ANNUAL REPORT AND ACCOUNTS 2006

REN

Redes Energéticas Nacionais

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ANNUAL REPORT AND ACCOUNTS 2006

REN
Redes Energéticas Nacionais


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CHAIRPERSON'S STATEMENT

On 26 September 2006, REN – Rede Eléctrica Nacional, S.A., bought gas transport assets from GALP to set up the holding company Redes Energéticas Nacionais, SGPS, which has been announced since 2003 as the company that should manage the national electricity transmission and gas transport system within a framework of growing internationalisation of energy supply problems and the setting-up of the MIBEL, the single Iberian electricity market.

This purchase took place at the same time as the sale to Amorim Energia of our 18.3% shareholding in GALP, which REN had owned since December 2003.

Within the restructuring, these operations represent a substantial part of the national energy strategy approved by Council of Ministers Resolution no. 169/2005 of 24 October, involving the restructuring of energy companies.

From a technical point of view, the preparations for the unbundling of GALP's gas transport assets were made in the first seven months of the year and were followed by the signing of a purchase contract on 30 August, unblocking the process of scheduling the privatisation of GALP.

The simultaneous unbundling and sale of REN's shareholding in GALP obviously depended on the publication of legal instruments for the definition and subsequent transfer to REN of the concessions for gas transport, regasification and storage. Decree-Law 140/2006 of 26 July fulfilled this purpose and concession contracts were then signed.

The capital gain of around EUR 524 million from the sale of REN's shareholding in GALP was particularly significant during the year. It was partially distributed to shareholders as extraordinary dividend – EUR 288.7 million in reserves and retained earnings and EUR 87 million as advances on profits.

After the purchase of gas assets for EUR 511.3 million, plus the liability for the net debt associated with them to the amount of EUR 447.4 million and the fact that there was a EUR 74.9 million tariff differences during the year, the EUR 418.5 million surplus from the sale of REN's shares in GALP was insufficient to cover these payments.

Accumulated tariff differences totalled EUR 650.3 million, which represents around 46% of the national electricity grid's net debt. These tariff differences also contributed EUR 74.9 million to the increase of EUR 460.7 million, bringing the company's net consolidated debt up to EUR 1 826.2 million.

The importance of commercial paper, which is the way in which REN's activity is financed, is underscored by the degree of tariff differences, the recovery of which is deferred by regulations. In spite of clear signs of rising interest rates in the second half of the year, the average cost of the debt for the electricity business was 3.14%, as opposed to 3.27% for the Group's businesses, reflecting different borrowing options and the diversity of specific regulatory frameworks.

The potential for synergies from combining the two activities is obvious and the integrated management of the debt also plays an important role that did not make itself felt during the year because of insufficient evaluation time.

In this framework, the Group's consolidated profit is around EUR 550 million, which, after the effect of tax, capital gain and provisions, totals EUR 129.4 million.

For such a special year in REN's life, I would like to point out that the Group's operational performance remained very high. Equivalent interruption time (EIT) in the electricity transmission grid was no more than 0.57 minutes (after discounting the effects of the incident on 4 November, classified as force majeure, which affected some 15 million electricity consumers in the synchronically interconnected European network). Where service

continuity indicators were concerned, availability of the transport system and average length of interruptions of gas supply to delivery points were 100% and 0 minutes, respectively.

Other service quality indicators, ranging from the number of incidents in the electricity transmission grid to the availability rate of the liquefied natural gas (LNG) terminal at Sines, which was 99.53%, are as good as can be expected in any international benchmark year.

An essential indicator for the grid manager is access cost. We will limit ourselves to the electricity transmission grid here, as the regulations governing the gas grid have been provisional. Between 2000 and 2006, the average overall cost of access to the grid increased 0.67%, which helped reduce prices in constant terms. This can be seen clearly in transmission activities after deducting the effect of outside costs like special status generation (SPG), the equalization of prices applying to Madeira and the Azores, rent on the land occupied by power stations and ERSE operating costs.

Regulatory issues are extremely important in REN's current activity, as they have the effect of stabilising the degree of investment in infrastructure to guarantee mandatory quality of service and inspire confidence in the market in terms of foreseeable profits.

The restructuring of regulated natural gas activities coincided with the preparation of the new regulations on concessions, which will only be completed when prices are fixed in June 2007.

Where investment was concerned, priority continued to go to lines and substations to accommodate the pressure resulting from aggressive growth in SPG, which made an 18% contribution to satisfying overall electricity demand. Wind power reached an installed generating capacity of 1 900 MVA.

The electricity grid's infrastructure is being developed with a concern for providing the Iberian market with a technical interconnection capacity between Portugal and Spain that does not become an obstacle to the construction of the MIBEL. As REN is responsible not only for the infrastructure but also for the technical management of the national electricity transmission and gas transport systems, important efforts have been made to foster the emergence of an Iberian regional energy market. This market involves joint participation with Red Eléctrica de España (REE) in measures to improve the use of the connection not only to respond to the concerns of market agents but also to benefit consumers by optimising the infrastructure generated by the two system operators.

OMIP, a REN subsidiary responsible for developing the futures market, finally went into operation in early July, as scheduled at the Évora Summit.

Once again, I would like to underscore the importance of the volume of operations of 5.4 TWh, with an associated value of EUR 302 million, achieved in the second half of the year, in confirming the credibility of the two-centre Iberian regional market (the spot market run by OMEL in Madrid and the futures market run by OMIP in Lisbon).

OMIP's net profit was EUR 85 676 and commissions were quite asymmetrical in relation to price. This is only natural during the start-up phase and can be expected to improve substantially as the market finds its rhythm.

The Badajoz Summit on 24 and 25 November was decisive to OMIP's expected growth, making important decisions on the model and timeline for setting up the Iberian Market Operator (IMO) which is expected to occur in late 2007.

I have not singled out any other subsidiaries, though there is plenty of information on them in the report, for two main reasons - in the case of gas, because of the partial, even atypical nature of only one quarter in full operation and, in the case of

RENTELECOM, because there were no significant developments in the activity of a market that is still finding its feet.

In 2006, REN passed the test of the exceptional motivation of its employees in an environment of restructuring and expected placing on the market in the last quarter. Our regulated activities were reorganised into three new companies, REN – Gasodutos, REN – Armazenagem and REN ATLÂNTICO, and an integrated operating base was prepared in record time.

We also enjoyed the support and understanding of our shareholders at what is always a delicate time of change, as shown by the fact that EDP reduced its shareholding from 30% to 15% by selling three 5% blocks to the new shareholders Oliren, Gestmin and Logoenergia.

We are sure that the year now ended will inspire added confidence in the Portuguese energy grids, with the absolute commitment of its employees and the understanding of our shareholders, working for a more transparent, dynamic market for the good of consumers and the economy.

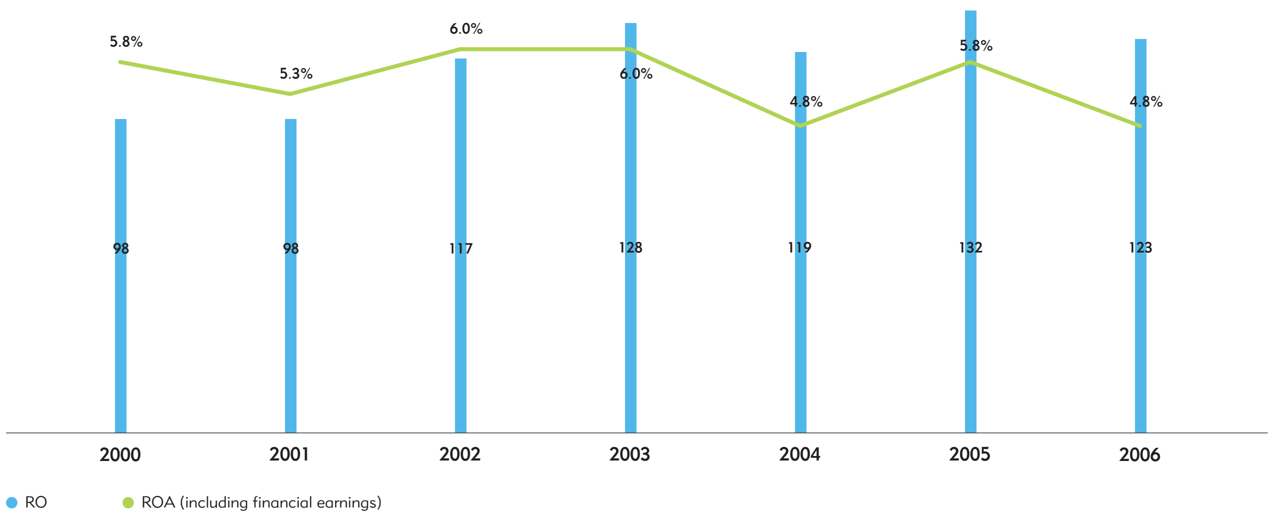
José Penedos

MAIN INDICATORS

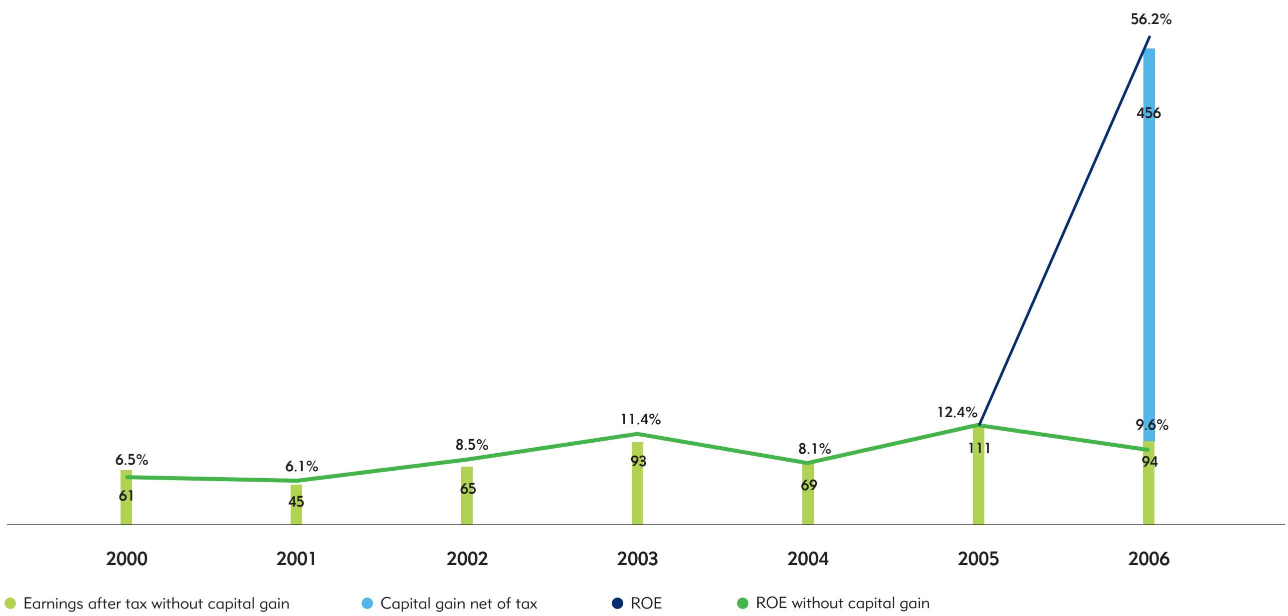
ECONOMIC AND FINANCIAL INDICATORS

GROUP

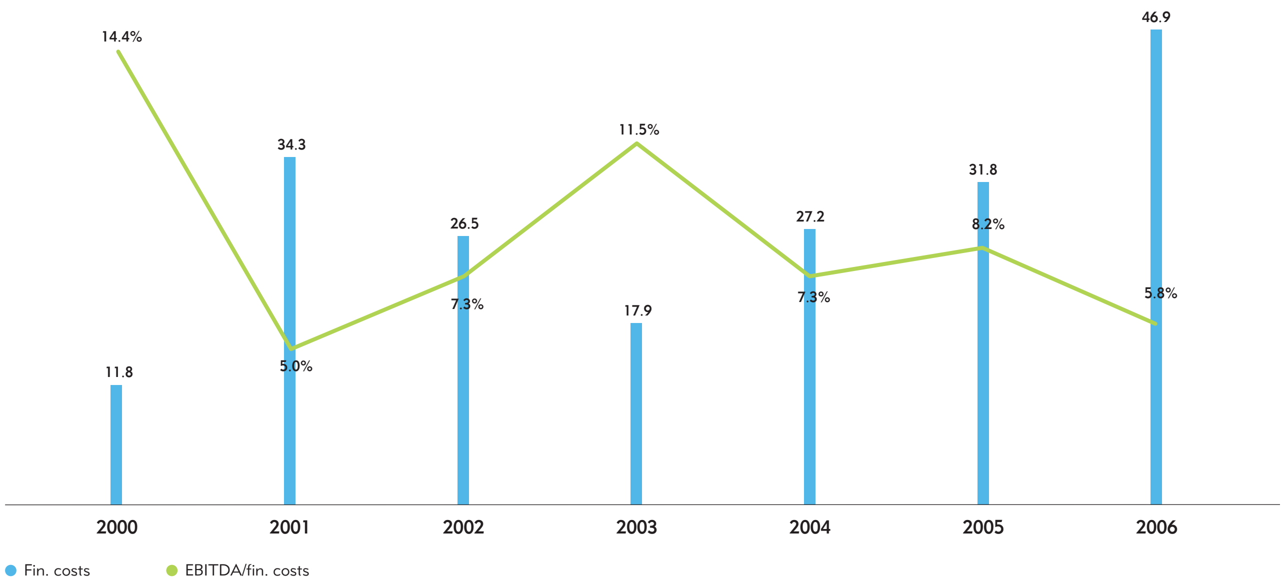
Return on assets (M€)



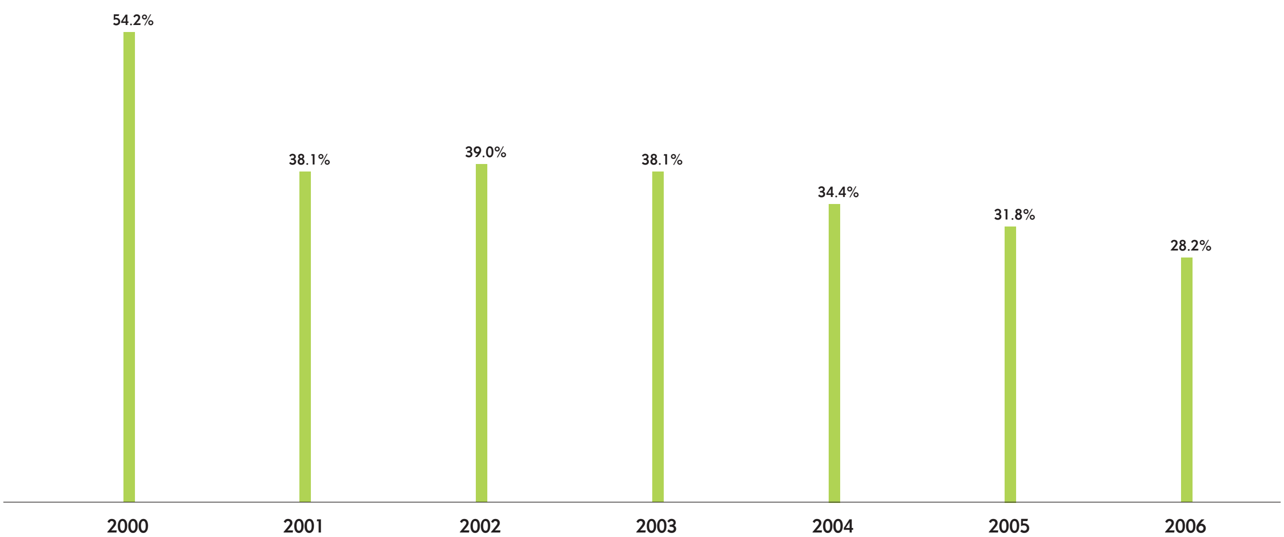
Return on equity and net income (M€)



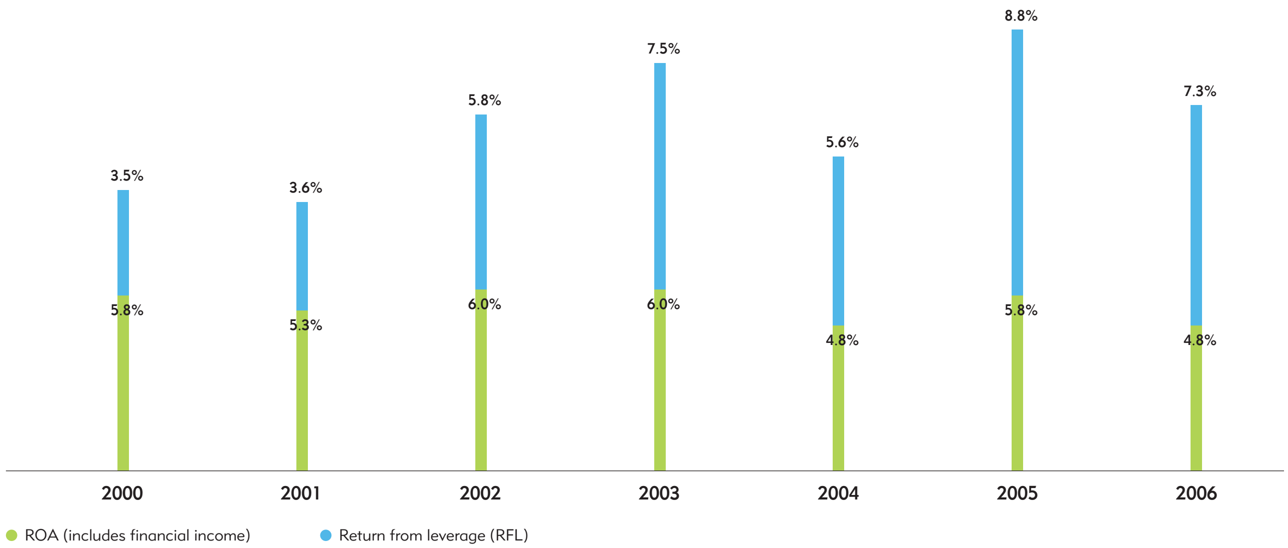
Interest cover (M€)



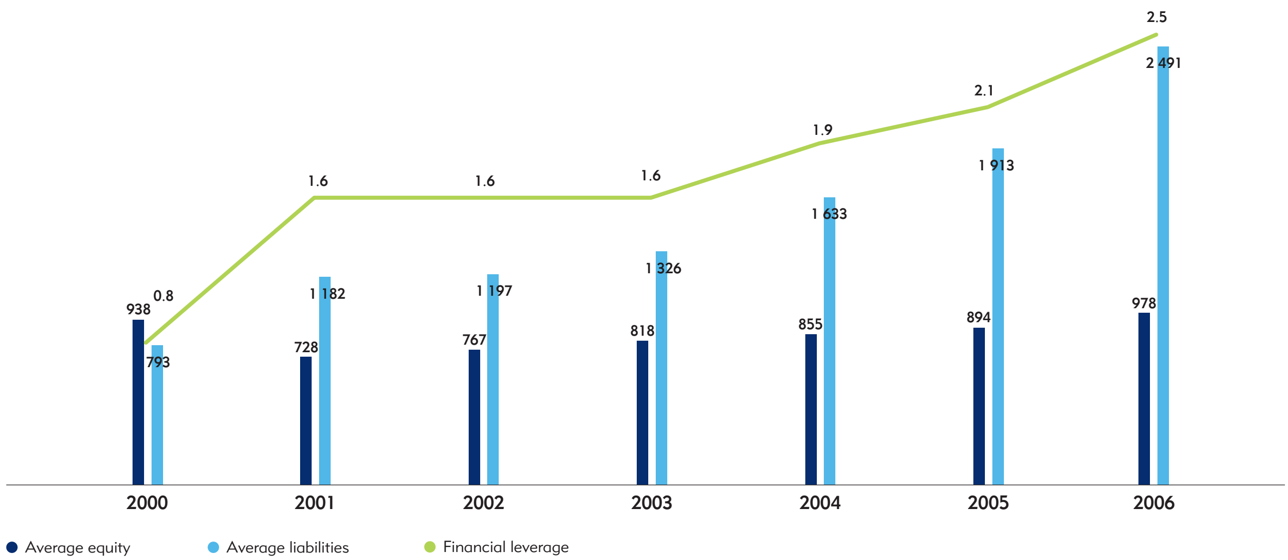
Equity to assets ratio



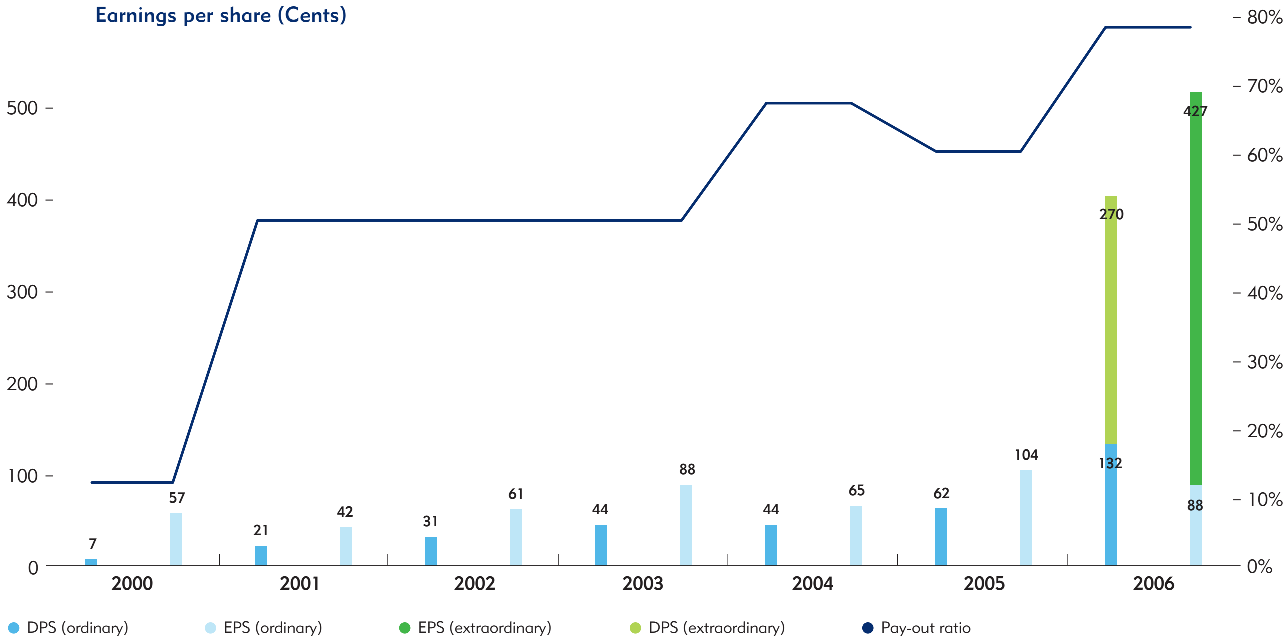
Return on equity before taxes and extraordinary income



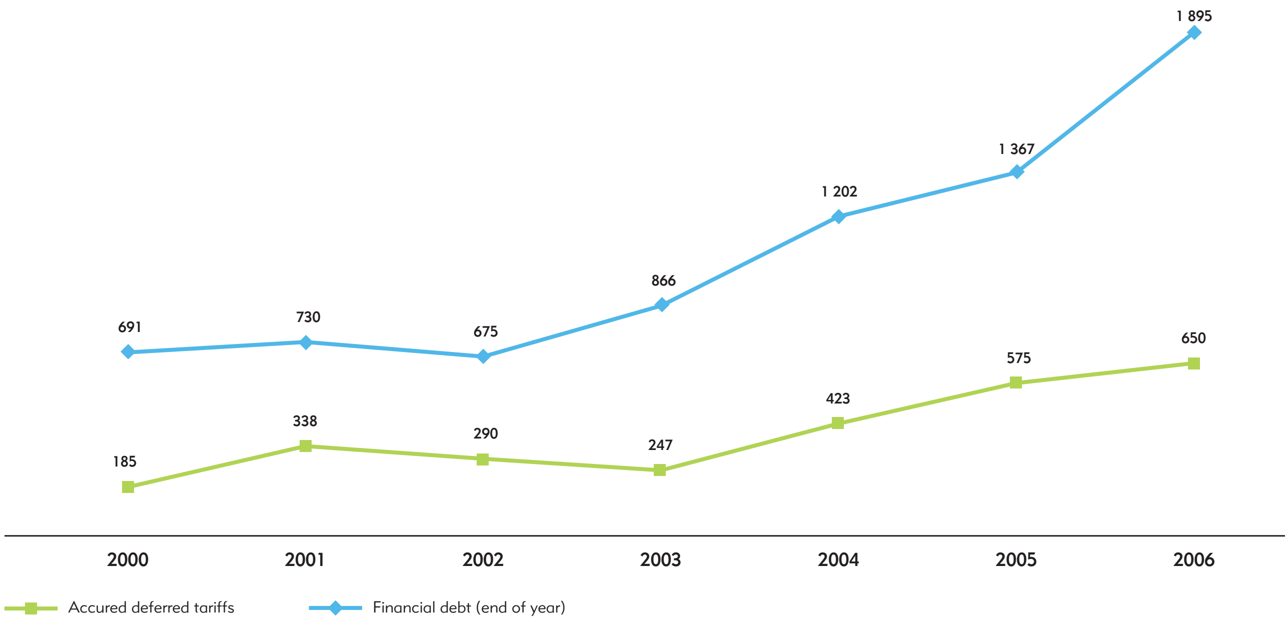
Financial leverage (M€)



Earnings per share (Cents)



Financial debt and tariff differences (M€)



Caption and definitions:

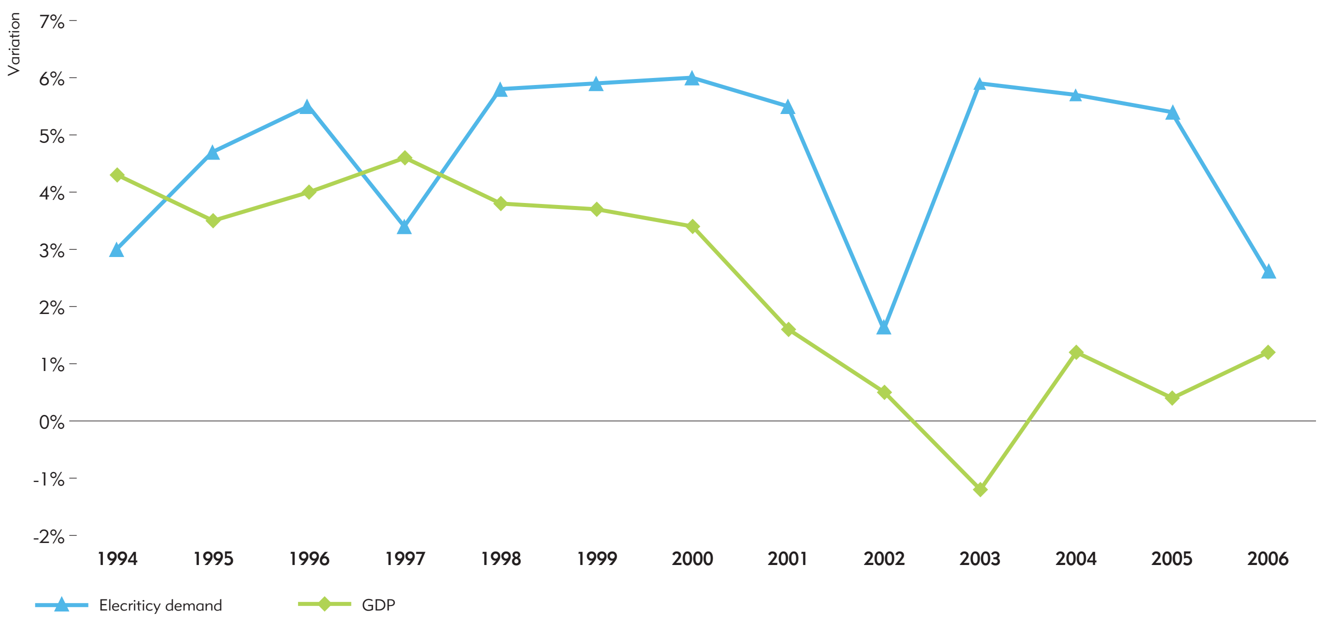
Equity to assets ratio equity/assets
NI net income
E equity
ROA return on assets
Interest expenditure interest expenditure (excluding losses in associated companies)
DPS dividends per share
Combined average margin of contribution/CI
EPS earnings per share
Financial leverage assets/equity
Pay-out ratio dividends/net income
ROE return on equity (ROE): NI/E
RFL return from leverage
CI current income
Current return on equity current income/equity or ROA+RFL

Note: When calculating indicators, the values taken from the balance sheet correspond to average values

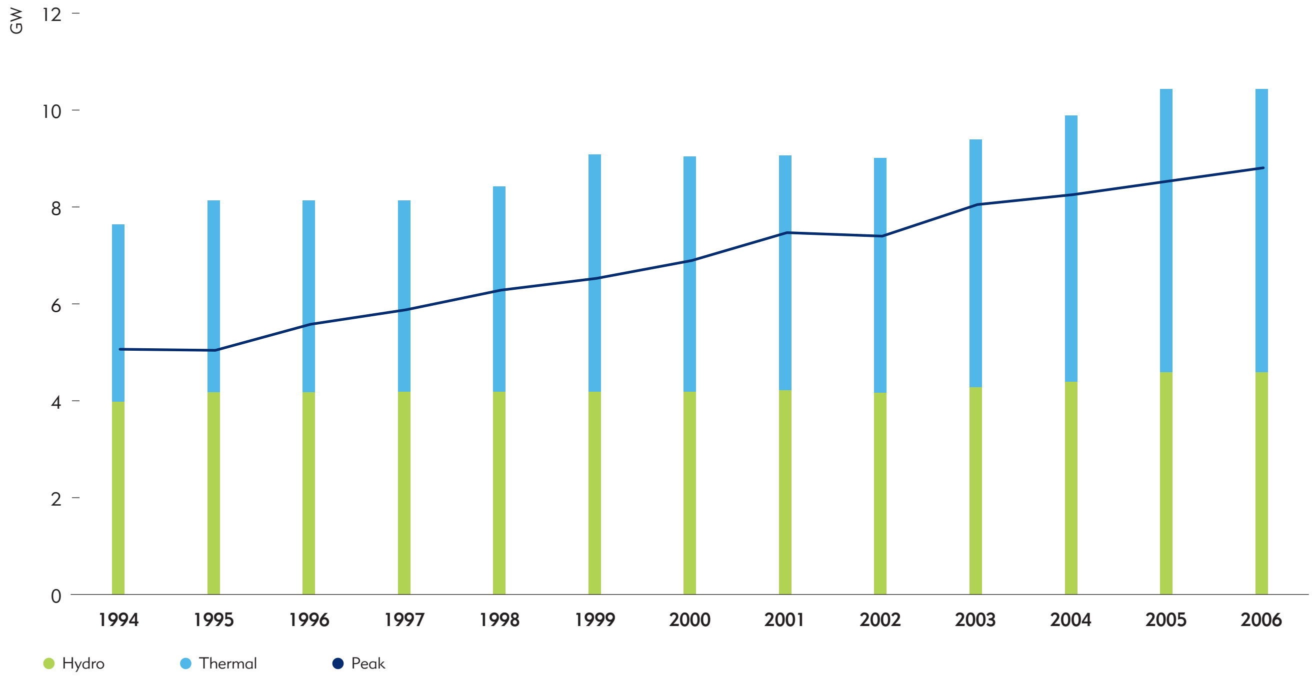
TECHNICAL AND ECONOMIC INDICATORS

ELECTRICITY BUSINESS

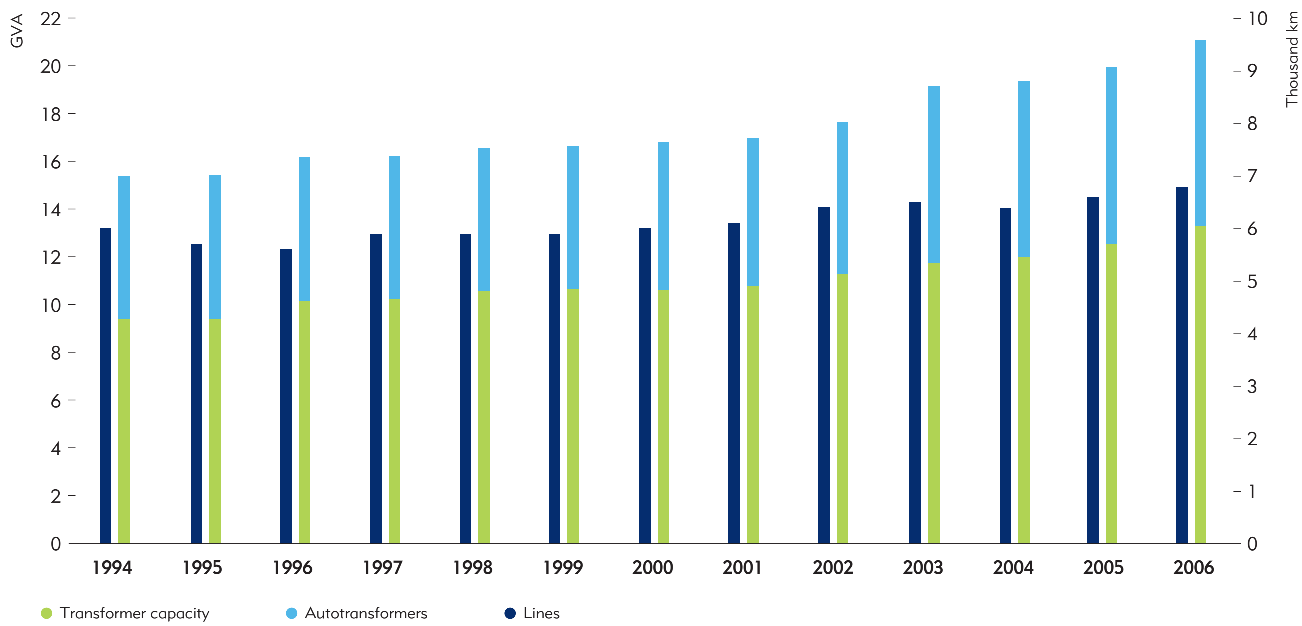
Electricity demand and Gross Domestic Product (GDP)



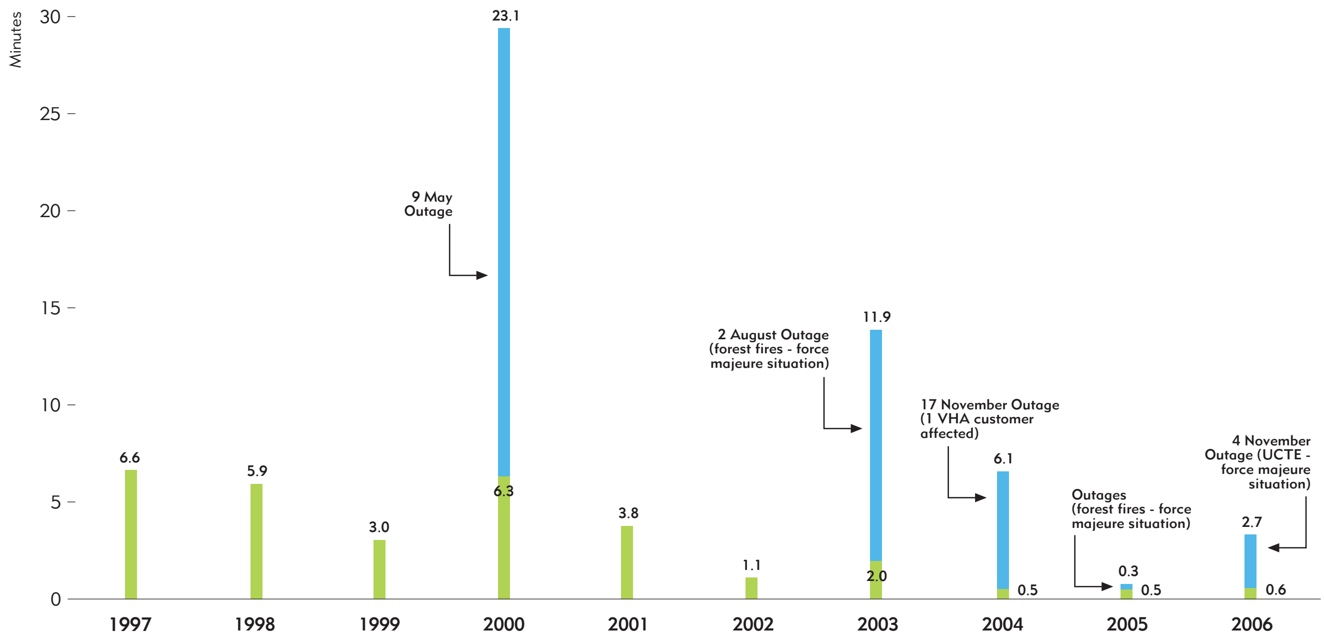
Installed generating capacity and peak load



Line length and transformer capacity



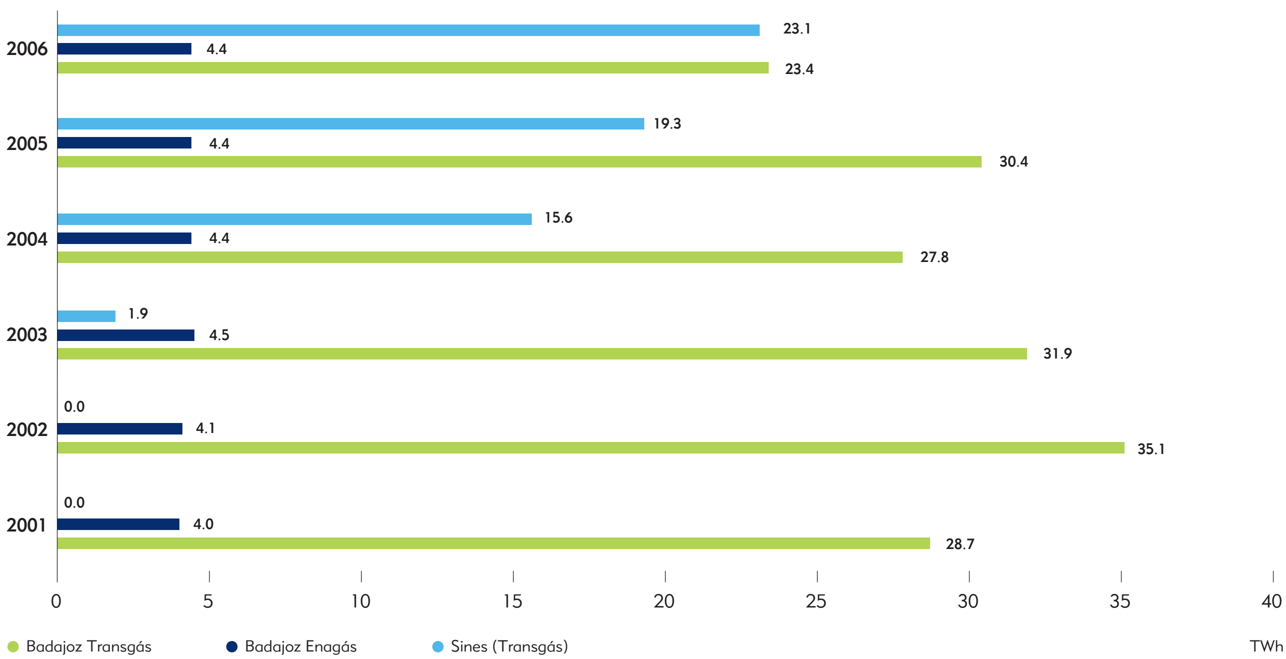
Equivalent interruption time - EIT



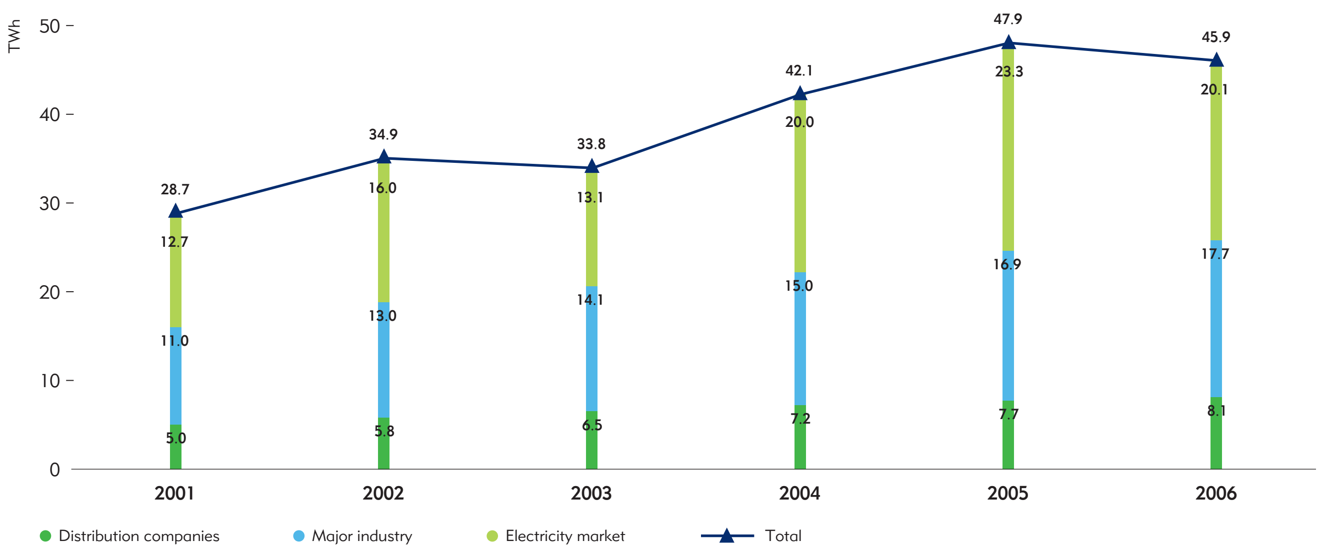
TECHNICAL AND ECONOMIC INDICATORS

NATURAL GAS TRANSPORT AND UNDERGROUND STORAGE

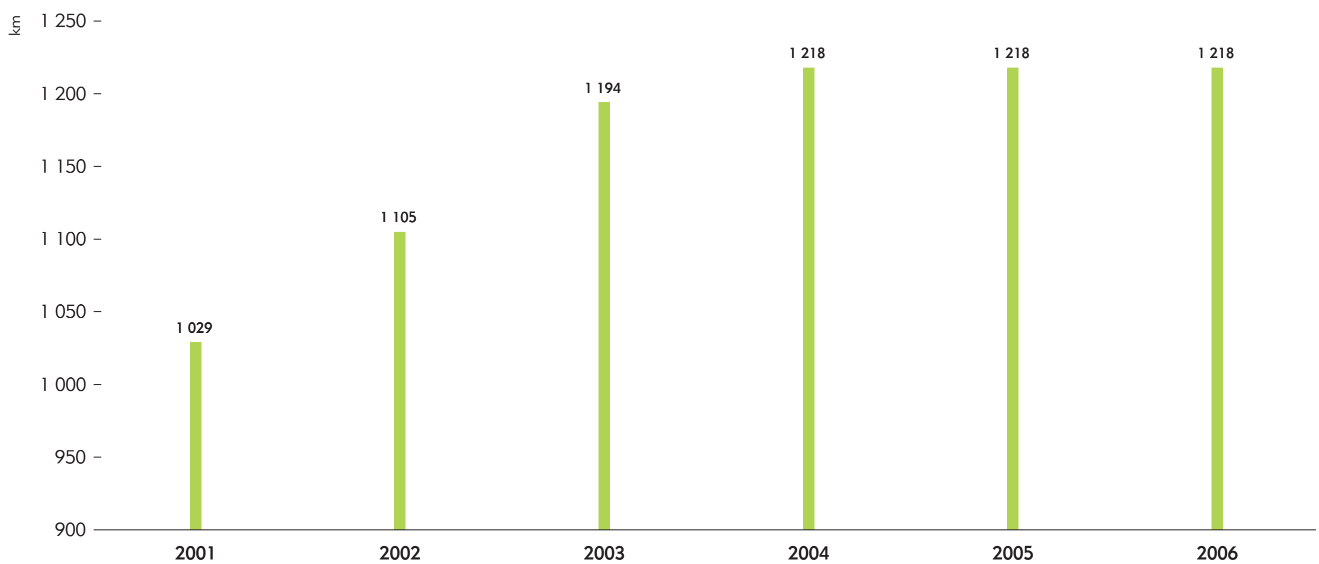
Entries into the NG transport system



Exits from the NG transport system



High-pressure natural gas transport system



(Nominal pressure: 84 bar)

IMPORTANT EVENTS OF THE YEAR

1. Council of Ministers Resolution 85/2006 was approved on 30 June, determining the transfer to REN of natural gas transport, regasification and storage assets and the subsequent reorganisation of the REN Group. It also decided on the change from REN – Rede Eléctrica Nacional to REN – Redes Energéticas Nacionais, SGPS, S.A., a holding company with the sole object of managing the concession companies owned by the Group.

2. The preparations for the initial public offering of part of REN's shares started in the second quarter.

3. As part of the creation of the MIBEL, on 3 July the OMIP, the Portuguese branch of the OMI – Operador do Mercado Ibérico de Electricidade (Iberian Electricity Market Operator) went into operation. It is responsible for negotiating electricity futures contracts for one week or more.

4. On 23 August, Council of Ministers Resolution approved the draft contracts between the State, Transgás and REN's subsidiaries (Redes Energéticas Nacionais, SGPS) defining the relationship between the public service granting authority and concessionaires in gas transport, storage and distribution for a period of 40 years.

5. A REN general meeting of shareholders on 1 September approved the setting-up of the new companies and established their share capital, which was fully paid up by REN. The meeting also decided to amend the memorandum of association of REN – Rede Eléctrica Nacional, S.A., changing its name to REN – Redes Energéticas Nacionais, SGPS, S.A.

6. REN's 18.3% shareholding in Galp Energia, SGPS was sold to Amorim Energia on 16 September.

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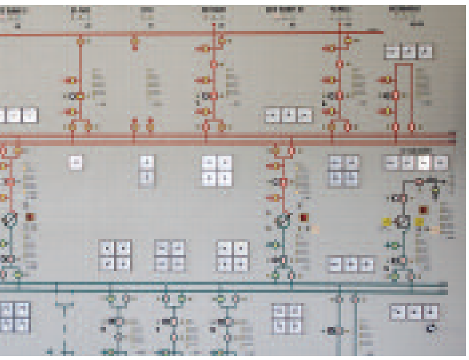
7. On 26 September, the sales contract for the regulated natural gas transport, regasification and storage assets was signed by REN – Rede Eléctrica Nacional, S.A., Transgás, Sociedade Portuguesa de Gás Natural S.A., Transgás SGPS, S.A. and GDP – Gás de Portugal, SGPS, S.A. The assets were transferred to the new REN Group companies: REN Gasodutos, S.A, REN – Armazenagem, S.A. and REN ATLÂNTICO, Terminal de GNL, S.A.

8. Following the sale of REN's shareholding in GALP Energia, SGPS and the capital gain generated by the sale, an extraordinary dividend to the amount of EUR 288.7 million was distributed in September.

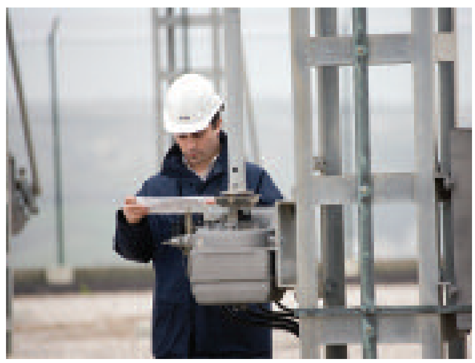
9. Decree-Law 228/2006 of 22 November approving the reprivatisation of part of REN – Redes Energéticas Nacionais, SGPS, S.A. was published.

10. REN's annual equivalent interruption time (EIT) in 2006 was 0.57 minutes, the second best time to date. It does not include the disruption caused by an incident that occurred in Germany on 4 November, in which the national transmission grid (NTG) had to switch off part of its load to help restore the stability of the European UCTE grid to which the NTG belongs. The incident was classified as force majeure, but would have added 2.74 minutes if it had been included in the calculations.

11. REN was awarded the contract in an international call for tenders by the European Union to provide consultancy and construction monitoring services for a 400 kV overhead line in Romania over the next two years.




LNG BAYELSA

MISSION STATEMENT, VISION AND VALUES

THE COMPANY

REN – Redes Energéticas Nacionais, SGPS, S.A., is a holding company running four public service concessions - i) transmission of extra-high-voltage electricity, ii) transport of natural gas at high pressure, 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, independent from energy market operators, guarantees operating synergies and, as set forth in national and European energy strategies, the real separation of the electricity transmission and natural gas transport networks as a way of guaranteeing freedom of access to them by all market agents on an equal, transparent footing.

VISION

Our vision is to be one of the most efficient European electricity and natural gas system operators, creating value for our shareholders within a framework of sustainable development.

MISSION STATEMENT

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

1. Guaranteed supply

Performing concession activities and developing interconnections and unloading terminals to guarantee an uninterrupted supply of energy and meet all quality criteria, creating the right technical conditions for the Iberian electricity and gas market.

2. Impartiality

Guaranteeing to all energy market agents, producers, distributors, suppliers and consumers access to the networks and other infrastructure without discrimination and on an equal footing.

3. 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 for our shareholders.

4. 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 (NTG), REN – Rede Eléctrica Nacional, S.A. has a mission as a public utility company involving the following main activities:

- **Technical management of the national electricity system (SEN) and overall management of the public electricity service system (SEP);**
- **The transmission of electricity at extra-high voltage (400, 220 and 150kV);**
- **Operation of the national electricity transmission grid (NTG) and the construction, maintenance and planning of its infrastructure.**

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

- **Reception, transport, system services and delivery of natural gas through the high-pressure network;**
- **The construction, maintenance, operation and use of all infrastructure making up the national NG transport network and interconnections with other networks and infrastructure and of the facilities required to operate it.**

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

- **The reception, storage, treatment and regasification of LNG, sending natural gas to the national NG transport network and for loading LNG onto tanker trucks or ships;**
- **The building, maintenance and operation of the infrastructure and facilities in question.**

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

- **Reception, injection, underground storage, extraction, treatment and delivery of natural gas, for the formation of safety reserves or for operational and commercial purposes;**
- **Construction, maintenance and operation of all infrastructure and facilities necessary to operate it.**

COMMITMENT TO SOCIETY

In fulfilling its mission of providing a public service in the Portuguese energy sector, REN – Redes Energéticas Nacionais is committed to promoting and defending sustainable development and permanently seeks to create value for its shareholders and other stakeholders.
REN's Board of Directors is committed to adopting an ethically and socially responsible model, giving balanced consideration to its economic, social and environmental decisions.
In harmony with these guidelines, the Board of Directors undertakes to abide by the following principles in all the activities covered by its concession contracts with the State:

- **Contributing to the growth of the economy, managing the Group's activities and investing in the energy sector responsibly and in compliance with the highest values of corporate ethics;**
- **Helping to contain the energy costs borne by consumers and to diversify primary energy sources, acting efficiently as a catalyst in the development of alternative energies and solutions aimed at a more rational energy use;**
- **Ensuring harmonious interaction with the environment, minimising the environmental impacts of its activities, promoting the rational use of natural resources and the prevention of pollution in order to safeguard the rights of future generations and sponsoring the development of renewable energies;**
- **Maintaining and improving quality, environment, safety and occupational health management systems, establishing improvement goals and intermediate targets in these fields, in compliance with the principle of ongoing improvement, regularly assessing results in order to improve the efficacy of its systems and taking corrective action whenever necessary;**

- **Fighting for real respect for the principles of the Universal Declaration of Human Rights, the main International Labour Organisation conventions on labour rules and the United Nations Global Compact initiative;**
- **Promoting the development of our human resources, not only as instruments in creating value for our shareholders but mainly as a cornerstone in the construction of human capital to act as a catalyst in the efficient use of resources and consideration for social and environmental concerns;**
- **Combating all forms of corruption;**
- **Adopting open, constructive forms of dialogue, based on transparency and respect for the truth in our internal and external communication;**
- **Fostering and sponsoring research and development projects of interest to the Group's activity, actively promoting the modernisation of Portuguese technology, with particular focus on the environment;**
- **Sponsoring the initiatives of local communities and society in general with a view to developing the populations that interact most with REN's infrastructure;**
- **Perfecting mechanisms for interacting with stakeholders to ascertain their needs and expectations so that we can improve REN's performance and the satisfaction of employees and other stakeholders;**
- **Instilling respect for these principles and commitments not only in all the Group's employees but also in all suppliers and service providers who work with REN in its different activities and initiatives;**
- **Keeping our stakeholders informed on developments achieved in these areas by publishing an annual sustainability report.**


REN

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Redes Energéticas Nacionais

WHO WE ARE

THE COMPANY

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

In order to create value for its shareholders and pursuing a strategy of optimising its resources, in late 2001, REN set up RENTELECOM Comunicações, S.A., its first subsidiary, the object of which is to make use of the surplus capacity of its 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, Iberian Electricity Market. One of their 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 16 June 2003, REN 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 owns 90% of OMIP's share capital and OMEL owns the other 10%.

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

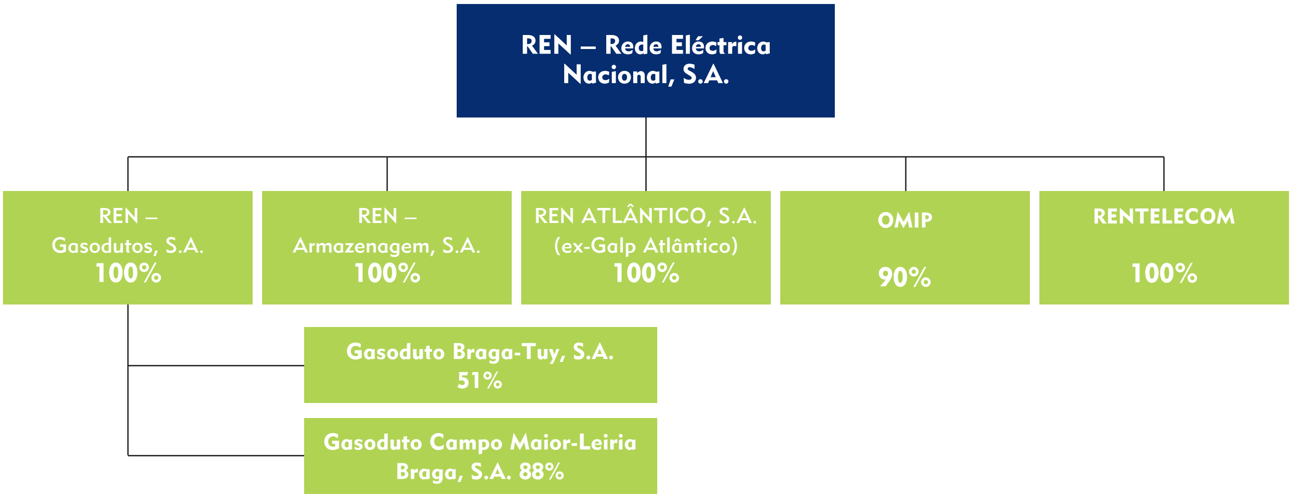
(i) the transport of high pressure natural gas;
(ii) underground storage of natural gas;
(iii) unloading, storage and regasification of liquefied natural gas at LNG terminals.

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, which took over the concessions. With regard to the third, REN took over the operator, Transgás Atlântico Sociedade Portuguesa de Gás Natural Liquefeito, S.A. This company was renamed REN ATLÂNTICO, Terminal de GNL, S.A. and took over the corresponding concession.

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

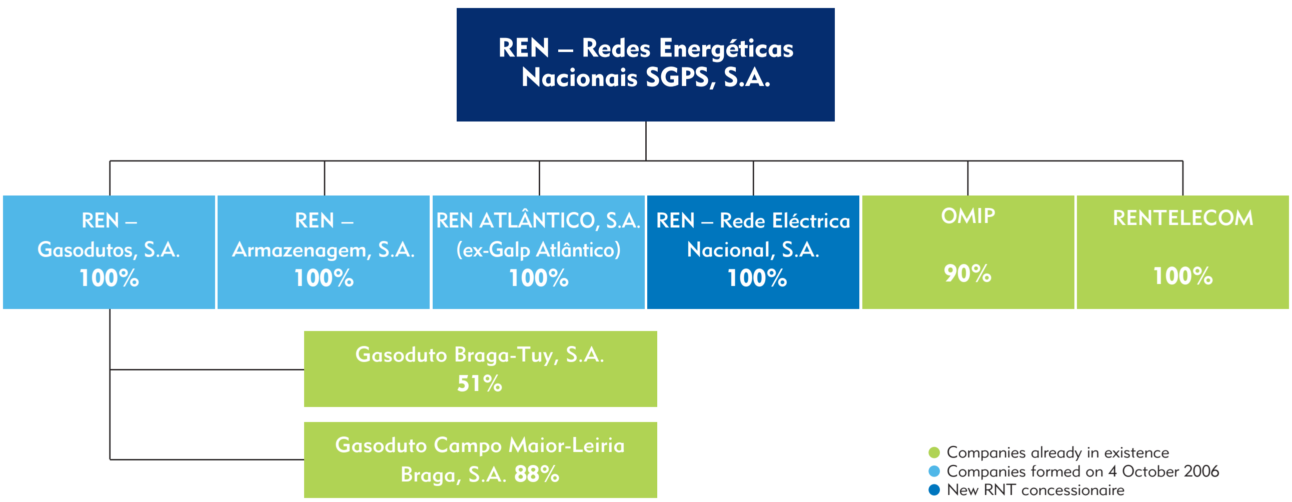
CORPORATE STRUCTURE OF THE REN GROUP

The figure below shows the REN Group's corporate structure on 31 December 2006:



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

On 5 January 2007, in compliance with point 5 of Council of Ministers Resolution 85/2006 of 30 June, REN was converted into a holding company called REN Redes Energéticas Nacionais, SGPS, S.A. Its extra high voltage electricity transmission assets were transferred to a new company called REN Rede Eléctrica Nacional, S.A. The Group's structure became then as follows:



ORGANISATIONAL STRUCTURE OF THE GROUP'S COMPANIES

REN – Rede Eléctrica Nacional, S.A.

Board of Directors

- Consultants
  Advisers

Planning area

- Grid Planning Division (PR)
- Generating System Planning Division (PP)

SEP area

- SEP Commercial Division (CS)
- System Manager Division (GS)

Management area

- Communication and Image Division (CI)
- Management Control Division (CG)
- Finance and Assets Division (FP)
- Legal Division (JR)
- Human Resources Division (RH)
- Regulation and Tariffs Division (RT)
- Foreign Relations Department (RI)
- Information Systems Division (SI)

Grid area

- Equipment Division (EQ)
- Operation Division (EX)

SEI area

- Market Management Division (GO)
- Special Regime Generation Division (PE)

REN – Gasodutos, S.A.

Board of Directors

Environmental Quality and Safety Department (QAS)

Network Operation Division (DOR)

- Planning
- Equipment and Construction
- Operation and Maintenance

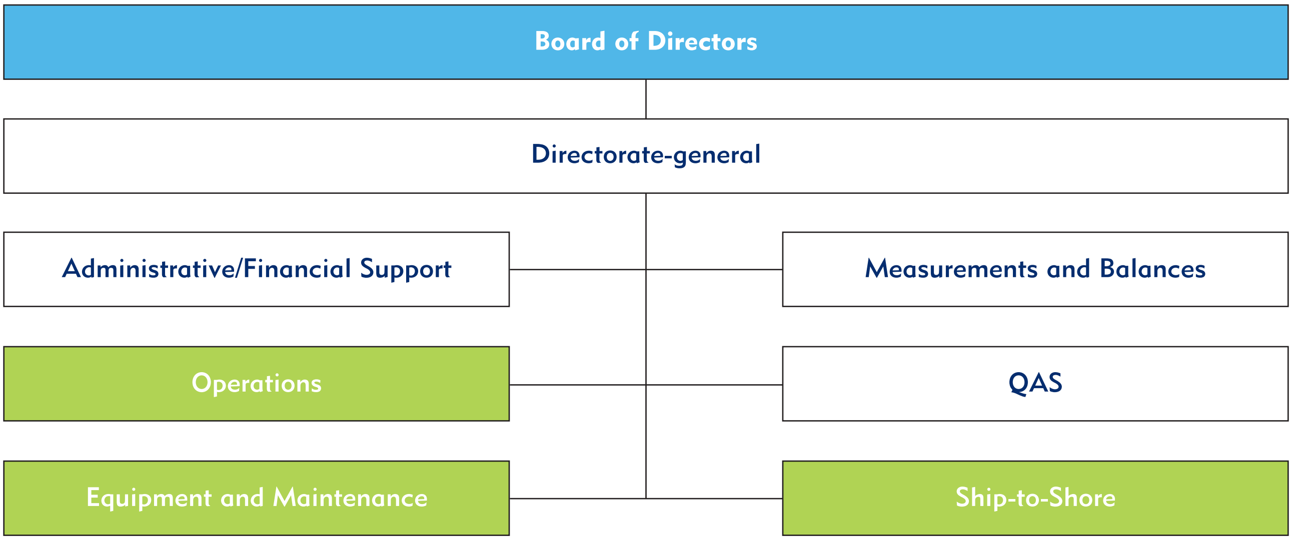
Systems Operation Division (DOS)

- Studies and Supervision
- Contraction
- System Manager

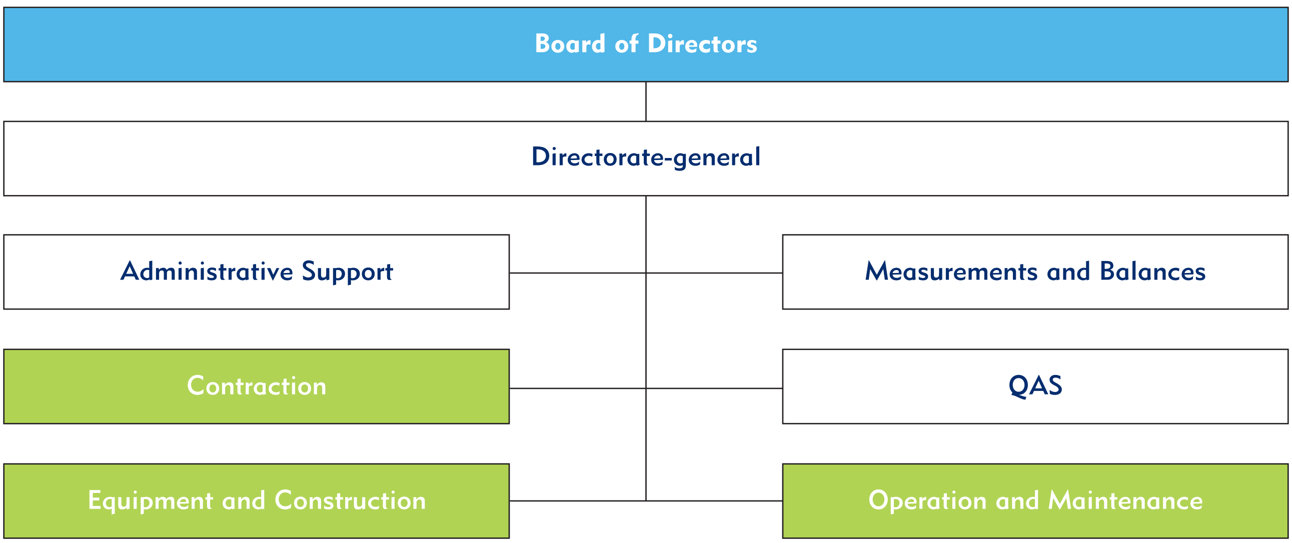
Management Support Division (DAG)

- Legal Department
- Regulation and Tariffs Department
- Human Resources Department
- Logistics Department
- Financial Department
- Information Systems Department

REN ATLÂNTICO, Terminal de GNL, S.A.



REN – Armazenagem, S.A.

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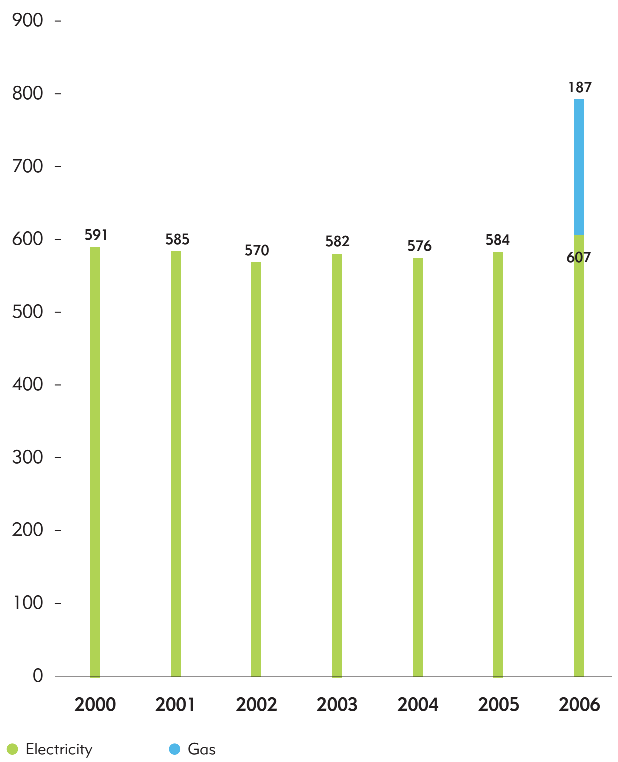
HUMAN RESOURCES

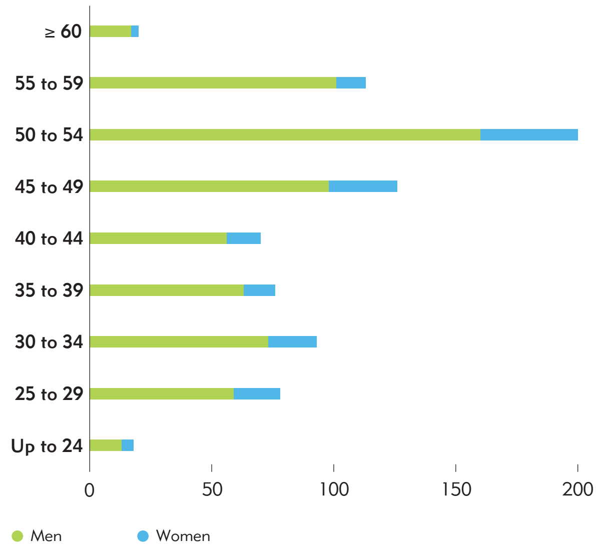
The number of permanent employees at REN increased considerably in 2006 as a result of the transfer of 187 workers from Galp Energia following the acquisition of assets that resulted in the gas companies being set up. At the end of the year, REN had a total of 794 employees, 607 (76%) working in electricity and 187 in gas (24%).

Number of employees



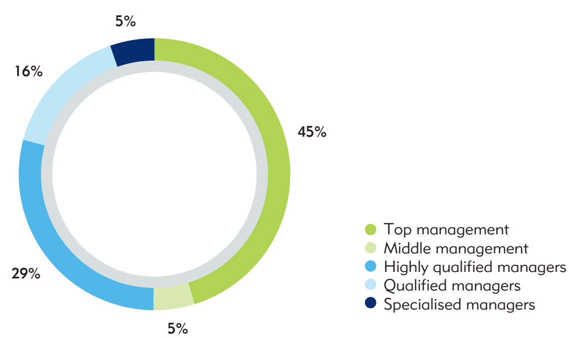
Male workers represented around 80% of the total. The average age of REN's employees was 44.5 and was higher in the electricity area (45.8) than in the gas area (40.0).

REN Group's age structure



When viewed by occupational category, 45% of the Group's employees have qualifications of a foundation degree or higher.

Structure by occupational category in 2006



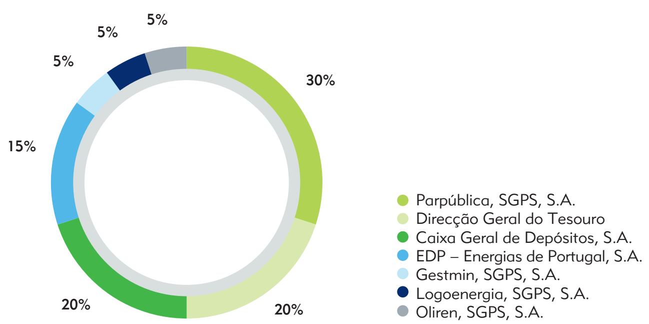
SHAREHOLDER STRUCTURE

On 22 December 2006, EDP   Energias de Portugal, S.A. announced that it had sold 15% of its shares in REN, divided into three blocks of 5% each. They were purchased by Gestmin, SGPS, S.A., Logoenergia, SGPS, S.A. and Oliren, SGPS, S.A. The shareholder structure of REN   Rede Eléctrica Nacional, S.A. as at 31 December 2006 was as shown below:

On 31 December 2006

Shareholder	No. of shares	Share
Parpública, SGPS, S.A.	32 040 000	30%
Direcção-Geral do Tesouro	21 361 068	20%
Caixa Geral de Depósitos, S.A.	21 358 932	20%
EDP – Energias de Portugal, S.A.	16 020 000	15%
Gestmin, SGPS, S.A.	5 340 000	5%
Logoenergia, SGPS, S.A.	5 340 000	5%
Oliren, SGPS, S.A.	5 340 000	5%
	106 800 000	**100%**

Shareholder structure on 31 December 2006



On 2 January 2007, the state holding company Parpública announced that it had reinforced its position in REN by transferring the shareholding owned by the Treasury Department. Parpública purchased 21 361 068 shares representing 20% of REN's share capital, meaning that it then owned 50% of REN.

CORPORATE BODIES OF THE GROUP'S MACROSTRUCTURE

REN – REDES ENERGÉTICAS NACIONAIS, S.A.

GENERAL MEETING

António José Marrachinho Soares
Chairperson

João Manuel de Sousa Moreira
Vice-Chairperson

Maria Elvira Teixeira Borges
Secretary

SUPERVISORY BODY

Luís Borges Assunção
Certified Auditor

J. Monteiro & Ass.
Substitute auditor

BOARD OF DIRECTORS

José Rodrigues Pereira dos Penedos
Chairperson

Victor Manuel da Costa Antunes Machado Baptista
Member

Aníbal Durães dos Santos
Member

Henrique Joaquim Gomes
Member

Paulo José Jubilado Soares de Pinho
Member

REN – REDE ELÉCTRICA NACIONAL, S.A.

GENERAL MEETING

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Member

Paulo José Jubilado Soares de Pinho
Member

CONSULTANTS TO THE BOARD

Maria José Meneres Duarte Pacheco Clara

ADVISOR TO THE BOARD

Óscar Emanuel de Magalhães Ribeiro

SEP AREA

SEP Commercial Department
Fernando Manuel Santos

System Manager
José Júlio Pontes Amarante dos Santos

GRID AREA

Equipment
Jorge Manuel Pais Marçal Liça

Operations
António Albino Vilhena Alencoão Marques

SEI AREA

Supply Manager
Armando Jorge Patrão Reto

Special Status Generation
Mário Crisóstomo de Andrade

PLANNING AREA

Power Station Planning
Francisco Luís Gonçalves Saraiva

Grid Planning
João Pedro da Silva Ricardo

MANAGEMENT AREAS

Communication and Image
Artur Vaz Pinto

Management Control
Luís Filipe Melo Gonçalves

Finance and Assets
Manuel Maria Cunha Coelho da Silva

Legal
Maria Elvira Teixeira Borges

Human Resources
Manuel Joaquim Quintas Gomes Veiga

Regulation and Tariffs
Vítor Manuel Vigário Pinto Vieira

International Relations
Artur Manuel Anjos Lourenço

Information Systems
António Manuel Faria de Sousa Fonseca

REN – GASODUTOS, S.A.

GENERAL MEETING

Maria Elvira Teixeira Borges
Chairperson

Ana Paula Boazinha Fernandes Antão Cerqueira
Vice-Chairperson

SUPERVISORY BODY

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Certified Auditor

Matos Gil & Nunes Cameira, SROC
Substitute auditor

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Member

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Member

Henrique Joaquim Gomes
Member

Paulo José Jubilado Soares de Pinho
Member

Quality, Environment and Safety Office
António João George Lacerda Nobre

Management Support
Pedro Manuel Amorim La Puente Furtado

Network Operation
Luís Manuel Ferreira

System Operation
Rui Manuel Cardoso Vicente Marmota

REN – ARMAZENAGEM, S.A.

GENERAL MEETING

Ana Paula Boazinha Fernandes Antão Cerqueira
Chairperson

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Vice-Chairperson

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Member

Paulo José Jubilado Soares de Pinho
Member

Managing Director
Taken over by Luís Manuel Ferreira

REN ATLÂNTICO – TERMINAL DE GNL S.A.

GENERAL MEETING

Ana Paula Boazinha Fernandes Antão Cerqueira
Chairperson

Maria Elvira Teixeira Borges
Vice-Chairperson

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Member

Henrique Joaquim Gomes
Member

Managing Director
Carlos Manuel Mendes Pinheiro de Azevedo

REN
Redes Energéticas Nacionais

MACROECONOMIC FRAMEWORK

INTERNATIONAL SCENARIO

Following a good performance in 2005, global economic activity continued to grow at a steady pace in 2006, rising 5.1% in relation to 2005[1]. This rate was only slightly lower than in 2004 and is expected to be 0.2 p.p. above that of 2005, continuing to be bolstered by the good performance of the United States and Asian economies and strong expansion of world trade.

The price of oil reached a new all time record in the summer of 2006 with Brent at almost USD 80 a barrel in mid August. However, the reduced risk of the spread of the Middle East conflict, the drop in demand and an increase in American stocks caused prices to fall to around USD 60 a barrel in October. The average price of Brent oil in 2006 was USD 65.60 a barrel.

The increase in pressure from inflation in several economies during the year caused several central banks, including the ECB, to raise their official interest rates. Nevertheless, financial market conditions remained generally favourable and continued to foster economic growth.

Regarding the United States economy, GDP growth speeded up slightly, rising from 3.2% in 2005 to 3.4% in 2006. After an acceleration in the economy in the first quarter, there was a slowdown in growth rate in the final months of the year, due mainly to a weakening of the property sector associated with the increase in interest rates. In the labour market, there was a 0.4 p.p. reduction in the unemployment rate (4.7% in 2006) along with a 4.0% growth in nominal salaries. Solid growth in the export market mitigated the fall in domestic demand to some extent.

Important macroeconomic imbalances associated with the high external deficit made themselves felt during the year. In this context, the deficit in the Current Account Balance rose to 6.4% of GDP (6.2% in 2005). In turn, the Trade Balance as a percentage of GDP was 6.5%.

Inflation measured by the Consumer Price Index remained unchanged at 3.4%.

The Japanese economy was more dynamic than in 2005, reflecting the ongoing acceleration in investment and a high growth rate in exports. Corporate investment remained strong and private consumption was once again boosted by increased consumer confidence and better employment prospects. In this context, the unemployment rate was 4.3% of the labour force, which was 0.1 p.p. lower than in 2005. Signs of deflation finally seem to have disappeared, with inflation measured by the HICP at 0.3%. The public deficit as a percentage of GDP went down 0.9 p.p. to 5.6%, while the public debt continued to rise, going from 158.9% in 2005 to 161.5% of GDP in 2006.

In the other Asian economies, economic growth remained well above the global average at 8.4%. Nevertheless, there were still disparities among the different economies in the region, with China and India way ahead of the others.

Economic activity in the Euro zone speeded up considerably in 2006, showing the highest growth since the beginning of the decade. GDP rose 2.6%, which was 1.2 p.p. more than in 2005, spurred by strong domestic demand and, to a lesser extent, by the positive contribution of net exports to GDP. Faced with the threat of inflation due to oil prices, the ECB continued its policy of raising interest rates and put its reference rate up to 3.5%. On the exchange market, the dollar depreciated against the euro, mainly affecting European exporters. The exchange rate closed in December at 1.317 dollars per euro.

The three , six and 12 month interest rates in the euro money market rose and stood at 3.73, 3.88 and 4.03% respectively at the end of December 2006, reflecting increases of 1.24, 1.22 and 1.18 p.p. respectively

[1] European Commission forecasts: Economic Forecasts – Autumn 2006

compared to the end of December 2005.
The yield curve flattened out somewhat, with shorter term securities suffering from expectations of a rise in the ECB key lending rate, while longer term securities benefited from the contagious effect from the USA. In this context, rates of return on 10 year public debt securities in the Euro zone were around 3.90% on 18 December 2006, compared to 3.41% on 15 December 2005.

The good performance by investment, boosted by a steady increase in the use of capacity, more favourable financial conditions and high profit margins, strengthened domestic demand and compensated for the negative effects of more restrictive tax policies.

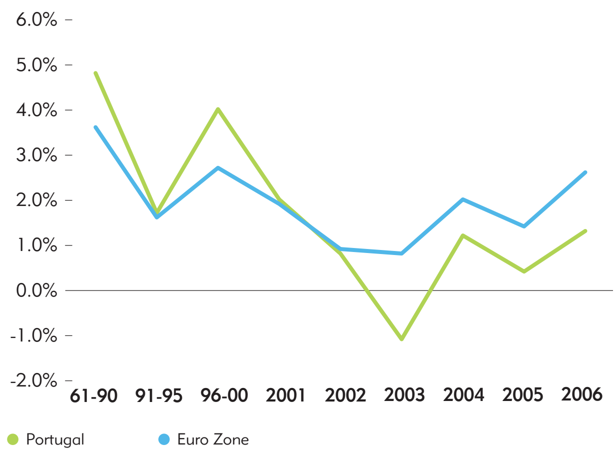
A fall in the unemployment rate and more optimistic consumer expectations had a positive impact on private consumption. The unemployment rate was 8.0% in 2006, which is 0.6 p.p. lower than in 2005. Inflation remained stable in 2006, with the HICP at 2.2%.

Public finance in the Euro zone also showed better results than in 2005, with an average budget deficit of 2.0% of GDP in 2006, lower than the 2.4% in 2005, due mainly to higher than expected tax revenue. Italy (4.7%) and Portugal (4.6%) were above 3% of GDP. There was an 1.2 p.p. improvement in public debt (69.4% of GDP in 2006).

THE PORTUGUESE ECONOMY

In Portugal, 2006 was a year of economic revival, with GDP growing by 1.2%, which was 0.8 p.p. up on 2005. The expansion of the Portuguese economy was due basically to growth in exports following important gains in market share in non EU countries. The contribution of net exports to GDP growth was positive in 2006, as imports showed more moderate growth. In spite of the negative effect of terms of trade as a result of the rise in oil prices, this favourable behaviour in foreign trade will probably have led to a reduction in the current account balance. On the other hand, the contribution of domestic demand was practically zero, reflecting a considerable slowdown in public and private consumption and a fall, albeit slight, in investment.

GDP growth (% change)

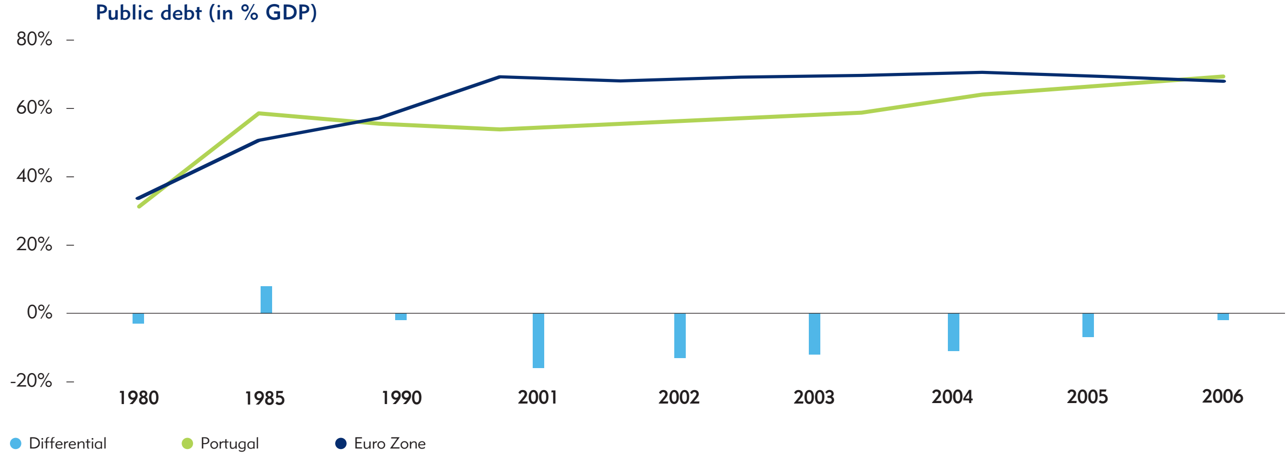


The slowdown in growth in private consumption was due in part to higher household indebtedness and its indexation at higher interest rates, in spite of stabilisation of the unemployment rate (7.6%). Gross fixed capital formation did not keep up with the country's economic recovery and fell by 2.6% in 2006, after going down 3.0% in 2005. Where corporate investment was concerned, companies' decisions continued to be influenced by uncertainty regarding demand prospects and budget consolidation. The need to continue budget consolidation resulted in a substantial reduction in public investment. Finally, successive falls in investment in housing in recent years have reflected a situation of adjustment to the high growth rate of this type of investment in the second half of the 1990s.

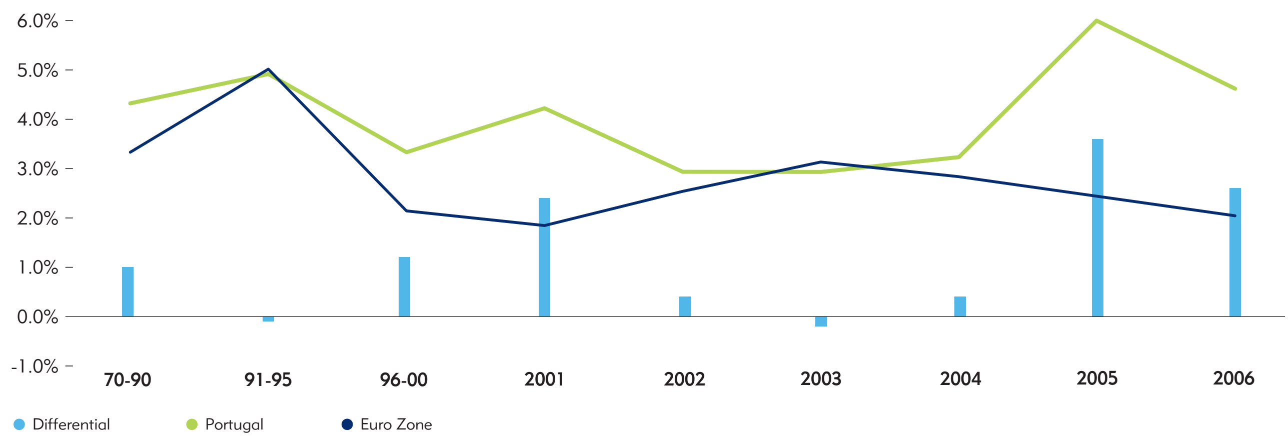
In 2006, the Portuguese HICP grew 3.0% against 2005. The continuing rise in oil prices and the increase in the normal VAT rate in 2005, affecting all prices especially in the first half of the year, also contributed to this rise in inflation.

The public debt continued to rise in 2006, reaching 67.4% of GDP, compared to 64.0% in 2005. However, the public deficit fell to 4.6% of GDP (6.0% in 2005), partly reflecting efforts towards budget consolidation.

Public debt (in % GDP)



Budget deficit (in % GDP)



THE MARKET AND INDUSTRY

ELECTRICITY AND GAS IN THE GLOBAL ENERGY CONTEXT

World energy demand continues to grow considerably. Recent projections by the International Energy Agency[2] point to an increase in world primary energy demand of more than 25% by 2015 and 50% by 2030. This growth is putting greater pressure on the energy sector to find solutions to the threefold sustainability challenge security of supply, protection of the environment and competitiveness.

Electricity's contribution to final energy consumption increased from 9% in 1971 to 16.2% in 2004 and should be more than 20% in 2030. Worldwide electricity demand is expected to double between 2003 and 2030. The highest growth will occur in non OECD countries, which represent 71% of global growth due to their higher growth in annual average demand (3.9% against 1.5% in the OECD countries). The non OECD Asian countries have the highest annual growth in demand, 4.7%.

Natural gas accounts for 21% of world primary energy consumption, though this share is slightly higher in the more mature markets of Europe and North America. The rapid growth in demand since 2000 should slow down in the second half of the decade, although global demand will continue to increase from 2.8 tcm (trillion cubic metres) in 2005 to an estimated 3.2 tcm in 2010. The main driver of this growth in the OECD countries is electricity generation at natural gas power stations, while the other sectors in the Middle East, China and India are also growing rapidly and significantly influencing market behaviour. The Middle East and former Soviet Union countries hold 41% and 32% of world gas reserves respectively, while the OECD countries have only 9%.

The energy markets and geopolitical scenario have changed substantially in recent decades. The challenge of climate change, growing dependence on imported energy and the rise in energy prices are decisive factors in the European Union's energy policy, aimed at obtaining secure, sustainable, competitive energy. If current trends and energy policies continue, the EU's dependence on energy imports will go from 50% of total energy consumption today to 65% in 2030.

The commitment of the industry and EU institutions to meet these three challenges improving supply security, combating climate change and ensuring Europe's competitiveness includes a number of measures such as improving efficiency, increasing the share of renewable energies in the energy mix, strengthening solidarity between Member States with a longer term vision of the development of new technologies, promoting the development of sustainable coal technologies, keeping all energy options open and, no less important, promoting determined efforts to "speak with one voice" with international partners, including energy producers and importers and developing countries.

The European energy market has changed considerably with liberalisation. The strong influence of natural gas prices on total electricity generation costs is reflected in a strong correlation between electricity and gas prices, exposing electricity generators to this risk.

[2] World Energy Outlook, 2006, IEA

EVENTS IN EUROPEAN ENERGY MARKETS IN 2006

On 4 November there was a serious incident in the extra high voltage lines in northern Germany affecting the interconnected UCTE grid and leading to interruptions in the electricity supply in the western region of the system. More than 15 million European homes felt the effects, including countries as far away as Greece and Portugal. The immediate action taken by the TSOs, according to the security standard, prevented the disturbance from causing a Europe wide blackout and the supply was restored after around one and a half hours.

Following a drawn out commercial dispute, Gazprom (Russia) substantially reduced its gas supply to Ukraine in January 2006. This also resulted in a reduction in supplies to many western European countries, including Germany and Italy. In Italy there were serious supply shortages that winter because of a combination of abnormally low temperatures and an exceptionally high demand for gas for electricity generation.

In the United Kingdom, for most of the winter, gas prices were exceptionally high due to a decline in gas extraction in the North Sea and the country's current dependence on two existing import routes the interconnector from Belgium and the Isle of Grain LNG Terminal.

THE INTERNAL ENERGY MARKET

In spite of progress in the creation of the internal gas and electricity market, market opening goals have not yet been fully achieved. The significant increase in wholesale market prices, which cannot be completely explained by higher primary energy costs and environmental costs, persisting complaints about barriers to access to the market and final consumers' limited choices of suppliers, led the European Commission (EC) to conduct a sector enquiry on the functioning of the markets.

The Sector Enquiry Final Report, which was published in 2006, identified a series of serious shortcomings preventing European energy users and consumers from fully enjoying the benefits of liberalisation. The gas and electricity markets in many Member States were still highly concentrated, giving incumbent operators the opportunity to exercise market power. The unbundling of network and supply activities in some Member States was inadequate and made it very difficult for new suppliers to enter the market. There was a lack of transparency of information causing disruptions in the market and making it difficult for new agents to enter the market.

In order to identify measures to overcome the remaining obstacles to the creation of a single European energy market, in 2006 the EC announced a package of measures to review the EU energy strategy, to be published in 2007.

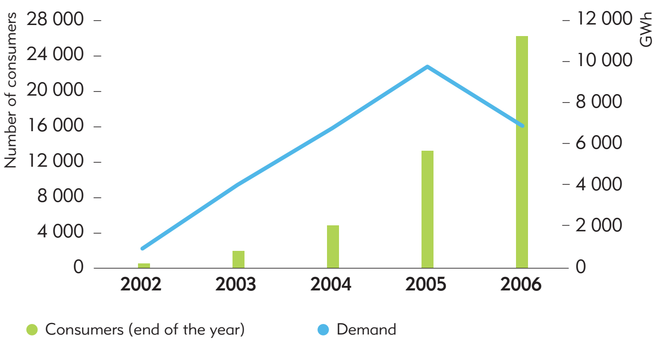
ELECTRICITY

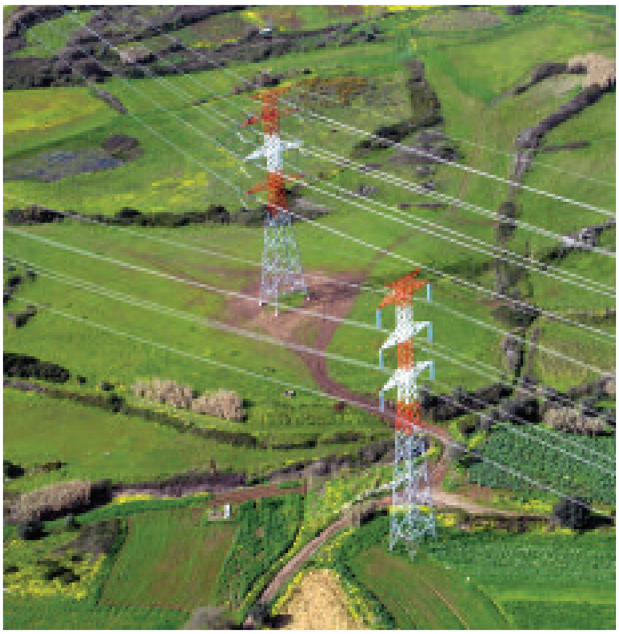
In Portugal, the new legislation passed in 2006 profoundly changed the electricity sector framework. The electricity market has been totally liberalised since September 2006. All consumers are now free to choose their supplier, although regulated tariffs are still an option. Most Portuguese power stations (representing around 8 750 MW of the total 13 600 MW installed capacity) are still committed to selling all their generation to REN under long term power purchase agreements (PPAs). This situation, combined with current regulated prices, is standing in the way of complete implementation of the liberalised market and so very little electricity has been traded on this market.

In 2006, the trend was for electricity customers to move from the non binding liberalised market to the regulated price system, especially at higher voltages. After access to the liberalised market was extended to all customers, including normal low voltage, in September, the total number of consumers in the market at the end of the year was practically double that of the previous year.

Nevertheless, in terms of total consumption, the departure of some major consumers was not offset by the entry of a large number of small consumers and the result was a significant, ongoing reduction in demand in this market, which represented 15% of national consumption in 2006 against 22% in 2005.

Consumption and number of consumers (liberalised market)

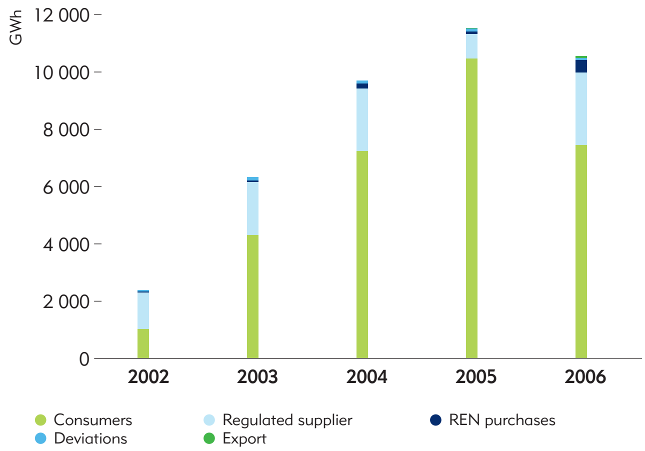




Total electricity purchases on the non binding market fell slightly in 2006. Purchases by non binding consumers dropped sharply but this was partially offset by an increase in purchases by the regulated supplier after application of Ministerial Order 643/2006 on OMIP purchases.

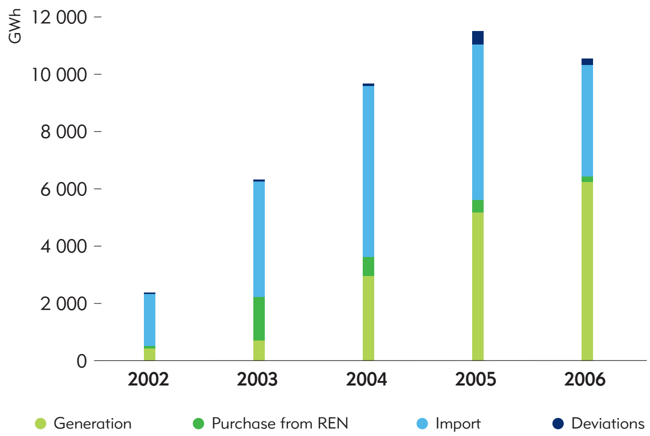
Non-binding electricity market

Demand



Non-binding electricity market

Supply



NATURAL GAS

In the natural gas sector, Portugal, as an emerging market, was authorised to postpone its liberalisation until 2007. New legislation passed in 2006 deeply reformed the sector and defined the general principles for the natural gas market and its activities reception, storage and regasification of LNG, underground storage, transport, distribution and supply. The market will open gradually as of 1 January 2007, when all energy generators (which represent more than 50% of national consumption) will be free to choose their supplier. Each year after that, a new market segment will be liberalised and in January 2010 all consumers will be able to choose their natural gas supplier. REN became the national natural gas TSO in 2006 and is responsible for the high pressure transport system and the Sines LNG terminal and jointly responsible for underground storage at Carriço.

ENERGY EFFICIENCY

The main purpose of the Action Plan on Energy Efficiency announced by the EC in 2006 is to reduce the EU's total primary energy consumption by 20% in 2020 compared to level currently forecast for that year. This ambitious programme will lead to a 13% decrease in the present level with highly significant impacts on the three pillars of sustainability security of supply by reducing the EU's dependence on energy imports, environment and competitiveness. Considerable efforts are necessary to achieve this important goal, not only in terms of changing behaviour but also of additional investments. The main measures include tougher efficiency standards, advances in the energy labelling of equipment, better energy performance of buildings, coherent use of taxation, and higher efficiency in the generation, transmission and distribution of electricity.

One of the Action Plan's main priorities is the implementation and revision of the directive on energy end use efficiency and energy services (2006/32/EC). This directive is a vital step in achieving the ambitious goal of the Action Plan, as it defines an indicative overall target of 9% energy saving for each Member State by the end of the ninth year of its application. In Portugal, achieving this target will mean an electricity saving of more than 4 000 GWh at the end of 2016.

In line with these goals, in 2006 ERSE launched an electricity end use efficiency plan (PPEC) for 2007 2009. This plan sets up a competitive mechanism to select proposals from suppliers, grid operators and consumer associations suggesting ways of promoting efficiency and improving behaviour.

On the supply side, significant improvements have been achieved in the efficiency of converting primary energy into electricity in recent years, particularly in thermoelectric generation. On one hand, the introduction of natural gas made it possible to use combined cycle gas turbine technology, with overall efficiency about 20% higher than existing steam cycle thermoelectric power plants. On the other hand, thanks to the development of sophisticated control and diagnosis techniques and the use of new materials, it has been possible to progressively increase operating temperatures and therefore the overall efficiency of the energy conversion process. After the first natural gas combined cycle power plant went into operation in Portugal, overall thermoelectric generation efficiency went from 37% in 1997 to 43% in 2006.

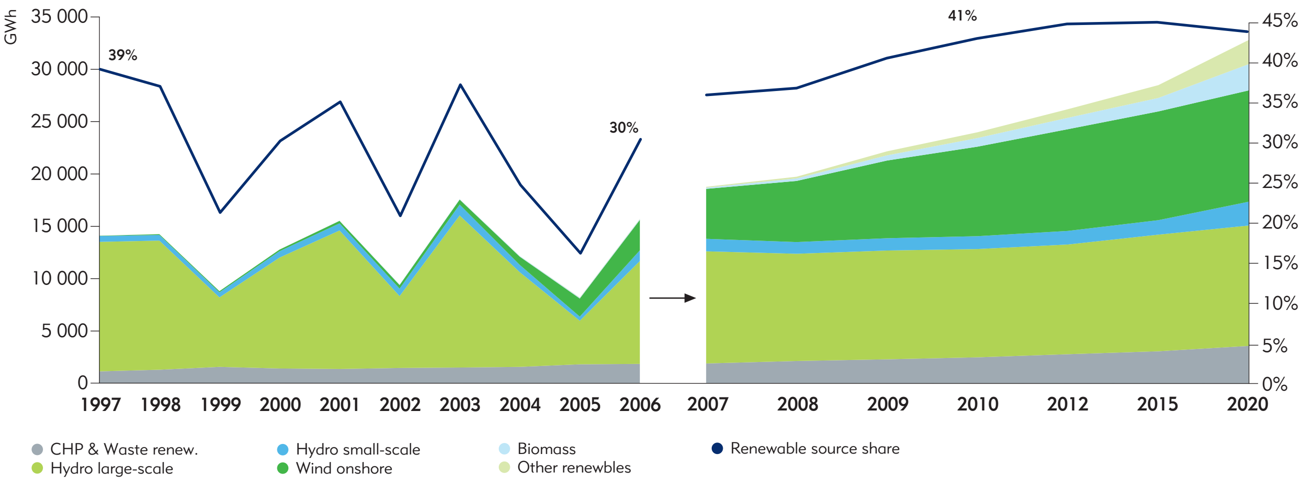
RENEWABLE ENERGY

The long term plan for renewable energies proposed recently by the EC defines a mandatory target of renewable energy sources of 20% of total energy consumption in the EU by 2020. This target is much more ambitious than the current, indicative goal of 12% in 2010. The plan also includes measures aimed at eliminating barriers to the integration of renewable energy.

With the enlargement of the EU to 25 members, the new countries have been obliged to adopt Directive 2001/77/EC. National targets have been set and the enlarged EU's overall goal for renewable electricity gas been reduced from 22% to 21% of gross electricity consumption in 2010 (while maintaining the 12% share of renewable energy in gross energy consumption). Renewable electricity is expected to fall slightly short of the target at 19% in 2010 (around 10% of gross energy consumption).

Actual generation

REN scenario - average hydro conditions



In Portugal, thanks to efforts by investors, sector authorities and TSOs, the national goal of 39% should be achieved.

In the EU, hydro is still the most important renewable component in total electricity generation, followed by wind and biomass. Wind capacity has grown some 150% since 2001, making the EU the world leader, with a 60% share of total installed wind capacity in 2006. Recent developments in the use of biomass, especially in Finland, Sweden, Germany, Spain, the United Kingdom, Denmark, Austria and the Netherlands, have shown the way, in line with the EU Biomass Action Plan published in 2006.

In Portugal, renewable electricity supplied 30% of demand in 2006. Renewable energy capacity at year end was around 6 850 MW (6 200 MW in 2005). Wind energy was the one that grew most (another 620 MW).

The mechanisms supporting renewable generation in Portugal are based on fixed feed in tariffs, tender procedures, investment subsidies and tax benefits. However, it is arguable that a marked based support system, relying for instance on green certificates and guarantees of origin, might be more cost effective and non distortive of competition in the electricity market. This type of system has been in place in Europe since 2001 (RECS Renewable Energy Certificate System). In 2006, the number of issued and transferred certificates continued to increase (63 million issued, against 48 million in 2005, and 17 million transferred, against 14 million in 2005), while the number of certificates redeemed has increased to more than 50% of all certificates issued since 2001 (95 million certificates redeemed out of a total of 181 million issued). REN is the RECS certificate issuing body in Portugal. In 2006 it issued 174 000 certificates, corresponding to 174 GWh of hydroelectric generation.

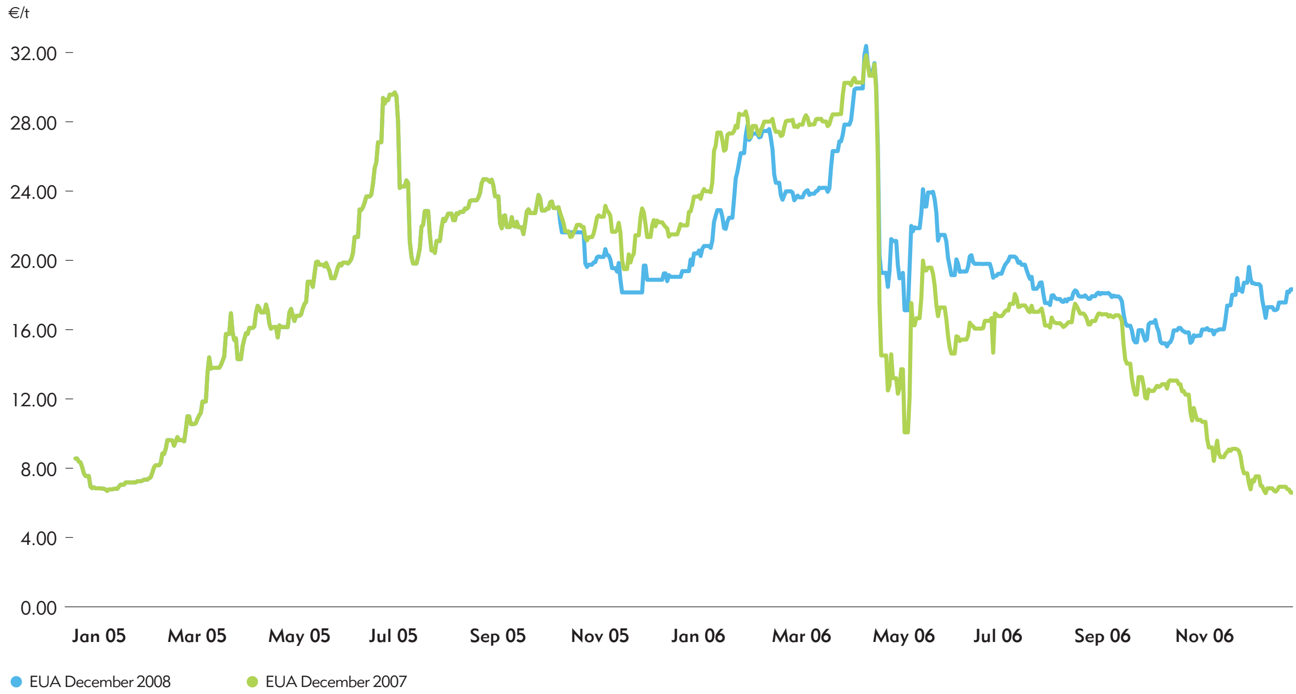
EMISSIONS TRADING

All recent studies show, on the basis of solid scientific evidence, that there is an urgent need to tackle the problem of climate change. The well known Stern Review Report on the Economics of Climate Change shows that the economic, social and environmental costs of inaction will be huge and that the failure of mitigation policies may have serious local and regional consequences.

The EU's commitment under the Kyoto Protocol to an 8% reduction in greenhouse gas emissions in 2008 2012 in comparison to 1990, which is a responsibility shared by all Member States, is an important challenge for all the countries involved. The EC is preparing a series of measures to limit global warming to no more than 2°C above pre industrial levels by defining new targets limiting transport sector emissions, reducing GHG emissions other than CO_2 and strengthening the European Union Emissions Trading Scheme (EU ETS).

The CO_2 allowance market was highly volatile in 2006. In the week following the publication of data on emissions in Member States in late April, the price of allowances fell almost EUR 20 per tonne. The "barrier effect" at the end of 2007 resulting from the impossibility of transferring allowances allocated in the first ETS period (2005 2007) to the second period (2007 2012), expectations of possible surplus supply in the ETS in 2007 and EC cuts in national allocation plans (NAPs) proposed by Member States for the second period also strongly influenced European Union allowances (EUA) prices in 2006. In the bilateral futures market (OTC), December 2007 allowance prices began to diverge significantly from EUA December 2008 prices in September, with the former going down to EUR 6.60 per tonne and the latter rising to EUR 18.30 per tonne at the end of 2006.

ETS closing prices – OTC futures market



Source: Bloomberg

A long term view of climate change policies will create the right environment for the substantial investments that the electricity sector will have to make in order to reduce GHG emissions. The EC is preparing to strengthen the role of emissions trading after 2012 by reviewing the EU ETS Directive. The measures being considered include extending the ETS to other gases and other sectors, linking this market based schemes to other mandatory allowance trading schemes and recognising capture and geological storage of CO_2. The electricity industry, through EURELECTRIC, is promoting studies to assess the future implications of these new goals in European climate change policy.

NETWORK INFRASTRUCTURE

Electricity and gas networks are vital in bringing new, cleaner energy into the system, developing an efficient internal energy market and reducing the risks of short supplies in the EU: Boosting inter regional energy trade favours competition and reduces the scope for market power abuse. The further development of electricity and gas networks across Europe is thus essential to achieve the objectives of sustainability, competitiveness and security of supply.

The current capacity of trans European networks is far from being at the necessary level and needs faster investment in the most critical bottlenecks of the electricity transmission system, which usually occur at borders between countries, and huge investments in gas transit networks crossing several countries. These missing links are essential in preventing shortages. Furthermore, many countries and regions, such as the Iberian Peninsula, are almost "energy islands", largely cut off from the rest of the internal electricity market and far from inland gas sources.

In the Guidelines for Trans European Energy Networks (TEN E Guidelines), the EC identifies a number of infrastructure projects of common interest, including international infrastructures and others with significant impact on cross border transmission capacity. The EU will need to invest at least EUR 30 billion in infrastructure (EUR 6 billion in electricity transmission, EUR 19 billion in gas pipelines and EUR 5 billion in LNG terminals) by 2013 if it wants to complete the priority projects outlined in the TEN E Guidelines.

Most common interest projects for electricity transmission grids are behind schedule. The main reasons for these delays include complex planning and licensing procedures and environmental issues.

So far, investment in EU gas infrastructure seems satisfactory. Nevertheless, the risk of delays in investments in pipelines crossing multiple borders seems to be increasing. Environmental concerns and opposition from local and regional communities, among other reasons, are delaying investments in LNG terminals.

Regarding the supply of gas from outside Europe, greater security of supply requires diversification of sources and appropriate interconnected networks. An important project for this purpose is the Nabuco Pipeline, which will create a new key route from the Caspian Basin and the Middle East through Turkey. LNG terminals are another way of importing gas and diversifying the EU's current main sources of gas supply (Norway, Russia and North Africa).

In 2006 there were also some important developments in gas infrastructures in the Iberian Peninsula, such as the commissioning of the new Sagunto LNG terminal in Spain (SAGGAS) and increases in storage and regasification capacity at the three Enagás LNG terminals in Huelva, Cartagena and Barcelona.

REGIONAL MARKETS

The development of regional energy markets and further liberalisation of national markets are important, practical steps towards achieving the goal of a single, competitive electricity market. The creation of regional gas and electricity markets and their subsequent integration in a larger EU market will make it easier to overcome the main obstacles standing in the way of a European market.

Following a consultation process launched in 2005 on the priority action areas to facilitate trade between national markets and allow the development of regional and pan European electricity markets, the European Regulators' Group for Electricity and Gas (ERGEG) concluded in its Creation of Regional Electricity Markets An ERGEG Conclusions Paper, published in February 2006, that the four priority areas in achieving further development of regional electricity markets were availability of transmission capacity particularly across borders, availability and control of relevant market information, cooperation between network operators and compatibility of wholesale market arrangements. The paper recognised the major role of TSOs and electricity wholesale market participants, among other stakeholders, in achieving further progress in these areas.

Where the natural gas sector is concerned, current efforts are focusing on inter operability issues. In southern Europe (Iberian Peninsula and southwest France), the strong push being given to these issues has achieved positive results.

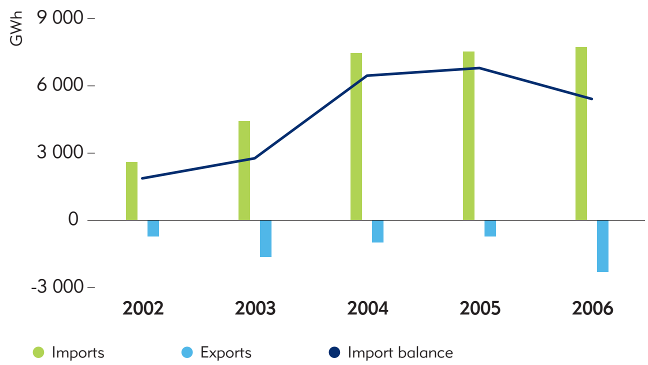
MIBEL – THE IBERIAN ELECTRICITY MARKET

The Iberian Market Operator (OMI) is divided into two centres   OMEL, in Madrid, for the spot market and OMIP, in Lisbon, for the futures market, which went into operation in July 2006.

At the Badajoz Summit in November 2006, the Portuguese and Spanish governments expressed their satisfaction with the important steps taken towards starting up the OMIP, the functioning of the Regulators' Council and changes in legislation. Both governments reiterated their commitment to improving the MIBEL and agreed to continue to strengthen interconnections by building new lines in the south (Algarve Andalusia) and north (international northwest axis), which should be completed in 2010.

The balance of imports from Spain decreased slightly in 2006 (5.4 TWh in 2006 against 6.8 TWh in 2005). Exports totalled 2.3 TWh, the highest figure ever, divided between REN (1.5 TWh) and generators in the non binding system (0.8 TWh). REN's exports, although high, were slightly below those of 2003, due mainly to business opportunities in wet periods. Other exports were influenced by the shrinking of the non binding market and other factors associated with producers' commercial strategies.

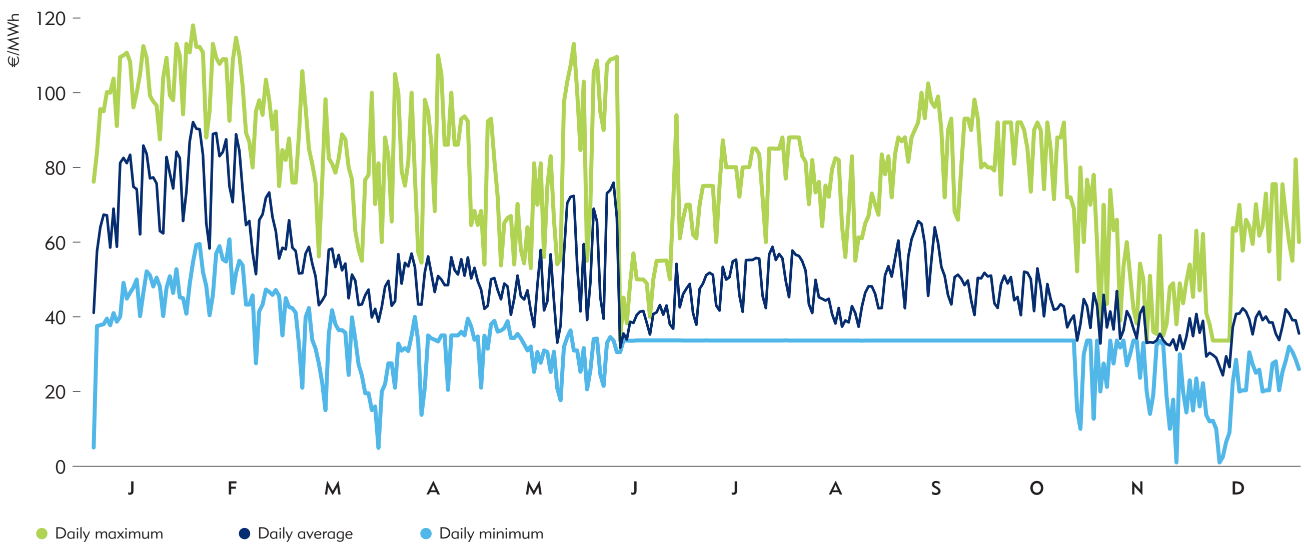
Transmission line transactions (Portugal)



The annual average price on the daily OMEL market in 2006 was around EUR 50/MWh. Monthly average prices went down from around EUR 73/MWh in the first two months to EUR 36/MWh in December. Prices tended to become less volatile as the year progressed.

Between June and October, the minimum off peak price remained constant at about EUR 34/MWh. This unusual situation occurred when specific legislation on electricity purchases by regulated suppliers was in force in Spain.

Electricity prices of the daily market in 2006 (OMEL)



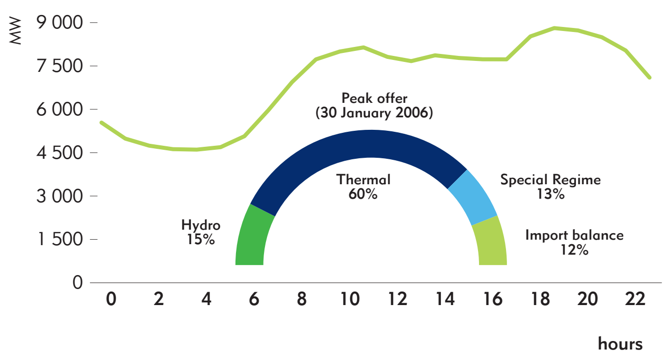
DEMAND AND PRODUCTION

ELECTRICITY

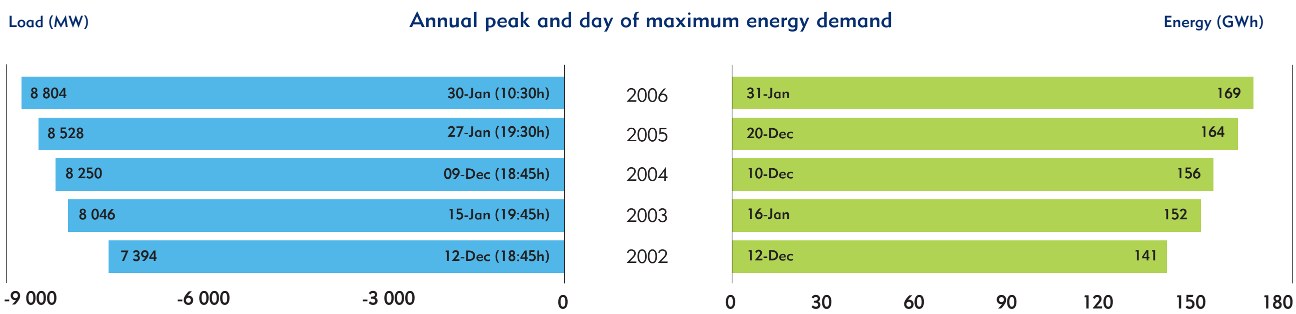
Demand has more than trebled in Portugal since 1980, with an annual average growth rate of around 5%, while GDP in volume grew by an annual average of 2.4%. As a result, there has been a substantial increase in electricity intensity in Portugal. This trend has become more accentuated in the last five years with an average annual growth of close to 3%. The trend in per capita consumption has slowed down however, with an annual average growth rate of 3% in the last five years, as opposed to the 4.3% between 1980 and 2006.

In 2006 electricity supplied in mainland Portugal by the national transmission grid (NTG) totalled 49.2 TWh, which was 2.6% more than in 2005. Considering normal temperature conditions and number of working days, this increase corresponds to a 3.2% increase, which is quite moderate when compared to recent years. Load demand from the national transmission grid reached a new high of 8 804 MW on 30 January, 280 MW above the previous maximum, which was recorded in 2005.

Day of annual peak load - 30 January 2006



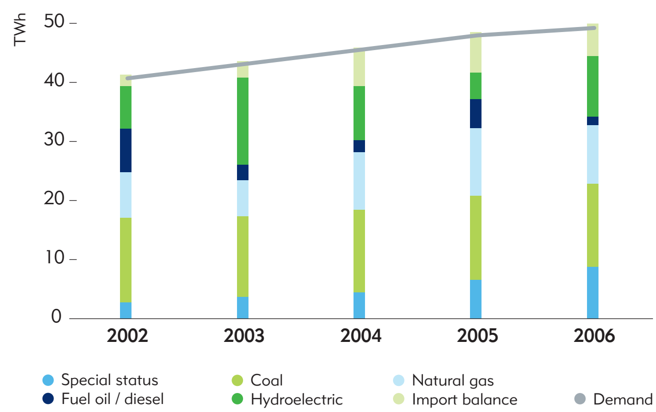
Annual peak and day of maximum energy demand



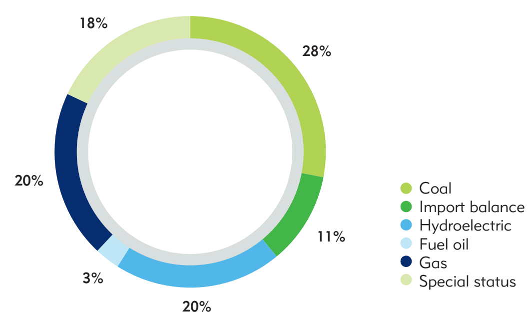
In 2006, hydroelectric generation supplied around 20% of total demand, while thermoelectric plants supplied 51%. 2006 was practically an average year for hydro conditions. Inflows to hydroelectric plants were 140% higher than in 2005, which was the driest year since 1992. As a result, hydroelectric generation increased 126% while thermoelectric went down 17% compared to 2005.

Output by special status generation units continued to increase, due mainly to an increase in wind generation, as another 620 MW went into service, raising total installed capacity to around 1 500 MW. Special status generation grew 34%, contributing 18% to total demand, 6% of which was from wind generation.

Supply of demand



Generation structure 2006

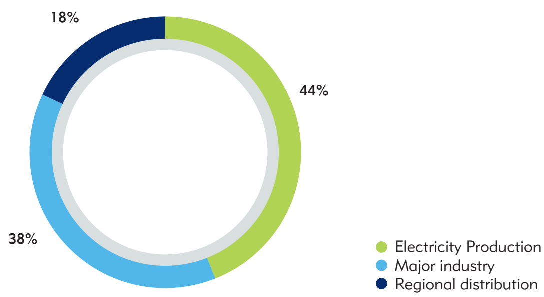


NATURAL GAS

Demand for natural gas in Portugal went down 4.1% from 47.9 TWh in 2005 to 45.9 TWh in 2006. This was the result of a 13.5% reduction in demand from gas power stations, as a result of an increase in hydroelectric generation and, albeit on a smaller scale, wind power generation.

Natural Gas Demand (2006)

	GWh
Electricity Production (PRO)	20 115
Major industry	17 671
Regional distribution	8 113
Total	**45 899**

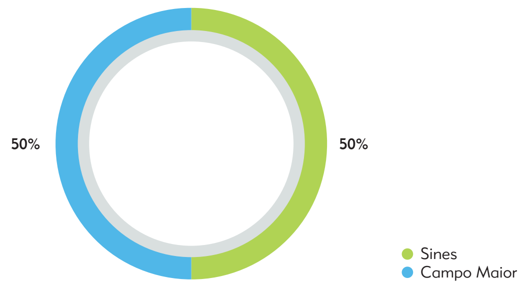


Natural gas superior avegare calorific power 11.9 kWh/m^3

In spite of the drop in total demand for natural gas in Portugal as a result of lower gas fired thermoelectric generation, demand in the other market segments continued to grow in 2006. It grew 4.4% compared to 2005 in the case of large industries (with an annual consumption of more than 24 GWh) and 5.9% in regional distribution (including the domestic sector, services and industry consuming less than 24 GWh a year). The increase in demand from large industries was thanks to new cogeneration facilities that went into operation in late 2005. The growth in demand supplied by regional distribution companies was due to the opening of new delivery points.

Natural Gas Supply (2006)

	GWh
Campo Maior	23 432
Sines (GNL)	23 148
Total	**46 580**



Natural gas superior avegare calorific power 11.9 kWh/m^3

Natural gas was supplied to the Portuguese market in 2006 in equal parts by 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. This represents a substantial change since 2005, when gas from Algeria accounted for 61% and LNG 39% of the total. It is the result of the fact that the technical capacity of the Sines terminal is still considerably underused, making it the Portuguese entry point with the greatest growth potential for the import of natural gas.


Foto: José Antunes

REN
Redes Energéticas Nacionais

THE GROUP'S ACTIVITY IN 2006

THE ELECTRICITY TRANSMISSION BUSINESS

ECONOMIC REGULATION

The regulatory framework of REN's activities
As the concessionaire of the national transmission grid (NTG), the activities of REN Rede Eléctrica Nacional, S.A. are regulated by current legislation, its public service concession contract with the state and regulations established by the Directorate general of Geology and Energy (DGGE) and the Electricity Service Regulator (ERSE).

The organisation of the national electricity system (SEN) underwent profound changes in 2006 after publication of Decree Law 29/2006 of 15 February and Decree Law 172/2006 of 23 August, revoking prior basic legislation from 1995 and 1997 on the sector. This completed the transposition of Directive 2003/54/EC of the European Parliament and of the Council of 26 June, which was insufficiently reflected in Portuguese law by transitional amendments made in 2003 and 2004.

REN's regulated activities include a number of functions essential to the proper operation of the SEN. Electricity acquisition involves purchasing electricity to supply demand of the last resort supplier and conducting studies to monitor security of supply. Overall system management includes systemic coordination of SEN facilities, providing system services, compensating for energy differences and settling accounts with market agents. Electricity transmission involves planning, setting up, operating and maintaining the transmission and interconnection grid. Under the new legislative framework, the first of these regulated activities is transitional in nature and we are currently awaiting the publication of additional legislation on the abolition of power purchase agreements (PPAs).

The tariffs used to pay for these three regulated activities are set each year by ERSE, on the basis of economic and energy forecasts of demand, costs, earnings and investments. They arise from an economic regulation model that uses accepted costs and a remuneration rate on net assets allocated to each activity. The fact that tariffs are valid for one year means that deviations between forecast and actual earnings are corrected with a one year time lag for electricity acquisition and two years for other activities.

Consequence of tariffs set for 2006
At the beginning of 2006, all tariff balance differences favoured the Company and totalled around EUR 575.3 million. Around EUR 227 million referred to payment for land occupied by plants with PPAs.

The tariffs fixed for 2006, as a result of the limitation to inflation of low voltage price rises, presuppose a tariff deficit of EUR 368.9 million. It was jointly financed by REN and EDP Distribuição in proportion to the weight of their activities in the cost structure of the tariff for sale to low voltage end users. REN was responsible for EUR 253.5 million.

Decree Law 90/2006 of 24 May set forth new principles for allocating the surplus cost of renewable special status generation preferably to domestic customers, which made it necessary to conduct an extraordinary price review, which came into effect on 1 June. This review resulted in a reduction in final non domestic prices and raised the 2006 tariff deficit to EUR 399.2 million. The part borne by REN was EUR 274.3 million.

The 2006 tariffs underestimated several REN costs by roughly EUR 162.0 million and assumed that the differences of previous years to the amount of EUR 361.3 million would be recovered. Combined with the 2006 tariff deficit financed by REN, this brought the overall balance of the tariff difference account to EUR 650.3 million at the end of 2006, EUR 164.5 million of which was for payment for land occupied by plants with PPAs.

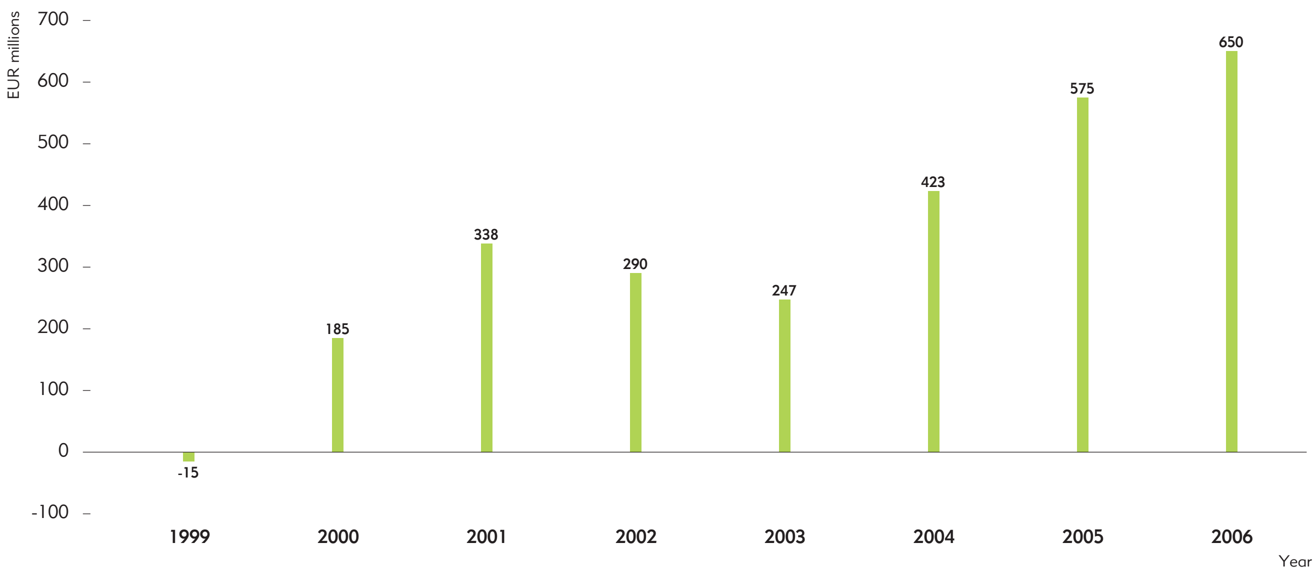
The graph below shows tariff differences for 1999 2006 at the end of each year.

Tariffs and prices for electricity and other services for 2007

Decree Law 172/2006 provided for the accumulated tariff deficit up to the end of 2006 being recovered in the five years to follow. On 15 October, ERSE sent to the companies and to the Tariff Board the draft tariffs and prices for electricity and other services for 2007, assuming that one third of the 2006 tariff deficit would be recovered in 2007, which, along with other tariff differences from previous years and an increase in costs of buying from special status generating units, resulted in a 15.7% rise in the proposed prices for sale to normal, low voltage end users.

Before the approval of the 2007 tariffs, Decree Law 237 B/2006 of 18 December was published. It laid down that the 2007 tariffs for normal, low voltage end users could not be raised more than 6% and that tariff deficits from 2006 and 2007 and costs of tariff convergence in the Azores and Madeira should be recovered in constant instalments over 10 years beginning in 2008. In compliance with this provision, ERSE reformulated its proposed tariffs for 2007, which meant that REN had to finance an additional tariff deficit of EUR 30.3 million, instead of recovering one third of the 2006 deficit.

Tariff differences at the end of each year



Cost of access to the transmission grid

The average cost of access to the transmission grid is an important variable when making international and year on year comparisons. In Portugal's case, this cost results from a combination of the tariffs for use of the transmission grid (UTG) and those for the global use of the system (GUS).

The graph below shows average earnings from these two tariffs in 2000 2006, corrected for deviations. The transmission grid use does not include surplus costs of purchasing from special regime generation units (SRG), transfer costs to the Azores and Madeira, costs of land occupied by plants, ERSE's operating costs or OMIP operating costs imputed to the electricity sector, all of which are costs outside REN's remit in the overall management of the system.

Excluding these five types of cost, the overall average of access to the transmission grid increased by around 1.63% between 2000 and 2006 as a result of a 5.22% rise in the average cost of electricity transmission and a 3.24% reduction in the average cost of overall system management.

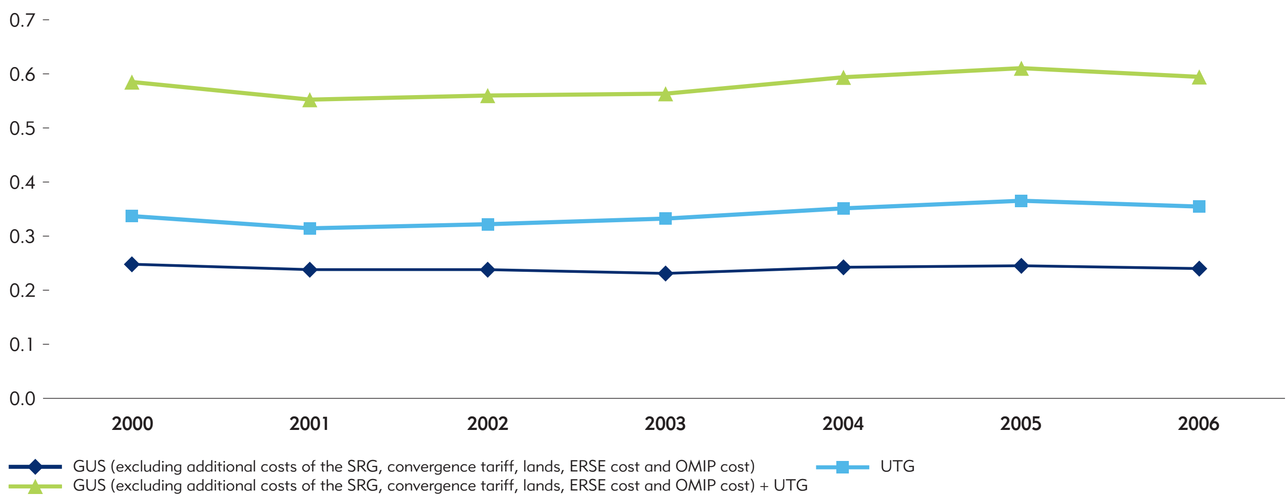
Cross border trade

European Transmission System Operators, an association of European grid operators including all the EU 15 countries, Switzerland, Norway, Slovenia, Czech Republic, Hungary, Poland, Slovakia and Estonia, in contact with the European Commission and the regulators in the different European countries through the 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 pay for the use of each country's transmission systems by electricity traffic initiated by third parties").

Under this mechanism, currently called ITC (Inter TSO Compensation), each transmission grid operator pays on the basis of its net exports and imports and is paid in proportion to the energy traffic in its grid.

The reduction in imports requested by market agents in 2006 resulted in a 33% decrease in the amount of ITC compared to 2005, meaning REN paid a balance of EUR 3.6 million.

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



Correction of hydroelectric variability

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

To reconcile tariff stability with stable earnings for electricity companies exposed to the risk of water variability, for many years there have been financial mechanisms for offsetting costs on a year to year basis in the electricity sector.

The current water variability correction mechanism is defined in Decree Law 338/91 of 10 September and in Ministerial Order 987/2000 of 14 October. Under this legally instituted mechanism, the water variability correction account sets up a year to year financial compensation fund. Within the current organisational model for the sector, REN manages this account and respectively receives or pays excess costs in dry periods or lower costs in high rainfall periods. According to these laws, the water variability correction account is held by EDP Energias de Portugal, S.A.

Annual debits and credits to the water variability correction account and several management parameters (reference level for the balance of the account and maximum fuel oil reference price) are approved by dispatch of the Minister of Economy and Innovation.

Hydroelectric inflows were quite irregular in 2006, fluctuating between extremely unfavourable levels in January and February and exceptionally high levels in October, November and December. Hydroelectric capability in 2006 was very close to the average.

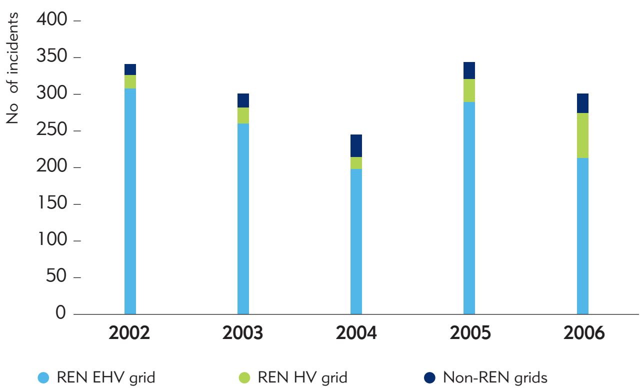
Considering the procedures for water variability correction, which is particularly sensitive to changes in fuel prices at power plants playing the role of marginal plants and the level of the hydroelectric variability correction account, the overall water correction balance resulted in a cost to REN of EUR 25.1 million.

OPERATION OF THE GRID

Grid behaviour
There was no significant congestion in the national transmission grid in 2006. It was appropriate to the different scenarios of generation demand balance to which it was subject. In mid year, the commissioning of the Tunes Estói line constituted the first step in improving the security of the grid supplying the Algarve.

There was a substantial overall improvement in the number of disruptions in the grid. There were 301 incidents (13% fewer than in 2005), 213 of which occurred in REN's extra high voltage grid (EHV), 61 in its high voltage grid (HV) and 27 in other grids, though they impacted on REN's EHV and HV grids.

Number of incidents



Only 19 incidents, i.e. 6% of the total, caused supply cuts. Six of these incidents occurred in non REN grids.

Of these six, the one that occurred in northern Germany on 4 November as a result of a serious disruption in the European interconnected grid run by the UCTE (Union for the Coordination of Transmission of Electricity) was particularly important, as it led to the separation of the European grid into three different zones.

The area of the European grid to which the Portuguese system belongs was affected by a generation shortage, and so the frequency load shedding was activated by the area's TSOs (Transmission System Operators) in order to rebalance generation and consumption quickly and effectively. The frequency load shed by the TSOs involved was over 17 000 MW and the Portuguese system contributed more than 1 200 MW.

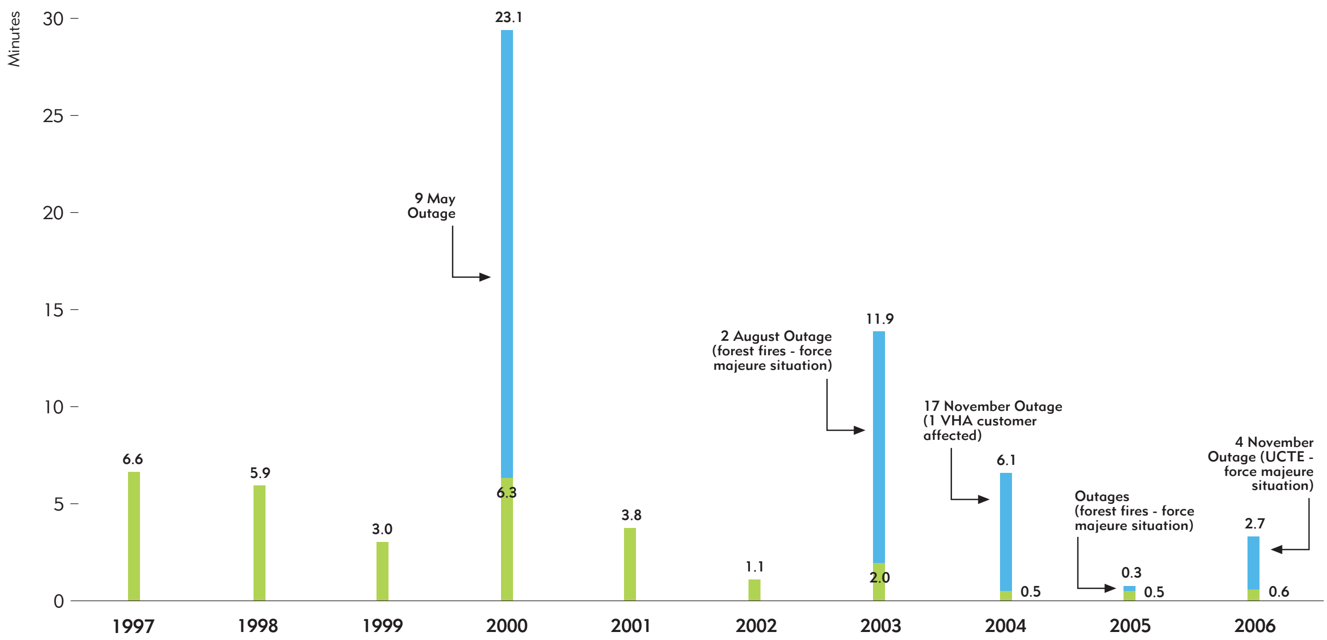
In mainland Portugal and in most western European countries it was therefore necessary to interrupt electricity supplies at several delivery points to protect the system.

If we do not count this incident in the European grid, the other 18 incidents affecting customer satisfaction had a short, localised impact of little consequence.

Quality of service
2006 was the second best year ever in terms of the continuity of the service provided by the national transmission grid. Equivalent interruption time (EIT) was 0.57 minutes, practically the same as the previous year (0.49 minutes). Another way of expressing this indicator is to say that continuity of service was guaranteed 99.99989% of the time.

If we considered the incident in the European electricity grid on 4 November, which was classified as accidental or force majeure, EIT would be 3.28 minutes. The next graph shows the trends towards sustained improvement in the continuity of service, excluding the occasional exceptional cases or situations of force majeure indicated.

Equivalent Interruption Time – EIT



As a result of the incidents directly or indirectly affecting REN's concession grids, the estimated figure for energy not supplied (ENS) in 2006 is 42.1 MWh, excluding the 4 November incident, which had an ENS directly imputable to REN of around 201.8 MWh.

In 2006, we continued to monitor voltage wave quality at all NTG delivery and interconnection points in accordance with the plan submitted to the Directorate general of Geology and Energy.

The measurements continue to show results that abide by the recommendations of the Service Quality Regulations, with a few occasional, localised exceptions.

Lines

The trend of previous years towards an overall improvement in the performance of the NTG lines continued. Overall availability of line circuits, including terminal panels, was 98.6% in 2006, which is a 2.9% improvement on 2005.

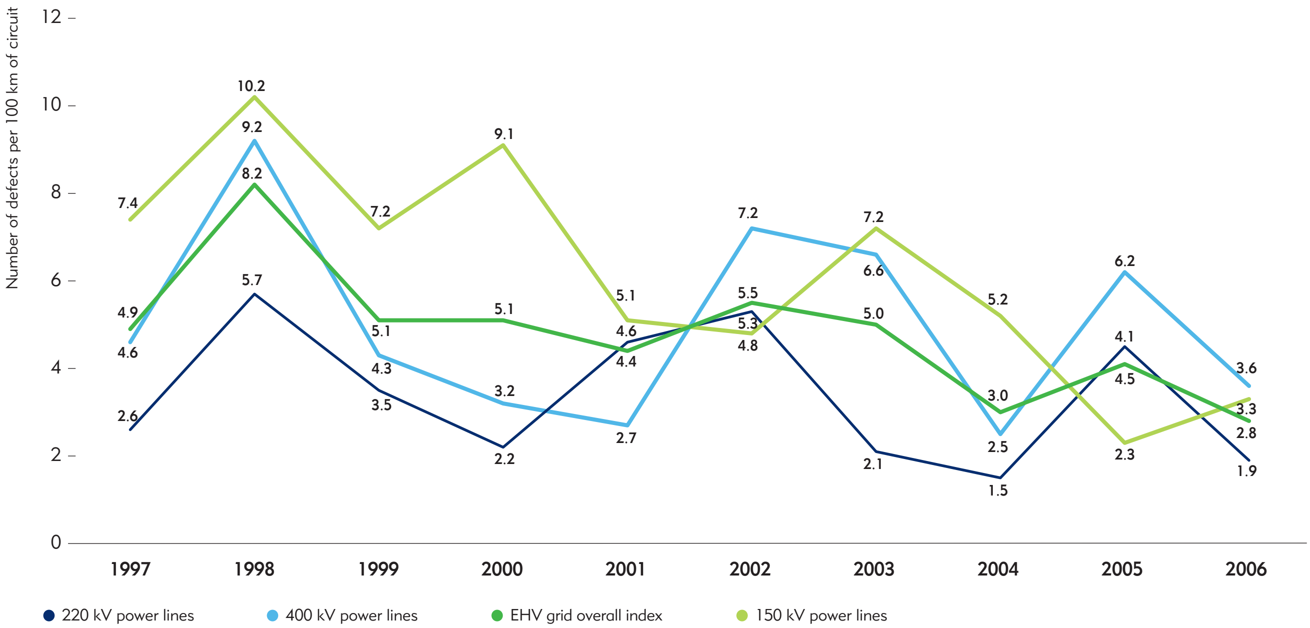
The following graph shows the voltage performance of the lines in recent years in terms of the number of defects per 100 kilometres of circuit.

The 2006 figures are significantly lower than the average for the last 10 years. The overall figure for the EHV grid went down 32% and is now at a record low of 2.8 defects per 100 km of circuit.

The following main factors contributed to this improvement:

- Uprating of many lines in recent years, replacing insulator chains and improving shielding against lightning strikes;

Number of defects in NTG lines per 100 km of circuit



- Mass replacement of ceramic and glass insulators with composite insulators in critical lines in highly polluted areas;
- Monitoring for insulator contamination and more effective summer washing;
- Favourable weather conditions and fewer fires near the lines.

Most of the incidents that affected REN's facilities occurred in overhead lines (71.4%). The main causes were environmental (56.4%) and atmospheric (25.6%).

Compared to 2005, there was a significant increase in the number of incidents caused by birds (storks) and lightning strikes and a substantial decrease in those caused by fires, fog, mist and pollution.

Substations

In general, the performance of REN's substations was highly satisfactory. The number of malfunctions in transformers and circuit breakers was very close to that of 2005. Average availability of transformers and auto transformers was 98.8% (including their panels), slightly more (up 1.3%) than in 2005.

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

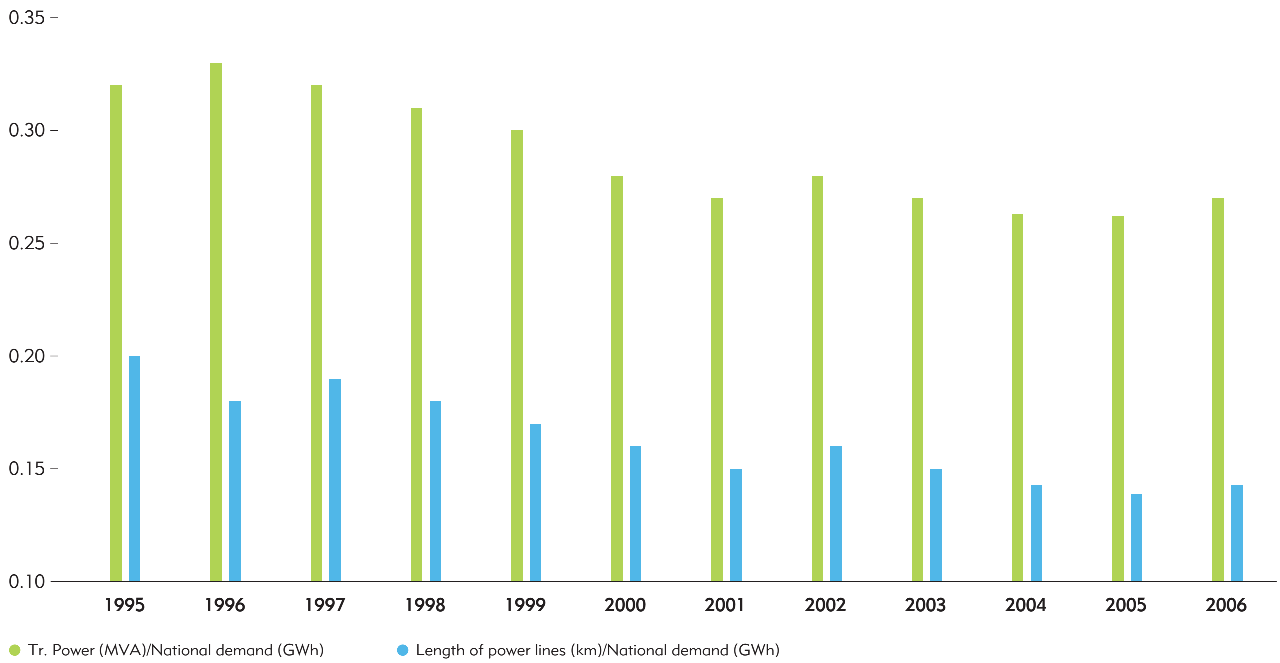
WORK IN PROGRESS

The national transmission grid
The development of the NTG in 2006 involved a number of new reinforcements, creating better conditions for supplying the distribution networks and facilitating internal flows and those exchanged with the Spanish grid.

For a better idea of the level of use of NTG equipment infrastructure, the graph below shows transformation power and line lengths compared to growth in demand since the mid 1990s.

With its Grid Planning, System Management and Operation divisions working together, REN reviewed and updated the nominal and overload transmission capacity of the NTG. This was possible thanks not only to the application of EU standards (NP EN 50341), but also, and basically to the considerable, progressive improvement in the performance of communication, control and protection systems, which are increasingly effective in eliminating defects and reconfiguring the grid structure in the event of faults or other contingencies.

Level of use



After 1996 there was a continuous reduction in these two indicators, then a slight increase in 2006, showing greater use of the NTG.

This new method achieves better, more effective use of total capacity both during real daily operation of the system and during the grid planning phase.

A single reference value will be used for each line's capacity, depending on the time of year, with an unequivocal indication of the percentage of overload permitted in terms of amount and duration. This method will make transmission and information updates easier, clearer and more efficient both within the company and in its interaction with outside entities.

This review and update of principles has resulted in almost total standardisation with the Spanish electricity grid in the definition of transmission capacities of cross border lines. The proposed criterion followed international recommendations, such as CIGRÉ's latest Guide for selection of weather parameters for bare overhead conductor ratings, August 2006.

Projects completed in 2006
Many projects were completed and resulted in significant annual increases in the number of NTG facilities in service: +360 km of lines of all voltages, +3 substations and +1 167 MVA of transformation.

In addition to the three new substations in Bodiosa, Paraimo and Portimão, the completion of the 150 kV Tunes Estói line was essential in improving quality of service in supplying the eastern Algarve.

Also worth mentioning are the completion of the Castelo Branco Ferro and the Valdigem Bodiosa Paraimo lines in Beira Interior, the split in two of the Fanhões Alto de Mira no. 2 line in the Greater Lisbon area and the direct connection to the NTG of two new wind farms in Beira Interior.

Several projects were also completed in existing infrastructure, including increased transmission capacity of nine lines, increased transformation at five substations, increased reactive power to compensate for the power factor at seven substations.

Main investments in progress
Reinforcement of interconnection capacity
A phased increase in transmission capacity of the international connection is scheduled to begin in 2008 with a new substation in the Lagoaça area, initially with no transformation, and the installation of new lines to reinforce the Aldeadavila connections. At the same time, the transmission capacity of several existing lines will be increased to accommodate the power transmitted as a result of the reinforcement of the interconnection.

Connection of special-status generators
The connection of these electricity generators to the NTG requires the creation of new facilities or the modification of existing ones in order to receive all the available power that they generate. In the next few years, six new substations are scheduled to open in Minho, Trás os Montes and Beira Interior and in Alentejo to receive photovoltaic power. Transformation and line panels at several existing substations will also be reinforced.

Supply to major demand centres
In order to meet the sustained increase in demand for electricity in major consumption centres it is necessary to reinforce the extra high voltage lines in these areas and to improve their capacity for injecting power into the distribution grids.

As a result, the creation of new injectors in Trás os Montes, Beira Interior and Estremadura is planned as of 2007.

There is also a plan to establish an extra high voltage connection between Beira Interior and Alentejo and to set up a new feed to the Algarve from Sines.

Work will continue on existing lines and 10 lines will be reinforced in 2007.

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

SPECIAL REGIME GENERATION

In 2006 the DGGE did not allocate any reception points (RPs) to connect special regime generators (SRG) in the extra high voltage grid (EHV) and so there are still those allocated at the end of 2005.

The table below shows the installed generating capacity and injection capacity of special regime generators by type of technology. The high growth in numbers and installed capacity of the wind component is clear. Its installed and connected generating capacities exceed 1 900 MVA and 1 700 MVA respectively.

Of the total capacity indicated in the table, 1 384 MVA will connect with the EHV of the NTG.

Wind power projects awaiting completion by promoters

Nature	Number	Injection capacity (MVA)
Projects with allocated reception points (Decree-Law no. 168/1999)	31	288
Projects with allocated reception points (Decree-Law no. 312/2001)	58	1 619
Projects allocated in Phase A of the international tender for the construction of new wind farms in Portugal	48	1 000
Total	**137**	**2 907**

SRG projects – number of power plants, generating capacity and injection capacity

Nature	Number of SRGs		Installed generating capacity [MVA]		Injection capacity [MVA]	
	Total on 2006-12-31	Increase against 2005	Total on 2006-12-31	Increase against 2005	Total on 2006-12-31	Increase against 2005
Cogeneration	135	3	1 366	15	742	13
Mini-hydroelectric plants	121	3	415	17	398	12
Wind	132	27	1 908	752	1 739	684
Others(*)	62	15	394	20	193	18
Total	**450**	**48**	**4 083**	**804**	**3 072**	**727**

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

Installed wind generation capacity was 752 MVA in 2006 (65% of that installed by the end of 2005), 540 MVA of which was from wind farms connected to the NTG.

The weight of SRG in the national generation system grew in 2006 to around 28% in terms of installed capacity and roughly 18% in its contribution to satisfying overall electricity demand in total supply to the grid.

The situation regarding the SRG projects that will contribute most to increase injection capacity in the NTG in the near future, i.e. wind power, was as follows at the end of 2006.

The 1 739 MVA of wind power injection capacity plus the 2 907 MVA allocated to projects to be built made a total of 4 646 MVA at the end of 2006. If we add the 400 to 500 MVA that will be allocated in Phase B of the international call for tenders for the construction of new wind farms in Portugal, the result of which will be announced in 2007, we reach a total of 5 000 MVA, which is considered sufficient for 39% of total gross electricity demand to be satisfied by renewable energy sources (RESs), which was a goal defined in EU Directive 2001/77/EC (known as the Renewables Directive).

THE NATURAL GAS TRANSPORT AND STORAGE BUSINESS

Council of Ministers Resolution 169/2005 of 24 October approving the national energy strategy began the process of setting up a legal framework for the recent restructuring of the natural gas sector in Portugal, through Decree Law 30/2006 establishing the general principles of the organisation and operation of the natural gas system in Portugal and Decree Law 140/2006, which set forth the definitive legal framework governing the different activities related to the natural gas sector.

REN Gasodutos was set up recently and has been in operation since 26 September 2006. In addition to transport assets, a partial establishment transfer provided REN Gasodutos with the human resources previously allocated to the transport, operation and maintenance of high pressure infrastructure.

REN Armazenagem, the company responsible for underground storage was set up on the same date and took over the assets used for this activity. The surface facilities and three salt caverns, two of which have already been built, now belong to REN Armazenagem. There is also a Galp underground storage facility using REN Armazenagem surface facilities at the same site.

Within this framework, the information in this report reflects the activity of the new companies, REN Gasodutos and REN Armazenagem, since they were set up in late 2006 by incorporation of the assets listed in Decree Law 140/2006. The same law provided for the total takeover of the company owning the Sines LNG terminal, which was named REN ATLÂNTICO.

Annual operating figures show the situation at each facility, irrespective of the companies that actually conducted the operations.

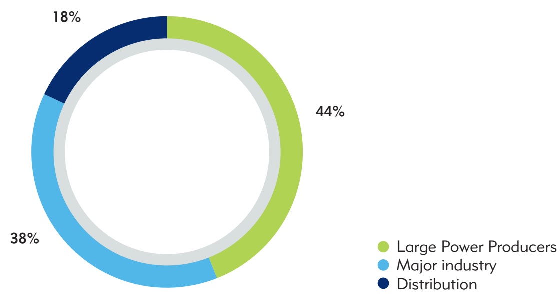
Operating environment

National natural gas transport network

In 2006, 51 000 GWh of natural gas (around 4.3 bcm[3]) were transported by the infrastructure operated by the national natural gas transport network concessionaire, 45% from Sines (NG from regasification at the Sines LNG Terminal currently run by REN ATLÂNTICO) and 55% from Campo Maior (NG from Algeria via the Maghreb pipeline). These quantities include transit of 4 400 GWh of NG (around 0.4 bcm) carried through the national natural gas transport network for Enagás (delivered at Badajoz/Campo Maior and supplied at Valença do Minho/Tuy).

In 2006, aggregated NG supply at entry points in the national NG transport network operation decreased by 5.9%, compared to 2005. This was due to a sharp reduction in NG consumption by the major electricity generators (down 13.5%) as a direct consequence of the unavailability of the Tapada do Outeiro plant in March and April and high hydroelectric variability in October and November, in contrast to the growth in the major industry and distribution segments (up 4.4% and 5.9%, respectively).

National consumption 2006



Network losses, fuel gas and gas bleeds in the NG transport network totalled 0.10% of the gas used in the network. Total losses were 0.18% of the gas carried, due to the contribution of losses resulting from metering differences of 0.08% of the gas carried.

[3] bcm – $1x10^9$ cubic metres

The Natural Gas Service Quality Regulations published by the DGGE in 2002 and in force since 1 January 2003 set forth indicators on continuity of service, more specifically availability of the transport system and average duration of interruptions for all delivery points. The results for 2006 indicate 100% and 0 minutes respectively, thereby exceeding the requirements of 99% and 90 minutes laid down by the regulations.

The 2006 results for indicators of NG characteristics, namely the gas's conformity to gross calorific power and conformity with the Wobbe Index are both 100%, meeting the requirement of 98% in the DGGE regulations.

Underground storage

In 2006, 1 500 GWh were injected and 800 GWh were extracted, to a total of 2 300 GWh of natural gas, which is 13% up on 2005.

These totals were due not only to the final commissioning and final acceptance of the REN salt caverns (February), the leaching of the new REN salt cavern (May) and the filling of the Galp salt cavern (July to October), but also to operating needs in January and February due to a gas supply deficit at entry points in the transport network compared to demand (extraction of around 600 GWh). Fuel gas accounted for 2.1% of the volume injected in underground facilities.

At the end of the year, gas stocks at these facilities, including the Transgás Armazenagem cavern, totalled 2 757 GWh.

The Sines Storage and Regasification Terminal

At the Sines Terminal, 28 ships were unloaded, to a total of 24 200 GWh. The total volume supplied by the terminal to the NG transport network was 23 100 GWh, which is 20% more than in 2005. A total of 484 GWh was delivered by gas tanker trucks, which is 52% up on 2005 and accounts for 2% of gas supplied by the terminal.

As a result of the 39 hours of interruptions in the send out of NG between January and December 2006 for scheduled maintenance and two hours resulting from unscheduled stoppages, the terminal's availability rate was 99.53% for the year.

ECONOMIC REGULATION

Concessions

The Portuguese government and REN's gas companies signed concession contracts on 26 September 2006. REN Gasodutos was made responsible for receiving, carrying and delivering natural gas through its high pressure network, REN Armazenagem was granted the underground storage concession at Carriço, Pombal, and REN ATLÂNTICO received the concession for operating the Sines LNG terminal, including the reception, storage, treatment and regasification of high pressure LNG and the loading and dispatch of gas tanker trucks or ships.

The concessions include the planning, development, expansion and technical management of the NG transport network, construction of its infrastructures, the management of the international high pressure network, storage facilities and regasification terminals.

The overall technical management of the national natural gas system, involving all the natural gas infrastructure, and all its coordination are particularly important in ensuring the security and continuity of the natural gas supply. Where security of supply is concerned, REN also controls the setting up and maintenance of strategic natural gas reserves.

The concession companies are responsible for operating and maintaining their infrastructure.

Equivalence between energy given in kWh and normal m^3 depends on the gas's upper calorie value, which varies, and so it is not possible to indicate the correct equivalent. A rougher equivalence of 1 $m^3(n)$ – 11.8 kWh can be used for approximate calculations.

They are allowed to engage in activities other than those included in their concession contracts provided that they clearly benefit the concession or enrich its assets, as long as these activities are accessory and complementary and do not interfere with the regularity or continuity of the public service.

The concessionaires operate in a setting regulated by the law, their public service concession contracts with the state and regulations established by the Directorate general of Geology and Energy (DGGE) and by the energy service regulator (ERSE), some of which still await publication.

In 2006, the ERSE published four sets of regulations service quality, prices, business relations and access to networks, infrastructure and interconnections. It still has to publish its regulations on technical issues of access and use of infrastructure.

Following these regulations, procedures and information are being prepared for access by third parties so that all the instruments needed to apply the new regulations will be ready at the beginning of the 2007 2008 gas year on 1 July 2007.

As required by Decree Law 140/2006, a reassessment for regulatory purposes of the assets of the three natural gas infrastructure subsidiaries was completed and approved by the government and will be used as a basis for calculating earnings allowed by the regulator.

Liberalisation
The timeframe for opening the market was established by Decree Law 140/2006. Standard power plants have access in 2007, large industrial customers with an annual demand of more than 1 Mm^3 in 2008, customers of more than 10 000 m^3 per year in 2009 and the rest of the market as of 1 January 2010.

Characteristics of natural gas regulation
The gas year lasts from 1 July to 30 June of the following year. The regulation period is three years, while prices are reviewed annually.

REN companies do not purchase natural gas for distribution. The gas in infrastructure belongs to its users.

The regulations only recognise the use of infrastructure without payment in advance of reserved capacity. Physical or contractual congestion is dealt with by auction. Prices are fixed ex ante and corrected ex post after two years. A tariff smoothing system is being planned for REN Gasodutos and REN ATLÂNTICO.

Remuneration of regulated activities
The remuneration of REN natural gas companies is defined in tariff regulations, which establish permitted earnings coming basically from revenue on fixed assets at the average weighted cost of the capital defined by the regulator for each regulatory period. Recognised operating costs are included in the tariffs.

The regulated activities of REN Gasodutos are the transport of high pressure natural gas and the overall technical management of the system, with responsibilities for the whole of the natural gas system.

Of the regulated activities provided for in the tariff regulations, the transport of high pressure natural gas is remunerated from the transport network use tariff and overall system management from the overall system use tariff.

REN Armazenagem establishes a storage tariff with prices in proportion to the energy stored each day and the volumes injected into and extracted from storage every day.

The activities at the Sines terminal are the reception, storage, regasification and delivery of LNG to gas tanker trucks. They are remunerated by a tariff in which the reception price depends on the energy unloaded, the storage price depends on the amount of energy in the tanks on any given day and the regasification price depends on capacity used and energy sent out to the network. Gas tanker trucks have a specific tariff for each load.

Transit

On acquiring the transport assets, REN Gasodutos also took over a series of contracts and shareholdings through which it provides transit services from the national network to Enagás, the high pressure network operator in Spain, whose activities are described in the chapter on the operating environment of the high pressure network.

HIGH PRESSURE TRANSPORT

The NG transport system

Operation and maintenance of infrastructure

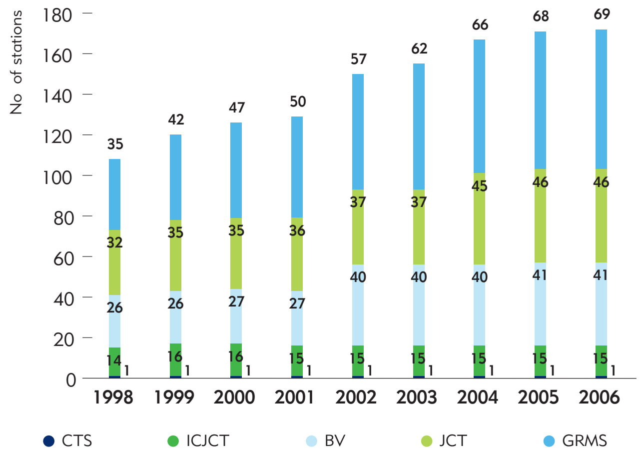
The existing infrastructure has been complemented by the commissioning of a new delivery point connected to GRMS 08309 at Pego to supply NG to the distribution network operated by Tagusgás.

At the end of 2006, the main gas infrastructures were as follows:

- high pressure gas pipelines = 1 218 km
- Junction stations (JCT) = 46
- Block valve isolating stations (BV) = 41
- Inserted junction stations (ICJCT) = 15
- Gas regulating and metering stations (GRMS) = 69
- Custody transfer stations (CTS) = 1

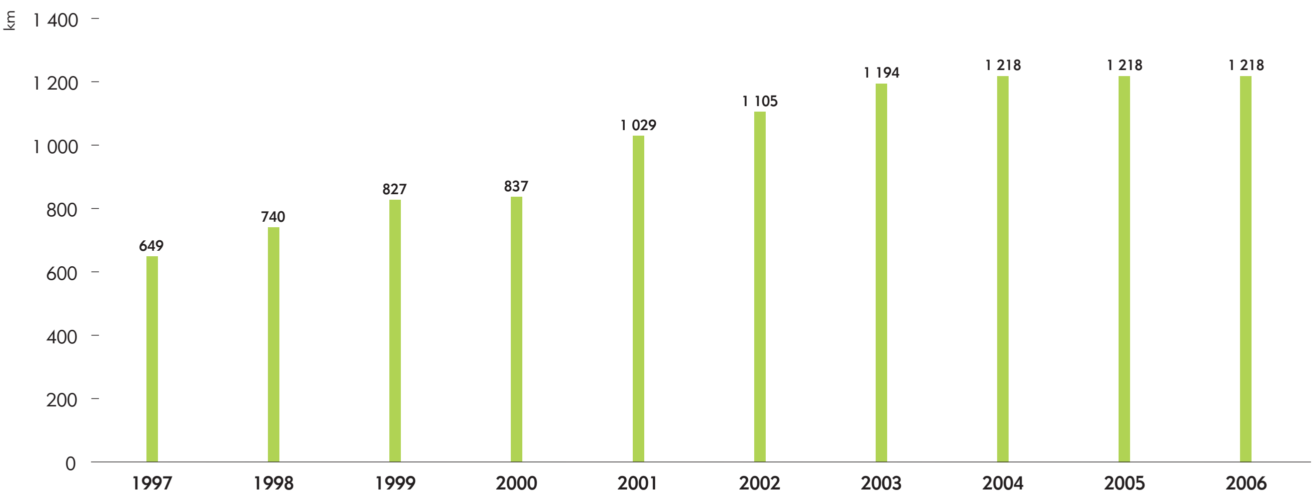
The following graphs show growth in infrastructure since 1998.

RNTGN stations

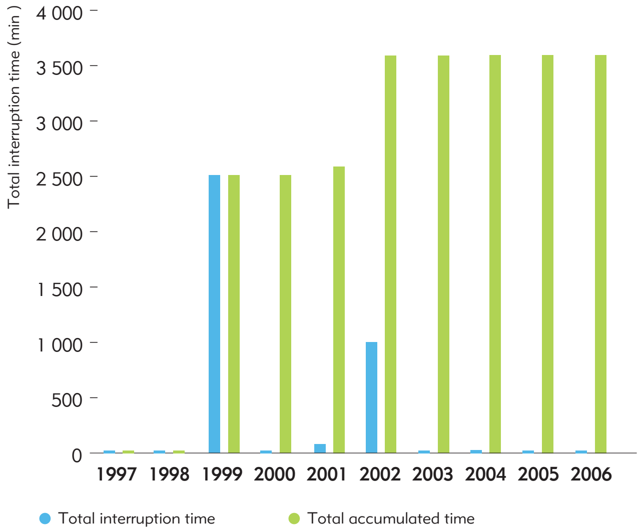


There were no interruptions in gas supply in 2006, meaning that the service quality indicators set forth in the ERSE Service Quality Regulations were met. Some annual and accumulated figures since the NG transport network went into operation are shown on the next page.

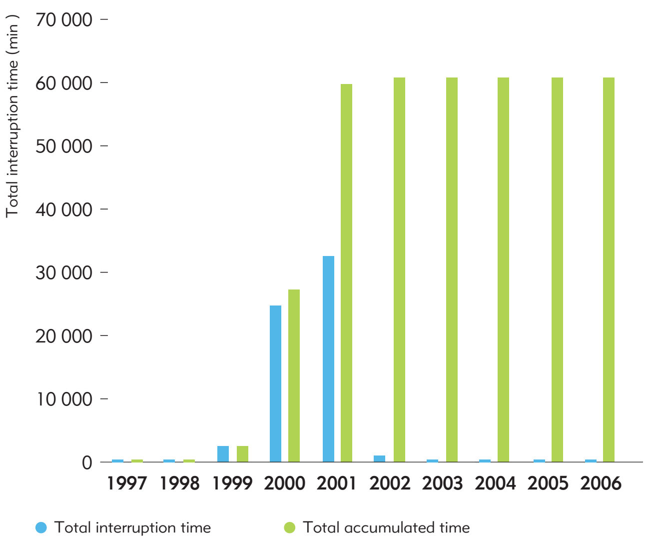
Evolution of the high-pressure gas pipeline (84 bar)



Controllable accidental interruptions



Controllable interruptions



No incidents occurred in the high pressure transport system and the accumulated performance index of non intentional gas leaks published by EGIG (European Gas Pipeline Incident Data Group) of which REN Gasodutos is a constituent operator therefore continued to be zero incidents per 1 000 km of exposed infrastructure per year.

Main investments in progress

In the last quarter, REN Gasodutos made an investment of roughly EUR 0.7 million.

Under the new legislative and regulatory framework it is necessary to prepare development and investment plans in advance for the different infrastructures in the RNTIAT (high pressure network, underground storage and LNG terminal) and so principles and methods for the transport network had to be adopted and a network planning department had to be set up at REN Gasodutos.

In the fourth quarter, this new organisational structure developed an interim investment plan for REN's gas infrastructure from 2007 to the first half of 2008. This plan includes projects to a total value of around EUR 93.5 million, particularly for the REN Gasodutos infrastructure.

The most important projects in the interim investment plan are as follows:

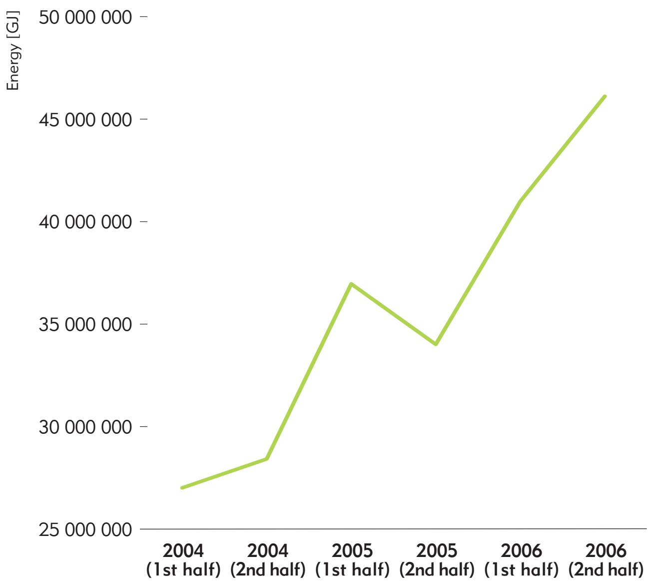
- Network connections to distribution operators grids (new GRMS);
- Internal reinforcement and remodelling of the NG transport network (to adapt infrastructures to market operating needs or operational reconciliation such as odorisation, metering and filing systems, new GRMS equipment, etc.);
- Connections for high pressure customers.

RECEPTION, STORAGE AND REGASIFICATION OF NATURAL GAS

2006 was the third year of operation for the Sines LNG terminal and was considered one of operational and corporate consolidation.

During the year, REN ATLÂNTICO received and unloaded 28 gas tankers from Nigeria, 22% more than in 2005, to a total of 3 561 397 m^3 LNG with an energy value of 87 100 566 GJ or 24 194 602 MWh. The trend towards an increase in activity at the Sines LNG Terminal was confirmed in 2006.

Energy (GJ) unloaded every six months by ship



Average unloading time was 20 hours and 20 minutes as opposed to 20 hours and 53 minutes in 2005, which reflects the stability and maturity of operating processes. Four new ships were certified, making a total 47 certified to dock at the REN ATLÂNTICO terminal.

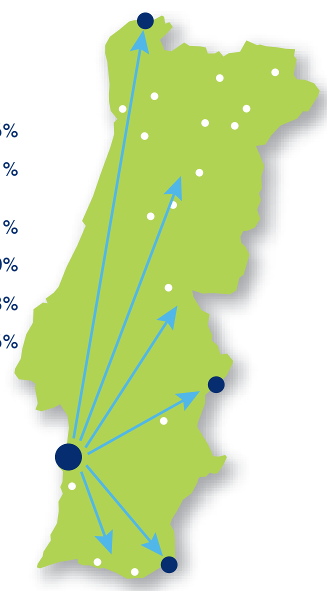
Loading of gas tanker trucks

The cold winter and the opening of new independent satellite plants or the increase in supplies to Spain resulted in substantial growth in the loading of gas tanker trucks. In 2006, 1 618 trucks were loaded, as opposed to 1 059 in 2005.

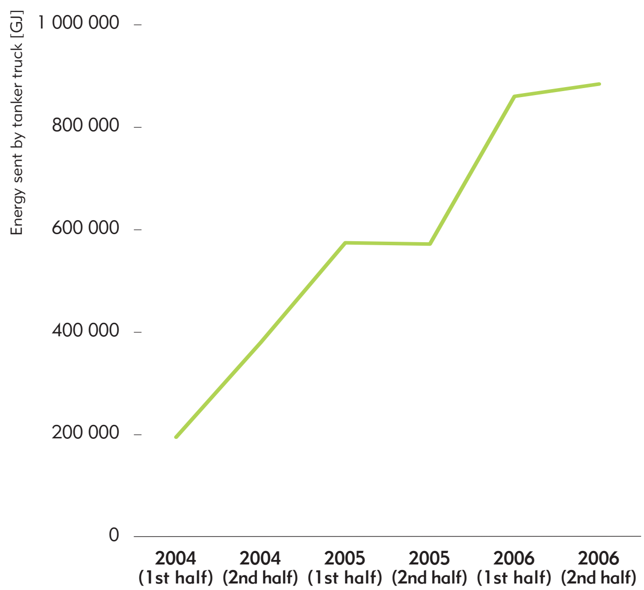
Although loading of tanker trucks grew considerably it only accounted for 2% of the quantities handled at the terminal.

Distribution in tanker trucks

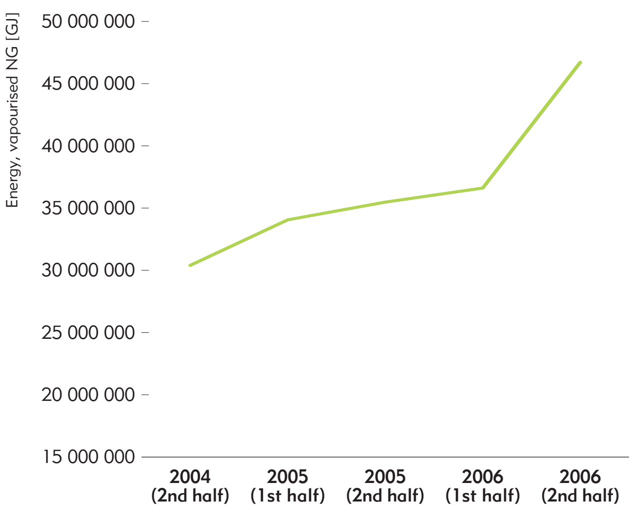
North (A. Valdevez, Bragança, Chaves, Mirandela, M. Cavaleiros, Penafiel, V. Castelo and Vila Real)	35%
Centre (Estrela, Sátão and Tocha)	21%
South (Évora, Odemira, Olhão and Portimão)	21%
Spain (by Tuy)	10%
Spain (by Badajoz)	8%
Spain (by Ayamonte)	5%



Energy (GJ) loaded per six months

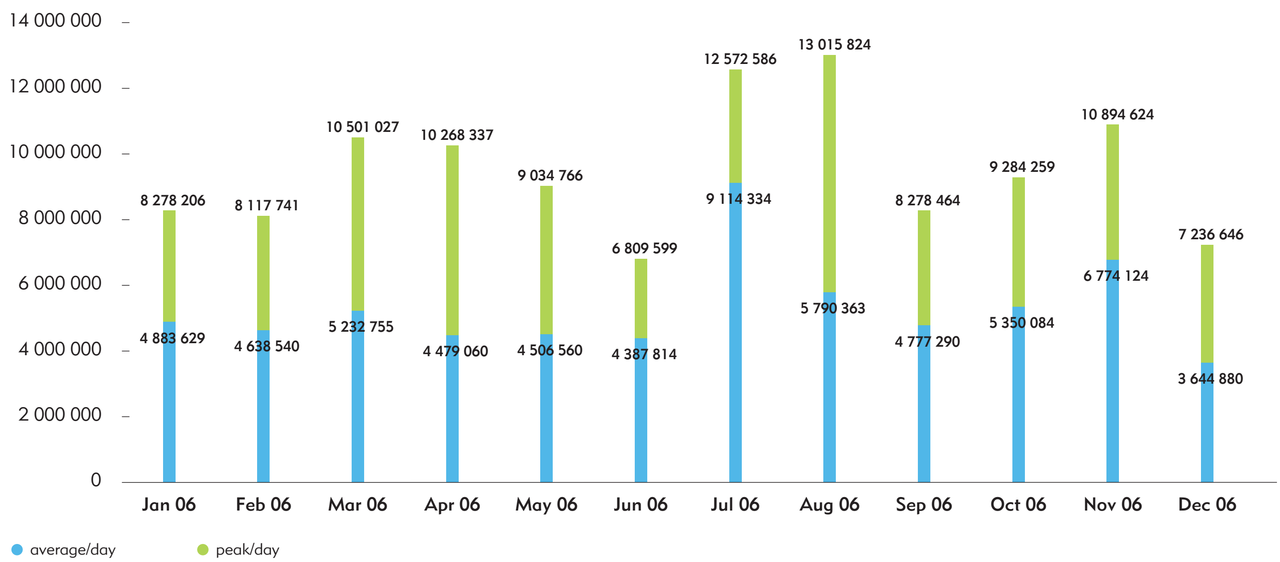


Energy (GJ) exported every six months



Gas transport network

Peak and average send-out rate (m³(n)/day)



In spite of the sustained growth in supply from Sines, the terminal's activity is still limited to the system's peak needs and nominations are almost entirely associated with consumption by the electricity market. As a result, the terminal's maximum daily send out rate, 13 015 824 m^3(n), was reached on 1 August, considering a daily average send out rate of 5 305 831 m^3(n), with a corresponding modulation of 40%.

Availability

In 2006 NG send out was guaranteed for 8 717 hours in an annual total of 8 760 hours, equivalent to an availability quotient of 99.51%. The remaining 43 hours were due mainly to three scheduled maintenance stoppages. Accumulated availability rates at the Sines LNG Terminal were therefore comfortably above contracted levels every month.

UNDERGROUND STORAGE

Operation of underground storage

Construction by leaching of underground storage salt caverns at Carriço continued during the year. Filling of REN's second salt cavern was completed and it went into commercial operation on 1 March 2006. The Galp cavern was also filled and began commercial service on 9 October 2006.

Leaching is an operation by which a cavern is formed by controlled high pressure injection of water and rejection of the resulting brine.

Leaching of the TGC 4 cavern for REN continued (the third, as two have been already built), resulting in a volume of roughly 277 000 m^3 at the end of the year. This cavern will have a final volume of 550 000 m^3 by the end of 2007. It will be filled for the first time in the first quarter of 2008, depending on the availability of NG.

In 2006, the underground storage facilities handled a total of 1 500 GWh (around 128 Mm^3(n)) of injected gas and 0.8 GWh (around 69 Mm^3(n)) of extracted gas including the operating Galp cavern.

Operation and maintenance of infrastructure

At year end, the quantities stored in REN's caverns were as follows compared to 2005:

	Total Storage			
	31-12-2006		31-12-2005	
	m^3(n)	kWh	m^3(n)	kWh
Total	171 462 612	2 042 723 759	172 591 242	2 038 462 951

Note: The quantities stored are totals, including cushion gas and conditioned capacity.

On 31 December 2006, the nominal capacity characteristics for the different salt caverns and total storage capacity per cavern were as follows:

	TGC-3		TGC-5	
	m^3(n)	kWh	m^3(n)	kWh
Cushion gas	40 601 721	480 724 378	33 133 573	392 301 508
Conditioned	53 520 451	633 682 134	43 676 074	517 124 715
Maximum	93 506 994	1 107 122 809	80 323 814	951 033 959

Notes on the above table:

Cushion gas	Non-usable capacity, necessary to guarantee structural integrity of cavern
Conditioned capacity	The difference between this figure and that of cushion gas is the capacity usable for one week every 10 years at most.
Maximum	The difference between this figure and that for conditioned capacity is the cavern's maximum unconditioned usable capacity.

Main investments

REN Armazenagem's interim investment plan includes projects totalling around EUR 16 million. The most important of these are the completion of cavern TGC 4 and the purchase of cushion gas, an analysis of the expansion capacity of the Carriço salt reserve and a feasibility study for the construction of new caverns.

TELECOMMUNICATIONS AND INFORMATION SYSTEMS

The fact that 2006 was a year of transition and growth for the REN Group had a substantial impact on all aspects of information systems as a result of the harmonisation and consolidation of technological platforms and simultaneous structural projects.

The following actions were taken where the integration of gas was concerned:

- Interconnection of IT networks of all the Group's companies
- Consolidation of systems in the Group's data centre
- Migration of applications to the Group's platform:
  - SAP RH
  - SAP Financial
  - Email
  - Document management
  - Geographical information
  - Corporate intranet
- Integration of voice networks with the Group's single numbering plan

At REN   Rede Eléctrica Nacional, action was taken to meet the need to continue ongoing projects that were decisive to support of the operation of the NTG.

In the telecommunications safety network, installation of a DWDM (Dense Wavelength Division Multiplexing) optic platform was completed, making up a network of 28 nodes to support critical broadband services and the industrial data network.

In 2006, we installed the industrial data network at 27 substations. It is an IP (Ethernet) transmission platform using a high output optic network and allows better management and maintenance of critical NTG systems (protection, command and control, system manager, telemetering, etc).

A pilot network was installed in the voice network using voice on IP (VIP) technology on the industrial data network sites and it was connected with the security network in Sacavém.

We began the implementation of the integrated service network at the building in Avenida dos Estados Unidos da América in view of the need to improve voice and data services at the Group's headquarters.

The information system test laboratory was renovated and reequipped in order to improve equipment maintenance and troubleshooting of telecommunication and IT systems.

As part of the implementation of the corporate DRS (Disaster Recovery System), the technological recovery plan was completed in 2006. It then underwent procedural and technical testing and maintenance equipment was set up.

In 2006, we began publishing information system performance indicators on the intranet. In addition to aggregate indices for IT services, telecommunications services and information systems, availability graphs by service or application with monthly figures and reference targets are also published. Dissemination of these indicators has made it possible to optimise definition and fulfilment of criteria and automation of calculations.

Pursuant to our policy of ongoing improvement of quality of service provided by our information systems, we reinforced the operating tools available to the Herpes and improved the GEBO intervention management system.

The Ermesinde branch was confirmed as the Group's service provider in the northern region and as backup for the telecommunication and IT systems.

As a result of the connection of the networks to the gas companies, we also reinforced the monitoring, alarm and security platforms to guarantee high quality, fully available IT services.

RENTELECOM – COMUNICAÇÕES, S.A.

RENTELECOM Comunicações, S.A. was set up to take advantage of the surplus capacity of REN's security telecommunications network and went into operation in 2002. Since then, priority has been given to consolidate the services provided for many years to the electricity sector. The business continues to focus on the corporate and energy sectors.

This consolidation was practically completed in 2005. In 2006, there was an increase in orders for global telecommunication services from wind farms. The year was also marked by several proposals for the market outside the energy sector, some of which are still pending, as is the case of "digital municipalities".

Following the takeover of natural gas facilities by REN, the parent company, RENTELECOM has positioned itself as the REN Group's supplier of telecommunications and information systems.

RENTELECOM has already assisted in the migration of REN Gasodutos platforms to the REN Group's infrastructure, accompanying the separation of the company's assets from Galpenergia/Transgás.

The provision of this type of service involved creating the right technical communication, housing and hosting conditions. The commercial agreements serving as a basis for this work will be signed very soon.

In the fibre optic rental sector, medium and long term revenue was guaranteed by renegotiating contracts with regular institutional customers.

The contract with the parent company transferring human resources was enough to meet the needs in 2006 and so there was no need to hire additional personnel.

Although these activities represent an increased workload for RENTELECOM, revenue went down to EUR 3 235 369. As mentioned in the 2005 Annual Report and Accounts, revenue for that year of EUR 3 618 749 benefited from the collection of old debts, while there were still many outstanding debts at the end of 2006. Another reason for this reduction was the lower price charged for fibre optic rentals, due to market changes.

As mentioned, prices in new agreements will be fixed to avoid this type of fluctuation. Net profit was EUR 152 857.

The forecast for 2007, as for 2006, is of a period of demand from new markets, especially because our infrastructure is now more powerful with the addition of the part from natural gas, which is of growing importance to an intervention in the telecommunication market, particularly broadband, an area so vital in developing the information society.

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

2006 was marked by the start up on 3 July of the MIBEL Derivatives Market, managed by OMIP and OMIClear. After more than two years of uncertainty and several postponements of the opening, the event was extremely important in consolidating the Portuguese branch of the Iberian electricity market operator and we can now make realistic plans and regard with justified optimism the future of the two companies in the OMIP Group.

The decisive impetus for this outcome was given by the Portuguese and Spanish governments at the 21st Portuguese Spanish Summit in Évora on 18 and 19 November. Important decisions made it possible to begin the activities of OMIP and OMIClear on 3 July 2006, including the following, which were directly related to the start up of the futures market:

- Priority to the start up of the OMIP/OMIClear futures market platform, with the date set for 1 July 2006
- With the coming into force of the Santiago Agreement, the immediate setting up of the Board of Regulators, one of whose priorities was issuing an opinion on the draft OMIP/OMIClear market rules by 15 March 2006
- Recognition of OMIClear as an integral part of OMIP, the futures market manager, under Article 4.2 of the Santiago Agreement
- Publication in each country by 1 May 2006, to come into force on 1 July 2006, of a legal instrument establishing the conditions and the obligation to purchase energy by each country's regulated distributors or suppliers at OMIP/OMIClear, which, in 2006, would be at least 5% of the energy sold to regulated customers after 1 July 2006

The necessary conditions for formally beginning the start up process, such as involvement of agents, were met with the approval by the Board of Regulators of the OMIP Market Rules and the OMIClear Clearing Rules on 16 May. In May and June 2006, OMIP's extensive preparations for the start up of the MIBEL Futures Market were as follows:

- Completion of the final version of all the necessary documents, such as regulations, circulars, announcements and operational support documentation
- Approval of the tariff
- Contacts with potential market agents in Madrid, Lisbon and London, setting up negotiation and clearing task forces, in which some 50 entities participated
- Training in negotiation and clearing for potential market participants and credentials and registration of future negotiation and clearing personnel, involving around 70 people
- Completion of new versions of the IT platforms (Phase 2) specified and developed while the project was at a standstill, including some important upgrades and new functions, which were tested in simulations with agents
- Reactivation of the OMIP/OMIClear website
- Implementation of the settlement system for the clearing house, connecting it to the Bank of Portugal, the securities custodian bank (Banco Santander de Negócios Portugal) and the cash guarantee deposit bank (Banco BPI, S.A.)
- Signing of an interconnection agreement with OMEL for the physical settlement of futures market operations and introduction of the model
- Appreciation of the initial admission processes and configuration of members on the IT platform.

On 28 June, the CMVM (Portuguese Stock Exchange Commission) made the official registrations necessary for the managers and market to operate.

- OMIP as the manager of the unregulated market;
- OMIClear as the manager of the settlement system, with clearing and central counterparty functions;
- The unregulated market for trading energy futures;
- The clearing system and central counterparty.

The clarification of exemption from VAT and stamp duty for electricity futures contracts and Ministerial Order 643/2006 and Orden ITC/2129/2006 on the participation of regulated suppliers and distributors in the MIBEL futures market finally completed the regulatory framework and allowed the MIBEL Futures Market to open successfully on 3 July 2006.

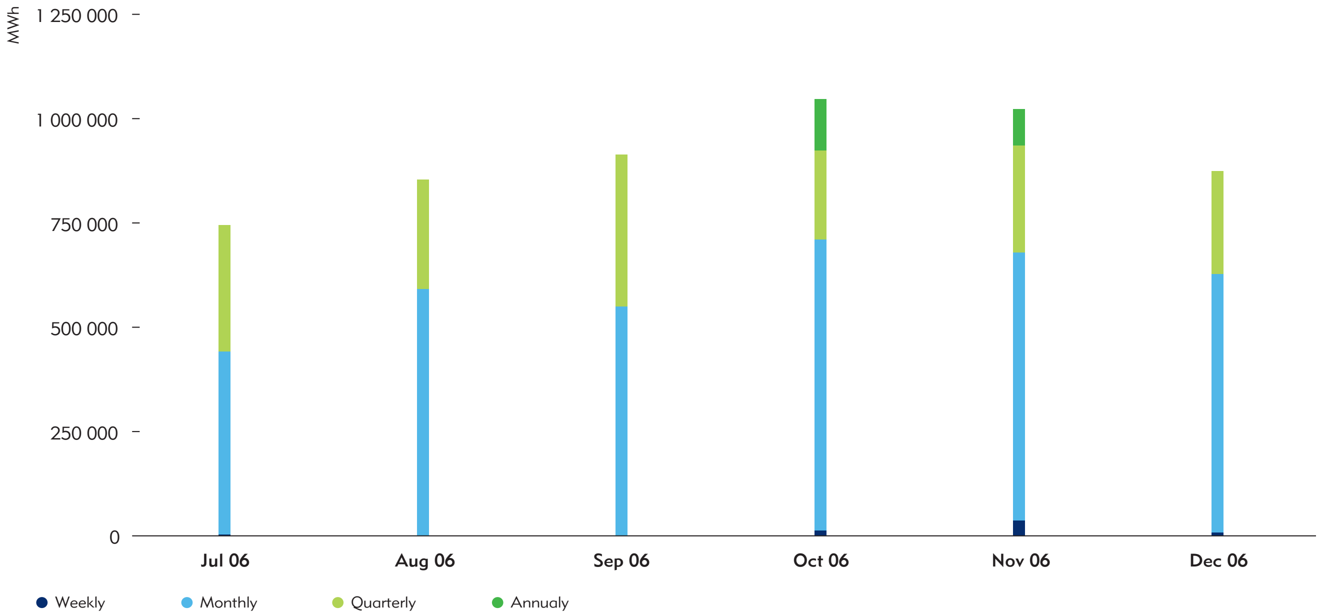
This completed the first fundamental stage in confirming OMIP and OMIClear as essential corporate projects in the Iberian Electricity Market, representing a series of vital infrastructures working for the benefit of the different agents and of the market as a whole.

In the second half of the year, the market's functioning was as expected for an electricity derivatives exchange in its initial phase. A total of 5.4 TWh were traded, to a value of EUR 302 million.

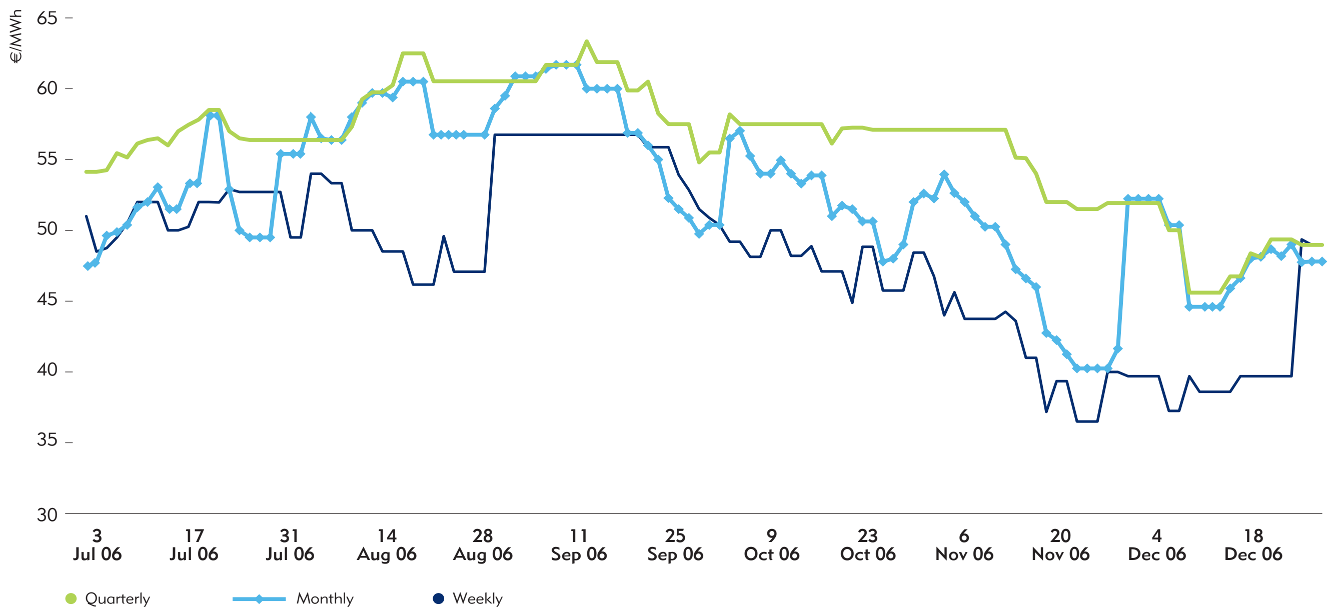
At the end of 2006, 25 members had joined the MIBEL Derivatives Market, in different capacities, as trading members, clearing members (general and direct), physical settlement agents and financial settlement agents. Fourteen of them are based in Spain, four in Portugal, four in the United Kingdom and two in Switzerland.

The next two graphs show the monthly volumes traded, the different instruments in question and settlement prices by week, month and quarter.

Volume traded



Settlement price



From an economic and financial point of view, the start of operations in July 2006 and the stabilisation of the finance model provided for in the Santiago Agreement made it possible to face the year's challenges with confidence and optimism.

The net profit of EUR 85 676 confirms this and is fundamentally based on fixed and variable commissions of EUR 636 709 and the electricity tariff of EUR 2 137 560, representing 22% and 74% of total revenue, respectively.

After the successful start up of the MIBEL futures market in 2006, 2007 will mark the first phase of consolidation of the market's operations and the OMIP and OMIClear corporate model.

At the 22nd Portuguese Spanish Summit in Badajoz on 24 and 25 November 2006, both governments made important decisions on the future of the two companies. The following measures directly affected OMIP and OMIClear:

- A regulatory compatibility plan, which will include a common spot and forward model for contracting energy for distributors or suppliers of last resort in both countries within the scope of the Iberian Market Operator (OMI);
- The general principles of the OMI's organisation and management, for which the OMIP and OMIE will detail and schedule the implementation model by 31 May 2007, for completion by the end of 2007;
- A mandatory 10% to be purchased by OMIP distributors or regulated suppliers in 2007.

Extremely important structural measures were announced for the Iberian electricity market, such as virtual auctions of Iberian capacity, the end of power purchase agreements, the continued reinforcement of interconnection capacity between the two countries and the setting up of a management model based on market methods.

Considering the results in 2006 and the foreseeable developments, particularly the dispersal of capital by REN and integration with OMEL, 2007 can be expected to be not only a year of great challenges but also of great opportunities for OMIP/OMIClear to assert itself as the Portuguese branch of the Iberian electricity market operator.

INVOLVEMENT WITH SOCIETY

Where sustainable development is concerned, REN's Statement of Commitment to Society enshrines a series of principles that it voluntarily follows.

Several of these principles have been put into practice in supporting different activities promoted by civil society organisations or public bodies.

Some of them have become regular features, forming true partnerships over time. In addition to its contribution to their organisation, the creation of relationships of interaction, empathy and trust with a variety of audiences is REN's most valuable reward.

In 2006, from the north to the south of the country, REN sponsored more than 85 entities organising initiatives in a variety of fields, such as culture (for example, REN is the sole patron of Teatro Nacional de São João in Oporto for the fourth year running), sports, protection of natural heritage and historical buildings, social and humanitarian action and technical, scientific and corporate sponsorship. As usual, the company also participated in R&D initiatives, in collaboration with universities and Portuguese research centres.

As part of its commitment, REN also promotes its own initiatives, some of which take place every year, with special emphasis on the REN Award, which is for final year or master's degree engineering students at Portuguese universities. Now in its 12th year, the award is an important stimulus for these students to conduct research and is also a way of forging a special relationship between the company and universities.

REN has long been aware of its social responsibility, which is an essential component in practices and values from the past and in new forms and challenges, not only in terms of sustainability but also of its own culture, strengthening its enduring image as a corporate citizen.

ECONOMIC AND FINANCIAL DEVELOPMENTS

In September, REN acquired natural gas transport, regasification and storage assets and sold its shareholding in GALP.

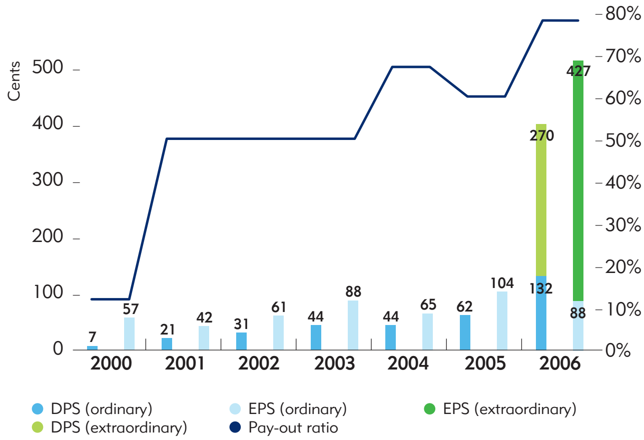
As a result, the financial statements for 2006 reflect full consolidation of the profits for three months of the two gas pipeline companies (Campo Maior Leiria Braga and Braga Tuy) and REN ATLÂNTICO, along with REN Gasodutos and REN Armazenagem, companies set up in late September. The accounts of OMIP, OMICLEAR and RENTELECOM were also consolidated in 2005 and 2006.

In this report, the REN Group's individual and consolidated accounts have been prepared in accordance with Portuguese accounting standards (POC). However, we are currently planning to implement the International Financial Accounting Standards (IFRSs) in all the Group's companies. The adoption of these standards as a reference for REN's financial reporting was set forth in Article 12.1 of Decree Law 35/2005 of 17 February, which allows companies submitting consolidated accounts subject to legal audits to abide by the IFRSs, even if they are not quoted on the stock exchange.

Income statement
The REN Group's net profit in 2006 was EUR 550.1 million, which clearly reflects the capital gain from the sale of its shareholding in GALP totalling EUR 523.9 million. The electricity business showed a profit of EUR 539.5 million euros and, in three months, the gas companies generated a profit of EUR 8.1 million.

As a result, the Group's dividend per share in 2006 was considerably higher than in previous years at around EUR 1.32 per share, as opposed to EUR 0.62 per share in 2005. Two tranches of dividends were distributed to REN's shareholders, the first, to a value of EUR 288.7 million as a distribution of other reserves and retained earnings and the second, to an amount of EUR 87 million, as advance distribution of profits for 2006.

Earnings per share



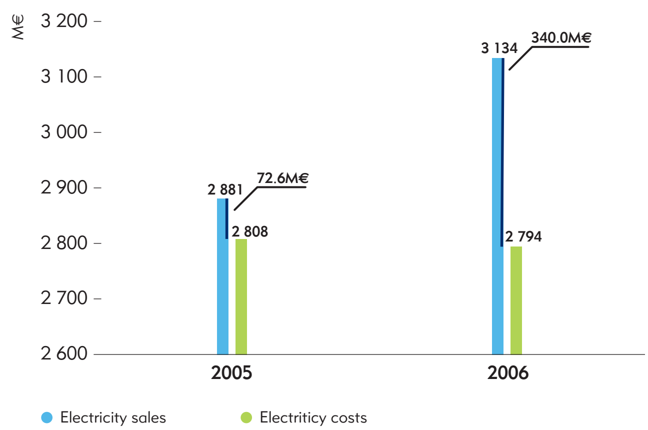
Overall, operating profits were EUR 123.5 million. This profit is EUR 8.1 million lower than in 2005 but reflects the EUR 29.7 million increase in provisions, after the constitution of a EUR 40.7 million provision for a lawsuit on dividend from the shareholding in Galp Energia, SGPS. There was in fact a reduction in provisions for lawsuits (EUR 1.2 million) and other benefits (EUR 9.1 million) set up in 2005.

On analysing the results generated by the Group's operations in 2006, we must consider the EUR 149.9 million profit in the electricity business, which is 9.1% up on 2005, and the three month operating profit from the gas business to the tune of EUR 14.8 million.

The new situation of the REN Group is based on two different earnings and cost structures, depending on the business area.

Where operating earnings were concerned, gas revenue (prices charged) are reported as services rendered (100% of operating earnings), while in the electricity business, the main source of earnings is sales of electricity (around 99%), which totalled EUR 3 133.6 million. The margin between electricity sales and purchases, corrected by water variability and costs of tariff convergence (Azores and Madeira), was EUR 340 million, which is EUR 267.4 million more than in 2005. Earnings from services rendered by the Group were EUR 41.6 million and were basically associated with gas transport.

Margin of net contribution of sales



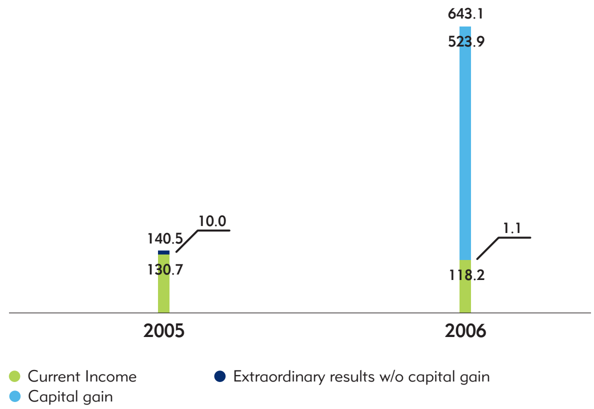
EBITDA for the year totalled EUR 270.8 million, which is 4.0% up on 2005. In individual terms, EBITDA from the electricity area was EUR 239.0 million and from gas was EUR 28.1 million. The gas figure reflects three month profits for the gas companies. If we annualise EBITDA for the gas companies the result is roughly EUR 112 million.

The financial results was EUR 4.4 million higher (EUR 0.9 million in 2005, against EUR 5.3 million in 2006). This was basically due to a EUR 15.8 million increase in interest payable (including taxation) as a result of a EUR 346 million increase in average financial debt and a rise in the average cost of finance, which was 2.44% in 2005 and 3.27% in 2006.

The financial results were partially offset by a EUR 10.3 million increase in dividends from our shareholding in Galp (EUR 40.7 million in 2006 and 30.4 million in 2005). The EUR 515 million rise in extraordinary results reflects the capital gain from the sale 18.3% of GALP's shares.

As a result, income before taxes profit for 2006 was EUR 643.1 million.

Income Before Taxes Composition (M€)



Income Statement (M€)

	2005	2006	Variation Absolute	Variation %
Electricity sales	2 880.6	3 133.6	252.9	8.8
Services rendered	10.3	41.6	31.3	304.0
Own work capitalised	12.3	15.5	3.2	25.7
Water variability correction	200.2	0.0	-200.2	-100.0
Other operating income	3.1	1.4	-1.7	-55.9
A – Operating income	**3 106.6**	**3 192.1**	**85.5**	**2.8**
Purchase of electricity	2 733.3	2 793.5	60.2	2.2
Tariff convergence costs	74.7	0.0	-74.7	-100.0
External supplies and services	29.3	33.2	3.9	13.3
Staff costs	32.3	37.0	4.7	14.7
Depreciation	83.4	102.1	18.7	22.5
Provisions	14.7	44.4	29.7	201.8
Other operating costs	7.4	58.4	51.0	690.5
B – Operating costs	**2 975.0**	**3 068.6**	**93.6**	**3.1**
C – Operating profits (A-B)	**131.6**	**123.5**	**-8.1**	**-6.2**
D – Financial results	**-0.9**	**-5.3**	**-4.4**	**478.2**
Financial income	30.9	41.5	10.7	34.6
Financial costs	31.8	46.9	15.1	47.5
E – Extraordinary results	**10.0**	**525.0**	**515.0**	**5 149.1**
Extraordinary income	14.7	538.4	523.8	3 567.6
Extraordinary costs	4.7	13.5	8.8	187.9
F – Income before taxes (C+D+E)	**140.7**	**643.1**	**502.4**	**357.2**
G – Income Tax	**30.0**	**92.6**	**62.6**	**208.5**
H – Minority interests	**0.0**	**0.5**	**0.5**	
Net profit (F-G-H)	**110.7**	**550.1**	**439.4**	**397.1**

Note: While the 2006 report refers to the Group's two business areas, 2005 deals only with the electricity business.

REN's performance can be evaluated with a model that combines items from the income statement and balance sheet to obtain current return on equity before taxes and extraordinary income (ROE*), which is represented by return on assets, including financial earnings (ROA), plus the difference between this and the cost of loans, leveraged by the financial structure.

$$ROE^* = ROA + (ROA - \frac{FC}{D}) \times \frac{D}{E}$$

In which:

D	Liabilities
E	Equity
FC	Financial costs
ROE*	Return on equity before taxes and extraordinary items
ROA	Return on assets (including financial earnings)

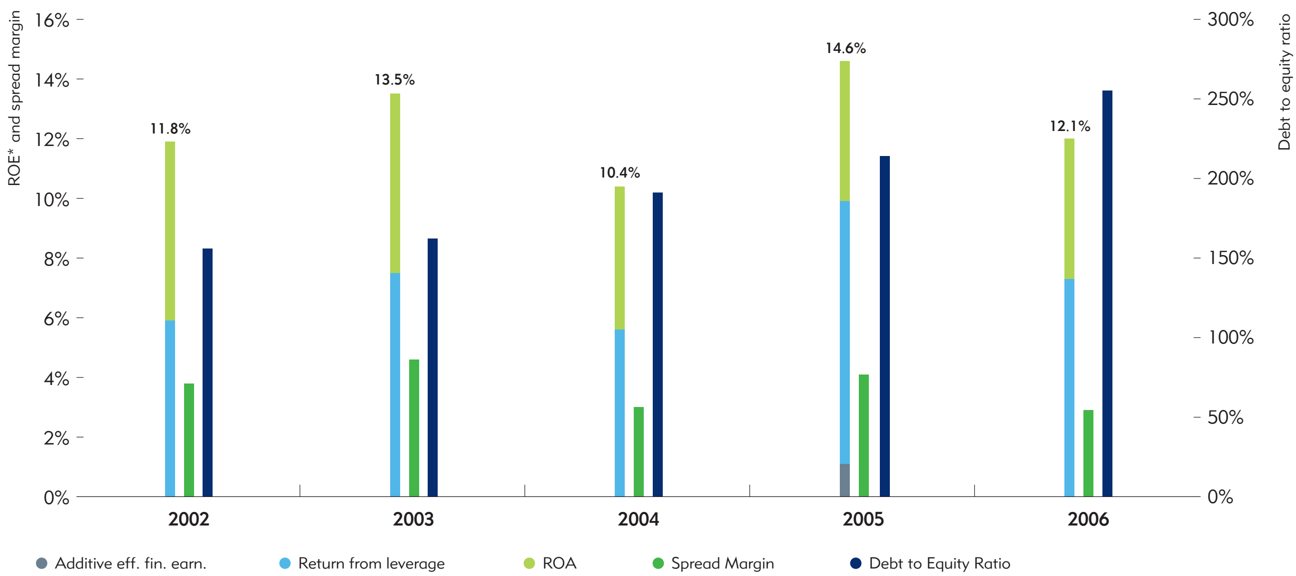
In 2006, the Group's return on assets was 4.7%, much the same as in 2005, although it only includes the effect of three months of gas business. This indicator goes up to 4.8% if we consider the added effect of financial earnings. The return from leverage was favourable at 7.3% and is the result of the multiplication of a spread margin[4] of 2.9% by the debt to equity ratio, which is higher than last year because of a more substantial increase in liabilities, although equity also rose.

If we combine ROA with the return from leverage, we obtain a return on equity before taxes and extraordinary items of 12.1% for the Group, which is 2.5 p.p. down on 2005.

Individually, the electricity and gas areas achieved a ROA (including financial earnings) of 5.0% and 4.7% respectively, which is increased 6.9% and 1.7% by the return from leverage. Return on equity before taxes and extraordinary income was 11.9% for the electricity business and annualised ROE* for the gas business was 6.4%.

As a result of the capital gain from the sale of the Group's shareholding in GALP, its return on equity was an exceptional 56.2% in 2006. If we exclude the effect of this extraordinary results (and the resulting tax impact), ROE is around 9.6%, which compares to 12.4% in 2005 and 8.1% in 2004.

Return on equity before taxes and extraordinary items



[4] Spread Margin is the result of the difference between ROA and cost of loans.

Additive model of integrated analysis of the Group's profitalibity

		2005	2006
1 Return on assets	[EBIT/A]	4.7%	4.7%
2 Additive effect of financial earnings	[Fin. Earn/A]	1.1%	0.0%
3 – ROA (including financial earnings)	**[1+2]**	**5.8%**	**4.8%**
4 Spread Margin	[ROA-(FC/D)]	4.1%	2.9%
5 Debt to Equity Ratio	[(D+min. int.)/E]	2.1%	2.6%
6 – Return from leverage	**[4x5]**	**8.8%**	**7.3%**
7 – Return on equity before taxes and extraordinary items (ROE*)	**[3+6]**	**14.6%**	**12.1%**

Note: While the 2006 report refers to the Group's two business areas, 2005 deals only with the electricity business.
Min. Int. – Minority interests

Permitted profit from the electricity business

Profits permitted by the regulations totalled EUR 149.9 million, EUR 12.5 million more than in 2005. There was a EUR 11.1 million increase in commercial earnings while interest on tariff differences grew EUR 6.2 million.

However, remuneration from hydroelectric plants fell by EUR 2.7 million as a result, on one hand, of a reduction in the remuneration rate and, on the other, by a reduction in the assets remunerated.

Remuneration on the regulated asset base (RAB) went down EUR 1.8 million due to a reduction in the remuneration rate from 8% to 7%.

Permitted earnings breakdown (M€)

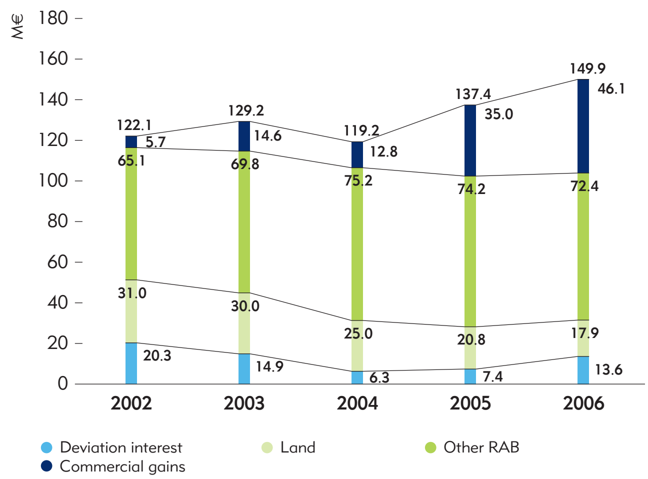
	2005	2006	Variation Absolute	%
Hydroelectric plants	20.6	17.9	-2.7	-13.3
Thermoelectric plants	0.2	0.0	-0.2	-98.3
Other RAB earnings	74.2	72.4	-1.8	-2.4
Commercial gains	35.0	46.1	11.1	31.7
Deviations interest	7.4	13.6	6.2	83.4
Total	**137.4**	**149.9**	**12.5**	**9.1**

The next graph shows the permitted profit from 2002 to 2006 broken down into different items.

Although the economic regulations for the gas business are similar in concept to those for electricity, its tariffs have not yet been published. The tariffs currently in force are provisional ones negotiated by Galp and REN.

As a result, the concept of permitted profit was not yet applicable to the gas business in 2006.

Permitted earnings from electricity



Balance sheet

Net assets grew in 2006 by about EUR 991.5 million (33.3%), mainly because of an increase in fixed assets, which include gas facilities. After the sale of REN's shares in GALP and the subsequent acquisition of its gas assets, the composition of financial investments changed substantially. Among other movements, there was a decrease in this account of EUR 420.9 million representing the 18.3% of GALP's shares and a EUR 518.3 million increase from the equity book value of the gas assets transferred to REN. Of this, EUR 425.8 million represented the high pressure gas pipeline, EUR 80.3 million the underground storage of natural gas and the remaining EUR 12.2 million the liquefied natural gas reception, storage and regasification terminal. In association with these assets, a net debt of EUR 447.4 million was transferred to the Group.

Accruals and deferrals increased by EUR 55.4 million and there was a growth in tariff differences of EUR 74.9 million and a decrease in deferred taxes of EUR 24.7 million.

Where liabilities are concerned, there is a EUR 877.1 million (42.7%) increase resulting mainly from the EUR 527.6 million rise in debts to banks.

The increase in the Group's financial leverage was due mainly to the above mentioned debt associated with gas assets.

The EUR 106.4 million growth in equity is basically the result of four factors the net profit for the year (EUR 550.1 million), which includes the capital gain from the GALP shares, the distribution of profits from the previous year to the amount of EUR 68 million, the distribution of EUR 288.7 million in extraordinary dividends to REN's shareholders and EUR 87 million in dividends paid in advance on the profits for 2006.

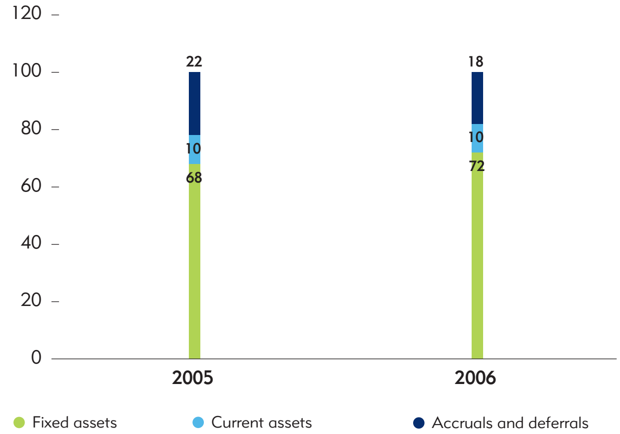
Variations in net worth are shown in Note 50 e) of the notes to the balance sheet and consolidated income statement.

Balance sheet (M€)

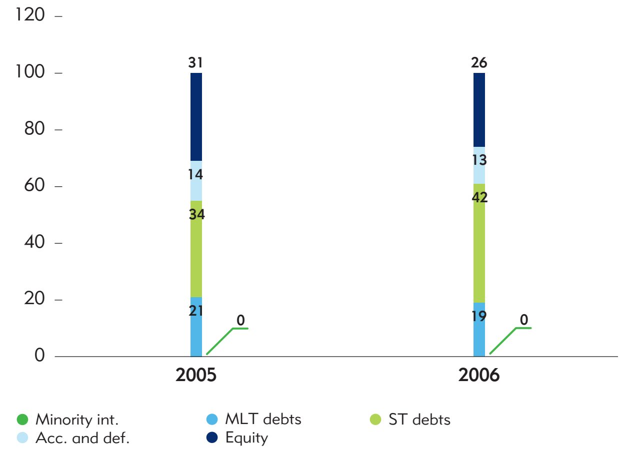
	2005	2006	Variation Absolute	Variation %
Assets	**2 977.7**	**3 969.2**	**991.5**	**33.3**
Net fixed assets	2 030.3	2 867.0	836.7	41.2
Current assets	293.4	392.8	99.4	33.9
Accruals and Deferrals	654.0	709.4	55.4	8.5
Equity	**924.7**	**1 031.1**	**106.4**	**11.5**
Minority interests	0.5	8.5	8.0	
Liabilities	**2 052.5**	**2 929.6**	**877.1**	**42.7**
MLT liabilities	634.6	762.9	128.3	20.2
ST liabilities	1 015.8	1 658.3	642.5	63.3
Accruals and Deferrals	402.2	508.4	106.2	26.4
Liabilities + Equity	**2 977.7**	**3 969.2**	**991.5**	**33.3**

Balance sheet structure (%)

Assets



Liabilities and equity



Investment in tangible fixed assets

In 2006, EUR 244.7 million were invested in tangible fixed assets in the electricity business at total cost, i.e. this figure includes the financial costs capitalised in fixed assets in progress. This is the highest investment ever made by REN and is 13.6% higher than in 2005, the year with the highest growth in annual investment +57.2%.

EUR 2 million was invested in the gas business. The amount was low because the gas companies completed an investment cycle and because the REN Group's gas companies were only set up in late September.

The table below shows investments made:

Of the total investment in lines, 16% went to upratings, work done to improve electricity performance in existing lines and to increase their transmission capacity.

Work on substations, which included the construction of new units and the enlargement and remodelling of others, accounted for 48.7% of investment.

(Thousand euros)

Sector	Direct costs	Structure costs	Financial costs	Total investment
Electricity				
Substations	114 717	1 473	3 049	119 238
EHV lines	113 228	1 207	1 526	115 961
Telecommunications	5 122	47	18	5 188
System Manager	67	1	1	69
Non-specific	4 216	19	12	4 247
Sub-Total	237 350	2 746	4 607	244 703
Gas				
REN Gasodutos	666			666
REN ATLÂNTICO	884			884
REN Armazenagem	488			488
Sub-Total	2 038			2 038
TOTAL	**239 388**	**2 746**	**4 607**	**246 741**

The electricity figures in the above table include EUR 13.6 million for the transfer to the national transmission grid of infrastructures built by promoters.

This is the case of ONI's Ermesinde building, to a value of EUR 1.3 million, classified in non specific investment, and one 150 kV and two 220 kV lines to connect to wind farms, built by Tecneira, Enerventus and Enersis, to a value of EUR 12.3 million.

Structure costs and financial costs represented 3.1% of direct costs in the electricity business 1.2% structure and 1.9% financial.

The construction of new lines and uprating of existing ones absorbed 47.4% of the total investment, distributed as follows in terms of voltage:

(Thousand euros)

Line construction	
150 kV lines	35 181
220 kV lines	41 905
400 kV lines	38 875

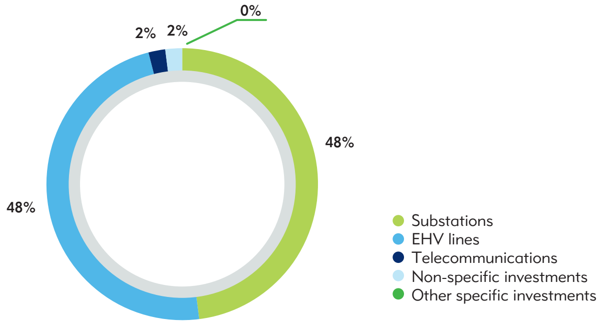
The following work was particularly worthy of note, due to its value:

(Thousand euros)

Construction of substations	
Portimão Substation	11 890
Paraimo Substation	10 564
Pedralva Substation	10 165
Castelo Branco Substation	8 287
Penela Substation	6 433
Enlargement of substations	
Paraimo Substation 1st 400/220 kV autotransformer and two 220 kV panels	4 405
Batalha Substation 1st 400/60 kV 170 MVA transformer and two 400 kV panels	3 775
Carrapatelo Switching Station Enlargement	2 977
Bodiosa Substation 2nd 220/60 kV 126 MVA transformer	2 518

In the telecommunications business, EUR 1.8 million was invested in the industrial data network and EUR 1.6 million in the high output data network.

Structure of investment at technical cost in the electricity business



In the gas business, REN Gasodutos invested EUR 666 000, mostly in IT hardware and systems.

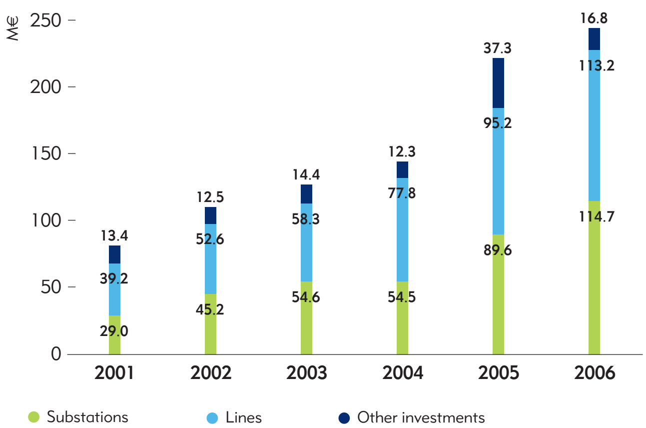
The EUR 884 000 invested by REN ATLÂNTICO went towards measures to improve operational and safety aspects that had not been considered in the original project.

REN Armazenagem invested EUR 488 000 in completing leaching in the TGC4 salt cavern.

Investments in tangible fixed assets in the electricity business

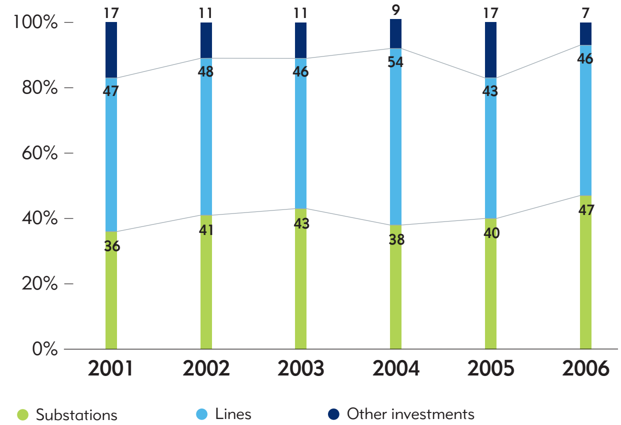
The graph below shows investments at total cost, showing a substantial growth in the last five years.

Investment at total cost (2006 prices)



The graph below shows investments in terms of percentage:

Investments %



The following table contains a breakdown of investments into internal and external costs.

Division of investment (Thousand euros)

	2005		2006	
	Nominal	%	Nominal	%
Investment at total cost	215 459	100	244 703	100
Internal costs	**12 349**	**6**	**15 525**	**6**
Warehouse material	2		449	
Management costs	7 054	4	7 724	3
Structure costs	2 655	1	2 746	1
Financial costs	2 638	1	4 607	2
External costs	**203 110**	**94**	**229 178**	**94**

We can see that the weight of internal costs in relation to total investment, 6%, did not change significantly. However, the weight of financial costs rose by 1 p.p. in detriment to management costs, which went down by 1 p.p..

Regulatory asset base (RAB)
The table below shows RAB by activity at year end 2006 broken down into electricity and gas business areas.

The REN Group's fixed assets in the electricity business, net of depreciation and amortisation, were EUR 1.5975 billion at year end. Considering net subsidies to the amount of EUR 93.9 million, remunerated RAB was EUR 1 503.7 million (60% of the Group's total), EUR 1 059.3 million refers to electricity transmission, EUR 440 million to overall system management and the remaining EUR 4.4 million to electricity purchase.

The RAB for the gas business was EUR 1 005.4 million at the end of 2006, i.e. 40% of the Group's total, broken down into transport (75.8%), reception and regasification (16.2%) and storage (8%).

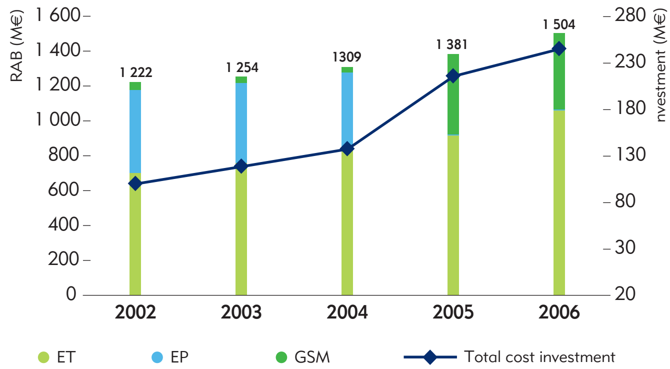
In terms of the Group, the RAB was over EUR 2 500 million.

Regulatory Asset Base (RAB) as of 31 Dec 2006 (M€)

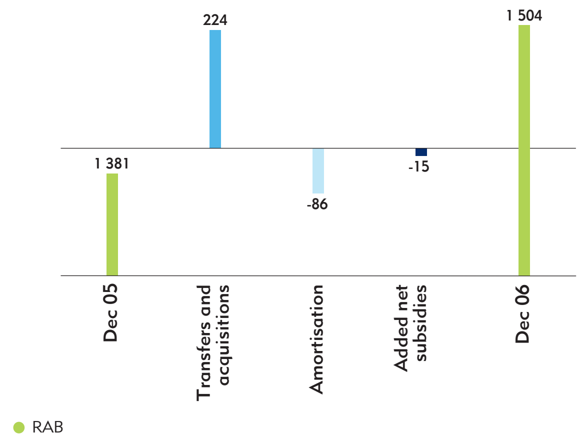
Fixed asset groups/Activity		Net fixed assets
Electricity RAB		**1 503.7**
Electricity transmition		1 059.3
Electricity purchase		4.4
Global system management		440.0
Hydroelectric plant land	public domain	382.0
Hydroelectric plant land	protection zone	18.9
Thermoelectric plant land		0.1
Other assets		39.1
Gas RAB		**1 005.4**
Transport		762.3
Storage		80.0
Reception and regasification		163.1
Total RAB		**2 509.1**

The graphs below shows RAB and total investment in the electricity business. Between 2002 and 2006, total investment in this area grew 22% in real terms. In September 2005, land was transferred from electricity purchase to global system management, as the graphs shows.

RAB and investment (Electricity)



Electricity RAB in 2006 (M€)



Financial strategy and debt

The REN Group's debt was clearly influenced by three events in 2006:

- Sale of its 18.3% shareholding in GALP and subsequent acquisition of natural gas reception, transport and storage infrastructures
- Distribution of "extraordinary dividends" to shareholders
- Increase in tariff deviations of REN Rede Eléctrica Nacional

The Group's debt was as follows at the end of 2005 and 2006:

Debt (M€)	2005	2006	Variation Absolute	Variation %
Total debt	1 367.2	1 894.8	527.6	38.6%
Net debt	1 365.5	1 826.2	460.7	33.7%

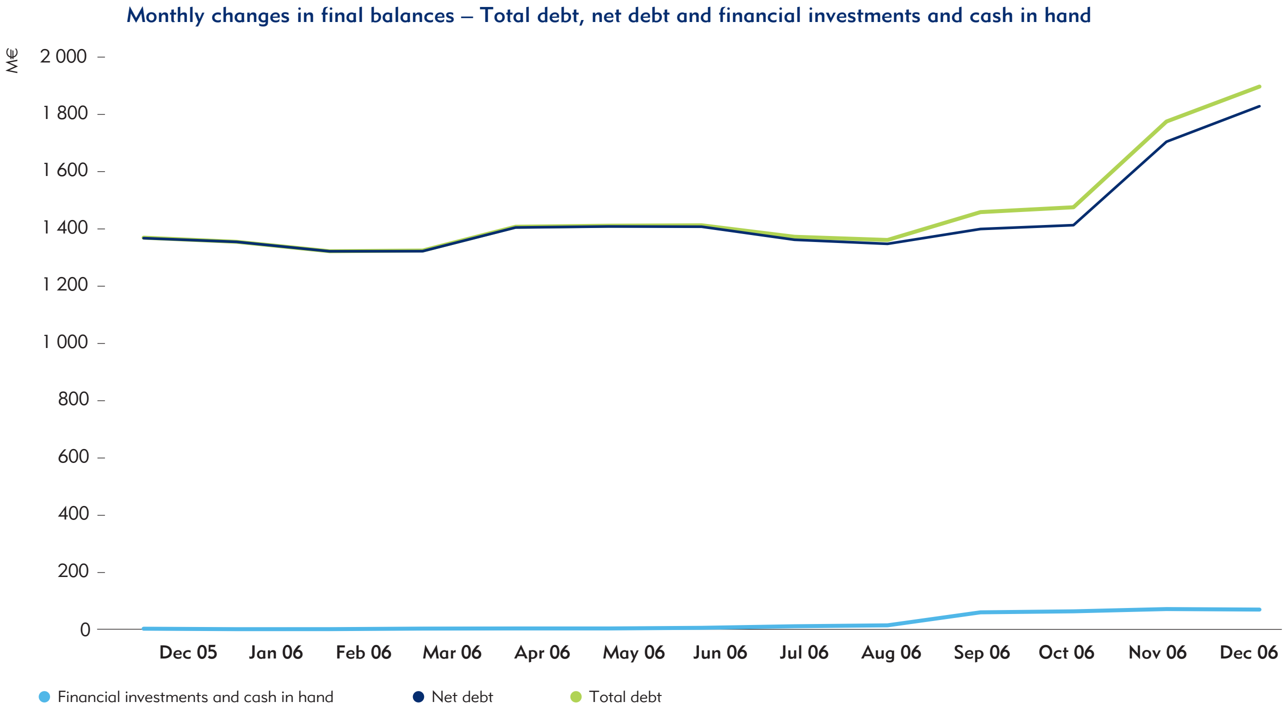
Note: The net debt corresponds to the total debt minus financial investments and cash on hand

The effect on the Group's debt of the product from the sale of the shareholding in GALP on 18 September, which resulted in a receipt of some EUR 944.8 million, was eventually offset by the amount paid in the acquisition of the gas business (EUR 511.3 million) which, added to the net debt for that transaction (EUR 447.4 million), totalled EUR 958.7 million.

The "extraordinary dividends" distributed in two tranches, the first (EUR 288.7 million) as other reserves and retained earnings and the second (EUR 87 million) as an advance on profits for 2006, totalled EUR 375.7 million. These payments, added to the increase in tariff deviations of some EUR 74.9 million, took up the whole financial surplus of EUR 418.5 million resulting from the sale of the GALP shares and the acquisition of gas assets. The accumulated tariff deviation for 2006 totalled EUR 650.3 million, which is 45.9% of the total debt of REN Rede Eléctrica Nacional and 35.6% of the Group's net debt.

The increase in the Group's net debt against 2005, EUR 460.7 million (33.7%), was close to the net debt associated with gas assets incorporated in September 2006 (EUR 447.4 million), exceeding it by EUR 13.3 million. This difference was the result of the consolidation of three parts an increase in net debt of EUR 49 million (3.6%) in the electricity business, a EUR 34.3 million decrease in the net debt (7.7%) in the gas business and a EUR 1.4 million increase in cash in hand in the Group's other businesses (RENTELECOM and OMIP).

The graph below shows monthly changes in the group's total debt, net debt and financial investments and cash in hand:



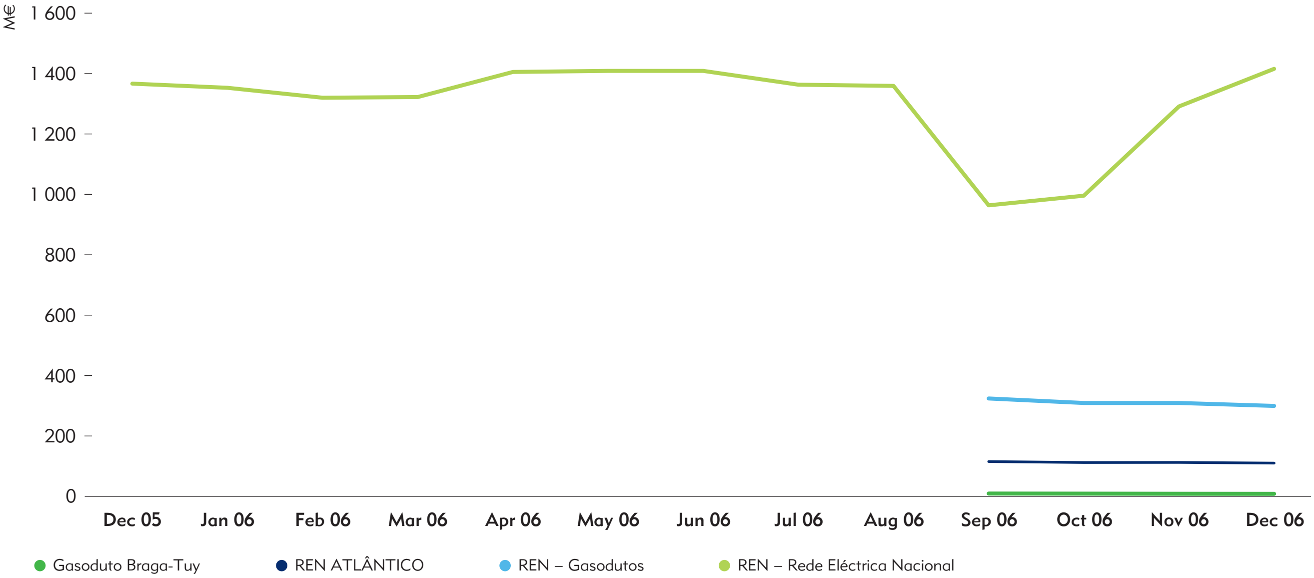
Until September, the Group's financial investments and cash in hand shows no great material expression, thanks to a finance policy based on the use of certain financial instruments, especially commercial paper, which, because of flexible maturity and amounts, makes it possible to immediately channel surplus cash generated to amortise debts. In September, the inclusion of gas assets and their financial liabilities slightly altered the situation, largely due to the incorporation of a medium to long term debt with a rigid repayment structure, which made it impossible in the gas companies to pursue a financial policy aimed at minimising the investment of funds.

Financial investments and cash in hand in the gas business totalled EUR 65 million in December 2006, representing 94.8% of the Group's total. The electricity business accounted for 1.5% and OMIP and RENTELECOM for the other 3.7%.

The upcoming implementation of a solution for centralising financial functions will enable us to restore this aspect of financial management to the whole Group, to the benefit of financial efficiency.

The following graph shows monthly changes in the net debt of each Group company:

Monthly changes in final net debt by company



The EUR 395.4 million decrease in the debt of REN Rede Eléctrica Nacional in September 2006 was basically the result of the net inflow from the sale of the shareholding in GALP and the acquisition of gas assets. In November and December, the payment of the two tranches of extraordinary dividends resulted in a substantial increase in the company's net debt, which reached EUR 1.4156 billion in December 2006, the highest of the year. In general the levels of debt at REN Gasodutos, REN ATLÂNTICO and Gasoduto Braga Tuy went down successively though moderately.

The table shows net debt levels of the Group's different companies:

Company (M€)	2005	2006	Variation Absolute	Variation %	Weight 2006
REN – Rede Eléctrica Nacional	1 366.6	1 415.6	49.0	3.6%	77.2%
	Sept-06	Dec-06			
REN – Gasodutos	324.2	299.6	-24.6	-7.6%	16.3%
REN ATLÂNTICO	115.3	110.2	-5.1	-4.4%	6.0%
Gasoduto Braga-Tuy	9.4	8.5	-0.9	-9.7%	0.5%

The largest part of the debt, 77.2%, is for REN Rede Eléctrica Nacional, followed by REN Gasodutos with 16.3%, REN ATLÂNTICO with 6% and Gasoduto Braga Tuy with 0.5%.

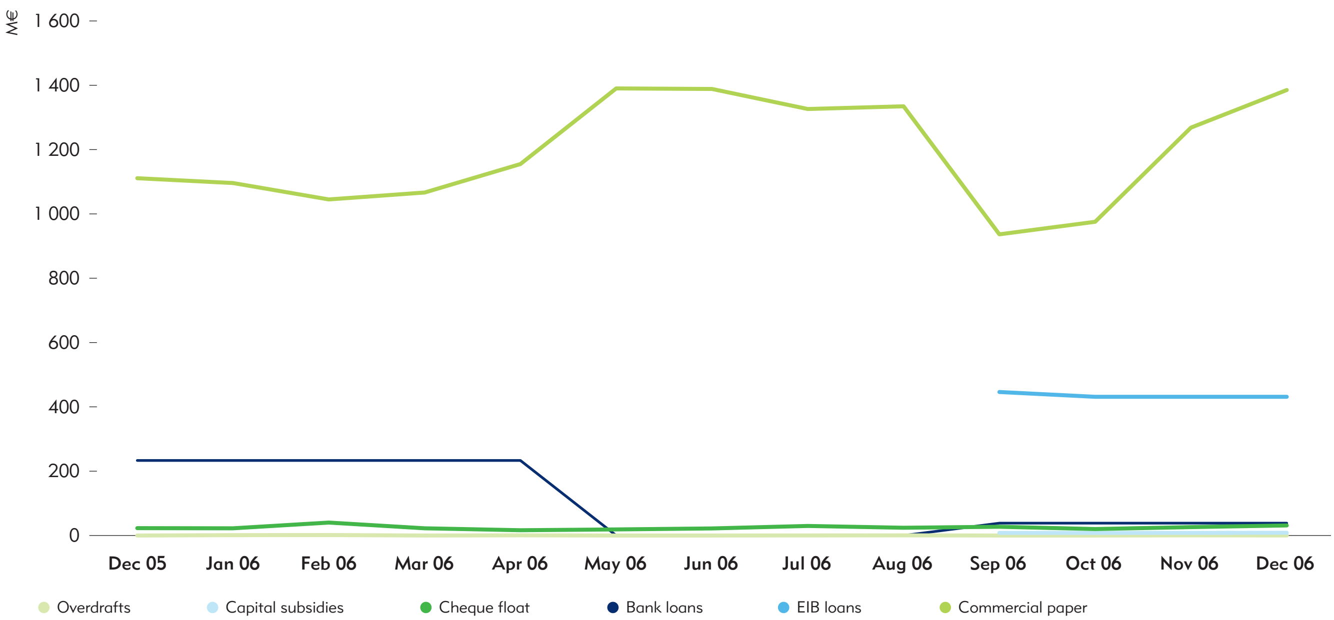
The incorporation of the gas business allowed not only the extension of average maturity of the Group's debt but also the introduction of an important element of diversification in sources of finance.

The following table and graph show the Group's indebtedness to different sources of finance:

Source of finance (M€)	2005	2006	Variation Absolute	%
Commercial paper	1 111.0	1 385.2	274.2	24.7%
Bank loans	233.3	38.4	-194.9	-83.6%
EIB loans	-	431.3	431.3	n a
Overdrafts	0.0	0.2	0.2	n a
Subsidies	-	8.5	8.5	n a
Cheque float[5]	22.9	31.2	8.3	36.6%

Use of commercial paper increased by EUR 235.2 million in May, as a result of the early repayment of an international syndicated loan, of which the amount owed totalled EUR 233.3 million. This loan was repaid by contracting a new commercial paper programme with guaranteed subscription of capital and a maturity of three years. The financial conditions made it possible to refinance the amount on much more favourable terms for the company. The total ceiling of commercial paper was EUR 1 480 million and was mostly short term, resulting in a debt profile inappropriate to the nature of the company's assets. Nevertheless, the choice of a highly flexible, low cost instrument was decisive to the efficient management of the debt in a setting of different uncertainties and a transition period, due to the imminent inclusion of the gas business. The flexibility of commercial paper enabled us to immediately adjust debt levels to financial surpluses[6]. For example, there was a EUR 398.1 million decrease in the commercial paper debt in September as a result of directly channelling the financial surpluses generated that month mainly by the net inflow from the sale of the GALP shares and acquisition of gas assets for amortising commercial paper. The recovery of high levels of commercial paper was justified mainly by the payment of "extraordinary dividends" in November and December.

Final monthly balances of the Group's total debt by source of finance



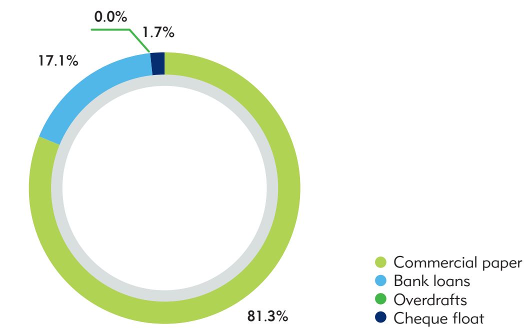
[5] The cheque float represents financial debt for accounting purposes corresponding to cheques issued at the end of the month but only debited in the following month. In strictly financial terms, the creation of the debt (actual use of the funds) will occur when the cheques are debited.
[6] This aspect is also essential to efficient management of the debt resulting from high tariff deviations in the electricity business, with deferred recovery. The high tariff deviations that can be generated each year oblige the Group to maintain constant high levels of commercial paper.

The debt associated with the gas business is mainly owed to the EIB European Investment Bank and has a clearly defined, relatively inflexible repayment scheme. The finance for the Sines LNG terminal (REN ATLÂNTICO) took the form of project finance.

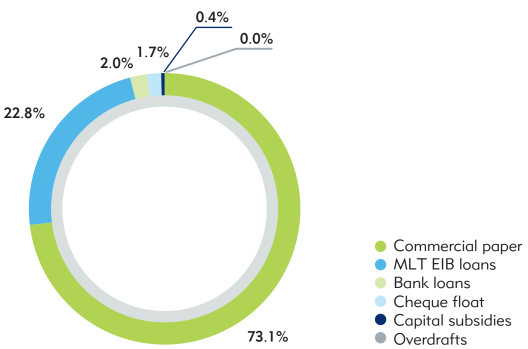
The graphs below show the Group's debt structure in terms of sources of finance and maturity in 2005 and 2006:

Breakdown of the Group's total debt by source of finance

2005

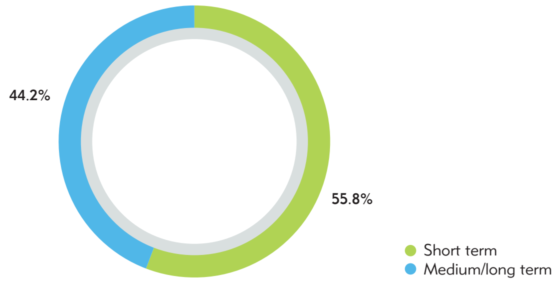


2006

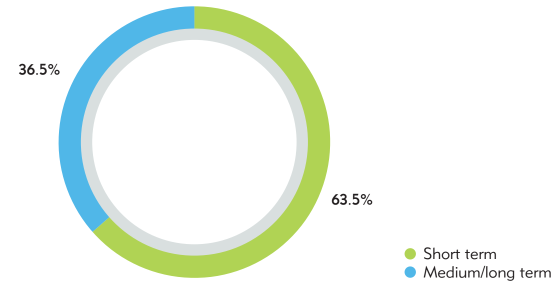


Breakdown of the Group's total debt by short and medium/long term

2005



2006



The inclusion of the financial debt from the gas business, which has a different profile, reduced the imbalance in the Group's debt at the time, thanks not only to the extension in its maturity[7], but also to the diversification of sources of finance. Nevertheless, this natural adjustment did not fulfil all the Group's objectives in this regard and so the debt will be more profoundly restructured soon, in order to adapt its maturity to the long term nature of most of its assets. The stability achieved in the Group's new circumstances and the consolidation of the debt arising from them will make the restructuring more efficient, as it will clarify the typical uncertainties caused by the takeover of a different business and the profile of the Group's new debt will be fully interiorised, particularly in terms of identifying and improving interaction between specific structures and risks of each company's debt aimed at increasing the efficiency of properly integrated financial management.

[7] Although short-term debt (≤1 year) was higher in 2006 than 2005, average maturity of the Group's debt in 2006 was higher than in 2005, as a result of the inclusion of the debt from the gas business, which was essentially medium/long term.

The high concentration of short term debt, especially in 2006, can be explained by the fact that most of the commercial paper programmes had short maturities, a situation that was always duly considered and can be justified by the goal of restructuring the Group's debt as efficiently as possible.

The costs of the financial debt[8] increased substantially in 2006 against 2005. In 2005, financial costs totalled EUR 31.5 million, but increased by EUR 15.8 million (50.2%) in 2006 to EUR 47.3 million. This large increase was due mainly to the combination of three factors:

- The Group's higher annual average indebtedness, mainly because of the inclusion of the debt associated with gas assets, tariff deviations and extraordinary dividends paid;
- The average cost of the debt from the gas business was much higher than that of the electricity business;
- Market interest rates rose, especially for shorter periods.

The table below shows the average cost of the debt and financial costs of the electricity and gas business and their contributions to the formation of the Group's total value.

Financial costs of the debt (2006)	Amount (M€)	Contribution	Average cost of debt
Electricity business	41.7	88.1%	3.14%
Gas business*	5.6	11.9%	4.61%
Group	**47.3**	**100.0%**	**3.27%**

* The financial costs for the gas business are for a period of around three months

Note: The financial costs calculated include tax

The average cost of the Group's finance in 2006 rose 0.83% against 2005 (2.44% p.a. in 2005, as opposed to 3.27% p.a. in 2006), explained mainly by a general increase in market interest rates, although the significantly higher cost of the gas companies' debt had its influence, albeit to a lesser extent.

If we take the annual average 6 month Euribor rate in 2005, 2.23% p.a., as an example and compare it to that in 2006, 3.23% p.a., the difference is roughly 1 p.p., which is clearly higher than the 0.7 p.p. variation in the average cost of the electricity business's debt[9].

Capital structure

The table below shows some indicators of the Group's capital structure in the last two years:

Capital structure

	Group	
	2005	2006
Equity to assets ratio	31.8%	28.2%
ST liabilities/total liabilities	48.9%	53.7%
Current ratio	89.7%	76.6%
EBITDA/Interest expenses	8.2	5.8

The increase in indebtedness resulted in a 3.6 p.p. reduction in the equity to assets ratio, which came to 28.2%. This ratio was 7.3% for REN Gasodutos, which was decisive to the Group's aggregate indicators.

In turn, the weight of short term liabilities in total liabilities went up from 48.9% in 2005 to 53.7% in 2006, mainly reflecting increased use of commercial paper. As a result, the current ratio went down 13.1 p.p. in relation to 2005 to 76.6% in 2006.

In spite of a 4% rise in EBITDA, the increase in financial costs brought down the cover of financial costs from 8.2 in 2005 to 5.8 in 2006.

After the follow up process by CPR Companhia Portuguesa de Rating, S.A., it decided to give REN a score of A+. CPR considers that "REN's ability to honour its medium and long term financial commitments on time depends basically on the characteristics of its national electricity transmission grid concession contract, regulations applicable to this activity and the joint responsibility of REN Redes Energéticas Nacionais, SGPS, S.A. (REN SGPS)".

[8] In addition to interest and commissions, the financial costs include the tax associated with the different sources of finance.
[9] We used the cost of financing the electricity business for comparison with the market as the Group's finance cost would result in distortion, as the gas business was taken over on 26 September 2006. The electricity business contributed 88.1% to the formation of the cost of the Group's total debt in 2006.

Cash flow

The following table shows cash flows generated in the last two years. The indirect method was used to calculate them on the basis of the net profit in the income statement and this amount has been corrected to reflect variations in bank deposits and cash in the period.

Cash flow statement

(M€)

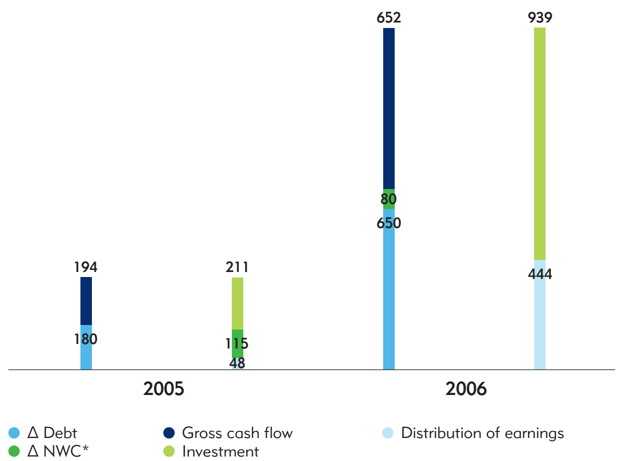
		2005	2006
1	**Revenues**	2 880.6	3 133.6
2	Purcharsing costs	-2 808.0	-2 793.5
3	**Gross margin** [1+2]	**72.6**	**340.0**
4	Other revenues	226.0	58.5
5	Operational costs	-69.0	-128.6
6	Depreciations	-83.4	-102.1
7	Provisions	-14.7	-44.4
8	**Operational profits** [3+4+5+6+7]	**131.6**	**123.5**
9	**Financial results**	**-0.9**	**-5.3**
10	**Extraordinary results**	**10.0**	**525.0**
11	Income Tax	-30.0	-92.6
12	Minority interests	0.0	-0.5
13	**Net profit** [8+9+10+11+12]	**110.7**	**550.1**
14	Depreciations	83.4	102.1
15	Networking Capital Variation	-114.1	139.1
	15.1 Tariff differences	-152.3	-74.9
	15.2 Suppliers	13.4	152.0
	15.3 Others	24.8	62.1
16	**Cash flow from operations** [13+14+15]	**80.0**	**791.3**
17	Investments	-210.6	-938.9
18	**Free cash flow** [16+17]	**-130.7**	**-147.6**
19	Financial debt variation	165.2	519.1
20	Other debt variation	14.9	130.9
21	Increase in share capital	0.0	0.0
22	Dividend payout	-48.3	-443.7
23	Minority interests variation	0.5	8.0
24	**Bank deposits and cash variation** [18+19+20+21+22+23]	**1 662**	**66.8**

Note: In 2006, the perimeter was extended to include the gas companies.
The investment designation used in the cash flow chart is the amount of the variation of net fixed assets plus amortisation and depreciation in the financial year. In 2006, the amount was much higher than total investment, which was EUR 246.7 million, due mainly to the inclusion of net tangible and intangible gas fixed assets in the amount of EUR 1 103 million, although there was a EUR 420.9 million reduction from the sale of the shareholding in Galp.

In 2006, gross cash flow generated by the company reflected the capital gain from the sales of the shareholding in GALP and totalled EUR 652.2 million, compared to EUR 194 million in 2005. In 2006, gross cash flow provided roughly 69% of investment cover in fixed assets to the amount of EUR 938.9 million, which includes net gas assets. The reduction in networking capital (including the variation in monetary resources and minority interests), to the amount of EUR 80.3 million, covered 9% of investment. The remainder was financed by an increase in debt, which also finances distributed profits, to a total of EUR 443.7 million.

There are differences between the origin and use of funds in the last two financial years. While in 2005 the financing of the increase in the tariff deficit resulted in a rise in the financial debt, the reduction of networking capital in 2006, mainly due to a smaller increase in tariff differences and a higher increase in debts to suppliers, made it possible to finance part of the investment in fixed assets, which included the gas assets acquired, as mentioned above.

Cash flow



Note: In 2006 the perimeter was extended to include the gas companies.
* Include bank deposits and cash variation and minority interests variation

FINAL CONSIDERATIONS

PROSPECTS FOR 2007

On 26 September 2006, REN Rede Eléctrica Nacional, S.A. acquired the following regulated gas assets the high pressure natural gas transport network, natural gas storage at Couto Mineiro do Carriço and the Sines LNG Terminal. REN Redes Energéticas Nacionais, SGPS, S.A., which was set up on 5 January 2007, has taken over responsibility for the management concessions for the electricity transmission and natural gas high pressure transport systems (including storage), directly through its subsidiaries. In 2007 the new REN Group will have to reorganise its management of the electricity and gas systems (including underground storage at Carriço and the Sines LNG terminal) to make the most of all the synergies in the two business areas.

Meanwhile, in 2007, REN Rede Eléctrica Nacional, S.A., a subsidiary of REN, SGPS, S.A., will continue to invest in lines and substations and increase its investment in providing interconnection points to accommodate 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.

Also in 2007, in view of the satisfactory cooperation between REN and REE (the Spanish electricity grid), which has made it possible to consolidate the energy interests of Portugal and Spain and those of their citizens, the two companies are planning to acquire qualifying shareholdings in each other, in accordance with Portuguese and Spanish law and the articles of association of each company, in order to fulfil the goal of setting up a strategic partnership.

PROPOSAL FOR APPROPRIATION OF PROFITS

Under Article 25 of the articles of association of REN, S.A., the Board of Directors proposes that the net profit for the financial year of 2006, EUR 550 050 502 (five hundred and fifty million fifty thousand five hundred and two euros), calculated in the individual accounts, should be appropriated as follows:

- To the legal reserve, EUR 27 502 525 (twenty seven million, five hundred and two thousand five hundred and twenty five euros)
- To other reserves, EUR 83 992 712 (eighty three million nine hundred and ninety two thousand seven hundred and twelve euros)
- For dividends, EUR 87 000 000 (eighty seven million euros)
- To retained earnings, EUR 351 555 265 (three hundred and fifty one million, five hundred and fifty five thousand two hundred and sixty five euros)

Of the sum intended for the retained earnings account, we propose the distribution of profits to employees to the amount of EUR 1 735 811 (one million, seven hundred and thirty five thousand eight hundred and eleven euros).

FINAL REMARKS

The Board of Directors would like to acknowledge all those who, in 2006, 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 a profound restructuring and reorganisation of the REN Group.

To the supervisory body and external auditor for their essential collaboration, the Board of Directors would like to express its most sincere thanks.

Lisbon, 26 February 2007

The Board of Directors

José Rodrigues Pereira dos Penedos

Victor Manuel da Costa Antunes Machado Baptista

Aníbal Durães dos Santos

Henrique Joaquim Gomes

Paulo José Jubilado Soares de Pinho


REN

REN
Redes Energéticas Nacionais

CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEET AS OF 31 DECEMBER 2006

Assets — Un: Thousand euros

Notes		2006 AB	2006 AA	2006 AL	2005 AL
	FIXED ASSETS:				
23.a./25./27.	Intangible fixed assets:				
	Start-up costs	163	124	39	17
	R&D costs	30	2	28	
	Industrial property and other rights	142 193	46 280	95 913	79
		142 386	**46 406**	**95 980**	**96**
23.b./27./41./42./47.	Tangible fixed assets:				
	Land and natural resources	55 563	318	55 245	1 921
	Buildings and other related improvements	88 711	25 659	63 052	29 426
	Plant, machinery and equipment	4 271 921	1 775 223	2 496 698	1 447 020
	Vehicles, transport equipment	4 368	2 588	1 780	1 730
	Loose tools	2 553	2 010	543	515
	Office equipment	23 846	16 779	7 067	7 607
	Other tangible fixed assets	736	77	659	567
	Current fixed assets	144 956		144 956	119 460
		4 592 654	**1 822 654**	**2 770 000**	**1 608 246**
	Financial investments				
23.d./27.	Shares in other companies	1 033		1 033	421 935
		1 033		**1 033**	**421 935**
	CURRENT ASSETS:				
23.e	Inventories:				
	Raw materials, subsid and consumed	3 051		3 051	878
	Products and work in progress				
	Stocks	38		38	
		3 089		**3 089**	**878**
	Medium and long-term receivables				
50.b.	Other debtors	155		155	155
		155		**155**	**155**
	Short-term receivables:				
	Trade debtors	285 226		285 226	231 333
	Doubtful debtors				
	Associated companiess				
	Subsidiaries and shareholding companies				
50.a.	State and other public entities	25 013		25 013	51 149
50.b.	Other debtors	11 518	828	10 690	8 137
		321 757	**828**	**320 929**	**290 619**
	Bank deposits and cash:				
	Bank deposits	68 607		68 607	1 766
	Cash	4		4	
		68 611		**68 611**	**1 766**
	ACCRUALS AND DEFERRALS:				
50.c.	Accrued income	688 626		688 626	612 125
50.c.	Deferred costs	20 756		20 756	41 897
		709 382		**709 382**	**654 022**
	Total Depreciation		1 869 060		
	Total Provisions		828		
	TOTAL ASSETS	**5 839 067**	**1 869 888**	**3 969 179**	**2 977 717**

FINANCIAL AND ASSET DIVISION

Accountant
No. 30 375
Maria Teresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

BALANCE SHEET AS OF 31 DECEMBER 2006

Shareholders funds and liabilities

Un: Thousand euros

Notes		Year 2006	Year 2005
	SHAREHOLDERS FUNDS:		
50.e.	Share Capital	534 000	534 000
	Reserves		
	Legal reserves	33 634	28 101
	Other reserves		192 829
	Retained earnings	389	59 103
	Subtotal	568 023	814 033
	Net income for the year	550 051	110 658
	Anticipated dividends	-87 000	
	TOTAL SHAREHOLDERS FUNDS	**1 031 074**	**924 691**
50.d.	Minority interests	8 515	487
	LIABILITIES:		
	Provisions		
46.	Other provisions	69 766	29 914
		69 766	**29 914**
	Medium and long-term payables:		
34.	Credit institution loans	685 313	603 667
	Subsidiaries and shareholding companies	6 781	
50.b.	Other creditors	990	990
		693 084	**604 657**
	Short-term payables:		
34.	Credit insitution loans	1 201 028	763 571
	Suppliers	315 224	158 680
	Associated companies		
	Subsidiaries and shareholding companies	1 695	
	Suppliers fixed assets current a/c	74 719	79 268
50.a.	State and other public entities	57 300	1 200
50.b	Other creditors	8 337	13 059
		1 658 303	**1 015 778**
	ACCRUALS AND DEFERRALS		
50.c.	Accrued charges	49 699	95 460
50.c.	Deferred income	458 738	306 730
		508 437	**402 190**
	TOTAL LIABILITIES	**2 929 590**	**2 052 539**
	TOTAL EQUITY OF MINORITY INTERESS AND LIABILITIES	**3 969 179**	**2 977 717**

BOARD OF DIRECTORS
José Rodrigues Pereira dos Penedos – Chairperson
Victor Manuel da Costa Antunes Machado Baptista
Aníbal Durães dos Santos
Henrique Joaquim Gomes
Paulo José Jubilado Soares de Pinho

INCOME STATEMENT BY NATURE AS OF 31 DECEMBER 2006

Un: Thousand euros

Notes		2006		2005	
	COSTS AND LOSSES				
	Cost of inventories sold and consumed				
	Electricity	2 793 529		2 733 317	
	Materials	98		137	
	Sundry materials	643	2 794 270	103	2 733 557
	Outside supplies and services		33 151		29 271
	Personnel costs				
	Remuneration:	24 458		20 671	
	Employees welfare costs:				
	Pension contributions	1 801		2 309	
	Other	10 785	37 044	9 316	32 296
	Amortisation of tangible and intangible fixed assets	102 123		83 377	
	Adjustments				
46.	Provisions	44 375	146 498	14 703	98 080
	Taxes	1 327		1 270	
	Other operating costs and losses	56 324	57 651	80 537	81 807
	(A)		**3 068 614**		**2 975 011**
44.	Interest and similar costs				
	For associated companies				
	Other	46 879	46 879	31 782	31 782
	(C)		**3 115 493**		**3 006 793**
45.	Extraordinary costs and losses		13 473		4 680
	(E)		**3 128 966**		**3 011 473**
23.o./38	Corporate income tax		92 575		30 010
	(G)		**3 221 541**		**3 041 483**
50.d.	Minority interests		504		14
	Net income for the year		**550 051**		**110 658**
	SUBTOTAL		**3 772 096**		**3 152 155**

FINANCE AND ASSETS DIVISION

Accountant
No. 30 375
Maria Teresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

INCOME STATEMENT BY NATURE
AS OF 31 DECEMBER 2006

Un: Thousand euros

Notes		Year 2006		Year 2005	
	EARNINGS AND GAINS				
23.k./36	Sales:				
	Electricity	3 133 556		2 880 615	
	Sundry materials	97		126	
	Materials				
36.	Services provided	41 648	3 175 301	10 310	2 891 051
	Variation in production				
	Work for company		15 525		12 349
	Supplementary earnings	461		1 356	
	Other operating earnings and gains	759		201 219	
	Reversals amortisation and adjustments	59	1 279	639	203 214
	(B)		**3 192 105**		**3 106 614**
44.	Gains on shareholdings				
	For associated companies				
	For other companies	40 694	40 694	30 353	30 353
44.	Income from negotiable securities and other financial investments				
	For associated companies				
	Others	113	113	345	345
44.	Other interest and similar earnings				
	For associated companies				
	Other	741	741	162	162
	(D)		**3 233 653**		**3 137 474**
45.	Extraordinary income and gains		538 443		14 681
	(F)		**3 772 096**		**3 152 155**
	Resumo				
	Operating income: (B) - (A)		123 491		131 603
	Net interest and financial expenses: (D - B) - (C - A)		-5 331		-922
	Net operating income: (D) - (C)		118 160		130 681
	Income before taxes: (F) - (E)		643 130		140 682
	Consolidated profit with minority interests for the financial year: (F) - (G)		550 555		110 672

BOARD OF DIRECTORS
José Rodrigues Pereira dos Penedos – Chairperson
Victor Manuel da Costa Antunes Machado Baptista
Aníbal Durães dos Santos
Henrique Joaquim Gomes
Paulo José Jubilado Soares de Pinho

INCOME STATEMENT BY FUNCTION AS OF 31 DECEMBER 2006

Un: Thousand euros

	Year	
	2006	**2005**
Sales and services rendered	3 175 301	2 891 051
Cost of sales and services rendered	-2 972 038	-2 719 481
GROSS MARGIN	**203 263**	**171 570**
Other operation income and gains	529 246	4 713
Distribution costs	-3 658	-3 301
Administrative overheads	-34 635	-21 142
Other operating expenses and losses	-47 554	-10 216
OPERATING INCOME	**646 662**	**141 624**
Net cost of financing	-44 202	-31 292
Profits (losses) in associate companies and subsidiaries		
Profits (losses) on other investments	40 670	30 350
CURRENT INCOME	**643 130**	**140 681**
Taxation on current income	-92 575	-30 010
CURRENT INCOME AFTER TAXATION	**550 555**	**110 672**
Minority interests	-504	-14
Extraordinary income		
Taxation on extraordinary income		
NET INCOME	**550 051**	**110 658**
EARNINGS PER SHARE (EUROS)	**5.15**	**1.04**

CONSOLIDATED CASH-FLOW STATEMENT AS OF 31 DECEMBER 2006

Un: Thousand euros

	Year			
	2006		2005	
OPERATIONS				
Receipts from customers	3 045 212		2 673 908	
Payments to suppliers	-2 751 166		-2 740 267	
Payments to personnel	- 33 032		- 32 572	
Flows generated by operations	261 014		- 98 931	
Income tax paid	- 10 473		7 414	
Other receipts from operations	43 372		180 607	
Other payments for operations	- 40 535		- 82 825	
Flows generated before extraordinary items	253 378		6 265	
Receipts from extraordinary items	3 483		1 255	
Payments for extraordinary items	- 4 031		- 3 784	
Flows from operations (1)		**252 830**		**3 736**
INVESTMENT				
Receipts from				
Financial investments	945 101		345	
Tangible fixed assets	493		40 647	
Investment subsidies	7 122		9 667	
Dividends	40 694	993 410	30 376	81 035
Payments for				
Variations in perimeter	- 492 961			
Financial investments				
Tangible fixed assets	- 231 651		- 173 670	
Intangible fixed assets		- 724 612		- 173 670
Flows from investments (2)		**268 798**		**- 92 635**
FINANCE				
Receipts from				
Loans obtained	15 390 366		11 210 283	
Interest and similar earnings		15 390 366	2	11 210 285
Payments for				
Loans obtained	-15 364 184		-11 066 450	
Interest and similar costs	- 47 524		- 30 638	
Dividends	- 442 047	-15 853 755	- 46 700	-11 143 788
Flows from finance (3)		**- 463 389**		**66 497**
Variation in cash and equivalents (4) (1)+(2)+(3)		58 239		- 22 402
Effect of exchange differences				
Cash and cash equivalents at year beginning		- 21 140		1 262
Cash and cash equivalents at year end		37 099		- 21 140
COMPONENTS OF CASH AND CASH EQUIVALENTS				
Cash		4		
Immediately available bank deposits and cash equivalents		- 30 465		- 22 690
Bank deposits		1 047		184
Overdrafts		- 31 512		- 22 874
Other cash in hand		67 560		1 550
CASH IN HAND IN BALANCE SHEET		37 099		- 21 140

REN

NOTES TO THE CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT AS OF 31 DECEMBER 2006

(Amounts expressed in Thousand euros)

INTRODUCTION

REN   Rede Eléctrica Nacional, S.A. was the result of the split of EDP, as set forth in Decree Law 7/91 of 8 January and Decree Law 131/94 of 19 May, approved at a General Meeting of Shareholders on 18 August 1994. Its object is the overall management of the public electricity supply system (PES), with the aim of guaranteeing stability and security of the electricity supply and reconciling the interests of the different operators involved, operating and developing the national extra high voltage transmission grid in mainland Portugal, managing the portfolio of power plant sites and preparing files for the DGGE to launch public consultations aimed at establishing and operating new power stations.

The concession for the operation of the national extra high voltage electricity transmission grid (NTG) was awarded to REN by Article 64 of Decree Law 182/95 of 27 July and the contract with the Portuguese government was signed on 6 September 2000. The duration of the concession is 50 years as of the date of signing.

The subsidiaries of REN   Rede Eléctrica Nacional, S.A. are RENTELECOM   Comunicações, S.A., of which its owns 100%, which manages and operates telecommunication infrastructures and systems, and OMIP   Operador do Mercado Ibérico de Energia (Pólo Português), S.A., of which it owns 90%, which organises and manages a support system for trading and settlements in the Iberian Energy Market.

OMIP   Operador do Mercado Ibérico de Energia (Pólo Português), S.A. owns all the share capital of OMICLEAR   Sociedade de Compensação dos Mercados de Energia, S.A.

Council of Ministers Resolution 169/2005, published in Diário da República 204, I Series B on 24 October, approved a new national energy strategy that, among other measures, concentrated the regulated infrastructures of the electricity and gas sectors in a single corporate group. This goal was to be achieved by transferring the regulated assets from the natural gas sector to REN.

This plan was later published in Decree Law 29/2006 and Decree Law 30/2006, both of 15 February, which established the general principles of the organisation and operation of the national electricity and natural gas systems, respectively. This was completed with the approval of the legal frameworks governing the natural gas sector and its public service concessions in Decree Law 140/2006 of 26 July.

Pursuant to the decision to bring together regulated assets of the natural gas and electricity sectors, the government also decided in Council of Ministers Resolution 85/2006 published in Diário da República 125, I Series B on 30 June 2006, that REN, through the companies that it owned, should acquire the assets of each of the three gas sector public service concessions: (i) high pressure natural gas transport, (ii) underground natural gas storage and (iii) reception, storage and regasification of liquefied natural gas at LNG terminals.

To do this, REN   Rede Eléctrica Nacional, S.A. set up REN   Gasodutos, S.A., the shares of which were subscribed in kind with high pressure natural gas transport assets, and REN   Armazenagem, S.A., the shares of which were subscribed in kind with underground natural gas storage assets.

The value of transport infrastructures includes the 88% and 51% shareholdings previously owned by Transgás in Gasoduto Braga Tuy, S.A. and Gasoduto Campo Maior Leiria Braga, S.A. respectively.

At the same time as it signed the public deed acquiring the regulated natural gas transport and storage assets, REN signed a contract with TRANSGÁS, SGPS, S.A. and GDP, SGPS, S.A. for the purchase of shares and transfer of credits, by which it bought from them 100% of SGNL Sociedade Portuguesa de Gás Natural Liquefeito, S.A. This company owns the LNG reception storage and regasification assets that include the terminal and port facilities.

The articles of association of SGNL Sociedade Portuguesa de Gás Natural Liquefeito, S.A., which was granted the public service concession for the reception, storage and regasification of liquefied natural gas at LNG terminals, were amended and its name was changed to REN ATLÂNTICO, Terminal de GNL, S.A.

REN also set up a new company for the electricity sector called REN Serviços de Rede, S.A. Its object is the conservation, maintenance and repair of all infrastructures of the national electricity transmission grid and its equipment, the design, development, testing and implementation of new technologies related to electricity transmission and the management, operation and planning of electricity grids and any other activities related to them.

The following notes abide by the sequential numbering defined in the Portuguese Accounting Standards (POC) for consolidated accounts. The notes that are omitted are either not applicable to the Group or are not relevant to the reading of the consolidated financial statements.

I INFORMATION ON COMPANIES NOT INCLUDED IN THE CONSOLIDATION

1 Companies included in the consolidation

During the financial year ended on 31 December 2006, the consolidation perimeter was altered as follows:

a) In September 2006, REN set up its subsidiaries REN Gasodutos, S.A., REN Armazenagem, S.A. and REN Serviços de Rede, S.A., of which it owned 100%.

Name	Registered office	Shareholding in Group companies		
		Direct	Indirect	Total
Parent company				
REN Rede Eléctrica Nacional, S.A.	Lisboa Av. EUA, 55			
Subsidiaries:				
RENTELECOM Comunicações, S.A.	Lisboa Av. EUA, 55	100%		100%
OMIP Operador do Mercado Ibérico de Electricidade (Pólo Português), S.A.	Lisboa Av. EUA, 55	90%		90%
OMICLEAR Sociedade de Compensação dos Mercados de Energia, S.A.	Lisboa Av. EUA, 55		90%	90%
REN Gasodutos, S.A.	Bucelas Vila Rei	100%		100%
Gasoduto Braga-Tuy, S.A.	Bucelas Vila Rei		51%	51%
Gasoduto Campo Maior-Leiria-Braga, S.A.	Bucelas Vila Rei		88%	88%
REN Armazenagem, S.A.	Pombal Carriço	100%		100%
REN ATLÂNTICO, Terminal de GNL, S.A.	Sines Terminal de GNL	100%		100%
REN Serviços de Rede, S.A.	Lisboa Av. EUA, 55	100%		100%

b) In September 2006 REN acquired a shareholding in SGNL Sociedade Portuguesa de Gás Natural Liquefeito, S.A., which then changed its name to REN ATLÂNTICO, Terminal de GNL, S.A. Its share capital is owned in its entirety by REN Rede Eléctrica Nacional, S.A.
c) The 51% and 88% shareholdings previously owned by Transgás in Gasoduto Braga Tuy, S.A. and Gasoduto Campo Maior Leiria Braga, S.A. respectively were included in the value of high pressure gas transport infrastructures.

The subsidiaries were included in the consolidation using the full consolidation method as set forth in Article 1.1a) of Decree Law 238/91 of 2 July, establishing the majority of voting rights as an obligation of consolidation.

7 Personnel in the companies' service
The average number of people in the service of the Group companies included in the full consolidation in 2005 and 2006 was 590 and 793, respectively, totalling 796 on 31 December 2006.

They were distributed in the consolidated companies as follows:

	2006	2005
Electricity sector companies	605	590
Gas sector companies	188	
Total	**793**	**590**

III CONSOLIDATION PROCEDURES

14 Changes in the consolidation perimeter
As mentioned in the introduction, REN Gasodutos, S.A., REN Armazenagem, S.A. and REN Serviços de Rede, S.A. were set up in 2006.

The shareholdings in Gasodutos Braga Tuy and Campo Maior Leiria Braga are included in the value of assets referring to the gas transport infrastructures.

The total share capital of SGNL Sociedade Portuguesa de GNL, S.A. was acquired and its name was changed to REN ATLÂNTICO, Terminal de GNL, S.A.

These companies were consolidated by the full consolidation method. The assets and liabilities acquired are shown in the following table:

Name	REN – Gasodutos	REN – Armazenagem	REN ATLÂNTICO	Gasoduto Braga-Tuy	Gasoduto C.Maior-Leiria-Braga	Total
Intangible assets	911			15 867	81 066	97 844
Tangible assets	657 216	106 984	226 561			990 761
Financial investments						
Deferred taxes assets			2	196	1 232	1 430
Inventory	1 670					1 670
Other receivables			10 655	634	2 174	13 463
Accrued earnings			77	311	1 696	2 084
Deferred costs				6	9	15
Provisions for risks and expenses			-8			-8
Deferred taxes liabilities						0
Investment subsidies		-30 598	-79 054			-109 652
Other payables	-324 219		-154 331	-11 493	-9 321	-499 364
Accrued costs			-3 744	-539	-2 694	-6 977
Minority interests				-3 244	-4 280	-7 524
Net value	335 578	76 386	158	1 738	69 882	483 742
Net value paid	404 931	76 386	11 644			492 961
Cash and cash equivalents			36 167	1 638	7 543	45 348
Net assets acquired	-69 353	0	24 681	3 376	77 425	36 129

The purchase price of the assets was based on their book value as at 31 December 2005. It was agreed in the purchase contract that they would subsequently be appraised, after which any adjustments would be made in the price. We are now waiting for the regulator to establish the gas tariffs.

18 Criteria for reporting shareholdings

REN abides by the following accounting policy for recording financial investments in associated companies in its financial statements.

Financial investments in associated companies are recorded by the equity method. As required by this method, shareholdings are initially recorded at cost, to which the difference of the proportion of the shareholding in these companies' equity is added or subtracted annually. Dividends received from these companies are recorded as a reduction in the value of financial investments.

IV COMMITMENTS

21 Financial commitments and contingent liabilities

a) Financial commitments by investment contracts

The financial commitments undertaken by the Group not included in the balance sheet as at 31 December 2006 totalled EUR 124 380 000, for orders not supplied under the following tangible fixed assets.

• Substations	EUR 97 381 000
• Lines	EUR 26 999 000

b) Retirement pensions, life assurance and health care

In the electricity sector, REN Rede Eléctrica Nacional, S.A. offers pension supplements and provides its pensioners with a healthcare plan under similar conditions to its working employees.

To cover pension supplements, REN contributed to an independent pension fund opened jointly with the EDP Group, to which all liabilities and contributions necessary to cover these charges payable each year are transferred.

Liabilities for health care are not merged and are covered by a specific provision.

Both plans are recorded in accordance with IAS 19 and losses and gains are recognised by the corridor method.

Employees who meet specific age and length of service conditions and who opt for early retirement, and those who reach an agreement with the company to enter pre retirement, are also included in the plans.

The liabilities and related annual costs are established on the bases of annual actuarial calculations by an independent actuary using the projected unit credit method. The calculation is based on assumptions that reflect the demographic conditions of those covered by the plan and the economic and financial conditions prevailing when the calculations are made.

In the gas sector, employees are covered by life assurance. Its costs are borne by REN ATLÂNTICO, S.A. and REN Gasodutos, S.A. and are recognised as costs for as long as the employees entitled to these retirement benefits work for the companies. The liabilities inherent in these benefits are covered by a specific provision.

Life assurance costs are recorded in accordance with IAS 19.

The following operating expenses were reported during the year:

• Pensions	EUR 1 798 000
• Health care	EUR 1 500 000
• Other benefits	EUR 252 000
• Life assurance	EUR 42 000

i) Retirement benefits

The following tables provide a breakdown of pension fund liabilities and assets:

Changes in liabilities

Description	2006	2005
Liabilities at year beginning	48 794	47 667
Service and interest expenditure	2 542	2 622
Actuarial (gains) / losses	254	3 415
Benefits paid	(4 673)	(4 910)
Liabilities at year end	46 917	48 794

Changes in fund assets

Description	2006	2005
Fair value of assets at year beginning	35 415	32 805
Return on assets	2 656	2 055
Actuarial gains / (losses)	3 310	(295)
Benefits paid	(1 477)	(1 459)
Contributions from REN	1 802	2 309
Fair value of assets at year end	41 707	35 415

Fund coverage shortfall

Description	2006	2005
At year beginning	13 379	14 862
At year end	5 210	13 379

Actuarial losses and the cost of past services not reported

Description	2006	2005
At year beginning	37 977	36 009
Amortization	(1 913)	(1 742)
(Gains) / losses – liabilities	254	3 415
Asset gains / (losses)	(3 310)	295
At year end	33 008	37 977

Amounts reported under assets

Description	2006	2005
At year beginning	24 598	21 147
At year end	27 798	24 598

ii) Health care

The tables below break down changes in healthcare liabilities:

Changes in liabilities

Description	2006	2005
Liabilities at year beginning	23 599	32 547
Service and interest expenditure	1 445	2 083
Benefits paid	(645)	(664)
Loans	100	109
Funeral subsidies		(6 779)
Actuarial (gains) / losses	1 521	(3 699)
Liabilities at year ends	22 978	23 599

Actuarial losses not reported

Description	2006	2005
At year beginning	10 741	15 200
Amortisation	(599)	(760)
(Gains) / losses – liabilities	(1 521)	(3 699)
At year end	8 621	10 741

Liabilities reported

Description	2006	2005
At year beginning	12 858	17 347
At year end	14 357	12 858

iii) Other benefits

Changes in liabilities

Description	2006	2005
Liabilities at year beginning	9 376	
Service and interest expenditure	585	
Benefits paid	(333)	
Actuarial (gains) / losses	(478)	
Liabilities at year end	9 150	9 376

Actuarial losses not reported

Description	2006	2005
At year beginning		
Amortisation		
(Gains) / losses – liabilities	(478)	
At year end	(478)	

Liabilities reported

Description	2006	2005
At year beginning	9 376	
At year end	9 628	9 376

Main assumptions used in actuarial studies reported as of 31 December 2005 and 2006

	2006	2005
Annual discount rate	4.50%	4.25%
Expected percentage of employees eligible for early retirement	10.00%	10.00%
Annual salary growth rate	3.30%	3.30%
Annual pension growth rate	2.25%	2.25%
Annual Social Security pensions growth rate	2.00%	2.00%
Inflation rate	2.00%	2.00%
Annual growth rate of healthcare costs (for 6 years)	4.50%	4.50%
Annual growth rate of healthcare costs (after 6 years)	4.00%	4.00%
Management costs (per employee per year)	€ 233	€ 220
Management cost growth rate – up to 2007	4.50%	4.50%
Management cost growth rate – after 2007	2.70%	2.70%
Yield	5.37%	7.5%
Mortality table	TV 88/90	TV 88/90

iiii) Life assurance
The situation resulting from the actuarial study was as follows as at 31 December 2006:

Total liabilities	61
Coverage	
by provisions	50
Unrecognised (gains) and losses	11
	61

Actuarial and financial assumptions

Date of reference	31 December 2006
Mortality table	TV 88/90
Disability table	EVK (50% de incidence)
Discount rate	4.60%
Premium growth rate	0.0% year
Salary growth rate	3% year
Age limit	70 years
Premiums	
Old policy	0.3232
New policy	0.2858
Months of coverage	
Old policy	28
New policy	70

c) Contingent liabilities

As at 31 December 2006, there were ongoing lawsuits and claims totalling EUR 28 439 000. There are currently provisions for EUR 5 061 000.

22 Guarantees provided

As at 31 December 2006, the Group's responsibility for guarantees provided totalled EUR 509 030 000, the most significant of which were:

- REN Rede Eléctrica Nacional, S.A.
  - Department of Geology and Energy fulfilment of gas transport and storage concession obligations EUR 20 000 000;
  - OMEL for operations in the Spanish electricity market EUR 30 000 000;
  - MEFF for operations in the Spanish electricity market EUR 5 000 000;
  - Seixal Municipal Council Guarantee in cases 7873/2006 and 7884/2006 EUR 3 853 000;
  - Performance bonds at several courts for land expropriation EUR 2 996 000;
- REN ATLÂNTICO, S.A.
  - Guarantee in favour of the European Investment Bank EUR 134 200 000;
- REN Gasodutos, S.A.
  - Guarantees in favour of the European Investment Bank EUR 309 254 000;
- Gasoduto Braga Tuy, S.A.
  - Performance bond at Loures Inland Revenue Department EUR 418 000;
- Gasoduto Campo Maior Leiria Braga, S.A.
  - Performance bond at Lisbon Inland Revenue Department EUR 1 277 000;
  - Performance bond Loures Inland Revenue Department EUR 887 000.

V ACCOUNTING POLICIES

23 Accounting and valuation criteria

Reporting bases

The consolidated financial statements have been prepared on the assumption of continuity of operations from the books and accounting records of the companies included in the consolidation (Note 1), which were kept in accordance with generally accepted accounting principles in Portugal and with the consolidation rules set forth in the Portuguese Accounting Standards.

Consolidation principles

The subsidiaries (Note 1) were consolidated by the full consolidation method. Significant transactions and balances between the companies have been eliminated in the consolidation process. The value of third party shareholdings in subsidiaries is reported in liabilities under minority interests.

Main valuation criteria

The main valuation criteria used in the consolidated financial statements were as follows.

a) Intangible fixed assets

Start up expenses, research and development and industrial property and other rights in intangible fixed assets basically include the following:

Costs of IT studies and development projects and installation and organisation costs, which are amortised over a period varying between three and six years;

Costs of LNG transport rights, which are being amortised over the period between entry into service and the end of the concession period (2028);

Right to use parking spaces for 50 years at Fábrica Igreja Paroquial Santa Joana Princesa.

Current research and development costs are recorded as costs when incurred.

b) Tangible fixed assets

Tangible fixed assets have been recorded at purchase or construction cost, net of accumulated depreciation. Purchase or construction cost includes invoice price, transport and assembly costs, interest on bank loans paid during construction and any indirect costs incurred during construction.

Depreciation is calculated on cost price using the straight line method and reported monthly from the date of entry into service of the assets. Of the rates permitted by tax law, we use those that allow the reintegration of fixed assets during their estimated useful life, taking into account the concession period, when applicable.

Depreciation is consistent with the useful life established for each group of assets as follows:

	Useful life (years)
Land and natural resources (use)	45
Buildings and improvements	8-50
Plant, machinery and equipment	
Land for hydroelectric generation	60
Land for thermoelectric generation	25-30
Electricity transmission	30
Other basic equipment	5-10
Basic equipment (gas)	10-50
Transport equipment	5
Loose tools	4-10
Office equipment	3-10
Other tangible fixed assets	10-20

Costs of current repairs and maintenance are recorded as costs in the year in which they are incurred.

Costs of major repairs and improvements are considered to be deferred costs and transferred to profits for a maximum of six years.

c) Leasing

Fixed assets acquired under leasing contracts and their liabilities are reported by the financial method. Under this method, the cost of the asset is recorded in tangible fixed assets and the corresponding liability recorded in liabilities and the interest included in the rents and amortisation of the asset calculated as described in Note 23b) are recorded as costs in the income statement for the year to which they refer.

d) Financial investments

The group abides by the accounting policy of recording its financial investments in associated companies as described in Note 18. Other financial investments are reported at cost, less the provision for estimated losses.

e) Inventory

Inventory is valued at cost, which includes the invoice price, transport costs and insurance, using the average weighted cost as the costing method for outgoing stock.

f) Accruals and deferrals

The Group records its revenue and costs in accordance with the principle of accruals and deferrals, by which revenue and costs are reported as they occur, irrespective of the time at which they are received or paid. The differences between amounts received and paid and the revenue and costs generated are recorded under accruals and deferrals.

g) Subsidies to finance tangible fixed assets

Non repayable subsidies allocated to the Group to finance tangible fixed assets are recorded in liabilities as deferred earnings under accruals and deferrals and recognised in the consolidated income statement in proportion to the amortisation of the fixed assets subsidised.

h) Employees' social benefits

Costs of retirement pension supplement plans and health care for pensioners (at REN Rede Eléctrica Nacional, S.A.) and costs of life assurance (at REN ATLÂNTICO, S.A. and REN Gasodutos, S.A.) are reported in accordance with IAS 19. Actuarial gains and losses are recognised by means of the corridor method, thereby replacing the provisions of Accounting Standard 19.

i) Balances and transactions in currencies other than the euro

They are updated in euros at the exchange rates at year end. Actual or estimated exchange differences during the year are recorded as financial gains or losses.

j) Holidays and holiday subsidies

Costs of holidays and holiday subsidies due but that will only be paid in the following financial year are recorded in accruals and deferrals added costs.

k) Sale of electricity regulations

Electricity tariffs and prices abide by the principles of Decree Law 182/95 of 27 July as worded in Decree Law 69/2002 of 25 March, the statutes of the Energy Service Regulator (ERSE) approved by Decree Law 97/2002 of 12 April, Article 4 of Decree Law 187/95 of 27 July as worded in Decree Law 44/97 of 20 February, the Commercial Relations Regulations and the Tariff Regulations.

The tariffs and prices charged in 2006 were established in Despatch 25 901 A/2005 (series 2) of the Board of Directors of ERSE published in the Diário da República supplement of 15 December 2005.

The activity of REN Rede Eléctrica Nacional, S.A. is regulated and so its tariffs and prices are determined in such a way as to recover the costs necessary to provide regulated services and return on capital invested.

Adjustments arising from any surpluses or shortfalls in the aforesaid recovery in future tariffs call for methods enabling the timescale of such surpluses or shortfalls to be recorded.

Thus, any surpluses or shortfalls for the year, in comparison with the amounts approved by ERSE, are charged to accruals and deferrals.

REN's criteria for disclosing tariff differences since 1999 has been to assume that all power station land is remunerated in line with the yield that would be derived from the same capital if allocated to another financial investment.

Decree Law 198/2003 of 2 September set forth the rules by which REN can sell or let power station land to current NES producers, provided that it does not form part of the public waterways domain. Land within that domain remained in REN's possession, the company being guaranteed an annual return thereon.

Ministerial Order 96/2004 of 23 January set forth the methods and criteria for establishing the purchase or rental value of land not falling within the public waterways domain, and the annual remuneration on land which is within that domain, stating that "in order to compensate for the tariff difference which occurred between 1999 and 2003, annual remuneration should be calculated at the rate of 6.5%".

Article 4 of Decree Law 153/2004 of 30 June, which sets forth the method for establishing title over property and possession of the land used for hydroelectric and thermoelectric power stations, regulates "the purchase price for land", taking into account compensation for the tariff difference between 1999 and the year in which the land was or is sold, and reiterates the right to remuneration on land in the pubic waterways domain.

Decree Law 29/2006 of 15 February established the general principles of the organisation and operation of the NES, the generation, transmission, distribution and supply of electricity and organisation of the electricity markets. It also decreed the end of the legal ceiling of tariff growth for low voltage customers in line with expected inflation.

This ceiling resulted in a tariff deficit to be recovered in future years.

Decree Law 237 B/2006 of 18 December laid down the rules for recovering the tariff deficit and also regulated tariff adjustments each year. This decree law also allows the transfer to third parties of the right to receive the tariff deficit and tariff adjustments.

l) Services provided in the gas sector

The services provided by the gas sector companies are covered by the following contracts with Transgás.

- REN Gasodutos, S.A., a contract for access to the high pressure natural gas transport system and overall technical management of the national natural gas system;
- REN ATLÂNTICO, S.A., a service contract for the reception, storage and regasification of LNG;
- REN Armazenagem, S.A., a contract for access to underground storage.

These contracts are valid until the new regulations come into effect.

m) Financial costs

In electricity transmission, the financial costs are those considered to be a result of loans to finance current fixed assets, calculated at an average interest rate on the average amount of current investments, and those considered to be a result of other loans. The former are imputed to current fixed assets and the latter are reported in profits or losses for the year.

The financial costs included in tangible fixed assets are amortised for the useful life of the assets.

n) Structural costs

In electricity transmission, the company's general structural costs are divided between investment and operation in predetermined proportions. The investment part is imputed to the different undertakings in progress.

The structural costs included in tangible fixed assets are amortised for the useful life of the assets.

o) 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.

Assets and liabilities resulting from deferred taxes are calculated and evaluated annually, using the expected taxation rates on the date of reversal of temporary differences.

24 Exchange rates

The exchange rates used to translate receivables and payables in foreign currency on the date of the balance sheet are from the Bank of Portugal on 29 December 2006. The exchange rates of the currencies used in REN's transactions in 2006 are shown below:

USD	**1.3170**
CHF	**1.60690**
GBP	**0.6715**
SEK	**9.0404**
NOK	**8.2380**
DKK	**7.4560**

VI INFORMATION OF CERTAIN ITEMS

25 Costs of start up, research and development and industrial property and other rights

The table below shows this type of cost and their balance as at 31 December 2006:

	Gross value	Accumulated amortisation	Net value
Start-up costs			
Initial start-up costs	63	-52	11
Information systems	65	-65	
Security system	35	-7	28
	163	-124	39
R&D costs			
Programme development	30	-2	28
	30	-2	28
Industrial property and other rights			
LNG transport right	142 106	-46 271	95 835
Surface right - parking	87	-9	78
	142 193	-46 280	95 913
Total	**142 386**	**-46 406**	**95 980**

The costs of LNG transport rights belonging to Gasoduto Braga Tuy and Campo Maior Leiria Braga are being amortised until 2028 at a rate of 3.23%.

In 2002, the amortisation of the transport rights acquired from Transgás Sociedade Portuguesa de Gás Natural, S.A. was changed from 23 years, the duration of the transport contact (until 2020) to 31 years (until 2028), the duration of the transport capacity concession contract. The change was made as a result of the prospect of supplying natural gas beyond the existing contract.

27 Movements in fixed assets

The movements in intangible and tangible fixed assets and financial investments and their amortisation are shown in the tables below:

Gross assets	Opening balance	Inclusion gas companies in the consolidation perimeter	Increases	Sales and write-offs	Transfers and regularisations	Closing balance
Intangible fixed assets						
Start-up costs	63	122	3		-25	163
R&D costs		36	1		-7	30
Industrial property and other rights	87	142 106				142 193
Current fixed assets		753			-753	
	150	**143 017**	**4**	**0**	**-785**	**142 386**
Tangible fixed assets						
Land and natural resources	1 921	50 922	1 766		954	55 563
Buildings and other constructions	50 970	34 930	3 128		-317	88 711
Basic equipment	3 093 649	935 121	34 662	-3 970	212 459	4 271 921
Vehicles	4 136	123	698	-570	-19	4 368
Tools and utensils	2 188	268	98		-1	2 553
Office equipment	22 173	858	1 402	-583	-4	23 846
Other tangible fixed assets	570	131	36		-1	736
Current fixed assets	119 460	7 483	230 299		-212 286	144 956
	3 295 067	**1 029 836**	**272 089**	**-5 123**	**785**	**4 592 654**
Financial investments						
Shareholdings in associated companies	420 902			-420 902		
Shareholdings in other companies	1 033					1 033
	421 935			**-420 902**		**1 033**
Total	**3 717 152**	**1 172 853**	**272 093**	**-426 025**	**0**	**4 736 073**

Total amortizations and adjustments	Opening balance	Inclusion gas companies in the consolidation perimeter	Reinforcement	Sales and write-offs	Reversals	Transfers and regularisations	Closing balancel
Intangible fixed assets							
Start-up costs	46		78				124
R&D costs			2				2
Industrial property and other rights	8	45 173	1 158		-59		46 280
	54	**45 173**	**1 238**		**-59**		**46 406**
Tangible fixed assets							
Land and natural resources			318				318
Buildings and other constructions	21 545	765	3 349				25 659
Basic equipment	1 646 629	37 664	93 989	-3 059			1 775 223
Vehicles	2 407	77	602	-498			2 588
Tools and utensils	1 673	101	236				2 010
Office equipment	14 566	435	2 351	-573			16 779
Other tangible fixed assets	3	33	40			1	77
	1 686 823	**39 075**	**100 885**	**-4 130**		**1**	**1 822 654**
Total	**1 686 877**	**84 248**	**102 123**	**-4 130**	**-59**	**1**	**1 869 060**

The increases in gross assets under tangible and intangible fixed assets, to the amount of EUR 272 093 000, refer essentially to:

a) Current fixed assets:

- Construction and remodelling of electricity substations EUR 118 776 000;
- Construction and remodelling of lines EUR 103 708 000;
- Safety telecommunications assembly of industrial data network and renovation of commutation and transmission equipment EUR 5 649 000.

b) Fixed assets:

- Increase in gas assets by incorporation of purchase costs (stamp duty and IMIT) EUR 25 866 000
- Handover in kind of branch lines built by special status generators (EUR 12 254 000) and handover by ONI Telecom of the Ermesinde building (EUR 1 318 000).

During the year, assets to the value of EUR 5 123 000 were written off, part of which were totally amortised. These included the Zêzere Sacavém lines 1 and 2 to a gross value of EUR 3 277 000. The shareholding in GALP Energia, SGPS, S.A. to the amount of EUR 420 902 000 was also written off as a result of its sale.

Current fixed assets by sector were as follows as of 31 December 2006:

Current fixed assets	Value
Electricity sector	
Substations	94 829
Lines	33 067
Safety telecommunications	6 527
System manager	69
Information systems	1 493
	135 985
Gas sector	
Transport of gas	1 175
Storage	7 796
	8 971
Total	**144 956**

28 Capitalisation of financial costs

In the year ending on 31 December 2006 the Group capitalised financial costs to the amount of EUR 4 607 000 under current fixed assets.

34 Loans

As of 31 December 2006 details of loans were as follows:

	2006		2005	
Origin of loan	Short term	Medium & long term	Short term	Medium & long term
Bank loans				
Internal loans	1 134 600	288 975	694 000	417 000
External loans	34 916	396 338	46 667	186 667
Overdrafts	31 512		22 904	
Lines of credit				
	1 201 028	**685 313**	**763 571**	**603 667**

The short term loans consist of commercial paper programmes for REN Rede Eléctrica Nacional, S.A. and credit facilities from financial institutions for some gas sector companies.

The balance of medium and long term loans consists of commercial paper programmes subscribed by REN under a contract ending in 2009 and EIB loans taken out by (EUR 274 338 000) and REN ATLÂNTICO, S.A. (EUR 122 000 000). REN ATLÂNTICO, S.A. also has a loan of EUR 29 475 000 taken out on the internal market.

The repayments of the EIB loans for 2007 have been reclassified to short term (EUR 34 916 000).

As of 31 December 2006 the repayment plants for medium and long term bank loans were as follows:

	Internal	External
2008	949	38 958
2009	260 505	39 190
2010	1 067	39 436
2011 et seq	26 454	278 754
	288 975	**396 338**

The EIB loans are secured by real guarantees provided by Portuguese banks and the European Investment Fund.

36 Reporting by segments

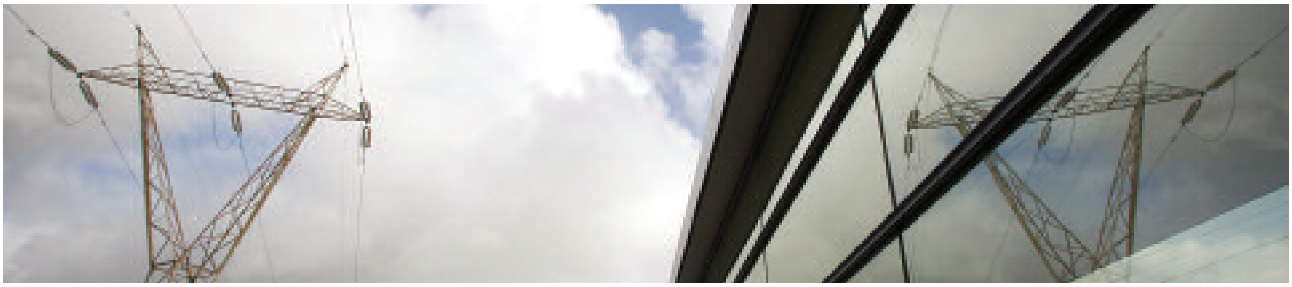
The REN Group operates essentially in a single geographical market in six different activities:

- Transmission of extra high voltage electricity
- Electricity market operator
- Telecommunications
- High pressure gas transport
- Gas storage
- Regasification

Sales and services rendered by each activity can be summarised as follows:

REN Group activity by segment – Economic year 2006

	Transmission of electricity	Transport of gas	Storage	Regasification	Telecommunications	Electricity market operator	Consolidation adjustments	REN Group
Turnover								
Electricity sales	3 133 556	33						3 133 589
Other sales					64			64
Services provided	1 845	32 059	2 342	8 374	3 171	2 811	-8 954	41 648
	3 135 401	**32 092**	**2 342**	**8 374**	**3 235**	**2 811**	**-8 954**	**3 175 301**
Cost of sales and services provided	-2 794 172	-48			-50			-2 794 270
Gross margin	341 229	32 044	2 342	8 374	3 185	2 811	-8 954	381 031
Operating costs								
Third party supplies and services	-28 925	-9 456	-261	-1 093	-2 957	-747	10 288	-33 151
Personnel costs	-32 325	-3 173		-297		-1 249		-37 044
	-61 250	**-12 629**	**-261**	**-1 390**	**-2 957**	**-1 996**	**10 288**	**-70 195**
Other earnings / (other costs)								
Work for company	15 525							15 525
Other earnings / (costs)	-54 759	-377	-31	-30	-8	-27	-1 140	-56 372
	-39 234	**-377**	**-31**	**-30**	**-8**	**-27**	**-1 140**	**-40 847**
Gross operating profit	240 745	19 038	2 050	6 954	220	788	194	269 989
Amortisation for the year	-88 644	-8 526	-844	-3 535	-10	-564		-102 123
Provisions for the year	-44 335	-40						-44 375
Operating results	107 766	10 472	1 206	3 419	210	224	194	123 491
Financial gains / (losses)	8 133	-891	-6	-2 018		76	-10 625	-5 331
Extraordinary gains / (losses)	523 489	1	270	1 270		-60		524 97
Pre-tax profit	639 388	9 582	1 470	2 671	210	240	-10 431	643 130
Tax on profit	-89 337	-1 989	-404	-723	-58	-64		-92 575
Minority interests		-495				-9		-504
Net profit	**550 051**	**7 098**	**1 066**	**1 948**	**152**	**167**	**-10 431**	**550 051**
Other information								
Tangible fixed assets	1 761 451	672 742	110 545	223 821	61	1 380		2 770 000
Intangible fixed assets	77	95 892				11		95 980
Investment in associated companies						1 033		1 033
Segment assets	3 343 039	899 750	116 526	273 169	5 976	8 288	-677 569	3 969 179
Equity	1 031 074	454 809	77 452	19 991	641	7 614	-560 507	1 031 074
Segment liabilities	2 311 915	444 941	39 074	253 228	5 335	674	-125 577	2 929 590



REN Group activity by segment – Economic year 2006

	Transmission of electricity	Telecommunications	Electricity market operator	Consolidation adjustments	REN Group
Turnover					
Electricity sales	2 880 615				2 880 615
Other sales		126			126
Services provided	6 442	3 493	2 667	-2 292	10 310
	2 887 057	**3 619**	**2 667**	**-2 292**	**2 891 051**
Cost of sales and services provided	-2 733 420	-137			-2 733 557
Gross margin	153 637	3 482	2 667	-2 292	157 494
Operating cost					
Third party supplies and services	-27 614	-3 115	-833	2 291	-29 271
Personnel cost	-31 246		-1 050		-32 296
	-58 860	**-3 115**	**-1 883**	**2 291**	**-61 567**
Other earnings/(other costs)					
Work for company	12 349				12 349
Other earning/(costs)	121 425	-8	-11		121 406
	133 774	**-8**	**-11**		**133 755**
Gross operating profit	228 551	359	773		229 682
Amortization for the year	-82 889	-2	-486		-83 377
Provisions for the year	-14 703				-14 703
Operating results	130 959	357	287		131 603
Financial gains/(losses)	-563	6	91	-456	-922
Extraordinary gains/(losses)	10 094	-1	-92		10 001
Pre-Tax profit	140 490	362	286	-456	140 682
Tax on profit	-29 832	-99	-79		-30 010
Minority interests		14			14
Net profit	**110 658**	**249**	**207**	**-456**	**110 658**
Other information					
Tangible fixed assets	1 606 333		1 913		1 608 246
Intangible fixed assets	79		17		96
Investment in associated companies	420 902		1 033		421 935
Segment assets	2 974 811	3 029	13 645	-13 768	2 977 717
Equity	924 692	419	7 439	-7 859	924 691
Segment liabilities	2 050 119	2 611	6 206	-6 397	2 052 539

	2006	2005
Sales		
Domestic market	**3 031 046**	**2 796 681**
Electricity	3 030 949	2 796 555
Goods	97	126
Foreign market	**102 607**	**84 060**
Electricity	102 607	84 060
Services provided		
Domestic market	**39 875**	**10 310**
Electricity	314	4 479
Telecommunications	3 284	3 010
Operation of electricity market	2 737	2 667
Transport of gas	22 723	
Storage	2 342	
Regasification	8 364	
Others	111	154
Foreign market	**1 773**	
Transport of gas	1 763	
Others	10	
Total	**3 175 301**	**2 891 051**

38 Income tax

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.

REN considers that any corrections resulting from reviews of the tax returns submitted in 2004 and 2005 will have no significant effect on its financial statements as at 31 December 2006.

The amount of EUR 92 575 000 recorded in 2006 under income tax includes:

	2006	2005
Current tax	55 915	298
Deferred tax	36 660	29 712
Tax for the financial year	92 575	30 010

The income tax reported as a cost of the year has been corrected by the effect of reporting deferred taxes in accordance with Accounting Standard 28. As of 31 December 2006 there were temporary differences resulting in deferred taxes receivable and payable by the Group as follows:

Origin	REN – Rede Eléctrica	OMIP	REN – Gasodutos	REN ATLÂNTICO	Gasoduto Braga-Tuy	Gasoduto CM-L-Braga	Total
Deferred taxes assets							
Provisions healthcare	3 805						3 805
Provision for ongoing lawsuits	1 341						1 341
Provision other benefits	2 551						2 551
Other provisions	5 388						5 388
Tax loss in 2006		8					8
Provision life assurance and health care			11	2			13
By change in amortisation rate of natural gas transport rights					184	1 174	1 358
	13 085	**8**	**11**	**2**	**184**	**1 174**	**14 464**
Deferred taxes liabilities							
Deviation for recovery in 2008		38					38
Tariff difference	172 316						172 316
Pension plan	7 366						7 366
Revaluation of fixed assets	37 189						37 189
	216 871	**38**	**0**	**0**	**0**	**0**	**216 909**

39 Remuneration of members of the corporate bodies

The remuneration paid to members of the corporate bodies was as follows:

	2006	2005
Board of Directors	1 864	1 925
Officials of the General Meeting of Shareholders	1	2
Total	**1 865**	**1 927**

41 Revaluation of tangible fixed assets

EDP revalued the tangible fixed assets of the electricity sector under the following laws:

Decree Law 430/78
Decree Law 399 G/81
Decree Law 219/82
Decree Law 171/85
Decree Law 118 B/86
Decree Law 111/88
Decree Law 7/91
Decree Law 49/91
Decree Law 264/92

As a result of the split of EDP and the setting up of REN and to fulfil legal requirements of the tax neutrality of the split, these revaluations are relevant for tax purposes, with regard to the calculation of reincorporation for the year.

42 Breakdown of revaluations of fixed assets

The effect of the revaluations by companies included in the consolidation of fixed assets net of amortisation is:

Fixed assets	Historical cost	Revaluation	Book value revalued as of 31 Dec 2006
Tangible fixed assets			
Land and natural resources	53 941	1 304	55 245
Buildings and other constructions	61 221	1 831	63 052
Basic equipment	2 147 691	349 007	2 496 698
Vehicles	1 780		1 780
Tools and utensils	543		543
Office equipment	7 067		7 067
Other tangible fixed assets	660		660
Total	**2 272 903**	**352 142**	**2 625 045**

44 Consolidated financial income statement

The consolidated financial income statement is as follows:

Costs and losses	2006	2005	Earnings and gains	2006	2005
Interest paid	45 599	30 489	**Interest received**	541	150
Unfavourable exchange differences	2	8	**Income from real estate**	306	345
Other financial costs and losses	1 278	1 285	**Income from shareholdings**	40 694	30 353
			Favourable exchange differences	2	9
			Discounts for prompt payment	5	2
			Other financial earnings and gains		1
			Financial profit	5 331	922
	46 879	**31 782**		**46 879**	**31 782**

The amount in income from shareholdings refers to dividends from shares owned by REN Rede Eléctrica Nacional, S.A. in GALP Energia, S.A. and by OMIP, S.A. in OMEL Compañia Operadora del Mercado Español de Electricidad, S.A.

45 Consolidated extraordinary income statement

The consolidated extraordinary income statement in 2006 is as follows:

Costs and losses	2006	2005	Earnings and gains	2006	2005
Donations	780	1 035	**Gains on fixed assets**	524 247	5
Bad debts		53	**Benefits from contract penalities**	349	72
Losses on inventory			**Reductions in provisions**	4 534	6 670
Losses on fixed assets	803	90	**Corrections for previous years**	2 371	2 997
Fines and penalties	31	91	**Other extraordinary earnings and gains**	6 942	4 937
Increase in amortisation		343			
Corrections for previous years	9 102	471			
Other extraordinary costs and losses	2 757	2 597			
Extraordinary profit	**524 970**	**10 001**			
	538 443	**14 681**		**538 443**	**14 681**

Other extraordinary costs and losses include the costs of a shortfall in estimated tax (EUR 1 547 000 in 2006 and EUR 272 000 in 2005) and costs of dismantling extra high voltage lines (EUR 869 000 in 2006 and EUR 2 229 000 in 2005) and of dismantling power stations the old Tapada do Outeiro plant (EUR 212 000 in 2006 and EUR 49 000 in 2005).

Other extraordinary earnings and gains include the amortisation of investment subsidies (EUR 6 179 000 in 2006 and EUR 3 780 000 in 2005), the sale of scrap (EUR 550 000 in 2006 and EUR 569 000 in 2005) and the sale of equipment from the dismantling of power stations (EUR 5 000 in 2006 and EUR 588 000 in 2005).

In 2006 gains on fixed assets include EUR 523 893 000, corresponding to the capital gain from the sale of the shareholding in GALP Energia, SGPS, S.A. to Amorim Energia, B.V.

Sale of shares	944 795
Value of holding (18.3%)	420 902
Capital gain	**523 893**

46 Movements in provisions

Movements in provisions in 2006 can be summarised as follows:

	Opening balance	Inclusion of gas companies in consolidation perimeter	Increases	Reductions	Closing balance
Provision for ongoing lawsuits	3 147		1 914		5 061
Provision for health care	12 857		1 500		14 357
Provision for other employee beenfits	9 376		252		9 628
Provision for other costs	4 534		40 670	-4 534	40 670
Life assurance – REN – Gasodutos, S.A.			42		42
Life assurance – REN ATLÂNTICO, S.A.		8			8
Total	**29 914**	**8**	**44 378**	**-4 534**	**69 766**

The increase in provisions is essentially the result of:

- The creation of a provision to cover the lawsuit on dividends from GALP, which is to be decided by an arbitration tribunal EUR 40 670 000;
- The increase in the provision to cover ongoing lawsuits EUR 1 914 000;
- Increases in provisions for health care, life assurance and other workers' benefits resulting from actuarial studies on 31 December.

47 Leased tangible fixed assets

The Group uses the financial method to record leasing contracts. As at 31 December 2006, the Group was responsible as a lessee for future rents to the amount of EUR 2 128 000, of which EUR 1 239 000 are medium and long term.

The following fixed assets are being leased:

Equipment	2006	2005
Vehicles, transport equipment		
Gross amount	2 756	2 277
Accumulated depreciation	1 174	782
IT equipment		
Gross amount	1 389	1 389
Accumulated depreciation	521	174
Net amount	**2 450**	**2 710**

VII – MISCELLANEOUS INFORMATION

49 Other information required by law

Remuneration of the Board of Directors

As required by Point 9 of Council of Ministers Resolution 155/2005 of 6 October, the table below shows individual remunerations of the members of the Board of Directors:

euros

	Remuneration	Complementary retirement plan	Meal subsidy	Expenses
Chairperson	272 658	45 443	2 238	8 529
Directors	172 205	28 701	2 238	8 529

The Chairperson and directors are entitled to use company cars with the ceiling of EUR 75 000 and EUR 65 000, respectively, though they have no purchase option under Council of Ministers Resolution 121/2005.

Expenses are the maximum amount allowed.

50 Other information

a) The state and other public bodies

Breakdown of amounts in the balance sheet

	2006	2005
Debit balance	**25 013**	**51 149**
VAT receivable	24 919	51 149
Corporate income tax repayable	89	
Corporate income tax withheld at source	5	
Credit balance	**57 300**	**1 200**
Corporate income tax	48 018	279
Income tax withheld	4 321	407
Social security contributions	709	514
VAT payable	4 252	

b) Other debtors and creditors

"Other debtors and creditors" include the following amounts:

	2006		2005	
	Short term	Medium & long term	Short term	Medium & long term
Other debtors				
Personnel amounts receivable (travel and other expenses)	29		25	
Performance bond for Sãvida		155		155
Consultants advance to lawyer	1		1	
Advance to personnel on account of IOPS	1 177			
Court of law	45			
Debtors for goods and services Portugal	10 234		8 939	
Debtors for goods and services foreign	32			
	11 518	**155**	**8 965**	**155**
Other creditors				
Performance bonds received from third parties		990		990
Trade unions	6		6	
Creditors for services rendered	8 331		13 053	
	8 337	**990**	**13 059**	**990**

c) Accruals and deferrals

The balances in "accruals and deferrals" are as follows:

	2006	2005
Accrued earnings		
Unbilled sales and services	10 051	6 239
Interest receivable	385	
Pension plan	27 797	24 598
Tariff differences	386 684	575 301
Tariff deficit	263 566	
OMIP and OMIClear costs to be recovered by the UGS tariff	143	5 987
	688 626	**612 125**
Deferred costs		
Deferred taxes assets	14 464	39 188
Capitalised costs related to expenses prior to production (gas)	17	
Rents and insurance paid in advance	1 346	45
Multi-annual costs - repairs and improvements to fixed assets	1 081	1 761
Interest and other loan costs	3 848	903
	20 756	**41 897**
Accrued costs		
Holidays and holiday subsidies	4 860	3 344
Interest due and not paid	895	812
Unbilled purchases and services	43 552	91 304
Other accrued costs	392	
	49 699	**95 460**
Deferred earnings		
Investment subsidies	218 445	94 276
Deferred taxes liabilities	216 909	206 449
Surface rights land at Tapada do Outeiro Plant	1 797	1 890
Increase in thermal power Tapada do Outeiro Plant	3 616	4 115
Others difference from purchase of shareholding in REN ATLÂNTICO, S.A.	6 351	
Others difference from purchase of shareholding in Braga-Tuy and CMLB.	11 449	
Others advance billing of work to be done in 2007	171	
	458 738	**306 730**

The most important items in the above table are:

c1) Tariff differences

The tariff differences in the year for amounts considered by ERSE, the energy sector regulator, when establishing tariffs are recovered in subsequent years and reported in accruals and deferrals.

Differences in the purchase of electricity are recovered in the year following their calculation, while those for electricity transmission and overall management of the system are recovered in the second year following their calculation, except for payments for power plant land between 1999 and 2003, which are recovered in 10 years.

The differences shown in the above table are those calculated in 2005 and 2006 and include payments for power plant land between 1999 and 2003, to the amount of EUR 164 489 000.

The tariff deficit of EUR 263 566 000 occurred in 2006, when the tariffs for the year were established (Dispatch 25,901 A/2005 (series 2) of the Board of Directors of ERSE, published in the Diário da República supplement of 15 December 2005), and will be recovered in 10 years as of 2008.

c2) Deferred tax receivable and payable

Its origins are as follows:

Origin	Value
Deferred taxes assets	
Provisions for health care	3 805
Provision for ongoing lawsuits	1 341
Provision for other benefits	2 551
Other provisions	5 388
Tax loss	8
Provision for life assurance and health care	13
Due to a change in the amortisation rate of natural-gas transport rights	1 358
	14 464
Deferred taxes liabilities	
Costs of Omip to be paid by the UGS tariff in 2008	38
Tariff deviations	172 316
Pension plan	7 366
Revaluation of fixed assets	37 189
	216 909

c3) Investment subsidies

At year end, accumulated investment subsidies received less annual amortisation were as follows:

Investment subsidies (net)	Value
Electricity sector	**107 792**
Ermesinde building	1 284
Substations	49 414
Lines	52 993
Electricity market information system	50
Telecommunications fibre optics	4 051
Gas sector	**110 653**
Liquefied gas terminal	77 796
Storage salt caverns, leaching station, water collection and gas station	32 857
Total	**218 445**

In 2006, REN received EUR 18 167 000 in investment subsidies, EUR 13 573 000 of which was in kind (handover by ONI of the Ermesinde building and of branch lines by wind generators).

These subsidies are recorded in the consolidated income statement in accordance with the useful life of their fixed assets. In 2006 the amount of EUR 6 179 000 was recorded.

These subsidies are amortised at the same rate as the assets to which they were allocated. Their amortisation is recorded in extraordinary earnings.

d) Minority interests

As at 31 December 2006, the minority interests included in liabilities refer to the following subsidiaries:

Company	2006	2005
OMIP Operador do Mercado Ibérico de Electricidade (Pólo Português), S.A.	496	487
Gasoduto Braga-Tuy, S.A.	3 411	
Gasoduto Campo Maior-Leiria-Braga, S.A.	4 608	
	8 515	**487**

e) Movements in equity

REN's share capital is EUR 534 000 000, representing 106 800 000 nominative shares with a face value of EUR 5.00 each.

The full paid up shares were owned by the following entities as at 31 December 2006:

Shareholder	No. of shares	Shareholding
Portuguese State	21 361 068	20%
EDP Energias de Portugal, S.A.	16 020 000	15%
Caixa Geral de Depósitos, S.A.	21 358 932	20%
Parpública Participações Públicas (SGPS), S.A.	32 040 000	30%
Logoenergia, SGPS, S.A.	5 340 000	5%
Gestmin, SGPS, S.A.	5 340 000	5%
OLIREN, SGPS, S.A.	5 340 000	5%
Total	**106 800 000**	**100%**

Movements in equity were as follows:

	Opening balance	Increases	Reductions	Distribution of extraordinary profit	Closing balance
Capital	534 000				534 000
Legal reserves	28 101	5 533			33 634
Other reserves	192 829	16 897		-209 726	0
Retained earnings	59 103	20 212		-78 926	389
Net profit for the year	110 658	550 051	-110 658		550 051
Anticipated dividends				-87 000	-87 000
Total equity	**924 691**	**592 693**	**-110 658**	**-375 652**	**1 031 074**

By decision of the General Meeting of Shareholders on 29 March 2006, the profits for the financial year ending on 31 December 2005 were appropriated as follows:

Initial balance of retained earnings		**59 103**
Transfer from 2005 net income		110 658
Appropriated as follows		
Legal reserve	-5 533	
Free reserves	-16 897	
Dividends	-66 395	
Employees' share of profits	-1 621	
		-90 446
Final balance of retained earnings		**79 315**

By unanimous corporate decision in writing on 17 October, the distribution of reserves and retained earnings to shareholders to a total of EUR 288 652 531 was approved (EUR 209 726 723 from other reserves and EUR 78 925 808 from retained earnings).

On 29 November, a unanimous corporate decision in writing also approved the advance distribution of dividends to the amount of EUR 87 000 000.

The legal reserve has not yet been fully constituted as required by law and at least 5% of appropriated profits must be transferred to it. In 1994 a 10% transfer was made, and from 1995 to 2006 a 5% transfer was made. This reserve may only be used to cover losses or to increase share capital.

f) Reporting of environmental expenditure and liabilities

In accordance with Accounting Standard 29, the Group's environmental expenditure in 2006 was as follows:

Area	Nominal value
Waste management	1 012
Protection of nature	2 003
Reduction of noise and vibration (acoustic conditioning studies)	62
Total	**3 077**

The above expenditure by area is included in the income statement and refers to the following action taken by the company:

a) Management and monitoring of industrial waste, including transport and treatment (EUR 1 012 000), resulting in earnings from the sale of scrap totalling EUR 550 000.

b) In the protection of nature, the costs refer to the restoration of corridors from deactivated lines (EUR 869 000), integration in the landscape of operating substations (EUR 178 000), protection of birds (EUR 430 000), clearing of forest along lines (EUR 438 000), studies of electromagnetic fields (EUR 15 000), management and monitoring of water resources (EUR 42 000) and information campaigns (EUR 31 000).

No environmental liabilities are recorded.

g) Subsequent events

On 5 January 2007, REN Rede Eléctrica Nacional, S.A. was converted by public deed into a holding company and took the name REN Redes Energéticas Nacionais, SGPS, S.A.

On the same date, it was necessary to separate the assets and liabilities making up the economic unit with the public concession for the management and operation of the national transmission grid (NTG) and those of the other businesses for REN Serviços de Rede, S.A., by an increase in share capital in kind. This company took the new name REN Rede Eléctrica Nacional, S.A.

On 2 January 2007, Parpública Participações Públicas (SGPS), S.A. acquired the Portuguese state's 20% shareholding in REN 21 361 068 shares. Parpública now owns 50% of REN Rede Eléctrica Nacional, S.A.

FINANCE AND ASSETS DIVISION

Accountant
30 375
MariaTeresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

BOARD OF DIRECTORS

José Rodrigues Pereira dos Penedos – Chairperson
Victor Manuel da Costa Antunes Machado Baptista
Aníbal Durães dos Santos
Henrique Joaquim Gomes
Paulo José Jubilado Soares de Pinho

INDIVIDUAL FINANCIAL STATEMENTS
BALANCE SHEET AS OF 31 DECEMBER 2006

Assets

Un: Thousand euros

Notes		2006 AB	2006 AA	2006 AL	2005 AL
	FIXED ASSETS:				
03.a./10.	Intangible fixed assets:				
08.	Start-up costs	32	32		
08.	Industrial property and other rights	87	9	78	79
		119	**41**	**78**	**79**
03.b./10./12./13./14./15.	Tangible fixed assets:				
	Land and natural resources	1 921		1 921	1 921
	Buildings and other related improvements	52 555	23 072	29 483	29 426
	Plant, machinery and equipment	3 314 841	1 728 126	1 586 715	1 447 020
	Vehicles, transport equipment	4 057	2 476	1 581	1 583
	Loose toolss	2 269	1 882	387	515
	Office equipment	19 810	14 966	4 844	5 841
	Other tangible fixed assets	570	35	535	567
03.e./03.f./11.	Current fixed assets	135 985		135 985	119 460
		3 532 008	**1 770 557**	**1 761 451**	**1 606 333**
03.k./10./16./48.f.	Financial investments				
	Shares in group companies	511 997		511 997	4 801
	Shares in associated companies				420 902
		511 997		**511 997**	**425 703**
	CURRENT ASSETS:				
03.c./41.	Inventories:				
	Raw materials and consumables	945		945	878
	Finished products and work in progress				
		945		**945**	**878**
	Medium- and long-term receivables				
48.e.	Other debtors	155		155	155
		155		**155**	**155**
03.d.	Short-term receivables:				
	Customers current a/c	262 734		262 734	228 548
	Group companies	18 330		18 330	2 000
48.d.	State and other public entities	24 817		24 817	50 206
23./25./48.b.	Other debtors	56 001	828	55 173	12 244
		361 882	**828**	**361 054**	**292 998**
	Bank deposits and cash:				
	Bank deposits	1 040		1 040	631
	Cash	1		1	
		1 041		**1 041**	**631**
48.a.	**ACCRUALS AND DEFERRALS:**				
	Accrued income	688 121		688 121	606 137
	Deferred costs	18 147		18 147	41 897
		706 268		**706 268**	**648 034**
	Total Depreciation		1 770 598		
	Total Provisions		828		
	TOTAL ASSETS	**5 114 415**	**1 771 426**	**3 342 989**	**2 974 811**

FINANCE AND ASSETS DIVISION

Accountant
No. 30 375
Maria Teresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

BALANCE SHEET AS OF 31 DECEMBER 2006

Shareholders' funds and liabilities

Un: Thousand euros

Notes		Years 2006	2005
	SHAREHOLDERS' FUNDS:		
36.	Share Capital	534 000	534 000
	Share capital adjustments in subsidiaries and associates	389	389
	Reserves		
40.a.	Legal reserves	33 634	28 101
	Other reserves		192 829
40.b.	**Retained earnings**		**58 714**
	Subtotal	568 023	814 033
40.	Net income for the year	550 051	110 658
40.a.	Anticipated dividends	-87 000	
	TOTAL SHAREHOLDERS' FUNDS	**1 031 074**	**924 691**
	LIABILITIES:		
34.	Provisions		
	Other provisions	69 716	29 914
		69 716	**29 914**
29.	Medium- and long-term payables:		
	Credit institution loans	259 500	603 667
	Other creditors	990	990
		260 490	**604 657**
03.d.	Short-term payables:		
	Credit institution loans	1 157 142	763 571
	Suppliers	314 614	157 896
	Suppliers of fixed assets	73 024	77 848
48.d.	State and other public entities	48 691	1 004
48.b.	Other creditors	6 799	13 039
		1 600 270	**1 013 358**
48.a.	**ACCRUALS AND DEFERRALS**		
	Accrued charges	44 841	95 461
	Deferred income	336 598	306 730
		381 439	**402 191**
	TOTAL LIABILITIES	**2 311 915**	**2 050 120**
	TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES	**3 342 989**	**2 974 811**

BOARD OF DIRECTORS
José Rodrigues Pereira dos Penedos – Chairperson
Victor Manuel da Costa Antunes Machado Baptista
Aníbal Durães dos Santos
Henrique Joaquim Gomes
Paulo José Jubilado Soares de Pinho

INDIVIDUAL INCOME STATEMENT BY NATURE AS OF 31 DECEMBER 2006

Un: Thousand euros

Notes		Years			
		2006		2005	
	COSTS AND LOSSES				
03.c./41.	Cost of inventories sold				
	and consumed				
	Electricity	2 793 529		2 733 317	
	Sundry materials	643	2 794 172	103	2 733 420
	Outside supplies and services		28 925		27 614
	Personnel costs				
43.	Remuneration	20 924		19 722	
	Employees welfare costs:				
	Pension contributions	1 798		2 309	
	Other	9 603	32 325	9 215	31 246
03.b.	Amortisation of tangible and intangible fixed assets	88 644		82 889	
	Adjustments				
	Provisions	44 335	132 979	14 703	97 592
	Taxes	1 145		1 246	
	Other operating costs and losses	55 733	56 878	80 536	81 782
	(A)		**3 045 279**		**2 971 654**
	Losses on associated and group companies				
	Interest and similar costs				
	Group companies				
	Other	41 314	41 314	31 717	31 717
	(C)		**3 086 593**		**3 003 371**
46.	Extraordinary costs and losses		13 370		4 587
	(E)		**3 099 963**		**3 007 958**
03.l./06.	Corporate income tax		89 337		29 832
	(G)		**3 189 300**		**3 037 790**
	Net income for the year		**550 051**		**110 658**
			3 739 351		**3 148 448**

FINANCE AND ASSETS DIVISION

Accountant
No. 30 375
Maria Teresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

INDIVIDUAL INCOME STATEMENT BY NATURE AS OF 31 DECEMBER 2006

Un: Thousand euros

Notes		Years 2006		2005	
	EARNINGS AND GAINS				
44.	Sales:				
44.a.	Electricity	3 133 556		2 880 615	
44.a.	Sundry materials				
44.b.	Services provided	1 845	3 135 401	6 441	2 887 056
	Variation in production				
48.c.	Work for the company		15 525		12 349
	Supplementary earnings	1 224		1 348	
	Other operating earnings and gains	895	2 119	201 858	203 206
	(B)		**3 153 045**		**3 102 611**
03.k.	Gainson on associated and group companies	7 765		386	
	Income from shareholdings	40 670		30 351	
	Income from negotiable securities				
	and other financial investments				
	Group companies	193			
	Others	113		345	
	Other interest and similar earnings				
	Group companies	392			
	Others	314	49 447	74	31 156
	(D)		**3 202 492**		**3 133 767**
46.	Extraordinary income and gains		536 859		14 681
	(F)		**3 739 351**		**3 148 448**
	Summary				
	Operating income: (B) - (A)		107 766		130 957
	Net interest and financial				
	expenses: (D - B) - (C - A)		8 133		-561
	Net operating income: (D) - (C)		115 899		130 396
	Income before taxes: (F) - (E)		639 388		140 490
	Net profit for the financial year: (F) - (G)		550 051		110 658

BOARD OF DIRECTORS
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Paulo José Jubilado Soares de Pinho

INDIVIDUAL INCOME STATEMENT BY FUNCTION AS OF 31 DECEMBER 2006

Un: Thousand euros

	Years	
	2006	**2005**
Sales and services provided	3 135 402	2 887 056
Cost of sales and services	-2 963 545	-2 718 518
GROSS PROFIT	**171 857**	**168 538**
Other operating income and gains	530 709	1 702
Distribution costs	-3 413	-3 278
Administrative overheads	-21 842	-19 271
Other operating expenses and losses	-47 023	-9 628
OPERATING INCOME	**630 288**	**138 063**
Net cost of finance	-39 335	-31 298
Profits (losses) in associated companies and subsidiaries	7 765	3 375
Profits (losses) on other investments	40 670	30 350
CURRENT INCOME	**639 388**	**140 490**
Taxation on current income	-89 337	-29 832
RCURRENT INCOME AFTER TAXATION	**550 051**	**110 658**
Extraordinary income		
Taxation on extraordinary income		
NET INCOME	**550 051**	**110 658**
EARNINGS PER SHARE (EUROS)	**5.15**	**1.04**

CASH FLOW STATEMENT AS OF 31 DECEMBER 2006

Un: Thousand euros

	Years			
	2006		2005	
OPERATING ACTIVITIES:				
Received from customers	2 964 226		2 671 140	
Payments to suppliers	-2 752 534		-2 735 371	
Payments to personnel	- 30 227		- 32 572	
Net cash flow generated by operations	181 465		- 96 803	
Payment of corporate income tax	- 10 158		7 409	
Other receipts relating to operating activities	39 847		180 043	
Other payments relating to operating activities	- 52 932		- 82 781	
Net cash flow before extraordinary items	158 222		7 868	
Receipts relating to extraordinary items	3 426		1 255	
Payments relating to extraordinary items	- 3 966		- 3 784	
Net cash flow generated by operating activities (1)		**157 682**		**5 339**
INVESTING ACTIVITIES:				
Receipts arising from:				
Investments	945 102		345	
Tangible fixed assets	493		40 647	
Investment subsidies	4 594		9 667	
Dividends	40 670	990 859	30 351	81 010
Payments relating to:				
Investments	- 492 961			
Tangible fixed assets	- 220 064		- 173 670	
Intangible fixed assets		- 713 025		- 173 670
Net cash outlaid on investing activities (2)		**277 834**		**- 92 660**
FINANCING ACTIVITIES:				
Receipts arising from:				
Loans raised	15 390 086		11 210 283	
Interest and similar income		15 390 086		11 210 283
Payments relating to:				
Loans raised	-15 349 220		-11 066 450	
Interest and similar expenses	- 42 463		- 30 638	
Dividends	- 442 047	-15 833 730	- 46 700	-11 143 788
Net cash outlaid on financing activities (3)		**- 443 644**		**66 495**
Change in cash and cash equivalents (4) (1)+(2)+(3)		- 8 128		- 20 826
Effect of foreign-exchange differences				
Cash and cash equivalents at the beginning of the period		- 22 273		- 1 447
Cash and cash equivalents at the end of the period		- 30 401		- 22 273
BREAKDOWN OF CASH AND CASH EQUIVALENTS				
Cash		1		
Immediat. operable bank accounts and cash equiv.		- 31 402		- 22 873
Bank overdrafts		- 31 402		- 22 873
Other treasury assets		1 000		600
CASH AND BANKS AS PER BALANCE SHEET		- 30 401		- 22 273

NOTES TO THE INDIVIDUAL BALANCE SHEET AND INCOME STATEMENT AS OF 31 DECEMBER 2006

(Amounts expressed in thousand euros)

INTRODUCTION

a) The company's business object and shareholders

REN Rede Eléctrica Nacional, S.A. resulted from the split of EDP, as set forth in Decree Law 7/91 of 8 January and Decree Law 131/94 of 19 May, approved at the General Meeting of Shareholders on 18 August 1994.

REN's object is the overall management of the public electricity system (PES) with the aim of guaranteeing stability and security of the electricity supply and reconciling the interests of the different operators involved, operating and developing the national extra high voltage transmission grid in mainland Portugal, managing the portfolio of power plant sites and preparing files for the DGGE to launch public consultations aimed at establishing and operating new power stations.

REN's share capital is EUR 534 000 000, represented by 106 800 000 shares with a value of EUR 5.00 each. They were owned by the following shareholders as at 31 December 2006:

Shareholder	No. of shares	Shareholding
Portuguese state	21 361 068	20%
EDP Energias de Portugal, S.A.	16 020 000	15%
Caixa Geral de Depósitos, S.A.	21 358 932	20%
Parpública Participações Públicas (SGPS), S.A.	32 040 000	30%
Logoenergia, SGPS, S.A.	5 340 000	5%
Gestmin, SGPS, S.A.	5 340 000	5%
OLIREN, SGPS, S.A.	5 340 000	5%
Total	**106 800 000**	**100%**

b) Concession to operate the national transmission grid

The concession for the operation of the national extra high voltage electricity transmission grid (NTG) was awarded to REN by Article 64 of Decree Law 182/95 of 27 July and the contract with the Portuguese government was signed on 6 September 2000. The duration of the concession is 50 years as of the date of signing.

c) Pricing of electricity purchases

Electricity is mostly purchased from EDP Gestão da Produção de Energia, S.A., Tejo Energia, S.A., and Turbogás Produtora Energética, S.A., whose prices are established in power purchase agreements signed with them for each generating centre providing for a mixed remuneration system with a fixed part, corresponding to payment indexed to power availability, and a variable part linked to the remuneration of variable energy generation costs. These power purchase agreements are drawn up in accordance with Decree Law 183/95 of 27 July.

The conditions governing the acquisition of electricity from third parties are regulated by Decree Law 189/88 of 27 May (as worded by Decree Law 313/95 of 24 November, 168/99 of 18 May and 538/99 of 13 December) and Decree Law 186/95 of 27 July.

d) Legal framework governing electricity prices

Electricity tariffs and prices abide by the principles of Decree Law 182/95 of 27 July as worded in Decree Law 69/2002 of 25 March, the statutes of the Energy Service Regulator (ERSE) approved by Decree Law 97/2002 of 12 April, Article 4 of Decree Law 187/95 of 27 July as worded in Decree Law 44/97 of 20 February, the Commercial Relations Regulations and the Tariff Regulations.

The tariffs and prices charged in 2006 were established in Dispatch 25 901 A/2005 (series 2) of the Board of Directors of ERSE published in the Diário da República supplement of 15 December 2005.

e) Financial investments

I. RENTELECOM Comunicações, S.A.

RENTELECOM was established under Dispatch 128/2001 of 22 October, issued by the Minister of the Economy, and by public deed of 7 December 2001. It began trading on 1 January 2002. Its object is to establish, manage and operate telecommunications infrastructure and systems, to provide communications services, and to conduct any activity that might be complementary, subsidiary or accessory to the aforesaid, either directly, or by founding or acquiring shareholdings 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 31 December 2006, all of the company's share capital was owned by REN Rede Eléctrica Nacional, 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 6 June, and by public deed of 16 June 2003, the company was launched on 10 December 2003. Its object is to organise and manage a support system for transactions and settlements on the Iberian energy market. These responsibilities include:

a) management of the organised 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 organised energy markets;
e) settlement services for standardised transactions on non organised energy markets;
f) market organisation 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 31 December 2006, 90% of these shares were owned by REN Rede Eléctrica Nacional, 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 30 June, by deed signed on 26 September 2006.

Its object is the transport of high 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 31 December 2006 it was 100% owned by REN Rede Eléctrica Nacional, 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 30 June, by deed signed on 26 September 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 31 December 2006 it was 100% owned by REN Rede Eléctrica Nacional, S.A.

V. REN ATLÂNTICO, Terminal de GNL, S.A.
The company was set up on 14 April 1999. Its name was changed to REN ATLÂNTICO, Terminal de GNL, S.A. by deed signed on 26 September 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 31 December 2006 it was 100% owned by REN Rede Eléctrica Nacional, S.A.

VI. REN Serviços de Rede, S.A.
The company was set up by deed on 26 September 2006.

Its object is the conservation, maintenance and repair of all infrastructures of the national electricity transmission grid and its equipment, the design, development, testing and implementation of new technologies related to electricity transmission and the management, operation and planning of electricity grids and any other activities related to them.

Its share capital is EUR 50 000, represented by 50 000 shares with a face value of EUR 1.00 each. On 31 December 2006 it was 100% owned by REN Rede Eléctrica Nacional, S.A.

f) 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.

01 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.

03 Accounting and valuation criteria

a) Intangible fixed assets

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

b) Tangible fixed assets

A tangible fixed assets are disclosed at the amounts resulting from EDP, S.A.'s restructuring process, with reference to 1 January 1994, and at cost of acquisition or construction for items subsequently acquired, net of accumulated depreciation.

They include financial charges and foreign exchange differences capitalised during the building phase, both resulting from loans contracted to finance this investment, and administrative overheads, as detailed in paragraphs e) and f) of this note.

Fixed assets acquired under leasing contracts, and their 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 the lease instalments 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.

Fixed assets subsidised by third parties are depreciated on the same basis and at the same rates as the company's own property, with the respective charge being offset in the extraordinary income account by the depreciation of subsidies (recorded as accruals and deferrals   investment subsidies) in the same way as the subsidised fixed assets are depreciated.

Current maintenance and repair expenditure on fixed assets is recorded as a cost for the year in which it occurs. Expenditure on major repairs and improvements is recorded as a deferred cost and charged against income over a period of up to six years (Note 48.a.i).

c) Inventory
Inventory is recorded at cost, with items drawn from stores (consumables) being valued at the average cost of the item in store.

d) 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.

e) Financial charges
Financial charges are split between those that are deemed to be associated with loans contracted to fund capital works in progress, calculated by applying an average interest rate on the average value of capital expenditure in progress, and those resulting from other loans. The former are charged to capital works in progress, while the others are accounted for in the income statement covering the period to which they relate (Note 11).

f) Structural costs
General structural costs are split between investment and current operating results, in accordance with pre determined proportions, the portion relating to investment being subsequently charged to the various projects under construction.

g) Social benefits for employees
The company accounts for retirement benefit and healthcare costs for retirees in accordance with International Accounting Standard 19, wherein actuarial gains and losses are calculated using the corridor method. As such, it replaces the provisions of Accounting Standard 19.

h) 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.

i) Regulation
The company's activities are regulated and their tariffs and prices are determined in such a way as to enable recovery of the expenditure necessary to provide the regulated services and to generate a return on the funds invested.

Adjustments arising from any surpluses or shortfalls in the recovery in future tariffs call for methods enabling the time scale of such surpluses or shortfalls to be recorded.

Thus, any surpluses or shortfalls for the year, in comparison with the amounts approved by ERSE, are charged to accruals and deferrals.

REN's criteria for disclosing tariff differences since 1999 have been to assume that all power station land is remunerated in line with the yield that would be derived from the same capital if allocated to another financial investment.

Decree Law 198/2003 of 2 September set forth the rules by which REN can sell or let power station land to current SEN producers, provided that it does not form part of the public waterways domain. Land within that domain remained in REN's possession, the company being guaranteed an annual return thereon.

Ministerial Order 96/2004 of 23 January set forth the methods and criteria for setting the purchase or rental value of land not falling within the public waterways domain, and the annual remuneration on land which is within that domain, stating that "in order to compensate for the tariff difference which occurred between 1999 and 2003, annual remuneration should be calculated at the rate of 6.5%".

Article 4 of Decree Law 153/2004 of 30 June, which sets forth the method for establishing titles over property and possession of the land used for hydroelectric and thermoelectric power stations, regulates "the purchase price for land", taking into account compensation for the tariff difference between 1999 and the year in which the land was or is sold, and reiterates the right to remuneration on land in the pubic waterways domain.

Decree Law 29/2006 of 15 February established the general principles of the organisation and operation of the NES, the generation, transmission, distribution and supply of electricity and organisation of the electricity markets. It also decreed the end of the legal ceiling of tariff growth for low voltage customers in line with expected inflation.

This ceiling resulted in a tariff deficit to be recovered in future years.

Decree Law 237 B/2006 of 18 December laid down the rules for recovering the tariff deficit and also regulated tariff adjustments each year. This decree law also allows the transfer to third parties of the right to receive the tariff deficit and tariff adjustments.

j) Correction of water variability

Correction of water variability is a legally instituted mechanism (Decree Law 338/91 and Ministerial Order 987/2000) designed to compensate for the variable costs of electricity generation.

In dry years the thermoelectric generating system is over used and consequently expenditure on fuel or electricity imports rises significantly. In years with abundant rainfall the opposite occurs.

Tariffs charged to distributors are based on production costs under average hydrological conditions.

In this context, and to avoid major distortions in operating results, costs incurred with acquiring energy and charged in the income statement are adjusted upwards or downwards in line with favourable or unfavourable hydrological conditions.

Thus, the annual amount of water variability correction, be it a cost or income item, corresponds to the difference between the economic cost of generating electricity and the economic reference cost.

k) 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 possible estimates, their reference date being the company's financial year.

l) 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.

m) Income statement by function

Cost of sales and services rendered comprises the sum of the following costs:

- Electricity purchase;
- System management;
- Operation and maintenance of the NTG.

Other operating expenses and losses include the following costs.

- Management of power plant land
- Planning
- ERSE

04 Exchange rates

The exchange rates used to translate receivables and payables in foreign currency on the date of the balance sheet are those of the Bank of Portugal on 29 December 2006. The exchange rates of the currencies used in REN's transactions in 2006 are shown below.

€

USD	1.3170
CHF	1.60690
GBP	0.6715
SEK	9.0404
NOK	8.2380
DKK	7.4560

06 Corporate income tax

Corporate income tax for the year ending on 31 December 2006 can be broken down as follows:

Current taxation for the year (autonomous settlement)	52 812
Deferred taxes	36 525
Total (earning) charge	**89 337**

Calculation of the taxes can be broken down as follows:

Earnings before tax	639 388	
Permanent differences	-309 629	
	329 759	
Expected taxation at the 27.5%		90 684
Reduction to 50% of the rate in other provisions		5 389
Correction of deferred tax rate		-6 915
Autonomous settlement		179
Taxation for the year		**89 337**

In the year ended on 31 December 2006, deferred taxes receivable and payable were as follows:

(Thousand euros)

	2006	2005	Annual effect
Deferred Taxes – Assets			
Liabilities not accepted for tax purposes			
Provisions for health care	3 805	3 536	269
Provision for ongoing lawsuits	1 341	865	476
Provision for other benefits	2 551	2 578	-27
Other provisions	5 388	1 247	4 141
Other liabilities			
Tax losses in 2004		21 002	21 002
Tax losses in 2005		9 960	9 960
Sub-total	**13 085**	**39 188**	**26 103**
Deferred Taxes – Liabilities			
Tariff differences	172 316	158 208	14 108
Pension plan	7 366	6 764	602
Revaluation of fixed assets	37 189	41 477	-4 288
Sub-total	**216 871**	**206 449**	**10 422**
Deferred taxation for the year – Total			**36 525**

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 of reviews of its tax returns submitted between 2004 and 2005 are unlikely to have a significant effect on the financial statements as at 31 December 2006.

07 Personnel in the company's service

The average number of employees in 2006 was 597. There were no non staff contract workers.

08 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.

10 Tangible and intangible fixed assets and investments

a) Gross fixed assets

The increases in financial investments refer to the acquisition of the gas companies' assets and shareholdings (EUR 492 961 000) and equity method calculations.

(Thousand euros)

Item	Opening balance	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	50 970	1 319		266	52 555
Basic equipment	3 093 649	12 288	255	209 159	3 314 841
Specific technical fixed assets	3 083 717	12 254	255	209 161	3 304 877
Power plant land	891 718				891 718
Electricity transmission	2 002 108	12 254	255	202 868	2 216 975
Substations	1 005 733		255	112 827	1 118 305
Lines	993 490	12 254		90 041	1 095 785
Sundry equipment	2 885				2 885
System management	47 644			47	47 691
Accessory equipment	142 247			6 246	148 493
Other basic equipment	9 932	34		-2	9 964
Vehicles	1 694		353	-40	1 301
Tools and utensils	2 188	81			2 269
Office equipment – IT	12 765	479	13	-405	12 826
Other office equipment	5 474	221	2	-98	5 595
Other tangible fixed assets	570				570
Subtotal (2.1)	**3 169 231**	**14 388**	**623**	**208 882**	**3 391 877**
Leased fixed assets					
Vehicles	2 277	594	61	-53	2 757
Computer hardware	1 389				1 389
Subtotal (2.2)	**3 666**	**594**	**61**	**-53**	**4 146**
CURRENT FIXED ASSETS					
Buildings and other constructions	247	19		-266	0
Basic equipment	119 164	228 202		-212 874	134 492
Electricity transmission	117 711	222 484		-212 299	127 896
Substations	88 883	118 776		-112 830	94 829
Lines	28 828	103 708		-99 469	33 067
System management	47	69		-47	69
Accessory equipment	1 406	5 649		-528	6 527
Studies and plans	49	1 500		-56	1 493
Information systems	49	1 500		-56	1 493
Subtotal (2.3)	**119 460**	**229 721**		**-213 196**	**135 985**
TOTAL (2)	**3 292 357**	**244 703**	**684**	**-4 367**	**3 532 008**
FINANCIAL INVESTMENTS					
RENTELECOM – Comunicações, S.A.	418	223			641
OMIP – Operador do Mercado Ibérico de Energia, S.A.	4 383	77			4 460
Galp Energia, SGPS, S.A.	420 902		420 902		0
REN – Gasodutos, S.A.		409 453			409 453
REN – Armazenagem, S.A.		77 452			77 452
REN ATLÂNTICO, Terminal de GNL, S.A.		19 941			19 941
REN – Serviços de Rede, S.A.		50			50
TOTAL (3)	**425 703**	**507 196**	**420 902**		**511 997**
SUM TOTAL	**3 718 179**	**751 899**	**421 586**	**-4 367**	**4 044 124**

b) Amortisation and adjustments

(Thousand euros)

Item	Opening balance	Reinforcements	Disposals	Reclass., transf. write-offs & reversals	Closing balance
INTANGIBLE FIXED ASSETS					
Start-up costs	32				32
Industrial property and other rights	8	2			10
TOTAL (1)	**40**	**2**			**42**
TANGIBLE FIXED ASSETS					
Buildings and other constructions	21 545	1 527			23 072
Basic equipment	1 646 629	84 554	-125	-2 932	1 728 126
Specific technical fixed assets	1 636 743	84 548	-125	-2 930	1 718 236
Power plant land	475 988	14 827			490 815
Electricity transmission	1 035 537	60 220	-125	-2 494	1 093 138
Substations	534 554	31 319	-125		565 748
Lines	499 040	28 778		-2 494	525 324
Sundry equipment	1 943	123			2 066
System management	38 310	2 142			40 452
Accessory equipment	86 908	7 359		-436	93 831
Other basic equipment	9 886	6		-2	9 890
Vehicles	1 606	81	-348	-38	1 301
Tools and utensils	1 673	209			1 882
Office equipment – IT	10 310	1 074	-12	-461	10 911
Other office equipment	3 303	332	-2	-98	3 535
Exchange differences					
Other tangible fixed assets	3	32			35
Subtotal (2.1)	**1 685 069**	**87 809**	**-487**	**-3 529**	**1 768 862**
LEASED FIXED ASSETS					
Vehicles	782	486	-40	-54	1 174
Leased IT hardware – central equipment I	173	347			520
Subtotal (2.2)	**955**	**833**	**-40**	**-54**	**1 694**
SUM TOTAL	**1 686 064**	**88 644**	**-527**	**-3 583**	**1 770 598**

11 Capitalisation of financial charges

According to the criteria set forth in Note 03.e), interest on finance to the amount of EUR 4 607 000 was capitalised in current fixed assets.

12 Revaluation of tangible fixed assets

EDP revalued tangible fixed assets in accordance with the following laws:

Decree Law 430/78
Decree Law 399 G/81
Decree Law 219/82
Decree Law 171/85
Decree Law 118 B/86
Decree Law 111/88
Decree Law 7/91
Decree Law 49/91
Decree Law 264/92

As a result of the split of EDP and the setting up of REN and to fulfil legal requirements of the tax neutrality of the split, these revaluations have been accepted for tax purposes as forming the basis for calculating depreciation for the year.

13 Breakdown of fixed asset revaluation

(net amounts - Thousand euros)

Fixed assets	Historical costs	Revaluations	Book values revalued at 31.12.2006
Tangible fixed assets			
Land and natural resources	617	1 304	1 921
Buildings and improvements	27 652	1 831	29 483
Plant, machinery and equipment	1 237 707	349 007	1 586 714
Vehicles, transport equipment	1 582		1 582
Loose tools	387		387
Office equipment (excluding IT equipment)	2 060		2 060
IT equipment	2 784		2 784
Other tangible fixed assets	535		535
Total	**1 273 324**	**352 142**	**1 625 466**

14 Other information relating to fixed assets

a) Concerning their location and nature (net amounts), fixed assets, including capital expenditure in progress, were as follows:

Item	2006	2005
Relating to power transmission		
Substations	647 387	560 063
Power lines	603 528	523 278
Accessories	61 189	56 745
Other	819	988
Relating to system management		
System manager (dispatch)	4 580	5 543
Energy Market Information System	2 728	3 837
Power plant land	58	65
Hydroelectric plant land	400 844	415 665
Non-specific	40 318	40 149
Total	**1 761 451**	**1 606 333**

b) Financial costs capitalised during the year:

Item	2006	2005
Substations	3 041	1 296
Power lines	1 526	1 080
Telecommunications	25	227
System manager	1	22
Other	14	13
Total	**4 607**	**2 638**

15 Leased Fixed Assets

The following fixed assets are leased:

Equipment	2006	2005
Vehicles, transport equipment		
Gross amount	2 756	2 277
Accumulated depreciation	1 174	782
IT equipment		
Gross amount	1 389	1 389
Accumulated depreciation	521	174
Net amount	**2 450**	**2 710**

16 Financial investments

Group companies:

2006

Company Name and Registered Office	Capital held %	Equity	Earnings for the Year Amount
RENTELECOM – Comunicações, S.A.			
Av. Estados Unidos da América, 55 Lisbon	100.0	641	153
OMIP – Operador do Mercado Ibérico de Energia (Pólo Português), S.A.			
Av. Estados Unidos da América, 55 Lisbon	90.0	4 955	86
REN – Gasodutos, S.A.			
Estrada Nacional 116-V.de REI Bucelas	100.0	409 453	4 522
REN – Armazenagem, S.A.			
Mata do Urso, Guarda Norte-Carriço-Pombal	100.0	77 452	1 066
REN ATLÂNTICO, Terminal de GNL, S.A.			
SINES Terminal de GNL Apartado 268	100.0	19 941	8 297
REN – Serviços de Rede, S.A.			
Av. Estados Unidos da América, 55 Lisbon	100.0	50	0

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

23 Doubtful debts

Description	2006	2005
Doubtful debtors – customers		
Other doubtful debtors	828	828
Total	**828**	**828**

25 Amounts owed to and by personnel

The amount owed by and to the company's personnel is as follows:

(Thousand euros)

Detail	2006	2005
Amounts receivable – (travel allowances, loans – EUP, and advances)	29	25

29 Medium and long term payables

(Thousand euros)

Item	1 to 5 years	Over 5 years	Total
Financial institutions	259 500		259 500
Other creditors – performance bonds	990		990
Total	**260 490**		**260 490**

The debt to financial institutions refers to a EUR 300 million commercial paper 300 programme with a contract valid until January 2009.

31 Financial Commitments

Acquisition of fixed assets

Contractual commitments to purchase fixed assets total EUR 124 380 000 on date of balance sheet. EUR 97 381 000 is for the construction of substations and EUR 26 999 000 for the construction of power lines.

Finance

REN has entered into five commercial paper programmes to a total of EUR 1 480 million. EUR 1 385.2 million were being used as at 31 December 2006.

Retirement pensions and health care

The company pays retirement and survival pension supplements, and provides its pensioners with a healthcare plan under similar conditions to those of active employees.

To cover pension supplements, REN contributed to an independent pension fund opened jointly with the EDP Group, to which all liabilities and contributions necessary to cover charges payable each year are transferred.
Its healthcare liabilities are not merged and are covered by a specific provision.

Both plans appear in the accounts in accordance with IAS 19, actuarial gains and losses being calculated using the corridor method.

Employees who meet specific age and length of service conditions and who opt for early retirement, and those who reach an agreement with the company to enter pre retirement, are also included in the plans.

The liabilities and related annual costs are established on the basis of annual actuarial calculations by an independent actuary using the projected unit credit method. The calculation is based on assumptions that reflect the demographic conditions of those covered by the plan and the economic and financial conditions prevailing when the calculations are made.

The following operating expenses were reported during the year:

- Pensions EUR 1 798 000
- Health care EUR 1 500 000
- Other benefits EUR 252 000

a) Retirement benefits

The following tables provide a breakdown of the changes in pension fund liabilities and assets:

Changes in liabilities (Thousand euros)

Description	2006	2005
Liabilities at year beginning	48 794	47 667
Service and interest expenditure	2 542	2 622
Actuarial (gains) / losses	254	3 415
Benefits paid	(4 673)	(4 910)
Liabilities at year end	46 917	48 794

Changes in fund assets

Description	2006	2005
Fair value of assets at year beginning	35 415	32 805
Return on assets	2 656	2 055
Actuarial gains / (losses)	3 310	(295)
Benefits paid	(1 477)	(1 459)
Contributions from REN	1 802	2 309
Fair value of assets at the end of the year	41 707	35 415

Fund coverage shortfall

Description	2006	2005
At year beginning	13 379	14 862
At year end	5 210	13 379

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

Description	2006	2005
At year beginning	37 977	36 009
Amortisation	(1 913)	(1 742)
(Gains) / losses – liabilities	254	3 415
Asset gains / (losses)	(3 310)	295
At year end	33 008	37 977

Amounts carried under assets

Description	2006	2005
At year beginning	24 598	21 147
At year end	27 798	24 598

b) Health care

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

Changes in liabilities

Description	2006	2005
Liabilities at the start of the year	23 599	32 547
Service and interest expenditure	1 445	2 083
Benefits paid	(645)	(664)
Mutual	100	109
Funeral subsidy		(6 779)
Actuarial (gains) / losses	(1 521)	(3 699)
Liabilities at the end of the year	22 978	23 599

Actuarial losses not carried in the accounts

Description	2006	2005
At year beginning	10 741	15 200
Amortisation	(599)	(760)
(Gains) /losses – liabilities	(1 521)	(3 699)
At year end	8 621	10 741

Liabilities carried in the accounts

Description	2006	2005
At year beginning	12 858	17 347
At year end	14 357	12 858

c) Other benefits

Changes in liabilities

Description	2006	2005
Liabilities at year beginning	9 376	
Service and interest expenditure	585	
Benefits paid	(333)	
Actuarial (gains) / losses	(478)	
Liabilities at year end	9 150	9 376

Actuarial losses not carried in the accounts

Descrição	2006	2005
At year beginning		
Amortisation		
(Gains) / losses – liabilities	(478)	
At year end	(478)	

Liabilities carried in the accounts

Description	2006	2005
At year beginning	9 376	
At year end	9 628	9 376

d) Main assumptions used in actuarial studies reported on 31 December 2004 and 2005:

	2006	2005
Annual discount rate	4.50%	4.25%
Expected percentage of employees eligible for early retirement	10.00%	10.00%
Annual salary growth rate	3.30%	3.30%
Total annual pensions growth rate	2.25%	2.25%
Annual Social Security pensions growth rate	2.00%	2.00%
Inflation rate	2.00%	2.00%
Annual growth rate of healthcare costs (for 6 years)	4.50%	4.50%
Annual growth rate of healthcare costs (for 6 years)	4.00%	4.00%
Management costs (per employee per year)	€ 233	€ 220
Management cost growth rate – up to 2007	4.50%	4.50%
Management cost growth rate – after 2007	2.70%	2.70%
Yield (for the following year)	5.37%	7.5%
Mortality table	TV 88/90	TV 88/90

32 Contingent liabilities

As at 31 December 2006 there were lawsuits and claims totalling EUR 28 439 000, of which EUR 5 061 000 is provisioned.

There were also liabilities for guarantees provided, as show below:

Purpose	
OMEL – For operations in the Spanish electricity market	30 000
MEFF – For operations in the Spanish electricity market	5 000
European Union, under investment finance contracts	643
Surety deposit at Viseu Court for expropriation of 63 parcels of land	206
Surety deposit at Anadia Court for expropriation of 111 parcels of land	432
Surety deposit for a lawsuit at Gondomar Court	150
Surety deposit at Penela Court for expropriation of 68 parcels of land	665
Surety deposit at Ansião Court for expropriation of 15 parcels of land	38
Surety deposit at Braga Court for expropriation of 65 parcels of land	674
Surety deposit at Castelo Branco Court for expropriation of 2 parcels of land	126
Surety deposit at Torres Vedras Court for expropriation of 11 parcels of land	297
Surety deposit at Vieira do Minho Court for expropriation of 29 parcels of land	558
Silves Municipal Council – urbanisation work, case 1L/03 Tunes	352
Department of Geology and Energy – fulfilment of obligations - gas transport and storage concession	20 000
Seixal Municipal Council – Guarantee in cases nos. 7873/2006 and 7884/2006	3 853
Total	**62 994**

34 Movements in provisions

Item	Opening balance	Increases	Decreases	Closing balance
Provision for ongoing lawsuits	3 147	1 914		5 061
Provision for health care	12 857	1 500		14 357
Provision for other workers' benefits	9 376	252		9 628
Provision for other costs	4 534	40 670	4 534	40 670
Total	**29 914**	**44 335**	**4 534**	**69 716**

The increase in the provision for other costs was the result of setting up a provision to cover the lawsuit on GALP dividends, which has been referred to an arbitration tribunal.

36 Capital number of shares and face value

Share capital is represented by 106 800 000 nominative book entry shares, fully paid up, with a face value of EUR 5.00 each.

40 Movements in equity

Item	Opening balance	Increases	Decreases	Opening balance
Share capital	534 000			534 000
Adjustments to shares in subsidiaries and associated companies	389			389
Reserves				
Legal reserve	28 101	5 533		33 634
Free reserves	192 829	16 897	209 726	
Retained earnings	58 714	20 212	78 926	
Net income for the year	110 658	550 051	110 658	550 051
Expected dividends			87 000	-87 000
Total	**924 691**	**592 693**	**486 310**	**1 031 074**

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) By unanimous corporate decision in writing on 17 October, the distribution of reserves and retained earnings to shareholders to a total of EUR 288 652 531 was approved (EUR 209 726 723 from other reserves and EUR 78 925 808 from retained earnings).

On 29 November, a unanimous corporate decision in writing also approved the advance distribution of dividends to the amount of EUR 87 000 000.

c) Movements in retained earnings in 2006 were as follows:

Opening balance		58 714
Transfer from 2005 net income		110 658
Appropriated as follows:		
Legal reserve	-5 533	
Free reserves	-16 897	
Dividends	-66 395	
Employees' share of profits	-1 621	
Extraordinary dividends	-78 926	-169 372
Final balance		**0**

41 Cost of goods sold and materials used

Item	Electricity	Sundry materials	Total
Opening inventory		878	878
Purchases and in-house products	2 793 529	710	2 794 239
Write-offs in inventory			
Closing inventory		945	945
Cost for the year	2 793 529	643	2 794 172

43 Remuneration of corporate bodies

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

	2006	2005
Board of Directors	1 122	1 212
Shareholders' General Meeting	1	2
Total	**1 123**	**1 214**

44 Sales and services provided

The amounts disclosed in the income statement by activity and market (domestic/foreign) are as follows:

Item	2006	2005
a) Sales	3 133 556	2 880 615
Electricity	3 133 556	2 880 615
Domestic market	3 030 949	2 796 555
Foreign market	102 607	84 060
b) Services provided	1 845	6 442
Service provision		
Electricity	314	4 479
Safety telecommunications network	1 420	1 809
Other	111	154
Total	**3 135 401**	**2 887 056**

45 Net income statement

Costs and losses	2006	2005	Earnings and gains	2006	2005
Interest paid	40 034	30 426	Interest receivable	698	63
Companies			Group company gains	7 765	386
Unfavourable exchange differences	2	8	Income from shareholding	40 670	30 351
Other financial costs and losses	1 278	1 284	Income from fixed assets	306	345
Net financial profit	8133		Favourable foreign-exchange differences	2	9
			Settlement discounts	6	2
			Other financial income and gains		
			Net financial results		562
Total	**49 447**	**31 718**	**Total**	**49 447**	**31 718**

46 Extraordinary income statement

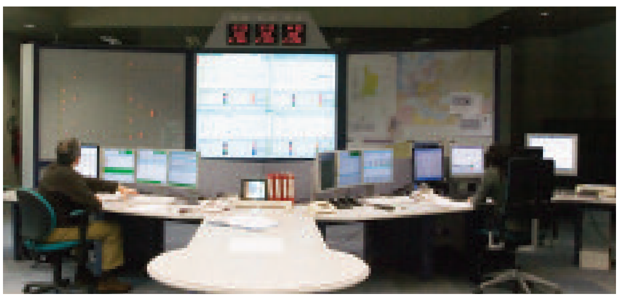
Costs and losses	2006	2005	Earnings and gains	2006	2005
Donations	780	1 033	Fixed-asset gains	524 247	5
Bad debts		53	Contractual penalty awards	349	72
Inventory losses			Reductions in provisions	4 534	6 670
Fixed-asset losses	803	90	Prior-year adjustments	2 372	2 997
Fines and penalties	31	1	Other extraordinary income and gains	5 357	4 937
Amortisation increase		343			
Prior-year adjustments	9 102	471			
Other extraordinary expenses and losses	2 654	2 595			
Extraordinary items	523 489	10 095			
Total	**536 859**	**14 681**	Total	**536 859**	**14 681**

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

Description	2006	2005
Dismantling of power lines	869	2 229
Dismantling of power stations	212	49
Shortfall in estimated tax	1 510	272
Severance pay		45
Others (cancellation of VAT not reimbursed)	63	
Total	**2 654**	**2 595**

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

Description	2006	2005
Investment subsidies	4 651	3 780
Sale of scrap	550	569
Sale of equipment from decommissioning of power plants	5	588
Regularisation of contribution to investment	116	
Others (cancellation of credits)	35	
Total	**5 357**	**4 937**



48 Other information

a) Accruals and deferrals

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

Accrued income

Item	2006	2005
Tariff difference – 2004		54 287
Tariff difference – 2005	154 173	521 013
Tariff difference – 2006	232 511	
Tariff deficit	263 566	
Pension plan	27 797	24 598
Other accrued earnings (energy and services provided parties and not billed during the year)	10 074	6 239
Total	**688 121**	**606 137**

Deferred costs

Item	2006	2005
Deferred tax assets	13 086	39 188
Fixed-asset repairs and improvements	1 081	1 761
Interest and other loan charges	3 846	903
Other (rentals and subscriptions)	134	45
Total	**18 147**	**41 897**

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

Description	2006	2005
Opening balance	1 760	2 579
Additional expenditure during the year		
Written off in the income statement	-680	-819
Total	**1 081**	**1 760**

Accrued costs

Item	2006	2005
Holiday pay and related subsidies	3 545	3 345
Interest and charges payable	6	812
Other accrued charges	41 290	91 304
Total	**44 841**	**95 461**

a1) In 2006, "other accrued costs" include electricity purchases from EDIA (EUR 4 813 000), acquisitions from the SENV (EUR 1 469 000), an adjustment with Transgás (EUR 1 179 000), MEFF supplies in the second half of the month (EUR 416 000) not yet billed. This item also includes costs of the cross border tariff (CBT) (EUR 33 000), costs of water variability correction in December (EUR 31 551 000) and third party supplies and services in 2006 that had not yet been billed, including billing of energy by EDP (EUR 634 000) and of the maintenance contract with Labelec (EUR 628 000).

Deferred Income

Item	2006	2005
Investment subsidies	107 792	94 276
Surface rights for the Tapada do Outeiro gas power station	1 797	1 890
Income from thermal power	3 616	4 115
Deferred taxation	216 871	206 449
Others – Difference from purchase of shareholding in REN ATLÂNTICO	6 351	
Others – Early billing of work to be done	171	
Total	**336 598**	**306 730**

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

balance of the amounts received after deducting annual depreciation.

b) Other short-term receivables and payables

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

Other debtors	2006	2005
Advances to employees	29	25
Consultants, advisors and intermediaries	1	1
Miscellaneous operations with third parties	55 971	13 046
Total	**56 001**	**13 072**

Other creditors	2006	2005
Trade unions	6	6
Creditors by non-liberalised subscription – REN – Serviços de Rede, S.A.	50	
Sundry creditors	6 743	13 033
Total	**6 799**	**13 039**

c) Own work capitalised

Breakdown of the amounts disclosed in the Statement of Income:

Item	2006	2005
Materials consumed	449	2
Direct internal charges (Note 03.f)	7 723	7 054
General administrative overheads (Note 03.f)	2 746	2 655
Financial charges (Note 03.e)	4 607	2 638
Total	**15 525**	**12 349**

d) State and other public entities

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

	2006	2005
Credit balances	48 691	1 004
Corporate income tax (IRC)	44 281	117
Income tax retention	3 880	382
Social Security contributions	530	505
Debit balances	24 817	50 206
VAT receivable	24 817	50 206

e) Other medium- and long-term receivables and payables

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

Description		2006	2005
Other debtors			
Guarantees provided for medical services	SÃVIDA	155	155
Total		**155**	**155**
Other creditors			
Guarantee deposits received		990	990
Total		**990**	**990**

f) Inventory of financial investments

Associate companies	Amount	Nominal Value €	Adjusted unit value	Value (euros)	% of equity held
RENTELECOM – Comunicações, S.A.	20 000	5	32.074	641 477	100
OMIP – Operador do Mercado Ibérico de Energia (Pólo Português), S.A.	200 000	10	22.299	4 459 787	90
REN – Gasodutos, S.A.	404 931 169	1	1.011	409 453 088	100
REN – Armazenagem, S.A.	76 385 561	1	1.014	77 451 883	100
REN ATLÂNTICO, S.A.	13 000 000	1	1.534	19 941 054	100
REN – Serviços de Rede, S.A.	50 000	1	1.00	50 000	100

g) Transactions with shareholders in 2004
REN still has a commercial paper contract with Caixa Geral de Depósitos to a value of EUR 530 million.

h) Reporting of environmental expenditure and liabilities:
As set forth in Accounting Standard 29, environmental expenditure incurred in 2006 was as follows:

Area	Value
Waste management	1 012
Protection of nature	2 003
Noise and vibration reduction (acoustic studies)	62
Total	**3 077**

The above expenditure by area is included in the income statement and refers to the following action taken by the company:

a) Management and monitoring of industrial waste, including transport and treatment (EUR 1 012 000), resulting in earnings of EUR 550 000 from the sale of scrap;
b) The costs of protection of nature refer to the restoration of deactivated line corridors (EUR 869 000), integration in the landscape of operating substations (EUR 178 000), protection of birds (EUR 430 000), clearing of forest along lines (EUR 438 000), studies of electromagnetic fields (EUR 15 000), management and monitoring of water resources (EUR 42 000) and information campaigns (EUR 31 000).

No environmental liabilities are reported.

FINANCE AND ASSETS DIVISION

Accountant
30 375
Maria Teresa Martins

Coordinating Director
Manuel Maria Cunha Coelho da Silva

BOARD OF DIRECTORS

José Rodrigues Pereira dos Penedos - Chairperson
Victor Manuel da Costa Antunes Machado Baptista
Aníbal Durães dos Santos
Henrique Joaquim Gomes
Paulo José Jubilado Soares de Pinho

REN
Redes Energéticas Nacionais

LEGAL CERTIFICATION OF ACCOUNTS

INTRODUCTION

1. We have examined the attached financial statements of REN Redes Energéticas Nacionais, S.G.P.S., S.A., which consist of the Balance Sheet as at 31 December 2006 (showing a total of EUR 3 342 989 000 (2005: EUR 2 974 811 000) and total equity of EUR 1 031 074 000 (2005: EUR 924 691 000), including a net profit of EUR 550 051 000 (2005: EUR 110 657 784 000)), the Income Statements by nature and by function and the Cash Flow Statement for the year ended on the above date, and their Notes.

RESPONSABILITIES

2. The Board of Directors is responsible for preparing financial statements, which present a true and fair view of the company's financial position and the results of its operations and cash flows, adopting appropriate accounting criteria and policies and maintaining an appropriate internal control system.

3. Our responsibility is to give an independent, professional opinion based on our examination of these financial statements.

SCOPE

4. Our examination was conducted in accordance with the standards and guidelines of the Certified Auditors' Association, which require that we plan and perform the audit in such a manner as to obtain an acceptable level of assurance that the financial statements do not contain materially relevant distortions. Our audit therefore included:

   • Using sampling to verify the documents supporting the amounts and information in the financial statements and evaluating estimates, based on criteria defined by the Board of Directors and used in preparing them;
   • Considering whether the accounting policies adopted and presented were appropriate under the circumstances;
   • Verifying the applicability of the principle of continuity of operations; and
   • Deciding whether the overall presentation of the financial statements was appropriate

5. We believe that our examination provided an acceptable basis for forming our opinion

OPINION

6. In our opinion, the aforementioned financial statements give a true and fair view of all materially relevant aspects of the financial position of REN Redes Energéticas Nacionais, S.G.P.S., S.A. as of 31 December 2006 and the result of its operations and cash flows for the year ending on the above date, according to generally accepted accounting principles.

Lisbon, 12 March 2007

Luis Borges de Assunção
(Certified Auditor no. 114)

LEGAL CERTIFICATION OF ACCOUNTS (CONSOLIDATED ACCOUNTS)

INTRODUCTION

1. We have examined the attached consolidated financial statements of REN Redes Energéticas Nacionais, S.G.P.S., S.A., which consist of the Consolidated Balance Sheet as at 31 December 2006 (showing a total of EUR 3 969 179 000 (2005: EUR 2 977 717 000) and total equity of EUR 1 031 074 000 (2005: EUR 924 691 000), including a net consolidated profit of EUR 550 051 000 (2005: EUR 110 658 000)), the Consolidated Income Statements by nature and by function, and the Consolidated Cash Flow Statement for the year ended on the above date, and their Notes.

RESPONSABILITIES

2. The Board of Directors is responsible for preparing consolidated financial statements, which present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their consolidated operations and cash flows, adopting appropriate accounting criteria and policies and maintaining appropriate internal control systems

3. Our responsibility is to give an independent, professional opinion based on our examination of these financial statements.

SCOPE

4. Our examination was conducted in accordance with the standards and guidelines of the Certified Auditors' Association, which require that we plan and perform the audit in such a manner as to obtain an acceptable level of assurance that the consolidated financial statements do not contain materially relevant distortions. Our audit therefore included:

   • Verifying that the financial statements of the companies included in the consolidation had been appropriately examined, using sampling to verify the documents supporting the amounts and information in the financial statements and evaluating estimates, based on criteria defined by the Board of Directors and used in preparing them;
   • Verifying the consolidation operations and the use of the equity method;
   • Considering whether the accounting policies adopted and presented were appropriate under the circumstances and uniformly applied;
   • Verifying the applicability of the principle of continuity of operations; and
   • Deciding whether the overall presentation of the consolidated financial statements was appropriate

5. We believe that our examination provided an acceptable basis for forming our opinion

OPINION

6. In our opinion, the aforementioned consolidated financial statements give a true and fair view of all materially relevant aspects of the consolidated financial position of REN Redes Energéticas Nacionais, S.G.P.S., S.A., as of 31 December 2006, the consolidated result of its operations and cash flows for the year ending on the above date, according to generally accepted accounting principles.

Lisbon, 12 March 2007

Luis Borges de Assunção
(Certified Auditor no. 114)

SINGLE AUDITOR'S REPORT AND OPINION

As required by law and the articles of association, I, the Single Auditor of REN Redes Energéticas Nacionais, S.G.P.S., S.A hereby issue my Report and Opinion on the accounting documents prepared by the Board of Directors for the 2006 financial year.

As part of my duties, I monitored the Company's management and operations in appropriate detail, by examining the minutes of meetings of the Board of Directors, with whom I met several times, and through regular contacts with its members and the heads of the Company's departments.

I would like to express my appreciation of openness and willingness that always characterised these contacts.

We have today issued the Legal Certification of Accounts.

From my analysis of the documents drawn up by the Board of Directors, which include the Annual Report, Balance Sheet, Income Statement by nature and function, Cash Flow Statements and their Notes, I have concluded that they accurately reflect the Company's economic and financial situation as of 31 December 2006. I am also in agreement with the accounting standards and valuation criteria adopted.

It is therefore my opinion that the General Meeting of Shareholders approve:

1. The Annual Report and Accounts for the 2006 financial year submitted by the Board of Directors;

2. The proposal for appropriation of profits in the Annual Report.

Lisbon, 12 March 2007

The Single Auditor
Luis Borges de Assunção
(Certified Auditor no. 114)

SINGLE AUDITOR'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTS FOR 2006

Shareholders,

As required by law and the Company's articles of association, in our capacity as auditors of REN Redes Energéticas Nacionais, S.G.P.S., S.A, we hereby submit our report and opinion on the consolidated accounts and consolidated annual report submitted by the Board of Directors for the 2006 financial year.

At the end of the year, we examined the Consolidated Balance Sheet, Consolidated Income Statements by nature and function, the Consolidated Cash Flow Statement and the Notes on the consolidated accounts. These documents comply with legal requirements and give a true, appropriate view of the financial situation of the companies included in the consolidation.

We analysed the Consolidated Annual Report drawn up by the Board of Directors, which corresponds to the consolidated accounts for the financial year.

Any questions that we asked were always answered promptly.

We have issued the Legal Certification of Accounts dated 12 March 2007, which is an integral part of this report and opinion, as required by law.

In view of the above and the Legal Certification of Accounts we are of the OPINION that:

- You should approve the Consolidated Annual Report, the Consolidated Balance Sheet, the Consolidated Income Statements by nature and function, the Consolidated Cash flow Statement and the Notes on the consolidated accounts for 2006.

Lisbon, 12 March 2007

The Single Auditor
Luis Borges de Assunção
(Certified Auditor no. 114)

AUDITOR'S REPORT

INTRODUCTION

1. We have examined the financial statements of REN Redes Energéticas Nacionais, SGPS, S.A., which consist of the Balance Sheet as at 31 December 2006 (showing a total of EUR 3 342 989 000 and total equity of EUR 1 031 074 000, including a net profit of EUR 550 051 000), the Income Statements by nature and by function, and the Cash Flow Statement for the year ended on the above date, and their Notes.

RESPONSABILITIES

2. The Board of Directors is responsible for preparing financial statements, which present a true and fair view of the company' financial position, the results of its operations and cash flows, adopting appropriate accounting criteria and policies and maintaining an appropriate internal control system.

3. Our responsibility is to give an independent, professional opinion based on our examination of these financial statements.

SCOPE

4. Our examination was conducted in accordance with the standards and guidelines of the Certified Auditors' Association, which require that we plan and perform the audit in such a manner as to obtain an acceptable level of assurance that the financial statements do not contain materially relevant distortions. Our audit therefore included (i) using sampling to verify the documents supporting the amounts and information in the financial statements and evaluating estimates, based on criteria defined by the Board of Directors and used in preparing them; (ii) considering whether the accounting policies adopted and presented were appropriate under the circumstances; (iii) verifying the applicability of the principle of continuity of operations; and (iv) deciding whether the overall presentation of the financial statements was appropriate.

5. Our examination also included checking whether the financial information in the annual report corresponded to the financial statements.

6. We believe that our examination provided an acceptable basis for forming our opinion.

OPINION

7. In our opinion, the aforementioned financial statements give a true and fair view of all materially relevant aspects of the financial position of REN Redes Energéticas Nacionais, SGPS, S.A. as of 31 December 2006, the result of its operations and cash flows for the year ending on the above date, according to generally accepted accounting principles in Portugal.

Lisbon, 12 March 2007

PricewaterhouseCoopers & Associados, SROC, Lda.
represented by: Jorge Manuel Santos Costa,
Certified Auditor

AUDITOR'S REPORT

INTRODUCTION

1. We have examined the consolidated financial statements of REN Redes Energéticas Nacionais, SGPS, S.A., which consist of the Consolidated Balance Sheet as at 31 December 2006, (showing a total of EUR 3 969 179 000, total minority interests of EUR 8 515 000 and total equity of EUR 1 031 074 000, including a net profit of EUR 550 051 000), the Consolidated Income Statements by nature and by function, and the Consolidated Cash Flow Statement for the year ended on the above date, and their Notes.

RESPONSABILITIES

2. The Board of Directors is responsible for preparing consolidated financial statements, which present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their consolidated operations and cash flows, adopting appropriate accounting criteria and policies and maintaining an appropriate internal control system.

3. Our responsibility is to give an independent, professional opinion based on our examination of these consolidated financial statements.

SCOPE

4. Our examination was conducted in accordance with the standards and guidelines of the Certified Auditors' Association, which require that we plan and perform the audit in such a manner as to obtain an acceptable level of assurance that the consolidated financial statements do not contain materially relevant distortions. Our audit therefore included (i) verifying that the financial statements of the companies included in the consolidation had been appropriately examined and, in any significant cases in which they had not, using sampling to verify the documents supporting the amounts and information in the financial statements and evaluating estimates, based on criteria defined by the Board of Directors and used in preparing them; (ii) verifying the consolidation operations; (iii) considering whether the accounting policies adopted and presented were appropriate under the circumstances; (iv) verifying the applicability of the principle of continuity of operations; and (v) deciding whether the overall presentation of the consolidated financial statements was appropriate.

5. Our examination also included checking whether the consolidated financial information in the consolidated annual report corresponded to the consolidated financial statements.

6. We believe that our examination provided an acceptable basis for forming our opinion.

OPINION

7. In our opinion, the aforementioned consolidated financial statements give a true and fair view of all materially relevant aspects of the consolidated financial position of REN Redes Energéticas Nacionais, SGPS, S.A. as of 31 December 2006, the consolidated result of its operations and consolidated cash flows for the year ending on the above date, according to generally accepted accounting principles in Portugal.

Lisbon, 12 March 2007

PricewaterhouseCoopers & Associados, SROC, Lda.
represented by: Jorge Manuel Santos Costa,
Certified Auditor

EXTRACT FROM MINUTES OF THE GENERAL MEETING OF SHAREHOLDERS OF REN SGPS, S.A.

MINUTES No. 2/2007

"… The representative of the shareholder Caixa Geral de Depósitos requested and was granted permission to speak and presented a joint proposal with Parpública as an alternative to the one out forward by the Board of Director which read as follows:

"The shareholder Parpública proposes that the net profit for the year 2006, corresponding as stated in the accounts of REN SGPS S.A. to the amount of 550 050 502 euros be appropriated as follows:

• Legal Reserve	27 502 525 euros
• Other Reserves	83 992 712 euros
• Dividends	184 000 000 euros
• Retained earnings	254 555 265 euros

The proposers also made clear that their proposal included the distribution of part of the net profit to the amount of 1 735 811 euros to the employees, as was set forth in the proposal of the Board of Directors.

(…)

The representative of shareholder Parpública was also allowed to speak and expressed to the Board of Directors its recognition of their work and results achieved in the year 2006.

(…) and submitted to a vote the sole remaining proposal, the one put forward together by Parpública and Caixa Geral de Depósitos, including the clarification regarding the distribution of part of the net profits to the employees, and that proposal got the unanimous approval of the attending shareholders."

REN
Redes Energéticas Nacionais

RULES AND REGULATIONS AFFECTING THE ENERGY SECTOR PUBLISHED IN 2006

Decree Law 29/2006, Diário da República 33 Series I A of 15 February.
This law establishes the general principles of the organisation and operation of the national electricity system, the generation, transport, distribution and supply of electricity and the organisation of the electricity markets. It transposes to Portuguese law the principles of Directive 2003/54/EC of the European Parliament and of the Council of 26 June, which sets forth common rules for the internal electricity market and revokes Directive 96/92/EC of the European Parliament and of the Council of 19 December.

Decree Law 30/2006, Diário da República 33 Series I A of 15 February.
This law establishes the general principles of the organisation and operation of the national natural gas system, the reception, storage, transport, distribution and supply of natural gas and the organisation of the natural gas markets. It partially transposes to Portuguese law Directive 2003/55/EC of the European Parliament and of the Council of 26 June, which sets forth common rules for the internal natural gas market and revokes Directive 98/30/EC of the European Parliament and of the Council of 22 June.

Ministerial Order 387/2006, Diário da República 79 Series I B of 21 April.
On greenhouse gas emissions in the European Union, establishing the rules for the allocation of emission allowances to new facilities.

Ministerial Order 643/2006, Diário da República 121 Series I B of 26 June.
Adding paragraphs 17, 18, 19, 20, 21 and 22 to Ministerial Order 139/2005 of 3 February, which authorises the allocation of electricity supply licences to third parties. It revokes paragraph 17 of Ministerial Order 139/2005 of 3 February.

Council of Ministers Resolution 85/2006, Diário da República 125 Series I B of 30 June.
It authorises REN Rede Eléctrica Nacional, S.A. to set up new companies with the object of operating the public service concessions for the high pressure transport of natural gas, underground storage of natural gas and reception, storage and regasification of liquefied natural gas in the national natural gas system.

Decree Law 140/2006, Diário da República 143 Series I of 26 July.
This law develops the general principles of the organisation and operation of the national natural gas system approved by Decree Law 30/2006 of 15 February, regulating the law applicable to the transport, underground storage, reception, storage and regasification of liquefied natural gas, the distribution and supply of natural gas and the organisation of natural gas markets and completes the transposition of Directive 2003/55/EC of the European Parliament and of the Council of 26 June.

Decree Law 172/2006, Diário da República 162 Series I of 23 August.
This law develops the general principles of the organisation and operation of the national electricity system (NES) approved by Decree Law 29/2006 of 15 February, regulating the law applicable to the generation, transport, distribution and supply of electricity and the organisation of the electricity markets.

Council of Ministers Resolution 105/2006, Diário da República 162 Series I of 23 August.
It approves the draft public service concession contract for the transport of natural gas in the high pressure network between the Portuguese state and REN Gasodutos, S. A.

Council of Ministers Resolution 106/2006, Diário da República 162 Series I of 23 August.
It approves the draft public service concession contract for the reception, storage and regasification of liquefied

natural gas at Sines liquefied natural gas (LNG) terminal between the Portuguese state and REN ATLÂNTICO, Terminal de GNL, S. A.

Council of Ministers Resolution 107/2006, Diário da República 162 Series I of 23 August.
It approves the draft public service concession contract for the underground storage of natural gas in three salt caverns in Guarda Norte, Carriço, municipality of Pombal, between the Portuguese state and REN Armazenagem, S. A.

Council of Ministers Resolution 108/2006, Diário da República 162 Series I of 23 August.
It approves the amended draft public service concession contract for the underground storage of natural gas in Guarda Norte, Carriço, municipality of Pombal, between the Portuguese state and Transgás Armazenagem, S. A., regarding the salt caverns that it owns or may construct.

Council of Ministers Resolution 109/2006, Diário da República 162 Series I of 23 August.
It approves the draft contract between the Portuguese state and TRANSGÁS Sociedade Portuguesa de Gás Natural, S. A., which regulates the amendment of the concession contract between these parties on 14 October 1993. It defines the activities for which TRANSGÁS Sociedade Portuguesa de Gás Natural, S. A., will continue to be responsible, those that it will perform directly or indirectly under concession and licence and those that it will cease to perform.

Ministerial Order 930/2006, Diário da República 173 Series I of 7 September.
It approves the draft natural gas last resort supply licence.

Despatch 19624 A/2006, Diário da República 185 Series II, Supplement of 25 September.
It approves the Commercial Regulations, Tariff Regulations, Regulations on Access to Networks, Infrastructures and Interconnections and Quality of Service Regulations in the national natural gas system.

Ministerial Order 1074/2006, Diário da República 191 Series I of 3 October.
It sets up an 800 MW reserve for the generation of electricity from coal with low greenhouse gas emissions.

Ministerial Order 1202/2006, Diário da República 216 Series I of 9 November.
It approves the Regulations on the Management of the Portuguese Carbon Fund.

Decree Law 228/2006, Diário da República 225 Series I of 22 November.
It approves the reprivatisation of part of the share capital of REN Redes Energéticas Nacionais, SGPS, S. A.

Ministerial Order 1295/2006, Diário da República 225 Series I of 22 November.
It approves the draft licence for the last resort supply of natural gas provided for in Decree Law 140/2006 of 26 July.

Ministerial Order 1296/2006, Diário da República 225 Series I of 22 November.
It sets forth the requirements for licences for the local public service distribution of natural gas through the operation of local networks and their allocation, transmission and type of operation. It also approves the draft licence.

Portuguese Parliament Resolution 66/2006, Diário da República 234 Series I of 6 December.
It sets up a temporary energy policy committee.

Decree Law 237 B/2006, Diário da República 241 Series I of 18 December.
It sets forth the rules on the recovery and transfer of the tariff deficit and tariff adjustments. It also defines the rules on tariff adjustments for the Azores and Madeira and rewords Article 66 of Decree Law 172/2006 of 23 August.

KEY ECONOMIC AND FINANCIAL INDICATORS

Some important indicators

	2000	2001	2002	2003	2004	2005	2006
FINANCIAL SITUATION							
Debt to equity ratio							
Assets/liabilities	2.2	1.6	1.6	1.6	1.5	1.5	1.4
Equity to assets ratio							
Equity/assets (%)	54.2	38.1	39.0	38.1	34.4	31.8	28.2
Financial structure							
Financial liabilities/equity (%)	43.4	97.6	91.6	94.2	121.0	143.8	166.8
Financial leverage							
Liabilities/equity	0.8	1.6	1.6	1.6	1.9	2.1	2.5
Current ratio*							
Working capital/ST liabilities (%)	102.2	103.6	109.7	70.8	67.0	89.7	76.6
Assets coverage*							
Fixed capital/fixed assets (%)	91.7	86.3	87.6	75.2	73.6	78.9	68.5
Investment cover							
EBITDA/tangible investment	3.7	2.4	2.0	1.7	1.4	1.2	1.1
Interest cover							
EBITDA/interest expenses	14.4	5.0	7.3	11.5	7.3	8.2	5.8
Tariff deviations/working capital (%)	23.3	47.0	52.6	51.2	55.1	59.4	59.8
RETURN							
Return on equity							
Net income/equity (%)	6.5	6.1	8.5	11.4	8.1	12.4	56.2
Return on invested capital (ROIC)							
Operating profit after tax/equity + financial debt (%)	5.3	4.4	5.4	6.6	4.6	4.8	5.4
OTHER INDICATORS							
GVA per capita (EUR thousands)							
GVA/average personnel	324	343	388	421	405	459	322

* Corrected figures

ANNUAL INVESTMENTS AT CURRENT PRICES

	EUR millions			Composition (%)	
Year	Technical costs	Financial costs	Total costs	Technical costs	Financial costs
1994	55.3	5.7	60.9	90.7	9.3
1995	58.0	9.4	67.4	86.1	13.9
1996	62.3	4.1	66.4	93.8	6.2
1997	54.0	3.7	57.6	93.6	6.4
1998	41.2	3.3	44.6	92.5	7.5
1999	49.2	2.2	51.4	95.7	4.3
2000	43.4	2.3	45.7	94.9	5.1
2001	67.4	3.4	70.7	95.3	4.7
2002	95.6	4.1	99.7	95.9	4.1
2003	115.3	3.0	118.3	97.5	2.5
2004	134.5	2.6	137.1	98.1	1.9
2005	212.8	2.6	215.4	98.8	1.2
2006	243.1	4.6	246.7	98.5	1.9

SOME ENERGY SYSTEM INDICATORS

Operation of the electricity generating system and of the gas transport network

		2001	2002	2003	2004	2005	2006	Change 2006/2005
OPERATION OF THE ELECTRICITY GENERATING SYSTEM								
Net Hydraulic Generation	GWh	13 394	7 261	14 670	9 216	4 523	10 204	126%
SEP Power Stations	"	12 607	6 764	13 965	8 818	4 360	9 708	123%
SENV Power Stations (EDP)	"	787	497	705	398	163	496	204%
Net Thermal Generation	"	24 313	29 357	22 394	25 749	30 621	25 478	-17%
SEP Power Stations	"	24 313	29 357	22 190	22 331	25 533	19 750	-23%
SENV Power Stations	"			204	3 418	5 088	5 728	13%
Total Generation	"	37 707	36 618	37 064	34 965	35 144	35 682	2%
Cross-border exchanges (Balance)	"	239	1 899	2 794	6 480	6 820	5 441	-20%
Special Status Generation	"	2 554	2 820	3 688	4 463	6 545	8 752	34%
Consumption from Hydroelectric Pumping	"	485	670	485	408	568	703	24%
Total Consumption*	"	40 015	40 667	43 061	45 500	47 940	49 172	3%
Year-on-year change		5.5%	1.6%	5.9%	5.7%	5.4%	2.6%	
Change corrected for ave. temp. + working days		5.6%	2.6%	4.3%	4.5%	4.7%	3.2%	
Peak Demand								
Generation and Transmission Grid	MW	7 057	6 619	7 310	7 453	7 632	7 836	3%
	day/month	17/Dec	1/Sep	15/Jan	9/Dec	1/Mar	30/Jan	
Total Public Network	MW	7 466	7 394	8 046	8 250	8 528	8 804	3%
	day/month	17/Dec	12/Dec	15/Jan	9/Dec	27/Jan	30/Jan	
Installed Generating Capacity SEP+SENV	MW	9 069	9 012	9 392	9 893	10 434	10 434	0%
Hydraulic	"	4 214	4 157	4 277	4 386	4 582	4 582	0%
Thermal	"	4 855	4 855	5 115	5 507	5 852	5 852	0%
Installed Generating Capacity (PREs)	"	977	1 168	1 406	1 854	2 391	3 182	33%
Hydro Capacity Ratio								
Calendar year		1.19	0.76	1.33	0.83	0.41	0.98	139%
Hydrological year		0.41	1.58	1.53	0.52	0.60	1.82	203%
Final Storage in reservoirs	GWh	1 153	2 170	1 636	1 377	1 565	2 312	48%
GRID LENGTH	km	6 195	6 438	6 544	6 489	6 657	7 018	5%
400 kV	"	1 235	1 301	1 403	1 454	1 500	1 507	0%
220 kV	"	2 599	2 717	2 704	2 838	2 875	3 080	7%
150 kV	"	2 361	2 421	2 438	2 198	2 282	2 431	6%
60 kV	"	-	-	-	-	-	-	
Installed capacity at substations	MVA	17 052	17 667	19 165	19 398	19 968	21 135	6%
Transformation	"	10 781	11 266	11 744	11 977	12 547	13 264	6%
Auto-transformation	"	6 271	6 401	7 421	7 421	7 421	7 871	6%
OPERATION OF THE GAS TRANSPORT NETWORK								
Entries of Gas	GWh	32 693	39 259	38 292	47 818	54 154	50 971	-6%
Badajoz	"	28 732	35 136	31 850	27 791	30 433	23 432	-23%
Badajoz (Enagás - transit)	"	3 961	4 122	4 542	4 390	4 403	4 391	0%
Terminal de Sines (GPL)	"	0	0	1 900	15 637	19 318	23 148	20%
Exits of Gas	"	32 653	39 019	38 040	47 420	52 347	50 441	-4%
Electricity generation	"	12 688	16 050	13 107	19 963	23 286	20 115	-14%
Major industry	"	10 975	13 041	14 122	14 966	16 919	17 671	4%
Distribution	"	5 037	5 809	6 525	7 199	7 658	8 113	6%
National demand	"	28 700	34 899	33 754	42 127	47 863	45 900	-4%
Valença do Minho exports	"	0	0	0	908	74	150	103%
Valença do Minho (Enagás transit)	"	3 953	4 121	4 286	4 386	4 409	4 391	0%
Legth of RNTGN								
High-pressure gas pipeline (84 bar)	km	1 029	1 105	1 194	1 218	1 218	1 218	0%

* Consumption is given at net generation

KEY TO ABBREVIATIONS AND UNITS

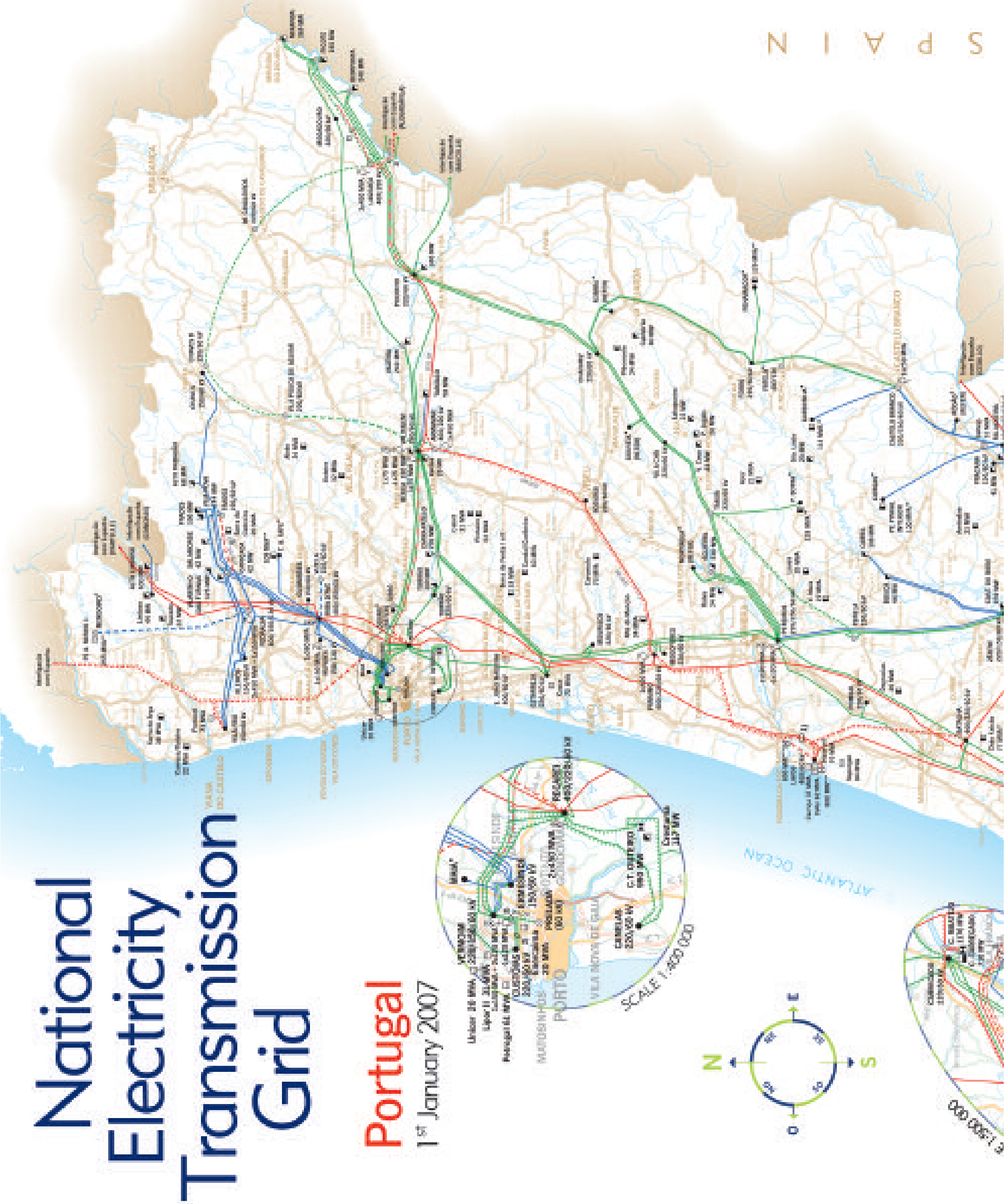
ABBREVIATIONS

APS	Application and product system for data processing
CAE	Power Purchasing Agreement
CIGRÉ	International Council on Large Electric Systems
CMVM	Portuguese Stock Exchange Commission
CPR	Companhia Portuguesa de Rating, S.A.
Dec.	Decree
DGGE	Directorate General of Geology and Energy
DR	Portuguese Official Gazette
DRS	Disaster Recovery System
DWDM	Dense Wavelength Division Multiplexing
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EC	European Commission
ECB	European Central Bank
EDP	Energias de Portugal, S.A.
EGIG	European Gas Pipeline Incident Data Group
EHV	Extra High Voltage
EIB	European Investment Bank
EIT	Equivalent Interruption Time
ENS	Energy not supplied
EP	Electricity purchase
ETA	Electricity Transmission Activity
EU	European Union
ERGEG	European Regulators' Group for Electricity and Gas
ERSE	Energy Sector Regulator
ETSO	European Transmission System Operators
EUA	European Union Allowances
EURELECTRIC	Union of the Electricity Industry
GAG	Greenhouse gases
GDP	Gross Domestic Product
GRM	Regulation and metering station
GUS	Global use of the system
GVA	Gross Value Added
HICP	Harmonised Index Consumer Prices
HV	High Voltage
IES	Independent Electricity System
IFRS	International Financial Reporting Standards
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
Min. Int.	Minority interests
MLT	Medium and Long Term
MTSP	Municipal Tax on Sale of Property
NBES	Non Bound Electricity System
SEN	National Electricity System
NG	Natural gas
NNGTN	National natural gas transport network
NTG	National Electricity Transmission Grid
NWC	Networking Capital
OECD	Organisation for Economic Cooperation and Development
OMEL	Compañia Operadora del Mercado Español de Electricidad, S.A.
OMI	Iberian Energy Market Operator
OMIClear	Sociedade de Compensação de Mercados de Energia, S.A.
OMIP	Operador do Mercado Ibérico de Energia (Pólo Português), S.A.
OSSI	Official social security institutions
SEP	Public Electricity Supply System
PNALE	National Emission Allowance Plan
POC	Portuguese Official Accounting Standards
PPAs	Power Purchase Agreements
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
RFL	Return from leverage
RNDGN	National Natural Gas Distribution Network
RNTIAT	National LNG transport, storage infrastructure and terminal network
RP	Reception point
ROA	Return on assets
ROE	Return on equity
R&D	Research and development
SGNL	Sociedade Portuguesa de Gás Natural Liquefeito, S.A.
SGPS	Equity Management Company
SNGN	National Natural Gas System
SQR	Service Quality Regulations
SRG	Special Regime Generation
ST	Short Term
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
UTG	Use of the Transmission Grid
VAT	Value Added Tax

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 0º Celsius and at 1 atmosphere of pressure)
million euros	millions of euros
MVA	megavolt ampere
Mvar	megavolt ampere reactive
MW	megawatt
MWh	megawatt hour
p.b.	basis points
p.p.	percentage points
s	second
t	tonne
tcm	10^{12} cubic metres
tec	equivalent tonne of coal
TWh	terawatt hour
USD	United States dollar
US$	United States dollar


National Electricity Transmission Grid
Portugal
1st January 2007
SPAIN
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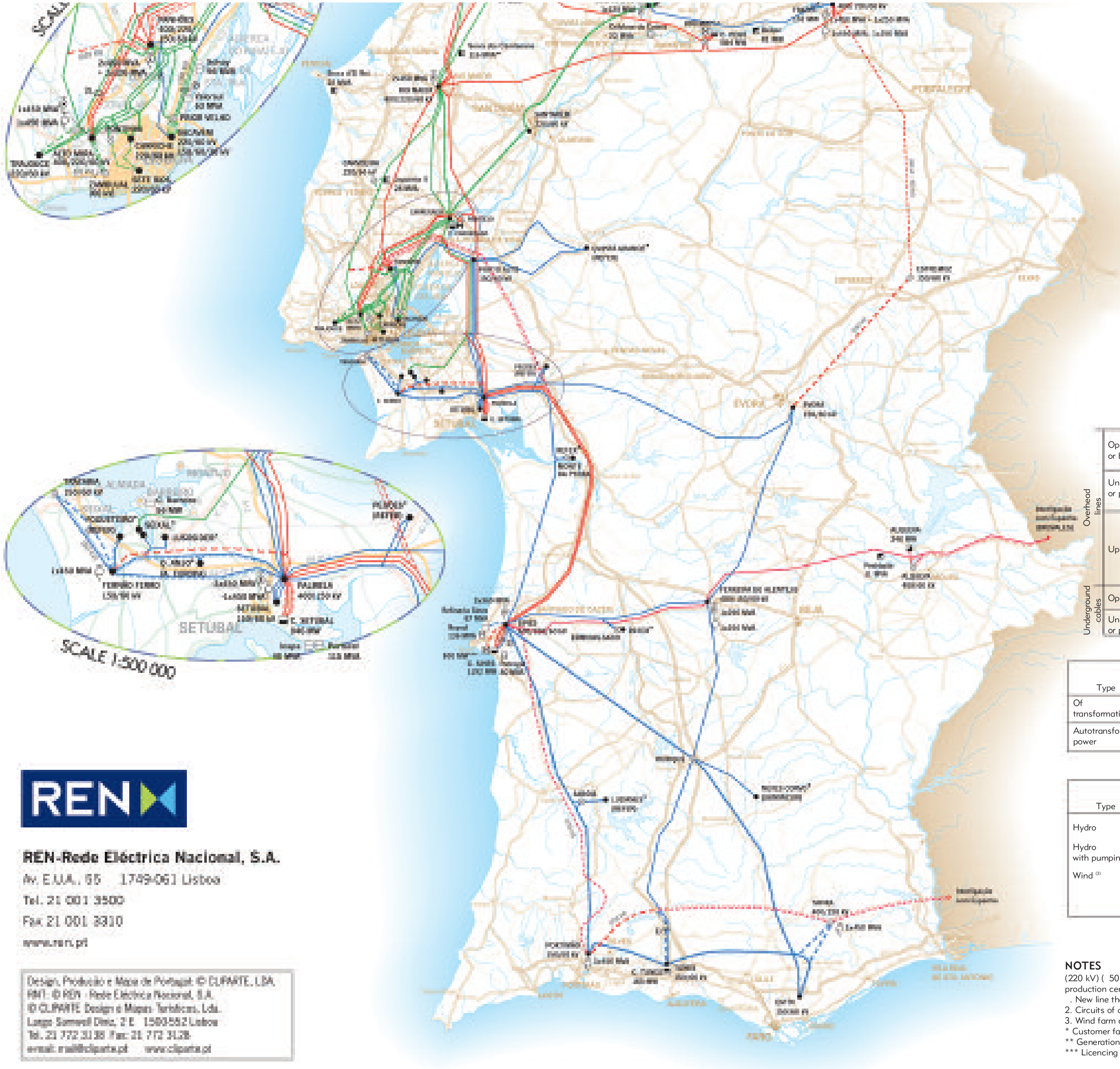

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SCALE 1:1 000 000

KEY

Operating or built as of 1st January 2007 and under construction or planned for 2007-2011.

Substation places and lineways are only an indication, specially for planned equipment.

LINES

		CIRCUITS		VOLTAGE		
		Planned	Installed	400 kV	220 kV	150 kV ≤ 130 kV
Overhead lines	Operation or built	1 2 2	1 1 2			
	Under construction or planned	1 2 2	1 1 2			
	Upgrade planned	From 50 kV to double 220 kV				
		From 50 kV to double 400 kV				
		From 220 kV to double 400 kV				
Underground cables	Operating	1	1			
	Under construction or planned	1	1			

SUBSTATIONS

Type	Operating	U. constr. or plan.	Type	Operating	U. constr. or plan.
Of transformation			Switching substations		
Autotransformer power					

POWER STATIONS

Type	Operating	U. constr. or plan.		Type	Operating	U. constr. or plan.
Hydro			Thermoelectric	Fuel or coal		
Hydro with pumping				Gas turbine		
Wind (3)				Combined (Elect. and steam)		
				Natural gas (single cycle)		

NOTES

(220 kV) (50 kV) (60 kV): Operating at a lower that indicated voltage. Only show production centres with more than 20 MVA.
. New line that can use existing corridor
2. Circuits of different voltage on same towers
3. Wind farm concentration
* Customer facilities
** Generation values for these wind farm estimated for a medium term horizon
*** Licencing under way

National Gas Transport Grid

Portugal

1st January 2007


KEY
PIPELINE 0 > 500
PIPELINE 0 < 500
PIPELINE BLOCK VALVE (BV)
PIPELINE JUNCTION (JCT)
DELIVERY POINT (PE)
GAS REGULATOR AND METERING STATION (GRMS)
CUSTODY TRANSFER STATION (CTS)
UNDERGROUND STORAGE
THERMOELECTRIC POWER STATION
LNG TERMINAL
SCALE 1:1 000 000
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