



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 2020)

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



KPMG Auditores, S.L.
Paseo 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 2020, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

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.



Recoverability of current and non-current investments in Group companies and associates: Euros 2,646,582 thousand and Euros 1,333,654 thousand, respectively

See notes 4 e), 4 f), 8 and 21 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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 2,646,582 thousand of which are recognised in the balance sheet under non-current investments in Group companies and associates, and Euros 1,333,654 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 of impairment of these investments, and if this is the case, calculates the recoverable amount of these investments.</p> <p>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.</p> <p>Due to the uncertainty associated with these estimates, this has been considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">- 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 testing of impairment 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. <p>We also assessed whether the disclosures in the annual accounts meet the requirements of the financial reporting framework applicable to the Company.</p>



Other Information: Directors' Report

Other information solely comprises the 2020 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility 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 verified 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 2020, 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 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.



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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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 23 February 2021.

Contract Period _____

We were appointed as auditor by the shareholders at the ordinary general meeting on 14 May 2020 for a period of one year, beginning after the year commenced 1 January 2020.

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.

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

(Signed on original in Spanish)

Eduardo González Fernández
On the Spanish Official Register of Auditors ("ROAC") with No. 20,435
23 February 2021



RED
ELÉCTRICA
CORPORACIÓN

Grupo Red Eléctrica

Annual Accounts

2020

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



Red Eléctrica Corporación, S.A.

Balance Sheet at 31 December 2020

Thousands of Euros

	Note	31.12.2020	31.12.2019
Non-current assets		2,733,406	2,613,657
Intangible assets	5	3,312	-
Computer software		3,312	-
Property, plant and equipment	5	70,059	71,205
Land and buildings		64,955	65,709
Other installations, machinery, equipment, furniture and other items		1,157	892
Under construction and advances		3,947	4,604
Investment property	6	1,325	1,346
Land		558	558
Buildings		767	788
Non-current investments in Group companies and associates		2,646,582	2,531,544
Equity instruments	8	2,196,905	1,818,405
Loans to companies	21	449,677	687,739
Non-current interest on loans to companies		-	25,400
Non-current investments	12	5,109	7,043
Equity instruments		3,895	2,542
Loans to third parties		1,192	25
Derivatives	11	-	4,462
Other financial assets		22	14
Deferred tax assets	17	7,019	2,519
Current assets		1,648,399	915,777
Trade and other receivables	13	1,118	608
Trade receivables from Group companies and associates	21	873	16
Other receivables		30	89
Personnel		215	4
Public entities, other		-	499
Current investments in Group companies and associates	21	1,333,654	763,747
Equity instruments	8	-	(750)
Loans to companies		1,333,654	764,497
Current investments	12	16,229	1
Derivatives	11	16,228	-
Other financial assets		1	1
Prepayments for current assets		1,488	1,506
Cash and cash equivalents		295,910	149,915
Cash		295,910	149,915
Total assets		4,381,805	3,529,434

Notes 1 to 29 form an integral part of the accompanying annual accounts.



Red Eléctrica Corporación, S.A.

Balance Sheet at 31 December 2020

Thousands of Euros

	Note	31.12.2020	31.12.2019
Equity	14	2,886,471	2,735,386
Capital and reserves		2,867,472	2,716,387
Capital		270,540	270,540
Reserves		2,050,203	2,058,684
(Own shares)		(36,550)	(36,504)
Profit for the year		730,263	570,669
(Interim dividend)		(146,984)	(147,002)
Valuation adjustments		18,999	18,999
Non-current liabilities		1,290,244	609,136
Non-current provisions	15	20,118	4,605
Non-current payables	16	1,266,796	601,156
Bonds and other marketable securities		397,699	-
Loans and borrowings		869,081	601,140
Other liabilities		16	16
Group companies and associates, non-current	21	1,565	1,565
Deferred tax liabilities	17	1,765	1,810
Current liabilities		205,090	184,912
Current payables	16	161,975	160,261
Bonds and other marketable securities		2,512	-
Loans and borrowings		811	2,116
Other current payables		158,652	158,145
Group companies and associates, current	21	7,380	303
Trade and other payables	18	35,735	24,348
Payables to Group companies	21	726	87
Other payables		9,641	10,777
Personnel		5,968	682
Current tax liabilities		16,413	12,704
Public entities, other		2,987	98
Total equity and liabilities		4,381,805	3,529,434

Notes 1 to 29 form an integral part of the accompanying annual accounts.



Red Eléctrica Corporación, S.A.

Income Statement 2020

Thousands of Euros

	Note	2020	2019
Revenue	20.a	758,382	591,951
Services rendered		20,708	10,141
Finance income on investments in equity instruments		727,926	565,103
Group companies and associates		727,926	565,103
Finance income on securities and other financial instruments of Group companies and associates		9,748	16,707
Self-constructed assets	5	69	-
Supplies		(69)	-
Raw materials and other consumables used		(69)	-
Personnel expenses	20.b	(10,858)	(4,625)
Salaries and wages		(8,117)	(4,363)
Employee benefits expense		(1,119)	(104)
Other items and employee benefits		(1,622)	(158)
Other operating expenses		(11,104)	(12,664)
External services		(10,584)	(12,118)
Taxes		(520)	(546)
Depreciation and amortisation	5 and 6	(1,887)	(1,449)
Impairment and gains/(losses) on disposal of fixed assets	20.d	-	(111)
Impairment and losses		-	(128)
Gains/(losses) on disposal and other		-	17
Results from operating activities		734,533	573,102
Finance income	20.c	2,919	3,433
Marketable securities and other financial instruments		2,919	3,433
Other		2,919	3,433
Finance costs	20.c	(9,841)	(7,555)
Other		(9,840)	(7,554)
Provision adjustments		(1)	(1)
Change in fair value of financial instruments	11	482	499
Trading portfolio and other		482	499
Exchange (gains)/losses		2,602	(149)
Net finance cost		(3,838)	(3,772)
Profit before tax		730,695	569,330
Income tax	17	(432)	1,339
Profit from continuing operations		730,263	570,669
Profit for the year		730,263	570,669

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 2020

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 2018	270,540	1,942,465	(21,303)	645,597	(147,250)	2,690,049	18,999	2,709,048
Total recognised income and expense	-	14	-	570,669	-	570,683	-	570,683
Transactions with shareholders or owners								
(-) Distribution of dividends	-	-	-	(531,634)	248	(531,386)	-	(531,386)
Transactions with own shares (net)	-	1,449	(15,201)	-	-	(13,752)	-	(13,752)
Other changes in equity								
Distribution of prior year's profit	-	114,756	-	(113,963)	-	793	-	793
Other	-	-	-	-	-	-	-	-
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

Notes 1 to 29 form an integral part of the accompanying annual accounts.



Red Eléctrica Corporación, S.A.

Statement of Recognised Income and Expense 2020

Thousands of Euros

	2020	2019
Profit for the year	730,263	570,669
Actuarial gains and losses and other adjustments	(2,345)	19
Tax effect	586	(5)
Income and expense recognised directly in equity	(1,759)	14
Amounts transferred to the income statement	-	-
Total recognised income and expense	728,504	570,683

Notes 1 to 29 form an integral part of the accompanying annual accounts.



Red Eléctrica Corporación, S.A.

Statement of Cash Flows. 2020

Thousands of Euros

	2020	2019
Cash flows from operating activities	750,191	582,219
Profit for the year before tax	730,695	569,330
Adjustments to profit	(731,193)	(576,234)
Depreciation and amortisation	1,887	1,449
Change in provisions	756	244
(Gains)/losses on disposals of fixed assets	-	(17)
Finance income	(740,593)	(585,243)
Finance costs	9,841	7,555
Exchange (gains)/losses	(2,602)	149
Fair value measurement of financial instruments	(482)	(499)
Other income and expenses	-	128
Changes in operating assets and liabilities	2,000	7,828
Trade and other receivables	(297)	(171)
Other current assets	18	(734)
Other current assets - Group companies and associates	-	1,426
Trade and other payables	2,279	7,307
Other cash flows from operating activities	748,689	581,295
Interest paid	(7,616)	(6,429)
Dividends received	727,926	565,103
Interest received	6,822	6,626
Income tax paid	21,632	16,244
Other payments/receipts	(75)	(249)
Cash flows used in investing activities	(710,342)	(882,992)
Payments for investments	(810,558)	(1,379,062)
Group companies and associates	(792,898)	(1,361,187)
Property, plant and equipment, intangible assets and investment property	(1,539)	(8,836)
Other financial assets	(15,857)	(9,038)
Other assets	(264)	(1)
Proceeds from sale of investments	100,216	496,070
Group companies and associates	100,150	495,880
Property, plant and equipment, intangible assets and investment property	-	188
Other assets	66	2
Cash flows from (used in) financing activities	106,159	(117,663)
Proceeds from and payments for equity instruments	(376)	(13,752)
Acquisition and sale of own equity instruments	(376)	(13,752)
Proceeds from and payments for financial liability instruments	673,308	426,930
Bonds and other marketable securities	397,324	-
Loans and borrowings	275,984	426,930
Dividends and interest on other equity instruments paid	(566,773)	(530,841)
Dividends	(566,773)	(530,841)
Effect of exchange rate fluctuations	(13)	(53)
Net increase/(decrease) in cash and cash equivalents	145,995	(418,489)
Cash and cash equivalents at beginning of year	149,915	568,404
Cash and cash equivalents at year end	295,910	149,915

Notes 1 to 29 form an integral part of the accompanying annual accounts.



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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 23 February 2021 and have been prepared to give a true and fair view of the Company's equity and financial position at 31 December 2020, as well as the results of its operations, changes in equity and cash flows for the year then ended.

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand. The annual accounts have been prepared on the basis of the accounting records of the Company in accordance with prevailing legislation and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the amendments thereto contained in Royal Decree-Law 1159/2010 and Royal Decree 602/2016.

The Company holds investments in subsidiaries. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. In accordance with generally accepted accounting principles in Spain, annual accounts must be prepared to give a true and fair view of the financial position of the Company, the results of operations and changes in its equity and cash flows. Details of investments in Group companies are provided in note 8.

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 2019 were approved by the shareholders at their general meeting held on 14 May 2020. The annual accounts for 2020 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 2020 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 brought to light 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 2020, future events may require increases or decreases in these estimates in subsequent years, which would be accounted for prospectively in the corresponding income statement as a change in accounting estimates, as required by the Spanish General Chart of Accounts.

d) Comparative information

The balance sheet, income statement, statement of changes in equity, statement of cash flows and the notes thereto for 2020 include comparative figures for 2019, which formed part of the annual accounts for that year, except for lease income, which has been classified as revenue (see note 4-m).

e) Considerations regarding COVID-19

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

In this context, the Company has acted 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 following measures have been taken by way of a guarantee:

- A focus on 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 continuity of the Company's operations. 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 2020, prepared by the directors and pending approval by the shareholders at the general meeting, is as follows:

Thousands of Euros

Profit for the year	730,263
Total	730,263

Distribution

Voluntary reserves	181,592
Capitalisation reserve	8,160
Dividends:	
Interim dividend	146,984
Supplementary dividend	393,527
Total	730,263

This proposed distribution entails a supplementary dividend of Euros 0.7273 per share, which would result in a total dividend for the year of Euros 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, which is periodically reviewed and adjusted in the event of a decline in value. Intangible assets include the following:

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

b) Property, plant and equipment

Property, plant and equipment primarily comprise 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 the end of each reporting period.

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.

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

e) Financial assets

The Company classifies its financial assets into the following categories:

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

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

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



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

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 available-for sale financial assets, the Company adopts the response to query 1, published in the Spanish Accounting and Auditing Institute's Official Gazette (BO-ICAC) 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 9.2.5.3. 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.

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

f) Impairment

The Company analyses the recoverability of its assets at each reporting date and whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. Impairment is deemed to exist when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised immediately in the income statement. An impairment loss is the difference between the carrying amount of an asset and its recoverable amount.

Recoverable amount is the higher of:

- Fair value less costs to sell
- Value in use

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 2019, the Company identified indications of impairment of certain buildings 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. For held-to-maturity debt instruments the Company uses the market value, providing this is sufficiently reliable to be considered representative of the recoverable amount.

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

The Company has not identified any indications of impairment of loans extended to Group companies in its analysis.

g) 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, 15 and 17).

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.

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

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

• Other provisions

The Company makes provision for present obligations (legal or constructive) arising as a result of a past event whenever it is probable that an outflow of resources will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provision is made when the liability or obligation is recognised. No provision is made for proceedings with a probability of occurrence of less than 50% as it is considered that their future resolution will not have a significant impact on the Company's financial statements.



Provisions are measured at the present value of the estimated expenditure required to settle the obligation using a pre-tax 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.

i) Financial debt

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

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

j) 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.

k) 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.

l) Trade payables

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

m) Income and expenses

Income and expenses are recognised on an accruals basis, irrespective of payments and receipts.

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) 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 revenues.

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. For comparison purposes, this income has also been included as revenue in the 2019 figures.

n) 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.

o) Insurance

The Company has taken out various insurance policies to cover the risks to which it is exposed through its activities. These risks mainly comprise damage that could be caused to its facilities and possible claims that might be lodged by third parties due to the Company's activities. Insurance premium expenses are recognised in the income statement on an accruals basis. Payouts from insurance companies in respect of claims are recognised in the income statement applying the matching of income and expenses principle.

p) 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.

q) 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 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
Cost					
Computer software	-	1,649	-	3,892	5,541
Total cost	-	1,649	-	3,892	5,541
Accumulated amortisation					
Computer software	-	(163)	-	(2,066)	(2,229)
Total accumulated amortisation	-	(163)	-	(2,066)	(2,229)
Carrying amount	-	1,486	-	1,826	3,312

In 2020 the additions of computer software are due to the Company's acquisition and development of corporate software.

In 2020, the dividend in kind consists of intangible assets received by the Company in the form of a business (see notes 4-g and 14-b).

The Company has fully amortised intangible assets totalling Euros 826 thousand at 31 December 2020.

In 2020, operating expenses of Euros 61 thousand directly related to intangible assets were capitalised.

5.2 Property, plant and equipment

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

Thousands of Euros	31 December 2018	Additions	Disposals	Transfers	31 December 2019	Additions	Disposals	Dividend in kind	Transfers	31 December 2020
Cost										
Land and buildings	78,285	-	-	9,038	87,323	-	-	-	821	88,144
Other installations, machinery, equipment, furniture and other items	14,944	-	-	705	15,649	-	-	1,850	69	17,568
Under construction and advances	4,495	9,852	-	(9,743)	4,604	233	-	-	(890)	3,947
Total cost	97,724	9,852	-	-	107,576	233	-	1,850	-	109,659
Accumulated depreciation										
Buildings	(20,217)	(1,397)	-	-	(21,614)	(1,575)	-	-	-	(23,189)
Other installations, machinery, equipment, furniture and other items	(14,734)	(23)	-	-	(14,757)	(128)	-	(1,526)	-	(16,411)
Total accumulated depreciation	(34,951)	(1,420)	-	-	(36,371)	(1,703)	-	(1,526)	-	(39,600)
Carrying amount	62,773	8,432	-	-	71,205	(1,470)	-	324	-	70,059

Land and buildings correspond to 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 2020 and 2019 mainly reflect the adaptation of the buildings owned by the Company in the autonomous region of Madrid.

In 2020 and 2019, transfers from property, plant and equipment under construction to land and buildings and to other installations, machinery, equipment, furniture and other items primarily relate to the foregoing buildings in the autonomous region of Madrid.

In 2020, the dividend in kind consists of property, plant and equipment received by the Company in the form of a business (see notes 4-g and 14-b).

At 31 December 2020 the Company has fully depreciated property, plant and equipment with a cost of Euros 16,704 thousand (Euros 15,548 thousand in 2019), Euros 14,683 thousand of which are other installations (Euros 14,683 thousand in 2019).

In 2020, operating expenses of Euros 8 thousand directly related to property, plant and equipment were capitalised.

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 balancing entries were recognised under the pertinent revalued asset items, with no changes to the accumulated depreciation recorded at that date (Euros 6,304 thousand under land and buildings and Euros 56 thousand under other installations).

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 182 thousand in the depreciation charge for 2020 (Euros 177 thousand in 2019).

6 Investment Property

Movement in investment property in 2020 and 2019 is as follows:

Thousands of Euros	31 December 2018	Additions	Disposals	31 December 2019	Additions	Disposals	31 December 2020
Investment property	2,839	-	(441)	2,398	-	-	2,398
Total cost	2,839	-	(441)	2,398	-	-	2,398
Accumulated depreciation	(569)	(29)	99	(499)	(21)	-	(520)
Total accumulated depreciation	(569)	(29)	99	(499)	(21)	-	(520)
Impairment of investment property	(615)	(128)	190	(553)	-	-	(553)
Total impairment	(615)	(128)	190	(553)	-	-	(553)
Carrying amount	1,655	(157)	(152)	1,346	(21)	-	1,325

Disposals of investment property in 2019 reflected the sale of various premises (see note 20-d).

At the 2020 year end, the analysis of the market value of investment property had not brought to light any impairment losses. In 2019, Euros 128 thousand was recognised in the income statement in this respect (see note 20-d).

Investment property has a market value of approximately Euros 1.9 million in 2020 (Euros 2 million in 2019) 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 2020	31 December 2019
Cost		
Land and buildings	86,358	85,538
Other installations, machinery, equipment, furniture and other items	17,568	15,649
Total cost	103,926	101,187
Accumulated depreciation		
Buildings	(23,189)	(21,614)
Other installations, machinery, equipment, furniture and other items	(16,411)	(14,757)
Total accumulated depreciation	(39,600)	(36,371)
Carrying amount	64,326	64,816

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 Internacional, S.A.U. (REI), Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN), Red Eléctrica y de Telecomunicaciones, Innovación y Tecnológica, 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 10,843 thousand in 2020 (Euros 9,988 thousand in 2019). In 2020 and 2019, approximately 95% of this lease income is from REE and 5% from the remaining Group companies.

8 Investments in Group Companies and Associates

At 31 December 2020 and 2019, 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 2020 are as follows:



Red Eléctrica Corporación, S.A.
Details of equity investments at 31 December 2020

- Company
- Registered office
- Principal activity

	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	701,192	(20,875)	612,779	915,474	517,812
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	40,265	(6,238)	2,345	3,745	-
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%	-	74,417	30,000	44,417	5,541	(53,144)	60,017	80,500	209,946
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN) - Calle Juan de Quesada, 9. Las Palmas de Gran Canaria. (Spain). - Construction of energy storage facilities in non-mainland and isolated systems.	100%	-	5,000	5,000	-	45	-	89	115	-
Red Eléctrica de España Finance, B.V. (RBV) - Hoogoorddreef 15. Amsterdam. (Netherlands). - Financing activities. Incorporated in 2003 in the Netherlands for the purpose of issuing debt to finance the Red Eléctrica Group.	100%	-	2,000	18	1,982	-	-	94	172	168
Red Eléctrica Financiaciones, S.A.U. (REF) - Paseo Conde de los Gaitanes, 177. Alcobendas. Madrid. (Spain). - Financing activities.	100%	-	60	60	-	10,474	-	2,430	205	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RETEL) - 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	-	(391)	-	(1,361)	(69)	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnológica, 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	(511)	-	(1,371)	(1,809)	-
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	-	49,481	-	3,379	4,117	-
Red Eléctrica Andina, S.A.C. (REA) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Rendering of line and substation maintenance services.	-	100% (a)	-	1,488	-	1,503	-	1,415	2,008	-



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 N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	-	10,593	-	27,806	-	5,337	8,191	-
Transmisora Eléctrica del Sur, S.A.C. (TESUR) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	31,621	-	(1,860)	-	3,061	5,296	-
Transmisora Eléctrica del Sur 2, S.A.C. (TESUR 2) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	18,480	-	256	-	799	1,992	-
Transmisora Eléctrica del Sur 3, S.A.C. (TESUR 3) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (c)	-	4,075	-	(281)	-	103	510	-
Transmisora Eléctrica del Sur 4, S.A.C. (TESUR 4) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (j)	-	1,238	-	(13)	-	(116)	(29)	-
Red Eléctrica del Norte Perú, S.A.C. (REDELNOR) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (a)	-	28,523	-	(78)	-	(44)	(42)	-
Concesionaria Línea de Transmisión CCNCM S.A.C. (CCNCM) - Av. Javier Prado Este N° 492 Int. 1001 Urb. Jardín San Isidro. Lima. (Peru). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (d)	-	22,687	-	(9,555)	-	(3,998)	5,143	-
Red Eléctrica Chile S.P.A (RECH) - Avenida El Golf n° 40, piso 20. Comuna de Las Condes, Santiago. (Chile). - Acquisition, holding, management and administration of securities.	-	100% (a)	-	115,528	-	(14,526)	-	(4,045)	(545)	-
Red Eléctrica del Norte S.A. (REDENOR) - Avenida El Golf n° 40, piso 20. Comuna de Las Condes, Santiago. (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	69.9% (e)	-	2,852	-	(216)	-	(584)	(432)	-
Red Eléctrica del Norte 2, S.A. (REDENOR 2) - Avenida El Golf n° 40, piso 20. Comuna de Las Condes, Santiago. (Chile). - Electricity transmission and operation and maintenance of electricity transmission networks.	-	100% (e)	-	25,887	-	(582)	-	397	1,723	-
Red Eléctrica Brasil Holding Ltda. (REB) -Calle Libero Badaró, 293. Sao Paulo (Brazil). - Acquisition, holding, management and administration of securities.	-	100% (a)	-	265,012	-	-	-	(1,112)	(26)	-



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)(4)	-	121,946	76,265	323,921	22,270	(8.615)	(172,909)	-
Hispasat Canarias, S.L.U. -Calle Pacticante Ignacio Rodriguez s/n Edificio Polivalente IV, Fundación Canarias Parque Científico Tecnológico ULGPC, Planta 3, oficinas 304-305, 35017 Las Palmas de Gran Canaria. (Spain). - Sale and lease of satellites and spatial capacity.	-	89.68% (g)(4)	-	102,003	-	197,801	(6,273)	6,817	5,877	-
Hispasat Brasil, Ltda. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity.	-	89.68% (g)(4)	-	16,663	-	10,315	-	121	79	-
Hispamar Satélites, S.A. - Praia do Flamengo, 200 Rio de Janeiro. (Brazil). - Commercialisation of satellite capacity.	-	72.6% (h)(4)	-	17,751	-	16,365	-	(1,502)	1,434	-
Hispamar Exterior, S.L.U. Calle de Anabel Segura, 11. Alcobendas. Madrid. (Spain). - Commercialisation of satellite capacity.	-	72.6% (i)(4)	-	800	-	5,117	1,561	221	1,442	-
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)(4)	-	7,131	-	2,070	-	16	98	-
Consultek, Inc (*) - 1036 Country Club Drive, Suite 202, Moraga, CA 94556. (United States of America) - Technical consultancy services.	-	89.68% (g)(4)	-	16	-	30	-	2	3	-
Hispamar Satélites, S.A. (*) (Venezuela) - Torre Phelps, piso 10 ofic. 10. Caracas. (Venezuela). - Commercialisation and rendering of satellite telecommunications services.	-	72.60% (i)(4)	-	-	-	-	-	-	-	-
Hispasat UK, LTD. (*) 30 Finsbury Square, London. (England) - Commercialisation and rendering of satellite telecommunications services.	-	89.68% (g)(4)	-	-	-	-	-	-	-	-
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	-	14,638	-	80	106	-



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				
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)	-	59,389	-	17,026	(48,465)	9,760	39,470	-
Hisdesat Servicios Estratégicos, S.A. - Paseo de la Castellana 143, 28046 Madrid. (Spain). - Commercialisation of spatial systems for government use.	-	38.56% (g)(4)	-	108,174	-	100,837	12,386	6,357	17,386	-
Grupo de Navegación Sistemas y Servicios, S.L. (*) - Calle Isaac Newton 1, Madrid. (Spain). - Operation of satellite systems	-	12.82% (g)(4)	-	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)	-	82,862	-	160,165	-	41,057	42,009	-
Argo Transmisión de Energía 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)	-	78,366	-	133,417	5,121	40,276	89,984	-
Argo II Transmisión de Energía 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)	-	5,965	-	8,684	-	14,211	17,268	-
Argo III Transmisión de Energía 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)	-	18,227	-	7,464	-	1,415	12,055	-

(*) 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 forming part of the Hispasat subgroup.

(a) Investment through Red Eléctrica Internacional, S.A.U.

(b) Investment through Red Eléctrica de España, S.A.U.

(c) Investment through Red Eléctrica del Sur, S.A.

(d) Investment through Red Eléctrica del Norte Perú, S.A.C.

(e) Investment through Red Eléctrica Chile SpA.

(f) Investment through Red Eléctrica Sistemas de Telecomunicaciones, S.A.U.

(g) Investment through Hispasat, S.A.

(h) Investment through Hispasat, S.A. and Hispasat Brasil, Ltda.

(i) Investment through Hispamar Satélites, S.A.

(j) Investment through Red Eléctrica del Sur, S.A. and Red Eléctrica Internacional S.A.U.

(k) Investment through Red Eléctrica Brasil Holding Ltda.

(l) Investment through Argo Energía Emprendimientos y Participaciones S.A.



The Company holds all of the share capital of 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.

Furthermore, the Company holds all of the share capital of 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 2019, RESTEL acquired 89.68% of the share capital of Hispasat, S.A. for Euros 933 million. The company's statutory and principal activity consists of commercialising and rendering satellite telecommunications services. RESTEL was incorporated in 2018 and its statutory activity includes the acquisition, holding, management and administration of securities. In 2019, RESTEL's share capital was increased by Euros 549 million.

Moreover, in 2019, Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT) was incorporated with share capital of Euros 1,000 thousand and a share premium of Euros 4,000 thousand, which has been paid in full at 31 December 2020 (Euros 750 thousand had not yet been paid in at 31 December 2019). This company's statutory and principal activity consists of driving and fostering technological innovation.

International activity is conducted by REI (a wholly owned subsidiary). In 2020, REI's share capital was increased by Euros 378.5 million (in 2019 it was increased by Euros 31.4 million).

Details of the main transactions performed in 2020 and 2019 are as follows:

- **In Brazil:**

- In 2020, through its subsidiary Red Eléctrica Brasil, REI acquired 50% of Argo Energia Empreendimentos e Participações S.A. (ARGO ENERGIA), a Brazilian company that heads a group of electricity transmission concession operators 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, of which 1,150 km of lines and five substations have been operating since October 2019. The purchase price for 50% of the share capital of Argo Energia was BRL 1,678.2 million (Euros 374.3 million).

- **In Peru:**

- In 2019, REI incorporated Red Eléctrica del Norte Perú S.A.C. (REDELNOR). The statutory activity of the new company consists of electricity transmission and maintenance activities on the Carhuaquero - Cajamarca Norte - Caclic - Moyobamba line.
- In addition, in 2019 REDELNOR acquired the Peruvian company Concesionaria Línea de Transmisión CCNCM, S.A. (CCNCM). The company's statutory and principal activity consists of electricity transmission and maintenance activities on the Carhuaquero - Cajamarca Norte - Caclic - Moyobamba line and related substations in Peru.

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. Such tests were performed in 2020 and 2019 and in all instances the value in use exceeded the carrying amount. Thus, the Company concluded that no impairment of investments exists.

The most representative assumptions regarding the recoverable amount of REI included in the projections of its investee businesses, based on business forecasts and own past experience, are as follows:

- **Regulated remuneration:** estimated based on the remuneration approved by the regulations governing each business for the years available, whilst the same update mechanisms as those set out in prevailing legislation have been used for subsequent years.
- **Investment:** the best information available on the asset investment and maintenance plans for the infrastructure throughout the estimated time period has been used.
- **Operating and maintenance costs:** projected in line with the growth expected to derive from the investment plan.
- **Other costs:** projected based on knowledge of the sector and past experience and in line with the growth expected to derive from the investment plan.



In order to calculate present value, the projected cash flows are discounted using a 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 plus the loan granted to TEN, a subsidiary of REI.

Regarding the recoverable amount of RESTEL, the key assumptions used in the calculations for the impairment test of the investment in Hispasat were 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. The value of the equity-accounted investees of the HISPASAT subgroup has been added to this fair value less cost to sell.
- The latest projections considered in the Business Plan associated with the HISPASAT subgroup's New Strategic Plan approved in December 2020 by its board of directors have been applied. The cash flow projections used are for the 2021-2040 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. 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 and has been contrasted by an independent consultant.
- The EBITDA margin considered for traditional business and new business jointly averages 58%. HISPASAT's management has determined the budgeted EBITDA margin based on past performance, expected market development and market comparables, which are consistent with external sources of information, the reasonableness of which has been contrasted with an independent consultant.
- The main exchange rates considered 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 post-tax rate of 5.9% has been applied for the traditional satellite business, and an additional risk premium has been included for new business, giving a post-tax rate of 7.5%.
- 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.

The aforementioned testing was performed on the investment in RESTEL in 2020 and the recoverable amount exceeded the carrying amount of the investment. Thus, the Company concluded that the investment in RESTEL plus the loan granted is not impaired.

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 2020 and 2019 mostly affects profit for the year, but not equity.

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 2020 interest rates would have increased or decreased profit by Euros 264 thousand (Euros 553 thousand in 2019).

- **Currency risk**

Management of this risk encompasses translation risk, to which the Company is exposed when consolidating its subsidiaries and/or assets located in countries where the functional currency is not the Euro, and payables denominated in currencies other than the Euro; and transaction risk, arising from 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 2020 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 2020 and 2019 the carrying amounts of each category of financial instruments, except investments in Group companies, are as follows:



- Financial assets

Thousands of Euros	Financial instruments by category at 31.12.2020			
	Available-for-sale financial assets	Loans and receivables	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

Thousands of Euros	Financial instruments by category at 31.12.2019			
	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	Total
Loans to third parties	-	25	-	25
Loans to Group companies and associates	-	713,139	-	713,139
Equity instruments of a special nature	2,542	-	-	2,542
Derivative financial instruments	-	-	4,462	4,462
Other financial assets	-	14	-	14
Non-current	2,542	713,178	4,462	720,182
Trade receivables and loans to Group companies and associates	-	764,513	-	764,513
Other financial assets	-	1	-	1
Trade and other receivables	-	592	-	592
Current	-	765,106	-	765,106
Total	2,542	1,478,284	4,462	1,485,288



- Financial liabilities

Thousands of Euros	Financial instruments by category at 31.12.2020		
	Debts and payables	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
Bonds and other marketable securities	2,512	-	2,512
Loans and borrowings	811	-	811
Trade payables and payables to Group companies and associates	8,106	-	8,106
Current payables	158,652	-	158,652
Trade and other payables	35,009	-	35,009
Current	205,090	-	205,090
Total	1,473,451	-	1,473,451

Thousands of Euros	Financial instruments by category at 31.12.2019		
	Debts and payables	Hedging derivatives	Total
Loans and borrowings	601,140	-	601,140
Payables to Group companies and associates	1,565	-	1,565
Other financial liabilities	16	-	16
Non-current	602,721	-	602,721
Loans and borrowings	2,116	-	2,116
Trade payables and payables to Group companies and associates	390	-	390
Current payables	158,145	-	158,145
Trade and other payables	24,261	-	24,261
Current	184,912	-	184,912
Total	787,633	-	787,633

b) Analysis by maturity

- Financial assets

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



Thousands of Euros	31.12.2019						
	Maturity of financial assets						
	2020	2021	2022	2023	2024	Thereafter	Total
Loans to third parties	-	-	-	-	-	25	25
Loans to Group companies and associates	764,513	158,923	100,150	70,066	384,000	-	1,477,652
Equity instruments of a special nature	-	-	-	-	-	2,542	2,542
Other financial assets	1	-	-	-	-	14	15
Trade and other receivables	592	-	-	-	-	-	592
Total	765,106	158,923	100,150	70,066	384,000	2,581	1,480,826

- Financial liabilities

Thousands of Euros	31.12.2020							
	Maturity of financial liabilities							
	2021	2022	2023	2024	2025	Thereafter	Valuation adjustments	Total
Bonds and other marketable 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 companies and associates	8,106	-	-	-	-	1,565	-	9,671
Trade and other payables	193,661	-	-	-	-	-	-	193,661
Other financial liabilities	-	-	-	-	-	16	-	16
Total	205,090	140,476	228,785	-	900,000	1,581	(2,481)	1,473,451

Thousands of Euros	31.12.2019							
	Maturity of financial liabilities							
	2020	2021	2022	2023	2024	Thereafter	Valuation adjustments	Total
Loans and borrowings in Euros	390	-	-	-	500,000	-	-	500,390
Loans and borrowings in foreign currency	1,726	-	43,280	57,860	-	-	-	102,866
Payables to Group companies and associates	390	-	-	-	-	1,565	-	1,955
Trade and other payables	182,406	-	-	-	-	-	-	182,406
Other financial liabilities	-	-	-	-	-	16	-	16
Total	184,912	-	43,280	57,860	500,000	1,581	-	787,633

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 2020 and 2019 are as follows:

Thousands of Euros	31.12.2020		Non-current		Current	
	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	USD 150,000 thousand	Up to 2021	-	-	16,228	-

Thousands of Euros	31.12.2019		Non-current		Current	
	Hedged principal	Term to expiry	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges - Hedges of a net investment:						
Cross-currency swap	USD 150,000 thousand	Up to 2021	4,462	-	-	-

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

Thousands of Euros	Hedged principal	Term to expiry	31.12.2020					Total
			2021	2022	2023	2024	2025 and thereafter	
Exchange rate hedges - Hedges of a net investment:								
Cross-currency swap	USD 150,000 thousand	Up to 2021	16,228	-	-	-	-	16,228



Thousands of Euros	31.12.2019							Total
	Hedged principal	Term to expiry	2020	2021	2022	2023	2024 and thereafter	
Exchange rate hedges - Hedges of a net investment:								
Cross-currency swap	USD 150,000 thousand	Up to 2021	-	4,462	-	-	-	4,462

In 2020, the Company recognised income of Euros 482 thousand (Euros 499 thousand in 2019).

12 Non-current and Current Investments

Details of non-current investments at 31 December 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Equity instruments	3,895	2,542
Loans to third parties	1,192	25
Derivative financial instruments	-	4,462
Other financial assets	22	14
Total non-current investments	5,109	7,043

Thousands of Euros	31 December 2020	31 December 2019
Derivative financial instruments	16,228	-
Other financial assets	1	1
Total current investments	16,229	1

Equity instruments reflect the Euros 3,895 thousand investment in economic interest groups (EIGs) (Euros 2,542 thousand in 2019) 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).

At 31 December 2020 and 2019, 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 2020 and 2019, non-current and current derivative financial instruments reflect the value thereof and have been reclassified to short term as they expire in 2021. Details thereof and an analysis by expiry is provided in note 11.

13 Trade and Other Receivables

Details at 31 December 2020 and 2019 are as follows:



Thousands of Euros	31 December 2020	31 December 2019
Trade receivables from Group companies and associates	873	16
Other receivables	30	89
Personnel	215	4
Public entities, other	-	499
Total	1,118	608

At 31 December 2020 and 2019, trade receivables from Group companies and associates comprise amounts receivable from Group companies and associates.

At 31 December 2019 public entities, other included the value added tax (VAT) recoverable by the Company.

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 2020 and 2019 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 2020 and 2019 SEPI holds a 20% interest in the Company's share capital.

• Reserves

This item includes:

○ Legal reserve

Spanish companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. 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 2020 and 2019 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 2020.

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

○ Other reserves

Other reserves primarily include voluntary reserves of the Company and first-time application reserves, amounting to Euros 1,587,688 thousand and Euros 19,895 thousand, respectively, at 31 December 2020 (Euros 1,596,169 thousand and Euros 19,895 thousand, respectively, at 31 December 2019). 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-g).

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 2020 and 2019 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, ten 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 2020.

As provided for by article 25 of Law 27/2014 of 27 November 2014, in 2019 the tax group headed by the Company created a capitalisation reserve of Euros 16,707 thousand, corresponding to 2018, 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. The capitalisation reserve for 2019 was appropriated in 2020 in the Group company REE.

● Own shares

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. At 31 December 2019, the Company held 2,024,844 own shares representing 0.37% of its share capital with a total par value of Euros 1,012 thousand and an average acquisition price of Euros 18.03 per share.

These shares have been recognised as a reduction in equity for an amount of Euros 36,550 thousand at 31 December 2020 (Euros 36,504 thousand in 2019).

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 730,263 thousand (Euros 570,669 thousand in 2019).

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

The interim dividend authorised by the board of directors in 2020 has been recognised as a Euros 146,984 thousand reduction in equity at 31 December 2020 (Euros 147,002 thousand at 31 December 2019).

On 27 October 2020, the Company's board of directors agreed to pay an interim dividend of Euros 0.2727 (gross) per share with a charge to 2020 profit, which was paid on 7 January 2021.

The cash flow forecast for the period from 30 September 2020 to 7 January 2021 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:

Liquidity statement of Red Eléctrica Corporación, S.A.

Thousands of Euros

Liquidity statement of Red Eléctrica Corporación, S.A.		Thousands of Euros
Available funds at 30/09/2020:		
Non-current credit facilities available		466,979
Current credit facilities available		55,000
Current investments and cash		229,730
Forecast receipts:		
Current transactions		-
Financial transactions		254,340
Forecast payments:		
Current transactions		(129,215)
Financial transactions		-
Forecast available funds at 07/01/2021		876,834

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 2020 allows for the distribution of this interim dividend.

c) Valuation adjustments

At 31 December 2020 and 2019 this item reflects the gains arising from the increase in the fair value of the investment held by the Company in Redes Energéticas Nacionales, 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 and loss (see note 4-e).

15 Non-current Provisions

Movement in 2020 and 2019 is as follows:



Thousands of Euros	31.12.2018	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2019	Additions	Applications	Actuarial gains and losses	Transfers	31.12.2020
Provisions for employee benefits	630	129	(249)	(19)	(468)	23	346	(75)	2,345	12,487	15,126
Other provisions	4,467	115	-	-	-	4,582	410	-	-	-	4,992
Total	5,097	244	(249)	(19)	(468)	4,605	756	(75)	2,345	12,487	20,118

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 2020 and 2019:

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

The effect of a one percentage point increase or decrease in the assumed health insurance cost trend rates is as follows:

Thousands of Euros	2020		2019	
	1%	-1%	1%	-1%
Current service cost	163	(119)	1.4	(1.0)
Interest cost of net post-employment health insurance costs	1	(1)	-	-
Accumulated post-employment benefit obligation for health insurance	4,537	(3,339)	9.4	(6.5)

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

Thousands of Euros	2020			2019		
	Discount rate		Sensitivity	Discount rate		Sensitivity
	0.87%	0.37%		1.05%	0.55%	
Current service cost	84	159	75	3.5	4.1	0.6
Interest cost of net post-employment health insurance costs	1	1	-	0.9	0.5	(0.4)
Accumulated post-employment benefit obligation for health insurance	14,400	16,507	2,107	22.8	27.2	4.4

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 2020 amount to Euros 84 thousand and Euros 0.9 thousand, respectively (Euros 3.5 thousand and Euros 0.9 thousand, respectively, in 2019). 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 totalled Euros 2,345 thousand



(negative amount of Euros 19 thousand in 2019), 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 include the commitments to personnel received from REE amounting to Euros 12,987 thousand as a result of the dividend in kind (see notes 4-g and 14-b). In 2020 and 2019, this item also includes the commitments to employees that have been transferred in the short term, amounting to Euros 500 thousand and Euros 468 thousand, respectively.

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 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Bonds and other marketable securities	397,699	-
Loans and borrowings	869,081	601,140
Other liabilities	16	16
Non-current payables	1,266,796	601,156

Thousands of Euros	31 December 2020	31 December 2019
Bonds and other marketable securities	2,512	-
Loans and borrowings	811	2,116
Other current payables	158,652	158,145
Current payables	161,975	160,261

At 31 December 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 at 31 December 2020 is Euros 416,182 thousand. The average interest rate on these payables in the year was 1.01%.

At 31 December 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 2020 reflect long-term loans and credit facilities in Euros totalling Euros 774,820 thousand (Euros 500,000 thousand in 2019). They also include Euros 94,261 thousand drawn down from credit facilities arranged by the Company in US Dollars (Euros 101,140 thousand at 31 December 2019).

At 31 December 2020 and 2019 other liabilities comprise non-current security deposits received amounting to Euros 16 thousand.

At 31 December 2020 the accrued interest payable amounts to Euros 416 thousand (Euros 623 thousand in 2019) 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 872,097 thousand at 31 December 2020 (Euros 604,976 thousand in 2019) and accrued interest at an average rate of 0.30% in 2020 (0.97% in 2019).

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.

Details of other current payables are as follows:



Thousands of Euros	31 December 2020	31 December 2019
Dividends	146,984	147,002
Suppliers of fixed assets and other payables	11,668	11,143
Total	158,652	158,145

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 2020 and 2019 with the tax loss that the Company expects to declare after approval of the annual accounts is as follows:

Thousands of Euros	2020	2019
Accounting profit for the year before tax	730,695	569,330
Permanent differences	(725,988)	(574,746)
Taxable accounting income/(loss)	4,707	(5,416)
Temporary differences:		
Originating in current year	1,340	115
Reversals during the year	(28)	(201)
Total	1,312	(86)
EIG charges	(73,008)	(77,822)
Tax loss	(66,989)	(83,324)

In 2020 and 2019, adjustments were made to the tax base to reflect recognition of the EIGs in which the Company has interests, amounting to Euros 73,008 thousand and Euros 77,822 thousand, respectively (see note 12).

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

The income tax expense/income for the year is calculated as follows:

Thousands of Euros	2020	2019
Accounting profit for the year before tax	730,695	569,330
Permanent differences	(725,988)	(574,746)
Taxable accounting income/(loss)	4,707	(5,416)
Tax rate	25%	25%
Tax at the current rate	1,177	(1,354)
Deductions	(745)	(96)
Expense/(income) for the year	432	(1,450)
Foreign income tax	-	110
Other adjustments	-	1
Income tax expense/(income)	432	(1,339)
Effective income tax rate	0.06%	-
Breakdown of income tax:		
Current income tax	757	(1,365)
Deferred income tax	(325)	25
Other adjustments	-	1
Income tax expense/(income)	432	(1,339)



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 2020 and 2019 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.

As permitted by article 62.1 d) of Law 27/2014, the capitalisation reserve for 2020 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 2020 and 2019, and the corresponding cumulative tax effect (assets and liabilities) are as follows:

Thousands of Euros	2020		2019	
	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	2,518	1	2,589	6
Dividend in kind (notes 4-g and 14-b)	-	3,739	-	-
Originating in current year	335	461	28	-
Reversals of prior years	(56)	-	(99)	(5)
Prior year adjustments	21	-	-	-
Total deferred tax assets	2,818	4,201	2,518	1
Deferred tax liabilities:				
Originating in prior years	(1,810)	-	(1,856)	-
Reversals of prior years	45	-	46	-
Total deferred tax liabilities	(1,765)	-	(1,810)	-

In 2020 and 2019, 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 contain 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 include 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 include 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 2017, except income tax, which is open to inspection since 2016.



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. The Constitutional Court ruled that Royal Decree-Law 2/2016, which approved an amendment to the instalment calculation method, among other measures, was unconstitutional.

At the end of 2020, the taxation authorities resolved the request and refunded the late payment interest related to the instalments for 2016 and 2017 amounting to Euros 3,298 thousand. The resolution delivered with respect to the remaining years has been 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 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Payables to Group companies	726	87
Other payables	9,641	10,777
Personnel	5,968	682
Current tax liabilities	16,413	12,704
Public entities	2,987	98
Total	35,735	24,348

At 31 December 2020 and 2019, current tax liabilities comprise Euros 16,413 thousand and Euros 12,704 thousand, respectively, for income tax payable, which has been 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 2020 and 2019 is as follows

Days	2020	2019
Average supplier payment period	42.3	43.5
Transactions paid ratio	45.8	40.2
Transactions payable ratio	16.5	51.4

Thousands of Euros	2020	2019
Total payments made	10,333	4,795
Total payments outstanding	1,440	2,015



20 Income and Expenses

a) Revenue

Details at 31 December 2020 and 2019 are as follows:

Thousands of Euros	31 December 2020	31 December 2019
Services rendered	20,708	10,141
Finance income on investments in equity instruments of Group companies and associates	727,926	565,103
Finance income on securities and other financial instruments of Group companies and associates	9,748	16,707
Total	758,382	591,951

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-g and 14-b). At 31 December 2019 and until October 2020, this service was provided by the Group company REE. This line item also includes building lease income, mainly from Group companies (see note 7).

In 2020, finance income from investments in equity instruments of Group companies and associates reflects the dividends received from REE, REINTEL and RBV (from REE, REF and RBV in 2019).

At 31 December 2020, finance income from 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 (REE, REINTEL, RESTEL, RECH and REI at 31 December 2019) (see note 21).

Details of this item in 2020 and 2019, by geographical area, are as follows:

Thousands of Euros	2020	2019
Domestic market	755,139	583,911
European Union	168	179
Other countries	3,075	7,861
Total	758,382	591,951

b) Personnel expenses

In 2020 and 2019 this item comprises the following:

Thousands of Euros	31 December 2020	31 December 2019
Salaries and wages	8,117	4,363
Social Security	1,046	99
Contributions to pension funds and similar obligations	73	5
Other items and employee benefits	1,622	158
Total	10,858	4,625

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 2020 and 2019, distributed by professional category, is as follows:



	2020	2019
Management team	21	2
Senior technicians and middle management	23	1
Technicians	9	-
Specialist and administrative staff	18	4
Total	71	7

The distribution of the Company's employees (including the chairwoman and CEO) at 31 December 2020 and 2019, by gender and category, is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Management team	39	31	70	2	-	2
Senior technicians and middle management	109	113	222	-	1	1
Technicians	19	14	33	-	-	-
Specialist and administrative staff	15	51	66	-	4	4
Total	182	209	391	2	5	7

The increase in the headcount at 31 December 2020 is due to the transfer of employees from the Group company REE as a result of the dividend in kind received in the form of a business, as explained in note 14-b.

At 31 December 2020 and 2019, the breakdown of the Company's employees with a disability rating of 33% or more is as follows:

	2020			2019		
	Male	Female	Total	Male	Female	Total
Senior technicians and middle management	-	2	2	-	-	-
Technicians	1	1	2	-	-	-
Specialist and administrative staff	1	-	1	-	-	-
Total	2	3	5	-	-	-

At 31 December 2020, there are 12 directors, of which 6 are men and 6 are women (7 men and 5 women at 31 December 2019).

c) Finance income and costs

In 2020 and 2019 finance costs primarily reflect those incurred on loans and borrowings and derivative financial instruments. In 2020, this item also includes costs derived from the bond issue described in note 16.

In 2020 and 2019 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 2019, this item reflected impairment and losses on certain disposals of investment property (see 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 2020 and 2019 are as follows:

Thousands of Euros	2020		2019	
	Loans and dividends	Payables	Loans and dividends	Payables
Red Eléctrica de España, S.A.U. (REE)	873,459	1,528	760,624	1,528
Red Eléctrica Internacional, S.A.U. (REI)	65,867	324	70,601	176
Red Eléctrica Financiaciones, S.A.U. (REF)	71	-	16	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	306,446	30	102,943	30
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	-	3	-	2
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	385,891	57	384,529	45
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	1,755	777	16	87
Red Eléctrica Chile SpA (RECH)	150,715	-	158,923	-
Red Eléctrica Andina, S.A. (REA)	-	-	-	87
Hispasat, S.A.	-	216	-	-
Hispasat Canarias S.L.	-	6,736	-	-
Total Group companies	1,784,204	9,671	1,477,652	1,955

In 2020 and 2019, loans and dividends receivable from REE include the current credit facility arranged with this company for Euros 850 million, of which Euros 848,825 thousand had been drawn down at 31 December 2020 (Euros 743,543 thousand at 31 December 2019). The average interest rate for the period was 0.41% (0.41% in 2019). The non-current loan arranged with REE in 2016 remained in force during part of 2019. This loan amounted to Euros 425 million and was due to mature in 2021, but was repaid early at 31 December 2019. The average interest rate for the period was 0.83%

Loans and dividends receivable from REINTEL reflect the short-term credit facility arranged with this company in 2020 amounting to Euros 400 million, from which Euros 305,177 thousand have been drawn down. The average interest rate for the period was 0.41%. At 31 December 2019, this item mainly included the loan originally arranged in 2014 with REI, which was subrogated to REINTEL in 2015, with initial maturity in 2022 although it was early repaid in 2020. The amount of the loan at 31 December 2019 was Euros 100,150 thousand and the average interest rate for the period was 2.95% (2.94% in 2019). The fair value of this loan at 31 December 2019 was Euros 108,076 thousand.

Loans receivable from RECH essentially include the US Dollars 150 million loan arranged with this company in 2016, which falls due in 2021 and had been fully drawn down in an amount of Euros 122,239 thousand at 31 December 2020 (Euros 133,523 thousand at 31 December 2019). The average interest rate for the period was 0.35% (2.55% in 2019). With a view to reducing 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).

Loans receivable from REI primarily include the credit facility arranged with this company in 2018 for an amount of US Dollars 215 million, of which Euros 65,677 thousand had been drawn down at 31 December 2020 (Euros 70,066



thousand at 31 December 2019). This facility expires in 2023 and the average interest rate for the period was 1.91% (3.39% in 2019).

Loans receivable 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 1,491 thousand had been drawn down at 31 December 2020 (Euros 384,000 thousand and Euros 50 thousand, respectively, at 31 December 2019). This facility expires in 2024 and the average interest rate for the period was 0.5% (0.49% in 2019). The fair value of this loan is Euros 391,017 thousand at 31 December 2020 (Euros 394,527 thousand at 31 December 2019).

Loans receivable from RETIT at 31 December 2020 include the credit facility arranged with this company in 2019 amounting to Euros 25 million, of which Euros 1,748 thousand had been drawn down at 31 December 2020 (no amount drawn down at 31 December 2019). The average interest rate for the period was 0.41%.

Transactions with Group companies and associates are as follows:

Thousands of Euros	2020			2019		
	Services rendered	Finance income	Operating expenses	Services rendered	Finance income	Operating expenses
Red Eléctrica de España, S.A.U. (REE)	18,881	520,481	943	9,550	564,971	1,122
Red Eléctrica Internacional S.A.U (REI)	424	1,341	-	32	2,352	-
Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. (REINTEL)	695	210,684	-	378	3,969	6
Red Eléctrica de España Finance, B.V. (RBV)	-	168	-	-	179	-
Red Eléctrica Infraestructuras en Canarias, S.A.U. (REINCAN)	117	-	-	11	-	-
Red Eléctrica Financiaciones, S.A.U. (REF)	9	-	-	-	2,000	-
Red Eléctrica Sistemas de Telecomunicaciones, S.A.U. (RESTEL)	132	1,909	-	-	479	-
Red Eléctrica y de Telecomunicaciones, Innovación y Tecnología, S.A.U. (RETIT)	197	17	725	16	-	-
Red Eléctrica Chile SpA (RECH)	-	3,074	-	-	7,860	-
Red Eléctrica Andina, S.A. (REA)	-	-	2	-	-	87
Hispasat, S.A.	88	-	-	-	-	-
Total Group companies	20,543	737,674	1,670	9,987	581,810	1,215

At 31 December 2020, services rendered 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 2020, services rendered also include the lease agreements with REE, REINTEL, REI, REINCAN, RETIT and HISPASAT (REE, REINTEL, REI, REINCAN and RETIT in 2019) (see note 7).

In 2020, finance income primarily reflects the dividends received from REE, REINTEL and RBV, (REE, REF and RBV in 2019), and interest earned on the loans and credit facilities extended to REE, REINTEL, RECH, REI, RESTEL and RETIT (REE, REINTEL, RECH, REI and RESTEL in 2019).

Related party balances and transactions

In 2020 and 2019 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 the remuneration of directors, which includes the remuneration of the board of directors for 2020, was approved by the shareholders at their general meeting on 14 May 2020.



The approved remuneration of the board of directors for 2020, including the remuneration of the board members, the chairwoman and the CEO, was unchanged vis-à-vis 2019.

The chairwoman receives fixed annual remuneration in respect of the non-executive chairwoman 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. In 2020 both remuneration components are under the same terms as in 2019.

At its meeting held on 28 January 2020, the board of directors took note of the irrevocable resignation tendered by Mr. Jordi Sevilla Segura from his position as a director, and therefore as non-executive chairman of the board of directors and of the Company.

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.

Subsequently, 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, in accordance with his contract approved by the board of directors on 31 July 2018, he has not received any termination benefit as a result of the end of his legal and labour relations with the Company as chairman of the board of directors and of the Company.

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

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

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

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 due to dismissal by the Parent or changes of control.

As regards the CEO, at its meeting held on 27 May 2019, the board of directors adopted, among others, the following agreements:

- To dismiss Mr. Juan Francisco Lasala Bernad as CEO and to accept his resignation from the position of executive director of the Company.
- To appoint Mr. Roberto García Merino as executive director and, subsequently, as CEO of the Company, until the following general shareholders' meeting.

At their general meeting held on 14 May 2020, the shareholders ratified the appointment of Mr. Roberto García Merino as executive director of the Company.

In line with market practices in such cases, as a result of the appointment of the new CEO, the 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 Red Eléctrica de España, S.A.U. 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. Both the economic regime and the suspension of the employment relationship of the new CEO are in line with those applied to the previous CEO. Following the corporatisation carried out in 2020, this obligation was taken on by Red Eléctrica Corporación, S.A.



In line with standard market practices, Mr. Juan Francisco Lasala Bernad was entitled to a settlement in respect of his labour relations and an indemnity as CEO equal to one year's salary in the event that labour relations were terminated due to dismissal by the Parent or changes of control. The amount associated with his termination as CEO, which included the indemnity paid, was settled when his relationship with the Company was terminated.

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 2020.

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 2020 and 2019 are as follows:

Thousands of Euros	2020	2019
Total remuneration of the board of directors	2,463	2,505
Directors' remuneration in respect of executive duties ⁽¹⁾	743	784
Total	3,206	3,289

⁽¹⁾ This includes annual fixed and variable remuneration accrued during the year and does not include the indemnity amounting to Euros 818 thousand for the termination of the CEO that year.

The decrease 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.

The year-on-year decrease in directors' remuneration in respect of executive duties is because the amount accrued for the position of executive director was lower in 2020 than in 2019.

A breakdown of remuneration by type of director at 31 December 2020 and 2019 is as follows:

Thousands of Euros	2020	2019
Executive directors	890	931
External proprietary directors	525	525
External independent directors	1,285	1,287
Other external directors	506	546
Total remuneration	3,206	3,289

The remuneration accrued by individual members of the Company's board of directors in 2020 and 2019, 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 (7)	Total 2020	Total 2019 (8)
Ms. Beatriz Corredor Sierra ⁽¹⁾	449	-	15	-	-	-	464	-
Mr. Roberto García Merino	481	263	16	-	-	130	890	531
Mr. Jordi Sevilla Segura ⁽²⁾	40	-	2	-	-	-	42	546
Ms. Carmen Gómez de Barreda Tous de Monsalve	131	-	16	28	30	-	205	205
Ms. María José García Beato	131	-	16	28	-	-	175	175
Ms. Socorro Fernández Larrea	131	-	16	28	15	-	190	187
Mr. Antonio Gómez Ciria	131	-	16	28	14	-	189	190
Mr. Arsenio Fernández de Mesa y Díaz del Río	131	-	16	28	-	-	175	175
Mr. Alberto Francisco Carbajo Josa	131	-	16	28	-	-	175	175
Ms. Mercedes Real Rodrigálvarez ⁽³⁾	131	-	16	28	-	-	175	175
Ms. María Teresa Costa Campi	131	-	16	28	-	-	175	175
Mr. Antonio Gómez Expósito ⁽⁴⁾	129	-	16	27	-	-	172	175
Mr. José Juan Ruiz Gómez	131	-	16	28	1	-	176	137
Mr. Ricardo García Herrera ⁽⁵⁾	3	-	-	-	-	-	3	-
Other board members ⁽⁶⁾	-	-	-	-	-	-	-	443
Total remuneration accrued	2,281	263	193	279	60	130	3,206	3,289

(1) New director since the board meeting held on 25 February 2020.

(2) Stepped down from the board of directors at the board meeting held on 28 January 2020.

(3) Amounts received by the Sociedad Estatal de Participaciones Industriales (SEPI).

(4) Stepped down from the board of directors at the board meeting held on 22 December 2020.

(5) New director since the board meeting held on 22 December 2020.

(6) Board members who stepped down from the board in 2019.

(7) Includes the employee benefits that form part of the CEO's remuneration.

(8) Does not include the indemnity for the termination of the CEO in 2019.

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 under this plan, for his duties as CEO from 27 May 2019, was Euros 59 thousand.

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

At 31 December 2020 and 2019 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 2020 and 2019 the Company has taken out public liability insurance to cover claims from third parties in respect of possible damage or loss caused by actions or omissions in performing duties as directors of the Company. These policies cover the Company's directors and senior management and the annual premiums amount to Euros 135 thousand, inclusive of tax, in 2020 (Euros 60 thousand at 31 December 2019). These premiums are calculated based on the nature of the Company's activity and its financial indicators, thus they cannot be broken down individually or allocated to directors and senior management separately.



In 2020 and 2019 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

Senior management duties are carried out by the CEO and, therefore, at 31 December 2020 and 2019, with the exception of the CEO, the Company has no other senior executives.

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 (US Dollars 430 million in 2019) carried out by the Group company RBV, and REF's Eurobonds programme for an amount of up to Euros 5,000 million at 31 December 2020 (Euros 5,000 million at 31 December 2019). At 31 December 2020, Eurobonds issued under this programme total Euros 3,090 million (Euros 2,940 million in 2019).

Furthermore, at 31 December 2020 and 2019 the Company and 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 2020 no amounts have been drawn down under this programme (Euros 215,096 thousand at 31 December 2019).

At 31 December 2020, the Company has extended bank guarantees to third parties in an amount of Euros 3,584 thousand (Euros 3,584 thousand in 2019).

26 Environmental Information

At 31 December 2020 and 2019 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 2020 and 2019:

Thousands of Euros	2020	2019
Audit services	119	65
Audit-related services	93	37
Other services	13	10
Total	225	112



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

28 Share-based Payments

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.

In 2019, a total of 668 Parent shares were delivered to employees, with a fair value of Euros 17.255 each, resulting in an expense for the year of Euros 12 thousand.

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 2020

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

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

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

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

The directors of the Company are in the process of assessing the applicable transition options and the accounting impacts of these changes, although at the date of authorising these annual accounts for issue they do not yet have sufficient information to conclude on the results of this analysis.



Grupo Red Eléctrica

Directors' Report 2020

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



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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.



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) by holding equity investments in the Group companies and rendering assistance and support services to these companies.

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 2020, the Company posted profit after tax of Euros 730.3 million, up 28.0% compared to 2019. Details of the key components are as follows:

- Revenue amounted to Euros 758.4 million, up 28.1% on 2019. This figure includes Euros 727.9 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.
- EBITDA ¹ totalled Euros 736.4 million, a rise of 28.1% vis-à-vis 2019.
- EBIT ² amounted to Euros 734.5 million, climbing 28.2% compared to 2019.

The dividends paid in 2020 amounted to Euros 566.8 million, which is 7% more than in 2019.

REC's equity was Euros 2,886.5 million, up 5.5% on 2019.

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 2.14% at the end of 2020.

At 31 December 2019, 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.

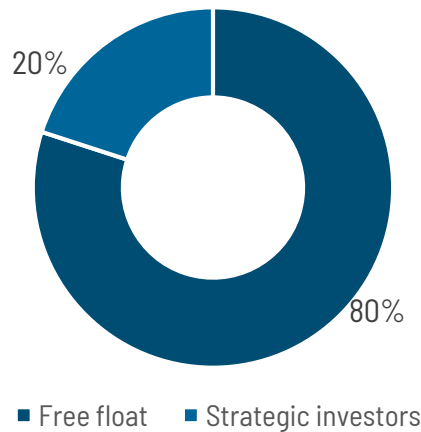
During the year REC's free float was 80%.

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

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

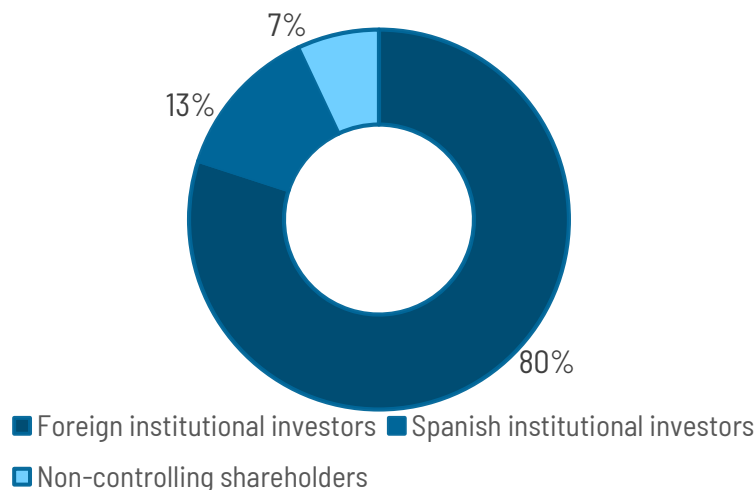


Shareholder structure



At the date of the last shareholders' meeting - 14 May 2020 - the free float comprised 432,864,000 shares, of which an estimated 13% is held by non-controlling shareholders, 7% by Spanish institutional investors and 80% by foreign institutional investors, primarily in the United Kingdom and the United States.

Free float distribution



In 2020, the performance of the stock market has also been affected by COVID-19. The first few months saw a continuation of the prior year's trends. However, by the end of the first quarter of 2020 equity markets were shaken by the pandemic, causing them to retrace to levels from several years earlier. The expansionary monetary policies implemented with greater intensity by the main central banks, the announcements of strong support for economic recovery through the creation of new incentives and an increase in public spending have since made a gradual recovery of stock market indices possible.

This recovery has enabled Wall Street to end the year on a positive note, with its main indices setting new all-time highs in the final days of 2020. Most notable is the 43.6% rise in the Nasdaq. Conversely, leading European markets have closed the year in the red. Most notable are the drops in the UK FTSE and the Spanish IBEX. The 14.3% slide in the former was possibly as a result of Brexit-related uncertainty. Spain's selective index saw the biggest drop of the major European stock markets after losing 15.5% in the year, reflecting the serious effects of the pandemic on our economy, which is highly dependent on the services sector and especially on tourism. The exception among the European indices was the German DAX, which gained 3.5% for the year as a whole and also ended the year at record highs. In the Asian stock markets, most notable is the Japanese Nikkei, which gained more than 15%.



In addition to this performance by geographical location, there was a clear differentiation by sector in 2020. Stocks related to the technology and pharmaceutical sectors and companies linked to renewable energies have been favoured by investors. Conversely, sectors such as finance, oil and gas suffered severe setbacks during the year.

Red Eléctrica's shares performed similarly to the Spanish stock market throughout 2020, although their decline in the year was less pronounced. The share hit its annual high in the first weeks of the year, reaching Euros 19.74 on 19 February. Its low point occurred in mid-March, coinciding with the major market backslide, which pushed the share down to its minimum for the year of Euros 13.105 on 12 March. The closing price was Euros 16.775, representing a 6.4% decline in 2020 as a whole.

A total of 535.1 million shares were traded on the Madrid Stock Exchange during the year as a whole, which is 1% more than in the previous year and equivalent to 99% of the company's shares. The total volume traded on the spot market was Euros 8,882.3 million, down 9% on 2019.

4 Own shares

At their meeting on 31 March 2020, the board of directors of Red Eléctrica agreed to suspend own share transactions as of 14 April 2020, except where such transactions are associated with employee remuneration.

Until that date, a total of 1,356,421 own shares had been acquired, with an overall par value of Euros 0.68 million and a cash value of Euros 22.84 million. A total of 1,296,536 shares were sold, with an overall par value of Euros 0.65 million and a cash value of Euros 22.49 million.

At 31 December 2020 the Company held 2,084,729 own shares, with a par value of Euros 0.50 per share, representing 0.39% of its share capital. These shares had an overall par value of Euros 1.04 million and an acquisition price of Euros 17.53 per share, and the market value was Euros 34.97 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 Comprehensive Risk Management Policy of the Group was approved 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 consolidated annual accounts on the Financial Risk Management Policy. The Company's Sustainability Report provides further details of the Group's main risks at present, as well as risks which could emerge in the future.



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 Environmental issues

At 31 December 2020, REC has no assets specifically for the protection and improvement of the environment. In 2020 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

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

In this context, moving forward with the Group's strategic objectives, this year we should highlight the corporatisation process, whereby part of the workforce of Red Eléctrica de España, S.A.U. has been transferred to Red Eléctrica Corporación, S.A. to provide corporate services to all the Group's subsidiaries, thereby strengthening the independence of the TSO and optimising the operational and economic structure of the Red Eléctrica Group as a whole, taking advantage of the synergies and know-how of all the subsidiaries that comprise it.

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

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

A stable, committed and highly qualified team.

At the end of 2020, the Company's workforce consisted of 391 professionals. Its commitment to stable employment is reflected in the high levels of permanent employment contracts (nearly 100%), prioritising employability and functional mobility as levers for growth and professional development.

Diversity

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

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

Gender equality is one of the vectors included in the new Comprehensive Diversity Plan and refers to the principles of equal employment opportunities, the promotion of women to positions of responsibility, salary equivalence between men and women, the promotion of shared family responsibility, the prevention of harassment on moral, sexual and gender grounds and the prevention of gender violence. These aspects are monitored through indicators that enable the Group to measure the progress of the objectives defined.

At the end of 2020, the percentage of women in the Company's workforce was 53%. The percentage of women in management positions at the end of 2020 was 44%.



Talent management

In 2020, the Red Eléctrica Group's Campus was the main hub of Learning and Professional Development within the Group.

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

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

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

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

Social relationships

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

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

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

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

Health and safety

Through the commitment and leadership of the management team, the Company promotes best practices in safety, health and well-being. Its healthy company management model, deployed through a multi-year plan, is aligned with the Group's Strategic Plan, the Human Resources Master Plan and the 2030 Commitment to Sustainability.

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

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

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



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

Since the start of the pandemic alert, reported cases have been monitored both in terms of illness and possible contact.

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

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

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

Work-life balance

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

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

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

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

9 Excellence and corporate responsibility

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 to assess the degree of adherence to the new model in 2020 as a benchmark framework in the process of transforming the organisation, prior to the external assessment that is scheduled to take place in 2021.

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. Red Eléctrica has quality systems in place in its main subsidiaries that are certified in accordance with the ISO 9001 standard.

Of the actions carried out in 2020 in this area, the stand-out initiatives include the development of a pioneering project for the implementation and certification of the international standard UNE-ISO 19650-1 and two projects for information management systems in building and civil engineering works, which use the collaborative work methodology BIM (Building Information Modelling). This initiative was carried out in relation to the project for the construction of the Chira-Soria pumped-storage hydroelectric power plant in Gran Canaria; it complements the implementation and certification of the project management systems carried out in 2019, in accordance with international standards ISO 10006 for quality management in projects and ISO 21500 for project management.

Also noteworthy is the certification carried out in 2020 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 42.3 days at the 2020 year end.

The disclosures required by this resolution are contained in note 19 to the Company's annual accounts for 2020.

11 Events after 31 December 2020

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

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

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

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

The directors of the Company are in the process of assessing the applicable transition options and the accounting impacts of these changes, although at the date of authorising these annual accounts for issue they do not yet have sufficient information to conclude on the results of this analysis.

12 Dividend policy

Red Eléctrica shall apply the dividend policy in force at any given moment, which is described in the Strategic Plan.

The dividend paid in 2020 with a charge to the prior year's profit amounted to Euros 566.8 million, which is 7% more than that paid out in 2019.

The dividend with a charge to 2020 profit proposed by the board of directors and pending approval by the shareholders at their annual general meeting is Euros 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 Company to adapt to the new, stricter regulatory and remuneration environment, and to generate more ways of creating value.

The Company 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.

Lastly, the Company will concentrate on unlocking shared value by working in collaboration with stakeholders and responding to growing societal demands.

The Group is determined to forge ahead with its fulfilment of the 2030 Sustainability Commitment and to leverage the contribution of all Red Eléctrica 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 2020, 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>