REPORT AND ACCOUNTS 2007

REN

Redes Energéticas Nacionais

Relatório carbonozero

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The emissions regarding the pulp and paper manufacturing as well as those related to print all issues of the report were taken into consideration, amounting to 0.21 tonnes of CO_2eq.

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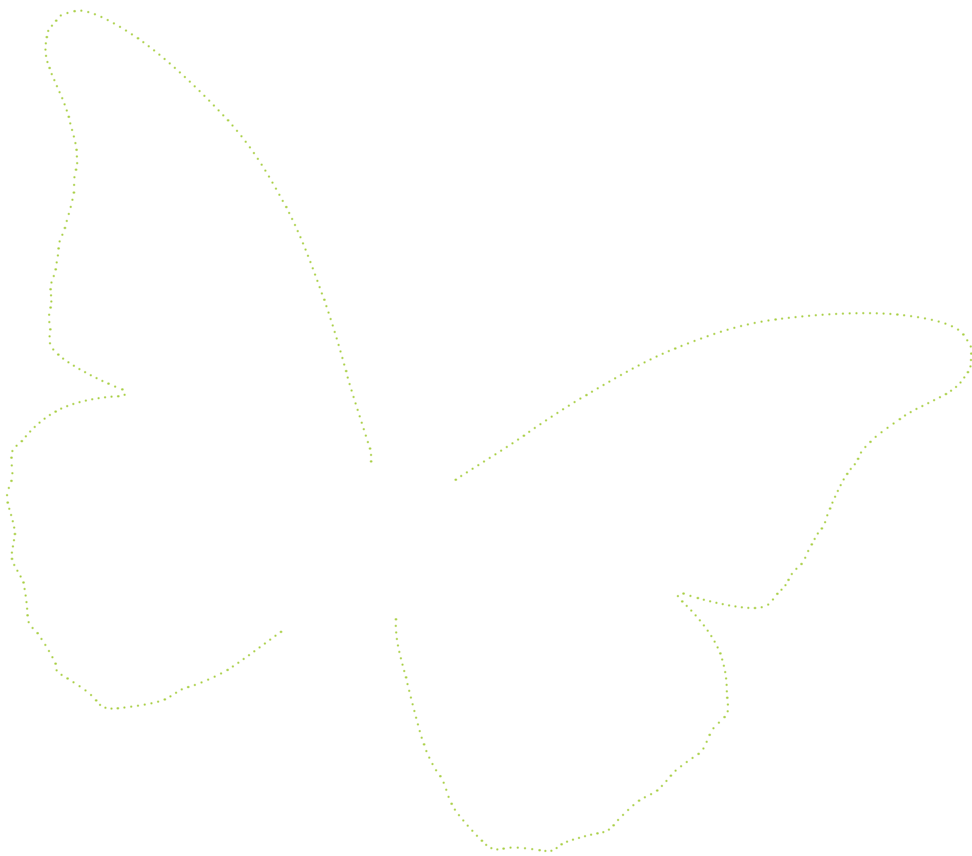
REPORT AND ACCOUNTS 2007



REN
Redes Energéticas Nacionais


REN

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CHAIRPERSON'S STATEMENT

In early 2007, REN was transformed into a holding company to manage all the Group activities. The company took on the new name REN - Redes Energéticas Nacionais, SGPS, S.A. In addition to coinciding with a restructuring of the Group business operations, this development was also designed to prepare the company structure for the Initial Public Offering (IPO) known as the 1st phase of the REN privatization.

With the stock market session scheduled for July 9th, 2007, the company was geared for practically the whole first six months of the year towards meeting the expectations for its launch on the stock market, including a complete revamping of external communication. The result was the establishment of a new and unique image in the context of the national energy companies. This effort was entirely rewarded by the market response to the offering. Demand for the shares was 107 times greater than offer, a record that reflects both the interest aroused and also the limited number of shares put on the market – representing only 24% of the capital. I would remind you that, in 2006, EDP had already sold three blocks of 5% each, and another 5% stake to REE (Red Eléctrica de España), the Spanish grid operator in 2007, remaining only 5%, in accordance with the Portuguese law. Together with the 19% held by the State, these remaining EDP shares made up the 24% in the IPO.

Considering the small amount of shares up for sale and the fact that the company had not yet gained a particularly high profile within the national business context, it is, indeed, remarkable that the offering attracted such a large number of subscribers – some two hundred thousand. This helped to reaffirm the notion of a capital market capable of being an attractive option for domestic saving, in particular for more conservative investors, given REN's status as the managing company for the energy infrastructures and the transmission/transport of electricity and gas, which are fully regulated activities.

In a year with such a high-profile event in the life of the company, one must highlight the net profit of EUR 145.2 million, representing EUR 0.27 per share on the basis of 534 million company shares. This result is a reflection of some particular developments of the year, such as the annulment of the provision for legal disputes with Sociedade Amorim Energia, B.V., created in 2006 over the question of the GALP Energia, SGPS, S.A., dividends. The dispute was settled in an arbitration tribunal in REN's favour.

Another event worthy of note was the end of the Power Purchase Agreements (PPAs), which indeed had already been announced years ago in the context of the launch of the MIBEL. The end of the PPAs for hydroelectric and thermoelectric generation was assumed by EDP on June 30th. Only two thermoelectric power plants, one coal and the other gas fired, remain under this long-term agreement regime. The energy they produce will continue to be sold to REN, which, in turn, will market it through a company set up specifically for that purpose, REN Trading.

This development, though positive in the overall sense that it fulfilled one of the prerequisites for the liberalized market as conceived for the Iberian peninsula, nevertheless had a negative impact on the results of the REN activities: commercial gains were linked to the sales of energy by REN, which were shared on a 50-50 basis with consumers via tariffs. These commercial gains are now much more modest because they relate only to two power plants. The respective regulatory regime is to be defined during the present year.

Another closely linked development worthy of note has to do with the licences for use of the public hydro domain of which REN is the concessionaire. With the termination of the hydroelectric PPAs the transfer of the licences will be made to the generator's benefit.

This situation was submitted to a technical/economic assessment, resulting in the definition of a balancing figure of EUR 759 million, of which EUR 466.2 million was for the tariff deficit for which REN is the creditor. Of this amount, EUR 152 million correspond to the belated recognition of the right to payment for land plots on which hydroelectric power plants are located. These plots are included as assets in REN's balance sheet.

With payment of this amount to REN, already recognized by the Energy Sector Services' Regulator, ERSE, and included in the tariff assumptions for the coming year, we finally overcame a problem that had dragged on for a decade. It also facilitated a substantial reduction in debt, which will be restructured when the company is given its first international financial ratings.

Given the nature of the regulated activities managed by REN, the regulatory framework is of fundamental importance both in terms of return on capital and future development. Firstly, because the third regulatory period for electricity ends in 2008. Secondly, because a fundamental comparison between our regulations and those of Spain – just to stay at the Iberian peninsula level – proves to be unfavourable for the activities of electricity and gas transmission/transport in Portugal.

Thirdly, and no less importantly, because regulatory harmonization is an objective assumed by the Portuguese and Spanish governments for both the MIBEL and the MIBGAS.

The regulatory model in force, based on cost of service, remunerates net assets in operation. If the added assets each year do not offset amortization and depreciation, one can understand what effect this model has on remuneration of the factors. The activity of TSOs (Transmission System Operator) in the European Union is regarded as essential for the realisation of the internal energy market. For this reason, companies must be given the incentive to invest in improving their networks, not only internally, at the national level, but also in terms of international connections between networks. Many of the European regulators are taking differing approaches to this new investment effort. REN has made an extraordinary effort towards modernising and expanding the electricity grid. It will now, likewise, turn its attention to the gas network, which experienced its first fundamental investment period before the transfer of the gas transport assets to REN. It is therefore no surprise that, in terms of investment volume for the year, a total of EUR 250 million, only EUR 6.1 million focused on the gas area.

Investment is not a regulatory variable; it is a necessity derived from the network structure we have and its adaptation to the national strategy goals for energy. These goals are very ambitious, particularly in terms of penetration of the renewable energy, above all wind energy, so it is absolutely clear that densification of the transmission network within the territory must not stagnate or else we risk failure in achieving the strategy's goals.

Certain difficulties in establishing transmission infrastructures that gained prominence in the public opinion (though exploitation of the issues was local and peripheral in nature), which focused on the potential impact on the health of those living close to the transmission lines, only serve to heighten our awareness of the need to ensure better protection, in legal terms and in land use planning terms, for the corridors in which these infrastructures are to be installed. At least, for as long as know-how and technological development do not enable us to guarantee our economic development and adequate standards of social comfort without the physical support for the transmission of energy, i.e. the networks. For this reason, we will continue to intensify our investment effort, regardless of the difficulties we encounter, further illustrating the degree to which we achieve our targets, which is currently at around 100%.

Once again we have achieved an operating performance, both in the electricity grid and in the overall gas infrastructures, that is worthy of highlight in the European context - with less than one minute of equivalent interruption time for the fourth year running in the electricity grid and availability levels close to 100% for the gas networks.

As far as quality of service in the gas sector is concerned, no incidents were registered in the high-pressure transport infrastructure. The accumulated indicator (for incidents with non-intentional leakage) remained at zero incidents per 1 000 km of network.

Regarding the LNG (liquefied natural gas) terminal, the availability factor (which expresses the hours in which the emission of natural gas is assured in the total number of hours in the year, 8 760) was 99.7%.

Also in the electricity grid, line behaviour, which is essential in terms of performance assessment, expressed by the number of defects per 100 km of line, vastly improved in terms of the integrated figure for a decade, reaching an all-time low of 2.2 defects/100 km.

In 2007, as provided for in the strategic partnership agreement, we also completed the purchase of a 1% share in REE's share capital, having established a similar agreement with ENAGÁS, now in the MIBGAS context, which will lead to the purchase of 1% of the capital of this company.

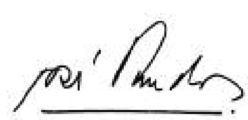
As it was not possible to create the Iberian Market Operation (OMI) in 2007, this goal – which does not depend on the initiative of REN but on the development of the spot and financial markets in Spain and Portugal – is now earmarked for this year, within a period of no more than three months after ratification of the revised MIBEL agreements by the national parliaments.

I will not make individual reference to the income per Group company, which is adequately evidenced in the report, but would like to underline the quality of performance of all the workforce in a climate of restructuring, acculturation and privatization, which must be regarded as exceptional by any standards.

We are particularly indebted to the Auditing Committee whose understanding and rigour of assessment were a hallmark of this first year under the new corporate governance model and we would also highlight the loss of one of the Committee members, Carlos Lobo, that took up a government position. We will miss our regular interaction with him.

In closing, a word to the REN shareholders. Despite the fact that the markets were shaken by the repercussions of the mortgage crisis that has affected the financial sector in the USA in particular, REN's share experienced sustained increase in value from the end of September to mid-December, assuming a reference status for periods of greater volatility. The understanding that the State will not be offering any more shares in the market in the very near future can affect this trend, during a transient time period.

The Board of Directors and Executive Committee would like to take this opportunity to thank REN's shareholders for their trust and for the demonstration of support we have had at all times when key decisions had to be made. We look forward to doing better each year.



José Penedos

MISSION STATEMENT, VISION AND VALUES

THE COMPANY

REN - Redes Energéticas Nacionais, SGPS, S.A., is a holding company that brings four 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; and
iv) underground storage of natural gas.

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.

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 150 kV);
- 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.

MAIN INDICATORS

ECONOMIC AND FINANCIAL INDICATORS
GROUP

Income Statement			
M€	**Unit**	**2007**	**2006**
Business volume	**M€**	**554.7**	**387.7**
EBITDA	M€	374.1	709.7
Corrected Ebitda	**M€**	**310.5**	**243.7**
EBIT	M€	265.0	570.8
Taxes	M€	(42.3)	(73.3)
Net profit	M€	145.2	496.6
Recurrent Net Profit	M€	91.8	72.9
Ordinary dividend (1)	M€	87.0	184.0
Extraordinary dividend	M€	-	288.7

Balance			
M€	**Unit**	**2007**	**2006**
Total assets	**M€**	**3 969.5**	**3 902.2**
Fixed assets	M€	3 085.7	2 980.3
Cash and cash equivalents	M€	125.9	55.5
Others	M€	757.9	866.4
Total equity	**M€**	**1 006.3**	**946.4**
Total liabilities	**M€**	**2 963.2**	**2 955.8**
Net debt	M€	1 931.2	1 821.5
Others	M€	1 032.1	1 134.3

Indicators and ratios			
		2007	**2006**
Corrected EBITDA margin	%	53.0%	52.0%
Return on Assets (ROA) (2)	%	5.12%	2.88%
Return on Average Capital Employed (ROACE) (3)	%	5.19%	2.82%
Annual investment in tangible fixed assets	M€	249.9	244.0
Net debt / Corrected EBITDA		6.22 x	7.48 x
Debt to Equity		1.9 x	1.9 x
Stock market capitalization	M€	1 933.1	-
Net profit per share (4)	€	0.27	0.93
Total employees		802	794
Electricity		611	607
Gas		191	187

Notes:

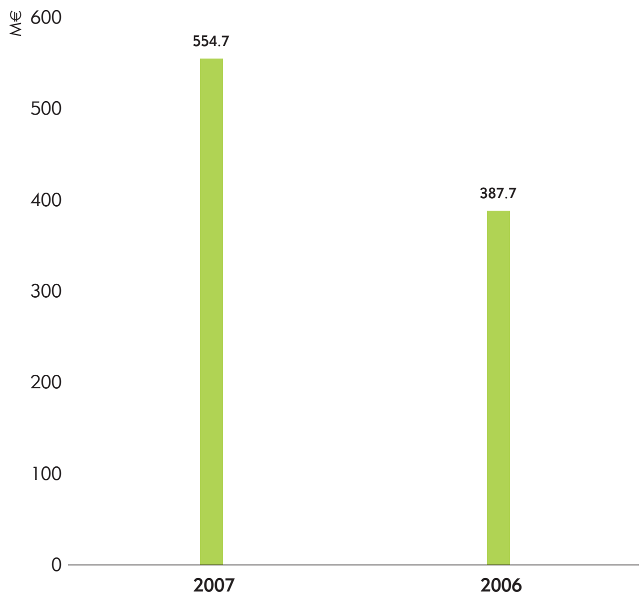
(1) In 2006, with the capital gain from the sale of the Galp shares, extraordinary dividends of EUR 288.7 million were paid out.

(2) Corrected EBIT / Average net assets.

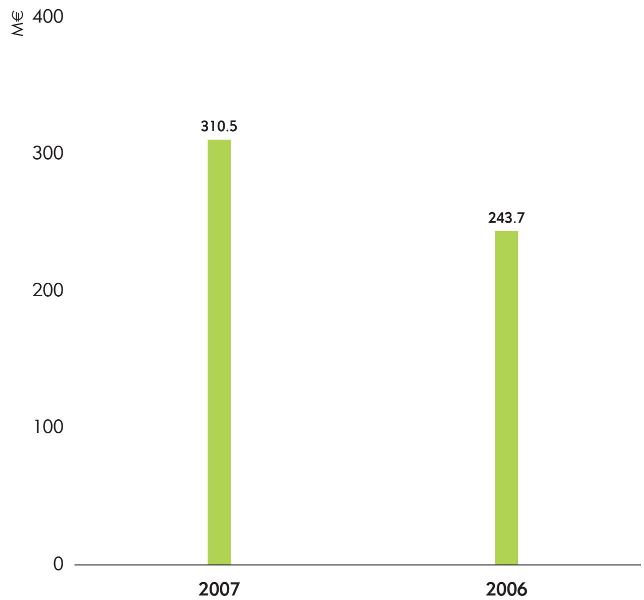
(3) (Corrected EBIT x (1 – tax rate))/ Average capital employed. Average capital employed = Equity + Net financial debt.

(4) Net profit / (Equity + Minority interests) average values.

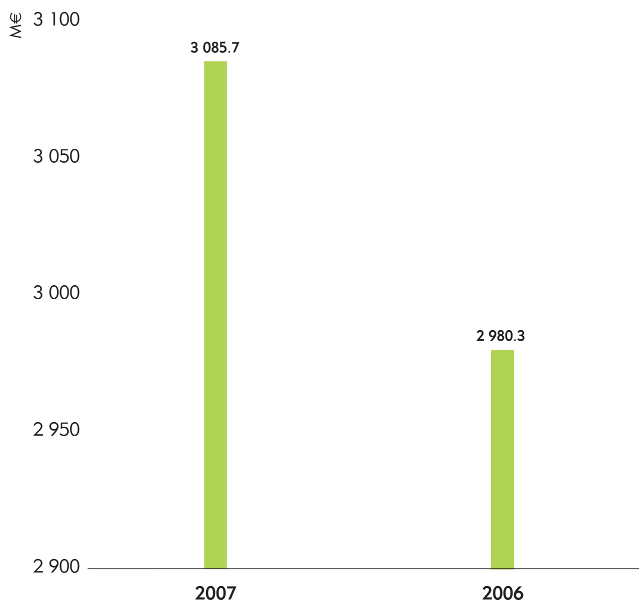
Business Volume



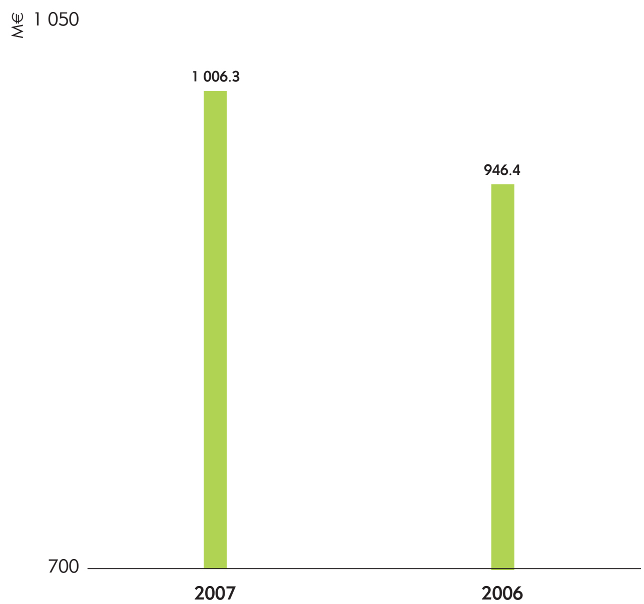
Corrected EBITDA



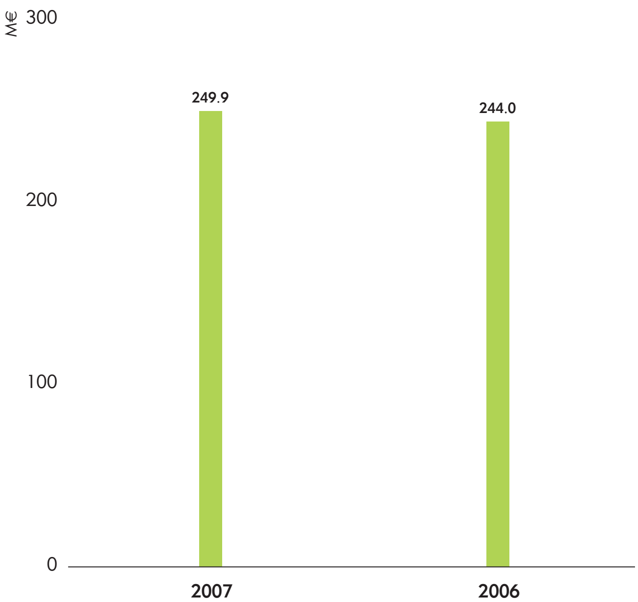
Net Assets



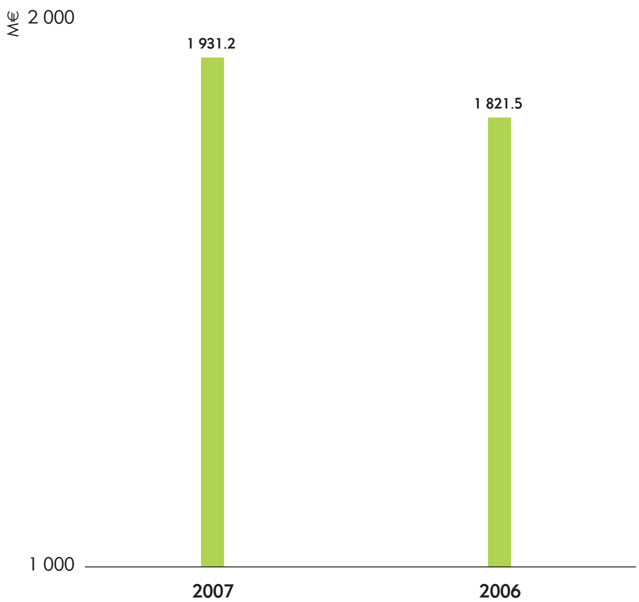
Total Equity



Annual investment intangible fixed assets



Net debt



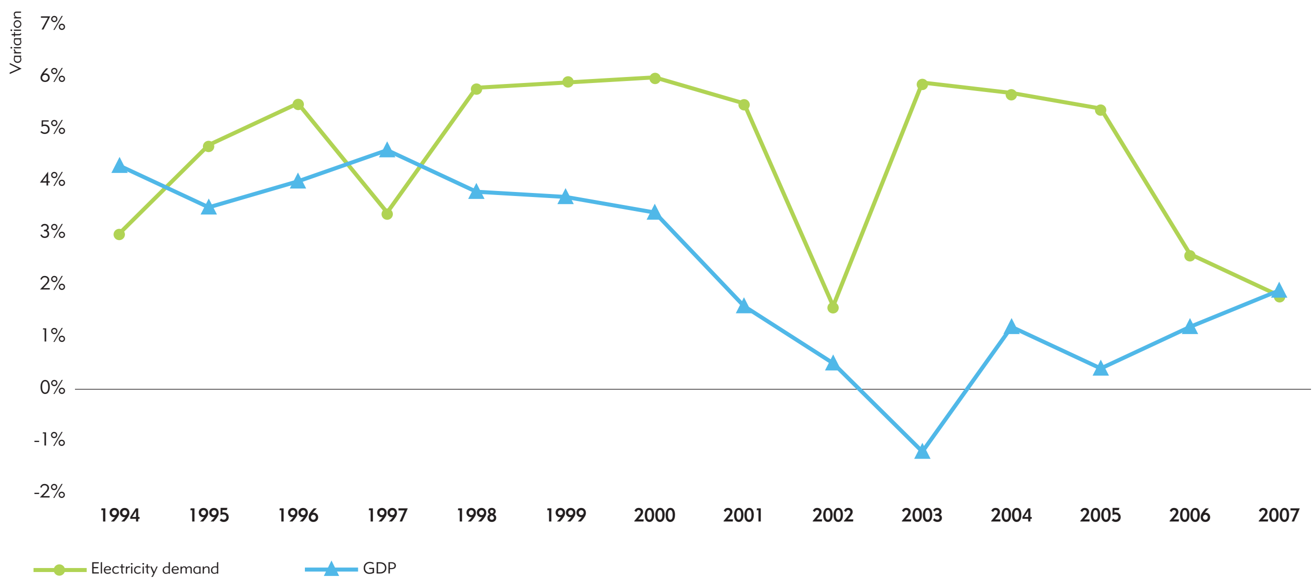
Annual expenditure at current prices

Un: EUR Millions

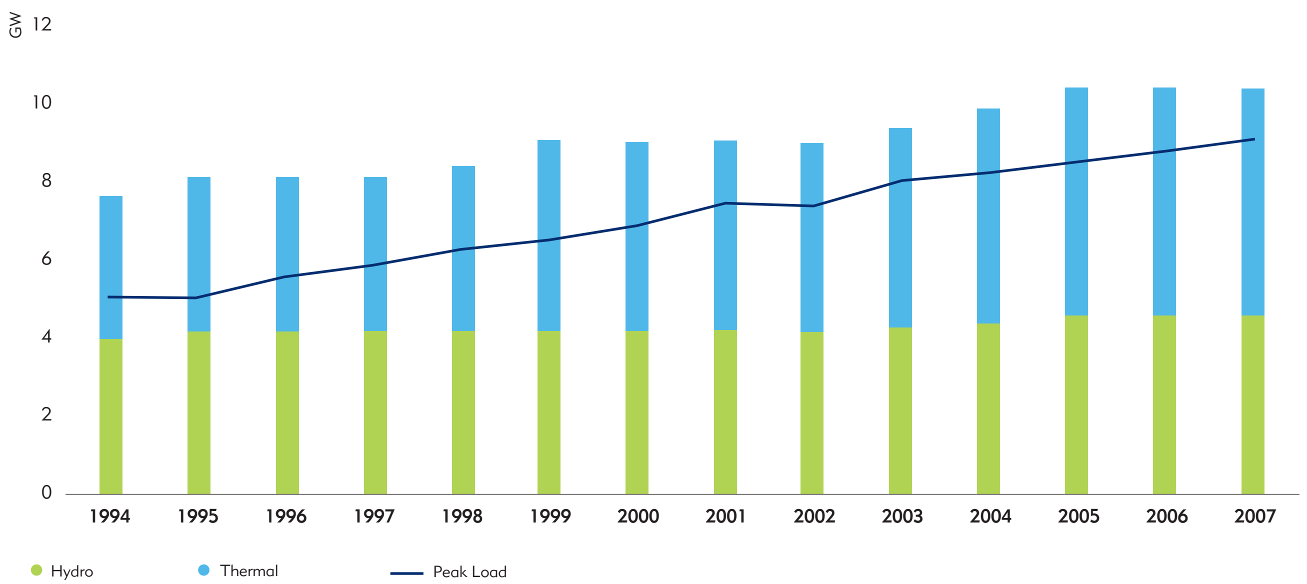
Year	Direct Costs	Financial Costs	Total Costs
1994	44.2	5.7	49.8
1995	46.3	9.4	55.7
1996	58.3	4.1	62.5
1997	48.9	3.7	52.5
1998	38.5	3.3	41.8
1999	47.3	2.2	49.5
2000	41.4	2.3	43.7
2001	65.5	3.4	68.8
2002	93.7	4.1	97.8
2003	112.6	3.0	115.6
2004	132.1	2.6	134.7
2005	210.2	2.6	212.8
2006	239.4	4.6	244.0
2007	242.9	6.9	249.9

TECHNICAL AND ECONOMIC INDICATORS
ELECTRICITY BUSINESS

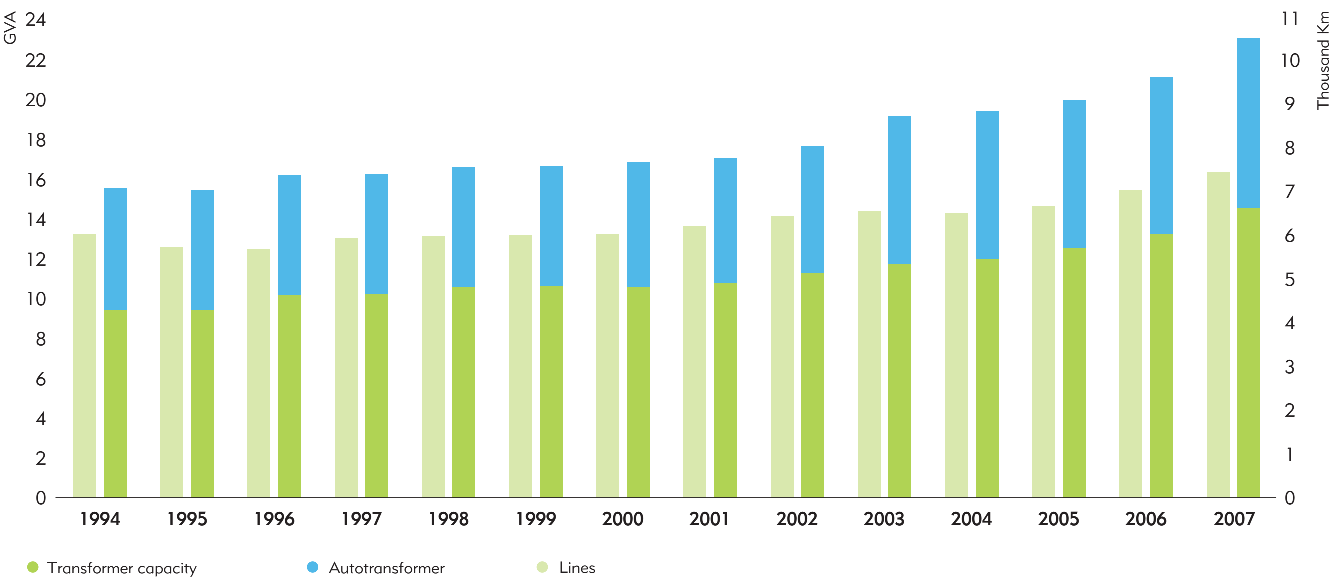
Electricity demand and GDP



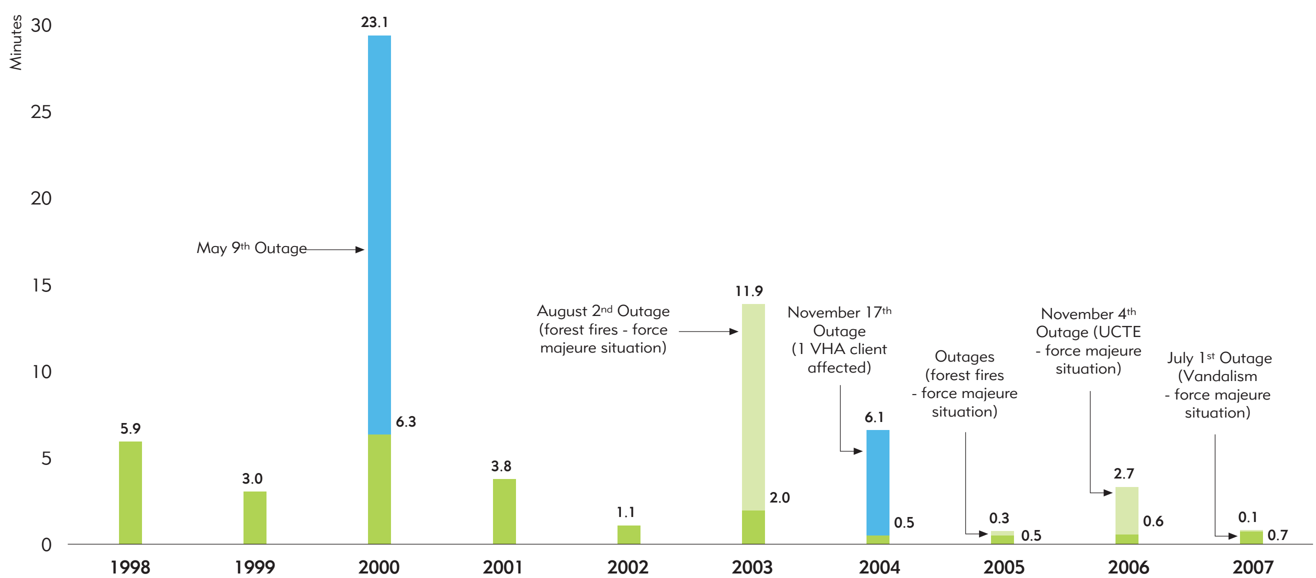
Installed capacity and peak load



Line length and transformer capacity

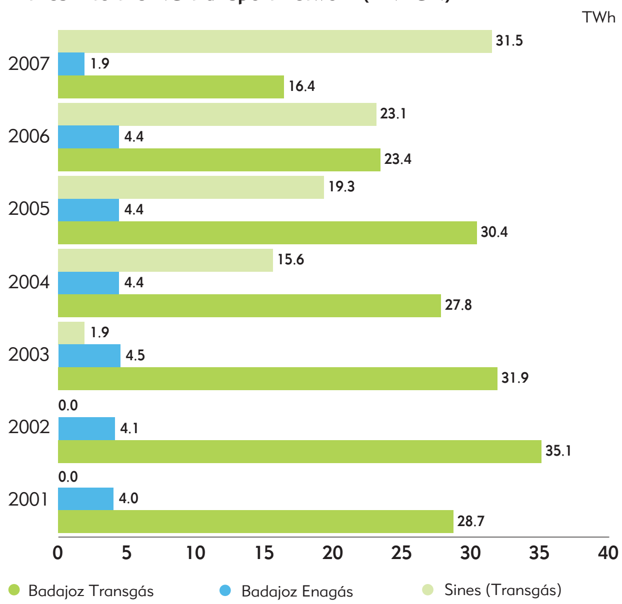


Equivalent Interruption Time (EIT)

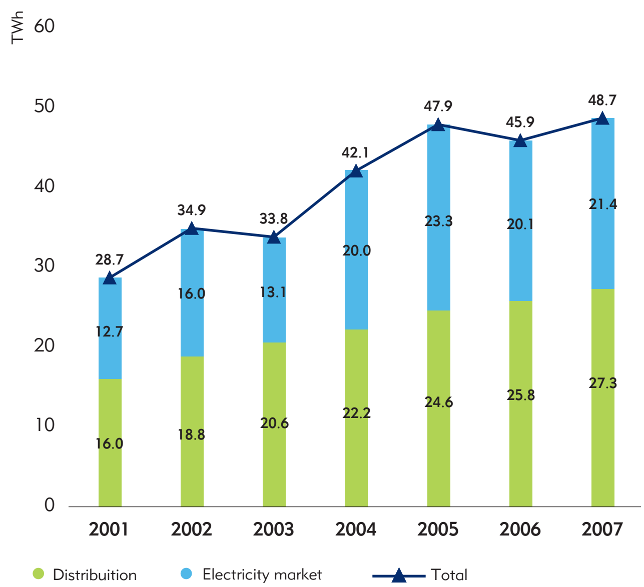


TECHNICAL AND ECONOMIC INDICATORS
NATURAL GAS TRANSPORT AND STORAGE BUSINESS

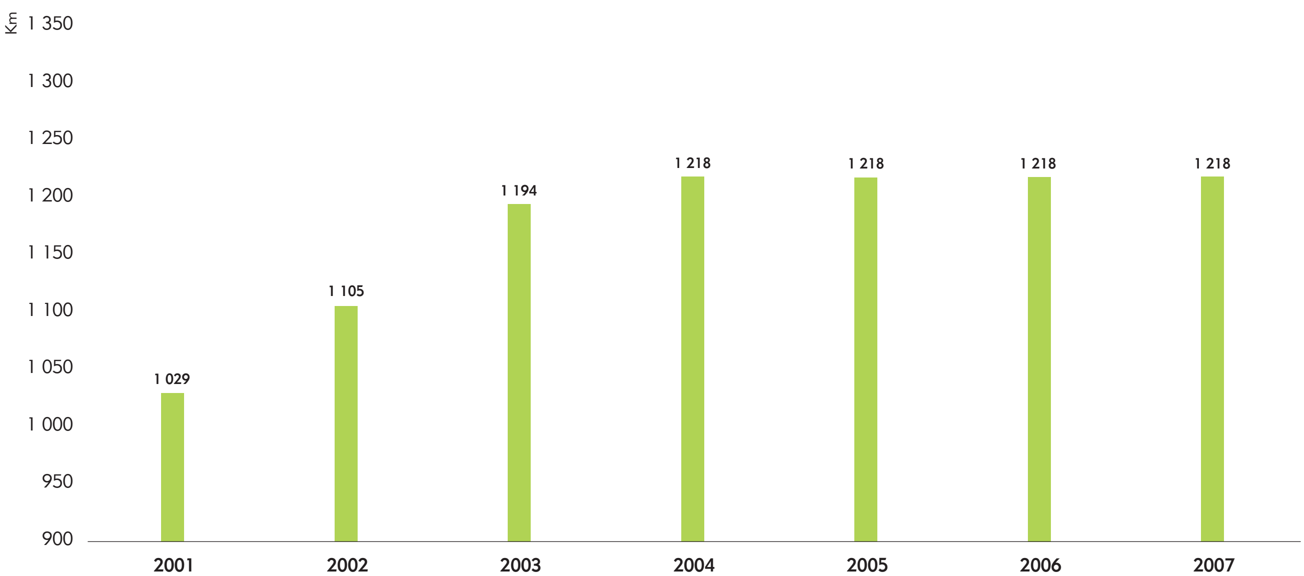
Entries into the NG transport network (RNTGN)



Exits from the NG transport network (RNTGN)



High-pressure natural gas transport network evolution



Who we are

WHO WE ARE

THE COMPANY

REN - Rede Eléctrica Nacional, S.A., was set up on August 18th, 1994, following the internal reorganization of the EDP Group. Later, in November 2000, it was totally separated from the EDP Group, following said Group's privatization and the liberalization of the European energy market. This followed Directive 96/92/EC of December 19th, 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 derivatives. On June 16th, 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 September 24th, determining the concentration in a single corporate group of the concession holders for the natural gas transport and electricity transmission infrastructures, on September 26th, 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:

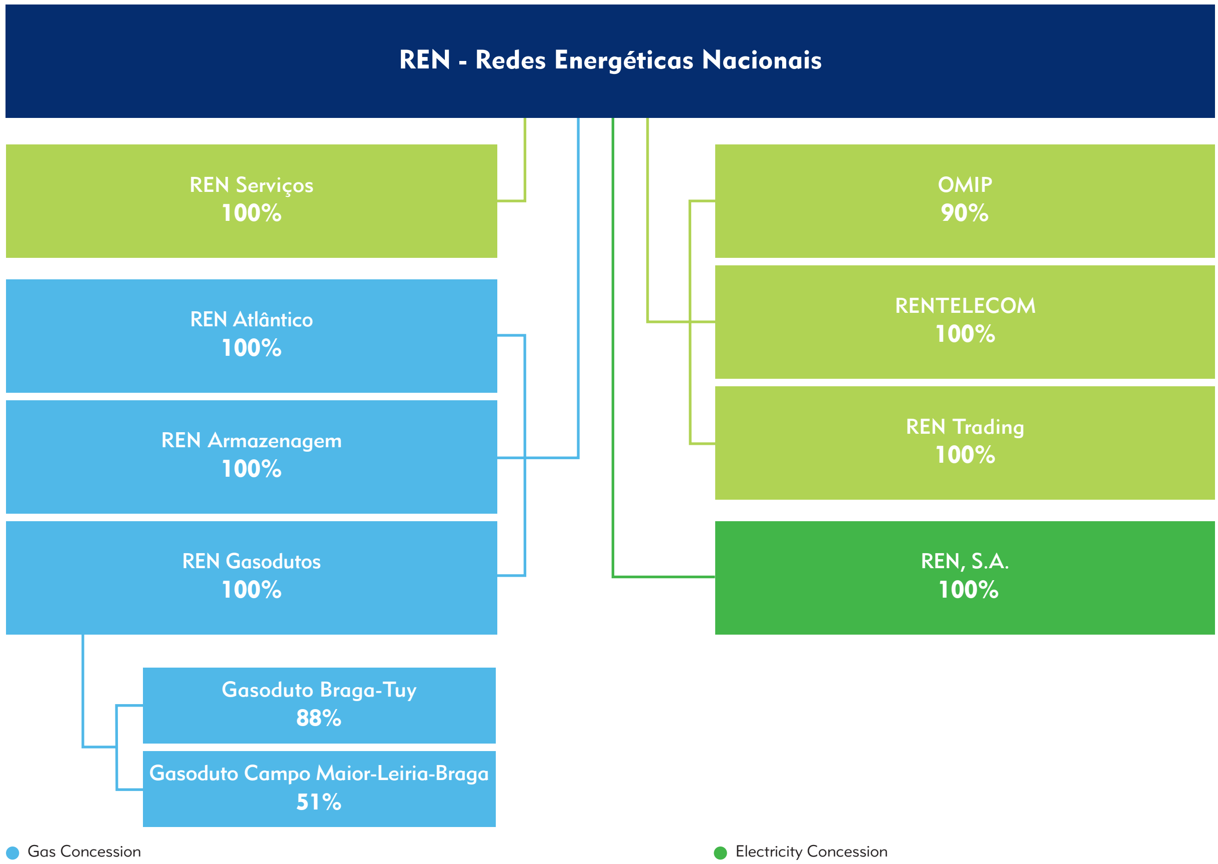
(i) the transport of high pressure natural gas;
(ii) the underground storage of natural gas;
(iii) the reception, storage and regasification of liquefied natural gas at LNG terminals.

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.

REN GROUP CORPORATE STRUCTURE

The figure below shows the REN Group corporate structure on December 31st, 2007:



On December 31st, 2007, 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.

On January 5th, 2007, in compliance with point 5 of Council of Ministers Resolution 85/2006 of June 30th, REN was converted into a holding company called REN - Redes Energéticas Nacionais, SGPS, S.A. Its very-high voltage electricity transmission assets were transferred to a new company called REN - Rede Eléctrica Nacional, S.A.

On June 13th, 2007 two new companies were set up: REN Serviços, S.A., created to focus on Group support activities and REN Trading, S.A., whose object is to manage the power purchase agreements that were not subject to anticipated termination (Tejo Energia and Turbogás).

ORGANIZATIONAL STRUCTURE OF REN SGPS, S.A.

On December 31st, 2007

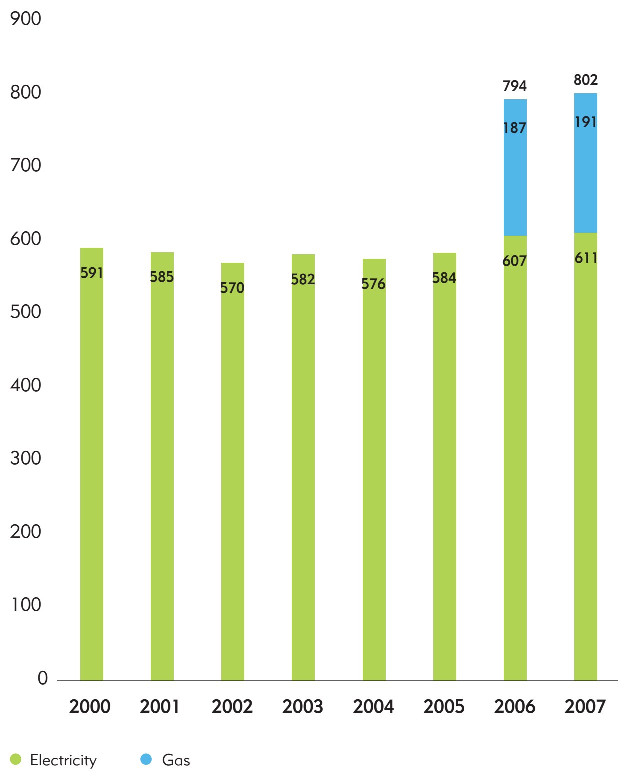
HUMAN RESOURCES

There was no significant change in the number of permanent employees at REN in 2007 and the workforce is now at what is considered a stabilized size. The minor alterations that did take place resulted essentially from a small number of isolated and localised recruitments in response to increased activity in the electricity and gas areas.

These changes were divided in equal number between the electricity transmission company and the Group companies operating in the gas sector. A process of restructuring shared services was ongoing in 2007 that focused on the company REN Serviços. Approximately 25% of the total permanent workforce was affected by this internal movement process, which is expected to be completed in early 2008.

Number of employees

	Electricity	Gas	Total (Dec 31st)
2000	591	-	591
2001	585	-	585
2002	570	-	570
2003	582	-	582
2004	576	-	576
2005	584	-	584
2006	607	187	794
2007	611	191	802

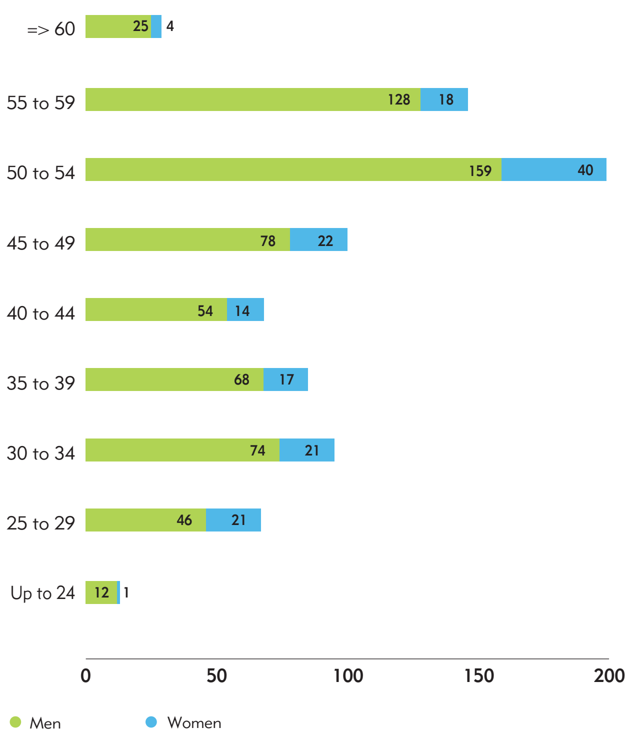


There was also no significant change in the distribution by gender. As far as distribution by age and years of service are concerned, the changes have essentially to do with the fact that all workers are now simply one year older and have been employed for one year more.

Thus, the average age of employees increased from 44.5 at the end of the preceding year to 45.2 at the end of 2007.

REN Group's age structure

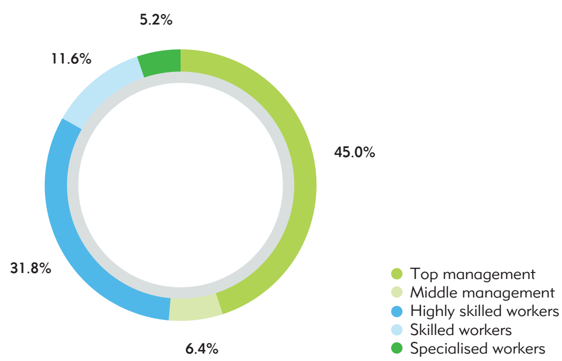
REN Group's age structure	Women	Men
Up to 24	1	12
25 to 29	21	46
30 to 34	21	74
35 to 39	17	68
40 to 44	14	54
45 to 49	22	78
50 to 54	40	159
55 to 59	18	128
=> 60	4	25



There was also no significant change in the structure by school/academic qualifications, due to the low level of recruitment from outside the Group.

Structure by occupational category in 2007

Top management	45.0%
Middle management	6.4%
Highly skilled workers	31.8%
Skilled workers	11.6%
Specialized workers	5.2%



CORPORATE BODIES OF THE GROUP

REN - Redes Energéticas Nacionais, S.A.

OFFICERS OF GENERAL MEETING

Vacant (*)
Chairperson
(*) Due to resignation on June 27th, 2007
To be appointed at the General Meeting on April 28th, 2008

Paulo Miguel Garcês Ventura
Vice-Chairperson

COMPANY SECRETARY

Incumbent
Óscar Emanuel de Magalhães Ribeiro

Substitute
Daniela Alexandra Pizarro Pinto de Sá

REMUNERATION COMMITTEE

Vacant (*)
Chairperson
(*) Due to resignation on June 27th, 2007

João Manuel de Castro Plácido Pires
Member

Vítor José Lilaia da Silva
Member

SUPERVISORY BODY AND STATUTORY AUDITOR

AUDITING COMMITTEE

José Luís Alvim Marinho
Chairperson

José Frederico Vieira Jordão
Member

Carlos Manuel Baptista Lobo (*)
Member
(*) Resigned on January 31st, 2008
To be appointed at General Meeting on April 28th, 2008

STATUTORY AUDITOR

J. Monteiro & Associados, SROC
Incumbent

Salvador Figueiredo Vás e Lima
Substitute

BOARD OF DIRECTORS

José Rodrigues Pereira dos Penedos
Chairperson

Aníbal Durães dos Santos
Member

Vítor 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 Luís Alvim Marinho
Member

José Frederico Vieira Jordão
Member

Carlos Manuel Baptista Lobo
Member

EXECUTIVE COMMITTEE

José Rodrigues Pereira dos Penedos
Chairperson

Aníbal Durães dos Santos
Member

Vítor Manuel da Costa Antunes Machado Baptista
Member

Rui Manuel Janes Cartaxo
Member

Fernando Henrique Viana Soares Carneiro
Member

ADVISOR TO THE BOARD

João Nuno Correia Especial

INVESTOR RELATIONS' OFFICE

Ana Rosa Fonseca Pereira Fernandes Matos
Consultant

SHAREHOLDER STRUCTURE

Since early 2007, the shareholder structure of REN SGPS, S.A., has undergone a series of alterations resulting from Decree-Law 228/2006 of November 22nd ("Decree-Law 228/2006"), which determined the general rules governing the re-privatization of 19% of the REN share capital.

On December 31st, 2006, approximately 70% of REN - Rede Eléctrica Nacional, S.A., shares were held by state bodies or public capital companies, in the form of shareholdings: 20% held by the Treasury Department; 30% by the state holding Parpública; and 20% by Caixa Geral de Depósitos.

The remaining shares, approximately 30%, were held by EDP - Energias de Portugal, S.A. However, on December 22nd, 2006 EDP sold 15% of its share in the REN capital in three blocks of 5% each. These were acquired by Gestmin, SGPS, S.A., Logoenergia, SGPS, S.A., and Oliren, SGPS, S.A.

On January 2nd, 2007 Parpública - Participações Públicas (SGPS) S.A., acquired the 20% share held by the Treasury Department – corresponding to 106 805 340 shares – meaning that it then held 50% of the REN - Rede Eléctrica Nacional, S.A., share capital.

By public deed of January 5th, 2007, REN - Rede Eléctrica Nacional, S.A., was transformed into a holding company, adopting the new name REN - Redes Energéticas Nacionais, SGPS, S.A.

To this end it was necessary to separate, on the aforementioned date, the assets and liabilities making up the economic unit allocated to the public service concession of the management and operation of the National Electricity Transmission Grid (RNT) and those allocated to other businesses for REN - Serviços de Rede, S.A., by means of a capital increase through contribution in kind. The latter company adopted the new name REN - Rede Eléctrica Nacional, S.A.

On March 6th, 2007, EDP signed a new contract, under which it sold another 5% of the share capital in REN - Redes Energéticas Nacionais, SGPS, S.A. – formerly known as REN - Rede Eléctrica Nacional, S.A.) ("REN") – to Red Eléctrica de España, S.A., the Spanish electricity transmission grid operator.

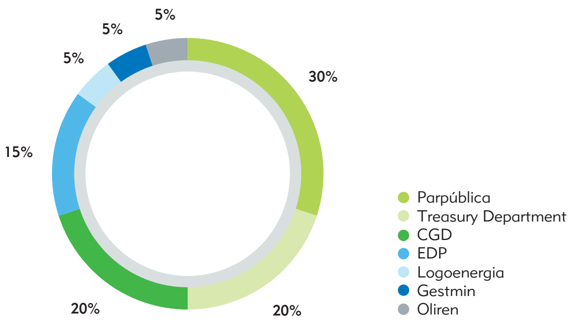
On June 9th the initial public offering of shares was announced in the context of the 1st phase of the re-privatization of REN - Redes Energéticas Nacionais, SGPS, S.A. In this context, Parpública - Participações Públicas (SGPS), S.A., offered 101 460 000 shares registered as category A shares, with a nominal value of one euro each, representing 19% of the REN - Redes Energéticas Nacionais, SGPS, S.A., share capital. EDP - Energias de Portugal, S.A., put up 26 700 000 shares registered as category A shares, with a nominal value of one euro each, representing 5% of the REN - Redes Energéticas Nacionais, SGPS, S.A., capital for sale.

After this initial public offering the shareholder structure is now made up of the reference entities mentioned above, plus the capital dispersed in the stock market, as illustrated in the table below.

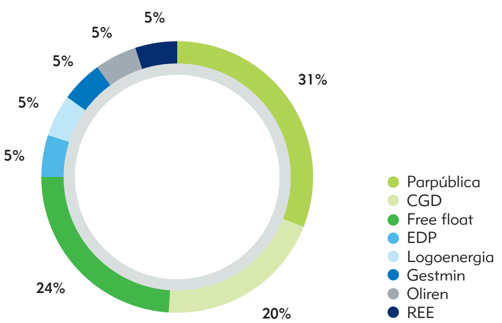
Shareholder structure

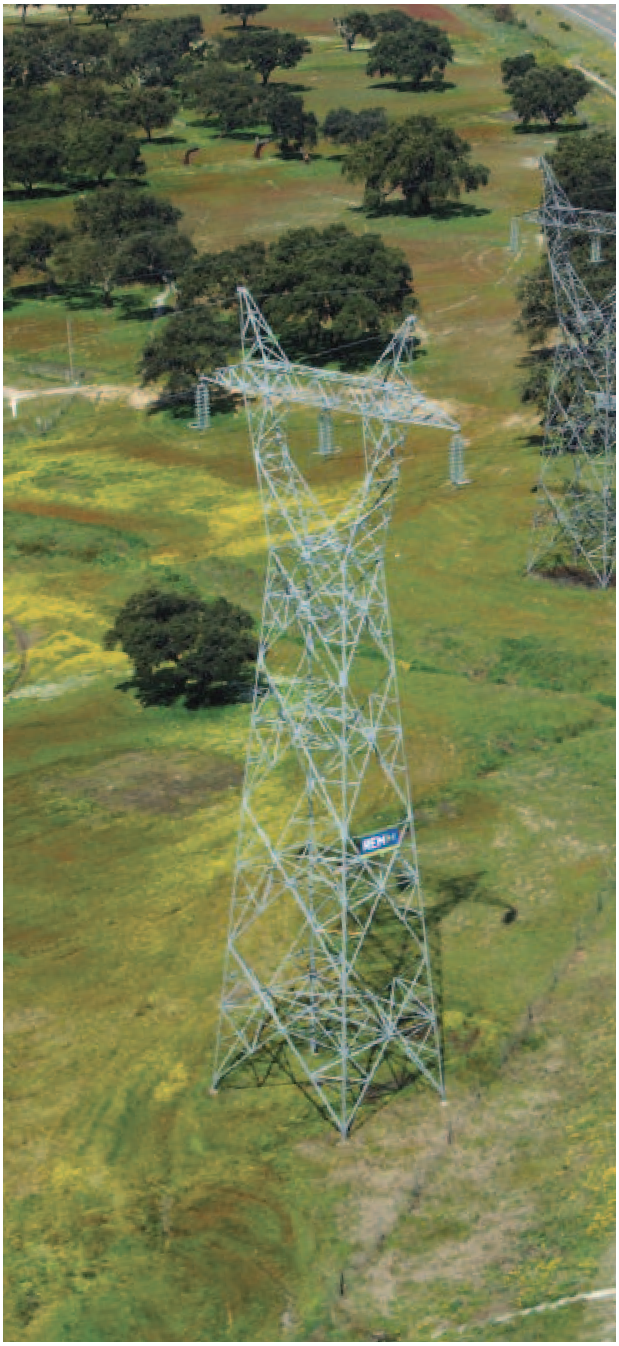
On 31/12/06		After IPO	
Parpública	30%	Parpública	31%
Treasury Department	20%	CGD	20%
CGD	20%	EDP	5%
EDP	15%	Logoenergia	5%
Logoenergia	5%	Gestmin	5%
Gestmin	5%	Oliren	5%
Oliren	5%	REE	5%
Free float	0%	Free float	24%
Total	**100%**		**100%**

On 31/12/06



After IPO






Consolidated
Annual Report

MACROECONOMIC FRAMEWORK[1]

INTERNATIONAL SCENARIO

Global economic growth

In 2007, the global economy continued its strong growth trend (5.1%), although at a somewhat slower pace than in 2006. The slowdown in economic growth in the United States was partially offset by the strong growth in emerging economies, above all in Asia. The economic climate was, however, affected by the considerable turbulence in the world's financial markets in the summer and the continued rise in oil prices. The abrupt alteration in risk perception by international investors, triggered by the deterioration in the high-risk mortgage market in the United States, also contributed to a less favourable international economic climate. As a result, the central banks agreed to inject liquidity into the currency and interbank markets to reduce tensions.

The intense competition in the mortgage market and respective securitization that one has witnessed in recent years in the USA, together with the increase in interest rates and the slowdown in house price growth, have led to an increase in the foreclosure figures, which has in turn led to a loss of confidence by investors in the housing mortgage market in the US. As a result, the central banks agreed to inject funds into the money and interbank markets to reduce tensions.

The growth in world trade (excluding the EU) dropped from 8% in 2006 to 7.8% in 2007. The decline in the growth of imports was particularly pronounced in the United States, affecting trade in other regions that depend on the American import market.

In the exchange markets, the trends already observed in 2006 continued, with the euro continuing to gain against the US dollar. The average exchange rate for the year 2007 was 1.3705 dollars to one euro. In accumulative terms, the euro gained 12% during the year against the dollar and 5% against the yen.

The world's leading economies

Economic activity in the Euro Zone slowed down in 2007, with GDP increasing 2.6%, as opposed to 2.8% in 2006. Similar to 2006, economic growth was supported by internal demand, with private consumption being the main driving force.Turbulence in the financial markets gave rise to stricter financing conditions and greater uncertainty. Nevertheless, investment remained dynamic, if at a somewhat more moderate level compared to 2006, continuing to benefit from the high levels of confidence in industry and services, the accumulation of strong corporate profits, the restructuring of balances and improved corporate efficiency. Private consumption was boosted by improvement in the labour market conditions, in a context of the reduction of unemployment figures to 1993 levels (7.3% of the active population).

Inflation in the Euro Zone was affected by the increase in VAT in Germany. Nevertheless, it remained under 2% for the first three quarters of the year, reflecting, largely, the strong rise in energy prices that took place in the first half of 2006. In the latter part of the year, the larger increase in consumer prices in comparison to the same period of the preceding year was due to the unfavourable base effect of the slowdown in the price of energy goods in the second half of 2006 combined with new price increases for oil and other commodities. The adverse effects of the oil price increase were, however, offset by the appreciation of the euro against the dollar. On average, the HICP (Harmonised Index of Consumer Prices) was at 2.0% in 2007, slightly lower (0.2 p.p) than the figure registered in 2006.

External conditions continued to favour exports from the Euro Zone, which nevertheless slowed down by about 2 p.p in comparison to 2006, in line with the general slowdown in the world trade. The impact of the appreciation of the euro against the dollar was to some extent mitigated by a geographical shift in exports from the Euro Zone towards Asia and the oil exporting countries. This development helped to ease the effects of the economic slowdown in the US.

As a result of the efforts towards budget consolidation, public deficit as a percentage of GDP in the Euro Zone was reduced in the course of the year, going from 1.5% in 2006 to 0.8% in 2007. Public debt is also on a downward trend. In 2007 it registered at 66.5% of GDP, down 2.1 p.p from 2006.

Growth in economic activity in the United States was slower than in the previous year. GDP grew at an estimated rate of 2.1% in 2007, as opposed to 2.9% in 2006. This was, above all, a result of the drop in investment in property in the midst of a high-risk mortgage market crisis and money market difficulties. Despite the rise in salaries, together with maintenance of unemployment figures at a relatively low level (4.6% of the working population in 2006 and 2007), growth in private consumption did not reach 2006 levels. The slowdown in internal demand led to a significant reduction in growth in imports (5.9% in 2006 and 2.5% in 2007). Exports, on the other hand, maintained a high growth rate, albeit less than that for 2006, benefiting from the weakening dollar and the

[1] European Commission forecasts: Economic Forecasts – Autumn 2007 and Banco de Portugal (BP): Economic Bulletin Winter 2007 are the primary sources of information.

strong economic growth of some key trading partners. Contrary to 2006, net exports made a positive contribution to growth in GDP in 2007. As a result of this trade performance improvement the Current Account Balance deficit was reduced from 6.1% of GDP in 2006 to 5.4% in 2007.

Inflation measured by the Consumer Price Index was down in comparison to 2006, registering at an annual average of 2.7%.

Late in the year there was a significant rise in unemployment, increasing fears of a crisis in the mortgage market spreading to the real economy.

Interest rates

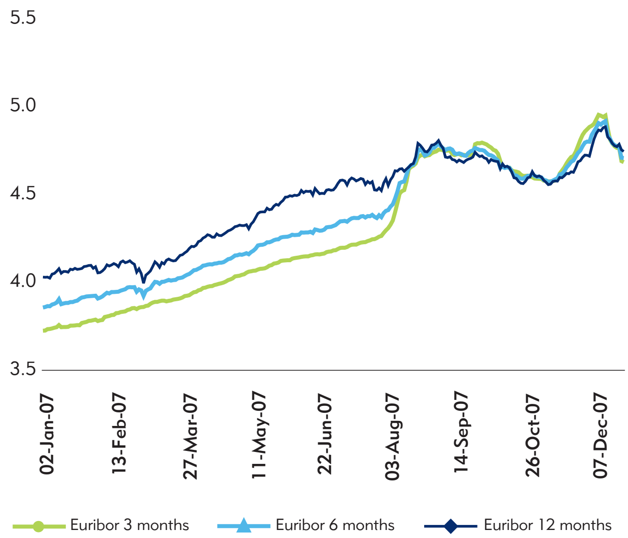
In the second half of the year, turbulence in the financial markets and liquidity shortage in the money markets dictated the monetary policies of the leading developed economies.

In August and September 2007 several central banks, including the ECB and the US Federal Reserve, moved to inject funds into their respective money markets with the aim of guaranteeing their regular functioning.

The US Federal Reserve additionally lowered the Federal Funds reference rate from 5.25%, in late June 2006, to 4.75% in September 2007. At the end of October, the Federal Reserve once again reduced the Federal Funds rate by one-quarter of a point to 4.5%. After successive increases throughout 2006 and 2007, the last of which was in June 2007, the European Central Bank decided to maintain the key lending rate at 4.00%.

The increased risk in credit operations and the concerns associated with future liquidity needs gave rise to the significant increase in the differences in return on public and private debt in the United States and the Euro Zone. From the beginning of the year the yields on 10-year public debt securities in the Euro Zone increased 38 b.p (basis points) to 4.44% on the last day of the year. Also associated with the credit crisis resulting from the collapse of the high-risk mortgage market in the United States, the short-term interest rates in the money markets increased, in particular during the summer, with the Euribor 3-month rate surpassing the 4.95% mark, the Euribor 6-month rate surpassing 4.92% and the Euribor 12-month rate surpassing 4.89% in mid-December. In 2007 as a whole, money market interest rates rose by 100, 85 and almost 70 b.p. for the 3-month, 6-month and 12-month rates respectively.

Euribor



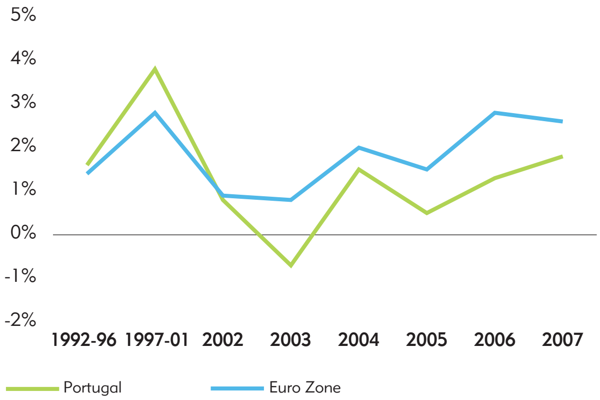
Source: Bank of Portugal

THE PORTUGUESE ECONOMY

In 2007 the Portuguese economy grew by 1.9%, which is a 0.7 p.p increase over the preceding year. This growth in economic activity was essentially the result of the recovery in investment, above all in corporate investment, in the context of an improved climate of confidence in industry and dynamism in exports.

Private consumption, on the other hand, maintained its moderate growth rate, hampered by the gradual increase in interest rates in a context of high household indebtedness levels and rising unemployment. For 2007, the growth in private consumption was estimated at 1.2%, up 0.1 p.p over the preceding year. Public spending is expected to have taken a real downward trend for the second year running, reflecting the ongoing process of budgetary consolidation.

GDP growth (% of change)



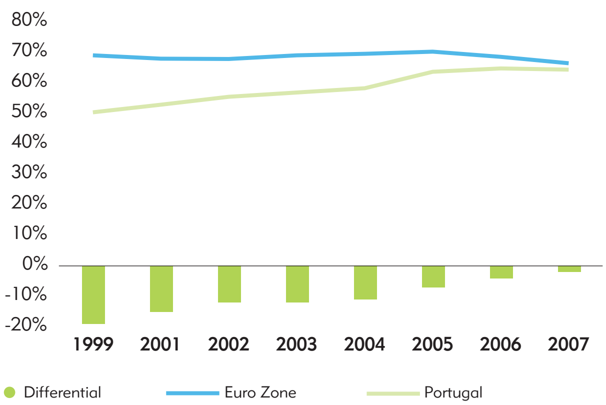
Source: European Commission

The contribution of external demand to growth in GDP was slightly lower than in 2006, reflecting a slowdown in exports (8.9% in 2006 and 6.7% in 2007).

In 2007, inflation, measured by the HICP, was on a downward trend. The average rate for the year is expected to be 2.4% (3.0% in 2006). The slowdown in price rises was a result of the effect of the growing strength of the euro on prices of some imported goods.

The situation in the labour market remained a concern, as it was shown to be lagging behind economic recovery. The unemployment rate for the year was higher than that for 2006 (8.0% of the active population in 2007, as opposed to 7.7% in 2006).

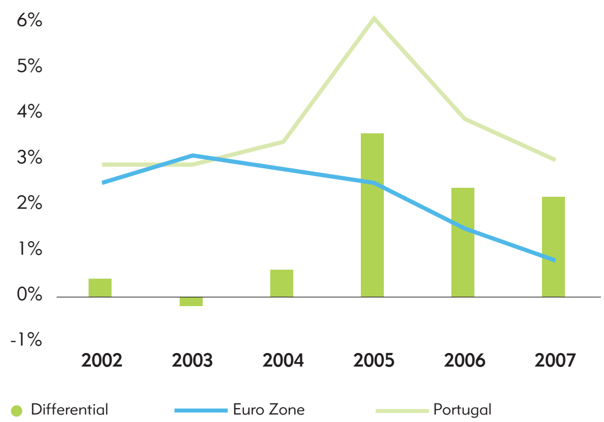
Public Debt (in % GDP)



Source: European Commission

In 2007 the efforts towards budgetary consolidation and the implementation of structural measures made it possible to keep the public deficit at 3% of GDP, a reduction of 0.9p.p in relation to 2006. The gap in relation to the Euro Zone has been gradually reduced in the last three years, with a deficit difference of 2.2% being registered for 2007, as opposed to 3.6% in 2005. Public debt as a percentage of GDP also registered an improvement, with 64.4% being registered for 2007, as compared to 64.8% in 2006. One should point out that this figure is less than the Euro Zone average.

Budget deficit (in % GDP)



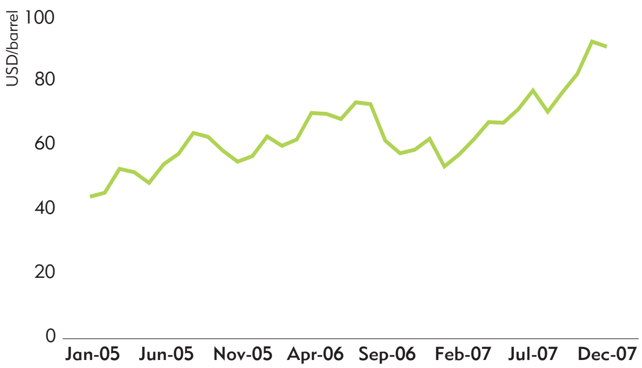
Source: European Commission

THE SECTOR'S FRAMEWORK[2]

Fuel prices

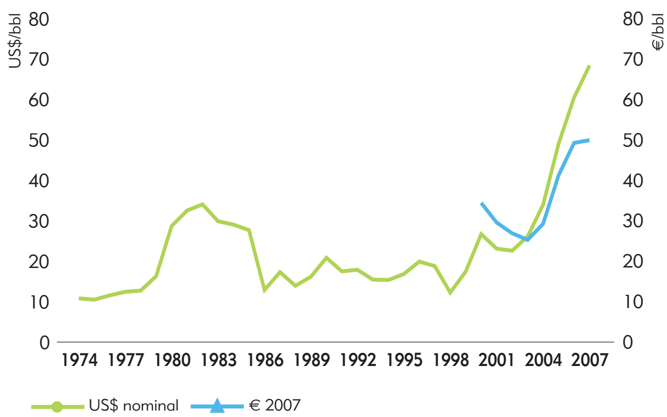
The price of Brent oil reached new record levels in 2007 with Brent at USD 96 a barrel close to the end of the year. Between late 2006 and late 2007 the price per barrel of Brent rose approximately 56% in US dollars. The average price for Brent oil for the year reached USD 72.50 a barrel in 2007. The reasons for this increase have to do with both supply and demand. In terms of supply, one can highlight the geopolitical tensions, in particular Iran's nuclear programme and the military interventions in northern Iraq. On the demand side, there is the expectation of strong growth in demand in the large emerging economies, combined with limited oil production capacities.

Brent Quotes



Source: DGEG

FOB prices of Arabian Light (annual rate)



Source: REN

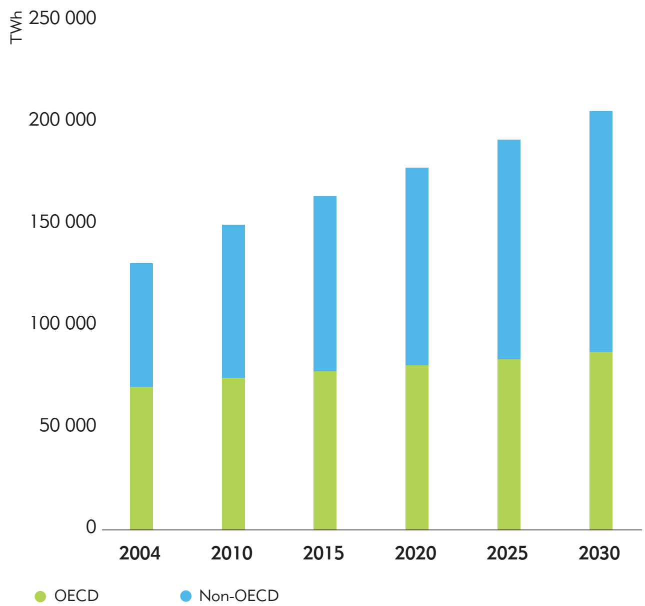
Energy demand

International context

In 2007, worldwide consumption of primary energy reached a total of approximately 141 000 TWh, an increase of 2.2% over the previous year. Oil was responsible for 36.5% of the total demand, followed by coal (26.3%).

According to the International Energy Agency, global consumption of primary energy will grow by some 55% between 2005 and 2030 at a rate of approximately 1.8% per year. China and India will be the main countries responsible for this increase, due to the rapid growth of their economies. It is estimated that these two countries alone will consume almost half of the predicted increase in demand.

Traded energy global consumption



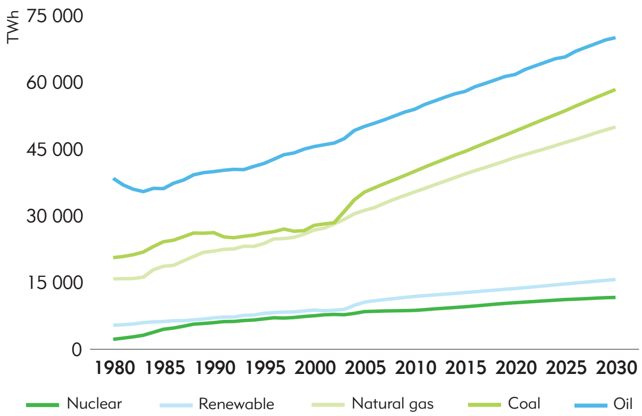
Source: EIA

Oil remains the dominant source of primary energy, given its importance in the transport and industry sectors. Forecasts show that oil production could reach 116 million barrels a day by 2030, which is 37% (or 32 million barrels a day) more than in 2006.

The demand for coal will also continue to rise, achieving growth of 73% in the same period, mostly on the back of the coal consumption by China and India, the two emerging giants in the world economy and energy markets.

[2] The main information sources for this Sector's framework section are the World Energy Outlook 2007 published by the International Energy Agency (IEA) and the International Energy Outlook 2007 published by the US Energy Information Administration (EIA).

Use of global trade energy by fuel type



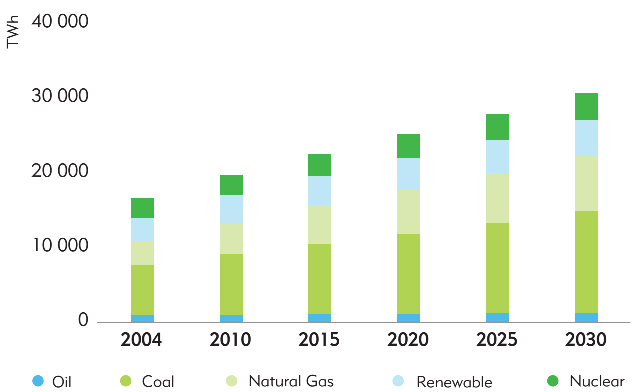
Source: EIA

Consumption of electricity amounted to 18 thousand TWh in 2007, which is an increase of 3%.

According to forecasts, the global demand for electricity could double and its contribution to the end consumption of energy will likely grow from 17% in 2005 to 22% in 2030. Coal and natural gas remain the most important primary energies for electricity generation, together accounting for approximately 80% of the total increase in generated power.

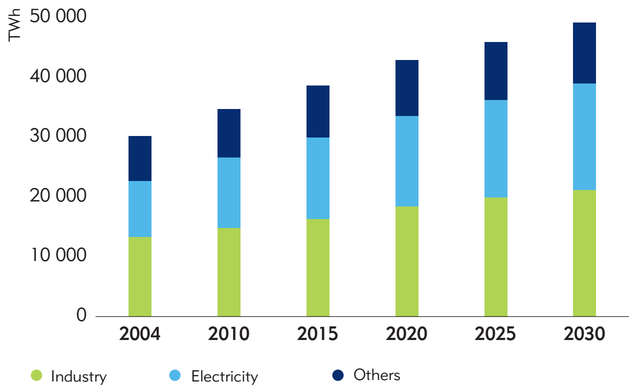
The contribution of natural gas to the consumption structure will most likely remain stable at just over 20%.

Growth in global electricity generation by primary energy source



Source: EIA

Natural gas global consumption

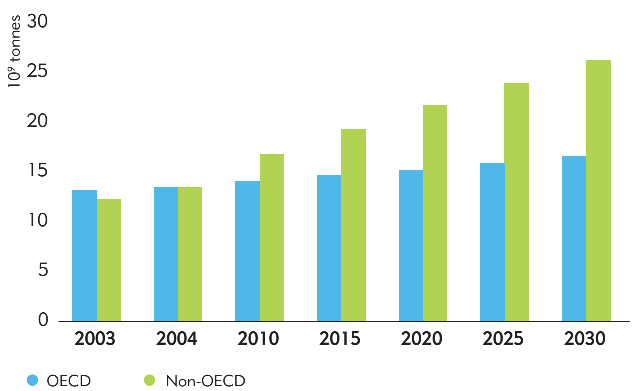


Source: EIA

As a result of the increasing use of fossil fuels, carbon dioxide emissions are expected to increase by 57%. The United States, China, Russia and India will be responsible for two-thirds of that increase. CO_2 emissions from non – OECD country members are expected to grow at an average annual rate of 2.6%, which is three times more than the rate projected for OECD member countries (0.8% per year).

There have, however, 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 gas, while there will be a slight decrease in emissions caused by oil.

Carbon dioxide global emissions

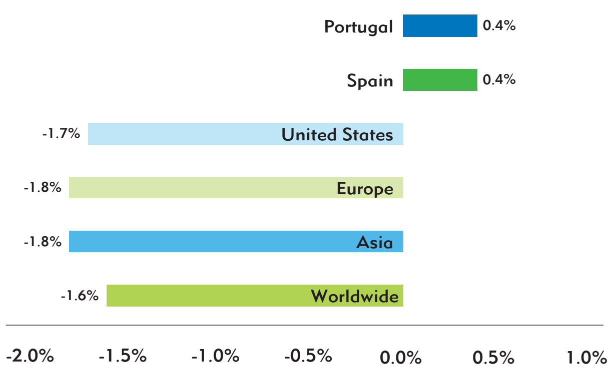


Source: EIA

Under the Kyoto Protocol (1997), 38 industrialized countries (including Portugal) agreed to reduce their greenhouse gas emissions by 5% a year to below 1990 levels in the period between 2008 and 2012.

According to the EIA, the intensity of CO_2 emission (in mass units) per GDP monetary unit should decrease in the future.

Intensity of CO_2 emissions - annual variation, 1990-2004

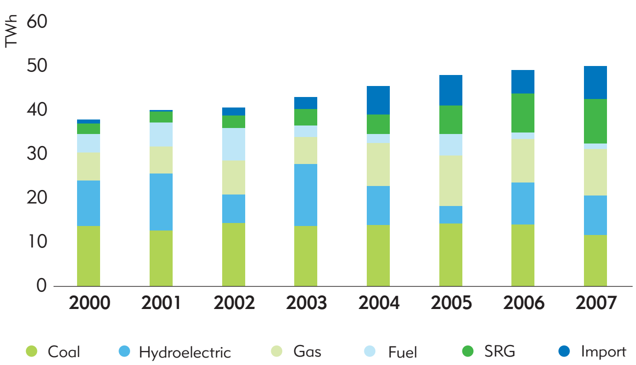


Source: EIA

The national context

In Portugal we have seen a significant increase in electricity demand in the last ten years, with an average annual growth rate of 4.6%. In 2007 electricity demand supplied by the Portuguese public grid reached 50 TWh, an increase of 1.8% over the previous year.

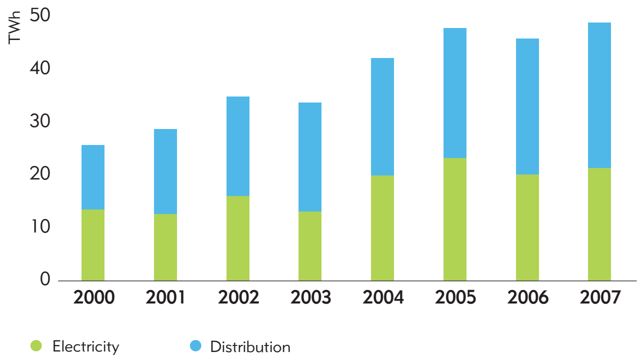
Electricity consumption in Portugal by energy source



Source: REN

Natural gas consumption registered an average annual growth rate of 9.6% in the period from 2000 to 2007. Last year, consumption of natural gas rose 6.5%, from 45.9 TWh in 2006 to 48.9 TWh in 2007. Consumption of natural gas is expected to continue to rise in the coming years, largely due to an increase in the number of combined cycle power plants.

Natural gas consumption in Portugal



Source: REN

THE MARKET AND INDUSTRY

ELECTRICITY AND GAS IN THE GLOBAL ENERGY CONTEXT

The global demand for energy continues on a rapid upward spiral. The latest projections by the International Energy Agency confirm that energy demand will increase strongly up to 2030 if the world's governments do not alter their policies for the energy sector. According to the IEA, if the current pace of development is maintained, global demand for primary energy will grow by some 55% between 2005 and 2030. Developing countries will be responsible for 74% of the increase in global primary energy demand, especially all the two emerging global economic giants, China and India. Fossil fuels remain the main source of primary energy. The demand for coal is expected to increase by around 73% in the aforementioned period, driven by China and India, which together will account for 80% of the growth.

Electricity's contribution to final energy consumption is expected to increase from 17% in 2005 to 22% in 2030. Worldwide electricity demand is expected to double between 2004 and 2030. The highest growth will be in non-OECD countries, which will experience growth rates three times higher than the projected figure for OECD member countries. In terms of sectors, the most rapid growth in global demand for electricity will be in the services sector, reflecting the strong economic growth expected for this sector, above all in non-OECD countries. The primary energy mix for electricity generation has undergone significant changes over the last few decades. The current high prices for fossil fuels and environmental concerns have led to increased interest in renewable energy sources as alternatives to coal and natural gas.

The expected share of natural gas in global primary energy consumption will remain roughly constant, increasing from 21% in 2005 to 22% in 2030. Growth of natural gas consumption is expected to be higher in non-OECD countries. Furthermore, these countries, in particular Russia and the Middle East states, will account for more than 90% of the growth in natural gas production in the 2004-2030 period. Approximately two-thirds of the world's natural gas reserves are located in the Middle East and Russia. This geographic divergence between the location of the exploited reserves and the demand centres means that the main gas consumption regions will become increasingly more dependent on imports. In terms of volume, the largest increases in imports will be occur Europe. However, all the OECD regions as a whole will increase their dependence on inter-regional imports. In particular, dependence on LNG is expected to increase from 11% to somewhere between 17% and 22%.

Natural gas supply in Europe depends more than 40% of imports from various sources, mainly Russia (approximately 23%) and Algeria. Natural gas accounts for roughly one quarter of the supply of primary energy in Europe.

ENERGY POLICY

The energy markets and geopolitical scenario have undergone profound change in recent decades. The challenge of climate change, the growing dependence on imported energy and the rise in energy prices are decisive factors in shaping the European Union's energy policy, which is aimed at obtaining secure, sustainable and competitive energy.

In 2007, in the context of the European energy policy and aiming at a global approach to the problem, three initiatives were undertaken: a new impulse for the development of the internal electricity and natural gas market, new European overall targets for the reduction of CO_2 emissions, tied in with the promotion of renewable energy sources and energy efficiency ("20/20/20 targets") and the implementation of the European Strategic Energy Technology Plan (SET Plan).

In September 2007 the European Commission adopted a third legislative package on the liberalization of the internal European energy market that applies both to gas and electricity sectors. The proposals are based on an approach that focuses on consumers being able to choose their suppliers, more transparent prices, cleaner energy and guarantee of supply. In the package, the Commission proposes a set of measures that complement those already in place. Here we highlight those with an impact on the activities of system operators:

- Effective separation of generation and supply activities, on the one hand, and transport/transmission network operation, on the other;
- The creation of a mechanism allowing transmission/ /transport network operators to improve network operation and security coordination, cross-border trade and network operation;
- Improvement in market functioning, through adaptation of the legislative framework to facilitate access of third parties to the base infrastructures, greater transparency in market operations and better access to retail customers;

[3] Reference scenario in the IEA's "World Energy Outlook, 2007"

• Cooperation between the Member States with a view to improving security of supply, making transmission/transport network operators responsible for network monitoring.

The European Commission is currently working on a set of proposals in the context of the revision of the Directives on renewable energies, emission allowance trade and energy efficiency, with a view to defining the measures necessary for achieving the "20/20/20 targets".

Furthermore, the SET Plan, published in November, puts forth a number of guidelines aimed at creating a new European policy oriented towards research and development of new low carbon technologies. Progress achieved will be published through the Energy Market Observatory.

Emissions trade

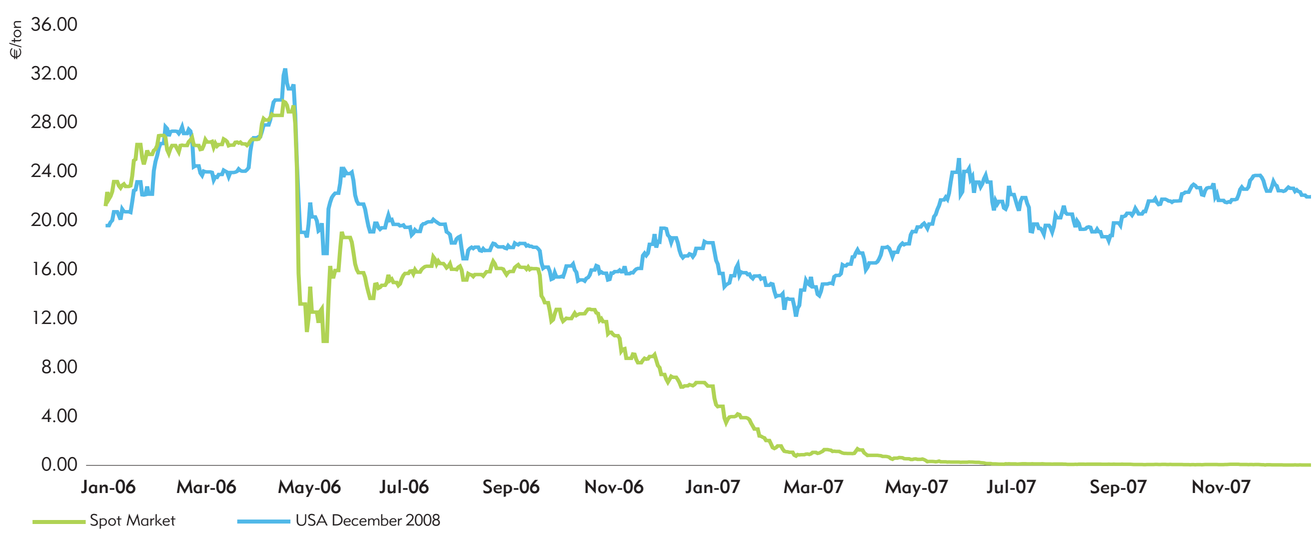
Evolution in emission allowance prices (European Union Allowances - EUA) in 2007 was influenced by the "barrier effect" at the end of the year, which made it impossible to transfer allowances allocated in the first ETS period (2005-2007) to the second period (2008-2012) and by the cuts imposed by the EU in the National Allocation Plans for CO_2 Emissions Allowances (NAPs) proposed by the Member States for the second period.

Network infrastructures

The electricity and gas transmission/transport network infrastructures are a crucial factor in pursuing the goals of sustainability, represented by the three pillars of the European and Portuguese energy policy: protection of the environment (promoting integration of "cleaner" energy), competitiveness (making the internal energy market more efficient) and security of supply (consolidating the transmission/transport systems and allowing for effective assistance amongst the system operators).

The needs for investment in the natural gas sector are becoming increasingly important given the existing limitations on the production of gas and the liquefaction of natural gas. The sector's regulation climate of uncertainty is, in some countries, one of the factors that have led to delays in downstream segment investment, namely, at the European level, for new national and transnational pipelines, as well as in the development of new storage sites. As a result of the large investments in progress in gas liquefaction facilities, tanker ships and LNG reception, storage and regasification terminals, the fraction of the demand for natural gas corresponding to LNG will grow from 6% in 2004 to somewhere between 14% and 16% in 2015, which represents very rapid expansion in this segment.

ETS closing prices – spot market and OTC bilateral futures contracts



Source: Bloomberg

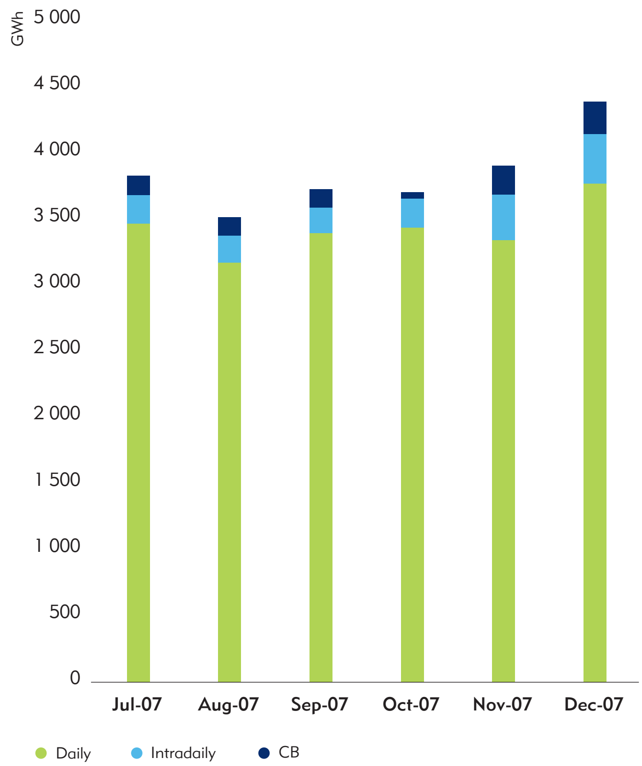
Also in the natural gas sector, one can observe growing concerns in relation to the security of supply to European Union countries, so that governments are focusing efforts on drawing up emergency policies for gas in the international context. The short-term focus will be placed on security of storage, which, however, is of comparatively little importance in responding to serious crisis.

Despite the fact that the European Commission has identified a number of common interest projects for the electricity and gas transmission/transport networks, including international connections and other infrastructures affecting cross-border transmission/transport capacity, there are still delays in implementation. These are essentially due to the complex licensing processes.

The European Commission and the European Regulators' Group for Electricity and Gas (ERGEG) both issued reports in early 2007 on the situation in the European gas market that highlighted the need to implement measures aimed at eliminating obstacles to free competition in the sector.

In 2007 the vast majority of European domestic consumers had no other option in choosing their gas supplier than the traditional supplier, as the degree to which the market has opened is still low and the goal of creating the internal energy market is still far from being achieved. At the wholesale level, the same national scenario remains and, in general, the same degree of concentration that existed prior to the liberalization of the sector. The current low level of separation of the activities of gas distribution and management of the infrastructures has a negative impact on market functioning and investment in cross-border connections. There is a lack of timely information and transparency about the markets performance, and more efficient and transparent price formation mechanisms are required.

Trade energy market



Source: Bloomberg

REGIONAL MARKETS – MIBEL AND MIBGAS

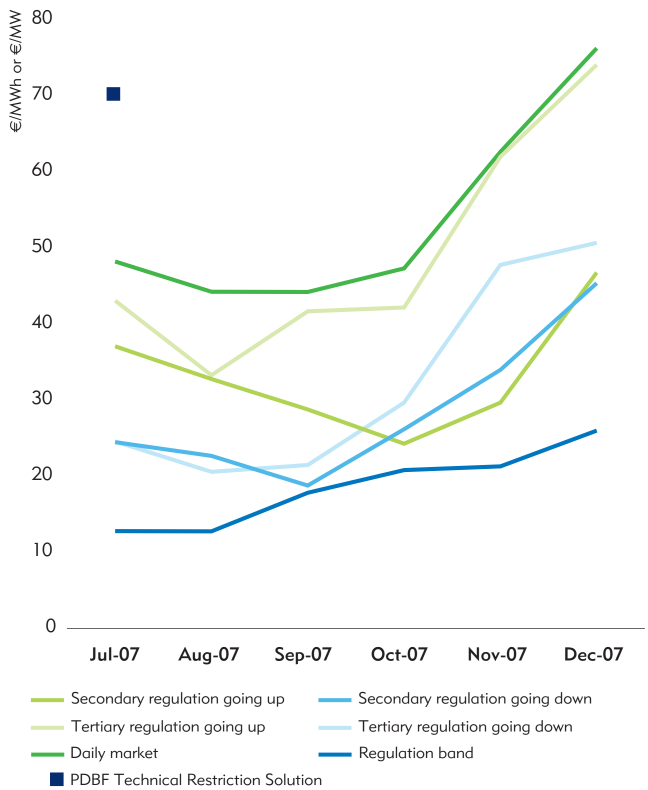
MIBEL

With a view to consolidating the MIBEL (the Iberian Electricity Market) and preparing the launch and development of MIBGAS (the Iberian Gas Market), the "Regulatory Compatibility Plan between Portugal and Spain for the Energy Sector" was signed on March 8th, 2007 by the Spanish Minister of Industry, Tourism and Commerce and the Portuguese Minister of the Economy and Innovation.

On July 1st the daily market operated by the Spanish branch of the Iberian market began operating at the Iberian level, after termination of the power purchase agreements between REN and EDP Produção. The market agents now had the possibility of purchasing/supplying electricity through the markets managed by OMI, in addition to the bilateral contract method already provided for in the previous framework.

Given that the power purchase agreements with Tejo Energia and Turbogás were maintained, REN Trading was set up to manage these contracts and to place generated electricity on the market.

In addition to the energy purchase and sale contracting, on the first day of July 2007 the contracting method of the ancillary services changed. Until then ancillary services were provided by generators with PPAs. Thus, in these first months of operation of the System Services Market one has witnessed a rise in the weighted average prices for all components, in line with the increase in daily market prices.



The average price on the daily Iberian market in the second half of 2007 was approximately EUR 54.4/MWh. During this period, the prices on the daily market went from an average of EUR 48.25/MWh in July to an average of EUR 76.28/MWh in December.

MIBGAS

In the natural gas sector, diverse work groups were set up with the aim of preparing the launch and development of the Iberian Natural Gas Market (MIBGAS) and, given the importance of the Iberian Peninsula's capacity for the reception of liquefied natural gas (LNG) in the European and world contexts, to assert it as a benchmark market at the international level.

The regulators for the sector in both countries, CNE and ERSE, drew up a joint document, which was made available for public consultation on November 12th, 2007, aimed at registering the opinions of the market agents and other entities involved in the Spanish and Portuguese natural gas systems on the model for the Iberian natural gas market to be implemented.

REN and Enagás were, in turn, commissioned with drawing up a plan for investment and reinforcement of interconnections and natural gas storage capacity. Several joint documents had already been drawn up, which, proceeding from the current situation, outline a number of proposals for the future development of MIBGAS.

In terms of regional markets, Portugal is included in the southern region of the Gas Regional Initiative, together with Spain and France. The overall objective of this ERGEG initiative is to stimulate, at the practical level, the development of regional markets in collaboration with the industry, the Member States, the European Commission and other stakeholders.

The institutional functioning of each of the regions instituted in accordance with the ERGEG proposal is guaranteed by a Regional Coordination Committee headed by one of the regulatory bodies involved, an implementation group and a group of stakeholders. The work carried out aims at identifying and resolving inter-regional problems that put up barriers to competition and to the opening and expansion of the market in general under transparent and non-discriminatory conditions. In 2007 REN began actively participating in the work being carried out in the southern region, taking part in working groups on interconnection capacity and inter-operability between systems. The work of these groups will continue throughout 2008.

DEMAND AND GENERATION

Electricity

The electricity demand in Portugal has grown considerably in the last ten years, at an average annual growth rate of 4.6%. In comparison, GDP in volume registered a moderate growth of 1.9% a year. As a result, there has been a substantial increase in electricity intensity in Portugal. This trend has become particularly accentuated in the last five years, with an average annual growth of 3.4%. The growth trend in per capita consumption, has experienced a steady evolution, with an average annual growth rate of 3.8% in the last five years, which is slightly lower than the 3.9% registered for the last ten year period.

In 2007 the consumption of electricity supplied by the public grid reached 50 TWh, up 1.8% over the previous year. This is the lowest growth since 2002. Taking normal temperature conditions and number of working days into consideration, the growth in consumption is 2.4%.

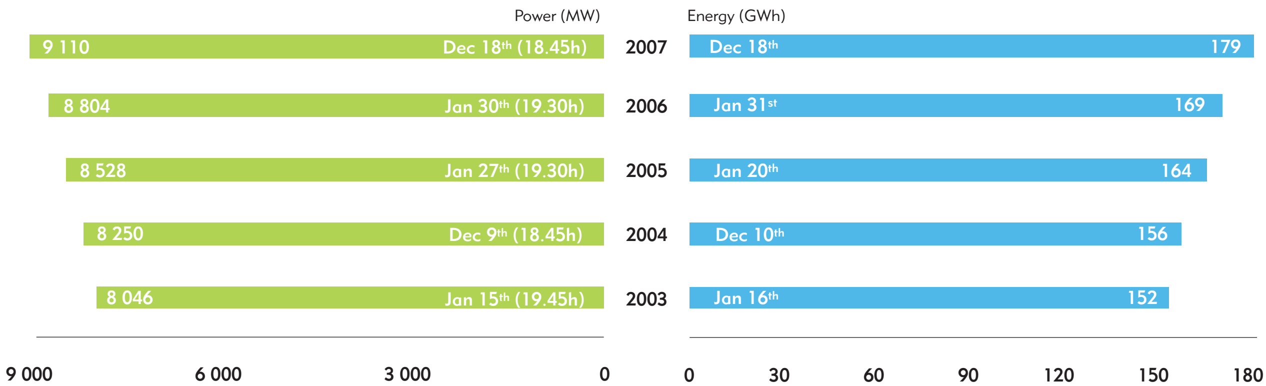
Evolution of Consumption

	Consumption [GWh]	Real [%]	Adjusted (*) [%]
2003	43 061	5.9	4.3
2004	45 500	5.7	4.5
2005	47 940	5.4	4.7
2006	49 174	2.6	3.2
2007	50 050	1.8	2.4

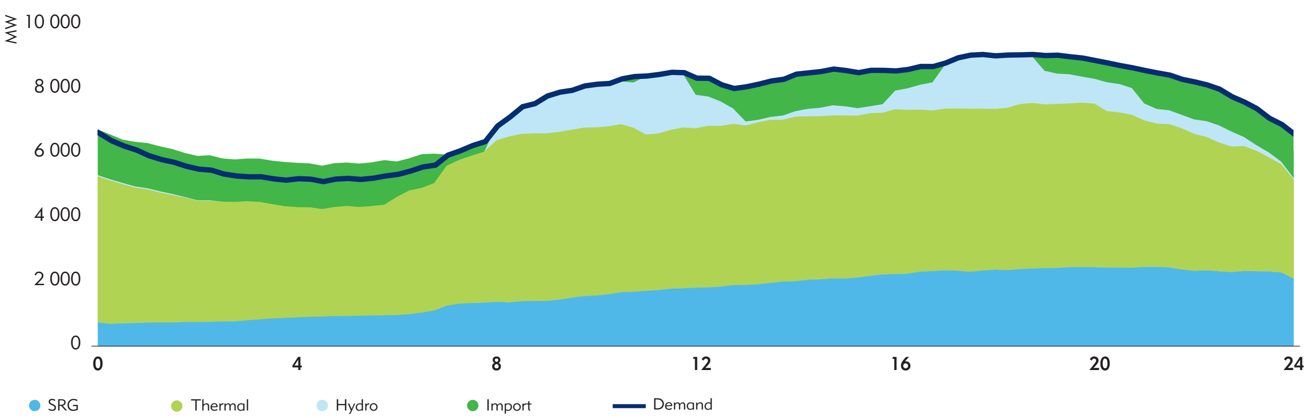
(*) to temperature conditions and working days

Anual peak load demand reached a new record of 9 110 MW on December 18th, which was 300 MW above the previous maximum recorded in 2006. The highest ever maximum daily consumption was recorded on the same day, 179 GWh.

Annual peak demand and maximum daily consumption



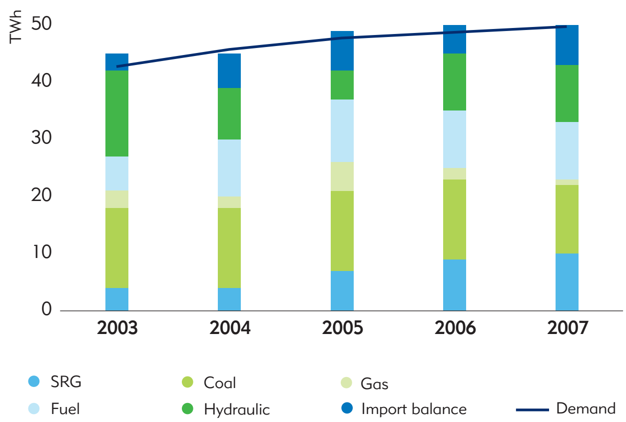
Load diagram of anual peak demand



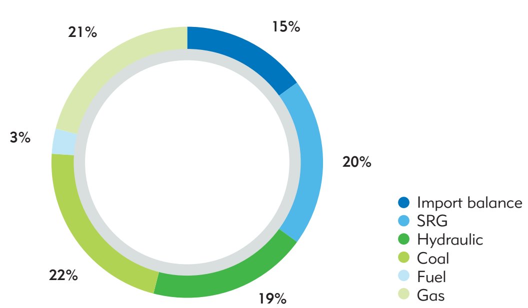
Hydroelectric capacity factor was below average for the fourth consecutive year, with a factor of 0.76. Hydroelectric generation was also down 7% in relation to the previous year, supplying around 19% of total demand. Thermoelectric generation, which supplied 46% of demand, also registered a decrease of 8%.

These decreases were offset by the increase in Special Regime Generation (16%) and the import balance of 38%. Special Regime Generation maintained a high growth rate, though lower than in previous years, and now supplies 20% of national demand. The most significant growth was registered in wind generation, which was reinforced during the year with the installation of another 400 MW. This brings the total installed capacity connected to the grid to 1 900 MW.

Supply of Demand



Breakdown of Power Generation 2007



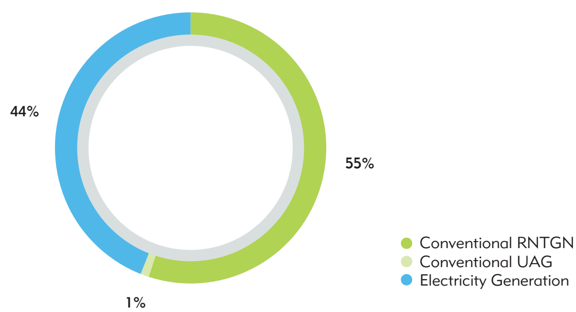
Natural gas

The demand for natural gas in Portugal rose by 6.5% – from 45.9 TWh in 2006 to 48.9 TWh in 2007 – as a direct result of the general increase in all market segments.

Natural Gas Demand (2007)

	(Figures in GWh)
Electricity Generation (PRO)	21 363
Conventional RNTGN	27 090
Conventional UAG*	425
Total	**48 878**

* Referenced to loads received at Sines LNGT



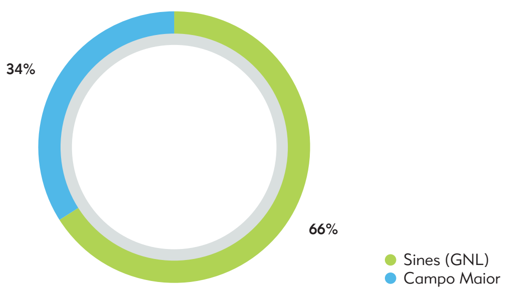
Note: Natural gas superior average calorific power = 11,9 kWh/m³

In addition to the increase in gas-fired thermoelectric generation in 2007, which in part made up for the strong reduction in previous years, demand in the other market segments continued to grow. It grew 6.4% compared to 2006 in the case of the conventional market supplied via the RNTGN and 24.6% in terms of the conventional market supplied via UAGs (Autonomous Gasification Units).

Natural gas was supplied to the Portuguese market in 2007 through the pipeline from Algeria (Sonatrach), via the international pipeline system going through Spain to the Badajoz/Campo Maior entry point, and by LNG from Nigeria unloaded at the Sines terminal. The latter accounts for the bulk of demand, 66%, while Algerian natural gas entering the network at Badajoz/Campo Maior supplied 34%.

Natural Gas Supply 2007

	(Figures in GWh)
Campo Maior	16 430
Sines (GNL)	31 327
Total	**47 757**

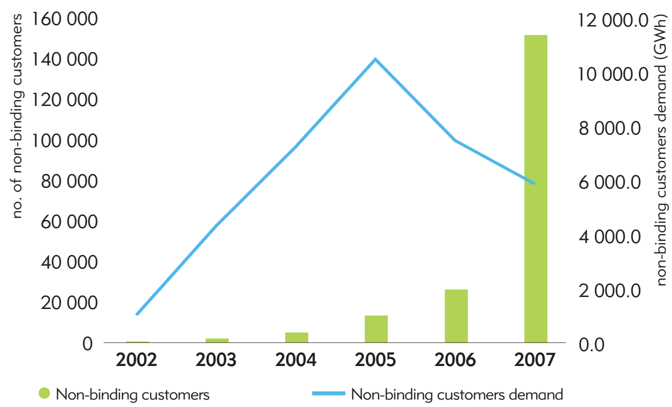


This represents a continuation of the trend of the last few years towards a gradual increase in the share of LNG unloaded at Sines against Algerian natural gas imports through Badajoz/Campo Maior. The fact that the technical capacity of the Sines terminal is still underused makes it the Portuguese entry point with the greatest growth potential for the import of natural gas.

THE LIBERALIZED MARKET IN PORTUGAL

Electricity

In 2007, the trend towards electricity customers leaving the non-binding liberalized market at medium and high voltage levels continued. This was, however, offset by a substantial increase in the number of normal low voltage customers. Despite this growth in the number of customers supplied by the liberalized market the trend towards a significant reduction in demand continued.



The launch of the MIBEL integrated daily market on July 1st, 2007 put an end to the Non-binding Electricity System (SENV) and changed the commercial relationships in effect up to that date.

Natural gas

In Portugal the first regulated gas year began on July 1st, 2007, as scheduled. One must highlight that, from this date onward, it was possible to put into practice a basic set of technical operation rules that allowed the market to function in accordance with the new principles that govern regulated access of third parties to the RNTIAT (National Natural Gas transport network, underground storage and LNG terminal infrastructures) infrastructures, including application of the tariff for use of the liquefied natural gas reception, storage and regasification terminal, the underground storage tariff, the transport network use tariff and the overall system use tariff, in the reference framework of the respective regulated activities. Pursuant to the legislation passed and published in 2006, natural gas customers of the ordinary regime power generators became eligible for the new system on January 1st, 2007. In this context, one must highlight the fact that EDP Produção began using the RNTGN to transport quantities of natural gas to supply its two dual fuel turbines at the Carregado power plant.

ENERGY EFFICIENCY

Following the commissioning of the new natural gas combined cycle plants and the declassification of the fuel oil plants, average thermoelectric energy conversion efficiency is expected to reach 50%.

In line with the objectives of Directive 2006/32/EC, the ERSE Electricity Consumption Efficiency Plan (PPEC) came into force in 2007. The accumulated energy savings in the 2008-2023 period resulting from the plan are expected to reach 390 GWh, corresponding to 144 kt of $C0_2$ emissions avoided.

RENEWABLE ENERGY

In Portugal, electricity generated from renewable sources supplied approximately 30% of total demand in 2007. Renewable energy capacity at year end was around 7 230 MW (6 850 MW in 2006). Wind energy was the renewable source that grew most (an additional 377 MW).

Although the mechanisms supporting renewable generation in Portugal are essentially based on fixed feed-in tariffs, investment subsidies and tax benefits, there is also a market-oriented support mechanism based on green certificates and guarantees of origin (RECS - Renewable Energy Certificate System). In 2007, REN, as the RECS certificate issuing bodying in Portugal, issued approximately 87 thousand certificates, corresponding to 87 GWh of hydroelectric generation.

New targets:

- Wind energy – a new total of 5 700 MW installed capacity by 2012; 600 MW of this can be achieved through flexibilization in upgrades of existing facilities.
- Hydroelectric energy – short-term commitment to reaching the target of 5 575 MW installed capacity by 2010 and surpassing the 7 000 MW mark by 2020. One of the most important measures for reaching this target will be the construction of the 10 new hydroelectric plants provided for in the National High Potential Hydroelectric Dams Programme presented by the government and drawn up with the support of REN. These new plants together will total 1 100 MW installed capacity, of which 810 MW correspond to plants with pumping.

In this perspective, and in the context of the development of the MIBEL, REN and its Spanish equivalent REE planned a number of new electricity interconnection infrastructures in 2007, which, by 2013-2014, will make it possible to increase the capacity for trading from the current 1 200 MW to around 3 000 MW.

ECONOMIC REGULATION

THE REGULATORY FRAMEWORK FOR REN'S ACTIVITIES IN THE ELECTRICITY SECTOR

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

The organization of the national electricity system (SEN) underwent profound changes in 2007, in agreement with the new Framework Law for the sector published in 2006, which affected the regulated activities carried out by REN. The Energy Purchasing activity, by means of which REN carried out the purchase of all the electric energy derived from the Power Purchase Agreements (PPAs) for the supply of customers of the now defunct Public Electricity Supply System (SEP), was replaced with a new trading activity set in a market environment, involving the two non-terminated PPAs. Furthermore, as ordinary regime energy generation is now managed by open market mechanisms, new functions in the Overall System Management operations were created, namely with regard to the purchase of system services, compensation for energy deviations and the corresponding payment to the market agents.

Indeed, pursuant to the agreements for the termination of the PPAs and the legislation passed in previous years, the entry into operation of the daily and intradaily market in the context of the Iberian Electricity Market (MIBEL) on July 1st, 2007 has led to the anticipated termination of most of the PPAs. The corresponding generators now sell their generated energy under normal market conditions and benefit from payment of "costs for maintenance of the contractual balance" (CMEC).

As the PPAs for the Turbogás and Tejo Energia plants are still in force, these two contracts are now operated by the new REN Group company, REN Trading, which, under the legislation in force, sells the respective generated energy in the open market, whereby the difference between the revenues from this sale and the corresponding contractual costs is compensated for through the General Use of the System (UGS) tariff.

Thus, REN maintains three regulated activities in the electricity sector: the purchase and sale of electricity from the commercial agent (the trading of the energy from the non-terminated PPAs), the Overall System Management and Electricity Transmission, although it now receives remuneration through two regulated tariffs only: the General Use of the System (UGS) tariff and the Transmission Grid Use (URT) tariff, given that the revenues from the commercial agent operations are essentially derived from the sale in the market of the energy coming from the non-terminated PPAs.

The two aforementioned tariffs are fixed each year by ERSE on the basis of economic and energy 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 need to adapt the regulation of the electricity sector to the new legal framework led ERSE to carry out a regulatory revision, which was completed in June 2007. This resulted in the approval of new versions of the main regulations in the electricity sector (Commercial Relations Regulation, Access to Networks and Interconnections Regulations, Tariff Regulation and Network Operation Regulation).

The year 2007 also saw the publication of Ministerial Order 481/2007 of April 19th, which altered, as July 1st of last year, the remuneration rate for public hydro domain land held by REN and the interest rate applicable to the tariff deviations between 1999 and 2003 relating to the remuneration for these power plant land plots. Both these rates are now equal to the inflation rate, as opposed to being indexed to the Euribor three-month interest rate plus 0.5%. The ministerial order also altered the period of recovery of that tariff deviation, which is now equal to the remaining book life of the corresponding public hydro domain land.

Decree-Law 264/2007 of July 24th made some adjustments to the conditions of the trading activity carried out by REN and established, in connection with the termination of the PPAs and the introduction of the CMEC mechanism, an extraordinary revision of the 2007 tariffs.

ERSE carried out this extraordinary tariff revision in two phases: for the period July-August only some transfers between regulated companies were adjusted; and for the period September-December a formal revision of the various electricity tariffs was carried out.

Reflecting the new Framework Law for the electricity sector, which was published in 2006, and the aforementioned redefinition of REN activities, in the year 2007 a new concession contract for the RNT was signed for a valid period of 50 years.

At the end of the year, the mechanisms provided for in the legislation to encourage good performance in REN trading activities were in the approval phase at ERSE.

Consequence of tariffs set for 2007[4]

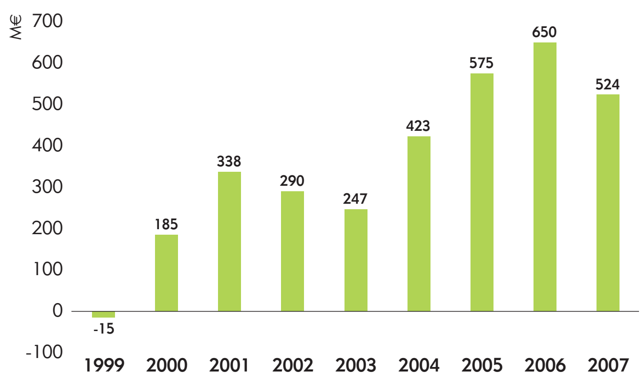
Decree-Law 237-B/2006 of December 18th established an upper limit of 6% for increases in sales tariffs to normal low-voltage final customers and also laid down a period of 10 years, beginning in 2008, for the recovery of the following tariff deviations and deficits: the costs of the tariff convergence in the autonomous regions of the Azores and Madeira not reflected in the 2006 and 2007 tariffs, the 2006 tariff deficit, the 2007 tariff deficit and the tariff deviation between 1999 and 2003 relating to the remuneration of power plant land plots. The consequence of this maximum rate of 6% was the creation of a tariff deficit in 2007 of EUR 79.4 million, of which EUR 30.3 million were financed by REN.

In early 2007, the balance of all the tariff deviations was favourable to REN and amounted to approximately EUR 650.3 million. Of this sum, approximately EUR 274.3 million corresponded to the 2006 tariff deficit borne by REN and some EUR 164.5 million corresponded to the tariff deviation occurred between 1999 and 2003 relating to the remuneration of the power plant land plots.

The tariffs set for 2007 underestimated, to the tune of some EUR 19.3 million, REN's costs from the electricity sector and, despite the assumption of the recovery of deviations from previous years amounting to EUR 122.8 million, led to an overall tariff deviation balance at the end of 2007 of EUR 524.1 million, of which EUR 152.3 million corresponded to the payment of land occupied by plants with PPAs and EUR 314.0 million corresponded to the 2006 and 2007 tariff deficits.

The table below shows the trend in tariff deviations for the years 1999 to 2007 at the end of each year.

Tariff deficit at the end of each year



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

Tariffs and prices for electricity and other services for 2008

Decree-Law 226-A/2007 of May 31st, which approved the regime for the use of hydro resources, set forth the rules for the allocation of rights of use of the public hydro domain for companies operating the corresponding power plants, including the rules of payment to REN for the transfer of the rights of use of the public hydro domain it holds to those companies. The same law also established that part of the economic/financial equilibrium associated with the rights of use of the public hydro domain is channelled towards amortization of the existing tariff deficits.

In justifying the tariffs it set for 2008, ERSE assumes that REN will receive, on the value date January 1st, the sum of EUR 466.3 million – an amount which, according to the Minister of the Economy and Innovation Order, will be reserved for eliminating the tariff deviation in the 1999 - 2003 period and the 2006 and 2007 tariff deficits financed by REN. Thus, the 2008 tariffs did not include any compensatory sums for those said deficits.

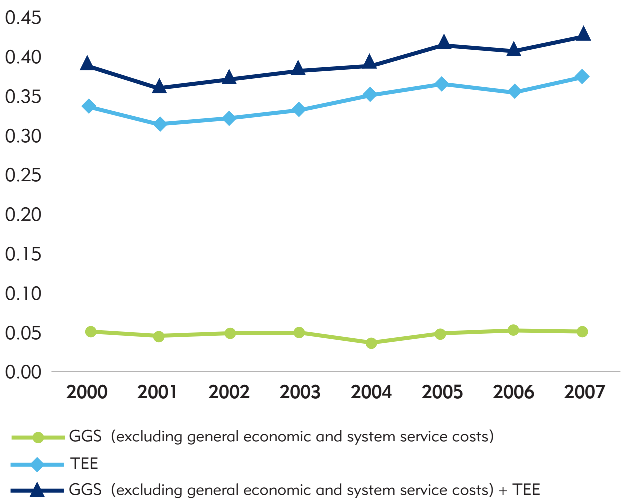
Cost of access to the transmission grid

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 tariff 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, system services contracting operation and the compensation of deviations and energy and the operation of the account balancing system between the market agents), also includes diverse general economic costs, namely the OMIP and OMIClear costs, the ERSE costs, the costs for payment of the Autonomous Region tariff convergence, the compensation (positive or negative) to the commercial agent and the costs for the Consumption Efficiency Promotion Plan. As a result of the extraordinary revision of tariffs, which took effect as of September 1st, the UGS tariff no longer includes the costs for the purchase of system services, which are now directly invoiced to the market agents.

The following graph shows the trend in the average revenues from these two tariffs from 2000 to 2007 corrected for deviations and subtracting from the UGS tariff the general economic costs and the costs related to the acquisition of system services.

Average cost of access to the transmission grid (cent/kWh)



Excluding the aforementioned costs, the overall average cost of access to the transmission grid increased by approximately 10.1% between 2000 and 2007 as a result of an increase of 11.2% in the average cost of electricity transmission and a 2.7% reduction in the average cost of overall system management.

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 functioning of this mechanism, which is currently known as ITC (Inter TSO Compensation), were the subject of much discussion and controversy in 2007. As an agreement on a consistent methodology could not yet be reached, a provisional methodology was established that will be valid for 2008 while the studies on alternative methodologies that allow for greater reflection of the physical reality of the electricity traffic are ongoing.

The ITC figure for 2007, a payable balance for REN of EUR 3.5 million, is similar to that for the preceding year.

Correction of hydroelectric variability

Electricity sales tariffs in Portugal 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 PPAs 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 July 1st, 2007, rendered the mechanism applied until that date meaningless.

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, from July 2007 onwards, the financial costs associated with the accumulated balance of said account. These costs are the responsibility of EDP - Energias de Portugal, S.A.

Reflecting the relatively favourable hydrological conditions in the first half of 2007, the corresponding hydroelectric variability correction differential resulted in a cost to REN amounting to EUR 20.5 million. The balance of the hydroelectric variability correction account at the end of 2007 amounted to EUR 227.7 million.

THE REGULATORY FRAMEWORK FOR REN'S NATURAL GAS OPERATIONS

In the natural gas sector, REN carries out its activities through its wholly-owned subsidiaries REN Gasodutos, S.A., REN Armazenagem, S.A., and REN Atlântico,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) signed with the Portuguese State on September 26th, 2006 for the transport, storage and unloading of LNG. The REN Gasodutos contract is exclusive in the national context, incorporating the activity of Overall Technical Management of the SNGN (National Natural Gas System), which includes the functions of Global Technical Manager of the SNGN and adjustment of accounts.

The concession operators are responsible for the construction, operation and maintenance of the respective infrastructures on the basis of the coordinated planning by the SNGN Global Technical Manager, with the aim of ensuring security and continuity of the natural gas supply. In the area of supply security, REN has also been allocated control of the constitution and maintenance of natural gas security reserves for the national market.

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

In 2007, in addition to the regulations in force – quality of service, Tariffs, Commercial relations and access to networks, infrastructures and interconnections – ERSE also published its Infrastructure Operation Regulation, which applies to technical issues of access to and use of infrastructures, thus completing the regulatory framework for the sector in as far as it applies to REN companies. The corresponding subregulations are currently in the finalisation phase and are expected to be published during the first quarter of 2008.

Remuneration of regulated activities

The concept of the gas year for regulation purposes was defined as beginning on July 1st, and ending on June 30th of the following year. The regulation period is three years, with annual revision of tariffs and stabilization of the parameters in the regulation period.

In each regulatory period, the remuneration of REN natural gas companies is defined in tariff regulations by the definition of the permitted revenues resulting basically from remuneration on fixed assets at the weighted average cost of the capital defined by the regulator for each regulatory period. Recognized operating costs are included in the tariffs.

The regulated activities carried out 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.

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 Tariffs Regulation, in May 2007 ERSE submitted the document "natural gas tariffs and prices for the gas year 2007/2008 and regulation parameters 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 to 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.

The values for permitted revenues for the first gas year 2007/2008 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%[5];
- Discount rate for quantities – 15% for REN Atlântico activities; 11% for REN Gasodutos activities[6];
- The tariffs subject to the smoothing revenues process during the concession period are URT and UTRAR.

Cost of access

The cost of access to REN gas infrastructures set by ERSE came into force on July 1st, so that we only have information on one half-year of operation with them.

Liberalization

The timeframe for the opening of the market was established by Decree-Law 140/2006. Access for standard power plants was established for 2007. Large industrial customers with an annual demand of more than 1 Mm^3 will have access in 2008, and customers with a demand of more than 10 000 m^3 per year in 2009. The rest of the market will be opened on January 1st, 2010. This timeframe is being complied with, although one must take into account the establishment of the gas year, which begins in July and not January.

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. These activities are described in the chapter on the operating environment of the high pressure network.

[5] ERSE adjusted the profiles to recover 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 calculation of 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.
[6] The values are different from the capital revenues discount rate to adjust the investment recovery profile.

IMPORTANT EVENTS OF THE YEAR

• Renewal, by APCER, on December 31st, 2006, of environmental certification for the REN Integrated Quality, Environmental and Safety Management System in conformity with the ISO 14001 standard.
• Creation, on January 5th, of REN - Redes Energéticas Nacionais, SGPS, in compliance with Council of Ministers Resolution 85/2006 of June 3rd.
• Establishment, on March 6th, of a global strategic cooperation agreement between REN and REE, in the scope of which REE acquired 5% of REN share capital held by EDP.
• New impulse given to the establishment of the MIBEL at the Portuguese-Spanish summit held in Lisbon on March 8th, emphasising the aims of defining a regulatory compatibility plan for Spain and Portugal and implementing the exchange of shareholdings between REN and REE on the one hand, and REN and Enagás on the other.
• Publication of Ministerial Order 481/2007 of April 19th, which established new payment conditions for REN land on which power plants are located.
• Publication of Decree-Law 226-A/2007 of May 31st, which extends the concession period for land within the public hydro domain on which EDP hydroelectric plants are located. In return, REN will receive payment of approximately EUR 466 million, allowing it to balance the tariff deviation accounts related with the payment of land and the tariff deficit from 2006 and 2007.
• Launch of a promotion campaign for the new REN corporate image on June 11th.
• Incorporation of two new Group companies on June 13th: REN Serviços, S.A., with the aim of economically rationalising the management of joint back office operations; and REN Trading, S.A., for marketing the energy produced by the plants with power purchase agreements (PPAs).
• Signing, on June 15th, by the Portuguese State the concession contract granting: operation of the National Transmission Grid / RNT) to REN - Rede Eléctrica Nacional, S.A., for a period of 50 years;
• Signing of an agreement between REN and EDP on June 16th for the early termination of the PPAs on the date of the official commencement of MIBEL operations, July 1st.
• First Virtual Power Plant auction held by REN Trading, S.A., on June 26th in conformity with the Portuguese-Spanish Regulatory Compatibility Plan for the energy sector.
• Launch of the Iberian Electricity Market on July 1st.
• First phase of the privatization of REN - Redes Energéticas Nacionais, SGPS, S.A., at a stock market session on July 9th with an initial public offering of 24% of its share capital.
• In recognition of the quality of the work carried out by REN in the area of sustainable development, the director of REN Operation Division was elected executive of the year by BCSD Portugal on June 21st.
• Extension of the participation in the United Nations Global Compact movement to all REN Group companies. The membership held by REN, S.A., passed on to REN - Redes Energéticas Nacionais, SGPS, S.A., in January 2005.
• Commencement of the process for obtaining international ratings from Standard & Poor's and Moody's with a view to improving conditions of access to the financial markets.

GROUP ACTIVITY IN 2007

ELECTRICITY TRANSMISSION BUSINESS

OPERATION OF THE GRID

Grid behaviour

On July 1st, 2007 the greater part of the installed power generating capacity in mainland Portugal started to being traded on the organized Iberian energy market.

Before this date, the programming of the operation of the power plants with Power Purchasing Agreements (PPAs) was carried out at REN by the commercial agent for the SEP (Public Electricity Supply System), which is now defunct.

In this new context, the commercial agent is now only responsible for managing of the PPAs relating to the Pego (2 x 300 MW, coal) and Turbogás power plants (3 x 330 MW, natural gas combined cycle).

The energy generated by standard regime plants is now being sold through bilateral contracts, with offers submitted to the OMEL (Iberian Electricity Market - Spanish Branch) for the daily and intradaily markets and/or the OMIP (Iberian Electricity Market - Portuguese Branch) for electricity futures contracts.

The management of the interconnection between Portugal and Spain, whenever congested, is now attributed by means of a "market separation" mechanism. It is expected this year that part of this will be carried out through specific auctions.

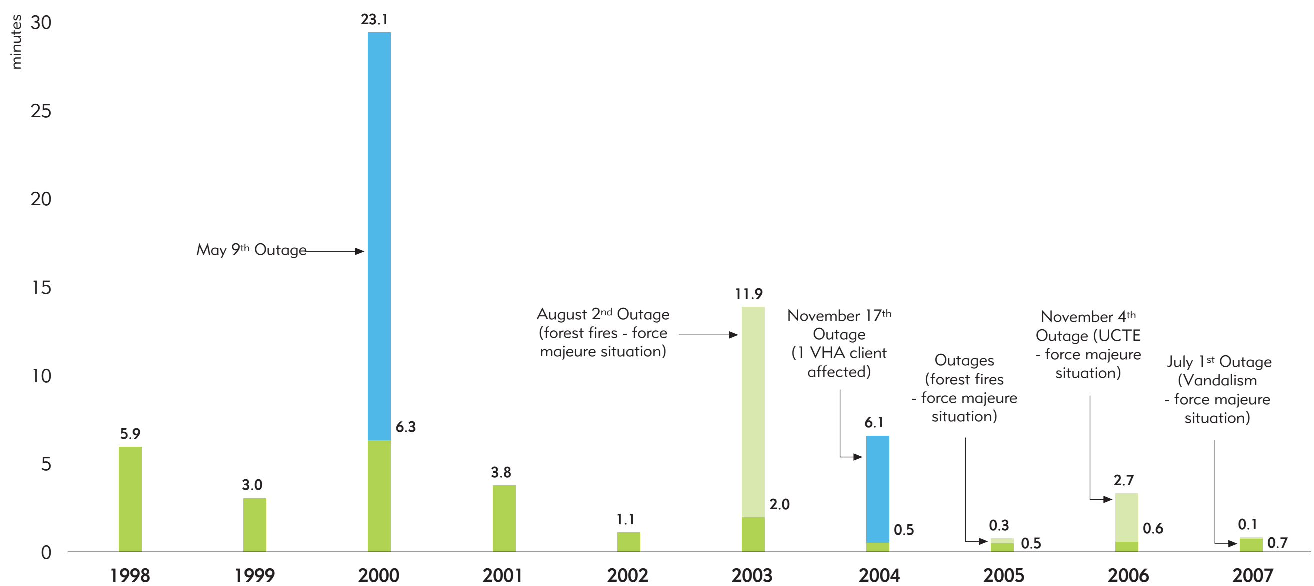
With the aim of defining electricity generation in Portugal, on June 30th, 2007 a dialogue began between REN and OMEL that is similar to one which has existed for some time with Red Eléctrica de España (REE). Additionally, the already existing information flows between REN and REE were substantially modified.

All these changes, prepared to be carried out within very strict deadlines, ran according to plan, thus enabling one more step in the establishment of the MIBEL - the Iberian Electricity Market.

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 very high level. For the third year running, Equivalent Interruption Time (TIE) was less than one minute, registering the figure of 0.74 minutes in 2007. In other words, REN supplied electric power to the different customers' delivery points 99.99986% of the time (i.e., approximately 999 hours 59 minutes and 55 seconds in every 1 000 hours).

Equivalent Interruption Time - EIT



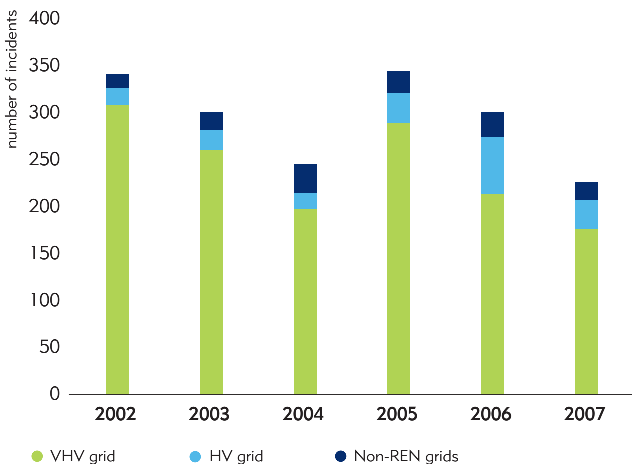
The graph above reveals a trend towards sustained improvement in service continuity in recent years, excluding the occasional exceptional cases and/or situations of force majeure indicated.

In 2007 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 localised exceptions.

As far as incidents and disruptions are concerned, there was a substantial overall improvement in grid behaviour. We had a total of 226 incidents (25% less than in 2006), 176 of which occurred in the very-high Voltage (VHV) grid, 31 in the High Voltage (HV) grid and 19 in other grids, although these also affected REN's VHV and HV grids.

Number of incidents



Only 13 incidents, i.e. 6% of the total, affected power supply to customers. One of these, which occurred on July 1st, was caused by an act of vandalism on the Custóias substation.

No incident led to service disruptions at more than one delivery point. In other words, all disruptions had localised impacts of little consequence.

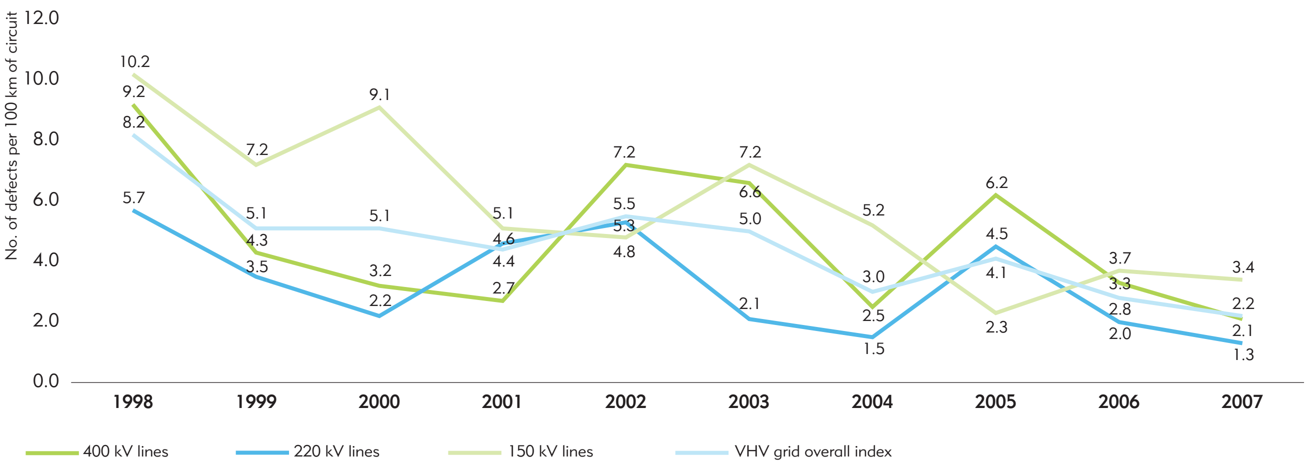
The value of Energy Not Supplied (ENF) resulting from these incidents was estimated at 82.1 MWh (75.8 MWh excluding the incident at Custóias substation on July 1st).

Line's performance

The trend registered in previous years towards an overall improvement in the RNT lines continued. The overall availability of line circuits, including terminal bays, was 98.3% in 2007, a figure similar to that in 2006 (-0.3%), despite the modification and improvement works 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 kilometres of circuit.

Number of defects in RNT lines per 100 km of circuit



The figures for 2007 are significantly lower than the average for the last 10 years. The overall figure for the VHV grid registered a decrease for the second year running (-21%) and is now at an all-time low of 2.2 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 improvement of shielding against lightning strikes;
- Mass replacement of ceramic and glass insulators with composite insulators in critical lines in highly polluted areas;
- Widespread mounting of nesting platforms and bird perching prevention devices on the insulator chains on lines impacting birdlife (storks);
- Monitoring of insulator contamination and more effective summer washing;
- Implementation of new vegetation surveillance and brushwood 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 (72% of the total). The main causes for these were lightning strikes (39.5%) and birds, i.e. storks (34.6%).

Substation performance

In general terms, the performance of REN substations was highly satisfactory. The number of failures in transformers and circuit breakers was lower than that of 2006. The average availability of transformers and autotransformers (including their bays) was 98.7%, a figure very similar to that of last year.

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

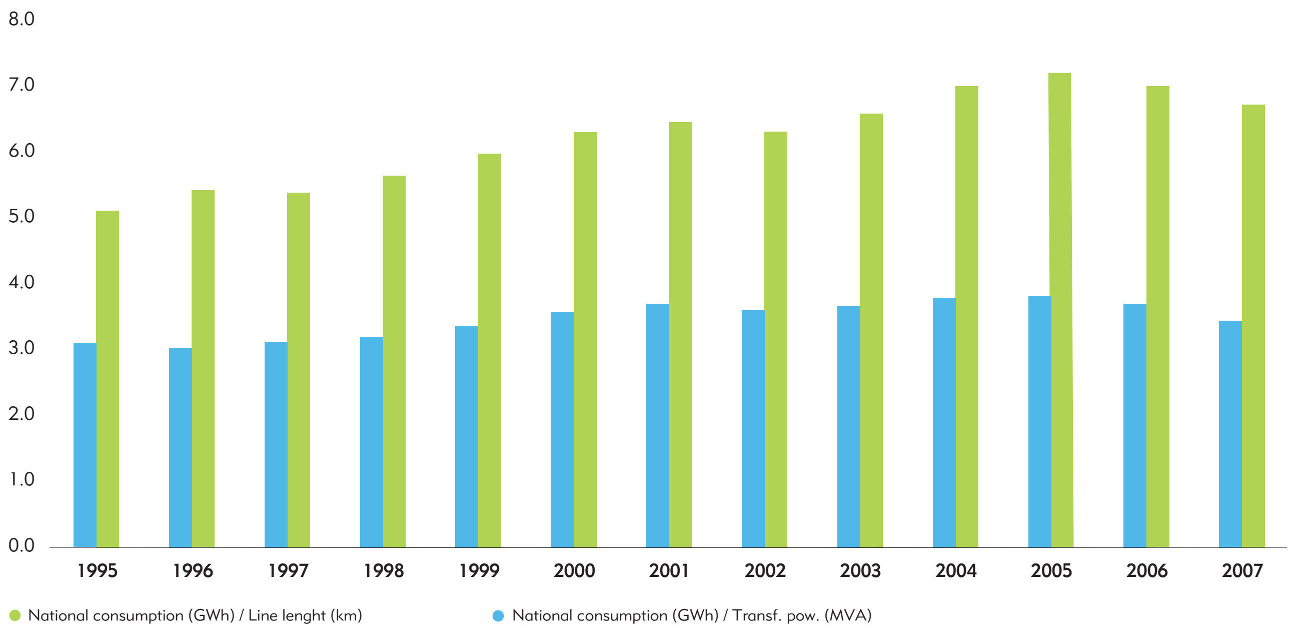
WORKS IN PROGRESS – INVESTMENT PROGRAMME

Development of the National Transmission Grid

The year 2007 saw a number of new reinforcements in the RNT structure, creating better conditions for supplying the distribution networks in line with the increase in consumption, facilitating internal flows, allowing for an increase in special regime generator reception capacity and enabling an improvement in exchange capacities with the Spanish grid.

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.

Level of use of lines and transformers



Following a more or less sustained increase in these indicators between 1996 and 2005, there was a downward trend in 2006 and 2007 as a result of the expansion of the transmission grid that was necessary to incorporate renewable energy, which, as is known, is generated away from areas of power consumption.

Projects completed in 2007

Of the projects completed in the year under review, particularly noteworthy is the commissioning of the 400 kV lines Bodiosa-Paraimo (provisionally operating at 220 kV), Batalha-Pego and Sines-Portimão 3 (initially operating at 150 kV).

The Castelo Branco-Ferro and Fanhões-Trajouce lines entered into service at 220 kV.

Also in 2007, the 400 kV Batalha-Rio Maior 3 and Rio Maior--Ribatejo lines were diverted from the Rio Maior substation, giving rise to the Batalha-Ribatejo line.

The commissioning of the new Alqueva substation put an end to the 400 kV T interconnection with Brovales, Spain, on the Alqueva Plant-Ferreira do Alentejo line.

The new substations in Penela, Castelo Branco, Trafaria and Alqueva were completed, in addition to the opening of the Pedralva substation (though initially only as a 150 kV switching station). The Pracana substation was also definitively declassified.

Ten new transformer units and two autotransformer units were also put into service, in addition to reinforcing the transmission capacity of eight lines and installing four new capacitor banks.

For the purpose of connecting wind energy farms to the RNT, the new 150 kV Mendoiro-Pedralva 1 and 2 lines entered into service and the definitive connection of the 150 kV Gardunha-Castelo Branco line was completed.

Main investments in progress

Reinforcement of interconnection capacity

With the aim of increasing international transmission capacities, the following developments are planned:

- The opening of the new Lagoaça substation, in the International Douro zone, in an initial phase with 220 kV and then later with 400 kV. A new 400 kV interconnection line will also be created between Lagoaça and Aldeadávila, and a 400 kV connection is to be established between Lagoaça and Recarei.
- The establishment of a new 400 kV interconnection with Spain, connecting the Algarve and Andaluzia (currently in the Environmental Impact Assessment stage), including the opening of the Tavira substation .

Connection of Special Regime Generators(PRE)

In terms of the integration of new special regime generators (PRE) in the RNT, one can highlight the following:

- The commissioning of the 400 kV voltage level at Pedralva substation and the opening of Frades substation.
- The construction of the Vila Pouca de Aguiar substation and the establishment of a 220 kV axis from Lagoaça in the International Douro zone to Valdigem, via Macedo de Cavaleiros and Valpaços.
- The opening of the Armamar substation and the switch to 400 kV operation on the Valdigem-Bodiosa-Paraimo axis.
- The introduction of 220/60 kV transformation in Carrapatelo and the opening of the Tábua substation.

Connection of standard regime generators

With regard to creating the conditions for the connection of new large generating units, one can highlight the following:

- The reinforcement of the axis between the Picote switching station and the future Lagoaça substation with a new line, which will have a single 220 kV section and a double 400 and 220 kV section for the connection of the new generating units for capacity reinforcement of Picote and Bemposta.
- The construction in Central Portugal of the new 400 kV connections Batalha-Lavos and Lavos-Paraimo and, to the south of Lisbon, the line between the area of Marateca/Pegões and Fanhões, also at 400 kV, for the incorporation into the RNT (in Lavos and Sines) of new natural gas combined cycle power plants regarding which DGEG has already issued a favourable opinion.

Supply to major demand centres

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

- The opening of the new Macedo de Cavaleiros and Valpaços substations in Trás-os-Montes.
- The opening of the Carvoeira substation in the western region of Torres Vedras.
- The construction of the second Fernão Ferro-Trafaria line and the introduction of 400 kV at the Fernão Ferro substation on the Setúbal peninsula.
- 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 of the Alentejo.
- The construction of the new Portimão-Tunes line in the Algarve and, later, the introduction of 400 kV to the Portimão substation.
- The continued reinforcement of the transmission capacity of existing lines, with the reinforcement of eight lines scheduled for 2008.

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

SPECIAL REGIME GENERATION (PRE)

The year 2007 saw the launch of the process that will lead to the connection to the Public Electricity Supply Network of the wind power projects adjudicated in Phase A of the International Contest for the construction of new wind farms in Portugal. In this 1st phase (Phase A), 1 000 MVA connection capacity was allocated, with the possibility of over-equipment up to 200 MVA.

In September the contract for Phase B of the Contest was signed by the Ministry of the Economy, represented by the Directorate General of Energy and Geology (DGEG), and the winning consortium. The connection capacity allocated was 400 MVA, and work on the connection of this capacity to the network has already commenced.

The reception points allocated by DGEG in 2007 to connect special regime generators (PRE) to the RNT totalled 258 MVA, of which 110 MVA was for cogeneration plants and 148 MVA was for wind energy farms.

The table below shows the installed generating capacity and injection capacity of PRE by type of technology. The table clearly illustrates the high growth in numbers and installed capacity of the wind energy component, whose installed and connected generating capacities are already approaching the 2 500 MVA and 2 200 MVA mark respectively.

PRE projects – number of power plants, generating capacity and injection capacity at December 31st, 2007

Type	Number of PREs		Installed generating capacity [MVA]		Injection capacity [MVA]	
	Total on 2007-12-31	Increase against 2006	Total on 2007-12-31	Increase against 2006	Total on 2007-12-31	Increase against 2006
Cogeneration	137	2	1 382	16	746	4
Mini-hydroelectric plants	124	3	420	5	402	4
Wind	157	19	2 492	584	2 165	426
Others (*)	70	8	407	13	207	14
Total	**450**	**48**	**4 701**	**618**	**3 520**	**448**

(*) Biogas, biomass, photovoltaic, microgeneration, waves, urban solid waste and other waste

The installed wind generation capacity in 2007 was 584 MVA (31% of that installed up to the end of 2006), 367 MVA of which was from wind farms connected to the RNT.

One must also highlight the growing importance of the PRE in the national generation system. In 2007 they reached approximately 30% in terms of installed capacity and roughly 20% in terms of contribution to satisfying overall electricity demand in total supply to the grid.

As far as the wind energy projects that are awaiting completion by developers are concerned, the situation at the end of 2007 was as follows:

Wind power projects awaiting completion

Type	Number	Injection capacity [MVA]
Projects with allocated interconnection/reception (Decree-Law 168/99 and Decree-Law 312/01)	72	1 478
Projects allocated in Phase A of the International Contest for the construction of new wind farms in Portugal	48	1 000
Projects allocated in Phase B of the International Contest for the construction of new wind farms in Portugal	8	400
Total	**128**	**2 878**

Of the total capacity indicated in the table above, approximately 57% (1 651 MVA) will be connected to the RNT.

The wind energy capacity already connected, 2 165 MVA, plus the wind capacity of 2 878 MVA allocated to developers for completion, brought the total to 5 043 MVA at the end of 2007.

This capacity will make a decisive contribution to guaranteeing that 45% of gross national electricity consumption in 2010 is provided by renewable energy sources, which is the target set by the Government.

THE NATURAL GAS TRANSPORT AND STORAGE BUSINESS

Following the creation of REN Gasodutos and REN Armazenagem on September 26th, 2006 through incorporation of the assets defined by Decree-Law 140/2006 and the total purchase of the company that owned the LNG terminal in Sines, which then took the name REN Atlântico, and the signing, on the same date, of the concession contracts with the Portuguese State, the year 2007 saw the commencement of operations of these new regulated companies and was thus characterized by intense work on preparing the subregulation of the natural gas sector.

After the publication in 2006 of the four regulations: Quality of Service, Tariff, Commercial Relations and Access to Networks, Infrastructures and Interconnections, it was the responsibility of the new regulated companies to propose to ERSE the last of the planned regulations – the Infrastructure Operation Regulation, as well as the vast number of methodologies, standards and procedures that make up the subregulation for the sector.

Thus, in June 2007, the set of regulations planned for the natural gas sector was completed with the publication of the Infrastructure Operation Regulations. Its purpose is to regulate technical matters pertaining to the daily management of the infrastructures in the National Natural Gas Transport Network, Underground Storage and Terminals infrastrucutures (RNTIAT).

This was followed by submittal, to ERSE, of the "RNTIAT Operation Rules", which systematises the basic set of technical standards that enabled operation, in respect for the regulations in force, from the beginning of the first regulated activity period, i.e. the first gas year, on July 1st, 2007, before the various final documents that make up the referred subregulations became available.

At the end of 2007, some of these documents were in the finalisation phase and awaiting publication by ERSE, namely the Study Methodologies for Determining Capacity and the Capacity Allocation Mechanisms for each of the infrastructures, the Congestion Management Mechanism, the System Operation Procedures Manual and the Account Adjustment Procedures Manual.

The year 2007 also saw the transfer of assets and a number of activities from REN Gasodutos to the local distribution companies, in accordance with legislation approved in late 2006. This transfer process was carried out in several phases and was completed in September 2007 with the transfer of the remote monitoring/supervision and maintenance activity from the Independent Gasification Units (UAGs), the transfer of the measurement units installed at large industrial customers, plus some medium and low pressure gas customers, as well as the corresponding processes of collection, processing and validation of the respective metering data.

Last but not least, one must also mention for 2007 the work of the gas companies at the international level, as they were represented on several committees and work groups.

Thus, in June 2007 at the invitation of ERSE, REN joined the Gas Regional Initiative (GRI) project, an initiative promoted by the European Regulators' Group for Electricity and Gas (ERGEG) that aims at creating the conditions for harmonization of the way the gas market operates in each of the three regional energy markets in the European Union, as a preparatory phase facilitating the creation of an internal energy market. In 2007 REN's involvement in the South Region-GRI took the form of the joint drafting, with Enagás, of a technical note on determining the current capacities of the interconnection points between the two gas systems in Badajoz/Campo Maior and Valença/Tuy, as well as a document identifying problems of interoperability that currently exist between the Portuguese and Spanish gas systems.

In the context of the MIBGAS, REN and Enagás together carried out a number of studies on the development of gas supply and demand in Portugal and Spain with a view to assessing the need of possible interconnection reinforcements between the two systems and to obtain a perspective on the development of the underground storage capacity for gas in the Iberian context, with particular focus on the Carriço site.

Another important development was the formal membership of REN Gasodutos and REN Armazenagem to Gas Infrastructure Europe (GIE) organization at the end of 2007. The companies are now included in the Gas Transmission Europe (GTE) and Gas Storage Europe (GSE) branches respectively. REN Atlântico has also maintained its membership of Gas LNG Europe (GLE) by switching the company name when it was taken over by REN. GIE is the primary association representing the gas infrastructure sector in the European Union and represents the industry in the European Gas Regulatory Forum, also known as the Madrid Forum.

HIGH-PRESSURE TRANSPORT

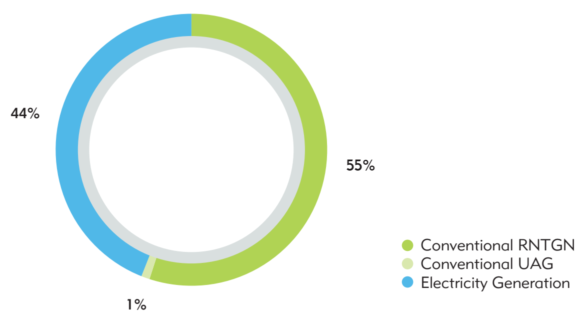
National Natural Gas Transport Network

In the course of 2007, the supply of natural gas into the country, excluding international transit quantities, was essentially carried out through Sines: some 66% entered the country here (NG from LNG regasification at the Sines LNG Terminal currently operated by REN Atlântico). The remaining 34% were supplied through Campo Maior (NG from Algeria through the Maghreb pipeline).

This year 51.3 thousand GWh of natural gas (approx. 4.3 bcm[7]) was transported through the infrastructure operated by the RNTGN (National Natural Gas Transport Network) concessionaire, including international NG transit through the RNTGN (entering in Badajoz/Campo Maior and exiting at Valença do Minho/Tuy), which amounted to 1.9 thousand GWh (approx. 0.2 bcm), a figure somewhat below that for the preceding year , and the transport of natural gas for underground storage, which totalled 0.9 thousand GWh (approx. 0.1 bcm).

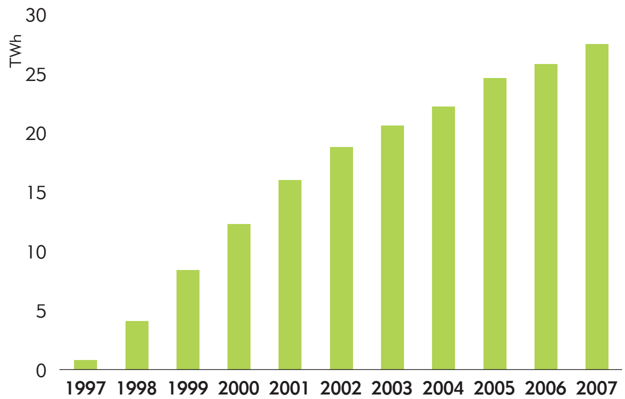
The 51.3 thousand GWh of transported natural gas was lower than the preceding year's transported quantity by 0.7% on equivalent terms. This decrease reflects the substantial reduction in international transit related with the entry into operation of the Mugardos (Ferrol) terminal and the reduction in the quantities injected into the underground storage, which were not offset, in absolute value, by the increase of the NG consumption registered in the large electricity generators (+6.1%) and in the conventional market (+6.4%).

National consumption 2007

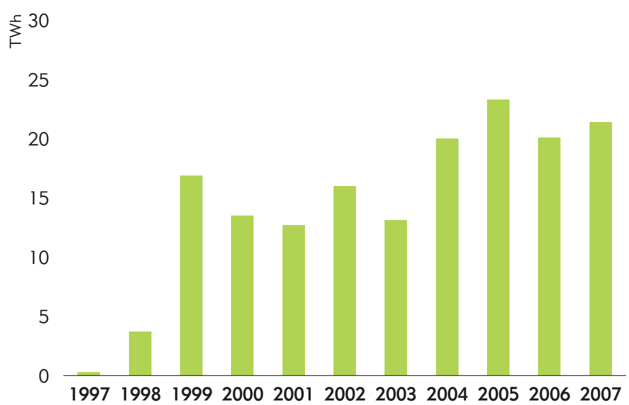


[7] bcm – 1x10^9 cubic metres – The equivalence between the energy indicated in kWh and the normal m^3 depends on the gross calorific value of the gas, which is variable, meaning that one cannot indicate the correct equivalence. For approximate calculations one can use a rough equivalence of 1 m^3(n) = 11.8 kWh.

In the case of the demand in the conventional market segment, the difference registered in the figures for 2006 and 2007 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:

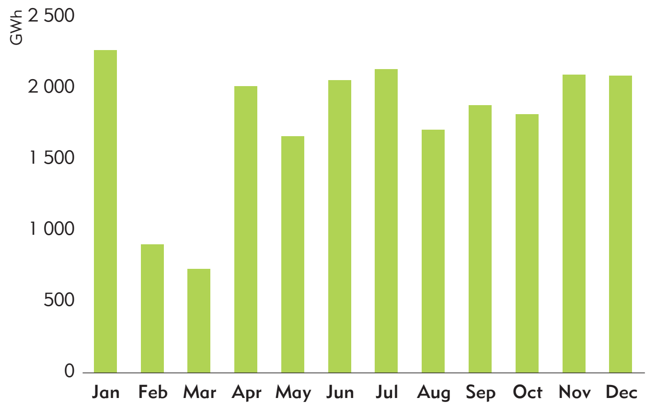


As far as the standard regime power generation segment is concerned, the annual consumption levels vary not only based on the installed power but also on the availability of alternative and cheaper hydroelectric power as well as on the contribution of special regime power generation, regarding the growing importance of wind energy. To this one can add the effect of the market functioning on the basis of the selection of the sources 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, one can also identify a variable trend in demand in this segment throughout 2007, as shown in the graph below:

Demand in 2007 - SGR[8]

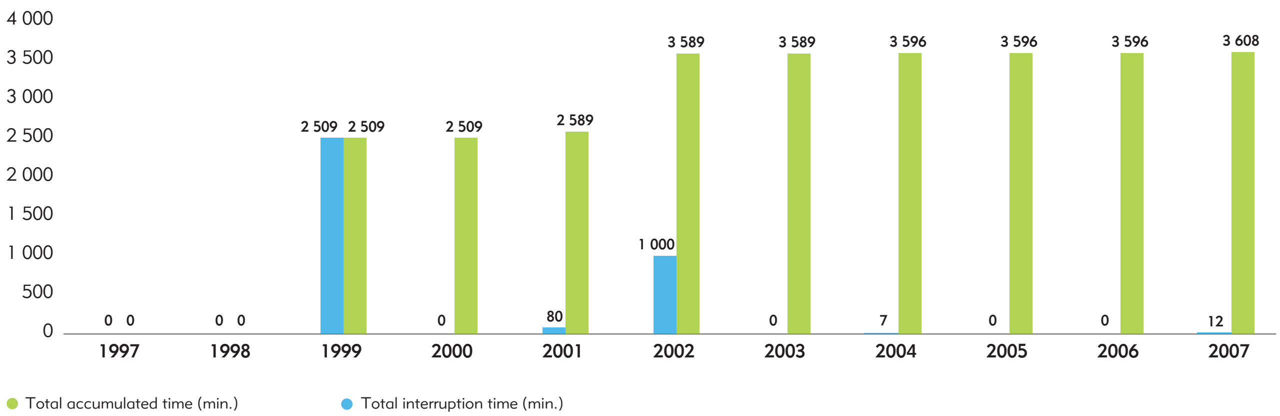


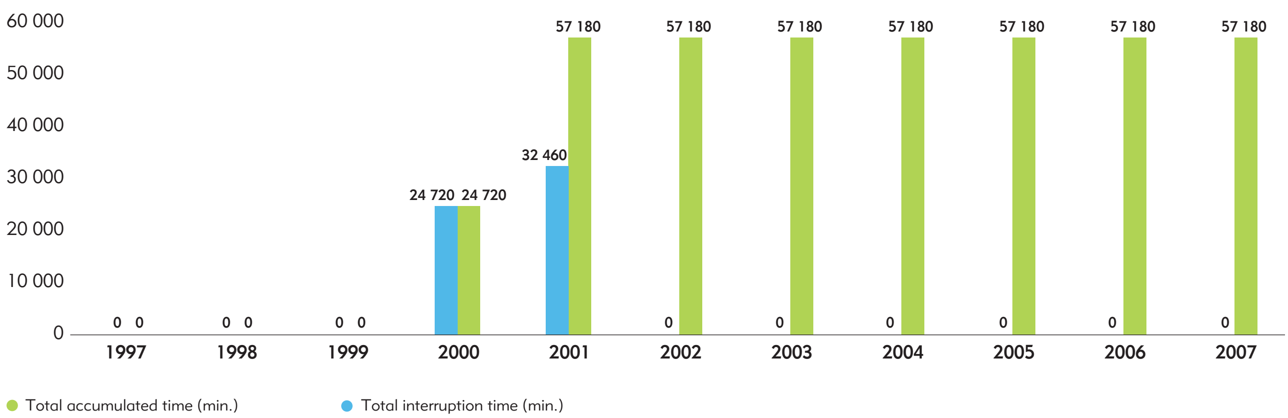
Due to the high availability of hydroelectric power in the first quarter of the year there was a significant reduction in gas consumption, in contrast to the situation registered in the year's final quarter.

As far as quality of service in 2007 is concerned, the results in terms of continuity of service – 0.013 interruptions per delivery point, 0.16 min. per delivery point, and 12 min. per interruption – were the result of one single occurrence during maintenance operations.

[8] Standard Generation Regime

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 tables:





In 2007 there were no incidents 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 equal zero incidents per 1 000 km of exposed infrastructure per year.

On regard to indicators on the NG characteristics, apart from one dew point, all indicators were within the boundary limits defined in the Quality of Service Regulation. In the case of the dew point, in the period from 19 to July 23rd it reached values above the limits defined in the Quality of Service Regulation as the result of the emergence of high moisture content in NG supplied by Sonatrach, which in turn was caused by an anomaly in the drying units at the Algerian gas processing plant of Hassi R'Mel.

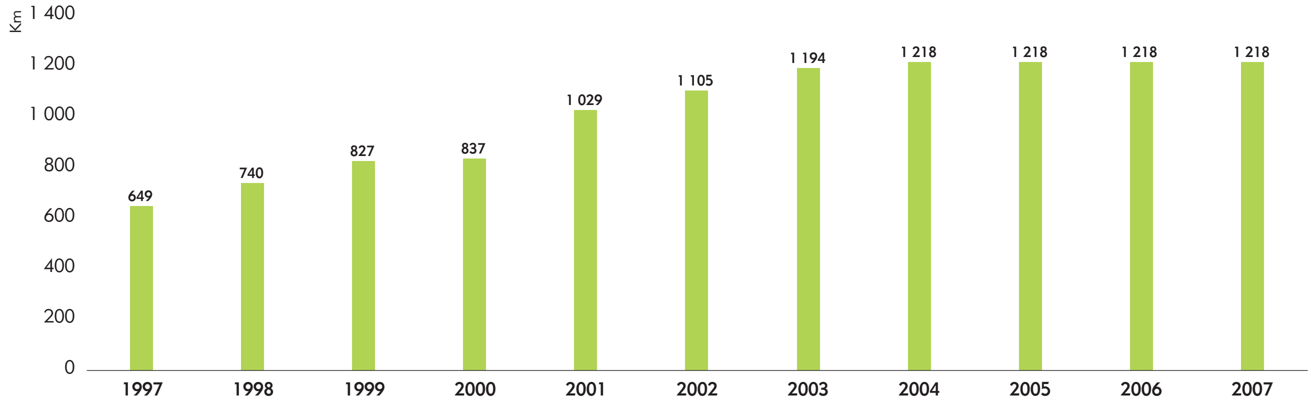
In 2007, the existing infrastructure in operation was complemented by the commissioning and start of operation of a new delivery point connected to GRMS 05309 - Ponte de Lima for the supply of NG to that area's local distribution network.

At the end of 2007 the RNTGN included the following main infrastructures:

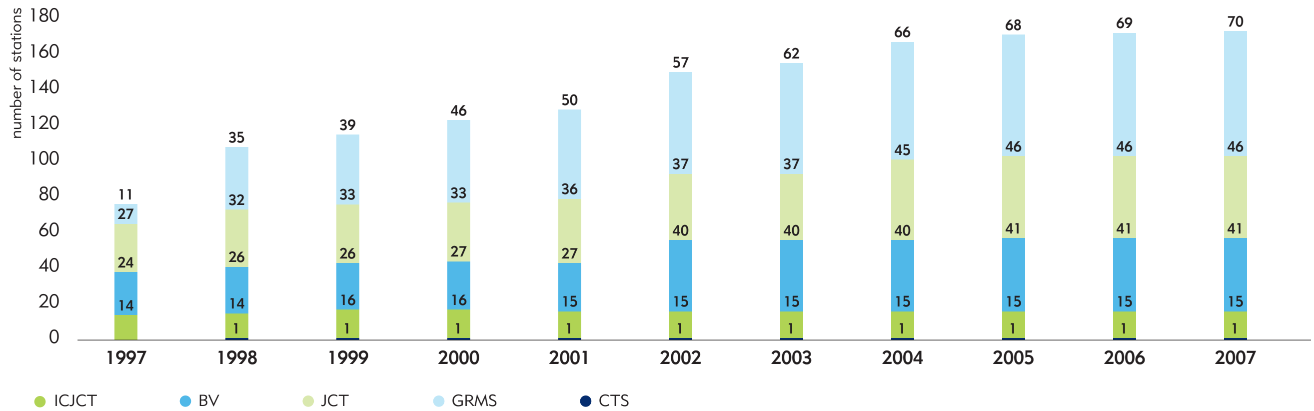
- High pressure pipelines = 1 218 km
- Junction Stations (JCT) = 46
- Block valve stations (BV) = 41
- T Interconection Stations (ICJCT) = 15
- Gas regulating and metering stations (GRMS) = 70
- Custody transfer stations (CTS) = 1

The following graphs show the infrastructure growth in since 1997.

Extension of transport network



RNTGN stations



Main investments

During the year 2007, REN Gasodutos built and commissioned the new GRMS[9] 05309 - Ponte de Lima, which now guarantees the supply of natural gas to the area's local distribution network, and also carried out expansion work on GRMS 12609 - Chaparral, with the aim of being able to satisfy growing demand at the existing delivery points in the Sines Refinery.

Parallel to this, REN Gasodutos completed the elaboration of several detailed engineering projects in the scope of the development of new connection points to the RNTGN included in the RNTIAT interim investment plan, which was drawn up in anticipation of the requirements laid down in the legislation and regulations for the sector.

The most relevant undertakings included in this interim investment are the following projects:

• The construction of connection infrastructures for new high pressure customers to be supplied directly from the RNTGN, including the future combined cycle power plants already approved by the competent authorities that are to be built in Sines, Lares, Lavos and Pego;

• Connections to the RNDGN (new GRMS for distribution networks);

• RNTGN transport capacity expansion projects to meet growing demand and the expected development in the consumption peaks, including a compressor station, currently in the assessment phase;

• Internal reinforcement and remodelling of the NG

[9] GRMS - Gas Regulating and Metering Station.

transport network resulting from the need to adapt the infrastructures to new regulated market requirements;
• Development of information systems to support the operations in the new regulated context.

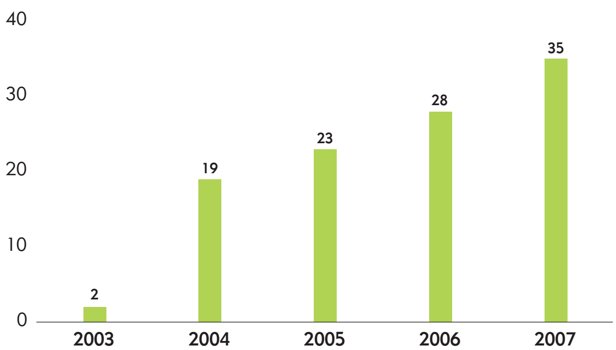
Under the new legislative and regulatory framework for the natural gas sector, REN Gasodutos has to submit to DGEG's approval the PDIR (Development and Investment Plan for the RNTIAT) for the three gas year period from July 1st, 2008 to June 30th, 2011 by the end of the first quarter of 2008.

RECEPTION, STORAGE AND REGASIFICATION OF NATURAL GAS

Unloading tankers

The year 2007 was marked by the reception of the one hundredth gas tanker, the "PORT HARCOURT", on October 16th, roughly four years after reception of the first ship at the Terminal on October 23rd, 2003.

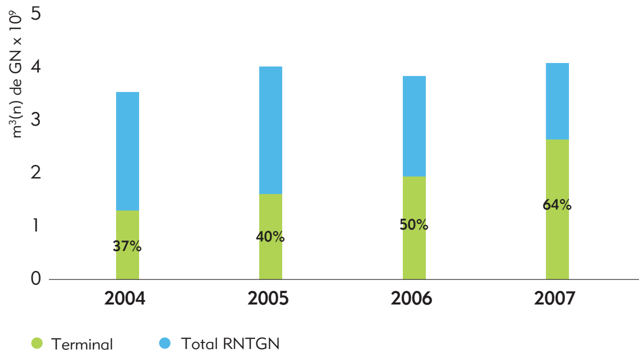
During the year, a total of 35 gas tankers from Nigeria were received and unloaded in Sines, which is an increase of some 25% over 2006. This confirms the trend towards an increase in activity at the REN Atlântico LNG Terminal.



The gas tanker "LNG Port Harcourt"

The total energy received was 31.3 thousand GWh, which corresponds to 4.6 Mm^3 LNG. The energy imported through the Sines LNG Terminal made up 66% of the total NG supplied to the country during the year 2007 (excluding international transit). The following graph shows the evolution of the strategic importance of the Sines LNG Terminal in the National Natural Gas System (SNGN).

Trend in the make-up of deliveries to the SNGN



The effective average unloading time was 19 hours 15 minutes per ship, which is one hour less than the figure of the previous year, reflecting the continuous improvement in the processes without ever disregarding safety aspects.

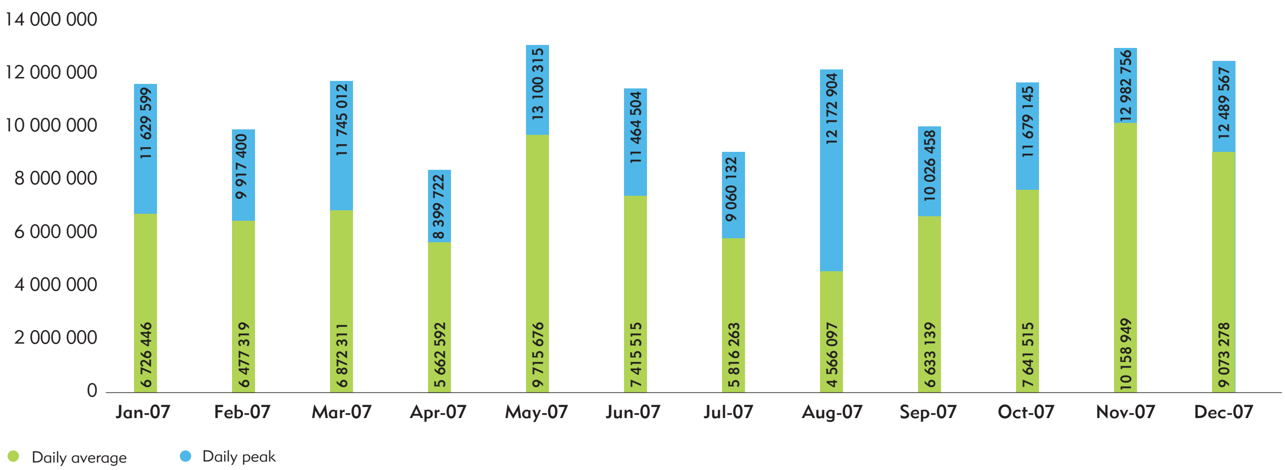
Send-out of NG to the network

In 2007, 31.5 thousand GWh NG, the equivalent of 2.6 bcm, was sent out to the RNTGN.

Despite the sustained growth in supply through Sines, the terminal's activity is still limited to the system's peak needs and send-out schedules are greatly influenced by the behaviour of the electricity market and the weekly consumption modulation cycles of the remaining market segments.

As a result, the terminal's maximum daily NG send-out rate of 13.1 $Mm^3(n)$, was reached on May 17th, which must be compared with the average daily send-out rate of 7.2 $Mm^3(n)$, yielding a modulation of 55%, which was considerably higher than that registered in previous years. This is, above all, due to the boost in the Sines LNG Terminal's activity, allowing for higher levels of operation efficiency.

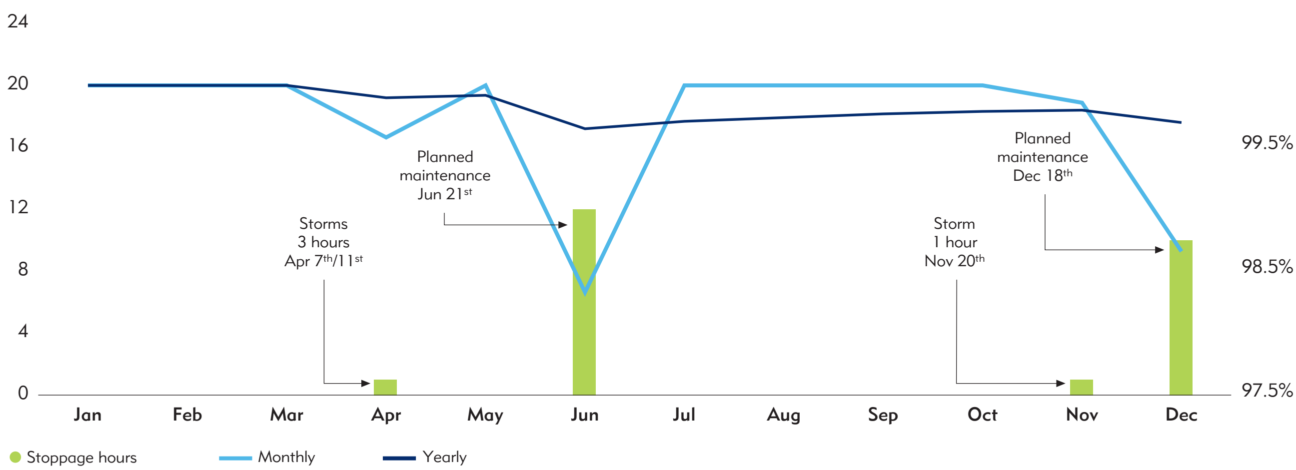
Daily modulation



In 2007 NG send-out was guaranteed for 8 734 hours out of an annual total of 8 760 hours, which is equivalent to an availability factor of 99.7%. The remaining 26 hours of unavailability were due mainly to two scheduled stoppages for maintenance. Only four stoppage hours were the result of unforeseen situations.

The accumulated availability rates at the Sines LNG Terminal were therefore comfortably above the contracted levels every month of the year.

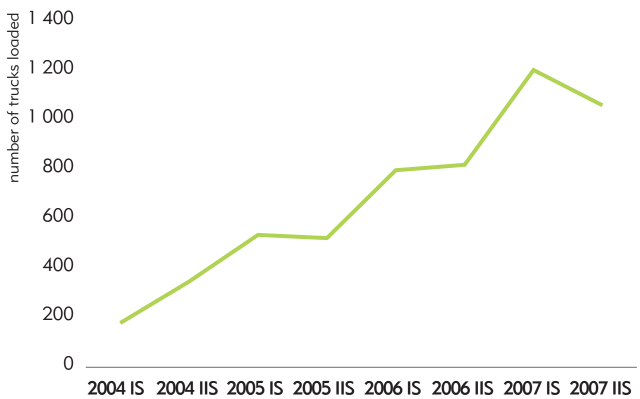
Terminal availability



Loading of LNG tanker trucks

The road transport of Liquefied Natural Gas also reflects the growth registered in recent years. The commissioning of new independent satellite supply plants, above all in Northern Portugal, and the continued increase in supplies to the Spanish market have led to substantial growth in the loading of LNG tanker trucks. In 2007, 2 265 trucks were loaded, as opposed to 1 618 in 2006.

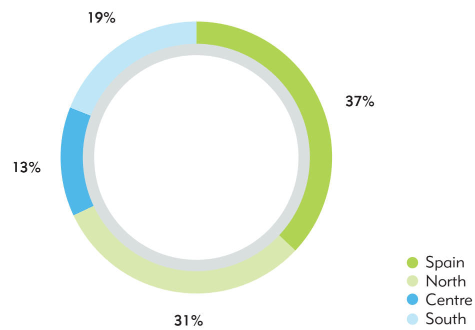
Number of tanker trucks loaded in Sines in half-year periods



Loading a tanker truck

The following graph illustrates the importance of the loading operations for the Spanish market, as they already account for 37% of all tanker truck loading operations.

Despite the growth in this activity, the amounts transported by road (676 GWh) represent a very small percentage of the total quantities handled at the terminal (approx. 2%).



Main investments

At REN Atlântico, besides the investment in several projects aimed at improving operational safety, special attention must be drawn to the design and construction of the third LNG storage tank, an essential infrastructure for increasing the terminal's flexibility of use.

UNDERGROUND STORAGE

In 2007, the underground storage facilities processed the injection of 0.9 thousand GWh of gas into the existing caverns in operation and the withdrawal of some 1.3 thousand GWh of gas, making a total of 2.2 thousand GWh of handled natural gas. This represents a decrease of 3% in relation to the preceding year, reflecting the operational needs of users.

At year end, the quantities stored in the REN salt caverns were as follows, compared to 2006:

Total Storage

	31-12-2007		31-12-2006	
	Mm³(n)	GWh	Mm³(n)	GWh
Total	143.7	1 709.6	171.5	2 042.7

Note: the figures indicate total stored quantities of gas, including cushion gas (which cannot be withdrawn) and conditional use gas (its withdrawl is limited to a certain number of weeks per ten year periods).

The reduction in quantities stored at the end of the year is a result of the management of the quantities stored in each infrastructure by the users.

On December 31st, 2007 the normal capacity characteristics for the two REN salt caverns were as follows:

	Mm^3(n)	GWh
Cushion gas	73.7	873
Conditioned	23.4	277.8
Operational	76.7	907.3
Maximum usable capacity (w/o cushion gas)	**100.1**	**1 185.1**

Notes on the above table:

Cushion gas – non-usable capacity, necessary to guarantee structural integrity of cavern

Conditioned – the difference between this figure and that of cushion gas is the capacity usable for one week every 10 years at most

Operational – capacity available for operational use

Leaching

Leaching of the TGC 4 cavern continued in 2007.

Building of this infrastructure is running according to plan, reaching a volume of approx. 509 790 m^3 at the end of the year. The final volume of the cavern has increased to 690 000 m^3.

Work is scheduled to begin on the leaching of a new salt cavern for Transgás Armazenagem (TGC-2) in 2008.

Main investments

In terms of investment planning, at REN Armazenagem the most important projects are the completion of the TGC-4 cavern, including the purchase of the cushion gas and increasing the capacity in terms of leaching, gas injection and gas extraction rates.

TELECOMMUNICATIONS AND INFORMATION SYSTEMS

The year 2007 was characterized by a number of projects considered fundamental for the consolidation of REN Group.

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

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

- Expansion of the RSS (Safety Services Network) to 28 new installations, which, together with those already in place, enable coverage of a total of 55 knots throughout the country;
- Expansion of the SDH/DWDM transport network to new substations and use of this technology as a support platform for the RSS;
- Remodelling and reinforcement of the radio relay network, incorporating it into the SDH[10] network, with consolidation of the management systems;
- Renewl and reinforcement of the teleprotection network with high-output interfaces and integration into the management systems in place.

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

- A new institutional website for the REN Group, accompanying the IPO process.
- Implementation of the Corporate Internet Access Platform.
- Creation of the REN Group portal, including improvement of the intranet platform.
- Reinforcement and creation of redundancies of the REN Group access to the external network.
- Implementation of the REN Group ERP, uniting the various systems existing in the Group companies in one Metro Cluster architecture.
- Reinforcement of the SIME platform to support the new functionalities required for the Iberian energy market (MIBEL).
- Creation of the new Data Centre in the REN Group headquarters building, optimising the operation of the systems and rationalising the use of space in the building.

In the context of the MIBEL, a redundant communications network was established between the Iberian market players (REN, OMIP, REE and OMEL) to support the information flows necessary for operating the energy transport market and networks.

Continuing our policy of reinforcing information systems management and control resources, the Helpdesk infrastructures were reinforced and decentralised in a perspective of global support to the whole Group, improving the Disaster Recovery site with this function.

The remote access resources for maintenance were also reinforced, allowing for reduction in response times and rationalising costs.

[10] Synchronous Digital Hierarchy

As far as the modernisation of the resources allocated to the operation of the RNT is concerned, one can highlight the set up of the RSS-supported IP/MPLS network, which supports video-surveillance, telemetering, and corporate power systems and the access to corporate applications system management services from several REN facilities.

In terms of provision of services there was an activity growth in the technical support and consultancy areas.

REN TRADING

Introduction

In the context of early termination of the Power Purchase Agreements (PPAs), the Government determined that PPAs not subject to early termination would be managed until they expire by a specific entity within the REN Group. Thus, on June 13th, 2007, REN - Redes Energéticas Nacionais, SGPS, S.A., set up a company to replace the current concessionaire of the RNT in the management of the non-terminated PPAs.

The new company, named "REN Trading, S.A.", is fully owned by REN - Redes Energéticas Nacionais, SGPS, S.A., and its main corporate object is the "purchase, sale, import and export of electricity and the purchase and sale of power and system services in the context of the management of long-term power purchase agreements".

In concrete terms, REN Trading became responsible for managing the PPA signed with Tejo Energia for the Pego thermal power plant (600 MW) and that signed with Turbogás for the Tapada do Outeiro thermal power plant (990 MW). The company's main objective is to maximise revenues on the sale of energy in the market and to minimise costs originating in the aforementioned power plants.

Activity

In the context of the management of the respective PPAs, REN Trading acquires all the energy and system services from the Pego and Turbogás plants. The daily control of all relevant information and validation of the invoicing involved is the responsibility of Contract Management, which also monitors the CO_2 emission allowance market and manages 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.

The sale of electricity is carried out both through the Iberian Electricity Market (daily sale offers placed on the OMEL) and through Virtual Power Plant auctions (VPP). REN Trading is also active in the system services market, where both secondary regulation (tele-regulation, by the Pego power plant) and tertiary regulation (real time variation in load) are requested/contracted by the Portuguese System Manager. These activities are carried out by the Sales Department.

The gains from these activities are shared, as imposed by law, between the electricity consumers and REN Trading in accordance with the methodology to be defined by the Energy Services Regulator (ERSE).

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 in 2007 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 minimise the effect of the drop in income from the fibre optic and circuit rentals segments.

Thus, in 2007 RENTELECOM reinforced its activity, positioning itself as a supplier and provider of other services in the context of information systems for the energy sector, including consulting, the renting of technical spaces and system management and maintenance services, in particular to the gas companies in the Group and to wind energy developers.

In order to boost and sustain its offer capacity, RENTELECOM also established presence at a carrier house.

One can also highlight the efforts towards achieving contractualisation of the services provided, by doubling the number of contracts. This development has contributed to stabilising base earnings.

Another fact worthy of note is that the contract signed with the holding company for the transfer of human resources proved sufficient for RENTELECOM's needs in 2007.

Continued growth in operations is expected for 2008, with the signing of new contracts and new challenges, together with the venture into new markets in the information systems sector, whereby the energy sector market will serve as a reference.

OMIP - OPERADOR DO MERCADO IBÉRICO DE ENERGIA (PÓLO PORTUGUÊS), S.A.

The year 2007 was the second year in which OMIP and OMIClear carried out the activities allocated to the Portuguese branch of the Iberian Energy Market Operator in the context of the trading and clearing, settlement and central counterparty operations in the MIBEL Derivatives Market.

Accompanying the important developments in the Iberian Electricity Market, the year 2007 was marked by the consolidation of OMIP and OMIClear as MIBEL reference entities in the operation of futures product markets, applying a strategy aimed at achieving the following objectives:

- Obtaining recognition of the OMIP and OMIClear products and prices as benchmarks in the context of the MIBEL;
- Increasing the number of members;
- Increasing the trading volume;
- Diversifying products and services.

In order to achieve these goals, a number of marketing as well as product and system development initiatives were carried out during the year, of which the following are particularly noteworthy:

- Strong commitment to marketing directed at members, with the aim of promoting the image of OMIP and OMIClear as the reference operators in the context of the MIBEL futures market;
- The signing of a market maker contract with Sempra Energy Europe;
- Improved design of products, in particular the model of auctions with the mandatory participation of the distributors, as well as the implementation of cascading for futures contracts, thus allowing for renegotiation opportunities for positions already assumed;
- Development of conceptual and information technology-based solutions for Virtual Power Plant (VPP) auctions and for the settlement, clearing and management of guarantees for the VPP market and transmission capacity rights, in particular in interconnection;
- Integration of the MIBEL derivatives market into the Trayport Trading Gateway, the reference platform for the trading of energy derivatives;
- Development of the CrossClear application to support the settlement, clearing and management of guarantees in the VPP markets, as well as transmission capacity rights;
- Operational improvements for agents' activities, including the extension of trading hours and the integration of the management of the guarantees owed by the agents for all products and services provided by the OMIP.

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

Main activity indicators

	2007	2006
Volume traded (TWh)	23	5.4
National traded value (M€)	1 123	302
Number of participants	34	25

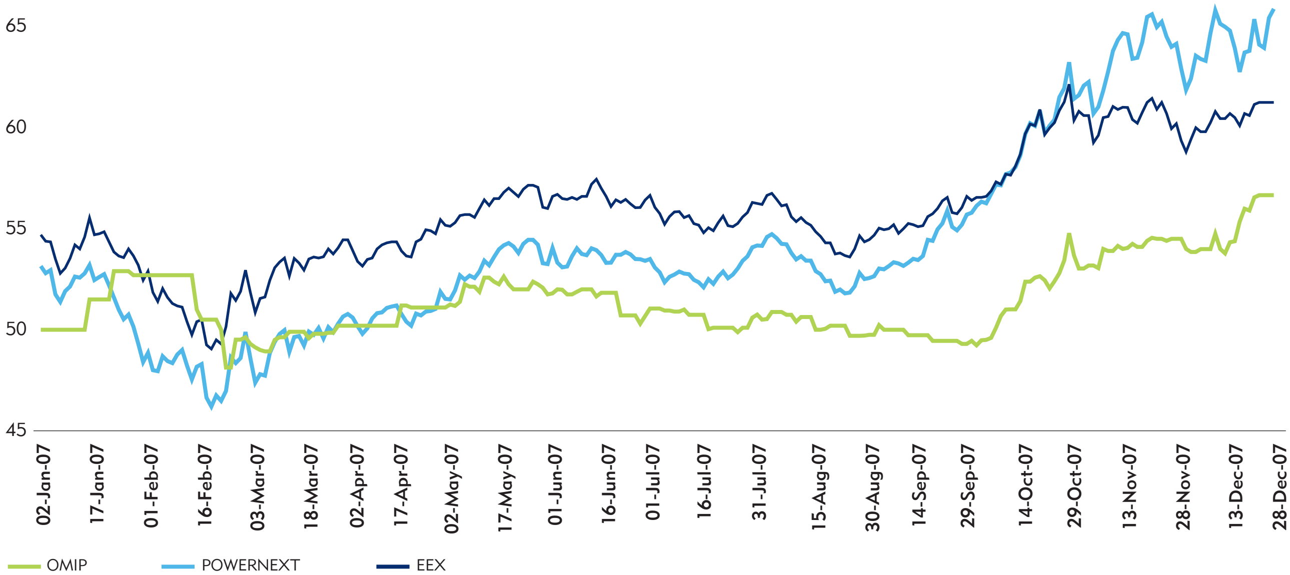
The figures for 2006 refer to the period from July 3rd (opening of the market) to December 31st

As far as the number of members is concerned, by the end of 2007, 34 entities had joined the MIBEL derivatives market in their diverse capacities – trading member, clearing member (general and direct), physical settlement agent and financial settlement agent. The growth in the number of registered members, in comparison to 2006, and the large diversity of origins of these operators (Spain, Portugal, United Kingdom, Switzerland, Germany, Belgium and United States) are very promising signs as to the affirmation of OMIP and OMIClear as the futures market operator and clearing house in the MIBEL context.

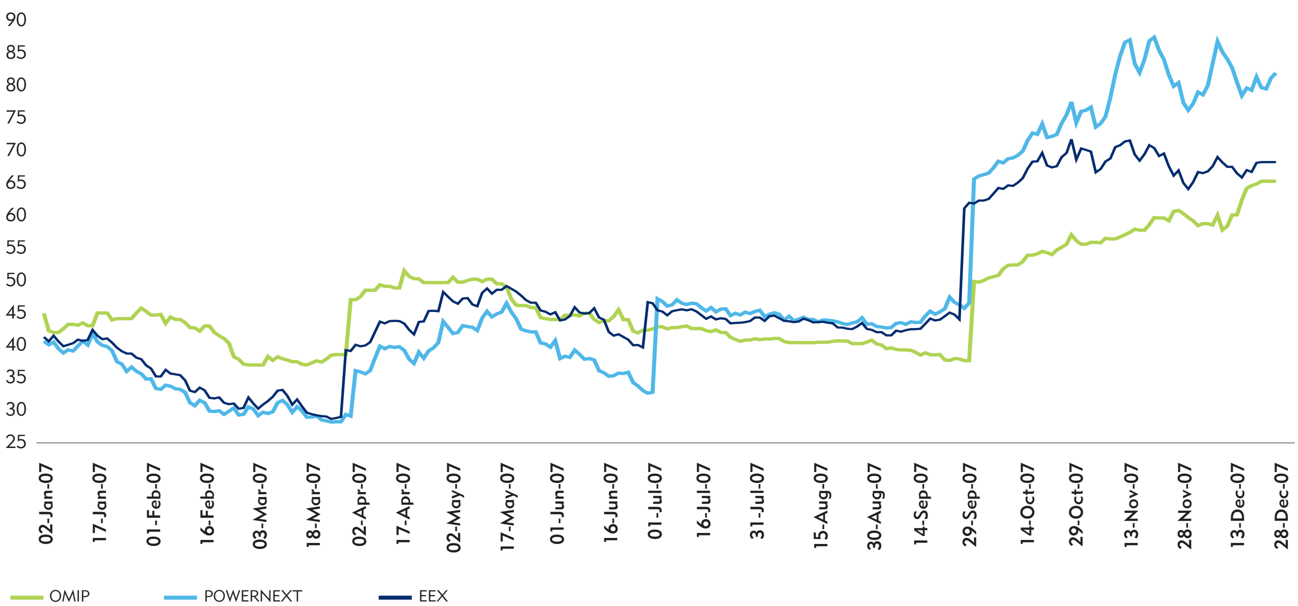
The quality of the prices produced by an exchange market is a fundamental indicator of the functioning of the market in question. In the case of the OMIP, the growth in the number of participants is an important factor in terms of the credibility and affirmation of the MIBEL Derivatives Market as a reference market for the fixing of forward electric energy prices. The graphs below show the trend in the quotations for annual and quarterly contracts in 2007 in the OMIP and similar markets Powernext and EEX.

OMIP and OMIClear members at the end of 2007

2008 contract prices in OMIP, Powernext and EEX



Quarter-ahead prices in OMIP, Powernext and EEX



The year 2007 also brought positive development in terms of the results of the OMIP and OMIClear diversification strategy. It was possible to begin providing new services beyond the strict scope of the MIBEL derivatives market, of which the most noteworthy were:

- Management of the Virtual Power Plant (VPP) auctions carried out by REN Trading, S.A., as well as the respective joining and subsequent settlement, clearing and guarantee management processes;
- Management of the guarantees of agents participating in the auctions of bilateral energy contracts for regulated supply (CESUR auctions) held in Spain;
- Management of guarantees owed to the Portuguese system operator by agents participating in the Portuguese market.

At the institutional level, one can highlight the Regulatory Compatibility Plan agreed upon for Portugal and Spain by the countries' energy ministers on March 8th, 2007 in Lisbon. This plan will have an important impact on the operation of the Iberian electricity market and on the activities of its exchanges.

Indeed, the model for the integration of the two Iberian Market Operator (OMI) branches and the restrictions as to participations in their respective share capital were defined. Hence, organization of the OMI will be based on two holding companies based in Portugal and Spain, each one holding 50% of the market operators which will be governed by a joint Board of Directors. The Portuguese and Spanish governments also agreed on authorising a maximum 10% share in each of the holdings to be held by the system operators (REN and REE). This decision acknowledges the important role of these bodies in the OMI.

As we wait for the measures provided for in the aforementioned plan to be integrated into the international agreement on the MIBEL, 2008 looks to be a year that will bring great challenges for both the OMIP and OMIClear, highlighting integration with the OMEL and the dispersal of capital by REN.

In this context, coming challenges will include affirmation of the MIBEL Derivatives Market as a benchmark market for the Iberian electricity industry and continued commitment to diversifying OMIP and OMIClear product and service portfolios as a way of bolstering the two companies that make up the Portuguese branch of the future Iberian Energy Market Operator (OMI).

ECONOMIC AND FINANCIAL DEVELOPMENTS

Summary of the year's activity

The business year 2007 was the first full year in terms of operations for the new REN, integrating the electricity (transmission, system management and purchase and sale of PPA energy) and natural gas (transport, underground storage and reception and regasification of LNG) businesses.

In addition to this change in the scope of REN's activities, there were also significant changes within the electricity business due to the launch of the Iberian Electricity Market on July 1st, 2007 and the simultaneous termination of most of the Power Purchasing Agreements (PPAs). In order to adapt to these alterations, the Group structure was adjusted with the incorporation of REN Trading, which took over the responsibility for managing the two PPAs still in force. The activity of purchasing and selling energy was thus substantially reduced and was separated from the activities of transmission and management of the electricity system.

The net profit for the year was EUR 145.2 million, of which EUR 80.9 million was generated in the electricity business, EUR 36.3 million in natural gas and EUR 28.0 million in the other Group operations (holding management, telecommunications, OMIP and OMIClear).

Consolidated income statement

The following table shows REN's income statement for 2007 and 2006. Comparison between the two years is very distorted owing to the aforementioned changes in the operational scope of the Group through the purchase of the natural gas assets from GALP on September 26th, 2006 and the simultaneous sale to Amorim Energia, B.V., of the 18.3% share that REN held in GALP Energia, SGPS, S.A.

Income statement

Un: EUR millions

Item	2007	2006
Sales and services provided	554.7	387.7
Other income	47.1	604.4
Share of profit of joint ventures	8.9	2.6
Operating revenues	**610.7**	**994.7**
Employee compensation and benefit expense	(42.6)	(34.0)
External supplies and services	(145.5)	(130.9)
Operating costs	(48.6)	(120.2)
Depreciation and impairment charges	(123.9)	(96.3)
Provisions for liabilities and charges	14.9	(42.6)
Operating expenses	**(345.7)**	**(423.9)**
EBIT	**265.0**	**570.8**
Depreciation and impairment charges	123.9	96.3
Provisions for liabilities and charges	(14.9)	42.6
EBITDA	**374.1**	**709.7**
Dividends GALP		40.7
Financial profit	(77.5)	(41.6)
Profit before income taxes	**187.5**	**569.9**
Income tax expense	(42.3)	(73.3)
Profit for the year	**145.2**	**496.6**
Items non-current in EBITDA	63.6	466.0
EBITDA after correction	**310.5**	**243.7**

In 2007, operating incomes totalled EUR 610.7 million, of which EUR 554.7 million resulted from Sales and Services and EUR 47.0 million from other operating income sources. This includes the margin from the PPA-related purchase and sale of energy, amounting to EUR 16.4 million. One should point out that this margin existed in the first half of the year only, as in the second half ERSE did not permit any margin for this activity. One should also bear in mind that the operating income from the trading activity in 2006 amounted to EUR 46.1 million.

In terms of operating costs, one must highlight External supplies and services, which amounted to EUR 145.5 million in 2007, Staff costs, which totalled EUR 42.6 million and Depreciation, which amounted to EUR 123.9 million.

The following table shows how these items are broken down by business segment.

Depreciation in the electricity segment (the only one for which comparison can be made) registered an increase of 4.4% over the preceding year, a result of the increased investment in 2007.

The change in provisions (EUR -14.9 million) is a result of the joint effect of annulment of the provision constituted in 2006 to cover the legal dispute with Amorim Energia, B.V., over the GALP Energia, SGPS, S.A., dividend in 2005 (EUR 40.7 million) and the constitution of a provision of EUR 25.3 million to cover the excessive deviation resulting from the tariffs fixed by ERSE in 2007, which, under the Tariff Regulation, has to be returned to the tariff in 2009.

Operating profit and EBITDA

The Group's EBIT totalled EUR 265 million in 2007. The contributions from the different REN business areas to the total figure were: EUR 166.1 million from the electricity business, EUR 64.4 million from the gas segment and EUR 34.5

Un: Thousand euros

Item	Electricity	Gas	Other	Total
External supplies and services	105 378	33 448	6 640	145 466
Employee compensation and benefit expense	28 864	10 448	3 308	42 620
Depreciation and impairment charges	78 913	44 403	603	123 919

million from the remaining Group business areas (holding Company, RENTELECOM, OMIP and OMIClear).

The corrected EBITDA was EUR 310.5 million, as compared to EUR 243.7 million in 2006. Despite the reduction in trading activity and the drop in payment for land in the public hydro domain, this growth was possible thanks to a full year of the natural gas business, as opposed to only three months in 2006.

The most significant non-recurring items were: in 2006, the diverse account movements related with the purchase of gas assets and the simultaneous sale of the GALP Energia, SGPS, S.A., shares, and also the impact of the reduction, by law, of the payment for land in the public hydro domain; in 2007, annulment of the provision constituted to cover the legal dispute with Amorim Energia, B.V and the sale of assets.

Profit for the year and profit per share

The pre-tax profit for 2007 was EUR 187.5 million. The real tax rate was 22.5%, resulting in net profits of EUR 145.2 million.

In early 2007, REN carried out a stock split, increasing the number of shares from 106.8 million to 534 million.

The figures above produce a profit per share of EUR 0.27.

In the Company balance sheet, the net fixed assets item includes fixed assets under construction, which totalled EUR 160.3 million on December 31st, 2007, as opposed to EUR 142.2 million on the same date in 2006.

For the purpose of calculating the regulated income, the relevant net assets in 2007 amounted to almost EUR 1.568 billion for the electricity segment and to EUR 958.1 million for gas. These figures result from the monthly averages for the assets in regulated activities over the year.

Balance Sheet Un: EUR millions

Item	2007	2006
Net fixed assets	3 086.1	2 980.3
Available-for-sale financial assets	59.6	1.0
Interest in joint ventures	9.0	8.6
Provisions for other liabilities and charges	(58.9)	(83.1)
Net working capital	140.3	38.7
Others	(298.8)	(177.7)
Capital invested	**2 937.4**	**2 767.9**
Borrowings	2 054.9	1 874.9
Finance leases	2.2	2.1
Cash and cash equivalents	(125.9)	(55.5)
Net debt	**1 931.2**	**1 821.5**
Minority interest	0.6	0.5
Equity	1 005.8	945.9
Shareholders funds	**1 006.3**	**946.4**

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

In the available-for-sale financial assets item, the most important contribution to the growth was the 1% share in the capital of Red Eléctrica de España, which had a balance sheet value of EUR 58.5 million at December 31st, 2007.

Also taken into consideration in the balance sheet (under Suppliers and other accounts payable) were the amounts received as congestion in interconnections income – EUR 23.2 million – and income received via the tariff for the Plan for Efficient Use of Electricity, EUR 10 million.

The tariff deficit, including recovery of the payment for land from 1999 to 2003, totalled EUR 466.2 million as at December 31st, 2007. This figure is expected to be recovered in 2008 in accordance with the ERSE document that set the electricity tariffs for the year.

The total value of tariff deficit and deviations on December 31st, 2007 was EUR 494.1 million and is registered in the balance sheet under Customers and other accounts receivable. One should note that this figure refers to international accounting standards (IFRS). If one applies regulated accounting rules, the corresponding value is EUR 524.1 million.

Investment

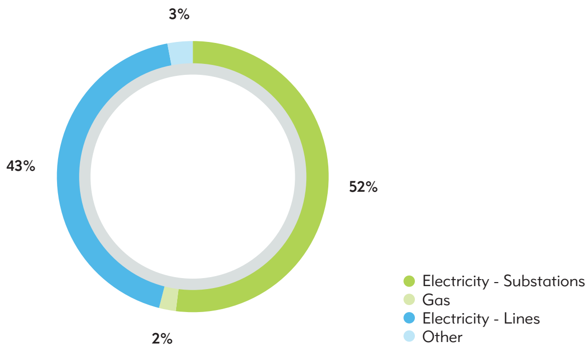
In 2007, REN investments in tangible fixed assets totalled EUR 249.9 million. If we add to this figure the purchase value of the shareholding in Red Eléctrica de España (EUR 49.9 million) and the payment made to GALP Energia, SGPS, S.A., for the final settlement for the purchase of the gas assets (EUR 24.0 million) then total investments amounted to EUR 323.8 million.

The total investment in tangible fixed assets is made up of EUR 6.1 million in the gas business and EUR 243.3 million in the electricity segment. The following table shows the breakdown of investment by specific purpose:

Un: Thousand euros

Sectors	Total Investment
Electricity	
Substations	129 005
Lines	107 543
Telecom	3 635
Other	3 204
Sub-total	**243 387**
Gas	6 072
Other	391
TOTAL	**249 850**

The chart below shows the distribution of investment by infrastructure (as a percentage).



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 cavern TGC-4, for diverse detail engineering projects for the development of new connection points to the RNTGN and improvement of operational safety and for the third storage tank project, an essential infrastructure in improving flexibility in use of the terminal.

Financing

Financial Strategy and Debt

The consolidated net debt for the Group totalled EUR 1 931.2 billion at the end of 2007, which is an increase of EUR 109.7 million (6%) over 2006.

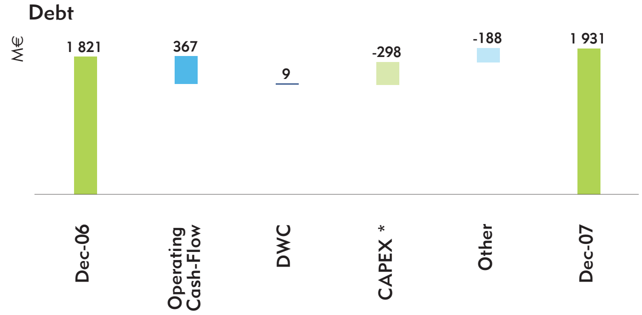
This increase in net debt can be put down to two main factors:

- The purchase of a 1% share of REE, for EUR 49.9 million;
- The price adjustment for the purchase of the gas assets, of EUR 23.6 million.

Un: EUR millions

Financial Debt (IFRS)	2007	2006	Variation Absolute	Variation %	"Weight" 2007
Net Debt	**1 931.2**	**1 821.5**	**107.1**	**6.0%**	**100.0%**
Electricity business	1 427.7	1 414.3	13.4	0.9%	73.9%
Gas Business	358.2	409.7	(51.5)	(12.6%)	18.5%
REN SGPS and others	145.3	0.0	145.3	n.a.	7.5%
Total Debt	**2 057.1**	**1 877.0**	**180.1**	**9.6%**	**100.0%**
Electricity business	1 479.9	1 415.4	64.5	4.6%	71.9%
Gas Business	426.9	461.6	(34.7)	(7.5%)	20.8%
REN SGPS and others	150.3	0.0	150.3	n.a.	7.3%
Bank Deposits, Cash and equivalents	**125.9**	**55.5**	**70.4**	**127.0%**	**100.0%**
Electricity business	52.1	1.0	51.1	4908.6%	41.4%
Gas Business	68.7	51.9	16.8	32.4%	54.6%
REN SGPS and others	5.1	2.5	2.5	100.3%	4.0%

Debt



* Includes Financial Investments (REE)

The electricity business accounted for 73.9% of the Group's net debt at the end of 2007, being the gas business, REN SGPS (holding) and other business areas responsible for 18.5% and 7.5% respectively.

Un: EUR millions

Financial Sources	2007	2006	Variation		"Weight"
			Absolute	%	2007
Commercial Paper	1 604.4	1 381.8	222.6	16.1%	78.0%
Bank Loans	426.9	461.6	(34.7)	(7.5%)	20.8%
Bank Overdrafts	23.7	31.5	(7.8)	(24.8%)	1.2%
Leasings	2.2	2.1	0.1	1.2%	0.1%

Commercial paper[11] accounted for 78.0% of the Group's financial debt at the end of 2007. This concentration of debt in commercial paper can be explained by the high degree of flexibility that the instrument gives to financial management, an aspect that takes on particular importance at a time in which the Group is preparing to restructure its debt.

With the stabilization of the new Group business reality, after the integration of the natural gas concessions, in 2007 the financial debt restructuring process was initiated with the following goals:

- Greater harmonization of the average maturity of the Group's debt to the life period of its assets;
- Reduction of refinancing risk;
- Integrated interest rate risk management, taking into account the regulatory framework for the electricity and gas businesses (triennial fixing of remuneration on assets on the basis of WACC);
- Optimisation of the integrated management of the Group's financing needs and liquid funds.

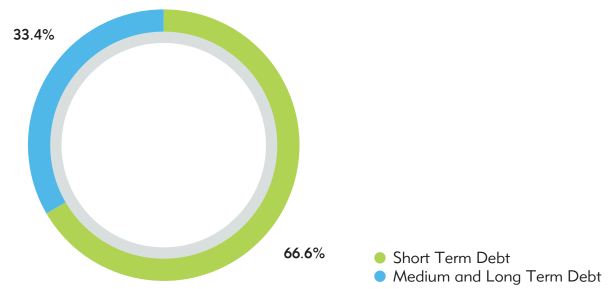
Realisation of these objectives depend on: **(i)** achievement of financial ratings from international agencies; **(ii)** concentration of the subsidiaries' debt in REN SGPS; and **(iii)** the extension of the Group debts' average maturity through refinancing of the greater part of the existing commercial paper.

Bank loans were exclusively for the gas business and fundamentally consist of medium/long-term loans from the EIB - European Investment Bank.

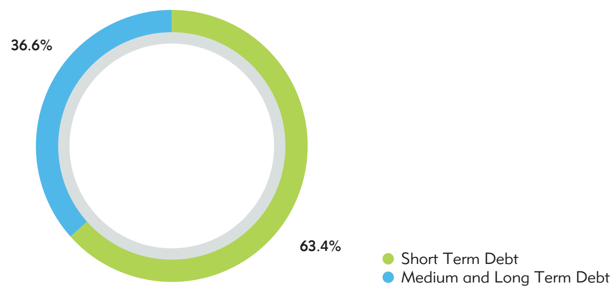
The Group's debt structure in terms of maturity did not change significantly in relation to 2006. Most of the debt was short-term debt.

The costs of financial debt[12] increased substantially in 2007 against 2006. In 2006, financial costs totalled EUR 47.3 million, but increased by EUR 41.7 million in 2007 to EUR 89.0 million.

2007



2006

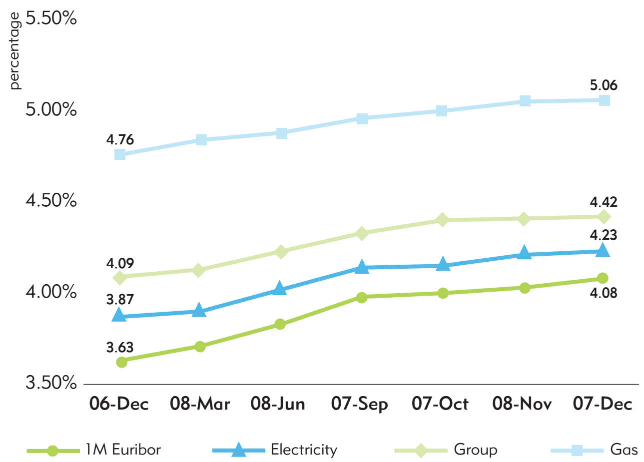


[11] The REN Group commercial paper programmes have subscription guarantee.
[12] In addition to interest and commissions, financial charges include tax on the different financing sources.

One must, however, stress that the financial costs level for 2006 cannot be directly compared to that for 2007. The gas assets were integrated into the Group accounts on September 26th, 2006, meaning that the financial costs for the gas business for that year related to a three-month period only, whereas in 2007 they relate to the whole year. Here one should also point out that the net impact on the Group's indebtedness of the operations for integration of the gas business was around EUR 400 million.

Thus, the increase in financial costs can essentially be explained by two factors:

- The significant increase of the Group's annual average debt, as a result of the acquisition of the gas business in September 2006;
- The general rise in market interest rates.



The average cost of the Group financing in 2007 rose 1.15 p.p over 2006 (3.27% p.a. in 2006, as opposed to 4.42% p.a. in 2007), explained mainly by the general increase in market interest rates. This increase in the average cost of the Group's financing had an impact of EUR 22.8 million on its financial costs. This increase was not more pronounced because the REN Group achieved significant savings through the renegotiation of conditions with the banks, especially for its commercial paper programmes and in terms of guarantee commission for EIB loans.

CLOSING REMARKS AND OUTLOOK FOR 2008

Outlook for 2008

Following the acquisition of the regulated gas assets in 2006, REN - Redes Energéticas Nacionais, SGPS, S.A., which was set up on January 5th, 2007, assumed responsibility for the management concessions for the electricity transmission and natural gas high pressure transport systems (including storage), directly through its subsidiaries. In 2008 the REN Group will continue its efforts to complete integration of its different businesses.

Meanwhile, in 2008, REN - Rede Eléctrica Nacional, S.A, a subsidiary of REN SGPS, S.A., will continue to invest in the electricity transmission grid to accommodate the growing generation of renewable energy, especially wind power, and the entry of new gas-fired power plants. Investment efforts will also focus on adapting the transmission grid to the needs arising from the MIBEL.

In the natural gas sector, 2008 will also see increased investment efforts, with commencement on the construction work of the third Sines terminal tank, construction of the interconnections to the new gas power plants and the continued development of underground storage caverns.

In the area of quality, safety management systems and social responsibility, the coming year will be the starting point for the expansion and consolidation of the systems, aiming at extending the scope of existing certifications to the great majority of the Group companies.

In 2007 REN acquired a share in REE (Red Eléctrica de España), further pursuing the goal of establishing a strategic partnership between the two companies. In 2008 REN will continue to intensify its collaboration with Enagás, including the mutual purchase of qualifying shareholdings in accordance with Portuguese and Spanish law and the articles of association of each company.

The incorporation of REN Serviços in June 2007 has the aim of further rationalising management of the Group companies' shared back-office activities. When REN Serviços begins operations, which is expected to happen in the first half of 2008, a number of support activities carried out within the various Group companies individually will be centralised in the new structure, allowing for economies of scale and range, the effects of which will be felt in the near future.

In 2008 REN will also be submitting to the regulator its amendment proposals for the next regulation period which will include the introduction of efficiency incentives to be shared by the company and the consumers, in line with the commitment assumed at the time of the initial public offering (IPO).

Finally, REN is currently working on achieving financial ratings from international agencies. When this process is completed, in the first half of 2008, the company will be able to issue bonds in the international capital market, thus allowing for efficient restructuring of its current debt.

PROPOSAL FOR APPROPRIATION OF PROFITS

Under Article 15 of the Articles of Association of REN, S.A., the Board of Directors proposes that the net profit for the financial year 2007 of EUR 121 681 442.00 (one hundred and twenty-one million six hundred and eighty-one thousand four hundred and forty-two euros), determined in the individual accounts according to Portuguese accounting standards (POC) should be appropriated as follows:

- To the Legal Reserve, EUR 6 084 072.00(six million eighty-four thousand and seventy-two euros).
- To Other Reserves, EUR 19 225 668.00 (nineteen million two hundred and twenty-five thousand six hundred and sixty-eight euros).
- For Dividends, EUR 87 000 000.00 (eighty-seven million euros).
- To Retained Earnings, EUR 9 371 702.00 (nine million three hundred and seventy-one thousand seven hundred and two euros).

Final Remarks

The Board of Directors would like to acknowledge all those who, in 2007, gave their support to the fulfilment 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 times in the Company's life, in a year marked by the Group's IPO and the complete integration of the gas business.

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

Lisbon, March 6th, 2007

The Board of Directors

José Rodrigues Pereira dos Penedos

Aníbal Durães dos Santos

Vítor 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 Luís Alvim Marinho

José Frederico Vieira Jordão

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Consolidated balance sheet at December 31st

Un: Thousand euros

	Note	As at December 31st		
		2007	**2006 Restated**	**2006**
ASSETS				
Non-current assets				
Property, plant and equipment	8	2 654 320	2 512 406	2 523 496
Goodwill		3 774	3 774	
Investment properties	9	427 599	464 136	464 136
Interest in joint ventures	10	9 025	8 620	2 577
Deferred income tax assets	11	19 416	19 672	19 647
Available-for-sale financial assets	12	59 567	1 033	1 033
Trade and other receivables	13	100 264	392 103	354 907
		3 273 965	**3 401 744**	**3 365 796**
Current assets				
Inventories	14	3 073	3 089	3 089
Trade and other receivables	13	511 457	431 311	422 466
Income tax receivable		15 354	94	94
Guarantee deposits	15	39 765	13 913	13 913
Cash and cash equivalents	16	125 920	55 482	55 482
		695 569	**503 888**	**495 044**
Total assets		**3 969 534**	**3 905 632**	**3 860 840**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	17	534 000	534 000	534 000
Other reserves	18	152 591	33 634	33 634
Retained earnings	18	174 033	(30 959)	(30 959)
Profit for the year attributable to equity holders of the Company	18	145 150	496 189	496 046
		1 005 774	**1 032 864**	**1 032 721**
Dividends related to 2006 profit		0	(87 000)	(87 000)
		1 005 774	**945 864**	**945 721**
Minority interest	18	555	500	500
Total equity		**1 006 329**	**946 364**	**946 221**
LIABILITIES				
Non-current liabilities				
Borrowings	19	687 169	686 544	686 544
Deferred income tax liabilities	11	178 345	197 364	204 901
Retirement and other benefits obligations	20	28 016	37 388	37 388
Trade and other payables	22	280 585	278 280	211 563
Provisions for other liabilities and charges	21	30 853	45 731	45 731
		1 204 968	**1 245 307**	**1 186 128**
Current liabilities				
Borrowings	19	1 369 905	1 193 920	1 193 920
Trade and other payables	22	288 778	458 931	473 332
Income tax payable		59 789	47 197	47 326
Guarantee deposits		39 765	13 913	13 913
		1 758 237	**1 713 961**	**1 728 491**
TOTAL LIABILITIES		**2 963 205**	**2 959 268**	**2 914 619**
TOTAL EQUITY AND LIABILITIES		**3 969 534**	**3 905 632**	**3 860 840**

CONSOLIDATED INCOME STATEMENT

Un: Thousand euros

	Note	31-12-07	As at December 31st 2006 Restated	31-12-06
Sales of goods	23	242	112	112
Services provided	23	554 450	387 608	387 608
Operating revenue		**554 692**	**387 720**	**387 720**
Cost of goods sold		(284)	(98)	(98)
External supplies and services	24	(145 466)	(130 866)	(130 866)
Employee compensation and benefit expense	25	(42 619)	(33 979)	(33 979)
Depreciation and impairment charges		(123 919)	(96 271)	(88 896)
Provisions for liabilities and charges	21	14 878	(42 584)	(42 584)
Impairment of assets	9	-	(102 476)	(102 476)
Other expenses	26	(48 282)	(17 654)	(17 654)
Other income	26	47 093	645 114	637 552
Total		**(298 598)**	**221 186**	**220 998**
Operating profit		**256 094**	**608 906**	**608 718**
Finance costs	27	(82 813)	(42 603)	(42 603)
Finance income	27	5 284	1 000	1 000
Share of (loss) / profit of joint ventures	10	8 896	2 577	2 577
Profit before income taxes		**187 461**	**569 880**	**569 692**
Income tax expense	28	(42 253)	(73 258)	(73 213)
PROFIT FOR THE YEAR		**145 208**	**496 622**	**496 479**
Attributable to:				
Equity holders of the Company		145 150	496 189	496 046
Minority interest		58	433	433
		145 208	**496 622**	**496 479**
Earnings per share attributable to the equity holders of the company during the year (expressed in euro per share)				
- basic		0.27	4.65	4.64
- diluted		0.27	4.65	4.64

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

Un: Thousand euros

	Note	2007	As at December 31st 2006 Restated	2006
Actuarial gains and losses - gross of tax		5 849	5 054	5 054
Net fair value gains on available for sale investments - gross of tax	13	8 600	(503 075)	(503 075)
Tax on items taken directly to or transferred from equity	13	(2 689)	65 468	65 468
Net income recognized directly in equity		**11 760**	**(432 553)**	**(432 553)**
Profit for the period		**145 208**	**496 622**	**496 479**
Total recognized income for the year		**156 967**	**64 069**	**63 926**
Attributable to:				
Equity holders of the company		156 910	63 636	63 493
Minority interest		58	433	433
		156 967	**64 069**	**63 926**

CONSOLIDATED CASH FLOW STATEMENT – DIRECT METHOD

Un: Thousand euros

	As at December 31st	
	2007	2006
Cash flow from operating activities		
Cash receipts from customers	2 220 484	3 093 656
Cash paid to suppliers	(1 741 772)	(2 794 972)
Cash paid to employees	(47 449)	(33 027)
Income tax paid	(64 236)	(10 479)
Net flows from operating activities	**367 027**	**255 178**
Cash flow from investing activities		
Receipts related to:		
Financial investments	600	945 101
Sale of PPE	70	493
Grants related to assets	12 861	7 123
Dividends	6 820	40 694
Payments related to:		
Perimeter change	(24 026)	(492 961)
Avaliable - for sale financial investment	(50 590)	
Purchases of PPE	(243 656)	(247 015)
Net cash used in investing activities	**(297 922)**	**253 435**
Cash flow from financing activities		
Receipts related to:		
Borrowings	20 837 409	15 390 085
Interests		
Payments related to:		
Borrowings	(20 643 150)	(15 364 185)
Interests	(88 116)	(47 357)
Dividends	(97 003)	(442 047)
Net cash used in financing activities	**9 140**	**(463 504)**
Net (decrease/increase) in cash and cash equivalents	**78 245**	**45 109**
Cash and cash equivalents at the begining of the year	23 970	(21 139)
Cash and cash equivalents in the end of the period	**102 215**	**23 970**
Detail of cash and cash equivalents		
Cash	3	4
Bank overdrafts	(23 704)	(31 512)
Bank deposits	125 916	55 478
	102 215	**23 970**

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 - 12°, Lisbon, was created from the spin-off of EDP group, in accordance to Decree-law 7/91, of the January 8th and 131/94, of May 19th, approved in the shareholders meeting of August 18th, 1994, with the purpose of ensuring the overall management of the Public Electricity Supply System (SEP).

Until the September 26th, 2006, Group REN had its core activity in the electricity business, through REN - Rede Eléctrica Nacional, S.A. In the September 26th, 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 September 26th, named REN - Serviços de Rede, S.A., which was then redenominated to REN - Rede Eléctrica Nacional, S.A.

The Group has 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 created in the September 26th, 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 created in the June 13th, 2007, which object is to manage the power purchase agreements (PPA), with Turbogás and Tejo Energia, that did not terminate as at June 30th, 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 created in the September 26th, 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 created in the September 26th, 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 ceased the rights of transport 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 organization 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 July 3rd, 2006.

These consolidated financial statements were approved by the Board of Directors, in the meeting of March 6th, 2008. 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 awarded to REN, S.A., by Decree-law No. 182/95 of July 27th, 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:

Electricity purchase and sell

Until the June 30th, 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 July 1st, 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.

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 RNT 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 amortization and remuneration of the investments made in the concession assets, and the recover of eligible operation expenditures.

Overall Management of the System

The purpose of this activity is to manage the Electricity System, through the coordination of the existing connections to RNT, 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 RNT 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 amortization 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 is for a 50 year period, as from the contract signing date, the June 15th, 2007. The assets considered as concession assets, are those acquired by REN to RNT, 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 the July 26th, 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:

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.

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.

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 July 26th, 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.

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 July 26th, 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 amortization 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.

Basis of preparation

These 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 December 31st, 2007. 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.

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 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.

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the accounting periods beginning on or after the March1st, 2007 or later periods but that REN Group has not early adopted:

- IAS 1 (revised) presentation of financial statements (effective for annual periods beginning on or after January 1st, 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). This revision to IAS 1 will be adopted by the Group as at January 1st, 2009.

• IAS 23 (Amendment), Borrowing costs (effective for annual periods beginning on or after January 1st, 2009). This amendment to the standard is still subject to endorsement by the European Union. 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 January 1st, 2009). IFRS 2 amendment deals with vesting conditions and cancellations. The objective of this amendment is to restrict the concept of vesting conditions to service and performance conditions and to clarify that cancellations must be treated equally whether made by the entity or other parties. This amendment has no impact on Group REN financial statements.

• IFRS 3 (Revised), Business combinations and IAS 27 (revised), Separate and consolidated financial statements (effective for annual periods beginning on or after January 1st, 2009). The revision of these standards introduces the option of applying the "full goodwill method" on a business combination, and accounting the transactions with minorities according to the economic entity model. New accounting treatments on transaction costs, measurement of consideration paid are required in business combination. This revision will impact Group REN future business acquisitions.

• IFRS 8, Operating segments (effective for annual periods beginning on or after January 1st, 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 January 1st, 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments will not change.

• IFRIC 11, IFRS 2, Group and treasury share transactions (effective for annual periods beginning on or after March 1st, 2007). IFRIC 11 provides guidance on how to account for share-based payment arrangements that involve two or more entities within the same group, and how to account for share-based transaction classified as equity-settled or cash-settled transactions. The Group will apply IFRIC 11 from January 1st, 2008, but it is not expected to have any impact on the Group's accounts;

• IFRIC 12, Service concession arrangements (effective for annual periods beginning on or after January 1st, 2008). This interpretation is still subject to endorsement by the European Union. 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.

• IFRIC 13, Customer loyalty cards (effective for annual periods beginning on or after July 1st, 2008). 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 is not relevant to the group's operations.

• IFRIC 14, the limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after January 1st, 2008). This interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized 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 is not relevant to Group REN.

The impact of the adoption of the standards and interpretations that became effective for the annual period accounts beginning in January 1st, 2007 is the following:

i) IFRS 7, Financial instruments: disclosures and a complementary amendment to IAS 1. This standard introduced new disclosures, improving the information about financial instruments exposure to risks and capital management;

ii) IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies: without impact on Group's financial statements;

iii) IFRIC 8, Scope of IFRS 2: without impact on Group's financial statements;

iv) IFRIC 9, Reassessment of Embedded Derivatives: without impact on Group's financial statements;

v) IFRIC 10, Interim financial reporting and impairment: without impact on Group's financial statements.

Services Concession

The Group has four concessions for the operation and development of the RNT, 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 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 recognized 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.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group 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 37.

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 recognized 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 recognized 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 recognized in the income statement, and its share of movements in reserves is recognized 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

Foreign currency translation

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.

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 recognized in the income statement, in finance costs if related with borrowings and in other operating costs, for all the other balances/ transactions

Exchange rate

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

Foreign currency exchange rates

Currency	31-12-07	31-12-06
USD	1.4721	1.3170
CHF	1.6547	1.6069
GBP	0.7334	0.6715
SEK	9.4415	9.0404
NOK	7.9580	8.2380
DKK	7.4583	7.4560

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 recognized as assets' acquisition and/or construction cost.

Subsequent expenditure, including renewals and overhauls, that extend the PPE useful life is recognized 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.

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 (until 1988)	30
Thermal (since 1989)	24
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).

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses are recognized in consolidated income statement, for assets measured according to the cost model. The exceeding amount is recognized in the consolidated income statement.

Amortizations and depreciations are recalculated prospectively according to the recoverable amount adjusted by the impairment loss recognized.

Financial assets

Management determines the classification of its financial assets at initial recognition in accordance with the purpose for which the financial assets were acquired and re-evaluates this designation at every reporting date.

Financial assets may be classified into the following categories:

- 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;
- loans and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;
- 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
- available-for-sale – 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 recognized 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 recognized 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 recognized 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 recognized in the income statement in the period in which they arise, within "finance costs", where interests and dividends obtained are also included.

Available-for-sale financial assets are initially recognized at fair value including transaction costs. In the subsequent periods these assets are measured at fair value, being the changes in fair value recognized in a fair value reserve within Equity. Dividends and interests obtained from assets available-for-sale are recognized 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 3.11), and are carried at amortised cost using the effective interest 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 securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities 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 recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories comprehend 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.

Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest 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 recognized in the income statement, in "Impairment of trade and other receivables" being subsequently reversed when the indicators for impairment decreases or disappears.

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 on 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 position as (central) counterparty of the operations, becoming the buyer in relation to a seller and a seller to a buyer.

Derivatives are recognized 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 recognized in the Balance sheet as an asset as well as the corresponding liability to the participant. Bank guarantees and non cash collateral are recorded off Balance sheet, according to IAS 39 - Financial Instruments.

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.

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.

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.

Financial liabilities

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

- financial liabilities at fair value through profit and loss;
- other financial liabilities.

"Other financial liabilities" include "Borrowings" (Note 3.17) and "Trade and other payables". "Trade and other payables" are initially recognized at fair value and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are derecognized when the related obligations are settled, cancelled or expire.

Borrowings

Borrowings are initially recognized 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 recognized 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.

Income tax

Income tax expenses include current income taxes and deferred income taxes. Income taxes are recognized in the consolidated income statement, except when related with items recognized 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 recognized 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 recognized 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.

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 recognized in the balance sheet refers to the present value of the obligations less the fair value of plan assets, and the past service cost adjustments, when applicable.

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.
The recognition of actuarial gains and losses obliges the presentation of the consolidated statement of recognized income and expense.
REN recognises the actuarial gains and losses for all plans attributed to employees directly in equity, as presented in the consolidated statement of recognized income and expense.
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.

Provisions

Provisions are recognized 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 (Note 21).

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 European Union are recognized 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 RNT, and other entities, are also recognized as grants received.

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

Expenses and revenues

Expenses and revenues are recognized in the period to which it refers to independently 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 recognized as assets and liabilities respectively, if these qualify as receivables or payables.

Regulatory assets

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

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.

Related to the intermediation activity on the sale and acquisition of electricity (agent role), REN recognises the remuneration of the assets allocated to this activity and until the June 30th, 2007, 50% of the commercial gains obtained in the electricity trading with the SENV (Electricity Unbound supply system). From the July 1st, 2007, no commercial gains are being recognized because the regulator (ERSE) has not ruled about the calculation formula.

The revenues obtained from 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:

- concession assets depreciation associated with the electricity transmission equipment;
- a return on the average net book value of the assets associated with this activity, according to the rates determined annually by the regulator;
- operating costs (operating expenses, payroll, others); deducted from the revenues obtained from the electricity transmission charged to 3rd parties.

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

- concession assets depreciation, associated with the overall management of system;
- concession assets depreciation associated with the power station sites;
- a return on the average net book value of the power station sites;
- a return on the average net book value of the assets associated with this activity, according to the rates determined annually by the regulator;
- operating costs (operating expenses, payroll, others);
- 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 are calculated according to the tariffs determined by the regulator after the July 1st, 2007. For 2006 and until the June 30th, 2007, revenue was recognized according to the transition agreements signed with Transgás the main user of Group REN gas assets capacity.

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 recognized 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.

Leasings

Leasing of property, plant and equipment, in which REN obtains substantially all the risks and rewards incidental to ownership of an asset, is 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 recognized 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 recognized net of interest costs, within borrowings. The interest costs included in rental and the leased assets depreciation are recognized 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 recognized as expenses in the consolidated income statements, on a straight-line basis, during the lease term.

4. 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.

Foreign Exchange rate risk

REN has no significant transaction in foreign currencies.

Credit risk

REN's credit risk is reduced, since a substantial part of revenues are recognized through the invoiced amounts to bounded distributors. REN's reduced 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+.

Liquidity risks

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

The following table shows REN's financial liabilities and financial derivatives 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:

Un: Thousand euros

	At 1 year	1 - 5 years	Over 5 years
At December 31st, 2006			
Borrowings:			
- finance lease	972	1 290	-
- bank borrowings	34 916	425 814	277 439
- commercial paper	1 125 700	259 500	-
- bank overdrafts	31 512	-	-
Trade and others payables	426 350	991	-

Un: Thousand euros

	At 1 year	1 - 5 years	Over 5 years
At December 31st, 2006			
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	-

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 rules; 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.

The majority of Group borrowings are negotiated at variable interest rates exposing the Group to cash flow interest rate risk. The Group did not enter into any transaction to hedge this risk, and the increase of the market interest rates determines higher payments and vice-versa.

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 December 31st, 2006 and December 31st, 2007.

2006

Considering the Group net debt as at December 31st, 2006, an increase of 1.5% on interest rate would increase annual finance costs of some 27 233 thousand euros.

2007

Considering the Group net debt as at December 31st, 2007, an increase of 1.5% on interest rate would increase annual finance costs of some 29 018 thousand euros.

Regulated activity risk

The revenues from the regulated activities recognized in each period, depend directly from the assumptions considered by the regulator, ERSE, in the tariff definition.

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:

• credit – of one part not honouring its contractual commitments in relation to the other;

• financial Settlement – centrally ensuring the debits and credits multilaterally;

• operational – given the market control and supervision procedures and mechanisms;

• 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 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 2007, REN's strategy was to maintain a gearing ratio between 60% and 70%. Gearing ratios were as follows:

Un: Thousand euros

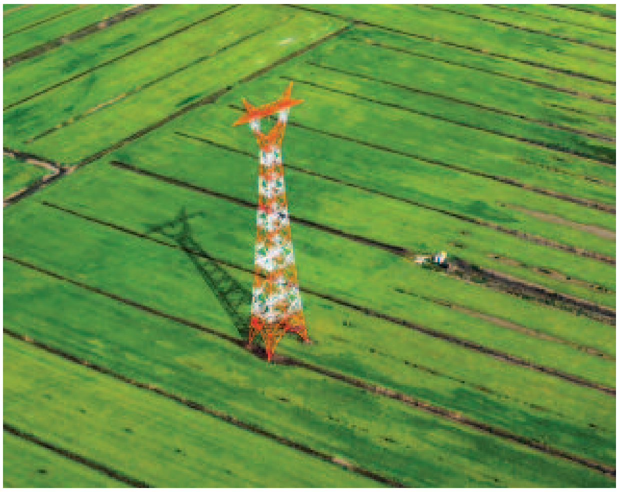
	2007	2006
Total borrowings (note 22)	2 057 074	1 876 997
Less: Cash and cash equivalents (note 19)	(125 920)	(55 482)
Net debt	**1 931 154**	**1 821 515**
Equity	1 006 329	946 364
Total	**2 937 483**	**2 767 879**
Gearing	66%	66%

4.3. Derivative financial instruments

As part of its agent role, REN, S.A., negotiates discretionary future contracts to acquire electricity in the Spanish and French electricity market. No active contracts exist at the year end periods presented in these financial statements.

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.

Group REN has no other derivative financial instruments negotiated or contracted as at the closing date of financial statements.



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 recognized 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 recognized 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:

- discounted future cash flows in respect to hydroelectric power station sites; and
- 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.

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. BUSINESS COMBINATION

As at the September 26th, 2006, REN, S.A., entered into the gas unbundling transaction with Group GALP. This transaction qualified as a business combination and comprised:

i) the acquisition of natural gas transmission business including the acquisition of the infrastructure, the debt and the transfer of employees;

ii) the acquisition of natural gas underground storage sites (connected to the natural gas system management) and;

iii) the acquisition of the shares in the company that operates the liquefied natural gas terminal (reception, storage and regasification).

As the concessions were awarded by the grantor to each activity separately, Group REN had to create two new entities to "receive" the natural gas transmission infrastructure management activity and the natural gas underground storage facilities.

As at the acquisition date, the acquired assets and liabilities fair value was measured provisionally, since the final unbundling transaction price was still pending of the assets final valuation and the conclusion of regulatory terms for gas. In June 2007 the final price was determined based on the average of three independent valuations and the regulatory terms established by ERSE, giving raise to an additional payment of 26 026 thousand euros.

The final purchase price allocation as at the September 26th, 2006 is as follows:

Un: Thousand euros

	REN Gasodutos	REN Armazenagem	REN Atlântico
Acquired net assets:			
Intangible assets	1 140	-	-
Property, plant and equipment	748 051	111 694	241 270
Investment property	-	-	-
Investments in joint ventures	6 043	-	-
Deferred income tax assets	-	-	-
Inventories	2 058	6	-
Trade and other debtors	46 042	-	10 735
Cash and cash equivalents	-	-	36 167
Borrowings	(324 219)	-	(169 805)
Provisions	-	-	(8)
Deferred income tax liabilities	-	-	(3 898)
Trade and other creditors	(74 184)	(35 314)	(85 654)
Income tax payable	-	-	-
	404 931	**76 386**	**28 806**
Goodwill	-	-	(3 774)
Amount paid	**404 931**	**76 386**	**32 580**

The comparison between the fair value and the carrying amounts of these assets and liabilities as recognized in the individual accounts beginning balance is as follows:

Un: Thousand euros

	REN Gasodutos		REN Armazenagem		REN Atlântico	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Intangible assets	1 140	910	-	-	-	-
Property Plant and Equipment	748 051	657 216	111 694	106 983	241 270	226 561
Investments in joint ventures	6 043	23 311	-	-	-	-
Deferred income tax assets	-	-	-	-	-	2
Inventories	2 058	1 670	6	-	-	-
Trade and other debtors	46 042	46 042	-	-	10 735	10 733
Cash and cash equivalents	-	-	-	-	36 167	36 167
Borrowings	(324 219)	(324 219)	-	-	(169 805)	(151 475)
Provisions	-	-	-	-	(8)	(8)
Def. income tax liabilities	(74 184)	-	-	-	(3 898)	-
Trade and other creditors	-	-	(35 314)	(30 598)	(85 654)	(103 985)
Income tax payable	-	-	-	-	-	-
	404 931	**404 931**	**76 386**	**76 386**	**28 806**	**17 994**

Due to the changes in purchase price allocation, the comparatives for 2006 were restated as disclosed in primary financial statements and notes when applicable.

7. CHANGES IN CONSOLIDATED GROUP

The main changes occurred in the consolidation circle as at December 31st, 2007 results from the creation of two new companies:

		%Owned	
Name	Address	Group	Individual
REN Trading, S.A.	Av. Estados Unidos	100%	100%
REN Serviços, S.A.	Av. Estados Unidos	100%	100%

REN Trading, S.A., as referred in note 1, was created with the purpose of managing the power purchase agreements (PPA), maintained with the electricity bounded producers Tejo Energia and Turbogás. The issued share capital was 50 thousand euros and was fully realised.

REN Serviços, S.A., is a company created by REN SGPS, S.A., with the objective of providing administrative shared services to support the Group companies. As at balance sheet date, this company had no activity. The issued share capital was 50 thousand euros and was fully realised.

8. SEGMENT INFORMATION

8.1. Primary reporting format

Business segments

Group REN is organized 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 power purchase agreements (PPA) not terminated as at the June 30th, 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 December 31st, 2006 are as follows:

Segment information 2006

Un: Thousand euros

	Electricity	Gas	Telecom.	Market Elect. Operat.	Group
Total gross sales	350 489	35 232	3 235	673	389 629
Inter-segment gross sales	(1 420)	(264)	(151)	(74)	(1 909)
Sales and services provided	**349 069**	**34 968**	**3 084**	**599**	**387 720**
Operating profit / segment result	596 709	9 099	2 871	227	608 906
Finance cost	(37 472)	(5 112)	-	(19)	(42 603)
Finance income	357	643	-	-	1 000
Share in joint venture profit	-	2 577	-	-	2 577
Profit before income tax					**569 880**
Income tax expense					(73 258)
Profit for the period					**496 622**
OTHER EXPENSES:					
Depreciation	75 603	20 094	10	564	96 271
Impairment of other receivables	102 476	-	-	-	102 476
Provisions	42 584	-	-	-	42 584

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 December 31st, 2007 and capital expenditure for the year then ended are as follows:

Segment information 2006

Un: Thousand euros

	Electricity	Gas	Telecom.	Market Elect. Operat.	Group
Assets	2 649 395	1 244 294	4 763	4 603	3 903 055
Investment in Associates	0	2 577	0	0	2 577
Total assets	**2 649 395**	**1 246 871**	**4 763**	**4 603**	**3 905 632**
Liabilities	2 277 748	680 781	137	602	2 959 268
Capital expenditure	241 953	26 497	70	70	268 590

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

Segment information 2007

Un: Thousand euros

	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 joint ventures 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	592	123 919
Provisions	25 300	-	-	-	(14 878)

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

Segment information 2007

Un: Thousand euros

	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

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 9).

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.

9. PROPERTY, PLANT AND EQUIPMENT

As at December 31st, 2006, the movements occurred in property, plant and equipment (PPE) are as follows:

Evolution of PPE – 2006

	Land	Buildings and other constructions	Transmission and electronic equipment
January 1st, 2006			
Acquisition cost	1 040	50 633	2 201 342
Accumulated depreciation	-	(21 474)	(1 136 482)
Net book value	**1 040**	**29 159**	**1 064 860**
Year ended December 31st, 2006			
Acquisition of subsidiaries (Acq. Costs)	58 302	43 664	1 028 539
Additions	1 766	3 128	34 662
Disposals	-	-	(3 970)
Transfers and write-offs	(59 381)	(317)	272 794
Acquisition of subsidiaries (accum. Dep.)	-	(813)	(40 095)
Depreciation expense	(363)	(5 848)	(65 640)
Depreciation on disposals	-	-	3 059
Depreciation on transfers / write-offs	363	19	(5 245)
Closing net book value	**1 727**	**68 992**	**2 288 965**
At December 31st, 2006			
Acquisition cost	1 727	97 108	3 533 367
Accumulated depreciation	0	(28 116)	(1 244 403)
Net book value	**1 727**	**68 992**	**2 288 965**

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

Evolution of PPE – 2007

	Land	Buildings and other constructions	Transmission and electronic equipment
January 1st, 2007			
Acquisition cost	1 727	97 108	3 533 367
Accumulated depreciation	-	(28 116)	(1 244 403)
Net book value	**1 727**	**68 992**	**2 288 965**
Year ended December 31st, 2007			
Additions	-	23	3 811
Disposals	-	-	-
Transfers and write-offs	(24)	81	221 679
Depreciation charge	(0)	(3 337)	(100 500)
Depreciation on disposals	-	-	-
Depreciation on transfers / write-offs	-	-	(693)
Closing net book value	**1 703**	**65 759**	**2 413 261**
At December 31st, 2007			
Acquisition cost	1 703	97 212	3 758 857
Accumulated depreciation	(0)	(31 453)	(1 345 596)
Net book value	**1 703**	**65 759**	**2 413 261**

Un: Thousand euros

Transport equipment	Tools	Office furniture and fittings	Current fixed assets	Total
4 137	2 187	22 743	114 439	2 396 521
(2 407)	(1 673)	(14 569)	-	(1 176 606)
1 729	**514**	**8 174**	**114 439**	**1 219 915**
238	570	3 093	8 236	1 142 642
698	98	1 438	226 800	268 590
(570)	-	(583)	-	(5 123)
(19)	(1)	-	(207 265)	5 811
(87)	(105)	(527)	-	(41 627)
(706)	(520)	(3 993)	-	(77 070)
498	-	573	-	4 130
-	-	-	-	(4 862)
1 781	**556**	**8 175**	**142 210**	**2 512 406**
4 484	2 854	26 691	142 210	3 808 441
(2 702)	(2 298)	(18 516)	-	(1 296 035)
1 781	**556**	**8 175**	**142 210**	**2 512 406**

Un: Thousand euros

Transport equipment	Tools	Office furniture and fittings	Current fixed assets	Total
4 484	2 854	26 691	142 210	3 808 441
(2 702)	(2 298)	(18 516)	-	(1 296 035)
1 781	**556**	**8 175**	**142 210**	**2 512 406**
685	473	1 357	243 501	249 850
(398)	-	(3)	-	(401)
-	-	2 944	(224 097)	583
(631)	(305)	(2 914)	-	(107 688)
359	-	3	-	362
-	-	(97)	-	(790)
1 796	**724**	**9 464**	**161 614**	**2 654 320**
4 771	3 327	30 989	161 614	4 058 472
(2 975)	(2 603)	(21 525)	-	(1 404 152)
1 796	**724**	**9 464**	**161 614**	**2 654 320**

The increase in PPE's for the year 2006 refers mainly to the acquisition of natural gas assets, referred as the gas unbundling transaction, from GALP Energia, SGPS, S.A.

At the acquisition date the assets acquired were valued at a provisional fair value determined based on the revaluated amounts considered for regulation terms, and for the period between the acquisition date (September 26th, 2006) and the year-end, an average depreciation charge was calculated. The final valuations were obtained in 2007 giving rise to the restatement of 2006 figures, as shown above.

As for the electricity business, acquisitions refer to the planned investment in the construction / renewal of substations and power lines, which is recognized within transmission and electronic equipment.

Borrowing costs capitalised in construction in progress, amounts to 6 917 thousand euros (4 607 thousand euros in 2006).

As at year ended December 31st, 2007, the net book value of the assets acquired through finance lease is as follows:

		Un: Thousand euros
	2007	2006
Acquisition cost	3 616	4 145
Accumulated depreciation	(1 633)	(1 695)
Net book value	**1 984**	**2 450**

Depreciation expense has been entirely charged to consolidated income statement within "Depreciation", except for an amount of 962 thousand euros (932 thousand euros in 2006) that has been capitalised in construction in progress.

10. INTANGIBLE ASSETS

Intangible assets refer to goodwill determined on the acquisition of the Group company REN Atlântico, within the gas unbundling business.

			Un: Thousand euros
		Goodwill	
	2007	2006 restated	2006
As at January 1st			
Acquisition cost	3 774	-	-
Accumulated impairment	-	-	-
Net book value	**3 774**	-	-
Year ended December 31st, 2006			
Perimeter change (acquisition cost)	-	3 774	-
Additions	-	-	-
Disposals	-	-	-
Impairment	-	-	-
Closing net book value	**3 774**	**3 774**	-
As at December 31st			
Acquisition cost	3 774	3 774	-
Accumulated impairment	-	-	-
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 consider the expected regulatory terms in place for the remaining concession term, being the most significant assumption the interest remuneration on regulatory assets, of 8%. Cash-flows were discounted considering an average market pre-tax WACC for natural gas regasification activities of 7.75 % (post-tax WACC of 5.8%).

The recoverable amount obtained was of some 150 890 thousand euros, which covers the companies' net assets plus the goodwill of 3 774 thousand euros.

11. 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:

	Un: Thousand euros	
	2007	2006
As at January 1st		
Gross value	527 078	629 555
Accumulated depreciation	(62 943)	(42 810)
Net book value	**464 136**	**586 745**
Period ended December 31st		
Impairment	-	(102 476)
Disposals and write-offs	(19 344)	-
Depreciations	(17 193)	(20 133)
Movements of the year	**(36 537)**	**(20 133)**
Gross value	505 248	527 079
Accumulated depreciation	(77 650)	(62 943)
Net book value	**427 599**	**464 136**

These assets integrate the business segment Electricity.

The impairment recognized in 2006, refers to the land of hydroelectric power stations, due to changes in the rate of remuneration of these assets. In 2007, no impairment loss was recognized.

The decrease recognized in 2007, refers to the sale of the site of the thermal power station plant of "Pego", to Tejo Energia, for the amount of 22,7 million euros.

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

	Un: Thousand euros	
	2007	2006
Land of hydroelectric power stations	400 367	416 753
Land of thermal power stations	21 949	43 397
Other land and buildings	7 205	7 212
Total	**429 521**	**467 362**

The Group's investment properties fair value was determined at December 31st, 2007, according to the nature of each asset.

The fair value of hydroelectric power stations sites was determined through the calculation of the discounted cash flows estimated until the concession period end, according to regulatory terms. Cash flows include: remuneration equal to the depreciation charge; the annual remuneration calculated according to the inflation rate; and the recovery of previous years' remuneration deferred in the tariffs, which are expected to be received during 2008 (previously it was recovered through the remaining useful life of the assets). The pre-tax rate used was of 6.75% (2006: 5.15%) based on the average post-tax interest rate on Group REN borrowings.

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 buildings 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 600 thousand euros (306 thousand in 2006) referring to other land and buildings rentals and 12 126 thousand euros of land previous years remuneration (1999-2003), as referred above.

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

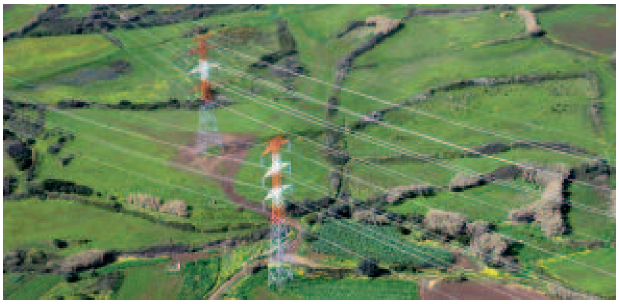
12. INTEREST IN JOINT VENTURES

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 created 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

			Un: Thousand euros
		Goodwill	
	2007	2006 restated	2006
Beginning of the year	**8 620**	-	-
Aquisitions of joint ventures	-	6 043	-
Share of (loss) / profit	8 896	2 577	2 577
Other equity movements	(8 491)	-	-
End of the Year	**9 025**	**8 620**	**2 577**



The joint ventures assets and liabilities as at December 31st, 2007, and income and profit generated from the acquisition date, as recognized in the companies individual accounts are as follows:

Un: Thousand euros

	2007		2006	
	Gasoduto Braga-Tuy	Gasoduto Campo Maior--Leiria-Braga	Gasoduto Braga-Tuy	Gasoduto Campo Maior--Leiria-Braga
Assets				
Non-current	14 971	76 477	15 687	80 148
Current	3 194	13 439	3 551	18 886
	18 165	**89 916**	**19 238**	**99 034**
Liabilities				
Non-current	8 168	30 074	1 788	42 189
Current	3 183	20 902	10 483	18 407
	11 351	**50 976**	**12 271**	**60 596**
Net Assets	6 814	38 940	6 967	38 438
	6 814	**38 940**	**6 967**	**38 438**
Income	3 715	24 465	997	6 710
Expenses	(2 561)	(15 024)	(655)	(3 979)
Profit after income tax	1 154	9 441	342	2 731
% interest held	51%	88%	51%	88%
	588	**8 308**	**174**	**2 403**

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 recognized using the equity method.

The dividends received in 2007, refers to the share of REN Gasodutos, in the 2006 profits of joint ventures, distributed to venturers.

13. DEFERRED INCOME TAXES

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

Un: Thousand euros

	2007	2006 Restated	2006
Equity			
Deferred income tax	(2 689)	65 468	65 468
	(2 689)	**65 468**	**65 468**
Acquisition of subsidiaries			
Deferred income tax	-	-	11 634
	-	-	**11 634**
Income statement			
Deferred income tax	21 542	(18 592)	(18 419)
Current income tax	(63 705)	(54 666)	(54 794)
	(42 253)	**(73 258)**	**(73 213)**

Impact of the movements of deferred income taxes

Un: Thousand euros

	2007	2006 Restated	2006
Impact in income statement			
Deferred income tax assets	1 294	(27 454)	(27 480)
Deferred tax on fair value reserve recycling	-	(66 858)	(66 858)
Deferred income tax liabilities	20 158	75 720	75 919
	21 452	**(18 592)**	**(18 419)**
Impact in acquisition of subsidiaries			
Deferred income tax liabilities	-	(3 898)	(11 634)
Impact in equity			
Deferred income tax assets	(1 550)	(1 390)	(1 390)
Deferred income tax liabilities	(1 139)	66 858	66 858
	(2 689)	**65 468**	**65 468**
Net impact of deferred income taxes	**18 763**	**42 978**	**35 414**

The movements in the deferred income taxes, occurred during the reported years are as follows:

Deferred income tax assets movements

Un: Thousand euros

	Provisions	Carry-forward losses	Pensions	Others	Total
At January 1st, 2006	**865**	**30 962**	**12 748**	**3 942**	**48 516**
Period ended December 31st, 2006					
Transfered to deferred income tax liabilities	-	-	-	(1 647)	(1 647)
Charged to income statement	-	-	(1 390)	-	(1 390)
Charged / (credited) to equity	-	(30 962)	(1 452)	(200)	(32 614)
Credited to income statement	5 865	7	-	934	6 806
Movement of the period	**5 865**	**(30 955)**	**(2 842)**	**(913)**	**(28 845)**
At December 31st, 2006	**6 730**	**7**	**9 906**	**3 029**	**19 672**

Un: Thousand euros

	Provisions	Carry-forward losses	Pensions	Others	Total
At January 1st, 2007	**6 730**	**7**	**9 906**	**3 029**	**19 672**
Period ended December 31st, 2007					
Transfered to deferred income tax liabilities	-	-	(1 550)	-	(1 550)
Charged to income statement	(5 389)	-	(593)	(132)	(6 114)
Credited to income statement	6 835	(7)	(339)	919	7 408
Movement of the period	**1 446**	**(7)**	**(2 482)**	**787**	**(256)**
At December 31st, 2007	**8 176**	**-**	**7 424**	**3 816**	**19 416**

As at December 31st, 2007, there are no carry-forward losses to recover.

Un: Thousand euros

	Agent role	Transmission equipment	Investment properties	Revaluation previous GAAP	Assets available for sale	NG assets fair value	Other	Total
At January 1st, 2006	**104 785**	**9 231**	**46 692**	**41 477**	**66 858**	**-**	**143**	**269 186**
Period ended December 31st, 2006								
Acquisition of subsidiaries	-	-	-	-	-	3 898	-	3 898
Transf. from deferred tax assets	-	-	-	-	-	-	1 647	1 647
Charged to income statement	21 646	4 234	-	-	(66 858)	-	(1 647)	(42 625)
Credited to income statement	-	-	(30 254)	(4 288)	-	(57)	(143)	(34 742)
Movement of the period	21 646	4 234	(30 254)	(4 288)	(66 858)	3 841	(143)	(71 822)
At December 31st, 2006	**126 431**	**13 465**	**16 438**	**37 189**	**(0)**	**3 841**	**-**	**197 364**

Un: Thousand euros

	Agent role	Transmission equipment	Investment properties	Revaluation previous GAAP	Assets available for sale	NG assets fair value	Other	Total
At January 1st, 2007	**126 431**	**13 465**	**16 438**	**37 189**	**-**	**3 841**	**-**	**197 364**
Period ended December 31st, 2007								
Acquisition of subsidiaries	-	-	-	-	-	-	-	-
Charged to income statement	-	4 904	-	-	1 139	-	-	6 043
Credited 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 December 31st, 2007	**109 647**	**18 369**	**10 691**	**38 451**	**1 139**	**10**	**38**	**178 345**

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

14. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

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

Un: Thousand euros

	Trade and other receivables	Financial assets for sale	Other financial liabilities	Total
Assets				
Cash and cash equivalents	55 478	-	-	55 478
Guarantee deposits	13 913	-	-	13 913
Trade and other receivables	799 356	-	-	799 356
Financial assets for sale	-	1 033	-	1 033
Total financial assets	**868 747**	**1 033**	**-**	**869 780**
Liabilities				
Borrowings	-	-	1 880 464	1 880 464
Guarantee deposits	-	-	13 913	13 913
Trade and other payables	-	-	427 341	427 341
Total financial liabilities	**-**	**-**	**2 321 718**	**2 321 718**

2007				Un: Thousand euros
	Trade and other receivables	Financial assets for sale	Other financial liabilities	Total
Assets				
Cash and cash equivalents	125 917	-	-	125 917
Guarantee deposits	39 765	-	-	39 765
Trade and other receivables	602 524	-	-	602 524
Financial assets for sale	-	59 567	-	59 567
Total financial assets	**768 206**	**59 567**	**-**	**827 773**
Liabilities				
Borrowings	-	-	2 057 074	2 057 074
Guarantee deposits	-	-	39 765	39 765
Trade and other payables	-	-	260 372	260 372
Total financial liabilities	**-**	**-**	**2 357 211**	**2 357 211**

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 rating or historical information about counterparties, as follows:

		Un: Thousand euros
	2007	**2006**
Trade and other receivables		
AA+		
AA-	413 762	477 096
A-	53 357	261 690
Others without rating	135 405	60 570
Total of trade and other receivables	**602 524**	**799 356**
Bank deposits		
AA	3 015	1 002
AA-	8	13
A+	13 379	12 939
A	109 515	41 525
Total bank deposits	**125 917**	**55 478**

Loans 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 most significant amount receivable, of some 413.8 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.

15. ASSETS AVAILABLE-FOR-SALE

As at December 31st, 2007, the assets recognized in this heading refer to equity securities held in strategic entities from the Spanish electricity market, as follows:

				Un: Thousand euros
	% owned	**Entity**	**2007**	**2006**
OMEL				
Operador del Mercado Ibérico				
de Energia (Pólo Espanhol)	10%	OMIP	1 033	1 033
Red Electrica de España. S.A.	1%	REN. SGPS	58 534	
Total			**59 567**	**1 033**

The changes occurred in financial assets available-for-sale during 2007 and 2006 are as follows:

				Un: Thousand euros
	GALP	**OMEL**	**REE**	**Total**
At January 1st, 2006	**923 977**	**1 033**	**-**	**925 010**
Fair value adjustment	(923 977)	-	-	(923 977)
At December 31st, 2006	**-**	**1 033**	**-**	**1 033**
At January 1st, 2007	**-**	**1 033**	**-**	**1 033**
Acquisitions	-	-	49 934	49 934
Fair value adjustment	-	-	8 600	8 600
Disposals	-	-	-	-
At December 31st, 2007	**-**	**1 033**	**58 534**	**59 567**

The share held by REN in GALP Energia, SGPS, S.A., was sold, in 2006, to Amorim Energia, B.V., with which REN had signed an agreement in the end of 2005, for the sale of the 18.3% share in GALP, for the amount of 944 million euros.

OMEL is an unlisted company and no recent market transactions over its shares have occurred. Because no reliable information exists to calculate the financial asset fair value, 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 December 28th, 2007, which resulted in the recognition of a fair value gain of some 8 600 thousand euros.

The adjustments to fair value of financial assets available-for-sale are recognized in equity, within fair value reserve (Note 21):

	Fair value adjustment
Gross fair value adjustment	8 600
Deferred income tax	(1 139)
Net fair value adjustment in equity	**7 460**

16. TRADE AND OTHER RECEIVABLES

As at year ended December 31st, 2007, the detail of trade and other receivables is as follows:

Trade and other receivables detail

Un: Thousand euros

	2007			2006 - Restated		
	Current	Non-current	Total	Current	Non-current	Total
Trade and other receivables (i)	148 552	155	148 707	272 143	155	272 298
Trade receivables impairment	(828)	-	(828)	(828)	-	(828)
Trade receivables net	147 724	155	147 879	271 315	155	271 470
Agency balance (ii)	343 694	70 068	413 762	122 344	354 752	477 096
Loans to joint ventures (iii)	10 014	30 041	40 055	9 299	37 196	46 495
Tax receivable	10 025	-	10 025	24 886	-	24 886
Trade and other receivables	**511 457**	**100 264**	**611 721**	**427 844**	**392 103**	**819 947**

(i) In the trade receivables heading, the most significant amount refers to the balance receivable from EDP - Distribuição de energia, S.A., amounting 53 357 thousand euros (258 768 thousand euros in 2006).

(ii) Agency balance refers mainly to balances resulting from REN's agent role in the acquisition and sale 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.

17. INVENTORIES

The detail of inventories as at December 31st, 2007 is as follows:

		Un: Thousand euros
	2007	2006
Resale	13	38
Miscellaneous materials	3 060	3 051
Inventories	**3 073**	**3 089**

18. 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 referred in note 3.13.

As at December 31st, 2007, the amounts recognized in the balance sheet are as follows:

		Un: Thousand euros
	2007	2006
Cash margins from participants	39 765	13 913
Amounts owing to participants	(39 765)	(13 913)

19. CASH AND CASH EQUIVALENTS

As at December 31st, 2007, cash and cash equivalents are as follows:

Cash and cash equivalents details

		Un: Thousand euros
	2007	2006
Cash	3	4
Bank deposits	125 917	55 478
Cash and cash equivalents	**125 920**	**55 482**

Short term bank deposits effective interest rate is disclosed in Note 22.

The detail of the amount recognized in the consolidated cash-flow statement as "Cash and cash equivalents", for the year ended December 31st, 2007 and 2006, is as follows:

		Un: Thousand euros
	2007	2006
Cash	3	4
Bank overdrafts	(23 704)	(31 512)
Bank deposits	125 916	55 478
Cash and cash equivalents	**102 215**	**23 970**

20. SHARE CAPITAL

As at December 31st, 2007, REN's authorised share capital fully subscribed and realised, is represented by 534 000 000 shares with a value of one euro each.

		Un: Thousand euros
	Number of shares	Share capital
	534 000 000	534 000
Share capital	**534 000 000**	**534 000**

21. OTHERS RESERVES AND RETAINED EARNINGS

The "Other reserve" and "Retained earnings" headings presented the following evolution during the year ended December 31st, 2007 and 2006, as follows:

Other reserves and retained earnings evolution

	Attributable to shareholders						Un: Thousand euros
	Legal Reserve	Fair Value Reserve	Other reserves	Retained earnings	Profit for the year	Minority interests	Total
At January 1st, 2006	**28 101**	**436 217**	**192 830**	**29 148**	**103 980**	**67**	**790 343**
Actuarial gains / (losses)	-	-	-	3 664	-	-	3 664
Fair value reserve (net)	-	(436 217)	-	-	436 217	-	-
Gains / (losses) recognized directly in equity	**28 101**	**-**	**192 830**	**32 812**	**540 197**	**67**	**794 007**
Profit for the year	-	-	-	-	59 829	433	60 262
PPA Restatement – impact on Equity	-	-	-	-	143	-	143
Total gains recognized in 2006	**28 101**	**-**	**192 830**	**32 812**	**600 169**	**500**	**854 412**
Dividends distribution (referring to 2005)	-	-	-	(66 395)	-	-	(66 395)
Dividends – related to 2006 profit	-	-	(209 727)	(78 926)	-	-	(288 653)
Transfer to other reserves	5 533	-	16 897	81 550	(103 980)	-	-
2006 profit advanced dividends	-	-	-	-	(87 000)	-	(87 000)
At December 31st, 2006	**33 634**	**-**	**-**	**(30 959)**	**409 189**	**500**	**412 364**

	Attributable to shareholders						Un: Thousand euros
	Legal Reserve	Fair Value Reserve	Other reserves	Retained earnings	Profit for the year	Minority interests	Total
At January 1st, 2007	**33 634**	**-**	**-**	**(30 959)**	**409 189**	**500**	**412 364**
Actuarial gains / (losses)	-	-	-	4 299	-	-	4 299
Fair value reserve (net)	-	7460	-	-	-	-	7 460
Gains / (losses) recognized 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 recognized in 2007	**33 634**	**7 460**	**-**	**(26 660)**	**554 339**	**558**	**569 332**
Dividends distribution (referring to 2006)	-	-	-	(97 000)	-	(3)	(97 003)
Transfer to other reserves	27 503	-	83 993	297 693	(409 189)	-	-
At December 31st, 2007	**61 137**	**7 460**	**83 993**	**174 033**	**145 150**	**555**	**472 329**

The legal reserve, is not yet fully set up 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 for loss coverage or to increase the Share Capital.

Other reserves relate to free reserves set up according to Shareholders Meeting decision on each profit for the period allocation. These reserves can be used at shareholders discretion and in 2006 were fully distributed to shareholders.

22. BORROWINGS

The allocation of borrowings between current and non-current, and by nature, at year end is as follows:

						Un: Thousand euros
	2007			2006		
	Current	Non-current	Total	Current	Non-current	Total
Commercial Paper	1 306 000	300 000	1 606 000	1 125 700	259 500	1 385 200
Bank Borrowings	39 907	385 907	425 814	34 917	425 813	460 730
Bank overdrafts	23 704	-	23 704	31 512	-	31 512
	1 369 611	**685 907**	**2 055 518**	**1 192 129**	**685 313**	**1 877 442**
Finance Lease	891	1 262	2 153	896	1 231	2 127
Interest to pay	1 073	-	1 073	895	-	895
Interest antecipated	(1 670)	-	(1 670)	(3 467)	-	(3 467)
	1 369 905	**687 169**	**2 057 074**	**1 190 453**	**686 544**	**1 876 997**

REN is the subscriber of eight Commercial paper programmes amounting 1 730 000 thousand euros. As at December 31st, 2007, only 1 606 000 thousand euros were being utilised.

Bank borrowings are not secured by REN's assets. All borrowings including bank overdrafts are negotiated in euros.

In the end of 2007 REN had also the following credit lines negotiated and not used:

		Un: Thousand euros
	2007	2006
Variable interets rates		
Expiring up to 1 year	170 000	170 000
Expiring more than 1 year	-	-
	170 000	**170 000**

The credit lines with an expiring date up to one 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:

		Un: Thousand euros
	2007	2006
6 months or less	1 932 921	1 752 870
6 - 12 months	-	-
1 - 5 years	-	-
Over 5 years	122 000	122 000
	2 054 921	**1 874 870**

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Bank deposits	3.91%	3.17%
Borrowings and commercial paper	4.42%	3.27%

The carrying amounts and fair value of the borrowings are as follows:

				Un: Thousand euros
	Carrying amounts		Fair values	
	31-12-2007	31-12-2006	31-12-2007	31-12-2006
Commercial paper	1 606 000	1 385 200	1 604 295	1 381 733
Borrowings	425 814	492 172	420 577	446 690
	2 031 814	**1 877 372**	**2 024 872**	**1 828 423**

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

		Un: Thousand euros
	2007	2006
Finance lease liabilities		
– minimum lease payments		
No later than 1 year	998	972
Later than 1 year and no later than 5 years	1 309	1 290
Later than 5 years	-	-
	2 307	**2 262**
Future finance charges on finance leases	(154)	(135)
Present value of finance lease liabilities	**2 153**	**2 127**

The present value of finance lease liabilities is as follows:

		Un: Thousand euros
	2007	2006
No later than 1 year	891	896
Later than 1 year and no later than 5 years	1 262	1 231
Later than 5 years	-	-
	2 153	**2 127**

23. 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 23.2).

The pension plan obligations are funded through an independent Pension Fund, maintained jointly with the EDP Group, to which REN, S.A., is liable to do the contributions necessary to cover its expenses, as they fall due in each financial year.

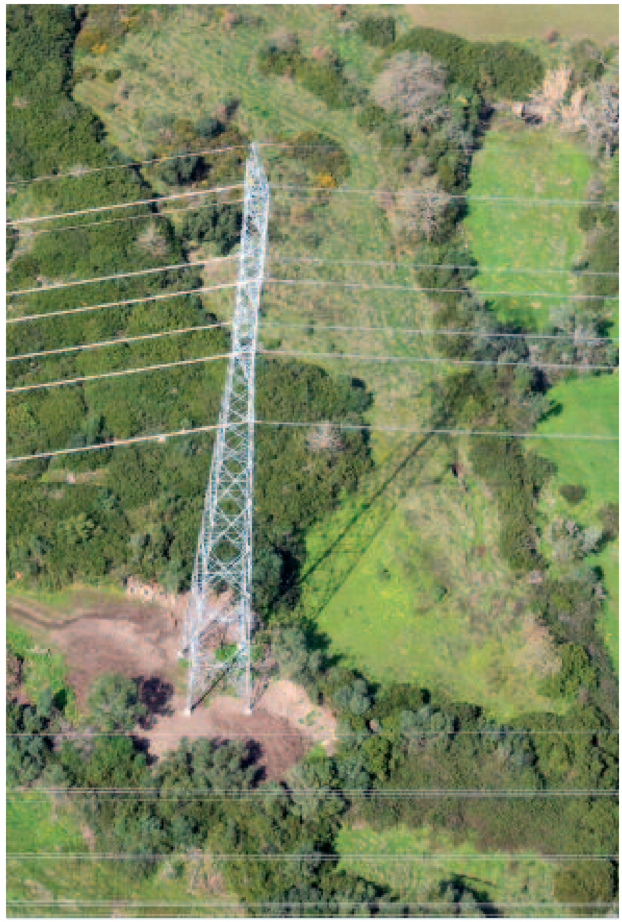
The obligations for the medical assistance plan and the other benefits are not funded and are covered by a specific provision.

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:

		Un: Thousand euros
	2007	2006
Obligations on Balance sheet		
Pension plan	(7)	5 210
Medical assistance plan and others	27 963	32 128
Life insurance plan	60	50
	28 016	**37 388**
Charges to income statement		
Pension plan	392	(114)
Medical assistance plan and others	2 138	2 130
Life insurance plan	10	39
	2 540	**2 055**



Electricity segment

The main assumptions used in the actuarial calculations are as follows:

Actuarial assumptions

	2007	2006
Annual discount rate	5.40%	4.50%
Expected percentage of the active employees elegible for early retirement	10.00%	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 health costs (over 8 years)	4.50%	4.50%
Annual growth rate of health 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	5.80%	5.37%
Mortality table	TV 88/90	TV 88/90

In 2007, the annual discount rate used increased from 4.5% to 5.4% reflecting the expected long-term increase in market interest rates. If the discount rate of 5.2% had been used to calculate REN Group obligations as at the balance sheet date, the obligations with the pension plan would be higher in 851 thousand euros, and the obligation with the Medical assistance plan and other benefits would be higher in some 835 thousand euros. Consequently, the impact on actuarial gains / losses recognized, in 2007, directly in equity would be lower in some 1 686 thousand euros.

Pension plan

The obligations recognized in the consolidated balance sheet are as follows:

		Un: Thousand euros
	2007	**2006**
Present value of the obligation	42 563	46 917
Fair value of plan assets	42 570	41 707
Obligation in the Balance sheet	**(7)**	**5 210**

The movements in the present value of the obligation, related with the pension plan are as follows:

Pension plan obligation reconciliation

		Un: Thousand euros
	2007	**2006**
At January 1st	**46 917**	**48 794**
Current Service costs	585	573
Interest costs	2 006	1 969
Benefits paid	(4 636)	(4 673)
Actuarial (gains) / loses	(2 309)	254
At December 31st	**42 563**	**46 917**

The Pension fund related to this plan had the following evolution:

Pension fund assets reconciliation

		Un: Thousand euros
	2007	**2006**
At January 1st	**41 707**	**35 415**
Contributions made	2 118	1 802
Actuarial gains / (loses)	(1 904)	3 310
Benefits paid	(1 550)	(1 477)
Expected return on assets	2 199	2 656
At December 31st	**42 570**	**41 707**

The impact of the pension plan in the consolidated income statement is as follows:

		Un: Thousand euros
	2007	**2006**
Current service costs	585	573
Interest costs	2 006	1 969
Expected return assets	(2 199)	(2 656)
Total charged to employee costs	**392**	**(114)**

Impact of actuarial gains and losses on consolidated statement of recognized income and expenses is as follows:

		Un: Thousand euros
	2007	**2006**
Period actuarial gains and losses	(405)	(3 056)
Accumulated actuarial gains and losses	37 621	38 026

The major categories that constitute the fair value of the total plan assets are as follows:

		Un: Thousand euros
	2007	**2006**
Bonds	64%	46%
Short-term deposits	2%	1%
Shares	29%	31%
Buildings	-	18%
Investment funds	5%	-
Other	-	4%
	100%	**100%**

Plan assets do not include REN's own shares or property. Expected rate of return on assets for 2007 was determined by EDP Group, the entity who shares the pension fund with REN, 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 2008, amounts some 2 038 thousand euros.

Medical assistance plan and other benefits

The obligation recognized in the balance sheet is as follows:

		Un: Thousand euros
	2007	**2006**
Present value of the obligation	27 963	32 128
Fair value of plan assets	-	-
Obligation in the Balance sheet	**27 963**	**32 128**

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 other reconciliation

		Un: Thousand euros
	2007	2006
At January 1st	**32 128**	**32 975**
Current service costs	637	653
Interest costs	1 420	1 377
Benefits paid	(859)	(978)
Actuarial (gains) / losses	(5 443)	(1 999)
Other benefits	82	100
At December 31st	**27 963**	**32 128**

The impact of the medical assistance and other benefits plan in the consolidated income statement is as follows:

		Un: Thousand euros
	2007	2006
Current service costs	637	653
Interest costs	1 420	1 377
Other benefits	82	100
Total charged to employees costs	**2 139**	**2 130**

Impact of actuarial gains and losses on consolidated statement of recognized income and expenses are as follows:

		Un: Thousand euros
	2007	2006
Period actuarial gains and losses	(5 444)	(1 999)
Accumulated actuarial gains and losses	4 525	9 970

Life insurance

		Un: Thousand euros
	2007	2006
Total responsibilities	**60**	**50**
Coverings: Provisions	60	50

The impact of the life insurance plan in the consolidated income statement is as follows:

		Un: Thousand euros
	2007	2006
Increase in the obligation provision	10	39
Total charged to employees costs	**10**	**39**

24. PROVISIONS TO OTHER LIABILITIES AND CHARGES

The provisions evolution during the disclosed years is as follows:

		Un: Thousand euros
	2007	2006
At January 1st	**45 731**	**3 147**
Provision increase	25 792	42 584
Provision decrease	(40 670)	-
At December 31st	**30 853**	**45 731**

The increase of 25 792 thousand euros refers to the estimated cash-out flows to be done by REN due to:

i) pending lawsuits, for which the provision was increased of some 492 thousand euros;

The conclusion dates for these lawsuits 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 of 25 300 thousand euros was recognized for the amounts collected in excess through tariffs that will be reimbursed in 2009.

The decrease in provisions in 2007 refers mainly to litigation process with Amorim, B.V., about GALP dividends received in the year 2006. The final decision was favourable to REN.

25. TRADE AND OTHER PAYABLES

As at December 31st, 2007, the detail of trade and other payables is as follows:

Detail of trade and other payables

	2007			2006 Restated		
Un: Thousand euros	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Current suppliers	153 466	-	153 466	321 422	-	321 422
Other payables						
Other payables	42 381	900	43 281	30 209	991	31 200
Fixed assets suppliers	63 625	-	63 625	74 719	-	74 719
Tax payables (1)	**3 777**	**-**	**3 777**	**8 128**	**-**	**8 128**
Deferred income						
Grants related to assets	18 580	279 685	298 265	8 128	277 289	285 417
Other deferred income	434	-	434	7 941	-	7 941
Accrued costs						
Holidays and holiday subsidies	5 213	-	5 213	4 860	-	4 860
Other acrued expenses	1 302	-	1 302	3 524	-	3 524
Trade and other payables	**288 778**	**280 585**	**569 363**	**458 931**	**278 280**	**737 211**

(1) Tax payables refer to VAT, personnel income taxes and other taxes.

26. SALES OF GOODS AND SERVICES

The detail of the amounts recognized as Sales of goods and services rendered are as follows:

Un: Thousand euros	2007	2006
Sales of goods		
Domestic market	242	112
Sub-total	**242**	**112**
Sales of services - Domestic market		
Electricity transmission and global system management	410 788	348 629
Gas transmission infrastructures	93 719	24 219
Gas underground storage	8 786	2 342
Regasification	35 817	8 374
Electricity services	674	314
Security telecommunications network	2 991	3 284
Others	1 675	446
Sub-total	**554 450**	**387 608**
Total sales of goods and services	**554 692**	**387 720**

The increase in the services rendered during 2007 is mainly due to:

- 2006 figures refer only to 3 month activity of the gas business (acquired in the end of September of 2006);
- a deviation in the estimated tariffs for electricity transmission and global system management activities. REN received in excess an amount of 33.8 million euros, that will be returned in 2008 and 2009. This situation was dully provided in the consolidated balance sheet.

27. EXTERNAL SUPPLIES AND SERVICES

The expenses incurred with external supplies and services are as follows:

Un: Thousand euros	2007	2006
Generators capacity availability costs **i)**	53 795	91 220
Maintenance costs of contractual balance **ii)**	21 803	-
Maintenance costs	14 334	13 945
Cross border interconnection cost	4 904	3 917
External entities fees **iii)**	15 054	6 791
Publicity and promotional expenses	1 537	1 508
Insurance costs	3 499	1 927
Others (less than 1 000 thousand euros)	30 539	11 559
External supplies and services	**145 466**	**130 866**

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 the July 1st, 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, being recognized simultaneously as cost and revenue in REN financial statements.

iii) The fees paid to third parties, refer to specialized works and fees paid by REN, for contractual services and studies.

28. EMPLOYEE BENEFIT EXPENSES

The expenses incurred with the benefits paid or related to personnel, during the year 2007, are as follows:

		Un: Thousand euros
	2007	**2006**
Remunerations		
Board of directors	2 511	1 865
Personnel	24 420	18 600
	26 931	**20 465**
Social charges		
Post-employment benefits cost	2 540	2 055
Bonuses	1 902	1 648
Charges over remunerations	7 124	6 166
Social support costs	2 073	2 019
Sub-total	**15 688**	**13 514**
Employee benefit expenses	**42 619**	**33 979**

The increase in employee benefits expenses is mainly due to the number of staff increase, as a consequence of the acquisition of gas business, in the end of 2006 third quarter.

29. OTHER EXPENSES

Detail of other expenses:

		Un: Thousand euros
	2007	**2006**
ERSE operating costs **i)**	(8 672)	(6 474)
Costs of the PPA not ended **ii)**	(35 469)	-
Taxes	(1 165)	(1 510)
Donations	(922)	(780)
Disposals	(7)	(783)
Power lines dismantlement	(755)	(869)
Others	(1 292)	(7 238)
	(48 282)	**(17 654)**

i) "ERSE operating costs" refers to the debits charged by ERSE to be recovered through the electricity and gas tariffs.

ii) "The excess of cost of remaining CAE", refers to the difference calculated by REN trading, between the fixed and variable costs of the two remaining CAE with Tejo Energia and Turbogás, and the revenue obtained with the sale of the electricity produced under those contracts. The tariff for the electricity overall system management activities, recognized by REN - Rede Eléctrica Nacional, S.A., as revenues, includes an amount that compensates the excess of costs recognized in this heading.

30. OTHER INCOME

Detail of other income:

			Un: Thousand euros
	2007	**2006 - Restated**	**2006**
Supplementary income	835	461	461
Rentals from investment properties	27 687	62 784	62 784
Dividends from available-for-sale financial assets	33	40 694	40 694
Grants "amortization"	13 320	12 677	5 115
PPE disposals	3 410	-	-
Financial investment income	-	523 893	523 893
Others net	1 808	4 605	4 605
	47 093	**645 114**	**637 552**

"Other income" refers to income obtained with the rental of buildings classified as investment properties as well as the operating lease of some equipment. This heading also includes the profit recognized with the "amortization" of grants obtained related with operational assets.

The dividend received in 2006 refers mainly to the dividends distributed by GALP over the 2005 profits.

31. FINANCE INCOME AND COSTS

The detail of the costs supported with borrowings and other financial profits is as follows:

		Un: Thousand euros
	2007	**2006**
Bank borrowings and Comercial paper	82 813	42 603
	82 813	**42 603**
Interest income	5 284	1 000
	5 284	**1 000**

32. INCOME TAXES

The detail of income tax recognized in the consolidated financial statements, is as follows:

Un: Thousand euros	2007	2006
Current income tax	63 705	54 666
Deferred income tax	(21 452)	18 592
Income tax	**42 253**	**73 258**

The income tax reconciliation is as follows:

Un: Thousand euros	2007	2006
Consolidated profit before income tax	187 460	569 880
Tax rate	26.5%	27.5%
	49 677	**156 717**
Expenses non deductible	12 828	3 013
Income non taxable	(26 465)	(86 270)
Deferred income tax rate changed to 26.5%	-	(4 182)
Def. income tax effect – Provisions	5 994	3 224
Def. income tax estimation basis – correction	-	566
Separate settlement	219	189
Income tax	**42 253**	**73 258**
Current income tax	63 705	54 666
Deferred income tax	(21 452)	18 592
Income tax	42 253	73 258
Effective tax rate	**22.5%**	**12.9%**

The income tax rate used in the reconciliation of the income tax recognized in the consolidated income statement was calculated as follows:

	2007	2006
Income tax rate	25.00%	25.00%
Municipality tax	1.50%	2.50%
	26.50%	**27.50%**

33. DIVIDEND PER SHARE

		2007	2006
Profit for the year	(1)	145 150	496 189
Shares in circulation	(2)	534 000 000	106 800 000
Shares owners effect		-	-
	(3)	**534 000 000**	**106 800 000**
Basic profit per share (euro per share)	(1)/(3)	0.27	4.65

The change in the number of shares is a result of the transformation of REN Eléctrica, S.A., into REN SGPS, which implied the company redenomination and the change of object, as referred in Note 1. The increase in the number of shares was achieved through the decrease of the value per share from 5 euros to 1 euro.

The basic and diluted profit per share is the same.

34. DIVIDENDS

The regular dividends paid during 2007 and 2006 amounted to 184 million euros (0.3446 euros per share) and 66 000 million euros (0.6216 euros per share), respectively. The dividend paid in 2007, had an anticipated distribution paid in December of 2006 of 87 million euros. Additionally in 2006, an extraordinary dividend of 288 652 thousand euros (2.703 euros per share) was paid out of other reserves and retained earnings.

There was no approval for the distribution of dividends over the profit of 2007.

35. COMMITMENTS

Commitments assumed by REN as at the closing balance sheet date:

Commitments of investment in tangible assets

The committed investments not yet accomplished at year end are as follows:

Un: Thousand euros	2007	2006
Power lines	49 429	26 999
Substations	105 495	97 381
	154 924	**124 380**

36. CONTINGENCIES

REN Group has the following contingent liabilities resulting from bank guarantees issued:

Beneficiary	Subject
European Community	To accomplish contractual clauses in what refers the financing contract
European Community	To accomplish contractual clauses in what refers the financing contract
Viseu District Court	A pledge for expropriating 63 plots of land for Bodiosa's substation
Braga and C. Branco district Court	A pledge for expropriating plots of land for Pedralva's and C. Branco substations
Silves Municipality	Convenant for building in Tunes
Anadia District Court	A pledge for expropriating 111 plots of land for Paraimo's substation
Gondomar District Court	Pledge payment concerning to legal process nr.1037/2001
Penela and Ansião Distric Court	A pledge for expropriating 83 plots of land for Penela's substation
Vieira do Minho District Court	A pledge for expropriating 29 plots of land to Frades substation
Torres Vedras District Court	A pledge for expropriating 11 plots of land to Carvoeira's substation
Vila Pouca de Aguiar District Court	A pledge for expropriating 2 plots of land
Tábua District Court	A pledge for expropriating 28 plots of land to Tabua's substation
Macedo de Cavaleiros District Court	A pledge for expropriating plots of land to Olmo's substation
OMEL - Operador del Mercado Español de Electricidad	To guarantee payments as being the buyer over the Electricity Spanish Market
MEFF	To guarantee payments as being the buyer over the Electricity Spanish Market
Directorate General of Treasury and Finances	To guarantee the legal process of reimbursement of VAT
Directorate General of Geology and Energy	Concession of natural gas transmission activities
Seixal municipality	Convenant for ongoing processes
European Bank of Investment	For loan convenants
Loures Finance Services	Pledge for ongoing processes
Lisboa Finance Services	Pledge for ongoing processes

The guarantees provided to BEI refer to the transfer to REN of the obligations with the existent borrowings in the gas companies.

Un: Thousand euros

Begining	2007	2006
16-12-2003	643	643
04-12-2007	47	-
22-10-2004	206	206
15-02-2006	800	800
04-05-2006	352	0
26-04-2005	432	432
09-11-2005	-	150
30-06-2006	703	0
03-08-2006	558	0
13-12-2006	297	0
17-04-2007	81	-
07-12-2007	171	-
14-02-2007	190	0
12-01-2001	-	30 000
-	1	0
29-05-2007	1 603	0
26-09-2006	20 000	20 000
-	3 853	3 853
-	43 454	443 454
-	1 306	1 306
-	1 278	1 278
	475 973	**502 121**

37. GROUP COMPANIES CONSOLIDATED

The Group companies included in the consolidated accounts at the year ended December 31st, 2007 are:

Designation / adress	Activity	reference date	Equity	Assets	Liabilities
TELECOMMUNICATION SEGMENT					
RENTELECOM - Comunicações, S.A. Av. Estados Unidos da América, 55 Lisboa	Telecommunications network operation	Dec/07	996	4 575	3 579
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/07	4 986	5 507	548
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/07	2 685	5 553	522
REN - Rede Eléctrica Nacional, S.A. Av. Estados Unidos da América, 55 Lisboa	Services and Maintenance provide (dormant company)	Dec/07	643 290	2 716 958	2 073 668
REN Trading, S.A. Av. Estados Unidos da América, 55 Lisboa	Energy trading	Dec/07	434	84 238	83 804
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/07	432 811	807 057	374 246
REN Armazenagem, S.A. Mata do Urso - Guarda Norte Carriço - Pombal	Undergound storage development, maintenance and operation	Dec/07	82 037	118 179	36 142
REN Atlântico - Terminal de GNL, S.A. Terminal de GNL - Sines	Liquified Natural Gas Terminal maintenance and regasification operation	Dec/07	36 455	290 866	254 412
OTHERS					
REN Serviços, S.A. Av. Estados Unidos da América, 55 Lisboa	Back Office	Dec/07	50	62	12
Joint ventures owned by REN Gasodutos, S.A. Gasoduto Braga Tuy	Gas transmission	Dec/07	6 814	18 165	11 351
Gasoduto Campo Maior - Leiria - Braga	Gas transmission	Dec/07	38 940	89 916	50 977

Un: Thousand euros

Revenues	Profit/ (losses)	% Owned Group	% Owned Individual	Balance sheet
4 122	354	100.00%	100.00%	996
2 284	64	90.00%	90.00%	4 487
1 021	26	90.00%	0.00%	2 417
1 445 132	56 531	100.00%	100.00%	643 290
337 420	384	100.00%	100.00%	434
97 139	23 358	100.00%	100.00%	432 811
9 785	4 585	100.00%	100.00%	82 037
32 809	5 702	100.00%	100.00%	36 455
-	-	100.00%	100.00%	50
3 597	1 154	51%	51%	3 475
23 823	9 441	88%	88%	34 267
				1 240 719

38. RELATED PARTY TRANSACTIONS

As at December 31st, 2007 the Group REN is listed in Euronext - Lisboa and its reference shareholders are: Parpública (State), EDP and Caixa Geral de Depósitos (Note 20).

The detailed list of Group REN's related entities in connection with shareholder's most significant affiliated companies is as follows:

EDP Group
EDP - Energias 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

During the year the following transactions were carried out with related parties:

Transactions and balances with shareholders and its affiliated companies

The transactions occurred during 2007, related to shareholders or its affiliated companies are as follows:

Sales of products and services

		Un: Thousand euros
	2007	2006
Sale of products		
Electricity to EDP	1 463 365	3 025 557
	1 463 365	**3 025 557**
Services provided		
Other services to EDP	592	5 656
	592	**5 656**

The values disclosed as Sales of products are recognized in other debtors, because of REN´s agent role in the acquisition and sale of electricity.

Purchases of products and services

		Un: Thousand euros
	2007	2006
Purchase of products		
Electricity from EDP	737 923	1 720 985
	737 923	**1 720 985**
Purchase of services		
Other services from EDP	4 272	5 303
Interests on Commercial paper from CGD	23 550	15 628
Borrowings commissions from CGD	377	404
Other interests – CGD	3	-
	28 202	**21 335**

The values disclosed as Purchases of products are recognized in other debtors, because of the intermediation nature of the acquisitions and sales of electricity made by REN.

At year end the balances resulting from transaction with shareholders or its affiliated companies are as follows:

Debtors and creditors balances

		Un: Thousand Euros
	2007	2006
Related parties - debtors		
EDP – Trade receivables	48 069	261 431
EDP – Other receivables	5 288	259
	53 357	**261 690**
Related parties - creditors		
EDP – Trade payables	21 441	174 558
EDP – Other payables	3 140	1 998
CGD – Borrowings (Commercial paper)	630 000	494 000
	654 581	**670 556**

Transactions and balances with joint ventures

At year end the balances and transactions with joint venture companies Gasoduto Braga-Tuy and Gasoduto Campo Maior-Leiria-Braga (as listed in Note 37) are as follows:

Transactions

	Un: Thousand Euros	
	2007	**2006**
Sales of services		
Services rendered		
Gasoduto Braga-Tuy	349	210
Gasoduto Campo Maior-Leiria-Braga	20 648	1 332
	20 997	**1 542**
Purchases of products and services		
Purchases services		
Gasoduto Braga-Tuy	824	79
Gasoduto Campo Maior-Leiria-Braga	5 145	5 422
	5 969	**5 501**

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

	Un: Thousand Euros	
	2007	**2006**
Related parties - debtors		
Gasoduto Braga-Tuy	35	554
Gasoduto Campo Maior-Leiria-Braga	2 082	1 028
	2 117	**1 582**
Related parties - creditors		
Gasoduto Braga-Tuy	288	161
Gasoduto Campo Maior-Leiria-Braga	2 018	7 044
	2 306	**7 205**

Board of Directors remuneration

The Board of Directors was considered the only REN Group key management according to IAS 24 definition. As at year ended December 31st, 2007, the remunerations paid to the Board of directors amounts 2 511 thousand euros (2006: 1 865 thousand euros).

	Un: Thousand Euros	
	2007	**2006**
Remuneration and other short-term benefits	2 511	1 865
	2 511	**1 865**

39. SUBSEQUENT EVENTS

As at December 19th, 2007, REN received a notification related with the presentation to the International Chamber of Commerce, of a request for arbitration from Amorim Energia, B.V., against REN, in which REN is accused of violating the obligations assumed in the "Shareholders Agreement relating to GALP Energia, SGPS, S.A.", celebrated in the December 19th, 2005 between REN, Amorim, B.V., and ENI PORTUGAL INVESTMENTS, S.p.A.

Amorim Energia, B.V., 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 (Euros: 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 a correction mechanism, as stated in the shareholders agreement signed, by applying the interest rate Euribor 3 month to the price to be paid by Amorim Energia, B.V., for REN's shareholding in GALP (Euros: 22 644 972). Amorim Energia, B.V., claims also the REN's conviction for the payment of overdue interests at legal rates, counted from the September 12th, 2006 until the date that all the claimed amounts are fully paid.

During 2006, REN and Amorim Energia, B.V., entered into an arbitration process to determine which entity was entitled to the referred dividends, according to shareholders agreement signed. As at the June 15th, 2007, the Arbitration court pronounced its judgment considering the legal action moved by Amorim Energia, B.V., ungrounded, recognizing REN's right to maintain the received amount of Euros 40 669 797.82. The Arbitration Court judgment is final and transferred on trial.

For these reasons, in the aim of the arbitration process initiated by Amorim Energia, B.V., REN presented in the February 6th, 2008 a petition defending the incompetence of the Arbitration Court functioning under the International Chamber of International Commerce to appreciate any of the requests formulated by Amorim Energia, B.V. As at the February 20th, 2008, REN presented its response to the arbitration requirement defending the inadmissibility of the requests formulated by Amorim Energia, B.V., in virtue of the renouncement and/or violation of the arbitration judgment pronounced as at the June 15th, 2007, and even if the court decides to pronounce about the merit of the arbitration request, the total dismissal due to lack of grounds.

Therefore, it is REN's understanding that the referred arbitration procedure does not constitute a present obligation, considering that it is more probable than not that the arbitration procedure will not imply the recognition or constitution of any obligation of REN towards Amorim Energia, B.V., relating to the requests formulated than the opposite (i.e. the total or partial dismissal of the arbitration process).


REN

Individual Financial Statements

INDIVIDUAL FINANCIAL STATEMENTS

BALANCE SHEET AS OF DECEMBER 31ST, 2007

ASSETS Un: Thousand euros

		Years			
		2007			2006
NOTES		AB	AA	AL	AL
	FIXED ASSETS:				
03.a./10.	**Intangible fixed assets:**				
08.	Start-up costs				
08.	Industrial property and other rights			0	78
		0	**0**	**0**	**78**
03.b./10./12./13./14./15.	**Tangible fixed assets:**				
	Land and natural resources			0	1 921
	Buildings and other related improvements			0	29 483
	Plant, machinery and equipment			0	1 586 715
	Vehicles, transport equipment	172	8	164	1 581
	Loose tools			0	387
	Office equipment	46	3	43	4 844
	Other tangible fixed assets			0	535
03.e./03.f./11.	Current fixed assets			0	135 985
		218	**11**	**207**	**1 761 451**
03.k./10./16./48.f.	**Financial investments**				
	Shares in Group companies	1 204 333		1 204 333	511 997
	Shares in associated companies	49 934		49 934	
		1 254 267		**1 254 267**	**511 997**
	CURRENT ASSETS:				
03.c./41.	**Inventories:**				
	Raw materials and consumables			0	945
	Finished products and work in progress				
		0		**0**	**945**
	Medium and long-term receivables:				
48.e.	Other debtors			0	155
		0		**0**	**155**
03.d.	**Short-term receivables:**				
	Customers current a/c			0	262 734
	Group companies	20 877		20 877	18 330
48.d.	State and other public entities	15 734		15 734	24 817
23./25./48.b.	Other debtors	3 130		3 130	55 173
		39 741	**0**	**39 741**	**361 054**
	Bank deposits and cash:				
	Bank deposits	1 251		1 251	1 040
	Cash			0	1
		1 251		**1 251**	**1 041**
48.a.	**ACCRUALS AND DEFERRALS:**				
	Accrued income	98		98	688 121
	Deferred costs	5		5	18 147
		103		**103**	**706 268**
	Total Depreciation		11		
	Total Provisions		0		
	TOTAL ASSETS	**1 295 580**	**11**	**1 295 569**	**3 342 989**

Accountant
No. 30 375
Maria Teresa Martins

BALANCE SHEET AS OF DECEMBER 31ST, 2007

SHAREHOLDERS FUNDS AND LIABILITIES

Un: Thousand euros

NOTES		Years 2007	2006
	SHAREHOLDERS FUNDS:		
36.	Share capital	534 000	534 000
	Share capital adjustments in subsidiaries and associates	389	389
	Reserves		
40.a.	Legal reserves	61 137	33 634
	Other reserves	83 993	
40.b.	Retained earnings	252 819	
	Sub-total	932 338	568 023
40.	Net income for the year	121 681	550 051
40.a.	Antecipated dividends		(87 000)
	TOTAL SHAREHOLDERS FUND	**1 054 019**	**1 031 074**
	LIABILITIES:		
34.	Provisions		
	Other provisions		69 716
		0	**69 716**
29.	**Medium and long-term payables:**		
	Credit instituition loans		259 500
	Other creditors		990
		0	**260 490**
03.d.	**Short-term payables:**		
	Credit institution loans	150 167	1 157 142
	Suppliers	35 612	314 614
	Suppliers of fixed assets	157	73 024
48.d.	State and other public entities	72	48 691
48.b.	Other creditors	55 204	6 799
		241 212	**1 600 270**
48.a.	**ACCRUALS AND DEFERRALS:**		
	Accrued charges	338	44 841
	Deferred income		336 598
		338	**381 439**
	TOTAL LIABILITIES	**241 550**	**2 311 915**
	TOTAL SHAREHOLDERS FUND AND LIABILITIES	**1 295 569**	**3 342 989**

BOARD OF DIRECTORS
José Rodrigues Pereira dos Penedos - Chairperson
Aníbal Durães dos Santos
Victor Manuel Costa Antunes Machado Baptista
Rui Manuel Janes Cartaxo
Fernando Henrique Viana Soares Carneiro

INDIVIDUAL INCOME STATEMENT BY NATURE AS OF DECEMBER 2007

COSTS AND LOSSES

Un:Thousand euros

NOTES		2007		2006	
03.c./41.	Cost of inventories sold and consumed:				
	Electricity			2 793 529	
	Sandry materials		0	643	2 794 172
	Outside supplies and services		5 043		28 925
	Personnel costs:				
43.	Remuneration	1 772		20 924	
	Employees welfare costs:				
	Pension contribuitions			1 798	
	Other	234	2 006	9 603	32 325
03.b.	Amortization and tangible and intangible fixed assets	11		88 644	
	Adjustments				
	Provisions		11	44 335	132 979
	Taxes	5		1 145	
	Other operating costs and losses	74	79	55 733	56 878
	(A)		**7 139**		**3 045 279**
	Losses on associated and Group companies				
	Interest and similar costs				
	Group Compahid				
	Other	3 089	3 089	41 314	41 314
	(C)		**10 228**		**3 086 593**
46.	Extraordinary cost and losses		298		13 370
	(E)		**10 526**		**3 099 963**
03.l./06.	Corporate income taxe		3 527		89 337
	(G)		**14 053**		**3 189 300**
	Net income for the year		121 681		550 051
			135 734		**3 739 351**

Accountant
No. 30 375
Maria Teresa Martins

INDIVIDUAL INCOME STATEMENT BY NATURE AS OF DECEMBER 2007

EARNINGS AND GAINS

Un:Thousand euros

NOTES		2007		2006	
44.	Sales:				
44.a.	Electricity			3 133 556	
44.a.	Sundry Materials				
44.b.	Services provided			1 845	3 135 401
	Variation in prodution				
48.c.	Work for the company				15 525
	Supplementary earnings	1		1 224	
	Other operating earnings and gains	2 339	2 340	895	2 119
	(B)		**2 340**		**3 153 045**
03.k.	Gains on associated and Group companies	90 972		7 765	
	Income from shareholdings			40 670	
	Income from negotiable securities and other financial investments:				
	Group companies			193	
	Others			113	
	Other interest and similar earnings				
	Group companies	1 437		392	
	Others	2	92 411	314	49 447
	(D)		**94 751**		**3 202 492**
46.	Extraordinary income and gains		40 983		536 859
	(F)		**135 734**		**3 739 351**
	Summary:				
	Operating income: (B) - (A) =		(4 799)		107 766
	Net interest and financial expenses: (D - B) - (C - A) =		89 322		8 133
	Net operating income: (D) - (C) =		84 523		115 899
	Income before taxes: (F) - (E) =		125 208		639 388
	Net profit for the financial year: (F) - (G) =		121 681		550 051

BOARD OF DIRECTORS
José Rodrigues Pereira dos Penedos - Chairperson
Aníbal Durães dos Santos
Victor Manuel Costa Antunes Machado Baptista
Rui Manuel Janes Cartaxo
Fernando Henrique Viana Soares Carneiro

INDIVIDUAL INCOME STATEMENT BY FUNCTION AS OF DECEMBER 31ST, 2007

Un. Thousand euros

	Years	
	2007	2006
Sales and services provided		3 135 402
Costs of sales and services		(2 963 545)
GROSS PROFIT	**0**	**171 857**
Other operating income and gains	134 295	538 474
Distribution costs		(3 413)
Administrative overheads	(7 688)	(21 842)
Other operating expenses and losses		(47 023)
OPERATING INCOME	**126 607**	**638 053**
Net cost of finance	(1 399)	(39 335)
Profits (losses) in associated companies and subsidiaries		
Profit (losses) o other investments		40 670
CURRENT INCOME	**125 208**	**639 388**
Taxation on current income	(3 527)	(89 337)
RECURRENT INCOME AFTER TAXATION	**121 681**	**550 051**
Extraordinary income		
Taxation on extraordinary income		
NET INCOME	**121 681**	**550 051**
Earnings per share (euros)	0.23	5.15

CASH FLOW STATEMENT AS OF DECEMBER 31ST, 2007

Un. Thousand euros

	Years			
	2007		2006	
OPERATING ACTIVITIES				
Received from customers	1		2 964 226	
Payments to suppliers	(5 092)		(2 752 534)	
Payments to personnel	(3 338)		(30 227)	
Net cash-flow generated by operations	(8 429)		181 465	
Payment of corporate income taxe	(57 460)		(10 158)	
Other receipts relating to operating activities	124 922		39 847	
Other payments relating to operating activities	(6 161)		(52 932)	
Net cash-flow before extraordinary items	52 872		158 222	
Receipts relating to extraordinary items	0		3 426	
Payments relating to extraordinary items	(298)		(3 966)	
Net cash-flow generated by operating activities (1)		**52 574**		**157 682**
INVESTING ACTIVITIES				
Receipts arising from:				
Investments	0		945 102	
Tangible fixed assets	0		493	
Investment subsidies	0		4 594	
Dividends	0	0	40 670	990 859
Payment relating to:				
Investments	(70 940)		(492 961)	
Tangible fixed assets	(216)		(220 064)	
Intangible fixed assets	0	(71 156)	0	(713 025)
Net cash outlaid on investing activities (2)		**(71 156)**		**277 834**
FINANCING ACTIVITIES				
Receipts arising from:				
Loans raised	600 000		15 390 086	
Interest and similar income		600 000		15 390 086
Payments relating to:				
Loans raised	(450 000)		(15 349 220)	
Interest and similar expenses	(2 934)		(42 463)	
Dividends	(97 000)	(549 934)	(442 047)	(15 833 730)
Net cash outlaid on financing activities (3)		**50 067**		**(443 644)**
Change in cash and cash equivalents (4)=(1)+(2)+(3)		31 485		(8 128)
Effect of foreign-exchange differences				
Cash and cash equivalents at the beginning of the period		(30 401)		(22 273)
Cash and cash equivalents at the end of the period		1 084		(30 401)
BREAKDOWN OF CASH AND CASH EQUIVALENTS				
Cash				1
Immediate operable bank accounts and cash equivalents		1 084		(30 402)
Bank overdrafts		(167)		(31 402)
Bank deposits		1 251		1 000
Other treasury assets				
CASH AND BANKS AS PER BALANCE SHEET		**1 084**		**(30 401)**

NOTES TO THE INDIVIDUAL BALANCE SHEET AND INCOME STATEMENT AS OF DECEMBER 31ST, 2007

(Accounts expressed in thousand euros)

INTRODUCTION

a) The company's business and shareholders

REN - Redes Energéticas Nacionais, SGPS, S.A., resulted from the split of EDP, as set forth in Decree-Law 7/91, of January 8th and Decree-Law 131/94, of May 19th, approved at the General Meeting of Shareholders on August 18th, 1994. On January 5th, 2007 transferred the assets and liabilities referring the Very High Transmission Concession to its subsidiary REN Rede Eléctrica Nacional, S.A., has adopted the present designation and changed its purpose to be a holding company.

REN's share capital is EUR 534 000 000, represented by 534 000 000 shares, with a face value of EUR 1.00 each.

Shareholder	No. of Shares	Share
Parpública - Participações Públicas (SGPS), S.A.	165 545 340	31%
Caixa Geral de Depósitos, S.A.	106 794 660	20%
EDP - Energias de Portugal, S.A.	26 700 000	5%
Logoenergia, SGPS, S.A.	26 700 000	5%
Gestmin, SGPS, S.A.	26 700 000	5%
Oliren, SGPS, S.A.	26 700 000	5%
Red Eléctrica de España, S.A.	26 700 000	5%
Free Float	128 160 000	24%
Total	**534 000 000**	**100%**

b) Financial investments

I. RENTELECOM - Comunicações, S.A.

Was established under Dispatch 128/2001, of October 22nd, issued by the Minister of the Economy, and by public deed of December 7th, 2001. Its object is to establish, manage and operate telecommunications infrastructure and systems, to provide communications service, and to conduct any activity that might be complementary, subsidiary or accessory to the aforesaid, either directly, or by founding or acquiring shareholding in companies. RENTELECOM's share capital is EUR 100 000, represented by 20 000 shares with a face value of EUR 5.00 each. As at December 31st, 2007, all of the company's share capital was owned by REN - Redes Energéticas Nacionais, SGPS, S.A.

II. OMIP - Operador do Mercado Ibérico de Energia (Pólo Português), S.A.

Established under the Minister of the Economy's Dispatch 360/ME/2003, of June 6th, and by public deed of June 16th, 2003, the company was launched on December 10th, 2003.Its object is to organize and manage a support system for transactions and settlements on the Iberian energy market. These responsibilities include:

a) management of the organized energy futures market;
b) brokerage by agents for trading purposes within the Iberian electricity market;
c) management of other energy-based product markets;
d) settlement services for organized energy markets;
e) settlement services for standardized transactions on non-organized energy markets;
f) market-organization services for operating the electricity system.

The company may also enter any complementary subsidiary or accessory activity, either directly or by creating or taking shareholdings in companies. It may also take shareholdings in other companies whose object is the same as or different from its own, even where governed by special rules, and in complementary company groupings.

OMIP's share capital is EUR 2 222 220, represented by 222 222 shares with a nominal value of EUR 10,00 each. As at December 31st, 2007, 90% of these shares were owned by REN - Redes Energéticas Nacionais, SGPS, S.A, and 10% by Omel - Compañia Operadora del Mercado Español de Electricidad, S.A.

III. REN Gasodutos, S.A.

The company was set up in compliance with Council of Ministers Resolution 85/2006, published in Diário da República 125, series B, of June 30th, by deed signed on September 26th, 2006.

Its object is the transport of igh-pressure natural gas and the overall technical management of the national natural gas system with a view to the security and continuity of the supply of natural gas in mainland Portugal.

The company is particularly charged with managing and operating the national natural gas transport network, including the transport of natural gas, the planning, construction, maintenance and operation of infrastructures and facilities needed for the purpose, as required by law and the public concession that it holds, and any other related activities.

The share capital of REN Gasodutos, S.A., is EUR 404 931 169.86, represented by 404 931 169 shares with a face value of EUR 1.00 each. On December 31st, 2007 it was 100% owned by REN - Redes Energéticas Nacionais, SGPS, S.A.

IV. REN Armazenagem, S.A.

The company was set up in compliance with Council of Ministers Resolution 85/2006, published in Diário da República 125, series B, of June 30th, by deed signed on September 26th, 2006.

Its object is the underground storage of natural gas and the construction, operation and maintenance of the infrastructures and facilities needed for the purpose, as required by law and the public concession that it holds, and any other related activities.

The share capital of REN Armazenagem, S.A., is EUR 76 385 561.71, represented by 76 385 561 shares with a face value of EUR 1.00 each. On December 31st, 2007 was 100% owned by REN - Redes Energéticas Nacionais, SGPS, S.A.

V. REN Atlântico, Terminal de GNL, S.A.

The company was set up on April 14th, 1999. Its name was changed to REN Atlântico, Terminal de GNL, S.A., by deed signed on September 26th, 2006.

Its object is the reception, storage and regasification of liquefied natural gas (LNG) at LNG sea terminals and the construction, operation and maintenance of the infrastructures and facilities needed for the purpose, as required by law and the public concession that it holds, and any other related activities.

Its share capital is EUR 13 000 000, represented by 13 million shares with a face value of EUR 1.00 each. On December 31st, 2007, it was 100% owned by REN - Redes Energéticas Nacionais, SGPS, S.A.

VI. REN - Rede Eléctrica Nacional, S. A.

REN - Rede Eléctrica Nacional, S.A., was created on September 26th, 2006 with the name of REN Serviços de Rede, S.A.

The initial Share Capital was EUR 50 000, and increased by the transfer of assets and liabilities pertaining to the Very High Transmission Concession, changing its name to REN - Rede Eléctrica Nacional, S.A.

Its object is to provide electricity transmission services and the overall management of National Electricity System, aiming to ensure the safety of the electricity supply in mainland Portugal. Has the function of managing and operate the VHT Transmission Grid, which includes the electricity transmission, the planning, construction, maintenance and operation of the necessary infrastructures in accordance with the law and the public service concession signed with the grantor.

Share capital is EUR 568 758 994, and is represented by 586 758 994 shares of one euro each. On December 31st, 2007 the capital was totally held by REN - Redes Energéticas Nacionais, SGPS, S.A.

VII. REN Trading, S.A.

REN Trading was incorporated on the June 13th, 2007. Its object is to buy, sell, import and export electricity, buy and sell power capacity and system services as part of its function as PPA manager. Can sell and buy also Natural Gas and other type of fuel to optimize the costs of managing these PPA. It can be made in the spot market or by auctions bilateral contracts or any other legal way.

Its share capital amounts to EUR 50 000 represented by 50 000 shares of one euro each.

VIII. REN Serviços, S.A.

REN Serviços was incorporated on the June 13th, 2007.

Its object is to provide any kind of remunerated back office services like administrative and finance support, regulation services, personnel management, payroll processing, office and buildings assets managing and maintenance, procurement services, etc, to Group companies or to third parties.

Its share capital amounts to EUR 50 000 represented by 50 000 shares of one euro each.

c) General remarks

The notes below follow the numbering sequence set forth in the official Portuguese Accounting Standards. Any notes that have been omitted are either not applicable or not meaningful for an understanding of the financial statements.

ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with the principles, criteria and methods laid down in the official Portuguese Accounting Standards, which means that they were drawn up using the principle of historical cost, adjusted to take account of the revaluation of tangible fixed assets, and going concern, in line with the accounting principles of prudence, consistency, substance over legal form, materiality and accruals and deferrals.

COMPARABILITY

Figures presented in 2006 include amounts related to the Electricity Transmission Grid Concession activity, not being comparable with 2007 figures.

On the February 5th, 2007 the assets and liabilities referring to that Concession were transferred to REN - Rede Eléctrica Nacional, S.A., and its value was considered as part of the share capital increase. The transferred values were as follows:

Un: Thousand euros

ASSETS		LIABILITIES	
FIXED ASSETS		**PROVISIONS**	
Intangibles		**Other provisions**	29 046
Start-up costs			**29 046**
Industrial property and other rights	77		
	77	**Medium and long-term payables**	
		Credit institution loans	259 500
Land and natural resources	1 921	Other creditors	990
Buildings and other related improvements	29 483		**260 490**
Plant, machinery and equipment	1 586 714		
Vehicles, transport equipment	1 582	**Short-term payables**	
Looses tools	387	Credit institution loans	1 157 142
Office equipment	4 844	Suppliers	314 614
Other tangible fixed assets	535	Suppliers of fixed assets	73 024
Current fixed assets	135 985	State and other public entities	4 410
	1 761 451	Other creditors	6 749
			1 555 938
Inventories			
Raw materials and consumables	945	**Accruals and deferrals**	
	945	Accrued charges	44 842
		Deferred income	330 248
Medium and long-term receivables			**375 089**
Other debtors	155		
	155		
Short-term receivables			
Customers current a/c	262 734		
State and other public entities	24 817		
Other debtors	55 173		
	342 724		
Bank deposits and cash			
Bank deposits	1 040		
Cash	1		
	1 041		
Accruals and deferrals		**Share capital (increase)**	**586 709**
Accrued income	688 121		
Deferred costs	12 758		
	700 879		
Total	**2 807 272**	**Total**	**2 807 272**

ACCOUNTING AND VALUATION CRITERIA

a) Intangible fixed assets

Intangible fixed assets are valued at cost, net of amortization and depreciation, within the limits of legally prescribed rates.

b) Tangible fixed assets

A tangible fixed assets are disclosed at the amounts resulting of acquisition and construction costs net of accumulated depreciation.

Fixed assets acquired under leasing contracts, and its liabilities, are accounted for as financial leases, with the result that the corresponding assets are carried in the balance sheet. Consequently, depreciation of these assets and the interest included in lease installments are disclosed in the income statement of the year to which they relate.

Depreciation is calculated on a straight-line basis at the rates specified in a table approved by government dispatch to depreciate assets at a rate which is consistent with the estimated useful life of each type of fixed asset. Finance costs and administrative overheads attributed to fixed assets are depreciated at the same rate as those applied to the fixed assets to which they relate.

c) Accounts receivable and payable in foreign currency

Transactions expressed in foreign currency are translated into local currency at the exchange rate ruling on the date of the transactions.

At year end all accounts payable and receivable in foreign currency are translated into local currency at the official Exchange rate in force on the balance sheet date (note 04). The resulting foreign Exchange differences are accounted for as described in paragraph e) of this note.

d) Paid holidays and holiday subsidies

At the end of each financial year, the company records the expense of holidays and holiday subsidies already due but payable in the following year under accrued expenses and deferred income-accrued expenses.

e) Shareholdings in subsidiaries and associated companies

Shareholdings in subsidiaries and associated companies are reported using the equity method. Under this method, the share in the earnings in subsidiaries and associated companies, proportional to the investments held, are included in the income statement, and the portion of their net value, including any implicit additions resulting from adjustments and transfers, is disclosed in the balance sheet. The figures are based on the approved financial statements of the subsidiaries and associated companies, or, where they are not available, on the best estimates, their reference date being the company's financial year.

f) Income tax

Corporate income tax payable on earnings for the year is based on net earnings, adjusted in accordance with tax law. Underlying time differences for assets and liabilities in the balance sheet are taken into account when calculating the overall tax burden for the year.

CORPORATE INCOME TAX

Corporate income tax for the year ended on December 31st, 2007 can be broken down as follow:

	Un: Thousand euros
Current taxation for the year	(1 861)
Deferred taxes	5 388
Total (earning) charge	**3 527**

Calculation of the taxes can be broken down as follows:

		Un: Thousand euros
Earnings before tax	125 209	
Permanent differences	(111 916)	
	13 293	
Expected taxation at 26.5%		3 523
Autonomous settlement		4
Taxation for the year		**3 527**

In the year ended December 31st, 2007, deferred taxes receivables and payable were as following:

				Un: Thousand euros
	2007	2006	Transfer	Annual effect
Deferred taxes – Assets				
Liabilities not accepted for tax purposes				
Provisions for health care		3 805	(3 805)	
Provision for ongoing lawsuits		1 341	(1 341)	
Provision for other benefits		2 551	(2 551)	
Other provisions		5 388		5 388
Sub-total		**13 085**	**(7 697)**	**5 388**
Deferred taxes – Liabilities				
Tariff differences		172 316	(172 316)	
Pension plan		7 366	(7 366)	
Revaluation of fixed assets		37 189	(37 189)	
Sub-total		**216 871**	**(216 871)**	
Deferred taxation for the year – Total				**5 388**

Deferred taxation liabilities referring to Electricity Transmission Grid Concession Activity and Managing of the Electricity System Activity were transferred to REN - Rede Eléctrica Nacional, S.A., on the February 5th, 2007.

Under current law, income tax returns are subject to review and correction by the tax authorities for four years. The last year deemed to have been paid and not subject to review by the authorities was 2003.

In the company's view, any changes made as a result reviews of its tax returns submitted between 2004 and 2006 are unlikely to have a significant effect on the financial statements as at December 31st, 2007.

PERSONNEL IN THE COMPANY'S SERVICE

The average number of employees in 2007 was 4. There were no non-staff contract workers.

INTANGIBLE FIXED ASSETS

Start-up costs include only the expense of setting up the company.

Industrial property, patents and other rights include the right to use parking spaces for 50 years at Fábrica Igreja Paroquial Santa Joana Princesa.

TANGIBLE AND INTANGIBLE FIXED ASSETS AND INVESTMENTS

a) Gross fixed assets

Un: Thousand euros

Item	Opening balance	Transfer to REN - Rede Eléctrica	Adjustments	Increases	Disposals	Transfers and write-offs	Closing Balance
INTANGIBLE FIXED ASSETS							
Start-up costs	32	32					
Industrial property and other rights	87	87					
TOTAL (1)	**119**	**119**					
TANGIBLE FIXED ASSETS							
Land and natural resources	1 921	1 921					
Buildings and other constructions	52 555	52 555					
Basic equipment	3 314 841	3 314 841					
Specific technical fixed assets	3 304 877	3 304 877					
Power plant land	891 718	891 718					
Electricity transmission	2 216 975	2 216 975					
Sub-stations	1 118 305	1 118 305					
Lines	1 095 785	1 095 785					
Sundry equipment	2 885	2 885					
System management	47 691	47 691					
Accessory equipment	148 493	148 493					
Other basic equipment	9 964	9 964					
Vehicles	1 301	1 301					
Tools and utensils	2 269	2 269					
Office equipment - IT	12 826	12 826		2			2
Other office equipment	5 595	5 595		43			43
Other tangible assets	570	570					
SUBTOTAL (2.1)	**3 391 878**	**3 391 878**		**46**			**46**
Leased fixed assets							
Vehicles	2 756	2 756		172			172
Computer hardware	1 389	1 389					
SUBTOTAL (2.2)	**4 145**	**4 145**		**172**			**172**
CURRENT FIXED ASSETS							
Buildings and other constructions							
Basic equipment	134 491	134 491					
Electricity transmission	126 464	126 464					
Sub-stations	94 829	94 829					
Lines	31 635	31 635					
System management	69	69					
Accessory equipment	7 958	7 958					
Studies and plans	1 493	1 493					
Information systems	1 493	1 493					
SUBTOTAL (2.3)	**135 984**	**135 984**					
TOTAL (2)	**3 532 007**	**3 532 007**		**218**			**218**
FINANCIAL INVESTMENTS							
Financial investments Group companies							
RENTELECOM	641		354				996
OMIP	4 460		27				4 487
REN Atlântico	19 941		20 288				40 229
REN Gasodutos	409 453		23 358				432 811
REN Armazenagem	77 452		4 585				82 037
REN Serviços				50			50
REN Rede Eléctrica Nacional	50		643 240				643 290
REN Trading			384	50			434
Financial investments - share capital in other companies							0
REE - Red Eléctrica de España, S.A.				49 934			49 934
TOTAL (3)	**511 997**	**586 709**	**692 236**	**50 034**			**1 254 267**
SUM TOTAL	**4 044 123**	**3 532 126**	**692 236**	**50 252**			**1 254 485**

The increases in financial investments refer to the shareholdings and equity method calculations.

b) Amortization and adjustments

Un: Thousand euros

Item	Opening balance	Transfer to REN - Rede Electrica	Reforcements	Disposals	Reclass., transf., write - offs & reversals	Closing Balance
INTANGIBLE FIXED ASSETS						
Start-up costs	32	32				
Industrial property and other rights	9	9				
TOTAL (1)	**41**	**41**				
TANGIBLE FIXED ASSETS						
Buildings and other constructions	23 072	23 072				
Basic equipment	1 728 126	1 728 126				
Specific technical fixed assets	1 718 235	1 718 235				
Power plant land	490 815	490 815				
Electricity transmission	1 093 137	1 093 137				
Sub-stations	565 748	565 748				
Lines	525 323	525 323				
Sundry equipment	2 066	2 066				
System management	40 452	40 452				
Accessory equipment	93 831	93 831				
Other basic equipment	9 891	9 891				
Vehicles	1 301	1 301				
Tools and utensils	1 882	1 882				
Office equipment - IT	10 911	10 911	3			3
Other office equipment	3 535	3 535				
Other tangible assets	35	35				
SUBTOTAL (2.1)	**1 768 862**	**1 768 862**	**3**			**3**
Leased fixed assets						
Vehicles	1 174	1 174	8			8
Computer hardware	521	521				
SUBTOTAL (2.2)	**1 695**	**1 695**	**8**			**8**
SUM TOTAL	**1 770 598**	**1 770 598**	**11**			**11**

LEASED FIXED ASSETS

The following fixed assets are leased:

Un: Thousand euros

Equipment	2007	2006
Vehicles – transport equipment		
Gross amount	172	2 756
Accumulated depreciation	8	1 174
IT equipment		
Gross amount		1 389
Accumulated depreciation		521
Net amount	**164**	**2 450**

FINANCIAL INVESTMENTS

Group companies:

Un: Thousand euros

Company name and registered office	Capital held %	Equity	Earnings	
			Year	Amount
RENTELECOM - Comunicações, S.A. Av. Estados Unidos da América, 55-Lisboa	100	996	2007	354
OMIP - Operador do Mercado Ibérico de Energia (Pólo Português), S.A. Av. Estados Unidos da América, 55-Lisboa	90	4 487	2007	58
REN Gasodutos, S.A. Estrada Nacional 116 - V. de Rei - Bucelas	100	432 811	2007	23 358
REN Armazenagem, S.A. Mata do Urso, Guarda Norte - Carriço - Pombal	100	82 037	2007	4 585
REN Atlântico, Terminal de GNL, S.A. SINES - Terminal de GNL - Apartado 268	100	36 455	2007	5 702
REN - Rede Eléctrica Nacional, S.A. Av. Estados Unidos da América, 55 - Lisboa	100	643 290	2007	56 531
REN Trading, S.A. Av. Estados Unidos da América, 55 - Lisboa	100	434	2007	384
REN Serviços, S.A. Av. Estados Unidos da América, 55 - Lisboa	100	50	2007	-

Financial investments in Group companies are disclosed using the equity method.

Financial commitments

REN SGPS has entered into three commercial paper programs to a total EUR 150 million, all were being used as at December 31st, 2007.

Retirement pensions and health care

The responsibilities were transfered to REN - Rede Eléctrica Nacional at January 5th, 2007.

a) Retirement benefits

The following tables provide the position in 2007:

Change in liabilities

Un: Thousand euros

Description	2007	2006
Liabilities at year beginning		48 794
Service and interest expenditure		2 542
Actuarial (gains) / losses		254
Benefits paid		(4 673)
Liabilities at year end		46 917

Changes in fund assets

Un: Thousand euros

Description	2007	2006
Fair value of assets at year beginning		35 415
Return on assets		2 656
Actuarial (gains) / losses		3 310
Benefits paid		(1 477)
Contributions from REN		1 802
Fair value of assets at the end of the year		41 707

Fund coverage shortfall

Un: Thousand euros

Description	2007	2006
At year beginning		13 379
At year end		5 210

Actuarial losses and the cost of past services not carried in the accounts

Un: Thousand euros

Description	2007	2006
At year beginning		37 977
Amortization		(1 913)
(Gains) / Losses liabilities		254
Asset Gains / (Losses)		(3 310)
At year end		33 008

Amounts carried under assets

Description	2007	2006
		Un: Thousand euros
At year beginning		24 598
At year end		27 798

b) Health care

The following tables provide a breakdown of changes in the company's liabilities:

Changes in liabilities

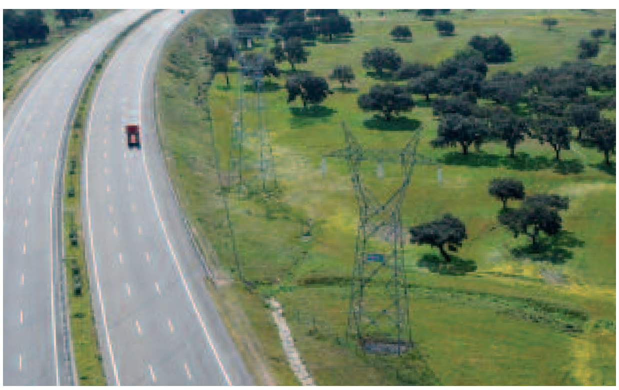
Description	2007	2006
		Un: Thousand euros
Liabilities at year beginning		23 599
Service and interest expenditure		1 445
Benefits paid		(645)
Mutual		100
Funeral subsidies		
Actuarial (gains) / losses		(1 521)
Liabilities at year end		22 978

Actuarial losses not carried in the accounts

Description	2007	2006
		Un: Thousand euros
At year beginning		10 741
Amortization		(599)
(Gains) / Losses – liabilities		(1 521)
At year end		8 621

Liabilities carried in the accounts

Description	2007	2006
		Un: Thousand euros
At year beginning		12 858
At year end		14 357



c) Other benefits

Changes in liabilities

Description	2007	2006
		Un: Thousand euros
Liabilities at year beginning		9 376
Service and interest expenditure		585
Benefits paid		(333)
Actuarial (gains) / losses		(478)
Liabilities at year end		9 150

Actuarial losses not carried in the accounts

Description	2007	2006
		Un: Thousand euros
At year beginning		
Amortization		
(Gains) / Losses – liabilities		(478)
At year end		(478)

Liabilities carried in the accounts

Description	2007	2006
		Un: Thousand euros
At year beginning		9 376
At year end		9 628

d) Main assumptions used in actuarial studies reported on December 31st, 2007

	2007	2006
Annual discount rate		4.50%
Expected percentage of employees eligible for early retirement		10.00%
Annual salary growth rate		3.30%
Total annual pensions growth rate		2.25%
Annual Social Security pensions growth rate		2.00%
Inflation rate		2.00%
Annual growth rate of healthcare costs (for 6 years)		4.50%
Annual growth rate of healthcare costs (after period of 6 years)		4.00%
Management costs (per employee per year)		€ 233
Management costs growth rate – up to 2007		4.50%
Management costs growth rate – after 2007		2.70%
Yield (for following year)		5.37%
Mortality table		TV 88/90

MOVEMENTS IN PROVISIONS

Un: Thousand euros

Item	Opening balance	Transferred to Rede Eléctrica	Increases	Decreases	Closing balance
Provision for ongoing lawsuits	5 061	(5 061)			
Provision for health care	14 357	(14 357)			
Provision for other workers benefits	9 628	(9 628)			
Provision for other costs	40 670			(40 670)	
Total	**69 716**	**(29 046)**		**(40 670)**	

The decrease in "Provision for other costs" results from the reversal of the provision constituted in 2006 for a lawsuit on dividends from the shareholding in GALP with the decision of the arbitral court being favorable to REN.

CAPITAL – NUMBER OF SHARES AND FACE VALUE

Share capital is represented by 534 000 000 nominative book-entry shares, fully paid up, with a face value of EUR 1.00 each.

MOVEMENTS IN EQUITY

Un: Thousand euros

Item	Opening balance	Increases	Decreases	Closing balance
Share capital	534 000			534 000
Adjustment to shares in subsidiaries and associated companies				
Reserves	389			389
Legal reserve	33 634	27 503		61 137
Free reserves		83 993		83 993
Retained earnings		252 819		252 819
Net income for the year	550 051	121 681	(550 051)	121 681
Expected dividends	(87 000)		87 000	
Total	**1 031 074**	**485 996**	**(463 051)**	**1 054 019**

a) The legal reserve has still not been fully constituted under the terms of the law, so that at least 5% of net income available for appropriation will be set aside for this purpose. This reserve may only be used to cover losses or to increase share capital.

b) Movements in retained earnings in 2007 were as follows:

Un: Thousand euros

Opening Balance		**0**
Transfer from 2006 net income		550 051
Appropriated as follows		
Legal Reserve	(27 503)	
Free Reserve	(83 993)	
Dividends	(184 000)	
Employee Share of Profits	(1 736)	(297 232)
Final balance		**252 819**

REMUNERATION OF CORPORATE BODIES

Remunerations paid to members of the corporate bodies was as follows:

	Un: Thousand euros	
	2007	2006
Board of directors	1 370	1 122
Shareholders General Meeting	2	1
Total	**1 372**	**1 123**

NET FINANCIAL INCOME STATEMENT

					Un: Thousand euros
Costs and losses	**2007**	**2006**	**Earnings and gains**	**2007**	**2006**
Interest paid	2 837	40 034	Interest receivable	1 438	698
Group company losses			Group company gains	90 972	7 765
Unfavorable exchange differences		2	Income from shareholding		40 670
Other financial costs and losses	251	1 278	Income from fixed assets		306
Net financial profit	89 323	8 133	Favorable foreign-exchange differences	1	2
			Settlement discounts		6
Total	**92 411**	**49 447**	**Total**	**92 411**	**49 447**

EXTRAORDINARY INCOME STATEMENT

					Un: Thousand euros
Costs and losses	**2007**	**2006**	**Earnings and gains**	**2007**	**2006**
Donations	298	780	Fixed assets gains		524 247
Fixed assets losses		803	Contractual penalties awards		349
Fines and penalties		31	Decrease / provisions	40 670	4 534
Prior-year adjustments		9102	Prior-year adjustments		2 372
Other extraordinary expenses and losses		2 654	Other extraordinary expenses and losses	313	5 357
Net extraordinary income	40 685	523 489			
Total	**40 983**	**536 859**	**Total**	**40 983**	**536 859**

a) "Other extraordinary costs and losses" include inter alia, the following amounts:

		Un: Thousand euros
Description	**2007**	**2006**
Dismantling of power lines		869
Dismantling of power stations		212
Shortfall in estimated tax		1 510
Others (cancellation of VAT not reimbursed)		63
Total		2 654

b) "Other extraordinary earnings and gains" include inter alia, the following amounts:

		Un: Thousand euros
Description	**2007**	**2006**
Investments subsidies		4 651
Sale of scrap		550
Sale of equipments from decommissioning of power plants		5
Regularization of contribution to investment		116
Others (excess in estimate tax)	313	35
Total	**313**	**5 357**

OTHER INFORMATION

a) Accruals and deferrals

The balances appearing in the balance sheet as at December 31st, 2007 comprise:

Item	2007	2006
		Un: Thousand euros
Tariff difference 2005		154 173
Tariff difference 2006		232 511
Tariff deficit		263 566
Pension plan		27 797
Interest to receivable	73	
Other accrued earnings (energy and services provided parties and not billed during the year)	25	10 074
Total	**98**	**688 121**

Deferred costs

Item	2007	2006
		Un: Thousand euros
Deferred tax assets		13 086
Fixed assets repair and improvements		1 081
Interest and other loans charges	5	3 846
Others (rentals and subscriptions)		134
Total	**5**	**18 147**

i) The following movements took place in "fixed asset repairs and improvements":

Description	2007	2006
		Un: Thousand euros
Opening balance		1 760
Additional expenditure during the year		
Written off in the income statement		(680)
		1 081

Accrued costs

Item	2007	2006
		Un: Thousand euros
Holiday paid and related subsidies	333	3 545
Interest and charges payables		6
Other accrued charges	5	41 290
Total	**338**	**44 841**

Deferred income

Item	2007	2006
		Un: Thousand euros
Investment subsidies		107 792
Surface rights for Tapada do Outeiro Gas power station		1 797
Income from thermal power		3 616
Deferred taxation		216 871
Others – Difference from purchase of shareholding in REN Atlântico		6 351
Others – Early billing of work to be done		171
Total		**336 598**

ii) "Investment subsidies", "surface rights" and "income from thermal power" reflect the accumulated net.

b) Other short-term receivables and payables

The balances appearing in the balance sheet as at December 31st, comprise:

Other debtors	2007	2006
		Un: Thousand euros
Advances to employees		29
Consultants, advisors and intermediaries		1
Miscellaneous operations with third parties	264	55 971
Miscellaneous operations with Group companies	2 866	
Total	**3 130**	**56 001**

Other creditors	2007	2006
		Un: Thousand euros
Trade unions		6
Creditors by non-liberated subscription REN - Serviços de Rede, S.A.		50
Sundry creditors		6 743
Miscellaneous operations with Group companies	55 204	
Total	**55 204**	**6 799**

The "Miscellaneous operations with Group companies" refer the payments made by REN - Rede Eléctrica Nacional, S.A., in name of REN SGPS.

c) Own work capitalized

Breakdown of the amounts disclosed in the Statement of Income:

		Un: Thousand euros
Item	**2007**	**2006**
Materials consumed		449
Direct internal charges		7 723
General administrative overheads		2 746
Financial charges		4 607
Total		**15 525**

d) State and other public entities

Breakdown of the amounts carried in the balance sheet on December 31st:

		Un: Thousand euros
Description	**2007**	**2006**
Credit balance	72	48 691
Corporate income tax (IRC)		44 281
Income tax retention	45	3 880
Social Security contribution	27	530
Debit balance	15 734	24 817
VAT receivable	380	24 817
Corporate tax receivable	15 354	

e) Other medium and long-term receivables and payables

The balances appearing in balance sheet as at December 31st comprise:

		Un: Thousand euros
Description	**2007**	**2006**
Other debtors		
Guarantees provided for medical services - Sãvida		155
Total		**155**
Other creditors		
Guarantee deposits received		990
Total		**990**

f) Inventory of financial investments

Associate companies	Amount	Nominal value €	Adjust Unit value	Value	% of equity owned
RENTELECOM - Comunicações, S.A.	20 000	5	49.793	995 851	100
OMIP - Operador do Mercado Ibérico de Energia (Pólo Português), S.A.	200 000	10	22.435	4 486 968	90
REN Gasodutos, S.A.	404 931 169	1	1.069	432 811 189	100
REN Armazenagem, S.A.	76 385 561	1	1.074	82 036 636	100
REN Atlântico	13 000 000	1	2.804	36 454 524	100
REN - Rede Eléctrica Nacional, S.A.	586 758 994	1	1.096	643 289 826	100
REN Trading, S.A.	50 000	1	8.675	433 733	100
REN Serviços, S.A.	50 000	1	1.00	50 000	100

g) Transactions with shareholders

REN still has a commercial paper contract with Caixa Geral de Depósitos to a value of EUR 50 million.

Accountant

N.º 30 375

Maria Teresa Martins

Board of Directors

José Rodrigues Pereira dos Penedos - Chairperson

Aníbal Durães dos Santos

Victor Manuel da Costa Antunes Machado Baptista

Rui Manuel Janes Cartaxo

Fernando Henrique Viana Soares Carneiro


Edifício
REN
Redes Energéticas Nacionais
Sessão Especial de
Regulamentado
2007

Legal Certification of Accounts

LEGAL CERTIFICATION OF ACCOUNTS

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT ABOUT THE INDIVIDUAL FINANCIAL REPORT

Russell Bedford

J. MONTEIRO & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS

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LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT PREPARED BY AN AUDITOR ENLISTED IN 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 financial information contained in the Board of Directors' Report and in the attached financial statements of the year ended in 31 December 2007 of **REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.**, comprising: the Balance Sheet as at 31 December 2007, (which shows a total of tEUR 1.295.569 and a shareholders' funds of tEUR 1.054.019, including a net income for the year of tEUR 121.681), the Income Statements by nature and by functions, and the Cash-flow Statement for the year then ended, and the respective Notes.

RESPONSIBILITIES

2. The Company's Board of Directors is responsible for:

   - the preparation of the Board of Directors' Report and of the financial statements, which present a true and fair view of the Company's financial position, the results of its operations and the cash flows;
   - the historical financial information, to be prepared in accordance with the generally accepted accounting principles 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

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SOCIEDADE DE REVISORES OFICIAIS DE CONTAS

- 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.

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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 2007, the result of its operations and cash flows for the year then ended, in conformity with the accounting principles generally accepted in Portugal and the information contained is complete, true, actual, clear, objective and licit.

Lisbon, March 6, 2008

J. MONTEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
Enlisted in the Portuguese Securities Market Commission nº 9155
Represented by:

José Manuel Carlos Monteiro

LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT ABOUT THE CONSOLIDATED FINANCIAL REPORT

Russell Bedford

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LEGAL CERTIFICATION OF ACCOUNTS AND AUDIT REPORT PREPARED BY AN AUDITOR ENLISTED IN 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 financial information contained in the Board of Directors' Consolidated Report and in the attached consolidated financial statements of the year ended in 31 December 2007 of **REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.**, comprising: the Consolidated Balance Sheet as at 31 December 2007, (which shows a total of tEUR 3.969.534 and a shareholders' equity of tEUR 1.006.329, including a net profit for the year of tEUR 145.208), the Consolidated Income Statement, the Consolidated Statement of Recognized Income and Expense 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 expense, 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*);

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SOCIEDADE DE REVISORES OFICIAIS DE CONTAS

- 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;

Russell Bedford

J. MONTEIRO & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS

- 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 2007, the recognized income and expense, 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, March 6, 2008

J. MONTEIRO & ASSOCIADOS
Sociedade de Revisores Oficiais de Contas, Lda.
Enlisted in the Portuguese Securities Market Commission nº 9155
Represented by:

José Manuel Carlos Monteiro

AUDITORS REPORT IN RESPECT OF THE INDIVIDUAL FINANCIAL INFORMATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
& Associados - Sociedade de
Revisores Oficiais de Contas, Lda.
Palácio Sottomayor
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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 financial statements of REN – Redes Energéticas Nacionais, S.G.P.S., S.A., comprising the balance sheet as at December 31, 2007, (which shows total assets of 1.295.569 thousand of euros and a total of shareholder's equity of 1.054.019 thousand of euros, including a net profit of 121.681 thousand of euros), the statements of income, by nature and by functions, and the 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 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 generally accepted accounting principles in Portugal while also meeting the principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness, 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 financial statements referred to above, particularly as to whether it is complete, truthful, accurate, clear, objective and lawful, as required by the Portuguese Securities Market Code, for the purpose of expressing an independent and professional opinion on that financial information, 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 of the utilization of the equity method; (ii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iii)

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REN – Redes Energéticas Nacionais, S.G.P.S., S.A.

assessing the applicability of the going concern basis of accounting; (iv) assessing the overall presentation of the financial statements; and (v) assessing the completeness, truthfulness, accuracy, clarity, objectivity and lawfulness of the financial information.

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, 2007, the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Portugal and duly comply with principles of completeness, truthfulness, accuracy, clarity, objectivity and lawfulness.

Lisbon, March 6, 2008

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
represented by:

Jorge Manuel Santos Costa, R.O.C.

AUDITORS REPORT IN RESPECT OF THE CONSOLIDATED FINANCIAL INFORMATION

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**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 consolidated 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, 2007, (which shows total assets of 3.969.534 thousand of euros, total minority interests of 555 thousand of euros and a total shareholder's equity of 1.006.329 thousand of euros, including a net profit of 145.150 thousand of euros), the consolidated statement of income, 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 consolidated 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.

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1050 - 217 Lisboa
Matriculada na Conservatória do Registo Comercial sob o nº 506 628 752 (ex nº. 11912)
Inscrita na lista dos Revisores Oficiais de Contas sob o nº 183
NIPC 506 628 752 Capital Social Euros 245.500
Inscrita na Comissão de Valores Mobiliários sob o nº 9077

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REN – Redes Energéticas Nacionais, S.G.P.S., S.A.

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 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, 2007, 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, March 6, 2008

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
represented by:

Jorge Manuel Santos Costa, R.O.C.

REN

REPORT AND OPINION OF THE AUDIT COMMITTEE

CONSOLIDATED ACCOUNTS

In the scope of its responsibilities, the Audit Committee has monitored the operations of REN - Redes Energéticas Nacionais, SGPS, S.A., and its subsidiaries, observed compliance with the laws and regulations and the Company's memorandum of association, supervised compliance with accounting policies and practices and controlled the preparation and disclosure of financial information, the legal revision of the accounts, the effectiveness of the internal control systems, the risk management and the independence of the activity of the Statutory Auditor and the External Auditor.

The Audit Committee has likewise examined the financial information in the Report and Accounts, which includes the attached consolidated financial statements for the year ended on December 31st, 2007 for REN - Redes Energéticas Nacionais, SGPS, S.A., which consist of: the Balance Sheet as at December 31st, 2007, the Income Statement, the Statement of Recognized Cost and Revenue and the Cash Flow Statement for the year, as well as the corresponding Notes to the Consolidated Financial Statements and the Management Report for 2007prepared by the Board of Directors.

The Audit Committee has analysed the Legal Certification of Accounts and the Auditor's Report on the consolidated financial information drawn up by the Statutory Auditor and is in agreement with them.

The Audit Committee has furthermore analysed the Auditor's Report on the Consolidated Financial Information drawn up by the External Auditor, with which it also agrees.

In view of this, the Audit Committee is of the opinion that the Consolidated Financial Statements and the Management Report, and the proposal made therein, are in agreement with the applicable accounting, legal and statutory provisions. We therefore recommend their approval at the General Meeting of Shareholders.

Lisbon, March 6th, 2008

EXTRACT FROM MINUTES OF REN SGPS, S.A., GENERAL SHAREHOLDERS' MEETING

MINUTES OF MEETING 1/2008

(...) "The Board of Directors submitted the following addition to the initial proposal for appropriation of profits. The amounts in the initial proposal for the Legal Reserve, EUR 6 084 072 (six million, eighty-four thousand and seventy-two euros) and Other Reserves, EUR 19 225 668 (nineteen million two hundred and twenty-five thousand six hundred and sixty-eight euros) remain the same:" [and] (...) "the amount proposed for dividends and retained earnings should be changed as follows:

1. Dividends: EUR 87 042 000
2. Retained earnings: EUR 9 329 702

The dividend per share will therefore be EUR 0.163.

Nonetheless, any remaining sum from the distribution of profit will be included in retained earnings."

(...) "The motion (...) was approved by majority of votes cast (356 533 393 in favour, 2 840 against and 10 490 abstentions, corresponding to 99.999% votes in favour and 0.001% against).

During the discussion of Point Seven of the Agenda, the Chairperson announced that the officers of the meeting had received only one proposal, signed by shareholders Caixa Geral de Depósitos, S.A., Parpública – Participações Públicas (SGPS), S.A., Logoenergia, SGPS, S.A. and EDP – Energias de Portugal, S.A., who were joined during the meeting by shareholder António Alberto França de Oliveira, which read as follows" (...)

"The management and supervisory bodies of REN – Redes Energéticas Nacionais, SGPS, S.A. performed their duties in 2007 with the highest quality and professionalism, dealing, among other aspects, with the integration of the gas and electricity sector activities and the initial public offering resulting in the admission to trading on Euronext Lisbon of a part of the company's shares;

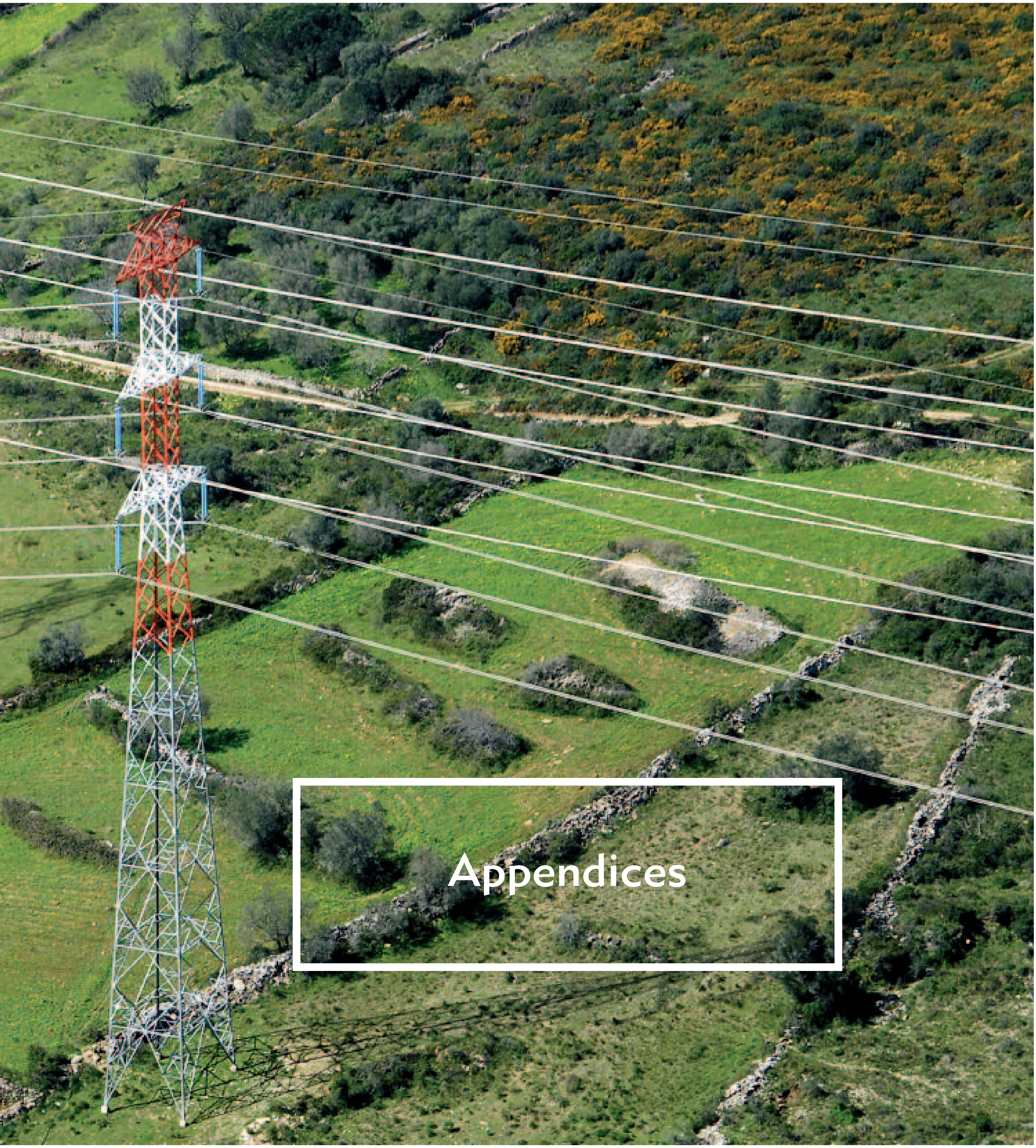
(...) We propose to the General Meeting of Shareholders of REN – Redes Energéticas Nacionais, SGPS, S.A. (...)

A vote of confidence and praise for the Board of Directors and each of its members for their management work in 2007;

A vote of confidence and praise for the Audit Committee and each of its members for their supervisory work in 2007;

A vote of confidence and praise for the statutory auditors for their work in 2007."

(...) "the proposal (...) was approved by all votes cast (356 506 723 in favour, 0 against and 40 000 abstentions, corresponding to 100% votes in favour)."(...)



Appendices

MAIN SHAREHOLDERS AND SHARES HELD BY MEMBERS OF CORPORATE BODIES

With reference to December 31st, 2007, the shareholders that, in accordance with article 20 of the Portuguese Securities Code, held qualifying holdings representing at least, 2% of the share capital of REN - Redes Energéticas Nacionais, SGPS, S.A., were the following:

	No. of shares held	% Capital	% Vote
Parpública - Participações Públicas (SGPS), S.A.	165 545 340	31.00%	31.00%
Caixa Geral de Depósitos, S.A.	106 794 660	20.00%	20.00%
EDP - Energias de Portugal, S.A.	26 700 000	5.00%	5.00%
Gestmin, SGPS, S.A.	27 054 420	5.07%	5.07%
Logoenergia, SGPS, S.A.	34 853 562	6.53%	6.53%
Oliren, SGPS, S.A.	26 700 000	5.00%	5.00%
Red Eléctrica de España, S.A.	26 700 000	5.00%	5.00%

In accordance and for the purposes of article 447 of the Portuguese Companies Code, the number of shares held by the members of the Corporate Bodies at the end of the 2007 financial year was as follows:

	31.12.2007
	Number of shares held[13]
General Shareholders Meeting Board	
Paulo Miguel Garcês Ventura (Vice President)	0 (zero)
Audit Committee	
José Luís Alvim Marinho	0 (zero)
José Frederico Vieira Jordão	0 (zero)
Board of Directors	
José Rodrigues Pereira dos Penedos	50 490[14]
Aníbal Durães dos Santos	10 250[15]
Vítor Manuel da Costa Antunes Machado Baptista	3 810[16]
Rui Manuel Janes Cartaxo	980[17]
Fernando Henrique Viana Soares Carneiro	0 (zero)
Luís Maria Atienza Serna	0 (zero)
Gonçalo José Zambrano de Oliveira	26 700 000[18]
Manuel Carlos Mello Champalimaud	27 107 340[19]

During the financial year of 2007, the following members of the Corporate Bodies performed the following trade operations of shares of REN:

	No. of shares purchased[20]	Date	Paid consideration for each share
General Meeting Board	**0 (zero)**		**0 (zero)**
Audit Committee	**0 (zero)**		**0 (zero)**
Board of Directors			
José Rodrigues Pereira dos Penedos	50 000	10/07/2007	€ 3.458
Levinda de Lourdes Martins Pereira dos Penedos[21]	490	10/07/2007	€ 2.704
Aníbal Durães dos Santos	10 000	16/07/2007	€ 3.794
Raquel de Jesus Delgado dos Santos[22]	250	09/07/2007	€ 2.711
Vítor Manuel da Costa Antunes Machado Baptista	3 330	10/07/2007	€ 2.624
Maria Isabel Rodrigues da Costa Baptista[23]	480	10/07/2007	€ 2.706
Rui Manuel Janes Cartaxo	490	09/07/2007	€ 2.704
Ana Rosa Ferreira de Freitas[24]	490	09/07/2007	€ 2.704
Manuel Carlos Mello Champalimaud	52 920	09/07/2007	€ 2.750

[13] Comprises the shares of the members of the management and supervisory bodies of REN, as well as, if applicable, **(i)** the spouse not judicially separated, regardless of the matrimonial property regime applying; **(ii)** the descendents who are minors; **(iii)** the persons in whose names the shares or bonds are recorded, having been acquired on behalf of the persons referred to in no. 1 and items a) and b) of no. 4 of Article 447 of the Portuguese Companies Code; **(iv)** and the pertaining to a company in which the persons referred to in paragraph 1 and items a) and b) of the referred number are partners with unlimited liability, exercise the management thereof or any of the offices referred to in no. 1, or possess, individually or together with the persons referred to in items a), b) e c) of the referred number, at least half of the company's share capital or votes corresponding thereto.
[14] Comprises 50 000 shares directly held and 490 shares held by the spouse.
[15] Comprises 10 000 shares directly held and 250 shares held by the spouse.
[16] Comprises 3 330 shares directly held and 480 shares held by the spouse.
[17] Comprises 490 shares directly held and 490 shares held by the spouse.
[18] Corresponds to the shares held by the shareholder Oliren, SGPS, S.A., which are attributable for the purposes of article 447 of the Portuguese Companies Code pursuant to being Chairman of the Management body of that company.
[19] Comprises 52 920 shares held directly and 27 054 420 shares held by the shareholder Gestmin, SGPS, S.A., which are attributable for the purposes of article 447 of the Portuguese Companies Code pursuant to being Chairman of the Management body of that company.
[20] Comprises the list of shares covered by no. 1 and 2 of Article 447 of the Portuguese Companies Code in relation to each of the persons referred to in no. 1 of such Article, with referral to the enumerated facts in said numbers and on no. 3 of the same Article 447 of the Portuguese Companies Code.
[21] Spouse of José Rodrigues Pereira dos Penedos.
[22] Spouse of Aníbal Durães dos Santos.
[23] Spouse of Vítor Manuel da Costa Antunes Machado Baptista.
[24] Spouse of Rui Manuel Janes Cartaxo.

DECLARATION OF COMPLIANCE

Pursuant to paragraph c) of article 245°, no. 1 of the Portuguese Securities Code, each of the members of the Board of Directors of REN - Redes Energéticas Nacionais, SGPS, S.A., identified hereunder, hereby declares, with the capacity and in accordance with the respective functions, that, as far as it is aware:

(i) the management report, the financial statements, the auditor's opinion and the other financial statements and documents required by law or regulation concerning the financial year ended on December 31st, 2007 were prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profits or losses of REN - Redes Energéticas Nacionais, SGPS, S.A., and of the companies comprised within its consolidation group;

(ii) the management report concerning such financial year includes a fair review of the development of the business, the performance and the position of REN - Redes Energéticas Nacionais, SGPS, S.A., and of the companies comprised within its consolidation group, including an accurate description of the principal risks and uncertainties that they face.

Lisbon, March 6th, 2008

José Rodrigues Pereira dos Penedos
(Chairman)
Aníbal Durães dos Santos
(Executive Director)
Vítor 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 Luís Alvim Marinho
(Director/Chairman of the Audit Committee)
José Frederico Vieira Jordão
(Director/Member of the Audit Committee)

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 shares
EBIT	Earnings before interest and taxes
Corrected EBIT 2006	EBIT - capital gain from GALP stake sale + impairment loss
Corrected EBIT 2007	EBIT - GALP's provision write off + Land sale (Pego) - Tariff convergence - provision
EBITDA	Earnings before interest, taxes, depreciation and amortization
Corrected EBITDA 2006	EBITDA - capital gain from GALP stake sale + impairment loss
Corrected EBITDA 2007	EBITDA - GALP's provision write off + Land sale (Pego) - Tariff convergence - provision
Corrected EBITDA margin	Adjusted EBITDA / business volume
Pay-out ratio	Ordinary dividends / net profit
Return on Assets (ROA)	Adjusted net profit / 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

TECHNICAL GLOSSARY

Key to abbreviations and units

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
EURELECTRIC	Union of the Electricity Industry
GDP	Gás de Portugal, SGPS, S.A.
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
IFRSs	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	Organization 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
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
SDH	Synchronous Digital Hierarchy
RNTIAT	National natural gas transport network, underground storage and LNG terminal
ROA	Return on Assets
R&D	Research and Development
SAP	Systems, Applications and Products in data processing
SDH	Synchronous Digital Hierarchy
SEI	Independent Electricity System
SEN	National Electricity System
SENV	Non-Bound Electricity System
SEP	Public Electricity Supply System
SGNL	Sociedade Portuguesa de Gás Natural Liquefeito, S.A.
SGPS	Holding company
SNGN	National Natural Gas System
SQR	Service Quality Regulation
SRG	Special Regime Generators
ST	Short Term
TIE	Equivalent Interruption Time
TEN	Trans-European Networks
TSO	Transmission System Operators
UCTE	Union for the Coordination of Transmission of Electricity
UGS	Tariff for General Use of the System
URT	Tariff for Use of the Transmission Grid
VAT	Value Added Tax
VHV	Very high voltage

Units

bcm	10^9 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
m^3	cubic metre
m^3(n)	normal cubic metre (volume of gas metered at 0° 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.	pontos percentuais
s	second
t	tonne
tcm	10^{12} cubic metres
tec	tonne of coal equivalent
TWh	terawatt-hour
USD	United States dollar
US$	United States dollar

APPLICABLE LEGISLATION

Laws and regulations affecting the energy sector published in 2007

Resolution 4/2007,
DR 15 Series I of January 22nd.
Releases from office, at his own request, the Chairperson of the Board of Directors of the Energy Sector Regulator (ERSE) and appoints Vítor Manuel da Silva Santos, as the new Chairperson and José Monteiro Fernandes Braz as a new Board member.

Order 1384-A/2007,
DR 20 Series II of January 29th.
Approves the initial profiles and the reference load diagram for 2007.

Council of Ministers Resolution 50/2007,
DR 62 Series I of March 28th.
Approves measures for the implementation and promotion of the National Energy Strategy.

Decree-Law 101/2007,
DR 65 Series I of April 2nd.
Simplifies the licensing process for electric facilities, be they public service or private service, amending Decree-Laws 26852 of July 30th, 1936, 517/80 of October 31st, and 272/92 of December 3rd.

Ministerial Order 481/2007,
DR 77 Series I of April 19th.
Amends Ministerial Order 96/2004 of January 23rd, which determines that the holders of binding generation licences for hydroelectric or thermoelectric power plants must purchase or lease, from the National Electricity Transmission Grid (RNT) concessionaire, the plots of land on which the plants are located.

Decree-Law 199/2007,
DR 96 Series I of May 18th.
First amendment to Decree-Law 240/2004 of December 27th, which defines the conditions for the termination of the power purchasing agreements (PPAs) and the creation of compensation measures for the positions held by each party to the agreements.

Decree-Law 225/2007,
DR 105 Series I of May 31st.
Lays down a set of measures pertaining to the renewable energy sources included in the national energy strategy established in Council of Ministers Resolution 169/2005 of October 24th.

Decree-Law 226-A/2007,
DR 105 Series I, 2nd Supplement of May 31st.
Establishes the regime for the use of water resources.

Council of Ministers Resolution 74/2007,
DR 106 Series I of June 1st.
Defines a set of conditions for the privatization of REN - Redes Energéticas Nacionais, SGPS, S.A.

Council of Ministers Resolution 87/2007,
DR 129 Series I of June 6th.
Defines a set of complementary conditions for the privatization of REN - Redes Energéticas Nacionais, SGPS, S.A.

Order 11658/2007,
DR 113 Series II of June 14th.
Declares the installation of the Galp Power combined cycle power plant as being of structuring importance for the national economy.

Order 12741/2007,
DR 118 Series II of June 21st.
Defines the commercial conditions for connection to the electricity transmission and distribution networks.

Council of Ministers Resolution 86/2007,
DR 126 Series I of July 3rd.
Approves the National Strategic Reference Framework for the 2007-2013 period.

Order 14669-AZ/2007,
DR 129 Series II of July 6th, 2nd Supplement.
Approves the Infrastructure Operation Regulations (ROI) for the natural gas sector.

Order 15290/2007,
DR 133 Series II of July 12th.
Approves the addenda to the agreements on the early termination of the power purchasing agreements between REN and EDP.

Order 15291/2007,
DR 133 Series II of July 12th.
At the request of EDP - Gestão da Produção de Energia, S. A., sets the annual interest rate in accordance with and for the purposes of Article 7.2a) of Decree-Law 240/2004.

Ministerial Order 782/2007,
DR 138 Series I of July 19th.
Recognises the managing company of the MIBEL daily and intradaily markets and establishes the special rules or obligations for the purchase of energy by the seller of last resort.

Ministerial Order 611/2007,
DR 139 Series II of July 20th.
Defines the nominal rate referenced to the average cost of capital applicable to each electricity generator that is a contracting party in power purchasing agreements subject to early termination.

Decree-Law 264/2007,
DR 141 Series I of July 24th.
Amends Decree-Laws 240/2004 of December 27th and 172/2006 of August 23th, establishing a set of measures aimed at implementing a new phase in the construction and consolidation the Iberian Electricity Market (MIBEL).

Order 16982/2007,
DR 148 Series II of August 2nd.
Establishes the utilisation rate for water resources – National Electricity Transmission Grid.

Order 17744-A/2007,
DR 154 Series II of August 10th.
Approves the revision of the Price Regulations, Business Relations Regulations and Regulations on Access to Networks and Interconnections. Approves the Network Operation Regulations, Compensation Procedures Manual and respective notices, Commercial Agent Procedures Manual, System Manager Procedures Manual and Manual of Procedures for the Joint Management Mechanism for Portuguese-Spanish Interconnection.

Decree-Law 288/2007,
DR 158 Series I of August 17th.
Grants applicants for authorisations or permits for industrial facilities, National Electricity System facilities, National Natural Gas System facilities and National Oil System facilities the possibility of immediately including the compulsory opinion reports in their respective applications.

Law 57/2007,
DR 168 Series I of August 31st.
Authorises the government to approve the legal regime for access to and exercise of wave-energy-based electricity generation.

Order 24145/2007,
DR 203 Series II of October 22nd.
Approves the general conditions for the contracts for the use of the LNG terminal, the use of natural gas underground storage and the use of the national natural gas transport system.

Decree-Law 363/2007,
DR 211 Series I of November 2nd.
Establishes the legal regime applicable to power generation by microgeneration units.

Ministerial Order 1450/2007,
DR 217 Series I of November 12th.
Defines the regulatory regime for the use of water resources approved by Decree-Law 226-A/2007 of May 31st.

Order 27332/2007,
DR 233 Series II of December 4th.
Establishes the joint contracting rules for the Portugal-Spain interconnection capacity.

Decree-Law 391-A/2007,
DR 246 Series I, Supplement of December 2nd.
First amendment to Decree-Law 226-A/2007 of May 31st, which establishes the regime for the use of water resources.

TECHNICAL INDICATORS
Some energy system indicators

Operation of the national electricity transmission grid		2002	2003	2004	2005	2006	2007	Evolution (2007/2006)
NET HYDRAULIC GENERATION	GWh	7 261	14 670	9 216	4 523	10 204	9 522	(7%)
SEP Power Stations	GWh	6 764	13 965	8 818	4 360	9 708	9 194	(5%)
SENV Power Stations	GWh	497	705	398	163	496	328	(34%)
NET THERMAL GENERATION	GWh	29 357	22 394	25 749	30 621	25 478	23 424	(8%)
SEP Power Stations	GWh	29 357	22 190	22 331	25 533	19 750	17 387	(12%)
SENV Power Stations	GWh		204	3 418	5 088	5 728	6 037	5%
TOTAL GENERATION	GWh	36 618	37 064	34 965	35 144	35 682	32 947	(8%)
CROSS-BORDER EXCHANGES (Balance)	GWh	1 899	2 794	6 480	6 820	5 441	7 488	38%
SPECIAL REGIME GENERATION	GWh	2 820	3 688	4 463	6 545	8 754	10 156	16%
CONSUMPTION FROM HYDROELECTRIC PUMPING	GWh	670	485	408	568	703	540	(23%)
TOTAL CONSUMPTION *	GWh	40 667	43 061	45 500	47 940	49 174	50 050	2%
Year-on-year change		1.6%	5.9%	5.7%	5.4%	2.6%	1.8%	
Change corrected for ave. temp. + working days		2.6%	4.3%	4.5%	4.7%	3.2%	2.4%	
PEAK DEMAND								
Generation and Transmission Grid	MW	6 619	7 310	7 453	7 632	7 836	8 121	4%
	day/month	1/Sep	15/Jan	9/Dec	1/Mar	30/Jan	17/Dec	
Public Network Total	MW	7 394	8 046	8 250	8 528	8 804	9 099	3%
	day/month	12/Dec	15/Jan	9/Dec	27/Jan	30/Jan	18/Dec	
INSTALLED GENERATING CAPACITY	MW	9 012	9 392	9 893	10 434	10 434	10 402	0%
Hydraulic	MW	4 157	4 277	4 386	4 582	4 582	4 578	0%
Thermal	MW	4 855	5 115	5 507	5 852	5 852	5 820	(1%)
INSTALLED GENERATING CAPACITY (PREs)	MW	1 168	1 406	1 854	2 391	3 182	3 652	15%
HYDRO CAPACITY RATIO (calendar year)		0.76	1.33	0.83	0.41	0.98	0.77	(21%)
FINAL STORAGE IN RESERVOIRS	GWh	2 170	1 636	1 377	1 565	2 312	1 396	(40%)
GRID LENGTH	km	6 438	6 544	6 489	6 657	7 018	7 426	6%
400 kV	km	1 301	1 403	1 454	1 500	1 507	1 588	5%
220 kV	km	2 717	2 704	2 838	2 875	3 080	3 177	3%
150 kV	km	2 421	2 438	2 198	2 282	2 431	2 661	9%
60 kV	km	-	-	-	-	-	-	-
INSTALLED CAPACITY AT SUBSTATIONS	MVA	17 667	19 165	19 398	19 968	21 135	23 097	9%
Transformation	MVA	11 266	11 744	11 977	12 547	13 264	14 526	10%
Auto-transformation	MVA	6 401	7 421	7 421	7 421	7 871	8 571	9%

Operation of the National Gas Transport Network								
ENTRIES OF GAS	GWh	39 259	38 292	47 818	54 159	51 773	51 113	(1%)
Badajoz	GWh	35 136	31 850	27 791	30 433	23 432	16 430	(30%)
Badajoz (Enagás transit)	GWh	4 122	4 542	4 390	4 403	4 391	1 881	(57%)
Terminal de Sines (GPL)	GWh	0	1 900	15 637	19 318	23 148	31 483	36%
Underground storage	GWh				5	802	1 319	64%
EXITS OF GAS	GWh	39 019	38 040	47 443	54 151	51 628	51 262	(1%)
Electricity generation	GWh	16 050	13 107	19 963	23 286	20 130	21 363	6%
Distribution and industry	GWh	18 849	20 647	22 164	24 342	25 437	27 090	6%
National demand (High-pressure)	GWh	34 899	33 754	42 127	47 628	45 567	48 453	6%
Underground storage	GWh			23	2 040	1 524	933	(39%)
Valença do Minho - exports	GWh	0	0	908	74	150	0	(100%)
Valença do Minho (Enagás transit)	GWh	4 121	4 286	4 386	4 409	4 387	1 876	(57%)
LENGTH OF RNTGN								
High-pressure gas pipeline (84 bar)	km	1 105	1 194	1 218	1 218	1 218	1 218	0%

* Consumption is given at net generation

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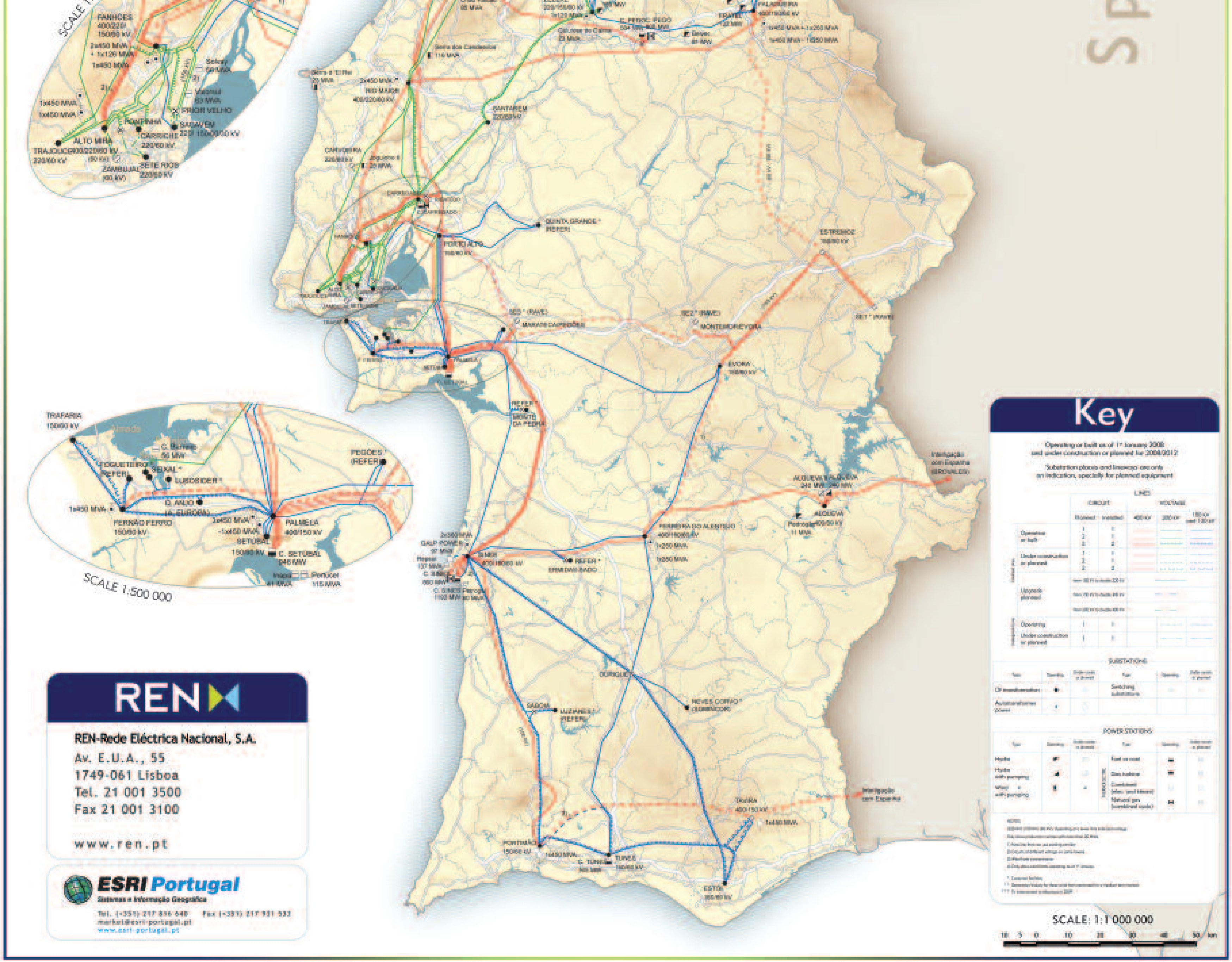
National
Electricity
Transmission Grid
2 0 0 8
January 1st
SCALE 1:400 000
Atlantic
Ocean



Key
Operating or built as of 1st January 2008 and under construction or planned for 2008/2012
Substation places and lineways are only an indication, specially for planned equipment
LINES
SUBSTATIONS
POWER STATIONS
SCALE: 1:1 000 000
SCALE 1:500 000
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PRIOR VELHO
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CARRICHE
SETE RIOS
ZAMBUJAL
TRAJOUCE
PORTO ALTO
QUINTA GRANDE (REFER)
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MONTEMOR
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ALQUEVA
FERREIRA DO ALENTEJO
SINES
GALP POWER
C. SINES
OURIQUE
NEVES CORVO
SABÓIA
LUZIANES (REFER)
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Interligação com Espanha


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VALENÇA DO MINHO
PAREDES DE COURA
LABRUJA
PONTE DE LIMA
VIANA DO CASTELO
PONTE
S. JULIÃO
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OVAR
ESTARREJA
ALBERGARIA A VELHA
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AVEIRO
VISEU
SILGUEIROS
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SOURE
PORTO COELHEIROS
ATALAIA
CARRIÇO
POMBAL
POMBAL
BIDOEIRA
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ORTIGOSA
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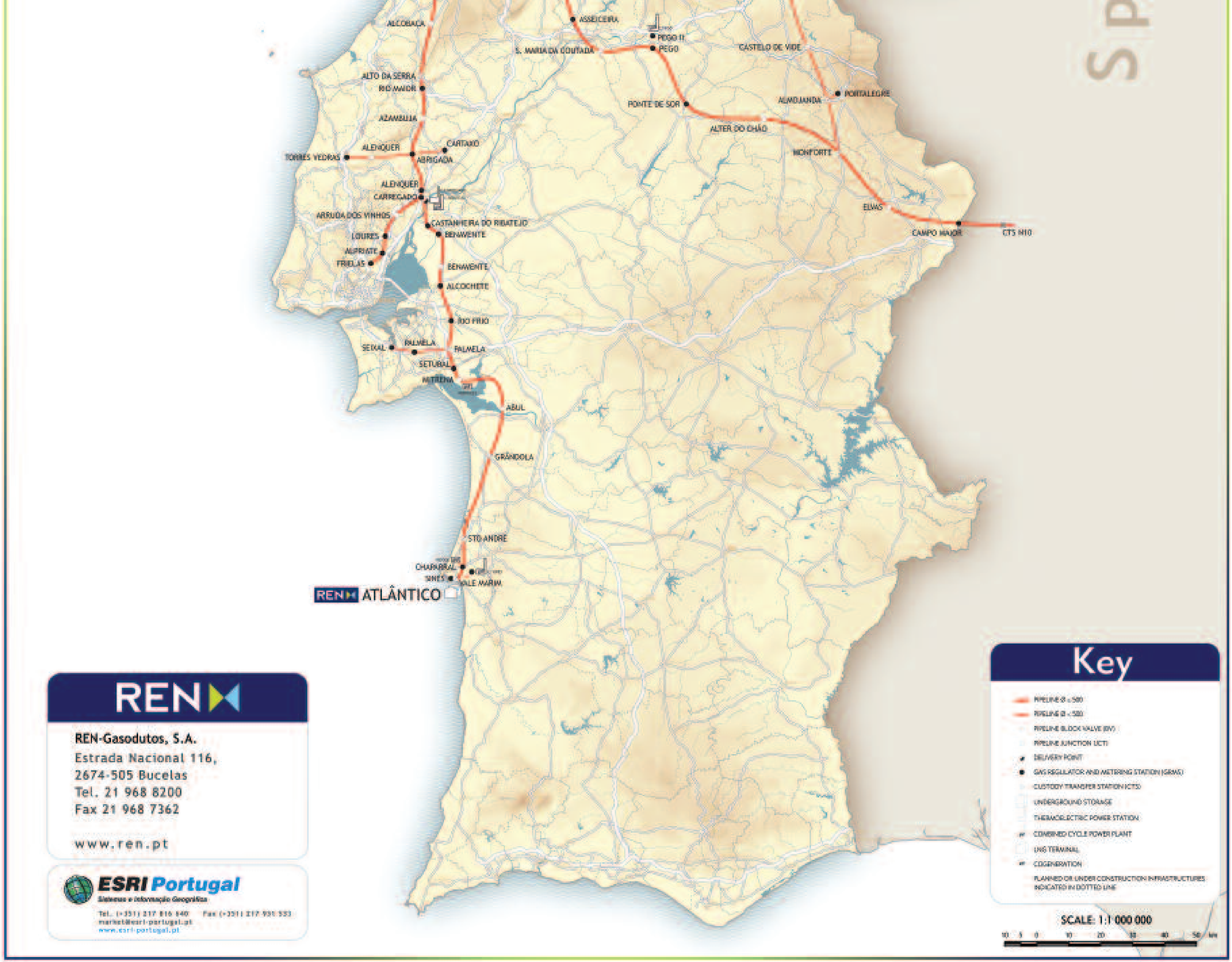

ALCOBAÇA
ASSECEIRA
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PEGO
S. MARIA DA COUTADA
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ALTO DA SERRA
RIO MAIOR
PORTALEGRE
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PIPELINE Ø ≥ 500
PIPELINE Ø < 500
PIPELINE BLOCK VALVE (BV)
PIPELINE JUNCTION (JCT)
DELIVERY POINT
GAS REGULATOR AND METERING STATION (GRMS)
CUSTODY TRANSFER STATION (CTS)
UNDERGROUND STORAGE
THERMOELECTRIC POWER STATION
COMBINED CYCLE POWER PLANT
LNG TERMINAL
COGENERATION
PLANNED OR UNDER CONSTRUCTION INFRASTRUCTURES INDICATED IN DOTTED LINE
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10 5 0 10 20 30 40 50 km
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