



*Unofficial Translation*

*This is an unofficial translation of the proposal indicated below and it has been prepared for information purposes only. In the event of any discrepancy between this translation and the Portuguese version, the Portuguese version will prevail.*

## ANNOUNCEMENT

### **ERSE technical note: tariffs and prices for electricity for 2018 and parameters for the 2018-2020 regulatory period**

Following the proposal for Tariffs and Prices for Electricity for 2018 disclosed by ERSE and pursuant to Article 248 of the Securities Code, REN - Redes Energéticas Nacionais, SGPS, S.A. (“REN”) discloses the translation of the letter issued by ERSE regarding the tariffs and prices for electricity and other services for 2018 and parameters for the 2018-2020 regulatory period.

**Lisbon, 13 October 2017**

**REN - Redes Energéticas Nacionais, SGPS, S.A.**

REN - REDES ENERGÉTICAS NACIONAIS, S.G.P.S., S.A.

Listed Company (*Sociedade Aberta*)

Share Capital: € 534,000,000

Commercial Registry Office of Lisbon: registry and tax sole number: 503 264 032  
Head Office: Avenida Estados Unidos da América, no. 55  
1749-061 Lisbon

## 1. FRAMEWORK

Under the terms of the applicable regulation, ERSE submitted, on the date hereof, the proposal for electricity tariffs for 2018 and parameters for the 2018-2020 regulatory period, which will be subject to the Tariff Council opinion. This Tariff Council is composed by representatives of the consumers, of the suppliers in the liberalized market, of the regulated companies, and by the National Municipalities Association. The Tariff Council will present its non-binding opinion regarding the referred proposal up to 15 November 2017. After evaluation of the opinion expressed by the Tariff Council, ERSE will approve the final tariff values, which are to be published until 15 December 2017.

Simultaneously, ERSE also disclosed a document containing the key elements of the mentioned proposal.

Bearing in mind that the main economic and financial assumptions for the calculation of the electricity tariffs for 2018 and the parameters for the 2018-2020 regulatory period are relevant factors for the economic and financial evaluation of REN's activity during the 2018-2020 period and pursuant to Article 248 of the Securities Code, ERSE provides and agrees on the public release of the following information relative to REN. All of it is included in the document 'Proposal of tariffs and prices for electricity and other services for 2018 and parameters for the 2018-2020 regulatory period'.

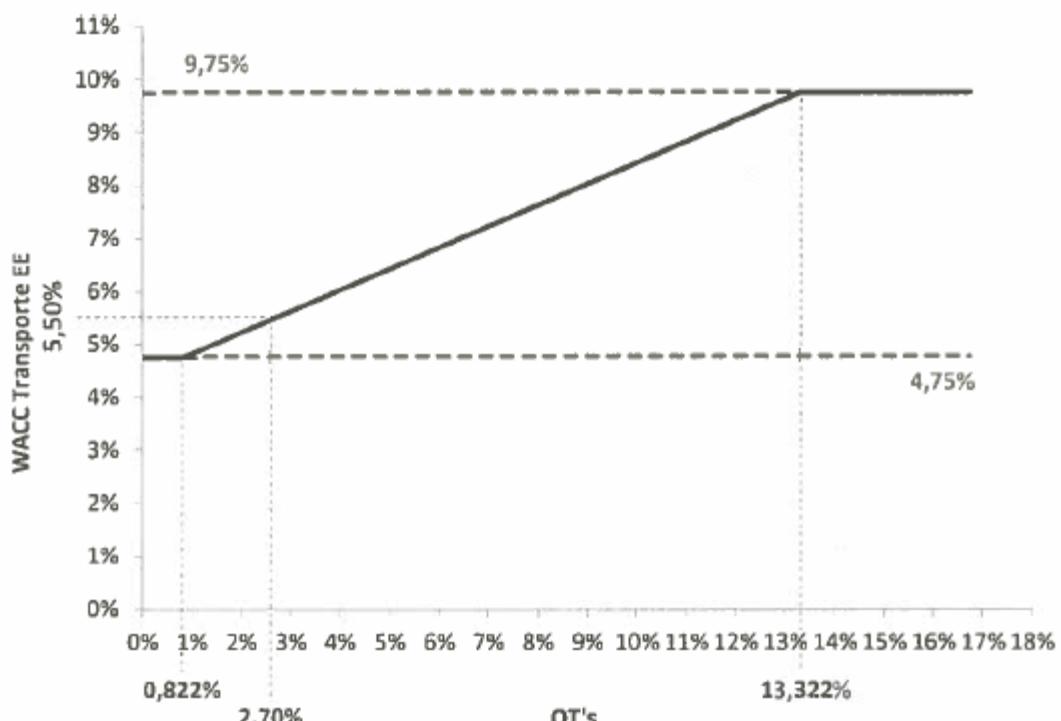
## 2. RATE OF RETURN

- The base rate of return (RoR) defined for 2018 is 5.50%;
- The RoR is indexed to the arithmetic average of the daily quotation of the Portuguese Republic 10-year sovereign bonds (OT's) for loans in euro (Source: Bank of Portugal);
- The starting point of the index is 2.70%. The value was obtained calculating the arithmetic average of the daily 10-year Portuguese Republic bond, in September 2017;
- For the purpose of calculation of the RoR of year  $t$ , it will be considered the average of the daily quotations of the index from October year  $t-1$  up to September of year  $t$ . The average shall be filtered by eliminating the 1/12 of highest quotation and the 1/12 lowest quotation;
- There is a linear relation between the OT's yield and the RoR;
- A variation of 1% in the RoR is based on a variation in the OT's yield of 2.5%;
- The minimum RoR is set at 4.75%, based on an average of the OT yields of 0.822%;
- The maximum RoR is set at 9.75%, based on an average of the OT yields of 13.322%;
- For average OT yields below 0.822%, the RoR is set at 4.75%;

- For average OT yields above 13.322%, the RoR is set at 9.75%.

The assets valued at reference costs benefit from a premium of 0.75pp, i.e., a cost of capital of 6.25%.

The following figure represents the indexation methodology of the base RoR for REN's electricity's regulated activities.



Source: ERSE, Banco de Portugal, Reuters

### 3. EFFICIENCY FACTORS

The efficiency factor applicable to REN in 2019 and 2020 is set at 1.5% for the activities of Global System Management and Energy Transportation.