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.

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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.

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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.

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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 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)	-	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 liabili-ties at amor-tised 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

Thousands of Euros	31.12.2021 Maturity of financial liabilities 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**

Thousands of Euros	31.12.2020 Maturity of financial liabilities 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:

	2021				2020			
Thousands of Euros	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.

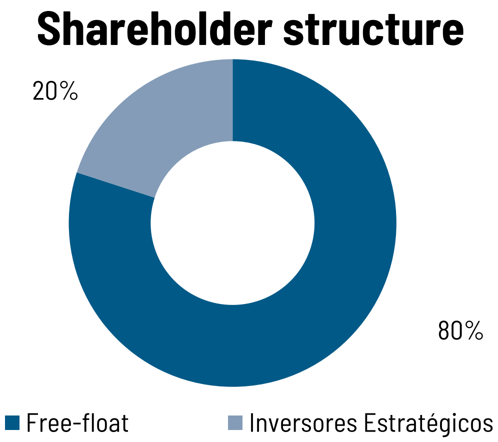
REC also forms part of the IBEX 35 index, of which it represented 2.16% at the end of 2021.

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.

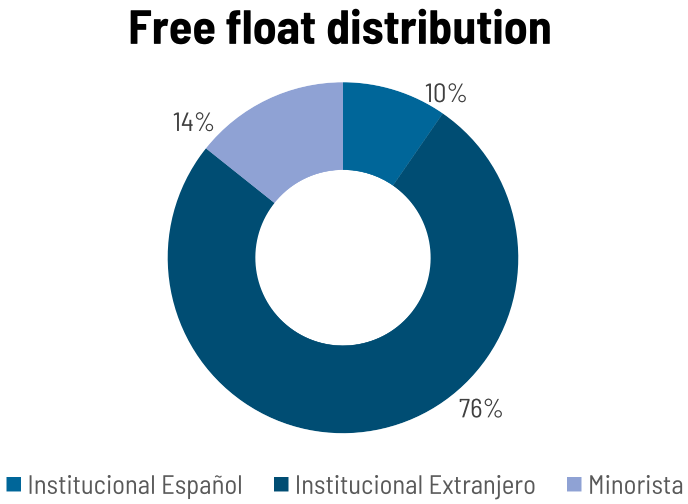
During the year REC's free float was 80%.

[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

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