

RED ELECTRICA ESTIMATES IN c. €100MN REDUCTIONS UNDER THE ELECTRICITY SYSTEM REFORM

- Royal Decree-Law (RDL) 9/2013 of 12 July, adopting urgent measures to ensure the financial stability of the electricity system, established the method for remunerating the electricity transmission activity specifically for the period between the entry into force of that RDL to 31 December 2013 and all of 2014.
- Based on Company initial estimates, 2013 remuneration of the transmission activity set at €1,628 million in February this year will be reduced by an amount around €100 million. In 2014, the transmission tariff will be approximately €1,600 million.
- The new remuneration will be definitive for both years, although in the future the amounts corresponding to the availability incentive, remuneration of investment, and operation and maintenance associated with non-recurring investments will be calculated and approved.
- The Ministry of Industry, Energy and Tourism will submit to the Spanish government in the short term, a draft royal decree regulating the future transmission remuneration model.
- For Red Eléctrica, the €100 million change entails a considerable negative impact, adding to the various reductions effected since April 2012 (over €440 million). Primarily, these reductions took the shape of a one-year deferral of revenues derived from service start-ups, affecting REE's cash flow by nearly €200 million in 2012 and by roughly €100 million in 2013. Furthermore, remuneration was €45 million lower in both 2012 and 2013 due to the change in model based on net assets, and €50 million more related to other aspects.
- Consequently, between 2012 and 2013 REE's contribution to the governmental reform of the energy system, in the form of these reductions, amounts to approximately 18% of the Company's remuneration.
- Nevertheless, the Company considers that the definitive elimination of the tariff deficit is positive, as it will lower regulatory risk exposure and result in a proper valuation of our business in the medium and long term.
- Lastly, we have full confidence in Red Eléctrica's solid operating and economic base. As the markets have consistently recognised, this operating and economic strength will mitigate the effects of these reductions and allow the Company to tackle future challenges with efficiency, a pro-active approach, flexibility and a solid financial profile.