

**SPANISH NATIONAL  
SECURITIES MARKET  
COMMISSION**

Markets Division  
C/Edison, 4  
28006 Madrid

Madrid, 30<sup>th</sup> December 2013

Dear Sir:

In conformity with article 82 of the Spanish Securities Markets Law ("*Ley del Mercado de Valores*"), I attach the following **RELEVANT EVENT**:

On 30<sup>th</sup> December, the Royal Decree 1047/2013 was published, establishing a unique system for the calculation of electricity transmission remuneration, introducing tools to boost efficiency both in the construction of infrastructures and in the operation and maintenance of networks.

The approval of this Royal Decree establishes a clear, stable and transparent methodology, reinforcing and clarifying the principles and criteria for establishing the remuneration of activities regulated in line with comparable European companies.

The most notable aspects are as follows:

- Transmission activity will be remunerated in line with regulatory periods of 6 years of duration, the first of which will end in 2019.
- Investment remuneration will relate to assets in service based on their net value. All the assets in service at present have an assigned useful life and investment remuneration.
- The financial remuneration rate is tied to the return on 10-year State bonds increased by a spread. In the first regulatory period, this spread will be 200 basis points and the remuneration rate is set at 6.5% before tax.
- Remuneration will be received for facilities based on the moment of their entry into service (elimination of the penalty arising from the 'n+2' effect and compensation until the day 'n' of the facilities entering into service from 1998 onwards).
- The model is based on benchmark investment unitary values and on operation and maintenance.
- An extension of the useful life of the facilities is envisaged, setting remuneration when this future event occurs.
- Incentives are established for the availability of the transmission network.

The value of the assets in service by the beginning of the first regulatory period will be established as follows:

1. The replacement value thereof for those assets which entered into service after 1998 that will be calculated by applying unitary investment values and their individual useful lives.
2. Those assets which came into service before 1998 will be valued implicitly, based on the current remuneration received for investment and a minimum average residual life which may be increased through supporting documentation of repair and maintenance work performed on them in the past.

The operation and maintenance retribution of the assets in service will be based on the unitary values on this concept.

The unitary investment and operation and maintenance values will be established by the Ministry of Industry subject to a proposal by the Spanish National Markets and Competition Commission (“CNMC”). This Commission must make this proposal before 1 April 2014.

Since the regulatory reform process was started in 2012, the Company has contributed to the target of the stability of the sector, and has suffered significant adjustments in its regulated revenues, as it was explained in the relevant events published by REC last 15<sup>th</sup> and 18<sup>th</sup> of July 2013, by an import of 500mn euro during 2012 and 2013.

Despite some arguments defended by Red Eléctrica in this process have not been accepted, as the recognition of an annual updating factor for the assets and the inclusion of a higher spread for the investments in the transmission network, the Company values positively that the RD approved includes certain submissions made by itself and, in certain cases, included in the Spanish National Energy Commission report 26/2013 published on 20 September with respect to the Draft Royal Decree of July 2013, such as:

1. Acknowledgement of the effort made in the past to guarantee the best state of the transmission assets, assigning a net investment value and remaining useful life to all the assets in service prior to 1998. Furthermore, it is permitted to increase the residual life of these facilities by providing documentary support of the repair and maintenance work performed on them.
2. Acknowledgement of the incentives for efficiency in construction, availability, and operation and maintenance.
3. Compensation for the financial cost arising from the delay in obtaining revenue once the facility has been started up (n+2).
4. Possibility of reviewing the spread used to calculate the financial remuneration rate in the following regulatory periods.
5. Enhancement of the concept of extending the useful life of the facilities.

Lastly, although certain system parameters must be clarified during the coming months, it should be highlighted that in the analysis report of the regulatory impact of Royal Decree 1047/2013 sent to the State Council, the Ministry of Industry, Energy and Tourism establishes a projection of the electricity transmission tariff for the period 2015- 2019. In this regard, the 2015 tariff for REE would total around €1,685 million (compared with an estimate of over €1,600 million for 2014), with an accompanying increase for the period 2015-2019 of approximately 3% in the compound annual growth rate. These estimates were made by applying the transitory methodology of the Royal Decree-Law 9/2013, which is similar to that applied in this Royal Decree, an estimated investment in the transmission network of €600 million per year and an estimated availability figure for the transmission network.

The establishment of definitive revenue path will depend on the setting of these parameters, on the approval of the unitary investment and maintenance values, on investment performed by the Company and on the determination of the residual useful life of the facilities prior to 1998.

Yours faithfully,

Signed: Juan Lasala Bernad