

a) True and fair view

The accompanying annual accounts were authorised for issue by the Company's directors at their board meeting held on 22 February 2022 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2021, as well as the results of its operations, changes in equity and cash flows for the year then ended.

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

The Company is the Parent of a group of companies and has prepared its consolidated annual accounts, pursuant to prevailing legislation, in accordance with International Financial Reporting Standards as adopted by the European Union.

The Company files separate consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) No 1606/2002/EC of the European Parliament and of the Council, and the related interpretations (IFRIC) adopted by the European Union.

The annual accounts for 2020 were approved by the shareholders at their general meeting held on 29 June 2021. The annual accounts for 2021 are currently pending approval by the shareholders. However, the board of directors of the Company consider that these annual accounts will be approved with no changes.

b) Mandatory accounting principles

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

c) Estimates and assumptions

The preparation of the annual accounts requires Company management to make judgements, estimates and assumptions that affect the application of accounting standards and the amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on past experience and other factors that are considered reasonable under the circumstances. Actual results could differ from these estimates.

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

- Estimated recoverable amount of real estate assets. Asset impairment testing has determined the existence of insignificant impairment, as defined by prevailing legislation, reflecting adjustments to the carrying amount of facilities included under property, plant and equipment that are not expected to generate sufficient cash flows in the future to enable the recovery of their value.

- Estimates and assumptions used to assess the recoverability of investments in Group companies and associates.
- Estimated useful lives of property, plant and equipment.
- Assumptions used in the actuarial calculations.
- Assumptions and estimates used in measuring the fair value of derivative financial instruments.

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

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

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

Although estimates are based on the best information available at 31 December 2021, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding income statement as a change in accounting estimates, as required by the Spanish General Chart of Accounts.

d) Comparative information

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

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

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

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

Categories of financial assets and financial liabilities

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

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

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

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

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

Type of instrument	Previous category	Present category	31.12.2021 (Thousands of Euros)
Equity instruments of a special nature	Available for sale	At fair value through profit or loss	1,050
Equity instruments	Equity investments in Group companies and associates	Financial assets carried at cost	2,152,488

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

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

Revenue recognition

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

The Company has reviewed its internal revenue recognition policies for the different types of revenue contracts, finding no significant differences between them, nor any performance obligations that would give rise to the recognition of liabilities from contracts with customers.

e) Considerations regarding COVID-19

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

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

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

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

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

3 Proposed Distribution of Profit

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

Thousands of Euros

Profit for the year	559,108
Total	**559,108**

Distribution

Voluntary reserves	13,972
Capitalisation reserve	4,548
Dividends:	
Interim dividend	147,061
Supplementary dividend	393,527
Total	**559,108**

This proposed distribution entails a supplementary dividend of Euros 0.7273 per share, which would result in a total dividend for the year of Euro 1 per share, calculated on the basis of total shares.

The interim dividend for the year is explained in note 14.

4 Significant Accounting Policies

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

a) Intangible assets

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

- Computer software: computer software licences are capitalised at cost of acquisition or cost of preparation for use. Computer software maintenance costs are charged as expenses when incurred. Computer software is amortised on a straight-line basis over a period of three to five years from the date on which each program comes into use.
- Development: development expenses directly attributable to the design and execution of tests for new or improved computer programs that are identifiable, unique and likely to be controlled by the Company are recognised as intangible assets when it is probable that the project will be successful, based on its technical and commercial feasibility, and the associated costs can be estimated reliably. Costs that do not meet these criteria are charged as expenses when incurred. Development expenses are capitalised and amortised, from the date the

associated asset comes into service, on a straight-line basis over a period of no more than five years. Computer software maintenance costs are charged as expenses when incurred.

b) Property, plant and equipment

Property, plant and equipment primarily comprise land and buildings and are measured at cost of construction or acquisition, as appropriate, less accumulated depreciation and impairment. Cost of construction includes the following items, where applicable:

- Borrowing costs accrued on external financing during the construction period.
- Operating expenses directly related to property, plant and equipment constructed for projects executed under the supervision and management of the Company.

The Company transfers work in progress to property, plant and equipment in use provided that the assets are in working condition.

Costs incurred to enlarge or improve items of property, plant and equipment which increase capacity or productivity or extend the useful life of the asset are capitalised as an increase in the cost of the related asset.

Repair and maintenance costs on property, plant and equipment that do not increase productivity or capacity and which do not lengthen the useful life of the assets are charged as expenses when incurred.

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

	Annual depreciation rate
Buildings	2%-10%
Other installations	4%-25%

The Company periodically assesses the depreciation criteria taking into account the useful life of its assets. There have been no significant changes in the depreciation criteria compared to the prior year.

The Company reviews the residual values and useful lives of assets and adjusts them, if necessary, at each reporting date.

c) Investment property

The Company measures its investment property at cost of acquisition. The market value of the Company's investment property is disclosed in note 6.

Investment property, except land, is depreciated on a straight-line basis over the estimated useful life, which is the period during which the Company expects to use the assets (annual depreciation rate of 2%).

d) Leases

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

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

e) Financial assets

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

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

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

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

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

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

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

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

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

  In the case of share capital increases by a subsidiary that are fully subscribed through a non-monetary contribution consisting of a portfolio of securities classified under the erstwhile available-for sale financial assets category, the Company adopts the response to query 1, published in the Spanish Accounting and Auditing Institute's Official Gazette (BOICAC) no. 77/2009, and any gains or losses arising from changes in the fair value at the date of the non-monetary contribution therefore continue to be recognised in the Company's equity. As provided for in Recognition and Measurement Standard 9.2.4.3 of the Spanish General Chart of Accounts, when an investment was made in a Group company, jointly controlled entity or associate before it was classified as such, and valuation adjustments for the investment were recognised directly in equity prior to this classification, these adjustments shall be maintained after classification until disposal or derecognition of the investment, at which point they shall be recognised in the income statement.

- Financial assets measured at fair value through profit or loss: this category includes financial assets that do not meet the conditions for classification in the previous categories.

  These financial assets are recognised at fair value both on initial recognition and on subsequent measurement and any changes in fair value or gains/losses on disposal are recognised in the income statement. They are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price and equates to the fair value of the consideration given. Directly attributable transaction costs are recognised in profit and loss.

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

f) Cash and cash equivalents

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

g) Impairment

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

Recoverable amount is the higher of:

- Fair value less costs to sell
- Value in use

Recoverable amount is calculated on the basis of expected cash flows. Impairment is calculated for individual assets. Where the recoverable amount of an individual asset cannot be determined, the recoverable amount of the cash-generating unit (CGU) to which that asset belongs is calculated. Any reversals are recognised in the income statement.

In its analyses carried out in 2021, the Company reversed impairment of a building classified as investment property (see note 6).

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

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

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

The Company has not identified any indications of impairment of equity instruments or loans extended to Group companies and associates in its analysis.

h) Capital and reserves

Share capital is represented by ordinary shares.

Interim dividends are recognised as a reduction in equity for the year in which the dividend is declared, based on the consensus of the board of directors. Supplementary dividends are not deducted from equity until approved by the shareholders at their general meeting.

For a dividend in kind in the form of a business received from a Group company, Recognition and Measurement Standards 19 and 21 of the Spanish General Chart of Accounts approved through Royal Decree 1514/2007 are applicable. This entails the business received being recognised at its carrying amount, while the difference with respect to the fair value of the dividend received is recorded against reserves (see notes 5, 14-b and 15).

Own shares are measured at cost of acquisition and recognised as a reduction in equity. Any gains or losses on the purchase, sale, issue or redemption of own shares are recognised directly in equity.

i) Provisions

- Employee benefits
  - Pension obligations

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

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

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

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

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

  Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax interest rate that reflects the current market assessment of the time value of money and the specific risks of the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

j) Financial liabilities

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

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

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

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

k) Transactions in currency other than the Euro

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

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

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

l) Derivative financial instruments and hedging transactions

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

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

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

Details of the fair value of the derivatives used to hedge currency risk are disclosed in note 11.

m) Fair value measurement

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

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

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

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

n) Income and expenses

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

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

Interest income is recognised using the effective interest method. Dividends are recognised when the right to receive payment is established.

The Company, as the Parent of the Red Eléctrica Group, has adopted the Spanish Accounting and Auditing Institute's (ICAC) resolution of 10 February 2021 (Art. 34.10) and its response to the query (Ref: 546/09) of 23 July 2009, regarding the classification for accounting purposes of a holding company's income and expenses in individual accounts and the method for determining revenues, and classifies dividends from investments held in investees and interest on loans extended to these companies as revenue.

In addition, lease income is also included as revenue, as the operation of the properties owned by the Company is one of its principal activities.

o) Taxation

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

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

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

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

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

As the parent of the tax group, the Company records the total consolidated income tax payable (recoverable) with a debit (credit) to receivables from (payables to) Group companies and associates.

p) Insurance

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

q) Share-based payments

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

r) Transactions between Group companies

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

5 Intangible Assets and Property, Plant and Equipment

5.1 Intangible assets

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

Thousands of Euros	31 December 2019	Additions	Disposals	Dividend in kind	31 December 2020	Additions	Disposals	31 December 2021
Cost								
Computer software	-	1,649	-	3,892	5,541	5,640	-	11,181
Total cost	**-**	**1,649**	**-**	**3,892**	**5,541**	**5,640**	**-**	**11,181**
Accumulated amortisation								
Computer software	-	(163)	-	(2,066)	(2,229)	(1,166)	-	(3,395)
Total accumulated amortisation	**-**	**(163)**	**-**	**(2,066)**	**(2,229)**	**(1,166)**	**-**	**(3,395)**
Carrying amount	**-**	**1,486**	**-**	**1,826**	**3,312**	**4,474**	**-**	**7,786**

In 2021 and 2020 computer software additions reflect the Company's acquisitions from third parties and development of corporate software. At 31 December 2021, computer software reflects Euros 5,640 thousand of software under development (Euros 0 thousand at 31 December 2020).

In 2020, the dividend in kind consisted of intangible assets received by the Company in the form of a business (see notes 4-h and 14-b).

At 31 December 2021 the Company has fully amortised intangible assets amounting to Euros 1,662 thousand (Euros 826 thousand at 31 December 2020).

In 2021 operating expenses of Euros 438 thousand directly related to intangible assets were capitalised (Euros 61 thousand in 2020).

5.2 Property, plant and equipment

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

Thousands of Euros	31 December 2019	Additions	Disposals	Dividend in kind	Transfers	31 December 2020	Additions	Disposals	Transfers	31 December 2021
Cost										
Land and buildings	87,323	-	-	-	821	88,144	-	-	-	88,144
Other installations, machinery, equipment, furniture and other items	15,649	-	-	1,850	69	17,568	-	-	-	17,568
Under construction and advances	4,604	233	-	-	(890)	3,947	2,614	-	-	6,561
Total cost	**107,576**	**233**	**-**	**1,850**	**-**	**109,659**	**2,614**	**-**	**-**	**112,273**
Accumulated depreciation										
Buildings	(21,614)	(1,575)	-	-	-	(23,189)	(1,574)	-	-	(24,763)
Other installations, machinery, equipment, furniture and other items	(14,757)	(128)	-	(1,526)	-	(16,411)	(262)	-	-	(16,673)
Total accumulated depreciation	**(36,371)**	**(1,703)**	**-**	**(1,526)**	**-**	**(39,600)**	**(1,836)**	**-**	**-**	**(41,436)**
Carrying amount	**71,205**	**(1,470)**	**-**	**324**	**-**	**70,059**	**778**	**-**	**-**	**70,837**

Land and buildings comprise buildings owned by the Company and used mainly for its principal activity as detailed in note 1.

Additions to property, plant and equipment under construction in 2021 primarily reflect the purchase and assembly of corporate equipment. In 2020 they mainly reflected the fitting-out of the buildings owned by the Company in the autonomous region of Madrid.

In 2020 transfers from property, plant and equipment under construction to land and buildings and to other installations, machinery, equipment, furniture and other items primarily related to the foregoing buildings in the autonomous region of Madrid.

In 2020, the dividend in kind consisted of property, plant and equipment received by the Company in the form of a business (see notes 4-h and 14-b).

At 31 December 2021 the Company has fully depreciated property, plant and equipment amounting to Euros 17,036 thousand (Euros 16,704 thousand in 2020), Euros 14,683 thousand of which comprise other installations (Euros 14,683 thousand in 2020).

In 2021 operating expenses of Euros 83 thousand directly related to property, plant and equipment were capitalised (Euros 8 thousand in 2020).

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

The amount resulting from the revaluation, net of the single tax payment of 5%, was credited to reserves (see note 14). The revalued assets, with no changes to the accumulated depreciation recorded at that date, are land and buildings in an amount of Euros 6,304 thousand and other installations in an amount of Euros 60 thousand.

The net increase in value deriving from the revaluation is depreciated over the remaining useful life of the revalued assets. The revaluation has led to an increase of Euros 176 thousand in the depreciation charge for 2021 (Euros 182 thousand in 2020).

6 Investment Property

Movement in investment property in 2021 and 2020 is as follows:

Thousands of Euros	31 December 2019	Additions	Disposals	31 December 2020	Additions	Disposals	31 December 2021
Investment property	2,398	-	-	2,398	-	-	2,398
Total cost	**2,398**	**-**	**-**	**2,398**	**-**	**-**	**2,398**
Accumulated depreciation	(499)	(21)		(520)	(21)		(541)
Total accumulated depreciation	**(499)**	**(21)**	**-**	**(520)**	**(21)**	**-**	**(541)**
Impairment of investment property	(553)	-	-	(553)	-	469	(84)
Total impairment	**(553)**	**-**	**-**	**(553)**	**-**	**469**	**(84)**
Carrying amount	**1,346**	**(21)**	**-**	**1,325**	**(21)**	**469**	**1,773**

At the 2021-year end, after analysing the market value of its investment property, the Company reversed the impairment of one building. No new impairment losses have been determined for the other buildings.

The impairment reversal was recorded in the income statement in an amount of Euros 469 thousand (see note 20-d).

Investment property has a market value of approximately Euros 2.6 million in 2021 (Euros 1.9 million in 2020) and does not generate or incur significant operating income or expenses.

7 Operating Leases

The Company has leased certain assets to Group companies. The types of assets fully or partially leased under operating leases are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Cost		
Land and buildings	86,358	86,358
Other installations, machinery, equipment, furniture and other items	17,568	17,568
Total cost	**103,926**	**103,926**
Accumulated depreciation		
Buildings	(24,763)	(23,189)
Other installations, machinery, equipment, furniture and other items	(16,673)	(16,411)
Total accumulated depreciation	**(41,436)**	**(39,600)**
Carrying amount	**62,490**	**64,326**

The Company has entered into operating lease agreements with Red Eléctrica de España, S.A.U. (REE), Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL), Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN), Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) and HISPASAT, S.A. (HISPASAT), whereby it leases areas inside the buildings it owns to these Group companies.

These lease agreements are renewed periodically and generated lease income of Euros 9,875 thousand in 2021 (Euros 10,843 thousand in 2020). In 2021, approximately 87% of this lease income is from REE and 13% from the remaining Group companies (in 2020, 95% from REE and 5% from other Group companies).

8 Investments in Group Companies and Associates

At 31 December 2021 and 2020, none of the Group companies in which the Company holds a direct or indirect interest are listed on the stock exchange.

Details of investments in Group companies and associates at 31 December 2021 are as follows:

Red Eléctrica Corporación, S.A.

Details of equity investments at 31 December 2021

- Company
- Registered office
- Principal activity

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Red Eléctrica de España, S.A.U. (REE) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Transmission, operation of the Spanish electricity system and management of the transmission network.	100%	-	1,014,326	800,006	54,319	792,688	47,789	552,845	822,069	500,044
Red Eléctrica Internacional, S.A.U. (REI) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition and holding of international equity investments. Rendering of advisory, engineering and construction services. Performance of electricity activities outside the Spanish electricity system.	100%	-	542,542	186,037	356,505	42,613	(234)	1,862	2,609	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Rendering of advisory, engineering, construction and telecommunications services.	100%	-	30,000	30,000	-	5,736	(52,027)	55,649	75,249	58,901
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Management of the construction of energy storage facilities and the water cycle.	100%	-	5,000	5,000	-	139	-	8	12	-
Red Eléctrica de España Finance, S.L.U. (4) (REEF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	2,000	18	1,982	-	-	31	(170)	94
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	60	60	-	12,903	-	2,530	(161)	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U (RESTEL) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Acquisition, holding, management and administration of Spanish and foreign equity securities.	100%	-	549,060	549,060	-	(1,752)	-	(1,843)	(1,051)	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Activities geared towards driving and accelerating technological innovation.	100%	-	5,000	1,000	4,000	(1,875)	-	(351)	(452)	-
Redcor Reaseguros, S.A (REDCOR) - 26, Rue Louvigny. (Luxembourg). - Reinsurance activities. Incorporated in 2010 in Luxembourg in order to reinsure the risks of the Group companies, thereby guaranteeing better access to international reinsurance markets.	100%	-	4,500	4,500	-	52,860	-	3,228	3,618	-
Red Eléctrica Andina, S.A.C. (REA) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Rendering of line and substation maintenance services.	-	100% (a)	-	1,468	-	2,739	-	1,253	7,027	-

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Red Eléctrica del Sur, S.A. (REDESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	-	11,477	-	35,496	-	4,951	7,907	-
Transmisora Eléctrica del Sur , S.A.C. (TESUR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	34,259	-	1,066	-	250	7,907	-
Transmisora Eléctrica del Sur 2, S.A.C. (TESUR 2) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	20,021	-	1,081	-	1,222	2,059	-
Transmisora Eléctrica del Sur 3, S.A.C. (TESUR 3) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	4,415	-	(200)	-	207	710	-
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (j)	-	4,856	-	(167)	-	(270)	(17)	-
Red Eléctrica del Norte Perú, S.A.C. (REDELNOR) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Acquisition, holding, management and administration of securities.	-	100% (a)	-	30,903	-	(128)	-	(37)	(27)	-
Concesionaria Línea de Transmisión CCNCM S.A.C. (CCNCM) - Av. Javier Prado Este Nº 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (d)	-	24,580	-	(14,375)	-	(4,183)	4,571	-
Red Eléctrica Chile S.P.A (RECH) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Acquisition, holding, management and administration of securities.	-	100% (a)	-	125,168	-	(19,808)	-	(2,920)	129	-
Red Eléctrica del Norte S.A. (REDENOR) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	69.9% (e)	-	6,827	-	(821)	-	117	(518)	-
Red Eléctrica del Norte 2, S.A. (REDENOR 2) - Isidora Goyenechea 3000, oficina 1602, Las Condes, Santiago (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (e)	-	28,047	-	(229)	-	(427)	1,013	-
Red Eléctrica Brasil Holding Ltda. (REB) -Calle Libero Badaró, 293, 21º andar, conjunto 21-C, sala 11, Centro - Acquisition, holding, management and administration of securities.	-	100% (a)	-	267,397	-	(1,041)	-	34	(684)	–

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Hispasat S.A. - Calle de Anabel Segura, 11. Alcobendas. Madrid. (Spain). - Parent of the Hispasat Group. Operation of the satellite communications system and rendering of space segment services for the geostationary orbital slots allocated to the Spanish state.	-	89.68% (f) (5)	-	121,946	76,265	235,670	19,743	3,491	6,972	-
Hispasat Canarias, S.L.U. -Calle Practicante Ignacio Rodriguez s/n Edificio Polivalente IV. Las Palmas de Gran Canaria (Spain) - Sale and lease of satellites and spatial capacity.	-	89.68% (g) (5)	-	102,003	-	197,618	(10,672)	34,723	21,969	-
Hispasat Brasil, Ltda. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity.	-	89.68% (g) (5)	-	16,813	-	9,490	3,674	2,891	84	-
Hispamar Satélites, S.A. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity.	-	89.68% (h) (5)	-	17,911	-	7,070	6,114	3,371	2,717	-
Hispamar Exterior, S.L.U. - Calle de Anabel Segura, 11. Alcobendas. Madrid. (Spain). - Commercialisation of satellite capacity.	-	89.68% (i) (5)	-	800	-	5,338	(1,537)	1,006	1,383	-
Hispasat de México, S.A. de C.V. - Agustín Manuel Chávez 1-001 Col. Centro de Ciudad Santa Fe, 01210 México D.F. (Mexico). - Use of radio spectrum, telecommunications networks and satellite communication.	-	89.68% (g) (5)	-	6,488	-	1,821	-	782	106	-
Hispamar Satélites, S.A. (*) (Venezuela) - Torre Phelps, piso 10 ofic. 10. Caracas. (Venezuela). - Commercialisation and rendering of satellite telecommunications services.	-	89.68% (i) (5)	-	-	-	-	-	-	-	-
Hispasat Perú, S.A.C. -Jr. Baca Flor N° 307, Dpto. N° 701, distrito de Magdalena del Mar. Lima (Peru) - Commercialisation and rendering of satellite telecommunications services	-	89.68%(g)(5)	-	759		-	(252)	3,563	5,146	-
Consultek, Inc (*) - 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America) - Technical consultancy services.	-	89.68% (g) (5)	-	18	-	34	2	-	1	-
Hispasat UK, LTD. (*) 30 Finsbury Square, London. (England) - Commercialisation and rendering of satellite telecommunications services.	-	89.68% (g) (5)	-	-	-	-	-	(4)	(6)	-

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (3)	Results from operating activities (3)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Interconexión Eléctrica Francia-España, S.A.S. (INELFE) - Inmueble Window, 7 C Place du Dôme, 92073 La Défense Cedex, Paris (France) - Study and execution of Spain-France interconnections.	-	50% (b)	-	2,000	-	14,718	-	83	108	-
Transmisora Eléctrica del Norte S.A. (TEN) - Avenida Apoquindo N°3721, piso 6, Las Condes, Santiago. (Chile) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (e)	-	64,344	-	28,268	(890)	(8,503)	10,137	-
Hisdesat Servicios Estratégicos, S.A. - Paseo de la Castellana 143, 28046 Madrid. (Spain). - Commercialisation of spatial systems for government use.	-	38.56% (g)(5)	-	108,174	-	107,194	9,363	26,995	33,899	-
Grupo de Navegación Sistemas y Servicios, S.L. (*) - Calle Isaac Newton 1, Madrid. (Spain). - Operation of satellite systems	-	12.82% (g)(5)	-	1,026	-	(91)	-	-	-	-
Argo Energia Emprendimientos y Participaciones S.A. - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Acquisition, holding, management and administration of securities.	-	50% (k)	-	83,607	-	184,749	10,075	59,061	60,274	-
Argo Transmisión de Energia S.A. ("Argo I") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	79,072	-	148,507	5,167	61,539	129,635	-
Argo II Transmisión de Energia S.A. ("Argo II") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	6,019	-	18,563	-	4,032	8,053	-
Argo III Transmisión de Energia S.A. ("Argo III") - Calle Tabapuã, 841 – 5º andar – Itaim Bibi – São Paulo/SP (Brazil) - Electricity transmission and operation and maintenance of electricity transmission networks.	-	50% (l)	-	18,391	-	9,014	-	(4,417)	7,903	-

Thousands of Euros	Percentage ownership (1)		Carrying amount	Equity of investees (2)			Other items	Profit/(loss) for the year (6)	Results from operating activities (6)	Dividends received
	Direct	Indirect		Paid-in share capital	Share premium	Reserves				
Zeleros Global, S.L. - Muelle de la Aduana s/n, Edificio Lanzadera, 46024, Valencia - Research and development of new technologies applied to the transport sector	-	6.62% (m)	-	55	6,483	(436)	1,540	(600)	(597)	-
Nearby Computing, S.L. - Travessera de Gràcia 18, 3r, 3a, 08021 Barcelona - Development of software and/or IT applications	-	11.71% (m)	-	6	1,624	(606)	680	(507)	(497)	-
Hybrid Energy Storage Solutions, S.L. - Av. Benjamín Franklin, 12 Mód. Nº 24, 46980 Paterna, Valencia - Design, production and sale of technological energy storage solutions for the new generation of electricity grids	-	19.61% (m)	-	8	2,054	(32)	-	(657)	(591)	-
Aerolaser System, S.L. - Av. José Mesa y López, 45, Local D4, 35010 Las Palmas de Gran Canaria, Las Palmas - Development and commercialisation of sensory technological solutions for geospatial technology	-	15.79% (m)	-	5	1,499	3,141	-	1,002	995	-

(*) Unaudited

(1) Equivalent to voting rights.

(2) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the closing exchange rate.

(3) As per the audited financial statements harmonised with the Company's accounting criteria and translated to Euros at the average exchange rate.

(4) Company changed its registered office and company name in 2021. At 31 December 2020, Red Eléctrica de España Finance, B.V. with registered office in Amsterdam (Netherlands).

(5) Company forming part of the Hispasat subgroup.

(6) Provisional figures estimated by the Company and not yet audited.

(a) Investment through Red Eléctrica Internacional, S.A.U.

(b) Investment through Red Eléctrica de España, S.A.U.

(c) Investment through Red Eléctrica del Sur, S.A.

(d) Investment through Red Eléctrica del Norte Perú, S.A.C.

(e) Investment through Red Eléctrica Chile SpA.

(f) Investment through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.

(g) Investment through Hispasat, S.A.

(h) Investment through Hispasat, S.A. and Hispasat Brasil, Ltda.

(i) Investment through Hispamar Satélites, S.A.

(j) Investment through Red Eléctrica del Sur, S.A. and Red Eléctrica Internacional S.A.U.

(k) Investment through Red Eléctrica Brasil Holding Ltda.

(l) Investment through Argo Energía Empreendimentos y Participaciones S.A.

(m) Investment through Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U.

The Company holds a direct interest in the following companies:

- REE, the company that performs the functions of transmission agent, system operator and transmission network manager of the Spanish electricity system subject to the provisions of Electricity Industry Law 24/2013 and related provisions having regard to the system operator, transmission network manager and transmission agent. The Company may not transfer the shares of this subsidiary, which conducts regulated activities in Spain, to third parties.
- Hispasat, S.A., in which it holds an 89.68% stake through the subsidiary RESTEL. Hispasat, S.A.'s statutory and principal activity consists of commercialising and rendering satellite telecommunications services.
- REINTEL, which renders telecommunications services to third parties in Spain, essentially through the rental of the dark fibre backbone network of both electricity transmission infrastructure and railway infrastructure. In 2021 REINTEL distributed 100% of the share premium to the Company, amounting to Euros 44,417 thousand.
- REI, the company through which international activity is conducted. In 2020 REI's share capital was increased by Euros 378.5 million. The main transaction carried out that year was in Brazil, where REI, through its subsidiary REB, acquired a 50% stake in Argo Energia Empreendimentos e Participações S.A. (ARGO ENERGIA), the parent of a group of electricity transmission concession operator companies in Brazil. Argo Energia was incorporated in Brazil in 2016 and holds three 30-year electricity concessions in that country, encompassing 1,460 km of 500 kV and 230 kV high-voltage lines and 11 substations. The purchase price for 50% of the share capital of Argo Energia was BRL 1,678.2 million (Euros 374.3 million).
- REINCAN, which updated its statutory activity during the year such that it now consists of management of the construction of energy storage facilities and the water cycle.
- REEF and REF, the companies through which the Group carries out financing activities.
- REDCOR, which engages in reinsurance activities.
- RETIT, a subsidiary through which the drive for technological innovation is channelled.

Details of the main transactions performed in 2021 are as follows:

- Red Eléctrica de España Finance, S.L.U. changed its registered office and company name in 2021. At 31 December 2020 it was called Red Eléctrica de España Finance, B.V. and its registered office was in Amsterdam (Netherlands).
- The Peruvian company Hispasat Perú S.A.C. was incorporated. Its principal activity is the provision of telecommunications services. This company is wholly owned by Hispasat, S.A. and in 2021 it acquired a series of assets for the management and transmission of video signals in Latin America.
- The entire stake in Hispamar Satélites, S.A. was acquired. As a result, Hispasat became the sole shareholder of both the acquired company Hispamar Satélites, S.A. and the latter's investee Hispamar Exterior, S.L.U. Following this acquisition, the Red Eléctrica Group now holds 89.68% of both companies.
- On 16 December 2021, the Company announced the agreement with Kohlberg Kravis Roberts & Co. L.P. for the sale of a minority stake of 49% in REINTEL, for Euros 971 million. At the date of authorising these annual accounts for issue, this transaction has no impact on the Company's annual accounts because, in accordance with applicable legislation, the parties have sought the pertinent authorisation for the transaction, this being one of the conditions precedents for the agreement signed by the two parties to come into effect. On completion of the agreed transaction, the Company will retain a 51% stake in REINTEL, as well as control and management thereof.
- On 3 November 2021, ARGO ENERGIA, in which REB holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital

of Rialma Transmissora de Energia III S.A., subject to certain conditions being met and to the regulatory authorities approving the acquisition (see note 29).

The Company performs an impairment test each year to verify the recoverability of its investments for which there are indications of impairment. When testing for impairment, the Company considers projections of future cash flows. Impairment tests were performed in 2021 and 2020 and in all instances the recoverable amount exceeded the carrying amount. Thus, the Company concluded that no impairment of investments exists.

Regarding the recoverable amount in **REI** of the equity investments held in the companies in Chile, indications of impairment have emerged as a result of the National Value Assessment for the 2020-2023 period conducted by the National Energy Commission (CNE) in Chile. A review must therefore be performed to determine the annual remuneration of those companies' transmission assets.

The most representative assumptions for the calculation of value in use included in the projections of the businesses in Chile, based on business forecasts and own past experience, are as follows:

- Regulated remuneration: estimated taking into account the Final Technical Report (FTR) published by Chile's CNE in August 2021 as part of the previously mentioned National Value Assessment, and which has been updated for subsequent years using the updating mechanisms established by Chilean legislation.
- Investment: the best information available on the asset investment and maintenance plans for the infrastructure throughout the estimated time period has been used.
- Operating and maintenance costs: projected in line with the growth expected to derive from the investment plan.
- Other costs: projected based on knowledge of the sector and past experience and in line with the growth expected to derive from the investment plan.

In order to calculate present value, the projected cash flows are discounted using a post-tax rate that considers the weighted average cost of capital (WACC) of the business and the geographical area in which it is carried out.

The estimate performed reveals that the recoverable amount is higher than the value of the investment in the REI companies in Chile, including the loan granted to TEN.

Moreover, in 2021 the investment held by **RESTEL** in Hispasat was tested for impairment, and the recoverable amount exceeded the carrying amount of the investment. It was thus concluded that the investment in RESTEL plus the loan granted is not impaired.

The key assumptions used in the calculations for the impairment test of the investment in Hispasat are as follows:

- The test was performed estimating the fair value less costs to sell, taking an income approach for the purpose of determining the recoverable amount of the satellite business.

  The income approach indicates the recoverable amount of a business based on the present value of the future cash flows it is expected to generate, calculated using a discounted cash flow (DCF) methodology. The DCF method is used to discount the future free cash flow (FCF) to its estimated present value, applying a discount rate (weighted average cost of capital or WACC) that reflects the time value of money and the risks associated with the expected cash flows.

  Costs to sell have been estimated considering the costs incurred on previous transactions carried out by the Group.

  The value of the equity-accounted investees of the HISPASAT subgroup has been added to this fair value less cost to sell.

- The cash flow projections used are for the 2022-2040 period, which is consistent with the useful life of the existing satellites, as well as that of the new satellite assets expected to be launched in the coming years and the HISPASAT subgroup's expected adoption of new business models and technologies.

  Cash flows estimated beyond five years are deemed to be reliable on the basis of the Group's experience of investments with a considerable technological component that entail long-term contracts and commitments. The satellite business gives rise to long-term contractual commitments with customers, and it is commonplace for contracts covering a substantial portion of the useful life of the satellites to be signed, with a view to obtaining a minimum return before the new satellites are launched, which then serves as a solid foundation on which to secure the return expected from the satellite according to the estimates made before undertaking the project.

The terminal value associated with the traditional technology is zero, given that the infrastructure supporting this business will cease to generate revenue and expenses once it reaches the end of its useful life. For new business and services, a terminal value with a perpetuity growth rate of 0.75% has been applied, which is in line with that considered by analysts for comparable companies.

- The EBITDA margin considered for traditional business and new business jointly is in line with the prior year and averages 55%.
- The main exchange rates considered for foreign currency cash flows were the forward rates based on the inflation rate spread between different currencies, starting from the closing spot exchange rate on the day of the test: 1.16 EUR/USD and 6.57 EUR/BRL. As regards the impairment test at the 2020-year end, the main exchange rates considered for foreign currency cash flows were 1.23 EUR/USD and 6.38 EUR/BRL.
- A discount rate based on the weighted average cost of capital (WACC) has been used to discount the cash flows, specifically a pre-tax rate of 7.60% (7.95% in 2020) has been applied for the traditional satellite business, and an additional risk premium has been included for new business, giving a pre-tax rate of 9.10% (9.45% in 2020).
- In addition, the fair value less costs to sell plus the value of the HISPASAT subgroup's equity-accounted investees has been reduced by the fair value of the net financial position of the HISPASAT subgroup to calculate the equity value of the investment in RESTEL.

9 Financial Risk Management Policy

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

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

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

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

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

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

a) Market risk

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

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

- **Interest rate risk**

  The interest rate risk to which the Company is exposed at 31 December 2021 and 2020 mostly affects profit for the year.

Interest rate fluctuations change the fair value of assets and liabilities that accrue interest at fixed rates and the future cash flows from assets and liabilities indexed to floating interest rates. The rise or decline of 0.10% in 2021 interest rates would have increased or decreased profit by Euros 607 thousand (Euros 264 thousand in 2020).

- **Currency risk**

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

The Company has arranged derivative financial instruments (cross-currency swaps) to reduce the currency risk on loans extended to the Group company RECH. These instruments allow variable-rate debt in Euros to be exchanged for variable-rate debt in US Dollars, thereby hedging future receipts in US Dollars.

- **Credit risk**

The main risk to which the Company is exposed is credit risk, inasmuch as its main debt transactions are carried out by the other Group companies, which assume the market and liquidity risks. Credit risk is managed through policies that contain certain requirements regarding counterparty credit quality, and further guarantees are requested when necessary. At 31 December 2021 the Company does not consider there to be any risk as regards the recoverability of receivables.

10 Analysis of Financial Instruments

a) Analysis by category

At 31 December 2021 and 2020 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows:

- Financial assets

	Financial instruments by category at 31.12.2021			
Thousands of Euros	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Hedging derivatives	Total
Loans to third parties	-	988	-	988
Loans to Group companies and associates	-	601,795	-	601,795
Equity instruments of a special nature	1,050	-	-	1,050
Derivative financial instruments	-	-	6,099	6,099
Other financial assets	-	22	-	22
Non-current	**1,050**	**602,805**	**6,099**	**609,954**
Trade receivables and loans to Group companies and associates	-	79,309	-	79,309
Derivative financial instruments	-	-	-	-
Other financial assets	-	5	-	5
Trade and other receivables	-	673	-	673
Current	**-**	**79,987**	**-**	**79,987**
Total	**1,050**	**682,792**	**6,099**	**689,941**

Thousands of Euros	Financial instruments by category at 31.12.2020			
	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Hedging derivatives	Total
Loans to third parties	-	1,192	-	1,192
Loans to Group companies and associates	-	449,677	-	449,677
Equity instruments of a special nature	3,895	-	-	3,895
Other financial assets	-	22	-	22
Non-current	**3,895**	**450,891**	**-**	**454,786**
Trade receivables and loans to Group companies and associates	-	1,334,527	-	1,334,527
Derivative financial instruments	-	-	16,228	16,228
Other financial assets	-	1	-	1
Trade and other receivables	-	245	-	245
Current	**-**	**1,334,773**	**-**	**1,351,001**
Total	**3,895**	**1,785,664**	**16,228**	**1,805,787**

- Financial liabilities

Thousands of Euros	Financial instruments by category at 31.12.2021		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Bonds and other marketable securities	398,227	-	398,227
Loans and borrowings	155,960	-	155,960
Payables to Group companies and associates	1,502	-	1,502
Other financial liabilities	16	-	16
Non-current	**555,705**	**-**	**555,705**
Trade payable and payables to Group companies and associates	2,512	-	2,512
Loans and borrowings	500,784	-	500,784
Payables to Group companies and associates	13,165	-	13,165
Current payables	166,007	-	166,007
Trade and other payables	17,892	-	17,892
Current	**700,360**	**-**	**700,360**
Total	**1,256,065**	**-**	**1,256,065**

Thousands of Euros	Financial instruments by category at 31.12.2020		
	Financial liabilities at amortised cost	Hedging derivatives	Total
Bonds and other marketable securities	397,699	-	397,699
Loans and borrowings	869,081	-	869,081
Payables to Group companies and associates	1,565	-	1,565
Other financial liabilities	16	-	16
Non-current	**1,268,361**	-	**1,268,361**
Trade payable and payables to Group companies and associates	2,512	-	2,512
Loans and borrowings	811	-	811
Payables to Group companies and associates	8,106	-	8,106
Current payables	158,652	-	158,652
Trade and other payables	15,609	-	15,609
Current	**185,690**	-	**185,690**
Total	**1,454,051**	-	**1,454,051**

b) Analysis by maturity

- Financial assets

Thousands of Euros	31.12.2021						
	Maturity of financial assets						
	2022	2023	2024	2025	2026	Thereafter	Total
Loans to third parties	-	-	-	-	-	988	988
Loans to Group companies and associates	79,309	50,032	384,000	-	167,763	-	681,104
Equity instruments of a special nature	-	-	-	-	-	1,050	1,050
Other financial assets	5	-	-	-	-	22	27
Trade and other receivables	673	-	-	-	-	-	673
Total	**79,987**	**50,032**	**384,000**	**-**	**167,763**	**2,060**	**683,842**

Thousands of Euros	31.12.2020						
	Maturity of financial assets						
	2021	2022	2023	2024	2025	Thereafter	Total
Loans to third parties	-	-	-	-	-	1,192	1,192
Loans to Group companies and associates	1,334,527	-	65,677	384,000	-	-	1,784,204
Equity instruments of a special nature	-	-	-	-	-	3,895	3,895
Other financial assets	1	-	-	-	-	22	23
Trade and other receivables	245	-	-	-	-	-	245
Total	**1,334,773**	**-**	**65,677**	**384,000**	**-**	**5,109**	**1,789,559**

- Financial liabilities

	31.12.2021							
	Maturity of financial liabilities							
Thousands of Euros	2022	2023	2024	2025	2026	Thereafter	Valuation adjust-ments	Total
Bonds and other marketable securities	2,512	-	-	400,000	-	-	(1,773)	400,739
Loans and borrowings in Euros	500,519	75,000	-	-	-	-	(48)	575,471
Loans and borrowings in foreign currency	265	40,614	40,394	-	-	-	-	81,273
Payables to Group companies and associates	13,165	-	-	-	-	1,502	-	14,667
Trade and other payables	183,899	-	-	-	-	-	-	183,899
Other financial liabilities	-	-	-	-	-	16	-	16
Total	**700,360**	**115,614**	**40,394**	**400,000**	**-**	**1,518**	**(1,821)**	**1,256,065**

	31.12.2020							
	Maturity of financial liabilities							
Thousands of Euros	2021	2022	2023	2024	2025	Thereafter	Valuation adjust-ments	Total
Bonds and other marketa-ble securities	2,512	-	-	-	400,000	-	(2,301)	400,211
Loans and borrowings in Euros	390	100,000	175,000	-	500,000	-	(180)	775,210
Loans and borrowings in foreign currency	421	40,476	53,785	-	-	-	-	94,682
Payables to Group compa-nies and associates	8,106	-	-	-	-	1,565	-	9,671
Trade and other payables	174,261	-	-	-	-	-	-	174,261
Other financial liabilities	-	-	-	-	-	16	-	16
Total	**185,690**	**140,476**	**228,785**	**-**	**900,000**	**1,581**	**(2,481)**	**1,454,051**

An analysis by maturity of derivative financial instruments is provided in note 11.

11 Derivative Financial Instruments

In line with its financial risk management policy, the Company has arranged derivative financial instruments (cross-currency swaps). These instruments allow variable-rate debt in Euros to be exchanged for variable-rate debt in US Dollars, thereby hedging future receipts in US Dollars. The Company has no formal hedging relationships reflected in the balance sheet. Variations due to exchange rate fluctuations in derivative financial instruments are offset in the income statement against the corresponding variations arising from the non-current loan extended to the Group company RECH (see note 21). However, the formal hedging relationship is disclosed in the Group's consolidated annual accounts as hedges of net investments in US Dollars.

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

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

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

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

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

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

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

	31.12.2021		Non-current		Current	
Thousands of Euros	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	US Dollars 150,000 thousand	Up to 2026	6,099	-	-	-

	31.12.2020		Non-current		Current	
Thousands of Euros	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	-	-	16,228	-

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

	31.12.2021							
Thousands of Euros	Hedged principal	Term to expiry	2022	2023	2024	2025	2026 and thereafter	Total
Exchange rate hedges - Hedges of a net investment:								
Cross-currency swap	US Dollars 150,000 thousand	Up to 2026	-	-	-	-	6,099	6,099

	31.12.2020							
Thousands of Euros	Hedged principal	Term to expiry	2021	2022	2023	2024	2025 and thereafter	Total
Exchange rate hedges - Hedges of a net investment:								
Cross-currency swap	US Dollars 150,000 thousand	Up to 2021	16,228	-	-	-	-	16,228

In 2021, the Company recognised income of Euros 70 thousand (Euros 482 thousand in 2020).

12 Non-current and Current Investments

Details of non-current investments at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Equity instruments	1,050	3,895
Loans to third parties	988	1,192
Derivative financial instruments	6,099	-
Other financial assets	22	22
Total non-current investments	**8,159**	**5,109**

Thousands of Euros	31 December 2021	31 December 2020
Derivative financial instruments	-	16,228
Other financial assets	5	1
Total current investments	**5**	**16,229**

Equity instruments reflect the Euros 1,050 thousand investment in economic interest groups (EIGs) (Euros 3,895 thousand in 2020) engaged in the lease of assets managed by an unrelated company, which retains most of the risks and rewards of the activity, while the Company only avails of the tax incentives regulated in Spanish legislation. The Company recognises the finance income generated due to the difference between income tax payable to the taxation authorities in respect of recognised tax losses incurred by the EIGs and the investments in those EIGs (see notes 17 and 20-c).

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

At 31 December 2021 and 2020, loans to third parties reflect those extended by the Company to its personnel, which fall due in the long term. These loans earn interest at floating rates indexed to Euribor plus a spread, in accordance with the conditions laid down in the collective bargaining agreement.

At 31 December 2021 and 2020, non-current and current derivative financial instruments reflect the value thereof and have been reclassified to non-current following their renewal to 2026, having expired in 2021. Details thereof and an analysis by expiry is provided in note 11.

13 Trade and Other Receivables

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Trade receivables from Group companies and associates	509	873
Other receivables	357	30
Personnel	316	215
Current tax assets	1,733	-
Total	**2,915**	**1,118**

At 31 December 2021 and 2020 trade receivables from Group companies and associates comprise the balances receivable in relation to the Company's ordinary activities in managing the Group.

At 31 December 2021 and 2020 other receivables relate to other operating income and the lease of properties to third parties.

At 31 December 2021 and 2020, personnel primarily reflects the loans extended by the Company to its personnel, which fall due in the short term (see note 12).

At 31 December 2021 current tax assets reflect income tax receivable, which has been recognised by the Company, as parent of the tax group.

14 Equity

a) Capital risk management

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

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

Given the Company's activity and its investees' capacity to generate funds, the Company is not significantly exposed to capital risk.

b) Capital and reserves

- **Share capital**

  At 31 December 2021 and 2020 the Company's share capital is divided into 541,080,000 shares of Euros 0.50 par value each represented by book entries, all subscribed and fully paid-in, and carrying the same voting and profit-sharing rights (notwithstanding the limits stipulated in the following paragraph). The shares are quoted on the four Spanish stock exchanges and traded through the SIBE (Spanish Stock Exchange Interlinking System).

  The Company is subject to the shareholder limitations stipulated in the twenty-third additional provision of Law 54/1997 of 27 November 1997 and article 30 of Electricity Industry Law 24/2013 of 26 December 2013.

  Pursuant to this legislation, any individual or entity may hold investments in the Company, provided that the sum of their direct or indirect interests in its share capital does not exceed 5% and their voting rights do not surpass 3%. These shares may not be syndicated for any purpose. Voting rights at the Parent are limited to 1% in the case of entities that carry out activities in the electricity sector, and individuals and entities that hold direct or indirect interests exceeding 5% of the share capital of such companies, without prejudice to the limitations for generators and suppliers set forth in article 30 of Electricity Industry Law 24/2013 of 26 December 2013. The shareholder limitations with regard to the Parent's share capital are not applicable to Sociedad Estatal de Participaciones Industriales (SEPI), which in any event will continue to hold an interest of no less than 10%. At 31 December 2021 and 2020 SEPI holds a 20% interest in the Company's share capital.

- **Reserves**

  This item comprises the following:

  - **Legal reserve**

    Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. Until this reserve exceeds this limit, it is not distributable to shareholders and may only be used to offset losses, provided no other reserves are available. Under certain circumstances, it may also be used to increase share capital. At 31 December 2021 and 2020 the legal reserve amounts to 20% of share capital (Euros 54,199 thousand).

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

    In accordance with Law 16/2012 of 27 December 2012, which introduced several tax measures to consolidate public finances and boost economic activity, the Company revalued its property, plant and equipment. The associated revaluation reserve amounted to Euros 6,042 thousand, net of the 5% capital gains tax. There were no movements in the revaluation reserve during 2021.

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

- Other reserves

  Other reserves primarily include voluntary reserves of the Company and first-time application reserves, amounting to Euros 1,772,691 thousand and Euros 19,895 thousand, respectively, at 31 December 2021 (Euros 1,587,688 thousand and Euros 19,895 thousand, respectively, at 31 December 2020). Both of these reserves are freely distributable.

  In 2020, the Company recorded a decrease in voluntary reserves of Euros 10,287 thousand due to the difference between the assets and liabilities received as a dividend in kind from REE (see note 4-h).

  The business received as payment of the dividend in kind consisted of the transfer of the business unit making up the corporate services that REE provided to the various Group companies. The transfer encompassed the employees, assets and liabilities associated with the business.

  At 31 December 2021 and 2020 this item also comprises statutory reserves totalling Euros 264,547 thousand, notably including the property, plant and equipment revaluation reserve amounting to Euros 247,022 thousand created by the Parent in 1996. This reserve may be used, free of taxation, to offset accounting losses and increase share capital or, 10 years after its creation and when the associated assets have been fully depreciated, it may be transferred to freely distributable reserves. Nonetheless, this balance may only be distributed, indirectly or directly, when the revalued assets have been fully depreciated, transferred or derecognised.

  Moreover, following the spin-off of the Telecommunications activity from REI to REINTEL, through a split-off, a reserve was generated in an amount of Euros 74,407 thousand in 2015, reflecting the difference between the value of the net assets spun off to REINTEL (Euros 74,417 thousand) and the value of the Company's investment in this business through REI. There was no change in the balance of this reserve in 2021.

  Reserves also include the capitalisation reserve of Euros 51,585 thousand at 31 December 2021 (Euros 43,425 thousand at 31 December 2020), generated with a charge to profit for 2016, 2017, 2018 and 2020. As provided for by article 25 of Law 27/2014 of 27 November 2014, in 2021 the tax group headed by the Company created a capitalisation reserve of Euros 8,160 thousand, corresponding to 2020, pursuant to article 62.1 d) of the aforementioned Law. This reserve will be restricted for a period of five years. Accordingly, each tax group company adjusted income tax for the year in connection with this reserve. In 2022 the Company will appropriate Euros 4,548 thousand to the capitalisation reserve for 2021. The capitalisation reserve for 2019 was appropriated in 2020 in the Group company REE.

- Own shares

  At 31 December 2021, the Company held 1,803,433 own shares representing 0.33% of its share capital with a total par value of Euros 902 thousand and an average acquisition price of Euros 17.53 per share. At 31 December 2020, the Company held 2,084,729 own shares representing 0.39% of its share capital with a total par value of Euros 1,042 thousand and an average acquisition price of Euros 17.53 per share.

  These shares have been recognised as a reduction in equity for an amount of Euros 31,618 thousand at 31 December 2021 (Euros 36,550 thousand in 2020).

  The Company has complied with the requirements of article 509 of the Spanish Companies Act, which provides, except in the case of freely acquired own shares, that in listed companies the par value of own shares acquired directly or indirectly by the Company, plus the par value of the shares already held by the Parent and its subsidiaries, must not exceed 10% of subscribed share capital. The subsidiaries do not hold own shares or shares in the Company.

- Profit for the year

  Profit for the year totals Euros 559,108 thousand (Euros 730,263 thousand in 2020).

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

The interim dividend authorised by the board of directors in 2021 has been recognised as a Euros 147,061 thousand reduction in equity at 31 December 2021 (Euros 146,984 thousand at 31 December 2020).

On 26 October 2021, the Company's board of directors agreed to pay an interim dividend of Euros 0.2727 (gross) per share with a charge to 2021 profit, which was paid on 7 January 2022.

The cash flow forecast for the period from 30 September 2021 to 7 January 2022 indicated sufficient liquidity to allow the distribution of this dividend. The amount to be distributed did not exceed the profits generated by the Company since the end of the previous reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

As such, the following provisional liquidity statement was drawn up pursuant to article 277 section a) of the Spanish Companies Act:

	Thousands of Euros
Available funds at 30.09.2021:	
Non-current credit facilities available	342,449
Current credit facilities available	100,000
Current investments and cash	637,682
Forecast receipts:	
Current transactions	-
Financial transactions	125,125
Forecast payments:	
Current transactions	(141,490)
Financial transactions	(728)
Forecast available funds at 07.01.2022	**1,063,038**

Based on the cash flow forecast at the approval date, no limitation on the availability of funds was or is expected to arise. In addition, given the Company's cash generation capacity and undrawn credit facilities, the Company will have sufficient liquidity within one year after the interim dividend distribution has been agreed.

Furthermore, as reflected in the accompanying annual accounts, and as foreseen at the distribution date, profit for 2021 allows for the distribution of this interim dividend.

c) Valuation adjustments

At 31 December 2021 and 2020 this item reflects the gains arising from the increase in the fair value of the investment held by the Company in Redes Energéticas Nacionais, SGPS, S.A. (REN) until 2015, when it transferred this investment as a non-monetary contribution to subscribe the capital increase in the Group company REI.

These gains are recorded in equity until the disposal or derecognition of the investment, whereupon they are taken to profit or loss (see note 4-e).

15 Non-current Provisions

Movement in 2021 and 2020 is as follows:

Thousands of Euros	31.12.2019	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2020	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2021
Provisions for employee benefits	23	346	(75)	2,345	12,487	15,126	1,975	(259)	(2,351)	-	14,491
Other provisions	4,582	410	-	-	-	4,992	393	-	-	-	5,385
Total	**4,605**	**756**	**(75)**	**2,345**	**12,487**	**20,118**	**2,368**	**(259)**	**(2,351)**	**-**	**19,876**

Provisions for employee benefits include future commitments (health insurance) undertaken by the Company on behalf of its employees for their retirement, calculated based on actuarial studies conducted by an independent expert. The following assumptions were used for 2021 and 2020:

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

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

	2021		2020	
Thousands of Euros	1%	-1%	1%	-1%
Current service cost	130	(95)	163	(119)
Interest cost of net post-employment health insurance costs	1	(1)	1	(1)
Accumulated post-employment benefit obligation for health insurance	3,674	(2,742)	4,537	(3,339)

Meanwhile, the effect of a decrease of half a percentage point in the discount rate used in the actuarial assumption for health insurance costs from 1.21% to 0.71% in 2021, is as follows:

	2021			2020		
	Discount rate		Sensitivity	Discount rate		Sensitivity
Thousands of Euros	1.21%	0.71%		1.05%	0.55%	
Current service cost	407	467	60	84	159	75
Interest cost of net post-employment health insurance costs	176	104	(72)	1	1	-
Accumulated post-employment benefit obligation for health insurance	12,551	14,260	1,709	14,400	16,507	2,107

The accrued amounts are recognised as personnel expenses or finance costs, depending on their nature. Personnel expenses and finance costs recognised in the income statement for 2021 amount to Euros 407 thousand and Euros 176 thousand, respectively (Euros 84 thousand and Euros 0.9 thousand, respectively, in 2020). Any variations in the calculation of the present value of these obligations due to actuarial gains and losses are recognised as reserves under equity. The gross amount recognised during the year in this connection totals a negative amount of Euros 2,351 thousand (Euros 2,345 thousand in 2020), which has been recorded under actuarial gains and losses in the statement of changes in equity.

Provisions for employee benefits also include commitments undertaken by the Company as part of the deferred remuneration scheme for employees.

In 2020, provisions for employee benefits under the transfers column included the commitments to personnel received from REE amounting to Euros 12,987 thousand as a result of the dividend in kind (see notes 4-h and 14-b). In 2020 this item also included the commitments to employees that have been transferred to current, amounting to Euros 500 thousand.

Other provisions reflect the amounts recorded by the Company every year to cover potential unfavourable rulings handed down in relation to third-party claims.

16 Non-current and Current Payables

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Bonds and other marketable securities	398,227	397,699
Loans and borrowings	155,960	869,081
Other liabilities	16	16
Non-current payables	**554,203**	**1,266,796**

Thousands of Euros	31 December 2021	31 December 2020
Bonds and other marketable securities	2,512	2,512
Loans and borrowings	500,784	811
Other current payables	166,007	158,652
Current payables	**669,303**	**161,975**

At 31 December 2021 and 2020, bonds and other marketable securities reflect the Euros 400 million bond issue carried out by the Company in 2020 on the Euromarket in accordance with a specific stand-alone issuance prospectus registered on the Luxembourg Stock Exchange. This bond issue matures in 2025. The fair value of these payables is Euros 409,691 thousand at 31 December 2021 (Euros 416,182 thousand in 2020). The average interest rate accrued on these payables in the year was 1.01% (1.01% in 2020).

At 31 December 2021 and 2020, the accrued interest payable on this bond issue amounts to Euros 2,512 thousand, which is recognised under current bonds and other marketable securities.

Non-current loans and borrowings at 31 December 2021 reflect long-term loans and credit facilities in Euros totalling Euros 74,952 thousand (Euros 774,820 thousand at 31 December 2020). They also include Euros 81,008 thousand drawn down from credit facilities arranged by the Company in US Dollars (Euros 94,261 thousand at 31 December 2020).

At 31 December 2021 and 2020 other liabilities comprise non-current security deposits received amounting to Euros 16 thousand.

Current loans and borrowings at 31 December 2021 reflect short-term credit facilities in Euros totalling Euros 500,000 thousand, which at 31 December 2020 was recognised as non-current.

At 31 December 2021 the accrued interest payable amounts to Euros 542 thousand (Euros 416 thousand in 2020) and has been recognised under current loans and borrowings. This item also reflects the interest accrued but not yet payable on derivative financial instruments.

These loans and borrowings have a fair value of Euros 657,253 thousand at 31 December 2021 (Euros 872,097 thousand in 2020) and accrued interest at an average rate of 0.22% in 2021 (0.30% in 2020).

The fair value of all non-current and current payables has been estimated using valuation techniques based on discounting future cash flows at the market rates in force at each date. This debt is classified within Level 2 of the fair value hierarchy.

Details of other current payables are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Dividends	147,061	146,984
Suppliers of fixed assets and other payables	18,946	11,668
Total	**166,007**	**158,652**

17 Taxation

The Company files consolidated tax returns as the parent of the tax group 57/2002.

a) Reconciliation of accounting profit and the tax loss

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

Thousands of Euros	2021	2020
Accounting profit for the year before tax	567,524	730,695
Permanent differences	(533,863)	(725,988)
Taxable accounting income	**33,661**	**4,707**
Temporary differences:		
Originating in current year	2,692	1,340
Reversals during the year	(481)	(28)
Total	**2,211**	**1,312**
EIG charges	(89,512)	(73,008)
Tax loss	**(53,640)**	**(66,989)**

In 2021 and 2020, adjustments were made to the tax base to reflect recognition of the EIGs in which the Company has interests, amounting to Euros 89,512 thousand and Euros 73,008 thousand, respectively (see note 12).

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

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

Thousands of Euros	2021	2020
Accounting profit for the year before tax	567,524	730,695
Permanent differences	(533,863)	(725,988)
Taxable accounting income	**33,661**	**4,707**
Tax rate	25%	25%
Tax at the current rate	8,415	1,177
Deductions	-	(745)
Expense for the year	**8,415**	**432**
Other adjustments	1	-
Income tax expense	**8,416**	**432**
Effective income tax rate	**1.48%**	**0.06%**
Breakdown of income tax:		
Current income tax	8,965	757
Deferred income tax	(550)	(325)
Other adjustments	1	-
Income tax expense	**8,416**	**432**

The effective rate of income tax is influenced by permanent differences and by deductions in tax payable. The difference between the effective tax rate and the actual tax rate is primarily due to application of the exemption to prevent double taxation of dividends from significant interests in resident entities.

Permanent differences in 2021 and 2020 primarily arise from dividends received from subsidiaries (essentially REE and REINTEL) and due to the capitalisation reserve adjustment resulting from the increase in equity in accordance with article 25 of Income Tax Law 27/2014 of 27 November 2014. The dividend exemption provided for in article 21 of Law 27/2014, limited to 95% of the amount received, has been applied in 2021.

As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2021 will be held in the Company, as head of the tax group (see note 14).

c) Deferred tax assets and liabilities

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

	2021		2020	
Thousands of Euros	Income statement	Income and expense recognised directly in equity	Income statement	Income and expense recognised directly in equity
Deferred tax assets:				
Originating in prior years	2,818	4,201	2,518	1
Dividend in kind			-	3,739
Originating in current year	707	-	335	461
Reversals of prior years	(169)	(588)	(56)	-
Prior year adjustments	41	-	21	-
Total deferred tax assets	**3,397**	**3,613**	**2,818**	**4,201**
Deferred tax liabilities:				
Originating in prior years	(1,765)	-	(1,810)	-
Originating in current year	(33)	-	-	-
Reversals of prior years	46	-	45	-
Total deferred tax liabilities	**(1,752)**	-	**(1,765)**	**-**

In 2021 and 2020, deferred tax assets include reversals of tax prepaid in 2013 and 2014 as a result of applying the limitation on the tax deductibility of depreciation and amortisation charges stipulated in article 7 of Law 16/2012 of 27 December 2012, which introduced several fiscal measures to consolidate public finances and boost economic activity, and as a result of the commencement, in 2015, of depreciation and amortisation for tax purposes of the net increase in value resulting from the revaluations applied to the balance sheet at 31 December 2012, pursuant to article 9 of the same Law, as well as long-term employee benefits.

Deferred tax liabilities essentially relate to the accelerated depreciation for tax purposes of certain fixed assets.

The notes to the Company's annual accounts for 2006 contained disclosures on the merger by absorption of Red de Alta Tensión, S.A.U. (REDALTA) and Infraestructuras de Alta Tensión S.A.U. (INALTA), as required by article 86 of Law 27/2014. The notes to the 2008 annual accounts included disclosures on the contribution to REE of the branch of activities encompassing the duties of the system operator, transmission network manager and transmission agent of the Spanish electricity system. The notes to the annual accounts for 2015 included disclosures regarding the spin-off of the telecommunications services business to REINTEL, and the non-monetary contribution to REI of shares in REN.

d) Years open to inspection

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

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

The Company has certain tax proceedings ongoing in respect of income tax for 2011 to 2015, which are currently being heard either at economic-administrative level or in court proceedings. The Company considers that its conduct was lawful based on reasonable interpretations of the applicable legislation, and that no penalties will be imposed and no significant tax liabilities will arise for the Company.

In addition, in 2020 the tax group applied for rectification of the instalments for 2016 to 2020. At the end of that year, the taxation authorities resolved to uphold the rectification applied for in respect of 2016 and 2017, while the decision received with regard to the remaining years is being appealed. Due to the different possible interpretations of tax legislation, additional tax liabilities could arise as a result of future inspections, which cannot be objectively quantified at present. Nevertheless, the Company's board of directors does not expect that any additional liabilities that could eventually arise in the event of inspection would significantly affect the Company's future results.

18 Trade and Other Payables

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Payables to Group companies	-	726
Other payables	10,950	9,641
Personnel	6,942	5,968
Current tax liabilities	-	16,413
Public entities	2,933	2,987
Total	**20,825**	**35,735**

In 2021 and 2020 other payables comprise the balances payable in relation to the Company's ordinary activities in managing the Group.

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

At 31 December 2021 and 2020 payables to public entities mostly include value added tax (VAT) payable by the Company. At 31 December 2020, current tax liabilities comprised Euros 16,413 thousand for income tax payable, which was recognised by the Company, as parent of the tax group.

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

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

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

Days	2021	2020
Average supplier payment period	38	42
Transactions paid ratio	38	46
Transactions payable ratio	34	17

Thousands of Euros	2021	2020
Total payments made	21,719	10,333
Total payments outstanding	1,748	1,440

20 Income and expenses

a) Revenue

Details at 31 December 2021 and 2020 are as follows:

Thousands of Euros	31 December 2021	31 December 2020
Services rendered	67,851	20,708
Finance income on investments in equity instruments of Group companies and associates	559,039	727,926
Finance income on securities and other financial instruments of Group companies and associates	9,325	9,748
Total	**636,215**	**758,382**

Services rendered correspond to the provision of management support services to Group companies since November 2020, following the distribution of the dividend in kind (see notes 4-h and 14-b). The increase in this item is because the service was provided entirely by the Company throughout 2021, but for only two months of 2020, given that until October 2020 the service was provided by the Group company REE. This line item also includes building lease income, mainly from Group companies (see note 7).

In 2021 and 2020 finance income on investments in equity instruments of Group companies and associates reflects the dividends received from REE, REINTEL and REEF.

At 31 December 2021 and 2020 finance income on securities and other financial instruments of Group companies and associates comprises income from loan and credit facility agreements entered into with REE, REINTEL, RESTEL, REI, RECH and RETIT (see note 21).

Details of this item in 2021 and 2020, by geographical area, are as follows:

Thousands of Euros	2021	2020
Domestic market	631,358	755,139
European Union	-	168
Other countries	4,857	3,075
Total	**636,215**	**758,382**

In 2021 the Group company REEF relocated its registered office from the Netherlands to Spain (see note 8).

b) Personnel expenses

In 2021 and 2020 this item comprises the following:

Thousands of Euros	31 December 2021	31 December 2020
Salaries and wages	33,183	8,117
Social security	5,810	1,046
Contributions to pension funds and similar obligations	416	73
Other items and employee benefits	3,981	1,622
Total	**43,390**	**10,858**

The increase in personnel expenses from 31 December 2020 to 31 December 2021 is primarily due to the transfer of employees from the Group company REE in late 2020 as a result of the dividend in kind received in the form of a business, as explained in note 14-b.

Personnel expenses include the remuneration of the board of directors (see note 22).

Workforce

The average headcount of the Company (including the chairwoman and CEO) in 2021 and 2020, distributed by professional category, is as follows:

	2021	2020
Management team	71	21
Senior technicians and middle management	220	23
Technicians	37	9
Specialist and administrative staff	62	18
Total	**390**	**71**

The increase in average headcount at 31 December 2021 is due to the transfer of employees from the Group company REE in late 2020 as a result of the dividend in kind received in the form of a business, as explained in note 14-b.

The distribution of the Company's employees (including the chairwoman and CEO) at 31 December 2021 and 2020, by gender and category, is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Management team	40	33	73	39	31	70
Senior technicians and middle management	112	105	217	109	113	222
Technicians	20	16	36	19	14	33
Specialist and administrative staff	13	49	62	15	51	66
Total	**185**	**203**	**388**	**182**	**209**	**391**

At 31 December 2021 and 2020, the breakdown of the Company's employees with a disability rating of 33% or more is as follows:

	2021			2020		
	Men	Women	Total	Men	Women	Total
Senior technicians and middle management	-	2	2	-	2	2
Technicians	1	1	2	1	1	2
Specialist and administrative staff	-	1	1	1	-	1
Total	**1**	**4**	**5**	**2**	**3**	**5**

At 31 December 2021 and 2020 there are 12 directors, of whom 6 are men and 6 are women.

c) Finance income and costs

In 2021 and 2020 finance costs primarily reflect those incurred on bonds and other marketable securities, loans and borrowings and derivative financial instruments.

In 2021 and 2020 finance income essentially comprises returns on the investments in the EIGs (see note 12).

d) Impairment and gains/losses on disposal of fixed assets

In 2021 this item reflects the reversal of impairment discussed in note 6.

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

Balances and transactions with Group companies and associates

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

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

	2021		2020	
Thousands of Euros	Receivables	Payables	Receivables	Payables
Red Eléctrica de España, S.A.U. (REE)	67,790	1,401	873,459	1,528
Red Eléctrica Internacional, S.A.U. (REI)	50,168	228	65,867	324
Red Eléctrica Financiaciones, S.A.U. (REF)	79	-	71	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	1,879	67	306,446	30
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	32	15	-	3
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	387,658	80	385,891	57
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	5,570	18	1,755	777
Red Eléctrica de España Finance, S.L.U. (REEF)	-	1,665	-	-
Red Eléctrica Chile SpA (RECH)	167,763	-	150,715	-
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4)	30	-	-	-
Hispasat, S.A.	134	661	-	216
Hispasat Canarias S.L.	-	10,532	-	6,736
Total Group companies	**681,104**	**14,667**	**1,784,204**	**9,671**

In 2021 and 2020, receivables from REE include the short-term credit facility arranged with this company amounting to Euros 850 million, of which Euros 62,906 thousand had been drawn down at 31 December 2021 (Euros 848,825 thousand at 31 December 2020). The average interest rate for the period was 0.41% (0.41% in 2020).

Receivables from REI primarily include the credit facility arranged with this company in 2018 for an amount of US Dollars 215 million, of which Euros 50,032 thousand had been drawn down at 31 December 2021 (Euros 65,677 thousand at 31 December 2020). This facility expires in 2023 and the average interest rate for the period was 1.11% (1.91% in 2020).

Receivables from REINTEL at 31 December 2020 reflected the short-term credit facility arranged with this company in 2020 amounting to Euros 400 million, of which Euros 305,177 thousand had been drawn down at 31 December

2020. The average interest rate in 2020 was 0.41%. This facility was early cancelled in 2021, the average interest rate for 2021 standing at 0.41%.

Receivables from RECH essentially include the US Dollars 185 million loan arranged with this company in 2021, which falls due in 2026 and had been fully drawn down in an amount of Euros 163,582 thousand at 31 December 2021. The average interest rate for the period was 2.34%. This loan stems from the renewal of the US Dollars 150 million loan arranged in 2016, which fell due in 2021 and had been fully drawn down in an amount of Euros 122,239 thousand at 31 December 2020. The average interest rate for 2020 was 0.35%. With a view to mitigating the currency risk on this US Dollar loan, the Company has arranged US Dollar/Euro cross-currency swaps on the principal and interest (see note 11). The fair value of this loan is Euros 177,183 thousand at 31 December 2021.

Receivables from RESTEL include the credit facility arranged with this company in 2019 for an amount of Euros 435 million, of which a non-current amount of Euros 384,000 thousand and a current amount of Euros 3,305 thousand had been drawn down at 31 December 2021 (Euros 384,000 thousand and Euros 1,491 thousand, respectively, at 31 December 2020). This facility expires in 2024 and the average interest rate for the period was 0.36% (0.50% in 2020). The fair value of this loan is Euros 393,541 thousand at 31 December 2021 (Euros 391,017 thousand at 31 December 2020).

Receivables from RETIT at 31 December 2021 include the credit facility arranged with this company in 2019 amounting to Euros 25 million, of which Euros 5,528 thousand had been drawn down at 31 December 2021 (Euros 1,748 thousand at 31 December 2020). The average interest rate for the period was 0.41% (0.41% in 2020).

Payables to REEF at 31 December 2021 include the credit facility arranged with this company in 2021 amounting to Euros 2 million, of which Euros 1,660 thousand had been drawn down at 31 December 2021. The average interest rate for the period was 0.41%.

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

Payables to Hispasat, S.A. and Hispasat Canarias, S.L. primarily comprise the tax debt owed by the Company to these subsidiaries in relation to income tax, as the Company is the parent of the tax group (see note 17).

These receivables and payables are classified within level 2 of the fair value hierarchy.

Transactions with Group companies and associates are as follows:

Thousands of Euros	2021				2020			
	Services rendered	Finance income	Operating expenses	Finance costs	Services rendered	Finance income	Operating expenses	Finance costs
Red Eléctrica de España, S.A.U. (REE)	59,787	501,490	-	-	18,881	520,481	943	-
Red Eléctrica Internacional S.A.U (REI)	2,366	672	-	-	424	1,341	-	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	2,255	59,970	-	-	695	210,684	-	-
Red Eléctrica de España Finance, S.L.U. (REEF)	47	94	-	5	-	168	-	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	638	-	-	-	117	-	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	56	-	-	-	9	-	-	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	790	1,406	-	-	132	1,909	-	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	874	13	725	-	197	17	725	-
Red Eléctrica Chile SpA (RECH)	-	4,719	-	-	-	3,074	-	-
Red Eléctrica Andina, S.A. (REA)	-	-	-	-	-	-	2	-
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4)	30	-	-	-	-	-	-	-
Red Eléctrica Brasil Holding Ltda.	108	-	-	-	-	-	-	-
Hispasat, S.A.	729	-	-	-	88	-	-	-
Total Group companies	**67,680**	**568,364**	**725**	**5**	**20,543**	**737,674**	**1,670**	**-**

At 31 December 2021, services rendered mainly correspond to the provision of management support services to Group companies since November 2020. This service was previously provided by the Group company REE.

At 31 December 2021, services rendered also include the lease agreements with REE, REINTEL, REINCAN, RETIT and HISPASAT (REI as well in 2020) (see note 7).

In 2021 and 2020 finance income primarily reflects the dividends received from REE, REINTEL and REEF and interest earned on the loans and credit facilities extended to REE, REINTEL, RECH, REI, RESTEL and RETIT.

Related party balances and transactions

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

22 Remuneration of the Board of Directors

At the proposal of the board of directors and in accordance with the articles of association, the Annual Report on Directors' Remuneration, which includes the remuneration of the board of directors for 2021, was approved by the shareholders at their general meeting on 29 June 2021. The remuneration policy for directors of Red Eléctrica Corporación, S.A. for 2022, 2023 and 2024 was also approved (the previous remuneration policy for 2019-2021 was approved in 2019).

The new remuneration policy is a continuation of the previous one and does not introduce significant changes. However, certain items have been reinforced, such as the directors' contribution to the corporate strategy and to the interests and sustainability of the Company over the long term, greater transparency as to how the policy is determined, information on the management of possible remuneration-related risks and their alignment with the remuneration policy for Company employees as a whole, pursuant to the requirements of the Spanish Companies Act.

The approved remuneration of the board of directors, including the remuneration of the board members, the chairwoman and the CEO, has not changed vis-à-vis 2020.

The chairwoman receives fixed annual remuneration in respect of the non-executive chair duties associated with this position, in addition to remuneration for being a member of the board of directors. The remuneration scheme for this position consists solely of fixed amounts, with no annual or multi-year variable remuneration and no termination benefit. As mentioned already, in 2021 both remuneration components are under the same terms as in 2020.

Further, in its meeting held on 25 February 2020 the board of directors approved, inter alia, the appointment of Ms. Beatriz Corredor Sierra as a director of the Company, in the category of "other external directors", until the next general shareholders' meeting, and her appointment as non-executive chairwoman of the board of directors and of the Company. At their general meeting held on 14 May 2020, the shareholders ratified the appointment of Ms. Beatriz Corredor Sierra as a director of the Company.

As regards Mr. Jordi Sevilla Segura, at its meeting held on 28 January 2020, the board of directors recorded the irrevocable resignation tendered by the latter from his position as a director, and therefore as non-executive chairman of the board of directors and of the Company. In accordance with his contract approved by the board of directors on 31 July 2018, he did not receive any termination benefit as a result of the end of his legal and labour relations with the Company as chairman of the board of directors and of the Company.

The remuneration allocated to the CEO includes the fixed and variable annual and multi-year components corresponding to executive duties and the fixed remuneration for being a member of the board of directors. Employee benefits form part of the remuneration for this position. A portion of the annual variable remuneration is paid through the delivery of Company shares.

Moreover, the CEO has been included in a defined contribution benefit scheme. This scheme covers the retirement, death and permanent disability contingencies. Red Eléctrica's obligation is limited to an annual contribution equal to 20% of the CEO's fixed annual remuneration.

The annual variable remuneration of the CEO is set by the Appointments and Remuneration Committee of the Company at the start of each year, using predetermined quantifiable and objective criteria. The targets are in line with the strategies and actions established in the Company's Strategic Plan and the degree of fulfilment is assessed by the Committee.

At the end of 2020, the board of directors began the process of updating the 2018-2022 Strategic Plan in force at that time. This enabled it to approve, in November 2020, the structure of the new Long-Term Incentive Plan for Promoting the Energy Transition, Reducing the Digital Divide and for Diversification, which encompasses the CEO. The objectives of this latter plan are linked to those contained in the Group's new Strategic Plan and are consistent with the guidelines laid down in the Directors' Remuneration Policy. This Long-Term Incentive Plan covers a period of six years, until 31 December 2025.

Pursuant to the remunerations policy and in line with standard market practices, the CEO's contract provides for a termination benefit equal to one year's salary in the event that labour relations are terminated at the discretion of the Company or due to changes of control.

In line with market practices in such cases, as a result of the appointment of the CEO, the pre-existing employment contract has been suspended. Should the employment contract be terminated, he would accrue the remuneration due at the date of suspension as an indemnity. For this purpose, his tenure at the Group up to the date he was appointed CEO (15 years), plus the period in which he rendered services – if any – following his termination as CEO, would be taken into consideration, in accordance with employment legislation in force. Following the corporatisation carried out in 2020, this obligation was taken on by the Company.

The remuneration of the board of directors includes fixed annual remuneration, remuneration for attending board meetings, remuneration for work on the board of directors' committees and specific annual remuneration both for the chairs of the committees and the coordinating independent director. The components and amounts of this remuneration have not changed in 2021.

Reasonable and duly supported expenses incurred as a result of their attendance at meetings and other tasks directly related to carrying out their duties, such as travel expenses, accommodation, meals and any other such costs that may be incurred, will also be paid or reimbursed to the directors.

The total amounts accrued by the members of the Company's board of directors in 2021 and 2020 are as follows:

Thousands of Euros	2021	2020
Total remuneration of the board of directors	2,502	2,463
Directors' remuneration in respect of executive duties (1)	743	743
Total	**3,245**	**3,206**

(1) Includes fixed and variable annual remuneration accrued during the year.

The slight increase in total remuneration of the board of directors with respect to the prior year is primarily because during a certain period in 2020 there was no chair of the board.

A breakdown of remuneration by type of director at 31 December 2021 and 2020 is as follows:

Thousands of Euros	2021	2020
Executive directors	890	890
External proprietary directors	524	525
External independent directors	1,285	1,285
Other remuneration	546	506
Total remuneration	**3,245**	**3,206**

The remuneration accrued by individual members of the Company's board of directors in 2021 and 2020, by components and director, is as follows:

Thousands of Euros	Fixed remuneration	Variable remuneration	Allowances for attending board meetings	Committee work	Chair of committee	Board and coordinating independent director	Other remuneration (5)	Total 2021	Total 2020
Ms. Beatriz Corredor Sierra	530	-	16	-	-	-	-	546	464
Mr. Roberto García Merino	481	263	16	-	-	-	130	890	890
Ms. Carmen Gómez de Barreda Tous de Monsalve	131	-	16	28	15	15	-	205	205
Ms. Socorro Fernández Larrea	131	-	16	28	15	-	-	190	190
Mr. José Juan Ruiz Gómez	131	-	16	28	14	-	-	189	176
Mr. Antonio Gómez Ciria	131	-	16	28	1	-	-	176	189
Ms. María Teresa Costa Campi	131	-	16	28	-	-	-	175	175
Ms. Mercedes Real Rodrigálvarez (1)	131	-	16	28	-	-	-	175	175
Mr. Ricardo García Herrera	131	-	16	27	-	-	-	174	3
Mr. Marcos Vaquer Caballería (2)	66	-	9	14	-	-	-	89	-
Ms. Elisenda Malaret García (2)	66	-	9	14	-	-	-	89	-
Mr. José María Abad Hernández (2)	66	-	9	14	-	-	-	89	-
Ms. María José García Beato (3)	65	-	7	14	-	-	-	86	175
Mr. Arsenio Fernández de Mesa y Díaz del Río (3)	65	-	7	14	-	-	-	86	175
Mr. Alberto Carbajo Josa (3)	65	-	7	14	-	-	-	86	175
Other board members (4)	-	-	-	-	-	-	-	-	214
Total remuneration accrued	**2,321**	**263**	**192**	**279**	**45**	**15**	**130**	**3,245**	**3,206**

(1) Amounts received by Sociedad Estatal de Participaciones Industriales (SEPI).
(2) New director since the general shareholders' meeting held on 29 June 2021.
(3) Stepped down from the board of directors at the general shareholders' meeting held on 29 June 2021.
(4) Board members who stepped down in 2020.
(5) Includes the employee benefits that form part of the CEO's remuneration.

In addition to the foregoing, on 31 December 2019 the directors' remuneration scheme for 2014-2019, which encompassed the CEO, drew to a close. The amount paid to the CEO in 2020 under this plan, for his duties as CEO from 27 May 2019, was Euros 59 thousand.

At 31 December 2021 and 2020 no loans or advances have been granted to the members of the board of directors, nor have any guarantees been extended on their behalf. The Company has no pension or life insurance obligations with the members of the board of directors at those dates, other than those previously mentioned, nor have any loans or advances been extended to board members.

At 31 December 2021 and 2020 the Company has taken out public liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as directors of the Company. These policies cover the Company's directors and senior management and the annual premiums amount to Euros 217 thousand, inclusive of tax, in 2021 (Euros 135 thousand at 31 December 2020). These premiums are calculated based on the nature of the Company's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.

In 2021 and 2020 the members of the board of directors did not engage in transactions with the Company, either directly or through intermediaries, other than ordinary operations under market conditions.

23 Remuneration of Senior Management

In late 2020 the Group started a reorganisation process to address the challenges posed by the new 2021-2025 Strategic Plan, involving the centralisation of corporate activities in the Company and culminating in 2021 in the definition and approval of a new Group organisational structure geared towards ensuring fulfilment of the Strategic Plan.

This reorganisation has entailed, inter alia, certain professionals who already formed part of the Red Eléctrica Group, and who were carrying out management duties, being acknowledged as senior management personnel.

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

Name	Position
Mr. Mariano Aparicio Bueno	General Manager of Telecommunications Business
Ms. Eva Pagán Díaz	General Manager of International Business
Mr. Emilio Cerezo Díez	Chief Financial Officer
Mr. José Antonio Vernia Peris	Corporate Director of Transformation and Resources
Ms. Fátima Rojas Cimadevila	Corporate Director of Sustainability and Research
Ms. Miryam Aguilar Muñoz	Corporate Director of External Relations, Communication and Territory
Ms. Laura de Rivera García de Leániz	Manager of Regulatory Affairs and Legal Services
Ms. Silvia María Bruno De la Cruz	Chief Innovation and Technology Officer
Mr. Carlos Puente Pérez	Manager of Corporate Development
Ms. Eva Rodicio González	Manager of Internal Audit and Risk Control Management

In 2021, total remuneration accrued by senior management personnel of the Company amounted to Euros 2,461 thousand and is recognised as personnel expenses in the income statement. In 2020, total remuneration accrued by senior management personnel, applying the criteria resulting from the organisational changes, amounted to Euros 2,277 thousand. These amounts include the accrual of variable annual remuneration, on the assumption that the objectives set each year will be met. After the fulfilment of these objectives has been assessed, the variable remuneration, adjusted to the actual fulfilment rate, is paid in the first few months of the following year.

Euros 29 thousand of the total remuneration accrued by these executives in 2021 consisted of contributions to life insurance and pension plans.

No advances or loans have been extended to these executives at 31 December 2021. At 31 December 2021, the Company has life insurance commitments vis-à-vis these executives with annual premiums totalling approximately Euros 13 thousand.

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

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

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

At 31 December 2021 and 2020 the Company has taken out public liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as senior management of the Company. These policies cover all the Group's directors and senior management and the annual premiums for the Company amount to Euros 217 thousand, inclusive of tax, in 2021 (Euros 135 thousand in 2020). These premiums are calculated based on the nature of the Company's activity and its financial indicators, thus they cannot be broken down individually or allocated to senior management and directors separately.

24 Segment Reporting

The Company does not consider it relevant to disclose the distribution of revenue by category of activity, given that such categories are not structured very differently from the Company's activities on the basis of which it renders its services. Following the contribution of the branch of activities in 2008 pursuant to Law 17/2007, these activities are not regulated electricity activities. As such, the Company is not subject to the requirement to give separate disclosures by activity provided for in Royal Decree 437/1998 of 20 March 1998, which approves the standards adapting the Spanish General Chart of Accounts to electricity sector companies.

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

The Company, together with REE, has jointly and severally guaranteed the private issue in the United States of bonds totalling US Dollars 250 million in 2021 and 2020 carried out by the Group company REEF, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2021 and 2020. At 31 December 2021, Eurobonds issued under this programme total Euros 3,690 million (Euros 3,090 million in 2020).

Furthermore, at 31 December 2021 and 2020 the Company and REE have jointly and severally guaranteed the promissory notes issued under the Euro Commercial Paper Programme (ECP Programme) by REF for an amount of up to Euros 1,000 million. At 31 December 2021 and 2020 no amounts have been drawn down under this programme.

At 31 December 2021 the Company has extended bank guarantees to third parties in an amount of Euros 3,624 thousand (Euros 3,584 thousand in 2020).

26 Environmental Information

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

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

27 Other Information

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

Thousands of Euros	2021	2020
Audit services	116	119
Audit-related services	99	106
Total	**215**	**225**

Audit services include the fees for the audit of the individual and consolidated annual accounts of Red Eléctrica Corporación.

Audit-related services include the limited review of the Group's consolidated interim financial statements, the reasonable assurance audit report on the effectiveness of the Group's ICOFR under ISAE 3000 and translations of the accounts.

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

28 Share-based Payments

In 2021, a total of 58,615 Parent shares were delivered to employees, with a fair value of Euros 18.000 each, resulting in an expense for the year of Euros 1,055 thousand. Of these shares, 5,339 correspond to senior management personnel.

In 2020, a total of 58,658 Parent shares were delivered to employees, with a fair value of Euros 16.480 each, resulting in an expense for the year of Euros 967 thousand. Of these shares, 4,973 corresponded to senior management personnel.

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

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

29 Events after 31 December 2021

On 3 November 2021, as indicated in note 8, Argo Energia Empreendimentos e Participações S.A., in which Red Eléctrica Brazil holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A. (Rialma III), subject to certain conditions being met and to the regulatory authorities approving the acquisition.

At 31 January 2022, the conditions precedent laid down in the aforementioned agreement have been fulfilled and the acquisition of all of the ordinary registered shares, representing 100% of the share capital of Rialma III, has thus been completed. Accordingly, the acquiree will change its name to "Argo IV Transmissão de Energia S.A.".

Red Eléctrica Corporación

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Grupo Red Eléctrica

Directors' Report 2021

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

Contents

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

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

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

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

1 Business performance. Most significant events

Since July 2008, Red Eléctrica Corporación, S.A. (hereinafter REC) has been operating as the Parent of the Red Eléctrica Group (hereinafter the Group). REC's principal activities are as follows:

- Managing the corporate Group, which comprises investments in the share capital of its Group companies and investees.
- Rendering assistance and support services to its investees.
- Operating the buildings owned by the Company.

The commitments that the Company undertakes in carrying out these activities drive it towards the ongoing generation of value for its shareholders and stakeholders.

2 Key financial indicators

In 2021, the Company posted profit after tax of Euros 559.1 million, down 23.4% compared to 2020. Details of the key components are as follows:

Revenue amounted to Euros 636.2 million, down 16.1% on 2020. This figure includes Euros 559 million of dividends from Group companies, given that one of the Company's activities as Parent of the Group is holding shares in Group companies.

Gross operating profit (EBITDA)[1] totalled Euros 576.5 million, a fall of 21.2% vis-à-vis 2020.

Results from operating activities (EBIT)[2] amounted to Euros 573.9 million, dropping 21.9% compared to 2020.

The dividends paid in 2021 amounted to Euros 539 million, which is 4.9% less than in 2020.

REC's equity was Euros 2,913.3 million, up 0.9% on 2020.

3 Stock market performance and shareholder returns

All of the shares in REC, the Group's listed company, are quoted on the four Spanish stock exchanges and are traded through the Spanish automated quotation system.

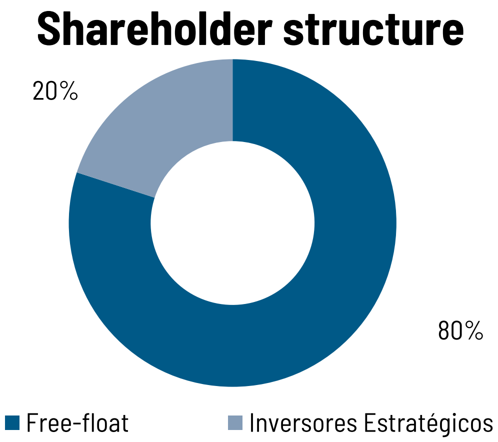
REC also forms part of the IBEX 35 index, of which it represented 2.16% at the end of 2021.

At 31 December 2021 and 2020, the share capital of REC amounted to Euros 270.5 million and was represented by 541,080,000 shares with a par value of Euros 0.50 each, subscribed and fully paid.

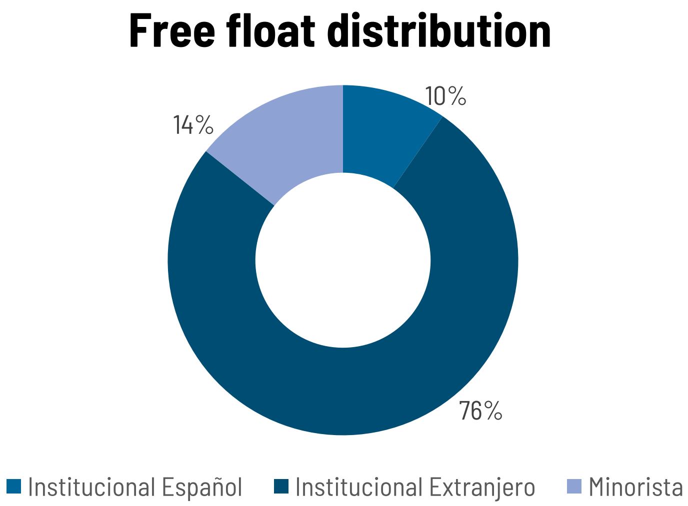
During the year REC's free float was 80%.

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

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



At the date of the last shareholders' meeting – 29 June 2021 – the free float comprised 432,864,000 shares, of which an estimated 14% is held by non-controlling shareholders, 10% by Spanish institutional investors and 76% by foreign institutional investors, primarily in the United Kingdom and the United States.



For yet another year COVID-19 has, to a large extent, scarred the performance of stock markets throughout the period, and the main downturns recorded by stock markets during the year have coincided with the emergence of new waves of the pandemic, for example in January, July and at the end of 2021.

In addition to the pandemic, issues such as inflation and its effect on the monetary policy followed by central banks or uncertainty regarding economic growth caused by bottlenecks in the production system have been of concern to investors throughout 2021. Following the standstill of the previous year the economy has taken off and business results have become the real market driver.

Despite the pandemic, the year could be defined as the year of recovery. Economic recovery has been accompanied by a stock market rebound. Following the slowdown triggered by COVID-19 in 2020, it is estimated that the global economy grew at a rate of more than 5% in 2021, which will enable global GDP to exceed that reached in 2019.

Global stock markets have, on average, made headway at a rate of more than 15%, which has led other indexes, such as the main US indexes or the French CAC 40 and German DAX, to report all-time highs. The good performance of the financial, energy and technology sectors can be highlighted, in contrast to the telecommunications and utility sectors which are amongst those sectors losing most ground during the year.

By geographical areas, noteworthy are the rises in the US and European stock markets, with performance of the French CAC and US Standard & Poor's indexes standing out, both of which have had annual gains exceeding 25%. Performance of the Asian stock markets has been more moderate. The Japanese stock market has risen by approximately 5%, whilst the Chinese stock market has ended the year with losses, with the Shanghai stock exchange recording a downturn of slightly more than 5%. With regard to the stock markets of emerging countries, the Mexican stock market gains exceeding 20% can be highlighted.

Spain's selective index closed the year with a 7.9% rise. The performance of the Spanish market can be explained by the significant weight on our economy and, as a result, on our stock market indexes, of sectors such as tourism, which have been harshly affected by the pandemic.

Red Eléctrica's share performance has been notable this year. The share topped the Spanish selective index in 2021 with a gain of 13.4%, after closing the year at a price of Euros 19.025. The share price has fluctuated between a minimum of Euros 13.565, reported on 26 February and a maximum of Euros 19.470 posted on 17 December.

A total of 427.8 million shares were traded on the Madrid Stock Exchange during the year as a whole, which is equivalent to 79% of the number of shares comprising its share capital. Cash transactions amounted to Euros 6,980.2 million.

4 Own shares

At their meeting on 31 March 2020, the Board of Directors of Red Eléctrica decided to suspend own share transactions as of 14 April 2020, except where such transactions are associated with employee remuneration.

Consequently, in 2021 only one transaction took place, for the sale of 281,296 own shares associated with Group employee remuneration, with a par value of Euros 0.14 million and a cash value of Euros 5.06 million.

At 31 December 2021 the Company held 1,803,433 own shares, with a par value of Euros 0.50 per share, representing 0.33% of its share capital. These shares had an overall par value of Euros 0.90 million and an acquisition price of Euros 17.53 per share, and the market value was Euros 34.31 million.

The Parent has complied with the requirements of article 509 of the Spanish Companies Act, which provides that the par value of acquired shares listed on official secondary markets, together with those already held by the Parent and its subsidiaries, must not exceed 10% of the share capital. The subsidiaries do not hold own shares or shares in the Parent.

5 Risk management

REC is the Parent of the Group and has implemented a Comprehensive Risk Management System, which aims to ensure that any risks that might affect its strategies and objectives are systematically identified, analysed, assessed, managed and controlled, according to uniform criteria and within the established risk levels, in order to facilitate compliance with the strategies and objectives of the Group. The current Comprehensive Risk Management Policy of the Group was approved on 27 July 2021 by the Board of Directors of REC, as its Parent.

This Comprehensive Risk Management System, the Policy and the General Procedure regulating it are based on the COSO ERM 2017 (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management – Integrated Framework.

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

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

The Comprehensive Risk Management Policy also covers financial risk management, as detailed in the note to the annual accounts on the Financial Risk Management Policy. 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 REC is exposed, as the Parent of the Group, are the main risks to which the Group is exposed and that could affect achievement of its objectives, namely regulatory risk, including tax risks, inasmuch as the

Group's principal business lines are subject to regulations, operational risk, primarily arising from the activity carried out in the electricity and telecommunications sectors, financial risk and environmental risk.

6 Environment

At 31 December 2021, REC has no assets specifically for the protection and improvement of the environment. In 2021 the Company incurred no expenses in protecting and improving the environment.

REC is not involved in any litigation relating to environmental protection or improvement that could give rise to significant contingencies. No environment-related grants were received in the year.

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

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

8 Our people

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

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

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

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

A stable, committed and highly qualified team.

At the end of 2021, the Company's workforce consisted of 388 professionals. Its commitment to stable employment is reflected in the high levels of permanent employment contracts (nearly 100%), prioritising employability and functional mobility as levers for growth and professional development.

Diversity

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

- Create a corporate culture that encourages diversity among employees and other stakeholders.
- Integrate diversity into all processes, especially people management.
- Involve, raise awareness and promote the Company's mission and approach to diversity among collaborators and suppliers.
- Participate with official organisations, academic institutions and other social agents in campaigns and projects that enable the Company to become a leading social agent that will contribute to building a more diverse society.
- The Comprehensive Diversity Plan has the following specific objectives:
    - 35% of all senior management positions to be held by women.

- Reduction in the pay gap.
- Family-Responsible Company (EFR) classification A.
- 70% of LGD compliance through direct employment.

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

At the end of 2021, the percentage of women in REC's workforce was 52%. The percentage of women in management positions at the end of 2021 was 45%.

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

In 2021 disabled persons employed on an equal basis made up 1.28% of personnel. The Company is working on obtaining the certificate of exceptional circumstances so as to achieve legal compliance through alternative measures.

Talent management

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

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

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

The Company has also worked on rolling out the Sustainable People Management project, which provides a new people management model that adapts the organisational structure to the new realities of the organisation, geared towards the demands of the business, management and people.

Labour relations

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

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

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

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

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

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

Health and safety

Through the commitment and leadership of the management team, the Company promotes best practices in safety, health and well-being. Its healthy company management model, deployed through a multi-year plan, is aligned with the Company's Strategic Plan, the People and Culture Department's Operational Plan and the 2030 Sustainability Commitment.

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

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

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

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

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

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

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

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

Management of work-life balance

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

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

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

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

9 Excellence and corporate responsibility

One of the cornerstones of the Company's corporate culture is its commitment to management excellence. The Company has a Policy of Excellence, which was reviewed in 2021. This policy sets out the organisation's principles in relation to its commitment to management excellence, which is focused on the creation of sustainable value that meets or surpasses the requirements and expectations of the stakeholders within the Red Eléctrica Group's ecosystem, acting as a lever for achieving excellent results in both the present and future.

In 1999 Red Eléctrica adopted the EFQM (European Foundation for Quality Management) excellence management model as a tool to improve management, to which end external assessments are performed periodically in accordance with the model. Until 2020, Red Eléctrica retained its EFQM 500+ European Seal of Excellence, following the external assessment carried out in 2017, with a score of more than 700 points.

Following the publication of the EFQM 2020 model, Red Eléctrica developed a project for adaptation to the new model, prior to the external assessment that is scheduled to take place in 2022.

Red Eléctrica's commitment to excellence is corroborated through external certifications from prestigious certifying entities, which guarantee that the organisation successfully implements certifiable management systems in the performance of its activities. The Group has quality systems in place in its main subsidiaries that are certified in accordance with the ISO 9001 standard.

Of particular note is the certification under the international standard UNE-ISO 19650-1 and 2 for information management in buildings and civil engineering works using the BIM collaborative work methodology (Building Information Modelling in relation to the construction project for the Chira-Soria pumped-storage hydroelectric power plant in Gran Canaria), which complements the certification of project management systems under the international standards ISO 10006 for quality management in projects and ISO 21500 for project management.

Also noteworthy is the certification of Red Eléctrica's criminal and anti-bribery compliance system, in accordance with the standards UNE 19601 for criminal compliance management systems and UNE 37001 for anti-bribery management systems.

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

In accordance with the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 regarding the information that must be disclosed in the notes to annual accounts on average payment periods to suppliers in commercial transactions, the average supplier payment period was 38 days at the 2021 year end.

The disclosures required by this resolution are contained in note 19 to the Company's annual accounts for 2021.

11 Events after 31 December 2021

On 3 November 2021, as indicated in note 8 to the annual accounts, Argo Energia Empreendimentos e Participações S.A., in which Red Eléctrica Brazil holds a 50% stake, entered into a share sale-purchase agreement with Rialma Administração e Participações S.A. to acquire shares representing 100% of the share capital of Rialma Transmissora de Energia III S.A. (Rialma III), subject to certain conditions being met and to the regulatory authorities approving the acquisition.

At 31 January 2022, the conditions precedent laid down in the aforementioned agreement have been fulfilled and the acquisition of all of the ordinary registered shares, representing 100% of the share capital of Rialma III, has thus been completed. Accordingly, the acquiree will change its name to "Argo IV Transmissão de Energia S.A.".

12 Dividend policy

Red Eléctrica will apply the dividend policy described in its 2021-2025 Strategic Plan, which sets out a dividend payment of Euro 1 per share for 2021.

The dividend paid in 2021 with a charge to the prior year's profit amounted to Euros 539.0 million.

The dividend with a charge to 2021 profit proposed by the Board of Directors and pending approval by the shareholders at their annual general meeting is Euro 1 per share.

The dividend will be paid in two instalments – an interim dividend in January and a supplementary dividend halfway through the year following approval of the annual accounts by the shareholders at their general meeting.

13 Outlook

As regards the management of the different businesses, REC, as the head of the Red Eléctrica Group, will continue to undertake its activities, implementing a model encompassing two major lines of action in equal proportion: operations subject to market risk which offset the concentration of regulatory risk, and regulated operations which offset market risk. To this end, the Group will continue to carry out the role of Spanish TSO, helping to make the energy transition in Spain a reality; continue to foster connectivity as a leading operator of both fibre optic and satellite telecommunications infrastructure; consolidate its international business; and invest in technological acceleration and innovation.

Executing the strategy, underpinned by efficiency, digital transformation and personnel development, will enable the Group to adapt to the new, stricter regulatory and remuneration environment, and to generate more ways of creating value.

The Group will uphold its commitment to maximising value for its shareholders, offering an attractive return in the form of dividends and generating value through efficient management of its activities, analysing alternatives for expanding its core business, maintaining a robust capital structure and working to guarantee supply with the utmost level of quality.

The Company will therefore continue to seek the generation of long-term value, creating lasting, competitive advantages and improving our corporate reputation, whilst focusing on providing optimum service to society – the differentiating feature of the Company's management.

Likewise, the Company will concentrate on unlocking shared value by working in collaboration with stakeholders and combatting inequality in territorial and digital areas and with regard to gender.

The Group is determined to forge ahead with its fulfilment of the 2030 Sustainability Commitment and to leverage the contribution of all Group companies in order to meet the global targets, noteworthy among which are the United Nations Sustainable Development Goals (SDGs).

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

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

15 Annual Corporate Governance Report

The Annual Corporate Governance Report forms an integral part of the directors' report and can be viewed at the following address:

http://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A-78003662

16 Annual Report on Directors' Remuneration

The Annual Report on Directors' Remuneration forms an integral part of the directors' report and can be viewed at the following address:

https://www.cnmv.es/Portal/Consultas/EE/InformacionGobCorp.aspx?TipoInforme=6&nif=A-78003662

Red Eléctrica Corporación

www.ree.es