TRUSTWORTHY NETWORKS

REN
Redes Energéticas Nacionais

Report and Accounts

08

Report and Accounts 08

Unofficial Translation

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

Contents

1. Chairman's Statement

I am pleased to highlight the fact that the results of the financial year of 2008 reflect an operational and rationalization effort from the several companies that constitute the REN Group.

With a planned investment of some three hundred million euros, we may underline that in both the electricity and gas businesses we managed to attain the target, reaching figures of 268 and 45 M€, respectively.

In addition to that, we purchased an interest in ENAGÁS' share capital, 43,2 M€, in compliance with the Strategic Cooperation Protocol, within the framework of Mibgás.

Bearing in mind, last year's difficulties throughout the whole territory in relation to the launching of new overhead lines or even pipelines, we can better appreciate the internal articulation effort that was required and the capacity to dialogue with all the involved agents to conclude the investment programme within the targets of both networks. The credit belongs to REN's operational teams but must be shared with our service providers.

The improvement in communication must be highlighted, namely in the reactive phase and, in particular, in terms of the pro-active information based on new written media, whereby we were able to explain the nature of the problems and our strict compliance with the safety limits with when establishing REN's infrastructures.

The level of operational performance shows up in the figures achieved in Equivalent Interruption Time (TIE) by the National Electricity Transmission Grid, i.e., 1.29 minutes. Regarding substations, there was a global improvement in performance, and we must highlight the fact that the transformers availability rate was close to 98%, a value which was achieved after a high number of equipment remodelling and replacements.

In the National Natural Gas Transportation Grid, no incidents were registered in the high pressure transport infrastructure. Thus, we managed to keep the accumulated indicator of incidents with non-intentional leakage at zero incidents per 1,000 km of infrastructure, while the TIE remained at 0.3 minutes, which was below the average of the last five years.

In any of these indexes, which are deemed representative of the excellent service provided by the energy transport infrastructure, REN does not fear comparisons with the equivalent operators at European level.

The restructuring of the Group continued with the launching of REN Serviços, which has the mission of providing services that are identified as having the same matrix as the ones of all companies of the Group and absorbed some 25% of the existing human resources. The synergy gains are expected to be highlighted next year, after the implementation of the mesures to be identified in relation to back-office centralization.

The debt restructuring effort continued with the 1st international issue of a 500 million euros loan, under the European Medium Term Notes (EMTN) programme, where demand more than doubled the supply. This was remarkable in a period where the availability of financial means proved to be particularly difficult, and because this was REN's first appearance in the international debt market. As a matter of fact, after 15 September 2008, the progressive shortage of credit in the international financial system became evident and the European market was no exception. Highlighting the environment that surrounded this first debt emission implies also thanking the Shareholders' support to an operation that corresponded to meeting a commitment that had been announced to the markets during the privatization road show. Obtaining the international rating notation from Standard & Poors and Moddy's, which was a previous condition for the emission, was equally important.

In 2008 a loan of 250 million euros was also awarded by the European Investment Bank, EIB, with whom we have a relationship which ensures continuity in the support of the process of development of the infrastructures of the national energy network, but this time more oriented towards the electricity network.

At the end of the year, the Group's consolidated debt reached 1, 738.1 M€, representing a decrease of 193 M€ in comparison with the previous year, which is due to a fact that must be highlighted, i.e., a revenue of 466 M€ resulting from the recovery of REN Eléctrica's tariff deficit.

In mid-December, the new regulatory framework of the activity of transport and technical management of the national electric system for the period 2009-2011 was published. In relation to the previous framework, we must highlight the favourable news of a premium to new investments, to the availability of the network and to keeping in operation assets fully amortized, besides an incentive to efficiency gains in operation costs.

This change brings the Portuguese economic regulation in the field of activity of REN Eléctrica closer to the regulations in force in the majority of the European countries, particularly in Spain.

This step must be highlighted given its strategic importance for the densification effort of the electricity transport network required by the National Strategy for Energy, which is very demanding in terms of promoting the renewable component, in particular wind and hydro power. This is also reflected in the investment pace and in an enormous pressure that, besides being strategic, is also operational, given the aforementioned difficulties that imply a fine and permanent monitoring of some fifty simultaneous work yards.

Net income for the financial year was 127,4 M€, of which 94,2 from electricity, 34,3 from gas and -1,1 M€ from other activities of the Group (SGPS, Telecommunications, OMIP, OMIClear and REN Serviços).

The reduction of the operational income is directly linked with the change that occurred in REN's commercial activity concerning the Power Purchase Agreements (PPA's): with the termination of the majority of these contracts, REN was only managing two contracts concerning the Turbogás and Tejo Energia Power Stations, implying a reduction of 11 M€ in commercialisation gains, on top of a reduction of 3,6 M€ due to the change of the remuneration rate of the land of the Power stations. On the other hand, the financial result improved by 12,5 M€, as a consequence of the reduction of net financial costs resulting from receiving the amount related to the tariffs' deficit.

Sales and services provided also suffered another important decrease because REN lost its function as an agent for the intermediation of the system's services, given that this service started being settled between market agents.

With a year so full of relevant events to the sector and bearing in mind the difficulties that I have previously mentioned, it is fair to underline the final results of the integrated management, namely with the completion of the Group's restructuring, with debt moving towards a new maturity profile and within the challenges of new investments in electricity and gas under total internal control by a united, qualified and available team that has endeavoured and continues to endeavour its best efforts for an every day increasingly sustainable REN.

Finally, to the Shareholders, a sincere word of gratitude for their trust and for their permanent and undisputed support.

2. Mission Statement, Vision and Values

The Company

REN – Redes Energéticas Nacionais, SGPS, S.A., is a holding company that brings five public concessions together under one roof: i) transmission of very high-voltage electricity; ii) high-pressure transport of natural gas; iii) unloading, storage and regasification of liquefied natural gas; iv) underground storage of natural gas and, more recently, the concession of the operation, under the public service regime, of the pilot area identified in Decree-Law no. 5/2008 of 8 January and of private use of the public domain water resources[1] .

The fact that these regulated activities are grouped under a single company that is independent of the energy market operators guarantees operating synergies and, as set forth in national and European energy strategies, the effective separation of the electricity transmission and gas transport networks as a way of ensuring freedom of access to them by all market agents on an equal and transparent footing.

Mission Statement

REN's mission is to guarantee the continuous supply of electricity and natural gas at the lowest cost while satisfying all quality and safety criteria, maintaining the balance between supply and demand in real time, defending the legitimate interests of market agents and reconciling its roles as a system operator and network operator.

Vision

We have made it our mission to be one of the most efficient European electricity and natural gas system operators, creating value to our shareholders within a framework of sustainable development.

[1]Through this concession, which is granted for a period of 45 years on an exclusive basis, the new company to be created by REN shall be responsible for the management of the off shore "pilot area" identified in the said Decree-Law no. 5/2008 and for the promotion of the scientific and technological development in the area of electricity production from wave-power.

Values

Security of supply – Performing concession activities and developing interconnections and unloading terminals so as to guarantee a continuous supply of energy and satisfy all quality criteria, creating the right technical conditions for the Iberian electricity and gas market.

Neutrality – Guaranteeing all energy market agents, producers, distributors, suppliers and consumers access to the networks and other infrastructures without discrimination and on an equal basis.

Efficiency – Performing all our tasks meticulously in terms of production efficiency and making the best use of all resources, contributing to the country's development and aspiring to the population's wellbeing and the creation of value to our shareholders.

Sustainability – Managing our activities in accordance with the principles of sustainable economic, social and environmental development, sponsoring research and development and committing to training, ethics and the development of our human resources' potential.

The Concessions

As concessionaire of the national electricity transmission grid (RNT), REN – Rede Eléctrica Nacional, S.A. holds the mission of a public utility company involving the following main activities:

- technical and overall management of the national electricity system (SEN);
- transmission of electricity at very-high voltage (400, 220 and 150kV);
- operation of the national electricity transmission grid (RNT) and the construction, maintenance and planning of its infrastructures.

As the concessionaire of the high-pressure natural gas transport network, the activities of REN Gasodutos, S.A., include:

- the reception, transport, system services and delivery of natural gas through the high pressure network;
- the building, maintenance, operation and use of all the infrastructures making up the national NG transport network and interconnections with other networks and of the facilities required to operate them.

As the concessionaire for the reception, storage and regasification of liquefied natural gas, REN ATLÂNTICO, S.A. is responsible for:

- the reception, storage, treatment and regasification of LNG; transport natural gas to the national NG transport network (RNTGN); and for loading LNG onto tanker trucks or ships;
- the building, maintenance and operation of the respective infrastructures and facilities.

As holder of the underground storage concession, REN Armazenagem, S.A. is responsible for:

- the reception, injection, underground storage, extraction, treatment and delivery of natural gas for the formation of safety reserves or for operational and commercial purposes;
- the construction, maintenance and operation of all infrastructures and the facilities required to operate them.

As concessionaire of the operation under the public service regime of the pilot area identified in Decree-law no. 5/2008 of 8 January and of the private use of the public domain water resources, the new company to be created by REN is responsible for managing the off-shore "pilot area" identified in the said Decree-Law no.5/2008 and for promoting scientific and technological development in the area of electricity production from wave-power. The concession of the "pilot area" includes the use of the strip corresponding to the corridor to build the infrastructures to connect to the public network, as soon as the location is defined.

3. Main Indicators

Economic and financial indicators (Group)

Income Statement

M€	Unit	2008	2007
Business Volume	M€	494,4	554,7
EBITDA[1]	M€	366,6	388,9
EBIT	M€	237,0	265,0
Taxes	M€	-44,6	-42,3
Net Profit	M€	127,4	145,2
Dividend	M€	88,1	87,0

Balance sheet

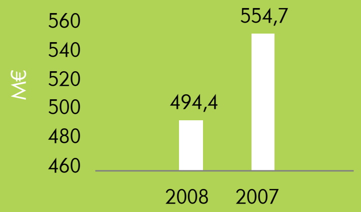
M€	Unit	2008	2007
Total Assets	**M€**	**3.823,0**	**3.969,5**
Fixed asstes	M€	3.179,7	3.085,7
Cash and Cash Equivalents	M€	101,4	125,9
Others	M€	541,9	757,9
Total Equity	**M€**	**1.011,7**	**1.006,3**
Total Liabilities	**M€**	**2.811,3**	**2.963,2**
Net Debt	M€	1.738,1	1.931,2
Others	M€	1.073,2	1.032,1

Indicators and ratios

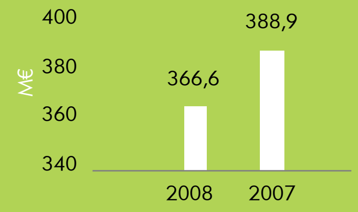
M€	Unidade	2008	2007
EBITDA Margin	%	60,4%	63,7%
Return on Assets (ROA)[2]	%	6,08%	6,73%
Return on Average Capital Employed (ROACE)[3]	%	6,12%	6,83%
Annual investment in tangible fixed assets	M€	313,5	249,9
Net Debt / EBITDA		4,74 x	4,97 x
Debt to Equity		1,7 x	1,9 x
Market Cap	M€	1.513,9	1.933,1
Net Profit per share[4]	€	0,24	0,27
Total Employees		807	813
Electricity		398	613
Gas		173	196
Others		236	4

Notes:
[1]RO + Amortizations.
[2]EBIT/ Average net asset.
[3](EBIT x (1 - tax rate) / Average Used Capital. Average Used Capital = Own Capital + Financial Net Depth.
[4]Profit / (Own Capital + Minority Interests) average values.

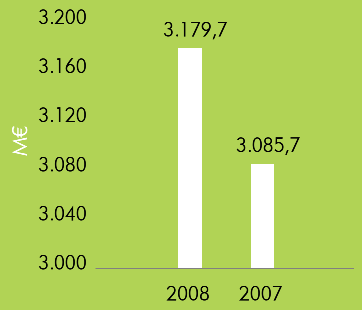
Business Volume



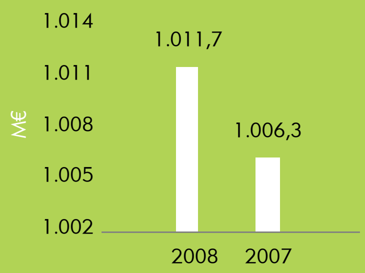
EBITDA



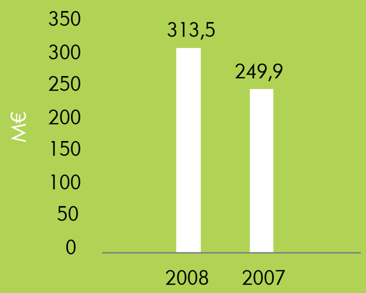
Net Assets



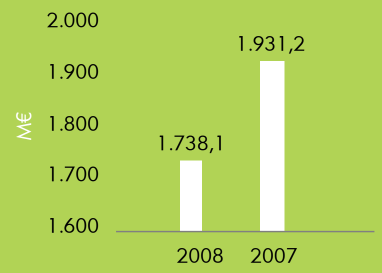
Total Equity



Anual Investment in tangible fixed assets



Net Debt

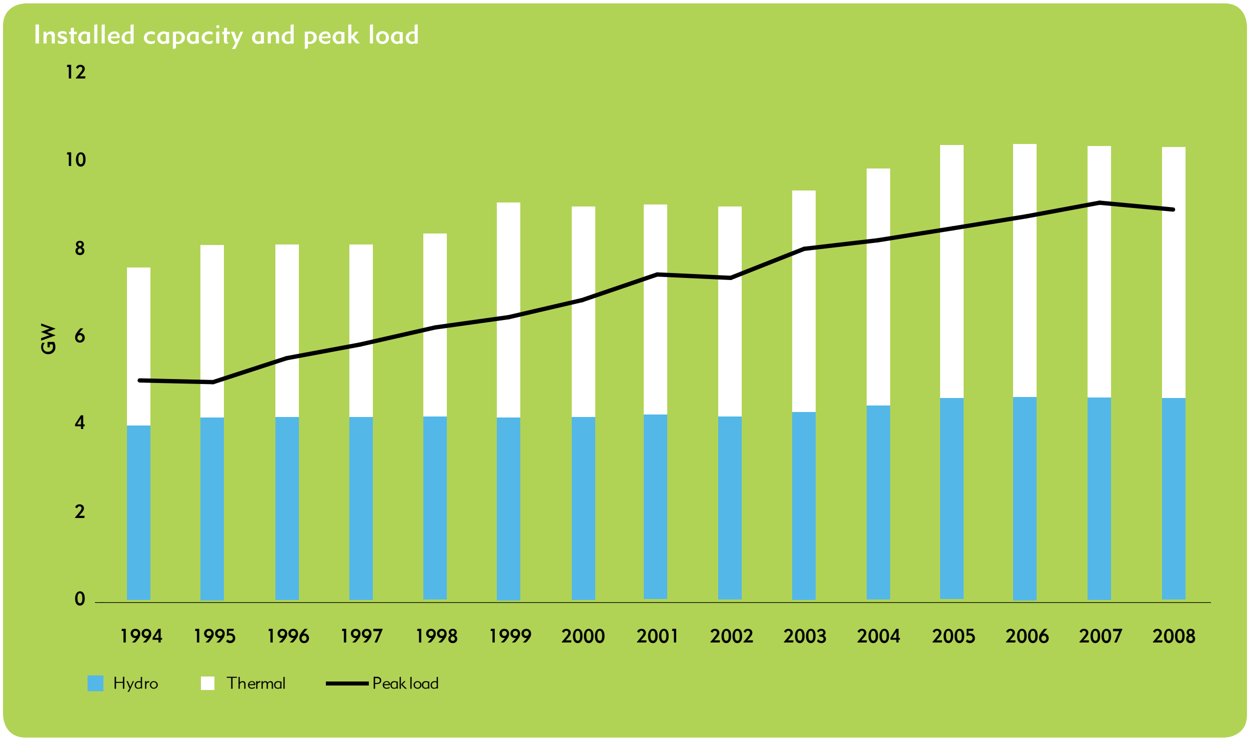


Evolution of annual investments at current prices

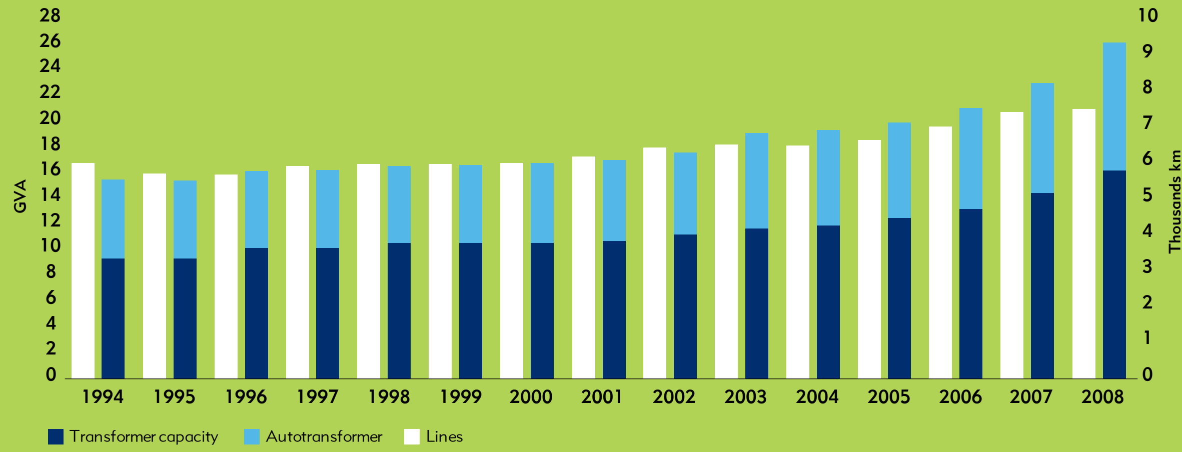
(Millions of euros)

Year	Direct Costs	Financial Expenses	Total Costs
1994	44,2	5,7	49,8
1995	46,3	9,4	55,7
1996	58,3	4,1	62,5
1997	48,9	3,7	52,5
1998	38,5	3,3	41,8
1999	47,3	2,2	49,5
2000	41,4	2,3	43,7
2001	65,5	3,4	68,8
2002	93,7	4,1	97,8
2003	112,6	3,0	115,6
2004	132,1	2,6	134,7
2005	210,2	2,6	212,8
2006	239,4	4,6	244,0
2007	242,9	6,9	249,9
2008	304,6	8,8	313,5

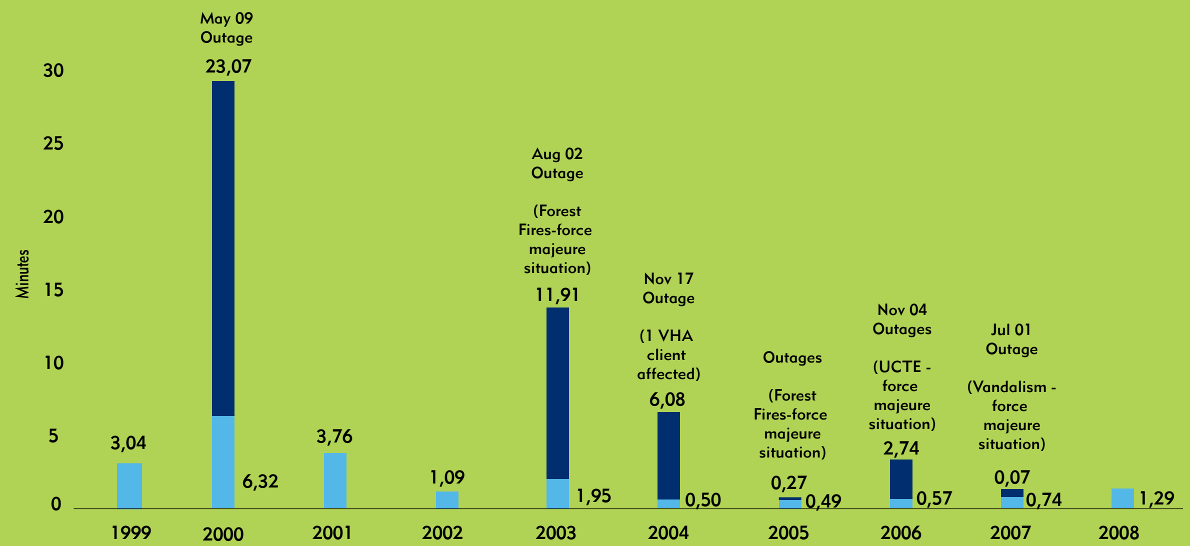
Technical and economic indicators (Electricity Business)



Line lenght and transformer capacity



Equivalent interruption time

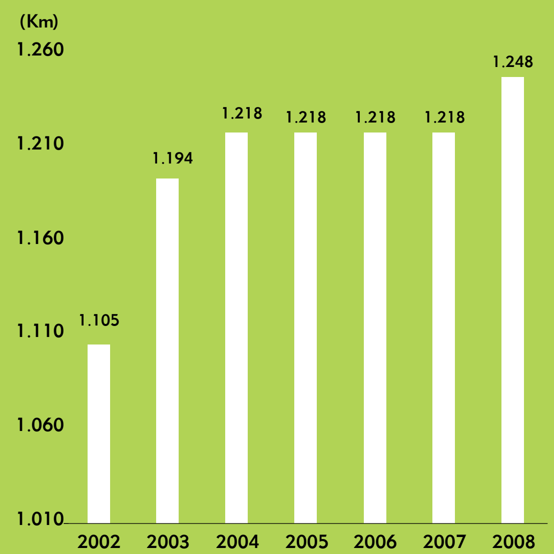


Technical and economic indicators (Natural gas transport and storage business)

Entries at RNTGN

Exits from RNTGN

Natural gas transport grid evolution at high pressure



(Nominal pressure: 84 bar)

Who we are

4. Who we are

4.1. The Company

REN – Rede Eléctrica Nacional, S.A. was set up on 18 August 1994, following the internal reorganisation of the EDP Group. Later, in November 2000, it was totally separated from the EDP Group, following said group's privatisation and the liberalisation of the European energy market. This followed Directive 96/92/EC of 19 December 1996, which ordered the legal separation of the companies responsible for managing the transmission network and those in charge of generating and distributing electricity.

With the aim of creating value to its shareholders and pursuing a strategy of resource optimisation, in late 2001 REN set up RENTELECOM – Comunicações S.A., its first subsidiary, which corporate object is to exploit the surplus capacity of the group's private telecommunications network.

In 2003, following the Iberian Summit in Figueira da Foz, the Portuguese and Spanish governments decided to give a new impetus to the MIBEL, the Iberian Electricity Market. One of the initiatives was to set up the Iberian Market Operator, with two centres: one in Spain to manage the daily and intradaily markets; and the other in Portugal for electricity derivativesOn 16 June 2003, REN thus set up its second subsidiary, OMIP – Operador do Mercado Ibérico de Energia (Pólo Português), S.A., which is responsible for managing the electricity futures market in articulation with OMEL – Operador del Mercado Ibérico de Energia – Polo Español, S.A. REN holds 90% of OMIP's share capital, with OMEL holding the remaining 10%.

Within the framework of the restructuring of the energy sector, the general lines of which were laid down by Council of Ministers Resolution 169/2005 of 24 September, determining the concentration in a single corporate group of the concession holders for the natural gas transport and electricity transmission infrastructures, on 26 September 2006 REN purchased the corresponding natural gas assets owned by Galp Energia, SGPS, S.A. As a result, it was placed in charge of the following regulated activities in a 40-year public service concession:

(i) the transport of high pressure natural gas;
(ii) the underground storage of natural gas;
(iii) the reception, storage and regasification of liquefied natural gas at LNG terminals.

Where the first two activities are concerned, REN acquired the corresponding assets and then set up the companies REN – Gasodutos, S.A. and REN – Armazenagem, S.A., which took over the respective concessions. With regard to the third, REN took over the operator, Transgás Atlântico – Sociedade Portuguesa da Gás Natural Liquefeito, S.A. The company was renamed REN Atlântico, Terminal de GNL, S.A. and it took over the corresponding concession.

Following this operation, Portugal became one of the few countries in Europe in which these activities are carried out by a company that is independent from the operators that produce, distribute and sell energy, in line with the recent recommendation by the European Union.

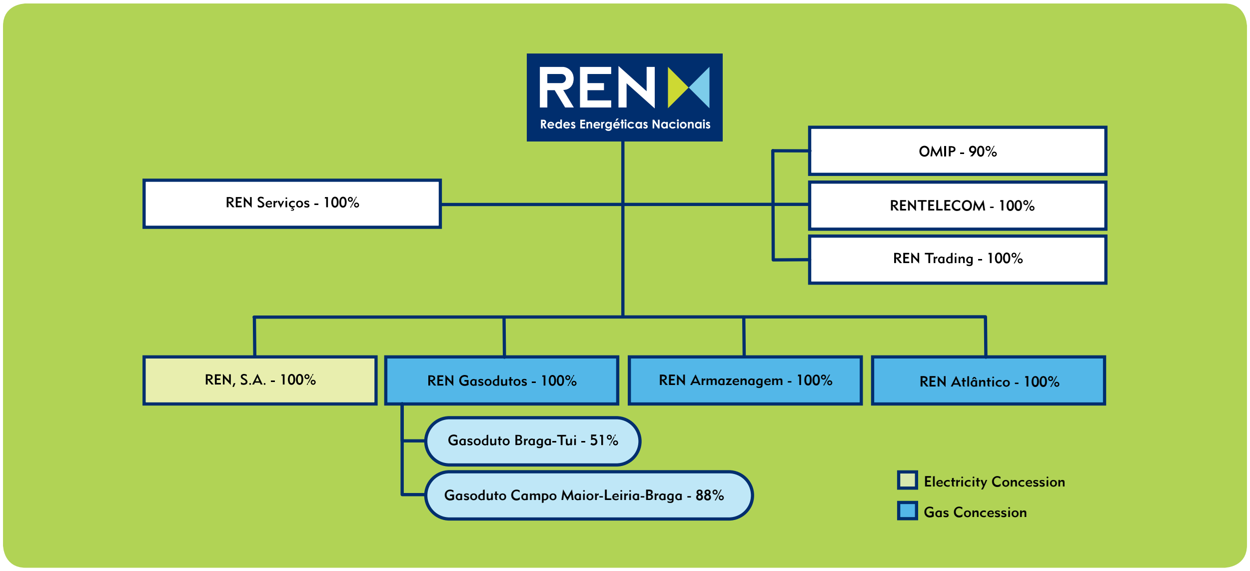
Decree-Law no. 238/2008, of 15 December, has attributed the "concessão de exploração, em regime de serviço público, da zona piloto identificada no Decreto-Lei n.º 5/2008, de 8 de Janeiro, e de utilização privativa dos recursos hídricos do domínio público", to a company to be incorporated by REN – Redes Energéticas Nacionais, SGPS, S.A., which will hold all its initial share capital.

Through this concession, which is granted for a period of 45 years on an exclusive basis, the new company to be created by REN shall be responsible for the management of the off shore "zona piloto" identified in the said Decree-Law no. 5/2008 and for the promotion of the scientific and technological development in the area of electricity production from wave-power. The concession of the "pilot area" includes the use of the strip corresponding to the corridor to build the infrastructures to connect to the public network, as soon as the location is defined.

According to Decree-Law no. 5/2008 and the concession basis attached to Decree-Law no. 238/2008, the concessionaire is granted the competence, among other, to award establishment and operation licences associated to the activity of producing electricity from wave-power. This will include the demonstration of the concept, the pre-commercial and the commercial regimes.

4.2. REN Group Corporate Structure

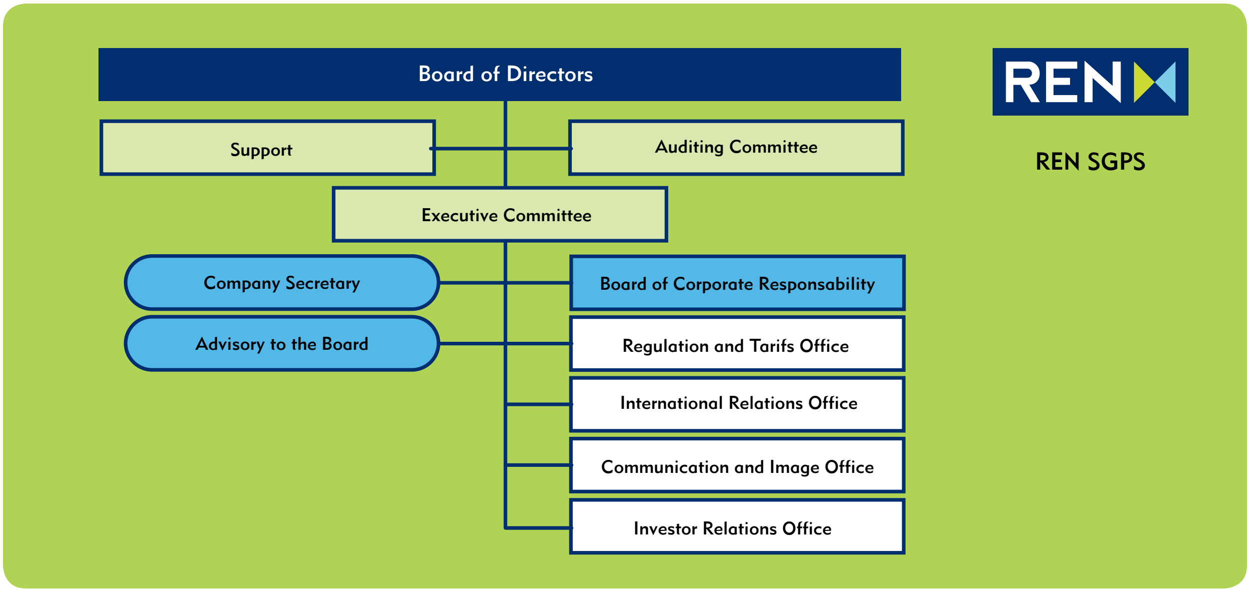
The figure below shows the REN Group corporate structure on 31 December 2008.



On 31 December 2008, Rede Eléctrica Nacional, S.A. held 100% of the share capital of most of the companies, with the exception of OMIP, in which it had a 90% share, and the two REN Gasodutos subsidiaries: Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A. in which it held 51% and 88%, respectively.

4.3 Organisational structure of REN SGPS, S.A.

On 31 December 2008



4.4. Human Resources

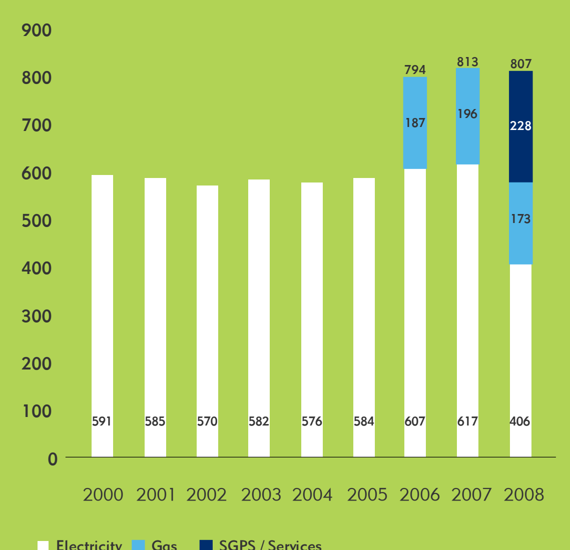
There was no significant change in the number of permanent employees at REN in 2008 when compared to the previous year, registering only a slight decrease, in spite of the activity's increase with new projects and works.

Evolution of the number of employees

	Electricity/ Trading	Gas	SGPS/ Services	TOTAL
2000	591	-	-	591
2001	585	-	-	585
2002	570	-	-	570
2003	582	-	-	582
2004	576	-	-	576
2005	584	-	-	584
2006	607	187	-	794
2007	617	196	-	813 *
2008	406	173	228	807 **

* Includes 11 trainees

** Includes 14 trainees

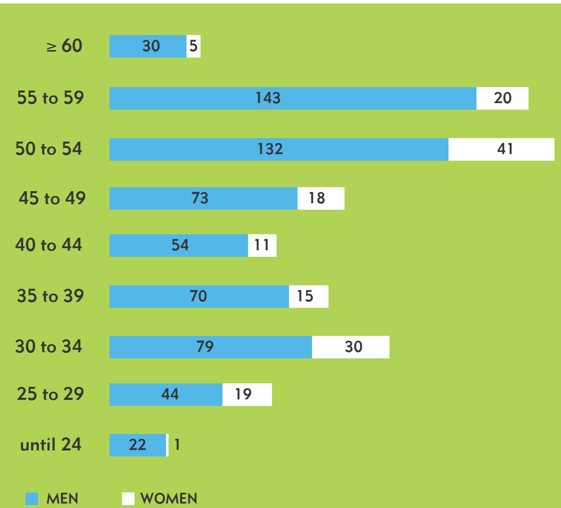


The most significant change in 2008 was based on the internal redistribution of the employees working for the group's activities to REN Serviços, S.A., which employed more than 25% of the total number of permanent employees previously working for Gas and Electricity companies.

As far as the average age of employees is concerned, there were no significant changes. There was only a slight decrease of the global average age to 45.0 years, resulting from some restructuring and from the recruitment of new employees.

Age Structure of REN's Group

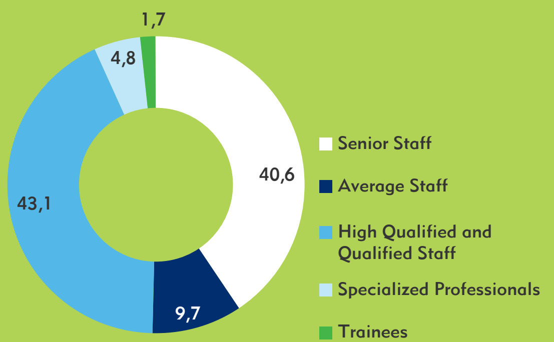
	2007		2008	
	Women	Men	Women	Men
Até 24	2	14	1	22
25 a 29	23	51	19	44
30 a 34	21	75	30	79
35 a 39	17	68	15	70
40 a 44	14	54	11	54
45 a 49	22	78	18	73
50 a 54	40	159	41	132
55 a 59	18	128	20	143
≥ 60	4	25	5	30
Total	161	652	160	647



The Group's professional structure, which shows a high percentage of employees with higher education degrees, remained unchanged as well.

2008 Professional Class Structure

	2008	%
Senior Staff	328	40,6
Average Staff	78	9,7
High Qualified and Qualified Staff	348	43,1
Specialized Professionals	39	4,8
Trainees	14	1,7
Total	807	100,0



4.5. Corporate Bodies of the Group

REN - Redes Energéticas Nacionais, S.A.

Officers of the General Meeting
José Manuel Ribeiro Sérvulo Correia- Chairman
Duarte Vieira Pestana de Vasconcelos- Vice-Chairman
Company Secretary
Pedro Cabral Nunes- Incumbent
Daniela Alexandra Pizarro Pinto de Sá- Substitute
Remuneration Committee
João Manuel de Castro Plácido Pires- Chairman
Francisco Manuel Marques Bandeira- Member
José Alexandre Oliveira- Member
Supervisory Body and Statutory Auditor
Auditing Committee
José Luís Alvim Marinho- Chairman
José Frederico Vieira Jordão- Member
Fernando António Portela Rocha de Andrade- Member
Statutory Auditor
J. Monteiro & Associados, SROC- Incumbent
Salvador Figueiredo Vás e Lima- Substitute
Board of Directors
José Rodrigues Pereira dos Penedos- Chairman
Aníbal Durães dos Santos- Member
Victor Manuel da Costa Antunes Machado Baptista- Member
Rui Manuel Janes Cartaxo- Member
Fernando Henrique Viana Soares Carneiro- Member
Luís Maria Atienza Serna- Member
Gonçalo José Zambrano de Oliveira- Member
Manuel Carlos Mello Champalimaud- Member
José Isidoro d'Oliveira Carvalho Netto- Member
Filipe Maurício Botton- Member
José Luís Alvim Marinho- Member
José Frederico Vieira Jordão- Member
Fernando António Portela de Rocha Andrade- Member
Executive Committee
José Rodrigues Pereira dos Penedos- Chairman
Aníbal Durães dos Santos- Member
Victor Manuel da Costa Antunes Machado Baptista- Member
Rui Manuel Janes Cartaxo- Member
Fernando Henrique Viana Soares Carneiro- Member
Investor Relations Office
Ana Rosa Fonseca Pereira Fernandes Matos
Regulation and Tariffs Office
Vítor Manuel Vigário Pinto Vieira
International Relations Office
Artur Manuel Anjos Lourenço
Communication and Image Office
Artur Manuel Anjos Lourenço (Delegated)

4.6. Shareholding structure

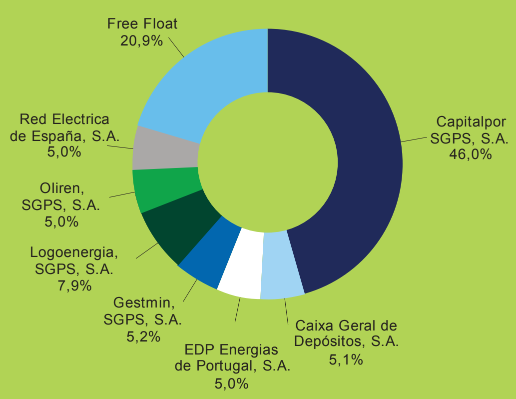
The year of 2008 was marked by the alteration of shareholding interests attributable to the Portuguese State, namely the ones held by Parpública, Participações Públicas SGPS, S.A. and by Caixa Geral de Depósitos, S.A. (CGD), namely:

- On 1 October 2008, Parpública announced the acquisition to Caixa Geral de Depósitos (CGD) of 80,100,000 shares, representing 15% of REN's share capital, meaning that it then held 46% of the voting rights.

- On 26 December 2008, Parpública announced the transmission to Capitalpor - Participações Portuguesas, SGPS, S.A., whose share capital is dully held by that company, of 245,645,340 shares of REN, which correspond to 46% of the respective share capital and of the respective voting rights.

Thus, the shareholding composition on 31 December 2008 may be resumed as follows:

REN'S Shareholders as of 31 December 2008



Consolidated Annual Report

5.Consolidated Annual Report

5.1. Relevant events of the year

Within the context of relations with investors and the market:

- In April, the Annual General Meeting of REN SGPS is held, which approves the accounts for the 2007 period and REN-Serviços starts operating;
- In September, REN SGPS obtains International Financial Rating given by the two agencies Moody's and Standard and Poor's;
- In October, REN holds an Extraordinary General Meeting, which approves the partial alteration of the Statutes, with the objective of giving to the administrative body its own capacity for the issue of bonds and other operations related to debt. At this same meeting the Vice-Chairman of the General Meeting was also elected;
- In November, REN obtains 3rd place in the Accountability Rating promoted by the SDC. OMIP becomes a regulated market, with the increase of capital of OMIP and OMICLEAR;
- In December, the following relevant events occur:
  - first bond issue of REN on the international market, in euros;
  - loan of 250 M€ signed with EIB, to support investments in the Electricity transport network;
  - alteration of the State's shareholding structure in REN.

Within the scope of the regulation and operational activity:

- As from 1 January, customers with consumption in excess of 1 million m3 of Natural Gas become eligible;
- The presentation of the Transport Network Investments Plan and that of the first Investments Plan for the Natural Gas Network take place in March;
- In April, work starts on the leaching of cavern TGC2 of Transgás Storage;
- In July, the connection of various special-regime producers, particularly wind parks, is made to the MAT network;
- August sees the start of the contest for construction of the 3rd LNG tank at Sines;
- In September, the first intervention is made under load in a pipeline;
- In October, REN is awarded the concession of a pilot zone for the generation of electricity from wave-power;
- December sees the inauguration of the 400 kV Arad-Nadab Line in Romania, in which REN was the engineering consultant overseeing the construction;
- Also in December, the announcement is made of the new regulatory framework for electricity, for the triennial period 2009-2011.

Within the context of social responsibility:

- The participation in CADIn – Sm'art Parade, as well as the presentation of the results of REN's first customer-satisfaction evaluation, take place in May;
- In July, there is official recognition of the implementation of the Management System for Safety and Prevention of Serious Accidents in REN Atlântico and REN Storage;
- December sees the illumination of the Serra do Caramulo antenna, and renewal of the triple certification of the quality, environment and safety management system of the National Electricity Grid, and also concession of the triple certification of the same system to REN Serviços and to REN Trading.

5.2. Macroeconomic and Sectorial Framework

5.2.1. International Overview[1]

5.2.1.1. Global Economic Growth

The year 2008 was marked by the crisis in the international financial markets, with repercussions in the overall real economy.

The global economic activity had already shown a tendency towards slowdown from the middle of 2007, following the crisis in the United States mortgage market,

[1]For Portugal, the forecasts of the Ministry of Finances and of Public Administration: Stability and Growth Programme 2008-2011 – January 2009, were used as the principal source of information. The other economies have as their primary source the forecasts of the European *Commission: Interim Forecast – January 2009.*

within a context of a rise in the interest rates, a downward correction in the housing markets and restrictions placed on credit concessions. During 2008, the shortage of liquidity of the financial institutions and the turbulence in the international financial markets appear to have intensified simultaneously, peaking in September, with the solvency problems of various US and European financial institutions, namely the bankruptcy of Lehman Brothers. This situation contributed significantly towards the deterioration in investor confidence and of the entire banking system, forcing various governments to intervene through the nationalization of banks, mergers and acquisitions between financial institutions and capital increases on the part of the States themselves.

In global terms, world growth slowed down significantly, falling to 3.3% in 2008, less 1.7 p.p. than that verified in 2007, and after an exceptionally high average of 5% between 2004 and 2007. The growth of the activity was particularly weak in the main developed economies, many of which entered into a situation of recession, or close to it, in the second half of 2008.

The emerging economies managed to resist better to the crisis, although they did not escape unscathed in the aforementioned economic and financial scenario; their forecast was for a slowdown in 2008, as the result of a more moderate growth in their exports.

With regard to the global trading of goods and services, a variation of 5.3% was registered in 2008, this about 1.7 p.p. below the value observed in the previous year, maintaining the trend for moderation that has been evident since the end of 2006. This process, in a first phase, affected the developed economies and was subsequently transmitted to the emerging economies, with an inherent impact on the global demand expectations.

The inflationist pressures registered, as from the summer, a moderation in various countries, partly reflecting the significant slowdown of the economic activity and the fall in the prices of raw materials, in particular of oil, after the very strong increase verified since 2007.

Similar to what was observed in 2006 and 2007, the exchange rate of the euro against the dollar increased in the year 2008, being situated at USD 1.47 on average, which represents an appreciation of 7% in relation to the average seen in 2007 (USD 1.37). However, between the middle of April and November, there was a reversal of this trend, with the euro showing a depreciation against the dollar.

5.2.1.2. The world's leading economies

Euro Zone

The intensification and generalization of the financial turbulence strongly affected the economy in the Euro Zone, which registered a growth of 0.9% in 2008, down 1.8 p.p. against the value reached in 2007. This deceleration reflects the marked contraction in internal and external demand. As mentioned above, it is estimated that some economies had entered into recession in the third quarter of 2008.

In particular, investment, an important driver of the economy in the past, will have slowed significantly (0.6% in 2008, against 4.3% in 2007), reflecting the impact of multiple shocks: diminished investor confidence, more restrictive financing conditions, less availability of credit and lower profits made by companies.

Growth in private consumption also slowed, notwithstanding the growth of the real disposable incomes, within a framework of a lessening of inflationist pressures. Despite the weaker dynamic of growth, salaries in the Euro Zone, contrary to the United States, have come to increase quite strongly in the last quarters, at a time in which the growth of work productivity registered a deceleration. The unemployment rate continues at historically high levels, remaining at 7.5% of the active population in 2008. The deterioration in the work market, allied to the weak expectations of consumers as to the unemployment trend, will have had an effect on private consumption, the growth of which fell 1.6% in 2007, to 0.5% in 2008. It is estimated that, in the first half of 2008, private consumption will even have registered a contraction, reflecting the negative effect on the real disposable income of the increase in prices of energy products, and the reduction of consumer confidence.

The estimate of the annual average variation of the HCPI (Harmonized Consumer Price Index) was for an increase of 2.1% in 2007 to 3.3% in 2008, as a result of the strong increase in the price of oil averaged over the year.

Net exports contributed positively to GDP, because imports slowed down more than exports, which partly benefited from the recent depreciation of the euro.

The public deficit as a percentage of GDP worsened, rising from 0.6% in 2007 to 1.7% at the end of 2008, influenced by the slowdown in economic growth and the reduction of tax rates in some countries.

USA

In the United States, GDP registered growth of 1.2% in 2008, compared to 2.0% in 2007. The economic slowdown was the result of withdrawal of domestic demand, in the wake of the drop in investment, brought about mainly by the property component. Contributing to this was the downward adjustment of prices in the housing markets. Private consumption showed a sharp deceleration, reflecting the reduction of the real disposable income, the increase in unemployment and the restrictions in the granting of credit. Economic growth was due to the positive contribution of net exports, resulting from the continued dynamism of exports and shrinking imports, helped by the dollar's depreciation during the first half of the year.

The public deficit deteriorated significantly, rising from 2.8% in 2007 to almost double in 2008.

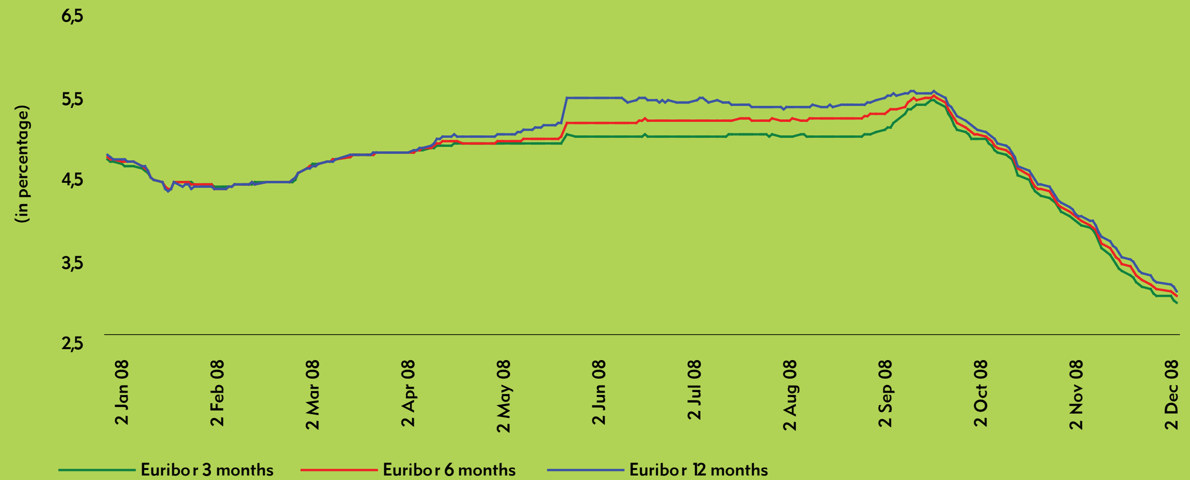
5.2.1.3. Interest rates

The increased risk in credit operations and the liquidity restrictions in the financial markets led during the first nine months of the year to an intensification of the rise in interest rates in the money markets of the Euro Zone and USA.

In light of the deteriorating financial situation, and with the aim of slowing down the increase of credit costs, the European Central Bank (ECB) lowered its reference rate three times in the last quarter, with an overall drop of 175 b.p. (basic points), from 4.25% to 2.50%. Meanwhile, already in January 2009, the ECB decided once again to reduce the interest rate by 50 b.p., fixing it at 2.0%. In order to fight the recession in the United States, the US Federal Reserve continued with the cycle of marked reduction of the interest rates, fixing on 16 December a margin of fluctuation of the Federal Funds reference rate between zero and 0.25%. In addition, the central banks of the leading economic areas continued to intervene, injecting liquidity into the banking system.

Reflecting the interest cuts made by the ECB in the last quarter of the year, the money market rates of the euro continued a downward trend. At the year end, the Euribor 3-month, 6-month and 12-month interest rates stood at 2.89%, 2.97% and 3.05%, respectively, which translates into decreases of about 2.5 p.p. against the maximum reached in the year.

Euribor Evolution



Source: Banco de Portugal

5.2.2. The Portuguese economy

Portugal's economic activity in 2008 was marked by a slowdown of growth, within a context of deterioration of the international economic and financial situation. In fact, GDP increased by 0.3% in 2008, after a growth of 1.9% in 2007, mainly reflecting the slowdown seen in investment and in exports, influenced by the scenario of worsening prospects regarding both domestic and external economic growth.

GDP Growth (% of change)

Source: European Commission

Investment shrank by 0.8%, thus reversing the favourable trend observed in 2007 (+3.1%). This development reflects the generalized slowdown of its components, with the reduction of investment in construction and a marked deceleration of investment in equipment, in harmony with the deterioration of the climate of confidence of companies and more restrictive financing conditions.

On the contrary, private consumption registered only a marginal slowdown, with the annual variation rate being situated at 1.2%, 0.4 p.p. less than in 2007. Despite the growth in the level of prices verified up to the middle of the year having adversely affected the real disposable income of families, together with the maintenance of the interest rates at high levels, the smoother profile of private consumption was sustained to a large extent by the strong growth in consumer credit, resulting in a new lessening of the rate of family savings. Within this framework, domestic demand registered a fall to 0.6% in 2008, after having reached 1.6% in 2007.

The work market showed some improvement, with a drop in the unemployment rate to 7.7% (8.0% in 2007). The wages per worker presented a certain contradiction of the economic trend, registering growth slightly higher than that of 2007.

The rate of inflation, measured by the HCPI, increased slightly from 2.5% in 2007 to 2.6% in 2008. Despite the level of prices having reversed the trend shown in the first half, having started to fall, this estimated growth is determined by the marked increase in the prices of energy products during the summer.

The contribution of the net external demand to the growth of GDP, which had been marginally positive in 2007, was negative in 2008, because the slowdown in exports was accompanied by a less accentuated deceleration in imports. Exports fell from the 7.5% observed in 2007 to 0.1% in 2008, which is explained by the deterioration in the economies of the leading trading partners.

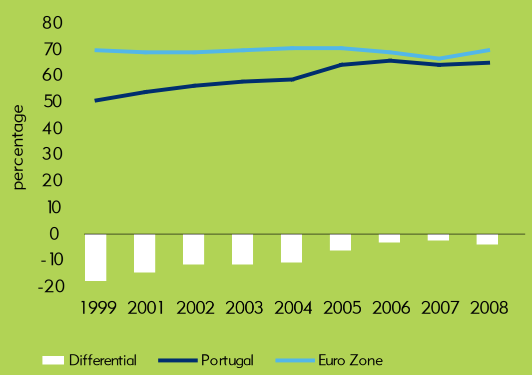
In turn, the slowdown in imports (1.0% in 2008 from 5.6% in 2007) is in line with the reduced dynamism of global demand. This behaviour was reflected in the worsening of the trade deficit to 9.2% of GDP (7.4% in 2007).

The budget deficit was reduced to 2.2% of GDP, against the 2.6% of 2007, reaching its lowest value of the last 30 years. This more favourable trend was due to a series of factors: the stabilizing of tax income as a percentage of GDP, attributable to increased efficiency in the fight against fraud and tax evasion; the strong growth seen in non-fiscal income; and the reduction of primary current expenditure as a percentage of GDP. It is worth mentioning too that the differential in relation to the Euro Zone was reduced substantially, continuing the trend observed since 2005.

On the other hand, the public debt continued its tendency to rise, being fixed at 65.9% of GDP (63.6% in 2007).

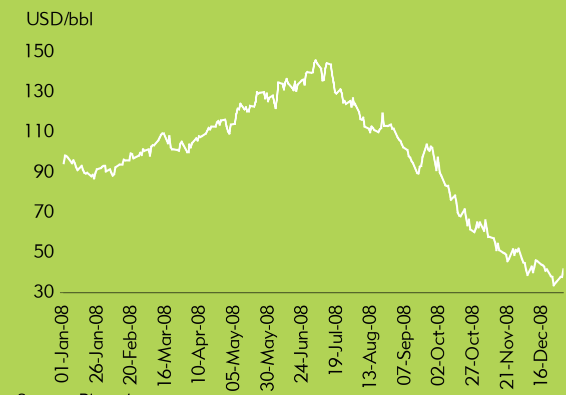
As regards the external financing needs of the Portuguese economy, measured by the combined deficit of the current and capital balances as a percentage of GDP, Government estimates indicate an increase of 8.7% of GDP to 10.5% in 2008, dominated by the deterioration of the goods and services balances and, to a lesser degree, of the income balances.

Public Debt (in % of GDP)



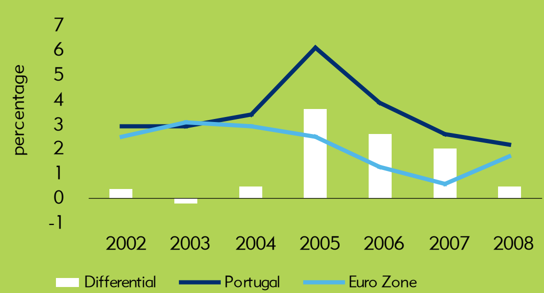
Source: European Commission

Evolution of Brent quotes (spot 2008)



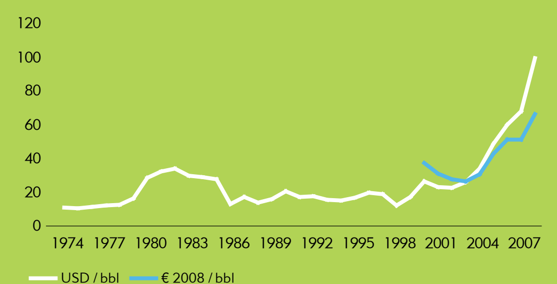
Source: Bloomberg

Budget Deficit (in % of GDP)



Source: European Commission

Arabian Light Price (FOB) - Annual average



Source: REN

5.2.3. Sectorial framework

5.2.3.1. Fuel prices

Oil prices showed a strong acceleration during 2007, which was prolonged to the start of Summer in 2008. This trend continued to reflect the dynamism of demand, particularly in the economies of the emerging markets, and the weak growth of the supply. The fall in demand, within a context of a slowdown of the global economic activity and worsening of the financial crisis, met the conditions necessary for, as from mid-July, the oil prices to register a decreasing trend. As at 31 December, the price of Brent oil was USD 41.7 a barrel, which was a reduction of USD 104.2 a barrel compared to the year's maximum price in mid-July (USD 146 a barrel). The annual average price of Brent oil increased from USD 73.1 a barrel in 2007 to USD 98.0 a barrel in 2008, representing an increase of 34%.

5.2.3.2 Energy demand

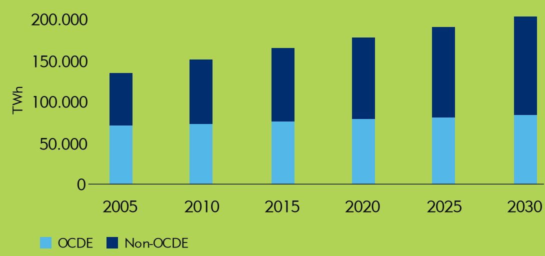
International context [1]

According to the International Energy Agency, the global consumption of primary energy will grow by some 45% between 2006 and 2030 at an average annual rate of 1.6% per annum; coal will contribute with more than one third towards that increase. China and India, with the rapid growth of their economies, will be jointly responsible for more than half of the increase in the consumption of primary energy in the world.

In 2008, worldwide consumption of primary energy will have reached a total of approximately 144.4 thousand TWh, representing a growth of 2.1% from the previous year. Oil was responsible for 35.8% of the total consumption, followed by coal (26.9%) and natural gas (23.4%).

[1]The sectorial framework has as its main sources of information "*World Energy Outlook 2008*" of the International Energy Agency, made available by the US Department of Energy (DOE) and prepared by its independent statistics unit (IEA).

Traded energy global consumption

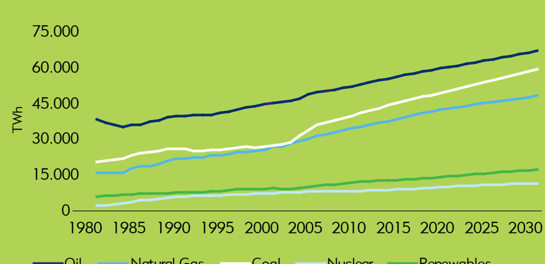


Source: DOE/EIA

Global energy intensity, measured by the relation between energy demand and GDP, should be reduced by 2.2% per year, representing increased efforts to rationalize the use of energy.

Oil should maintain its dominant position in the global energy mix, given its importance in the transport and industry sectors, but its current share is expected to fall slightly, from 34% to 30%. Forecasts indicate that oil production will continue to grow, from 85 million barrels a day in 2007 to 106 million barrels a day in 2030, increasing by an average of 1% per year. The OPEC countries are mainly responsible for this growth, and their participation in the total production could increase from 44% in 2007 to 51% in 2030.

Usage of world traded energy by type of fuel

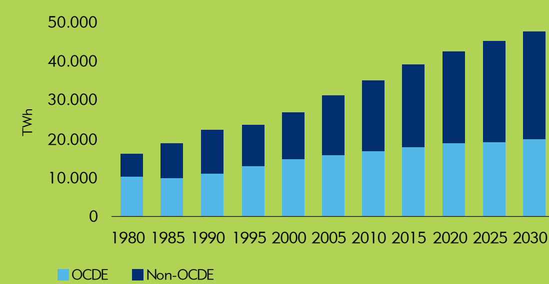


Source: DOE/EIA

Coal, if it maintains the trend observed in recent years, will be the fuel with the highest growth in demand, increasing by 65% between 2006 and 2030, or by about 2% per year. Its share in the total global primary energy consumption is likely to increase from 26% to 29%. The electricity generation sector of China and India will be responsible for 85% of the increase in the world's consumption of coal. In the production of electricity, the input of coal could increase from 41% to 46%.

Despite the demand for natural gas growing at the rate of 1.8% a year, its contribution in the consumption structure should remain stable, at about 22%. The industrial sector will continue to be the biggest consumer of natural gas, representing about 43% of global consumption, followed by the electricity-generation sector, with 35%.

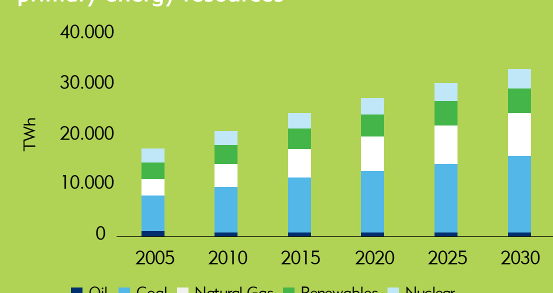
Evolution of natural gas world consumption



Source: DOE/EIA

For its turn, global consumption of electricity will almost double between 2005 and 2030, growing at an annual rate of 2.6%. Coal and natural gas continue as the main primary energy sources for the generation of electricity. Gas-fired electricity generation will have the biggest growth (3.7% per year), while coal-fired electricity generation will grow on average 3.1% per year. In total, these two sources of energy could represent about 70% of electricity generated in the future.

Evolution of the world electricity generation by primary energy resources



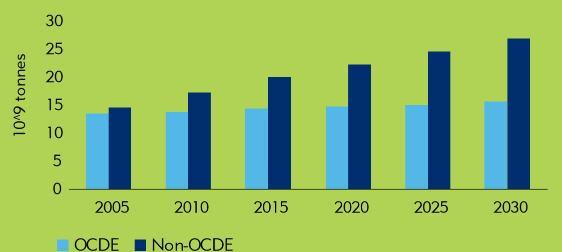
Source: DOE/EIA

The generation of electricity based in renewable sources (including hydroelectric) should increase by an average of 1.8% per year. It is envisaged that government policies and incentives to increase the use of renewable energy sources in electricity generation should stimulate the use of renewable technologies, despite the investment costs being relatively higher compared with those for the use of coal and natural gas. Despite their wider use, it is acknowledged that the participation of renewable energies in the generation of electricity worldwide will decrease from 18% in 2005 to 15% in 2030.

As a consequence of the scenario of growth in global demand for energy, carbon dioxide emissions are expected to increase by 45% to 2030. CO2 emissions in the non-OECD countries are expected to grow at an average rate of 2.5% per year, which is five times more than the rate projected for the OECD member countries.

Still on the subject of CO2 emissions, there have been certain shifts over time in the relative contribution of the various fossil fuels, so that one can expect a significant increase in emissions caused by coal combustion and, to a lesser extent, by that of natural gas, while there will be a slight decrease in the emissions caused by oil.

Carbon Dioxid global emissions



Source: DOE/EIA

5.3.The Market and Industry

5.3.1. Energy policy

With the aim of making use of secure and competitive sustainable energy, the European Union (EU) assumes as factors determining its energy policy, the challenge of climate change, the growing dependency on energy from outside and the increase in the prices of energy.

The European Commission, in proposing to adopt the necessary measures to meet the targets assumed in the Action Plan for the Energy and Climate Policy approved by the European Council in March 2007, presented on 23 January an ambitious set of proposals to combat climate change and to promote renewable energies, the so-called Energy and Climate Package.

The European Council meeting held on 11 and 12 December reached agreement on the aforementioned Energy and Climate Package, pressing for the respective completion in the European Parliament before the end of 2008, which occurred at the meeting of 17 December. Of the documents approved in the European Parliament, we highlight below those texts of the directives relative to:

- Energy produced from renewable sources – promotion of the use of energy derived from renewable sources, including the definition of new binding objectives to increase the quota of the renewables – in 2020 the quota of renewable energy of the EU member states could correspond to 20% of the total energy, with a renewable energy quota of 31% allocated to Portugal;
- Trading of greenhouse gas emission allowances – improvement and enlarging of the market at the EU scale, covering other sectors and resorting preferably to the application of the auction mechanism, with a gradual reduction of the free emission allowances in the market – for the electricity sector, the compulsory acquisition of allowances by auction will occur as from 2013, starting date of the new regime;
- Geological storage of carbon dioxide – it establishes a regulatory framework for the geological storage of carbon dioxide, ensuring its permanent containment and preventing any negative effects on the environment and human health.

Also on that date, the European Parliament approved the proposed decision with regard to the commitment shared between the Member States for the reduction of the Community's greenhouse gas emissions by 2020.

On that date there were also approved documents on the control and reduction of greenhouse gas emissions in transport by road and inland waterways, and rules on emissions from new passenger vehicles.

Within the context of a second strategic analysis of the Energy Policy, the European Commission announced in November an ample packet of measures, having as its goal the introduction of a new dynamism in the energy security issue at the community level, in coordination with proposals "20-20-20"[1] relating to climate change. Amongst the measures presented we highlight the following:

- New action plan on energy security and solidarity, to ensure a sustainable energy supply in Europe;

[1]Targets "20-20-20" assumed within the context of the EU's Energy Policy: 20% reduction of greenhouse gas emissions, relative to the 1990 levels; increase of the use of renewable energies to reach at least 20% of the total energy, and reduction of energy consumption by 20%, through increased energy efficiency.

- New policy for energy networks, with the goal of stimulating investment in low and more efficient carbon-energy networks;
- New set of proposals in the domain of energy efficiency, with a view to the saving of energy in fundamental areas, such as, the reinforcing of legislation on energy efficiency in buildings and on products that consume energy.

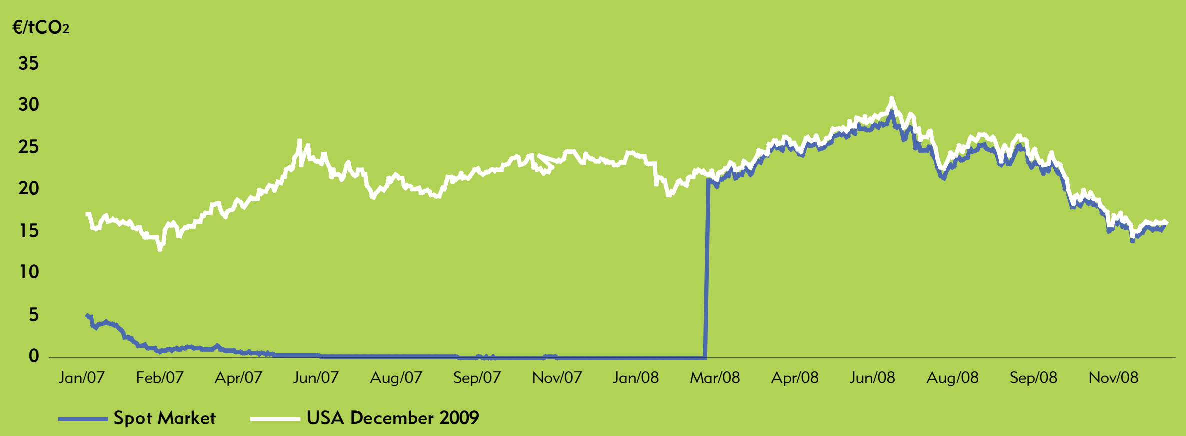
In 2008, the International Energy Agency (IEA) published a first report on the EU's energy policy, in which it manifests its support for the packet of energy measures proposed to meet the EU's ambitious targets in the matter of climate change.

It praises these measures as a coherent tackling of the issues of energy and global warming, and understands that its application would allow for a reduction in the dependence on gas and oil, and would contribute towards protecting the economy from the effects of the increase in the price of energy and from the uncertainty of supply.

5.3.2. Emissions trade

The start of the second period of the CELE (2008-2012) was marked by an initial increase of the emission allowance prices (European Union Allowances – EUA), which culminated with a maximum of two years during the summer of 2008 (about EUR 30/ton of CO2 at the start of July). In the last quarter of the year there was a change, strongly influenced by the crisis in the credit markets and by the world recession scenario. With the slowdown in industrial activity, and the expected reduction of emissions, there occurred strong selling pressure in the carbon allowances market, which closed the year with allowances being worth little more than EUR 15/ton.

Closing price of CELE's licenses – Spot Market and Bilateral Signing (OTC) of futures



Source: Bloomberg

5.3.3. Network infrastructures

Electricity

In line with the guidelines of the EC's 3rd legislative package relative to the strengthening of cooperation between the system operators, there was constituted the European Network of Transmission System Operators for Electricity (ENTSO-E), in December.

The creation of this new European association of TSOs for electricity aims to strengthen collaboration in key areas (such as the development of technical codes and of market operation, and coordination in the operation and planning of investments), with a view to contributing to the pursuits of the objectives of sustainability:

- Protection of the environment – promoting the integration of "cleaner" energy;
- Competitivity – making the internal energy market more efficient; and
- Security of supply, increasing the robustness of the transport systems and allowing for effective assistance amongst the system operators.

ENTSO-E is comprised of 42 electricity transmission operators, coming from 34 european countries. It has as its maximum body a General Meeting where the 42 TSOs comprising it all have a seat, with voting rights. The Chairman of REN was appointed as one of the 12 members of the Management Board.

Within the scope of MIBEL, a strict collaboration was maintained during 2008 between REN and its Spanish counterpart REE, which, since 2002, has deepened through activities developed by joint working groups. The new interconnections between the two Iberian systems already agreed will allow for a reinforcement of the available capacity for commercial exchanges of the current 1500 MW to more than 3000 MW, as from 2013/2014.

Natural gas

The uncertainty associated with investment, the increase of costs and delays in the completion of projects are the main problems that continue to affect the majority of the regional gas markets, constituting a threat in terms of security of supply in the long term.

In the case of Europe, besides the construction of regional pipelines to facilitate the goal of the Single Market, investment is crucial in new interconnecting pipelines, in order to facilitate the importation of gas from more remote producer regions, and to create inter-regional ramifications, creating alternative routes that would make the supply of gas more secure, and seeking to diversify sources.

New pipelines

- At the level of the EU's internal energy market, Midcat, project for interconnection between the northeast of Spain and the south of France (in articulation with Artère du Rhône);
- Coming on stream at the end of 2007, the underwater pipeline of Langeled, to supply the United Kingdom with gas from Norway;
- Expected to come into service in mid-2009, the underwater section of Medgaz, aimed at supplying the Spanish market with gas coming from Algeria;
- In the investment decision phase, or the start-up phase:
  - Scanled (Norway – Sweden – Denmark – Poland);
  - Nord Stream (connection from Russia to Germany through the Baltic Sea);
  - South Stream (connecting Russia – Bulgaria – Central Europe – Italy);
  - Nabucco (designed to make the import of gas possible from some countries of the Community of Independent States, in the Caspian region, with transit through Turkey, Bulgaria, Romania, Hungary and Austria);
  - ITGCI / Interconnector Turkey – Greece – Italy (also to import gas from the Caspian region);
  - Galsi (underwater pipeline Algeria – Italy, that will pass by the island of Sardinia).

Despite expectations of a significant expansion of the export capacity of the LNG industry during the coming years, between 2005 and 2008 only four new projects of liquefaction trains were in fact approved (Peru LNG – Peru; Pluto – Australia; substitution of Skikda – Algeria; and Angola LNG – Angola).

As regards reception, storage and re-gasification, planned capacity for the immediate future is far superior to the liquefaction capacity foreseen at the global level, which represents an apparent weakness in the chain of value of LNG, the real impact of which is still not possible to assess. In this sector also, delays can be observed in the decision process regarding the realisation of investments, as well as at the level of the activities of construction and commissioning, for various reasons, including the opposition of local populations to the construction of these types of facilities, lack of supply sources (normally guaranteed through long-term contracts) and shortage of LNG transport capacity.

5.3.4. Regional markets

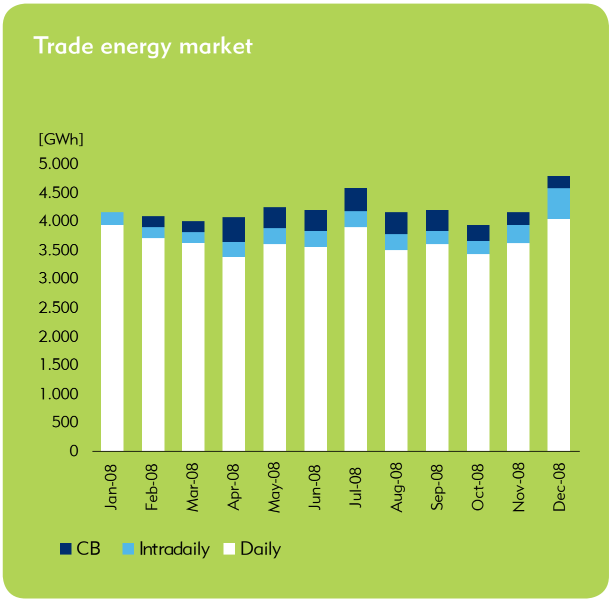
MIBEL

The consolidation of MIBEL (Iberian Electricity Market) continued apace, taking advantage of and incorporating the experience in the meantime gained from integrated management of this market, and in August 2008 the revisions of the Tariff Regulations and Trade Relations were concluded. As a consequence, revisions were also made, approved by the ERSE in December, of the Procedure Manuals for the System Manager and for Adjustment of Accounts, thus improving the operation of the System Services Markets managed by REN. Of the alterations made, we would highlight the greater flexibility of supplies, the clarification/redefinition of the balance areas and the valuation of the regulated energy.

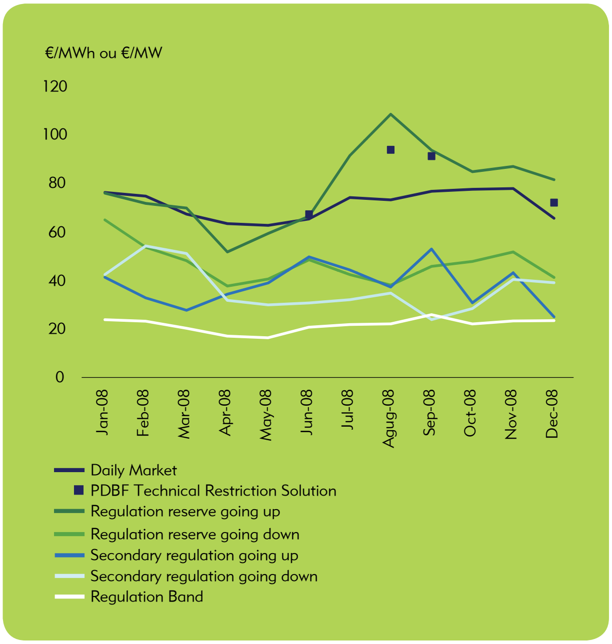
On 1 July 2008, with the implementation of technological support systems by REN and the Producers, and with the conclusion of a training period for the agents, the transitory phase of operation of the system services market defined in the Procedure Manual for the System Manager ended. There began on this date a new phase, in which the producers came to have available and to use, all the mechanisms of negotiation and operation, regularly foreseen in an uninterrupted and efficient manner.

In terms of MIBEL's activity, the principal method of contracting electricity in Portugal continues to be through participation in the daily market, which is responsible for 85% of the energy contracted. This is followed, by contracting weight, by bilateral contracting between Market Agents (8%) and participation in the intradaily markets (7%).

The average contracting price on the Iberian daily market in 2008 was approximately EUR 71.2/MWh. During this period, the average monthly prices in the daily market varied from an average of EUR 62.6/MWh in May to an average of EUR 77.8/MWh in December.



Following the request from the Regulators' Council of MIBEL, in December 2007, REN and REE presented the document "*Joint Proposal by REN-REE for harmonization of systems service markets in the Iberian Peninsula*", which identifies the possibility of use, by one system, of the reserve of another system.



Within the context of the regional initiatives of the ERGEG, European Commission initiatives designed to eliminate barriers and to develop regional markets at the European level, REN integrates the work of the Southeastern Europe Group, together with the system operators of Spain (REE) and of France (RTE), the market regulators and operators of the three countries (ERSE, CNE, CRE, OMIP, OMEL, POWERNEXT), and a representative of the European Commission.

MIBGAS

In 2008, the activities associated with the creation of MIBGAS (Iberian Natural Gas Market) continued basically at the level of definition of the basic principles of harmonization of rules of operation between the Regulators of Portugal (ERSE) and Spain (CNE), and of collaboration between the Technical System Managers of both countries, respectively REN and Enagas.

In this context, the Regulators jointly analyzed the aspects related to the harmonization of the regime of granting of permits for the marketing of gas in the Iberian Peninsula, as well as the regimes of tariff convergence for access to the infrastructures and of coordinated planning of the transport networks. This work will continue throughout 2009 and culminate in the drawing up of joint proposals that will be submitted for public consultation.

REN and Enagas, in turn, have continued with the study and examination of the feasibility of new interconnections between the respective gas systems, with a view to increasing the security of supply and facilitating access to the market in an Iberian perspective, through the availability of transport and storage of natural gas. From the conclusions of this work, which will continue throughout 2009, there should result a joint recommendation/position of the two Technical System Managers regarding future developments. The respective Technical System Managers will collaborate together, with the goal of providing solutions to the questions of harmonization related to the inter-operability of the gas systems of Portugal and Spain.

In 2008, REN continued to follow the work carried out, on the initiative of the southern region, for the single energy market (Gas Regional Initiative – South, promoted by the European Regulators of the Energy Sector – CEER and ERGEG). In this context, we would point out the completion of the first joint process of attribution of transport capacity in the Larrau pipeline, which interconnects the networks of Spain and France, through an OSP (Open Subscription

Period) mechanism, promoted by Enagas and by TIGF in October and November, under coordination of the Regulators of the two countries (CNE and CRE). Through this process, the market agents could reserve capacity for exiting the network of one country and entering into the network of the neighboring country, in both directions and in a coordinated way.

5.3.5. Demand and Production

Electricity

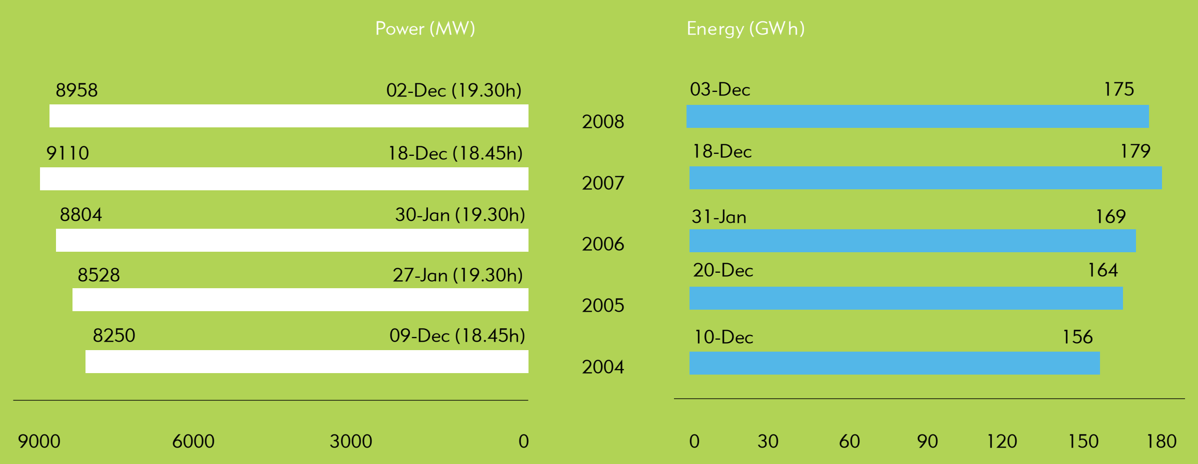
In 2008, the consumption of electricity supplied by the public grid reached 50.6 TWh, up 1.0% on the previous year. Correcting the effect of temperature conditions and the number of working days, the growth in consumption is 1.1%. These values accentuate the slowdown in growth seen in recent years, and are in fact the lowest since 1993.

Consumption Evolution

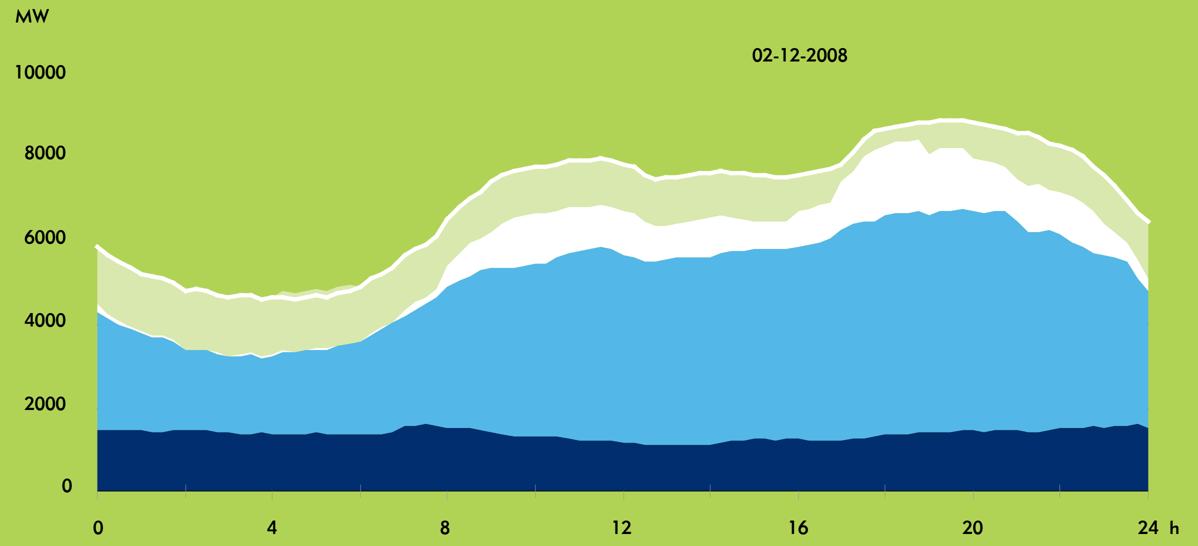
	Consumption [GWh]	Evolution [%]	Evolution corr. [%]
2004	45.500	5,7	4,5
2005	47.940	5,4	4,7
2006	49.173	2,6	3,2
2007	50.059	1,8	2,4
2008	50.574	1,0	1,1

Annual peak load demand reached 8,959 MW on 2 December, which was 150 MW less than the previous maximum recorded in December 2007. The highest daily consumption was recorded on 3 December, 175 GWh, which was 4 GWh lower than the highest ever maximum recorded in December 2007.

Annual peak demand and day of maximum consumption



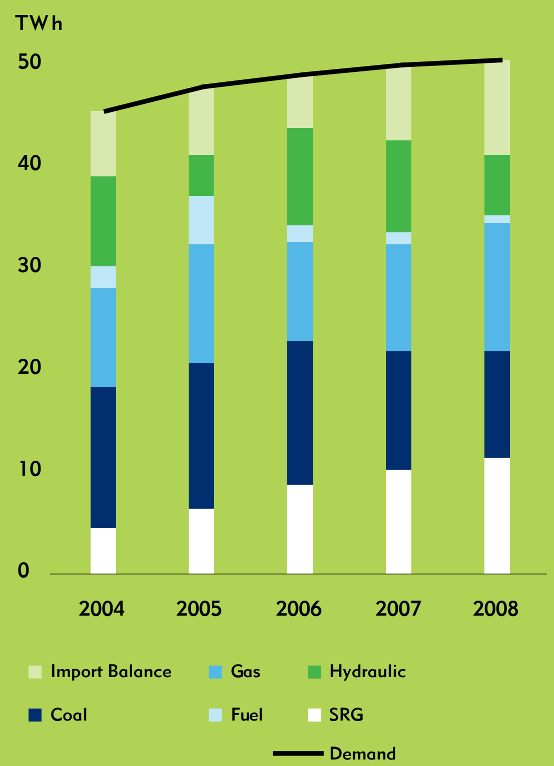
Load diagram of annual peak demand



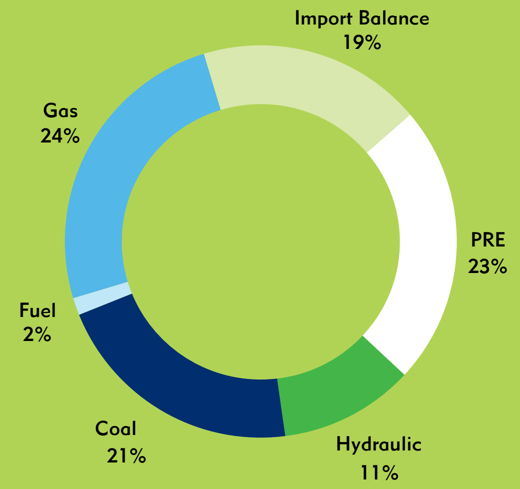
Hydro-electric capacity factor was below average for the fifth consecutive year, with a factor of only 0.56. Hydro-electric generation was also down 32% in relation to the previous year, supplying around 11% of total demand. The power stations, where market conditions led to natural gas-fired generation exceeding for the first time coal-fired generation, increased their generation slightly, by 2%, supplying 47% of demand. As a whole, normal regime generation registered a decrease of 8%.

Special regime generation increased supplies to the grid by 14%, supplying 23% of demand. Wind generation, which at the year-end had a total capacity of 2,600 MW connected to the grid, registered an increase of 42%, while co-generation showed a reduction of 6%.

Consumption satisfaction



Breakdown of power generation



With exports reduced to practically zero, the importer balance increased 26%, the highest ever, allowing for the supply of 19% of demand.

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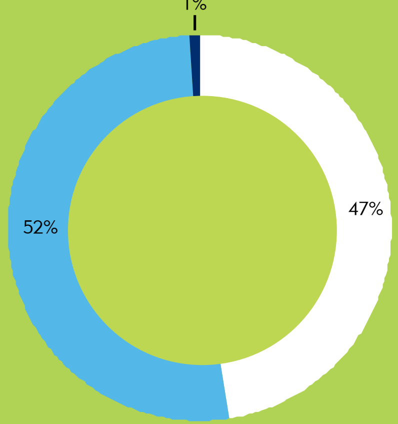
Natural gas

The demand for natural gas in Portugal rose by 9.4%, from 48.9 TWh in 2007 to 53.5 TWh in 2008, as a direct result of the generalized increase in all market segments.

Natural Gas Consumption (2008)



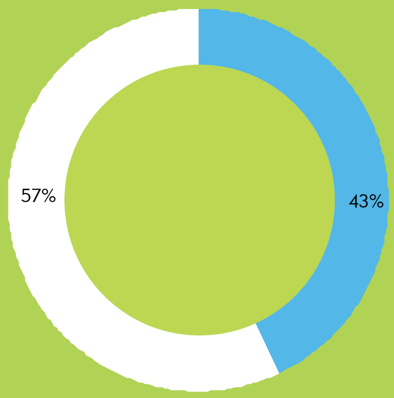
	(GWh)
Electricity Generation (PRO)	25.343
Conventional RNTGN	27.642
Conventional UAG (*)	506
Total	53.491

(*) – Referring to the charges in Sines' TGNL
Note: Average High Heating Power of natural gas = 11,9 kWh/m³(n)

In addition to the increase in gas-fired thermoelectric generation in 2008, demand in the other market segments also continued to grow, up 2.0% in the case of the conventional market supplied via the RNTGN, and up 19.1% in terms of the conventional market supplied by AGUs (Autonomous Gasification Units).

Natural gas was supplied to the Portuguese market in 2008 through the pipeline from Algeria (Sonatrach), via the international pipeline system, passing through Spain to the Badajoz/Campo Maior entry point, and by LNG fraccounts for the bulk of the demand (57%), while Algerian natural gas entering the network at Badajoz/ Campo Maior supplied 43%.

Natural Gas Supply (2008)



Natural Gas Supply (2008)	(GWh)
Campo Maior	22.978
Sines (GNL)	30.476
Total	53.454

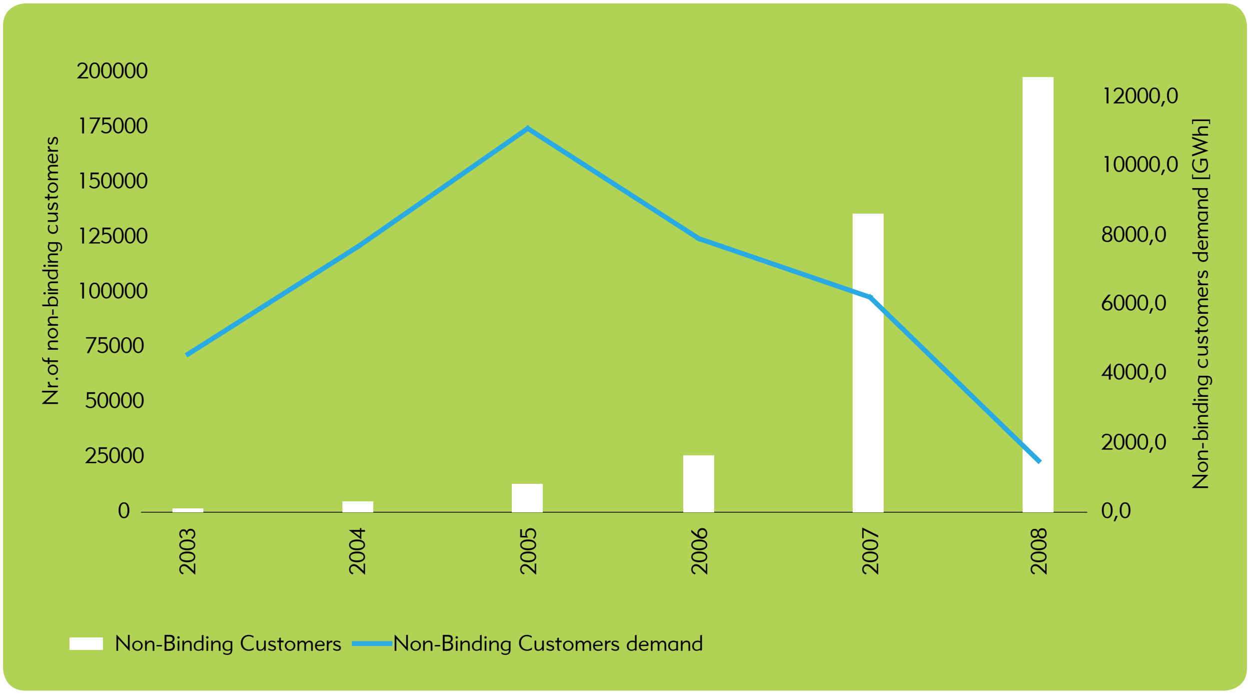
These percentages of gas imported, while showing a change in the proportion of natural gas to liquefied natural gas, from the values registered in 2007 (34% NG and 66% LNG), still reflect the maintenance of the situation verified in recent years, with a predominance of the share of LNG over NG, as a result of the make-up of the basket of long-term contracts (take-or-pay regime) signed prior to the date on which Directive n°. 2003/55/CE came into force. The fact that the technical capacity of the Sines terminal is still underused makes it the Portuguese entry point with the greatest growth potential for the import of natural gas.

5.3.6. The Liberalized Market

Electricity

In 2008, the trend towards electricity customers leaving the non-binding liberalized market at medium and high voltage levels continued, with the exception of customers of the BTN segment, with low-voltage requirements.

Thus, at the end of the year under review, the number of customers of the liberalized market grew to 197,752, with only 464 who were not BTN customers.



	2007	2008	Variation
EHV	1	0	-100,0%
HV	1	0	-100,0%
MV	1767	7	-99,6%
BTE (special tariff)	6176	457	-92,6%
BTN (normal tariff)	143668	197288	37,3%
Total	151613	197752	30,4%

Consequently, despite the increase in the number of liberalized market customers, there continued to be a very significant reduction in the respective demand, which in 2008 represented only 3% of the National Electricity System (NES) demand.

Currently, there are 17 Market Agents in the activity, 5 of them national, of which 2 are generators.

In the last month of the year, the active Traders were EDP Serviço Universal (98% of the energy acquired in the wholesale market), EDP Comercial (2%), Endesa (<0.1%), Union Fenosa (<0.1%) and Iberdrola (<0.1%). The Suppliers of energy to the market were EDP Energias de Portugal (65% of the energy supplied to the wholesale market), REN Trading (12%) and the remainder (23%) was supplied by Imports.

Natural Gas

On 1 January 2008, the process of opening the national market included customers with an annual consumption in excess of 1 million m3(n), or 12 GWh. The first process of change of trader registered in this demand scale took place on 1 December, within the context of which there entered into the market the first non-Portuguese free trader, resorting to the use of the infrastructures of RNTIAT and of RNDGN.

We would mention that, in July 2008, the regulated tariffs for the second gas year came into force, including the tariffs for access to RNDGN, the tariffs of last resort trading and the gas/energy tariffs (in the first gas year, only the regulated tariffs for access to the RNTIAT infrastructures were in force).

In December, ERSE published the terms and conditions for holding the first auction of natural gas, in respect of long-term supply contracts (take-or-pay regime) signed before the coming into force of Directive n.° 2003/55/CE, for the gas year 2009-2010. This measure occurred from the provisions of the Trade Relations Regulations, which establish that the SNGN trader should promote the holding of annual auctions of natural gas to meet national demand, with the minimum quantities to be made available being 300 million m3(n) per year, in the 2009/2011 period.

The participation at the auctions is limited to market traders and to eligible customers, with the natural gas acquired to be exclusively consumed on national territory, excluding the ordinary regime electricity generators.

5.3.7. Energy efficiency

In line with the objectives of Directive 2006/32/CE, regarding efficiency in the final use of energy and in energy services, the Resolution of the Council of Ministers RCM 80/2008, of 20 May, approves the National Action Plan for Energy Efficiency (NAPEE) (2008-2015), also called "Portugal Efficiency 2015". This plan embraces a wide series of programs and measures to be put into action in the various aspects of energy efficiency.

As a result of the measures commended, the final consumption of energy could be reduced by 10% by 2015, thus reducing the growth of our energy use by 1% a year in that regard. For electricity, this objective corresponds to reaching a reduction of 7% of consumption in 2015.

Still in this context, the accumulated energy savings in consumption expected in the 2009-2024 period, resulting from implementation of the ERSE Electricity Consumption Efficiency Plan (PPEC) for 2008, is 878 GWh, which corresponds to about 325 kt of CO2 emissions avoided.

In terms of electricity generation, with the commissioning of the new natural gas combined cycle plants and the declassification of the fuel oil plants, the average thermoelectric energy conversion efficiency is expected to reach 50% by 2015.

5.3.8. Renewable energy

Although the mechanisms supporting renewable generation in Portugal are based essentially on fixed feed-in tariffs, investment subsidies and tax benefits, there is also a market-orientated support mechanism based on green certificates and guarantees of origin (RECS – Renewable Energy Certificate System). In 2008, REN, as the RECS certificate issuing body in Portugal, issued 123,363 certificates, corresponding to 123 GWh of hydroelectric generation, an increase of 41% in comparison to 2007.

In order to meet the new objective set for Portugal in terms of the quota of energy generated from renewable sources (31% of the primary energy), it will be necessary for all sectors to make a contribution.

The strategy put forward by the Portuguese Government to attain that objective recommends a contribution of 59% of renewable sources in electricity generation in 2020, assuming for the effect:

- surpassing the 7,000 MW of hydroelectric capacity;
- increasing the installed wind energy capacity of 5100 MW in 2010 to 8500 MW in 2020, and increasing the installed solar energy capacity of 120 MW to 700 MW over the same period.

5.4. Economic Regulation

The regulatory framework for REN's activities in the electricity sector

As the concessionaire of the National Electricity Transport Grid (RNT), the activities of REN – Rede Eléctrica Nacional, S.A. are regulated by the applicable legislation, the Public Service Concession Contract with the State and the regulations established either by the Directorate General of Energy and Geology (DGEG) or by the Energy Services Regulator (ERSE).

The REN Group exercises three regulated activities in the electricity sector: Overall System Management, Electricity Transmission and Purchase and Sale of Electricity from the Commercial Agent (the trading, in the ambit of MIBEL, of the energy coming from non-terminated power purchase agreements (CAE), through REN Trading). These three activities are remunerated only by two regulated tariffs: the General Use of the System (UGS) tariff and the Transmission Use of the Grid (UGS) tariff. The revenues from the commercial agent operations are derived essentially from the sale in the market of the non-terminated CAEs, with the UGS tariff reflecting the difference, positive or negative, between the revenue from this sale and the corresponding resulting cost of the CAE.

The two aforementioned tariffs are fixed annually by the ERSE, based on energy and economic forecasts for demand, costs, revenues and investments; they arise from an economic regulation model that uses accepted costs and a remuneration rate on net assets allocated to each activity. This remuneration rate was established by ERSE, in nominal terms and before taxes, at 7%, for the three-year period 2006-2008. The tariffs fixed by ERSE further reflect tariff deviations which, two years later, reconcile (inasmuch as they are justifiable and accepted by ERSE) forecast and actual values of costs and revenues.

Regulatory evolution during 2008

In the first quarter of 2008, REN presented to ERSE a proposal to introduce incentives in the regulatory model for the Electricity Transmission activity. This proposal was partly reflected in the regulatory alteration that ERSE placed for public discussion, in early June, and which culminated with the publication, on 14 August, of the new regulations for tariffs and trade relations.

With regard to electricity transmission, the new tariff regulation introduces incentives for investment, for reduction of operating and maintenance costs, for grid availability and for maintenance of assets at the end of their useful life. Efficiency targets are defined, applicable to operating costs and reference values for incremental maintenance costs associated with the growth of the grid. The new investments in electricity transmission are now valued at "reference costs", and are subject to a monetary reward.

The parameterization of these incentives only became partly known with the publication, on 15 December, of the regulatory parameters for the 2009-2011 period, concurrent with the publication of the tariffs for 2009.

The mechanism for optimization of the management of the CAEs and of the CO2 emission allowances forecast in mid-2007 to stimulate the trading actions of the Commercial Agent, sharing the earnings from optimization between the consumers and the company, came to be regulated and parameterized by ERSE near the end of the first quarter of 2008. Under the present parameterization of the mechanism, earnings can be obtained for the company in the order of 5 M€ annually.

We would also mention that, during 2008, ERSE defined new rules for the Promotional Plans for Environmental Commitment (PPDA), with the various regulated companies being in competition for the previously defined global amount. This incentive mechanism assumes a growing importance for REN, bearing in mind its treatment as "accepted costs" in the new regulation model with incentives for electricity transmission, which will be applied as from 2009.

Consequence of tariffs set for 2008[1]

At the start of 2008, the balance of all the tariff deviations (which led to the creation of the tariff deficit) for electricity were favourable to REN, and amounted to 524.1 M€.

Let us recall that, when the 2008 tariffs were set, it was presupposed that, according to Regulation n.° 11 171/2008, of 12 December 2007, of the Ministry of the Economy and Innovation, this balance would be deducted, at the start of 2008, in the amount of 466.2 M€, coming from part of the value of the economic-financial equilibrium associated with the rights of use of the hydroelectric public domain transmitted by REN to the companies owning the corresponding electricity-generating plants, under the terms of Decree-Law n°. 226-A/2007, of 31 May. This amount (about 152.3 M€,

[1]Figures registered in accordance with regulated accounting rules (POC).

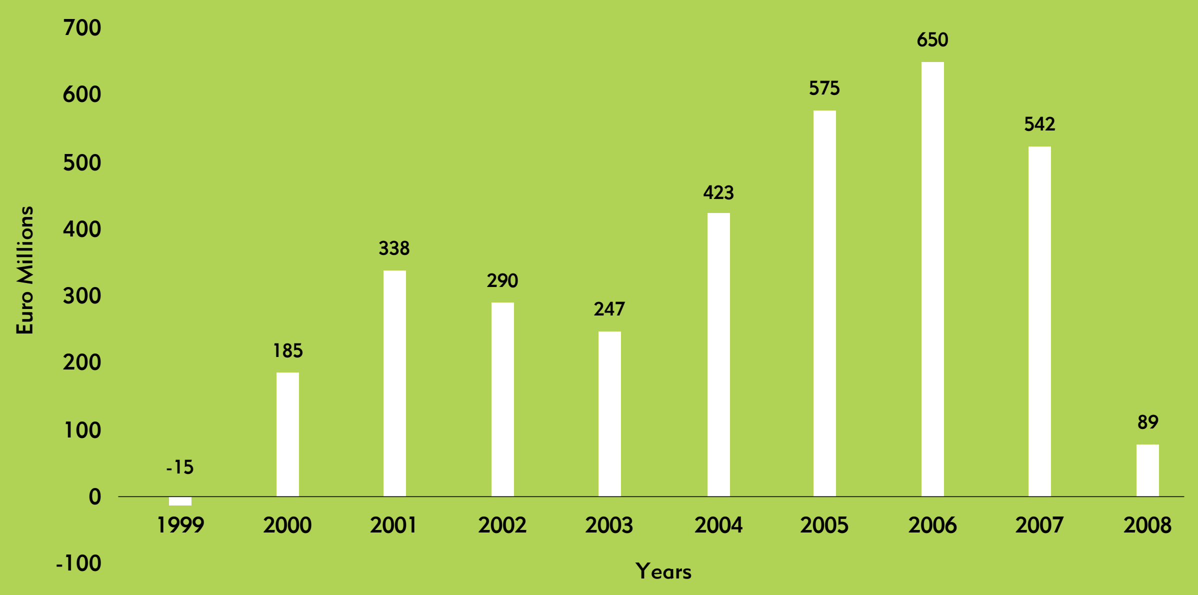
corresponding to the tariff deviation of land occurring from 1999 to 2003, and about 314.0 M€ to tariff deficits of 2006 and 2007, supported by REN) was received and deducted from that balance on 4 April 2008.

The tariffs set for the year 2008 underestimated by some 57.3 M€ the costs of the companies of the Group's electricity sector, and despite presupposing a tariff recovery, of deviations of previous years, in the amount of 37.8 M€, they led to a balance on the tariff deviation account, at the end of 2008, of 77.4 M€, of which about 68.1 M€ correspond to interruptibility costs (2007 and 2008).

We would mention that the tariff deviation in the Balance Sheet, relating to interruptibility costs, will diminish significantly, inasmuch as the new Tariff Regulations already forecast that the costs in terms of interruptibility will be included in the tariffs for each year, based on forecasts, contrary to what happened previously, in which they were only accepted *a posteriori*.

The table below shows the trend in tariff deviations for the years 1999 to 2008 at the end of each year.

Tariff deficit at the end of each year



Tariffs in 2009 and parameters for the 2009-2011 regulation period

On 15 December 2008, ERSE set electricity tariffs for 2009 and the parameters for the 2009-2011 regulation period.

This setting of tariffs and parameters was particularly important for REN, since the new economic regulation model forecasts the introduction of explicit incentives in the electricity transmission activity.

With regard to remuneration from assets, we would point out the following fixed parameters for the 2009-2011 period:

- The rate of remuneration from existing assets and of assets to enter into operation, which are not valued at "reference costs", is indexed to the profitability of 10-year Treasury Bonds, with a 3% spread, which is equivalent to a remuneration rate of 7.55% in 2009, nominal and before taxes, which compares with the remuneration rate of 7.0% applied to the assets in use in the 2006-2008 period;
- The rate of remuneration from the new investments to enter into operation as from the start of 2009, which are valued at "reference costs", is indexed to the profitability of 10-year Treasury Bonds, with a 4.5% spread, which is equivalent to a remuneration rate of 9.05% in 2009, nominal and before taxes; this incentive was non-existent in the current regulatory period.

REN is collaborating with ERSE in the process for the determination of the said "reference costs".

Regarding the Operating and Maintenance Costs (OPEX) of the electricity transmission activity, a course of "maximum revenue" was fixed along the 3-year period, indexing the OPEX level at 2008 yearend to the inflation rate, deducting a factor of annual efficiency of 0.5%, and adding the increase of OPEX derived from the annual growth of the transmission grid (km of lines and number of panels in the substations), calculated with the corresponding incremental costs, also fixed by ERSE.

Environmental costs and other costs derived from legal obligations, as is the case of "cleaning of forests", constitute additional costs, subject to a "by accepted costs" treatment.

We would mention that the parameters for calculation of the incentives for availability of the transmission grid and for keeping in use equipment that is at the end of its useful life are still to be defined in the year of 2009.

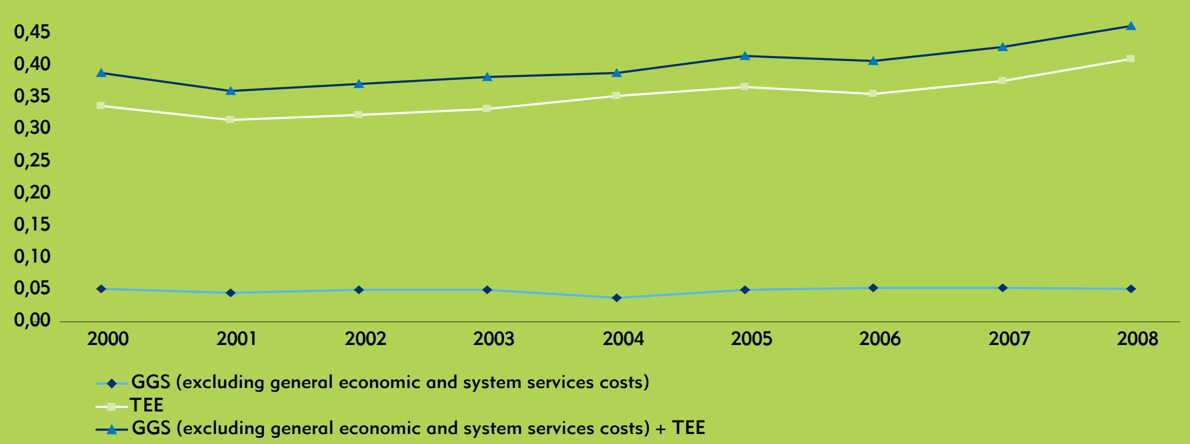
Cost of access to the transmission grid

The average cost of access to the transmission grid is an important variable in international and year-on-year comparisons. In Portugal's case, this cost is made up of the tariffs for Use of the Transmission Grid (URT) and General Use of the System (UGS).

REN's General Use of the System recovers the costs of the Overall Management of the System (GGS), which, in addition to including the system management costs (such as national dispatch, supply security monitoring, security telecommunications, systems service contracting operation and the compensation of deviations and energy, and the operation of the account balancing system between market agents), further includes costs of interruptibility and other general economic costs, namely the OMIP and OMICLEAR costs, the ERSE costs, payment of the Autonomous Region tariff convergence, remuneration and amortization of land for electricity generation plants, the compensation to the commercial agent and the costs for the Consumption Efficiency Promotion Plan.

The following graph shows the trend in the average revenues from these two tariffs from 2000 to 2008, corrected for deviations, and subtracting from the UGS tariff the interruptibility costs, general economic costs and the costs related to the acquisition of systems services.

Average cost of access to the transmission grid (cent/kWh) - 2000 constant prices



Excluding the aforementioned costs, the overall average cost of access to the transmission grid decreased between 2000 and 2008 by approximately 6.3% (+18% in nominal terms), as a result of a reduction of 4.1% (+21.6% in nominal terms) in the average cost of electricity transmission, and a reduction of 20.7% (+0.5% in nominal terms) in the average cost of overall system management.

We point out that the changes reflect the large investments made by REN, which have as main drivers making the National Energy Strategy (ENE) defined by the Government feasible, in particular, reaching the target of 45% of electricity generated from renewable energy sources, the construction of MIBEL and the country's supply security.

Cross-border trade

ETSO (European Transmission System Operators), an association of European grid operators, including all of the EU Member States, Switzerland and Norway, together with the European Commission and the regulators from the different European countries, through ERGEG (European Regulators' Group for Electricity and Gas), which acts as a consultant to the European Commission in energy matters, is responsible for implementing a mechanism to compensate each country's transmission grid for its use for electricity traffic initiated by third parties.

The criteria for the operation of this mechanism, which is currently known as ITC (Inter-TSO Compensation), have been the subject of much discussion and controversy. As an agreement on a consistent methodology could not yet be reached, a provisional methodology was established that will be valid for 2009 while studies on alternative methodologies, that will allow a greater reflection of the physical reality of the electricity traffic, are ongoing.

The ITC figure for 2008, a payable balance for REN of 6.3 M€, to be included in the URT tariff, is 50% up on that for the preceding year.

Correction of hydroelectric variability

Electricity sales tariffs normally reflect average generating costs rather than fluctuating over the years in line with hydroelectric variability, which is particularly significant in Portugal.

To reconcile the objective of tariff stability with that of stable results for electricity companies exposed to the risk of hydroelectric variability, financial mechanisms for offsetting costs on a year-to-year basis have been in place for many years in the electricity sector.

While REN was the holder of the CAEs and sold the corresponding electricity generated using a tariff that reflected the average costs involved in the different hydrological regimes, the hydroelectric variability correction mechanism covered the positive or negative difference between the costs for the regime applied and the average costs provided for in the tariffs. The new framework for market-governed energy production, which came into effect on 1 July 2007, rendered meaningless the mechanism applied until that date.

According to the specific legislation, the hydroelectric variability correction account is held by EDP – Energias de Portugal, S.A.

While one awaits revision of the legislation and the definition of new procedures, the hydroelectric variability correction account has only taken into consideration the financial costs associated with the accumulated balance of said account, which are the responsibility of EDP – Energias de Portugal, S.A. Thus, the balance of the hydroelectric variability correction account at the end of 2008 amounted to 237.8 M€.

The regulatory framework for REN's natural gas operations

In the natural gas sector, REN is responsible for the main high-pressure infrastructures of SNGN (National Natural Gas System), carrying out its activities through its wholly-owned subsidiaries REN Gasodutos S.A., REN Armazenagem S.A. and REN Terminal de GNL, S.A., which are the holders of the Public Service Concession Contracts in the context of the RNTIAT (National Natural Gas transport network, underground storage and LNG terminal infrastructures). In particular, REN Gasodutos holds the exclusive concession for transport of high-pressure natural gas for Portuguese continental territory and incorporates the Overall Technical Management activity of the SNGN.

The concessionaires carry out their activity in a context that is regulated by the applicable legislation, by the Public Service Concession Contracts signed with the State and by the regulations established by both the DGEG and ERSE published in the meantime.

The regulated remuneration is defined within the context of the Tariff Regulations by the definition of the revenues permitted for REN natural gas companies. The regulation period is three years, with stabilization of the parameters in the regulation period and annual revision of tariffs.

These revenues derive basically from a regulation by "service cost" that remunerates the assets fixed at a defined rate for each regulation period by the regulator. The recognized operating costs are also included in the tariffs.

The regulated activities exercised by REN Gasodutos are the transport of high-pressure natural gas and the overall technical management of the SNGN system. The first is remunerated through the URT (Transport Network Use) tariff and the second from the UGS (Overall System Use) tariff.

The Underground Storage activity is carried out by REN Armazenagem. Here, a storage tariff (UAS – Underground Storage Use) applies, and is proportionate to the energy stored each day and the daily volumes injected into and extracted from storage.

REN Atlântico carries out LNG reception, storage and regasification operations, which are remunerated through the UTRAR (Use of Reception, Storage and Regasification Terminal) tariff, which includes prices for regasification capacity used and energy processed and storage used each day. Gas tanker trucks have a specific tariff for each load.

In accordance with the provisions of the Tariff Regulations, in June 2008, ERSE submitted the document "Natural gas tariffs and prices for the gas year 2008-2009", based on the regulation parameters published in 2007 for the regulatory periods 2007-2008 to 2009-2010. It defines the permitted revenues for each of the regulated activities, as well as the prices for the tariffs practised.

The permitted capital revenues result from the application of a smoothing process based on a formula published by the regulator. In concise terms, it translates into dividing the current value of future revenues until the end of the concession, by the "current value" of the quantities for the same period, updated by a factor defined by the same regulator. This smoothing process is applied for determination of the revenues of REN Gasodutos and REN Atlântico, but not to those of REN Armazenagem.

Regulatory evolution in 2008

During 2008, ERSE published, for the natural gas sector, complementary provisions to the base regulation published in 2006. A list of those that are more significant for the activities of the Group companies in the natural gas sector follows below:

- Order no. 7927/2008, of 17 March, approving the Methodologies for determining the attribution of capacity of the 3 REN infrastructures (RNTGN, underground storage and LNG terminal);
- Order no. 12 187/2008, of 29 April, approving the Procedure Manuel for Account Adjustment in the natural gas sector;
- Order no. 16 719/2008, of 19 June, approving the System Operation Procedures Manual for the natural gas sector;
- Order no. 16 17 630/2008, of 30 June, approving the parameters for the definition of tariffs, as well as tariff amounts and prices to be applied in the gas year July 2008 to June 2009.

At the end of 2008, ERSE approved through its regulation no. 24/2008, the Guide for Measuring, Reading and Availability of Data for the natural gas sector, thus completing the sub-regulation provided in the Commercial Relations Regulation (RRC).

We stress in particular the fact of ERSE having clarified the role of REN Gasodutos in the implementation and operation of the equal distribution of transport to the agents supplied from the UAG (Autonomous Natural Gas Regasification Units). It is thus assured that the users supplied from the UAG pay for the NG transport service the same as any user supplied by gas pipeline. By that fact, REN Gasodutos invoices the distributor on leaving the UAG as if it were leaving the high-pressure network, recognizing and paying the road transport costs incurred by the agents in supplying the respective UAG.

Also in 2008, the first Plans for Environment Promotion and Development (PPDA) were approved, these being included in the activities exercised by each company, and were opportunely submitted to ERSE for approval. The related costs are included in a specific process, given that they are additional costs incurred to allow for its execution.

Access to infrastructures

After a year and a half of regulation of the natural gas sector, and particularly of the high-pressure infrastructures, users have access today with transparency and equality of treatment, with the transition to the current situation having been made in a sustained manner. The trend is for the increase of the number of agents, with the progressive opening up of the market. The established rules of access have progressively been put to the test, showing their resilience and permitting the operational management of accesses of the diverse agents to be made in an unequivocal and transparent way.

The experience acquired with the start of the access of third parties to the high-pressure infrastructures, as from 1 July 2007, was incorporated in the sub-regulation that meanwhile was completed in essence, to permit access to third parties, now with more agents since 1 July 2008. Particular mention here is made of the approval of essential elements, like the Procedure Manuel for Account Adjustment and the Systems Operation Procedures Manual, which operationally define the rules of access to RNTIAT infrastructures, as well as the Guide for Measuring, Reading and Availability of Data for the natural gas sector.

Remuneration of regulated activities in 2008

The gas year, a 12-month period beginning on 1 July and ending on 30 June of the following year, is a concept created by ERSE, with reflexes in the regulation of gas as a whole, namely in the setting of revenues, tariff deviations and tariffs. Any civil year, like 2008, is thus constituted by two halves of separate gas years, subject to different tariff regimes.

During 2007, the investments plan of the gas companies was revised. In its function as Overall Technical Manager of SNGN, REN Gasodutos re-examined the capacity needs and security of supply to allocate to the infrastructures, so as to make viable the expected increases in use, resulting basically from implementation of the plans for construction of more combined cycle plants.

Thus, the increase in revenues was only incorporated in the regulation process, and consequently in the tariffs, with the advent of the new gas year which started in July 2008.

The values for permitted revenues for the gas years 2007-2008 and 2008-2009 for the activities of regulated companies were calculated by ERSE on the basis of the following:

- Remuneration rate for regulated assets – 8% in the regulatory period of 3 years;
- Discount rate for capital revenues in the smoothing formula – 8%[1] ;
- Discount rate for quantities – 15% for REN Atlântico activities; 11% for REN Gasodutos activities[2] ;
- The tariffs subject to the smoothing revenues process during the concession period are URT and UTRAR.

In the activities subject to the smoothing process (URT and UTRAR), the authorized revenues depend on the quantities and investments forecast to the end of the concession. The smoothing process gives a single tariff (discount of the future revenues and of future quantities) which, multiplied by the quantities of the year, gives as a consequence the capital revenues. The revenues permitted correspond to capital revenues, with operating costs added.

Tariff deviations in 2008

Because regulated revenues only existed in the second half of 2007, it is not possible to correctly make the 2007/2008 comparison in terms of the common year.

The tariff deviations relative to the gas companies in 2008 were 6.5 M€ to be received (1.3 M€ in the first half of 2008 and 5.2 M€ in the second half, corresponding to another gas year, that of 2008-2009).

[1]ERSE adjusted the profiles to costs with capital in the smoothing process for the REN Atlântico and REN Gasodutos activities, in accordance with the transitory provisions of the Tariff Regulations, by focusing on the adjustment of discount rates used in the present value of natural gas quantities transported in each infrastructure, as a means of confronting the uncertainty of the quantities to be transported throughout the concession period (40 years) and adjusting the recovery of investments between current and future users.

[2]The values are different from the capital revenues discount rate to adjust the investment recovery profile.

The more significant deviations of the second half result essentially from a deviation of the variables in the invoicing of the transport capacity and use of storage of natural gas. These deviations will be incorporated two years after they occur in the revenues permitted in light of the regulatory model, it being expected that they will be reduced significantly in 2009, still during the gas year 2008-2009, by the entry into operation of large consumptions that are programmed, and by the availability of more capacity for storage of natural gas.

Average cost of access to infrastructures

The average cost is calculated based on the quantities processed and the revenues permitted as forecast in the tariff table. This indicator and its evolution are important in the sense of indicating the trend of costs for the users, and is intended to indicate immediately the values, even knowing that their comparison with previous periods is not possible since there is no regulation data available.

For REN Gasodutos, the average cost of access to the networks in 2008 was CENT 0.18/kWh. The quantities moved had an unfavorable deviation of 7.56% compared to the forecast that served as basis for calculation of the tariffs.

For REN Armazenagem, the average cost of storage for the gas year 2008 was CENT 0.00198/kWh/day. The quantities stored were situated at 31% below those forecast, explained by the fact that, in forecasting terms, an available volume was considered that was superior to that effectively verified at the date. The finalization of the cavity in construction was postponed, given the option that was taken to take advantage of the favourable geological conditions that were in the meantime detected, and which allowed for its physical volume to be increased, with a reduced cost increment, thus permitting a reduction of the corresponding unit cost.

For REN Atlântico, the average cost of regasification for 2008 was CENT 0.110/kWh. The quantities received were situated at 11% above what was forecast, and therefore the real regasification cost was less than that forecast for 2008 (CENT 0.114/kWh).

Liberalization

The timeframe for the opening of the market was established by Decree-Law no. 140/2006. Access for standard power plants was established for 2007. Large industrial consumers with an annual demand of more than 1 Mm3 had access in 2008, and customers with a demand of more than 10,000 m3 per year in 2009. The rest of the market will be opened on 1 January 2010. This timeframe is being complied with, although one must take into account the advent of the gas year, which begins in July and not January. Thus, at the start of 2009, an important part of the market was open, which already includes a significant number of consumers, all with annual consumption of more than 10,000 m3/year.

Transit

On acquiring the transport assets, REN Gasodutos also took over a series of contracts and shareholdings, through which it provides transit services in the national network to the Spanish high-pressure network operator, Enagás.

5.5. Group activity in 2008

5.5.1. Electricity transmission business

Operation of the grid

Grid behaviour

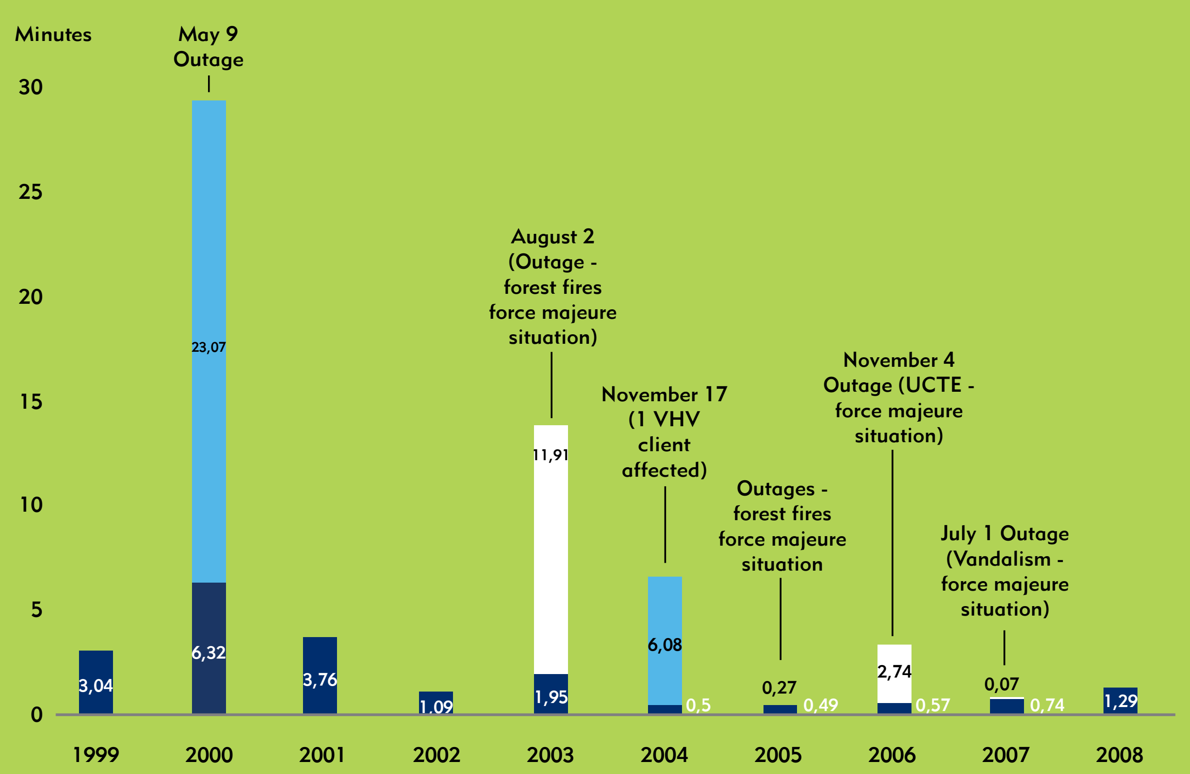
During 2008, few congestions were registered in the network for transmission of VHV electricity. The most frequent ones occurred in the pocket of the 150kV of Cávado, and were associated with the unavailabilities related to the commissioning of the Pedralva switching station and the Frades Substation. The impact of said restrictions in the production plans was minimal however, given the hydroelectric variability registered in the current year.

In terms of operation of the system, the transitory period that was envisaged in the Systems Management Procedures Manual ended in the beginning of the summer of 2008, with the regulation and consequent settlement being made by the Balance Area.

Quality of service

The quality of service provided by the National Transmission Grid, which is understood as the security and continuity of the electric power supply with adequate technical characteristics, was at a high level, with the Equivalent Interruption Time (TIE) registering the figure of 1.29 minutes in 2008. In other words, REN supplied electric power to the different customers' delivery points 99.99976% of the time (i.e. approximately 999 hours, 59 minutes and 51 seconds in every 1000 hours).

Evolution of the Equivalent Interruption Time - TIE

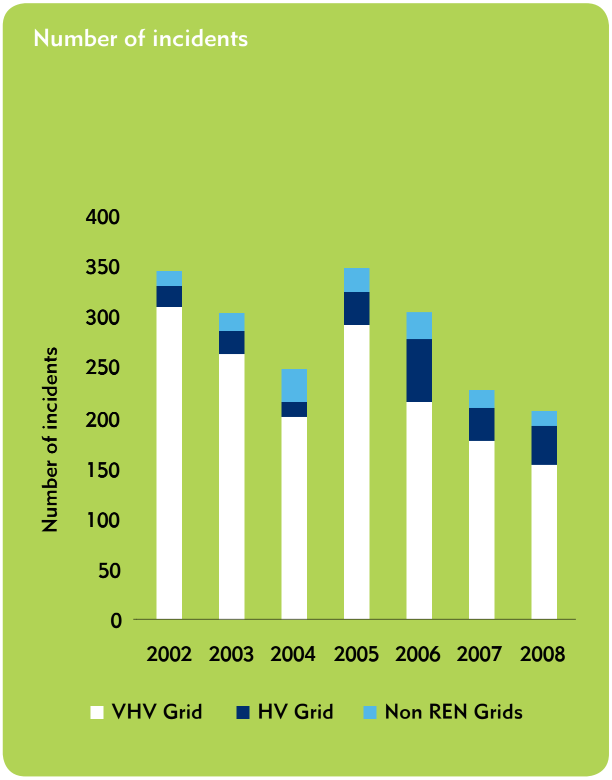


The graph above reveals a trend towards a sustained improvement in service continuity in recent years, excluding the occasional exceptional cases and/or situations of force majeure indicated.

In 2008, REN continued to monitor voltage wave quality at all RNT delivery and interconnection points.

The measurements carried out continue to show results that meet the recommendations of the Quality of Service Regulation, with only a few isolated and localized exceptions.

As far as incidents and disruptions are concerned, there was a substantial overall improvement in grid behaviour. We had a total of 204 incidents (9.7% less than in 2007), of which 152 occurred in a very high voltage (VHV) grid, 37 in the high voltage (HV) grid and 15 in other grids, although these also affected REN's VHV and HV grids.



Only 11 incidents, i.e. 5.4% of the total, affected power supply to customers.

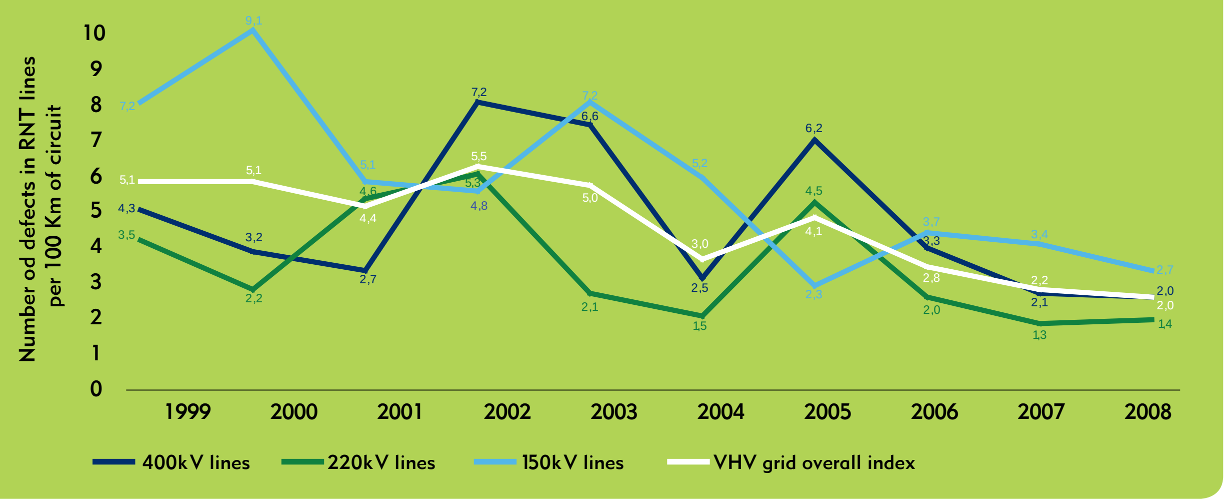
The value of Energy Not Supplied (ENF) resulting from these incidents was estimated at 124.4 MWh.

Lines' performance

The trend registered in previous years towards an overall improvement in the RNT lines performance continued. The overall availability of line circuits, including terminal bays, was 97.2% in 2008, a figure slightly down on 2007 (- 1.1%), due in large part to the modification and improvement works, namely uprating, carried out on various grid circuits.

The following graph shows the voltage performance of the lines (overall and by voltage level) in recent years, in terms of the number of defects recorded per 100 km of circuit.

Number of defects in RNT lines per 100Km of circuit



The figures for 2008 are significantly lower than the average for the last 10 years. The overall figure for the VHV grid registered a decrease for the third year running (-9.1%) and is now at an all-time low of 2.0 defects per 100 km of circuit.

These results illustrate the effectiveness of the preventive measures put in place in recent years, and sustained by the following lines of action:

- Renewal of many lines with upratings in transmission capacity, replacement of insulator chains and accessories, and improvement of shielding against lightning strikes;
- Continuation of replacement of ceramic and glass insulators with composite insulators in critical lines in highly polluted areas;
- Widespread mounting of nesting platforms and bird perching preventive devices on the insulator chains on lines impacting birdlife (storks);
- Implementation of a new aerial surveillance system, with thermography and measurement of distances with laser technology, which permits a more effective intervention by geo-reference of anomalies;
- Monitoring of insulator contamination and more effective summer washing;

- Implementation of new vegetation surveillance and ligneous material management processes in the line corridors, as part of municipal forest fire prevention plans.

Most of the incidents that affected REN facilities occurred in overhead lines (68% of the total). The main causes for these were lightning strikes -32% and birds (storks) -28%.

Substation performance

In general terms, the performance of REN substations was quite satisfactory. The number of failures in circuit-breakers was significantly lower than that registered in 2007, contrary to that verified in transformers, where there was an increase in the number of failures, although in the majority of cases, with little consequence in the grid operations. The overall rate of availability of transformers and autotransformers (including their bays) was 97.9%, a figure slightly lower than in 2007 (-0.9%), the consequence of many remodelling operations and replacements of HV equipment and power transformers carried out throughout 2008.

These matters are dealt with in more technical detail in REN's annual Quality of Service Report.

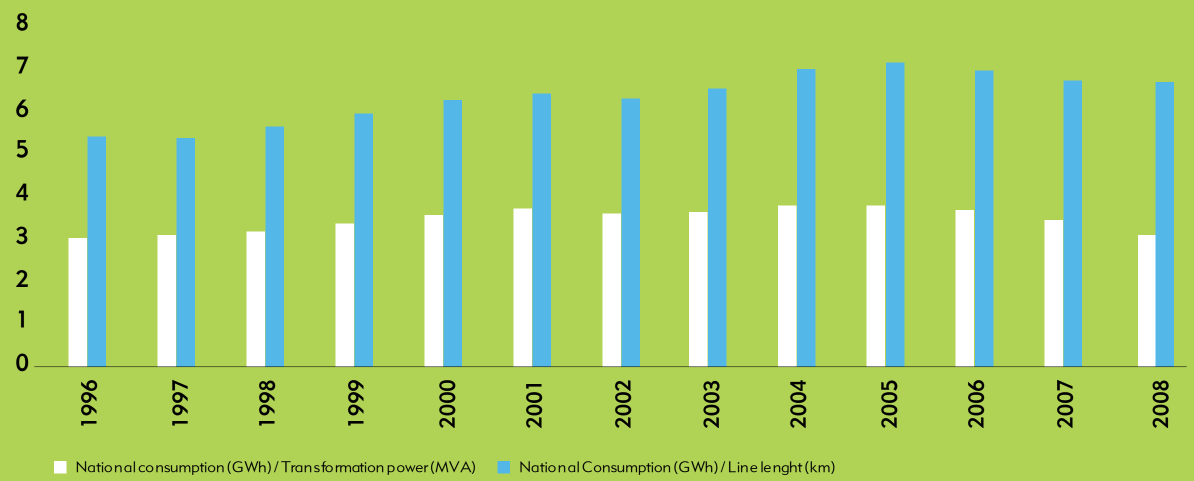
Works in progress – investment programme

Development of the National Transmission Grid

The year 2008 was marked by the conclusion of large investment projects that permitted the successful meeting of objectives for the reception of increased amounts of renewable energies, increased exchange capacities with the Spanish grid and also strengthening of feeds to the distribution networks.

For a better idea of the level of use of RNT equipment infrastructure, the graph below shows the trend in national consumption in comparison to transformation power and line lengths since the mid-1990s.

Degree of utilization of lines and transformers



Following a more or less sustained increase in these indicators between 1996 and 2005, there was a downward trend in the years following, as a result of the expansion of the transmission grid to more remote areas, with a view to incorporating renewable energy which, as is known, is generated away from areas of power consumption.

Projects completed in 2008

In the year under review, it was worth noting the entry into service of the 220 kV Vila Pouca de Aguiar – Valdigem line and the branch to Macedo de Cavaleiros of the Mogadouro – Valeiro 220kV line, which are associated, respectively to the opening of the substation of Vila Pouca de Aguiar and of Macedo de Cavaleiros.

We would also mention that the two connections mentioned constitute a first step in the establishing of a new 220 kV grid that will cross the Tras-os-Montes region, from the future substation at Lagoaça to the present one of Valdigem.

Besides the two new substations already mentioned, those of Frades (Vieira do Minho), of 150/60 kV, and Carvoeira (Torres Vedras), of 220/60 kV, were also completed and commissioned with the consequent openings of existing lines, and also of Carrapatelo (Cinfães), of 220/60 kV, in this case by enlarging the existing switching station.

In the substation of Pedralva, we must mention the commissioning of two 400/150 kV autotransformers, each of 450 MVA, these units to regulate the angular dephasing, identical to that already installed in the Falagueira substation. In Alto de Mira, its second 400/220 kV autotransformer, of 450 MVA, was also made operational.

In total, 11 new transformers (equivalent to 1826 MVA) and 3 autotransformers (1350 MVA) were brought into service. The transmission capacity of 5 lines was also increased and 130 MVAr in new condenser batteries were installed.

In order to connect special regime generation to the RNT, the aerial line of 150kV was completed, between the Sines substation and the cogeneration plant of Refinaria de Sines, S.A.

Also constructed was an enlarged series of 60 kV bays in various substations of the RNT, having in view making feasible/connecting the new Special Regime Generation, namely, various wind energy farms (in Frades, Vila Pouca de Aguiar, Macedo de Cavaleiros, Carrapatelo and Portimão), the cogeneration plant of Soporcel (in Lavos) and the photovoltaic unit of Moura (in Alqueva).

In order for the RNT to receive generation from the new natural gas combined cycle plant of Lares, 2 x 400kV bays were also completed in the Lavos substation.

Main investments in progress

Strengthening of the interconnection capacity

Having in view the reinforcement of the capacities for exchange between Portugal and Spain, the following is envisaged:

- In the Douro International area, the opening of the new 400/220 kV substation of Lagoaça, in a first phase only as switching station of 220 kV, and later also at 400 kV, with the consequent opening of the RNT lines in the Picote – Bemposta – Pocinho axis.
- Based on the power level of 400kV of Lagoaça, a new interconnecting line will be laid with the Spanish substation of Aldeadávila and another for connection to the future RNT substation at Armamar.
- In the South, the building of a new 400kV interconnection, connecting the Algarve, from the future substation at Tavira, and Andalusia (connection that is currently in the Environmental Impact Assessment stage).

Connection of special regime generators

With a view to the integration into the RNT of new special regime generators, we would mention the following reinforcements:

- The building of a 220 kV grid in Trás–os-Montes, from Lagoaça, in the International Douro zone, to Valdigem, passing through the existing substations of Macedo de Cavaleiros and Vila Pouca de Aguiar and the future one of Valpaços.
- The creation of the substation of Armamar and the switch to 400 kV operation of the Armamar – Bodiosa – Paraimo axis.
- The opening of the Tábua substation and construction of a 220 kV line between this plant and the Penela substation.

Connection of standard regime generators

In order to provide the RNT with the conditions for connection of large new generating units, we would mention:

- The reinforcement of the 220 kV axis between the Picote switching station and future Lagoaça substation, for the integration of new generating units resulting from the capacity reinforcements of Picote and Bemposta.

This reinforcement of the grid will be achieved with a new line, which will have a first section of 220 kV and a double 400 and 220 kV second section.

- The construction in Central Portugal of the new 400 kV connection Batalha – Lavos and Lavos - Paraimo and, and in The Lisbon/Setubal metropolitan area, the line between the area of Marateca - Fanhões, also at 400 kV, with the necessary remodelling/enlargement of the Lavos and Sines substations, for the incorporation into the RNT (in Lares, Figueira da Foz and Sines) of new natural gas combined cycle power plants, in respect of which DGEG has already issued a favourable opinion. There is also the remodeling/enlargement of the Pego switching station for integration into the RNT of the new natural gas combined cycle power plant of Pego.

Supply to major demand centres

In order to meet the sustained growth in demand for electricity, the following actions are planned:

- In Minho, the creation of the new 150/60 kV injector point of Vizela/Felgueiras.
- In the Trás-os Montes region, the opening of the new 220/60 kV Valpaços substation.
- In the southern part of the Douro Litoral, the new 400/60 kV Feira substation.
- In the Lisbon region, the completion of the new underground 220 kV connection, initially to operate at 60 kV, between the Alto Mira substation and Zambujal.
- On the Setubal peninsula, the completion of the second 150 kV Fernão Ferro – Trafaria line, and also the introduction of 400 kV in the current Fernão Ferro substation.
- In the Alentejo, the construction of the new Falagueira – Estremoz line, insulated for 400 kV but operating initially at 60 kV, to support consumption in the Elvas area. With the opening of the Estremoz substation, envisaged for 2009, this line will operate at 150 kV.
- In the Algarve, the establishment of the new 150 kV line between the Portimão and Tunes substations and, later, the introduction of 400 kV to the Portimão substation. Also envisaged is the opening of the Tavira substation, with 400, 150 and 60 kV power levels.
- The continued reinforcement of the transmission capacity of existing lines, with the reinforcement of five lines scheduled for 2009.

Supply of large VHV customers

Regarding the connection of large VHV consumers and, in particular, to provide a feed to the high speed railway line in the Portuguese section of the Lisbon – Madrid axis, it is expected to operate the Falagueira – Estremoz line (and also the Estremoz substation) at 400 kV, and the closure at 400 kV between Estremoz and Palmela, by the construction of the axis Estremoz – Divor (Évora) – Pegões – Palmela. From the future RNT substations of Estremoz, Divor and Pegões feed connections will be established to the rail traction substations.

The RNT chart in this report shows the location of the main reinforcements scheduled for the medium and long term.

Special Regime Generation

In 2008, under cover of Decree-Law no. 168/99, of 18 May, and of Decree-Law no. 312/2001, of 10 December, 9 Special Regime Generators were connected the RNT, which corresponds to a final installed capacity of 509 MW, as detailed in the following table:

PRE's Installation Designation	Installed Power (MW)	Power of Connection (MVA)	Level of Tension (kV)	REN's Substation where PRE connects
Parque Eólico de Toutiço	102	107	220	Tábua (to be conclude on 2009)
Cogeneration Power Plant of Refinaria de Sines	98	97	150	Sines
Wind Farm of Arada/Montemuro	112	120	60	Carrapatelo
Wind Farm of Lousã II	50	53	60	Penela
Wind Farm of Serra do Alvão	42	45	60	Vila Pouca de Aguiar
Photovoltaic Plant de Moura	46	35	60	Alqueva
Wind Farm of Cabeço da Rainha II	31	29	60	Castelo Branco
Wind Farm of Negrelo-Guilhado[1]	20	19	60	Vila Pouca de Aguiar
Wind Farm of Salgueiros-Guilhado[2]	8	7	60	Vila Pouca de Aguiar
Total	509	512		

[1]Placed in tension the interconnection line and the substation of Negrelo-Guilhado Wind Farm.
[2]Placed in tension the interconnection line and the substation of Salgueiros-Guilhado Wind Farm.

In 2008, conditions were also defined for the connection of most of the wind-power projects adjudicated in Phases A and B of the International Contest for the construction of new wind farms in Portugal. At the end of December 2008, from the Vila Pouca de Aguiar substation, the interconnection line of the first Wind farm developed by the Consortium that won Phase A of this International Contest (Salgueiros-Guilhado Wind Farm) was placed in tension.

Of the wind farms that are to be installed within the context of this International Contest, the following table lists those that that will connect to the National Electricity Transmission Grid:

PRE's Installation Designation	Power of Connection (MVA)	Level of Tension (kV)	REN's Substation where the Wind Farm connects
Wind farm of Douro-Sul	172	400	Armamar
Wind farm of Alto Douro	170	220	Valdigem
Wind farm of Raia	82	220	Ferro
Wind farm of Falperra-Alvão	76	220	Vila Pouca de Aguiar
Wind farm of Bravo	13	150	Falagueira
Wind farm of Mougueiras	7	150	Falagueira
Wind farm of Tocha	94	60	Paraimo
Wind farm of Alto da Coutada	84	60	Valpaços
Wind farm of Terra Fria	80	60	Frades
Wind farm of Baixo Alentejo	74	60	Tavira
Wind farm of São Bento	70	60	Rio Maior
Wind farm of Malhanito	48	60	Tavira
Wind farm of Vila Nova II	20	60	Penela
Wind farm of Picos - Vale do Chão	20	60	Penela
Total	1.101		

On 31 December 2008, 26 Special Regime Generators were connected to the RNT, distributed by power levels of 220 kV, 150 kV and 60 kV, as shown in the following table:

Level of Tension (kV)	PRE's Number	Installed Power (MW)	Power of Connection (MVA)
220	3	336	333
150	6	782	735
60	17	851	723
Total	26	1.969	1.791

Of these Special Regime Generators, 21 correspond to wind farms, 4 to cogeneration plants and only one to a photovoltaic solar plant, the connecting capacities being 1,595 MVA, 161 MVA and 35 MVA, respectively.

In the short to medium term, (2009-2012), another 27 Special Regime Generators will be connected to the RNT, giving a total connecting capacity of 1,715 MVA, distributed by the following voltage levels:

Level of Tension (kV)	PRE's Number	Power of Connection (MVA)
400	2	258
220	4	402
150	4	87
60	17	968
Total	27	1.715

Of the 27 Special Regime Generation plants being developed and envisaged to connect to the RNT, 20 are wind parks (with a total connecting capacity of 1,346 MVA), 6 are cogeneration plants (totaling 358 MVA) and one is a photovoltaic solar plant (with connecting capacity of 11 MVA).

The Special Regime Generation installations already connected to the RNT and those that are to be connected to this network during the next two years, i.e. wind energy, will contribute decisively towards guaranteeing that 45% of gross national electricity consumption in 2010 is provided by renewable energy sources, which is the target set by the Government.

5.5.2. The natural gas reception, transport and storage business

The year 2008 was characterized by the continuation of the market-opening process initiated in 2007 and by the completion of the publication by ERSE of the additive tariffs, rules and procedures required for the operation of the gas infrastructures under the regime of regulated third party access and for exercising of the last resort trading activity, in concurrence with free trading in the market.

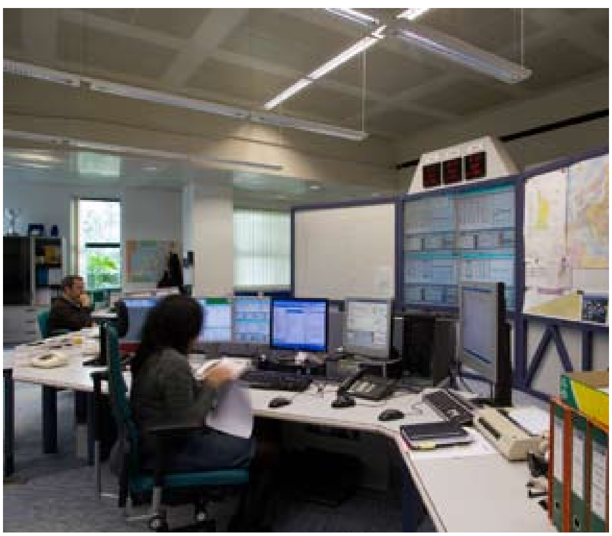
On 1 January 2008, customers with an annual consumption equal to or exceeding 12 GWh <> 1 000 000 m3 (n) became eligible. Depending on the start of the second gas year on 1 July, ERSE determined and published at end of the first half the updated tariffs for access to the Terminal for Reception, Storage and Regasification of LNG, to the national high pressure transport network and to underground storage, as well as other tariffs associated with the regulated trading activity, namely the tariff for use of the distribution networks, the energy tariff, which translates the regulated energy costs, and the tariff for last resort trading, the latter being associated with the retail commercial costs. Together, these tariffs allow for the simple determination of the sales tariff to final customers of the last resort traders.

In terms of complementary procedures associated with the regulations, we point out here the approval and publication, in December, of the Metering, Reading and Availability of Data, whose preparation was contributed to by the companies of the Natural Gas Sector of the REN Group, as well as the Distribution companies.

At another level, the first PDIR (Plan for Development and Investment) of RNTIAT and of RNDGN was elaborated, reflecting a significant commitment for expansion of the infrastructures, in the sense of providing them with the flexibility and capacity adjusted to the growth of demand and needs of the market in general, facilitating the diversification of the offer and increasing security of the supply.

In 2008, various operational work meetings were held between REN and Enagas (company managing the high pressure transport of natural gas in Spain), with a view to continuing the contribution of both System Managers to the construction of Mibgas. In this context, the plan for operational collaboration between the two system managers, drawn up in 2007, was updated, in particular, the available transport capacities at the international interconnection points. We would mention that this agreement was put into action in October in an operation to support the Spanish system (delay in the unloading of a ship at the Huelvas Terminal), and in November in an operation supporting the Portuguese system (the latter due to a momentary situation of excess of gas in the storage capacity available at the RNTIAT, as the result of the unloading of a LNG tanker ship at Sines).

Touching also on the collaboration between RNL and Enagas with regard to the Mibgas construction, preliminary studies were carried out relating to the interest and feasibility of a new interconnection between the Portuguese and Spanish gas systems, taking into account the increase in security of supply and the easing of the operation of the market in the enlarged Iberian space.



Dispatch Center of REN Gasodutos

High-pressure transport

Exploitation of the National Natural Gas Transport Network (RNTGN) and its evolution

In the course of 2008, the entries of natural gas into the country, excluding international transit quantities, was essentially carried out via Sines: some 57% entered the country here (NG from LNG regasification at the Sines terminal currently operated by REN Atlântico). The remaining 43% was supplied through Campo Maior (NG from Algeria through the Mahgreb pipeline).

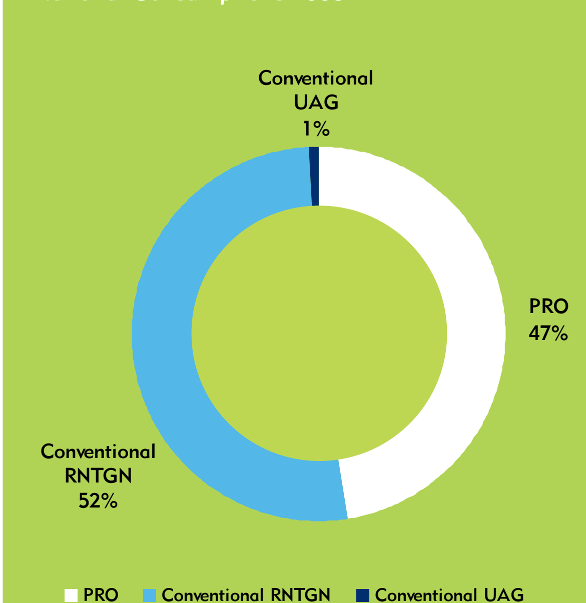
Also in 2008, 53 885 GWh (approx. 4.53 bcm[1]) was transported through infrastructures operated by the RNTGN concessionaire, including international NG transit through the RNTGN (entering in Badajoz/Campo Maior and exiting at Valença do Minho/Tuy), which amounted to 461 GWh (approx. 0.04 bcm), and the transport of natural gas for underground storage, which totalled 439 GWh (approx. 0.03 bcm).

The demand for natural gas in Portugal in 2008 increased overall by 9.4% compared to 2007, as shown in the table below:

Market Segment	Demand		Growth
	2007	2008	(%)
Electricity generation	21.363	25.343	18,6%
Conventional RNTGN	27.092	27.643	2,0%
Conventional UAG	425	506	19,1%
Total	48.880	53.492	9,4%

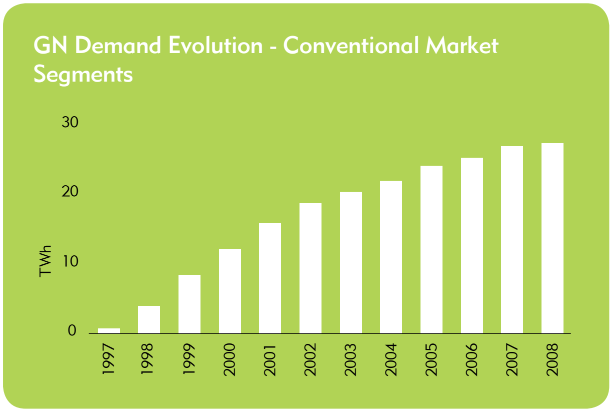
The following pie chart represents the relative weight of the aforementioned market segments:

National Consumptions 2008



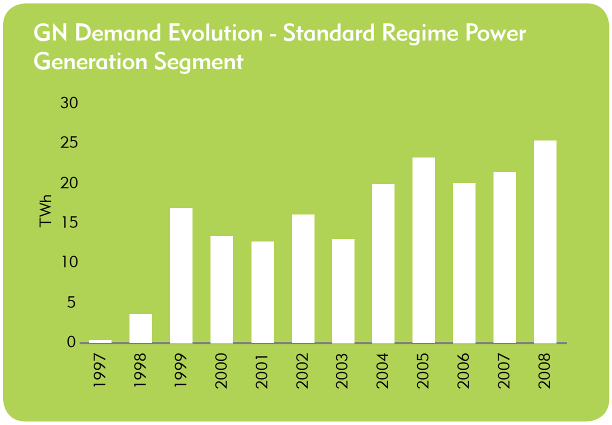
[1] 1bcm - 1x109 cubic metres. The equivalence between the energy indicated in kwh and the normal m3 depends on the gross calorific value of the gas, which is variable, meaning that one cannot indicate the correct equivalence. For approximate calculations, one can use a rough equivalence of 1 m3 (n) - 11.9 kWh.

In the case of the demand in the conventional market segment, the difference registered in the figures for 2007 and 2008 is in line with the monotonous growth trend that has been observed since the launch of the natural gas project in Portugal, as illustrated in the following graph:

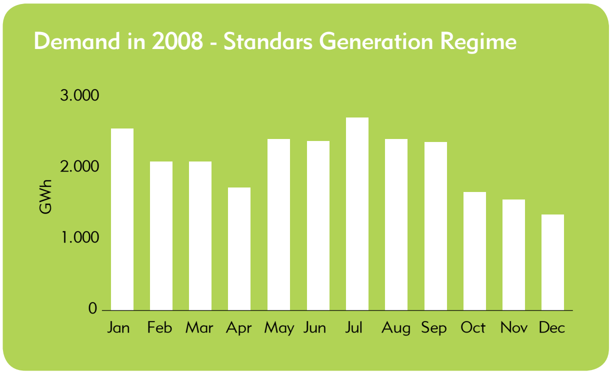


As far as the standard regime power generation segment is concerned, the annual consumption levels vary, these being based not only on the installed power, but also on the availability of alternative and cheaper hydroelectric power, as well as on the contribution of special regime power generation.

In this segment, it highlights the growing importance of wind energy which, at the end of the year, amounted to 2 624 MW. To this one can add the effect of the market operation on the basis of selection of the source available to meet electricity demand, given the sensitivity to fluctuations in different raw material prices. The combined effect of these factors is reflected in the variability of annual consumption illustrated in the following graph:



For the above reasons, namely as the result of the dry hydrological regime observed, combined with the greater competitivity of gas against coal, brought about by the cost of carbon emissions, as well as the increase of the wind power component, there was a variable trend in demand in this segment throughout 2008, as shown in the graph below:



Regarding quality of service in 2008, the results in terms of continuity of service – 0.03 interruptions/delivery point, 0.18 min./delivery point, and 7 min./interruption – were the result of two timely situations of non-availability of NG supply to the Tapada do Outeiro station, the first being in November during upgrading work carried out at the respective entry station, and the second, in December, during maintenance work.

With regard to indicators of the NG characteristics, all indicators were found to be within the boundary limits defined in the Quality of Service Regulation.

The historic (annual and accumulated) figures for accidental and planned controllable interruptions since the start of operation of the RNTGN are given in the following table:

Accidental Controllable interruptions

Planned Controllable interruptions

In 2008, no incidents were registered in the high pressure NG Transport Network, which allowed the accumulated performance index of non-intentional gas leaks published by EGIG (European Gas Pipeline Incident Data Group), of which REN Gasodutos is a member operator, to remain at zero incidents per 1,000 km of exposed infrastructure per year.

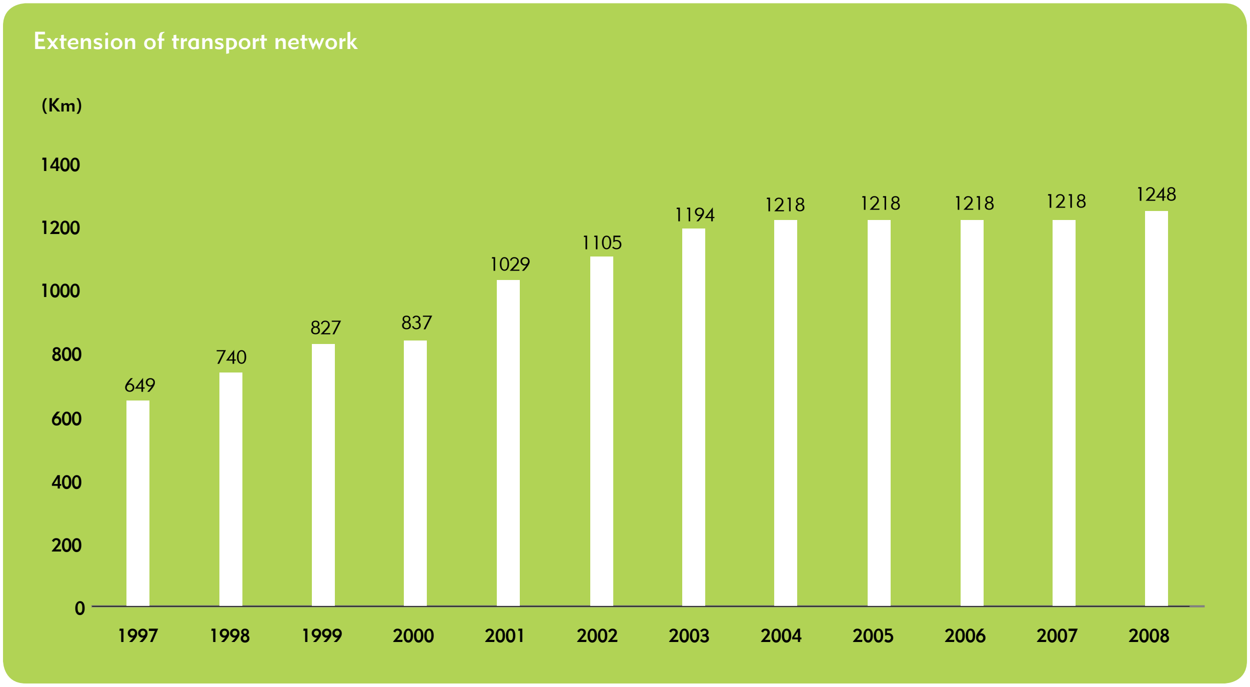
In 2008, the existing infrastructure in operation was complemented by the commissioning of three new branch-lines, corresponding to a total length of approx. 30 km, and 4 new delivery points for NG supply to new customers (Chaparral – Sines, Estarreja, and Viana do Castelo – Portgás distribution).

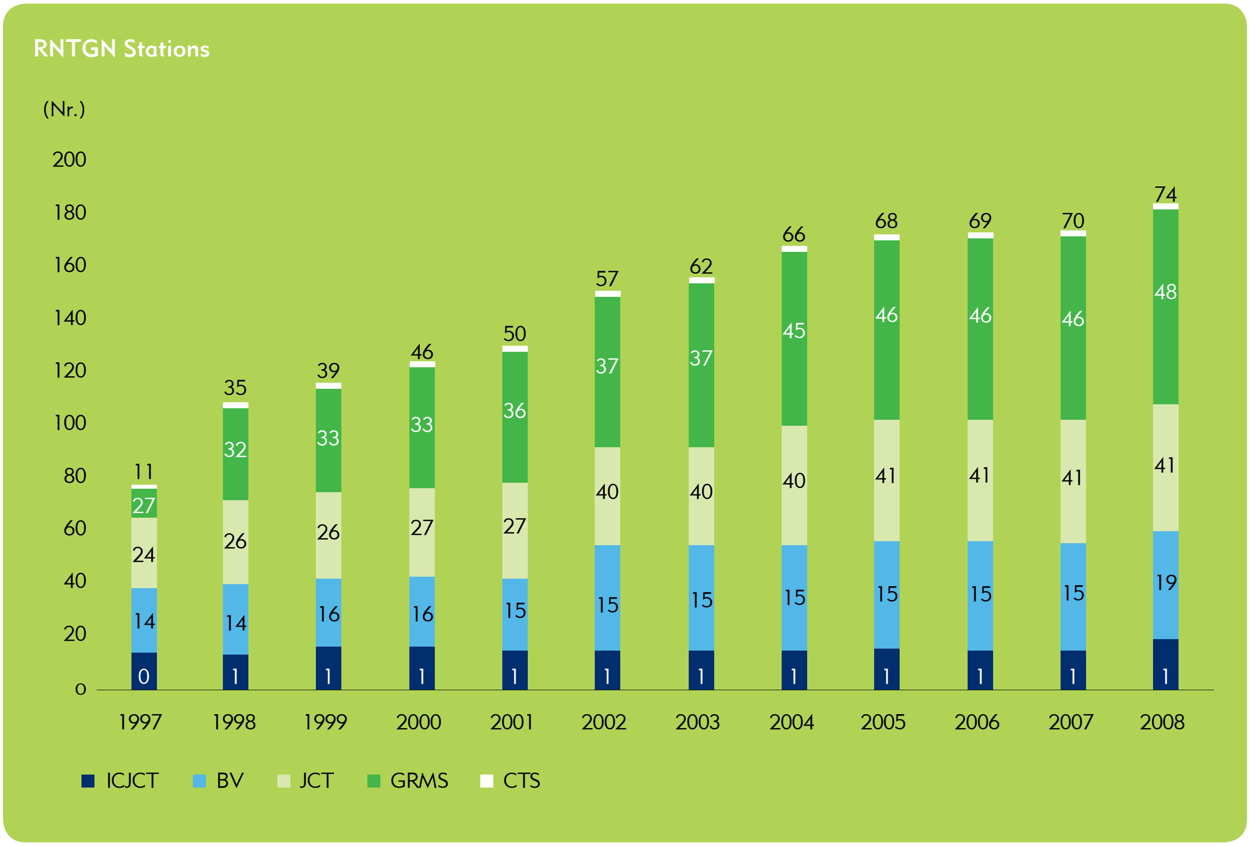
At the end of 2008, the RNTGN incorporated the following main infrastructures:

- High pressure pipelines = 1,218 km
- Junction Stations (JCT) = 48
- Block valve Stations = 41
- T interconnection Stations (ICJCT) = 19
- Gas regulation and metering stations (GRMS) = 74
- Custody transfer stations (CTS) = 1

The following graphs show the infrastructure growth since 1997.

Pipeline Construction





Main investments

In 2008, complying with the provisions of the legal and regulatory framework of the natural gas sector, included in DL 140/2006, REN Gasodutos proposed the PDIR (Development and Investment Plan for the RNTIAT and RNDGN) for the three gas years from 1 July 2008 to 30 June 2011.

Within the context of the customer connection projects, REN built and commissioned during 2008 a new pipeline of approx. 4.8 km in length, as well as a new station (GRMS 03369) to guarantee supply to the customer Air Liquide in Estarreja. Also built were the new branch-lines that permit NG supply to Repsol and Artensa, in Sines (2.5 km), as well as to the new natural gas combined cycle power plants at Lares and Lavos (23.4 km), in the Figueira da Foz area.


View of CCC Lares' construction

Parallel to this, REN Gasodutos completed and started the elaboration of several engineering projects in the scope of the development of new connection points to the RNTGN, of which we mention for their importance, the Leça, Pego, Sines and Barreiro pipelines, with further promotion of the respective building projects. It also developed other projects, included in the aforementioned PDIR (Development and Investment Plan), like for example the start of the project for building the new compressor station in the main pipeline (linked to the project for expansion of the capacity of the LNG Terminal at Sines).

Regulation and Measurement Station (GRMS)

Reception, storage and regasification at the LNG Terminal

Exploration

Unloading tankers

During 2008, a total of 35 gas tankers were received and unloaded in Sines, i.e. the same number as in 2007, translating into energy received of 30 476 GWh. All these methane gas tankers came from Nigeria (NLNG), with the exception of one, "LNG Methania", unloading of which was done in the LNG Terminal of Zeebrugge, in Belgium, in December.

Activity of GNL of Sines' Terminal

The effective average unloading time was 19 hours and 28 minutes, counting from the moment the tanker is safely berthed and ready to unload (according to notification of the ship's Captain or Agent, where accepted by the Terminal) until the last loading arm, after completion of unloading, is disconnected.

No complaints were received from the interested parties, i.e. market agents, shipping companies, Port Authority of Sines Port, or from any other entity with which REN Atlântico carries on relations.

GNL of Sines Terminal Quay

Send-out of NG to the network

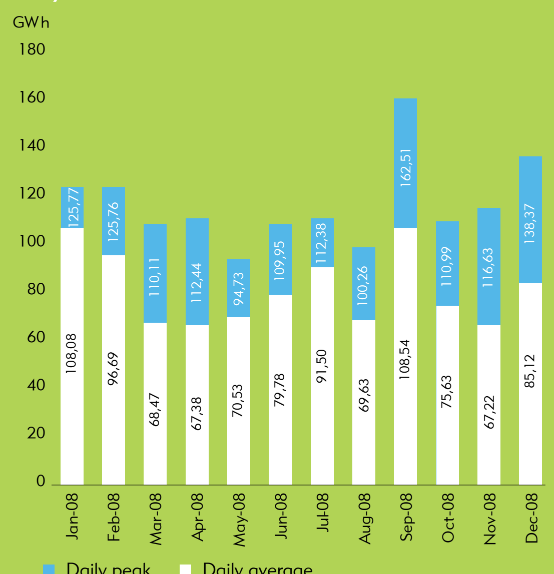
In 2008, 30 135 GWh, the equivalent of 2.5 bcm, was sent out to the RNTGN. The NG send-outs from Sines in 2008 represented approx. 57% of the total NG moved in the National Natural Gas Transport Network.

During the year under review, the send-out of natural gas was guaranteed for 8,754 hours out of an annual total of 8,784 hours (Leap Year), which is equivalent to an availability factor of 99.65%. The unavailability was due to 4.5 hours of unscheduled, or untimely, stoppages, and to two general stoppages scheduled at the Terminal, for maintenance purposes, with interruption times of 10 and 12 hours, respectively.

The fact of the LNG received and processed in the Terminal during the year 2008 having practically all come from a single source, i.e. the operation and liquefaction platform of Bonny Island, in Nigeria, guaranteed a remarkable stability in the quality and main characteristics of the NG injected into the network, which registered an annual average calorific power of 11.91 kWh/m3(n). All the relevant parameters of quality of the NG were maintained within the intervals specified in the ERSE Quality of Service Regulations.

Despite the possibility of sustained growth in supply through Sines, the terminal's activity is still very much limited to the system's peak needs. In effect, it is the send-out from this infrastructure that normally guarantees compatibility with the total send-outs of gas in the RNTGN, with the modulation of consumption of the national market verified at the exit of the respective gas regulation and metering stations (GRMS), namely at the level of the intra-daily and weekly cycles, since the entry of gas at Campo Maior normally constitutes a stable factor, not subject to significant fluctuations. Thus, the average daily send-out registered during the year was approx. 82 GWh (approx. 6.9 Mm3(n)), with a maximum value of 162 GWh (approx. 13.6 Mm3(n)) being reached on 10 September.

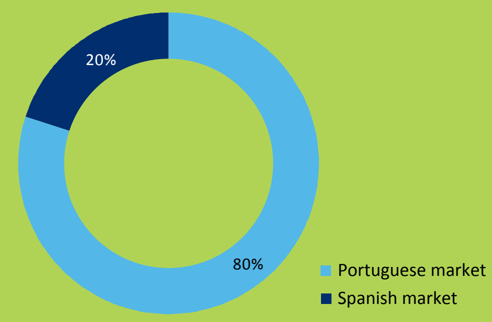
Daily Values for the emission to the RNTGN



Loading of LNG tanker trucks

In the activity of loading LNG tanker trucks in 2008, 2,097 loads were sent out to the Iberian market, representing an overall decrease of 8% compared to the previous year. This fact was due exclusively to the reduction in the number of loads sent to Spain, as a consequence of the commissioning of the LNG Terminal of Galiza (Reganosa), since the demand for LNG by the Autonomous Gas Units (UAG) in Portugal increased some 19% compared to 2007. The overall amounts of LNG transported by road (637 GWh) represent only about 2% of the total quantities handled by the terminal.

GNL Expedition Activity by road in 2008



In 2008, five new UAG units were commissioned and put into service. It is worth mentioning that the prospects for growth of this technology of NG capacity is set to continue, given the existence of various requests for permits to build new units on national territory, these currently being assessed by the competent authorities.

The transport of liquefied natural gas (LNG) continues to be guaranteed by three companies: J. Barroso (Portugal), Molgas (Spain) and Transbiela (Spain).

Main investments

Investments and new projects

REN Atlântico defined an investment plan for 2008, with a view to making the changes necessary for the maintenance of continuity of supply of NG in conditions of reliability and safety. Some investments are studies for adaptation of the Terminal to operations of cooling and loading of methane tanker ships, as well as berthing quays for larger ships.

Project for Expansion of the Sines Terminal (PETS)

In September 2008, the Public Tender notice was published in respect of the "Project for Expansion of the Sines Terminal (PETS)", in the global price, revisable and "key in hand" format, for the realisation of the "Engineering-Procurement-Construction" contract, also designated EPC – PETS, a project that is estimated to be completed by the end of 2011, and whose objectives are:

- Increase of nominal capacity for regasification and send-out to the RNTGN (maximum send-out of 1.3 Mm3(n)/h);
- Increase of the LNG storage capacity by the construction of a third tank with a volume of 15,000 m3;
- Increase in operational efficiency of the Terminal.

Safety

Simulations

During 2008, 17 internal and 2 external drills were held.

Certification by the SEVESCO Directive

In June 2008, the System for Management of Safety and Prevention of Serious Accidents (SGSPAG), SEVESO directive, for REN Atlântico was certified by the APCER.

Underground storage facilities

Exploration

In 2008, 218 GWh of natural gas were withdrawn from, and 291 GWh of NG injected into, the REN Armazenagem caverns in operation, making a total of 509 GWh of handled gas. As regards use of the Gas Station on the surface, the total movement of natural gas amounted to 771.4 GWh. The following table shows, at the year end, and compared with the situation in 2007, the balance of stored quantities:

GN Stocks at REN Armazenagem

31-12-2007		31-12-2008		Variation 2007 / 2008 (energy)
Mm³(n)	GWh	Mm³(n)	GWh	
70,0	833	75,9	903	8,4%

Notes:
- The indicated values do not include the "cushion gas"
- It is considered the average equivalence of 1 Mm3(n) <> 11,9 GWh, with grounds on High Heating Power

The quantities in storage at the end of 2008 represent an increase of 8.4% compared to those at 2007 year end, meeting the requirement need of obligatory reserves.

At 31 December 2008, the nominal capacity characteristics of the two REN caverns in operation were as follows:

Capacity of REN Armazenagem storage facilities

Storage Capacity	Mm³(n)	GWh
"Cushion gas"	73,7	877
Maximum Technical Capacity	89,3	1063
Commercial Available Capacity	84,3	1003

Notes:
- "Cushion gas": volume of immovable gas in order to guarantee the pressure of cavern structural stability.
- Maximum Technical Capacity: cavern maximum capacity, with deduction of the respective value of "Cushion gas".
- Commercial Available Capacity: Maximum Technical Capacity with deduction of the value of the operational reserves attributed to Global Technical Manager (comprises the technical restrictions of cavern usage at low pressures, conditioned to 1 week in each 10 years).
- It is considered the average equivalence of 1 Mm3(n) <> 11,9 GWh, with grounds on High Heating Power.

Construction

In 2008, the work on cavern TGC-4 (now designated RENC-4) went ahead. The construction of this infrastructure is running according to plan, with the leaching phase now terminated. There now follows injection with natural gas and the consequent commissioning of same in the first half of 2009. The volume of this cavern is 659,000m3, corresponding to a maximum technical capacity of approx. 60 Mm3(n), or about 720 GWh of natural gas. In April 2008, leaching operations were initiated in a cavern (TGC-2) to be used for Transgás Storage.

General View of the Gas Station

Main investments

In the near future, there is expected to be a significant increase in investment in this infrastructure, resulting from the final phases of placing into operation cavern RENC-4, to occur during the first half of 2009. For that purpose, it will be necessary to purchase the respective "cushion gas", as well as to inject the final filling gas, actions that will be put into effect through a competitive process based on specific auction, to be held by OMIP. In this regard, in November 2008, letters were sent to all the natural gas traders present in Portugal and Spain, inviting them to participate.

Besides this contribution, we would also stress the investment effort to be made not only for the continued increase in the storage capacity supply but also for the reinforcing of the capacities for injection and withdrawal of gas at the gas station on the surface.

5.5.3. Information systems

The year 2008 was characterized by the development and completion of projects that were considered fundamental for the REN Group.

These projects covered the diverse technological aspects of the Information Systems area, namely Telecommunications and Information Technology.

In the area of Security Telecommunications Network (RTS), with the goal of reinforcing management and maintenance of the RNT critical systems (protection, command and control, system manager telemetering), the following projects were launched:

- Remodeling and expansion of the Voice Network (Telephone Exchanges) to new substations and the Ermesinde administrative building.
- Implementation of the telephone service of the Group headquarters building, with use of Voice over IP technology (VoIP), offering new uses.
- Reinforcement and expansion of the SDH/DWDM Transmission of the National Networks for Transport of Electricity and Gas.
- Remodelling of the Hertzian Beams Network, with upgrade for integration in the SDH transmission network.
- Renewal and reinforcement of the teleprotection network, with high-debit interfaces, and integration thereof into the management systems in place.

Work also went ahead on the installation and remodeling of video-conference systems, providing all the administrative premises of the REN Group with the latest high-definition multimedia technology. This project included also the implementation of a centralized management platform (monitoring and scheduling), multi-conferences and recording.

In the context of Corporate Information Systems, and in order to meet set targets in terms of consolidation and optimization of resources, several structuring projects were launched, including:

- A new institutional website for the REN Group, having recourse to the new Portal platform.
- Implementation of the new Corporate Internet Access Platform.
- Implementation of the REN Group ERP, uniting the various systems existing in the companies in one Metro Cluster architecture.
- Studies and initiation of implementation of the project for the new SIG (Geographic Information System).
- Reinforcement of the infrastructures and systems in the Sacavém Datacenter.
- Creation of the Disaster Recovery System infrastructures of the Exchange platforms and SQL.
- Implementation of the Wireless Lan system in the REN Group headquarters building.
- Implementation of the REN TV multimedia platform.
- Study and initiation of implementation of the project for the new document management system.

Continuing our policy of reinforcing information systems management control resources, the infrastructures of Helpdesk were reinforced and decentralized, with the creation in the Headquarters building of a new assistance and supervision branch.

Within the context of information systems, studies were also carried out on the Group's telephone service and migration of the operative system base of the corporate information system platform.

5.5.4. REN Trading

In the context of management of the non-terminated Energy Acquisition Contracts (CAE), REN Trading acquires the electricity and system services from the Pego thermal power plant and from Turbogás. The daily control of all relevant information and validation of the invoicing involved is the responsibility of the Contract Management department, which also monitors the CO2 emission allowance market, managing the allocations and legal obligations of the power plants in this context. As part of this activity, the fuel markets (coal and natural gas) and their indexing rates must also be monitored in addition to the natural gas supply contract signed with GALP Gás Natural, S.A.

In the context of contract management, involvement in the European market of emission allowances (ETS – Emissions Trading Scheme) was initiated. REN Trading is responsible for managing the CO2 emission allowances and fixing a carbon management strategy for the two power plants with CAE. Thus, various contracts were signed with entities involved in the CO2 emission allowance market, with a view to the buying and selling of allowances, as well as making swap operations of EUAs (European Unit Allowance) for CER (Certified Emissions Reductions). REN Trading was the second Portuguese entity to be made a member of the "Bluenext" spot transactions exchange, market leader, and the first to join "Nord Pool" (where emission allowances are also traded in futures/forwards).

The sale of electricity, carried out by the Trading department, is mainly done through the Iberian Electricity Market (daily sale offers placed on the OMEL).

REN Trading has sold some electricity through Virtual Power Plant auctions (VPP), the latter by decision of the Ministry of the Economy and Innovation. In this context, electricity capacities of between 150 MW and 250 MW were made available to market agents during the period from February to December 2008.

REN Trading is also active in the Systems Service market in Portugal. Secondary regulation (teleregulation) and/or tertiary regulation (real time variation in load) are requested by the Portuguese System Manager, both services being essential for the correct technical operation of the electricity system.

Since REN Trading is a regulated company, the Regulator of Energy Services (ERSE) fixed in its Regulation no. 6/2008, of 8 April, a set of incentives related to regulated activities, which define methodologies of sharing, between the electricity consumers and REN Trading, the gains from these activities. The incentives are related to various aspects of the company's activity, such as optimization of sales of energy from the power plants, or minimization of costs of acquisition of natural gas or of the CO_2 emission allowances.

5.5.5. RENTELECOM – Comunicações, S.A.

RENTELECOM, which was set up to take advantage of the surplus capacity of REN Eléctrica's security telecommunications network, expanded its operations to include other Group companies, namely REN Gasodutos.

With a view to ensuring sustainability in such a competitive market, RENTELECOM, with its commitment towards diversification of services, carried out operations designed to minimize the effect of the drop in income from the segments of fiber optics (due to the significant increase of existing supply) and services to the REN Group. This measure produced the expected effects, allowing the sales targets set for 2008 to be reached.

Thus, in 2008, there was an increase in the services of consultancy for information and communication technologies in projects with companies promoting wind farms, cogeneration plants and special regime combined cycle power plants. Sales in this segment of the market doubled compared to 2007, both in the implantation of telecommunications systems and in the signing of maintenance contracts.

Growth continued in the renting of technical spaces, in particular the housing service, benefiting from the recovery of former debts and signing of new contracts with entities both inside and outside the energy sector.

We would mention too the new contracts that resulted from previous years' negotiations, namely in voice and data services, as well as the renting of circuits to telecommunication companies.

The year of 2008 was also marked by the drawing up of various proposals to the energy market and others; should these bear fruit, they would contribute to a substantial increase in the income from the housing segment.

Worth noting too is the contract signed in the Group for the transfer of human resources, which proved sufficient for RENTELECOM's needs in 2008.

Looking forward to 2009, and considering the difficulties in the telecommunications market, continued growth is forecast in RENTELECOM's activity, based in the contracts recently signed and those expected to be signed, inside and outside the energy sector.

5.5.6. OMIP – Operador do Mercado Ibérico de Energia (Pólo Português), S.A.

OMIP is responsible for the organization of the Portuguese branch of MIBEL, together with OMIClear – Sociedade de Compensação de Mercados de Energia, S.G.C.C.C.C., S.A., company constituted and wholly owned by OMIP, ensuring the trading and clearing, settlement and central counterparty operations in the MIBEL derivatives market.

OMIP is held 90% by REN – Redes Energéticas Nacionais, SGPS, S.A., and has a 10% crossed participation in the respective capitals with OMEL – Operador del Mercado Ibérico de Energia – Pólo Español, S.A.

The 2008 year was marked by the significant changes that had to be made by OMIP and OMIClear in order to comply with all the requirements emerging from the transposition to the Portuguese juridical order of Directive 2004/39/CE of the European Parliament and Council, of 21 April, with regard to financial instrument markets (DMIF).

To this end, the Board of Directors decided to adopt the transformation of the MIBEL Derivatives Market to the Regulated Market, thus transforming the management company into a regulated market management company, in accordance with the provisions of Decree-Law no. 357-C/2007, of 31 October. This option aimed at providing the market and its operation with the highest requisites of stability, rigour, impartiality and transparency, in order to consolidate and increase the agents' confidence, placing OMIP at the same level as its leading market counterparts, i.e. Nord Pool, EEX and ENDEX.

The transformation process implied an important and stimulating challenge of adaptation for OMIP and OMIClear, with the development of a series of corporate, regulatory, financial and operational measures, of which we highlight the following:

- Modification of the OMIP and OMIClear Statutes.
- Increase of the equity capital of OMIP and OMIClear, respectively to 2,500,000 EUR and 3,000,000 EUR. In the first case, with recourse to incorporation of reserves, and in the second, by subscription of the only shareholder (OMIP).
- Alteration of the Market Rules (Regulations, Circulars and Notices).
- Adoption of a Deontological Code, which envisages the existence of an Ethics Committee that will push for its observation and fulfillment.

As far as business is concerned, in 2008 the strategy of promotion of liquidity was followed in the MIBEL derivatives market, through increasing the volumes negotiated and the number of members, as well as the diversification of the products and services offered. In this regard, the following projects and initiatives are worth noting:

- Development of the OMIPlus business terminal, constituted as an operational reference tool for the operators.
- Strong commitment to marketing directed at agents and interested parties, with the aim of promoting the image of OMIP and OMIClear as the reference operators in the context of the MIBEL futures market.
- Establishing of an original scheme of discounts in negotiation commissions, based on members' activity.
- The signing of market-maker contracts with Sempra Energy Europe and EGL España, S.L.
- Operational improvements for agents' activities, including the extension of trading hours and the downward revision of the guarantee values required by the clearing house.
- Extension of the time horizon covered by the products negotiated, with the launching of the "Year+2" contract.
- Holding of auctions of virtual capacity generated (Virtual Power Plant – VPP) and the corresponding settlement, clearing and guarantee management.
- Holding of auctions for the adjudication of capacity for injection of power produced by wind generators into the public service electricity grid.

Selected parts of the negotiation screen referred in the text

The results obtained in the MIBEL futures market are reflected in the positive development of the main activity indicators, namely the number of members and the trading volumes and the notional trading values:

	2008	2007
Traded Volume (TWh)	32	25
Notional value negotiated (M€)	1 963	1 205
Number of participants	38	34

As far as the number of members is concerned, by the end of 2008 38 entities had joined the MIBEL derivatives market in their diverse capacities – trading member (own account, third party account and joint account), clearing member (general and direct), physical settlement agent and financial settlement agent. The broad diversity of origins of the operators (Spain, Portugal, United Kingdom, Switzerland, Germany, Belgium and United States) is a very promising sign as to the affirmation of OMIP and OMIClear.

OMIP and OMIClear members at the end of 2008

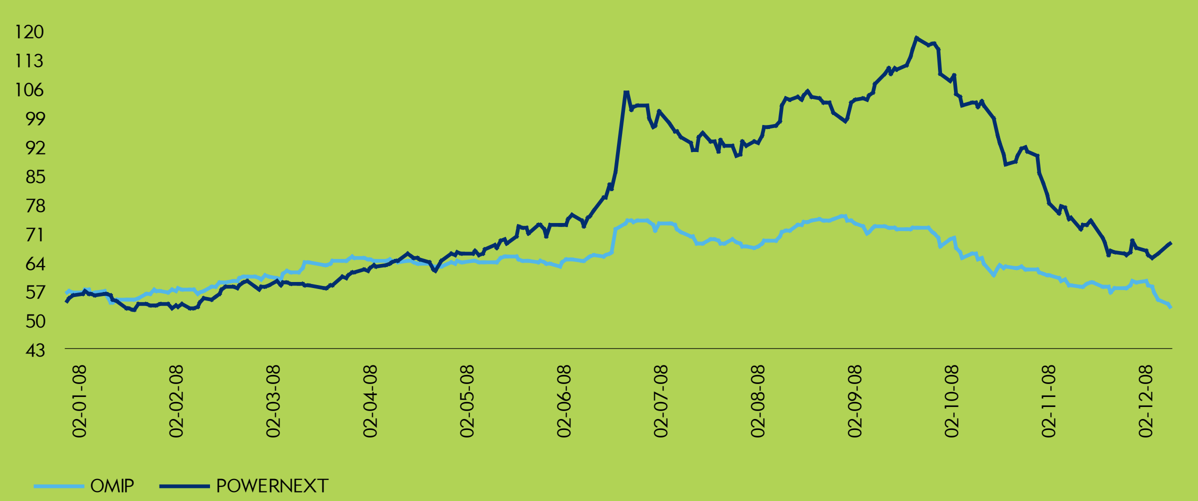
As regards contract prices negotiated in the MIBEL derivatives market, there was a strong correlated development in the prices of OMIP and its counterpart Powernext, as can be seen in the examples of the annual and quarterly contracts that follow. We would point out that the prices in MIBEL were less than those verified in France in the Year-2009 contract, a trend that was observed in the quarter ahead contracts as from May.

For the 2009 period, there are daunting challenges, namely putting into effect the strategy of reinforcing the MIBEL derivative market activities, as well as diversifying activities through providing of other services, such as the holding of auctions.

At the corporate level, the Iberian operator OMI is expected to be confirmed, constituted by integration of OMIP and OMEL, sight market operator of MIBEL.

Contract Prices Year-2009 on OMIP and Powernext

Contract Prices “Following Quarter” on OMIP and Powernext



5.6. Economic and financial developments

Important aspects of the year's activity

The business year 2008 was the first full year in which REN's accounts reflect almost exclusively the results of its core business, namely electricity transmission and transport, underground storage and regasification of natural gas. In fact, energy trading lost relevance, by virtue of the termination of all but two of the Power Purchase Agreements (PPA's) as of 1 July 2007, and the same happened to the remuneration of land used for hydroelectric plants due to settlement of the deficit from the period 1999-2003.

As from 1 April 2008, REN's balance sheet no longer includes a tariff deficit, historically associated with the activity of buying and selling energy from the PPA's and from renewable source, and with the deficit of remuneration of land assets during the period 1999-2003.

The year 2008 also saw the start of REN Serviços operational activity, to which about 25% of the Group's total human resources were allocated.

Net income for the year was 127.4 M€, of which 94.2 M€ originated in the electricity business, 34.3 M€ in natural gas and -1.1 M€ in other Group operations (SGPS, telecommunications, OMIP and OMIClear and REN Serviços).

Consolidated income statement

The following table shows REN's income statement for 2008 and 2007.

Profit and Losses Account

(Un.:€M)

Items	2008	2007
Sales and Rendering of Services	494,4	554,7
Other operational profits	103,9	47,0
Void of provisions		40,7
Gains in gas Joint ventures	9,1	8,9
Operational profits	607,4	651,3
Costs with personnel	(49,7)	(42,6)
Supplies and External Services	(78,9)	(145,5)
Other operational costs	(84,1)	(48,6)
Amortizations	(129,7)	(123,9)
Constitution of provisions	(28,1)	(25,8)
Operational Costs	(370,5)	(386,4)
Operational income	**236,9**	**264,9**
Amortizations	129,7	123,9
EBITDA	**366,6**	**388,9**
Net financial income	(65,0)	(77,5)
Gross income	**171,9**	**187,4**
Income Tax	(44,6)	(42,3)
Net income	**127,4**	**145,2**

As one may conclude from the table above, there was in 2008 a reduction in operating income and an improvement in financial income, as compared to 2007.

Operating income for the year 2008 was 236.9 M€, which represents a drop of 28 M€ versus 2007. This variation is explained by the induction in commercial gains related to the PPA's (-11.1 M€), by the reduction in remuneration of land (-6.1 M€) and by the combined effect of non recurrent items in 2007 and 2008.

Financial income improved by 12.5 M€, due mainly to the reduction in net financial charges brought about by the settlement of the tariff deficit (in April 2008).

Operating revenues and costs

Sales and Services provided totalled 494.4 M€, implying a reduction of 60.3 M€ from the previous year. This reduction is explained by the fact that almost all of the power system services were no longer reflected in REN's accounts (being directly settled between the market agents). Also the reduction in commercial gains (-11 M€) contributed to the drop in Sales and Services provided.

Other Operating Income, includes the extraordinary gain of 67 M€ arising from the impact on IFRS accounting standards of the settlement of the hydro-land deficit, which explains the increase of this income item, despite the reduction (3.6 M€) of income from land remuneration.

In terms of Operating Costs, we can highlight External Supplies and Services, which in 2008 amounted to 78.9 M€, Personnel costs, amounting to 49.7 M€, and Depreciation, which reached 129.7 M€.

The decrease of FSE in relation to 2007 reflects, as already mentioned the fact that, since the second half of 2007, system services (in its almost totality), are no longer a cost of REN. Therefore it represents the reverse side of an identical reduction in sales and services provided.

Depreciation charges for the electricity segment show a rise of 7.3% when compared to 2007, due to the increase in investment concluded in 2008. This growth was only 1% in gas, due to the fact that most of the investment made this year did not came into operation.

The following table shows how the above three cost items are broken down by business segment:

Items	Electricity	Gas	Others	Total
Supplies and External Services	35.710	36.415	6.764	78.889
Costs with personnel	23.483	9.689	16.569	49.742
Amortizations	84.710	44.335	677	129.721

The change in Provisions (+28.1 M€) results from the creation of a provision to cover tariff deviations, to be returned to the system through 2010.

Evolution of Balance Sheet

REN's balance sheet as at 31 December 2008 is summarized below:

(Un.:€M)

Item	2008	2007
Net fixed assets	3.179,7	3.086,1
Tangible fixed assets	2.847,2	2.654,8
Intangibles assets	3,8	3,8
Investment properties	328,7	427,6
Financial assets avalilable for sale	86,9	59,6
Interest in joint ventures	9,7	9,0
Provisions	(104,0)	(58,9)
Net working capital	(54,6)	140,3
Others	(368,0)	(298,8)
Invested capital	**2.749,8**	**2.937,4**
Financial debt	1.835,6	2.054,9
Finance leases	3,9	2,2
Cash and cash equivalents	(101,4)	(125,9)
Net debt	**1.738,1**	**1.931,2**
Minority interest	0,6	0,6
Equity	1.011,1	1.005,8
Shareholders funds	**1.011,7**	**1.006,3**

In the Company's balance sheet, the item Net Fixed Assets include fixed assets under construction, which totalled 235.6 M€ as at 31 December 2008, against 160.3 M€ on the same date in 2007.

For the purpose of calculating regulated income, the relevant net assets amounted to 1 676.3 M€ for the electricity segment and 928.3 million for gas. These figures result from the monthly average for the assets in regulated activities over the year.

In order to determine the assets that served as the basis for calculating permitted profit, the value of non-regulated assets and the net value of investment subsidies were deducted from current assets.

The item "financial assets available-for-sale", reflects the acquisition, in 2008, of a 1% stake in ENAGAS for 43.2 M€. The value of 86.9 M€ at 31 December 2008 expresses the revaluation of the stakes in REE and ENAGAS at market prices of 30 December, which led to an adjustment of -15.8 M€ in equity.

In the summarized Balance Sheet, the tariff deficit and deviations are reflected in the items Net Working Capital and Investment Properties. Thus, the reduction in the values of those two asset items, between 31 December 2007 and 31 December 2008, reflects the receipt, in April

2008, of the full amount of the tariff deficit of REN as at 31 December 2007, in the amount of 466.2 M€.

Against the reduction of those items in assets, the receipt of the tariff deficit implied a reduction of REN's net debt, despite the heavy investment effected during 2008.

Investment

During 2008, REN investment in tangible fixed assets totalled 313.5 M€. If we add to this figure the shareholding in Enagás (43.2 M€), the value of investment rises to 356.7 M€.

Investment in tangible fixed assets is made up of 45.0 M€ in the gas business and 268.1 M€ in electricity.

The following table shows the breakdown of total investment:

(Unit: thousand euros)

Sectors	Total Investment
Electricity Sector	268.135
Substations	150.625
Lines	94.702
Telecommunications	3.999
Others	18.809
Sub-Total	**268.135**
Gas sector	45.033
Others	298
Total	313.465

The main investments in the gas business were for reinforcement of connections to the distribution network in response to increases in consumption, for completion of construction work in the TGC-4 cavern, for diverse detail-engineering projects for the development of new connection points to the RNTGN and for improvement of operational safety, as well as for the third storage tank project, an essential infrastructure to improve flexibility in the use of the terminal.

Financing Strategy and Debt

In 2008, three important objectives were achieved within the context of REN Group's financial management: (i) the centralization the Group's debt at the holding level; (ii) centralization of cash management; and (iii) the extension of the average maturity of the Group's debt.

The first objective was achieved through the transmission to the holding company of the debt of the subsidiaries REN Eléctrica and REN Gasdodutos. In this situation, REN SGPS raises all the funds to meet the financing needs of its subsidiaries.

Besides the centralization of debt, a centralized cash management of the Group's was put in place. REN SGPS now appears as the only interlocutor of the Group (with the exception of REN Atlântico, because it is a Finance Project) to the outside world, with exclusive responsibility for taking financial decisions.

The extension of the maturity of debt was obtained through the contracting of medium/long-term debt, namely: (i) a new EIB (European Investment Bank) loan of 250 M€, for the financing of investments in the electricity business; (ii) a bond issue in the international capital market in the amount of 500 M€, under the EMTN (European Medium Term Notes programme) of REN SGPS.

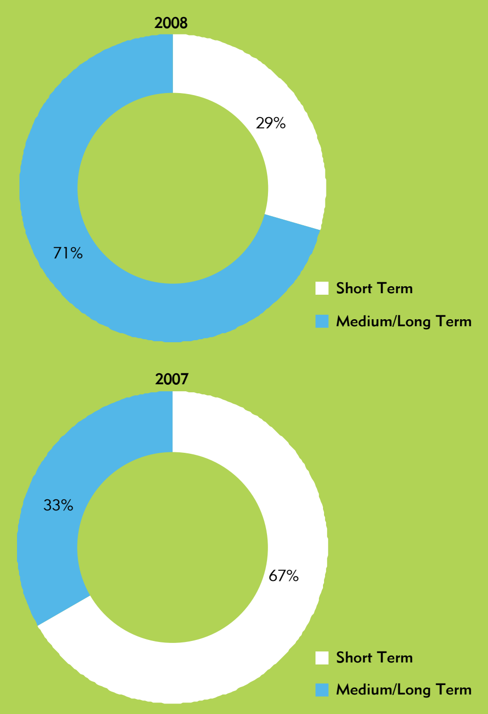
The Bond issue realized in December 2008 was the culmination of a process initiated with the obtaining of international rating for REN SGPS from Standard & Poor's and Moody's, followed by the constitution of an EMTN programme.

The Group's net consolidated debt at year end amounted to 1.738,1 M€, implying a decrease of 193 M€ (10,0%) versus 2007. This reduction is due to the financial influx of 466 M€, in April 2008, relating to the recovery of the tariff deficit of REN Eléctrica.

Financial Debt (M€)	2008	2007	Variation	
(IFRS)			Absolute	%
Net Debt	**1.738,1**	**1.931,2**	**-193,0**	**-10,0%**
Gross Debt	1.839,6	2.057,1	-217,5	-10,6%
Cash and equivalents	101,4	125,9	-24,5	-19,4%

The signing of the new financing contract with EIB in November 2008, with a maturity period of 17 years, and the inaugural 5 year bond issue of REN SGPS, in December, changed significantly the Group's debt structure.

The extension of the debt's average maturity, besides guaranteeing a greater adjustment of its time profile to the long-term nature of the Group's assets, significantly reduced the risk of refinancing.

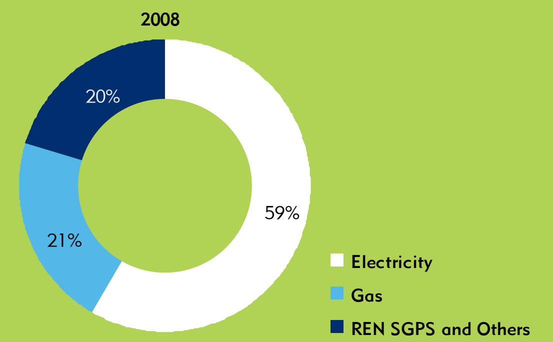


The contracting of these loans also introduced an important element of equilibrium and diversification into the Group's sources of financing. The weight of commercial paper in the gross debt dropped from 78% in 2007 to 35.4% in 2008.

Sources of finance	2008	2007	Variation		Weight (%)
			Absolute	%	2008
Commercial paper	649,0	1606,0	-957,0	59,6%	35,4%
Bank loans	640,5	425,8	214,7	50,4%	34,9%
Bonds	500,5	0,0	500,0	n.a.	27,3%
Bank overdrafts	41,9	23,7	17,3	73,1%	2,2%
Finance lease	3,9	2,2	1,8	82,0%	0,2%

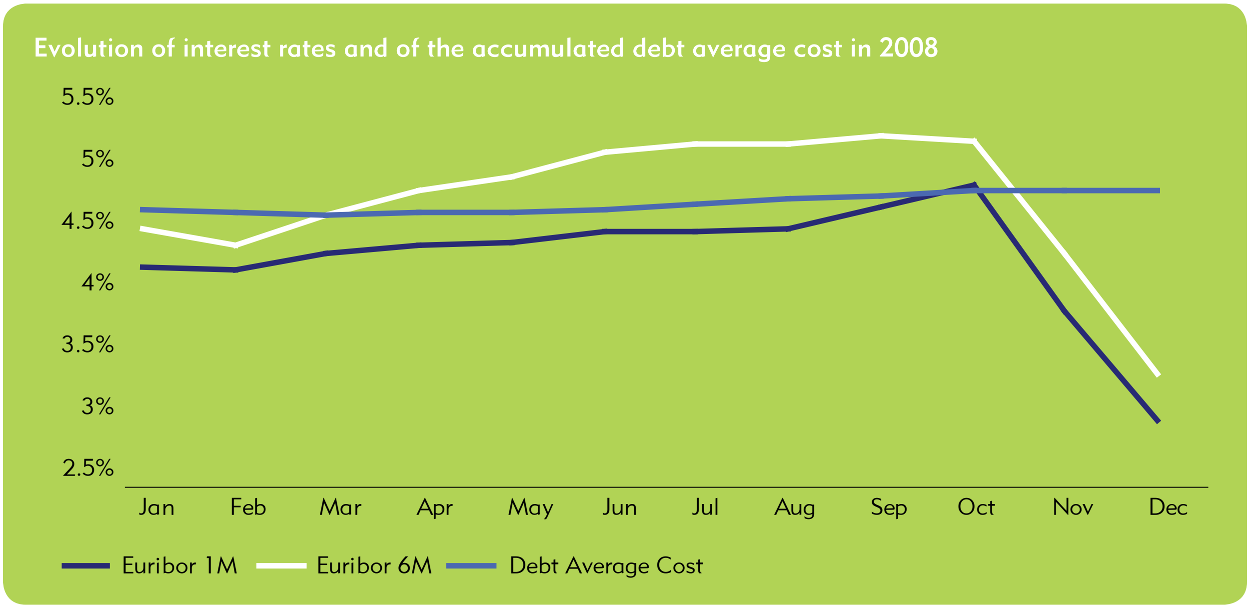
The electricity business represented some 59% of the Group's debt, the remainder being related to the gas business and to REN SGPS (in more or less equal proportions).

Allocation of the Net Debt by Business: 2008



In 2008, the net financing costs of the Group had a reduction of about 8.3 M€ compared to 2007 (from 84.5 M€ to 76.2 M€). This decrease resulted basically from the reduction of debt afforded by the aforementioned settlement of the tariff deficit.

The average cost of the Group's gross debt, increased by 38 b.p. against the previous year (in 2007 the gross debt cost stood at 4.42% p.a., having risen to 4.80% p.a. in 2008). This situation results from a generalized rise in international interest rates.



The ratings awarded to REN SGPS by Standard & Poor's e Moody's were, respectively, A+ and A2, both with "Stable Outlook".

In the beginning of February 2009, the Group's debt restructuring process proceeded with the launching of an additional tranche of 300 M€, exchangeable with the bond issuance of December 2008, thus raising the overall amount of the issuance to 800 M€.

Financial year and per share results

The net profit for the year was 127.4 M€, with the corresponding value before tax being 171.9 M€, implying an effective tax rate of 25.9%.

Considering the current number of shares (534 million), earnings per share (EPS) was 0.24 EUR.

5.7. Closing Remarks and Outlook for 2009

Outlook for 2009

In 2009, the REN Group's activity will be characterized by a strong investment drive, extensive to both the areas of electricity and natural gas. This investment will be concentrated mainly in infrastructures required by the National Strategy for Energy. That being so, in the area of electricity, the greater effort will fall upon the connection to new electricity generation from renewable sources, the connection of new combined cycle power plants, the increase of interconnection with Spain, and the densification of the grid on national territory. In the area of natural gas, the expansion of the capacity of the LNG terminal at Sines is the most significant project.

Efforts will also continue to be made to rationalize both operating and investment costs, while ensuring a permanent and high standard of service quality. That effort becomes all the more urgent, since the new regulatory framework of electricity transmission has introduced incentives for the reduction of operating and investment costs.

A specific project was launched for the reduction of operation costs in back-office – the SINERGIAS Project, which will identify opportunities to increase the efficiency of the processes and resources of REN Serviços.

In the financial area, REN will continue proceed with the restructuring of its debt, extending its maturity and managing the interest rate and liquidity risk. The prudent and proactive management of risk assumes all the more importance in the phase of financial instability that has characterized - and will continue to characterize in 2009 – capital markets.

The year 2009 will see the beginning of the procedures of the regulative model of Gas. REN intends to propose to ERSE some changes resulting from the experience acquired during the first regulatory period of natural gas activities.

Finally, REN will continue its efforts towards the advance of the European energy market, an area in which it has been in the front line of the debate and definition of priorities at the EU level.

Final Remarks

The Board of Directors would like to acknowledge all those who, in 2008, gave their support to the attainment of the Company's goals.

To the Company's employees, for their dedication, commitment and high degree of professionalism in the performance of their duties, in harmony with the goals set; to the shareholders, for their support and trust at different moments in the Company's life.

To the Audit Committee, Statutory Auditor and External Auditor, for their essential collaboration, the Board of Directors would like to express its most sincere gratitude.

Lisbon, 20 February 2009

The Board of Directors

José Rodrigues Pereira dos Penedos
Aníbal Durães dos Santos
Victor Manuel da Costa Antunes Machado Baptista
Rui Manuel Janes Cartaxo
Fernando Henrique Viana Soares Carneiro
Luís Maria Atienza Serna
Gonçalo José Zambrano de Oliveira
Manuel Carlos Mello Champalimaud
José Isidoro d'Oliveira Carvalho Netto
Filipe Maurício Botton
José Luís Alvim Marinho
José Frederico Vieira Jordão
Fernando António Portela de Rocha Andrade


REN

Consolidated financial statements

6. Consolidated financial statements

(Unit: Thousand Euros)

	Note	As at 31 December 2008	2007
Assets			
Non-current assets			
Property, plant and equipment	7	2.847.243	2.654.320
Goodwill	8	3.774	3.774
Investment properties	9	328.680	427.599
Interest in joint ventures	10	9.716	9.025
Deferred income tax assets	11	46.147	19.416
Available-for-sale financial assets	13	86.924	59.567
Trade and other receivables	14	90.393	100.264
		3.412.876	**3.273.965**
Current assets			
Inventories	15	8.364	3.073
Trade and other receivables	14	263.856	511.457
Income tax receivable		-	15.354
Guarantee deposits	16	35.604	39.765
Derivative financial instruments	17	876	
Cash and cash equivalents	18	101.431	125.920
		410.131	**695.569**
Total assets		**3.823.007**	**3.969.534**
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	534.000	534.000
Treasury shares	19	(6.619)	
Other reserves	20	164.160	152.591
Retained earnings	20	192.156	174.033
Profit for the year attributable to equity holders of the Company		127.405	145.150
		1.011.102	**1.005.774**
Minority interest		574	555
Total equity		**1.011.676**	**1.006.329**
Liabilities			
Non- current liabilities			
Borrowings	21	1.298.530	687.169
Deferred income tax liabilities	11	92.333	178.345
Retirement and other benefits obligations	22	45.198	28.016
Provisions for other liabilities and charges	23	33.524	30.853
Trade and other payables	24	351.060	280.585
		1.820.645	**1.204.968**
Current liabilities			
Borrowings	21	541.026	1.369.905
Provisions for other liabilities and charges	23	25.300	-
Trade and other payables	24	296.426	288.778
Income tax payable		92.331	59.789
Guarantee deposits	16	35.604	39.765
		990.686	**1.758.237**
Guarantee deposits		**2.811.331**	**2.963.205**
Total equity and liabilities		**3.823.007**	**3.969.534**

The notes in pages 78 to 128 are an integral part of these consolidated financial statements.

Consolidated income statement

(Unit: Thousand Euros)

	Note	As at 31 December 2008	2007
Sales of goods	25	437	242
Services provided	25	493.994	554.450
Operating revenue		**494.431**	**554.692**
Cost of goods sold		(530)	(284)
External supplies and services	26	(78.889)	(145.466)
Employee compensation and benefit expense	27	(49.740)	(42.619)
Depreciation and impairment charges		(129.721)	(123.919)
Provisions for liabilities and charges	23	(27.971)	14.878
Share of (loss)/profit of joint ventures	12	9.142	8.896
Other expenses	28	(83.545)	(48.282)
Other income	29	103.778	47.093
Total		**(257.476)**	**(289.702)**
Operating profit		**236.954**	**264.990**
Finance costs	30	(90.338)	(82.813)
Finance income	30	22.996	5.284
Available-for-sale financial assets - dividends		2.867	33
Profit before income taxes		**171.979**	**187.461**
Income tax expense	31	(44.552)	(42.253)
Profit for the year		**127.427**	**145.208**
Attributable to:			
Equity holders of the Company		127.405	145.150
Minority interest		22	58
		127.427	145.208
Earnings per share attributable to the equity holders of the company during the year (expressed in euro per share)			
- basic		0,24	0,27
- diluted		0,24	0,27

The notes in pages 78 to 128 are an integral part of these consolidated financial statements.

Consolidated statement of recognised income and expense

(Unit: Thousand Euros)

	As at 31 December	
	2008	2007
Actuarial gains and losses - gross of tax	(19.964)	5.849
Net fair value gains on available for sale investments - gross of tax	(15.838)	8.600
Tax on items taken directly to or transferred from equity	7.389	(2.689)
Net income recognised directly in equity	**(28.413)**	**11.760**
Profit for the period	**127.427**	**145.208**
Total recognised income for the year	**99.014**	**156.968**
Attributable to:		
Equity holders of the company	98.992	156.910
Minority interest	22	58
	99.014	**156.968**

The notes in pages 78 to 128 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(Unit: Thousand Euros)

	As at 31 December	
	2008	2007
Cash flow from operating activities		
Cash receipts from customers	2.614.752	2.220.484
Cash paid to suppliers	(1.843.905)	(1.741.772)
Cash paid to employees	(48.890)	(47.449)
Income tax paid	(100.934)	(64.236)
Net flows from operating activities	**621.023**	**367.027**
Cash flow from investing activities		
Receipts related to:		
Financial investments	15.062	600
Sale of PPE	25	70
Grants related to to assets	65.026	12.861
Dividends	8.484	6.820
Payments related to:		
Perímeter change	-	(24.026)
Avaliable-for-sale financial assets	(43.425)	(50.590)
Purchases of PPE	(264.689)	(243.656)
Net cash used in investing activities	**(219.517)**	**(297.922)**
Cash flow from financing activities		
Receipts related to:		
Borrowings	31.782.188	20.837.409
Interests	8.711	-
	-	-
Payments related to:		
Borrowings	(32.017.007)	(20.643.150)
Interests	(130.142)	(88.116)
Dividends	(87.064)	(97.003)
Net cash used in financing activities	**(443.314)**	**9.140**
Net (decrease)/increase in cash and cash equivalents	**(41.808)**	**78.245**
Cash and cash equivalents at de begining of the year	102.215	23.970
Cash and cash equivalents in de end of the period	**60.407**	**102.215**

The notes in pages 78 to 128 are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

7. Notes to consolidated financial statements

1. General information

REN – Redes Energéticas Nacionais, SGPS, S.A. (referred to in these notes as "REN" or "Group"), with the address in Avenida Estados Unidos da América, 55 – 12º, Lisbon, was created from the spin-off of EDP group, in accordance to Decree –law 7/91, of the 8th of January and 131/94, of 19th May, approved in the shareholders meeting of 18th of August of 1994, with the purpose of ensuring the overall management of the Public Electricity Supply System (SEP).

Until the 26th of September of 2006, Group REN had its core activity in the electricity business, through REN – Rede Eléctrica Nacional, S.A. In the 26th of September of 2006, as a consequence of natural gas unbundling business, the Group suffered a significant change with the acquisition of the assets and shareholding investments related to the activities of transport, storage and regasification of natural gas, creating a new business segment in the Group.

In the beginning of 2007, the company was transformed into a holding company and redenominated after the transfer of the electricity business into a new company, created on the 26th of September, named REN – Serviços de Rede, S.A., which was then redenominated to REN–Rede Eléctrica Nacional, S.A.

In 2008, no changes occurred in the Group structure.

The Group has currently two major businesses: electricity and gas, and two residual businesses in telecommunications and electricity derivative market management.

Electricity business comprises the following companies:

a) REN – Rede Eléctrica Nacional, S.A. ("REN, S.A.), a company incorporated in the 26th of September of 2006, and to which the electricity business was transferred as referred above. Its activity is managed under a concession agreement for a 50 year period, started in 2007 and aims the overall management of the Public Electricity Supply System (SEP).

b) REN Trading, S.A. ("REN Trading"), a company incorporated in the 13th of June 2007, which object is to manage the power purchase agreements ("PPA), with Turbogás and Tejo Energia, that did not terminate as at 30 June 2007, the date the new contracts "CMEC" became effective. The activity of this company comprises the trade of electricity and production capacity with electricity national and international distributors.

Gas business comprises the following companies:

a) REN - Gasodutos, S.A. ("REN Gasodutos")
This company was incorporated in the 26th of September of 2006, which issued share capital was realized through the integration of gas transport infrastructures (network; connections; compression).

b) REN – Armazenagem, S.A. ("REN Armazenagem")
This company was incorporated in the 26th of September of 2006, which issued capital was realized through the integration of gas underground storage facilities.

c) REN Atlântico, Terminal de GNL, S.A. (REN Atlântico")
Formerly named "SGNL – Sociedade Portuguesa de Gás Natural Liquefeito", this company was acquired within the gas unbundling business. Its activity is to provide services of reception, storage and regasification of liquefied natural gas in a LNG sea terminal being responsible for the construction, operation and maintenance of the needed infrastructures.

These companies' activities are managed, each, under a concession agreement for a 40 year period, started in 2006.

Additionally REN Gasodutos owns a share in two companies created in joint venture with the Spanish Gas transmission company, Enagás, to which REN Gasodutos transferred the rights of transmission for specific pipelines (Braga-Tuy and Campo Maior - Leiria – Braga).

The telecommunications business is operated by Rentelecom – Comunicações, S.A. ("Rentelecom"), which activity is to establish, manage and operate telecommunication infrastructures and systems, providing communication services and profiting from the dark fibre infrastructure excess of capacity belonging to REN's Group.

The electricity derivative market business is run through OMIP – Operador do Mercado Ibérico de Energia (Pólo Português, S.A.) ("OMIP") the entity created for the organisation of the Portuguese division of MIBEL, ensuring the management of the MIBEL derivatives market, jointly with OMIclear (Energy Markets Clearing Company), a company constituted and totally owned by OMIP, which executes the role of a Clearing house and Central Counterparty of operations carried out on the market. OMIP started its operations on the 3rd of July of 2006.

REN Serviços, S.A. started its activity in January 2008, which mainly consist in providing general services such as: administration, financial, regulatory, staff management, payroll processing, management and maintenance of tangible assets, procurement of materials and services, and other equitable services, that can be called "back-office services". These services are provided for a fee, not only to group companies but also to third parties.

These consolidated financial statements were approved by the Board of Directors, in the meeting of 20 February of 2009. It is Board of Directors opinion that these financial statements reflect the true and fair view of Group REN operations, as well as its financial position, performance and cash flows.

2. Information about the concession arrangements awarded to Group REN companies

2.1. Electricity concession arrangement

The concession for the operation of the NTG was firstly awarded to REN, S.A. by Decree-law No. 182/95 of 27 July 1995 (article 64) aiming the management of the Public Electricity Supply System, the operation of the National grid Transmission, as well as the development of the necessary infrastructures.

The object of the concession contract includes the following activities:

i) Electricity purchase and sell

Until the 30th of June of 2007, REN, S.A. acted as an intermediate (agent role) between the bounded electricity producers and bounded electricity distributors, in the aim of this activity. Electricity was purchased in accordance with the Power Purchase Agreements signed with the producers and sold in accordance with the tariffs determined by the regulator, ERSE (Energy Services Regulatory Authority).

REN intermediated in the sell of any excess of electricity production. From the gains obtained REN was entitled to retain 50%.

From the 1st of July of 2007, with the termination of the majority of Power Purchase Agreements, REN, S.A. still manages two contracts not terminated with Tejo Energia and Turbogás, through the group company REN Trading, by selling the electricity generated by them in the market.

Residual PPE allocated to this activity is entitled to a return on assets similar to that on electricity transmission assets.

ii) Electricity Transmission

This is REN's main activity, and its purpose is to guarantee the electricity transmission throughout the national grid, and deliver it to bounded distributors of the SEP (Public Electricity Supply System) in medium voltage and high voltage power lines, and to consumers connected to the NTG extra high voltage power lines. This activity covers the planning, setting up, operation and maintenance of the transmission and interconnection grid.

The concession contract model guarantees a contractual equilibrium through the recover of amortisation and remuneration of the investments made in the concession assets, and the recover of eligible operation expenditures.

iii) Overall Management of the System

The purpose of this activity is to manage the Electricity System, through the coordination of the existing connections to NTG, of the electricity transmission to the system by the bounded producers, the bounded distribution in medium voltage and high voltage, and the consumers connected to the NTG as well as the producers unbound to the system (installed potency higher than 10 MVA), through dispatch order.

The overall system's management activities have also guaranteed the contractual equilibrium through the recover of the assets amortisation and the remuneration on the investments made. The remuneration is calculated over the average net book value of the assets allocated to this activity.

REN may have other activities, performed directly or through a subsidiary company, if authorised by the Government, and if considered as of the best interest for the concession or the customers. This is the case of OMIP which manages the electricity derivative market, in the scope of MIBEL, and its subsidiary Omiclear, which operates as the clearing house.

The concession was renewed for a 50 year period, as from the contract signing date, the 15th of June of 2007. The assets considered as concession assets, are those acquired by REN to NTG, and include:

- the power lines, substations, switching stations and the attached buildings;

- the infrastructures related to the central dispatch and the overall management of SEP, including the operating equipment;
- the infrastructures related to telecommunications, telemetry and remote control, allocated to the coordination of the system bounded producers and the electricity transmission.

Additionally, it is also considered as concession assets:

- the buildings owned by REN, where the above mentioned equipments are installed as well as the land usage rights;
- the sites of the electricity power stations bounded to SEP, legally owned by REN;
- other assets necessary for the operational development of the concession activities;
- all the legal relationships established within the concession, such as: labour contracts, subcontracts, leasing, electricity reception and delivery, as well as the rights of use of public domain assets and electricity transmission throughout grids located in areas out of the concession contract.

It is REN's obligation, during the concession period, to maintain the assets in due operational conditions, maintenance and security, doing the needed repairs, renewals and transformations to keep the assets in the required technical conditions.

REN has the title of property and ownership of the concession assets. These assets may only be used for the purposes of the concession contract. At the concession expiring date the concession assets will reverse to the grantor according to the concession agreement clauses which provides for an amount to be settled as a result of the net book value of those assets.

The concession agreement may be resolved by the parties, through cancellation, redemption or maturity. The concession agreement resolution implies the transmission of all the concession assets to the grantor.

The Concession agreement may be cancelled by the grantor when one of following events occurs, implying severely the concession operations: concession subject deviation; opposition to supervision and disobedience to the grantor determinations; refusal of maintenance and repair of the assets under concession as well as its expansion; charge of prices higher than the tariffs determined by the regulator; non authorised concession transmission or sub-concession.

The grantor may do the concession redemption, whenever the public interest is compromised, but only after a 15 year period of the concession agreement signing date. In this situation the operator has the right to an indemnity that will comprise the concession assets book value amount and ceasing profits.

If in the end of the concession agreement, this has not been renewed or no decision was made about the concession model or the new operator, the present concession agreement may be extended for an additional year, maximum, as a rental agreement, a service agreement or any other legal form.

2.2 Gas Transmission and Overall System Management

The concession for the operation of the RNTGN was awarded to REN Gasodutos, S.A. by Decree-Law no. 140/2006 of 26 July 2006 aiming the management of the National Gas Supply System (SNGN), the operation of the gas high pressure national grid transmission, as well as the development of the necessary infra structures, under a public service regime.

The object of the concession contract includes the following activities:

i) Gas Transmission

This is one of REN Gasodutos, S.A. activity, and its purpose is to guarantee the gas transmission throughout the high pressure national grid infrastructure, and deliver it to distributors of the SNGN (Public Gas Supply System) or industrial consumers directly connected to the RNTGN. This activity covers the reception and delivery of gas through the high pressure transmission grid, and the operation and maintenance of all the infrastructures and connections that are part of the RNTGN.

The concession contract model guarantees a contractual equilibrium through the recover of eligible operation expenditures, and the remuneration of assets which comprises the depreciation charge and a fixed interest rate determined by the regulator (ERSE), calculated as a proportion of the cumulative actual units transported, and the estimated total units to be transported through the infrastructure, during the concession period.

ii) Overall Management of the Gas System

The purpose of this activity is to manage the National Gas Supply System, through the coordination of the existing national and international connections to RNTGN, the planning and setting up of the gas high pressure transmission grid expansion necessary to the overall system operations, and the control of the natural gas security reserves.

The concession is for a 40 year period, as from the contract signing date. The assets considered as concession assets, are those acquired by Group REN to Transgás, and include:

- the high pressure pipelines for gas transmission, with the associated tubes and antennas;
- the infrastructures related to gas compression, transmission and pressure reduction used to deliver gas into the medium pressure distribution pipelines;
- the equipments related to the overall technical management of SNGN;
- the infrastructures related to telecommunications, telemetry and remote control, used to manage all the network places of reception, transmission and delivery, including telemetry equipment installed in the users facilities.

Additionally, it is also considered as concession assets:

- the buildings owned by REN – Gasodutos, S.A., where the above mentioned equipments are installed as well as the land usage rights;
- other assets necessary for the operational development of the concession activities;
- any intellectual or industrial rights property of REN – Gasodutos, S.A.;
- all the legal relationships established within the concession, such as: labour contracts, subcontracts, leasing and external services.

It is REN Gasodutos, S.A. obligation, during the concession period, to maintain the assets in due operational conditions, maintenance and security, doing the needed repairs, renewals and transformations to keep the assets in the required technical conditions.

REN – Gasodutos, S.A. has the title of property and ownership of the concession assets. These assets may only be used for the purposes of the concession contract. At the concession expiring date the concession assets will reverse to the grantor according to the concession agreement clauses which provides for an amount to be settled as a result of the net book value of those assets.

The concession agreement may be resolved by the parties, through cancellation, redemption or maturity. The concession agreement resolution implies the transmission of all the concession assets to the grantor.

The Concession agreement may be cancelled by the grantor when one of following events occurs, implying severely the concession operations: imminent failure or interruption of the concession activity; major deficiencies in the concession activity management and operation; and major deficiencies in the infrastructure maintenance and repair compromising the service quality.

The grantor may do the concession redemption, whenever the public interest is compromised, but only after a 15 year period of the concession agreement signing date. In this situation the operator has the right to an indemnity that will comprise the concession assets book value amount and ceasing profits.

If in the end of the concession agreement, this has not been renewed or no decision was made about the concession model or the new operator, the present concession agreement may be extended for an additional year, maximum, as a rental agreement, a service agreement or any other legal form.

2.3 Liquefied natural gas (LNG) reception, storage and regasification

The concession for the operation of the LNG Terminal was awarded to REN – Atlântico, S.A. by Decree-law No. 140/2006 of the 26th of July of 2006, to develop the following activities, under public service regime:

a) the reception, storage, treatment and regasification of liquefied natural gas, unloaded from methane tankers in Sines harbour;

b) the injection of natural gas in high pressure, into the natural gas transmission grid (RNTGN) or the expedition through specialized trucks; and

c) the construction, operation, maintenance and expansion of the LNG terminal infrastructures (plant, tanks, pipelines, etc.).

The concession contract model guarantees a contractual equilibrium through the recover of eligible operation expenditures, and the remuneration of assets which comprises the depreciation charge and a fixed interest rate determined by the regulator (ERSE), calculated as a proportion of the cumulative actual gas units unloaded and regasified, and the estimated total gas units to be regasified, during the concession period.

The concession is for a 40 year period, as from the contract signing date. The assets considered as concession assets, are those acquired by Group REN to Transgás, and include:

- the LNG terminal and the related infrastructures installed in Sines harbour;
- the infrastructures related to liquefied natural gas reception, storage, treatment and regasification, including all the equipment necessary to control, regulate and measure all the infrastructures and LNG terminal operation;
- the infrastructures allocated to the injection of natural gas to the RNTGN or the load and expedition of LNG through trucks or methane tankers;
- the infrastructures related to telecommunications, telemetry and remote control, used to manage all the infrastructures and LNG terminal.

Additionally, it is also considered as concession assets:

- the buildings owned by REN Atlântico, S.A., where the above mentioned equipments are installed as well as the land usage rights;
- other assets necessary for the operational development of the concession activities;
- any intellectual or industrial rights property of REN Atlântico, S.A.;
- all the legal relationships established within the concession, such as: labour contracts, subcontracts, leasing and external services.

It is REN Atlântico, S.A. obligation, during the concession period, to maintain the assets in due operational conditions, maintenance and security, doing the needed repairs, renewals and transformations to keep the assets in the required technical conditions.

REN Atlântico, S.A. has the title of property and ownership of the concession assets. These assets may only be used for the purposes of the concession contract. At the concession expiring date the concession assets will reverse to the grantor according to the concession agreement clauses which provides for an amount to be settled as a result of the net book value of those assets.

The concession agreement may be resolved by the parties, through cancellation, redemption or maturity. The concession agreement resolution implies the transmission of all the concession assets to the grantor.

The Concession agreement may be cancelled by the grantor when one of following events occurs, implying severely the concession operations: imminent failure or interruption of the concession activity; major deficiencies in the concession activity management and operation; and major deficiencies in the infrastructure maintenance and repair compromising the service quality.

The grantor may do the concession redemption, whenever the public interest is compromised, but only after a 15 year period of the concession agreement signing date. In this situation the operator has the right to an indemnity that will comprise the concession assets book value amount and ceasing profits.

If in the end of the concession agreement, this has not been renewed or no decision was made about the concession model or the new operator, the present concession agreement may be extended for an additional year, maximum, as a rental agreement, a service agreement or any other legal form.

2.4. Natural Gas Underground Storage

The concession for the operation of the underground storage was awarded to REN Armazenagem, S.A. by Decree-law No. 140/06 of the 26 th of July of 2006, to develop the following activities, under public service regime:

a) the reception, injection, underground storage, extraction, treatment and delivery of natural gas, to create or maintain the natural gas security reserve or to delivery in the RNTGN; and
b) the construction, operation, maintenance and expansion of the underground storage cameras.

The concession contract model guarantees a contractual equilibrium through the recover of amortisation and remuneration of the investments made in the concession assets, and the recover of eligible operation expenditures.

The concession is for a 40 year period, as from the contract signing date. The assets considered as concession assets, are those acquired by Group REN to Transgás, and include:

- the underground natural gas caverns acquired or constructed under the concession contract;

- the infrastructures related to gas injection, extraction, compression, dry, and pressure reduction used to deliver in RNTGN, including all the equipment necessary to control, regulate and measure all the infrastructures;
- infrastructures and equipment for leaching operations;
- the infrastructures related to telecommunications, telemetry and remote control, used to manage all the infrastructures and underground caverns.

Additionally, it is also considered as concession assets:

- the buildings owned by REN Armazenagem, S.A., where the above mentioned equipments are installed as well as the land usage rights;
- other assets necessary for the operational development of the concession activities;
- any rights of construction or volume expansion of underground caverns;
- the cushion gas allocated to each cavern;
- any intellectual or industrial rights property of REN Armazenagem, S.A.;
- all the legal relationships established within the concession, such as: labour contracts, subcontracts, leasing and external services.

It is REN Armazenagem, S.A. obligation, during the concession period, to maintain the assets in due operational conditions, maintenance and security, doing the needed repairs, renewals and transformations to keep the assets in the required technical conditions.

REN Armazenagem, S.A. has the title of property and ownership of the concession assets. These assets may only be used for the purposes of the concession contract. At the concession expiring date the concession assets will reverse to the grantor according to the concession agreement clauses which provides for an amount to be settled as a result of the net book value of those assets.

The concession agreement may be resolved by the parties, through cancellation, redemption or maturity. The concession agreement resolution implies the transmission of all the concession assets to the State.

The Concession agreement may be cancelled by the grantor when one of following events occurs, implying severely the concession operations: imminent failure or interruption of the concession activity; major deficiencies in the concession activity management and operation; and major deficiencies in the infrastructure maintenance and repair compromising the service quality.

The grantor may do the concession redemption, whenever the public interest is compromised, but only after a 15 year period of the concession agreement signing date. In this situation the operator has the right to an indemnity that will comprise the concession assets book value amount and ceasing profits.

If in the end of the concession agreement, this has not been renewed or no decision was made about the concession model or the new operator, the present concession agreement may be extended for an additional year, maximum, as a rental agreement, a service agreement or any other legal form.

3. Summary of the significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by European Union ("IFRS"), issued and effective or issued and early adopted as at 31 December 2008. In the preparation of these consolidated financial statements REN has attended to the convention of historical cost, changed, when applicable, by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgement in the process of adopting REN's accounting policies, with a significant impact on the carrying amounts of assets, liabilities as well as the expenses and revenues of the reporting period.

Although estimates are based in the best experience of the Board of Directors, the expectations over current and future events and actions, and the current or future outcome of these events may differ from the estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

New standards

a) Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2009 or later periods but that REN has not early adopted:

- IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009, and no significant impacts on segment disclosure are expected.
- IAS 23 (Amendment), 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009). This amendment to IAS 23, requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the initial cost of that asset. The option of immediately expensing those borrowing cost will be removed. This amendment is not expected to have impact on Group REN financial statements since the Group is already following this accounting treatment.
- IFRS 2 (Amendment), 'Share based payments' (effective for annual periods beginning on or after 1 January 2009). The objective of this amendment is to restrict the concept of vesting conditions to service and performance conditions. Other features of a share-based payment are not vesting conditions and need to be included in the grant date fair value for transactions with employees and others providing similar services, so that these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. This amendment clarifies also that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment has no impact on REN financial statements.
- IFRS 3 (Revised), 'Business combinations' (effective for annual periods beginning on or after 1 July 2009). The revision to this standard is still subject to endorsement by the European Union. The revised version of this standard implies a significant change in consideration components and its measurement. Regarding the "non-controlling interests" measurement the revised standard gives the choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree, either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. This revision will impact REN future business combinations.
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2009). The revision to this standard is still subject to endorsement by European Union. After the revision the standard requires the effects of all transactions with non-controlling interests to be recorded in equity, if there is no change in control. When control over an entity changes, any remaining interest is measured at fair value through profit and loss. This revision will impact REN future transactions with "non-controlling" interests.
- IAS 1 (revised) 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009). This revision objective is to aggregate information in the financial statements on the basis of shared characteristics. All owner changes in equity will be presented in the statement of changes in equity, separately from non-owner changes in equity. All non owner changes in equity are required to be presented in one statement of Comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. This revision to IAS 1 will be adopted by REN as at 1 January 2009.
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation'

(effective for annual periods beginning on or after 1 January 2009). The amendment to this standard is still subject to endorsement by European Union. This amendment requires some financial instruments that qualify as a financial liability, to be classified as equity instruments, provided the financial instruments have particular features and meet specific conditions. This amendment has no impact on REN financial statements.

- IFRS 1 (Amendment) 'First time adoption of IFRS' and consequential amendment to IAS 27 'Consolidated and separate financial statements'(effective for annual periods beginning on or after 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This amendment will not have impact on REN's financial statements.
- 2008 annual improvements, mainly effective for annual periods beginning on or after 1 January 2009. The improvements to the standards are still subject to endorsement by the European Union. As part of the process of reviewing the consistency of IAS/IFRS application in practice, the IASB has decided to do amendments to current standards with the aim of clarifying some of the interpretation inconsistencies identified. The expected most significant changes refer to IFRS 5, IAS 19, IAS 38 and IAS 40 amendments.
- IFRIC 13, Customer loyalty cards (effective for annual periods beginning on or after 1 January 2009, in the European Union). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive the arrangement is a multi-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. This IFRIC will have no impact on REN's financial statements.
- IFRIC 14, IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2009, in the European Union). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. At this date this IFRIC will not have impact on REN's financial statements.
- IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1 January 2009). This interpretation is still subject to endorsement by the European Union.The interpretation clarifies how to recognise revenue from service contract arrangements, taking into account if the transaction substance is a sale under IAS 18, 'Revenue', or a construction contract under IAS 11,'Construction contracts'. This interpretation does not have impact on the Group's financial statements.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008). This interpretation is still subject to endorsement by the European Union. This interpretation applies to groups that hedge the foreign currency risk arising from net investments in foreign operations and the conditions that must be fulfilled to qualify for hedge accounting. This interpretation also defines which amounts should be reclassified from equity to profit and loss when a foreign operation is disposed. This IFRIC has no impact on Group REN financial statements, since no net investments in foreign operations are owned.
- IFRIC 17, 'Distributions of Non-cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009). This interpretation is still subject to endorsement by the European Union. This Interpretation objective is to clarify how an entity should measure the distribution of non-monetary assets, to shareholders in the quality of dividends. This interpretation will be applied in the exercise it becomes mandatory.

b) The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 according to IASB, but are still subject to endorsement by the European Union, the reason why it were not applied:

- IFRIC 12, Service concession arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. This Interpretation is related to Group REN activities and the expected impact of its adoption in Group financial statements, is disclosed in Note 3.2.

c) The impact of the adoption of the standards and interpretations that became effective for the annual period accounts beginning in 1 January 2008 is the following:

- IAS 39, 'Financial instruments: Recognition and measurement'. Under exceptional conditions, changes in the classification of financial assets from the fair value through profit or loss" category, are allowed. Without impact on entity's financial statements.
- IFRIC 11, IFRS 2 – Group and treasury share transactions. Provides guidance on how to account for share-based payment arrangements that involve two or more entities within the same group. Without impact on REN's financial statements.

3.2 Services' Concession

The Group has four concessions for the operation and development of the NTG, and the overall management of the national electricity system as well as the operation and development of RNTGN, the natural gas liquefied terminal, the natural gas underground storage and the overall management of the natural gas system. The assets acquired/constructed by REN under these arrangements, referred as concession assets, comprise mainly property, plant and equipment assets.

According to IFRIC 12, a service concession arrangement, typically involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. Such an arrangement is often described as a 'build-operate-transfer', a 'rehabilitate-operate-transfer' or a 'public-to-private' service concession arrangement.

A common feature of these service arrangements is the public service nature of the obligation undertaken by the operator. Public policy requires that the services related to the infrastructure must be provided to the public, irrespective of the identity of the party that operates the services. The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:

(a) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been assigned.

(b) the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.

(c) the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.

(d) the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

Except for the situations of "build-own-operate" when applying the IFRIC 12 the operator should generally not recognise the infrastructure used to provide the concession services as its property, plant and equipment. Rather, the operator should account for the rights it receives in exchange for constructing the infrastructure using:

- the financial asset model - if the grantor has the primary responsibility to pay the operator for the concession services; or
- the intangible asset model - if users have the primary responsibility to pay the operator for the concession services.

At this stage it is Group REN understanding that concessions will qualify as intangible assets and additionally a financial asset may be recognised for the residual interest on the electricity and gas concession assets, to be paid by the grantor in the concession term. However the date of IFRIC 12 adoption will depend on European Union endorsement process.

3.3. Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which REN has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The entities that qualify as subsidiaries are listed in Note 36.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the REN share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

REN applies a policy of treating transactions with minority interests as transactions with parties external to the group. Losses attributable to minority interest which exceed its participation in the subsidiary are fully recognised by REN, except when minority interests have contractually assumed additional responsibilities over the subsidiary.

Subsidiaries accounting policies are changed whenever necessary, in a way of assuring that accounting policies are applied consistency through all the group companies.

Joint Ventures

The Group's interests in jointly controlled entities are accounted for by equity-method of accounting. The Group's share of joint venture profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in reserves. Unrealised gains or transactions between the group and its joint ventures are eliminated to the extent of the Group's interest in the joint venture. Accounting policies of joint ventures are changed whenever necessary to ensure consistency with the policies adopted by the Group.

3.4. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services, within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Group REN discloses segmental information by business, since the Group operates mainly in Portugal. The transactions made by the group company OMIClear, although referring to the sell of future contracts within MIBEL (Electricity Iberian market) agreement are not material to disclose as a geographical segment.

3.5 Foreign currency translation

i) **Functional currency translation**
Items included in the financial statements of each of the Group REN entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'), the euro. The consolidated financial statements including these notes are presented in thousand euros, unless otherwise stated, the Group's presentation currency.

ii) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, in finance costs if related with borrowings and in other operating costs, for all the other balances/ transactions.

iii) **Exchange rate**

The foreign currency exchange rates used for the conversion of the foreign currency balances are as follows:

Foreign Currency Exchange Rates

Currency	2008	2007
USD	1,3917	1,4721
CHF	1,4850	1,6547
GBP	0,9525	0,7334
SEK	10,8700	9,4415
NOK	9,7500	7,9580
DKK	7,4506	7,4583
RON	4,0225	3,6077

3.6. Property, Plant and equipment

Property, plant and equipment are stated at cost less depreciation and cumulative impairment losses. Cost refers to assets deemed cost as at transition date to IFRS, and acquisition costs for the assets acquired after that date.

Acquisition cost includes the price of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Borrowing costs capitalised during the preparation/ construction phase of PPE assets, are recognised as assets' acquisition and/or construction cost.

Subsequent expenditure, including renewals and overhauls, that extend the PPE useful life is recognised in the asset cost.

Repairs and maintenances are charged to the income statement of the period in which they are incurred.

Property, plant and equipment used directly in the concession activities are depreciated on a systematic basis, using the straight-line method, for its estimated useful life, from the date they are available for use, i.e. when they are in the location and condition necessary to be capable of operating in the manner intended by management.

Property, plant and equipment not used directly in the concession activities, are depreciated on a systematic basis, using the straight-line method, for its estimated useful life. Land is not depreciated.

Estimated useful lives for the most significant items of PPE are as follows:

	Years
Buildings and other construction	Between 25 and 50 years
Machinery and equipment	
Electricity transmission	Between 35 and 40 years
Natural gas transmission	Between 6 and 45 years
Liquified terminal	Between 5 and 25 Years
Underground storage	Between 10 and 50 years
Other specific technical assets	Between 5 and 10 years
Transport equipment	Between 4 and 6 years
Tools	Between 4 and 10 years
Office and IT furniture and fittings	Between 3 and 10 years
Other PPE	Between 10 and 20 years

Whenever there are indicators of impairment losses for property, plant and equipment assets impairment tests are made to estimate the asset recoverable amount, and when necessary book an impairment loss. The recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The value in use is measured based on the estimated discounted future cash flows the entity expects to derive from the asset use or its disposal at the end of the useful life.

Useful lives are reviewed at year end, for each class of assets, in a way of assuring that the calculated depreciation is in accordance with the asset consumption. Changes in useful lives are treated as a change in estimations and applied prospectively.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

3.7. Investment properties

Investment properties are properties (land or building) held to earn rentals or for capital appreciation, or both. Investment properties were valued at fair value, as at the transition date to IFRS, and measured subsequently according to the cost model recognising the depreciation charge and impairment losses when applicable. The cost model is applied to all the assets classified as investment properties.

The investment properties, which are concession assets, comprehend mainly the sites of hydroelectric and thermal electricity power stations, operated by the entities bounded to the SEP (Public Electricity Supply Service). These concession assets will reverse to the grantor in the end of the concession period, at depreciated value. Annual depreciation charge is totally recovered through the tariffs defined by the regulator (ERSE), in accordance with the following years of depreciation:

	Years
Thermal	30
Hydroelectric	60

Other land classified as investment property refers mainly to former sites of electricity power stations and substations discontinued, owned for capital valuation and are not depreciated. Buildings are depreciated for a useful life period between 25 and 50 years, depending of its usage (industrial or administrative, respectively).

Fair value

According with the standards applied, and particularly when the depreciated cost method is applied, the disclosure of investment properties fair value is required in annual financial statements.

The fair value of thermal and hydroelectric power stations sites is determined using discounted cash flows projections, based on reliable estimates of future cash flows and using current discounting rates that reflect the uncertainty of cash flows' amount and period of occurrence, since there is no active market for this type of assets.

For discount rate calculation, REN uses the relevant interest rates of Portuguese Government treasury bonds, considering cash flows' receivable average period, for power stations sites and the risk of the "national electricity system" from whom the cash flows are received.

Fair value of other land is determined based on external valuations, taking into account its present conditions or the high and best use, considering if it is rented or not.

3.8. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount at which they are recognised in the consolidated financial statements may not be recoverable.

Whenever, the assets' recoverable amount is lower than its carrying amount, the group must evaluate if the potential loss is permanent and definite, and if it is the case an impairment loss is recognised. When the loss is not assessed as permanent, the main assumptions used to support this conclusion must be disclosed.

Non-financial assets, other than goodwill, for which an impairment loss has been recognised, are evaluated at each reporting date about the reversal of the previously recognised impairment.

For the assets measured according to the depreciated cost model, the impairment losses and any eventual reversal are recognised in the consolidated financial statements.

Amortization and depreciation are recalculated prospectively according to the recoverable amount adjusted by the impairment loss recognised.

3.9. Financial assets

The Board of Directors determines the classification of the financial assets at initial recognition in accordance with the purpose for which the financial assets were acquired and re-evaluates this designation at each reporting date.

Financial assets may be classified into the following categories:

i) financial assets at fair value through profit or loss – includes non-derivative financial assets acquired for short-term trading and assets designated at fair value through profit and loss at inception date;

ii) loans and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;

iii) investments in held-to-maturity – includes non-derivative financial assets with fixed or determinable payments, with fixed maturities, that the entity intends and has the capacity to hold until the maturity date; and

iv) available-for-sale financial assets – includes non-derivative financial assets designated as available-for-sale at inception date or other financial assets not classified in any of the other financial assets categories. Available-for-sale are recognised as non-current assets unless management intends to dispose off the investment within 12 month of the balance sheet date.

Regular purchases and sales of investments are recognised on trade date – the date on which REN commits to purchase or sell the asset.

Financial assets at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. These assets are subsequently measured at fair value, being the gains and losses arising from changes in fair value recognised in the income statement in the period in which they arise, within "finance costs".

Available-for-sale financial assets are initially recognised at fair value including transaction costs. In the subsequent periods these assets are measured at fair value, being the changes in fair value recognised in a fair value reserve within Equity. Dividends and interests obtained from assets available-for-sale are recognised in the income statement in the period in which the right to receive them is established, within "Other income".

The fair values of listed investments are based on current market prices ("bid"). If the market for a financial asset is not active, REN establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis when information is available, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Loans and receivables are classified as "Trade and other receivables" in the balance sheet (Note 3.12), and are carried at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

REN evaluates at each balance sheet reporting date, whether there is objective evidence that its financial assets are impaired. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the equity instrument below its cost is considered an indicator that those are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments expire or are transferred with substantially all risks and rewards of ownership.

3.10. Derivative financial instruments

Derivative financial instruments are initially measured at the transaction date fair value, being subsequently measured at each reporting date fair value. The recognition of fair value gains or losses depends on its designation. If designated as derivative financial instruments for trade, gains or losses of fair value changes are recognized in the income statement, in "Finance income" or "Finance costs". If designated as hedging derivative financial instruments, gains or losses of fair value changes are recognized according to the hedged item and the hedging relationship, as a fair value hedge or a cash-flows hedge.

In an operation to hedge the exposure to fair value of an asset or liability ("fair value hedge"), the carrying amount of the respective asset or liability, measured in accordance with the defined accounting policy, is adjusted to incorporate the fair value change of the hedged risk. For these hedging relationships, the fair value changes are recognized in the income statement jointly with the fair value changes of the risk component of the hedged item.

In an operation to hedge the exposure to future cash-flows of an asset or liability ("cash-flow hedge"), the effective part of fair value changes in the hedging derivative are recognized in reserves, being recycled to the income statement in the periods the fair value changes of the hedge item impact the income statement. The ineffective part of the hedging is recognized in the income statement when it occurs.

3.11. Inventories

Inventories are measured at the lower of cost or net realisable value. Inventories include materials used in the maintenance and repair internal operations. Initial cost includes the purchase cost and all the expenses related with the asset acquisition. Cost is determined using weighted average cost formula.

The gas in the pipelines and the gas stored in the LNG terminal and underground caverns, are property of infrastructures users. Group REN companies do not buy, sell or hold stock of gas.

3.12. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment (when applicable). A provision for trade and other receivables impairment is established, when there is objective evidence that REN will not be able to collect all the amounts due, according to the original terms of receivables. The provision is recognised in the income statement, in "Impairment of trade and other receivables" being subsequently reversed when the indicators for impairment decreases or cease to exist.

3.13. Novation of trades

The group company OMIclear operates as the clearing house for electricity derivative market of MIBEL. OMIclear performs a series of functions required for the regular and correct clearing and settlement of operations, namely:

i) admission of participants in the registration, clearing and settlement of operations;
ii) support on operations registration and respective clearing and settlement;
iii) taking the position of Central Counterparty in the registered operations;
iv) definition of calculation formula and consequently the calculation and management of the guarantees due for the registrations of operations and from carrying out Clearing Member functions;
v) control of the risk taken on by the holders of registered positions.

Through novation OMIclear takes the position of Central Counterparty to all operations that have been registered, guaranteeing the fulfilment obligations of both parties. Once an operation is registered OMIclear manages the resulting positions, through its neutral position, becoming the buyer in relation to a seller and a seller to a buyer.

Derivatives are recognised at fair value at trade date, which is zero. Changes in the fair value of derivatives after trade date are margined on a daily basis via cash settlement and the fair value of the derivatives is again zero. Cash deposits received as collateral are recognised in the Balance sheet as an asset, being recognised the corresponding liability to the participant. Bank guarantees and non cash collateral are recorded off Balance sheet, according to IAS 39 – Financial instruments.

3.14. Restricted cash

OMIClear receives cash deposits from participants to guarantee the fulfilment of the future contracts, which are deposited in separate bank accounts owned by the company. However, the use of these deposits is restricted to the situations when one participant in a future contract enters in default, and OMIClear is obliged to clear the other counterpart position. Restricted deposits are booked as an asset, against a liability towards the participants. Restricted cash is reimbursed when the participant terminates the negotiation of future contracts within MIBEL.

3.15. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within "Borrowings" in current liabilities on the balance sheet, and are included in the consolidated cash flow statement preparation, as cash and cash equivalents.

3.16. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares acquired through contract or directly in the stock market are recognised in equity, in a separate heading. According to company law REN SGPS has to guarantee at all time the existence of reserves in Equity to cover the value of treasury shares owned, restricting the available amount of reserves for distribution.

Treasury shares are measured at acquisition cost if it is a spot transaction or at the estimated fair value if it is a forward contract acquisition.

3.17. Financial liabilities

IAS 39 foresees the classification of financial liabilities in two categories:

i) financial liabilities at fair value through profit and loss;
ii) other financial liabilities.

Other financial liabilities include "Borrowings" (Note 3.18) and "Trade and other payables". Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the related obligations are settled, cancelled or expired.

3.18. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost being the difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the borrowings term using the effective interest method.

Borrowings are classified as current liabilities unless REN has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date, being classified as non-current liabilities.

3.19. Income tax

Income tax expenses include current income taxes and deferred income taxes. Income taxes are recognised in the consolidated income statement, except when related with items recognised directly in equity. The amount of income tax payable is determined on the basis of the net income before taxes, adjusted in accordance with tax legislation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax is provided on every temporary differences, except to the extent that it arises from: i) the initial recognition of goodwill; or ii) the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. However for temporary differences associated with investments in subsidiaries deferred tax liabilities should not be recognised to the extent that: i) the parent company is able to control the timing of the reversal of the temporary difference; and ii) it is probable that the temporary difference will not reverse in the foreseeable future.

3.20. Employee benefits

REN grants to its employees, a supplementary retirement and survival plan (from now on referred as Pension plan), offers to its retirees and pensioners a medical assistance plan, and grants other benefits like seniority bonuses, retirement bonuses and death grant.

i) Pension plan of REN – Rede Eléctrica Nacional, S.A.

The supplementary retirement and survival benefit granted to employees, is a defined benefit plan funded jointly with EDP group, and managed by an independent third party, to which REN transfers all the obligations and pays the due contributions to cover the responsibilities arising in each period.

The liabilities and corresponding annual costs are determined through annual actuarial calculations, using the projected-unit credit method, by an independent actuary. The obligation present value is calculated based on the discounted amount of the future benefits payments, using the interest rate of high quality bonds denominated in the same currency and with a maturity date close to the date of the obligation settlement.

The liability recognised in the balance sheet relating to liabilities with pension benefits refers to the present value of the benefit obligation established on the date of the balance less the fair value of the plan's assets, and the past service cost adjustments.

ii) Medical assistance plan and other benefits of REN-Rede Eléctrica Nacional, S.A.

The obligations for the medical assistance plan and the other benefits are not funded and are covered by a specific provision.

The measurement and recognition of the obligations related with the Medical assistance plan and other benefits are calculated as described for the pension plan, except for what refers to the plan assets.

REN recognises all the actuarial gains and losses for all benefit plans, outside profit and loss, directly in equity, as demonstrated in the Statement of Cost and Revenue of the financial year.

iii) Life Insurance contract of REN Gasodutos and REN Atlântico

These companies grant to employees a life insurance contract. Costs are recognized during the period that the employees are on active service. The responsibilities are covered by specific provision.

3.21. Provisions

Provisions are recognised when REN has: i) a present legal or constructive obligation as a result of past events; ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated. When one of these criteria is not fulfilled or the obligation settlement is conditioned by a future event, REN discloses it as a contingent liability, except if the outflow of resources for the settlement is remote.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.22. Grants from Government and others

These grants refers to assets recorded as PPE and are presented in consolidated balance sheet, as current or non current deferred income under "Trade and other payables" heading.

Grants received from the Government and the European Union are recognised at fair value, when there is a reasonable certainty that it will be received.

The operational assets granted to REN by the new producers connected to the NTG, and other entities, are also recognised as grants received.

Grants are subsequently recognised in the consolidated income statement in the "Other income" heading, on a pro-rata basis to the related assets depreciation.

Grants related to income are recognized in the consolidated income statement in the same period the related expense is incurred.

3.23. Expenses and revenues

Expenses and revenues are recognised in the period to which it refers to, in spite of its settlement date, according to the accrual basis accounting principle. The differences between the amounts received and paid and the related revenues and expenses are recognised has assets and liabilities respectively, if these qualify as receivables or payables.

3.24. Regulatory assets

In regulated activities, the regulator establishes criteria for regulatory gains and losses allocation, to future years through the adjustment in tariffs. According to IFRS framework tariffs accruals or deferrals are regulatory assets or liabilities pending of future events that do not qualify, to be recognised in the balance sheet. The referred amounts are only recognised as revenues or expenses, in the period they are incorporated in the tariffs charged ultimately to clients.

3.25. Revenues

Electricity segment

Revenue recognition for concession activities is determined based on the information of the electricity transmitted to distributors and the implicit services provided, considering the tariffs defined annually by the regulator, for transmission and overall management of the electricity system activities.

Relating to the intermediation activity on the sale and acquisition of electricity (agent role), REN recognises the remuneration of the assets allocated to this activity.

Relating to the "Commercial Agent" activity, developed by the group company REN Trading which is responsible for the management of the electricity produced under the two PPA (power purchase agreement) that have not ceased (Tejo Energia e Turbogás), this is remunerated through an incentive mechanism.

To enhance the "Commercial Agent" activity, in the beginning of 2008 ERSE established the mechanism to optimise the management of PPA, the mechanism to optimise the management of CO_2 emission licences, as well as the assumptions to be in place during 2008. The revenues obtained from the application of these mechanisms, are the substantial part of the results obtained by the "Commercial Agent".

The revenues obtained from all these activities are regulated by ERSE, the Portuguese electricity regulator. In accordance with regulatory terms the tariffs to be charged to final clients (home consumers, industry and others), are determined annually by each component of the system, such as: generation, transmission and distribution. REN, S.A. revenue is mainly related with electricity transmission and the overall management of the system.

The tariff for electricity transmission is due to recover:

i) Concession assets depreciation associated with the electricity transmission equipment;
ii) A return on the average net book value of the assets associated with this activity, according to the rates determined annually by the regulator;
iii) Operating costs (operating expenses, payroll, others); deducted from the revenues obtained from the electricity transmission charged to third parties.

The tariff for overall management of the system is due to recover:

i) Concession assets depreciation, associated with the overall management of system;
ii) Concession assets depreciation associated with the power station sites;
iii) A return on the average net book value of the power station sites;
iv) A return on the average net book value of the assets associated with this activity, according to the rates determined annually by the regulator;
v) Operating costs (operating expenses, payroll, others);
vi) The regulator operational costs.

Gas segment

Revenue recognition for gas concession operations is determined based on: i) the information of the gas units unloaded and regasificated in the LNG terminal, ii) the gas units injected, stored and extracted in the underground cameras; and iii) the capacity used and gas units transmitted through the high pressure transmission grid. The revenue is calculated according to the tariffs determined by the regulator after the 1st of July of 2007. Until the 30th of June of 2007, revenue was recognised according to the transition agreements signed with Transgás the main user of gas assets' capacity owned by Group REN.

Telecommunication segment

Revenues from telecommunications services are those provided by group company Rentelecom, with the rental of dark fibre, benefiting from of the exceeding capacity of the telecommunication equipment. Other services are related with the management of voice private networks. Revenues are recognised in the period the services are rendered, by reference to the stage of completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Derivatives market management revenues

The management of the electricity derivative market, in the scope of MIBEL gives rise to the recognition of a commission fee on each negotiated operation, at the time of registration.

3.26. Leasings

Leasings of property, plant and equipment, in which REN obtains substantially all the risks and rewards incidental to ownership of an asset, are classified as finance lease. Arrangements which contain a finance lease within it are also classified as finance leases. All the other leases are classified as operating leases.

Finance lease contracts are initially recognised at the lower of the fair value of the leased assets or the present value of the minimum lease payments, each determined at the inception date. The lease liability is recognised net of interest costs, within borrowings. The interest costs included in rental and the leased assets depreciation are recognised in the consolidated income statement in the period they refer to.

The property, plant and equipment "acquired" through finance leases, are depreciated at the lower of the estimated useful life and the lease term, when the Group has no purchase option in the final of the contract, or at its estimated useful life when the Group has the intention to acquire the assets in the contract term.

In operating leases contracts, the rents paid are recognised as expenses in the consolidated income statements, on a straight-line basis, during the lease term.

4. Financial risk management

4.1. Financial risk factors

REN's activities expose it to a variety of financial risks: credit risk, liquidity risk, cash flow interest rate risk, and others.

REN developed and implemented a risk management programme that, with a permanent monitoring of financial markets, seeks to minimise potential adverse effects on Group REN financial performance.

Risk management is carried out by the financial department under the policies approved by the Board of directors. The financial department identifies, evaluates and prepares the necessary transactions with the objective of minimise the financial risks, in strict cooperation with REN operating units.

The Board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

i. Foreign Exchange rate risk

REN has no significant transaction in foreign currencies.

ii. Credit risk

REN's credit risk is not significant, since a substantial part of revenues are recognised through the invoiced amounts to electricity and natural gas bounded distributors. REN's small number of clients is a result of the Portuguese electricity and gas market characteristics, and therefore Group's credit risk does not increase due to this situation.

Referring to the deposits classified as "Cash and cash equivalents", they are all negotiated with financial institutions with credit ratings between A and A+.

iii. Liquidity risks

REN's liquidity risk management is done through the issuance, of long term debt instruments, the management of commercial paper flexible programmes, and the negotiation of credit facilities available at any time.

The following table shows REN's financial liabilities and derivatives financial instruments settled net, for the relevant maturity intervals, considering at the balance sheet date, the remaining period for the contractual maturity. The amounts presented in the table refer to non-discounted cash-flows:

	Less than 1 year	1-5 years	Over 5 years
At 31 December 2007			
Borrowings:			
- finance lease	998	1.309	-
- bank borrowings	39.907	280.744	227.696
- commercial paper	1.306.000	300.000	-
- bank overdrafts	23.704	-	-
Trade and others payables	259.472	900	-
	Less than 1 year	1-5 years	Over 5 years
At 31 December 2008			
Borrowings:			
- finance lease	1.100	2.818	-
- bank borrowings	49.903	165.389	430.323
- commercial paper	449.000	200.000	-
- Bonds	0	500.000	-
- bank overdrafts	41.023		-
Trade and others payables	271.139		-
Derivative financial instruments	876		

The estimated payable interests regarding the borrowings and derivative financial instruments are as follows:

	At 31 December 2008			
	Less than 1 year	1-5 years	Over 5 years	Total
Borrowings:				
- finance lease	1.223	2.563	0	3.786
- bank borrowings	68.203	252.811	525.692	846.706
- commercial paper	454.502	200.000	0	654.502
- Bonds issued	31.875	627.500	0	659.375
- bank overdrafts	41.643			41.643
	597.446	1.082.874	525.692	2.206.012
Derivative financial instruments	1.571	-368		1.203

iv) Interest rate risk

The risk associated to interest rate fluctuation has two major impacts on REN financial statements: the concession assets remuneration, according to the tariff regulation; and the interests paid on borrowings.

Since a significant part of REN assets have a return on asset value through the tariffs, at market interest rates, its operating cash flows are significantly impacted by the interest rates fluctuation in the financial markets. Increases in the market interest rates generate substantial increase in cash flows and vice-versa.

REN is exposed to interest rates risk, mainly due to borrowings. Borrowings negotiated at variable interest rates expose REN to cash flow risk, whenever interest rate changes. Borrowings negotiated at fixed interest rates expose REN to fair value risk, whenever interest rate changes.

REN analyses its exposure to interest rate risk on a dynamic base. During 2008, REN issued bonds at fixed interest rate in the amount of 500 million euros, entering in the same date, in interest rate swaps with identical features of the issued bonds to do the economical hedge of the fair value risk.

Sensitivity analysis of finance costs to changes in the interest rates

A sensitivity analysis was performed based on the total debt negotiated by Group REN deducted from cash and cash equivalents, with reference to 31 December 2007 and 2008.

2007

Considering the Group net debt as at 31 December 2007, an increase of 1,5% on interest rate would increase annual finance costs of some 29.018 thousand euros.

2008

Considering the Group net debt as at 31 December 2008, an increase of 1,5% on interest rate would increase annual finance costs of some 18.542 thousand euros.

v) Regulated activity risk

Considering the Group net debt as at 31 December 2008, an increase of 1,5% on interest rate would increase annual finance costs of some 18.542 thousand euros.

vi) Clearing house activity

OMIClear as the managing entity responsible for the Clearing Platform of the Iberian Derivatives markets, enters as Central counterparty on the electricity derivatives negotiated (mainly future contracts), becoming the buyer in relation to a seller position and a seller in relation to a buyer.

OMIClear virtually eliminates or reduces a series of risks, specifically:

i) Credit – of one part not honouring its contractual commitments in relation to the other;
ii) Financial Settlement – centrally ensuring the debits and credits multilaterally;
iii) Operational – given the market control and supervision procedures and mechanisms;
iv) Systemic – taking into account the introduction multilateral netting.

4.2. Capital management

Group REN objective relating to the management of Capital, which is a broader concept than the capital disclosed in the face of balance sheet, is to maintain an optimal capital structure, through a rational use of debt and maintaining a solid credit rating that allows the reduction of the cost of capital.

The debt negotiated is analysed periodically considering the following aspects: i) the needs of CAPEX in regulated assets; ii) the remuneration rate of regulated assets as determined in regulatory terms; and iii) the dividend policy in place.

REN monitors its total Capital based on the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as presented in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "Equity" as presented in the consolidated balance sheet plus net debt.

In 2008, REN's strategy was to maintain a gearing ratio between 60% and 70%. Gearing ratios were as at 31 December 2008 and 2007 are as follows:

	2008	2007
Total borrowings (note 21)	1.836.667	2.057.074
less: Cash and cash equivalents (note 18)	(101.431)	(125.920)
Net debt	1.735.246	1.931.154
Equity	1.011.676	1.006.329
Capital Total	2.746.922	2.937.483
Gearing	63%	66%

4.3. Derivative financial instruments

As part of its "Commercial agent" activity, in the management of TejoEnergia and Turbogás PPA's, the group company REN Trading negotiates future contracts of electricity acquisition in the Spanish and French electricity market, and forward contracts of CO2 emission licences. These contracts do not qualify as derivative financial instruments to be recognised in the Group's financial statements, given that they are equitable to "own use" contracts, in the scope of the obligations assumed with the management of PPA's.

OMIP the managing entity of the MIBEL derivatives market, and more specifically OMIclear, owned in 90% by OMIP, monitors its activities, as Central counterparty on the electricity derivatives negotiated (mainly future contracts), becoming the buyer in relation to a seller position and a seller in relation to a buyer, through novation being all the positions matched.

During 2008, the Group did the economic hedge of its exposure to fair value risk, resulting from the issuance of 500 million euros of debt instruments, through interest rate swaps with the same features (notional of 500 million euros). Although it was not recognised as an accounting hedge, the objective of this economic hedge is to change the debt emission at a fixed interest rate into a variable interest rate, so that the derivative fair value fluctuations matches with the debt instruments fair value, as a result of the changes in interest rate risk.

Interest rate swaps fair value as at 31 December 2008, amounts to 876 thousand euros, which was recognised as a gain in the income statement.

5. Critical accounting estimates and judgements

The estimates and assumptions with impact on REN's financial statements are continuously evaluated, representing at each reporting date the Board of Directors best estimations, considering historical performance, past accumulated experience and expectations about future events that, under circumstances, are believed to be reasonable.

The intrinsic nature of these estimations may cause different impacts on financial statements from those previously estimated. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Critical accounting estimates

5.1. Provisions

REN evaluates periodically the existence of obligations resulting from past events that should be recognised or disclosed.

The subjectivity inherent to the determination of the probability and amount of the resources necessary to settle these obligations may result in significant adjustments, due to changes in the assumptions used or because previously disclosed contingent liabilities may turn to recognisable provisions.

5.2. Actuarial assumptions

The responsibility assumed referring to pension and medical plans requires the use of assumptions and estimates of demographic and financial nature, which may impact significantly on the obligation calculated at each reporting date. The most sensitive assumptions refer to: the used discount rate, the expected return on assets and the average life expectancy.

5.3. Property, plant and equipment

The estimation of property, plant and equipment useful lives as well as the depreciation method to be used, impacts significantly in the depreciation costs recognised in the consolidated income statement, of each period.

These two assumptions are determined based on the Board of Directors best estimations according to the specified assets and the activities they are included in, considering also the best practices of international companies operating in the same business.

5.4. Investment properties

The calculation of investment properties fair value, at the transition date, was based on each assets nature. The elements considered for the fair value determination were:

i) discounted future cash flows in respect to hydroelectric power station sites; and

ii) independent valuations provided by certified values, for thermal power station sites and for other lands and buildings.

The assumptions considered in each valuation, are the Board of Directors best estimations, for the referred assets.

5.5. Impairment

The recognition of an impairment loss may be determined by events not controlled by REN such as: availability of future credit lines; interest rates or the stability of activity's present market regulation, as well as other changes internal or external to Group REN.

The identification of impairment indicators, the estimation of future cash flows and the determination of assets fair values imply a high degree of judgement by the Board of Directors, in what refers to the evaluation of the impairment indicators, the estimated cash flows, discount rates used, assets useful lives and residual values.

In what refers to REN's specific activities, there are other factors to consider in impairment testing, since obligations of network expansion, significant changes in tariffs, or changes in the strategy followed by the shareholders may impact significantly in the future cash flows trends and amounts.

Critical accounting judgements

5.6. Service concession agreement

As referred in the service concession agreement policy (note 3.2), IFRIC 12 applies to REN's group granted concessions. This interpretation is still subject to endorsement by the European Union, and although it is only an interpretation and not a new standard, Group REN decided not to change the accounting treatment followed for the service concession contracts.

6. Segment information

6.1. Primary reporting format – Business Segments

Group REN is organised in two main business segments, Electricity and Gas and two residual segments. The electricity segment includes the transmission of electricity in extra high voltage, the overall electricity public system management and the electricity trading activity under the electricity acquisition contracts (CAE) not terminated as at the 30th of June of 2007. The gas segment includes the gas transmission in high pressure and the overall natural gas national system management, as well as the operation

of regasification at the LNG Terminal and the underground storage of natural gas.

Although the LNG Terminal activity and the underground storage activity can be perceived as separated from the gas transmission and the overall gas national system management, since all these operations provide services to a single user, which is also the main user of the high pressure gas transmission grid, it was considered that it is subject to the same risks and returns.

The other segments (telecommunication and electricity derivative market management) are also presented separately although they do not qualify for disclosure. The 2006 figures were restated to provide comparable information.

The segment results for the year ended 31 December 2007 are as follows:

	Electricity	Gas	Telecom.	Market Elect. Operat.	Group
Total gross sales	412.577	139.306	4.121	4.009	560.013
Inter-segment gross sales	(913)	(865)	(1.008)	(2.535)	(5.321)
Sales and services provided	**411.664**	**138.441**	**3.113**	**1.474**	**554.692**
Operating profit / segment result	166.056	55.488	2.696	(1.711)	256.061
Finance cost	(56.454)	(23.263)	-	(8)	(82.813)
Finance income	706	4.463	1	145	5.317
Share in JV profit	-	8.896	-	-	8.896
Profit before income tax					187.461
Income tax expense					(42.253)
Profit for the period					145.208
Other expenses:					
Depreciation	78.913	44.403	11	581	123.919
Provisions	25.300	-	-		(14.878)

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Electricity	Gas	Telecom.	Market Elect. Operat	Unallocated	Group
Assets	2.619.225	1.209.689	3.376	47.613	80.606	3.960.509
Investment in Associates	-	9.025	-	-	-	9.025
Total assets	2.619.225	1.218.714	3.376	47.613	80.606	3.969.534
Liabilities	2.142.981	621.922	403	40.657	157.242	2.963.205
Capital expenditure	243.387	6.073	33	139	218	249.850

The segment results for the year ended 31 December 2008 are as follows:

	Electricity	Gas	Telecom.	Market Elect. Operat	Unallocated	Group
Total gross sales	453.172	142.841	4.168	4.053	15.646	619.879
Inter-segment gross sales	(106.976)	(882)	(392)	(1.551)	(15.646)	(125.448)
Sales and services provided	**346.196**	**141.958**	**3.775**	**2.502**	**0**	**494.431**
Operating profit / segment result	187.834	59.202	3.194	-1.450	(18.601)	230.179
Finance cost	(64.455)	(9.516)	(385)	(105)	(15.877)	(90.338)
Finance income	9.821	5.724		200	7.251	22.996
Share in JV profit		9.142				9.142
Profit before income tax						171.979
Income tax expense						(44.552)
Profit for the period						**127.427**
Other expenses:						
Depreciation	84.710	44.335	12	620	44	129.721
Provisions	27.971					27.971

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Electricity	Gas	Telecom.	Market Elect. Operat	Unallocated	Group
Assets	2.425.912	1.222.316	5.918	56.615	102.530	3.813.291
Investment in Associates		9.716				9.716
Total assets	2.425.912	1.232.032	5.918	56.615	102.530	3.823.007
Liabilities	669.001	346.941	493	44.951	1.749.944	2.811.331
Capital expenditure	268.135	45.033		96	202	313.465

Segment assets consist primarily of concession assets presented under property, plant and equipment, investment properties headings, and trade and other receivables. It excludes available-for-sale financial investments disclosed as "unallocated" assets. Segment liabilities comprise operating liabilities, except borrowings contracted to non operating activities, disclosed as "unallocated" liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 7).

Most of the REN Group companies operate exclusively in one geographical area, in Portugal. Only the group company OMIP manager of the electricity Iberian derivative market and OMIclear the clearing house for that market operate at an Iberian level. However, the reported transactions are not material for disclosure as a geographical segment.

7. Property, Plant and equipment

As at 31 December 2007, the movements occurred in property, plant and equipment (PPE) are as follows:

Evolution of PPE – 2007

(Unit: Thousand euros)

	Land	Buildings and other constructions	Transmission and electronic equipment	Transport equipment	Tools	Office furniture and fittings	Contructions in progress	Total
1 January 2007								
Acquisition cost	1.727	97.108	3.533.367	4.484	2.854	26.691	142.210	3.808.441
Accumulated depreciation	-	(28.116)	(1.244.403)	(2.702)	(2.298)	(18.516)	-	(1.296.035)
Net book value	**1.727**	**68.992**	**2.288.965**	**1.781**	**556**	**8.175**	**142.210**	**2.512.406**
Year ended 31 December 2007								
Additions	-	23	3.811	685	473	1.357	243.501	249.850
Disposals	-	-	-	(398)	-	(3)	-	(401)
Transfers and write-offs	(24)	81	221.679		-	2.944	(224.097)	583
Depreciation charge	-	(3.337)	(100.500)	(631)	(305)	(2.914)	-	(107.688)
Depreciation on disposals	-	-	-	359	-	3	-	362
Depreciation on transfers/ write-offs	-	-	(693)	-	-	(97)	-	(790)
Closing net book value	**1.703**	**65.759**	**2.413.261**	**1.796**	**724**	**9.464**	**161.614**	**2.654.320**
At 31 December 2007								
Acquisition cost	1.703	97.212	3.758.857	4.771	3.327	30.989	161.614	4.058.472
Accumulated depreciation	-	(31.453)	(1.345.596)	(2.975)	(2.603)	(21.525)	-	(1.404.152)
Net book value	**1.703**	**65.759**	**2.413.261**	**1.796**	**724**	**9.464**	**161.614**	**2.654.320**

As at 31 December 2008, the movements occurred in property, plant and equipment (PPE) are as follows:

Evolution of PPE – 2008 (Unit: Thousand euros)

	Land	Buildings and other constructions	Transmission and electronic equipment	Transport equipment	Tools	Office furniture and fittings	Contructions in progress	Total
1 January 2008								
Acquisition cost	1.703	97.212	3.758.857	4.771	3.327	30.989	161.614	4.058.472
Accumulated depreciation	-	(31.453)	(1.345.596)	(2.975)	(2.603)	(21.525)	0	(1.404.152)
Net book value	**1.703**	**65.759**	**2.413.261**	**1.796**	**724**	**9.464**	**161.614**	**2.654.320**
Year ended 31 December 2008								
Additions	-	-	9.226	3.201	360	1.420	299.257	313.465
Disposals	-	-	(0)	(162)	-	(12)	-	(174)
Transfers and write-offs	2.088	95	214.986	(250)	0	2.566	(225.251)	(5.766)
Depreciation expense		(2.915)	(109.116)	(841)	(335)	(3.867)	-	(117.074)
Depreciation on disposals	-	-	0	117	-	10	-	127
Depreciation on transfers/ write-offs	-	-	2.010	241	(0)	93	-	2.344
Closing net book value	**3.791**	**62.939**	**2.530.367**	**4.103**	**749**	**9.674**	**235.619**	**2.847.243**
At 31 December 2008								
Acquisition cost	3.791	97.307	3.983.068	7.560	3.688	34.963	235.619	4.365.997
Accumulated depreciation	-	(34.368)	(1.452.701)	(3.457)	(2.939)	(25.289)	-	(1.518.755)
Net book value	**3.791**	**62.939**	**2.530.367**	**4.103**	**749**	**9.674**	**235.619**	**2.847.243**

In the electricity business, acquisitions refer to the planned investment in the construction/ renewal of substations and power lines, which is recognised within Transmission and electronic equipment.

In the gas business, acquisitions refer to the construction of the third underground storage cavern, the connection with new clients, the construction of a new GRMS, and beginning of the construction of a third tank in Sines terminal.

Borrowing costs capitalised in construction in-progress, amounts to 8.828 thousand euros (6.917 thousand euros in 2007).

As at year ended 31 December 2008, the net book value of the assets acquired through finance lease is as follows:

	2008	2007
Acquisition cost	5.052	3.616
Accumulated depreciation	(1.139)	(1.633)
Net book value	**3.913**	**1.984**

Depreciation expense has been entirely charged to consolidated income statement within "Depreciation", except for an amount of 1 143 thousand euros (962 thousand euros in 2007) that has been capitalised in construction in progress.

8. Intangible assets

Intangible assets refer to goodwill determined in the acquisition of the group company REN Atlântico, S.A., within the unbundling of the natural gas business.

(Unit: Thousand euros)

	Goodwill	
	2008	2007
1 January 2008		
Acquisition cost	3.774	3.774
Net book value	**3.774**	**3.774**
Year ended 31 December 2007		
Additions	-	-
Closing net book value	**3.774**	**3.774**
As at 31 December		
Acquisition cost	3.774	3.774
Net book value	**3.774**	**3.774**

Impairment test for Goodwill

REN tested goodwill for impairment as at balance sheet date, at the level of the generating cash unit ("CGU") to which it belongs, the company REN Atlântico. REN Atlântico activity is subject to a concession arrangement and tariffs regulation, being the recoverable amount of the CGU determined based on value-in-use calculations. The cash-flows projections considered the expected regulatory terms in place for the remaining concession term, being the most significant assumption the interest remuneration on regulatory assets. Cash-flows were discounted considering an average market pre-tax interest rate, adjusted for the natural gas regasification activities risk, of 8% (post-tax discount interest rate of 6,057%).

The recoverable amount obtained was of some 153.968 thousand euros, which covers the companies' tangible assets plus the goodwill of 3.774 thousand euros.

9. Investment properties

Investment properties include the sites (land) of the hydroelectric and thermal power stations and land and buildings owned but not used in REN regulated activities. Investment properties had the following evolution:

(Unit: Thousand euros)

	2008	2007
Gross value		
Accumulated depreciation	505.248	527.078
Net book value	(77.650)	(62.943)
Period ended 31 December	**427.598**	**464.136**
Disposals	-	(19.344)
Depreciations	(13.790)	(17.193)
Write-off through realisation	(85.128)	-
	(98.918)	**(36.537)**
Movements of the year		
Gross value	420.120	505.248
Accumulated depreciation	(91.440)	(77.650)
Net book value	**328.680**	**427.599**

These assets integrate the business segment Electricity.

The decrease recognized in investment properties as at 31 December 2008, refers to the reduction of value recognized in April 2008, due to the receipt of the due remuneration for the period 1999 to 2003, which was incorporated in the future cash-flows calculation.

For the reported periods the fair value of Investment properties is as follows:

Propriedade de investimento a JV

	2008	2007
Land of hydroelectric power stations	292.493	400.367
Land of thermal power stations	21.949	21.949
Other land and buildings	7.202	7.205
Total	321.644	429.521

The Group's investment properties fair value was determined at 31 December 2008, according to the nature of each asset.

The fair value of hydroelectric power stations sites was determined based on the calculation of the discounted cash flows estimated until the concession term. Cash flows include: remuneration equal to the depreciation charge; the annual remuneration calculated according to the inflation rate according to published law in April 2007. The discount interest rate used (post-tax) was 4,20% (in 2007: 6,75%) with reference to the Portuguese State Treasury bonds interest rates, and calculated for the sites average useful life (14 years).

The difference between fair value and investment properties' carrying amount refers to hydroelectric power stations sites and results from the fluctuations in interest rates, due to financial markets current situation. Considering the average useful life of the assets under valuation it is not expected this difference to be irreversible and therefore there is no permanent loss in the assets' value.

The fair value for thermal power stations sites was determined considering the independent valuation done at the transition date to IFRS, since no significant changes occurred in the land.

The fair value for other land and building also refers to the independent valuation done at the transition date,

since no significant changes have occurred in the land and buildings condition.

In the income statement, "other income" includes 790 thousand euros (600 thousand euros in 2007) referring to other land and buildings rentals, 8.659 thousand euros (12.126 thousand euros in 2007) of 2006-2007 land remuneration, and 67.152 thousand euros relating to the collection of due remuneration for the period 1999 to 2003.

There are no specific operating expenses recognised in the income statement regarding these assets.

10. Interest in joint ventures

As referred in note 1, with the acquisition of the natural gas transmission business, Group REN acquired two joint ventures with Enagás, the entity responsible for the natural gas transmission in Spain.

The joint ventures were constituted with the purpose of managing jointly specified sections of REN Gasodutos, S.A. natural gas pipelines transmission capacity, with the allocation of the pipelines capacity to each venturer, so that pipelines are not used under capacity. The profitability of these companies is assured by the two partners, through the definition of the price to pay for each unit of natural gas transmitted, every year.

Interest in *joint ventures*

	2008	2007
Begining of the year	9.025	8.620
Aquisitions of joint ventures	-	-
Share of (loss) / profit	9.142	8.896
Other equity movements	-	-
Dividends	(8.451)	(8.491)
End of the Year	9.716	9.025

The Joint ventures assets and liabilities as at 31 December 2008, and income and costs generated from the acquisition date, as recognised in the companies individual accounts are as follows:

	2008		2007	
	Gasoduto Braga-Tuy	Gasoduto Campo Maior - Leiria-Braga	Gasoduto Braga - Tuy	Gasoduto Campo Maior - Leiria - Braga
Assets				
Non current	14.420	73.873	14.971	76.477
Current	4.370	8.367	3.194	13.439
	18.790	82.240	18.165	89.916
Liabilities				
Non current	7.622	25.076	8.168	30.074
Current	4.283	17.481	3.183	20.902
	11.905	42.557	11.351	50.976
Equity	6.885	39.683	6.814	38.940
	6.885	39.683	6.814	38.940
Income	3.828	24.960	3.715	24.465
Expenses	(2.660)	(15.248)	(2.561)	(15.024)
Profit after income tax	1.168	9.712	1.154	9.441
% interest held	51%	88%	51%	88%
	595	**8.546**	**588**	**8.308**

The interest in joint ventures was acquired within the gas unbundling business, being part of the assets included under the group company REN Gasodutos. As at the acquisition date, the fair value of the interest in the joint ventures listed above refers to the pre-acquisition dividends acquired. The investment in entities equity was considered nil, due to the fact that all gains obtained from these entities will be transferred to gas tariffs. Subsequently, the share on loss or profits obtained by these entities, are recognised using the equity method.

The dividends received in 2008, refers to the share of the group company REN Gasodutos, in the 2007 profits generated by the joint ventures and available for distribution.

11. Deferred income taxes

As at 31 December 2008, the amounts recognised as deferred tax assets and liabilities in the balance sheet are presented gross.

	2008	2007
Equity		
Deferred income tax	7.389	(2.689)
	7.389	**(2.689)**
Acquisition of subsidiaries		
Deferred income tax	-	-
	-	-
Income statement		
Deferred income tax	105.354	21.452
Current income tax	(149.906)	(63.705)
	(44.552)	**(42.253)**

Impact of the movements in deferred income taxes

	2008	2007
Impact in income statement		
Deferred income tax assets	20.481	1.294
Deferred income tax liabilities	84.873	20.158
	105.354	21.452
Impact in equity		
Deferred income tax assets	6.250	(1.550)
Deferred income tax liabilities	1.139	(1.139)
	7.389	(2.689)
Net impact of deferred income taxes	**112.744**	**18.763**

The detail of the income taxes recognised in the consolidated financial statements is as follows:

Deferred income tax assets movements

	Provisions	Carry forward losses	Pensions	Other	Total
At 1 January 2007	**6.730**	**7**	**9.906**	**3.029**	**19.672**
Period ended 31 December					
Credit to income statement			(1.550)		(1.550)
Credited/(charged) to equity	(5.389)		(593)	(132)	(6.114)
Charged to income statement	6.835	(7)	(339)	919	7.408
Movement of the period	**1.446**	**(7)**	**(2.482)**	**787**	**(256)**
At 31 December 2007	**8.176**	**-**	**7.424**	**3.816**	**19.416**

	Provisions	Carry forward losses	Pensions	Investment Properties	Available-for-sale financial assets	Other	Total
At 1 January 2008	**8.176**	**-**	**7.424**	**-**	**-**	**3.816**	**19.416**
Period ended 31 December							
Transfered deferred income tax liabilities	-	-	5.290	-	960	-	**6.250**
Credit to income statement	(23)	-	(737)	-	-	(111)	**(872)**
Charged to income statement	7.436	23	-	11.580	-	2.314	21.353
Movement of the period	**7.413**	**23**	**4.553**	**11.580**	**960**	**2.203**	**26.731**
At 31 December 2008	**15.588**	**23**	**11.977**	**11.580**	**960**	**6.019**	**46.147**

Deferred income taxes liabilities movements

	Agent role	Transmission equipment	Investment properties	Revaluation previous GAAP	Assets available for sale	NG assets fair value	Other	Total
At 1 January 2007	**126.431**	**13.465**	**16.438**	**37.189**	**-**	**3.841**	**-**	**197.364**
Period ended 31 December								
Fair value reserve/equity	-	-	-	-	-	-	-	-
Charged to income statement		4.904	-	-	1.139	-		6.043
Credit to income statement	(16.784)	-	(5.747)	1.262		(3.831)	38	(25.062)
Movement of the period	**(16.784)**	**4.904**	**(5.747)**	**1.262**	**1.139**	**(3.831)**	**38**	**(19.019)**
At 31 December 2007	**109.647**	**18.369**	**10.691**	**38.451**	**1.139**	**10**	**38**	**178.345**

	Agent role	Transmission equipment	Investment properties	Revaluation previous GAAP	Assets available for sale	Other	Total
At 1 January 2008	109.647	18.369	10.691	38.451	1.139	48	178.345
Period ended 31 December							
Fair value reserve/equity	-	-	-	-	(1.139)		(1.139)
Charged to income statement	-	4.697	-			232	4.929
Credit to income statement	(76.660)	-	(10.691)	(2.403)		(48)	(89.802)
Movement of the period	**(76.660)**	**4.697**	**(10.691)**	**(2.403)**	**(1.139)**	**184**	**(86.012)**
At 31 December 2008	**32.987**	**23.066**	**-**	**36.048**	**-**	**232**	**92.333**

The movements in the headings of deferred income tax assets and liabilities for the years presented are as follows:

Revaluations transferred from the previous GAAP, refer to the revaluation of property, plant and equipment, according to specific legislation for the correction of time money value. The impact on deferred income tax is related with the non deductibility of 40% of the revaluated depreciation amount.

12. Financial assets and liabilities by category

The accounting policies for financial instruments according to IAS 39 categories have been applied to the following financial assets and liabilities:

2007	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Assets and liabilities out of IAS 39	Total
Assets					
Cash and cash equivalents	125.917	-	-	3	125.920
Guarantee deposits	39.765	-	-	-	39.765
Trade and other receivables	602.524	-	-	9.197	611.721
Available for sale financial assets	-	59.567	-	-	59.567
Total financial assets	**768.206**	**59.567**	**-**	**9.200**	**836.973**
Liabilities					
Borrowings	-	-	2.057.074	-	2.057.074
Guarantee deposits	-	-	39.765	-	39.765
Trade and other payables	-	-	260.372	309.001	569.373
Total financial liabilities	-	-	**2.357.211**	**309.001**	**2.666.212**

2008	Loans and receivables	Available-for-sale financial assets	Assets/ liabilities fair value through profit and loss	Other financial liabilities	Assets and liabilities out of IAS 39	Total
Assets						
Cash and cash equivalents	101.431	-	-	-	-	101.431
Guarantee deposits	35.604	-	-	-	-	35.604
Trade and other receivables	343.479	-	-	-	10.769	354.248
Derivative financial statements	-	-	876	-		876
Available for sale financial assets	-	86.924	-	-	-	86.924
Total financial assets	**480.514**	**86.924**	876	-	10.769	**579.083**
Liabilities						
Borrowings	-	-	-	1.836.677	-	1.836.677
Guarantee deposits	-	-	-	35.604	-	35.604
Trade and other payables	-	-	-	271.139	376.347	647.486
Total financial liabilities	**-**	**-**	**-**	**2.143.420**	**376.347**	**2.519.767**

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparties, as follows:

	2008	2007
Trade and other debtors		
AA+		
AA-	124.478	413.762
A-	52.963	53.357
Other without rating	165.210	135.405
Total trade and other receivables	**342.651**	**602.524**
Bank deposits		
AA	39	3.015
AA-	2.850	8
A+	6	13.379
A	98.535	109.515
Total bank deposits	**101.430**	**125.917**

Trade and other receivables refer mainly to services rendered, in the scope of electricity and gas businesses regulated activities. The main transactions occur with the authorised distributors for each business, like EDP, GALP and several European distributors. The balance of 124.5 million euros refers to REN's agent activity in the intermediation of sales and acquisitions of electricity.

Referring to the past due credits or impaired:

i) Trade and other receivable include an amount of 828 thousand euros which is fully impaired, and for which there is a pending litigation process.

ii) There are some credits past due with companies from transactions with EDP group companies, for which the credit risk was considered nil.

13. Available-for-sale financial assets

As at 31 December 2008, the assets recognised in this heading refer to equity securities held in strategic entities from the Spanish electricity market, as follows:

	% owned	Owner	2008	2007
OMEL - Operador del Mercado Ibérico de Energia (Polo Espanhol)	10,00%	OMIP	1.033	1.033
Red Electrica de España, S.A.	1,00%	REN, SGPS	48.733	58.534
Enagás	1,00%	REN, SGPS	37.157	
Total			86.924	59.567

The changes occurred in financial assets available-for-sale during 2008 and 2007 are as follows:

	OMEL	REE	ENAGAS	Total
At 1 January 2007	1.033	-	-	1.033
Acquisitions	-	49.934	-	49.934
Fair value adjustment	-	8.600	-	8.600
Disposals	-	-	-	-
At 31 December 2007	**1.033**	**58.534**	**-**	**59.567**
At 1 January 2008	1.033	58.534	-	59.567
Acquisitions	-		43.195	43.195
Fair value adjustment	-	(9.801)	(6.038)	(15.839)
Disposals	-	-		-
At 31 December 2008	**1.033**	**48.733**	**37.157**	**86.924**

The changes occurred in financial assets available-for-sale during 2008 and 2007 are as follows:

Since OMEL is not a listed company and no recent market transactions over its shares have occurred, REN decided to recognise the financial asset at the acquisition cost, for the periods disclosed in these financial statements.

REE is the Spanish entity responsible for the management of electricity network in Spain. REN, SGPS acquired 1% of REE shares as part of an agreement made between Portuguese and Spanish Governments. REE is a listed company in Euronext – Spain and it was measured as at balance sheet date, at the market quotation of the 30th of December of 2008, which resulted in the recognition of a fair value loss of some 9.801 thousand euros.

ENAGAS is the entity responsible for the management and transmission of natural gas in Spain. REN, SGPS acquired 1% of REE shares as part of an agreement made between Portuguese and Spanish Governments. ENAGAS is a listed company in Euronext – Spain and it was measured as at balance sheet date, at the market quotation of the 30th of December of 2008, which resulted in the recognition of a fair value loss of some 6.037 thousand euros.

The adjustments to fair value of financial assets available-for-sale are recognised in equity, within fair value reserve (Note 20):

	Fair value adjustment
Gross fair value adjustment	(15.839)
Deferred income tax	2.098
Period net adjustment in equity	**(13.741)**

14. Trade and other receivables

As at year ended 31 December 2008, the detail of trade and other receivables is as follows:

(i) In the trade receivables heading, the most significant amount refers to the balance receivable from EDP – Distribuição de energia, S.A., amounting 52.963 thousand euros (53.357 thousand euros in 2007).

(ii) Agency balance refers mainly to balances resulting from REN's intermediation activity in the acquisition and sell of electricity.

(iii)Loan to joint venture, refers to loans acquired within the gas unbundling transaction to Sociedade Gasoduto Campo-Maior-Leiria-Braga. This loan bears interest at the highest rate between the average finance cost of REN Gasodutos and Enagás debt.

For the presented periods there are no differences between the carrying amounts and fair value of trade and other receivables accounts. The non current balances are remunerated at market interest rates.

15. Inventories

The detail of inventories as at 31 December 2008 is as follows:

	2008	2007
Resale	260	13
Miscellaneous Material	8.104	3.060
Inventories	**8.364**	**3.073**

Trade and other receivables detail

	2008			2007		
	Current	Non current	Total	Current	Non current	Total
Trade and other receivables (i)	185.668	155	185.823	148.552	155	148.707
Trade receivables impairment	(828)	-	(828)	(828)	-	(828)
Trade receivables net	184.840	155	184.995	147.724	155	147.879
Agency balance (ii)	56.359	68.119	124.478	343.694	70.068	413.762
Loans to "joint ventures" (iii)	11.059	22.119	33.178	10.014	30.041	40.055
Tax receivable	11.597	-	11.597	10.025	-	10.025
Trade and other receivables	**263.856**	**90.393**	**354.248**	**511.457**	**100.264**	**611.721**

16. Guarantee deposits

Guarantee deposits refers to deposits given by the participants in the electricity derivatives market, operated by the group company Omiclear. These assets are considered as restricted cash, as mentioned in Note 3.13.

As at 31 December 2008, the amounts recognised in the balance sheet are as follows:

	2008	2007
Cash margins from participants	35.604	39.765
Amounts owing to participants	(35.604)	(39.765)

17. Derivative financial instruments

As at 31 December 2008, REN SGPS had the following derivative financial instruments negotiated:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap - non current	-	-	-	-
Interest rate swap – current	**876**	-	-	-
	876	-	-	-

The amount recognised in interest rate swaps refers to 5 interest rate swap contracts, negotiated by REN SGPS with the objective of reducing the risk to which it is exposed due to the debt issuance of 500 million euros.

Features of the negotiated swaps:

Notional	Settlement periods	Receivable/ Payable	Maturity date	Fair value 31.12.2008
500.000	Period of payable interests: 10 December to 10 June – interest settlement every six month; of receivable interests: 10 December – annual interest settlement.	REN receives between 3,31% and 3,33%, pays Euribor 6M	December 2013	876

Fair value of CO_2 licences

REN has several forward contracts of CO_2 licences, negotiated for "own use", with the physical delivery in March 2009. Its fair value was determined considering the futures' prices as at 31 December 2008 (13,69 euros/ ton).

Amount of contracts negotiated	1.364 thousand euros
Fair value of CO_2 licences	1.232 thousand euros

18. Cash and cash equivalents

As at 31 December 2008, cash and cash equivalents are as follows:

Cash and cash equivalents details

	2008	2007
Cash	1	3
Bank Deposits	101.430	125.917
	101.431	**125.920**

Short term bank deposits effective interest rate is disclosed in Note 21.

The detail of the amount recognised in the consolidated cash flow statement as "Cash and cash equivalents", for the year ended 31 December 2008 and 2007, is as follows:

	2008	2007
Cash	1	3
Bank overdrafts	(41.023)	(23.704)
Bank deposits	101.429	125.916
Cash and cash equivalents	**60.407**	**102.215**

19. Share capital

As at 31 December 2008, REN's authorised share capital, fully subscribed and realised, is represented by 534,000,000 shares with a value of 1 euros each.

The share capital detail as at 31 December 2008 is as follows:

	Number of shares	Share Capital
	534.000.000	534.000
Share capital	534.000.000	534.000

In September 2008 REN SGPS celebrated a contract to increase the market transactions of its own shares, with Banco de Investimento, S.A. from which it result an acquisition of treasury. The maturity of this contract is 8 January 2009.

As at 31 December 2008 REN SGPS had the following treasury shares:

	Number of shares	% share capital	Value
Treasury shares	2.498.702	0,4679%	(6.619)

20. Others reserves and retained earnings

The "Other reserve" and "Retained earnings" headings presented the following evolution during the year ended 31 December 2008:

	Attributable to shareholders						
	Legal Reserve	Fair Value reserve	Other reserves	Retained earnings	Profit for the year	Minority interests	Total
At 1 January 2007	**33.634**			**(30.959)**	**409.189**	**500**	**412.364**
Actuarial gains/ (losses)	-	-	-	4.299	-	-	4.299
Fair value reserve (net)	-	7.460	-	-		-	7.460
Gains/(losses) recognised directly in equity	**33.634**	**7.460**	**-**	**(26.660)**	**409.189**	**500**	**424.124**
Profit for the year	-	-	-	-	145.150	58	145.208
Total gains recognised	**33.634**	**7.460**	**-**	**(26.660)**	**554.339**	**558**	**569.332**
Dividends distribution	-	-	-	(97.000)	-	(3)	(97.003)
Dividends - related to reserves	-	-			-	-	-
Transfer to other reserves	27.503	-	83.993	297.693	(409.189)	-	-
At 31 December 2007	**61.137**	**7.460**	**83.993**	**174.033**	**145.150**	**555**	**472.329**

	Attributable to shareholders						
	Legal Reserve	Fair Value reserve	Other reserves	Retained earnings	Profit for the year	Minority interests	Total
At 1 January 2008	**61.137**	**7.460**	**83.993**	**174.033**	**145.150**	**555**	**472.329**
Actuarial gains/ (losses)	-		-	(14.674)	-	-	(14.674)
Fair value reserve (net)	-	(13.739)	-	-	-	-	(13.739)
Gains/(losses) recognised directly in equity	**61.137**	**(6.279)**	**83.993**	**159.359**	**145.150**	**555**	**443.916**
Profit for the period	-	-	-	-	127.405	22	127.427
Total gains recognised	**61.137**	**(6.279)**	**83.993**	**159.359**	**272.555**	**577**	**571.342**
Dividends distribution	-	-	-	(87.045)		(3)	(87.048)
Transfer to other reserves	6.083	-	19.225	119.842	(145.150)	-	0
At 31 December 2008	**67.221**	**(6.279)**	**103.218**	**192.156**	**127.405**	**574**	**484.296**

The legal reserve, is not yet fully setup to the maximum required by law (20% of share capital amount) thus a minimum of 5% of the profits for the year are to be appropriated to it. This reserve can only be used to losses coverage or to increase the Share Capital.

21. Borrowings

The allocation of borrowings between current and non current, and by nature, at year end is as follows:

	2008			2007		
	Current	Non Current	Total	Current	Non Current	Total
Commercial Paper	449.000	200.000	649.000	1.306.000	300.000	1.606.000
Debt instruments	-	500.000	500.000	-	-	-
Bank Borrowings	47.024	595.712	642.736	39.907	385.907	425.814
Bank overdrafts	41.023	-	41.023	23.704	-	23.704
	537.047	1.295.712	1.832.759	1.369.611	685.907	2.055.518
Finance Lease	1.100	2.818	3.918	891	1.262	2.153
Interest accrual	6.751	-	6.751	1.073	-	1.073
Interest deferred - Commercial paper	(3.872)	-	(3.872)	(1.670)	-	(1.670)
	541.026	**1.298.530**	**1.839.556**	**1.369.905**	**687.169**	**2.057.074**

REN is the subscriber of eight Commercial paper programmes amounting 1.800.000 thousand euros. As at 31 December 2008, only 649.000 thousand euros were being utilised.

At December 2008, REN issued debt instruments amounting 500 million euros, for 5 years, in the scope of EMTN program (European Medium Term Notes), with an interest rate equivalent to the mid swap rate added of a spread of 3,25%.

Bank borrowings are not secured by REN's assets. All borrowings including bank overdrafts are negotiated in euros.

At the end of 2008, REN had also the following credit lines negotiated and not used:

	2008	2007
Variable interest rates		
Current	120.386	170.000
Non current	-	-
	120.386	170.000

The credit lines with an expiring date up to 1 year are renewable automatically annually or quarterly. The credit lines with more than 1 year of maturity have no limits defined.

Borrowings

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2008	2007
6 month or less	967.680	1.932.921
6 - 12 month	-	-
1 - 5 years	250.000	-
Over 5 years	617.958	122.000
	1.835.638	**2.054.921**

The effective interest rates at the balance sheet date were as follows:

	2008	2007
Bank deposits	5,19%	3,91%
Borrowings and commercial paper	4,80%	4,42%

The carrying amounts and fair value of the borrowings are as follows:

	Carrying amount		Fair value	
	2008	2007	2008	2007
Commercial paper	649.000	1.606.000	647.844	1.604.295
Borrowings	640.511	425.814	614.881	420.577
Debt instruments	500.000		499.576	
	1.789.511	2.031.814	1.762.301	2.024.872

The fair values are based on discounted cash flows, using the interest rates as at balance sheet date, according to each type of borrowing. Since borrowings are negotiated at variable interest rates the carrying amounts of current borrowings approximate their fair value.

Finance lease liabilities

	2008	2007
Finance lease liabilities - minimum lease payments		
No later than 1 year	1.223	998
Later than 1 year and no later than 5 years	2.950	1.309
Later than 5 years	-	-
	4.173	**2.307**
Future finance charges on finance leases	(255)	(154)
Present value of finance lease liabilities	**3.918**	**2.153**
The present value of finance lease liabilities is as follows	2008	2007
No later than 1 year	1.100	891
Later than 1 year and no later than 5 years	2.818	1.262
Later than 5 years	-	-
	3.918	**2.153**

22. Retirement and other benefits obligations

REN, S.A. grants supplementary retirement and survival benefit plan (from now on referred as pension plan), offers to its retirees and pensioner a medical assistance plan, on the same terms as for active personnel, and grants other benefits like a bonus for seniority, a bonus for retirement and a death grant (referred as "other benefits" in note 22.2).

To cover the obligations related to complementary pension payments REN, S.A. does contributions to an autonomous pension fund, to which is transferred all the responsibilities and the necessary contributions to cover its expenses, as they fall due in each financial year.

The obligations for the medical assistance plan and the other benefits are not funded and are covered by a specific provision.

Personnel who fulfil certain predefined conditions of age and length of service, and chose to take early retirement, as well as those who reach an agreement with the Company to take pre-retirement are also included in the plans.

The liabilities and corresponding annual costs are determined through annual actuarial calculations, using the projected-unit credit method, by an independent actuary, based on assumptions that reflect the demographic terms of the population covered by the plan and the economic and financial conditions, as at the time of the calculations.

The impact of the benefits granted in the consolidated financial statements is as follows:

	2008	2007
Obligations on Balance sheet		
Pension plan	18.103	(7)
Medical assistence plan and others	27.025	27.963
Life insurance plan	70	60
	45.198	**28.016**

	2008	2007
Charges to income statement		
Pension plan	1.554	392
Medical assistence plan and others	2.160	2.138
Life insurance plan	10	10
	3.724	**2.540**

Electricity segment

The main assumptions used in the actuarial calculations are as follows:

Actuarial assumptions

	2008	2007
Annual discount rate	6,00%	4,50%
Expected percentage of the active employees elegible for early retirement (more 60 years)	10,00%	10,00%
Expected percentage of the active employees elegible for early retirement (before 60 years)	10,00%	-
Annual salary growth rate	3,30%	3,30%
Annual pension growth rate	2,25%	2,25%
Annual growth rate of Social security pensions	2,00%	2,00%
Inflation rate	2,00%	2,00%
Annual growth rate of heath costs (over 8 years)	4,50%	4,50%
Annual growth rate of heath costs (after the 8 year period)	4,00%	4,00%
Medical assistance commission (by employee/ year)	150 €	233 €
Growth rate of medical assistance commission - up to 2007	4,50%	4,50%
Growth rate of medical assistance commission - after 2007	2,70%	2,70%
Rate of return on assets	5,99%	5,37%
Mortality table	TV 88/90	TV 88/90

The changes occurred in plan assumptions relating to employees eligible for early retirement, results from REN expectation that more employees will go for early retirement before the age previously estimated.

In 2008, the annual discount rate used increased from 5,4% to 6% reflecting the expected long term increase in market interest rates. If the discount rate of 6,25% had been used to calculate REN Group obligations as at the balance sheet date, the obligations with the pension plan would be lower in 1 096 thousand euros, and the obligation with the Medical assistance plan and other benefits would be lower in some 888 thousand euros. Consequently, the impact on actuarial gains/ losses recognised, in 2007, directly in equity would be higher in some 1 984 thousand euros.

22.1. Pension plan

The obligations recognised in the consolidated balance sheet are as follows:

	2008	2007
Present value of the obligation	55.954	42.563
Fair value of plan assets	(37.851)	42.570
Obligation in the Balance sheet	**18.103**	**(7)**

The movements in the present value of the obligation, related with the pension plan are as follows:

Pension plan obligation reconciliation

	2008	2007
At 1 January	**42.563**	**46.917**
Current Service costs	587	585
Interest costs	3.391	2.006
Benefits paid	(4.794)	(4.636)
Actuarial(gains)/loses	14.207	(2.309)
At 31 December	**55.954**	**42.563**

The significant increase recognised in Actuarial gains/(losses) in 2008 results from the change in REN expectations about the number of employees that will early retire before the age of 60 years.

The Pension fund related with this plan had the following evolution:

Pension fund assets reconciliation

	2008	2007
At 1 January	**42.570**	**41.707**
Contribuitions made	2.038	2.118
Actuarial gains/(losses)	(7.586)	(1.904)
Benefits paid	(1.595)	(1.550)
Expected return on assets	2.424	2.199
At 31 December	**37.851**	**42.570**

The impact of the pension plan in the consolidated income statement is as follows:

	2008	2007
Current service costs	587	585
Interest costs	3.391	2.006
Expected return assets	(2.424)	(2.199)
Total charged to employee costs	**1.554**	**392**

Impact of actuarial gains and losses on consolidated statement of recognised income and expenses are as follows:

	2008	2007
Period actuarial gains and losses	21.792	(405)
Acumulated actuarial gains and losses	59.413	37.621

The major categories that constitute the fair value of the total plan assets is as follows:

	2008	2007
Bonds	63%	64%
Short term deposits	8%	2%
Shares	23%	29%
Investment funds	6%	5%
	100%	**100%**

Plan assets do not include REN's own shares or non current assets. Expected rate of return on assets for 2008 was determined based on its estimation of the expected long term return from the plan assets, and the investment strategy to be followed.

The estimated contribution to pension fund in 2009, amounts some 4 538 thousand euros.

22.2. Medical assistance plan and other benefit

The obligation recognised in the balance sheet is as follows:

	2008	2007
Present value of the obligation	27.025	27.963
Fair value of plan assets	-	-
Obligation in the Balance sheet	**27.025**	**27.963**

The movements in the present value of the obligation, related with the medical assistance plan and other benefits are as follows:

Medical assistance plan and others reconciliation

	2008	2007
At 1 January	**27.963**	**32.128**
Current service costs	528	637
Interest costs	1.523	1.420
Benefits paid	(1.270)	(859)
Actuarial (gains)/losses	(1.829)	(5.443)
Other benefits	109	82
At 31 December	**27.025**	**27.963**

The impact of the medical assistance and other benefits plan in the consolidated income statement is as follows:

	2008	2007
Current service costs	528	637
Interest costs	1.523	1.420
Other benefits	109	82
Total charged to employees costs	**2.160**	**2.139**

Impact of actuarial gains and losses on consolidated statement of recognised income and expenses are as follows:

	2008	2007
Period actuarial gains and losses	(1.829)	(5.444)
Acumulated actuarial gains and losses	2.696	4.525

Gas segment:

22.3. Life insurance

	2008	2007
Total obligations	70	60
Cover provision	70	60

The impact of the life insurance plan in the consolidated income statement is as follows:

	2008	2007
Increase in the obligation provision	10	10
Total charged to employees costs	10	10

23. Provisions to other liabilities and charges

The provisions evolution to other liabilities and charges years is as follows:

	2008	2007
At 1 January	30.853	45.731
Provision increase	28.059	25.792
Provision decrease	(88)	(40.670)
At 31 December	**58.824**	**30.853**
Current	25.300	-
Non current	33.524	**30.853**
	58.824	**30.853**

The changes occurred in 2008 result from:

i) pending law suites, for which the provision was reduced of some 88 thousand euros. The conclusion dates for these law suites are pending from the process actions taken by each part in dispute that can not be reliably estimated at the year end closing date. The provision is classified as a non current liability.

ii) onerous contracts: a provision increase of 28.059 thousand euros was recognised for the amounts collected in excess through tariffs that will be reimbursed in 2010 (amount provisioned in 2007 to be reimbursed in 2009: 25.300 thousand euros).

24. Trade and other payables

As at 31 December 2008, the detail of trade and other payables is as follows:

Detail of trade and other payables

	2008			2007		
	Current	Non corrente	Total	Current	Non corrente	Total
Trade payables						
Current suppliers	147.298	-	147.298	153.466	-	153.466
Other creditors						
Other creditors	44.935	-	44.935	42.381	900	43.281
Fixed assets suppliers	78.905	-	78.905	63.625	-	63.625
Tax payable[1]	2.627	-	2.627	3.777	-	3.777
Deferred income						
Grants related to assets	16.903	351.060	367.963	18.580	279.685	298.265
Other deferred income	-	-	-	434	-	434
Accrued costs						
Holidays and holidays subsidies	5.553	-	5.553	5.213	-	5.213
Other accrued expenses	205	-	205	1.302	-	1.302
Trade and other payables	**296.426**	**351.060**	**647.486**	**288.778**	**280.585**	**569.363**

[1] Tax payables refer to VAT, personnel income taxes and other taxes.

25. Sales of goods and services

The detail of the amounts recognised as Sales of goods and services rendered are as follows:

	2008	2007
Sales of goods		
Domestic market	437	242
Sub-total	**437**	**242**
Sales of services		
Domestic Market		
Electricity transmission and global system management	339.981	410.788
	5.409	
Gas transmission infrastructures	100.159	93.719
Gas underground storage	7.883	8.786
Regasification	33.763	35.817
Electricity services	181	674
Security telecommunications network	3.492	2.991
Others	3.126	1.675
Sub-total	**493.994**	**554.450**
Total sales of goods and services	**494.431**	**554.692**

The decrease in the services rendered during 2008 is mainly due to:

- reduction of 52.293 thousand euros in the "system services" included in the tariffs (53.8 million euros in 2007; 1.052 thousand in 2008);
- decrease in "commercial gains" of some 10.3 million euros.

26. External supplies and services

The expenses incurred with external supplies and services are as follows:

	2008	2007
Generators capacity availability costs i)	1.502	53.795
Maintenance costs of contratual balance ii)	-	21.803
Maintenance costs	17.097	14.334
Cross border interconnection cost	6.293	4.904
External entities fees iii)	16.095	15.054
Publicity and promotional expenses	1.428	1.537
Insurance costs	2.940	3.499
Other (less than 1.000 thousand euros)	33.534	30.539
External supplies and services	**78.889**	**145.465**

i) Capacity availability costs are the amounts paid by REN, for the capacity availability required to the power generators to maintain the overall electricity system operational at any time. These costs are recorded, in accordance with the regulatory model, through the tariff of overall management of system.

ii) As at 1 July 2007, due to the termination of most of the power purchase agreements (PPA), it was established in the distribution tariff for electricity an amount to compensate the electricity generators who terminated their contracts. This amount is charged to EDP distribution and paid to EDP production.

iii) The fees paid to third parties, refer to specialized works and fees paid by REN, for contractual services and studies.

27. Employee benefit expenses

The expenses incurred with the benefits paid or related with personnel, during the year 2008, are as follows:

	2008	2007
Remunerations		
Board of directors	4.394	2.511
Personnel	25.208	24.420
	29.602	**26.931**
Social charges		
Post-employement benefits cost	3.724	2.540
Bonuses	3.815	1.902
Charges over remunerations	7.314	7.124
Social support costs	2.130	2.073
Other	3.155	2.048
Sub-total	**20.138**	**15.688**
Employee benefit expenses	**49.740**	**42.619**

The average number of employees of the Group in 2008 was 817 (2007: 813).

28. Other expenses

Detail of other expenses

	2008	2007
ERSE operating costs	(9.463)	(8.672)
Excess of cost of remaining PPA	(69.004)	(35.469)
Taxes	(1.224)	(1.165)
Donations	(1.007)	(922)
Impairment in inventories	(64)	
Disposals	(28)	(7)
Costs of market operations - OMIP/ OMIclear	(285)	
Power lines dismantlement	(1.008)	(755)
Others	(1.463)	(1.292)
	(83.545)	**(48.282)**

i) "ERSE operating costs" refers to the debits charged by ERSE to be recovered through the electricity and gas tariffs.

ii) The tariff of overall system management includes in REN, S.A. income the exceeding cost of remaining PPA, meaning that the tariff cover the difference between the fixed and variable costs of the two PPA's, and the revenue obtained from the sale of the electricity produced under those contracts. The amount included in "Other expenses" refers to the costs supported by REN Trading relating to the two active PPA's with Turbogás and Tejo Energia.

29. Other income

Detail of other income

	2008	2007
Supplementary income	952	835
Interconnection rentals - costs recover i)	8.324	-
Rentals from investment properties ii)	9.450	27.687
Sites remuneration 1999 - 2003 received iii)	67.152	-
Grants "amortisation"	14.658	13.320
Gains on tangible assets disposal	-	3.410
Others - net	3.242	1.808
	103.778	**47.060**

i) The income recognised as "interconnection rentals" refers to the decision taken by ERSE, to allocate part of the rentals received to cover costs incurred in the period, with cross border and system services, and recognised in "External supplies and services".

ii) Income obtained with the rental of buildings classified as investment properties as well as the operating lease of some equipment.

iii) The receipt of tariff deficit in April 2008 gave rise to an income of 67.152 thousand euros, as the difference between the realisation of investment profit asset (85.128 thousand euros) and the amount of deficit received related to sites remuneration (152.279 thousand euros).

iv) The dividend received in 2008 refers to the dividends distributed by Red Eléctrica de España (REE) and ENAGAS, referring to 2007 profits.

30. Finance income and costs

The detail of the costs supported with borrowings and other financial profits are as follows:

	2008	2007
Interest expense		
Borrowings	90.338	82.813
	90.338	**82.813**
Finance costs		
Interest income	22.120	
Swap fair value	876	5.284
Finance income	**22.996**	**5.284**

31. Income taxes

The detail of income tax recognised in the consolidated financial statements, is as follows:

	2008	2007
Current income tax	149.906	63.705
Deferred income tax	(105.354)	(21.452)
Income tax	**44.552**	**42.253**

The income tax rate used to measure temporary differences as at 31 December 2008 is 26,5% (in 2007: 26,5%).

The income tax reconciliation is as follows:

	2008	2007
Consolidated profit before income tax	171.980	187.460
Tax rate	26,5%	26,5%
	45.575	49.677
Expenses non deductible	808	12.828
Income non taxable	(3.170)	(26.465)
Carryforward losses without deferred tax	1.317	-
Deferred income tax correction	(460)	5.994
Separate settlement	483	219
Income tax	44.552	42.253
Current income tax	149.906	63.705
Deferred income tax	(105.354)	(21.452)
Income tax	44.552	42.253
Effective tax rate	**25,9%**	**22,5%**

The income tax rate used in the reconciliation of the income tax recognised in the consolidated income statement was calculated as follows:

	2008	2007
Income tax rate	25,00%	25,00%
Municipality tax	1,50%	1,50%
	26,50%	**26,50%**

32. Earnings per share

The basic profit per share in the financial years of 2008 and 2007 were calculated as follows:

		2008	2007
Profit attributable to ordinary equity holders of the parent entity	(1)	127.427	145.208
Number of ordinary shares outstanding during the period (note 19)	(2)	534.000.000	534.000.000
Effect of treasury shares		477.322	-
	(3)	533.522.678	534.000.000
Basic earnings per share	(1)/(3)	0,24	0,27

As at 31 December 2008 and 2007 no dilutive effects existed to impact on earnings per share.

33. Dividends per share

The dividends paid during 2008 and 2007 amounted to 87 million euros (0,163 euros per share) and 184 million euros (0, 345 euros per share), respectively. From the total dividends paid referring to 2006 profit of the year, 87 million euros were early paid in 2006 and 97 million euros paid in 2007.

34. Commitments

The commitments assumed by REN as at the closing balance sheet date were as follows:

34.1. Commitments of investment in tangible assets

The committed investments not yet accomplished at year end are as follows:

	2008	2007
Power lines	27.992	49.429
Substations	159.022	105.495
	187.014	**154.924**

35. Contingencies

REN Group has the following contingent liabilities resulting from bank guarantees issued:

Beneficiário	Objecto	Begining	2008	2007
European Community	To accomplish contractual clauses in what refers the financing contract	16-12-2003	643	643
European Community	To accomplish contractual clauses in what refers the financing contract	04-12-2007	47	47
Viseu District Court	A pledge for expropriating 63 plots of land for Bodiosa's substation	22-10-2004	206	206
Braga and C. Branco District Court	A pledge for expropriating plots of land for Pedralva's and C. Branco substations	15-02-2006	800	800
Silves Municipality	Convenant for building in Tunes	04-05-2006	352	352
Anadia District Court	A pledge for expropriating 111 plots of land for Paraimo's substation	26-04-2005	432	432
Gondomar District Court	Pledge payment concerning to legal process nr.1037/2001	09-11-2005	150	150
Penela and Ansião Distric Court	A pledge for expropriating 83 plots of land for Penela's substation	30-06-2006	703	703
Vieira do Minho District Court	A pledge for expropriating 29 plots of land to Frades substation	3-08-2006	558	558
Torres Vedras District Court	A pledge for expropriating 11 plots of land to Carvoeira's substation	13-12-2006	297	297
Vila Pouca de Aguiar District Court	A pledge for expropriating 2 plots of land	17-04-2007	81	81
Tabua District Court	A pledge for expropriating 28 plots of land to Tabua's substation	07-12-2007	171	171
Macedo de Cavaleiros District Court	A pledge for expropriating plots of land to Olmo's substation	14-02-2007	190	190
OMEL - Operador del Mercado Español de Electricidad	To garantee payments as being the buyer over the Electricity Spanish Market		2.000	
MEFF	To garantee payments as being the buyer over the Electricity Spanish Market	-		1
Directorate General of Taxes	To guarantee VAT reimbursement process	29-05-2007		1.603
Directorate General of Geology and Energy	Concession of natural gas transmission activities	26-09-2006	20.000	20.000
Seixal municipality	Convenant for ongoing processes	-	3.853	3.853
European Bank of Investment	For loan convenants	-	369.581	443.454
Loures Finance Services	Pledge for ongoing processes	-	924	1.306
Lisboa Finance Services	Pledge for ongoing processes	-	1.081	1.278
Directorate General of Taxes	To guarantee VAT reimbursement process - Trading	21-05-2008	288	
Amamar District Court	To guarantee pending law suites	03-11-2008	732	
Lisboa District Court	To guarantee pending law suites	10-12-2008	115	
Directorate General of Geology and Energy	To guarantee the request for prospection licences	30-12-2008	1	
			403.204	**476.123**

The guarantees provided to BEI refer to the transfer to REN of the obligations with the existent borrowings in the gas companies.

36. Group Companies Consolidated

The Group companies included in the consolidated accounts at the year ended 31 December 2008 are:

(Unit: Thousand Euros)

Designation / adress	Activity	reference date (1)	Equity	Assets	Liabilities	Revenues	Profit / (Losses)	% Owned Group	% Owned Individual	Balance sheet
Telecomunications Segment										
"RENTELECOM - Comunicações S.A. Av. Estados Unidos da América, 55 - Lisboa"	Telecommunications network operation	Dec-08	1.304	6.683	5.379	4.168	308	100,00%	100,00%	1.304
Electricity Segment										
"OMIP - Operador do Mercado Ibérico de Energia, S.A. Av. Estados Unidos da América, 55 - Lisboa"	Management of transactions within the MIBEL	Dec-08	4.978	5.860	883	2.471	22	90,00%	90,00%	4.480
"OMIClear - Sociedade de Compensação de Mercados de Energia, S.A. Av. Estados Unidos da América, 55 - Lisboa"	Clearing house for future purchase contracts of electricity	Dec-08	3.040	19.095	16.055	1.310	14	90,00%	0,00%	2.736
"REN - Rede Eléctrica Nacional, S.A. Av. Estados Unidos da América, 55 - Lisboa"	Services and Maintenance provider (dormant company)	Dec-08	686.999	2.361.878	1.674.879	831.500	43.709	100,00%	100,00%	686.999
"REN Trading, S.A. Av. Estados Unidos da América, 55 - Lisboa"	Trading activities (acquisition, sell, import and export) of electricity and natural gas	Dec-08	6.065	88.485	82.420	893.539	5.631	100,00%	100,00%	6.065
Natural Gas Segment										
"REN Gasodutos, S.A. Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas"	RNTGN operator and Natural Gas overall manager	Dec-08	461.473	826.999	365.526	106.536	28.662	100,00%	100,00%	461.473
"REN Armazenagem, S.A. Mata do Urso - Guarda Norte - Carriço - Pombal"	Undergound storage developement, maintenance and operation	Dec-08	86.191	122.625	36.435	10.199	4.154	100,00%	100,00%	86.191
"REN Atlântico, Terminal de GNL, S.A. Terminal de GNL - Sines"	Liquified Natural Gas Terminal maintenance and regasification operation	Dec-08	43.513	295.517	252.003	32.638	7.059	100,00%	100,00%	43.513
Joint ventures owned by REN Gasodutos, S.A.										
Gasoduto Braga Tuy	Gas transmission	Dec-08	6.885	18.791	11.905	3.687	1.168	51,00%	51,00%	3.511
Gasoduto Campo Maior - Leiria - Braga	Gas transmission	Dec-08	38.683	82.240	42.557	24.419	9.712	88,00%	88,00%	34.041
Other										
"REN Serviços, S.A. Av. Estados Unidos da América, 55 - Lisboa"	Back Office	Dec-08	83	3.426	3.343	15.646	33	100,00%	100,00%	83
										1.330.397

37. Related party transactions

As at 31 December 2008 the Group REN is listed in Euronext - Lisboa and its reference shareholders are: CAPITALPor, SGPA (State), EDP and Caixa Geral de Depósitos (Note 19).

The detailed list of Group REN's related entities is as follows:

EDP Group:
EDP Energia de Portugal, S.A.
EDP Distribuição- Energia, S.A.
EDP Serviços Universal, S.A
EDP Valor – Gestão integrada de serviços, S.A.
EDP Gestão da Produção da Energia
SÃvida,S.A.
Labelec, S.A.
CGD Group:
Caixa Geral de Depósitos
Caixa BI
Joint-ventures:
Sociedade Gasoduto Campo Maior Leiria Braga
Sociedade Gasoduto Braga-Tui

During the year the following transactions were carried out with the related parties:

37.1. Transactions and balances with shareholders and its affiliated companies

The transactions occurred during 2008, related to shareholders or its affiliated companies are as follows:

Sales of products and services

	2008	2007
Sale of products		
Electricity to EDP	796.796	1.463.365
	796.796	1.463.365
Services provided		
Other services to EDP	2.091	592
	2.091	592

The values disclosed as Sales of products are recognised in "Trade and other receivables", because of REN´s intermediation role in the acquisition and sell of electricity.

Purchases of products and services

	2008	2007
Purchase of products		
Electricity from EDP	340.196	737.923
	340.196	**737.923**
Purchase of services		
Other services from EDP	5.351	4.272
Interests on Commercial paper from CGD	7.817	23.550
Borrowings commissions from CGD	266	377
Borrowings commissions from CGD	22	3
	13.456	**28.202**

The values disclosed as Purchases of products are recognised in "Trade and other receivables", because of the intermediation nature of the acquisitions and sales of electricity made by REN.

Debtors and creditors balances

At year end the balances resulting from transaction with shareholders or its affiliated companies are as follows:

	2008	2007
Related parties - debtors		
EDP - Trade receivables	50.476	48.069
EDP - Other receivables	2.487	5.288
	52.963	**53.357**
Related parties - creditors		
EDP - Trade payables	10.012	21.441
EDP - Other payables	2.240	3.140
CGD - Borrowings (Commercial paper)		630.000
	12.252	**654.581**

37.2. Transactions and balances with joint ventures

At year end the balances and transactions with joint ventures companies Gasoduto Braga – Tuy and Gasoduto Campo-Maior-Leiria-Braga (as listed in Note 36) are as follows:

Transactions

	2008	2007
Sale of products and services		
Services provided		
Gasoduto Braga- Tuy	358	349
Gasoduto Campo Maior - Leiria - Braga	21.164	20.648
	21.522	**20.997**
	2008	2007
Purchase of products and services		
Purchase of services		
Gasoduto Braga- Tuy	848	824
Gasoduto Campo Maior - Leiria - Braga	5.292	5.145
	6.140	**5.969**

Purchase of services by REN Group refers to the fee paid for the natural gas transmission through the referred pipelines, according to the agreed capacity utilization of each pipeline and price between the joint venture partners, REN Gasodutos, S.A. and Enagás.

Debtors and creditors balances

	2008	2007
Related parties - debtors		
Gasoduto Braga - Tuy	61	35
Gasoduto Campo Maior - Leiria - Braga	357	2.082
	418	**2.117**
Related parties - creditors		
Gasoduto Braga - Tuy	297	288
Gasoduto Campo Maior - Leiria - Braga	2.116	2.018
	2.413	**2.306**

37.3. Board of Directors remuneration

Board of Directors were considered the only Group REN key management according to IAS 24 definition. As at year ended 31 December 2008, the remunerations paid to the Board of directors amounts 4.395 thousand euros (2006: 2.511 thousand euros).

	2008	2007
Remuneration and other short term benefits	4.395	2.511
	4.395	**2.511**

38. Subsequent events

Borrowings

At February 6, 2009, REN SGPS issued debt instruments amounting to 300 million euros, in addition to the series issued in December 2008, for a five year period in the scope of EMTN program (European Medium Term Notes) with an interest rate equitable to a mid swap rate increased of a 2,6% spread.

Law suites

1. As of 19th of December of 2007, REN was notified of the presentation to the International Chamber of Commerce of a request for arbitration by Amorim Energia B.V. against REN, in which is imputed to REN the violation of obligations arising from or related with the Shareholders Agreement" relating to GALP ENERGIA SGPS, S.A., entered into on the 29th of December of 2005 between REN, Amorim B.V. and ENI PORTUGAL INVESTMENTS, S.p.A.. The place of arbitration is Paris, France.

In brief, Amorim Energia BV claims that the illicit acts supposedly committed by REN caused a damage in the amount of the dividends distributed by GALP relating to 2005 profits and received by REN in July 2006 in the quality of GALP shareholder (Euro: 40,669,797.82 – "Dividends"). Additionally, Amorim Energia B.V. claims for an indemnity, in the amount received by REN as a result of the application of an update mechanism, included in the Shareholders Agreement, which consists in applying the 3 month Euribor interest rate to the price to be paid by Amorim Energia B.V. for its shareholding in GALP (Euros: 20,644,972). Amorim Energia B.V. also requests for REN's condemnation in the payment of default interests at legal rate, counted from the presentation of the arbitration request until full payment of the claimed amounts or in an adjustment of the inflation rate since the 12th September, 2006, until full payment of the amounts claimed.

During 2006, REN and Amorim Energia B.V. maintened a dispute in order to decide which was entitled to the amount corresponding the Dividends, according to the Shareholders Agreement. On 15 June 2007, the Arbitration Court pronounced its judgment considering the legal action moved by Amorim Energia B.V. unfounded and recognizing REN's right to maintain the received amount of Euros 40,669,797.82, which were not to be deducting to the price received by the sale of shares representing 18.3% of the share capital of GALP. The Arbitration Court judgment is final and became *res judicata*.

REN replied the jurisdiction of an Arbitration Court operating under the International Chamber of International Commerce to consider any of the requests submitted by Amorim Energia B.V. and sustained as well the inadmissibility of the requests submitted by Amorim Energia BV, namely in virtue of the waiver and/or breach of res judicata of the arbitration judgment passed in Lisbon on 15 June 2007, and in any case, should the court decide to pass judgment on the merits of the Arbitration Request, it sustained its the full dismissal due to lack of grounds.

The Arbitration Court has gathered and in June 2008 the Mission Minute/Reference Terms were underwritten by the members of the Court and by the representatives of the parties. After the presentation of the articled statements, the court hearing took place in the beginning of February 2009. The Arbitration Court will pass a decision on its jurisdiction and on the admissibility of the requests submitted by Amorim Energia. Should it consider that it has jurisdiction, the Court shall pass a decision on the merits of the requests.

Therefore, it is REN's understanding that the said arbitration proceeding does not determine the existence of an obligation, considering that it is (at least) more likely that it will not imply the recognition or constitution of any obligation of REN towards Amorim Energia B.V., relating to the submitted requests than the opposite (i.e. total or partial granting of the arbitration process).

2. Litigation between REN – Redes Energéticas Nacionais (SGPS) S.A. and Galp – Gás Natural, S.A., GDP – Gás de Portugal, SGPS, S.A. and Galp Energia SGPS S.A., a listed company (jointly referred to as "GALP").

In accordance with the contracts entered into between the Parties, the acquisition of the regulated assets of natural gas took place in September 2006, whereby REN paid GALP a basic global price of 526,254,679.52 Euros. The said basic price was contractually subject to an adjustment mechanism by means of evaluations carried out by three international first class banks, following the entry into force of the new regulatory framework of the natural gas sector. According to the adjustment mechanism, the final price of the regulated assets of the natural gas sector corresponds to the arithmetic average of the three evaluations undertaken by the three banks, except in case one of the evaluations would differ more than 20% in relation to the average of the three, in which case that evaluation would not be considered.

In June 2007, the three evaluating banks produced their respective evaluation reports. None of the evaluations differed from the average more than 20%. Bearing in mind the arithmetic average of the three evaluations, the amount that in the meantime had already been paid by REN and the financial costs contractually agreed, the adjusting of the purchasing and selling price of the regulated assets was estimated at 24,026,484.87 Euros, an amount that REN paid to GALP in early July 2007.

By letter dated 9 June 2008, and in accordance with the contracts entered between the Parties, REN was notified of the intentions of the claimants to promote the constitution of an arbitration court to judge the difference raised by them concerning the amount of the adjustment of the price of the regulated assets resulting from the assessments carried out by the three evaluating banks.

In the meantime, the respective Arbitration Court was constituted and, on 20 November 2008, GALP submitted its initial application. In brief, GALP claims that the evaluation undertaken by one of the banks did not meet the criteria contractually agreed, and therefore should not be considered for the purpose of calculating the adjustment of the purchasing and selling price of the regulated assets. Moreover, GALP also alleges that the evaluations undertaken by the other two banks contained technical errors that should be corrected by the Arbitration Court.

GALP requests REN to be sentenced to pay 40,697,947.78 Euros plus interests in arrears amounting to 4,033,552.00 and accruing interests until full payment is made. Additionally, GALP requests REN to be sentenced to pay 26,864,500.00 Euros plus interests in arrears amounting to 2,662,526.00 and accruing interests until full payment is made. Additionally, GALP requests REN to be sentenced to pay 12,232,708.00 Euros plus interests in arrears amounting to 1,212,377.00 and accruing interests until the full payment is made.

In January 2009, REN submitted its reply. In brief, REN sustains that, according to the legal and contractual terms applicable to the case, the evaluations carried out by the evaluation banks are not questionable in the terms expressed by GALP, particularly bearing in mind that none of the evaluations differs more than 20% of the mean of the three evaluations. REN also claims that the evaluation put in question by GALP completely meets the criteria contractually established, whereby there is no reason for it not to be considered.

REN concludes that none of the requests formulated by GALP is justified and considers that the Arbitration Court should dismiss the action completely.

The scheduling of the trial session is awaited, after which the Arbitration Court will pass the arbitration judgment.

Declaration of Conformity

8. Declaration of Conformity

Declaration provided in article 245 (1) (c) of the portuguese securities code

In accordance with and for the purposes of article 245(1)(c) of the Portuguese Securities Code, each one of the members of the Board of Directors of REN – Redes Energéticas Nacionais, SGPS, S.A., nominally identified below has underwritten the declaration transcribed hereafter[1]:

"I hereby declare, in accordance with and for the purposes of article 245(1)(c) of the Portuguese Securities Code that, as far as I know, acting in the capacity and within the scope of the functions that I am entrusted with and based on the information that was made available to me within the Board of Directors and/or the Executive Committee, depending on the case, the consolidated financial statements were prepared in accordance with the applicable accounting rules and do reflect a true and appropriate image of the assets and liabilities, financial situation and results of REN – Redes Energéticas Nacionais, SGPS, S.A. and of the companies included in its consolidation perimeter, and that the management report relating to the year of 2008 faithfully reflects the relevant events occurred during that period and the impact on the respective financial statements and contains as well a description of the main risks and uncertainties for next year."

José Rodrigues Pereira dos Penedos (Chairman)
Aníbal Durães dos Santos (Executive Director)
Victor Manuel da Costa Antunes Machado Baptista (Executive Director)
Rui Manuel Janes Cartaxo (Executive Director)
Fernando Henrique Viana Soares Carneiro (Executive Director)
Luís Maria Atienza Serna (Director)
Gonçalo José Zambrano de Oliveira (Director)
Manuel Carlos Mello Champalimaud (Director)
José Isidoro d'Oliveira Carvalho Netto (Director)
Filipe Maurício de Botton (Director)
José Luís Alvim Marinho (Chairman of the Audit Committee)
José Frederico Vieira Jordão (Member of the Audit Committee)
Fernando António Portela Rocha de Andrade (Member of the Audit Committee)

Lisbon, 20 February 2009

[1]The original of the referred individual statements are available, for consultation, in the Company's head Office.

Individual Financial Statements

9.Individual Financial Statements

Balance Sheet

	Note	As at 31 December 2008	2007
Assets			
Non-current assets			
Property, plant and equipment	7	340	207
Interest in subsidiaries	8	1.102.856	1.102.856
Deferred income tax assets	9	959	-
Available-for-sale financial assets	11	85.890	58.534
Other receivables	12	220.020	-
		1.410.065	**1.161.596**
Current assets			
Other receivables	12	1.192.454	24.486
Income tax receivable		-	15.354
Derivative financial instruments	13	876	-
Cash and cash equivalents	14	7.578	1.251
		1.200.908	**41.091**
Total assets		**2.610.973**	**1.202.687**
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	534.000	534.000
Treasury shares	15	(6.619)	-
Other reserves	16	164.160	152.590
Retained earnings	16	161.061	242.672
Profit for the year attributable to equity holders of the Company	16	(1.513)	30.740
Total equity		**851.089**	**960.002**
Liabilities			
Non- current liabilities			
Borrowings	17	1.154.668	96
Deferred income tax liabilities	9	232	1.139
Provisions for other liabilities and charges		-	-
		1.154.900	**1.235**
Current liabilities			
Borrowings	17	491.391	150.222
Trade and other payables	18	21.201	91.227
Income tax payable		92.391	-
		604.983	**241.449**
Total liabilities		**1.759.883**	**242.685**
Total equity and liabilities		**2.610.973**	**1.202.687**

The notes in pages 136 to 159 are an integral part of these individual financial statements.

Income statement

	Note	As at 31 December 2008	2007
Services provided	**25.1**	**9.485**	**2.339**
External supplies and services	19 e 25.2	(4.973)	(5.043)
Employee compensation and benefit expense		(4.204)	(2.006)
Depreciation and impairment charges		(49)	(11)
Provisions for liabilities and charges		-	40.670
Impairment of assets		-	-
Other expenses		(1.001)	(377)
Other income		2.358	32
Total costs		**(7.869)**	**33.265**
Operating profit		**1.616**	**35.603**
Finance costs	20, 25.2 e 25.3	(61.687)	(3.088)
Finance income	20 e 25.1	58.802	1.439
Profit before income taxes		**(1.269)**	**33.955**
Income tax expense	21	(244)	(3.214)
Profit for the year		**(1.513)**	**30.740**
Earnings per share of the company during the year (expressed in euro per share)			
- basic	22	(0,0028)	0,0576
- diluted	22	(0,0028)	0,0576

The notes in pages 136 to 159 are an integral part of these individual financial statements.

Statement of recognised income and expense

	As at 31 December 2008	2007
Net fair value gains on available for sale investments - gross of tax	(15.838)	8.600
Tax on items taken directly to or transferred from equity	2.099	(1.139)
Net income recognised directly in equity	**(13.740)**	**7.460**
Profit for the period	**(1.513)**	**30.740**
Total recognised income for the year	**(15.252)**	**38.201**

The notes in pages 136 to 159 are an integral part of these individual financial statements.

Cash flow statement

	As at 31 December	
	2008	2007
Cash flow from operating activities		
Cash receipts from customers	97.836	94.522
Cash paid to suppliers	(141.919)	(11.551)
Cash paid to employees	(3.859)	(3.338)
Income tax paid	12.362	(57.460)
Net flows from operating activities	**(35.580)**	**22.173**
Cash flow from investing activities		
Receipts related to:		
Financial investments	6.097	-
Sale of PPE	-	-
Grants related to to assets	-	-
Dividends	-	-
Payments related to:		
Borrowings to Affiliates	(1.090.423)	(40.539)
Financial investments	(43.425)	-
Purchases of PPE	(85)	(216)
Net cash used in investing activities	**(1.127.837)**	**(40.755)**
Cash flow from financing activities		
Receipts related to:		
Borrowings	16.170.924	600.000
Interests	3.309	-
Payments related to:		
Borrowings	(14.944.916)	(450.000)
Loans to affiliated companies	-	-
Interests	(59.592)	(2.934)
Dividends	-	(97.000)
Net cash used in financing activities	**1.169.725**	**50.067**
Net (decrease)/increase in cash and cash equivalents	**6.309**	**31.485**
Cash and cash equivalents at de begining of the year	1.084	(30.401)
Cash and cash equivalents in de end of the period	**7.393**	**1.084**

The notes in pages 136 to 159 are an integral part of these individual financial statements.

Notes to individual financial statements

10. Notes to individual financial statements

1. General information

REN – Redes Energéticas Nacionais, SGPS, S.A. (referred to in these notes as "REN SGPS" or "Entity"), with the address in Avenida Estados Unidos da América, 55 – 12.°, Lisbon, results from the transformation on the 5th January 2007, of REN – Rede Eléctrica Nacional, S.A. into a holding company.

Within the transformation transaction, the electricity business incorporated in REN – Rede Eléctrica Nacional, S.A was transferred to a group company named REN – Serviços de Rede, S.A., which was then redenominated to REN – Rede Eléctrica Nacional, S.A.

REN – Redes Energéticas Nacionais, SGPS, S.A. is the holding company of Group REN, which is organised in two major businesses: electricity and gas, and two residual businesses in telecommunications and electricity derivative market management.

Electricity Business

REN – Rede Eléctrica Nacional, S.A.

A company incorporated by public register as at 26 September 2006, that had a share capital increase as at 5 January 2007, through the integration of the transferred assets and liabilities regarding the concession arrangement for the operation of the NTG extra high voltage.

This entity object is the transmission of electricity and the overall management of the Public Electricity Supply System, aiming the security and the continuity of electricity supply in Portuguese mainland territory and the management and operation of NTG, which includes electricity transmission, the planning, construction, maintenance and operation of infrastructures and connected facilities, in accordance with law and the service concession arrangement owned.

REN Trading, S.A.

A company incorporated by public register as at 13 June 2007.

This company aim is to buy, sell, import and export electricity and to buy and sell power generation capacity and system services, in the scope of the power purchase agreements ("PPA") management, as well as the buy and sell of natural gas and other fuels aiming the efficiency of the costs and the management of the referred agreements, through transactions in organised markets, auctions and bilateral contracts.

Gas Business

REN Gasodutos, S.A.

Incorporated by determination of Governmental Resolution of Ministers Council n° 85/2006, published in the Official Journal n° 125 series B of 30 June 2006, and publicly registered as at 26 September 2006.

Its social object is the transmission of natural gas in high pressure, and the technical overall management of the Natural Gas Supply System aiming the security and the continuity of natural gas supply in Portuguese mainland territory.

This entity is responsible for the management and operation of the Natural Gas Supply System, which includes the natural gas transmission, the planning, construction, maintenance and operation of infrastructures and connected facilities, in accordance with law and the service concession arrangement owned, as well as other correlated activities.

The share capital of REN Gasodutos is 404.931.169,86 euros, represented by 404.931.169 shares with a nominal value of 1 euro each. As at 31 December 2008 100% of the share capital was owned by REN – Redes Energéticas Nacionais, SGPS, S.A.

REN Gasodutos owns a share in two companies constituted in joint venture with the Spanish Gas transmission company, Enagás, to which REN Gasodutos transferred the rights of transmission for specific pipelines (Braga-Tuy and Campo Maior - Leiria – Braga).

REN Armazenagem, S.A.

Incorporated by determination of Governmental Resolution of Ministers Council n° 85/2006, published in the Official Journal n° 125 series B of 30 June 2006, and publicly registered as at 26 September 2006.

Its social object is the underground storage of natural gas and the construction, operation and maintenance of infrastructures and related facilities, in accordance with law and the service concession arrangement owned, as well as other correlated activities.

The share capital is 13.000.000 euros, represented by 13 millions of shares with a nominal value of 1 euro each. As at 31 December 2008 100% of the share capital was owned by

REN – Redes Energéticas Nacionais, SGPS, S.A.

REN Atlântico, Terminal de GNL, S.A.

This entity was constituted in 14 April 1999. By public register as at 26 September 2006 it was redenominated to REN Atlântico, Terminal de GNL, S.A. Its social object is to provide services of reception, storage and regasification of liquefied natural gas in a LNG sea terminal, and the construction, operation and maintenance of infrastructures and connected facilities, in accordance with law and the service concession arrangement owned, as well as other correlated activities.

Telecommunication services

RENTELECOM – Comunicações, S.A.

Incorporated by Dispatch n.º 128/2001 of the Minister of Economy, and public register as at 7 December 2001, the entity started its operations as at 1 January 2002 and its object is to establish, manage and operate telecommunication infrastructures and systems, to provide communication services as well as the development of any complementary, subsidiary or accessory activities, directly or through the interest in or the incorporation in a new entity.

The share capital of RENTELECOM is 100.000 euros, represented by 20.000 shares with a nominal value of 5 euros each, which was 100% owned by REN – Redes Energéticas Nacionais, SGPS, S.A., as at 31 December 2008.

Electricity derivatives market management

OMIP – Operador do Mercado Ibérico de Energia, S.A.

Incorporated by Dispatch n.º 360/ME/2003 of the Minister of Economy, and public register as at 16 June 2003, the entity started its operations as at 10 December 2003 and its object is to organise and manage the supporting system for transactions and settlements in the scope of MIBEL, being responsible for:

a) the management of the organised market for electricity futures;
b) the intermediation of commercial relationships between participants, in the scope of MIBEL;
c) the management of other markets of energy products;
d) the provision of settlement services in the energy organised markets;
e) the provision of settlement services for standard transactions in non-organised energy markets;
f) the provision of services to organise markets in the scope electricity system operations.

Due to the delay in MIBEL – Mercado Ibérico de Electricidade setup OMIP only started its operations on the 3rd of July of 2006.

The share capital of OMIP is 2.222.220 euros, represented by 222.222.shares with a nominal value of 10 euros each, which was owned as at 31 December 2008, 90% by REN – Redes Energéticas Nacionais, SGPS, S.A. and 10% by OMEL – Compañia Operadora del Mercado Español de Electricidad, S.A.

OMIP owns 100% of OMIClear – Sociedade de Compensação de Mercado de Energia, S.A. share capital, whose social object is to do the compensation of forward operations, namely futures and options.

Other

REN SGPS holds an interest in the entity REN Serviços, S.A. whose object is the provision of general services such as: administration, financial, regulatory, staff management, payroll processing, management and maintenance of tangible assets, procurement of materials and services, and other equitable services, that can be called "back-office services". These services are provided for a fee, not only to group companies but also to third parties.

1.1. Approval of the separate financial statements

Separate financial statements were approved by the Board of Directors, in the meeting of 20 February of 2009. It is Board of Directors opinion that these financial statements reflect the true and fair view of REN operations, as well as its financial position, performance and cash flows.

2. Basis of preparation

These financial statements are the Entity's first separate financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by European Union, issued and effective or issued and early adopted as at 1 January 2008, and are covered by IFRS 1, First-time Adoption of IFRS. The transition date is January 1, 2007 and the Entity prepared its opening balance sheet at that date. REN separated financial statements were prepared in accordance with Portuguese's Generally Accepted Accounting Principles (GAAP) until 31 December 2007.

In the preparation of the separate financial statements as at 31 December 2008, the Board of Directors have amended certain accounting and measurement methods applied in the GAAP financial statements to comply with IFRS. The comparative figures related to year 2007 were restated to reflect these adjustments. Reconciliations and descriptions of the transition impacts from pervious GAAP to IFRS on the Entity's equity, net profit and cash flows are presented in Note 4.

In the preparation of these consolidated financial statements REN has attended to the convention of historical cost, changed, when applicable, by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgement in the process of adopting REN SGPS accounting policies, with a significant impact on the carrying amounts of assets, liabilities as well as the expenses and revenues of the reporting period.

Although estimates are based in the best experience of the Board of Directors, the expectations over current and future events and actions, and the current or future outcome of these events may differ from the estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 6.

New standards:

a) Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2009 or later periods but that REN SGPS decided not early adopt:

- IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). This standard has no impact on the Entity's financial statements.
- IAS 23 (Amendment), 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009). This amendment is not expected to have impact on REN SGPS financial statements.
- IFRS 2 (Amendment), 'Share based payments' (effective for annual periods beginning on or after 1 January 2009).This amendment has no impact on REN SGPS financial statements.
- IFRS 3 (Revised), 'Business combinations' and IAS 27(Revised), 'Consolidated and separate financial statements (effective for annual periods beginning on or after 1 July 2009). The revision to these standards is still subject to endorsement by the European Union and will be applied to future business combinations accounted by REN SGPS.
- IAS 1 (revised) 'Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). This revision to IAS 1 will be adopted by REN SGPS as at 1 January 2009.
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective for annual periods beginning on or after 1 January 2009). The amendment to this standard is still subject to endorsement by European Union however no impact is expected of its application on REN SGPS financial statements.
- IFRS 1 (Amendment) 'First time adoption of IFRS' and consequential amendment to IAS 27 'Consolidated and separate financial statements'(effective for annual periods beginning on or after 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union however no impact is expected of its application on REN SGPS financial statements.
- 2008 annual improvements, mainly effective for annual periods beginning on or after 1 January 2009. The improvements to the standards are still subject to endorsement by the European Union, and will be applied by the Entity in the periods it will become effective.
- IFRIC 13, Customer loyalty cards (effective for annual periods beginning on or after 1 January 2009, in the European Union). This interpretation has no impact on REN SGPS financial statements.
- IFRIC 14, IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2009, in the European Union). This interpretation has no impact on REN SGPS financial statements.
- IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1 January 2009). This interpretation is still subject to endorsement by the European Union however no impact is expected of its application on REN SGPS financial statements.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008). This interpretation is still subject to endorsement by the European Union however no impact is expected of its application on REN SGPS financial statements.
- IFRIC 17, 'Distributions of Non-cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009). This interpretation is still subject to endorsement by the European Union and will be applied by the Entity in the periods it will become effective.

b) The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 according to IASB, but are still subject to endorsement by the European Union, the reason why it were not applied:

- IFRIC 12, Service concession arrangements (effective for annual periods beginning on or after 1 January 2008). This Interpretation has no impact on REN SGPS financial statements.

c) The impact of the adoption of the standards and interpretations that became effective for the annual period accounts beginning in 1 January 2008 is the following:

- IFRIC 11, IFRS 2 – Group and treasury share transactions. Without impact on REN SGPS financial statements.
- IAS 39, 'Financial instruments: Recognition and measurement'. Under exceptional conditions, changes in the classification of financial assets from the fair value through profit or loss" category, are allowed. Without impact on REN SGPS financial statements.

3. Summary of the significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Interest in subsidiaries

Subsidiaries are all entities (including special purpose entities) over which REN has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the REN SGPS controls another entity. The entities that qualify as subsidiaries are listed in Note 8.

The interests in subsidiaries are recognised at acquisition cost, deducted from pre-acquisition dividends and eventual impairment losses. Dividends received from subsidiaries are recognised as income when the shareholder right to receive is established, as a consequence of subsidiaries' General shareholders meeting decision.

3.2. Foreign currency translation

i) Functional currency translation

Items included in REN SGPS financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'), the euro. The consolidated financial statements including these notes are presented in thousand euros, unless otherwise stated, the Group's presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, in finance costs if related with borrowings and in other operating costs, for all the other balances/transactions.

3.3. Property, Plant and equipment

Property, plant and equipment are stated at cost less depreciation and cumulative impairment losses. Cost refers to assets deemed cost as at transition date to IFRS, and acquisition costs for the assets acquired after that date.

Acquisition cost includes the price of the asset and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Borrowing costs capitalised during the preparation/construction phase of PPE assets, are recognised as assets' acquisition and/or construction cost.

Subsequent expenditure, including renewals and overhauls, that extend the PPE useful life is recognised in the asset cost.

Repairs and maintenances are charged to the income statement of the period in which they are incurred.

Property, plant and equipment, are depreciated on a systematic basis, using the straight-line method, for its estimated useful life.

Estimated useful lives for the most significant items of PPE are as follows:

	Years
Transport equipment	Between 4 and 6 years
Office and IT furniture and fittings	Between 3 and 10 years

Useful lives are reviewed at year end, for each class of assets, in a way of assuring that the calculated depreciation is in accordance with the asset consumption. Changes in useful lives are treated as a change in estimations and applied prospectively.

Gains and losses on assets' disposals are determined as the difference between the proceeds from the disposal and the asset carrying amount, being recognised in the income statement.

3.4. Financial assets

The Board of Directors determines the classification of the financial assets at initial recognition in accordance with the purpose for which the financial assets were acquired and re-evaluates this designation at each reporting date.

Financial assets may be classified into the following categories:

a) financial assets at fair value through profit or loss – includes non-derivative financial assets acquired for short-term trading and assets designated at fair value through profit and loss at inception date;

b) loans and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;

c) investments held-to-maturity – includes non-derivative financial assets with fixed or determinable payments, with fixed maturities, that the entity intends and has the capacity to hold until the maturity date; and

d) available-for-sale financial assets – includes non-derivative financial assets designated as available-for-sale at inception date or other financial assets not classified in any of the other financial assets categories. Available-for-sale are recognised as non-current assets unless management intends to dispose off the investment within 12 month of the balance sheet date.

Regular purchases and sales of investments are recognised on trade date – the date on which REN commits to purchase or sell the asset.

Financial assets at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. These assets are subsequently measured at fair value, being the gains and losses arising from changes in fair value recognised in the income statement in the period in which they arise, within "finance costs.

Available-for-sale financial assets are initially recognised at fair value including transaction costs. In the subsequent periods these assets are measured at fair value, being the changes in fair value recognised in a fair value reserve within Equity. Dividends and interests obtained from assets available-for-sale are recognised in the income statement in the period in which the right to receive them is established, within "Other income".

The fair values of listed investments are based on current market prices ("bid"). If the market for a financial asset is not active, REN establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis when information is available, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Loans and receivables are classified as "Trade and other receivables" in the balance sheet and are recognised at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

REN evaluates at each balance sheet reporting date, whether there is objective evidence that its financial assets are impaired. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the equity instrument below its cost is considered an indicator that those are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments expire or are transferred with substantially all risks and rewards of ownership.

3.5. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within "Borrowings" in current liabilities on the balance sheet, and are included in the consolidated cash flow statement preparation, as cash and cash equivalents.

3.6. Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares acquired through contract or directly in the stock market are recognised in equity, in a separate heading. According to company law REN SGPS has to guarantee at all time the existence of reserves in Equity to cover the value of treasury shares owned, restricting the available amount of reserves for distribution.

Treasury shares are measured at acquisition cost if it is a spot transaction or at the estimated fair value if it is a forward contract acquisition.

3.7. Financial liabilities

IAS 39 foresees the classification of financial liabilities in two categories:

a) financial liabilities at fair value through profit and loss;
b) other financial liabilities

Other financial liabilities include "Borrowings" (Note 3.18) and "Trade and other payables". Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the related obligations are settled, cancelled or expired.

3.8. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost being the difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the borrowings term using the effective interest method.

Borrowings are classified as current liabilities unless REN has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date, being classified as non-current liabilities.

3.9. Derivative financial instruments

Derivative financial instruments are initially measured at the transaction date fair value, being subsequently measured at each reporting date fair value. The recognition of fair value gains or losses depends on its designation. If designated as derivative financial instruments for trade, gains or losses of fair value changes are recognized in the income statement, in "Finance income" or "Finance costs". If designated as hedging derivative financial instruments, gains or losses of fair value changes are recognized according to the hedged item and the hedging relationship, as a fair value hedge or a cash-flows hedge.

In an operation to hedge the exposure to fair value of an asset or liability ("fair value hedge"), the carrying amount of the respective asset or liability, measured in accordance with the defined accounting policy, is adjusted to incorporate the fair value change of the hedged risk. For these hedging relationships, the fair value changes are recognized in the income statement jointly with the fair value changes of the risk component of the hedged item.

In an operation to hedge the exposure to future cashflows of an asset or liability ("cash-flow hedge"), the effective part of fair value changes in the hedging derivative are recognized in reserves, being recycled to the income statement in the periods the fair value changes of the hedge item impact the income statement. The ineffective part of the hedging is recognized in the income statement when it occurs.

3.10. Income tax

Income tax expenses include current income taxes and deferred income taxes. Income taxes are recognised in the income statement, except when related with items recognised directly in equity. The amount of income tax payable is determined on the basis of the net income before taxes, adjusted in accordance with tax legislation.

In the current year, the Entity became part of a consolidation circle for fiscal purposes. As such, subsidiaries' income tax estimates, withholding taxes retained by third parties and on account payments of income tax, are recognised in REN – Redes Energéticas Nacionais, SGPS, S.A. in the heading "Income tax payable" against " Other accounts receivable".

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the separate financial statements.

Deferred income tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax is provided on every temporary differences, except to the extent that it arises from: i) the initial recognition of goodwill; or ii) the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. However for temporary differences associated with investments in subsidiaries deferred tax liabilities should not be recognised to the extent that: i) the parent company is able to control the timing of the reversal of the temporary difference; and ii) it is probable that the temporary difference will not reverse in the foreseeable future.

3.11. Provisions

Provisions are recognised when REN SGPS has: i) a present legal or constructive obligation as a result of past events; ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated. When one of these criteria is not fulfilled or the obligation settlement is conditioned by a future event, REN SGPS discloses it as a contingent liability, except if the outflow of resources for the settlement is remote.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.12. Leasings

Leasings of property, plant and equipment, in which REN obtains substantially all the risks and rewards incidental to ownership of an asset, are classified as finance lease. Arrangements which contain a finance lease within it are also classified as finance leases. All the other leases are classified as operating leases.

Finance lease contracts are initially recognised at the lower of the fair value of the leased assets or the present value of the minimum lease payments, each determined at the inception date. The lease liability is recognised net of interest costs, within borrowings. The interest costs included in rental and the leased assets depreciation are recognised in the consolidated income statement in the period they refer to.

The property, plant and equipment "acquired" through finance leases, are depreciated at the lower of the estimated useful life and the lease term, when the Group has no purchase option in the final of the contract, or at its estimated useful life when the Group has the intention to acquire the assets in the contract term.

In operating leases contracts, the rents paid are recognised as expenses in the consolidated income statements, on a straight-line basis, during the lease term.

3.13. Revenues

Revenue comprises the fair value of the services provided net of taxes and discounts.

Services provided are recognised in the period to which it refers to, according to the accrual basis accounting principle. The amounts recognised as services provided refer to management fees charged to subsidiaries.

3.14. Other revenues and expenses

Other revenues and expenses are recognised in the period to which it refers to, in spite of its settlement date, according to the accrual basis accounting principle. The differences between the amounts received and paid and the related revenues and expenses are recognised has assets and liabilities respectively, if these qualify as receivables or payables.

4. IFRS first-time adoption

REN SGPS adopted IFRS, issued and effective or issued and early adopted as at 1 January 2008 and applied those standards retrospectively to all presented periods. The transition date is 1 January 2007 and the Entity prepared its opening balance sheet at that date, considering the exemptions and exclusions from other IFRS, allowed by the IFRS 1.

IFRS 1 allows exemptions in what refers to retrospective application required by other standards issued by IASB, and REN SGPS elected as at the transition date the exemption relating with the designation of financial assets as "available-for-sale".

REN SGPS has applied the exemption to IAS 39 – 'Financial instruments: recognition and measurement', in what refers to the designation of a financial asset as an available-for-sale financial asset as at transition date. The accounting treatment required by IAS 39 - 'Financial instruments: recognition and measurement', only allows the designation of a financial asset at its initial recognition date.

Reconciliation of the transition adjustments for the IFRS

As at 31 December 2007 and 1 January 2007, the adoption of the principles and accounting policies according to IFRS had the following impacts in equity:

	Adj.	31.12.07	01.01.07
Equity - GAAP		**1.054.019**	**1.031.074**
Equity method elimination	1	(101.508)	(10.536)
OMIP dividends	1	31	-
Benefits to employees	2	-	(1.736)
Fair value of available-for-sale	3	8.600	-
Deferred tax	4	(1.139)	-
Total of adjustments		(94.017)	(12.272)
Equity - IFRS		**960.002**	**1.018.802**

The total amount of adjustments as at transition date reflects the differences recognised in the separate financial statements as a consequence of its conversion to IFRS. These adjustments are recognised in "Retained earnings".

As at 31 December 2007, the adoption of the principles and accounting policies according to IFRS had an impact in the profit of the year, as follows:

	Adj.	31.12.07
Profit for the year - GAAP		**121.681**
Equity method elimination	1	(90.972)
OMIP dividends	1	31
Benefits to employees	2	-
Fair value of available-for-sale	3	-
Deferred tax	4	-
Total of adjustments		(90.941)
Profit for the year - IFRS		**30.740**

Impact in cash flow statement

IFRS impacts on cash flow statement were not considered significant for disclosure.

Detail of the adjustments

The adjustments considered in equity and profit for the year reconciliations presented above, refers to the quantifiable differences between GAAP financial statements and IFRS. The main differences are summarized as follows:

Adjustment 1 – Equity method elimination

IAS 27 – 'Consolidated and separate financial statements' refers that when an entity prepares separate financial statements, the interest in subsidiaries, associates and joint ventures, that are not classified as assets held-for-sale, must be recognised: at cost or at fair value according to IAS 39 – 'Financial instruments: recognition and measurement'. REN SGPS elected to measure its interest in subsidiaries at cost, the reason why it was necessary to derecognise the impact of equity method application, in each period.

According to the cost method, an entity only recognises gains related to interest in subsidiaries, when the dividends distributed were generated after the acquisition date. Therefore it was necessary to recognise the gain obtained from the dividends distributed by OMIP.

Adjustment 2 – Employee benefits

According to Portuguese legislation, bonuses may be paid to employees through profit of the year distribution, without direct impact in the income statements. As at transition date the bonus attributed to employees is recognised as a liability in the period that the employee rendered the respective service.

Adjustment 3 – Available-for-sale financial assets measurement

In the comparative period in analysis REN SGPS acquired an interest in Red Eléctrica España, S.A., which was classified as an available-for-sale financial asset because of being considered a strategic investment. According to IFRS, available-for-sale financial assets are recognised at fair value through equity, while in GAAP those are measured at acquisition cost.

Adjustment 4 – Deferred tax A

Deferred income tax adjustment relates to the impact of the adjustments referred above, considering the items carrying amount compared to its taxable amount.

5. Financial risk management

5.1.Financial risk factors

Group REN activities are exposed to a variety of financial risks: credit risk, liquidity risk, cash flow interest rate risk, and others.

REN SGPS developed and implemented a risk management programme that, with a permanent monitoring of financial markets, seeks to minimise potential adverse effects on Group REN financial performance.

Risk management is carried out by the financial department under the policies approved by the Board of directors. The financial department identifies, evaluates and prepares the necessary transactions with the objective of minimise the financial risks, in strict cooperation with REN operating units.

The Board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

i) Foreign Exchange rate risk

Neither Group REN subsidiaries nor REN SGPS have significant transaction in foreign currencies.

ii) Credit risk

The transactions entered by REN SGPS, refers mainly to centralised Group treasury management, being the amounts receivable related to loans and treasury loans given to subsidiaries.

Referring to subsidiaries credit risk, this is not significant, since a substantial part of revenues are recognised through the invoiced amounts to electricity and natural gas bounded distributors, according to the terms defined by the regulator for electricity and natural gas market.

Referring to the deposits classified as "Cash and cash equivalents", they are all negotiated with financial institutions with credit ratings between A and A+.

iii) Liquidity risks

REN's liquidity risk management is done through the issuance of long term debt instruments, the management of commercial paper flexible programmes, and the negotiation of credit facilities available at any time.

The following table shows REN SGPS financial liabilities and derivatives financial instruments settled net, for the relevant maturity intervals, considering at the balance sheet date, the remaining period for the contractual maturity. The amounts presented in the table refer to non-discounted cash-flows:

	2008			
	No later than 1 year	1 - 5 years	More than 5 years	Total
Borrowings:				
Financial lease	111	174	-	285
Bank borrowings	55.858	195.987	376.475	628.320
Commercial paper	454.502	200.000	-	654.502
Bonds	31.875	627.500	-	659.375
Bank overdrafts	307	-	-	307
	542.653	**1.023.661**	**376.475**	**1.942.790**
Derivative financial instruments	1.571	(368)	-	1.203
Trade and other payable	21.201	-	-	21.201
	563.854	**1.023.661**	**376.475**	**1.963.990**

	2007			
	No later than 1 year	1 - 5 years	More than 5 years	Total
Borrowings:				
Financial lease	65	104	-	168
Bank borrowings	-	-	-	-
Commercial paper	150.000	-	-	150.000
Bonds	-	-	-	-
Bank overdrafts	167	-	-	167
	150.232	**104**	**-**	**150.335**
Derivative financial instruments	-	-	-	-
Trade and other payable	91.227	-	-	91.227
	241.459	**104**	**0**	**241.563**

iv) Interest rate risk

The risk associated to interest rate fluctuation has impact on REN SGPS financial statements, in the interests paid on borrowings.

REN SGPS is exposed to interest rates risk, mainly due to borrowings. Borrowings negotiated at variable interest rates expose REN to cash flow risk, whenever interest rate changes. Borrowings negotiated at fixed interest rates expose REN to fair value risk, whenever interest rate changes.

REN analyses its exposure to interest rate risk on a dynamic base. During 2008, REN issued bonds at fixed interest rate in the amount of 500 million euros, entering in the same date, in interest rate swaps with identical features of the issued bonds to do the economical hedge of the fair value risk.

Sensitivity analysis of finance costs to changes in the interest rates

A sensitivity analysis was performed based on the total debt negotiated by REN SGPS deducted from cash and cash equivalents, with reference to 31 December 2007 and 2008.

2007

Considering REN SGPS' net debt as at 31 December 2007, an increase of 1,5% on interest rate would increase annual finance costs of some 2,265 thousand euros.

2008

Considering REN SGPS' net debt as at 31 December 2008, an increase of 1,5% on interest rate would increase annual finance costs of some 17,454 thousand euros.

5.2. Capital management

REN SGPS objective relating to the management of Capital, which is a broader concept than the capital disclosed in the face of balance sheet, is to maintain an optimal capital structure, through a rational use of debt and maintaining a solid credit rating that allows the reduction of the cost of capital.

The debt negotiated is analysed periodically considering the following aspects: i) subsidiaries needs of CAPEX in regulated assets; ii) the remuneration rate of regulated assets as determined in regulatory terms; and iii) the dividend policy in place.

REN SGPS monitors its total Capital based on the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as presented in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "Equity" as presented in the balance sheet, plus net debt.

In 2008, REN SGPS strategy was to maintain a gearing ratio between 60% and 70%. Gearing ratios were as at 31 December 2008 and 2007 are as follows:

	2008	2007
Borrowings (note 17)	1.646.059	150.318
Less: Cash and cash equivalents (note 14)	(7.578)	(1.251)
Net debt	1.638.481	149.067
Total equity	851.089	960.002
Equity Total	2.489.570	1.109.069
Gearing	66%	13%

The reduced gearing ratio in 2007 reflects the fact that the centralisation of Group treasury management and debt negotiation in REN SGPS, only became effective in 2008, with the transfer of subsidiaries loans to REN SGPS.

5.3. Derivative financial instruments

During 2008, the REN SGPS did the economic hedge of its exposure to fair value risk, resulting from the issuance of 500 million euros of debt instruments, through interest rate swaps with the same features (notional of 500 million euros). Although it was not recognised as an accounting hedge, the objective of this economic hedge is to change the debt emission at a fixed interest rate into a variable interest rate, so that the derivative fair value fluctuations matches with the debt instruments fair value, as a result of the changes in interest rate risk.

6. Critical accounting estimates and judgements

The estimates and assumptions with impact on REN's financial statements are continuously evaluated, representing at each reporting date the Board of Directors best estimations, considering historical performance, past accumulated experience and expectations about future events that, under circumstances, are believed to be reasonable.

The intrinsic nature of these estimations may cause different impacts on financial statements from those previously estimated. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

6.1.Provisions

REN SGPS evaluates periodically the existence of obligations resulting from past events that should be recognised or disclosed.

The subjectivity inherent to the determination of the probability and amount of the resources necessary to settle these obligations may result in significant adjustments, due to changes in the assumptions used or because previously disclosed contingent liabilities may turn to recognisable provisions.

6.2. Interest in subsidiaries

Since REN SGPS elected to measure in its separate financial statements the interests in subsidiaries at acquisition cost it is necessary to assess at each reporting date the existence of impairment indicators that requires the realisation of an impairment test.

The Board of Directors do its evaluation based in indicators like operation results obtained by subsidiaries and the evolution of its activities. Having no impairment indicators identified REN SGPS does not perform impairment tests.

7. Property, Plant and equipment

As at 31 December 2008, property, plant and equipment assets refer mainly to vehicles acquired under finance lease contracts.

8. Interest in subsidiaries

As at 31 december 2008, the detail of interest in subsidiaries is as follows:

Entities	2008	2007
RENTELECOM - Comunicações, S.A.	100	100
OMIP - Operador do Mercado Ibérico de Energia, S.A.	2.000	2.000
REN Gasodutos, S.A.	404.931	404.931
REN Armazenagem, S.A.	76.386	76.386
REN Atlântico, Terminal de GNL S.A.	32.580	32.580
REN - Rede Eléctrica Nacional, S.A.	586.759	586.759
REN Trading S.A.	50	50
REN Serviços, S.A.	50	50
	1.102.856	1.102.856

The interest in subsidiaries is measured at cost.
Information of subsidiaries:

			2008		2007	
Entities	Adress	% Equity	Total equity	Profit for the year	Total equity	Profit for the year
RENTELECOM - Comunicações, S.A.	Lisboa	100%	1.304	308	996	354
OMIP - Operador do Mercado Ibérico de Energia, S.A.	Lisboa	90%	4.978	22	4.986	64
REN Gasodutos, S.A.	Bucelas	100%	461.473	28.662	432.811	23.358
REN Armazenagem, S.A.	Pombal	100%	86.191	4.154	82.037	4.585
REN Atlântico, Terminal de GNL S.A.	Sines	100%	43.513	7.059	36.455	5.702
REN - Rede Eléctrica Nacional, S.A.	Lisboa	100%	686.999	43.709	643.290	56.531
REN Trading S.A.	Lisboa	100%	6.065	5.631	434	384
REN Serviços, S.A.	Lisboa	100%	83	33	50	0
			1.290.606	**89.578**	**1.201.059**	**90.978**

9. Deferred income taxes

The detail of the income taxes recognised in the financial statements is as follows:

	2008	2007
Impact in income statement		
Deferred income tax assets	-	-
Deferred income tax liabilities	(232)	-
	(232)	-
Impact in equity		
Deferred income tax assets	2.099	-
Deferred income tax liabilities	-	(1.139)
	2.099	(1.139)
Net impact of deferred income taxes	**1.866**	**(1.139)**

The movements in the headings of deferred income tax assets and liabilities for the years presented are as follows:

	Assets	Liabilities	Total
At 1 January 2008	**-**	**(1.139)**	**(1.139)**
Charged/ (credited) to equity	959	1.139	2.099
Charged to income statement	-	(232)	(232)
Credited to income statement	-	-	-
Movement of the period	**959**	**907**	**1.866**
At 31 December 2008	**959**	**(232)**	**1.191**

	Assets	Liabilities	Total
At 1 January 2007	-	-	-
Charged/ (credited) to equity	-	(1.139)	(1.139)
Charged to income statement	-	-	-
Credited to income statement	-	-	-
Movement of the period	**-**	**(1.139)**	**(1.139)**
At 31 December 2007	**-**	**(1.139)**	**(1.139)**

Deferred income tax liabilities refer to the recognition of derivative financial instruments.

Deferred income tax assets refer to fair value changes in available-for-sale financial assets. Due to the fact that REN SGPS is still in an early stage of group relationships organisation with subsidiaries, it has generated carrying-forward losses amounting to 12.200 thousand euros, for which it did not recognise deferred income tax asset, because uncertainty exists about its recovery during the fiscal period of 6 years.

	2008
Tax losses carried forward	
Deductible until 2013	7.041
Deductible until 2014	5.159
	12.200

10. Financial assets and liabilities by category

The accounting policies for financial instruments according to IAS 39 categories have been applied to the following financial assets and liabilities:

2007	Loans and receivables	Available-for-sale financial assets	Other finance liabilities	Assets and liabilities out of IAS 39	Total
Assets					
Cash and cash equivalents	1.251	-	-	-	1.251
Trade and other receivables	24.105	-	-	380	24.486
Assets available for sale	-	58.534	-	-	58.534
Total financial assets	**25.356**	**58.534**	**-**	**380**	**84.271**
Liabilities					
Borrowings	-	-	150.318	-	150.318
Trade and other payables	-	-	90.817	410	91.227
Total financial liabilities	**-**	**-**	**241.135**	**410**	**241.545**

2008	Loans and receivables	Available-for-sale financial assets	Assets/ liabilities fair value through income statement	Other finance liabilities	Assets and liabilities out of IAS 39	Total
Assets						
Cash and cash equivalents	7.578	-	-	-	-	7.578
Trade and other receivables	1.412.342	-	-	-	132	1.412.473
Derivative financial instruments	-	-	876	-	-	876
Assets available for sale	-	85.890	-	-	-	85.890
Total financial assets	**1.419.920**	**85.890**	**876**	**-**	**132**	**1.506.818**
Liabilities						
Borrowings	-	-	-	1.646.059	-	1.646.059
Trade and other payables	-	-	-	20.479	722	21.201
Total financial liabilities	**-**	**-**	**-**	**1.666.538**	**722**	**1.667.260**

11. Available-for-sale financial assets

As at 31 December 2008, the detail of the amounts recognised in this heading is as follows:

	% owned	2008	2007
Red Electrica de España, S.A. ("REE")	1,00%	48.733	58.534
Enagás, S.A. ("Enagás")	1,00%	37.157	-
		85.890	**58.534**

The investment in equity instruments of these entities is a result of the strategic exchange of interest with the electricity and gas transmission companies for the Spanish market. The investment in REE was acquired in the second half of 2007, and the investment in ENAGAS was acquired in the first half of 2008.

Since the referred entities are listed, the fair value calculation was made based on the market quotations, as at the reporting periods, being recognised the following changes:

	REE	Enagás	Total
At 1 January 2008	-	-	-
Acquisitions	49.934	-	49.934
Fair value adjustment	8.600	-	8.600
At 31 December 2007	**58.534**	-	**58.534**
	REE	Enagás	Total
At 1 January 2007			
Acquisitions	58.534	-	58.534
Fair value adjustment	-	43.195	43.195
Disposals	(9.801)	(6.037)	(15.838)
At 31 December 2008	**48.733**	**37.157**	**85.890**

The adjustments to fair value of financial assets available-for-sale are recognised in equity, within fair value reserve (Note 16):

	Fair value Adjustment
Gross fair value adjustment	(7.238)
Deferred income tax	959
Net fair value reserve in equity	**(6.279)**

REE distributed dividends in January and July of 2008, in the amount of 523 thousand euros and 948 thousand euros respectively, and Enagás distributed dividends in July 2008 amounting to 857 thousand euros, that were recognized in the income statement, in "Other income".

12. Trade and other receivables

As at year ended 31 December 2008, the detail of trade and other receivables is as follows:

	2008			2007		
	Current	Non Current	Total	Current	Non Current	Total
Group companies (note 24.5)						
Loans i)	1.059.909	220.020	1.279.929	20.877	-	20.877
Treasury loans ii)	21.137	-	21.137	-	-	-
Fiscal group tax iii)	99.523	-	99.523	-	-	-
Others Debitors - Group	1.882	-	1.882	2.940	-	2.940
Tax receivables	**3**	-	**3**	**380**	-	**380**
Other debtors	**10**	-	**10**	**190**	-	**190**
Accruals and deferrals						
Accrued income iv)	9.926	-	9.926	98	-	98
Pre-payments	63	-	63	-	-	-
Total	**1.192.454**	**220.020**	**1.412.474**	**24.486**	-	**24.486**

i) The loans receivable as at 31 December 2008 refers to the following entities:

Entity	2008	2007
REN - Rede Eléctrica Nacional, S.A.	993.000	-
REN Gasodutos, S.A.	264.363	-
REN Atlântico, S.A.	22.567	20.877
	1.279.929	**20.877**

These loans bear interest: at Euribor 3M + 0,5% (REN – Rede Eléctrica Nacional, S.A.); Euribor 6M + 3% (REN Atlântico, S.A.) and the interest rate of EBI loans (REN Gasodutos, S.A.).

ii) Treasury loans

In the year 2008, REN SGPS and its subsidiaries signed an "Agreement for the centralised management of treasury" according to which REN SGPS will be responsible for the coordination, centralisation and management of treasury excess or deficits within the Group.

Interests are calculated daily over the amounts used, and paid monthly, except (eventually) the first and the last interest period that can be shorter.

iii) Fiscal group tax

In the current year, group companies incorporated the fiscal consolidation circle of REN SGPS, for income tax purposes. As such, subsidiaries' income tax estimates, withholding taxes retained by third parties and on account payments of income tax, are recognised as REN SGPS receivables and payables, in accordance with the movements made by the subsidiaries.

iv) The amount recognised as accrued income refers to accrued interest receivable from bank deposits.

13. Derivative financial instruments

As at 31 December 2008, REN SGPS had the following derivative financial instruments negotiated:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Swap rate - Non-current	-	-	-	-
Swap rate - Current	876	-	-	-
	876	-	-	-

The amount recognised in interest rate swaps refers to 5 interest rate swap contracts, negotiated by REN SGPS with the objective of reducing the risk to which it is exposed due to the debt issuance of 500 million euros.

Features of the negotiated swaps:

Notional	Settlement periods	Receivable/ Payable	Maturity date	Fair value 31.12.2008
500.000	Period of payable interests: 10 December to 10 June – interest settlement every six month; of receivable interests: 10 December – annual interest settlement.	REN receives between 3,31% and 3,33%, pays Euribor 6M	December 2013	876

14. Cash and cash equivalents

As at 31 December 2008, cash and cash equivalents are as follows:

	2008	2007
Bank deposits	105	1.251
Other investments	7.473	-
	7.578	**1.251**

The detail of the amount recognised in the consolidated cash flow statement as "Cash and cash equivalents, for the year ended 31 December 2008 and 2007, is as follows:

	2008	2007
Bank overdrafts	(185)	(167)
Bank deposits	105	1.251
Other investments	7.473	-
	7.393	**1.084**

15. Share capital

As at 31 December 2008, REN's authorised share capital fully subscribed and realised, is represented by 534.000.000 shares with a value of 1 euros each.

In September 2008 REN SGPS celebrated a contract to increase the market transactions of its own shares, with Banco de Investimento, S.A. from which it result an acquisition of treasury. The maturity of this contract is 8 January 2009.

As at 31 December 2008 REN SGPS had the following treasury shares:

	Number of shares	% share capital	Value
Treasury Shares	2.498.702	0,4679%	(6.619)

16. Others reserves and retained earnings

The "Other reserve" and "Retained earnings" headings presented the following evolution during the year ended 31 December 2008:

	Attributable to shareholders					
	Legal reserve	Fair Value Reserve	Other reserves	Retained earnings	Profit for the year	Total
At 1 January 2008	**61.137**	**7.460**	**83.993**	**242.672**	**30.740**	**426.002**
Fair value reserve (net)	-	(13.739)	-	-	-	(13.739)
Gains/(losses) recognised directly in equity	**61.137**	**(6.279)**	**83.993**	**242.672**	**30.740**	**412.263**
Profit for the period	-	-	-	-	(1.513)	(1.513)
Total gains recognised	**61.137**	**(6.279)**	**83.993**	**242.672**	**29.227**	**410.750**
Dividends distribution	-	-	-	(87.042)	-	(87.042)
Transfer to other reserves	6.084	-	19.225	5.431	(30.740)	0
At 31 December 2008	**67.221**	**(6.279)**	**103.218**	**161.061**	**(1.513)**	**323.708**

The "Other reserve" and "Retained earnings" headings presented the following evolution during the year ended 31 December 2007:

	Attributable to shareholders					
	Legal reserve	Fair Value Reserve	Other reserves	Retained earnings	Profit for the year	Total
At 1 January 2007	**33.634**	**-**	**-**	**(98.883)**	**550.051**	**484.802**
Actuarial gains/ (losses)	-	7.460	-	-	-	7.460
Gains/(losses) recognised directly in equity	**33.634**	**7.460**	**-**	**(98.883)**	**550.051**	**492.262**
Profit for the period			-		30.740	30.740
Total gains recognised	**33.634**	**7.460**	**-**	**(98.883)**	**580.791**	**523.002**
Dividends distribution	-	-	-	(97.000)	-	(97.000)
Transfer to other reserves	27.503	-	83.993	438.555	(550.051)	-
At 31 December 2007	**61.137**	**7.460**	**83.993**	**242.672**	**30.740**	**426.002**

The "Legal reserve", is not yet fully setup to the maximum required by law (20% of share capital amount) thus a minimum of 5% of the profits for the year are to be appropriated to it. This reserve can only be used to losses coverage or to increase the Share capital.

"Other reserves" refer to reserves constituted by the decision of shareholders, in the general shareholders meeting approval of profit of the year application, and can be used freely by the shareholders.

17. Borrowings

The allocation of borrowings between current and non current, and by nature, at year end is as follows:

Detail of current and non-current borrowings

	2008			2007		
	Current	Non current	Total	Current	Non current	Total
Commercial Paper	449.000	200.000	649.000	150.000	-	150.000
Bank Borrowings	39.520	454.507	494.027	-	-	-
Bonds	-	500.000	500.000	-	-	-
Bank overdrafts	185	-	185	167	-	167
	488.705	**1.154.507**	**1.643.213**	**150.167**	**-**	**150.167**
Finance Lease	99	161	260	60	96	156
Interest accrual	6.439	-	6.439	-	-	-
Prepaid interest	(3.853)	-	(3.853)	(4)	-	(4)
	491.391	**1.154.668**	**1.646.059**	**150.222**	**96**	**150.318**

The increase in the amount of borrowings negotiated by REN SGPS is a consequence of the financing policy changes at Group level, with REN SGPS negotiating all borrowings and than conceding it to subsidiaries, as loans (Note 11).

REN is the subscriber of eight Commercial paper programmes amounting 1.800.000 thousand euros, being utilised, as at 31 December 2008, 649.000 thousand euros.

At December 2008, REN issued debt instruments amounting 500 million euros, for 5 years, in the scope of EMTN program (European Medium Term Notes), with an interest rate equivalent to the mid swap rate added of a spread of 3,25%.

At the end of 2008, REN had also the following credit lines negotiated and not used:

	2008	2007
Variable interest rates		
Short term	120.386	170.000
Medium and long term	-	-
	120.386	**170.000**

All borrowings are negotiated in euros.

Borrowings

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2008	2007
6 month or less	1.147.550	150.163
6 - 12 month	-	-
1 - 5 years	-	-
Over 5 years	500.000	-
	1.647.550	**150.163**

The carrying amounts and fair value of the borrowings are as follows:

	Carrying amount		Fair Value	
	2008	2007	2008	2007
Commercial Paper	649.000	150.000	647.844	149.841
Borrowings	494.027	-	462.316	-
Debt instruments	500.000	-	499.576	-
	1.643.027	**150.000**	**1.609.736**	**149.841**

The fair values are based on discounted cash flows, using the interest rates as at balance sheet date, according to each type of borrowing. Since borrowings are negotiated at variable interest rates the carrying amounts of current borrowings approximate their fair value.

18. Trade and other payables

As at 31 December 2008, the detail of trade and other payables is as follows:

Detail of trade and other payables

	2008			2007		
	Current	Non current	Total	Current	Non current	Total
Trade and other payables	1.608	-	1.608	779	-	779
Group companies (note 24.5)						
Treasury loans ii)	14.350	-	14.350	-	-	-
Fiscal group tax iii)	4.228	-	4.228	-	-	-
Suppliers - group	7	-	7	-	-	-
Other creditos - group	287	-	287	90.038	-	90.038
Tax payables i)	219	-	219	72	-	72
Accrued costs						
Holidays and holiday subsidy	399	-	399	338	-	338
Other accrued expenses	104	-	104	-	-	-
Total	21.201	-	21.201	91.227	-	91.227

i) Tax payables refer to VAT, personnel income taxes and other taxes.

ii) Treasury loans

In the year 2008, REN SGPS and its subsidiaries signed "Agreement for the centralised management of treasury" according to which REN SGPS will be responsible for the coordination, centralisation and management of treasury excess or deficits within the Group.
Interest are calculated daily over the amounts used and paid monthly, except (eventually) the first and the last interest period that can be shorter.

iii) Fiscal group tax

In the current year, group companies incorporated the fiscal consolidation circle of REN SGPS, for income tax purposes. As such, subsidiaries' income tax estimates, withholding taxes retained by third parties and on account payments of income tax, are recognised as REN SGPS receivables and payables, in accordance with the movements made by the subsidiaries.

19. External supplies and services

As at 31 December 2008 and 2007, the detail of expenses incurred with external supplies and services are as follows:

	2008	2007
Advertising costs i)	1.428	1.537
Specialized service costs ii)	1.589	2.516
Shared-costs	536	-
Other (less than 1.000 thousand euros)	1.420	991
External supplies and services	**4.973**	**5.043**

i) The costs incurred with advertising refers to activities supported by the entity in exchange for the promotion of the "brand" REN.

ii) Specialized service costs incurred during 2008, include lawyer fees, consultancy fees, translation works and the edition of films and pictures.

20. Financial income and costs

The detail of the costs supported with borrowings and other financial income are as follows:

	2008	2007
Commercial paper interests	51.248	2.835
Debt instruments interests	1.857	-
Interests of treasury loans	671	-
Other borrowing interests	5.661	2
Other finance costs	2.250	252
Finance costs	**61.687**	**3.089**
Interests of deposits	3.309	-
Interests of loans to group companies	50.492	1.437
Interests of treasury loans	288	-
Gains in Swap contract	3.768	-
Swap fair value	876	-
Other finance income	69	2
Finance income	**58.802**	**1.439**

21. Income taxes

The detail of income tax calculated as at 31 December 2008, includes current income tax and deferred income tax, as follows:

	2008	2007
Current income tax	(12)	(2.174)
Deferred income tax	(232)	5.389
Income tax	**(244)**	**3.214**

The income tax reconciliation between the application if tax nominal tax and the amount payable recognised in the income statement, is as follows:

	2008	2007
Consolidated profit before income tax	(1.269)	33.955
Tax rate	26,5%	26,5%
	(336)	8.998
Expenses non deductible	-	-
Income non taxable	(749)	(11.177)
Separate settlement	12	5
Income tax	(737)	(1.988)
Current income tax	12	(2.174)
Deferred income tax	232	5.389
Income tax	244	3.214
Effective tax rate	**-19,2%**	**9,5%**

REN SGPS sole activity is the management of holding interests, obtaining an income related to management activities and the results generated by the subsidiaries it controls. Since no significant amounts of dividends were distributed by subsidiaries, the income obtained does not cover the functioning costs, which gives rise to a negative profit before-tax.

22. Earnings per share

The earnings per share for the periods of 31 December 2008 and 2007, were calculated as follows:

		2008	2007
Profit for the year	(1)	(1.513)	30.740
Ordinary shares in circulation (Note 20)	(2)	534.000.000	534.000.000
Treasury shares effect		477.322	-
	(3)	533.522.678	534.000.000
Basic profit per share (euro per share)	(1)/(3)	-0,0028	0,0576
Diluted profit per share (euro per share)	(1)/(3)	-0,0028	0,0576

As at 31 December 2008 and 2007 no dilutive effects existed to impact on earnings per share.

23. Dividends per share

It was authorised in the shareholders general meeting of 30 May 2007, the distribution of 97 million euros as 2006 dividends that have been paid in December 2007.

Relating to 2007 profit for the year, it has been approved in the shareholders general meeting of 28 April 2008, the distribution as dividends of 87.042 thousand euros.

24. Contingencies

As at 31 December 2008, REN SGPS has the following guarantees provided to third parties:

Beneficiary	Subject	Begining	2008	2007
Directorate General of Geology and Energy European	Concession of natural gas transmission activities	26-09-2006	10.000	-
Bank of Investment	For loan convenants	-	369.581	-
			379.581	-

25. Related party transactions

As at 31 December 2008 the Group REN is hold by Capitalpor, SGPS, Caixa Geral de Depósitos and EDP.

The detailed list of related entities is as follows:

Related Entities

Shareholders

Group EDP
EDP - Energias de Portugal, S.A.
Labelec, S.A.
Group CGD
Caixa Geral de Depósitos
Caixa BI
Group Capitalpor, SGPS
PARPÚBLICA - Participações Públicas (SGPS), S.A.

Group Companies

REN - Rede Eléctrica Nacional, S.A.
REN Trading, S.A.
REN Gasodutos, S.A.
REN Armazenagem, S.A.
REN Atlântico, Terminal de GNL, S.A.
RENTELECOM - Comunicações, S.A.
OMIP - Operador do Mercado Ibérico de Energia, S.A.
REN Serviços, S.A.
OMIClear - Sociedade de Compensação de Mercados de Energia, S.A.

During the year the following transactions were carried out with related parties:

25.1. Income – Group Companies

	2008	2007
Services provided		
REN - Rede Eléctrica Nacional, S.A.	5.469	1.254
REN Trading, S.A.	98	-
REN Serviços, S.A.	1.371	-
RENTELECOM - Comunicações, S.A.	33	1
REN Gasodutos, S.A.	1.890	875
REN Armazenagem, S.A.	141	166
REN Atlântico, Terminal de GNL, S.A.	484	43
	9.485	**2.339**
Finance income - Intetrest on loans and treasury loans		
REN - Rede Eléctrica Nacional, S.A.	42.734	1.437
REN Serviços, S.A.	7	-
REN Gasodutos, S.A.	6.355	-
REN Atlântico, Terminal de GNL, S.A.	1.684	-
	50.779	**1.437**
	60.264	**7.552**

25.2. Expenses – Group companies

	2008	2007
Purchase of services		
REN - Rede Eléctrica Nacional, S.A.	346	-
REN Trading, S.A.	643	
REN Serviços, S.A.	536	-
	1.526	-
Finance income - Intetrest on treasury loans		
REN - Rede Eléctrica Nacional, S.A.	28	-
REN Trading, S.A.	643	-
	671	-
	2.197	-

25.3. Services acquired – Shareholders

	2008	2007
Purchase of services		
Interests on Commercial paper from CGD	5.159	243
Borrowings commissions from CGD	109	3
	5.268	**246**

25.4. Board of Directors remuneration

As at year ended 31 December 2008, the remunerations paid to the Board of directors are as follows:

	2008	2007
Remuneration and other short term benefits	3.205	241
	3.205	**241**

For the period ended 31 December 2008, the balances resulting from transactions with related parties are as follows:

25.5. Balances with related parties – Group companies

	2008	2007
Trade receivables		
REN - Rede Eléctrica Nacional, S.A.	110.806	2.707
REN Trading, S.A.	15	-
REN Serviços, S.A.	782	-
REN Gasodutos, S.A.	10.440	123
REN Armazenagem, S.A.	33	22
REN Atlântico, Terminal de GNL, S.A.	421	85
OMIP - Operador do Mercado Ibérico de Energia, S.A.	3	-
RENTELECOM - Comunicações, S.A.	41	2
	122.542	**2.940**
Trade payables		
REN - Rede Eléctrica Nacional, S.A.	(71)	(90.038)
REN Serviços, S.A.	(87)	-
OMIP - Operador do Mercado Ibérico de Energia, S.A.	(44)	-
OMI CLEAR - Sociedade de Compensação de Mercados de Energia, S.A.	(33)	-
REN Trading, S.A.	(18.373)	-
REN Gasodutos, S.A.	(24)	-
REN Armazenagem, S.A.	(239)	-
	(18.871)	**(90.038)**

25.6. Balances with related parties – Shareholders

	2008	2007
Related parties - creditors		
CGD - Borrwings (Commercial paper)	-	150.000
	-	**150.000**

26. Subsequent events

26.1 Debt instruments

At February 6, 2009, REN SGPS issued debt instruments amounting to 300 million euros, in addition to the series issued in December 2008, for a five year period in the scope of EMTN program (Europena Medium Term Notes) with an interest rate equitable to a mid swap rate increased of a 2,6% spread.

26.2 Law suites with GALP

1. On December 19, 2007, REN was notified by the International Chamber of Commerce ("Câmara de Comércio Internacional") that an arbitration application had been filed by Amorim Energia B.V. against REN. Under such application, it is alleged the breach by REN of certain obligations arising out of or related with the "Shareholders Agreement relating to GALP ENERGIA, SGPS, S.A." entered into 29 of December of 2005 between REN, AMORIM and ENI PORTUGAL INVESTMENT, S.p.A.. The arbitration location is Paris, France.

In synthesis, Amorim Energia B.V. alleges that the unlawful acts supposedly performed by REN caused damages in the amount of the dividends distributed by GALP with respect to the 2005 profits and received by REN on July 2006 as GALP's shareholder (Euros 40.669.797,82–"Dividends"). Subsidiary, Amorim Energia B.V. requests an indemnification in the same amount received by REN as a result of a mechanism of permanent price update in the Shareholders Agreement consisting of an Euribor 3 months interest rate over the price to be paid by Amorim Energia B.V. for its shareholding in GALP (Euros 20.644.972,00). Amorim Energia B.V. also demands that REN supports interest for late payment at the applicable legal rate from September 12, 2006 until full payment of the amounts requested or an adjustment to reflect the inflation rate also from September 12, 2006 until full payment of the amounts requested.

However, it is necessary to emphasize that, during 2006, REN and Amorim Energia B.V. maintained a dispute relating with the right to receive dividends from GALP under the Shareholders Agreement. At June 15, 2005, an Arbitration Court set out "ad hoc" by agreement of the parties has issued an award considering totally unground-ed the proceedings brought by Amorim Energia B.V. and recognizing REN's right to maintain the dividends received from GALP in an amount of Euros 40.669.797,82. The arbitration award is final and became *"res judicata"*.

REN contested the jurisdiction of an Arbitration *Court* under the CCI to assess any of the claims made by Amorim Energia B.V., sustaining also the inadmissibility of the claims made by Amorim Energia B.V., namely by virtue of violation of the arbitration award taken in Lisbon on June 15, 2005 as "*res judicata*" and if in any circumstances the Court decides to judge on the merits of the Arbitration application, it has sustained its total dismiss as ungrounded.

The Arbitration Court has already been constituted, at June 3, 2008, and the Terms of Reference signed. The judgment has been scheduled to begin on February 2009. Afterwards the Arbitration Count will issue an award on its jurisdiction and on the admissibility of the claim made by Amorim Energia. Should it decide to have jurisdiction, the Arbitration Court will issue an award on the merits of those claims.

REN understands that the referred arbitration proceedings do not involve an existing and current obligation, as it is (at least) more likely that it will not involve the recognition or the constitution of any obligation for REN towards Amorim Energia B.V. in relation to the claims made than the opposite case (i.e. total or partial grounds of the arbitration proceedings).

2. Litigation between REN – Redes Energéticas Nacionais (SGPS) S.A. and GALP – Gás Natural, S.A., GDP – Gás de Portugal, SGPS, S.A. e Galp Energia SGPS S.A. Sociedade Aberta (jointly designated as "GALP")

In accordance with the contracts celebrated between the parties, the acquisition of natural gas regulated assets occurred in September 2006, and REN paid GALP a global initial price amounting to 526.254.679, 52 euros. The referred initial price was contractually subject to an adjustment mechanism, through valuations to be performed by three notable international banks after the introduction of the regulatory framework for the natural gas sector. The adjustment mechanism specifies that the final price of the natural gas regulated assets corresponds to the arithmetic average of the three valuations performed by the banks, except if any valuation defers more than 20% in relation to the average of the three valuations, being than excluded.

At June 2007 the three financial institutions presented their valuation reports. None of the valuation deferred more than 20% of the average. Considering the arithmetic average of the three valuations, the amount already paid by REN and the interest charge agreed contractually, the price adjustment of the sale and acquisition of the assets was determined at 24.026.484,87 euros, amount paid by REN in the beginning of July 2007.

Through a letter dated of June 9, 2008, according to the terms of the contracts celebrated between the parties, REN was notified of the intention of GALP to promote the constitution of an arbitration court, to settle their dispute in respect of the price adjustment paid by REN for the purchase of natural gas regulated assets, subsequent to the valuations performed by the three financial institutions.

Meanwhile the respective arbitration court was established and, at November 20, 2008, GALP presented the initial petition. In synthesis, GALP alleges that the valuation performed by one of the banks is not in compliance with the criteria established in the contracts, and that it should be excluded for the purpose of determining the price adjustment for the acquisition and sale of the regulated assets. GALP alleges also that the valuations performed by the other two banks contain technical errors that should be corrected by the Arbitration court.

GALP requests that REN is considered guilty of the payment of 40.697.947,78 euros accrued of due interests amounting to 4.033.552 ,00 euros and the interest to be paid until full payment. Subsidiary GALP requests REN to be considered guilty on the payment of 26.864.500,00 euros accrued of due interest amounting to 2.662.526,00 euros and the interests to be paid until full payment. Subsidiary GALP requests REN to be considered guilty on the payment of 12.232.708,00 euros accrued of due interest amounting to 1.212.377,00 euros and the interest to be paid until full payment.

At January 2009, REN presented its contestation. In synthesis, REN sustains that, in the legal and contractual terms applicable to this case, the valuations performed by the banks can not be investigated in the terms requested by GALP, considering that none of the valuations deferred more than 20% of the average amount of the three valuations. REN sustains also that the valuations contested by GALP are compliant with all the criteria established contractually, existing no grounds to exclude any of the valuations.

REN conclusion is that none of the requests presented by GALP have support and considers that the Arbitration court should judge the action totally ungrounded.

The Certified Accountant

Nr.30 375

Maria Teresa Martins

THE EXECUTIVE COMMITTEE

José Rodrigues Pereira dos Penedos
- Chairman

Aníbal Durães dos Santos

Victor Manuel da Costa Antunes
Machado Baptista

Rui Manuel Janes Cartaxo

Fernando Henrique Viana Soares Carneiro

Proposal for the appropriation of profits

11. Proposal for the appropriation of profits

In 2008, REN SGPS' consolidated net profit was 127 405 184,77 EUR (one hundred twenty seven million four hundred and five thousand one hundred and eighty four euros and seventy seven cents).

Taking the aforesaid into consideration, under article 28 of the Articles of Association of REN SGPS, S.A. and articles 31 to 33 and 66(5) of the Companies Code, the Board of Directors proposes that:

1. The net profit for the financial year of 2008, established in the individual financial statements, according to the International Financial Reporting Standards, was (–) 1,512, 757.90 € (one million five hundred and twelve thousand seven hundred fifty seven euros and ninety cents) be appropriated to profit or losses brought forward.
2. the value of 88,110,000.00€ (eighty eight million one hundred and tem thousand euros), corresponding to 69,156% of the consolidated profit of REN SGPS, S.A. in the financial year of 2008, in the amount of 127,405,184.77€ (one hundred twenty seven million four hundred and five thousand one hundred and eighty four euros and seventy seven cents), be distributed to shareholders due to accumulated results, which means a distribution of a gross dividend value per share of 0,165€.

Annexes

12. ANNEXES

12.1.Accounts certification documents

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT PREPARED BY AN AUDITOR ENLISTED AT THE PORTUGUESE SECURITIES MARKET COMMISSION (CMVM) ABOUT THE CONSOLIDATED FINANCIAL INFORMATION

(Translation of a report originally issued in Portuguese)

Introduction

1. In compliance with the applicable legislation, we present the Legal Certification of Accounts and Audit Report on the consolidated financial information contained in the Board of Directors' Consolidated Report and in the attached consolidated financial statements of the year ended in 31 December 2008 of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A., comprising: the Consolidated Balance Sheet as at 31 December 2008, (which shows a total of tEUR 3.823.007 and a shareholders' equity of tEUR 1.011.676, including minority interests of tEUR 574 and a profit of the period attributable to the capital owners of tEUR 127.405), the Consolidated Income Statement, the Statement of Recognized Income and Expenses and the Consolidated Cash-flow Statement for the year then ended, and the corresponding explanatory Notes.

Responsibilities

2. The Company's Board of Directors is responsible for:

- the preparation of the Board of Directors' Consolidated Report and of the consolidated financial statements, which present a true and fair view of the financial position of the group of companies included in the consolidation, the recognized income and expenses, the consolidated results of its operations and the consolidated cash flows;
- the historical financial information, to be prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and to be complete, true, actual, clear, objective and licit, as required by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários - CMVM);
- the adoption of adequate accounting principles and policies;
- the maintenance of appropriate internal control systems; and
- the information of any relevant fact that influenced the activity of the group of companies included in the consolidation, their financial position or results.

3. Our responsibility consists in verifying the financial information contained in the referred accounting documents, namely if it is complete, true, actual, clear, objective and licit, as required by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários - CMVM), in order enable us to express a professional and independent report, based on our examination.

Basis of opinion

4. We have conducted our examination in accordance with the technical standards and recommendations issued by the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the examination so as to obtain a reasonable assurance as to whether the consolidated financial statements are free from material misstatements. Accordingly, our examination included:

- the verification that the financial statements of the companies included in the consolidation have been properly audited, and in those significant cases where this was not the case, the verification, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the significant estimates and judgments defined by the Board of Directors, used in the preparation of the financial statements;
- checking the consolidation operations and the proper application of the equity method;
- an assessment of whether the accounting policies adopted and their disclosures are appropriate, considering the circumstances;
- the verification whether the principle of continuity is valid;
- an assessment whether the overall presentation of the consolidated financial statements is adequate; and
- an assessment whether the consolidated financial information is complete, true, actual, clear, objective and licit.

5. Our examination also included the verification of the compliance of financial information included in the Board of Directors' Consolidated Report with the consolidated financial statements.

6. We believe that the examination carried out provides a reasonable basis to express our opinion on the financial statements.

Opinion

7. In our opinion, the consolidated financial statements referred to above present a true and fair view in all material aspects, of the consolidated financial position of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A. at 31 December 2008, the recognized income and expenses, the consolidated result of its operations and the consolidated cash-flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the information contained is complete, true, actual, clear, objective and licit.

Lisbon, February 27, 2009

J. MONTEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
Enlisted at the Portuguese Securities Market Commission n.º 9155
Represented by:

José Manuel Carlos Monteiro

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT PREPARED BY AN AUDITOR ENLISTED AT THE PORTUGUESE SECURITIES MARKET COMMISSION (CMVM) ABOUT THE INDIVIDUAL FINANCIAL INFORMATION

(Translation of a report originally issued in Portuguese)

Introduction

1. In compliance with the applicable legislation, we present the Legal Certification of Accounts and Audit Report on the individual financial information contained in the Board of Directors' Report and in the separated attached financial statements of the year ended in December 31, 2008 of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A., comprising: the Balance Sheet as at December 31, 2008, (which shows a total of tEUR 2.610.973 and a shareholders' equity of tEUR 851.089, including a loss for the year of tEUR 1.513), the Income Statement, the Statement of Recognized Income and Expenses and the Cash-flow Statement for the year then ended, and the corresponding explanatory Notes.

Responsibilities

2. The Company's Board of Directors is responsible for:
- the preparation of the Board of Directors' Report and of the separated financial statements, which present a true and fair view of the Company's financial position, the recognized income and expenses, the results of its operations and the cash flows;
- the historical financial information, to be prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and to be complete, true, actual, clear, objective and licit, as required by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários - CMVM);
- the adoption of adequate accounting principles and policies;
- the maintenance of an appropriate internal control system; and
- the information of any relevant fact that influenced its activity, financial position or results.

3. Our responsibility consists in verifying the financial information contained in the referred accounting documents, namely if it is complete, true, actual, clear, objective and licit, as required by the Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários - CMVM), in order enable us to express a professional and independent report, based on our examination.

Basis of opinion

4. We have conducted our examination in accordance with the technical standards and recommendations issued by the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the examination so as to obtain a reasonable assurance as to whether the financial statements are free from material misstatements. Accordingly, our examination included:

- the verification, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the significant estimates and judgments defined by the Board of Directors, used in the preparation of the financial statements;
- an assessment of whether the accounting policies adopted and their disclosures are appropriate, considering the circumstances;
- the verification whether the principle of continuity is valid;
- an assessment whether the overall presentation of the financial statements is adequate; and
- an assessment whether the financial information is complete, true, actual, clear, objective and licit.

5. Our examination also included the verification of the compliance of financial information included in the Board of Directors' Report with the financial statements.

6. We believe that the examination carried out provides a reasonable basis to express our opinion on the financial statements.

Opinion

7. In our opinion, the financial statements referred to above present a true and fair view in all material aspects, of the financial position of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A., at 31 December 2008, the recognized income and expenses, the result of its operations and the cash-flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS) as adopted by the European Union and the information contained is complete, true, actual, clear, objective and licit.

Lisbon, February 27, 2009

J. MONTEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
Enlisted at the Portuguese Securities Market Commission n.º 9155
Represented by:

José Manuel Carlos Monteiro

PRICEWATERHOUSECOOPERS

AUDITORS REPORT IN RESPECT OF THE CONSOLIDATED FINANCIAL INFORMATION

(Free translation from the original version in Portuguese)

Introduction

1. As required by law, we present the Auditors Report in respect of the consolidated financial information included in the Board of Directors' Report and the consolidated financial statements of REN – Redes Energéticas Nacionais, S.G.P.S., S.A., comprising the consolidated balance sheet as at December 31, 2008, (which shows total assets of 3.823.007 thousand of euros, total minority interests of 574 thousand of euros and a total shareholder's equity of 1.011.676 thousand of euros, including a net profit of 127.405 thousand of euros), the consolidated income statement, the consolidated statement of recognised income and expenses and the consolidated cash flow statement for the year then ended and the corresponding notes to the accounts.

Responsibilities

2. It is the responsibility of the Company's Board of Directors (i) to prepare the Board Directors' Report and consolidated financial statements which present fairly, in all material respects, the financial position of the company and its subsidiaries, the consolidated result of their operations and their consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the EU and which is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) to adopt adequate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any relevant matters which have influenced the activity, the financial position or results of the company and its subsidiaries.
3. Our responsibility is to verify the consolidated financial information included in the documents referred to above, namely if it is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue an independent and professional report based on our audit.

Scope

4. We conducted our examination in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our examination included: (i) verification that the subsidiary's financial statements have been properly examined and for the cases where such an examination was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and

PRICEWATERHOUSECOOPERS

the utilization of the equity method; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing whether the consolidated financial information is complete, true, timely, clear, objective and licit.

5. Our examination also covered the verification that the consolidated financial information included in the Board of Director's report is in agreement with the remaining documents referred to above.

6. We believe that our examination provides a reasonable basis for our opinion.

Opinion

7.In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of REN – Redes Energéticas Nacionais, S.G.P.S., S.A. as at December 31, 2008, the recognised income and expenses, the consolidated results of their operations and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the information included is complete, true, timely, clear, objective and licit.

Lisbon, February 27, 2009

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
represented by:

Jorge Manuel Santos Costa, R.O.C.

PRICEWATERHOUSECOOPERS

AUDITORS REPORT IN RESPECT OF THE INDIVIDUAL FINANCIAL INFORMATION

(Free translation from the original version in Portuguese)

Introduction

1. As required by law, we present the Auditors Report in respect of the financial information included in the Directors' Report and the separate financial statements of REN – Redes Energéticas Nacionais, S.G.P.S., S.A., comprising the balance sheet as at December 31, 2008, (which shows total assets of 2.610.973 thousand of euros and a total of shareholder's equity of 851.089 thousand of euros, including a negative net result of 1.513 thousand of euros), the income statement, the statement of recognised income and expenses and the cash flow statement for the year then ended and the corresponding notes to the separate financial statements.

Responsibilities

2. It is the responsibility of the Company's Board of Directors (i) to prepare financial statements which present fairly, in all material respects, the financial position of the company, the results of its operations and cash flows; (ii) to prepare the historic financial information in accordance with International Financial Reporting Standards as adopted by the EU and which is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) to adopt appropriate accounting policies and criteria; (iv) to maintain an adequate system of internal control; and (v) the disclosure of any relevant matters which have influenced the activity and the financial position or results of the company.
3. Our responsibility is to verify the financial information included in the documents referred to above, namely if it is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue an independent and professional report based on our audit.

Scope

4. We conducted our audit in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the examination to obtain reasonable assurance about whether the financial statements are free of material misstatement. Accordingly, our examination included: (i) verification, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the financial statements; (ii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing whether the financial information is complete, true, timely, clear, objective and licit.

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5. Our audit also covered the verification that the financial information included in the management report is in agreement with the financial statements.

6. We believe that our examination provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements referred to above, present fairly in all material respects, the financial position of REN – Redes Energéticas Nacionais, S.G.P.S., S.A. as at December 31, 2008, the recognised income and expenses, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the information included is complete, true, timely, clear, objective and licit.

Lisbon, February 27, 2009

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
represented by:

Jorge Manuel Santos Costa, R.O.C.

REN – REDES ENERGÉTICAS NACIONAIS, S.A.
REPORT AND OPINION OF THE AUDIT COMMITTEE
CONSOLIDATED ACCOUNTS

Within the scope of the responsibilities attributed, the Audit Committee accompanied the activity of REN – REDES ENERGÉTICAS NACIONAIS, S.A. and its participated companies, ensured compliance with the law, regulations and articles of association, oversaw the fulfillment of the accounting policies and practices and inspected the process of preparation and disclosure of the financial information, the legal review of the accounts, the effectiveness of the internal control systems, the management of risk, and also the independence and activity of the Statutory Auditor and the External Auditor, including the capacity of impartiality of the External Auditor when providing of non-audit services.

The Audit Committee also examined the consolidated financial information contained in the Consolidated Report and Accounts and in the Consolidated Financial Statements of REN – Redes Energéticas Nacionais, SGPS, S.A. regarding the financial year ended December 31 2008, comprising the Consolidated Balance Sheet as at 31 December 2008, the Statement of Consolidated Net Results, the Statement of Income and Expenditure for the Period and the Statement of Consolidated Cash Flows for the period ended on that date and the corresponding Annex to the Consolidated Financial Statements, as well as the Consolidated Management Report prepared by the Board of Directors within respect to the 2008 Period.

The Audit Committee examined and agreed with the Legal Certification of the Accounts and the Audit Report on the consolidated financial information prepared by the Statutory Auditor.

In addition, the Audit Committee examined and agreed with the Audit Report on the consolidated financial information prepared by the External Auditor.

Within the scope of its analysis, the Audit Committee further supervised the fulfillment and adaptation of the accounting policies, procedures and practices and of the valuation criteria adopted, as well as of the regularity and quality of the Company’s accounting information.

In light of the above, the Audit Committee is of the opinion that the Financial Statements and the Consolidated Management Report, as well as the proposal expressed therein, are in accordance with the applicable accounting, legal and statutory provisions and it therefore recommends that its approval at the Shareholders’ General Meeting.

Lisbon, 27 February 2009

José Luis Alvim (Chairman)
José Frederico Jordão (Member)
Fernando António Portela Rocha de Andrade (Member)

REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.
REPORT AND OPINION OF THE AUDIT COMMITTEE
INDIVIDUAL ACCOUNTS

Within the scope of the responsibilities attributed, the Audit Committee accompanied the activity of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A., ensured compliance with the law, regulations and articles of association, oversaw the fulfillment of the accounting policies and practices and supervised the process of preparation and disclosure of the financial information, the legal review of the accounts, the effectiveness of the internal control systems, the management of risk, and also the independence and activity of the Statutory Auditor and the External Auditor, including the capacity of impartiality of the External Auditor when providing of non-audit services.

The Audit Committee also examined the individual financial information contained in the Report and Accounts and in the separate Financial Statements of REN – Redes Energéticas Nacionais, SGPS, S.A. regarding the financial year ended December 31 2008, comprising the Balance Sheet as at 31 December 2008, the Statement of Net Results, the Statement of Income and Expenditure for the Period, the Statement of Cash Flows for the period ended on that date and the corresponding Annex to the separate Financial Statements.

The Audit Committee examined and agreed with the Legal Certification of the Accounts and the Audit Report on the individual financial information prepared by the Statutory Auditor.

In addition, the Audit Committee examined and agreed with the Audit Report on the individual financial information prepared by the External Auditor.

Within the scope of its analysis, the Audit Committee further supervised the fulfillment and adaptation of the accounting policies, procedures and practices and of the valuation criteria adopted, as well as of the regularity and quality of the Company's accounting information.

In light of the above, the Audit Committee is of the opinion that the Individual Financial Statements and the Management Report, as well as the proposal expressed therein, are in accordance with the applicable accounting, legal and statutory provisions and it therefore recommends that its approval at the Shareholders' General Meeting.

Lisbon, 27 February 2009

José Luis Alvim (Chairman)
José Frederico Jordão (Member)
Fernando António Portela Rocha de Andrade (Member)

12.2. Extract from the Minutes of REN, SGPS, S.A. General Shareholders Meeting

Extract of Minute no. 1/2009

"(…) The Chairman of the General Shareholders' Meeting clarified that the proposal presented by the Board of Directors regarding Item Two of the Agenda had been opportunely made available and was part of the materials provided for the General Shareholders' Meeting, reason why its reading was excused, and its content was transcribed in the present Minute:

"In 2008, REN SGPS' consolidated net profit was EUR 127 405 184,77 (one hundred twenty seven million four hundred and five thousand one hundred and eighty four euros and seventy seven cents).

Taking the aforesaid into consideration, according to article 28 of the Articles of Association of REN SGPS, SA and to articles 31 to 33 and 66(5) of the Portuguese Companies Code, the Board of Directors proposes that:

1. The profits for the 2008 financial year, obtained in the individual financial demonstrations, according to the International Financial Reporting Standards, was (–) 1 512 757,90 € (one million five hundred and twelve thousand seven hundred fifty-seven euros and ninety cents) are allocated as carried forward results.

2. The amount of 88 110 000 00€ (eighty-eight million one hundred and ten thousand euros), corresponding to 69.156% of REN SGPS, S.A.'s consolidated profits in the 2008 financial year that amounted to 127 405 184,77€ (one hundred twenty-seven million four hundred and five thousand one hundred and eighty-four euros and seventy-seven cents), is distributed to shareholders as accumulated results, which is equivalent to the distribution of a gross dividend amount of € 0,165 per share."

(…)

The Chairman of the General Shareholders' Meeting then submitted to voting, separately, the proposal for the approval of the accounting documents for the 2008 financial year and the proposal for the allocation of results regarding the 2008 financial year. The proposal regarding Item One was unanimously approved by the issued votes (with 430.992.897 votes in favour, 0 votes against and 491.878 abstentions), and the proposal regarding Item Two was, also, unanimously approved by the issued votes (with 431.484.775 votes in favour, 0 votes against and 0 abstentions).

In the context of the discussion of Item Three of the agenda, the Chairman of the General Shareholders' Meeting informed the public that the General Shareholders' Meeting has received a proposal, subscribed by the Shareholders Capitalpor – Participações Portuguesas, SGPS, S.A., Logoenergia, SGPS, S.A., Gestfin, SGPS, S.A. and Oliren, SGPS, S.A., to which, shareholder António Alberto França de Oliveira has joined himself during the General Shareholders' Meeting. This proposal, which reading was excused because it was opportunely made available and was part of the materials provided for the General Shareholders' Meeting, had the following content and will be transcribed in the present Minute:

"Hereby, it is proposed to the General Shareholders' Meeting of REN – Redes Energéticas Nacionais, SGPS, S.A. to resolve on the general appraisal of the management and supervision of the Company, in accordance with article 455 of the Portuguese Companies Code, in the following terms:

A vote of confidence and praise to the Board of Directors and to each of their respective members for their management during the 2008 financial year;

A vote of confidence and praise to the Auditory Committee and to each of their respective members for their activity during the 2008 financial year;

A vote of confidence and praise to the Statutory Auditor for its activity during the 2008 financial year."

Afterwards, the Chairman of the General Shareholders' Meeting submitted to voting, the proposal regarding Item Three of the agenda, which was unanimously approved by the issued votes (with 431.462.775 votes in favour, 0 votes against and 22.000 abstentions).

(…)

12.3. Financial Glossary

- **Capex** = Capital expenditure; money spent to acquire or upgrade physical assets
- **Average capital employed** = Equity + Net financial debt
- **Debt to Equity** = Net debt / Equity
- **Net debt** = Short and long-term financial debt – Cash and cash equivalents
- **Dividend per share** = Ordinary dividend / Total number of sharess
- **EBIT** = Earnings before interest and taxes
- **EBITDA** = Earnings before interest, taxes, depreciation and amortization
- **EBITDA margin** = EBITDA / Business volume
- **Pay-out ratio** = Ordinary dividends / Net profit
- **Return on Assets (ROA)** = Adjusted EBIT / Net assets
- **Return on Average Capital Employed (ROACE)** = Operating profit after tax / Average capital employed
- **Return on Equity (ROE)** = Net profit / Equity
- **Turnover** = Sales and services provided

12.4. Technical Glossary

CIGRÉ	International Council on Large Electric Networks
CMVM	Portuguese Stock Exchange Commission
CPR	Companhia Portuguesa de Rating, S.A.
Dec.	Decree
DGEG	Directorate-General of Energy and Geology
DR	Portuguese Official Gazette
DRS	Disaster Recovery System
DWDM	Dense Wavelength Division Multiplexing
EBITDA	Earnings before interest, taxes, depreciation and amortization
EC	European Commission
ECB	European Central Bank
EDP	Energias de Portugal, SGPS, S.A.
EGIG	European Gas Pipeline Incident Data Group
EIB	European Investment Bank
ENS	Energy Not Supplied
ERGEG	European Regulators Group for Electricity and Gas
ERSE	Energy Services' Regulator
ETS	European Admission Trading Scheme
ETSO	European Transmission System Operators
EU	European Union
EUA	European Union Allowances
GDP	Gás de Portugal, SGPS, S.A.
EURELECTRIC	Union of the Electricity Industry
GDP	Gross Domestic Product
GHG	Greenhouse gases
GRMS	Gas Regulating and Metering Station
GVA	Gross Value Added
HCPI	Harmonised Consumer Price Index
HV	High Voltage
IFRS	International Financial Reporting Standards
IDN	Industrial Data Network
IP	Internet Protocol
IRC	Corporate Income Tax
ITC	Inter TSO Compensation
LNG	Liquefied natural gas
MEFF	Spanish Options and Futures Market
MIBEL	Iberian Electricity Market
MLT	Medium and Long Term
MTSP	Municipal Tax on Sale of Property
NG	Natural gas
OECD	Organisation for Economic Cooperation and Development
OMEL	Compañia Operadora del Mercado Español de Electricidad, S.A.
OMI	Iberian Energy Market Operator
OMIClear	Sociedade de Compensação de Mercados de Energia, S. A.
OMIP	Operador do Mercado Ibérico de Energia (Pólo Português), S.A.
OSSI	Official social security institutions
PNALE	National Emission Allowance Plan
PPA	Power Purchase Agreement
POC	Portuguese Official Accounting Standards
PPEC	Plan for the Efficient Use of Electricity
PRE	Special Regime Generators
RAB	Regulatory Asset Base
RCCP	Current ROE
RECS	Renewable Energy Certificate System
RENTELECOM	RENTELECOM – Comunicações, S.A.
RES	Directive on Renewable Energy Sources
RNDGN	National Natural Gas Distribution Network
RNT	National Electricity Transmission Grid
RNTGN	National Natural Gas Transport Network
RNTIAT	National natural gas transport network ,underground storage and LNG terminal infrastructures
ROA	Return on Assets
R&D	Research and Development
SAP	Systems, Applications and Products in data processing
bcm	109 cubic metres
cent. €	euro cents
EUR	Euro
€	Euro
GHz	Gigahertz
GJ	Gigajoule
GW	gigawatt
GWh	gigawatt hour
k€	thousands of euros
km	kilometre
kV	kilovolt
kWh	kilowatt hour
m3	cubic metre
m3(n)	normal cubic metre (volume of gas metered at 0º Celsius and at 1 atmosphere of pressure)
M€	millions of euros
mEuros	thousands of euros
MVA	megavolt-ampere
Mvar	megavolt-ampere-reactive
MW	megawatt
MWh	megawatt hour
b.p	basis points
p.p.	percentage points
s	Second
t	Tonne
tcm	1012 cubic metres
tce	tonne of coal equivalent
TWh	terawatt-hour
USD	United States dollar
US$	United States dollar

12.5. Applicable Law

Laws and regulations affecting the energy sector published in 2008

Ministerial Order no. 57/2008 of 21 December, DR no. 8, Series II.
Defines the rules applicable to the sale of electrical power in Virtual Power Plant auctions.

Decree-Law no. 5/2008 of 8 January, DR no. 5, Series I.
Establishes the legal regime to access and exercise the activity of producing electricity from wave power.

Order ERSE no. 3355/2008 of 29 January, DR no. 29, Series II.
Approves the public lighting profiles for 2008.

Order ERSE no. 7 927/2008, of 22 February, D.R. no. 54, Series II.
Approves the following supplementary documents of the Access to Networks, Infrastructures and Interconnections Regulations (RARII) for the natural gas sector: Methodology of the Studies to Determine the Capacity in the LNG Terminal, Methodology of the Studies to Determine the Capacity in the RNTGN, Methodology of the Studies to Determine the Capacity in the Natural Gas Underground Storage, Mechanism to Grant Capacity in the LNG Terminal de GNL, Mechanism to Grant capacity in the RNTGN, Mechanism to Grant Capacity in the Natural Gas Underground Storage.

Order ERSE no. 9178/2008 of 14 de March, D.R. no. 62, Series II.
Approves the general conditions to be included in natural gas supply agreements to be entered between the last resort wholesale seller and the last resort retail sellers.

Order ERSE no. 11 209/2008 of 7 April, D.R. no. 76, Series II.
Approves several aspects of the commercial conditions of the connection to the natural gas networks, namely the maximum length of the distribution pipelines, the costs relating to the network to be built and the costs with the necessary studies for the budgeting of the connections to the network, as well as the information to be included in the connection request and the universal codification methodology of the facilities.

Order ERSE no. 11210/2008 of 8 April, DR no. 76, Series II.
Approves the incentive mechanisms to optimize the management of the CAE and the management of CO emission licenses (index 2).

Decree-Law no. 65/2008 of 9 April, DR no. 70, Series I.
Makes the first amendment to Decree-Law no. 140/2006 of 26 November, in order to make the rights provided for natural gas transmission and storage networks apply to entities holding public service local distribution licences of natural gas in the exclusive public regime.

Decree-Law no. 71/2008 of 15 April, DR no. 74, Series I.
Establishes the energy consumption management system for companies and intensive consumption facilities and revokes Decree-Law no. 58/82 of 26 November and Decree-Law no. 428/83 of 9 December.

Order ERSE no. 12 187/2008 of 18 April, DR no. 83, Series II.
Approves the Accounts Adjustment Procedures Manual for the Natural Gas Sector.

Order ERSE no. 16 719/2008 of 16 May, DR no. 117, Series II.
Approves the System Operation Procedures Manual for the Natural Gas Sector.

Resolution of the Council of Ministers no. 80/2008 of 20 May, DR no. 97, Series I.
Approves the National Action Plan for Energy Efficiency (2008-2015).

Order ERSE no. 15 543/2008, of 23 May, DR no. 107, Series II.
Approves the amendments to the Regulation of Commercial Relations in the Electricity Sector resulting from the publishing of Law no. 12/2008 of 26 February.

Order ERSE no. 15 544/2008 of 23 May, DR no. 107, Series II.
Approves the amendments to the Regulation of Commercial Relations in the Natural Gas Sector resulting from the publishing of Law no. 12/2008 of 26 February, as well as the amendments to the rules on the transport of natural gas in tanker trucks and the sale in auctions of natural gas by the seller of the Natural Gas national System.

Order ERSE no. 15 545/2008 of 26 May, DR no. 107, Series II.
Amends the Electric Sector Tariff Regulation.

Order ERSE no. 15 546/2008 of 26 May, DR no. 107, Series II.
Approves the rules of the plan to promote efficiency in the electric power consumption.

Order DGEG no. 17 313/2008 of 3 June, DR no. 122, Series II.
Management System of Intensive Consumption of Energy. Conversion Factors.

Order DGEG no. 17 449/2008 of 3 June, DR no. 123, Series II.
Management System of Intensive Consumption of Energy. Audits.

Decree-Law no. 93/2008 of 4 June, DR no. 107, Series I.
Second amendment to Decree-Law no. 226-A/2007 of 31 May, establishing the regime for the use of water resources.

Decree-Law no. 97/2008 of 11 June, DR no. 111, Series I.
Establishes the economic and financial regime of water resources.

Order ERSE no. 17 630/2008 of 12 June, DR no. 124, Series II.
Tariffs and prices of natural gas for the year 2008-2009.

Order ERSE no. 18 397/2008 of 12 June, DR no. 131, Series II.
Amends several articles of the Tariff Regulation for the natural gas sector.

Order ERSE no. 20 974/2008 of 29 July, DR no. 154, Series II.
Amends the general conditions of natural gas supply agreements entered between last resort retail sellers and clients with an annual consumption lower or equal to 10,000 m3 (n), approved by Order no. 14553/2007 of 6 July.

Order ERSE no. 22 393/2008 of 14 August, DR no. 167, Series II.
Amends and republishes the Commercial Relations Regulation and the Tariff Regulation of the electricity sector.

Order MFAP, MAOTDR and MEI no. 28 321/2008 of 20 August, DR no. 215, Series II.
Application of the tax to collect regarding the public waters domain.

Decree-Law no. 165/2008 of 21 August, DR no. 161, Series I.
Defines the rules that apply to the recognition of annual tariff adjustments applicable to the electricity sector.

Law no. 51/2008 of 27 August, DR no. 165, Series I.
Establishes the obligation to inform regarding primary energy source used.

Decree-Law no. 182/2008 of 4 September, DR no. 171, Series I.
Establishes the implementation regime of the National High Potential Hydroelectric Dams Programme

Order DGEG no. 25 469/2008 of 15 September, DR no. 198, Series II.
Electricity Iberian Market – last resort seller.

Order MEI no. 27 677/2008 of 19 September, DR no. 210, Series II.
ERSE – Tariff Stability.

Regulation (EC) no. 1099/2008 of the European Parliament and the Council of 22 October, OJ. 304, Series L, of 14 November.
Establishes a common framework for the production, transmission, evaluation and disclosure of comparable energy statistics in the Community.

Order ERSE no. 31 629/2008 of 2 December, DR no. 239, Series II.
Approves the terms and conditions to make a natural gas auction in 2009.

Order ERSE no. 32 548/2008 of 5 December, DR no. 246, Series II.
Approves amendments to the System Manager Procedures Manual and to the Account Adjustments Procedures of the electricity sector.

Decree-Law no. 238/2008 of 15 December, DR no. 241, Series I.
Approves the basis of the concession to exploit the pilot area for the production of electric energy from wave power and grants the respective concession to a company to be incorporated by REN – Redes Energéticas Nacionais, SGPS, S. A.

12.6. Technical Indicators

Some energy systems indicators

		2002	2003	2004	2005	2006	2007	2008	Evolution (2008/2007)
OPERATION OF THE NATIONAL ELECTRICITY TRANSMISSION GRID									
POWER GENERATION	GWh	36.618	37.064	34.965	35.144	35.682	32.948	30.232	-8%
Hydraulic	"	7.261	14.670	9.216	4.523	10.204	9.523	6.436	-32%
Thermal	"	29.357	22.394	25.749	30.621	25.478	23.425	23.797	2%
CROSS-BORDER EXCHANGES (Balance)	GWh	1.899	2.794	6.479	6.820	5.441	7.488	9.431	26%
SPECIAL REGIME GENERATION	GWh	2.820	3.688	4.464	6.545	8.753	10.163	11.550	14%
CONSUMPTION FROM HYDROELECTRIC PUMPING	GWh	670	485	408	568	703	541	639	18%
TOTAL CONSUMPTION *	GWh	40.667	43.061	45.500	47.940	49.173	50.059	50.574	1%
Change corrected for ave. temp. + working days		2,6%	4,3%	4,5%	4,7%	3,2%	2,4%	1,1%	
PEAK DEMAND	MW	7.394	8.046	8.250	8.528	8.804	9.110	8.959	-2%
INSTALLED GENERATING CAPACITY	MW	9.012	9.392	9.893	14.429	14.429	10.398	10.398	0%
Hydraulic	"	4.157	4.277	4.386	4.578	4.578	4.578	4.578	0%
Thermal	"	4.855	5.115	5.507	5.852	5.852	5.820	5.820	0%
INSTALLED GENERATING CAPACITY (PREs)	"	1.181	1.428	1.893	2.431	3.240	3.800	4.518	19%
HYDRO CAPACITY RATIO (calendar year)		0,76	1,36	0,83	0,41	0,98	0,77	0,56	-27%
GRID LENGTH	km	6.438	6.544	6.489	6.657	7.018	7.426	7.513	1%
400 kV	"	1.301	1.403	1.454	1.500	1.507	1.588	1.589	0%
220 kV	"	2.717	2.704	2.838	2.875	3.080	3.177	3.257	3%
150 kV	"	2.421	2.438	2.198	2.282	2.431	2.661	2.667	0%
INSTALLED CAPACITY AT SUBSTATIONS	MVA	17.667	19.165	19.398	19.968	21.135	23.097	26.194	13%
Transformation	"	11.266	11.744	11.977	12.547	13.264	14.526	16.273	12%
Auto-transformation	"	6.401	7.421	7.421	7.421	7.871	8.571	9.921	16%
OPERATION OF THE GAS TRANSPORT NETWORK									
ENTRIES OF GAS	GWh	39.259	38.292	47.818	54.159	51.773	51.113	53.910	5%
Badajoz	"	35.136	31.850	27.791	30.433	23.432	16.430	22.978	40%
Badajoz (Enagás - trânsito)	"	4.122	4.542	4.390	4.403	4.391	1.881	465	-75%
Terminal de Sines (GNL)	"	0	1.900	15.637	19.318	23.148	31.483	30.135	-4%
Underground storage	"				5	802	1.319	332	-75%
EXITS OF GAS	GWh	39.019	38.040	47.443	54.151	51.628	51.262	53.886	5%
Electricity generation	"	16.050	13.107	19.963	23.286	20.130	21.363	25.343	19%
Distribution and industry	"	18.849	20.647	22.164	24.342	25.437	27.090	27.643	2%
National demand (High-pressure)	"	34.899	33.754	42.127	47.628	45.567	48.453	52.986	9%
Underground storage	"			23	2.040	1.524	933	439	-53%
Valença do Minho - exports	"	0	0	908	74	150	0	0	-
Valença do Minho (Enagás transit)	"	4.121	4.286	4.386	4.409	4.387	1.876	461	-75%
LENGTH OF RNTGN									
High-pressure gas pipeline (84 bar)	km	1.105	1.194	1.218	1.218	1.218	1.218	1.248	2%

* Consumption is given at net generation
** Does not include exits from TGNL to UAGs

12.7.Contacts

At REN we are happy to pursue a policy of facilitating direct access to the Group's corporate bodies. Feel free to contact us at the following addresses/numbers/emails:

Investor Relations Office

Ana Fernandes – Director
ana.fernandes@ren.pt

Fernando Torrão
fernando.torrao@ren.pt

Telma Mendes
Telma.mendes@ren.pt

REN - Redes Energéticas Nacionais, SGPS, S.A.
Relações com os Investidores
Avenida dos Estados Unidos da América, 55
1749-061 LISBOA - Portugal

Telephone: 21 001 35 46
Fax: 21 001 31 50
E-mail: ir@ren.pt

Communication and Image Office

Artur Manuel Anjos Lourenço – Coordination Manager
artur.lourenco@ren.pt

REN - Redes Energéticas Nacionais, SGPS, S.A.
Gabinete de Comunicação e Imagem
Avenida dos Estados Unidos da América, 55
1749-061 LISBOA - Portugal

Telephone: 21 001 35 00
Fax: 21 001 31 50
E-mail: comunicacao@ren.pt

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REN - Redes Energéticas Nacionais, SGPS, S.A.
Avenida dos Estados Unidos da América, 55
1749-061 LISBOA – Portugal
Telefone: 21 001 35 00
Telefax: 21 001 31 50
www.ren.pt

Coordination

Communication and Image Office

Design Layout and Graphics

3DCities, S.A.
www.3dcities.com

Photography

Photo Archive REN
Adelino Oliveira
José Antunes