

# ANNUAL REPORT 2010

# Table of contents

Chairman's statement	<b>3</b>
REN at a glance	<b>5</b>
Management report	<b>31</b>
Accounts	<b>73</b>
Consolidated financial statements	<b>76</b>
Separate financial statements	<b>132</b>
Auditors' reports and opinions	<b>162</b>
Audit committee's reports and opinions	<b>164</b>
Legislation in 2010	<b>167</b>
Glossary	<b>171</b>

# Chairman's statement

*Dear Shareholders,*

Portugal had an extremely difficult 2010 as the international financial crisis raged back and financial markets expressed doubts about the solvency of selected Eurozone countries, including Portugal. This situation led to widening spreads between the benchmark German bond yield and its counterparts in several so-called peripheral countries. In the Portuguese case, this spread widened more than any time since the creation of the euro. In addition to the higher cost of sovereign debt, the banking system was virtually barred from access to any form of external borrowing except for credit extended by the European Central Bank.

REN was not unaffected by the financial crisis. Our credit ratings were downgraded by two notches before the end of 2010 in line with the ratings of the Republic of Portugal. At the same time, the cost of new borrowings surged and repricing provisions in existing lines prompted the upward revision of interest rates. However, the impact of the crisis on the company's accounts was substantially mitigated by the rebalancing of REN's debt, carried out during the past three years, which protected us from refinancing risk and interest rate rises. The extension of the average debt maturity from one year in 2007 to five years in 2010, the access to international credit ratings in 2008 and the sourcing of additional finance from the European Investment Bank (EIB) – which today accounts for 35% of total Group debt – were all decisive. Interest rate risk is mitigated, as 70% of the company's debt is now on a fixed rate basis.

At the operating level, REN fully delivered once again the results to which it had committed in its activity plan: capital expenditure amounted to 443 million euros and assets brought into operation in the year amounted to 411 million euros.

REN's team made a remarkable effort to ensure the flawless execution of its capital budgeting plan for 2010. This was achieved against a background of internal restructuring designed to clearly separate project and technical specifications activities from purchasing routines. These changes, which ensure more transparency and better internal control did not impair the pace of investments or the placement of new facilities into operation. Once again, REN lived up to its reputation of delivering on schedule the investments listed in its activity plans.

Regarding the infrastructure brought into operation in 2010, I would highlight, in electricity, the new interconnecting line at 400 MW between Portugal and Spain in the international section of river Douro; in natural gas, I wish to emphasise the renewal of the national control centre at Bucelas.

The Group's operating costs were significantly reduced as duplications were eliminated and process efficiency improved. Thus, meeting the challenge of a more demanding regulation in place since January 1<sup>st</sup> 2009 for electricity and since July 1<sup>st</sup> 2010 for natural gas.

Our human resources management progressed significantly in 2010. Performance evaluation became widespread across the company, based on individual – and, whenever possible, quantified – goals. The individual performance component was complemented by a component reflecting the company's overall performance. Senior management positions were renewed either by internal promotion or new hiring from private-sector enterprises, including PSI-20 companies. The new managers were hired according to strict professional skills criteria, which strengthened REN's technical capabilities. This renewal coincided with the retirement (or early retirement) of several managers and was a step towards higher internal mobility.

To complete this short review of the most salient aspects of REN's business in 2010, I would like to point out that net profit for the year was 110.3 million euros, or 17.7% down from 134,0 million euros in 2009. This decline was a result of extraordinary events beyond REN's activities: first, the change in the company income tax (IRC) rate, and then, the provisions made for a contingent liability arising from the right to Galp Energia's dividend payment in respect of financial 2005. Recurrent net profit grew 11% between 2009 and 2010, which primarily reflected the expanded asset base and the reduction in operating costs.

Financial 2011 presents even larger challenges. In a very difficult economic environment, the company plans to keep a high level of capital expenditure, both in electricity and natural gas and efforts will continue towards raising the efficiency of operational and supporting activities.

At the same time, REN is raising its profile abroad as it takes full advantage of its high technical skills.

I would like to thank our shareholders for their trust in the company and its management and their contribution to stability and growth.

I would also like to express my recognition to the company's supervisory bodies for their diligence and good efforts in improving REN's performance and dependability.

Finally, a special word is in order to our employees, the company's main asset. In an extremely complex economic environment, the company team evidenced unparalleled professionalism and dedication. Their attitude is the clearest proof that REN is up to the large responsibilities and challenges that lie ahead.

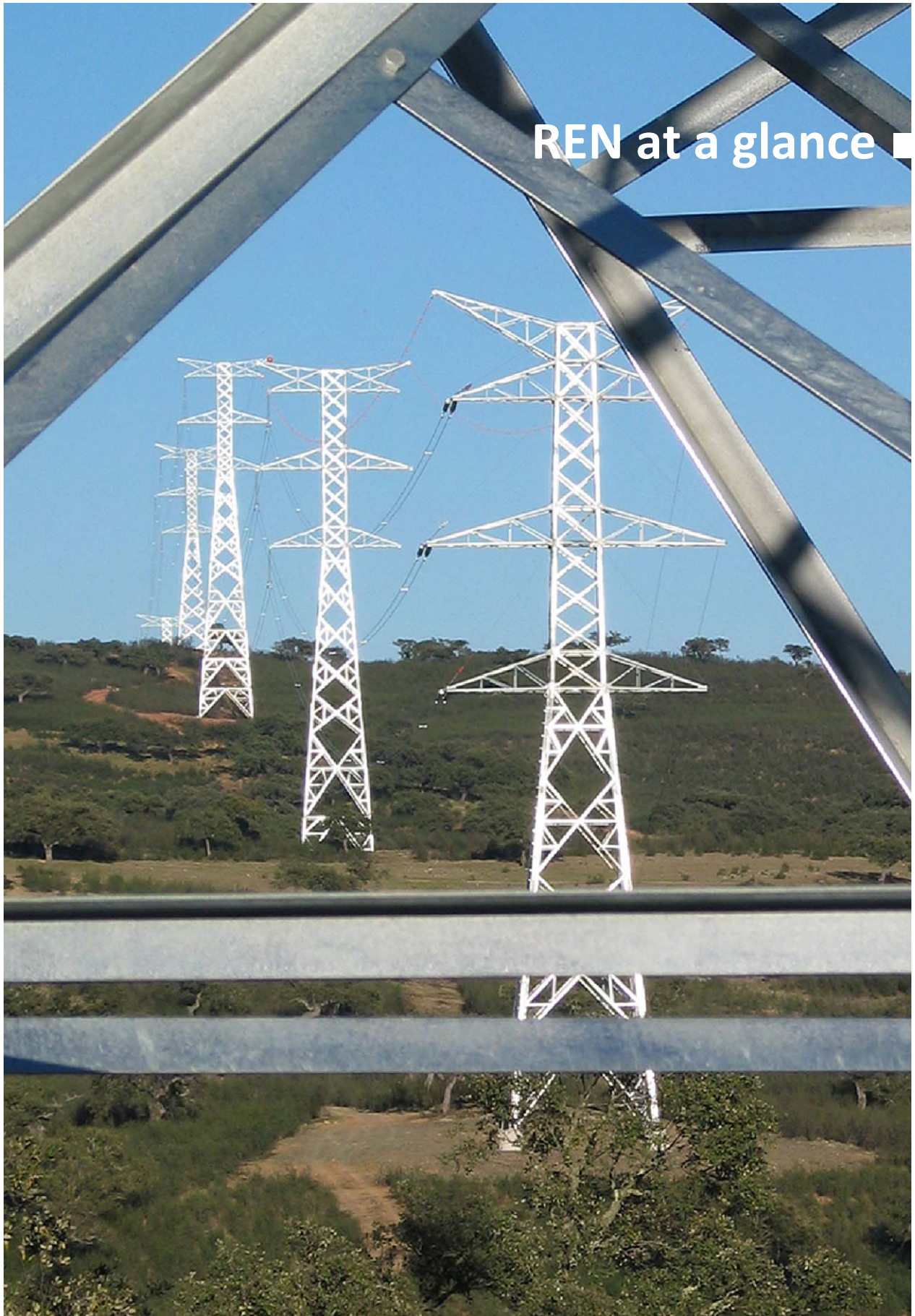
Lisbon, 16 March 2011



A handwritten signature in blue ink, which appears to read "Rui Cartaxo". The signature is written in a cursive style and is positioned above the printed name and title.

Rui Cartaxo  
Chairman  
REN - Redes Energéticas Nacionais





REN at a glance

# Table of contents

Profile	7
Main events in 2010	8
Major shareholders	10
Key performance indicators	11
Regulated assets	15
Technical infrastructure	20
Corporate structure	24
Organisational set-up	25
Executive director roles	26
Governing bodies	27
Managing directors and managers	29

# Profile

REN, whose main activity is to manage energy transmission systems, is one of the few European operators in both electricity and natural gas.

REN's operations focus on these two sectors:

- **Electricity**, through its very-high voltage transmission services and the technical management of the domestic electricity system for which it has a 50-year public-service concession from 2007; and
- **Natural gas**, through its high-pressure transmission services, the technical management of the domestic natural gas system, the reception, storage and regasification of liquefied natural gas (LNG) and the underground storage of natural gas, under three 40-year public-service concessions since 2006.

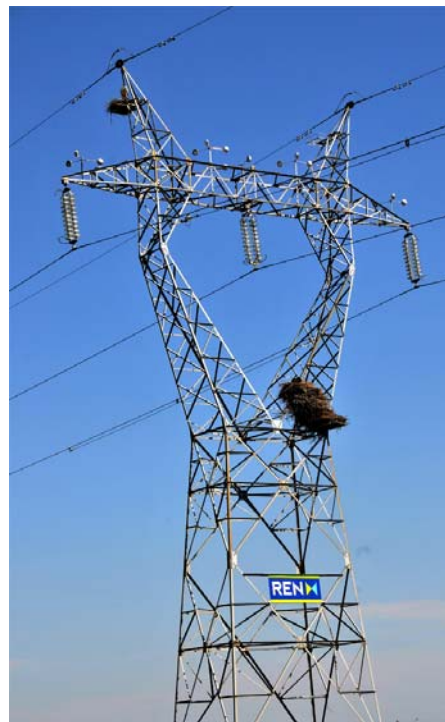
Through its 90% equity stake in OMIP SGPS – whose subsidiaries OMIP and OMIClear manage the Iberian electricity derivatives market and its clearing house – REN promotes the development of the Iberian energy market.

In addition, REN has since 2002 operated in the telecommunications sector through RENTELECOM, which was created to explore the surplus capacity of the security telecommunications networks that are essential to the successful system management of electricity and natural gas networks.

In October 2010, the Portuguese state awarded ENONDAS, a company fully controlled by REN, a concession for the generation of electricity from wave energy in a pilot zone north of S. Pedro de Moel. This concession is valid for 45 years and includes a licence to build the required infrastructure for connection to the transmission grid.



Pipeline



Tower



# Main events in 2010



Set-up of the procurement department



Expansion of the Sines terminal



New interconnection at International Douro

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## January

To coordinate purchases and contract awards, a procurement department is set up for the Group.

Several lines are connected to wind farms: Lomba do Vale and Terra Fria to the Frades substation, and the Alto Douro wind farm to the Valdigem substation.

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## February

REN Armazenagem and RENTELECOM are awarded APCER's Quality, Environment and Safety certification.

Seveso audits are conducted in REN Atlântico and REN Armazenagem facilities.

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## March

REN, SGPS, S.A. elects new governing bodies for 2010-2012.

An Emergency Restoration System (ERS) of towers was used for the first time to avert the fall, in an extreme weather event, of supports on the 220kV Carregado-Fanhões-Sacavém power line.

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## April

The executive committee approves best practice handbook of procurement procedures for use by REN companies prior to their entering into purchasing or contracting agreements.

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## May

A new unit for strategy and new business is set up at REN SGPS, S.A. to coordinate strategic planning and propose the development of new business areas.

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## June

The 400/220 kV Armamar substation comes into operation at the central section of the Portuguese stretch of river Douro to enhance the interconnections with Spain and provide an outlet for renewable energy.

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## July

Ministerial order *Portaria n.º 542/2010*, of 21 July, changes the rules of hydro-land remuneration.

A memorandum of understanding is signed between REN and Galp Energia for the joint construction of four caverns for storage of natural gas.

An agreement is signed between REN and Electricidade de Moçambique (EDM) for the development of energy infrastructures in Mozambique.

A heatwave boosts the demand for electricity, which reaches an historical summer peak: on 6 July, instant power hits an historical high of 7,900 MW and on 27 July the highest daily demand ever is reached at 160 GWh.

REN Atlântico receives its 200th LNG tanker.

A new department is set up at REN Serviços, S.A. for planning and budget control.

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## September

REN obtains approval for risk management standards ISO 31000:2009 – Risk management – Principles and guidelines and ISO 73:2009 – Risk management – Vocabulary.

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## October

ENONDAS, Energia das Ondas S.A., wholly-owned by REN SGPS, is created and signs a concession contract with the Portuguese state for using wave energy in a pilot zone.

Wind power production reaches an historical peak of 74 GWh, or 61% of the country's demand on that day.

An important milestone is reached in the project for expansion of the Sines terminal when the ceiling of the third tank, a dome weighing more than 700 tonnes, is lifted.

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## November

On its Investor Day, REN presents its new strategic plan for 2010-2016.

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## December

The new interconnection at the international Douro comes into operation and raises capacity from 1,400 MW to 2,000 MW.

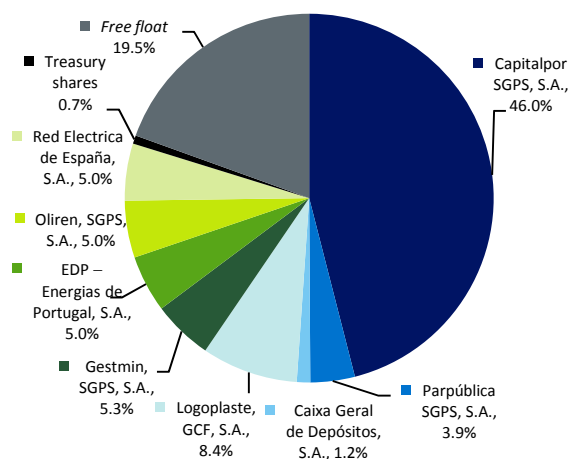
Two units come into operation in the Sines LNG terminal expansion project: the new seawater system and the new measurement station, which raised the terminal's emission capacity by 25%.

A tornado damages REN infrastructure in the Tomar region, namely on Penela-Zêzere's 220 kV line. Despite the fall of several towers and surrounding cables, REN continues to supply as usual the 60 kV distribution network.

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# Major shareholders

## MAJOR SHAREHOLDERS



## 31 DECEMBER 2010

	Number of shares	Ownership, %
Capitalpor SGPS, S.A.	245,645,340	46.0%
Parública SGPS, S.A.	20,826,000	3.9%
Caixa Geral de Depósitos SGPS, S.A.	6,265,888	1.2%
Logoplaste, Gestão e Consultoria Financeira, S.A.	45,044,826	8.4%
Gestmin, SGPS, S.A.	28,146,479	5.3%
EDP – Energias de Portugal, S.A.	26,700,000	5.0%
Oliren, SGPS, S.A.	26,700,000	5.0%
Red Eléctrica Corporación, S.A.	26,700,000	5.0%
Treasury shares	3,881,374	0.7%
Free float	104,090,093	19.5%

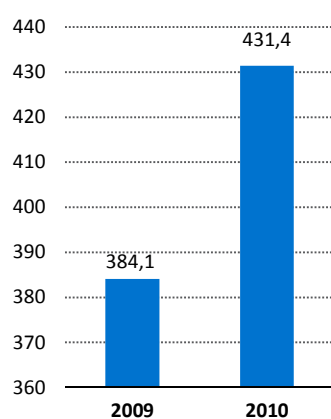


# Key performance indicators

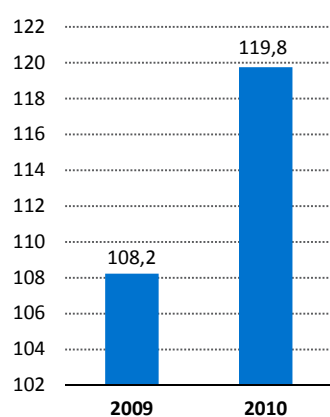
## Financial

RESULTS	2009	2010	Δ%
[million euros]			
EBITDA	384,1	431,4	12%
EBIT	258,7	250,5	-3%
Financial results	-73,8	-83,9	14%
Profit before tax	184,9	166,6	-10%
Net profit	134,0	110,3	-18%
Recurrent net profit	108,2	119,8	11%

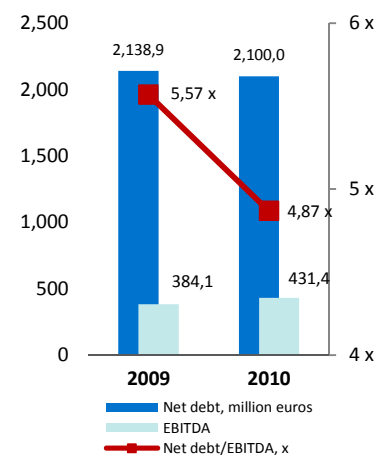
### EBITDA, M€



### RECURRENT NET PROFIT, M€

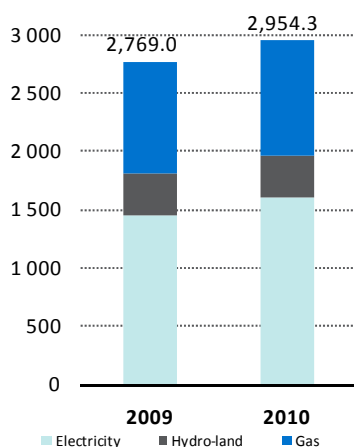


### NET DEBT/EBITDA, M€

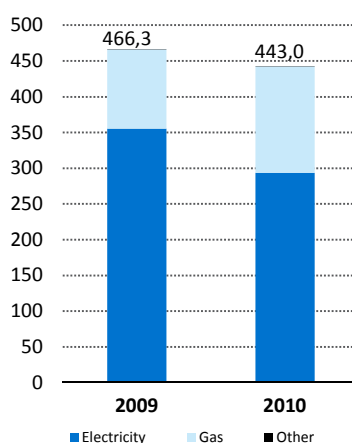


ASSETS, CAPITAL EXPENDITURE AND DEBT	2009	2010	Δ%
Average rate of return on RAB, %	7.14%	6.92%	
Capital expenditure, million euros	466,3	443,0	-5%
Net debt, million euros	2.138,9	2.100,0	-2%
Net debt/EBITDA, x	5,57x	4,87x	

**AVERAGE RAB, M€**



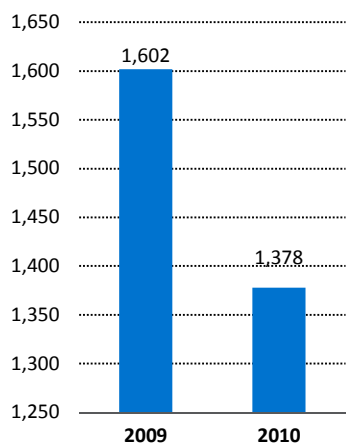
**CAPITAL EXPENDITURE, M€**



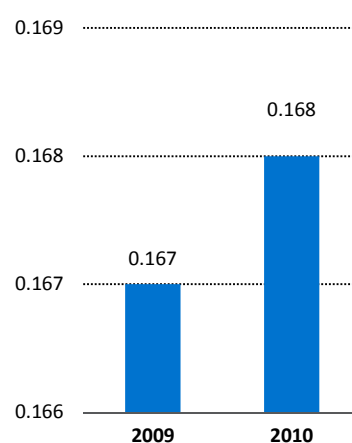
**THE REN STOCK**

	2009	2010
Stock price at the end of the year, euros	3,000	2,580
Total shareholder return, %	11.4%	-8.7%
Market capitalisation, million euros	1,602	1,378
Earnings per share, euros	0.25	0.21
Dividend per share, euros	0.167	0.168
Payout ratio, %	66.5%	81.4%
Dividend yield, %	5.6%	6.5%

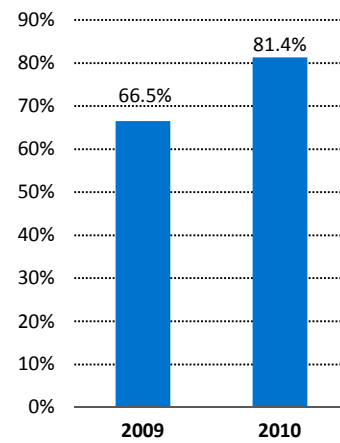
**MARKET CAPITALISATION, M€**



**DIVIDEND PER SHARE, EUROS**



**PAYOUT RATIO, %**

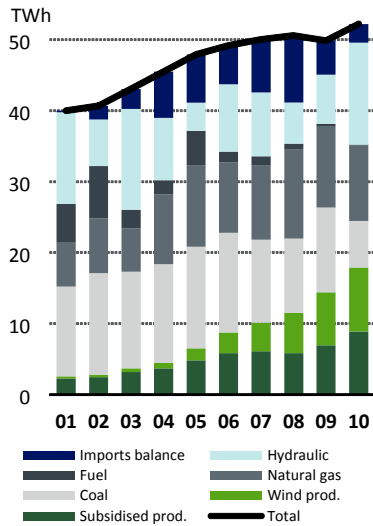


## Technical

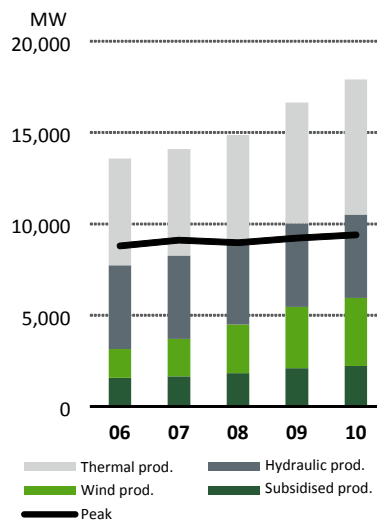
### Electricity

	2006	2007	2008	2009	2010
Annual change in electricity consumption, %	2.6	1.8	1.1	-1.4	4.7
Installed capacity, MW	13,584	14,093	14,872	16,661	17,920
Equivalent interruption time, minutes	0.57	0.74	1.29	0.42	1.15

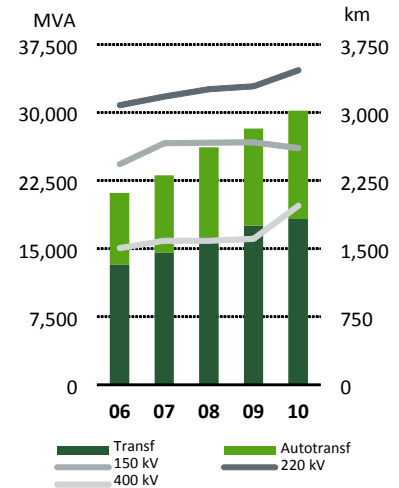
#### CONSUMPTION SATISFACTION



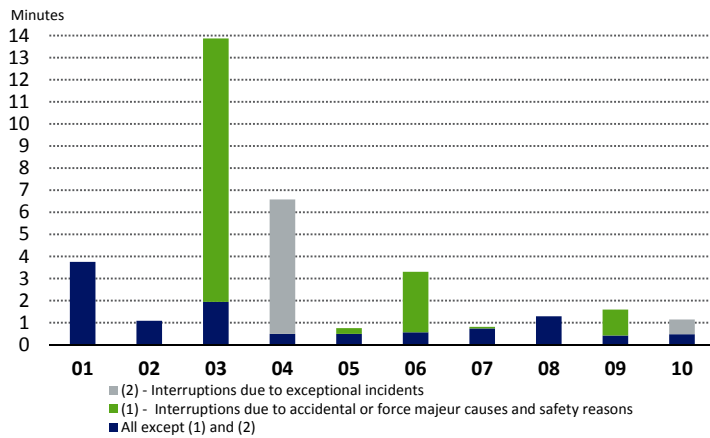
#### INSTALLED CAPACITY



#### LINE LENGTH AND TRANSFORMATION POWER



#### EVOLUTION OF THE EQUIVALENT TIME OF INTERRUPTION (TIE)

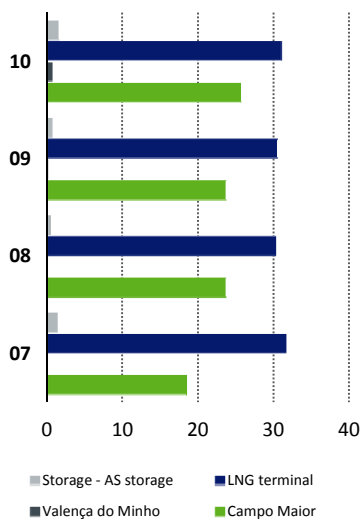


## Natural gas

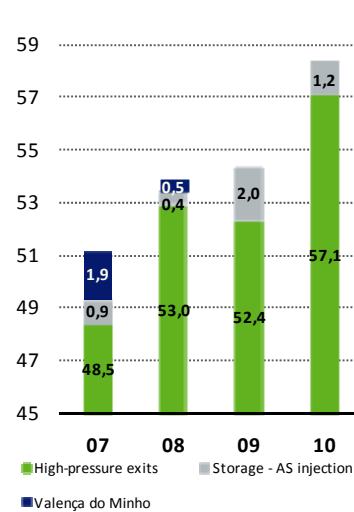
	2007	2008	2009	2010
Annual growth in consumption of natural gas,%	6.5%	9.4%	-1.0%	9.1%
Entries in RNTGN, TWh	51.1	53.9	54.3	58.3
Outputs RNTGN, TWh	51.3	53.9	54.4	58.3
Expansion RNTGN, km	1,218	1,248	1,267	1,296
Underground Storage Capacity Gas (million m <sup>3</sup> ) (*)	66.3	66.3	138.2	138.2

(\*)The above volume expressed the maximum capacity available for commercial purposes, which is conditioned by specific thermodynamic natural gas storage in salt caverns at high pressure.

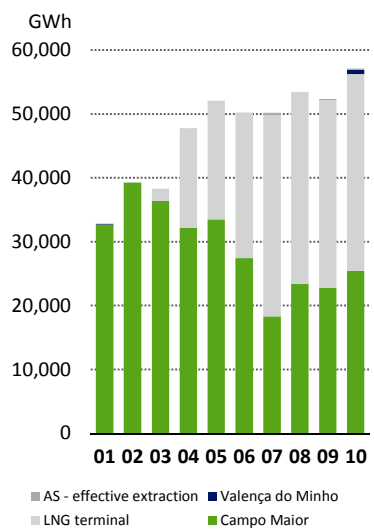
### ENTRIES IN RNTGN, TWh



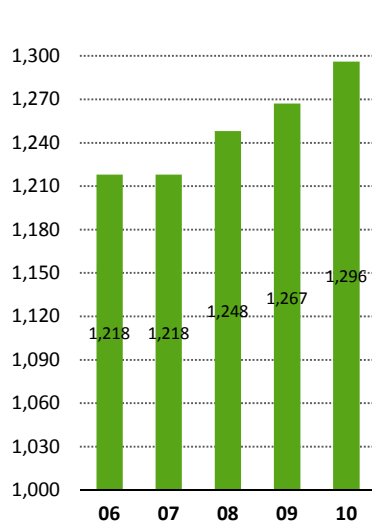
### LEAVING THE RNTGN, TWh



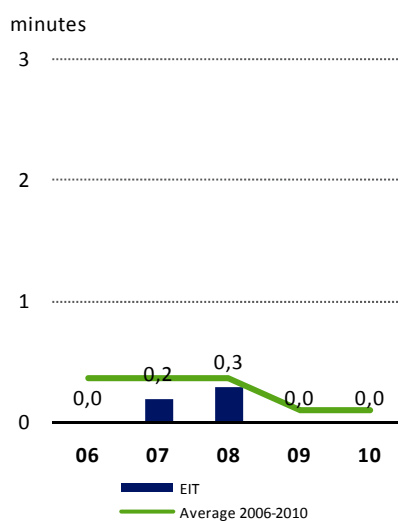
### CONSUMER SATISFACTION (RNTGN)



### LENGTH OF PIPELINES, Km



### DOWNTIME EQUIVALENT (EIT)



# Regulated assets

## Electricity

The REN Group has three regulated activities in the electricity sector:

- Global use of the System;
- Transmission of Electrical Power; and
- Purchase and Sale of Electrical Power from the Commercial Agent, which consists of trading in the MIBEL generation from two remaining power purchase agreements (CAE in Portuguese) through REN Trading.

The allowed revenues of the first two activities are recovered by the application of two regulated tariffs: the tariff of Overall Use of the System (UGS in Portuguese) and the tariff of Use of the Transmission Grid (URT in Portuguese).

The revenues of the third activity essentially come from the sale on the market of the generation from non-terminated CAEs. The UGS tariff reflects the positive or negative difference between the cost under CAEs added to the incentives to optimise the management of CAEs and to efficiently manage CO<sub>2</sub> emissions licences and the revenue from the sale on the market of energy and system services supplied by power stations.

Both tariffs are annually fixed by Entidade Reguladora dos Serviços Energéticos (ERSE) based on energy and economic forecasts for demand, costs, revenues and capital expenditures.

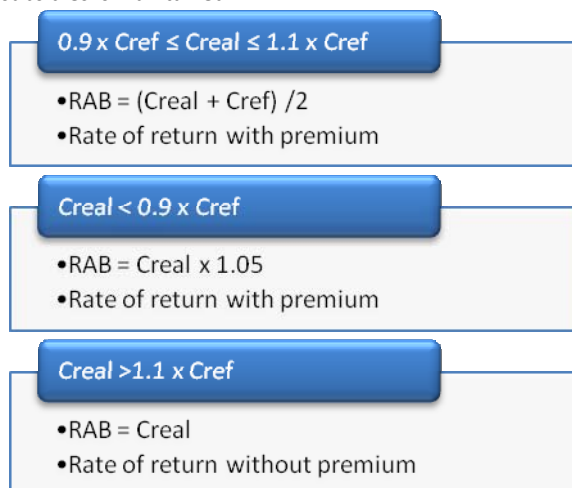
In the new regulatory period (2009-2011), ERSE maintained regulation in the activity of Overall Use of the System for accepted costs and the application of a rate of return of intangible assets allocated to the activity, net of amortisations and subsidies. The regulation of the Transmission of Electrical Power activity was changed.

The main changes introduced in the regulation of the Transmission of Electrical Energy activity were: (i) the incentive to efficient capital expenditure in the transmission grid, (ii) the adoption of a regulation methodology for exploration costs, which sets out maximum limits to be applied to these costs and considers reference costs adapted to the company's activity, (iii) the incentive to the maintenance of equipment at the end of its useful life and, (iv) the incentive to increase the availability of the elements of the Portuguese transmission grid (RNT in Portuguese).

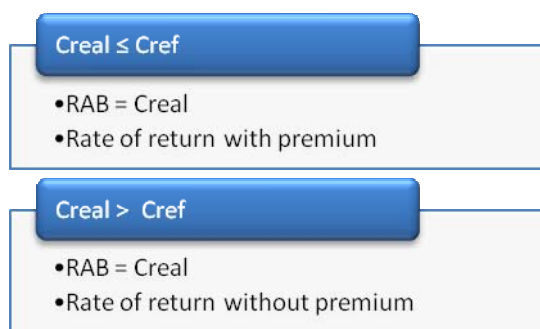
The incentive to capital expenditure consists of the determination of the regulatory asset base (RAB) and the rate of return as a function of the level of efficiency obtained by the company.

The mechanism introduced by ERSE consists of comparing capital expenditure costs incurred by the company (Creal) and the equivalent cost valued at reference costs (Cref). The following figures summarise the

calculation of the asset base and the rate of return for assets which started operating on 1 January 2009. For all the other assets, the application of the rate of return without premium on the amount net of depreciations and subsidies is maintained.



In the case of refurbishment works in substations that started operating before 2006, the following mechanism is applied:



Although some costs are still considered pass through costs, such as environmental costs and other costs arising from amendments to legislation, most operating expenses (OPEX) are subject to a revenue cap regulation.

The accepted amount of costs fixed for the first year of the regulation period evolves in the following years with the change rate of the Price Index implicit in the Gross Domestic Product, deducted from an efficiency target set out by ERSE, which was 0.5% for 2010 and 2011. The change in OPEX is added to that amount due to the annual growth of the transmission grid (in kilometres of lines and in the number of panels in substations), calculated with the corresponding incremental costs, which are also fixed by ERSE.

The incentive to maintain equipment at the end of its useful life is intended to encourage continued use of assets that are still in technical operating conditions but are at the end of their useful life. In 2010, the amount of this incentive was 5.5 M€. By decision of ERSE, the amount of 2.1 M€ for 2009 was included in the tariff revenues for 2010.

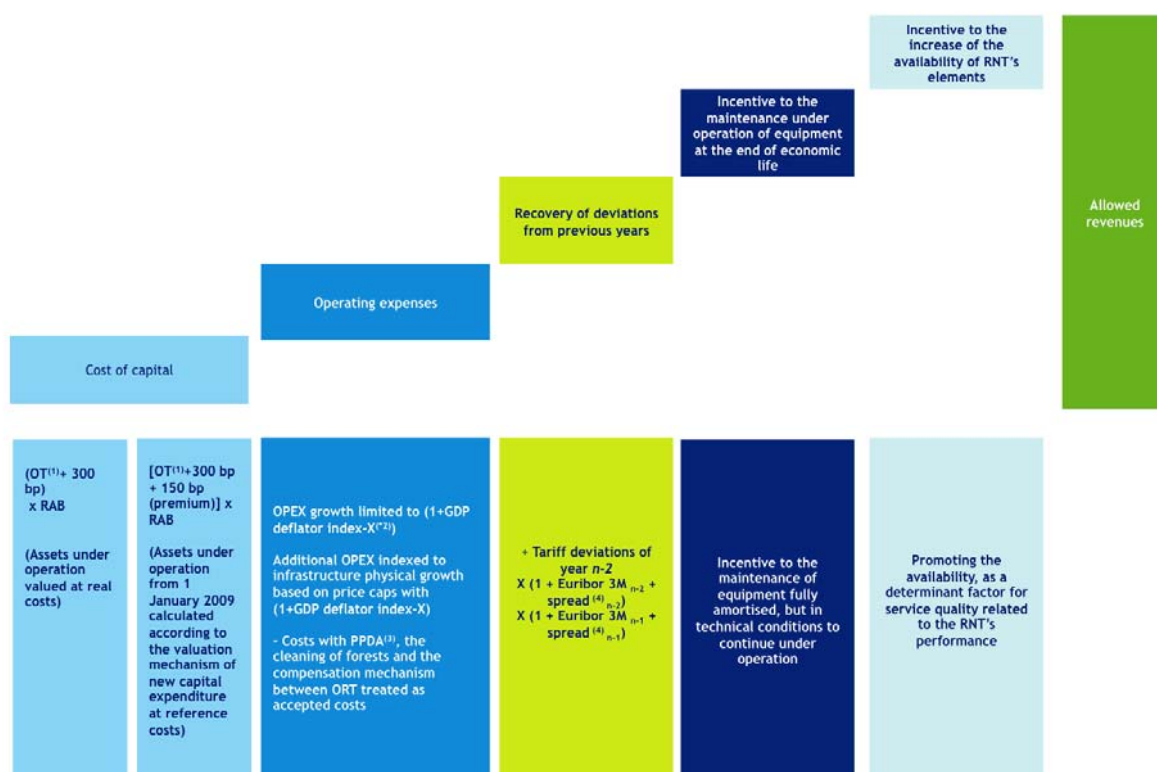
The incentive to increase the availability of the National Electricity Transmission Grid, which was introduced in 2009, aims at promoting the efficiency of the operation and the maintenance of the grid's infrastructure.

This incentive is calculated based on occurred amounts. As a result, it is received with a two-year deferment, meaning the incentive for 2010, in the amount of 0.3 M€, will only be reflected on the tariffs for 2012.

The tariffs fixed by ERSE also reflect tariff deviations that, two years later, reconcile forecast and actual costs and revenues and demand deviations, to the extent that they are justifiable and accepted by ERSE.

The figure below shows the components of allowed revenues of the Transmission of Electrical Power activity.

**REGULATORY MODEL FOR THE ELECTRICITY BUSINESS**



(1)- OT - Ten-year Portuguese government bonds (calculated on the basis of daily average yields of 10-year Portuguese government bonds between 1 September of year n-2 and 31 August of year n-1, 4.39% in 2010).  
 (2)- Price index implicit in the Gross Domestic Product.  
 (3)- PPDA - Plan to promote environmental performance.  
 (4)- Spread: 0.5% in 2008 and 1% in 2009.

The regulatory asset base of electricity comprises the assets net of subsidies allocated to the activities of Transmission of Electrical Power and Overall Management of the System. ERSE uses the arithmetic mean of the values of the RAB at the start and end of each year to calculate the return.

As mentioned, with the publication of order *Despacho n.º 14430/2010*, of 15 September, the asset base to be remunerated for the activity of Transmission of Electrical Power will include the application of the valuation mechanism of new capital expenditure of the RNT at reference costs starting from 1 January 2009. Since the audits to the application of the mechanism for 2009 and 2010 are underway, amounts are presented at historical costs. In 2010, the average RAB on which the 8.89% rate of return with premium applies is of 325 M€.

The remaining 1238 M€ have a 7.39% rate of return without premium.

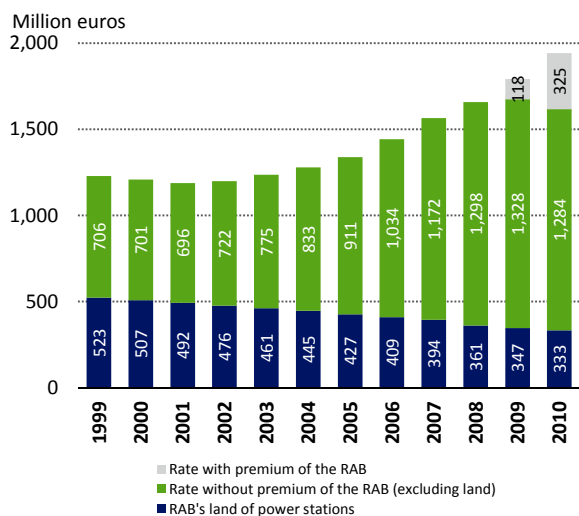
In the activity of Overall Management of the System, the principle of RAB valuation is based on historical costs. In these cases, the 7.39% rate of return is applied. The average RAB of the activity of Overall Management of the System was, in 2010, 46 M€. The asset allocated to this activity also includes land in public waterways, whose rate of return is given by the inflation rate of September of the previous year, according to ministerial regulation Portaria 481/2007, of 19 April.

In 2010, the average RAB for land in public waterways was 333 M€ and the rate of return was - 0.4%.



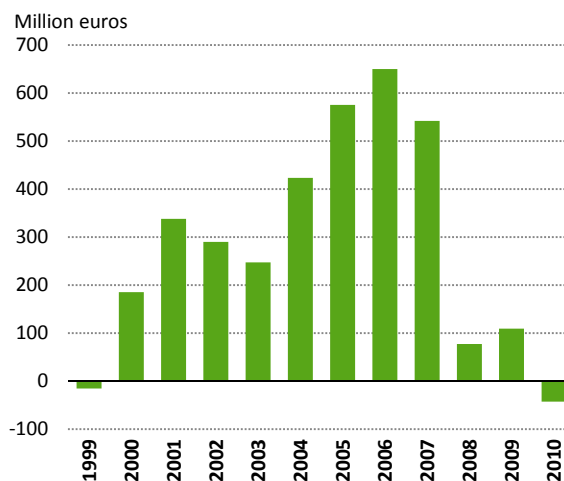
The following graph shows the RAB for three different asset groups:

**THE RAB FROM 1999 TO 2010**



The following graph shows the balance of the tariff deviation accounts at the end of each year for the period between 1999 and 2010:

**BALANCE OF THE TARIFF DEVIATION ACCOUNTS AT THE END OF EACH YEAR**



### Stability of revenues – allowed revenues

At the end of 2010, the balance of tariff deviations for REN's three regulated activities in the electricity sector amounted to 43 M€ to be given back to tariffs.

The balance of tariff deviation accounts for the activities of Transmission of Electrical Power and Overall Management of the System amounted to 118.5 M€ to be given back to tariffs.

The deviation of 2010 arose from an underestimate of the regulator and the non-use by consumers of the amount forecast for interruptibility, since, according to the legislation in 2010, consumers that stopped being supplied by the last-resort marketing company lost the right to interruptibility.

The balance of the tariff deviation account for the activity of Purchase and Sale of Electrical Power was reduced in 2010, amounting to 76M€ at the end of the year. The main reason for the size of this deviation was the fact that the tariffs provided for a much higher market price than the actual one.

The balance of the tariff deviation since 2008 has been lower than in previous years. This reduction is largely due to the cessation of the activity of Purchase of Electrical Power, which accounted for a large part of the tariff deviation given the difficulty in forecasting fuel prices.

### Natural gas

REN operates a number of natural gas infrastructure assets under public service concessions awarded to three of its companies:

- REN Gasodutos – high-pressure transmission network;
- REN Armazenagem – underground storage;
- REN Atlântico – reception terminal, storage and LNG regasification.

Government decrees *Decreto-Lei 30/2006* and *Decreto-Lei 140/2006* provide the legal framework for the regulated activities of these companies, which in late 2006 signed with the Portuguese state a public-service concession contract for a 40-year period. In particular, REN Gasodutos has exclusive rights to the transmission of natural gas in continental Portugal.

The high-pressure network is a platform for logistical rotation between the country's sources of supply, the two interconnections with the Spanish gas pipeline network, the Sines terminal and the underground storage infrastructure. The network supplies natural gas to distribution networks, power plants and industries with a direct link to high pressure, regardless of its origin.

REN's natural gas infrastructure has a key role in the satisfaction of gas demand and the management of its risks of supply to consumers.

REN Gasodutos is the technical manager of the Portuguese natural gas system; from early 2009, it is also, by regulatory appointment, the manager of the supplier switching process until the set-up of a legal framework for the future supplier switching logistics operator.

REN's natural gas companies operate in an environment that is regulated by the legislation in force, the public-service concession contracts, the technical regulations from *Direcção-Geral de Energia e Geologia (DGEG)*, an energy government body, and the economic regulations

published by *Entidade Reguladora dos Serviços Energéticos (ERSE)*, the Portuguese independent energy regulator.

REN’s regulated companies have, from a legal point of view, full decision-making and ownership autonomy in relation to gas-trading companies in line with the European Council’s Directive 2009/73/EC, which lays down the rules for the natural gas market and will become effective on the 3<sup>rd</sup> of March 2011.

In 2010, the publication of European Regulation 994/2010 set out the steps to ensure the secure supply of natural gas. This regulation introduced, for natural gas infrastructure and networks, the *n-1 concept* to guarantee continuity of service in the event of a relevant infrastructure failure. Likewise, the regulation sets out the criteria for the build-up and use of security reserves to be defined by member states and sets up a system for mutual assistance on a regional and union level. These measures and their application will be appraised in 2011.

In July 2010, the first three-year regulatory period for high-pressure infrastructure came to an end. In 2010, after a public hearing and discussion on the matter, ERSE published the regulations for the new regulatory period 2010-2013.

One of the implemented measures ended the smoothing mechanism of REN Gasodutos’ revenues over the concession period, reduced their incidence for REN Atlântico to a seven-year transition period and revoked the

use of gas years as the period of time used for the calculation of revenues and tariffs.

At the same time, OPEX efficiency incentives were introduced at REN Gasodutos and REN Atlântico regarding the transmission network and the terminal for reception, storage and regasification.

Operating costs were split by the regulator into, fixed costs, where a *revenue cap* regulatory approach was taken, and variable costs, related to the processed energy and physical dimensions relevant to each infrastructure, with a *price cap* regulatory approach. Both will progress in coming years on the basis of the change in the GDP deflator index (IPIB) minus an efficiency goal *X*, which will be set and published by ERSE for each regulatory period. This will limit to  $1+PIB-X$  the allowed growth factor for operational costs.

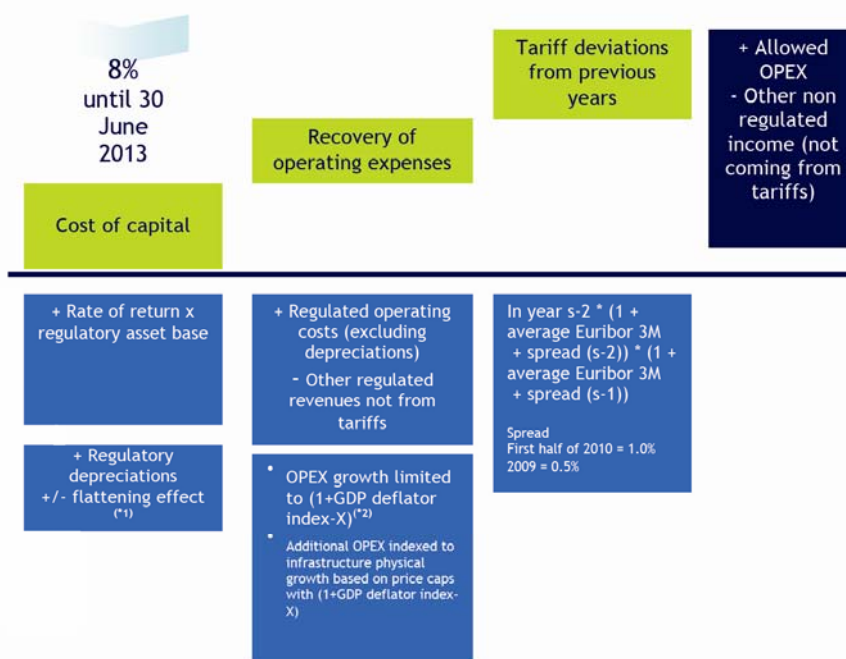
For the current regulatory period, ERSE has set the value of *X* at:

- 3.8% in 2010, 0% in 2011 and 0% in 2012 for REN Gasodutos; and
- 1% in 2010, 2011 and 2012 for REN Atlântico.

### Return on the regulated natural gas assets

The regulatory asset base (RAB) is the net asset value that is recognised for the purpose of calculating allowed revenues. This asset base reflects past investments, namely to increase infrastructure capacity.

## REGULATORY MODEL FOR THE NATURAL GAS BUSINESS



(\*1) The flattening effect is applicable to REN Atlântico only

(\*2)  $X=3.8\%$  for the first year and  $0\%$  for the following years for REN Gasodutos and  $X=1\%$  REN Atlântico for the regulatory period

REN Gasodutos - Revenue cap - 45%  
Price cap - 40% Km pipeline; 10% n° de GRMS; 5% energy

REN Atlântico - Revenue cap - 45%  
Number of GRMSs - 30% Regasified energy; 25% Emission capacity

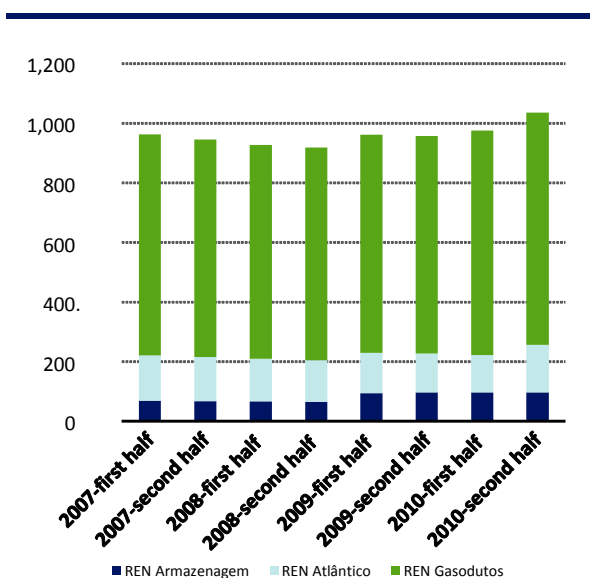
REN’s major investments in the natural gas business were:

- the expansion of the LNG terminal’s capacity, with completion expected by 2012 had in 2010 a capital

expenditure of 72 million euros and completed on schedule the new sea water-intake system and the

- new metering equipment worth around 38 million euros; its first systems delivery milestone;
- the acquisition from Enagás of its transmission capacity in Portugal, which was exclusively used for the Spanish system in the gas transit between Badajoz and Tuy; this made the entire gas pipeline capacity in Portugal available for regulated third party access, thus satisfying the transmission requirements of all users in the country; this acquisition and the expansion of the natural gas transmission network entailed a capital expenditure in 2010 close to 70 million euros.

The RAB for the natural gas companies had the following path up to the end of 2010:



The remuneration of the REN companies with regulated activities in the natural gas sector is determined in the tariff regulation by the calculation of the allowed revenues based on a pre-defined rate of return and other regulatory parameters like efficiency goals that are pre-defined for the three-year regulatory period. These parameters remain stable and allowed revenues and tariffs are revised

annually according to the regulator’s estimated quantities. The revenues stem primarily from the regulated “cost of service” and their purpose is to provide a return on fixed assets at a rate set by the regulatory period.

As they are a function of the return on the RAB – and past depreciation – allowed revenues are linked to the allowed rate of return. As this is set for each three-year period, the stability of revenues follows from the path of the regulatory asset base, which falls with depreciation and rises with investment.

In 2010, the combined RAB for the REN natural gas companies progressed favourably on the back of investments made to raise capacity in a market where demand has grown above the average of neighbouring European countries, even in economic crisis periods such as 2009 and 2010.

Under the tariff regulation, ERSE announced in June 2010 the tariffs and prices of natural gas for gas year 2010-2011 on the basis of the new regulation parameters published in 2010 for the regulation period 2010-2011 to 2012-2013, which determine the allowed revenues for each regulated activity and the prices for the tariffs.

Allowed capital costs for REN Atlântico follow from the application of a smoothing mechanism using a formula published by the regulator. This formula consists basically of the quotient obtained by dividing the present value of future revenues in the smoothing period by the sum of volumes in the period, discounted at a rate that is equal to the rate of return set by the regulator.

The process of revenue recovery by the charge of tariffs implies that allowed revenues are calculated on the basis of estimated as well as tariff variables based on predicted sales. When tariffs are applied, their real values may deviate from the estimates and this causes an allowed revenue deviation. These occurred deviations are calculated each year and settled by including them two years after they occur in the tariff calculation. Interests apply to the amount due at a regulated rate that equals the sum of 3-month Euribor and 100 basis points for deviations to be recovered in the second half of 2010 and 50 basis points for deviations prior to this period.

# Technical infrastructure

## Electricity

At the end of 2010, the RNT was composed of 265 very high voltage (VHV) lines and branches, namely 90 lines and branches at 150 kV, 124 lines and branches at 220 kV and 51 lines at 400 kV, of 63 transformer substations and 12 circuit breakers.



To operate the grid and remotely monitor its equipments, there is the Grid Operation Centre. To manage the Portuguese electricity system, there is the Control Centre.

To support the transmission of data, commands to grid elements and communications in general, there is a corporate telecommunications network, which is supported to a great extent on the mentioned infrastructure.

The RNT carries electricity from the power plants to the transformer substations, where it is delivered at 60 kV to the Portuguese Distribution Network. The RNT also provides connection to the European transmission grid, through seven connections with the Spanish transmission grid, and it directly delivers very high voltage electricity to several consumers.

### PORTUGUESE TRANSMISSION GRID

Line length and transformation power	2010	2009	Change [%]
<b>Line length (km)</b>	<b>8,049</b>	<b>7,569</b>	<b>6.3</b>
400 kV	1,973	1,609	22.6
220 kV	3,467	3,289	5.4
150 kV	2,609	2,671	-2.3
<b>Transformation power (MVA)</b>	<b>30,205</b>	<b>28,235</b>	<b>7.0</b>
Auto transformation (VHV/VHV)	11,925	10,701	11.4
Transformation (VHV/HV)	18,280	17,534	4.3



At the end of 2010, the RNT possessed 8,049 km of VHV lines, carried on 17,354 supports:

- 150 kV, 2,609 km on 5,430 supports;
- 220 kV, 3,467 km on 6,953 supports;
- 400 kV, 1,973 km on 4,971 supports.

Connection with the Spanish transmission grid is provided by one 130 kV line between Minho and Galicia, three 220 kV lines in Douro Internacional and five 400 kV lines, two between Minho and Galicia, one in the Douro Internacional, one in the Tejo Internacional and the other between Alentejo and the Spanish Estremadura.

**IN THE 63 VERY HIGH VOLTAGE TRANSFORMER SUBSTATIONS, 30,205 MVA WERE INSTALLED:**

- 150/30 kV	120 MVA;	- 220/60 kV	9,984 MVA;	- 400/60 kV	2,550 MVA;
- 150/60 kV	5,486 MVA;	- 220/150 kV	835 MVA;	- 400/150 kV	5,540 MVA;
- 150/130 kV	290 MVA;			- 400/220 kV	5,400 MVA.

The Grid Operation Centre remotely controls all elements of the transmission grid. The Control Centre maintains the balance between generation, consumption and the fulfilment of the safety criteria for the operation of the electrical system, including connections.



Grid Command and Control Centre of Sacavém

## Natural gas

REN’s natural gas infrastructure is composed of:

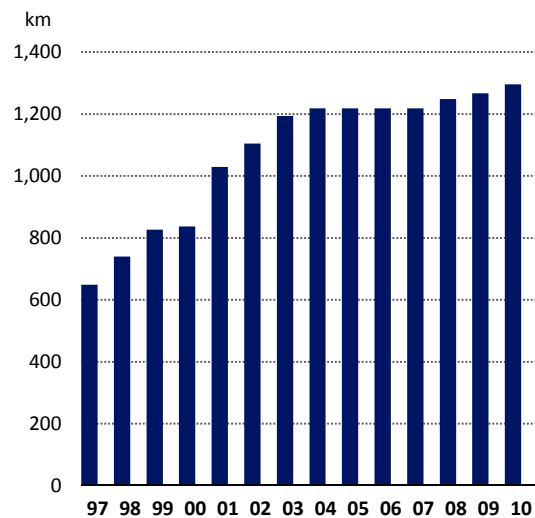
- the National Natural Gas Transmission Network (RNTGN in Portuguese);
- the LNG Terminal of Sines; and
- the underground storage facilities of natural gas at Carriço.

In 2010, new high-pressure branches were added to the infrastructure to ensure the connection to new delivery points of supply of natural gas, namely Galp Energia’s refinery in Leça da Palmeira, with 23.5 km extension, and to the new combined-cycle natural gas power station of Pêgo to Tejo Energia, in Abrantes, with 5.3 km extension.

At the end of 2010, the main infrastructure of the RTNGN was as follows:

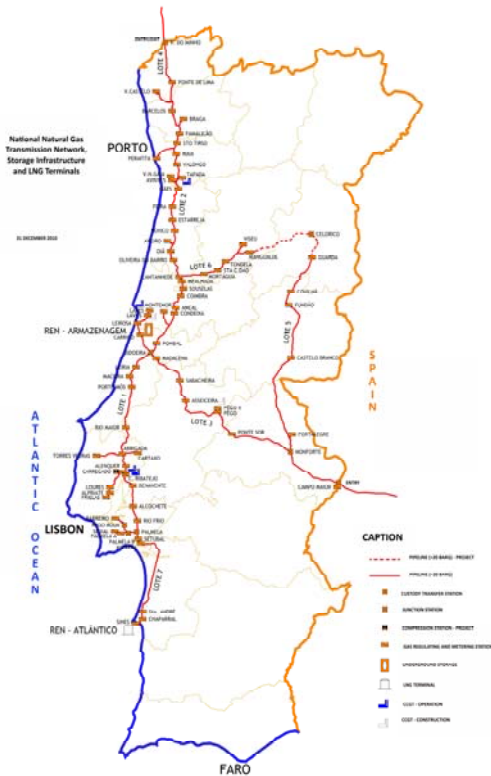
- 1,296 km of high-pressure gas pipelines;
- 58 junction stations for pipeline branching;
- 43 block valve stations;
- 8 T-branch connection stations;
- 81 gas regulating and metering stations;
- 2 custody transfer stations.

**SINCE THE START OF EXPLORATION IN 1997, THE EXTENSION OF THE TRANSMISSION NETWORK HAD THE FOLLOWING EVOLUTION:**





**NATIONAL NATURAL GAS TRANSMISSION NETWORK**



NATIONAL NATURAL GAS TRANSMISSION NETWORK		Ø (mm)	km
Block 1	Setúbal-Leiria	700	173
Block2	Leiria-Gondomar	700	164
	Gondomar-Braga	500	50
Block 3	Campo Maior-Leiria	700	220
Block 4	Braga-Valença	500	74
Block 5	Monforte-Guarda	300	184
Block 6	Mealhada-Viseu	500	68
Block 7	Sines-Setúbal	800	87
High-pressure branches		150-700	276
<b>Total</b>			<b>1,296</b>

Technical capacity of the relevant points of RNTGN was as follows:

TECHNICAL CAPACITY OF RELEVANT POINTS	GWh per day	Mm <sup>3</sup> (n) per day
<b>ENTRY</b>		
Sines (LNG)	193	16,3
Carríço (Extraction AS)	86	7,3
Campo Maior (IP39)	134	11,3
Valença do Minho (IP40 - import)	23	1,9
<b>EXIT</b>		
Carríço (Injection AS)	32	2,7
Valença do Minho (IP40 - export)	20	1,7
<b>Exit by GRMS (total)</b>	<b>678</b>	<b>57,2</b>

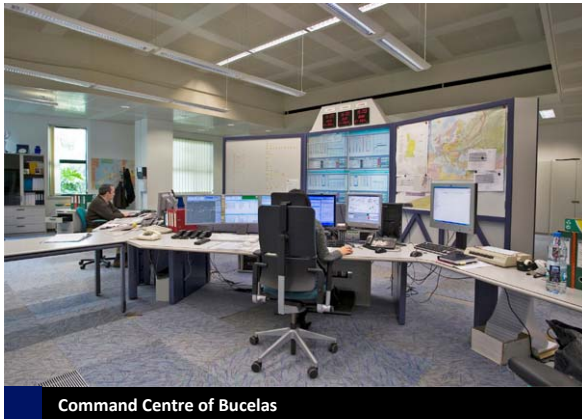
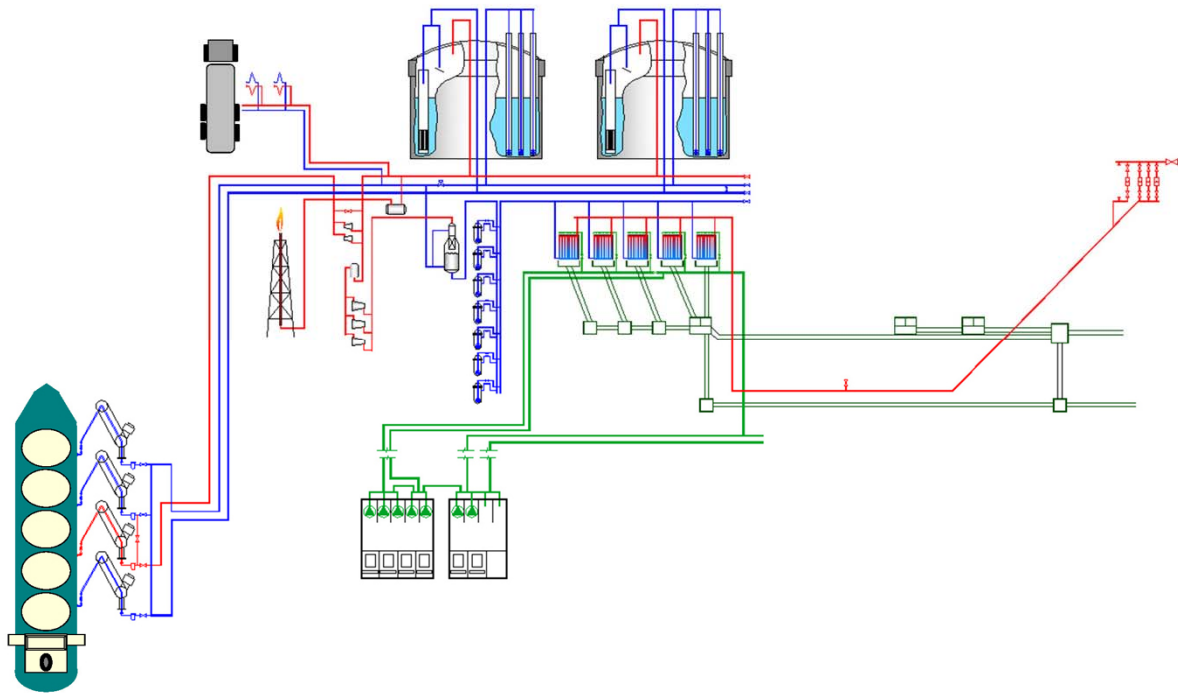
Supervised from a last-generation National Despatch Centre using redundant telecommunication systems supported by optic technology, the RNTGN connects the gas pipeline stations with the LNG Terminal of Sines and the underground storage facility at Carríço, in Pombal. All systems are equipped with digital communication, particularly to read the water flow of entry and exit of the network, allowing best practice in both quality of information and supervision response.

Until 2012, the LNG terminal is reinforcing its emission and storage capacity. Composed of a dock to accommodate ships, two cryogenic LNG tanks and pressurisation and vaporisation systems using seawater without burning fuel, this terminal is an essential infrastructure in the system. At the end of 2010, its main characteristics were the following:

- regasification capacity of 5.25 bcm of natural gas per year;
- five atmospheric vaporisers with a capacity of 225,000 m<sup>3</sup>(n)/h each;
- reception capacity for methane ships:
  - volumes between 40,000 and 215,000 m<sup>3</sup> LNG;
  - average unloading time for one ship of 140,000 m<sup>3</sup> LNG: 19 hours;
- operational storage capacity in tanks: 2 x 120,000 m<sup>3</sup> LNG;
- emission capacity:
  - nominal: 675,000 m<sup>3</sup>(n)/h @ 5.25bcm;
  - peak (85% availability): 900,000 m<sup>3</sup>(n)/h;
- filling of tanker trucks: 3,000 trucks a year @ 0.08 bcm.



**LIQUEFIED NATURAL GAS TERMINAL OF SINES**



Command Centre of Bucelas



Gas pipelines of Sines

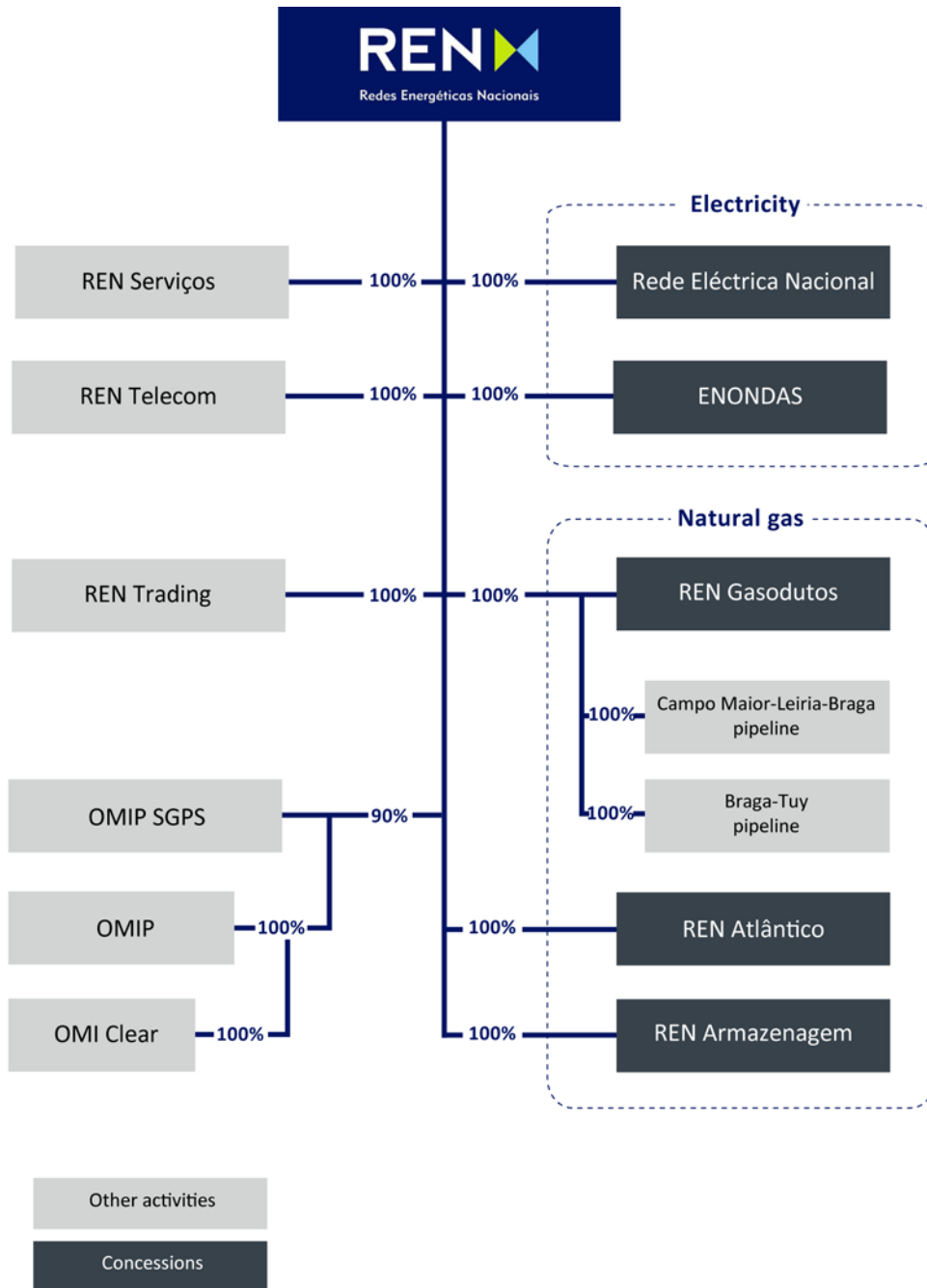
Underground storage is done in salt cavities at great depth, interconnected with a gas station that allows the management of the quantities stored by injection using natural gas compressors or by extraction with systems of natural gas dehydration for subsequent injection into the transmission network.

The REN's gas station also interconnects with cavities of another concession holder. For the construction of salt cavities, REN has a leaching station that, together with a water collection system and a rejection system of brine in the sea, allows the construction of more cavities.

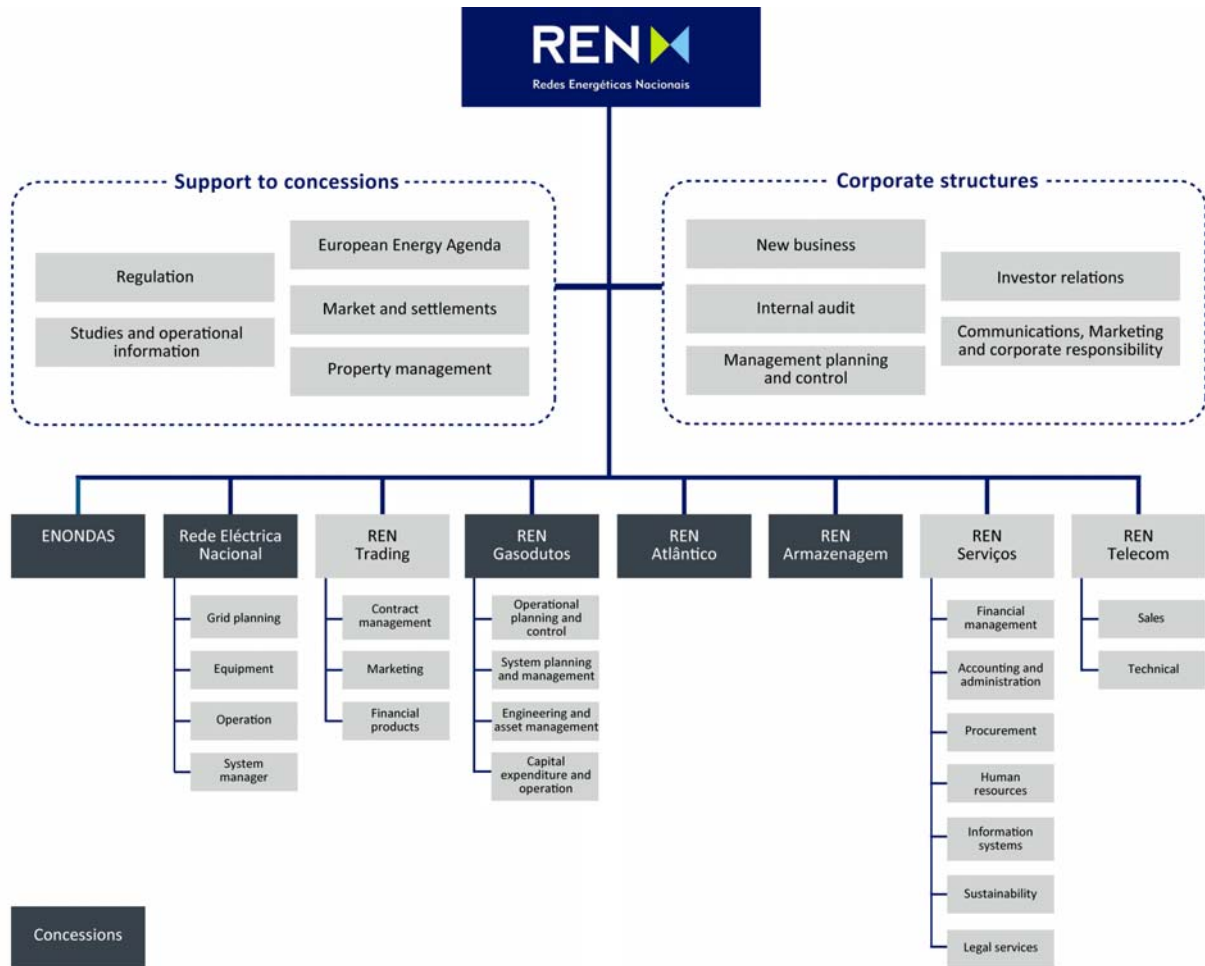
At the end of 2010, the characteristics of the underground storage facilities of natural gas that were part of the REN Armazenagem concession were the following:

- three cavities under operation;
- maximum capacity: 1.71 TWh <> 142.5 Mm<sup>3</sup>(n);
- maximum capacities of the surface stations.
  - injection: 110,000 m<sup>3</sup>(n)/h (32 GWh/day);
  - extraction: 300,000 m<sup>3</sup>(n)/h (86 GWh/day);
- operation of the surface station ensured by REN Armazenagem.

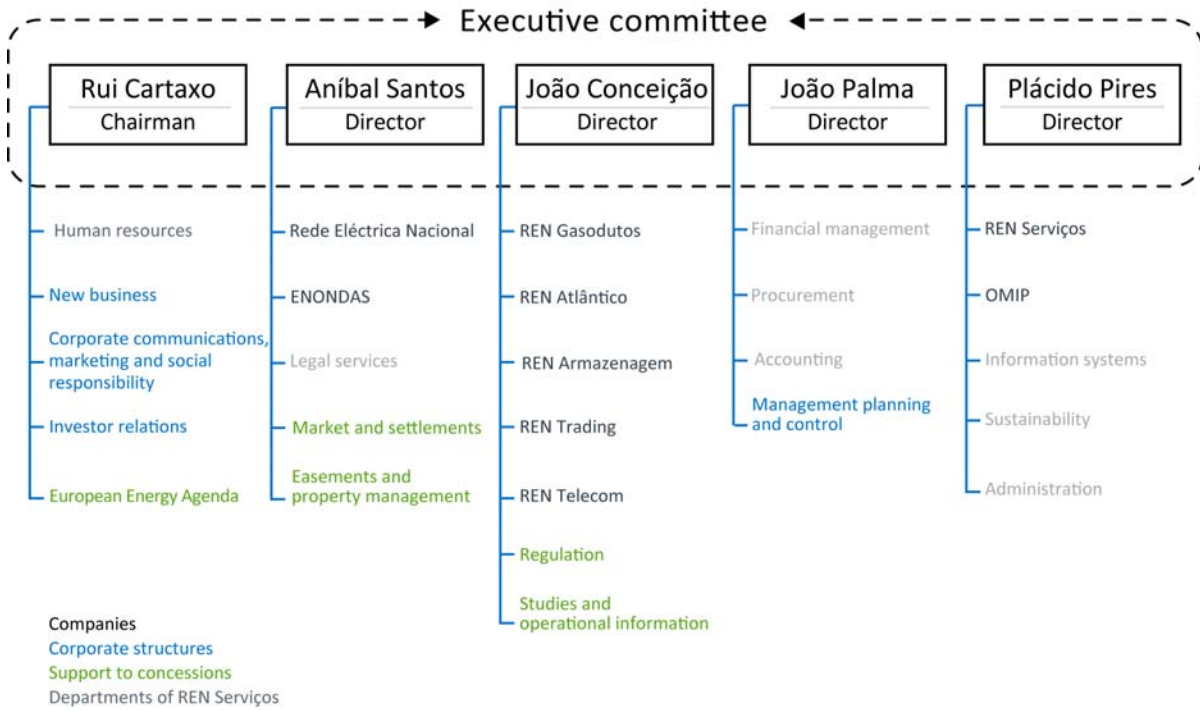
# Corporate structure



# Organisational set-up



# Executive director roles



# Governing bodies

## Governing bodies of REN – Redes Energéticas Nacionais SGPS, S.A. by 31 December 2010

### General meeting board

Agostinho Pereira de Miranda  
*Chairman*

Duarte Vieira Pestana de Vasconcelos  
*Vice-chairman*

### Company secretary

Pedro Cabral Nunes  
*Standing*

Mafalda Rebelo de Sousa  
*Deputy*

### Remuneration committee

José Emílio Castel-Branco  
*Chairman*

Francisco Manuel Marques Bandeira  
*Member*

José Alexandre Oliveira  
*Member*

### Supervisory board

#### Audit committee

José Luís Alvim Marinho  
*Chairman*

José Frederico Vieira Jordão  
*Non-executive director*

Fernando António Portela Rocha de Andrade  
*Non-executive director*

### Statutory auditors

Deloitte & Associados, SROC, S.A.  
*Standing*

Carlos Luís Oliveira de Melo Lourenço, ROC  
*Deputy*

### Board of directors

Rui Manuel Janes Cartaxo  
*Chairman*

Aníbal Durães dos Santos  
*Non-executive director*

João Caetano Carreira Faria Conceição  
*Non-executive director*

João Manuel de Castro Plácido Pires  
*Non-executive director*

João Nuno de Oliveira Jorge Palma  
*Non-executive director*

Gonçalo José Zambrano de Oliveira  
*Non-executive director*

Luís Maria Atienza Serna  
*Non-executive director*

Manuel Carlos Mello Champalimaud  
*Non-executive director*

Filipe Maurício Botton  
*Non-executive director*

José Isidoro d'Oliveira Carvalho Neto  
*Non-executive director*

José Luís Alvim Marinho  
*Non-executive director*

José Frederico Vieira Jordão  
*Non-executive director*

Fernando António Portela de Rocha Andrade  
*Non-executive director*

**Executive committee**

Rui Manuel Janes Cartaxo  
*Chairman*

Aníbal Durães dos Santos  
*Executive director*

João Caetano Carreira Faria Conceição  
*Executive director*

João Manuel de Castro Plácido Pires  
*Executive director*

João Nuno de Oliveira Jorge Palma  
*Executive director*



# Managing directors and managers

## Managing directors

Maria José Clara

Henrique Gomes

Jorge Borrego

## Managers

Pedro Nunes  
*Company secretary*

Gil Vicente  
*Internal audit*

Margarida Ferreira  
*Communications, marketing and corporate responsibility*

Ana Fernandes  
*Investor relations*

João Escobar Henriques  
*Management planning and control*

João Ricardo  
*European Energy Agenda*

Patrão Reto  
*Market and settlements*

João Gaspar  
*Property management*

Vítor Vieira  
*Regulation*

Maria José Clara (avocado por)  
*Studies and operational information*

Isabel Figueira  
*Shared services*

Nuno Rosário  
*Financial management*

Gerardo Gonçalves  
*Accounting and administration*

Alexandra Reis  
*Procurement*

Elsa Carvalho  
*Human resources*

António Fonseca  
*Information systems*

Vicente Martins  
*Sustainability*

Elvira Borges  
*Legal services*

Jorge Liça  
*Consultancy and commercial services*

**Electricity**  
Medeiros Pinto  
*Grid planning*

Albino Marques  
*Equipment*

Albertino Meneses  
*Operation*

Amarante dos Santos  
*System management*

João Cardoso  
*ENONDAS*

**Natural gas**  
Pedro Furtado  
*Operational planning and control*

Rui Marmota  
*Support to REN Gás*  
*System planning and management*

Ferreira Marques  
*Engineering and asset management*

Luís Ferreira  
*Capital expenditure and operation*

Paulo Mestre  
*LNG terminal*

Mota Duarte  
*Underground storage*

**REN Trading**  
Susana Lagarto/Nelson Cardoso

**RENTELECOM**  
António Fonseca





## Table of contents

Business background	33
Electricity	37
Natural gas	43
Other businesses	47
Financial performance	50
Risk management	59
Environment, society and governance	62
Human resources	67
Final note	71
Proposed allocation of net profit	72

# Business background

## The economy

The world economy returned to growth in 2010 as GDP expanded 4.5% after contracting 0.7% in 2009. However, the second half showed signs of a slowdown as the inventory build-up cycle was reversed and economic stimulus packages by governments receded around the world.

However, the recovery differed according to geographical zones.

Whereas the recovery of developed economies remained fragile as it was hit by high unemployment and public and private indebtedness, emerging economies grew above the global average, driven by strong domestic demand, rebounding international trade and higher commodity prices.

The United States grew 2.7%, Japan 3.5%, the EU 1.8%, China 10.5%, India 8.5%, Latin America 5.6% and sub-Saharan Africa 5.0%.

### United States

After it contracted 2.7% in 2009, the US economy recovered in 2010 and grew 2.7%. This growth resulted from the pick-up in domestic demand (1.6% in consumer expenditure and 1.2% in government spending) and the recovery in investment demand, with gross investment spending rising by 3.2%.

The economy's limited ability to create employment and the end of incentives to the first home purchase contributed to the slow recovery in consumer expenditure. On the other hand, spending on equipment and software expanded vigorously on the back of growing profitability in the business sector.

Imports grew faster than exports (14.1% against 11.8%), which widened the trade deficit. Inflation remained at a low level – 1.6% – and the government deficit rose to 11.3%, raising public debt to 92.2% of GDP, against 84.7% in 2009.

### The Eurozone

The Eurozone economy returned to growth in 2010 and expanded 1.7% after contracting 4.1% in 2009. The recovery was largely due to the pick-up in the world economy, which drove Eurozone exports. Whereas consumer expenditure (0.6%) and government spending (1.0%) grew in 2010, overall investment demand contracted 0.8%, which was, however, much less pronounced than the 11.4% contraction in 2009.

Unemployment continued to rise and reached 10.1%, inflation averaged 1.5% and the government deficit remained at 6.3% of GDP, which contributed to the growth of public debt from 79.1% of GDP in 2009 to 84.1% in 2010.

The recovery was broadly heterogeneous: whereas a few countries, such as Germany, were prominent for their

performing export sector, others saw their consumer and investment demand under pressure by austerity measures made necessary to correct high public deficits.

### Interest rates

Given the fragile economic recovery in developed countries, major central banks kept their key rates at historical lows. The European Central Bank kept its refi rate at 1% while the US Federal Reserve kept its Fed Funds Target Rate within the 0% to 0.25% range.

However, economic recovery in the Eurozone prompted a slight rise in Euribor rates compared with the end of 2009, although they remained close to their historical lows. At 31 December 2010, the 3-month Euribor rate was 1.006% (0.700% at the end of 2009), the 6-month rate 1.227% (0.994%) and the 12-month rate 1.507% (1.248%), implying an approximate rise of 20-30 basis points compared with the end of 2009.

### Portugal

In 2010, the Portuguese economy recovered visibly from its 2.6% contraction in 2009 and grew 1.3% on the back of rising net exports and consumer and government spending.

Like in 2009, investment demand continued to contribute negatively to GDP growth, with gross investment spending falling 5% in 2010.

Despite a growing economy, unemployment hit 10.9%, up from 9.5% in 2009.

The growth in GDP was followed by higher inflation relative to 2009.

After the sharp rise in the public deficit to 9.3% of GDP in 2009, budget consolidation started in 2010 to the extent that the deficit could fall below the 7.3% goal for 2010, the year when the public debt rose to 82.8% of GDP.

## The sector

From a global energy perspective, 2010 was a year when several commitments were announced, including bids for curbing greenhouse gas emissions and programmes for the gradual abandonment of subsidies to fossil energy.

These commitments and the plans announced by several countries were considered by the International Energy Agency (IEA) in its New Policy Scenario, which is the current baseline scenario.

According to this scenario, the demand for primary energy could rise as much as 36% between 2008 and 2035. Non-OECD countries, primarily China and India, account for 93% of the estimated increase in world demand for primary energy.

Fossil fuel (oil, coal and natural gas), which will still be the dominant energy source in 2035, is estimated to meet over half of the increase in demand for total primary energy up to this date.

Forecasts suggest consistent growth in the global demand for electricity. In its New Policy Scenario, the IEA points to an annual growth of 2.2% between 2008 and 2035, where more than 80% of incremental demand will be accounted for by non-OECD countries. Although coal will still be the main source of electricity production in 2035, its share is estimated to fall as nuclear energy – marginally – and renewable energy raise their contribution.

Although the electricity sector offers the largest potential for the development of renewable technologies, whose competitiveness is expected to grow, their development will undoubtedly depend on government support. The IEA considers that the share of renewable energy in electricity production in 2035 may exceed 30%.

Natural gas is expected to play, at least in the next 25 years, a central role in meeting world energy requirements. Preliminary data suggest that the demand for natural gas, after falling in 2009 as the recession set in, has resumed its upward path in 2010. IEA's scenario suggests that the demand for natural gas will grow by close to 44% between 2008 and 2035, or an average annual growth rate of 1.4%. The rise in Chinese demand alone will account for more than 20% of the global incremental demand.

Since late 2008, excess supply has led to the formation of two price regimes for natural gas: one is related to the price of oil and its derivatives and is commonly linked to long-term contracts with take-or-pay provisions while the other arises from spot market liquidity, where prices are on average significantly lower.

At the same time, the rise of significant amounts of gas from non-conventional origins in the US market prompted a drastic reduction in LNG imports by the United States, which led to very competitive spot market prices of LNG in the Atlantic basin.

In combination with the significant UK capacity for LNG reception, this narrowed the gap between the UK's National Balancing Point (NBP) and the US Henry Hub (HH) at lower levels than in Continental Europe, which led to a broad drive for the renegotiation of long-term supply contracts with producers.

Against a background of changing market paradigm and uncertainty about the economic recovery, there was a continued tendency in 2010 to postpone investments in new natural gas infrastructure, namely those related to projects for the import of gas into Europe.

In 2010, only the first section of the Nord Stream gas pipeline between Russia and Germany across the Baltic Sea was started. Although it will increase the dependency on Gazprom, the pipeline aims to avoid the passage through other countries, thereby minimizing the potential for interruption of gas imports by Europe.

The race to bridge the growing shortage of gas supply to Europe, which is the largest importing region in the world, by means of large gas pipelines and terminals for LNG regasification will continue in the coming years. This will materialize as internal production declines and demand rises while geographical sources and channels for access to market become diverse.

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**Despite the growing use of energy in the world, more than 20% of the world population is currently estimated not to have access to electricity. IEA forecasts suggest that this situation will persist in the long run.**

**According to the New Policy Scenario, 1,200 million people will still not have access to electricity in 2030, 87% of which will live in rural areas.**

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## The regulatory framework

### European energy policy

The European Union aims to achieve ambitious goals up to 2020 in the fields of energy and climate change.

Communication Energy 2020 – A strategy for competitive, sustainable and secure energy, which was adopted by the European Commission in November 2010, set out the energy priorities for the coming ten years:

- An energy-efficient Europe;
- An integrated pan-European market for energy that invests in infrastructure;
- 27 states, a single energy voice to the world;
- European leadership in energy technology and innovation; and
- Consumer protection – secure, riskless and affordable energy.

For energy infrastructure, the European Commission has defined priority corridors for the transportation of electricity, gas and oil. These will provide the basis for the award of licences and the decision-making for funding projects in the EU.

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**Adequate, integrated and reliable energy networks are an essential precondition for attainment of EU energy policy goals and execution of its economic strategy.**

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In 2010, several energy-related pieces of legislation were published in the EU, particularly regarding energy efficiency and the European trading of emission rights. In the natural gas sector, a regulation was published on the secure supply of gas.

The European Economic Recovery Plan 2010-2013 approved the second support tranche covering 43 large cross-border infrastructure projects. The purpose was to support investment in the energy sector, namely in projects that are relevant for the creation in Europe of an increasingly integrated energy network, with energy flows that will cross the borders of member states. The projects for strengthening the electricity interconnections between Portugal and Spain, which were promoted by REN Eléctrica, and REN Gasodutos' reverse-flow project for natural gas transportation infrastructure were considered and accounted for a combined amount in excess of 60 million euros.

### Domestic energy policy

In Portugal, the approval of ENE 2020, the document that set out the national energy strategy up to year 2020, was an important milestone. The strategy's main goals are:

- the development of renewable energy, with diversification of supply sources;
- the integrated promotion of energy efficiency, with tax and behavioural measures as well as innovative projects;
- the consolidation of MIBEL, the Iberian electricity market; and
- the set-up of an Iberian market for natural gas (MIBGAS).

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**“ENE 2020's goal is to ensure secure supply conditions through diversification of the energy mix in terms of supply sources and origins and expanded transmission and storage infrastructure. This will consolidate the Iberian market in accordance with European energy policy guidelines.”**

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The economic and environmental sustainability of the proposed energy model will help reduce CO<sub>2</sub> emissions and create benefits to society that will contribute to a more competitive economy as they are gradually incorporated into the price of final energy.

In addition to a diversified energy mix, the access to robust and adequate energy transmission and distribution infrastructure is a prerequisite for secure supply. In this regard, ENE 2020 provides for the development of new interconnections with Spain for the transmission of electricity and natural gas. This will further the integration of Iberian markets with each other and with the European market, particularly its south-western flank.

To develop MIBGAS and maintain adequate security of supply in compliance with European directives, increasing capacity to store natural gas will be promoted. This increase will be important to allow more flexibility to market operators' supply.

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**“Portugal aims to contribute to European security of supply by jointly making available Sines' competitive natural gas terminal, as an Iberian hub, Carriço's underground storage and the connections for natural gas transmission between the Iberian Peninsula and Central Europe.”**

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The goals for each renewable-energy technology have been set out in PNAER, the national action plan for renewable energy. This document contains the estimated contribution of several technologies to the attainment of Portugal's goals, considering resource availability, technology maturity and the promotion plans and measures for each technology, namely:

- 6,800 MW of onshore wind power in place in 2020;
- implementation of the national dam programme and identification of possible power additions to existing facilities;
- launch of a programme to develop small-sized hydropower plants and reach a capacity of 750 MW in 2020; and
- multiplying by 10, in 10 years, the current goal for solar power (1,500 MW).

Electrical mobility features prominently in ENE 2020 and the goal is to transfer 10% of final energy used by road transportation from fossil fuel to electricity. Considering the estimated substantial increase in electric cars in the next two decades, it is essential to anticipate the requirements which this development will place on the electrical infrastructure.

At the same time, energy efficiency will continue to draw particular attention, with the unchanged goal of curbing the use of final energy 10% by 2015 and 20% by 2020. This will be achieved namely by lower energy use in public buildings and the promotion of choices and behaviour implying lower energy use.

### Liberalised market in Portugal

#### Electricity

In 2010, the number of clients supplied by the free market rose at all voltage levels. Consequently, the demand met by the liberalised market increased significantly and accounted for close to 35% of total consumption in the national electricity system (SEN) in 2010.

New legislation in the year to be effective on 1 January 2011 revoked regulated tariffs for the sale of electricity to final clients in very high, high, medium and low voltage, and laid down the rules governing the power guarantee services that standard production centres may provide to the SEN.

In 2010, REN was assigned new roles under the new rules for service continuity: as service manager and counterparty to electricity consumers and as an issuer of origin guarantees for electricity produced by cogeneration.

There are currently 20 market operators, five of which are residents.

#### Natural gas

On 1 January 2010, all domestic consumers were given the right to choose their natural gas provider.

In February 2010, after a public consultation launched in October 2009, ERSE published the new regulatory network for the natural gas sector. The second three-year period for regulation of the sector in Portugal started in July 2010 and brought several changes, of which the most important were:

- more flexible short-term tariffs for access to the transmission network and the LNG terminal;
- new tariffs for entry to and exit from the transmission network;
- consideration of the LNG terminal as the exit point for the transmission network;
- the change in the method to calculate the cost of capital for the flattening mechanism;
- the new uniform tariff for the supply of volumes equal to or smaller than 10,000 m<sup>3</sup>;
- the introduction of a model to incentivize operational efficiency in high-pressure transmission, distribution and the LNG terminal.

According to government decree Decreto-Lei n.º 66/2010, which revoked regulated tariffs in the sale of natural gas to final clients consuming more than 10,000 m<sup>3</sup>(n), these clients began paying an interim tariff when the new pricing became effective on 1 July 2010. This interim period ends on 31 March 2011.

In December 2010, the new European Regulation No. 994/2010 on security of supply came into force. The regulation's provisions included the definition of protected consumers, public-service duties, the relevant authority to supervise its application in each country, the infrastructure and supply rules to be followed by the operators of the electricity transmission system and the marketing entities as well as the preparation of risk analysis and contingency and emergency plans. All member states shall implement the regulation over a two-year period, according to the nature of the relevant measures.

At the end of 2010, 17 free marketers of natural gas were registered with the DGEG, the relevant authority, seven of which were participants throughout the year in the national system for natural gas.



# Electricity

## Operation of the Portuguese transmission grid (RNT)

### Network behaviour

In 2010, the main cases of congestion in the RNT were caused by the unavailability of grid components and were solved by creating generation restrictions or by making topological changes to the network. There were also instances of congestion in the outflow from the Lares plant, which were due to the delayed construction of the Lavos-Batalha Line (400 kV) and to the limitations on the distribution networks between Lavos and Pombal.

The most important cases of unavailability were the following:

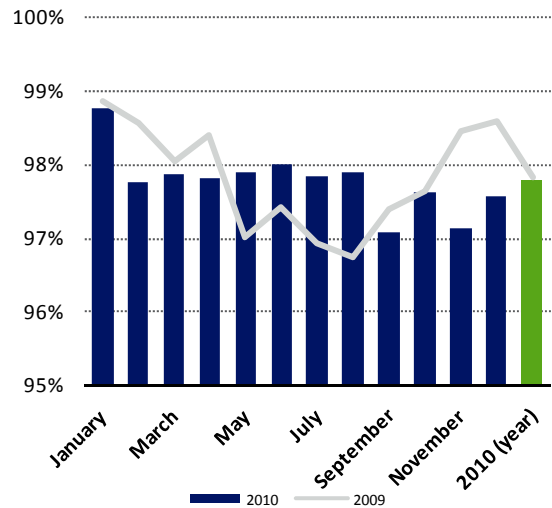
- those related to the overhaul of the Caniçada circuit breaker and the creation of a new 400 kV connection between Lagoaça and Aldeadávila;
- those on the Batalha-Ribatejo (400 kV) and Carregado-Rio Maior 1, 2 and 3 (220 kV) lines, following the accidental fall of supports caused by the severe storm northwest of Lisbon, on 23 December 2009;
- those on the Portimão-Tunes 1 and 2 (150 kV) lines, following the accidental fall of supports caused by the severe storm that occurred in the Algarve, also on 23 December 2009;
- the one on the Penela-Zêzere line, following the accidental fall of supports caused by a tornado in the region of Tomar on 7 December 2010.

The cases of congestion arising from the accidental unavailability of the Batalha-Ribatejo (400 kV), Carregado-Rio Maior 1, 2 and 3 (220 kV) and Penela-Zêzere lines were solved by a set of restrictions to generation south of Santarém, namely at the Ribatejo, Setúbal, Sines and Alqueva stations.

The cases of congestion arising from the accidental unavailability of Portimão-Tunes 1 and 2 (150 kV) lines were solved by the launch of the gas turbines located in the Tunes plant.

In spite of these cases of unavailability and other long-term cases related to overhaul programmes of lines and equipment at substations, the combined rate of availability in 2010 – 97.78% – exceeded the indifference level (target – 97.5%) set by the regulator. The following chart shows the monthly path of the rate throughout the year.

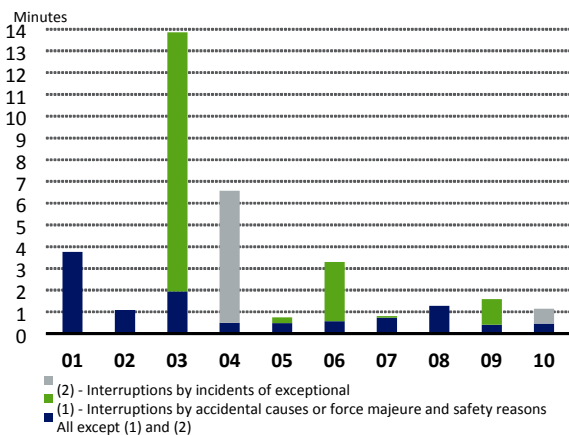
### COMBINED AVAILABILITY RATE



### Service quality

REN's service quality, understood as the secure and continuous supply of electricity under adequate technical conditions, reached a high level and the Equivalent Interruption Time (EIT) was one minute and nine seconds. In other words, REN fed electrical energy into points of delivery to clients 99.99978% of the time (close to 999 hours, 59 minutes and 52 seconds per 1,000 hours).

### EQUIVALENT INTERRUPTION TIME



The graph illustrates the sustained improvement in service continuity in recent years, excluding isolated and exceptional situations.

In 2010, REN continued to monitor voltage waveform quality in most of RNT’s delivery and interconnection points.

Except for a few isolated cases, measurements continued to show results within the range recommended by the Service Quality Regulation.

The overall level of the electrical energy quality depends on the number of incidents affecting the transmission network. In 2010, the number of incidents and disruptions rose 13.8% in comparison with 2009, to 273. Of these, 210 originated in the extra high voltage (EHV) grid, 34 in the high voltage (HV) grid and 29 in other grids, with impact on both the EHV and HV grids.

Only eight incidents, or 2.9% of the total, caused interruptions in the supply of electricity to clients. Three of these incidents caused long interruptions (> three minutes), where energy not supplied (ENS) amounted to 114.9 MWh.

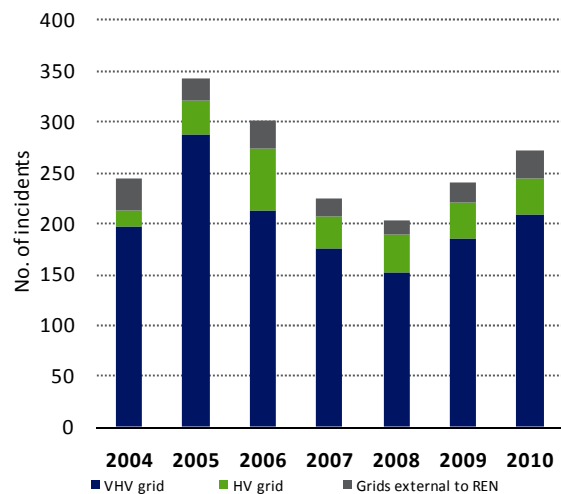
The performance of the transmission network can also be shown by the Vulnerability indicator, which expresses the ability of the transmission network not to discontinue the supply of electrical energy to consumers following an incident, regardless of its origin (including incidents caused by force majeure). This indicator is a ratio of the number of supply interruptions to the number of incidents.

In 2010, the transmission network had, on average, 0.0110 long interruptions (> three minutes) and 0.0183 short interruptions (between one second and three minutes) per incident.

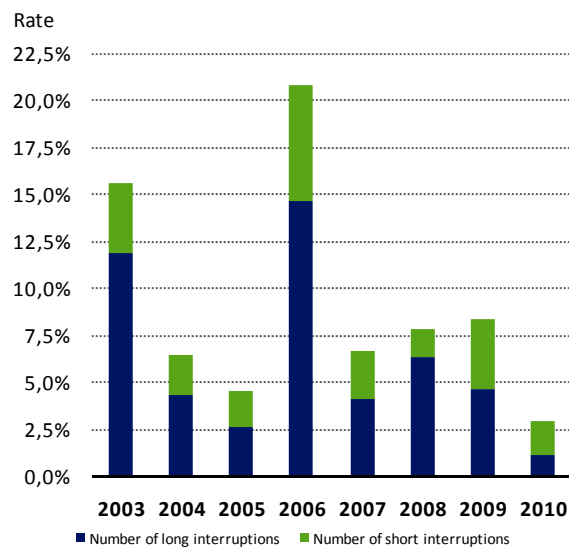
This indicator reached a new historical low in 2010 and is currently under 3%, which evidences the smooth functioning of automated mechanisms in the transmission network.

The design of the electricity transmission network and the techniques used in its operation are key factors in achieving this result. The transmission network’s “spotted” pattern, with a small number of single-source facilities, minimises the consequences of incidents to consumers.

#### NUMBER OF INCIDENTS



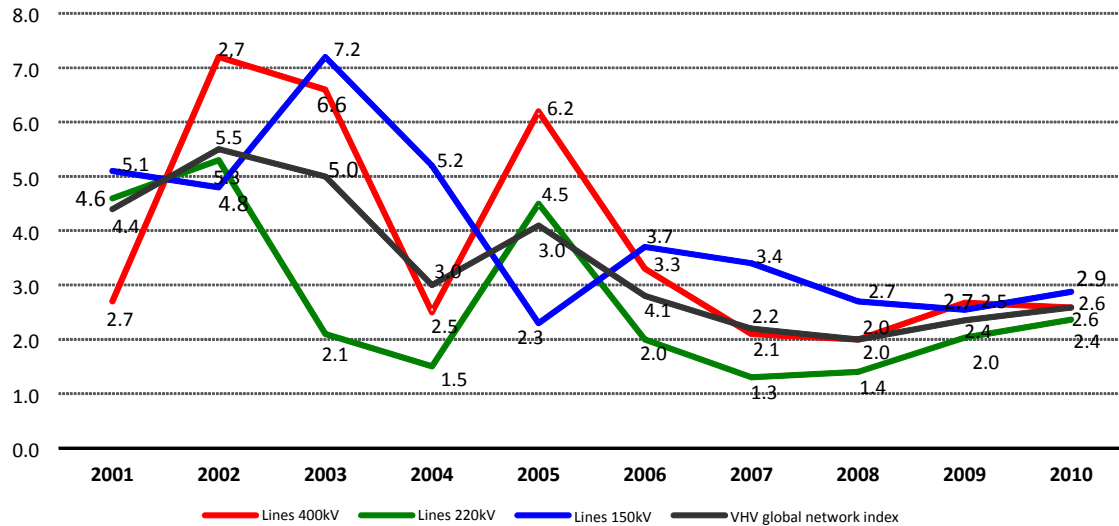
#### VULNERABILITY OF THE TRANSMISSION GRID



### Performance of lines

In 2010, the lines of the RNT had an overall satisfactory performance. The overall availability rate of line circuits, including terminal panels, was 97.49%, slightly lower (-0.3%) than a year earlier. The graph below shows the performance of lines in recent years by voltage level and in terms of the number of faults per 100 kilometres of circuit.

NUMBER OF FAULTS IN LINES OF THE RNT PER 100 KM OF CIRCUIT



Although slightly higher than a year before, the number of faults in 2010 was significantly lower than the average of the last ten years. The overall index of the EHV network rose 10.2% against 2009 to 2.59 faults per 100 km of circuit. This rise was mainly due to higher number of incidents caused by lightning strikes.

Although slightly worse than a year before, results in 2010 evidenced the effectiveness of the following preventive steps taken in recent years:

- upgrade of several lines by boosting transmission capacity and replacing insulator chains and accessories;
- improved shielding against lightning;
- replacement of ceramic and glass isolators by composite isolators on critical lines located in highly polluted areas;
- placement of nesting platforms and devices to deter birds from perching on the insulator chains on lines affecting birds, mainly storks;
- periodic aerial inspection using thermal imaging and distance measurement with laser technology, which allows prompt intervention through the location of anomalies by GPS;
- monitoring of insulator contamination and, when necessary, more effective summer-season washing;
- periodic surveillance of vegetation and management of wooden materials along line corridors, in compliance with municipal plans for protecting the forest from fires.

Most incidents (78%) affecting REN's facilities originated in overhead lines and the main causes were, once again, lightning strikes (31%) and storks (17%).

### Performance of substations

Generally, substations performed well and the number of failures in circuit breakers was substantially lower than in 2009. Although the number of transformer failures increased, network operation was mostly unaffected. The overall availability rate of transformers and autotransformers, including their panels, was 98.66%, which was slightly higher than in 2009 (+0.7%), in spite of the several refurbishments and replacements of HV equipment and power transformers in 2010.

In the Quality of Service Report, published by REN annually, these matters are treated in greater technical detail.

### International benchmarking

In 2010, the outcome of International Transmission Operations & Maintenance Study became known. This study, which is conducted every two years, benchmarks operators around the world on performance, local operation and network maintenance.

The study found that REN has in a gradual and sustained manner improved against its international peers and is now on a par with its European peers in terms of efficiency and performance of its technical assets.

### Projects completed in 2010

In 2010, a set of important projects was completed on the RNT. These projects increased the capacity for renewable energy reception, raise the capacity of energy exchange with Spain's grid and boosted the capacity to feed the distribution networks.

In 2010, the substation of Lagoaça, on the Douro Internacional, was expanded with the introduction of the 400 kV level and the 400/220 kV auto transformation level (two units of 450 MVA) and the completion of 400 kV lines, Armamar-Lagoaça and Lagoaça-Aldeadávila, for enhancement of the interconnection with Spain. In this area, several changes in the topology of the 220 kV grid led, in particular, to the establishment of two connections between Pocinho and Aldeadávila. These projects contributed decisively to an increase of between 200 and 400 MW in the exchange capacity between Portugal and Spain.

Also in this area, the new Bemposta-Lagoaça 3 line, at 400 kV, and the Picote-Lagoaça 2 line, at 220 kV, were completed as well, with a view to receiving energy from power reinforcements at the Picote and Bemposta power stations.

In the central area of Douro Nacional, the new 400/220 kV substation of Armamar, which is equipped with an 400/220 kV autotransformer of 450 MVA, came into operation, for which the 220 kV lines of Pocinho-Valdigem 1 and 2, Valeira-Valdigem 1 and 2 and Valdigem-Carrapatelo 2 and 3 were redirected. The Valdigem / Armamar-Bodiosa-Paraimo axis, which was at 220 kV, also started being exploited at 400 kV. This set of reinforcements allowed the reception of higher amounts of renewable energy in the centre/inland north areas and the improvement of the interconnection capacities with Spain.

Also in the centre region, the 220 kV Vila Chã-Pereiros 2 line was opened in the Tábua substation, thereby improving the reception of renewable energy in the area.

In the central coast region, the new Batalha-Lavos line, at 400 kV, came into operation, which is relevant to flow the production of the Lares power station.

In the area of the Tejo river, two 400 kV Central do Pego-Pego 3 and 4 connections were set up to connect the two groups of combined cycle fuelled with natural gas of the Elecgas plant.

In the Algarve, the redirections of the 150 kV Tunes-Estói line to the future Tavira substation were completed, which will support the reception of renewable energy and the 400 kV interconnection with Spain in the Algarve.

At the 150 kV Caniçada circuit breaker and the 220 kV Picote circuit breaker, profound refurbishment work was completed and conducted, respectively, due to the highly advanced state of obsolescence of the equipment.

Seven new transformers with total power of 1,058 MVA and three new autotransformers (1,350 MVA) came into operation. The transmission capacity of some of the older lines was reinforced and 140 Mvar were installed in new condenser batteries, of which 100 Mvar are connected at 220 kV.



Construction of lines

## Capital expenditure in the RNT

### Reinforcement of the interconnection capacity between Portugal and Spain

- in the Algarve, a new 400 kV interconnection between the future Tavira substation and the substations of Puebla de Guzmán and Guillena, in the Spanish grid;
- in Minho, a new 400 kV interconnection between the future facilities of Viana do Castelo, on the Portuguese side, and the facilities of O Covelo e Boboras, on the Spanish side.

### Connection of subsidised producers to the RNT

- shutdown of a 220 kV grid in Trás-os-Montes from Lagoaça, in Douro Internacional, to Valdigem, passing through the existing substations of Macedo de Cavaleiros and Vila Pouca de Aguiar and the future one in Valpaços;
- set-up of a 220 kV connection between the substations of Vila Pouca de Aguiar and Carrapatelo, going round Serra do Alvão to the north; this connection will be built as double 400+220 kV in most of its route to prepare the future inclusion in the RNT of the PNBEPH plants located in the Alto e Médio Tâmega basin;
- refurbishment of the current 220 kV Carrapatelo-Estarreja 1 line, partially as double 400+220 kV and partially as double 220 kV;
- construction of a new double 400+150 kV line between Falagueira and Castelo Branco, although it will initially only operate at 150 kV;
- construction of a new 400+220 kV line between the areas of Castelo Branco and Ferro and the opening of a new substation in the area of Covilhã, connected to Falagueira at 400 kV.

### Connection of new large producing centres to the RNT under the standard regime

- construction of the 400 kV circuit breaker in Vieira do Minho and implementation of two connections, also at 400 kV, between that circuit breaker and Pedralva to connect the power reinforcements of Venda Nova (Venda Nova III) and Salamonde (Salamonde II);
- set-up of the new 400 kV Lavos - Paraimo, in the centre region, and 'Marateca' – Fanhões connections, in the area of Lisbon/Setúbal, to integrate in the RNT new natural gas combined-cycle plants for which the DGEG has fixed a capacity reserve.

### Support to the distribution networks to improve the supply to large consumption points

- area of Fafe, which also supplies the neighbouring counties of Guimarães, Vizela and Felgueiras;
- in the region of Trás-os-Montes, set-up of a new 220/60 kV substation in Valpaços, thereby improving the supply to neighbouring counties, mainly the Chaves county, where an old and temporary facility with low reliability may be shut down;
- in Porto, a new 220/60 kV injector at Prelada, which will also have a connection through a 220 kV underground circuit to Vermoim, and the

refurbishment to 220/60 kV of the existing 150/60 kV substation of Ermesinde, supplied at 220 kV by two new connections, composed partially overhead and partially through underground cables;

- in southern Douro, close to the coast, creation of the 400/60 kV substation of Feira, supplying consumption in the counties of S. João da Madeira, Feira and Arouca;
- in the area of northern Lisbon, conversion to double 400+220 kV of the existing 220 kV Carregado-Rio Maior 1 simple line, thereby reinforcing the north-south capacity in the supply to Greater Lisbon;
- in the region of Lisbon, opening of the 220/60 kV substations of Zambujal and Alto de S. João, both supplied by underground circuits, the former from two cables from Alto de Mira (already built and functioning at 60 kV) and the latter with two cables from Sacavém/Prior Velho;
- in the Peninsula of Setúbal, opening of the 400/60 kV substation of Montijo, the introduction of 400 kV in the substation of Fernão Ferro and the completion of the second 150 kV line between the substations of Fernão Ferro and Trafaria;
- in the Algarve, opening of the 400/150/60 kV substation of Tavira and set-up of new 150 kV circuits between the substations of Portimão and Tunes and 400 kV circuits between the substations of Portimão and Tavira.

### Supply of large clients in extra high voltage (EHV)

To supply large clients in extra high voltage, the RNT made reinforcements related to the need for supplying the high-speed railway line in the Portuguese section of the Lisboa – Madrid axis. To this end, the shutdown at 400 kV between the substations of Falagueira and Palmela, through the new Falagueira - Estremoz - Divor (Évora) - Pegões - Palmela axis, and the set-up of supply connections to rail traction substations from the RNT's substations of Estremoz, Divor and Pegões, are scheduled.



REN's infrastructure



## Subsidised production

REN has actively participated in the development of renewable energy in Portugal and has made a significant effort together with renewable energy promoters, for the integration of renewable-energy sources into the Portuguese Electrical System (SEN).

The share of electrical energy power from renewable sources, namely subsidised production, and wind power in particular, has grown in recent years.

Subsidised production is regulated by specific legislation and includes small hydro power plants (small hydro power facilities of less than 10 MVA), wind turbines, photovoltaic plants, cogeneration plants, biomass plants, and plants of waste and other technologies, such as those using energy from waves, which all use renewable energy sources.

REN's activities in coordinating connection processes and integrating subsidised-production projects into the grid, particularly those connecting into the RNT, were deployed on several fronts:

- in the forecast of energy volumes produced and the management of the production needed to satisfy demand;
- in planning the reception capacity of decentralised production, network enhancements and technical connection conditions;
- in the development of projects, the planning of works and the execution of projects under REN's responsibility and the follow-up of works under promoter responsibility;
- in the participation and follow-up of inspections and the execution of connections to the grid, the definition of protection systems, communication systems, command and control systems and systems of counting and frontier with the markets and operational control of exploration and the execution of that operation by control centres.



Wind turbine

In 2010, five wind farms were directly connected to the RNT, which will be equivalent to a final installed power of 592 MW when they are fully equipped, as shown in the table below:

Name of the subsidised production facility	Installed power (MW)	Connection power (MVA)	Voltage level (kV)	REN's substation where the subsidised production is connected
Wind Farm of Alto Douro	206	170	220	Valdigem
Wind Farm of Raia	100	82	220	Ferro
Wind Farm of Beira	90	74	220	Tábua
Wind Farm of Alto da Coutada <sup>1</sup>	100	84	60	Vila Pouca de Aguiar
Wind Farm of Terra Fria	96	80	60	Frades
<b>Total</b>	<b>592</b>	<b>490</b>		



Alto Douro



Raia



Beiras



Alto da Coutada



Terra Fria

<sup>1</sup> The Wind Farm of Alto da Coutada was temporarily connected to the 60 kV voltage level of the Substation of Vila Pouca de Aguiar.

# Natural gas

## Operation of the RNTGN

Excluding the amounts in international transit, REN Atlântico’s Sines terminal for LNG regasification accounted in 2010 for 54% of the natural gas that entered the infrastructure operated by the concession holder of RNTNG, the domestic natural gas transmission network. The remainder came into the country by Campo Maior (45%) – mostly from Algeria along the Maghreb pipeline – and Valença (1%).

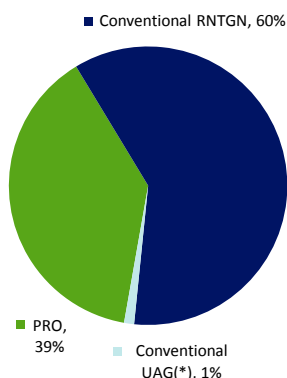
In 2010, the 58,319 GWh (around 4,90 bcm) of natural gas transported by the RNTGN included the domestic high-pressure consumption and the injection of natural gas into underground storage, which amounted to 1,195 GWh (around 0,100 bcm).

The demand for natural gas in Portugal, which rose 9.1% in 2010 compared with a year earlier, is detailed in the table below.

MARKET SEGMENT	Demand for natural gas (GWh)		Change (%)
	2009	2010	
Electricity generation under the standard regime (PRO in Portuguese)	23,499	22,296	-5.1%
RNTGN conventional market	28,901	34,828	20.5%
UAG conventional market	568	677	19.2%
<b>Total</b>	<b>52,968</b>	<b>57,801</b>	<b>9.1%</b>

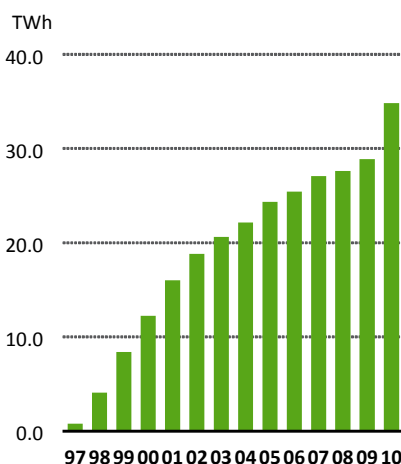
The relative weight of market segments is shown in the chart below.

### MARKET SEGMENTS



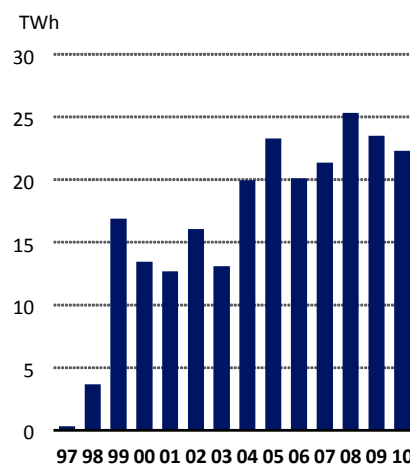
The figure below shows consumption in the conventional market since the launch of natural gas in Portugal.

### DEMAND FOR NATURAL GAS – CONVENTIONAL MARKET



The combination of these factors led to the annual consumption path shown below.

### DEMAND FOR NATURAL GAS FOR ELECTRICITY GENERATION UNDER THE STANDARD REGIME



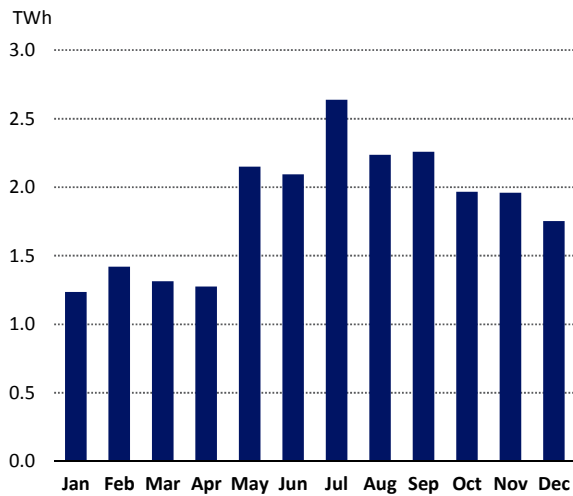
In the conventional market, annual growth in 2010 was faster than in previous years, influenced by the start of high-pressure supply to new clients.

In the market segment of electricity generation under the standard regime, annual consumption varies according to the installed thermoelectric capacity, the hydrological status and the contribution of electricity generation under the subsidised regime. In this segment, wind energy gained importance and increased by close to 10% when compared to the installed power at the end of 2009.

At the end of the year, installed power in Portugal was 3,702 MW, close to installed power in combined-cycle power stations. The increase was also due to the effect of the market when selecting energy sources, given its sensitivity to changes in the price of commodities.



**DEMAND FOR NATURAL GAS FOR ELECTRICITY GENERATION UNDER THE STANDARD REGIME IN 2010**



The high rainfall that led to lower demand for natural gas in the first four months of the year, the competitiveness of gas against coal and the increasing weight of wind power, impacted on the demand in this segment.

**The Sines LNG terminal**

In 2010, construction related to the expansion project of the Liquefied Natural Gas (LNG) terminal at Sines accelerated. The first phase of this project, which consisted of the construction of a new seawater system and a new line in the measure station, was completed.

As a result, the terminal’s capacity for emission of natural gas increased from 900,000 m<sup>3</sup>(n)/h to 1,125,000 m<sup>3</sup>(n)/h. The terminal’s seawater system became fitted for the future emission of natural gas up to 1,800,000 m<sup>3</sup>(n)/h.

The terminal received 36 ships that unloaded a combined 29.6 TWh and emitted close to 30.8 TWh of natural gas into the network. In all, 2,224 road tankers were loaded for a total of 673.6 GWh.

Total unavailability was 104 hours, of which 96 were planned and motivated by activities related to the expansion project, which corresponds to an availability of 98.77% of the facilities.



New seawater-intake system

**REN Armazenagem**

In 2010, 1,094 GWh of natural gas were extracted and 931 GWh were injected into the caverns of REN Armazenagem, with consumptions of 7 GWh. Regarding the use of surface facilities, total circulation of natural gas was 2,600 GWh, consisting of 1,405 GWh of extraction and 1,195 GWh of injection, with 10 GWh of self-consumption. The following amounts were stored:

**STOCKS OF NATURAL GAS AT REN ARMAZENAGEM (GWH)**

At 31 December 2009	At 31 December 2010	Change 2009 / 2010 (energy)
1,465	1,295	-12%

**Note:** these figures do not include the cushion gas.

At the end of 2010, stored amounts decreased by 12% compared with a year earlier.



At 31 December 2010, nominal characteristics of the capacity of REN Armazenagem’s three caverns under operation were as follows:

CAPACITY OF REN ARMAZENAGEM’S INFRASTRUCTURE	2009	2010
[GWh]		
Maximum capacity	1,705	1,699
Maximum effective capacity after technical restrictions	1,551	1,521
Commercially available capacity	1,491	1,461
Cushion gas	1,591	1,591

**Notes:**

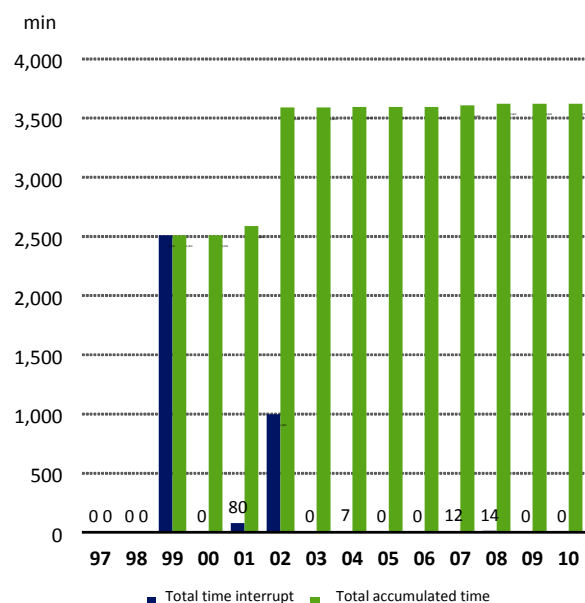
- Cushion gas: volume of gas immobilised to maintain the pressure of structural stability in the caverns;
- Maximum capacity: maximum capacity minus cushion gas;
- Maximum effective capacity after technical restrictions: maximum capacity minus the amount of technical restrictions in the use of caverns;
- Commercially available capacity: effective maximum capacity after technical restrictions minus the capacity allocated to the overall technical manager of the SNGN for operating reserves.

### Quality of service

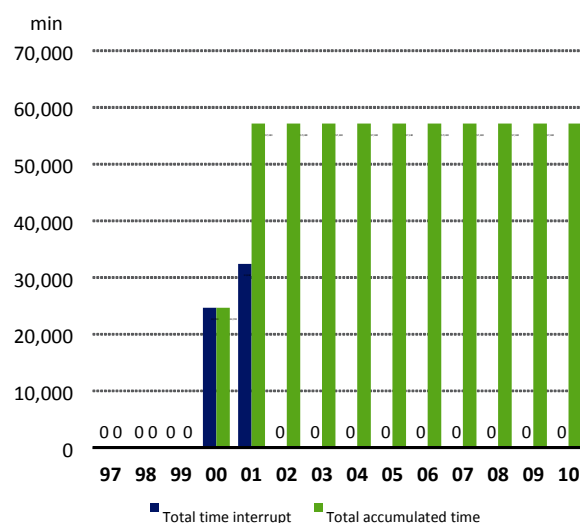
The performance of service continuity was once again excellent in 2010, since no service interruptions occurred and all the indicators of the characteristics of natural gas were within the limits set out in the Quality of Service Regulation (QSR).

Historic amounts, annual and accumulated, for controllable interruptions, accidental and scheduled, since the start of operations of the RNTGN, are shown in the following charts:

#### ACCIDENTAL CONTROLLABLE INTERRUPTIONS



#### SCHEDULED CONTROLLABLE INTERRUPTIONS



During the year, the goal of zero incidents per year per each 1000 km of high-pressure transport in the accumulated indicator of incidents of unintentional gas leaks, published by the European Gas Pipeline Incident Data Group (EGIG), was reached.

At 31 December 2010, indicators set out in article 13 of the Natural Gas Quality Service Regulation had the following annual performance:

#### GENERAL INDICATORS OF REN ARMAZENAGEM’S QUALITY OF SERVICE

Fulfilment of the nominations of natural gas extraction	100%
Fulfilment of the nominations of natural gas injection	99.45%
Energy fulfilment of storage	100.58%

**Notes:**

- Fulfilment of the nominations of natural gas extraction: quotient between the number of nominations fulfilled and the total number of nominations;
- Fulfilment of the nominations of natural gas injection: quotient between the number of nominations fulfilled and the total number of nominations;
- Energy fulfilment of storage: it is determined based on the mean square error of the extracted and injected energy into underground storage, which is nominated regarding extracted and injected energy.

## Capital expenditure in 2010

In 2010, REN Gasodutos proceeded with the execution of the RNTIAT plan of development and capital expenditure, which covers the three gas years between 1 July 2008 and 30 June 2011.

This plan includes projects related to the development and expansion of the RNTGN, to capital expenditure in both internal reinforcement and refurbishment, and to the connection to the RNDGN and to clients.

Under the interconnection projects to the RNDGN and to clients, REN Gasodutos put in operation a new delivery point in Vila Velha de Ródão to ensure the supply to Beiragás and increased the capacity of the GRMSs of Valongo, Pombal and Chaparral.

Five more inserted junction stations were successfully changed to junction stations, under the project started in 2008 and whose completion is scheduled for 2011, covering 14 facilities. The new Fronteira de Campo Maior station, which includes the control of water flow, the bi-directional flow and the tax measurement, came into operation.

The new branches that supply Galp Energia's refinery in Leça da Palmeira, the new combined-cycle natural gas power station of Pêgo to Tejo Energia, in Abrantes, and

EDP – Gestão de Produção de Energia in Barreiro came into operation. The last two premises are under commercial exploration.

Entries into operations amounted to close to 47 million euros.



# Other businesses

## REN Trading

REN Trading, which is wholly owned by REN – Redes Energéticas Nacionais, manages, until their expiry, the power purchase agreements (PPAs) not subject to early termination, pursuant to government decree *Decreto-Lei 172/2006* of 23 August.

REN Trading manages Tejo Energia's PPA, relating to thermal power plant Pego (600 MW), and Turbogás' PPA for thermal power plant Tapada do Outeiro (990 MW). The company's goal is to maximise revenue with the sale of energy and the supply of services to the system and to minimise PPA costs, pursuant to ERSE's order *Despacho nº 11210/2008*.

REN Trading buys from Pego and Turbogás all energy they produce and all system services they provide while controlling on a day-to-day basis all relevant information for the formation of expenses and the validation of invoicing. At the same time, REN Trading follows the market for CO<sub>2</sub> emissions allowances and the power plants' legal obligations.

The company monitors fuel markets (for coal and natural gas) and their benchmarks, as well as the agreement (AGC) with Galp Gás Natural on the management of natural gas demand.

The negotiations that started in 2008 between REN Trading and Galp Gás Natural for revision of this agreement ended in April 2010 and resulted in revised terms for the acquisition of natural gas for the Turbogás power station. This revision led to a lower price for natural gas from 1 January 2010 and to a retroactive price reduction for 2008 and 2009. The change also led to the receipt, for the benefit of electrical power users, of 5.5 million euros for each of these two years. According to the regulation in force for the electric sector, this reduction in the price of natural gas impacted the calculation of the I2 incentive for 2008 and 2009, which translated into a total benefit of close to 0.7 million euros for REN Trading.

Trading in the *EU Emissions Trading Scheme* was high, namely on Bluenext and the European Climate Exchange (ECX). By contrast, volumes on the Nord Pool platform fell significantly.

REN Trading manages CO<sub>2</sub> emission allowances and sets a carbon management strategy for the two power plants that includes the purchase and sale of allowances and the swap of European Unit Allowances (EUA) for Certified Emissions Reductions (CER).

The electric power produced is primarily sold into the Iberian Electricity Market through daily sell offers on the OMEL.

To improve results and cover market risk, REN Trading participated in the CESUR auctions in 2010, where it sold both base load and peak energy in the first, second and third quarters of the year at highly favourable prices

relative to the spot market, which led to very positive results for the benefit of electric power users.

In 2010, the market for system services continued to post significant volumes and its share in overall sales by REN Trading grew considerably. In this market, the system manager hires secondary regulation (teleregulation) and/or tertiary regulation (load variation in real time), which are key services for the efficient technical operation of the electricity system.

Since REN Trading is a regulated company, ERSE established in its *Despacho nº 11210/2008* of 8 April a number of incentives defining the methods for benefit-sharing in regulated activities between electrical power users and the company. In its Appendix II, ERSE's *Despacho* sets out the annual values of the parameters to be used in the calculation of incentives.

The final incentive amount results from the company's performance in its two activities, that is, optimisation of power sales from the plants and minimisation of the costs incurred in purchases of natural gas or of CO<sub>2</sub> emission allowances.

In 2010, the company's operating profit equalled the sum of ERSE-defined incentives as follows:

**I1 – Incentive for the efficient sale of Turbogás production in the market:** limited to 1 million euros, fully achieved;

**I2 – Incentive for the efficient purchase of natural gas:** limited to 1 million euros, an estimated amount of close to 0.8 million euros was achieved that does not include the retroactive receipt for 2008 and 2009;

**I3 – Incentive for the efficient sale of Pego's production in the market:** limited to 1 million euros, 0.6 million euros was achieved;

**ICO<sub>2</sub> – Incentive for the efficient management of CO<sub>2</sub> emission allowances:** limited to 2.72 million euros; in 2010, the amount achieved was 0.3 million euros;

**Swaps – Incentive for the optimisation of swaps of EUAs for CERs in the CO<sub>2</sub> market:** this incentive does not have a limit; the amount obtained was 0.5 million euros.

## OMIP and OMIClear

The activities by OMIP and OMIClear in 2010 contributed significantly to the development of the Iberian energy market.

REN SGPS set up OMIP SGPS, a company where Spanish peer OMEL has a 10% equity stake. OMEL now owns 100% of OMIP and manages the 10% stake formerly held by OMIP in OMEL.

To strengthen its position as the entity that will perform the roles of OMI's clearer, central counterparty and risk and settlement manager, OMIClear set up a branch in Spain, which will start operating in 2011.

On 1 July 2010, OMIP and OMIClear adopted new computerised platforms for trading and clearing. Whereas for trading a licence was purchased to use a well-known system in European energy markets, for clearing a proprietary system was developed that rivals the best technological solutions in the market.

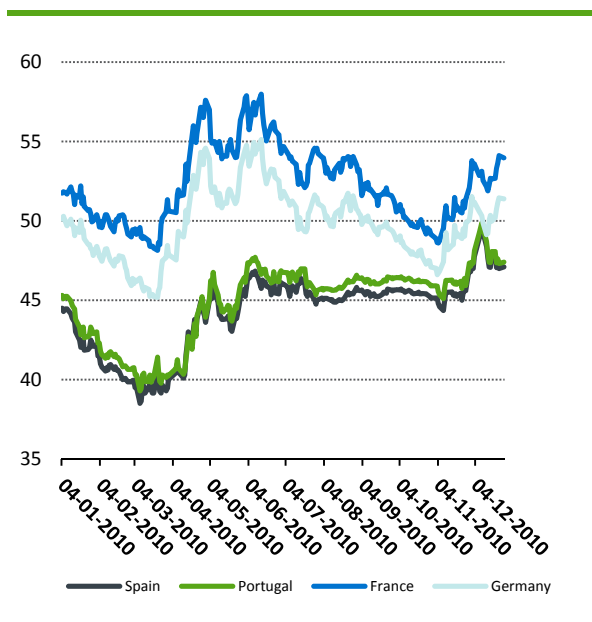
Marketing activities to attract new members and promote active participation in the products and services of OMIP and OMIClear;

- set-up of three member committees in Portugal, Spain and the United Kingdom;
- promotion of market makers, which led to Nexus becoming a member on 1 January 2011, thereby joining Deutsche Bank, Citigroup and EGL España, and to an increase in the number of listed products, which now include the first two months, two quarters and two years listed for trading at any moment;
- adoption, to enhance customer loyalty, of a fee holiday policy for clearing fees in the first half of 2010;
- cooperation with Rede Eléctrica Nacional in the set-up of an entity to issue production origin guarantees in cogeneration;
- cooperation with Rede Eléctrica Nacional for the signing of contracts to join the discontinuity service and their invoicing;

- creation of a new website.

The results of the MIBEL derivative market reflected thriving business in 2010, following the trend of previous years. The volume of business cleared, which included trading and over-the-counter transactions, amounted to 55.2 TWh, or a notional value of 2,406 million euros.

Prices in the Iberian Peninsula tended to be lower than in other continental European markets across traded maturities. This was the case for the 2011 annual contract traded in 2010, whose path is shown below for Portugal, Spain, France and Germany (where prices for France and Germany are the ones on EEX).



## RENTELECOM

The REN Group is in the telecommunications business through RENTELECOM, a company certified by APCER in accordance with the NP EN ISO 9001, NP EN ISO 14001 and OHSAS 18001 standards.

RENTELECOM was created to provide a return on the excess capacity of REN - Rede Eléctrica Nacional's safety telecommunications network; subsequently, the company expanded and diversified its operations, both internally and externally.

The company's activities focus on marketing, management and maintenance of telecommunications networks and systems, on voice and data services, on transmission circuit leasing, on space leasing and housing services and on the rented use of dark optical fibre for information technologies.

In 2010, special attention was given to offering information technology services to the energy sector and to telecommunications operators, which are historically preferred markets for RENTELECOM. This strategy led to a 20% turnover increase relative to 2009. Housing services (+545%), leasing of space and telecommunications infrastructure (+15%), and maintenance of wind farms (+35%) were particularly relevant. The leasing of circuits also rose relative to 2009 (+19%), in line with the growth trend that started in 2007.

To strengthen its competitiveness, RENTELECOM joined in 2010 a broad database of certified suppliers to the utilities sector. The certified supplier status obtained with all companies that are part of the system in Portugal, Spain and Italy enhances RENTELECOM's visibility with procurement managers of member companies, which will increase the number of requests for proposal.

## ENONDAS

ENONDAS, Energia das Ondas S. A. is the concession holder of a pilot zone north of S. Pedro de Moel that was created by government decree *Decreto-Lei 05/2008* of 8 January to use renewable marine energy, particularly sea wave energy.

Under the concession contract appended to cabinet resolution *Resolução do Conselho de Ministros nº 49/2010* of 1 July, ENONDAS is granted the development of the pilot zone to assess its geophysical and environmental profile, draw up its access regulation and provide it with the required infrastructure for its connection to the power grid and manage a sea area of 270 km<sup>2</sup> with a view to attracting developers.

ENONDAS shall also promote the required scientific and technological knowledge for the production of offshore renewable electricity, especially from sea waves, in order to use this almost unexploited energy resource.

ENONDAS was also entrusted with licensing facilities in the pilot zone for the production of renewable electricity, following up the set-up, testing, operation and removal of prototypes as well as the supervision of electrical power production.

ENONDAS' activity started in October 2010 with a budgeted development plan for three years that focused on the following activities:

- geophysical and environmental profiling;
- drafting of the regulation for access to the pilot zone;
- execution of pre-studies of the infrastructure to be built on the pilot zone;
- signing of agreements with the science and technology system regarding the production of renewable marine energy.

The pilot zone is estimated to be operational and ready to receive the first developers in August 2013.



# Financial performance

## Results in 2010

Net income for 2010 declined to 110.3 M€ as a result of non-recurrent items in 2009 and 2010, namely:

- a provision in 2010 to cover the contingent liability arising from the dispute with Amorim Energia (-12.5 M€) and the one-off amortisation of gas subsidies (4.2 M€);
- gains in 2009 from the reversal of a provision to cover capital gains (22.8 M€) and the recognition of tariff deviations (12.4 M€).

Recurrent net income, that is, net income adjusted for the above mentioned amounts, grew by 10.7% year on year to 119.8 M€. If *Lei 12-A/2010* had not raised the corporate income tax rate by 2.5%, the recurrent net income would have been 129.9 M€, an increase of 20.1% relative to 2009.

Despite the adverse effect of the return on hydro-land remuneration, which was 11.4 M€ lower than in 2009, the company's EBITDA grew 12.3% to 431.4 M€, which is explained to a large extent by the expanded regulatory asset base, with average RAB rising 6.7% relative to 2009, by improved operating performance reflected in a 6.2% reduction in OPEX and by the rise in other operating revenues.

Net debt declined 1.8% to 2,100 M€, which was primarily due to tariff receipts exceeding energy demand forecasts underlying ERSE's tariff grid. In spite of a difficult market, with soaring sovereign bond yields, the average cost of debt for 2010 was 3.99%, or 13 basis points above 2009.

MAIN INDICATORS	2009	2010	Change %
[million euros]			
EBITDA	384.1	431.4	12.3%
Net financial income	-73.8	-83,9	13.7%
Net income	134.0	110.3	-17.7%
Recurrent net income	108.2	119.8	10.7%
CAPEX	466.3	443.0	-5.0%
Average RAB	2,769.0	2,954.3	6.7%
Net debt	2,138.9	2,100.0	-1.8%

## Application of IFRIC 12 Service concession arrangements

The reported amounts reflect a change in treatment imposed by application of *IFRIC 12*, the interpretation setting out the principles for recognition and measurement of the rights and obligations arising from concession arrangements.

According to *IFRIC 12*, the construction of infrastructure by the operator is a service that it provides to the grantor, whereby both income and expense are recognised in the

income statement. Accordingly, the operator's construction expenses (capex at external direct cost) are recorded as opex against the record as income of the operator's capex at total cost, i.e. after addition of own works. A more detailed explanation of the application of interpretation *IFRIC 12* is appended to the consolidated financial statements.

ANALYTICAL P&L €M	Pre-IFRIC 12		Impact of IFRIC 12 in 2010	Post-IFRIC 12		Δ %
	2009	2010		2009	2010	
<b>1) Operating revenues</b>	<b>552.8</b>	<b>556.7</b>	<b>+420.5 (Constr. Costs + Own work)</b>	<b>1,010.8</b>	<b>977.1</b>	<b>-3.3%</b>
Return on RAB	186.9	205.1		186.9	205.1	9.7%
Electricity	111.2	125.3		111.2	125.3	12.7%
Gas	75.7	79.7		75.7	79.7	5.3%
Hydro-land remuneration	10.1	-1.3		10.1	-1.3	n.m.
Recovery of OPEX	99.8	105.4		99.8	105.4	5.6%
Recovery of depreciation (net from subsidies)	141.8	152.9		141.8	152.9	7.8%
Remuneration of fully depreciated assets	0.0	5.5		0.0	5.5	n.m.
Availability incentive	0.0	0.3		0.0	0.3	n.m.
Commercial gains	5.4	3.2		5.4	3.2	-40.9%
Interest on tariff deviation	6.4	4.0		6.4	4.0	-38.1%
Tariff smoothing effect (natural gas)	15.6	11.3		15.6	11.3	-27.3%
Neutrality effect	0.0	1.0		0.0	1.0	n.m.
Other operational revenues	50.4	69.3		50.4	69.3	37.4%
Provision reversion	36.3	0.0		36.3	0.0	-100.0%
Construction revenues– regulated assets	0.0	0.0	+420.5 = +394.5 (Constr. costs) +25.9 (Own work)	458.0	420.5	-8.2%
<b>2) OPEX</b>	<b>142.5</b>	<b>134.1</b>	<b>+12.6 (operational Own work)</b>	<b>156.4</b>	<b>146.7</b>	<b>-6.2%</b>
Personnel costs	48.0	43.7	+7.5 (Own work)	55.8	51.2	-8.3%
External supplies and services	78.7	75.4	+5.0 (Own work)	84.7	80.4	-5.1%
Other operational costs	15.7	14.9	+0.1 (Own work)	15.9	15.0	-5.4%
<b>3) Construction costs - regulated assets</b>	<b>0.0</b>	<b>0.0</b>	<b>+394.5 (constr. costs)</b>	<b>434.2</b>	<b>394.5</b>	<b>-9.1%</b>
<b>4) Provisions</b>	<b>1.0</b>	<b>12.8</b>		<b>1.0</b>	<b>12.8</b>	<b>1,201.9%</b>
<b>5) Non recurring items</b>	<b>-35.1</b>	<b>8.3</b>		<b>-35.1</b>	<b>8.3</b>	
Provision reversion from assets sale	-22.8	0.0		-22.8	0.0	
Tariff deviations recognition	-12.4	0.0		-12.4	0.0	
Provision for Amorim Energia's contingency	0.0	12.5		0.0	12.5	
Subsidies depreciation	0.0	-4.2		0.0	-4.2	
<b>6) EBITDA (1-2-3-4+5)</b>	<b>374.1</b>	<b>418.1</b>	<b>+13.3 (financ. &amp; deprec. Own work)</b>	<b>384.1</b>	<b>431.4</b>	<b>12.3%</b>
7) Depreciation	159.8	172.1	+0.5 (deprec. Own work)	160.5	172.6	7.6%
8) Financial income	-64.5	-71.1	-12.8 (financ. Own work)	-73.8	-83.9	13.7%
9) Income tax expense	50.9	56.4		50.9	56.4	10.7%
<b>10) Net income (6-5-7+8-9)</b>	<b>134.0</b>	<b>110.3</b>	<b>0.0</b>	<b>134.0</b>	<b>110.3</b>	<b>-17.7%</b>
11) Non-recurring items (tax adjusted )	-25.8	9.5		-25.8	9.5	-136.7%
<b>12) Recurrent net income (10+11)</b>	<b>108.2</b>	<b>119.8</b>	<b>0.0 (unchanged – no margin on construction services)</b>	<b>108.2</b>	<b>119.8</b>	<b>10.7%</b>

Note: not included the PPAs costs (costs = revenues), in the amount of 89.1 M€ in 2009 and 248.1 M€ in 2010.

## Review of results

EBITDA rose 47.3 M€, or 12.3% relative to 2009, to 431.4 M€, whereby the following items were particularly significant:

- the growth in the regulatory asset base (RAB), particularly in infrastructure with a higher rate of return, led to a strong growth in items Return on RAB (+18.1 M€ or +9.7%) and Depreciation recovery (+11.1 M€ or +7.8%);
- the new mechanism for rewarding assets at the end of their economic life boosted EBITDA by 5.5 M€; this consists of an incentive to keeping totally depreciated electricity transmission assets in operation;
- other operating income rose 18.9 M€, or 37.4%, to 69.3 M€; gains in hedging contracts, in particular, amounted to 5.9 M€;
- Opex declined 9.8 M€, or 6.2%, to 146.7 M€, as the cost of external supplies and services was cut by 5.1%

and personnel costs fell by 8.3%; these reductions reflected significant efforts to contain costs across the Group;

- EBITDA growth was, however, hampered by the 11.4 M€ negative contribution of the return on hydro-land, which went from +10.1 M€ in 2009 to -1.3 M€ in 2010; this change followed from the formula for the return on these resources, which depends on the inflation rate for the previous year;

Net financial losses increased by 13.7% relative to 2009, to 83.9 M€. After adjustment for the 5.8 M€ swap gain in January 2009, the increase in losses was 5.1%. Despite an adverse market during the year, with government bond yields rising significantly, REN's average cost of debt for the year was 3.99%, or 13 basis points higher than in 2009.

As a result of the 2.5% increase in the corporate income tax rate, income tax rose 10.7% in comparison with 2009, to 56.4 M€. With an unchanged tax rate, income tax would have been 10.2 M€ lower and recurrent net income would have amounted to 129.9 M€, or 20.1% above 2009.

### Average RAB and capital expenditure

The average RAB increased by 6.7% relative to 2009, to 2,954.3 M€, as a result of the 411,3 M€<sup>2</sup> recorded in transfers to RAB (288.9 M€ in electricity and 122.4 M€ in natural gas).

Capital expenditure in the year declined to 443.0 M€, or 5% relative to 2009, when REN's capital spending peaked. In electricity, capex declined 17.3% while it rose 34.2% in natural gas after the 29 M€ acquisition of the transmission rights for gas pipelines Campo Maior-Leiria-Braga and Braga-Tuy from Enagás.

	2009	2010	Change %
<b>Total average RAB</b>	<b>2,769.0</b>	<b>2,954.3</b>	<b>6.7%</b>
Electricity	1,445.1	1,608,6	11.3%
Hydro-land	363.8	349,0	-4.1%
Gas	960,0	996,7	3.8%
<b>Capital expenditure</b>	<b>466.3</b>	<b>443.0</b>	<b>-5.0%</b>
Electricity	355.3	293.9	-17.3%
Gas	110,7	148.5	34.2%
Other	0.4	0.7	76.9%

<sup>2</sup> Includes direct purchases to add to fixed assets.

## Capital expenditure

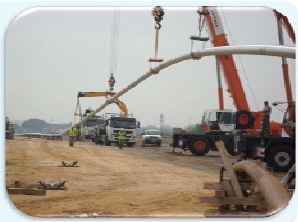
In electricity, major projects included the transmission route at 400 kV and 220 kV between the international section of river Douro and the Armamar region, where 49.7 M€ were spent, and the projects for development of the route at 400 kV between Portimão and Tavira and its connection with the 150 kV network between Tunes and Estói, where investments amounted to 43.3 M€.

However, the largest expenditure on one single project was on expansion of the Sines terminal's capacity, still under way, where close to 71.7 M€ were spent.

New assets that came into operation in the year amounted to 411,3 M€<sup>3</sup>, up 3.7% from 2009.

<sup>3</sup> Includes direct purchases to add to fixed assets.

### MAIN PROJECTS IN 2010



#### REN, REDE ELÉCTRICA

(Main projects)

- 49.7 M€ - Development of the Douro Internacional-Armamar axis, at 400 and 220 kV
- 43.3 M€ - Development of the Portimão-Tavira axis, at 400 kV, and its articulation with the 150 kV grid between Tunes and Estói
- 23.1 M€ - Refurbishment of the Substation of Ermesinde and related lines (first phase at 60 kV)
- 19.3 M€ - Upgrade to 400 kV of the Armamar-Bodiosa-Paraimo axis
- 18.3 M€ - Extension of the grid at 400 kV to the Substation of Fernão Ferro
- 9.2 M€ - New circuits on underground cable (urban areas of Lisbon and Porto)

• 162.9 M€ - Main projects

#### REN ATLÂNTICO

(Main projects)

- 71.7 M€ - Expansion project of the Sines Terminal

• 71.7 M€ - Main projects

#### REN ARMAZENAGEM

(Main projects)

- 2.3 M€ - Cavity 06

• 2.3 M€ - Main projects

#### REN GASODUTOS

(Main projects)

- 16.4 M€ - Mangualde-Guarda pipeline
- 6.8 M€ - Change of five derivation stations to switching stations
- 4.4 M€ - Branch of Leça
- 1.5 M€ - Branch of Pego
- 1.4 M€ - Branch of Barreiro

• 30.5 M€ - Main projects

**ELECTRICITY:**  
293.9 M€

**NATURAL GAS:**  
148.5 M€

**OTHER BUSINESSES:**  
0.7 M€

**CAPITAL EXPENDITURE OF THE GROUP in 2010: 443.0 €**

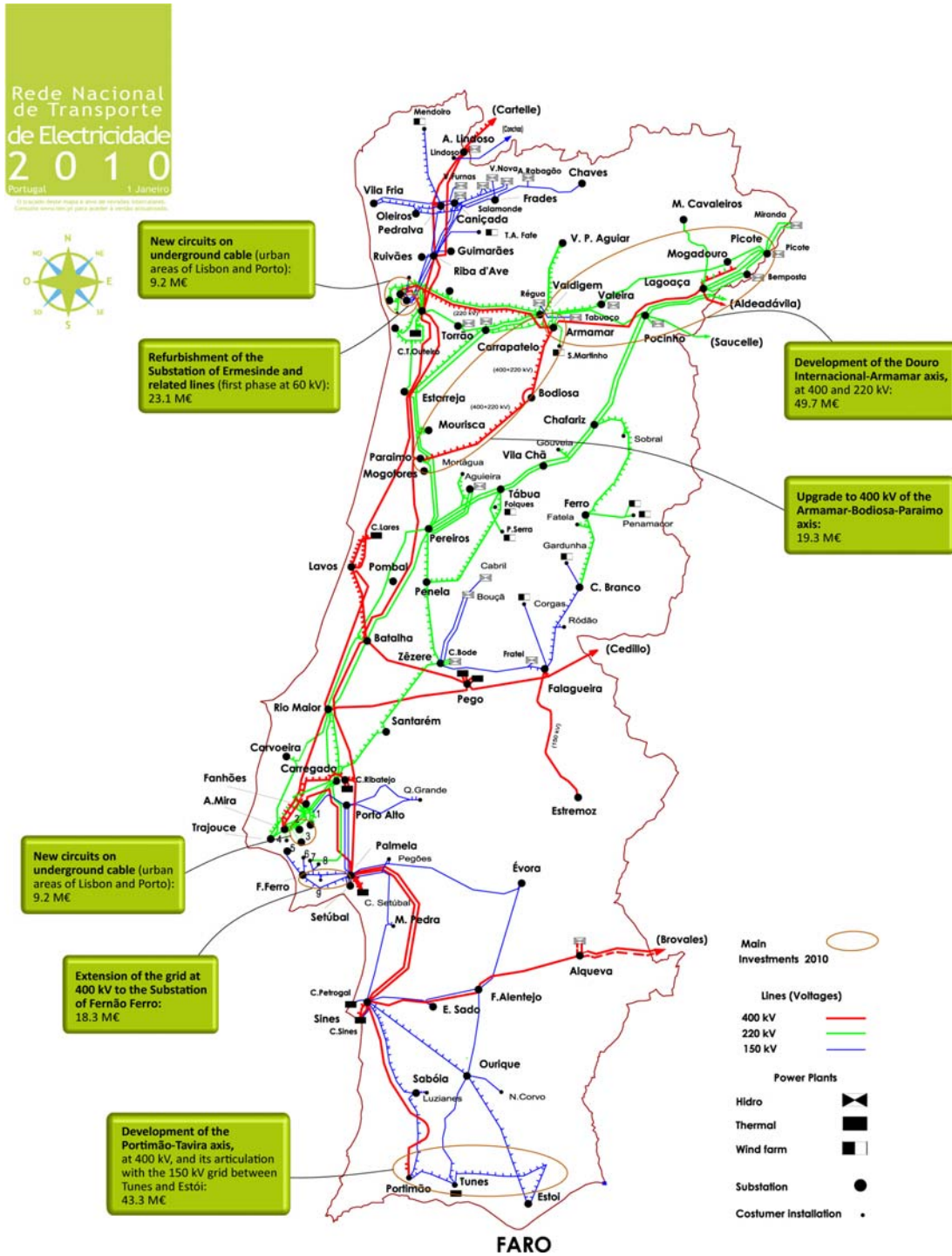
**Electricity**

Capital expenditure on electricity amounted to 293.9 M€ (-17.3%) and transfers to RAB accounted for 288.9 M€<sup>4</sup>, down 9.8% from 2009.

The construction and operation of new 400 kV infrastructure on the Douro, particularly the Lagoaça-Aldeadávila line at 400 kV, the 400/220 kV auto transformation at the Lagoaça substation and the Armamar substation and related lines – the most costly electricity

investment in 2010 – strengthened the capacity for interconnection with Spain significantly; these investments also enhanced the transmission of new electric production, particularly renewable production, whether to the western seaboard (Greater Porto region) or the central and southern parts of the country. The start-up of the Armamar substation led to route Armamar-Bodiosa-Paraímo being operated at 400 kV instead of 220 kV as before.

**MAIN CAPITAL EXPENDITURE OF REN GROUP – ELECTRICITY**



In the Douro region, a completely overhauled 220 kV circuit breaker with SF<sub>6</sub> technology came into operation at Picote, which will connect the new aggregate to the upgraded hydro power station at Picote.

In Greater Porto, a complete overhaul of the Ermesinde substation to 220 kV and 60 kV is under way and the 60 kV zone came into operation towards the end of the year with SF<sub>6</sub> technology.

South of the Tagus estuary, at Fernão Ferro, the local substation is undergoing a complete overhaul that will enable a 400 kV connection.

In the Algarve, several works on lines and substations are under way whose purpose is to extend a 400 kV line from the Portimão substation to the new Tavira substation and establish a new interconnection at 400 kV with southern Spain.

In the urban areas of Lisbon and Porto, new 220 kV underground lines are currently being laid out that will connect Porto's Prelada and Lisbon's Alto de S. João and Zambujal substations to new substations with SF<sub>6</sub> technology.

### Natural gas

Capital expenditure on natural gas amounted to 148.5 M€ (+34.2%) as transfers to RAB amounted to 122.4 M€<sup>4</sup>, or 60.5% ahead of 2009.

At REN Atlântico, construction work intensified on the project for expansion of the Sines LNG terminal with completion of the first stage, which consisted of building a new system for capturing seawater. As a result, the terminal raised its capacity for the emission of natural gas from 900,000 m<sup>3</sup>(n)/h to 1,125,000 m<sup>3</sup>(n)/h while the seawater system will allow future emission of natural gas volumes of up to 1,800,000 m<sup>3</sup>(n)/h.

Following an upgrade, the Sines mooring pier can now take larger-volume ships. In other words, methane tankers can now be received with a cargo capacity of up to 215,000 m<sup>3</sup> of liquefied natural gas against a previous limit of 165,000 m<sup>3</sup>, or an increase of close to 30%.

REN Gasodutos continued to implement its development plan for 2008-2011 covering the three gas years starting on 1 July 2008. The most significant investments were the start of operations of the new piping to supply Galp Energia's refinery at Leça da Palmeira, Tejo Energia's combined-cycle gas turbine at Pego, in the Abrantes region, and EDP – *Gestão de Produção de Energia do Barreiro*. These two plants are currently in commercial operation.

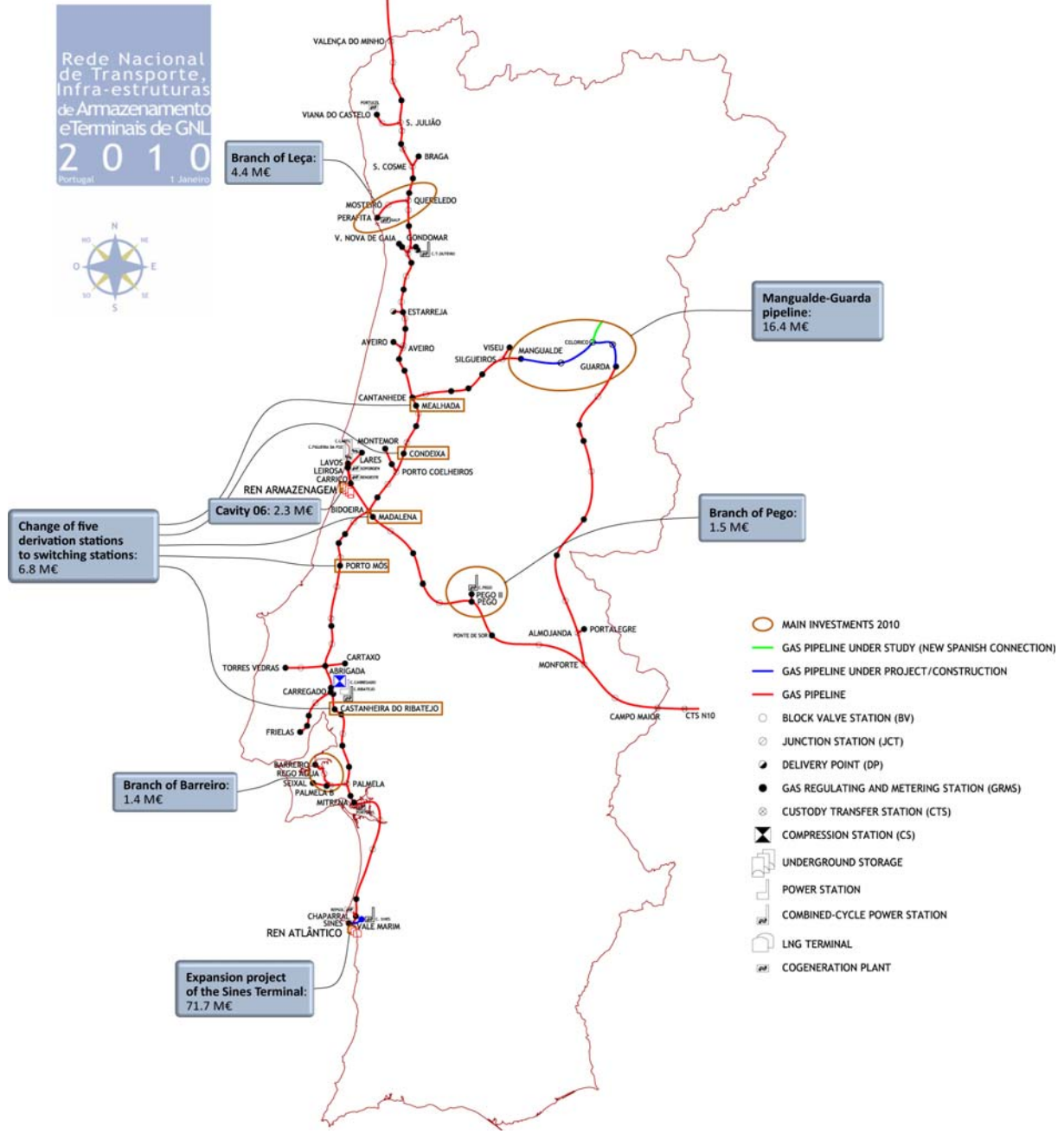
In addition, REN Gasodutos acquired from Enagás the capacity it had in Portugal, exclusively for the Spanish system, for circulating natural gas between Badajoz and Tuy. With this investment, all gas pipelines in Portugal came under REN Gasodutos' control and became entirely available with regulated access.

At REN Armazenagem, a number of actions were undertaken to start construction of a new salt cavity for underground storage of natural gas (REN-6); among these, land was acquired, the tender was launched and construction of the cavity was awarded.

<sup>4</sup> Includes direct purchases to add to fixed assets.



**MAIN CAPITAL EXPENDITURE OF REN GROUP – NATURAL GAS**



## Funding and debt

The acute economic crisis of 2010 affected a few Eurozone peripheral economies, the Portuguese economy among them, which saw their access to international capital markets significantly impaired. The uncertainty perceived by markets about the prospects for these economies drove up yields for these countries' sovereign debt, an outcome that quickly spread to other Eurozone issuers.

Despite adverse market conditions, REN managed to consolidate its debt in 2010. The rebalancing of debt over the recent years in order to extend its average maturity, to diversify funding sources and to expand credit lines gave the company the required means to successfully address liquidity restrictions in the year.

In 2010, the following transactions were completed:

- in June, the European Investment Bank (EIB) approved a new long-term credit facility of 150 M€ to finance projects in the electricity sector; the first of two tranches of 75 M€ was drawn down in December 2010;
- negotiations on extending the maturity of several committed commercial paper programmes;
- agreements on new medium-term credit lines for a total amount of 300 M€.

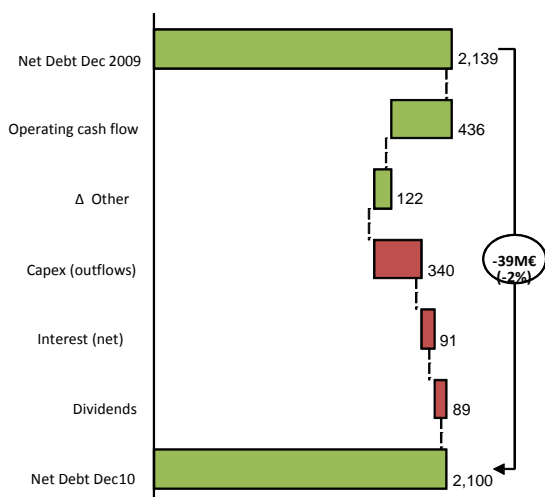
At the end of 2010, the Group had consolidated net debt of 2,100 M€, down 38.9 M€ from a year earlier. This reduction stemmed to a large extent from the recovery of tariff deviations for previous years and the favourable deviations for 2010.

TABLE 1 - FINANCIAL DEBT

(IFRS)	2010	2009	Change	
			Amount	%
Gross debt	2,257.8	2,208.8	49.0	2.2%
Minus swaps	19.1		19.1	n.a.
Minus cash and cash equivalents	138.6	69.9	68.7	98.3%
Net debt	2,100.0	2,138.9	-38.9	-1.8%

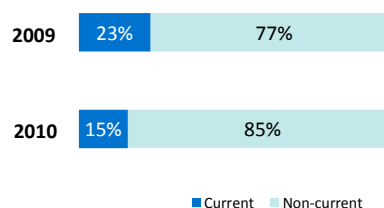
The new financing agreements led to the diversification of funding sources, the mitigation of refinancing risk and the strengthening of the company's liquidity.

TABLE 2 – CHANGE IN DEBT OVER 2010, M€<sup>5</sup>



At 31 December 2010, medium- and long-term debt accounted for 85% of the Group's consolidated debt – against 77% a year earlier – and the average maturity of total debt was approximately five years.

TABLE 3 – SHORT AND MEDIUM/LONG-TERM DEBT



<sup>5</sup> Operational profit, depreciations and provisions.

The weight of commercial paper in Group debt fell as the weight of EIB financing rose.

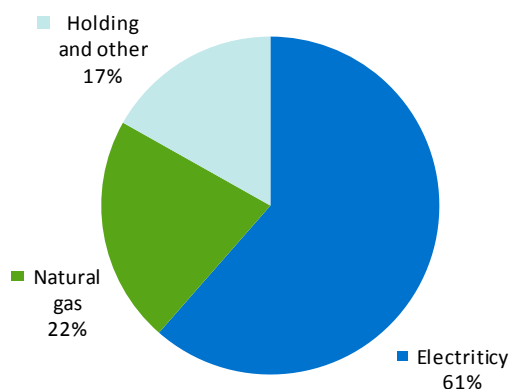
TABLE 4 – FUNDING SOURCES

Funding sources	2010	2009	Change		Weight 2010
			Amount	%	
(Unpaid balance)					
<b>Bond issues*</b>	922.9	922.9	0.0	0.0%	41.4%
<b>EIB</b>	780.2	670.7	109.5	16.3%	35.0%
<b>Commercial paper</b>	487.0	555.0	-68.0	-12.3%	21.8%
<b>Bank overdrafts</b>	36.7	45.3	-8.6	-19.0%	1.6%
<b>Financial leases</b>	3.0	4.0	-1.0	-24.9%	0.1%

\* Including a currency hedging derivative (19.1 M €)

In 2010, 61% of Group debt was allocated to the electricity business, 22% to natural gas and the remaining 17% to REN SGPS and other uses.

TABLE 5 – BREAKDOWN OF NET DEBT BY ACTIVITY

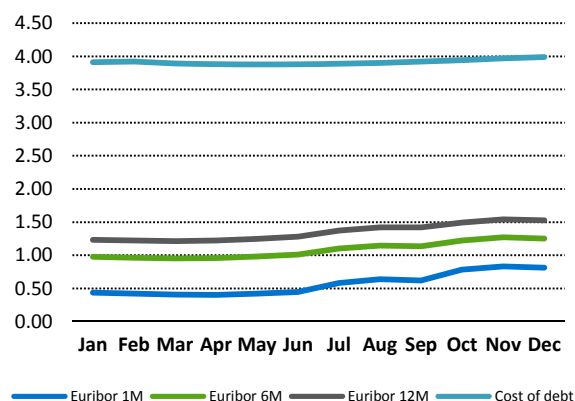


Net interest charges rose 10.6 M€ in 2010, from 77.1 M€ in 2009 to 87.7 M€ in 2010. This rise had two reasons: (i) the slight increase in the average cost of debt in 2010 and (ii) the increase in average debt for the year, despite lower debt at the end of the year relative to the end of 2009.

The average cost of debt was 3.99% in 2010, which was 13 basis points higher than in 2009. The policy for managing interest rate risk remained focused on the sustained reduction of the cost of debt in the medium and long term and on decreased volatility in interest charges.

To benefit from historically low interest rates, an additional fixed-rate hedge was purchased through a swap with inception in early 2012.

TABLE 6 - MONTHLY EVOLUTION OF INTEREST RATES AND AVERAGE COST OF DEBT IN 2010



At the end of 2010, REN SGPS's credit risk was rated A- by Standard & Poor's and A3 by Moody's. REN's credit ratings were revised downward in 2010 as the Republic of Portugal's rating was downgraded.

# Risk management

In its daily operations, REN is exposed to multiple risks that may be classed as:

- strategic
- operational
- financial
- human resources and
- compliance-related.

Risk management at REN is an ongoing process that consists of the following steps:



In December 2010, a risk management committee reporting to the chief financial officer was set up and its remit is to assist the board of directors in modelling and monitoring risks to ensure their control, mitigate their adverse impact and seize improvement opportunities.

## Strategic

This class of risks includes:

- the risks arising from the regulatory framework that governs REN's activities;
- the risks linked to execution of the business plan;
- the risks of impaired corporate reputation.

### Regulatory risk

REN's activities are regulated by ERSE – Entidade Reguladora dos Serviços Energéticos, the Portuguese energy market regulator. The risk arising from the possibility that changes in regulations or decisions by the regulator might affect the company's ability to manage its business efficiently is contained by the existence of a concession contract.

### Business plan risk

REN's exposure to this risk is managed and mitigated by the regular follow-up of business plan execution through the review of a diversity of internally prepared management reports (Corporate Scorecard and KPIs, among others) and the exercise of timely, corrective action.

### Reputational risk

Because of the nature of its operations, which span the whole country, REN is exposed to the risk that its reputation might be impaired by events it does not control. To address this risk category, monitoring and mitigation procedures have been developed that include the internal and external communication of ethical values pervading the company's operations, the continuous improvement of internal control mechanisms and the supervision of service providers interacting with local communities.

## Operational

The effective control of operational risks is of paramount importance to attain high service levels in supply security and energy transmission continuity.

This class of risks includes:

- infrastructure management and
- system and market management.

### Infrastructure management

Infrastructure management includes taking actions to mitigate risks that may jeopardize service quality, infrastructure integrity, supply continuity or community welfare.

The **development of electricity infrastructure** is planned with sophisticated tools to simulate scenarios for production sharing, the level of cross-border exchanges and the consumption of electricity in each point that is representative for the overall operation of the national electricity system – or Sistema Eléctrico Nacional (SEN) in the Portuguese terminology.

The purpose of infrastructure development is to meet service-quality requirements by users and to ensure a balanced expansion of the system.

Expansion of the grid follows security criteria that have been approved by ERSE and are in compliance with the

guidelines laid down by ENTSO-E, the European network of transmission system operators for electricity. If a grid element breaks down, neither the system security nor the satisfaction of consumption should be in jeopardy.

The **development of natural gas infrastructure** is planned on the basis of the requests to connect new consumption locations to the transmission network, the forecasts for demand growth produced by econometric models and the forecast of consumption locations from historical data, including their distribution by market segment and geographical area.

To meet demand and secure supply, these methods help to forecast the needs for storage of natural gas and liquefied natural gas and for additional entry and exit points to and from the high-pressure transmission network. The needs of market participants can therefore be met, which will over time satisfy criterion n-1 for redundancy relative to the infrastructure that contributes most to the supply of natural gas to the country.

In the **project and construction stages for electricity**, the most recent and reliable technology is used in equipment, machines and automation and protection systems. The European standards for projecting lines and substations are followed and the technical procedures for project design, construction and maintenance are supported by certified management systems for quality, environment and safety. To protect people, mainly in occupational health, and property, domestic regulations and WHO recommendations are followed while the most significant parameters are monitored on a regular basis.

In the **project and construction stages for natural gas**, the requirements in terms of materials, equipment, construction techniques and testing and inspection methods have contributed to high performance levels and infrastructure quality.

### System and market management

In **electricity**, the entire transmission network infrastructure is supervised on a permanent basis by automation and protection systems located in the substations. These communicate in real time with the system manager's two control rooms over a secure telecommunications network. In case of an accident, service can be resumed or the network reinstated by remote action and service teams stationed across the country can be mobilized if necessary.

Under mostly preventive maintenance routines, all facilities are inspected at regular intervals. In the case of overhead lines, helicopters are used to detect technical failures, if any, and to determine the distance to obstacles that may threaten the secure operation of the system. Maintenance activities are benchmarked internationally every other year. In 2009, the national power grid qualified for the *Most efficient and Best overall performance* quadrant.

In **natural gas**, the technical system management validates daily the scheduled gas movements by market participants; it also checks their consistency and adherence to the RNTIAT infrastructure as well as the interconnections with the infrastructure of Spanish

operator Enagás. In high-pressure transmission, look-ahead supply and demand profiles are generated and their physical feasibility is checked by system simulations.

Both electricity and natural gas activities are monitored in real time and simulated in the respective control centres, which have redundant facilities.

To oversee the electricity and natural gas networks, there are several control and security mechanisms such as internal rehearsals, the supervision of construction-site safety procedures and the conduct of audits into the security management system.

In addition, to ensure that information systems are recovered after a disaster, REN has a technological recovery plan that fits with the internal emergency plans for its premises and whose purpose is to ensure business continuity.

## Financial

Financial risks are managed by the purchase of adequate financial instruments in accordance with the policies approved by the board of directors.

### Interest rate risk

Fluctuating interest rates impact both the return on regulated assets and the cost of debt service. REN manages its exposure to interest rate risk by entering into financial derivatives transactions, whose double purpose is to achieve a balance between fixed and floating rates and to minimize interest charges in the medium and long term.

### Exchange rate risk

Exposure to exchange rate risk is limited and the JPY 10 billion bond has been hedged by a cross-currency swap.

### Commodity price risk

REN is also exposed to movements in a few energy-related commodities markets, where it has positions, albeit of limited relevance.

### Credit and counterparty risk

Exposure to credit risk is not significant as services are, to a large extent, invoiced to distributors of electricity and natural gas in a regulated market framework. In addition, contracts with clients tend to provide for the delivery of guarantees.

In bank deposits, financial investments and derivative instruments, counterparty risk is mitigated by the selection of first-rate institutions with a solid credit rating and high visibility in the market.

### Liquidity risk

Liquidity risk is controlled by the active and flexible management of committed commercial paper programmes and the negotiation of credit lines to cover cash requirements and minimize the effect of possible exogenous shocks.

## Human resources

REN's success depends on the skills and efforts of its employees and management teams. The continued success of the company depends to a large extent on its ability to attract, retain and motivate skilled employees. To this end, REN's human resources policy is based on training, ethics, development of the employees' potential and their motivation. The policy also aims to permanently update knowledge and consolidate a quality culture, two indispensable factors in the fulfilment of REN's public-service mission.

## Compliance

Compliance risks arise from the inadequate fulfilment of concession contract terms, of applicable laws and regulations and of international standards and agreements.

Although it considers it abides by the rules that govern its activities, REN has adopted procedures to monitor and mitigate compliance risks that follow the fulfilment of contract terms and check the legitimacy of the company's actions.

To manage and mitigate the risk of fraud and related offences, REN has a code of conduct and a set of procedures and controls whose purpose is to guide employees towards ethical behaviour as well as pre-empt any failure to comply with the law or the regulations.

The internal audit department is, together with the audit committee, responsible for monitoring the Group's internal control system. Both bodies are also responsible for the periodical review of implemented measures to make sure that the internal control system is updated as the company and its environment change.



# Environment, society and governance

## Environment

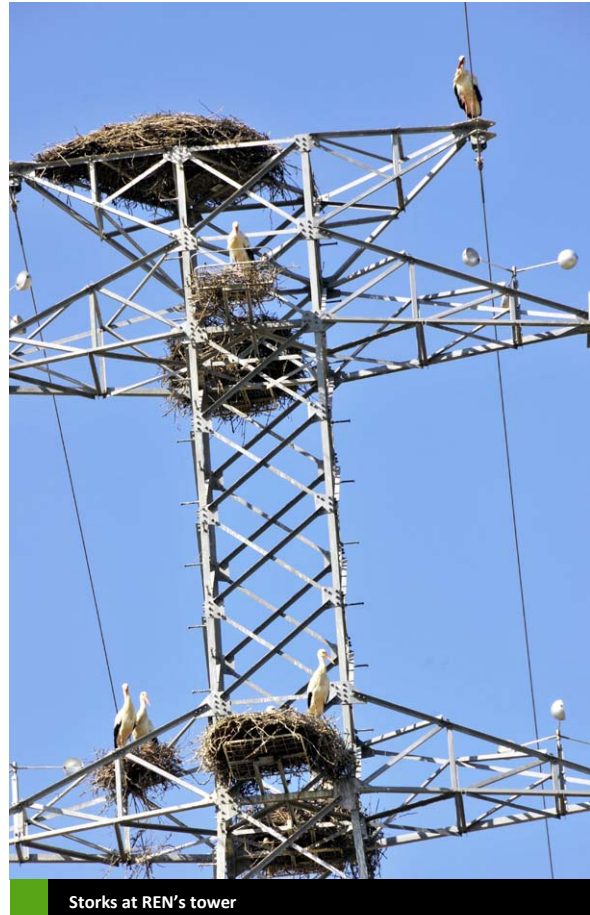
Ecosystem management and biodiversity promotion are essential for the development of REN's activities. The company's contribution translates into the integration of renewable sources in the network and the promotion of fuel diversification through the reception and transport of natural gas.

The impact and environmental risk of the activities of the REN group companies were previously assessed according to the following phases: planning, project design, construction, operation, maintenance and shutdown of obsolete infrastructure. This assessment was periodically reviewed, defined measures to minimise impact and established a set of mandatory guidelines for suppliers and service providers.

In the planning phase, REN controlled and accompanied the Strategic Environmental Assessment that was conducted to the Electricity Transmission Grid Development and Investment Plan for 2009-2014 (2019) (PDIRT in Portuguese). In the accompaniment phase of the Strategic Environmental Assessment of the PDIRT, several entities were consulted and meetings were held with the five commissions of Coordination and Regional Development, the Portuguese Environment Agency and the Institute for Nature Conservation and Biodiversity. In addition to these meetings, REN requested an opinion to 284 municipalities and six non-governmental organisations (NGO). This interaction with entities was essential to set up partnerships for monitoring and assessing this plan following implementation.

REN continued to promote environmental impact assessments and environmental incidents of main investments in the electricity and gas activities. In addition to environmental impact statements of the new development projects of Rede Eléctrica Nacional, an environmental impact assessment was conducted to the Celorico-Mangualde-Guarda gas pipeline, which led to the issue of a conditioned favourable environmental impact statement at the end of the year. Following these environmental impact assessments, minimisation and compensation measures impacts were adopted for this projects, including the continuation of the execution of compensatory measures related to the projects of Rede Eléctrica Nacional in the Alqueva-Brovaes, Tunes-Estói, Sines-Portimão 3 lines and in the branch of the Mogadouro-Valeira line for the Macedo de Cavaleiros substation.

To improve the environmental impact assessments at substations, REN drafted the Methodological Guide for Assessing the Environmental Impact of Infrastructures in the National Electricity Transmission Grid. This guide was made following an agreement



Storks at REN's tower

between REN and the Portuguese Environment Agency. The working version of the guide was published at REN's website and was available for public consultation between 7 May and 8 June. An email address was created to receive suggestions for improvement and the opinion of 40 entities was requested. Following the public consultation period, REN analysed the opinions and integrated some of them in the guide

In addition to the minimisation initiatives of the environmental impact of new projects or operation and maintenance activities, all REN group companies adopted new environmental requirements for every construction contract and contract in services, starting from the tender phase. The computer tools created by REN support the assurance of this implementation, started in 2009. To guarantee the suitable adoption of the new guidelines by every participant, several training activities were organised.

Under the implementation of the voluntary measures to improve the company's environmental performance, the implementation of the activities included in the four Environmental Performance Promotion Plan (PPDA in Portuguese), one for each concession holder, proceeded, which resulted of the application of this regulation instrument promoted by ERSE.

In 2010, the implementation of three PPDA's in the gas companies was completed. This process included the completion of studies in the biodiversity area and the execution of a project to use renewable energy as a complement to fuels through the installation of solar panels in natural gas regulating and metering stations.

REN maintained its participation in the Business & Biodiversity initiative, promoted by the Institute for Nature Conservation and Biodiversity.

For an improved knowledge of REN's initiatives related to impact management and environment promotion, the sustainability report 2010 may be consulted. This is the most important document on REN's performance in this area.

## Society

REN's contribution to the community is significant, both through the direct benefit of its activities and the good corporate citizenship shown in several areas. In addition to performing a strategic role in the Portuguese economy, particularly in the energy sector, REN defends the principles of sustainable development, thereby adopting an ethical and socially responsible management model.

As in previous years, REN developed its philanthropic activity through money contributions to several associations. REN supported initiatives of several municipalities and parishes as well as students' associations and amateur sports clubs. The focus on young people led REN to sponsor several initiatives of child development centres and youth centres in several regions of Portugal.

## Education

For the third year running, REN financially supported the Portuguese Physics Society in the MEDEA project. This project encourages secondary school students to draft a paper on measures of very low frequency electromagnetic fields, close to the school, at home and in the neighbourhood of lines of electrical energy transmission and to search for scientifically reliable information about possible effects of these fields on human health.

In 2010, the first place was awarded ex aequo to Escola Secundária José Estevão de Aveiro, to *Os Radiantes* from Agrupamento de Escolas José Sanches de Alcains and to *Os Hertzianos* from Escola Secundária D. Manuel I de Beja. *Os LSD* and *Os Voltpormetro* from Escola Secundária de Lousada, and *Onda Ocidental* from Escola 2,3/S Pe. Maurício de Freitas, EBS das Flores, Azores, received honourable mentions.

Overall, 110 students from 20 Portuguese secondary schools participated.

REN also contributed to initiatives of the Law Faculty and Economics Faculty of Universidade do Porto, of the Faculty of Science and Technology of Universidade Nova de Lisboa, of Instituto Superior Técnico, of Universidade Técnica de Lisboa and of Universidade de Coimbra.



Networking people meeting

## Culture

REN maintains a support policy of cultural initiatives. In recent years, REN sponsored hundreds of cultural initiatives, ranging from cinema to photography, documentary to animation, and theatre to music. These initiatives include the *Music Days in Belém*, *Celebrações do Centenário da República*, *Fantaspporto*, the election of the 7 Natural Wonders, and the year-end concert of *Orquestra Sinfónica Juvenil* from *Círculo Musical Português*.

REN also has the status of founding member of the Serralves Foundation and is a patron of *Centro Nacional de Cultura*. Overall, REN supports over 50 cultural entities, including several associations with educational, social and recreational purposes.

## Community

REN consolidated its support to various social institutions, such as the *Centro de Apoio ao Desenvolvimento Infantil* (CADIN), an institution with an important role in the support of children and youth with special needs. Aware of the importance of its collaboration, REN extended its help to *Banco Alimentar contra a Fome* and *Ajuda de Berço*. REN supported *União Humanitária dos Doentes com Cancro* and *Abraço*. Regarding help to Haiti, REN contributed to the initiatives of *AMI*, *Portuguese Cáritas*, *Médicos do Mundo* and *Centro Español Lisboa*.

**"Bring a toy, a garment... something that helps to create smiles"** was the motto for the Christmas campaign carried out by REN's employees jointly with *ENTRAJUDA*. This initiative brought joy to associations of children solidarity, namely the *Associação Criança e Vida*, in Porto, and the *Centro Social do Bairro 6 de Maio*, in Amadora.



### Sports

In 2010, REN supported triathlete Carlos Gomes, REN's employee, and the Paralympic athlete Diana Guimarães, world champion in 50 metres breaststroke swimming. REN sponsored the Open'10 Internacional de Natação Adaptada, organised by Anddemot – Associação Nacional de Desporto para Deficientes Motores, and the equestrian athlete Sara Duarte from the Academia Equestre João Cardiga.

## Governance

### Interaction between the board of directors and main shareholders

REN maintains regular contact with major shareholders, which have a seat on the board of directors.

REN's board of directors is composed of thirteen directors, of which eight are non-executive members (including the three members of the executive committee).

Under the fulfilment of the assigned remit, in 2010, the company's non-executive directors developed their supervisory role of the executive members' activity in an effective manner and without any constraints.

As provided in the Companies Code, the articles of association and the regulation of REN's board of directors, non-executive directors have performed the activities that are needed to fulfil their general supervision duty of the executive committee's performance.

The activity of non-executive directors, during 2010, consisted of the following initiatives:

- the exercise of roles within the audit committee by the three non-executive directors that are part of it;
- the participation in the meetings of the board of directors and the timely appreciation of matters discussed in those meetings, thereby having an

important role in the formulation of the business strategy and in the supervision of its implementation;

- the presentation to the executive committee of clarification requests related to the state of the company's management, mainly issues related to the financial position, internal control and risk management, governance matters and regulation issues; and
- the permanent accompaniment of issues related to (i) the model and principles of corporate governance, (ii) the assessment of the global performance of the board of directors and the analysis of the profile adequate to the remit of a REN's director, and (iii) the assessment of the performance of executive directors.

In 2010, the board of directors had thirteen meetings, attended by 90% of its members, which evidenced shareholder interest in the day-to-day management of the company.

The audit committee, which is composed of three directors, had twelve meetings in the year; the remuneration committee convened for three times, of which one had the participation of non-executive directors.

### Communication with the market

REN maintains permanent contact with the market, respecting the principle of equality between shareholders and avoiding asymmetry in the access to information.

To this end, REN takes measures deemed necessary to provide all the relevant information about the evolution of both its activity and earnings in a true, clear and consistent manner by permanently contacting with shareholders, investors in capital markets and financial analysts. REN pays special attention to the criteria used in the disclosure of periodic information in order to promote easy comparability of information between reporting periods. This information is provided by the Investor Relations Department (GIV in Portuguese).

In 2010, the GIV organised, on 11 November, the second Investor Day, where the capital expenditure plan for the 2010-2016 period was presented and which was attended by over 100 Portuguese and foreign analysts and investors.

During the year, a new representative for market relations was appointed.

Five conference calls took place, of which four were for questions regarding earnings and one was related to the new natural gas regulation, where analysts and investors were able to air their doubts directly to the chief executive officer and the chief financial officer.

Overall, the GIV clarified close to 50 investors and shareholders in person, by phone or by email.

In addition to increasing the company's visibility, the GIV's activity had in 2010 the additional goal of introducing the new CFO and representative for market relations to the community of analysts and investors following REN. To this end, REN participated in several events held in Portugal and in the main financial centres, such as Paris, Madrid, Geneva, Zurich, Frankfurt, London, Milan, Toronto, Boston, New York, Hartford, Atlanta and Chicago.

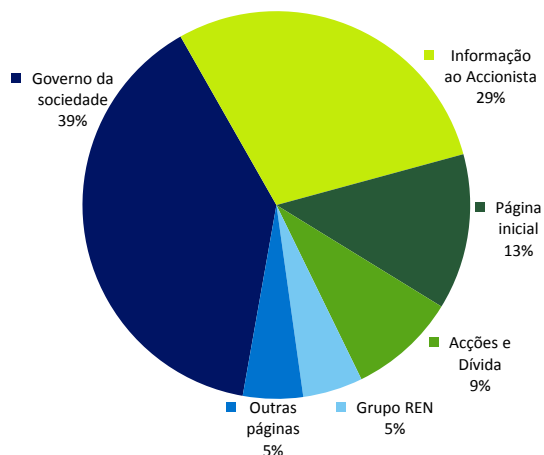
Overall, there were over 154 meetings (80 in 2009) in twenty events (thirteen in 2009) promoted by eight

different entities, which were attended by close to 150 investors.

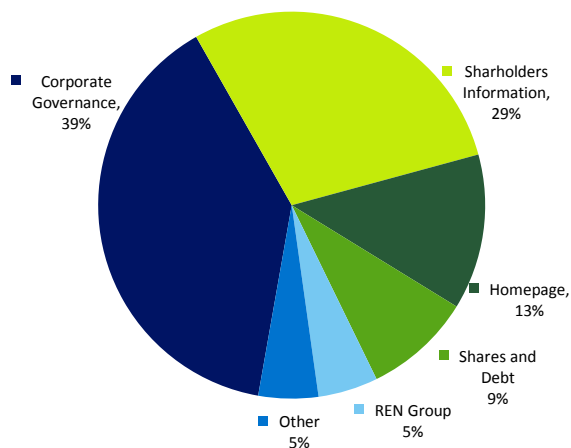
REN regularly discloses relevant information before the opening of the NYSE Euronext Lisbon or after its closing, making it available at CMVM's system of information disclosure and in the Investor section of REN's corporate website. In 2010, REN's corporate website had over 20 new subscriptions through the Receive alerts option (60 in 2009) and currently has over 160 permanent subscriptions.

In 2010, the company's corporate website had close to 130 thousand visits, of which 75% were to the Portuguese version, lasting, in average, 7.5 minutes.

**PORTUGUESE VERSION**



**ENGLISH VERSION**



**Shareholder structure**

In 2010, there were several changes in stake holdings attributable to private shareholders.

Gestmin SGPS, S.A. (Gestmin) announced on 21 September 2010 that Gestfin SGPS, S.A. (Gestfin) had been the target of a merger process, with global transfer of assets. This way, Gestmin held 28,057,479 shares, the equivalent of 5.254% of REN's share capital and voting rights.

Logoenergia, SGPS, S.A., renamed Logo Finance, S.A. on 13 December, sold on 28 December 28,189,792 ordinary, nominal and book shares, which accounts for 5.28% of REN's share capital and voting rights. Following this and other changes that occurred in the companies of Grupo Logoplaste, 8.44% of voting rights that correspond to REN's share capital, of which 5.28% of voting rights are directly held by Logoplaste Gestão e Consultoria Financeira, S.A. and 3.16% are indirectly held, were attributed to Logoplaste Gestão e Consultoria Financeira, S.A.

The Portuguese state maintains a controlling stake in REN's share capital, holding 51.1% of REN's share capital and voting rights due to its dominant stake in Capitalpor and Caixa Geral de Depósitos, S.A.

**Internal control**

The company's management and supervisory bodies have given growing importance to the development and improvement of the internal systems of control and risk management in the operating and financial aspects that have a significant impact on the activities of the REN group companies.

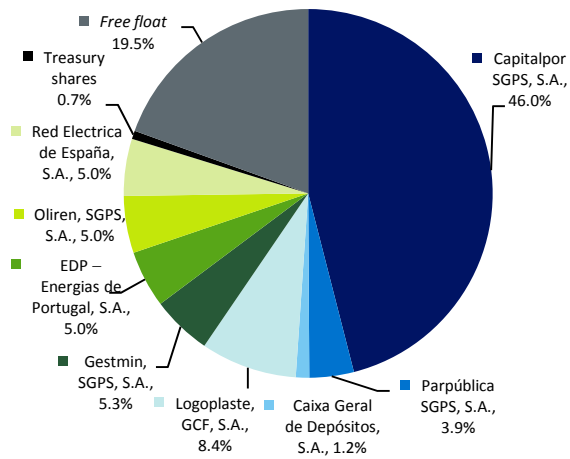
To guarantee conformity of procedures, main internal control systems in the REN group companies are regularly assessed.

Risk management systems are followed by the executive committee and, ultimately, the board of directors. The audit committee included in its activity plan for financial 2010 several monitoring, supervisory and assessment initiatives of the performance and adequacy of internal control and risk management systems.

To this end, an internal audit department reporting to the audit committee was set up on 13 May 2009; the department's primary roles are to perform financial, information technology, operational and management audits across the Group and to identify risk situations by systematically monitoring critical indicators.



**SHAREHOLDER STRUCTURE AT 31 DECEMBER 2010**



To centralise procurement processes of the REN group companies, a procurement department was set up in early 2010, whose contribution to value generation within the REN group consists of optimising capital expenditure and procurement, thereby ensuring transparency, strictness and integrity in the procurement process; its main responsibilities are the conduction of negotiation in purchasing processes, the management of the supplier panel and the relationship with suppliers, the supervision of low-amount purchasing processes made by business areas and the definition and application of REN’s procedures related to acquisition processes.

The performance of the procurement department is guided by strictness, ethics and transparency toward the

market and internal clients, thereby ensuring coherence and equal criteria in purchase decision processes in a cooperative spirit with business areas, focus on results and continuous improvement. As a result, REN’s internal standards and enforced law are fulfilled.

**Monitoring of the executive committee**

The performance of the members of the executive committee is assessed by non-executive directors, which ensures the effective control of executive directors’ initiatives and creates an adequate balance between executive and non-executive roles. Similarly, non-executive directors monitor the global performance of the board of directors and undertake a reflection process on the possibilities of improvement of the corporate governance model.



Roadshow

# Human resources

In 2010, REN set four major goals for its human resources strategy:

## Organisational culture

To raise the level of identification and integration with REN's values and culture, by furthering accountability, flexibility and networking;

## Sustainability

To implement a model for integrated human capital management in order to ensure the sustainability of REN's activities in their people dimension; this model is intended to be appealing, motivating and differentiating while ensuring the combination of all human resources policies;

## Productivity

To provide REN with a set of management indicators to evaluate and monitor the company's productivity by comparison with its peers and place it as *Best in class* internationally;

## Management practices

To be a leader in human resources management by enhancing the value of REN's intangibles and by developing, internally and externally, the concept of employer branding; in this regard, REN has developed an organisation model for its human resources set-up that aims to formulate policies and standardise people management criteria, thereby applying a common strategy across the REN group.

## The REN resource base

The number of employees dropped over the last three years as an early retirement programme was implemented – primarily in 2009 but also in 2010; this lowered the average age to 44.2 years.

The bulk of REN's population is in the range of 30 to 39 years old and over 40% is between 40 and 54 years old.

NUMBER OF EMPLOYEES AT 31 DECEMBER	2008	2009	2010
Electricity	414	366	359
Gas	166	179	175
Support	215	198	194
<b>Total</b>	<b>795</b>	<b>743</b>	<b>728</b>

TRAINEESHIPS	2008	2009	2010
Electricity	3	2	12
Gas	7	2	0
Support	4	4	2
<b>Total</b>	<b>14</b>	<b>8</b>	<b>14</b>

AVERAGE AGE AND SENIORITY	2008		2009		2010	
	Average age	Seniority	Average age	Seniority	Average age	Seniority
Electricity	47.14	21.10	46.46	20.69	45.87	20.10
Gas	39.63	8.52	40.36	9.18	40.58	9.89
Support	45.92	18.38	45.92	18.42	44.27	15.91
<b>Total</b>	<b>45.24</b>	<b>17.74</b>	<b>44.85</b>	<b>17.31</b>	<b>44.17</b>	<b>16.53</b>

AGE GROUP	2008		2009		2010	
Up to 29 years	72	9.06%	72	9.69%	76	10.44%
30 to 39 years	196	24.65%	195	26.24%	202	27.75%
40 to 49 years	155	19.50%	144	19.38%	149	20.47%
50 to 54 years	176	22.14%	176	23.69%	149	20.47%
55 to 59 years	163	20.50%	114	15.34%	109	14.97%
60 to 64 years	29	3.65%	38	5.11%	40	5.49%
65 years or more	4	0.50%	4	0.54%	3	0.41%
<b>REN</b>	<b>795</b>	<b>100.00%</b>	<b>743</b>	<b>100.00%</b>	<b>728</b>	<b>100.00%</b>



Although men outnumber women, the weight of females has slightly increased over the last three years. In 2010, women accounted for 40% of newly hired employees.

STAFF BY GENDER	2008		2009		2010	
Female	157	19.75%	151	20.32%	158	21.70%
Male	638	80.25%	592	79.68%	570	78.30%
<b>REN</b>	<b>795</b>	<b>100.00%</b>	<b>743</b>	<b>100.00%</b>	<b>728</b>	<b>100.00%</b>

Considering the nature of the company's activities and the need for highly specialised and qualified employees, over half of the REN staff holds an university-level degree.

ACADEMIC QUALIFICATIONS	2010	
PhD/Master's degree	58	7.97%
Bachelor's degree	341	46.84%
Secondary school	209	28.71%
9 <sup>th</sup> grade	120	16.48%
<b>Total</b>	<b>728</b>	<b>100.00%</b>

## Recruitment and mobility

In 2010, REN set out its recruitment and selection policy, whose overall goal is to hire the most adequate people to the needs of each area and the specific requirements of each role, especially in terms of skills.

The new policy aims (1) to identify and attract talented people; (2) to conduct recruitment processes fairly and equitably by using standardised criteria that reflect REN's mission, vision and values; and (3) to keep balanced salary practices within the company.

Besides lowering redundancies, the early-retirement programme for 2009/2010 rejuvenated the resource base to some degree and opened opportunities for the acquisition of new skills and experiences in selected areas. REN believes that combining existing know-how with new approaches enhances the success of companies in a decisive way.

In 2010, 46 new employees were hired, nine of which after they completed traineeships in the company. Ninety percent out of these had higher education and an average age of 31 years; out of the total number of employees hired in the year, nine took up management and senior positions.

Creating mobility opportunities, whether horizontal or vertically, is also a priority to the human resources management. Out of the 55 recruitment opportunities in 2010, 33% were filled by internal resources. Apart from these, REN offered 25 employees the possibility to change role or activity.

In 2010, most departures stemmed from early retirement.

ADMISSIONS IN 2010	
Fixed-term contracts	27
Staff	19
Others	2
<b>Total</b>	<b>48</b>

Note: Others = returns from leaves/requests

DEPARTURES IN 2010	
Deaths	2
Company's initiative	4
Employee's initiative	4
Leave/Request	6
Pre-retirement /pre-retirement advancement	40
Disability retirement	1
Age retirement	6
<b>Total</b>	<b>63</b>

## Traineeships

Over recent years, REN has promoted school and professional traineeships and in 2010 the company welcomed 16 trainees. The traineeship policy developed in the year set out the following goals: (1) to meet temporary needs with qualified resources; (2) to benefit from new approaches and new blood in the organisation; (3) to create a recruitment and selection base to evaluate and train potential employees; (4) to strengthen relationships with universities and other training institutions; (5) to enhance REN's internal and external standing as a well-known employer among students and in university circles.

To this end, REN participated in selected forums and job fairs in major universities as it developed its *Trainee REN* brand.



## Welcome programme

One improvement in the process for welcoming and integrating new employees was the launch of *Programa VIVA*. This consists of a standardised way of welcoming and integrating new employees, including trainees, at all organisational levels.

*Programa VIVA* encompasses a number of actions to be developed across the company, for a maximum of three months, which are designed to support and facilitate a swift and effective integration of new employees into the company.

This programme aims to convey an image of organisation, professionalism and rigour to new

employees, which will reflect the level of demand and quality that REN wants to ensure in the development of its activities.

With actions ranging from presentations of the main business areas and units to tours of main facilities, including a team-building initiative, the goal is to impart knowledge and an overview of the business in order to foster a team and cooperation spirit that will be replicated beyond the end of the programme.

This programme was launched in 2010 and the first session had 39 participants.



## Training and development

REN considers a strategic priority to upgrade the skills of its employees and support their personal and professional development.

In 2010, the number of participants in training sessions rose and all REN employees had the opportunity to participate at least in one training session.

The number and volume of contributions to post-graduate courses, Master's degrees and PhD programmes also rose significantly in comparison with previous years. REN's support to the *Novas Oportunidades* programme made it possible for 33 employees to finish secondary school.

TYPE OF TRAINING	2008		2009		2010	
	Participations	Hours	Participations	Hours	Participations	Hours
Technical	548	8,807	1,714	12,634	432	4,547
QES	207	2,060	213	3,188	782	5,199
Behavioural	119	2,588	85	1,427	1,228	4,373
<b>Total</b>	<b>874</b>	<b>13,454</b>	<b>2,012</b>	<b>17,248</b>	<b>2,442</b>	<b>14,118</b>

## Performance management and evaluation

Based on its awareness that successful people management also depends on how merit is recognised, REN launched in 2010 *Programa STAR*, a new performance management system.

By standardising performance appraisal systems, the programme aims to (1) identify each employee's potential as well as their training and development needs, (2) support decisions on career and promotions; (3) support the preparation of a training plan; (4) support decisions concerning wage increase; (5) support decisions on annual bonuses and their differentiation.

The programme is applicable to all REN employees and is based on a system of management by objectives and skills. The purpose is to evaluate each employee's performance and contribution to the results of their team/department,

to make clear which individual behaviour is desired and to identify strengths and weaknesses.

All REN employees have been trained on the programme, which will yield its first results in 2011.



## Employee satisfaction

In 2010, *POP – Programa de Opinião Pessoal* was launched for the purpose of knowing the opinion of employees on matters that are important to evaluate their working environment and satisfaction.

The aspects surveyed were diverse (motivation, commitment, performance, cooperation, communication, leadership and training among others) and enabled the analysis of a general satisfaction index.

This programme had the participation of 81.7% of REN's employees and its findings were reported in person to them. On the basis of these findings, plans of action were drawn up for the following two years.



## Communication and engagement

Good internal communications are crucial for engaging and motivating people and this was the rationale behind REN's first management meeting in June 2010. Based on the *Networking people* theme, the meeting had the participation of about 100 senior managers and of its main goals were to share REN's strategy for the coming years, to spread knowledge about projects under way in the main business areas and to foster a strong team spirit among participants.

The *REN 2010* roadshow was launched in September with six sessions in REN's main facilities and a participation rate of 83%. Apart from reporting on the POP findings, this initiative also presented the main drivers of REN's *Strategic Plan 2010-2016*.



Networking people meeting

## Occupational safety of external service providers

In 2010, external service providers worked 1,966,046 hours in activities involving very high voltage lines and substations. There were 18 occupational accidents in the year, which equated to a rate of 1,846 accidents per 100,000 workers. This was 21.8% of the number recently published by the government's labour department, or 8.471,8 accidents per 100,000 workers, and implied a reduction in comparison with the frequency index in 2009.

REN cared especially about compliance with all security procedures in construction activities, due to the particular risks involved in works with very high voltage lines and substations, particularly those of electrocution and fall from height. Specialist teams were hired for each construction work in order to supervise and coordinate security and make sure contracted workers were aware of safety issues.



Lines in Porto Alto

# Final note

The board of directors would like to extend their thanks to all those who have, throughout financial 2010, lent their support to their efforts in achieving the company's goals:

- To employees, for their dedication, commitment and professionalism as shown in their daily work, in alignment with company goals;
- To shareholders, for their support and trust as evidenced on several occasions in the company's life;
- To the audit committee, the chartered accountants and the external auditors, for their invaluable cooperation.

Lisbon, 16 March 2011

## The Board of Directors

Rui Manuel Janes Cartaxo

Luís Maria Atienza Serna

Aníbal Durães dos Santos

Manuel Carlos Mello Champalimaud

João Caetano Carreira Faria Conceição

Filipe Maurício Botton

João Manuel de Castro Plácido Pires

José Isidoro d'Oliveira Carvalho Neto

João Nuno de Oliveira Jorge Palma

José Luís Alvim Marinho

Gonçalo José Zambrano de Oliveira

José Frederico Vieira Jordão

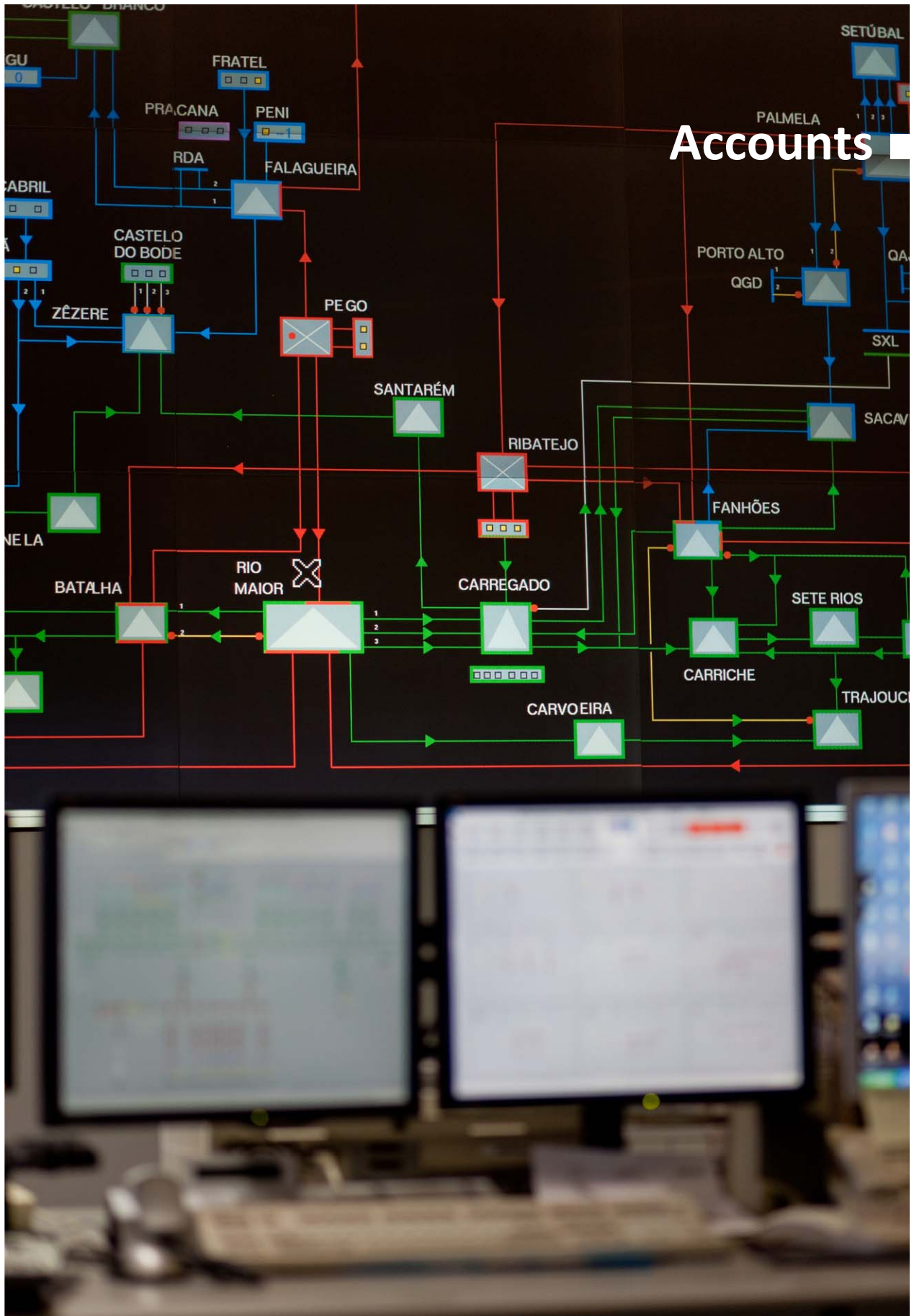
Fernando António Portela de Rocha Andrade

## Proposed allocation of net profit

The consolidated net profit of REN SGPS, S.A. for the 2010 financial year amounted to €110,265,128.06 (one hundred and ten million, two hundred and sixty-five thousand, one hundred and twenty-eight euros and six cents).

In view of the foregoing and pursuant to article 28 of the Articles of Association of REN SGPS, S.A. and articles 31 to 33 and 66, paragraph 5, of the Portuguese Companies Code, the board of directors proposes that the net profit of €107,276,571.70 (one hundred and seven million, two hundred and seventy-six thousand, five hundred and seventy-one euros and seventy cents), reported according to SNC principles in the 2010 separate financial statements, is to be allocated as follows:

- to the legal reserve – €5,363,828.59 (five million, three hundred and sixty-three thousand, eight hundred and twenty-eight euros and fifty-nine cents);
- to dividends – €89,712,000 (eighty-nine million, seven hundred and twelve thousand euros), which amounts to 81.360% of consolidated net profit of €110,265,128.06 (one hundred and ten million, two hundred and sixty-five thousand, one hundred and twenty-eight euros and six cents) for REN SGPS S.A. in 2010, which equates to a gross dividend per share of €0.168;
- to free reserves – €12,200,743.11 (twelve million and two hundred thousand, seven hundred and forty-three euros and eleven cents).



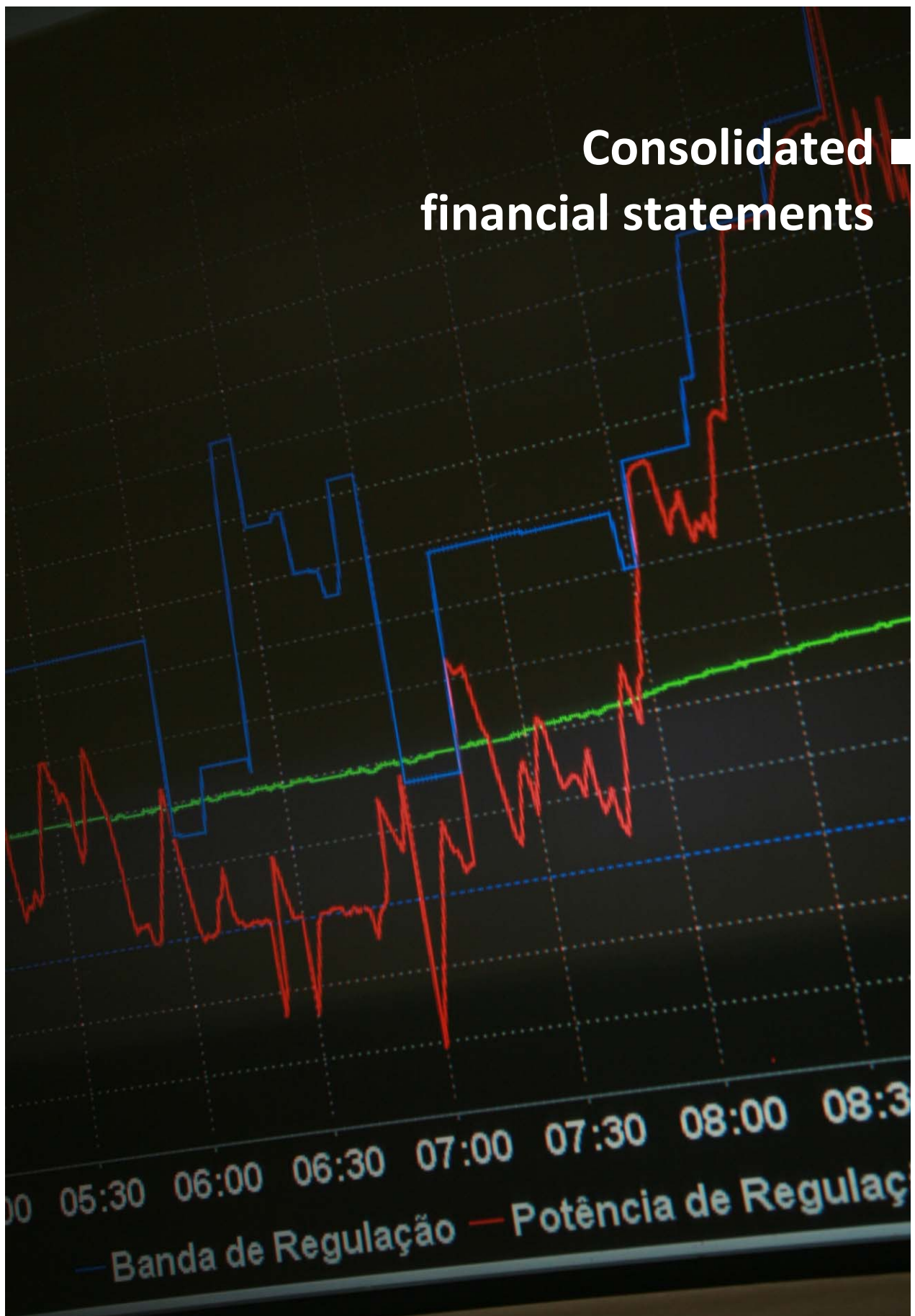
# Accounts



# Table of contents

Consolidated financial statements	<b>75</b>
Separate financial statements	<b>131</b>
Auditors' reports and opinions	<b>160</b>
Audit committee's reports and opinions	<b>164</b>

# Consolidated financial statements



# Consolidated financial statements

## Consolidated statements of financial position as of 31 December 2010 and 2009

(Translation of consolidated statements of profit and loss originally issued in Portuguese – Note 37)

Amounts expressed in thousands of euros - tEuros	Notes	As of 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	7	1,201	884
Goodwill	7	3,774	3,774
Other intangible fixed assets	7	3,720,857	3,450,992
Interest in joint ventures	8	–	11,063
Deferred tax assets	9	60,802	37,627
Available-for-sale financial assets	10 and 11	84,301	90,419
Derivative financial instruments	10 and 15	20,699	–
Other investments	10	7,119	7,276
Trade and other receivables	10 and 12	66,505	44,122
		<b>3,965,255</b>	<b>3,646,157</b>
<b>Current assets</b>			
Inventories	13	4,047	23,789
Trade and other receivables	10 and 12	275,796	426,527
Current income tax recoverable	10 and 29	361	25,115
Guarantee deposits	10 and 14	74,234	102,637
Derivative financial instruments	10 and 15	2,212	–
Cash and cash equivalents	10 and 16	138,598	69,888
		<b>495,248</b>	<b>647,955</b>
<b>Total assets</b>		<b>4,460,503</b>	<b>4,294,113</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	17	534,000	534,000
Own shares	17	-10,728	-10,728
Other reserves	18	211,582	161,638
Retained earnings	18	170,453	177,067
Consolidated profit for the year	18	110,265	134,107
		<b>1,015,572</b>	<b>996,085</b>
Minority interests	34	6,329	514
<b>Total equity</b>		<b>1,021,901</b>	<b>996,599</b>

The accompanying notes form an integral part of the consolidated statements of financial position as of 31 December 2010.

The Accountant

The Board of Directors

**Consolidated statements of financial position as of December 31 2010 and 2009 (cont.)**

Amounts expressed in thousands of euros - tEuros	Notes	As of 31 December	
		2010	2009
<b>LIABILITIES</b>			
<b>Non- current liabilities</b>			
Borrowings	10 and 19	1,910,650	1,711,320
Deferred tax liabilities	9	71,551	81,586
Retirement and other benefits obligations	20	66,031	69,846
Derivative financial instruments	10 and 15	2,875	10,149
Provisions	21	4,611	4,307
Trade and other payables	10 and 22	451,940	399,508
		<b>2,507,659</b>	<b>2,276,716</b>
<b>Current liabilities</b>			
Borrowings	10 and 19	347,134	497,456
Provisions	21	12,470	981
Trade and other payables	10 and 22	432,806	419,726
Income tax payable	10 and 29	59,925	–
Derivative financial instruments	10 and 15	4,375	–
Guarantee deposits	10 and 14	74,234	102,637
		<b>930,944</b>	<b>1,020,799</b>
<b>Total liabilities</b>		<b>3,438,603</b>	<b>3,297,515</b>
<b>Total equity and liabilities</b>		<b>4,460,503</b>	<b>4,294,113</b>

The accompanying notes form an integral part of the consolidated statements of financial position as of 31 December 2010.

The Accountant

The Board of Directors

**Consolidated statements of profit and loss for the years ended 31 December 2010 and 2009**

(Translation of consolidated statements of profit and loss originally issued in Portuguese – Note 37)

Amounts expressed in thousands of euros - tEuros	Notes	As at 31 December	
		2010	2009
Sales	23	917	1,299
Services provided	23	757,910	550,179
Revenue from construction of concession assets	3.2	420,483	458,024
Other operation income	27	37,806	25,809
Gain / (loss) on joint ventures	8	8,092	10,033
<b>Operating income</b>		<b>1,225,207</b>	<b>1,045,345</b>
Cost of goods sold	–	-747	-1,120
Cost with construction of concession assets	3.2	394,548	-434,154
External supplies and services	24	-80,423	-84,718
Personnel costs	25	-51,223	-55,844
Amortization and depreciation of the period	7	-172,633	-160,491
Provisions	21	-12,774	53,536
Other costs	26	-262,340	-103,854
<b>Operating costs</b>		<b>-974,688</b>	<b>-786,645</b>
<b>Operating results</b>		<b>250,519</b>	<b>258,699</b>
Financial costs	28	-89,883	-85,216
Finance income	28	2,194	8,103
Dividends received		3,790	3,338
<b>Profit before income taxes</b>		<b>166,619</b>	<b>184,925</b>
Income tax expense	9 and 29	-56,353	-50,878
<b>Profit for the year</b>		<b>110,266</b>	<b>134,047</b>
<b>Attributable to:</b>			
Equity holders of the Company		110,265	134,107
Minority interest		1	-60
		<b>110,266</b>	<b>134,047</b>
<b>Earnings per share attributable to the equity holders of the company during the year (expressed in euro per share)</b>			
- basic		0.21	0.25
- diluted		0.21	0.25

The accompanying Notes form an integral part of the consolidated statement of profit and loss for the year ended 31 December 2010.

The Accountant

The Board of Directors

## Consolidated statements of comprehensive income for the years ended 31 December 2010 and 2009

(Translation of consolidated statements of comprehensive income and expense originally issued in Portuguese – Note 37)

Amounts expressed in thousands of euros - tEuros	Notes	Period ended	
		2010	2009
<b>Net profit for the period</b>		<b>110,266</b>	<b>134,047</b>
<b>Other income and cost recorded in equity:</b>			
Increase/(decrease) in hedging reserves - derivative financial instruments		5,949	-7,556
Actuarial gains and losses - before income tax	20	1,833	-27,144
Gains/(loss) on assets held for sale - gross amount	11	-6,118	3,496
Land sale effects		-	-22,754
Other variations		-	671
Tax effect on items recorded directly in equity	9	-3,913	14,540
<b>Comprehensive income for the period</b>		<b>108,017</b>	<b>95,300</b>
<b>Attributable to:</b>			
Equity holders of the company		108,018	95,360
Minority interest		1	-60
		<b>108,017</b>	<b>95,300</b>

The accompanying notes form an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2010.

The Accountant

The Board of Directors



## Consolidated statements of changes in equity for the years ended 31 December 2010 and 2009

(Translation of consolidated statements of changes in equity originally issued in Portuguese – Note 37)

Thousands of euros - tEuros	Notes	Attributable to the shareholders									Total
		Share capital	Own shares	Legal reserve	Fair value reserve	Hedging reserves	Other reserves	Retained earnings	Profit for the year	Minority interest	
<b>At 1 January 2009</b>		<b>534,000</b>	<b>-6,619</b>	<b>67,221</b>	<b>-6,279</b>	<b>-</b>	<b>103,218</b>	<b>121,631</b>	<b>179,764</b>	<b>574</b>	<b>993,510</b>
<b>Net profit of the period and other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>3,032</b>	<b>-5,553</b>	<b>-</b>	<b>-36,226</b>	<b>134,107</b>	<b>-60</b>	<b>95,300</b>
Acquisition of own shares	17	-	-4,109	-	-	-	-	-	-	-	-4,109
Distribution of dividends	31	-	-	-	-	-	-	-88,102	-	-	-88,102
Application of net profit from previous years		-	-	-	-	-	-	179,764	-179,764	-	-
<b>At December 31 2009</b>		<b>534,000</b>	<b>-10,728</b>	<b>67,221</b>	<b>-3,247</b>	<b>-5,553</b>	<b>103,218</b>	<b>177,067</b>	<b>134,107</b>	<b>514</b>	<b>996,599</b>
<b>Attributable to the shareholders</b>											
<b>At 1 January 2010</b>		<b>534,000</b>	<b>-10,728</b>	<b>67,221</b>	<b>-3,247</b>	<b>-5,553</b>	<b>103,218</b>	<b>177,067</b>	<b>134,107</b>	<b>514</b>	<b>996,599</b>
<b>Net profit of the period and other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-6,614</b>	<b>4,412</b>	<b>-3,172</b>	<b>3,125</b>	<b>110,265</b>	<b>1</b>	<b>108,017</b>
Acquisition of own shares		-	-	-	-	-	-	-	-	-	-
Minority interests from changes in the consolidation perimeter	17	-	-	-	-	-	-	-	-	5,814	5,814
Distribution of dividends	31	-	-	-	-	-	-	-88,530	-	-	-88,530
Application of net profit from previous years		-	-	7,224	-	-	48,092	78,791	-134,107	-	-
<b>At 31 December 2010</b>		<b>534,000</b>	<b>-10,728</b>	<b>74,445</b>	<b>-9,861</b>	<b>-1,141</b>	<b>148,138</b>	<b>170,453</b>	<b>110,265</b>	<b>6,329</b>	<b>1,021,901</b>

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2010.

The Accountant

The Board of Directors

## Consolidated statements of cash flows for the years ended 31 December 2010 and 2009

(Translation of consolidated statements of cash flows originally issued in Portuguese – Note 37)

Amounts expressed in thousands of euros - tEuros	Notes	Period ended	
		2010	2009
<b>Cash flow from operating activities</b>			
Cash receipts from customers		2,155,337	1,636,126 a)
Cash paid to suppliers		-1,528,101	-1,312,341 a)
Cash paid to personnel		-61,759	-53,665
Income tax paid		-8,449	-148,990
Other payments/receipts relating to operating activities		-8,230	-3,948
<b>Net flow from operating activities</b>		<b>548,798</b>	<b>117,181</b>
<b>Cash flow from investing activities</b>			
Receipts related to:			
Grants received		22,501	32,632
Interests and other similar income		829	-
Dividends		3,859	12,014
Payments related to:			
Tangible fixed assets		-123	-47
Intangible assets		-363,401	-386,971
<b>Net cash used in investing activities</b>		<b>-336,335</b>	<b>-342,372</b>
<b>Cash flow from financing activities</b>			
Receipts related to:			
Borrowing		11,065,763	11,010,571
Capital increases		6	-
Interests and other similar income		190	22,016
Payments related to:			
Borrowings		-11,033,411	-10,652,338
Interests and other similar expenses		-91,918	-91,403
Own shares	17	-	-4,109
Dividends	31	-88,530	-88,102
<b>Net cash (used in)/from financing activities</b>		<b>-147,899</b>	<b>196,636</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>64,564</b>	<b>-28,555</b>
Cash and cash equivalents at the beginning of the year	16	24,576	60,407
Inclusion of Gasodutos Campo Maior -Leiria-Braga e Braga Tuy in consolidation perimeter		12,731	-
Reclassification of other financial assets		-	-7,276
<b>Cash and cash equivalents at the end of the period</b>	<b>16</b>	<b>101,871</b>	<b>24,576</b>
<b>Detail of cash and cash equivalents</b>			
Cash	16	10	1
Bank overdrafts	16	-36,727	-45,312
Bank deposits		138,588	69,887
		<b>101,871</b>	<b>24,576</b>

a) These amounts include payments and receivables related with the activities that the entity develops as Agent, which income and expenses are compensated in the consolidated statement of profit and loss.

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended 31 December 2010.

The Accountant

The Board of Directors

# Notes to the consolidated financial statements as of 31 December 2010

(Translation of notes to consolidated financial statements originally issued in Portuguese – Note 37)  
(Amounts expressed in thousands of euros – tEuros)

## 1. General information

REN – Redes Energéticas Nacionais, SGPS, S.A. (referred to in this document as “REN” or “the Company” together with its subsidiaries, referred to as “the Group” or “the REN Group”), with head office in Avenida Estados Unidos da América, 55 – Lisbon, was formed from the spin-off of the EDP Group, in accordance with Decree-Laws 7/91 of 8 January and 131/94 of 19 May, approved by the Shareholders’ General Meeting on 18 August 1994, with the objective of ensuring the overall management of the Public Electric Supply System (PES).

Up to 26 September 2006 the REN Group’s operations were concentrated on the electricity business through REN – Rede Eléctrica Nacional, SA.. On 26 September 2006, as a result of the unbundling transaction of the natural gas business, the Group underwent a significant change with the purchase of assets and financial participations relating to the transport, storage and re-gasification of natural gas activities, comprising a new business.

In the beginning of 2007 the Company was transformed into a holding company and, after transfer of the electricity business to a new company formed on 26 September 2006, named REN – Serviços de Rede, S.A., changed its name to REN – Rede Eléctrica Nacional, S.A..

The Group presently has two main business areas, Electricity and Gas, and two secondary businesses, in the areas of Telecommunications and Management of the Electricity Derivatives Market.

The Electricity business includes the following companies:

- a) REN – Rede Eléctrica Nacional, S.A., founded on 26 September 2006, the activities of which are carried out under a concession contract for a period of 50 years as from 2007 and establishes the overall management of the Public Electricity Supply System (PES);
- b) REN Trading, S.A., founded on 13 June 2007, the main function of which is the management of electricity purchase contracts (EPC) from Turbogás, S.A. and Tejo Energia, S.A., which did not terminate on 30 June 2007, date of the entry into force of the new CMEC contracts. The operations of this company include the trading of electricity produced and of the installed production capacity, with domestic and international distributors.

The Gas business covers the following companies:

- a) REN Gasodutos, S.A. This company was founded on 26 September 2006, the capital of which was paid up through integration of the gas transport infrastructures (network; connections; compression);

- b) REN Armazenagem, S.A. This company was founded on 26 September 2006, the capital of which was paid up through integration of the underground gas storage assets;
- c) REN Atlântico, Terminal de GNL, S.A. This company was acquired under the acquisition of the gas business, previously called “SGNL – Sociedade Portuguesa de Gás Natural Liquefeito”. The operations of this company consist of the supply, reception, storage and re-gasification of natural liquefied gas through the GNL maritime terminal, being responsible for the construction, utilisation and maintenance of the necessary infrastructures.

The operations of these companies are carried out under three concession contracts granted separately for periods of 40 years as from 2006.

In addition REN Gasodutos, S.A. has participations in two companies founded under joint venture with the Spanish gas transporter, Enagás, to which REN Gasodutos ceded the transport rights to specific gas pipelines (Braga-Tuy and Campo Maior - Leiria – Braga).

These joint ventures were created with the objective of jointly managing the transport capacity of some sectors of REN Gasodutos, S.A.’s gas pipelines with the allocation to each of the partners of a transport capacity so as to ensure maximum utilization of its capacity. The profitability of these companies was ensured by the two partners (REN and Enagás) through the fixing of an annual price payable for each natural gas unit transported.

On 17 December 2010 a contract was entered into between REN Gasodutos, S.A. and Enagás, S.A. relating to the release of Enagás, S.A. from the joint project of natural gas supply to Portugal and Spain. The project establishes the transmission by Enagás to the benefit of REN Gasodutos, of its utilization rights of the gas pipeline capacity, through the payment by REN Gasodutos of the amount of 29 000 thousand Euros. In addition, the contract establishes the settlement of all the amounts due between the transport companies (Gasoduto Campo Maior Leira Braga, S.A. and Gasoduto Braga-Tuy, S.A.) and Enagás and the amortization of the shares held by Enagás in the capital of these transport companies, becoming REN holder of the control of the operating policies of the transport companies as from 31 December 2010 (Note 34).

The telecommunications business is managed by RENTELECOM Comunicações, S.A., the operations of which consist of the establishment, management and utilization of telecommunications systems and infrastructures, supplying communications services and benefitting from

the excess capacity of the fibre optics belonging to the REN Group.

Management of the Electricity Derivatives Market is carried out by OMIP – Operador do Mercado Ibérico de Energia (Pólo Português), S.A.. This entity was founded to organise the Portuguese division of MIBEL, providing management of MIBEL's Derivatives Market together with OMIClear (Clearing Agent for the Energy Market), a company founded and fully owned by OMIP, which role is to be the clearing agent and central counterparty for operations realized in the term market. OMIP started operating on 3 July 2006.

Following the Santiago Agreements, the company OMIP, S.A. was founded and started operating on 16 September 2010 with the corporate objective of managing participations in other companies as an indirect form of carrying out economic activities. The company became holder of the shares in OMIP – Operador do Mercado Ibérico de Energia (Pólo português), S.A..

REN Serviços, S.A. started operating in January 2008, its operations consist of the rendering of any general administrative, financial, regulating, personnel management, salary processing, management and maintenance of the non-fixed assets and fixed assets, negotiation and supply of consumables or services and in general any other services of that type, usually known as back-office services, being remunerated for these, both for related group companies and any third parties.

On 15 December 2010, the corporate objective of REN Serviços, S.A. was changed becoming: the Company has the objective of rendering services in the energy area and general services in the support and development of the business, being remunerated, by related companies or by third parties, as well as the management of investments that the company has in other companies.

Enondas, Energia das Ondas, S.A. was founded on 14 October 2010, its capital being fully held by REN - Redes Energéticas Nacionais, S.A., and its main activity is manage the concession to operate a pilot area for the production of electric energy from ocean waves.

### 1.1 Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors at a meeting held on 16 March 2011. The Board of Directors believes that the consolidated financial statements fairly present the financial position of the companies included in the consolidation, the consolidated results of their operations, their consolidated comprehensive income, the consolidated changes in their equity and their consolidated cash flows in accordance with the International Financial Reporting Standards as endorsed by the European Union.

## 2. Information on the concession contracts awarded to REN

### 2.1 Electricity concession contract

The concession to use the National Transmission Network (“NTN”) was granted to REN – Rede Eléctrica Nacional, S.A. in accordance with Decree-Law 182/95 of 27 July 1995 (art.

64) in order to the management of the Public Electric Supply system (PES), utilization of the National Transmission Network as well as development of the necessary infrastructures.

The objective of this concession contract consists of the following activities:

#### (i) Purchase and sale of electricity

In this area REN, SA operated up to 30 June 2007 as an agent between electricity producers and distributors. The electricity was acquired based on purchase and sale contracts entered into with producers and sold in accordance with tariffs defined by the regulator, ERSE (Entidade Reguladora de Serviços Energéticos).

REN was agent in the sale of available production excesses. REN had the right to retain 50% of the commercial profit obtained from these services.

As from 1 July 2007, upon termination of the majority of electricity purchase contracts (EPC), REN has managed the two remaining EPC's not terminated, with Tejo Energia (Pego Centre) and Turbogás (Gas Centre of Tapada do Outeiro), through REN Trading, placing the energy of these producers on the market.

#### ii) Transmission of Electricity

This is REN's main activity, the object being to transmit electricity through the National Transmission Network to distributors in Mt (medium tension) and HT (high tension), to consumers connected to the National Transmission Network and VHT networks (very high tension) networks to which REN is connected. This activity also includes the planning and development of the National Transmission Network, the construction of new infrastructures and the operation and maintenance of the National Transmission Network.

The model concession contract ensures contractual equilibrium through the recovery of amortization and remuneration of the investment made in the concession's assets and recovery of the eligible operating costs.

#### iii) Overall Management of the System

The objective of this activity is overall management of the electricity system, REN being responsible for the technical management through coordination, at the points connected to the National Transmission System, the transit of electric energy of the production installations, the distribution networks, in MT and HT, and of the consumers connected to the National Transmission Network, through dispatch orders.

The overall management of the system has also ensured contractual equilibrium through the recovery of amortization of the concession's assets and remuneration of the investments made. Remuneration is calculated based on the average net amount of the assets allocated to the activity.

REN can carry out other activities directly, or through subsidiary companies, when authorized by the Government, if this is in the best interests of the concession or its clients. This is the case of OMIP, which manages the Electricity Derivatives Market through MIBEL and its subsidiary OMIClear, that functions as a clearing house.

The concession was granted for a period of 50 years as from 15 January 2007. The assets considered as concession assets are those acquired by REN from RNT, which include:

- the lines, substations, sectioning points and related installations;
- the installations related to the central dispatch and overall management of SEP, including all the equipment essential for its functioning; and
- the telecommunication, telemetry and telecommand installations relating to the transmission and coordination of the electricity producer system.

In addition, the following are also considered as concession assets:

- the real estate belonging to REN on which the assets referred to above are installed, as well as the related rights of way;
- the locations for the installation of the electricity producers, the ownership of which belongs to REN;
- other moveable or fixed assets necessary for the operation of the activities under concession; and
- the legal relationships directly related to the concession, such as labour, works, location, the rendering of services, the reception and delivery of electric energy, as well as the rights to use water resources and transport through networks located outside the concession area.

REN must, during the concession period, maintain the assets and related means in good functioning order, maintenance and security of assets and related means, carrying out all the repairs, renewals and adaptations necessary to maintain the assets in the required technical conditions.

REN has the right to exploit the concession's assets up to termination of the concession. The assets can only be used for the purposes of the concession. On the date the concession terminates, the assets related to it revert to the State in accordance with the terms of the contract, which include the receipt of an indemnity corresponding to the net book value of the assets allocated to the concession.

The concession can be terminated by agreement between the parties, by rescission, by redemption and by expiry of the term. Termination of the concession involves transmission to the State of the assets related to the concession.

The concession contract can be rescinded by the conceding entity if any of the following situations with a significant impact on the operations of the concession occurs: not complying with the principles of the concession; opposition to supervision and disobedience of the decisions of the conceding entity; refusal to carry out the repairs and maintenance of the concession's assets, as well as their development; application of higher tariffs than those defined by the regulator; and the unauthorized transmission or sub-concession of the transmission concession.

The conceding entity can cancel the concession whenever motives of public interest justify this, 15 years having elapsed since the date of the beginning of its term. By cancelling the concession, the concessionaire has the right to an indemnity in accordance with the book value of

the assets as of the date they revert as well as to possible loss of profits.

If, upon termination of the concession, it is not renewed or the new form or entity responsible for the concession has not been decided, this concession contract can be extended for the maximum period of one year, as a lease contract, rendering of services or any other legal form of contract.

In accordance with ERSE Order 11/2010 of 7 September 2010, REN S.A. became subject to a new remuneration mechanism for the electricity segment, referred to as reference prices, which is applicable to for all investment in lines and substations which start operating between 1 January 2009 and 31 December 2011.

## 2.2 Transport of Gas and Overall Management of the System

The concession to use the National Natural Gas Transport Network was granted to REN - Gasodutos, S.A. under Decree-Law 140/2006 of 26 July 2006, with the objective of managing the National Natural Gas System (Sistema Nacional de Gás Natural - SNGN), operation of the high pressure gas transport network and development of the necessary infrastructures, under the public service regime.

The concession contract covers the following activities:

### (i) Transport of gas

This one of REN – Gasodutos, S.A.'s activities, and has the objective of ensuring the transport of gas through the infrastructures that make up the high pressure national network, as well as distribution to SNGN or industrial consumers connected directly to the National Natural Gas Transport Network. This activity includes not only the reception and distribution of gas through the high pressure transport network, but also operation and maintenance of all the infrastructures and connections belonging to the National Natural Gas Transport Network.

The model of the concession contract ensures contractual equilibrium through recovery of the eligible operating costs and remuneration of the assets, which includes: recovery of amortization of the assets; and remuneration at an interest rate fixed by the regulator (ERSE), calculated as a proportion between the current accumulated value of the units transported and the total estimated units to be transported through the infrastructure, during the concession period.

### ii) Overall management of the gas system

The objective of this activity is to manage the National Gas Supply System (Sistema Nacional de Abastecimento de Gás - SNGN) through coordination of the national and international connections to the National Natural Gas Transport Network, planning and preparation of the expansion necessary of the high pressure gas transport network, and control of the natural gas safety reserves.

This concession was granted for a period of 40 years as from the date of signature of the contract. The assets considered as concession assets are those acquired by REN from Transgás and include:

- the high pressure gas pipelines used to transport gas, and related pipes and antennae;

- the infrastructures related to the compression, transport and gas pressure reduction for delivery to medium pressure gas pipelines;
- equipment related to the overall technical management of the National Gas Supply System; and
- telecommunications, telemetry and remote control infrastructures used to manage the reception, transport and delivery networks, including the gas metres placed in the installations of users.

In addition, the concession assets also include:

- the real estate owned by REN Gasodutos, S.A., on which the above mentioned equipment is installed, as well as the related rights of way;
- other assets necessary for carrying out the activities of the concession;
- any intellectual or industrial rights owned by REN Gasodutos, S.A.; and
- all the legal relationships related to the concession, such as labour contracts, subcontracts, leasing and external services.

REN Gasodutos, S.A. must, during the period of the concession, maintain the assets and related means in good working order, maintenance and security, carrying out all the repairs, renewals and adaptations necessary to maintain the assets in the required technical condition.

REN Gasodutos, S.A. is the owner and has title to the concession's assets. The assets can only be used for the purposes of the concession. On the date the concession terminates, the assets related to it revert to the State in accordance with the terms of the contract, which include the receipt of an indemnity corresponding to the net book value of the assets allocated to the concession.

The concession can be terminated by agreement between the parties, by rescission, by redemption and by expiry of the term. Termination of the concession involves transmission to the State of the assets related to the concession.

The concession contract can be rescinded by the conceding entity if any of the following situations with a significant impact on the operations of the concession occurs: imminent failure or interruption of the activity; deficiencies in the maintenance and repair of the infrastructures that compromise the quality of the services.

The conceding entity can cancel the concession whenever motives of public interest justify this, 15 years having elapsed since the date of the beginning of its term. By cancelling the concession, the concessionaire has the right to an indemnity in accordance with the book value of the assets as of the date they revert as well as to possible loss of profits.

If, upon termination of the concession, it is not renewed or the new form or entity responsible for the concession has not been decided, this concession contract can be extended for the maximum period of one year, as a lease, rendering of services or any other legal form of contract.

### 2.3 Reception, Storage and Regasification of Liquid Natural Gas (LNG)

The concession of the operations of the of the LNG terminal was granted to REN Atlântico, S.A. under Decree-Law

140/2006 of 26 July 2006, to carry out the following activities under the rendering of public services regime:

- a) Reception, storage, treatment and regasification of liquid natural gas unloaded from methane tankers in the Port of Sines;
- b) the injection of high pressure natural gas in the National Natural Gas Transport Network (Rede Nacional de Transporte de Gás Natural - RNTGN) or its dispatch by specialised trucks; and
- c) The construction, utilization, maintenance and expansion of the LNG Terminal infrastructures (buildings, tanks, gas pipelines, etc.).

The model of the concession contract ensures contractual equilibrium through recovery of the eligible operating costs and remuneration of the assets, which includes: recovery of amortization of the assets; and remuneration at an interest rate fixed by the regulator (ERSE), calculated as a proportion between the current accumulated value of the units unloaded and regasified, and the total estimated units to be regasified through the infrastructure, during the concession period.

The concession was granted for a period of 40 years as from the date of signature of the contract. The assets considered as concession assets are those acquired by the REN Group from Transgás and include:

- the LNG terminal and related infrastructures installed in the Port of Sines;
- the infrastructures related to liquefied natural gas reception, storage, treatment and regasification, including all the equipment necessary to control, regulate and measure all the infrastructures and LNG terminal operations;
- the infrastructures used to inject of natural gas into the National Natural Gas Transport Network or the loading and dispatch of LNG through trucks or methane tankers; and
- the infrastructures related to telecommunications, telemetry and remote control, used to manage all the infrastructures and the LNG terminal.

In addition, the following are also considered as concession assets:

- the real estate owned by REN Atlântico, SA, where the above mentioned equipment is installed as well as the related right of way;
- other assets necessary for the operations of the concession;
- any intellectual or industrial rights owned by REN Atlântico, SA; and
- all the legal relationships established during the concession, such as: labour contracts, subcontracts, leasing and external services.

REN Atlântico, S.A. must, during the concession period, maintain the assets in good operating condition, maintenance and security of the assets and related means, carrying out the necessary repairs, renewals and adaptations necessary keep the assets in the required technical conditions.

REN – Atlântico, S.A. has the right to operate the assets of the concession until it is extinguished. These assets may



only be used for the purposes of the concession. At the termination of the concession the concession assets revert to the State in accordance with the contract, which provides for an indemnity to be paid corresponding to the net book value of the concession assets.

The concession can be cancelled by agreement between the parties, through rescission, redemption or maturity. Cancellation of the concession results in transmission of all the concession assets and means to the State.

The Concession contract can be rescinded by the conceding entity when any one of following events occurs, with a significant impact on the operations of the concession: imminent failure or interruption of the concession operations; deficiencies in the management of the concession's operations; or deficiencies in the maintenance and repair of the infrastructure that compromises the quality of the service.

The conceding entity can redeem the concession, whenever the public interest justifies this, but only after a 15 year period has elapsed as from the date of the beginning of the concession. By cancelling the concession, the operator has the right to an indemnity in accordance with the book value of the assets as of the date they revert, as well as to possible loss of profits.

If, upon termination of the concession, it is not renewed or the new form or entity responsible for the concession has not been decided, the concession contract can be extended for the maximum period of one year, with a lease, rendering of services or any other legal form of contract.

## 2.4 Natural gas underground storage

The concession to operate the underground storage was granted to REN – Armazenagem, S.A. under Decree-law 140/06 of 26 July of 2006, to carry out the following activities, under a rendering of public service regime:

- a) reception, injection, underground storage, extraction, treatment and delivery of natural gas, so as to create or maintain a natural gas security reserve or for delivery to the National Natural Gas Transport Network; and
- b) construction, utilization, maintenance and expansion of the underground storage tanks.

The model of the concession contract ensures contractual equilibrium through recovery of amortization of the assets of the concession and remuneration of the investments made in the concession of the assets and recovery of the operating costs relating to the operations of the concession.

This concession was granted for a period of 40 years as from the date of signature of the contract. The assets considered as concession assets are those acquired by the REN Group from Transgás and include:

- the underground natural gas tanks acquired or constructed during the period of the concession contract;
- the infrastructures used for gas injection, extraction, compression, drying, and pressure reduction used for distribution to the National Natural Gas Transport Network, including the equipment necessary to control, regulate and measure the remaining infrastructures;

- infrastructures and equipment for leaching operations; and;
- the infrastructures necessary for telecommunications, telemetry and remote control, used to manage all the infrastructures and underground chambers.

In addition, the following are also considered as concession assets:

- the property owned by REN – Armazenagem, S.A., in which the above mentioned equipment is installed as well as the related rights of way;
- other assets necessary for the operations of the concession activities;
- construction rights or increase in the underground chambers;
- the cushion gas relating to each chamber;
- any intellectual or industrial rights owned by REN Armazenagem, S.A.; and
- all the legal relationships established during the concession, such as: labour contracts, subcontracts, leasing and external services.

REN Armazenagem, S.A. must, during the concession period, maintain the assets in good operating condition, maintenance and security, carrying out the necessary repairs, renewals and adaptations necessary keep the assets in the required technical conditions.

REN – Armazenagem, S.A. has the right to operate the assets of the concession until its extinction. These assets may only be used for the purposes of the concession. At the concession termination date the concession assets revert to the State in accordance with the contract, which provides for an indemnity to be paid corresponding to the net book value of the concession assets.

The concession can be cancelled by agreement between the parties, through rescission, redemption or maturity. Cancellation of the concession results in transmission of all the concession assets to the State.

The Concession contract can be rescinded by the conceding entity when any one of following events occurs, with a significant impact on the operations of the concession: imminent failure or interruption of the concession operations; deficient management of the concession's operations; or deficiencies in the maintenance and repair of the infrastructure that compromises the quality of the service.

The conceding entity can redeem the concession, whenever the public interest justifies this, but only after at least a 15 year period has elapsed as from the date of the beginning of the concession. By cancelling the concession, the operator has the right to an indemnity in accordance with the book value of the assets as of the date they revert, as well as to possible loss of profits.

If, upon termination of the concession, it is not renewed or the new form or entity responsible for the concession has not been decided, the concession contract can be extended for the maximum period of one year, with a lease, rendering of services or any other legal form of contract.

## 2.5 Operation of a pilot area of energy from ocean waves

The Portuguese State has granted a concession to Enondas, Energia das Ondas, S.A. (“Enondas” or “the Concessionaire”), a fully owned subsidiary of REN, under the terms of item 3, article 5 of Decree-Laws 5/2008 of 8 January and 238/2008 of 15 December, to operate a pilot area to produce energy from ocean waves.

In accordance with Decree-Law 238/2008 of 15 December the concession is for a period of 45 years and includes authorization to install the infrastructures to connect to the public electricity network and utilization of the public hydro water resources, and monitoring of the use by third parties of the water resources necessary to produce electric energy from waves, as well as competency to grant licences for the establishment and operation of the production of electric energy and related monitoring.

In accordance with the concession contract and applicable legislation, the Concessionaire will receive adequate remuneration from the concession through recognition of the costs of the investment, operation and maintenance, provided that they are approved in advance by the Government member responsible for the energy area, after binding opinion of ERSE.

## 3. Main accounting policies

The main accounting policies used in preparing the consolidated financial statements are described below. The policies have been applied consistently in the years presented.

The Company adopted IFRIC 12 – Concession Agreement Services for the first time in the year ended 31 December 2010, effective as from 1 January 2010, having restated the financial information for the year ended 31 December 2009, presented for comparative purposes, as explained in Note 3.2 below, as if these procedures had always been applied.

### 3.1 Bases of presentation

The consolidated financial statements were prepared on a going concern basis, at historical cost, except for the derivative financial instruments and available-for-sale financial assets, which are recorded at fair value, as from the books and accounting records of the companies included in the consolidation, maintained in accordance with generally accepted accounting principles in Portugal (changed in 2010 as a result of adopting accounting and reporting standards), adjusted in the consolidation process so that the consolidated financial statements conform to International Financial Reporting Standards as endorsed by the European Union, in force for the years starting on 1 January 2010. Such standards include International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (“IASB”), International Accounting Standards (IAS), issued by the International Accounting Standards Committee (“IASC”) and respective SIC and IFRIC interpretations, issued by the International Financial Reporting Interpretation Committee (“IFRIC”) and Standard Interpretation Committee (“SIC”), that have been endorsed by the European Union. The

standards and interpretations are hereinafter referred generically to as IFRS.

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

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

The financial statements are presented in thousands of euros - tEuros.

### Adoption of new standards, interpretations, amendments and revisions

- a) The following standards, interpretations, amendments and revisions endorsed by the European Union, with mandatory application for financial years beginning on or after 1 January 2010, were adopted for the first time in the year ended 31 December 2010:
  - IFRS 1 ‘First time adoption of International Financial Reporting Standards’ (change) – This standard was revised so as to group the various alterations which occurred since its first version. The change considered a series of additional exemptions from retrospective application in terms of assets resulting from the exploitation of mineral resources, decommissioning responsibilities and application of the requirements of IFRIC 4. This change had no effect on the consolidated financial statements.
  - IFRS 2 ‘Share based payments’ (alteration) – The changes introduced clarified the following matters: (i) an entity should not apply this IFRS to transactions in which the entity acquires assets as part of net assets acquired in a business combination as defined in IFRS 3 – Business combinations (as revised in 2008) in a combination of entities or business activities under common control; and (ii) the accounting treatment for share based payments of the Group in the individual accounts of an entity that receives the assets or services, when that entity is not required to make the share based payment. These changes had no effect on the consolidated financial statements of REN.
  - IFRS 3 ‘Business combinations’ / IAS 27 ‘Consolidated and separate financial statements’ (as revised in 2008) – This revision introduced some changes in terms of the recording of business combinations as regards: (a) measurement of interests without control (formerly known as minority interests); (b) recognition and subsequent measurement of contingent payments; (c) the treatment of direct costs relating to a combination; (d) the recording of purchases of interests in entities already controlled and the sale of interests that do not result in loss of control of the entity; and (e) calculation of the result of the sale of a participation with loss of control and the need to re-

measure the interest retained in the participation sold. This change had no effect on the consolidated financial statements of REN.

- IAS 28 'Investments in associates' (2008 revision) – The principles described above for IAS 27 (2008 revision) regarding determination the result of a sale is extended to IAS 28. This change had no effect on the consolidated financial statements of REN.
- IAS 39 'Financial instruments: Recognition and measurement' (change) – This clarifies the application of hedge accounting to the inflation component of financial instruments and options contracts, when used as hedging instruments. This change did not have a significant effect on the consolidated financial statements of REN.
- IFRIC 12 'Service Concession Agreements' – IFRIC 12 determines how concession service operators apply the rules for recognizing and measuring the rendering of infrastructure construction and operation services by the private entity when signing a concession contract. This interpretation is applicable to the REN Group's operations and the impact of its adoption is explained below.
- IFRIC 15 'Contracts for the construction of real estate' – This interpretation covers the form of determining if a real estate construction contract is within the scope of IAS 11 'Construction contracts' or IAS 18 'Income' and how the income should be recognized. This change had no impact on the consolidated financial statements of REN.
- IFRIC 16 'Hedging of a Net Investment in a Foreign Operating Unit' (change) – This interpretation provides guidelines on hedge accounting for net investments in foreign operations. This change had no impact on the consolidated financial statements of REN.
- IFRIC 17 'Non cash distributions to owners' – This interpretation provides guidance on the correct accounting for non cash distributions to shareholders as dividends. This change had no impact on the consolidated financial statements of REN.
- IFRIC 18 'Transfer of assets received from clients' – This interpretation provides guidelines on the accounting by operators of tangible fixed assets received from clients. This interpretation is significant for the utilities sector as it establishes the accounting treatment applicable to agreements in which the entity providing the service receives an asset from a client that will be used to connect the client or other clients to the service network or that enables the client to have access to the service network. This interpretation did not have a significant impact on the consolidated financial statements of REN.
- Improvements in international financial reporting standards – 2009. This process involved the revision of 12 accounting standards.

b) Up to the date of approval of these financial statements the following standards, interpretations, amendments and revisions, with mandatory application in future financial years have been endorsed by the European Union:

- IFRS 1 'First time adoption of International Financial Reporting Standards' (change) (to be applied for years starting on or after 1 July 2010) – This standard defines the limited exemption from the requirement to present comparative disclosures in accordance with IFRS 7 for those opting for the first time to simplify the requirements to disclose comparatives regarding financial instruments in the first time adoption of IFRS. This change will have no impact on the consolidated financial statements of REN.
- IAS 24 'Disclosure of Related Parties' (2009 revision) (to be applied for years starting on or after 1 July 2010) – This revision introduced some clarifications relating to the disclosures to be made of related parties, especially as regards entities connected to the public administration. This change did not result in a significant impact on the financial statements of REN.
- IAS 32 'Financial Instruments : Presentation' (change) (to be applied for years starting on or after 1 February 2010) – This change clarified under what conditions rights issued can be classified as equity instruments. This change will have no impact on the consolidated financial statements of REN.
- IFRIC 14 'Prepayment of a minimum financing requirement' (change) (to be applied for years starting on or after 1 January 2011) – This change eliminated an unintentional consequence resulting from the treatment of prepayments of future contributions in circumstances in which a minimum financing requirement is applicable. This change will have no impact on the consolidated financial statements of REN.
- IFRIC 19 'Extinction of financial liabilities through equity instruments'(to be applied for years starting on or after 1 July 2010). This interpretation provides guidelines on the accounting for transactions in which the terms of a financial liability are renegotiated and result in the issuance by an entity of equity instruments in favour of its creditor with the resulting extinction of the full amount or part of the liability. This change will have no impact on the consolidated financial statements of REN.

These standards although endorsed by the European Union, have not been adopted by the Group in the year ended 31 December 2010 as their adoption is not yet mandatory.

### 3.2 Adoption of IFRIC 12 – Service Concession agreements

The Group has: (i) four concessions for operating and developing of the National Transmission Network, for the overall management of the national electric system, as well as utilization and development of the National Natural Gas Transport Network, of the Liquid Natural Gas terminal, the underground storage of natural gas and overall management of the natural gas system and (ii) a concession to exploit a pilot area to produce electric energy from ocean waves. The assets acquired / constructed by REN under these concession contracts are referred to below as assets relating to the concession.

IFRIC 12 – Service Concession Agreements was issued by the IASB in November 2006, for application in years starting on or after 1 January 2008. It was endorsed by the European Union on 25 March 2009, being of mandatory application for years beginning on or after 2010.

IFRIC 12 applies to public service concession contracts in which the conceding entity controls:

- The services to be rendered by the concessionaire (through utilization of the infrastructure), to whom and at what price; and
- Any residual interest over the infrastructure at the end of the contract.

IFRIC 12 applies to infrastructures:

- constructed or acquired by the operator from third parties;
- already existing to which the operator is given access.

Therefore, considering the above the REN Group's concessions are covered by this IFRIC for the following reasons:

- (i) the REN Group companies ( REN – Rede Eléctrica Nacional, S.A., REN Gasodutos, S.A., REN Armazenagem, S.A., REN Trading, S.A., REN Atlântico, Terminal de GNL, S.A. and Enondas, Energia das Ondas, S.A.) have a public service concession contract signed with the Portuguese State (“Conceding Entity”) for a predefined period;
- (ii) the companies render public transport services, reception and storage of gas and transmission of electricity through utilization of gas pipelines, branches and underground tanks, in the case of gas and lines, stations and substations in the case of electricity;
- (iii) the conceding entity controls the services rendered and the conditions under which they are rendered, through the regulator ERSE;
- (iv) the assets used to render the services revert to the conceding entity at the end of the concession contracts.

This interpretation establishes the general principles for the recognition and measurement of the rights and obligations under the concession contracts with the features mentioned earlier and defines the following models:

- (i) Financial asset model – when the operator has the unconditional contractual right to receive cash or other financial asset from the conceding entity, corresponding to specific or determinable amounts, the operator must record a financial asset (receivable). In this model the conceding entity has few or no discretionary power to avoid the payment, as the agreement is usually legally binding.
- (ii) The intangible asset model – when the operator receives from the conceding entity the right to collect a tariff based on use of the structure, it must record an intangible asset.
- (iii) Mixed model – this model applies when the concession includes simultaneously commitments of guaranteed remuneration by the conceding entity and commitments of remuneration dependent on the level of utilization of the concession infrastructures.

Considering the type of concession of the REN Group, as regards the legal nature of its concessions, REN decided

that the best model for its situation is the intangible model due essentially to the risk of changes in the tariff regulation imposed by the regulator ERSE.

This situation and in relation to the residual value of the assets relating to the concession (in accordance with the concession contracts, REN has the right to be reimbursed at the end of the concession contract for the net book value of the conceded assets), they were also considered as part of the intangible assets. The residual value of the conceded assets was not significant up to 31 December 2010.

For purposes of amortization of the assets relating to the concession, the REN Group follows IAS 38 – Intangible assets, that states in paragraph 98 that: “ A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method and production unit method. The method used is selected based on the expected consumption model of future economic benefits included in the asset and is applied consistently from period to period, unless there is a change in the expected consumption model of these future economic benefits”. Therefore considering this, REN considers that the amortization method that best reflects the expected standard of consumption of future benefits of this asset is amortization based on the rate of amortization of the gas and electricity infrastructures approved by the regulator ERSE, as this is the basis of its annual income, that is the conceded assets are amortized based on the remuneration model underlying the Tariff Regulations.

Therefore, in 2009, with reference to 1 January 2009, the REN Group made a retrospective adjustment to the rate of amortization of the conceded assets that prior to the adoption of IFRIC 12 the assets relating to the concession were already being amortized in accordance with the expected model of consumption of future benefits, which is in accordance with IFRIC 12; therefore the adoption of IFRIC 12 did not affect profit for 2009 and 2010 resulting from change in the rate of amortization.

Therefore, in accordance with IFRIC 12 the right granted under the concession contract consists of the possibility of REN charging tariffs based on the costs incurred with the infrastructures. However, considering the methodology for determining REN's tariffs, the remuneration base is determined considering each conceded asset specifically which assumes the need to componentize the right. Consequently, in the case of REN's concessions it is considered that the right is componentized by separate parts as the various remuneration bases are established. Therefore the intangible asset is: (i) increased as the various projects relating to the concession are concluded, being recorded based on cost; and (ii) decreased as the future economic benefits are consumed.

In accordance with IFRIC 12 construction of the infrastructure by the operator is a service that it provides to the conceding entity, distinct from the operation and maintenance service and, as such, will be remunerated by it. However, in applying IFRIC 12 the REN Group assumes that there is no margin in the construction but only in the operation. This notwithstanding, construction costs and income relating to construction are recorded in the consolidated statement of profit and loss for the year, considering the requirements of IFRIC 12.

The REN Group makes impairment tests of the assets relating to the concessions whenever events or circumstances indicate that book value exceeds recoverable value, any difference being recorded in the statement of profit and loss. The cash generating units defined for the purpose are directly associated with each concession contract, considering that the conceded assets relating to them belong to the same cash generating unit.

Land relating to the electricity producing centres are covered by the Concession Contracts entered into between REN and the Portuguese State and are remunerated based on their amortization, not being disassociable, as such from the other assets of the concession, being an integral part of a common cash generating unit. Such assets were classified as investment properties prior to 1 January 2009, REN, consequently, not considering them to be related to a common cash generating unit. As a result of the adjustments made in measuring and classifying these assets in 2009, with effect as of 1 January 2009, as a result of adopting IFRIC 12 there were no impacts in the consolidated financial statements relating to these assets, except for their reclassification as an integral part of the rights inherent in the concessions – Conceded intangible assets.

Investment grants relating to assets are recognized in the statement of profit and loss at the same rate as amortization of the assets. IAS 20 in paragraphs 24 and 25

mentions that: “Government grants relating to assets, including non monetary grants at fair value must be presented in the statement of financial position considering the grant as deferred income or deducting the grant to arrive at the book value of the asset”. Therefore given the existence of these two alternatives for the presentation of grants in the financial statements and IFRIC 12 not mentioning the treatment of investment grants received, REN maintained the grants recorded as liabilities.

Considering this, the effects resulting from the adoption of IFRIC 12 for the first time on 1 January 2010 in the REN Group’s accounts consist on the reclassification the balance of regulated assets relating to the electricity and gas businesses, from tangible assets to intangible assets. Intangible assets are amortized over the concession period in accordance with the method described above. On the other hand, the consolidated statement of profit and loss, started to consider the costs of constructing conceded assets and the related construction revenue, without including margin.

Given that the application of this interpretation for the first time on 1 January 2010 is retrospective, the gross amounts and accumulated amortization of the concession’s assets as of that date were determined and the reclassification was made to the intangible assets caption, as if that interpretation (IFRIC 12) had always been used.

The effect of applying IFRIC 12 to the statement of financial position as of 1 January 2010 (31 December 2009 restated) was as follows:

	Cost			Accumulated depreciation and amortization			
	Acquisition cost 31.12.2009	Adoption of IFRIC 12	Restated cost - 01.01.2010	Accumulated amortization 31.12.2009	Adoption of IFRIC 12	Restated accumulated amortization - 01.01.2010	Restated net book value - 01.01.2010
<b>Tangible Assets</b>							
Land	8,076	-8,076	-				
Buildings and other construction	93,971	-93,971	-	-36,806	36,806	-	-
Transmission and electronic equipment	5,267,179	-5,267,076	103	-2,203,033	2,202,988	-45	58
Transport equipment	7,919	-7,420	500	-3,509	3,291	-218	282
Tools	4,079	-4,079	-	-3,326	3,326	-	-
Office equipment	36,513	-33,403	3,111	-28,604	25,879	-2,725	386
Others	754	-754	-	-299	299	-	-
Assets in progress	308,962	-308,803	159	-	-	-	159
	<b>5,727,453</b>	<b>-5,723,582</b>	<b>3,872</b>	<b>-2,275,577</b>	<b>2,272,589</b>	<b>-2,988</b>	<b>884</b>
<b>Intangible assets</b>							
Concession assets	-	5,414,778	5,414,778	-	-2,272,589	-2,272,589	3,142,189
Concession assets in progress	-	308,803	308,803	-	-	-	308,803
	-	<b>5,723,582</b>	<b>5,723,582</b>	-	<b>-2,272,589</b>	<b>-2,272,589</b>	<b>3,450,992</b>



In addition, the impact of applying IFRIC 12 on the statement of profit and loss for 2009 (restated) was as follows:

	31-12-2009	Adoption of IFRIC 12	31-12-2009 restated
Sales	1,299	-	1,299
Services provided	550,179	-	550,179
Revenue from construction of concession assets	-	458,024	458,024
Other operation income	25,809	-	25,809
Share of (loss)/profit of joint ventures	10,033	-	10,033
<b>Operating income</b>	<b>587,321</b>	<b>458,024</b>	<b>1,045,345</b>
Cost of goods sold	-1,120	-	-1,120
Cost with construction of concession assets	-	-434,154	-434,154
External supplies and services	-78,735	-5,983	-84,718
Personnel costs	-48,039	-7,805	-55,844
Amortization and depreciation of the period	-159,758	-733	-160,491
Provisions	53,536	-	53,536
Other operating costs	-103,751	-103	-103,854
<b>Operating costs</b>	<b>-337,867</b>	<b>-448,778</b>	<b>-786,645</b>
<b>Operating results</b>	<b>249,454</b>	<b>9,246</b>	<b>258,699</b>
Financial costs	-75,970	-9,246	-85,216
Financial income	8,103	-	8,103
Dividends received	3,338	-	3,338
<b>Profit before income taxes</b>	<b>184,925</b>	<b>-</b>	<b>184,925</b>
Income tax expense	-50,878	-	-50,878
<b>Profit for the year</b>	<b>134,047</b>	<b>-</b>	<b>134,047</b>
<b>Attributable to:</b>			
Equity holders of the Company	134,107	-	134,107
Minority interest	-60	-	-60
	<b>134,047</b>	<b>-</b>	<b>134,047</b>

Following retrospective application of IFRIC 12, the consolidated comprehensive income for 2009 (restated) presented for comparative purposes together with the consolidated statement of comprehensive income for 2010 amounts to 95 300 thousand Euros. In addition, REN restated the payments relating to conceded assets from tangible fixed assets to intangible assets in the consolidated statement of cash flows for 2009 (restated) as previously published.

### 3.3 Consolidation principles

The consolidation methods used by the Group are as follows:

#### a) Investments in subsidiaries

Subsidiaries are all entities (including special purpose entities) over which REN has the power to govern the financial and operating policies generally associated with direct or indirect control of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls

another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from the consolidation as from the date that control ceases. Subsidiaries are included in the accompanying financial statements in accordance with the full consolidation method.

The entities that qualify as subsidiaries are listed in Note 34.

#### b) Goodwill

Differences between the cost of acquisition of investments in subsidiaries, jointly controlled companies and associated companies and the fair value of the identifiable assets and liabilities of these companies as of the date of the acquisition or during a period of 12 months after that date, if positive, are recorded as goodwill (in the case of recognising goodwill in subsidiary companies or in jointly controlled companies).

Goodwill generated on acquisitions after 1 January 2004 (date of transition to IFRS) is not amortised, but is subject to impairment tests at least annually to verify the existence of losses. Impairment losses are recorded immediately in



the statement of financial position as a deduction from the value of the asset by corresponding entry to the statement of profit and loss, not being reversed subsequently.

If the initial recording of a combination of business activities can be determined only provisionally at the end of the period in which the concentration occurs because the fair value to be attributed to the identifiable assets, liabilities and contingent liabilities acquired or cost of the acquisition can only be determined on a provisional basis, the Group records the concentration using the provisional amounts. The provisional amounts are adjusted when the fair value of the assets and liabilities is determined objectively, to occur within a period of twelve months after the date of acquisition. Goodwill or any other gain recognized will be adjusted as from the date of acquisition by an equal adjustment to the fair value as of the date of acquisition of the identifiable assets, liabilities and contingent liabilities to be recognized or adjusted and the comparative information presented for periods prior to conclusion of the initial recording of the concentration is presented as if the initial recording had been concluded as of the date of the acquisition. This includes any depreciation, amortization or any other additional profit and loss effect recognized as a result of concluding the initial recognition.

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

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

The accounting policies of subsidiaries are changed whenever necessary, so as to ensure that accounting policies are applied consistently by the Group companies.

### c) Joint ventures

The Group's interests in jointly controlled entities are recorded in accordance with the equity method of accounting. The Group's share of joint venture profits or losses is recognised in the statement of profit and loss as an operating result and its share of any changes in reserves is recognised in reserves. Unrealised gains or transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint venture.

The accounting policies of joint ventures are changed whenever necessary to ensure consistency with the policies adopted by the Group.

At 31 December 2010 the companies Gasoduto Braga – Tuy, S.A. and Gasoduto Campo Maior – Leiria – Braga, S.A. (previously jointly controlled) became controlled by REN and included in the consolidation perimeter by the full consolidation method.

Considering the date on which the Group obtained control, the consolidated statement of profit and loss does not include the effect of consolidating income and costs of these entities, including only the proportion of the results

of the entities in the caption "Gain / (Loss) on joint ventures".

### 3.4 Segment information

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

The REN Group only discloses segment information by business segment, since the Group operates only in Portugal. The transactions of the group company OMclear, although referring essentially to the sale of future contracts within MIBEL, are not material for the presentation of geographical segment information.

REN identified the Executive Committee as the entity responsible for making operating decisions. The Executive Committee reviews the information prepared internally so as to assess the Group's performance and the allocation of resources. Determination of the segments was made based on the information analysed by the Executive Committee, which did not result in new segments in relation to those previously reported.

The REN Group is organized in two main business segments: Electricity and Gas and two secondary segments: telecommunications and management of the electricity derivatives market. The Electricity segment includes the transmission of very high tension electricity and overall management of the public electricity supply system. The Gas segment includes the transport of very high pressure gas and overall management of the national natural gas system, as well as operation of the LNG regasification terminal and underground storage of natural gas.

The other segments (telecommunications and management of the electricity derivatives market) are also presented separately although they do not qualify for disclosure.

Financial information relating to income of the identified business segments is included in Note 6.

### 3.5 Exchange translation

#### (i) Functional currency and presentation

Items included in the financial statements of each of the REN Group entities are recorded using the currency of the primary economic environment in which the entity operates ('the functional currency'), the Euro. The consolidated financial statements including these notes are presented in thousands of Euros, unless otherwise indicated, the Group's functional currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised as financial costs in the statement of profit and

loss if relating to borrowings and in other operating income and costs in the case of all the other balances/ transactions.

### (iii) Rates used

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

FOREIGN CURRENCY EXCHANGE RATES	2010	2009
[Currency]		
USD	1.3362	1.4406
CHF	1.2504	1.4836
GBP	0.8608	0.8881
SEK	8.9655	10.2520
NOK	7.8000	8.3000
DKK	7.4535	7.4418
RON	4.2620	4.2363
JPY	108.650	133.1600

### 3.6 Tangible and intangible fixed assets

Tangible and intangible assets are stated at cost less accumulated amortization / depreciation and accumulated impairment losses. Cost includes the cost of assets considered as of the transition date to IFRS and the acquisition or construction cost of assets acquired/constructed after that date.

The acquisition or construction cost includes the purchase price of the asset and costs incurred directly to prepare the asset to start operating. Borrowing costs incurred during the construction phase are recognised as acquisition/construction costs.

Subsequent expenditure, including renewals and major overhauls, that extend the useful life of the assets is recognised as cost of the asset.

Current maintenance and repair costs are expensed in the year they are incurred.

Intangible assets in progress correspond to concession assets still in the phase of construction, being recorded at cost less any impairment losses and are amortized as from the time the investment projects are completed or ready for use.

With the application of IFRIC 12, the REN Group classifies concession assets in accordance with the Intangible Asset model (Note 3.2).

Intangible assets relating to the concession are amortized on a straight-line basis as from the date they are available for use, in accordance with the model of expected consumption of future financial benefits, which corresponds to the regulatory period of life approved by ERSE, considering that at the end of the concession, the Group has the right to receive the net book value of the assets.

Tangible fixed assets are depreciated on a straight-line basis over the estimated period of useful life of the assets.

Whenever there are indications of impairment of fixed assets, impairment tests are made to estimate the recoverable amount of the asset and impairment losses, if any, are recorded. The recoverable amount is defined as the higher of the net sales price of an asset and its value in use, value in use being calculated at the discounted future

cash flows resulting from continued use of the asset and its sale at the end of its useful life.

The useful life of the assets is reviewed at the end of each year so that the amortization recorded is in accordance with the consumption standards of the assets. Changes in useful lives are treated as changes in accounting estimates and are applied prospectively.

Gains and losses on the sale of tangible and intangible fixed assets are determined by the difference between the proceeds of the sale and the book value of the asset, being recorded in the consolidated statement of profit and loss.

### 3.7 Impairment of Assets

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

Therefore, whenever, the fair value of an asset is lower than its carrying amount, the Group must decide if the loss is permanent and definite, and if so an impairment loss is recognised. When the loss is not considered as permanent, the assumptions used to support this conclusion must be disclosed.

An impairment loss is recognized by the amount of the excess of the book value of the asset in relation to its recoverable amount, recoverable amount being the greater of the fair value of the asset less the costs to sell it or its value in use. In order to determine impairment, assets are allocated to the lowest level for which there is a separate identifiable cash flow (cash generating units).

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

For the assets valued in accordance with the depreciated cost model, impairment losses and any eventual reversals are recognised in the consolidated statement of profit and loss.

Amortization and depreciation of assets are recalculated prospectively in accordance with the recoverable amount adjusted for impairment losses recognised.

### 3.8 Financial assets

The Board of Directors decides the classification of financial assets at the time of initial recognition, in accordance with the purpose for which the financial assets were acquired and reassesses that classification at each reporting date.

Financial assets may be classified into the following categories:

- i) financial assets at fair value through profit or loss – includes non-derivative financial assets acquired for short-term trading and assets designated at fair value through profit and loss at the inception date;
- ii) loans granted and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;
- iii) investments to be held to maturity – includes non-derivative financial assets with fixed or determinable

- payments and fixed maturities, that the entity intends and has the capacity to hold until the maturity date; and
- iv) available-for-sale financial assets – includes non-derivative financial assets designated as available-for-sale at inception date or other financial assets not classified in any of the other financial asset categories. Available-for-sale financial assets are recognised as non-current assets unless management intends to sell them within 12 months of the balance sheet date.

Purchases and sales of investments in financial assets are recognised on the transaction date – the date on which REN commits itself to purchase or sell the asset.

Financial assets at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of profit and loss. Such assets are subsequently adjusted to fair value, gains and losses arising from changes in fair value being recognised in the statement of profit and loss caption “Financial costs” for the period in which they arise, which also includes interest income and dividends received.

Available-for-sale financial assets are initially recognised at fair value including transaction costs. In subsequent periods these assets are adjusted to fair value, the changes in fair value being recognised in a fair value reserve within Equity. Dividends and interest income from available-for-sale financial assets are recognised in the statement of profit and loss caption financial income for the period in which the right to receive them is established.

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

Loans and receivables are classified as “Trade and other receivables” in the statement of financial position (Note 3.11), and are carried at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the transactions that gave rise to the receivables.

At each statement of financial position date REN assesses whether there is objective evidence that its financial assets are impaired. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the equity instrument below its cost is considered an indicator that it is impaired. If there is evidence of loss in value of available-for-sale financial assets, the accumulated loss – determined as the difference between acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss – is removed from equity and recognised in the consolidated statement of profit and loss. Impairment losses on equity instruments, recognised in the statement of profit and loss, are not

reversible through the consolidated statement of profit and loss.

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

### 3.9 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value at the transaction date, being subsequently recorded at fair value. The method of recognising fair value gains or losses depends on the designation made of the derivative financial instruments. If they are designated as derivative financial instruments for trading, gains or losses resulting from fair value changes are recognized in the statement of profit and loss caption “Finance income” or “Finance costs”. If they are designated as hedging derivative financial instruments, gains or losses resulting from fair value changes depends on the nature of the hedged item, which can be a fair value hedge or a cash flow hedge.

In an operation to hedge fair value of an asset or liability (“fair value hedge”), the carrying amount of the respective asset or liability, measured in accordance with the defined accounting policy, is adjusted to reflect the fair value change attributed to the hedged risk. Variations in the fair value of hedging derivatives are recognized in the statement of profit and loss together with variations in the fair value of the hedged assets and liabilities attributed to the hedged risk.

In an operation to hedge exposure to variations in future cash flows of high probability (“cash-flow hedge”), the effective part of the fair value changes in the hedging derivative is recognized in reserves, being transferred to the statement of profit and loss in the periods the fair value changes of the hedged item affect profit and loss. The ineffective part of the hedge is recognized in the statement of profit and loss when it occurs.

### 3.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Inventories include materials used in internal maintenance and repair operations. Inventories are initially recorded at cost, which includes purchase cost and all the expenses relating to their acquisition. Cost is determined using the weighted average cost method.

Gas in the gas pipelines and gas stored in the LNG terminal and underground tanks, is the property of the infrastructure users. The REN Group does not buy, sell or hold stocks of gas.

### 3.11 Trade and other receivables

Trade and other receivables are recognised at cost or amortised cost, less any provision for impairment. Impairment of trade and other receivables is recorded, when there is objective evidence that REN will not be able to collect all the amounts due in accordance with the original terms of the transactions. Identified impairment losses are recognised in the statement of profit and loss caption “Impairment of trade and other receivables” being subsequently reversed when there are indications that the impairment has decreased or ceased to exist.

### 3.12 Novation of transactions

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

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

OMIClear takes the position of Central Counterparty in all operations registered, ensuring compliance with the obligations of both parties. Once an operation is registered OMIClear manages the resulting positions, through its neutral position, functioning as buyer for the seller and as seller for the buyer.

Derivatives are recognised at fair value at the trade date, which is zero. Changes in the fair value of derivatives after the trade date are adjusted daily via cash settlement making the fair value of the derivatives to be zero again. Guarantee deposits received are recognised on the Statement of financial position as an asset, the liability to the participant being recognised as a liability. Bank guarantees and non cash collateral are not recognised in the Balance sheet, in accordance with IAS 39 – Financial instruments.

### 3.13 Restricted deposits

OMIClear receives cash deposits from participants to guarantee compliance with future contracts, which are deposited in separate bank accounts in name of the company. However, use of these deposits is restricted to the situations in which one participant in a futures contract enters into default, and OMIClear is obliged to clear the position with the other counterpart. Restricted deposits are booked as an asset and a liability to the participant. Restricted cash is repaid when the participant terminates the negotiation of futures contracts with MIBEL.

### 3.14 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits, other short-term highly liquid investments with initial maturities of up to three months, and bank overdrafts. Bank overdrafts are shown in the “Borrowings” caption in current liabilities on the statement of financial position, and are included in the consolidated statement of cash flows, as cash and cash equivalents.

### 3.15 Capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or

options are shown net of tax, as a deduction in equity from the amount issued.

Own shares acquired through contract or directly on the stock market are recognised as a deduction in equity. In accordance with company law REN SGPS must ensure at all times that there are reserves in Equity to cover the value of own shares, limiting the amount of reserves available for distribution.

Own shares are recorded at cost if they are acquired in a spot transaction or at estimated fair value if acquired in a deferred purchase.

### 3.16 Financial liabilities

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

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

Other financial liabilities include “Borrowings” (Note 3.17) and “Trade and other payables”. Trade and other payables are initially recognised at cost or amortised cost, using the effective interest rate method.

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

### 3.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, the difference between the nominal value and the initial fair value being recognised in the consolidated statement of profit and loss over the term of the borrowings, using the effective interest method.

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

### 3.18 Income tax

Income tax for the year includes current income tax and deferred income tax. Income tax is recognised in the statement of profit and loss, except when related to items recognised directly in equity. The amount of income tax payable is determined based on net profit before tax, adjusted in accordance with tax legislation.

Deferred tax is recognised using the liability method based on the balance sheet considering the temporary differences between the tax base of assets and liabilities and their amounts in the consolidated financial statements.

Deferred income tax is calculated using tax rates in force or substantially enacted at the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred tax liabilities are provided for on every temporary tax difference, except those relating to: i) the initial recognition of goodwill; or ii) the initial recognition of assets or liabilities in transactions that do not result from a business combination and at the time of the transaction affect



neither accounting profit nor taxable profit. However, taxable temporary differences relating to investments in subsidiaries should not be recognised to the extent that: i) the parent company is able to control the timing of the reversal of the temporary difference; and ii) it is probable that the temporary difference will not revert in the near future.

### 3.19 Employee benefits

REN grants supplementary retirement and survivor pensions (hereinafter referred to as pension plan), provides its retirees and pensioners with a medical assistance plan and grants other benefits such as long service bonuses, retirement bonus and death subsidy.

#### i) REN - Rede Eléctrica Nacional, S.A. pension plan

The supplementary retirement and survivor pensions granted to employees consist of a defined benefits plan, with an autonomous fund established, to which all the liabilities are transferred and contributions are made to cover the liabilities which fall due in each period.

The liability for the payment of the pensions is estimated annually by independent actuaries using the projected unit credit method. The present value of the liability for the defined benefit is determined by discounting payments of future benefits using the interest rate for highly rated bonds in the same currency in which the benefits are paid and with similar maturities to those of the liability assumed.

The liability for retirement benefits recognised on the consolidated statement of financial position corresponds to the present value of the liability for the benefits as of the date of the financial statement less the fair value of the assets of the plan, together with any adjustments for past service costs.

Actuarial gains and losses determined in a year and for each benefit plan granted, resulting from adjustments to actuarial assumptions, experience adjustments or in the benefits scheme are recorded directly in equity.

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

The liabilities assumed relating to healthcare are not funded, being covered by a specific provision.

Measurement and recognition of the liability for healthcare are the same as those for retirement supplements referred to above, except as regards assets of the plan.

REN recognizes all the actuarial gains and losses on all the plans directly in equity.

#### iii) Life insurance plan

The Group companies provide their employees with life assurance benefits. The costs are recognized during the period in which they serve. This liability is covered by a specific provision.

#### iv) Pre-retirement

The pre-retirement liability assumed by the Group is estimated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit liability is determined by discounting future

payments of the benefits using an appropriate discount rate. The liability less, where applicable, the past service liability is recognized.

Actuarial gains and losses for the year are recognized directly in equity.

### 3.20 Provisions

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

Provisions are measured at the present value of the estimated expenditure required to settle the liability using a pre-tax rate that reflects the market assessment of the discount period and the risk of the provision.

### 3.21 Government grants and others

These refer to grants received for investment in intangible fixed assets and are recognised as deferred income in the caption "Trade and other payables".

Grants received from the Portuguese State and the European Union are recognised at their fair value when there is reasonable certainty that the subsidy will be received.

Operating assets delivered to REN by new producers connected to the National Transmission Network or others are also recorded as subsidies received.

Grants are subsequently credited to the consolidated statement of profit and loss on a systematic basis in accordance with amortization of the related assets.

Operating grants are recognized in the consolidated statement of profit and loss in the period in which the related costs are incurred.

### 3.22 Income and costs

Income and costs are recognised in the period to which they relate, independently of the date they are received or paid, in accordance with the accrual basis of accounting. Differences between the amounts received and paid and the related income and costs are recognised as assets or liabilities, if they qualify for this.

### Tariff deviations

The Tariff Regulations for the electricity and gas sectors, issued by ERSE, define the formula for calculating the income allowed for the regulated activities and consider in the calculation formula, determination of the tariff deviations that are recovered up to the second year after the date in which they are generated, the period in which the deviations are recovered thus being defined.

In this way the REN Group determines at each financial statement date, in accordance with the criteria defined by the tariff regulations published by ERSE, the deviations determined between income permitted and actual income.

Considering the legislation and the above mentioned regulations in force, the tariff deviations determined by

REN each year comply with a series of characteristics (measurement reliability, right of recovery, transmissibility, identification of the debtor and incidence of interest) that support their recognition as income and as an asset, in the year in which they are determined, as being reliably measurable and for it being virtually certain that the financial benefits relating to the transaction(s) will flow to the Company. This reasoning is also valid when negative tariff deviations are determined, which are considered as liabilities and less income.

Despite the IFRS not covering the recording of tariff deviations, paragraph 12 of IAS 8 and international norm SFAS 71 – Accounting for the effects of certain types of regulation, strengthen the position of recording asset and liability tariff deviations under conditions in which the electricity and gas regulations are established for REN.

### 3.23 Revenue

#### Electricity segment

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

As regards the intermediation activity relating to the sale and purchase of electricity (agent role), REN recognises as revenue, the remuneration obtained over the net book value of the assets allocated to this activity.

As regards the “Commercial Agent” activity, carried out by the group company REN Trading which is responsible for the management of the electricity produced under the two PPA’s (power purchase agreements) that have not been terminated (Tejo Energia and Turbogás), this is remunerated through an incentive mechanism.

To stimulate the “Commercial Agent” activity, in the beginning of 2008 ERSE established a mechanism to optimise the management of the PPA’s, a mechanism to optimise the management of CO2 emission licences, as well as the parameters to be in place in calculating the incentives established. The revenue obtained from application of these mechanisms, is the main part of the results obtained by the “Commercial Agent” activity.

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

The tariff for electricity transmission is to recover:

- i) amortization of the concession assets classified as electricity transmission equipment;
- ii) a return on the average net book value of the assets relating to this activity, in accordance with the rates determined annually by the regulator; and
- iii) operating costs (relating to the activity, payroll and others), less the revenue obtained from electricity transmission charged to third parties.

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

- i) amortization of the concession assets relating to overall management of the system;
- ii) amortization of the concession assets relating to the generating station sites;
- iii) a return on the average net book value of the generating station sites (land);
- iv) a return on the average net book value of the assets relating to this activity, in accordance with the rates determined annually by the regulator;
- v) operating costs (relating to the activity, payroll and others); and
- vi) operating costs of the regulator.

#### Gas segment

Revenue from the gas concession operations is determined based on: i) information relating to the gas units unloaded and re-gasification of gas units in the LNG terminal, ii) the gas units injected, stored and extracted in the underground tanks; and iii) the capacity used and gas units transmitted through the high pressure transmission network. The revenue is calculated in accordance with the tariffs determined by the regulator as from 1 of July 2007. Up to 30 June 2007, revenue was recognised in accordance with the transition agreements signed with Transgás the main user of the gas capacity of the gas assets owned by the REN Group.

#### Telecommunications segment

Revenue from the telecommunications segment results from services rendered by the group company RENTELECOM, through the rent of fibre optics, benefiting from the excess capacity of the telecommunications equipment installed. In this area services relating to management of private voice networks are also rendered. Revenue is recognised in the period the services are rendered, based on the percentage of the stage of completion of each specific transaction, valued considering the actual services already rendered and the total services to be rendered.

#### Energy market operator segment

Management of the electricity derivatives market, under MIBEL results in the payment of a commission fee for each operation negotiated. Revenue from these transactions is received at the time of payment.

### 3.24 Leasing

The lease of assets, in which REN has substantially all the risks and rewards incidental to ownership of the asset, is classified as a finance lease. Agreements which an analysis of one or more matters of the contract point a finance lease are also classified as finance leases. All other leases are classified as operating leases.

Finance lease contracts are initially recognised at the lower of the fair value of the leased assets or the present value of the minimum lease payments, each determined at the inception date. The lease liability is recognised net of interest costs in the caption Borrowings. Interest costs



included in the lease payments and depreciation of the leased assets are recognised in the consolidated statement of profit and loss in the period they refer to.

Assets acquired through finance leases is depreciated over the shorter of the estimated useful life of the asset and the lease term, when the Group does not have a purchase option at the end of the contract, or at its estimated useful life when the Group has the intention of acquiring the asset at the end of the contract.

In operating lease contracts, the lease payments due are recognised as expenses in the consolidated statement of profit and loss, over the lease term.

## 4. Financial risk management policies

### 4.1 Financial risk factors

REN's activities are exposed to a variety of financial risks: including credit risk, liquidity risk and cash flow interest rate risk.

REN has developed and implemented a risk management program that, together with permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the REN Group's financial performance.

Risk management is carried out by the financial management department under policies approved by the Board of Directors. The financial management department identifies, assesses and realises operations to minimise the financial risks, in strict cooperation with REN's operating units.

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

### i) Exchange rate risk

REN has limited exposure to exchange rate risk. The risk of fluctuation exchange rates on the bonds totalling 10,000 million Yens ("JPY"), is fully hedged by a cross currency swap of the same notional amount.

An adverse variation of 5% in the forward exchange rate of Euro/JPY, all other factors remaining constant at 31 December 2010, would have a negative impact on equity of around 5.3 million Euros (4.1 million Euros in 2009), if the Company had not contracted the above derivative financial instrument.

### ii) Credit risk

REN's exposure to credit risk is not significant, since a substantial part of services rendered is recognised through amounts invoiced to electricity and natural gas distributors in regulated markets. In addition, in general, contracts with clients establish the giving of guarantees.

The Group's counterparty risk on bank deposits, financial applications, and contracting of derivative instruments is mitigated by the selection of top rate institutions with solid credit ratings and well known in the market.

### iii) Liquidity risk

REN's liquidity risk management is carried out through the dynamic and flexible management of commercial paper programs, as well as by negotiating credit limits that enable it, not only to ensure that the current treasury needs of the REN Group are met, but also provide some flexibility to enable the shocks outside its operations to be dealt with.

The following table shows REN's financial liabilities by contracted residual maturity intervals and includes derivative financial instruments for which the related flows are made at the net amount.

The amounts presented in the table refer to contractual non-discounted cash-flows:

(Thousand euros)				
2009	At 31 December 2009			
	Less than 1 year	1 - 5 years	Over 5 years	Total
<b>Borrowings:</b>				
- finance lease	1,475	2,621	-	4,096
- bank borrowings	57,431	276,130	492,832	826,393
- commercial paper	405,392	157,753	-	563,145
- Bonds	56,489	1,023,892	112,529	1,192,910
- bank overdrafts	45,312	-	-	45,312
	<b>566,099</b>	<b>1,460,396</b>	<b>605,361</b>	<b>2,631,856</b>
Derivative financial instruments	5,494	7,474	-	12,968
trade and others payables	402,474	-	-	402,474
At 31 December 2010				
2010	Less than 1 year	1 - 5 years	Over 5 years	Total
<b>Borrowings:</b>				
- finance lease	1,260	1,743	-	3,003
- bank borrowings	60,051	308,782	576,576	945,409
- commercial paper	269,143	228,280	-	497,423
- Bonds	54,973	965,179	113,240	1,133,392
- bank overdrafts	36,727	-	-	36,727
	<b>422,153</b>	<b>1,503,984</b>	<b>689,816</b>	<b>2,615,953</b>
Derivative financial instruments	5,134	1,164	-	6,299
trade and others payables	409,133	130,323	-	539,456

The following table shows the derivative financial instruments, financial settlement of which is made at gross amounts:

HEDGING DERIVATIVE FINANCIAL INSTRUMENTS				
31 December 2009				
(Million euros)	Less than 1 year	1 - 5 years	Over 5 years	Total
<b>Cross Currency Interest Rate Swap</b>				
Outflows	4,157	16,709	102,336	123,202
Inflows	2,035	8,152	94,415	104,602

HEDGING DERIVATIVE FINANCIAL INSTRUMENTS				
31 December 2010				
(Million euros)	Less than 1 year	1 - 5 years	Over 5 years	Total
<b>Cross Currency Interest Rate Swap</b>				
Outflows	4,169	16,686	99,064	119,919
Inflows	2,494	9,977	113,240	125,711

#### iv) Interest rate of risk

The risk relating to interest rate fluctuation has two major impacts on REN's financial statements: remuneration of the company's assets, in accordance with the tariff regulations; and interest on the borrowings.

Since a significant part of the REN Group's assets have a guaranteed return through the tariffs, definition of which

depends in part on the market rates of interest, its operating cash flows are significantly affected by changes in the market rates of interest. Increases in the market rates of interest generate substantial increases in cash flows and vice-versa.

In terms of financial liabilities, REN is exposed to interest rate risk, mainly due to borrowings.

Borrowing at variable interest rates exposes the REN Group to cash flow risk resulting from changes in interest rates. Borrowing at fixed rates exposes the REN Group to fair value risk, as a result of changes in interest rates.

The REN Group analyses its exposure to interest rate risk on a dynamic basis. The REN Group has 4 interest rate swaps to hedge the risk of fluctuation of variable interest rates and in 2010 it contracted two forward start swaps starting in 2012

A sensitivity analysis was made based on the REN Group's total debt less applications in funds and cash and cash equivalents as of 31 December 2010 and 2009, with the following assumptions:

- Changes in market interest rates affecting interest income and costs of variable financial instruments;
- Changes in market interest rates affecting only results or equity in relation to fixed interest rate financial instruments if they are recognized at fair value;
- Changes in market interest rates affecting the fair value of derivative financial instruments and other financial assets and liabilities;
- Changes in the fair value of derivative financial instruments and other assets and liabilities are estimated discounting current net amounts of future cash flows, using market rates at the end of the year.

Using these assumptions a 0.25% increase in market interest rates for all the currencies in which the Group has borrowings or derivative financial instruments at 31 December 2010 would result in a decrease of profit before tax of around 1.5 million Euros (1.2 million Euros in 2009) and an increase in equity of around 5.2 million Euros (4.2 million Euros in 2009).

#### v) Price risk

REN's exposure to price risk results essentially from its investment in REE and Enagás. A negative variation of 10% in the price of shares of REE and Enagás at 31 December 2010 would have a negative impact on equity of 8.3 million Euros (8.9 million Euros in 2009).

#### vi) Regulated activity risk

Gains recognized by REN in each period result directly from the assumptions considered by the regulator, ERSE, in defining the regulated tariffs for the electricity and gas sectors.

#### vii) Clearing house

OMIclear being the entity responsible for managing the Clearing Platform of the Iberian derivatives markets, it assumes the role of the central counterparty on derivatives negotiated (mainly futures contracts), becoming the buyer in relation to a seller position and seller in relation to a buyer.

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

- i) Credit – of one of the parties not honouring its contractual commitments in relation to the other;
- ii) Financial Settlement – centrally ensuring the debits and credits of the operation multilaterally;

- iii) Operational – maintaining market control and supervision of the market's procedures and mechanisms;
- iv) Systemic – taking into account the introduction multilateral netting.

## 4.2 Capital risk management

The REN Group's objective relating to the management of capital, which is a broader concept than the capital disclosed on the face of balance sheet, is to maintain an optimal capital structure, through rational use of debt and maintenance of a solid credit rating to enable the cost of capital to be reduced.

The contracting of debt is analysed periodically considering the following aspects: i) the needs of CAPEX in regulated assets; ii) the remuneration rate of regulated assets as determined in the tariff regulations in force; and iii) the defined dividend policy.

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

## 4.3 Recording of derivative financial instruments

As part of its agency activity in the management of the PPA's of TejoEnergia and Turbogás, the group company REN Trading negotiates future electricity acquisition contracts in the Spanish and French markets, and forward CO2 emission licence contracts. These contracts do not qualify as derivative financial instruments to be recognised in the Group's financial statements, given that they are equivalent to derivatives for "own use", under the responsibilities assumed with management of the PPA's.

OMIP, the entity managing the MIBEL derivatives market, and more specifically OMIclear, fully owned by OMIP, monitors its activities, as central counterparty in negotiations of electricity derivatives (mainly futures contracts), becoming the buyer in relation to a seller position and seller in relation to a buyer, through novation, balancing all the positions.

The Group hedges part of the future payments of interest on loans, bonds issued and commercial paper through the assignment of interest rate swaps, in which it pays a fixed interest rate and receives a variable interest rate, with a notional value of 384,000 thousand Euros (384,000 in December 2009). This is an interest rate risk hedge relating to the payment of interest at a variable rate resulting from financial liabilities recognised. The risk covered is the indexing factor of the variable rate to which the interest coupons on the borrowings relate. The objective of this hedging is to transform the variable interest rate borrowings into fixed interest rate borrowings, the credit risk not being hedged. The fair value of the interest rate swaps at 31 December 2010 was 5,678 thousand Euros negative (6,066 thousand Euros negative in December 2009).

In 2010 the Group contracted two forward-start interest rate swaps starting in 2012 for the purpose of hedging interest rate fluctuations on emissions in commercial paper futures that Management estimates contracting. The instruments have a notional value of 200,000 thousand Euros, REN paying a fixed rate and receiving a variable rate. The risk hedged is the index of the variable rate to which the interest coupons of the loans relate. The objective of this hedge is to transform the variable rate borrowing into a fixed rate, the credit risk not being covered. The value of the interest rate swaps at 31 December 2010 was 1,553 thousand Euros positive.

In addition, REN covers its exposure to cash flow risks on its 10,000 million JPY bonds resulting from exchange risk through a cross currency swap, the main characteristics of which are equivalent to the debt. The same hedging instrument is used to cover the fair value interest rate risk on the bonds through the forward start swap component that only starts in June 2019. The changes in fair value of the hedging instrument are also deferred in hedging reserves. As from June 2019 the goal will be to hedge exposure to JPY and the interest rate risk, transforming the operation into a fair value hedge, the changes in fair value of the debt issued resulting from the risks covered being recorded in profit and loss.

The amounts resulting from the hedging instrument are recorded in the statement of profit and loss when the hedged transaction affects profit for the year.

The fair value of the cross currency swap at 31 December 2010 was 19,146 thousand Euros positive (4,083 thousand Euros negative in December 2009).

The amount recorded in reserves relating to the above mentioned cash flow hedges at 31 December 2010 was 1,607 thousand Euros (7,556 thousand Euros in December 2009).

In 2009 the Group contracted an interest rate swap to hedge the fair value of an issue of 300,000 thousand Euros. The hedge was discontinued in November 2009, when the hedged instrument had a fair value adjustment resulting from the hedge of 677 thousand Euros. That amount is being amortized to the statement of profit and loss in accordance with the effective interest rate, over the maturity period of the hedged instrument.

## 5. Main estimates and judgments presented

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

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

## Significant accounting estimates

### 5.1 Provisions

The REN Group periodically analyses the existence of possible obligations resulting from past events that should be recognised or disclosed.

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

### 5.2 Actuarial assumptions

Determination of the liability for retirement pensions and healthcare plans requires the use of assumptions and estimates of a demographic and financial nature, which may significantly affect the liability calculated at each reporting date. The more sensitive assumptions refer to: the discount rates used to update the liability, the estimated return on assets and the mortality tables.

### 5.3 Tangible and intangible assets

Determination of the periods of useful life of the assets, as well as the amortization and depreciation method to be used are essential for determining the amount of amortization and

These two assumptions are determined based on the Board of Directors best judgements for the assets and business in question.

### 5.4 Impairment

The recognition of possible impairment loss may be identified by the occurrence of events, many outside the control of the REN Group, such as: Future availability of financing; the cost of capital; or maintenance of the current market regulatory structure, as well as other changes of the REN Group, both internal and external.

The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets imply a high degree of judgement by the Board of Directors, as regards the evaluation of impairment indicators, estimated cash flows, discount rates used, useful lives and residual values.

In REN's specific activities there are other factors to consider in impairment testing, since commitments to increase the network of infrastructures, changes in expected tariffs, or changes in the strategy of the shareholders of REN, which together with other factors can result in changes in the future cash flow trends and amounts.

## 6. Segment reporting

### 6.1 Primary reporting format – business segments

The REN Group is organised in two main business segments, Electricity and Gas and two secondary segments. The electricity segment includes the transmission of electricity in very high voltage, overall management of the

public electricity system and management of the electricity purchasing contracts (CAE) not terminated at 30 June 2007. The gas segment includes high pressure gas transmission and overall management of the national natural gas supply system, as well as the operation of regasification at the LNG Terminal and the underground storage of natural gas.

Although the activities of the LNG Terminal and underground storage can be seen as separate from the transport of gas and overall management of the national

natural gas supply system, since these operations provide services to a single user, which is also the main user of the high pressure gas transport system, it was considered that it is subject to the same risks and returns.

The other segments (telecommunications and management of the electricity derivative market) are also presented separately although they do not qualify for disclosure.

The results by segment for the year ended 31 December 2009 were as follows:

	Electricity	Gas	Telecom.	Electricity Market Operator	Others	Group
Total sales and services rendered	486,790	177,720	5,534	4,922	28,990	703,956
Inter-segment sales and services rendered	-120,607	-815	-633	-1,433	-28,990	-152,478
<b>Sales and services rendered</b>	<b>366,183</b>	<b>176,905</b>	<b>4,901</b>	<b>3,489</b>	-	<b>551,478</b>
Operating profit per segment	172,952	101,559	1,007	-1,290	-15,528	258,699
Financial costs	49,445	14,481	1	19	21,270	85,216
Financial income	311	2,648	44	45	8,394	11,442
<b>Profit before income tax</b>						<b>184,925</b>
Income tax expense						-50,878
<b>Profit for the period</b>						<b>134,047</b>
<b>Other costs:</b>						
Depreciation	114,054	46,028	35	288	86	160,491
Provisions	-	-	-	-	981	981

Inter-segment transactions are carried out under normal market conditions, equivalent to transactions with third parties.

Assets and liabilities by segment at 31 December 2009 as well as capital expenditure for the year then ended were as follows:

	Electricity	Gas	Telecom.	Electricity Market Operator	Others	Group
Assets	2,722,452	1,309,886	4,604	109,074	135,032	4,281,048
Investment in associates	-	11,063	-	-	-	11,063
<b>Total assets</b>	<b>2,722,452</b>	<b>1,320,949</b>	<b>4,604</b>	<b>109,074</b>	<b>135,032</b>	<b>4,292,111</b>
<b>Liabilities</b>	<b>797,121</b>	<b>356,082</b>	<b>767</b>	<b>104,384</b>	<b>2,039,161</b>	<b>3,297,515</b>
Capital expenditure - tangible assets	44	-	-	391	8	444 a)
Capital expenditure - intangible assets	355,213	110,661	-	-	-	465,874 a)
<b>Capital expenditure - total</b>	<b>355,257</b>	<b>110,661</b>	<b>-</b>	<b>391</b>	<b>8</b>	<b>466,318</b>

a) These amounts were restated for purposes of comparability (Notes 3.2.) in relation to the segment information at 31 December 2009, as previously published.

Results by segment for the year ended 31 December 2010 were as follows:

	Electricity	Gas	Telecom.	Electricity Market Operator	Others	Group
Total sales and services rendered	854,691	177,416	6,562	3,635	33,939	1,076,244
Inter-segment sales and services rendered	-286,642	-33	-700	-1,123	-28,918	-317,417
<b>Sales and services rendered</b>	<b>568,049</b>	<b>177,382</b>	<b>5,862</b>	<b>2,513</b>	<b>5,021</b>	<b>758,827</b>
Operating profit per segment	166,953	102,024	4,334	-943	-21,850	250,519
Financial costs	57,384	12,737	1	6	19,755	89,883
Financial income	197	1,078	-	119	4,590	5,984
<b>Profit before income tax</b>						<b>166,619</b>
Income tax expense						-56,353
<b>Profit for the period</b>						<b>110,266</b>
<b>Other costs:</b>						
Depreciation	122,299	49,991	13	212	118	172,633
Provisions	304	-	-	-	12,470	12,774

Assets and liabilities by segment at 31 December 2010 as well as capital expenditure for the year then ended were as follows:

	Electricity	Gas	Telecom.	Electricity Market Operator	Others	Group
<b>Assets</b>	<b>2,825,686</b>	<b>1,336,634</b>	<b>3,548</b>	<b>79,257</b>	<b>215,378</b>	<b>4,460,503</b>
<b>Liabilities</b>	<b>843,265</b>	<b>358,815</b>	<b>472</b>	<b>75,471</b>	<b>2,160,579</b>	<b>3,438,602</b>
Capital expenditure - tangible assets	4	-	-	367	339	710
Capital expenditure - intangible assets	293,856	148,473	-	-	-	442,330
<b>Capital expenditure - total</b>	<b>293,861</b>	<b>148,473</b>	<b>-</b>	<b>367</b>	<b>339</b>	<b>443,040</b>

Assets by segment consist primarily of assets of the concession, classified under the captions other intangible fixed assets and trade and other receivables. Liabilities by segment include operating liabilities, except for liabilities of the parent company and borrowings not contracted for the operating activities, included under the liability caption "Others".

Capital expenditure comprises additions to tangible and intangible fixed assets (Note 7).

The majority of REN Group companies operate exclusively in one geographical area, Portugal. Only the group company OMIP that manages the Iberian electricity derivatives market and OMIClear the clearing house for that market operate on an Iberian basis. However, these transactions are not material for disclosure as a geographical segment.



## 7. Tangible and intangible fixed assets

The changes in tangible and intangible fixed assets in the in the year ended 31 December 2009 were as follows:

### CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS– 2009

[Million euros]	January 2009 - restated			Changes					December 2009 - restated		
	Cost	Accumulated depreciation	Net book value	Additions	Disposals and write-offs	Transfers	Depreciation charge	Depreciation - disposals and write-offs	Cost	Accumulated depreciation	Net book value
<b>Tangible Assets</b>											
Machinery and equipment	103	-32	71	-	-	-	-13	-	103	-45	58
Transport equipment	490	-141	348	49	-39	-	-103	27	500	-218	282
Office equipment	2,874	-2,453	422	236	-	-	-276	5	3,110	-2,725	385
Fixed assets in progress	-	-	-	159	-	-	-	-	159	-	159
	<b>3,467</b>	<b>-2,626</b>	<b>841</b>	<b>444</b>	<b>-39</b>	<b>-</b>	<b>-392</b>	<b>31</b>	<b>3,871</b>	<b>-2,987</b>	<b>884</b>
<b>Intangible Assets</b>											
Concession Assets	5,023,618	-2,117,762	2,905,856	12,786	-5,486	383,861	-160,099	5,270	5,414,779	-2,272,590	3,142,189
Concession assets in progress	239,575	-	239,575	453,088	-	-383,861	-	-	308,803	-	308,803
Goodwill	3,774	-	3,774	-	-	-	-	-	3,774	-	3,774
	<b>5,266,967</b>	<b>-2,117,762</b>	<b>3,149,205</b>	<b>465,874</b>	<b>-5,486</b>	<b>-</b>	<b>-160,099</b>	<b>5,270</b>	<b>5,727,356</b>	<b>-2,272,590</b>	<b>3,454,766</b>

The changes in tangible and intangible fixed assets in the in the year ended 31 December 2010 were as follows:

### CHANGES IN TANGIBLE AND INTANGIBLE FIXED ASSETS– 2010

[Million euros]	December 2009 - Restated			Changes					December 2010		
	Cost	Accum. deprec.	Net book value	Additions	Disposals and write-offs	Transfers	Depreciation charge	Depreciation - disposals and write-offs	Cost	Accum. deprec.	Net book value
<b>Tangible Assets</b>											
Land	-	-	-	-	-	-	-	-	-	-	-
Buildings and other constructions	-	-	-	-	-	-	-	-	-	-	-
Machinery and equipment	103	-45	58	-	-	-	-13	-	103	-58	45
Transport equipment	500	-218	282	280	-103	-	-143	100	677	-261	416
Tools	-	-	-	-	-	-	-	-	-	-	-
Office equipment	3,111	-2,725	386	218	-36	241	-200	1	3,534	-2,924	611
Assets in progress	159	-	159	212	-	-241	-	-	130	-	130
	<b>3,873</b>	<b>-2,988</b>	<b>885</b>	<b>710</b>	<b>-139</b>	<b>-</b>	<b>-355</b>	<b>101</b>	<b>4,444</b>	<b>-3,243</b>	<b>1,201</b>
<b>Intangible Assets</b>											
Concession Assets	5,414,778	-2,272,589	3,142,189	30,188	-4,304	381,073	-172,278	4,117	5,821,735	-2,440,750	3,380,985
Concession assets in progress	308,803	-	308,803	412,142	-	-381,073	-	-	339,872	-	339,872
Goodwill	3,774	-	3,774	-	-	-	-	-	3,774	-	3,774
	<b>5,727,355</b>	<b>-2,272,589</b>	<b>3,454,766</b>	<b>442,330</b>	<b>-4,304</b>	<b>0</b>	<b>-172,278</b>	<b>4,117</b>	<b>6,165,382</b>	<b>-2,440,750</b>	<b>3,724,632</b>

The balances of the accounts at 31 December 2009 were restated due to the adoption of IFRIC 12 – Note 3.2.

The additions in the year ended 31 December 2010 refer essentially to rights underlying the operation of the substations of the National Transmission Network in the electricity segment, the right underlying the operation of the construction project of the 3rd underground chamber of the Sines Terminal in the gas segment and connections to new clients.

Financial costs capitalized in fixed assets in progress in 2010 amounted to 12,821 thousand Euros (9,213 thousand Euros in 2009), while overhead and management costs amounted to 13,113 thousand Euros (14,657 thousand Euros in 2009).

The net book value of the assets acquired through finance lease at 31 December 2010 was as follows:

	2010	2009
Acquisition cost	5,846	6,254
Accumulated depreciation	-2,616	-1,949
<b>Net book value</b>	<b>3,230</b>	<b>4,305</b>

### Goodwill

Goodwill represents the difference between the amount paid for the acquisition of the participation in subsidiaries and the fair value of the equity of REN Atlântico, S.A. under the natural gas business unbundling process.

### Impairment test of Goodwill

REN made an impairment test of goodwill at 31 December 2010 in terms of the cash generating unit to which REN Atlântico belongs. The business of REN Atlântico is subject to a concession contract and regulated tariffs so that the recoverable amount was determined based on value-in-use calculations. The cash flow projections considered the expected regulatory terms in place for the remaining term of the concession, the most significant assumption in determining it being the rate of remuneration of the regulated assets. The cash flow was discounted considering an average market pre-tax interest rate, adjusted for the natural gas regasification activities risk, of 8% (post-tax discount rate of 5.68%).

The recoverable amount obtained was 59,505 thousand Euros, which enables the net amount of the fixed asset plus goodwill of 3 774 thousand Euros to be recovered.

## 8. Interest in joint ventures

With the acquisition of the natural gas transport business in 2006, the REN Group acquired two joint ventures made up of Enagás the entity responsible for natural gas transport in Spain.

The joint ventures were founded to jointly manage some sections of REN Gasodutos, SA's gas pipelines, with the allocation of a part of the transport capacity to each of the partners, so as ensure its maximum utilisation. The profitability of these companies is ensured by the two partners (REN and Enagás), through fixing of the annual price payable for each unit of natural transported.

Following the contract signed with Enagás on 17 December 2010, as mentioned in Notes 1 and 34, effective as from 31 December 2010, Enagás acquired obtained control of the operating policies of Gasoduto Braga – Tuy, S.A. and Gasoduto Campo Maior – Leiria – Braga, S.A. and as of that date started including these companies in its consolidation.

Considering that at that date the Group acquired control of part of the profit of these companies for the year ended 31 December 2010 the amount of 8 092 tEuros (10 033 tEuros in 2009) was recognized in the consolidated statement of profit and loss caption "Gain/Loss on joint ventures" and so the consolidated statement of profit and loss does not include all the income and costs of those entities.

## 9. Deferred tax and liabilities

The amounts of deferred tax assets and liabilities recognised in the consolidated statement of financial position as of 31 December 2010 are stated at their gross amounts.

The effect of the changes in the deferred tax captions in the years presented was as follows:

	2010	2009
Equity		
Deferred income tax	-3,913	8,511
	<b>-3,913</b>	<b>8,511</b>
Statement of profit and loss		
Deferred income tax	36,184	-18,863
Current income tax	-92,537	-32,016
<b>Total</b>	<b>-56,353</b>	<b>-50,878</b>
<b>IMPACT OF THE CHANGES IN DEFERRED TAX</b>	<b>2010</b>	<b>2009</b>
Impact on the statement of profit and loss		
Deferred tax assets	22,516	-6,782
Deferred tax liabilities	13,669	-12,081
	36,184	-18,863
Impact on equity		
Deferred tax assets	-279	8,749
Deferred tax liabilities	-3,634	-238
	-3,913	8,511
<b>Net impact of deferred taxes</b>	<b>32,271</b>	<b>-10,352</b>

The changes in the deferred tax asset and liability captions for the years presented were as follows:

DEFERRED TAX ASSETS – CHANGES IN THE YEAR	Provisions	Tax losses	Pensions	Derivative financial instruments	Available-for- sale financial assets	Tariff deviations	Others	Total
<b>At 1 January 2009</b>	<b>15,588</b>	<b>23</b>	<b>11,977</b>		<b>960</b>	<b>-</b>	<b>7,112</b>	<b>35,660</b>
<b>Period ended 31 December</b>								
Increase/decrease through equity	-	-	7,193		-464	-	2,021	8,749
Reversal trough profit and loss	-14,185	-	540		-	-	-1,011	-14,656
Increase trough profit and loss	-	1,028	-1,201		-	14,243	-6,196	7,874
<b>Change in the period</b>	<b>-14,185</b>	<b>1,028</b>	<b>6,532</b>		<b>-464</b>	<b>14,243</b>	<b>-5,186</b>	<b>1,967</b>
<b>At 31 December 2009</b>	<b>1,403</b>	<b>1,051</b>	<b>18,509</b>		<b>496</b>	<b>14,243</b>	<b>1,926</b>	<b>37,627</b>
<b>At 1 January 2010</b>	<b>1,403</b>	<b>1,051</b>	<b>18,509</b>	<b>-</b>	<b>496</b>	<b>14,243</b>	<b>1,926</b>	<b>37,627</b>
<b>Period ended 31 December</b>								
Increase/decrease through equity	-	-	1,291	928	-496	-	-2,002	-279
Reversal trough profit and loss	-261	-	-651	-	-	-	-	-912
Increase trough profit and loss	196	193	-	597	-	22,359	83	23,428
<b>Change in the period</b>	<b>-65</b>	<b>193</b>	<b>640</b>	<b>1,525</b>	<b>-496</b>	<b>22,359</b>	<b>-1,919</b>	<b>22,237</b>
Deferred taxes related to CMLB and Braga-Tuy							938	938
<b>At 31 December 2010</b>	<b>1,337</b>	<b>1,244</b>	<b>19,149</b>	<b>1,525</b>	<b>-</b>	<b>36,602</b>	<b>945</b>	<b>60,802</b>

Deferred tax assets at 31 December 2010 correspond mostly to liabilities for benefit plans granted to employees and tariff deviations to be given to subsequent year tariffs.

DEFERRED TAX LIABILITIES – CHANGES IN THE YEAR	Agent	Tariff deviations	Revaluation	Derivative financial instruments	Others	Total
<b>At 1 January 2009</b>	<b>32,987</b>	<b>-</b>	<b>36,048</b>		<b>232</b>	<b>69,267</b>
<b>Period ended 31 December</b>						
Increase/decrease through equity	-	-	-		238	238
Reversal trough profit and loss	-	47,973				47,973
Increase trough profit and loss	-32,987	-	-2,435		-470	-35,892
<b>Movement of the period</b>	<b>-32,987</b>	<b>47,973</b>	<b>-2,435</b>		<b>-232</b>	<b>12,319</b>
<b>At 31 December 2009</b>	<b>-</b>	<b>47,973</b>	<b>33,613</b>		<b>-</b>	<b>81,586</b>
<b>At 1 January 2010</b>		<b>47,973</b>	<b>33,613</b>	<b>-</b>		<b>81,586</b>
<b>Period ended 31 December</b>						
Increase/decrease through equity		-	3,172	462		3,634
Reversal trough profit and loss		-	-	642		642
Increase trough profit and loss		-11,884	-2,426			-14,310
<b>Movement of the period</b>		<b>-11,884</b>	<b>746</b>	<b>1,103</b>		<b>-10,035</b>
<b>At 31 December 2010</b>		<b>36,089</b>	<b>34,359</b>	<b>1,103</b>		<b>71,551</b>

The tax revaluations result from updating the value of assets in accordance with the Portuguese legislation. The impact on deferred income tax reflects the non tax deductibility of 40% of the revaluation.

## 10. Financial assets and liabilities classified in accordance with IAS 39

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

2009	Notes	Credits and receivables	Derivative financial instruments designated as hedging instruments	Available-for-sale financial assets	Other financial assets/liabilities	Non-financial assets/liabilities	Total
<b>Assets</b>							
Cash and cash equivalents	16	69,888	-	-	-	-	69,888
Guarantee deposits received	14	102,637	-	-	-	-	102,637
Trade and other receivables	12	470,649	-	-	-	-	470,649
Other investments	15	-	-	-	7,276	-	7,276
Income tax receivable	29	25,115	-	-	-	-	25,115
Available-for-sale financial assets	11	-	-	90,419	-	-	90,419
<b>Total financial assets</b>		<b>668,289</b>	<b>-</b>	<b>90,419</b>	<b>7,276</b>	<b>-</b>	<b>765,983</b>
<b>Liabilities</b>							
Borrowings	19	-	-	-	2,208,775	-	2,208,775
Guarantee deposits payable	14	-	-	-	102,637	-	102,637
Trade and other payables	22	-	-	-	434,058	384,776	819,234
Derivative financial instruments	15	-	10,149	-	-	-	10,149
<b>Total financial liabilities</b>		<b>-</b>	<b>10,149</b>	<b>-</b>	<b>2,736,841</b>	<b>393,804</b>	<b>3,140,795</b>

2010	Notes	Credits and receivables	Derivative financial instruments designated as hedging instruments	Available-for-sale financial assets	Other financial assets/liabilities	Non-financial assets/liabilities	Total
<b>Assets</b>							
Cash and cash equivalents	16	138,598	-	-	-	-	138,598
Guarantee deposits received	14	74,234	-	-	-	-	74,234
Trade and other receivables	12	342,301	-	-	-	-	342,301
Other investments	15	-	-	-	7,119	-	7,119
Available-for-sale financial assets	11	-	-	84,301	-	-	84,301
Income tax receivable	29	361	-	-	-	-	361
Derivative financial instruments		-	22,911	-	-	-	22,911
<b>Total financial assets</b>		<b>555,494</b>	<b>22,911</b>	<b>84,301</b>	<b>7,119</b>	<b>-</b>	<b>669,824</b>
<b>Liabilities</b>							
Borrowings	19	-	-	-	2,257,784	-	2,257,784
Guarantee deposits payable	14	-	-	-	74,234	-	74,234
Trade and other payables	22	-	-	-	539,455	345,291	884,746
Income tax payable	29	-	-	-	59,925	-	59,925
Derivative financial instruments	15	-	7,250	-	-	-	7,250
<b>Total financial liabilities</b>		<b>-</b>	<b>7,250</b>	<b>-</b>	<b>2,871,473</b>	<b>345,291</b>	<b>3,283,940</b>

The caption “Other investments” corresponds to the Company’s investment in the closed fund “Luso Carbon Fund” with a maturity of 10 years.

The column “Assets / non-financial liabilities” includes the amount of investment subsidies that are treated in accordance with IAS 20.

### Estimated fair value – assets measured at fair value

The following table presents the Group’s assets and liabilities measured at fair value at 31 December 2010 in accordance with the following levels of fair value seniority:

- Level 1: the fair value of financial instruments is based on net liquid market prices as of the date of the balance sheet;

- Level 2: the fair value of financial instruments is not based on active market prices but rather on valuation models. The main inputs of the models used are taken from the market, the discount rate intervals used for the Euro curve being around 1% to 3.6% (maturities of 3 months to 15 years) and the Yen curve being around 0.19% to 1.6% (maturities of 3 months to 15 years); and
- Level 3: the fair value of financial instruments is not based on active market prices, but rather on valuation models, for which the main inputs are not taken from the market.

DESCRIPTION		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale financial assets	Shares	84,301	-	-	84,301
Financial assets at fair value	Hedging derivatives	-	20,699	-	20,699
Financial assets at fair value recorded in income	Negotiable derivatives	2,212	-	-	2,212
<b>Liabilities</b>					
Financial liabilities at fair value recorded in reserves	Hedging derivatives	-	5,678	-	5,678
Financial liabilities at fair value recorded in income	Negotiable derivatives	1,572	-	-	1,572
		<b>84,941</b>	<b>15,021</b>		<b>99,962</b>

### Quality of financial assets

The credit quality of the financial assets that have not yet matured or are impaired can be valued by reference to external credit ratings based on Standard & Poor’s or historical information about the entities to which they refer:

	2010	2009
<b>Trade and other receivables</b>		
AA-	-	85,382
A+	-	-
A	-	-
A-	85,269	-
Without rating	257,031	385,266
<b>Total trade and other receivables</b>	<b>342,300</b>	<b>470,648</b>
<b>Cash and cash equivalents</b>		
AAA	955	1940
AA	39	3,008
AA-	-	10
A+	38	452
A	26	64,434
A-	136,801	-
BBB+	668	-
Without rating	71	44
<b>Total cash and cash equivalents</b>	<b>138,598</b>	<b>69,888</b>

Trade and other receivables refer mainly to regulated electricity and gas services rendered. The main transactions are carried out with authorised distributors in each of the businesses, such as EDP, GALP and some European distributors.

Overdue credits or with impairment at 31 December 2010 are as follows:

- Trade and other receivables include 844 thousand Euros (Note 11) which have been adjusted for impairment, for which there is pending litigation process;
- There are some fairly old receivables relating to transactions with EDP group companies, for which the credit risk is considered as nil.

## 11. Available for sale financial assets

The assets recognised in this caption at 31 December 2010 and 2009 correspond to equity instruments held in strategic market entities in the Spanish electricity market, as follows:

	% owned	Entity	2010	2009
OMEL - Operador del Mercado Ibérico de Energia (Polo Espanhol)	10.00%	OMIP, SGPS	1,033	-
OMEL - Operador del Mercado Ibérico de Energia (Polo Espanhol)	10.00%	OMIP, S.A.	-	1,033
Red Eléctrica Corporación,S.A. ("REE")	1.00%	REN, SGPS	47,651	52,551
Enagás, S.A.	1.00%	REN, SGPS	35,617	36,835
<b>Total</b>			<b>84,301</b>	<b>90,419</b>

The changes in this caption in 2010 and 2009 were as follows:

	OMEL	REE	ENAGAS	Total
<b>At 1 January 2009</b>	1,033	48,733	37,157	86,924
Fair value adjustments	-	3,818	-322	3,496
<b>At 31 December 2009</b>	<b>1,033</b>	<b>52,551</b>	<b>36,835</b>	<b>90,419</b>
Fair value adjustments	-	-4,900	-1,218	-6,118
<b>At 31 December 2010</b>	<b>1,033</b>	<b>47,651</b>	<b>35,617</b>	<b>84,301</b>

On 25 October 2010 under a spin-off-merger project, a series of assets belonging to OMIP - Operador do Mercado Ibérico de Energia, S.A. was transferred to the company OMIP - Operador do Mercado Ibérico, SGPS, S.A., including the investment in OMEL.

The investment of OMIP, SGPS in OMEL is recorded at cost, as OMEL has a specific activity, it is not a quoted company and its shares have not been traded recently in the market. No adjustment was made at 31 December 2010 as there are no indications of impairment.

The investments in REN SGPS, REE and ENAGÁS are recorded at fair market value determined based on the closing listed stock exchange price of the companies at 31 December 2010.

Red Eléctrica de España ("REE") is the Spanish entity responsible for managing the electricity network in Spain. REN, SGPS acquired a 1% participation in REE as part of an agreement between the Portuguese and Spanish Governments. REE is listed on the Madrid stock exchange and is included in the "IBEX 35" index and the investment was recorded at the statement of financial position date in accordance with 30 December 2010 listed price, which resulted in the recognition of a fair value loss of 4 900 thousand Euros.

ENAGÁS is the entity responsible for the transport and management of the natural gas system in Spain. REN, SGPS acquired a 1% participation in Enagás as part of a strategic partnership agreement. Enagás is listed on the Madrid stock exchange and is included in the "IBEX 35" index and the investment was recorded at the statement of financial position date in accordance with 30 December 2010 listed price, which resulted in the recognition of a loss of 1,218 thousand Euros.

The adjustments to fair value of available-for-sale financial assets are recognised in the equity caption "Fair value reserve":

FAIR VALUE ADJUSTMENT	2010	2009
Gross fair value adjustment	-6,118	3,496
Deferred income tax (Note 11)	-496	-464
<b>Net fair value adjustment in equity</b>	<b>-6,614</b>	<b>3,032</b>

In the year ended 31 December 2010 REE and Enagás distributed dividends of 2,001 and 1,789 thousand Euros (1,732 and 1,554 thousand Euros in 2009), respectively. These amounts were recognized in the statement of profit and loss caption "Finance income".



## 12. Trade and other receivables

Trade and other receivables at 31 December 2010 and 2009 are made up as follows:

	2010			2009		
	Current	Non current	Total	Current	Non current	Total
Trade and other receivables (i)	212,696	65	212,760	236,893	4,083	240,976
Trade receivables impairment	-844	-	-844	-823	-	-823
Trade receivables net	211,852	65	211,916	236,070	4,083	240,153
Tarrif deviations	58,066	66,441	124,507	157,958	23,073	181,031
Loans to "joint ventures" (ii)	-	-	-	16,966	16,966	33,932
Tax receivable	5,878	-	5,878	15,533	-	15,533
<b>Trade and other receivables</b>	<b>275,796</b>	<b>66,505</b>	<b>342,301</b>	<b>426,527</b>	<b>44,122</b>	<b>470,649</b>

- (i) The most significant amount in trade receivables is the receivable from EDP – Distribuição de Energia, SA in the amount of 79,344 thousand Euros (65,495 thousand Euros in 2009).
- (ii) The loans to joint ventures in 2009, refers to loans to Sociedade Gasoduto Campo-Maior-Leiria-Braga acquired in the unbundling transactions.

The ageing of trade receivables is as follows:

	2010	2009
Ageing of debts		
30 days or less	188,883	227,237
31-60 days	15,844	849
61-90 days	85	1,765
91-120 days	52	1,956
More than 120 days	7,896	9,169
	<b>212,760</b>	<b>240,976</b>

## 13. Inventories

Inventories at 31 December 2010 and 2009 are made up as follows:

	2010	2009
Goods	93	226
Other materials	3,954	23,563
<b>Inventories</b>	<b>4,047</b>	<b>23,789</b>

The decrease in inventories in 2010 in relation to 2009 corresponds essentially to the incorporation of sundry materials in investment projects of REN Gasodutos.

## 14. Guarantee deposits

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

The amounts recognized in the statement of financial position as of 31 December 2010 and 2009 are as follows:

	2010	2009
<b>Current assets</b>		
Deposits received from participants	74,234	102,637
<b>Current liabilities</b>		
Deposits amounts owed to participants	-74,234	-102,637

## 15. Derivative financial instruments

At 31 December 2010 and 2009 the REN Group had the following derivative financial instruments contracted:

31 DECEMBER 2009					
Derivatives designated as cash flow hedges	Notional	Assets (Eur)		Liabilities (Eur)	
		Current	Non current	Current	Non current
Interest rate swaps	384,000,000 EUR	-	-	-	-6,066
Interest rate and currency swaps	10,000,000,000 JPY	-	-	-	-4,083
<b>Total derivatives designated as cash flow hedges</b>		-	-	-	<b>-10,149</b>

31 DECEMBER 2010					
Derivatives designated as cash flow hedges	Notional	Assets (Eur)		Liabilities (Eur)	
		Current	Non current	Current	Non current
Interest rate swaps	384,000,000 EUR	-	-	2,803	2,875
Interest rate swaps	200,000,000 EUR	-	1,553	-	-
Interest rate and currency swaps	10,000,000,000 JPY	-	19,146	-	-
Negotiable derivatives		2,212		1,572	
<b>Total derivatives designated as cash flow hedges</b>		<b>2,212</b>	<b>20,699</b>	<b>4,375</b>	<b>2,875</b>

The amount recorded in this caption relates to four interest rate swap and two forward start interest rate swaps contracts, that were contracted by REN SGPS to hedge the risk of fluctuation of future interest rates.

The amounts presented include interest receivable and payable relating to financial instruments of 2,512 thousand Euros, net, at 31 December 2010.

The features of the swaps contracted at 31 December 2010 and 2009 are as follows:

Reference value	Payment periods	Receipt/payment	Maturity date	Fair value at 31.12.2010	Fair value at 31.12.2009
200.000 tEuro	Interest counting periods: payable: 16 April – Interest settled yearly; receivable: 16 of each month - interest settled monthly.	REN receives Euribor 1M and pays 1.681%	April 2011	-2,803	-3,927
10.000.000.000 JPY	Interest counting periods: payable: 26 June and December – interest settled half yearly;	REN receives 2.71% and pays 5.64% (annual) up to June 2019 and Euribor 6M + 190 b.p. from that date to maturity	June 2024	19,146	-4,083
72.899 mEuros	receivable: 26 June and December - interest settled half yearly.				
50.000 mEuros	Interest counting period: payable: 5 February, May August and November – interest settled quarterly; receivable: 5 February, May, August and November – interest settled quarterly.	REN receives Euribor 3M and pays 2.19%	May 2012	-781	-576
134.000 mEuros	Interest payment periods: payable: 15 March, June, September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2.28%	June 2012	-2,094	-1,563
100.000 mEuros	Interest payment periods: payable: 15 March, June ,September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2,72%	December 2016	848	-
100.000 mEuros	Interest payment periods: payable: 15 March, June ,September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2,77%	December 2016	706	-
<b>Total</b>				<b>15,022</b>	<b>-10,149</b>

### Cash flow hedges

The Group hedges part of the future payments of interest on borrowings, bonds issued and commercial paper through the designation of interest rate swaps in which it pays a fixed rate and receives a variable rate, with a notional value of 384 000 thousand Euros (384 000 Euros in December 2009). This is an interest rate risk hedge on interest payable at variable rates on recognized financial liabilities. The risk hedged is the indexer of the variable rate to which the loan interest coupons relate. The objective of the hedge is to transform the borrowings at variable interest rates into fixed interest rates, the credit risk not being covered. The fair value of the interest rate swaps at 31 December 2010 was 4 125 thousand Euros negative (6 066 thousand Euros negative at 31 December 2009).

In 2010 the Group contracted two interest rate forward start swaps starting in 2012 with the objective of hedging the risk of interest rate fluctuation on future emissions of commercial paper the Management believes will be contracted. The instruments have a notional value of 200,000 thousand Euros, REN paying a fixed rate and receiving a variable rate. The risk hedged is the indexer of the variable rate which is related to loan interest coupons. The objective of the hedge is to transform the borrowings at a variable interest rate into a fixed interest rate, the

credit risk not being covered. The fair value of the interest rate swaps at 31 December 2010 is 1,533 thousand Euros positive.

In addition, REN is carrying out a hedge of its exposure to cash flow risk on its bond issue of 10,000 million JPY, resulting from exchange risk, through a cross currency swap the main features of which are equivalent to the loan. The same hedge instrument is used to hedge the fair value of the interest rate risk of the bond issue through the forward start component of the swap which will only start in June 2019. The variations in fair value of the hedging instrument are also being deferred in hedging reserves, being, in the case of the exchange hedge, transferred to profit and loss for the year as the instrument covered generates an impact on profit and loss.

As from June 2019 the objective will be to hedge exposure to JPY and the interest rate risk, transforming the operation into a fair value hedge, the changes in fair value of the debt issued resulting from the risks covered, being recorded in results. The credit risk is not hedged. The fair value of the cross currency swap at 31 December 2010 was 19,146 thousand Euros positive (4,083 thousand Euros negative in December 2009).

The exchange variation on the underlying loan in 2010, in the amount of approximately 16,941 thousand Euros, was

recorded net of the effect of the hedging instrument in the statement of profit and loss for the year.

The amount recorded in reserves relating to the above mentioned cash flow hedges was 1,607 tEuros (7,556 tEuros in December 2009).

### Fair value hedges

In February 2009 the Group contracted an interest rate swap to hedge the fair value of an issue of 300 thousand Euros. The hedge was discontinued in November 2009, and at this date the hedged instrument has a fair value adjustment resulting from the hedge of 677 thousand Euros. This amount will be amortized to profit and loss, in accordance with the effective interest rate method during the maturity of the hedged instrument.

### Futures

REN – Redes Energéticas Nacionais, SGPS, S.A., through its subsidiary REN Trading, S.A. has carried out some financial operations in the futures energy market, coal and CO2 emission licences, through contracts standardized by International Swaps and Derivatives Association Inc. (“ISDA”) and through participation in futures trading exchanges.

REN SGPS and REN Trading signed an agreement under which REN Trading manages these derivative financial contracts for account of REN SGPS, thus ensuring clear and transparent separation between these businesses, always on a previously defined basis, continuously monitored with low exposure to risk.

This contracting of financial derivatives in the futures market does not require any physical settlement of the underlying assets, being an activity of a purely financial nature and the mere financial management of assets, not being confused with the regulated activity of the Commercial Agent.

The fair value of the futures energy contracts and CO2 licences at 31 December 2010 was as follows:

	Current assets	Current liabilities
<b>Fair value at 31 December 2009</b>		
Financial contracts in energy market for 2011	1,941	-
CO2 licences	271	-
Carbon financial contracts	-	1,572
<b>Fair value at 31 December 2010</b>	<b>2,212</b>	<b>1,572</b>

## 16. Cash and cash equivalents

The caption “Cash and cash equivalents” at 31 December 2010 and 2009 is made as follows:

	2010	2009
Cash	10	1
Bank deposits	138,588	69,887
<b>Cash and cash equivalents</b>	<b>138,598</b>	<b>69,888</b>

The effective interest rates on short term bank deposits are indicated in Note 19.

The amounts considered as cash and cash equivalents in the consolidated statement of cash flows for the years ended 31 December 2010 and 2009 are made up as follows:

	2010	2009
Cash	10	1
Bank overdrafts	(36,727)	(45,312)
Bank deposits	138,588	69,887
<b>Cash and cash equivalents</b>	<b>101,871</b>	<b>24,576</b>

## 17. Capital

REN’s subscribed and paid up share capital at 31 December 2010 is made up of 534,000,000 shares of 1 euro each.

Share capital at 31 December 2010 is made up as follows:

	Number of shares	Share capital
	534,000,000	534,000
<b>Share capital</b>	<b>534,000,000</b>	<b>534,000</b>

At 31 December 2010 and 2009 REN SGPS had the following own shares:

	Number of shares	Proportion	Amount
<b>Own shares</b>	<b>3,881,374</b>	<b>0.7268%</b>	<b>-10,728</b>

In the year ended 31 December 2009 REN acquired 1,382,672 own shares, corresponding to 0.2589% of its capital.

No own shares were acquired in the year ended 31 December 2010.

In accordance with the Commercial Company Code (Código das Sociedades Comerciais) REN SGPS must at all times ensure the existence of sufficient Equity Reserves to

cover the value of the own shares, limiting the amount of reserves available for distribution.

## 18. Other reserves

The legal reserve is not recorded entirely in accordance with the Commercial Company Code (20% of capital), and so a minimum of 5% of net profit must be transferred to that reserve. The reserve can only be used to cover losses or to increase capital.

## 19. Borrowings

The segregation of borrowings between current and non-current and by nature, at 31 December 2010 and 2009 was as follows:

	2010			2009		
	Current	Non current	Total	Current	Non current	Total
Commercial Paper	260,000	227,000	487,000	400,000	155,000	555,000
Bonds	-	942,039	942,039	-	922,899	922,899
Bank Borrowings	40,828	739,381	780,209	40,503	630,209	670,712
Bank overdrafts (Note 16)	36,727	-	36,727	45,312	-	45,312
Finance Leases	1,260	1,743	3,003	1,415	2,558	3,973
	<b>338,814</b>	<b>1,910,162</b>	<b>2,248,976</b>	<b>487,230</b>	<b>1,710,666</b>	<b>2,197,896</b>
Accrued interest	12,098	488	12,586	12,819	654	13,473
Prepaid interest	-3,778	-	-3,778	-2,593	-	-2,593
	<b>347,134</b>	<b>1,910,650</b>	<b>2,257,784</b>	<b>497,456</b>	<b>1,711,320</b>	<b>2,208,776</b>

REN has subscribed to ten Commercial paper programs amounting to 1,200,000 thousand Euros, 487,000 thousand Euros having been used at 31 December 2010.

In 2010 the following operations were carried out:

- in March the amount of 75,000 thousand Euros was paid relating to a loan contract signed in 2009;
- in October a new loan contract was signed and in December 75,000 thousand Euros was paid.

The bank loans do not have real guarantees of assets of REN.

The REN Group's financial liabilities have the following main types of covenant: Cross default, Pari Passu, Negative Pledge, change in shareholder control (change in shareholder control alone is not sufficient reason to cause early maturity of the contract. For this to happen a series of additional cumulative conditions must apply).

At the end of 2010, REN also had the following credit lines negotiated and not used:

	2010	2009
<b>Variable interest rates</b>		
Short term	120,000	120,000
	<b>120,000</b>	<b>120,000</b>

The credit lines maturing in up to 1 year are automatically renewable annually or quarterly. The credit lines maturing in more than 1 year have no defined limits.

## Borrowings

The exposure of the Group's borrowings to changes in interest rates on the contractual repricing dates is as follows:

	2010	2009
6 month or less	774,045	530,256
6 – 12 month	-	37,209
1 – 5 years	1,253,139	1,419,917
Over 5 years	182,063	161,229
	<b>2,209,247</b>	<b>2,148,611</b>

The effective interest rates on the statement of financial position dates were as follows:

	2010	2009
Bank deposits	1.31%	2.05%
Borrowings and Commercial Paper	3.99%	3.24%

The book value and fair value of the borrowings were as follows:

	Book value		Fair value	
	2010	2009	2010	2009
Commercial Paper	487,000	555,000	487,101	555,106
Bank loans	780,209	670,712	778,345	669,230
Bonds	942,039	922,899	1,047,257	937,339
Bank overdrafts	36,727	45,312	36,727	45,312
	<b>2,245,974</b>	<b>2,193,923</b>	<b>2,349,430</b>	<b>2,206,987</b>

Fair value is calculated in accordance with the discounted cash flow method, using the interest rates at the financial statement position date, in accordance with each type of borrowing.

FINANCE LEASES	2010	2009
<b>Finance lease liabilities – minimum lease payments</b>		
No later than 1 year	1,292	1,475
Later than 1 year and no later than 5 years	1,724	2,620
	<b>3,016</b>	<b>4,095</b>
Future finance charges on finance leases	-13	-122
Present value of finance lease liabilities	<b>3,003</b>	<b>3,973</b>
<b>The present value of finance lease liabilities is as follows</b>		
No later than 1 year	1,260	1,415
Later than 1 year and no later than 5 years	1,743	2,558
	<b>3,003</b>	<b>3,973</b>



## 20. Retirement and other benefit obligations

As explained in Note 3.19 REN – Rede Eléctrica Nacional, S.A. grants supplementary retirement and survivor pensions (hereinafter referred to as pension plan), provides its retirees and pensioners with a health care plan on a

similar basis to that of its serving personnel, and grants other benefits such as long service bonuses, retirement bonuses and a death grant (referred to as “other benefits” in Note 20.2).

At 31 December 2010 and 2009 the Group had recorded the following amounts relating to liabilities for retirement and other benefits:

	2010	2009	2008	2007	2006
<b>Liability on the Balance Sheet</b>					
Pension plan	33,966	40,327	18,103	-7	5,210
Medical assistance plan and other benefits	31,959	29,438	27,025	27,963	32,128
Life insurance plan	106	81	70	60	50
	<b>66,031</b>	<b>69,846</b>	<b>45,198</b>	<b>28,016</b>	<b>37,388</b>
<b>Expenses on the income statement</b>					
Pension plan	2,830	4,138	1,554	392	-114
Medical assistance and other benefits	2,040	2,211	2,160	2,138	2,130
Life insurance plan	13	11	10	10	39
<b>Total expenses in the income statement</b>	<b>4,883</b>	<b>6,360</b>	<b>3,724</b>	<b>2,540</b>	<b>2,055</b>

### Electricity segment

The assumptions used to calculate the post employment benefits, which are considered by the REN Group and the entity specialized in actuarial studies to be those that best

meet commitments established in the pension plan and related retirement benefit liabilities, are as follows:

<b>ACTUARIAL ASSUMPTIONS</b>	2010	2009	2008	2007	2006
Annual discount rate	4.54%	5.17%	6.00%	5.40%	4.50
Expected percentage of serving employees eligible for early retirement (more than 60 years of age and 36 days in service)	10.00%	10.00%	10.00%	10.00%	10.00%
Expected percentage of serving employees eligible for early retirement (between 55 and 60 years of age)	-	-	10.00%	-	-
In 2009 (change on actuarial assumptions)	-	45.00%	-	-	-
In 2010 (change on actuarial assumptions)	45.00%	45.00%	-	-	-
In subsequent years (change on actuarial assumptions)	5.00%	5.00%	-	-	-
Annual salary growth rate	1.30%	3.30%	3.30%	3.30%	3.30%
Annual pension growth rate	1.00%	2.25%	2.25%	2.25%	2.25%
Annual growth rate of Social security pensions	2.00%	2.00%	2.00%	2.00%	2.00%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%
Annual growth rate of health costs	4.00%	4.00%	4.00%	4.00%	4.00%
Management costs (per employee/year)	175 €	150 €	150 €	150 €	233 €
Growth rate of the management costs	2.20%	2.70%	2.70%	2.70%	2.70%
Rate of return on assets	5.32%	5.45%	5.99%	5.80%	5.37%
Mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90

The changes in the assumptions of the plans relating to the employees eligible for early retirement, result from REN’s expectation that more employees will go into that retirement regime before their age estimated earlier.

In 2010 the annual discount rate used decreased from 5.17% to 4.54% reflecting the expected long term decrease in market interest rates. If the discount rate of 4.90% had been used to calculate the REN Group’s liability at the balance sheet date, the liability of the pension plan would

decrease by 2,164 thousand Euros, and the liability of the health care plan and other benefits would decrease by 1,641 thousand Euros.

## 20.1 a) Pension plan

To cover its liability for supplementary retirement pensions, REN contributes to an autonomous pension fund, to which it has transferred all the liability and the necessary contributions to cover its costs, as they fall due in each year.

In 2010 the subsidiary REN – Rede Eléctrica Nacional, S.A. made no contributions to the REN Pension Fund.

The assets of the REN Pension Fund at 31 December 2010 and 2009 were as follows, in accordance with information provided by the management entity:

PENSION FUND	2010	2009	2008
Bonds	29,163	26,560	23,846
Shares	10,040	11,815	8,706
Investment funds	6,100	2,110	2,271
Term deposits	-	4,489	3,028
Deposits readily available	245	-	-
Operations to liquidate	-1,384	-	-
<b>Total</b>	<b>44,163</b>	<b>44,974</b>	<b>37,851</b>

Up to 2007 the Pension Fund was included in a fund shared with EDP.

The expected rate of return of the plan's assets for 2010 was determined based on an estimate of the expected long

term return of the fund's assets and the planned investment strategy.

Evolution of the assets of the Pension Fund in 2010 and 2009 was as follows:

	2010	2009	2008	2007	2006
<b>At 1 January</b>	<b>44,974</b>	<b>37,851</b>	<b>42,570</b>	<b>41,707</b>	<b>35,415</b>
Contributions to the Fund	-	4,538	2,038	2,118	1,802
Actuarial gains / (losses)	-1,468	2,003	-7,586	-1,904	3,310
Benefits paid	-1,750	-1,636	-1,595	-1,550	-1,477
Expected return on plan assets	2,407	2,218	2,424	2,199	2,656
<b>At 31 December</b>	<b>44,163</b>	<b>44,974</b>	<b>37,851</b>	<b>42,570</b>	<b>41,707</b>

Employees that fulfil certain predefined conditions of age and length of service and opt to take early retirement, as well as those that agree with the Company to take pre-retirement are also included in the plans.

The liability and corresponding annual costs are determined by annual actuarial calculations, using the projected unit credit method made by an independent

actuary, based on assumptions that reflect the demographic conditions of the population covered by the plan and the economic and financial conditions at the time of the calculations.

The amount of the liability recognized in the consolidated statement of financial position was determined as follows:

	2010	2009	2008	2007	2006
Present value of the obligation	78,129	85,300	55,954	42,563	46,917
Fair value of plan assets	-44,163	-44,973	-37,851	-42,570	-41,707
	<b>33,966</b>	<b>40,327</b>	<b>18,103</b>	<b>-7</b>	<b>5,210</b>

The changes in the present value of the underlying liability of the pension plan were as follows:

<b>RECONCILIATION OF THE PENSION PLAN LIABILITY</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>At 1 January</b>	<b>85,300</b>	<b>55,954</b>	<b>42,563</b>	<b>46,917</b>	<b>48,794</b>
Current Service costs	1,062	1,412	587	585	573
Interest costs	4,175	4,944	3,391	2,006	1,969
Benefits paid	-7,522	-4,938	-4,794	-4,636	-4,673
Actuarial (gains)/losses	-4,886	27,928	14,207	-2,309	254
<b>At 31 December</b>	<b>78,129</b>	<b>85,300</b>	<b>55,954</b>	<b>42,563</b>	<b>46,917</b>

The amount of 27,928 recorded as actuarial gains/losses in 2009 results from the change in REN's actuarial assumptions, regarding the entry of employees into pre-retirement between 55 and 60 years of age.

In accordance with Group accounting policy of recognition of actuarial gains and losses, that amount was recorded on equity.

The impact on the consolidated statement of profit and loss for the year was as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current service costs	1,062	1,412	587	585	573
Interest costs	4,175	4,944	3,391	2,006	1,969
Expected return on assets	-2,407	-2,218	-2,424	-2,199	-2,656
<b>Total included in personnel costs</b>	<b>2,830</b>	<b>4,138</b>	<b>1,554</b>	<b>392</b>	<b>-114</b>

## 20.2 Healthcare and other benefits

The healthcare and other benefits plan does not have a fund, the liability being covered by a specific reserve.

The amounts of the liability recognized in the statements of financial position are as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Present value of the obligation	31,959	29,438	27,025	27,963	32,128
<b>Liability in the Statement of financial position</b>	<b>31,959</b>	<b>29,438</b>	<b>27,025</b>	<b>27,963</b>	<b>32,128</b>

The changes in the amount of the obligation for healthcare and other benefits were as follows:

<b>RECONCILIATION OF THE LIABILITY FOR HEALTHCARE AND OTHER BENEFITS</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>At 1 January</b>	<b>29,438</b>	<b>27,025</b>	<b>27,963</b>	<b>32,128</b>	<b>32,975</b>
Current service costs	422	433	528	637	653
Interest costs	1,489	1,662	1,523	1,420	1,377
Benefits paid	-1,091	-950	-1,270	-859	-978
Actuarial (gains)/losses	1,572	1,152	-1,829	-5,443	-1,999
Other benefits	129	116	109	82	100
<b>At 31 December</b>	<b>31,959</b>	<b>29,438</b>	<b>27,025</b>	<b>27,965</b>	<b>32,128</b>

The effects of the plan on the consolidated statements of profit and loss are as follows:

	2010	2009	2008	2007	2006
Current service costs	422	433	528	637	653
Interest costs	1,489	1,662	1,523	1,420	1,377
Other benefits	129	116	109	82	100
<b>Total included in personnel costs</b>	<b>2,040</b>	<b>2,211</b>	<b>2,160</b>	<b>2,139</b>	<b>2,130</b>

### 20.3 Life assurance

The amount of the liability recognized on the consolidated statement of financial position was determined as follows:

	2010	2009	2008	2007	2006
Hedge provision	106	81	70	60	50
<b>Total liabilities</b>	<b>106</b>	<b>81</b>	<b>70</b>	<b>60</b>	<b>50</b>

The impact of the life assurance plan on the consolidated statement of profit and loss was as follows:

	2010	2009	2008	2007	2006
Increase in the provision for the liability	13	11	10	10	39
<b>Total included in personnel costs</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>39</b>

## 21. Provisions

The changes in provisions in the years ended 31 December 2010 and 2009 were as follows:

	2010	2009
<b>Beginning balance</b>	<b>5,288</b>	<b>58,824</b>
Increases	12,774	981
Utilization	-981	-
Decreases	-	-54,517
<b>Ending balance</b>	<b>17,081</b>	<b>5,288</b>
Current provision	12,470	981
Non-current provision	4,611	4,307
	<b>17,081</b>	<b>5,288</b>

The caption "Provisions" at 31 December 2010 corresponds essentially to: (i) estimate of the payments to be made by REN resulting from legal processes in progress for damage

caused to third parties (4,611 thousand Euros); (ii) provision (12,470 thousand Euros) to cover the contingency relating to litigation with Amorim Energia regarding dividends received from Galp Energia in 2006, which was recognized in 2010 following notification of the Decision of the Arbitration Court of the International Chamber of Commerce in Paris on 16 March 2010 and related addenda on 8 July 2010, condemning REN to pay 20,300 thousand Euros, equivalent to half the amount claimed by Amorim Energia, plus interest. REN believes, based on a legal analysis of the Arbitration Decision, that the provision recorded in 2010 is adequate to cover the risk resulting from the process, corresponding to the best expectation of cost to be incurred by REN in the process.

The changes in the caption "Provisions" in 2009 correspond essentially to reversal of the provisions for deviations to be returned to the tariff that became unnecessary because of the recognition of the deviations in the consolidated statement of financial position.

## 22. Trade and other payables

The caption “Trade and other payables” at 31 December 2010 and 2009 is made up as follows:

	2010			2009		
	Current	Non current	Total	Current	Non current	Total
<b>Trade payables</b>						
Current suppliers	184,478	-	184,478	203,949	-	203,949
<b>Other creditors</b>						
Other creditors	70,494	9,704	80,198	38,135	5	38,140
Tariff deviation	8,435	120,618	129,053	21,768	31,979	53,747
Fixed assets suppliers	133,892	-	133,892	129,593	-	129,593
<b>State and other public entities (1)</b>	<b>7,060</b>	<b>-</b>	<b>7,060</b>	<b>4,145</b>	<b>-</b>	<b>4,145</b>
<b>Deferred income</b>						
Grants related to assets	23,673	321,617	345,291	17,252	367,524	384,776
<b>Accrued costs</b>						
Holidays and holidays subsidies	4,774	-	4,774	4,883	-	4,883
Other accrued expenses	-	-	-	-	-	-
<b>Trade and other payables</b>	<b>432,806</b>	<b>451,940</b>	<b>884,746</b>	<b>419,726</b>	<b>399,508</b>	<b>819,234</b>

1) – the balance of state and other public entities relates to VAT, personnel income tax withheld and other taxes.

The increase in the caption “Trade and other payables” at 31 December 2010 in relation to the preceding year results essentially from an increase in the account other creditors which includes the amount of tariff deviations of the electricity segment to be given to the Tariff (75,306 thousand Euros) due essentially to deviations in the quantity consumed.

The ageing trade suppliers are as follows:

AGEING OF CREDITS	2010	2009
30 days or less	224,356	195,102
31-60 days	118,210	127,280
61-90 days	1,807	1,109
91-120 days	455	2,405
More than 120 days	53,740	45,787
	<b>398,568</b>	<b>371,683</b>

## 23. Sales and services rendered

Sales and services rendered recognized in the consolidated statement of profit and loss is made up as follows:

	2010	2009
<b>Goods</b>		
Domestic Market	917	1,299
	<b>917</b>	<b>1,299</b>
<b>Services rendered – domestic market</b>		
Electricity transmission and overall systems management	560,47	362,438
Natural gas transmission	122,678	122,702
Regasification	40,997	38,610
Underground gas storage	13,623	15,428
Telecommunications network	5,030	3,768
Trading	6,399	3,097
Electricity services	6,196	1,479
Others	2,513	2,658
	<b>757,910</b>	<b>550,179</b>
<b>Total sales and services rendered</b>	<b>758,827</b>	<b>551,478</b>

The increase in the caption “Services rendered” is due essentially to the excess cost of the CAE of the gas plant of Tapada do Outeiro and the coal plant of Pego, included the tariff for 2010 in the amount of 248,062 thousand Euros (89,096 thousand Euros in 2009), the increase being due to a decrease in the operating margin, which reflects the price changes tendencies in the energy market in 2010. This increase also occurred in the caption “Other operating costs” (Note 26).

## 24. External supplies and services

External supplies and services are made up as follows:

	2010	2009
Gas transport subcontracts	23,672	23,239
Maintenance costs	21,352	22,059
Fees relating to external entities ii)	11,957	14,264
Cross border interconnection costs	3,204	5,894
Electric energy costs	4,593	4,203
Insurance costs	2,829	2,817
Reserve capacity costs i)	1,763	1,529
Publicity costs	1,233	1,470
Security and surveillance	1,927	1,909
Other (less than 1,000 thousand Euros)	7,893	7,335
<b>External supplies and services</b>	<b>80,423</b>	<b>84,718</b>

- i) Excess capacity costs correspond to costs incurred by REN relating to production available required from producers, to maintain the system operational at all times. These costs are recorded in the overall management of the REN S.A. system activities in accordance with the regulatory model currently in force.
- ii) The fees paid to external entities refer to specialized work and fees paid by REN for contracted services and specialized studies.

This caption includes audit and account revision services, as well as the rendering of consultancy services by the audit firms that were recorded as costs in 2010, as follows:

	2010
<b>Assurance</b>	
J. Monteiro & Associados, SROC	25
Luis Borges Assunção	156
Deloitte	613
Pricewaterhousecoopers	10
<b>Consulting</b>	
Deloitte	131
Pricewaterhousecoopers	156
<b>Other services</b>	
Deloitte - Serviços de tradução	11
	<b>1,102</b>

## 25. Personnel costs

Personnel costs are made up as follows:

	2010	2009
<b>Remuneration</b>		
Board of directors	2,859	4,193
Personnel	29,848	30,297
	<b>32,707</b>	<b>34,491</b>
<b>Social charges</b>		
Post-employment and other benefits cost	4,883	6,360
Performance bonuses	2,703	4,004
Charges on remunerations	7,165	7,453
Social support costs	1,149	2,218
Other	2,616	1,319
	<b>18,516</b>	<b>21,354</b>
<b>Total personnel costs</b>	<b>51,223</b>	<b>55,844</b>

The average number of employees in the Group in 2010 was 743 (798 in 2009).



## 26. Other operating costs

Other operating costs are made up as follows:

OTHER EXPENSES	2010	2009
Excess CAE costs not terminated ii)	248,062	89,096
ERSE operating costs i)	10,335	9,723
Donations	722	1,722
Taxes	1,285	744
Market operations costs OMIP/Omiclear	557	884
Dismantling of power lines	182	229
Sales of tangibles	28	134
Loss on inventories	-	46
Others	1,169	1,277
	<b>262,340</b>	<b>103,854</b>

- i) The caption “ERSE operating costs” corresponds to amounts debited by ERSE, to be recovered through electricity and gas tariffs.
- ii) The Overall Management of the System tariff includes, in the revenue of REN Rede Eléctrica Nacional, S.A., the excess costs of the CAE not terminated, that is, the tariff covers the difference which REN Trading determines between the fixed and variable costs incurred with the two CAE’s and the amount of the sale of electricity placed on the market. The amount included in “Other operating expenses” refers to costs incurred by REN Trading relating to the CAE’s still in force with Turbogás and Tejo Energia. The increase in the amount of the excess costs is reflected in the amount of the services rendered by inclusion of that amount in the tariffs (Note 23).

## 27. Other operating income

The caption “Other operating income” is made up as follows:

	2010	2009
Amortisation of investment subsidies	23,673	17,252
Interconnection rents - hedge of costs i)	4,968	5,458
Supplementary income	1,358	867
Hedging ii)	5,938	-
Others	1,869	2,232
	<b>37,806</b>	<b>25,809</b>

- (i) The amount recorded as interconnection rents results from the decision taken by ERSE to allocate part of the rents received to cover the cost of cross border connections and systems services incurred in the year, recognized in “External supplies and services”.
- (ii) Corresponds to gains on financial operations in the futures energy market, coal, and CO2 emission licences, through the signing of contracts standardized by International Swaps and Derivatives Association Inc. (“ISDA”), as well as participation in futures trading

exchanges. The operations are merely financial not involving physical deliveries.

## 28. Finance costs and income

Finance costs and income are made up as follows:

	2010	2009
<b>Financial costs</b>		
Borrowings	89,883	85,216
	<b>89,883</b>	<b>85,216</b>
<b>Financial income</b>		
Interest income	1,554	2,308
Liquidation of Swaps	640	5,795
	<b>2,194</b>	<b>8,103</b>

## 29. Income tax

Income tax calculated at the normal rate and impact recognized in the caption “Income tax” in the consolidated statement of profit and loss are as follows:

	2010	2009
Current income tax	92,537	32,016
Deferred income tax	-36,184	18,863
<b>Income tax</b>	<b>56,353</b>	<b>50,878</b>

The calculation of income tax for the year was updated in accordance with Law 12-A/2010 of 30 June, which established a state surcharge corresponding to application of an additional rate of 2.5% on taxable income in excess of 2 million Euros.

Consequently the rate of tax used to determine the amount of taxable and deductible temporary differences at 31 December 2010 is 29% (26.5% in 2009). The adjustment of the opening balances of deferred tax assets and liabilities at 1 January 2010 is explained by the significant increase in the effective rate of income tax at 31 December 2010 when compared to the previous year.

Reconciliation between the nominal tax rate and the effective tax rate is as follows:

	2010	2009
Consolidated profit before income tax	166,620	184,925
Tax rate	26.5%	26.5%
	<b>44,154</b>	<b>49,005</b>
State surcharge tax	7,644	-
	<b>51,798</b>	<b>49,005</b>
Effect of state surcharge tax updating on deferred tax assets and liabilities	2,524	-
Non deductible costs	47,088	6,018
Non taxable income	-45,472	-3,357
Loss generated on deferred tax	-	-1,251
Autonomous taxation	415	464
	<b>56,353</b>	<b>50,878</b>
Current income tax	92,537	32,016
Deferred income tax (Note 9)	-36,184	18,863
Income tax (Note 9)	56,353	50,878
<b>Effective tax rate</b>	<b>33.8%</b>	<b>27.5%</b>

The tax rate used to determine the amount of tax in the consolidated financial statements was as follows:

	2010	2009
Tax rates	25.00%	25.00%
Municipal surcharge	1.50%	1.50%
State surcharge	2.50%	-
	<b>29.00%</b>	<b>26.50%</b>

The caption "Income tax" payable and recoverable at 31 December 2010 and 2009 is made up as follows:

	2010	2009
<b>Income tax</b>		
Corporate income tax - estimated tax	-94,495	-33,409
Corporate income tax - payments on account	33,626	56,856
Income tax withheld by third parties	943	1,668
<b>Income tax / (payable)</b>	<b>-59,925</b>	<b>25,115</b>
<b>Income tax recoverable</b>	<b>361</b>	<b>-</b>

## 30. Earnings per share

Earnings per share for the years ended 31 December 2010 and 2009 were calculated as follows:

	2010	2009
<b>Consolidated net profit used to calculate earnings per share</b>	(1) <b>110,265</b>	<b>134,047</b>
Number of ordinary shares outstanding during the period (note 17)	(2) 534,000,000	534,000,000
Effect of own shares (note 16) (average number of shares)	3,881,374	3,166,532
	(3) <b>530,118,626</b>	<b>530,833,468</b>
<b>Basic earnings per share (euro per share)</b>	(1)/(3) <b>0.21</b>	<b>0.25</b>

## 31. Dividends per share

Dividends paid in 2010 and 2009 amounted to 88,530 thousand Euros (0.167 Euros per share) and 88,102 thousand Euros (0.165 Euros per share), respectively.

## 32. Commitments

The commitments assumed by the REN Group relating to investments contracted but not yet realized, not reflected in the statement of financial position as of 31 December 2010 and 2009, were as follows:

	2010	2009
Power lines	107,692	122,015
Substations	123,832	185,186
Gas pipelines	7,223	6,658
Sines Terminal	73,725	133,704
Underground gas storage	21,881	741
	<b>334,353</b>	<b>448,304</b>

### 33. Guarantees given

At 31 December 2010 the REN Group had given the following bank guarantees:

Beneficiary	Purpose	Beginning	2010	2009
European Community	To comply with the contractual requirements of the loan contract	16-12-2003	691	692
Viseu Municipal Court	Guarantee relating to expropriation of 63 plots for the Bodiosa substation	22-10-2004	206	206
Braga and C.Branco Municipal Courts	Guarantee relating to expropriation of plots for the Pedralva and C. Branco substations	15-02-2006	800	800
Municipal Council of Silves	Guarantee for works in Tunes	04-05-2006	352	352
Anadia Municipal Courts	Guarantee for the expropriation of 111 plots for the Paraimo substation	26-04-2005	432	432
Gondomar Municipal Courts	Guarantee for the process 1037/2001	09-11-2005	150	150
Penela e Ansião Municipal Court	Guarantee for the expropriation of 83 plots for the Penela substation	30-06-2006	703	703
Vieira do Minho Municipal Court	Guarantee for the expropriation of 29 plots for the Frades substation	3-08-2006	558	558
Torres Vedras Municipal Court	Guarantee for the expropriation of 11 plots for the Carvoeira substation	13-12-2006	297	297
Macedo de Cavaleiros Municipal Court	Guarantee for the expropriation of plots for the Olmos substation	14-02-2007	190	190
Direcção Geral de Geologia e Energia	Concession of the gas transport operations	26-09-2006	20,000	20,000
Municipal Council of Seixal	To guarantee processes in progress	-	3,853	3,853
BEI	To guarantee loans	-	364,671	332,024
Lisboa Financial Services	To guarantee a process in progress	-	1,080	1,080
Tabua Municipal Court	Expropriation of plots of land	-	171	171
Vila Pouca de Aguiar Municipal Court	Expropriation of plots of land	-	81	81
OMEL - Operador del Mercado Español de Electricidad	To guarantee payments resulting from Trading intervention as purchaser in the Spanish market	26-06-2007	2,000	2,000
Lisbon Municipal Court	To guarantee processes in progress	10-12-2008	115	115
Armamar Municipal Court	Expropriation of plots of land	03-11-2008	732	732
Ministry of the Economy and Innovation	To guarantee settlement of executing debt nº 7873/2006	30-12-2008	1	1
Fortis	Financial contract under the ISDA contract (International Swaps and Derivatives Association, Inc.)	17-06-2009	2,000	2,000
Mogadouro Municipal Court	To guarantee the cost of acquiring land to expand the Mogadouro substation	30-07-2009	18	18
Tavira Municipal Court	To guarantee expropriation of 38 plots of land in the parish of Cacho, municipality of Tavira to build the Tavira substation	24-09-2009	163	163
NORSCUT - Concessionária de Auto-estradas, SA	To guarantee prompt payment of liabilities assumed by REN in the contract ceding utilization	08-01-2010	200	-
EP - Estradas de Portugal - Delegação Regional do Porto	Installation of gas infrastructures by drilling - Natural Gas Transport Network Leça Industrial branch	15-07-2009	5	5
EP - Estradas de Portugal - Delegação Regional de Santarém	Natural Gas Transport Network - CCC pego - connection to the Thermolectric plant of Tejo Energia (Pego). Crossing over EN 118 – Km 142,295	25-08-2009	5	5
EUROSCUT NORTE - Sociedade Concessionária da SCUT do Norte Litoral, S.A.	Ensure compliance with the obligations assumed resulting from the contract relating to the instalation of a gas pipeline in the concession area of EUROSCUT NORTE.	25-01-2010	250	-
Direcção Geral de Impostos	Guarantee of failure in the process of litigation on VAT	23-09-2010	688	-
Director of DAGEF from Municipal Council of Seixal	To guarantee settlement of executing debt nº 3500/2010 a aps. – nº 35800/2010, 35801/2010, 35802/2010 and 35803/2010	21-12-2010	616	-
Direcção Geral de Geologia e Energia	To guarantee compliance with the obligations assumed resulting from the contract relating to the public service concession of the pilot area identified in Decree Laws 5/2008, of 8 January, and utilization of the public hydro water resources necessary to produce electric energy from ocean waves	19-10-2010	500	-
			<b>401,527</b>	<b>366,626</b>

The guarantee given to EIB refers to the transfer to REN of the loans of the gas companies under the unbundling process.

## 34. Companies included in the consolidation perimeter

The following companies were included in the consolidation perimeter as of 31 December 2010:

Designation / adress	Activity	Reference date	Share capital	Equity	Assets	Liabilities	Revenues	Profit/(losses)	%Owned	
									Group	Individual
<b>Electricity Sector:</b>										
REN - Rede Electrica Nacional, SA Av. Estados Unidos da América, 55 Lisboa	Operator of the very high tension national network of transmission lines	Dec-10	586,759	656,615	2,690,260	2,033,645	1,114,607	64,849	100.00%	100.00%
REN Trading, S.A. Av. Estados Unidos da América, 55 - Lisboa	Purchase and sale, import and export of electricity and natural gas	Dec-10	50	-1,733	173,313	175,045	6,729	-2,118	100.00%	100.00%
Enondas-Energia das Ondas, S.A. Mata do Urso - Guarda Norte - Carricho- Pombal	Management of the concession to operate a pilot area for the production of electric energy from ocean waves	Dec-10	250	216	237	20	-	-34	100.00%	100.00%
<b>Operator Energy Market Sector</b>										
OMIP - SGPS, S.A. Av. Estados Unidos da América, 55 - Lisboa	Management of participations	Dec-10	2,610	17,285	17,292	7	-	10	90.00%	90.00%
Detidas pela OMIP, SGPS, S.A.:										
OMIP - Operador do Mercado Ibérico de Energia, S.A. Av. Estados Unidos da América, 55- 12º - Lisboa Av. Estados Unidos da América, 55 - Lisboa	Management of transactions within the MIBEL	Dec-10	2,500	3,955	4,999	1,043	2,579	16	90.00%	-
OMI CLEAR - Sociedade de Compensação de Mercados de Energia, S.A. Av. Estados Unidos da América, 55 -12º - Lisboa	Clearing house for future purchase contracts of electricity	Dec-10	3,000	3,053	77,823	74,769	1,056	6	90.00%	-
<b>Natural Gas Sector</b>										
REN - Armazenagem, S.A. Mata do Urso - Guarda Norte - Carricho- Pombal	Underground storage development, maintenance and operation	Dec-10	76,386	83,331	139,950	56,619	17,560	5,213	100.00%	100.00%
REN Atlântico , Terminal de GNL, S.A. Terminal de GNL - Sines	Liquified Natural Gas Terminal maintenance and regasification operation	Dec-10	13,000	69,955	330,426	260,471	114,978	12,909	100.00%	100.00%
REN - Gasodutos, S.A. Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas	RNTGN operator and Natural Gas overall manager	Dec-10	404,931	455,942	936,779	480,837	171,504	41,982	100.00%	100.00%
<b>Owned by REN Gasodutos, S.A:</b>										
Gasoduto Braga Tuy, S.A. Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas	Gas transmission	Dec-10	2,680	7,172	7,367	195	401	59	51.00%	-
Gasoduto Campo Maior - Leiria - Braga,S.A. Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas	Gas transmission	Dec-10	23,712	50,244	95,517	46,273	21,164	9,161	88.00%	-
<b>Telecommunications Sector:</b>										
RENTELECOM - Comunicações S.A. Av. Estados Unidos da América, 55 - Lisboa	Telecommunications network operation	Dec-10	100	3,884	5,967	2,082	6,562	3,188	100.00%	100.00%
<b>Other segments:</b>										
REN - Serviços, S.A. Av. Estados Unidos da América, 55 - Lisboa	Back Office	Dec-10	50	3,138	9,931	6,799	23,729	3,075	100.00%	100.00%
<b>Total</b>				<b>1,353,059</b>	<b>4,489,860</b>	<b>3,137,805</b>	<b>1,480,869</b>	<b>138,315</b>		

### Changes in the consolidated perimeter

On 17 December 2010 a contract was entered into between REN Gasodutos, S.A. and Enagás, relating to the disconnection of Enagás, S.A. from the joint project of natural gas supply to Portugal and Spain. Under the contract, the REN Group acquired the right to use the remaining transport capacity of the gas pipelines for 29,000 thousand Euros becoming holder of control over the operating policies of the subsidiaries Gasoduto Campo Maior Leira Braga, S.A. and Gasoduto Braga-Tuy, S.A.. Consequently, as from 31 December 2010 these entities were included in the consolidation perimeter of REN. No goodwill was determined due to the fact that control was obtained based exclusively on the recognition and measurement of that right.

The effect of the inclusion of the above mentioned companies in the consolidation perimeter as of 31 December 2010 was as follows:

Decrease of 70,517 thousand Euros in assets and decrease of 76,325 thousand Euros in liabilities.

The minority shareholders rights in the subsidiaries Gasoduto Campo Maior Leira Braga, S.A. and Gasoduto Braga-Tuy, S.A. was recognized in the amount that the REN Group paid in the beginning of 2011, the effective and formally defined date to become the sole shareholder of these companies, approved by the Competition Authority.

## 35. Transactions with related parties

At 31 December 2010 the REN Group was listed in Euronext – Lisbon stock exchange, having as reference shareholders with recorded transactions the following entities: the EDP Group and Caixa Geral de Depósitos.

The following are related entities:

#### Shareholders:

- The EDP Group:
  - EDP, Energias de Portugal, S.A.
  - EDP Distribuição- Energia, S.A.
  - EDP Serviços Universal, S.A
  - EDP Valor – Gestão Integrada de Serviços, S.A.
  - EDP Gestão da Produção da Energia,S.A.
  - SÁvida,S.A.
  - Labelec, S.A.
  - Portgás,S.A
  - EDP Gás.Com, S.A.
  - EDP Gás, SGPS,S.A.
  - O&M Serviços, S.A.

- The CGD Group:
  - Caixa Geral de Depósitos
  - Caixa BI
  - Outros:
    - Red Eléctrica Corporacion, S.A.
    - Capitalpor – Participações Portuguesas, SGPS, S.A.
    - Gestmin, SGPS, S.A.
    - Logoplaste Gestão Consult Financ, S.A.
    - Oliren, SGPS, S.A.
    - Parpública – Participações Públicas, SGPS, S.A.

During the year the REN Group realised the following transactions with these entities:

### 35.1 Transactions and balances with shareholders and related entities

Following is a summary of the related entities in which the shareholders of the REN Group have participations:

#### Sales and Services rendered

	2010	2009
Electricity - EDP	1,487,362	966,851
Other services - EDP	20,930	13,212
<b>Total</b>	<b>1,508,292</b>	<b>962,025</b>

The amounts shown as sales refer to energy resulting from the role of REN Trading as agent in relation to the CAE of the Pego (Tejo Energia) and Tapada do Outeiro ( Turbogás) plants.

PURCHASE OF PRODUCTS AND SERVICES	2010	2009
<b>Purchase of goods</b>		
Electricity - EDP	642,814	370,440
	<b>642,814</b>	<b>370,440</b>
<b>Purchase of services</b>		
Other services - EDP	10,139	11,543
Interests on Commercial paper - CGD	2,878	769
Borrowings fess - CGD	640	284
Other interest - CGD	31	10
	<b>13,688</b>	<b>12,606</b>

The amounts shown as products purchased are recognized in the caption “Trade and other receivables”, as a result of the intermediation role of REN in the purchase and sale of electricity.

## Debtor and creditor balances

Em 31 de Dezembro de 2010 e 2009, os saldos resultantes de transacções efectuadas com partes relacionadas são como segue:

	2010	2009
<b>Trade and other receivables</b>		
EDP – Trade receivables	84,467	65,111
EDP – Other receivables	802	3,067
<b>Cash and cash equivalents</b>		
CGD – Treasury investments	63,100	-
CGD – Bank deposits	1,527	-
	<b>149,896</b>	<b>65,503</b>
<b>Fornecedores e outras contas a pagar</b>		
EDP – Trade payables	7,674	4,843
EDP – Other payables	234	2,421
CGD – Trade payables	36	-
<b>Borrowings</b>		
CGD – Borrowings (Commercial paper)	27,000	100,000
CGD – Financial Lease	131	-
	<b>35,075</b>	<b>107,264</b>

### 35.2 Management remuneration

The Board of Directors of REN were considered in accordance with IAS 24 to be the only key elements in the management of the Group. Remuneration of the Board of Directors of REN in the year ended 31 December 2010 amounted to 2,031 thousand Euros (3,152 thousand Euros in 2009).

	2010	2009
Remuneration and other short term benefits	2,031	3,152
	<b>2,031</b>	<b>3,152</b>

The amounts indicated refer only to fixed remuneration and meal allowance, as the Board of Directors does not receive any other income listed by paragraph 16 of IAS 24.

## 36. Other matters

### Disagreement Amorim Energia B.V.

In December 2007, as explained to the market, REN was notified of the presentation to the International Chamber of Commerce, of an arbitration request by Amorim Energia BV against REN, under which REN is accused of violating emerging obligations or related to the “Shareholders Agreement relating to GALP ENERGIA, SGPS, S.A.” entered into on 29 December 2005 between REN, AMORIM and ENI PORTUGAL INVESTMENT, S.p.A., especially regarding dividends distributed by Galp Energia, SGPS, SA relating to profit for 2005.

Earlier, in 2006 REN and Amorim Energia BV had a difference regarding to whom the amount corresponding to dividends belonged and on 15 June 2006 the Arbitration Court especially convened for the purpose in accordance with an agreement between the parties, issued a decision, with one vote against, judging the action brought by Amorim Energia BV without merit recognizing definitively REN’s right to maintain the dividends.

In the second arbitration, realized under the International Chamber of Commerce, Amorim Energia B.V., allegedly basing itself on different facts, requested condemnation of REN to pay an indemnity equal to the amount of the dividends.

On 16 March 2010 REN was notified of the arbitration decision which, with one vote against, condemned it to pay 20,334,883.91 Euros to Amorim Energia B.V., equivalent to half the amount requested by the latter, and corresponding to half the amount of the dividends plus interest.

Following a request for clarification made by REN, on 8 July 2010 the Arbitration Court notified the Company of addenda to the Decision.

Under these conditions, after analyzing the arbitration decision and its bases, as well as the addenda, REN considered that there are ways of reacting which currently permit the understanding, based on the facts known, that there is a significant probability for the Company to make its position prevail.

Therefore, REN, based on a legal analysis of the arbitration decision and related addenda believes that the provision of 12,470 thousand Euros recorded in 2010 is sufficient to cover the risk inherent in the process and corresponds to the best estimate of the cost to be incurred with the process.

## 37. Explanation added for translation

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards as endorsed by the European Union at 1 January 2010. In the event of discrepancies, the Portuguese language version prevails.



The Board of Directors

Rui Manuel Janes Cartaxo  
President

Aníbal Durães dos Santos  
Executive Director

João Caetano Carreira Faria Conceição  
Executive Director

João Manuel de Castro Plácido Pires  
Executive Director

João Nuno de Oliveira Jorge Palma  
Executive Director

Gonçalo José Zambrano de Oliveira  
Director

Luís Maria Atienza Serna  
Director

Manuel Carlos Mello Champalimaud  
Director

Filipe Maurício Botton  
Director

José Isidoro d'Oliveira Carvalho Neto  
Director

José Luís Alvim Marinho  
President of the Audit Committee

José Frederico Vieira Jordão  
Member of the Audit Committee

Fernando António Portela de Rocha Andrade  
Member of the Audit Committee

## Statement of compliance

### Statement set forth in Article 245(1), sub-paragraph c) of the Portuguese Securities Code

Pursuant to Article 245(1), paragraph c), of the Portuguese Securities Code, each member of REN - Redes Energéticas Nacionais, SGPS, S.A.'s Board of Directors, identified below by their names, subscribed the following declaration<sup>1</sup>: "I hereby declare, in accordance with Article 245(1), sub-paragraph c), of the Portuguese Securities Code that, to the extent of my knowledge, acting in the capacity and scope of duties to which I have been assigned and based upon the information made available within the Board of Directors and/or the Executive Committee, as applicable, the condensed financial statements have been drawn up in accordance with the applicable accounting standards, provide a true and fair view of the assets and liabilities, financial position and results of REN - Redes Energéticas Nacionais, SGPS, S.A. and the companies included within its scope of consolidation, and that the management report related to the 2010 financial year faithfully reflects the major events that have occurred in such period and the impact in the respective financial statements, also being provided therein a description of the principal risks and uncertainties for the following financial year."

Rui Manuel Janes Cartaxo

*Chairman of the board of directors and chief executive officer*

Aníbal Durães dos Santos

*Executive director*

João Caetano Carreira Faria Conceição

*Executive director*

João Manuel de Castro Plácido Pires

*Executive director*

João Nuno de Oliveira Jorge Palma

*Executive director*

Gonçalo José Zambrano de Oliveira

*Non-executive director*

Luís Maria Atienza Serna

*Non-executive director*

Manuel Carlos Mello Champalimaud

*Non-executive director*

Filipe Maurício Botton

*Non-executive director*

José Isidoro d'Oliveira Carvalho Neto

*Non-executive director*

José Luís Alvim Marinho

*Non-executive director and chairman of the audit committee*

José Frederico Vieira Jordão

*Non-executive director and member of the audit committee*

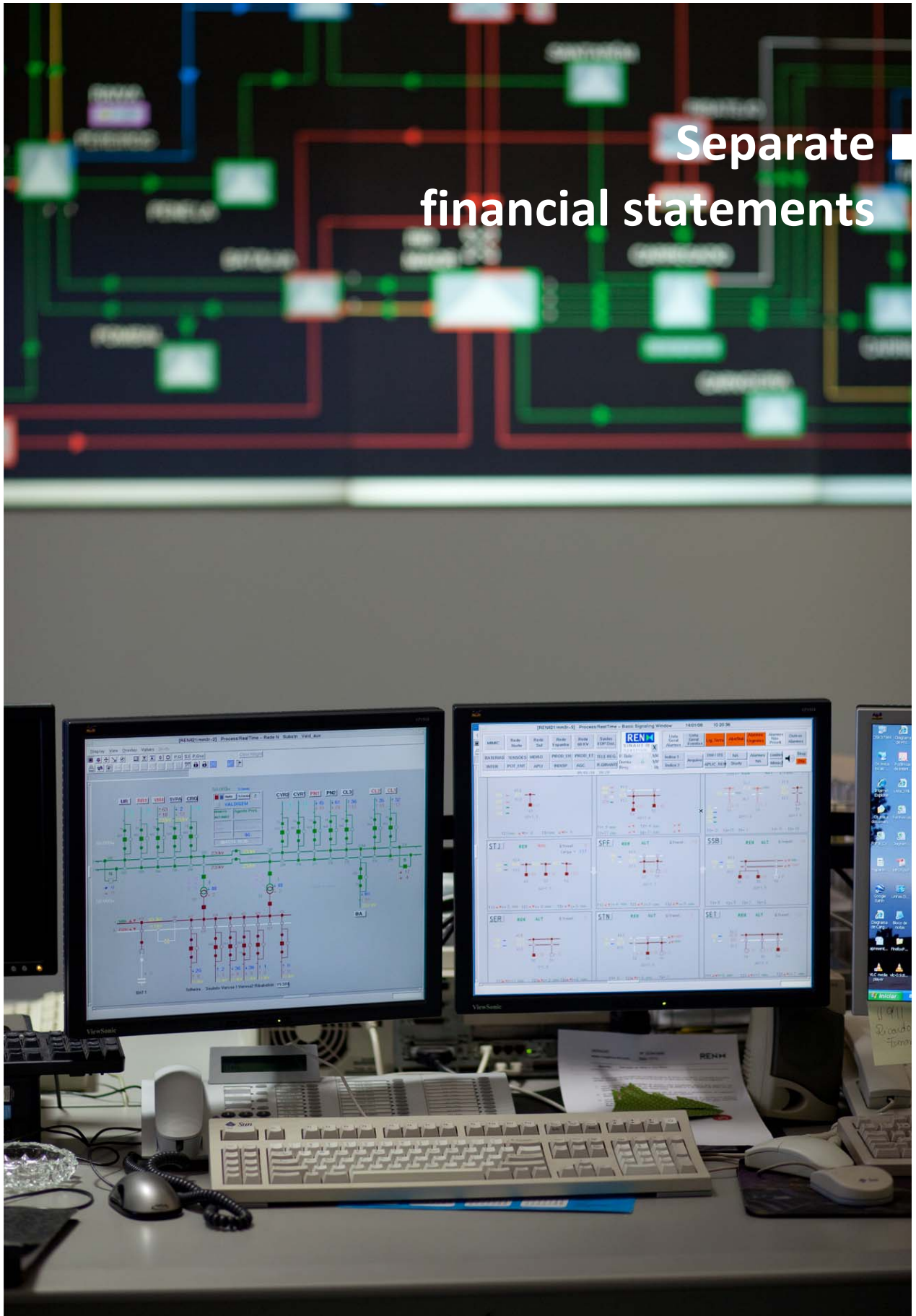
Fernando António Portela de Rocha Andrade

*Non-executive director and member of the audit committee*

Lisbon, 16 March 2011



# Separate financial statements



# Separate financial statements

## Statements of financial position at 31 December 2010 and 2009

Amounts expressed in thousands of euros - tEuros	Notes	31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non current</b>			
Tangible fixed assets	5 and 6	386	263
Financial investments - Equity method	7	1,281,394	1,251,256
Available-for-sale financial assets	11	83,267	89,386
Other trade receivables	9 and 26	1,209,333	1,234,113
Other financial assets	9	7,119	7,276
Derivative financial instruments	10	20,699	–
Deferred tax assets	8	2,578	3,723
<b>Total non current assets</b>		<b>2,604,777</b>	<b>2,586,016</b>
<b>Current</b>			
Customers	9	51	–
State and other public entities	16	2	24,998
Other trade receivables	9 and 26	556,389	501,371
Deferrals	12	128	135
Derivative financial instruments	10	2,212	–
Cash and cash equivalents	4	102,872	3,439
<b>Total current assets</b>		<b>661,654</b>	<b>529,943</b>
<b>Total assets</b>		<b>3,266,432</b>	<b>3,115,959</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	13	534,000	534,000
Own shares	13	-10,728	-10,728
Legal reserve	13	74,445	67,221
Other reserves	13	140,307	94,417
Retained earnings		220,944	262,065
Financial assets adjustments	7	-3,171	–
		<b>955,798</b>	<b>946,975</b>
Net profit for the period		107,277	102,723
<b>Total equity</b>		<b>1,063,075</b>	<b>1,049,699</b>

## Statements of financial position at 31 December 2010 and 2009

Amounts expressed in thousands of euros - tEuros	Notes	31 December	
		2010	2009
<b>LIABILITIES</b>			
<b>Non current</b>			
Borrowings	15	1,778,856	1,573,241
Retirement and other benefits obligation		6	–
Deferred tax liabilities	8	1,103	–
Provisions	7 and 14	1,733	–
Derivative financial instruments	10	2,875	10,149
<b>Total non current liabilities</b>		<b>1,784,573</b>	<b>1,583,390</b>
<b>Current</b>			
Suppliers	15	1,056	638
Provisions	14	12,470	982
State and other public entities	16	60,148	306
Derivative financial instruments	10	4,376	–
Borrowings	15	303,927	445,421
Trade and other payables	15	36,062	34,846
Deferrals	17	745	676
<b>Total current liabilities</b>		<b>418,783</b>	<b>482,869</b>
<b>Total liabilities</b>		<b>2,203,356</b>	<b>2,066,260</b>
<b>Total equity and liabilities</b>		<b>3,266,432</b>	<b>3,115,959</b>

The Notes form an integral part of the Balance Sheet for the period ended at 31 December 2010.

Accountant nr. 30 375

The board of Directors



## Income statements for the period ended at 31 December 2010 and 2009

Amounts expressed in thousands of euros – tEuros	Notes	As at 31 December	
		2010	2009
<b>REVENUES AND EXPENSES</b>			
Sales and Services rendered	18	10,218	9,963
Gains / losses on subsidiaries, associated companies and jointly controlled entities	7 and 19	129,074	116,952
External supplies and services	20	-6,655	-4,773
Personnel costs	21	-4,018	-4,675
Provisions (increase / decrease)	14	-12,470	-982
Fair value increase / (decrease)	10	640	-
Other gains	22	6,482	5
Other expenses and losses	23	-902	-1,701
<b>Profit before depreciations, financial expenses and taxes</b>		<b>122,369</b>	<b>114,789</b>
Expenses/reversals of depreciation and amortization	5	-103	-85
<b>Net operating profit (before financial expenses and taxes)</b>		<b>122,267</b>	<b>114,704</b>
Interest and similar income	24	63,835	61,109
Interest and similar expenses	24	-83,653	-77,447
Dividends received	25	3,790	3,286
<b>Profit before income tax</b>		<b>106,239</b>	<b>101,652</b>
Income tax for the period	8	1,038	1,071
<b>Net profit for the period</b>		<b>107,277</b>	<b>102,723</b>
<b>Earnings per share</b>		0.20	0.19

The Notes form an integral part of the Income statement for the period at 31 December 2010.

Accountant nr. 30 375

The board of Directors

## Statements of cash flows for the period ended at 31 December 2010 and 2009

Amounts expressed in thousands of euros - tEuros	Notes	31 December			
		2010		2009	
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>					
Cash received from customers		34,895		117,812	
Cash paid to suppliers		-8,476		-10,698	
Cash paid to personnel		-3,635		-4,236	
<b>Cash flow generated by operations</b>		<b>22,783</b>		<b>102,878</b>	
Payment of income tax		-8,278		-148,634	
Other receipts / payments		-2,592		-	
<b>Net flows from operating activities</b>			<b>11,914</b>		<b>-45,756</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>					
<b>Payments related to:</b>					
Financial investments	7	-304		-	
Dividends		-48	-352	-9	-9
<b>Receipts related to:</b>					
Interest and similar income		62,752		-	-
Dividends	7 and 25	101,659	164,411	162,009	162,009
<b>Cash flow generated by investing activities [2]</b>			<b>164,059</b>		<b>162,000</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>					
<b>Receipts related to:</b>					
Borrowings		10,878,577		10,977,228	
Interest and similar income		188	10,878,766	68,282	11,045,510
<b>Payments related to:</b>					
Borrowings		-10,781,303		-10,987,088	
Interest and similar expenses		-85,418		-79,569	
Own share acquisition		-		-4,109	
Dividends	13	-88,530	-10,955,251	-88,110	-11,158,876
<b>Net cash from financing activities</b>			<b>-76,485</b>		<b>-113,366</b>
<b>Net increase in cash and cash equivalents</b>			<b>99,488</b>		<b>2,878</b>
<b>Cash and cash equivalents at the beginning of the period</b>	4		<b>2,995</b>		<b>7,393</b>
<b>Cash reclassification to financial investments</b>			<b>-</b>		<b>-7,276</b>
<b>Cash and cash equivalents at the end of the year</b>	4		<b>102,483</b>		<b>2,995</b>

The Notes form an integral part of the statements of change in equity for the period at 31 December 2010.

Accountant nr. 30 375

The board of Directors

## Statements of changes in equity for the period ended at 31 December 2009 and 2010

Thousands of euros - tEuros	Notes	2009									
		Share capital	Own shares	Legal reserve	Hedging reserves	Fair value reserve	Other reserves	Retained earnings	Net profit for the year	Total equity	
<b>At 1 January 2009 (IFRS)</b>		<b>534,000</b>	<b>-6,619</b>	<b>67,221</b>	<b>-</b>	<b>-6,279</b>	<b>103,218</b>	<b>161,061</b>	<b>-1,513</b>	<b>851,089</b>	
<b>Changes in the period:</b>											
First adoption of the new accounting framework	2	-	-	-	-	-	-	190,170	-	<b>190,170</b>	
<b>At 1 January 2009 (NCRF)</b>		<b>534,000</b>	<b>-6,619</b>	<b>67,221</b>	<b>-</b>	<b>-6,279</b>	<b>103,218</b>	<b>351,231</b>	<b>-1,513</b>	<b>1,041,259</b>	
Fair value variations	11	-	-	-	-5,554	3,032	-	-	-	<b>-2,522</b>	
Net profit of previous year application		-	-	-	-	-	-	-1,056	1,513	<b>457</b>	
		-	-	-	-5,554	3,032	-	-1,056	1,513	<b>-2,065</b>	
<b>Transactions with equity holders in the period</b>											
Own shares acquisition	13	-	-4,109	-	-	-	-	-	-	<b>-4,109</b>	
Distribution of dividends	13	-	-	-	-	-	-	-88,110	-	<b>-88,110</b>	
		-	-4,109	-	-	-	-	-88,110	-	<b>-92,219</b>	
<b>Net income in the period (restated)</b>	<b>2</b>								<b>102,723</b>	<b>102,723</b>	
<b>Comprehensive income</b>									<b>102,723</b>	<b>102,723</b>	
<b>At end of the period 2009</b>		<b>534,000</b>	<b>-10,728</b>	<b>67,221</b>	<b>-5,554</b>	<b>-3,247</b>	<b>103,218</b>	<b>262,065</b>	<b>102,723</b>	<b>1,049,699</b>	
<b>2010</b>											
Thousands of euros - tEuros	Notes	Share capital	Own shares	Legal reserve	Hedging reserves	Fair value reserve	Other reserves	Retained earnings	Adjustments in financial assets	Net profit for the year	Total equity
<b>At 1 January 2010</b>		<b>534,000</b>	<b>-10,728</b>	<b>67,221</b>	<b>-5,554</b>	<b>-3,247</b>	<b>103,218</b>	<b>262,065</b>	<b>-</b>	<b>102,723</b>	<b>1,049,699</b>
<b>Changes in the period:</b>											
Fair value variations	11	-	-	-	4,412	-6,614	-	-	-	-	<b>-2,202</b>
Net profit of previous year application		-	-	7,225	-	-	48,091	-41,122	-	-14,194	<b>-</b>
Financial assets adjustments	7	-	-	-	-	-	-	-	-3,171	-	<b>-3,171</b>
		-	-	7,225	4,412	-6,614	48,091	-41,122	-3,171	-14,194	<b>-5,372</b>
<b>Transactions with equity holders in the period</b>											
Distribution of dividends	13	-	-	-	-	-	-	-	-	-88,530	<b>-88,530</b>
<b>Net income in the period</b>										<b>107,277</b>	<b>107,277</b>
<b>Comprehensive income</b>										<b>107,277</b>	<b>107,277</b>
<b>At end of the period 2010</b>		<b>534,000</b>	<b>-10,728</b>	<b>74,445</b>	<b>-1,142</b>	<b>-9,861</b>	<b>151,309</b>	<b>220,944</b>	<b>-3,171</b>	<b>107,277</b>	<b>1,063,075</b>

The Notes form an integral part of the statements of change in equity for the period at 31 December 2010.

Accountant nr. 30 375

The board of Directors

# Notes to the separate financial statements for the year ended December 31, 2010

(Translation of notes originally issued in Portuguese – Note 30)

(Amounts expressed in thousands of euros)

## 1. General information

REN – Redes Energéticas Nacionais, SGPS, S.A. (hereinafter referred to as “REN SGPS” or “the Company”), with head office in Avenida Estados Unidos da América, 55 – Lisbon, resulted from the transformation on 5 January 2007 of REN – Rede Eléctrica Nacional, S.A. into an investment holding company.

At the same time a spin-off was made of the electricity business from REN – Rede Eléctrica Nacional, S.A. to the group company REN – Serviços de Rede, S.A., the name of which was subsequently changed to REN – Rede Eléctrica Nacional, S.A..

REN SGPS is the parent company of the REN Group, which is organized into two main segments Electricity and Gas, and two secondary businesses, in the areas of Telecommunications and Management of the Electricity Derivatives Market.

### Electricity business

The Electricity business includes the following companies:

a) **REN – Rede Eléctrica Nacional, S.A.**, founded on 26 September 2006, the activities of which are carried out under a concession contract for a period of 50 years as from 2007 and establishes the overall management of the Public Electricity Supply System (SGP);

b) **REN Trading, S.A.**, founded on 13 June 2007, the main function of which is the management of electricity purchase contracts (EPC) from Turbogás, S.A. and Tejo Energia, S.A., which did not terminate on 30 June 2007, date of the entry into force of the new contracts for the maintenance of the contractual balance CMEC contracts. The operations of this company include the trading of electricity produced and of the installed production capacity, with domestic and international distributors.

c) **Enondas, Energia das Ondas, S.A.** was founded on 14 October 2010, its capital being fully held by REN - Redes Energéticas Nacionais, S.A., its main activity being management of the concession to operate a pilot area for the production of electric energy from sea waves.

The Portuguese government awarded it under paragraph n.º 3 of Article 5º of Decree -Law No. 5 / 2008 of January 8 and Decree-Law n.º 238/2008 of December 15, the concession to operate a pilot area for the production of electricity from sea waves. Under Decree-Law No. 238/2008, of December 15, the concession in question has a duration of 45 years, and includes the authorization for the deployment of infrastructure for the connection to the public electricity network and use of water resources from public water domain, checking the use by others of water resources needed to produce electricity from waves energy,

as well as competence for the award of licenses for the establishment and operation of the business of power generation and its fiscalization.

### Gas business

The Gas business covers the following companies:

a) **REN Gasodutos, S.A.** This company was founded on 26 September 2006, the capital of which was paid up through integration of the gas transport infrastructures (network; connections; compression).

The company’s object is the transport of natural gas at high pressure and overall technical management of the National Natural Gas system, in view of security and continuity of supply of natural gas within the continent territory. It comprehends, in particular, the management and operation of the National Natural Gas Transportation, including the natural gas transportation, the planning, the construction, maintenance and operation of infrastructure and the necessary facilities for that purpose, according to law and the public service concession which is detained by the Company as well as other related services.

b) **REN Armazenagem, S.A.** This company was founded on 26 September 2006, the capital of which was paid up through integration of the gas underground storage assets.

The company’s object consists on the underground storage of natural gas and the construction, operation and maintenance of infrastructure and facilities necessary for that purpose, according with the law and public service concession which is detained by the Company and any other related activities.

c) **REN Atlântico, Terminal de GNL, S.A.** This company was acquired under the acquisition of the gas business, previously called “SGNL – Sociedade Portuguesa de Gás Natural Liquefeito”. The operations of this company consist of the supply, reception, storage and re-gasification of natural liquefied gas through the GNL maritime terminal, being responsible for the construction, utilisation and maintenance of the necessary infrastructures.

The operations of these companies are carried out under three concession contracts granted separately for periods of 40 years as from 2006.

In addition REN Gasodutos, S.A. has participations in two companies founded under joint venture with the Spanish gas transporter, Enagás, to which REN Gasodutos ceded the transport rights to specific gas pipelines (Braga-Tuy and Campo Maior - Leiria – Braga). These joint ventures were created with the objective of jointly managing the transport capacity of some sectors of REN Gasodutos, S.A.’s gas pipelines with the allocation to each of the partners of a

transport capacity so as to ensure maximum utilization of its capacity. The profitability of these companies was ensured by the two partners (REN and Enagás) through the fixing of an annual price payable for each natural gas unit transported.

On 17 December 2010 a contract was entered into between REN Gasodutos, S.A. and Enagás, S.A. relating to the release of Enagás, S.A. from the joint natural gas supply to Portugal and Spain project. The project establishes the transmission by Enagás to the benefit of REN Gasodutos, of its utilization rights of the gas pipeline capacity, through the payment by REN Gasodutos of the amount of 29 000 thousand Euros. In addition, the contract establishes the settlement of all the amounts due between the transport companies (Gasoduto Campo Maior Leira Braga, S.A. and Gasoduto Braga-Tuy, S.A.) and Enagás and amortization of the shares held by Enagás in the capital of these transport companies, REN becoming holder of the control of the operating policies of the transport companies as from 31 December 2010.

### Telecommunications business

The telecommunications business covers the following companies:

RENTELECOM – Comunicações, S.A. was founded under Order 128/2001 of 22 October of the Minister of the Economy and public deed drawn up on 7 December 2001. The company started operating on 1 January 2002, having as its object the establishment, management and operation of telecommunications infrastructures and systems, the rendering of telecommunications services, as well as the realization of any complementary, subsidiary or accessory activities, directly or through participations in other companies.

The company's capital totals 100 thousand Euros, represented by 20,000 shares of five euros each. At 31 December 2010 the capital was fully owned by REN – Redes Energéticas Nacionais, SGPS, S.A..

### Electricity Derivatives Market Management Business

The Electricity Derivatives Market Management business covers the following companies:

**OMIP – Operador do Mercado Ibérico de Energia, S.A.** was founded under Order 360/ME/2003 of 6 June of the Minister of the Economy and by deed drawn up on 16 June 2003. The company started operating on 10 December 2003, having as its object the organization and management of a supporting system for the realization of transactions and liquidations in the Iberian Energy Market, being responsible for:

- a) management of organized energy term contracting market;
- b) intermediary of the agents for purposes of commercial relationships in the Iberian Electricity Market;
- c) management of other markets of electricity based products;
- d) Rendering of liquidation services in the organized electricity markets;
- e) Rendering of liquidation services for standard transactions in non-organised energy markets;

- f) Rendering of services relating to the organization of markets in the area of the operation of the electricity system.

As a result of delays in the start up of the Iberian Electricity Market (MIBEL – Mercado Ibérico de Electricidade), OMIP only started operating on 3 July 2006.

OMIP is the sole shareholder of OMIClear - Sociedade de Compensação de Mercados de Energia, S.A., which has the corporate objective of clearing futures and options operations.

Following the Santiago Agreements, OMIP SGPS, S.A. was incorporated, being 90% owned by REN SGPS, that began its activity on September 16, 2010 and having as its object the management of shareholdings in other companies as an indirect development of economic activities. That company has become the shareholder of OMIP – Operador do Mercado Ibérico de Energia (Portuguese Pole), and Omiclear – Sociedade de Compensação de Mercados de Energia, S.A..

### Other businesses

REN SGPS also has a participation in REN – Serviços, S.A., which has the objective of rendering services in the areas of administration, finance, regulations, personnel management, salary processing, management and maintenance of moveable and immovable assets, negotiation and supply of consumables and services of the same type, usually referred to as back office services, for related companies and third parties, receiving remuneration for this.

On December 15, 2010, the object of REN Services S.A. has been amended to the following: the Company object is to provide profitable services on energy and general services to support business development, either in companies that are affiliates, or any third party, as well as the management of shares that the company holds in other companies.

These financial statements are presented in thousands of euros and were approved by the Board of Directors meeting of March 16, 2011. However, they are still subject to approval by the Shareholders' Meeting under the terms of current Portuguese legislation.

The Board of Directors believes that the financial statements fairly reflect REN's Group operations, as well as its financial position and financial performance and its cash flows.

## 2. Accounting framework for the preparation of the financial statements

The accompanying financial statements have been prepared under the requirements included in Decree-Law No. 158/2009 of July 13, and according to the conceptual framework, accounting and financial reporting standards and interpretations applicable the year ended 31 December 2010.

### Adoption of the new Accounting and Financial Reporting Standards (“Normas Contabilísticas e de Relato Financeiro”) (“NCRF”)

The Company adopted the Accounting and Financial Reporting Standards (“NCRF”) for the first time in 2010, applying for that purpose, the NCRF 3 - First-time Adoption of Accounting and Financial Reporting Standards (NCRF 3). The NCRF were applied retrospectively for all periods presented. The transition date is January 1, 2009, and the Company prepared its opening balance sheet at that date, considering the exemptions and exclusions to other existing standards allowed by NCRF 3.

The Company restated the 2009 financial statements, prepared and approved under the previous accounting framework, the International Financial Reporting Standards (“IFRS”), for they to be comparable with the financial statements of 2010.

As a result of the NCRF changes occurred in equity on January 1, 2009, on December 31, 2009 and in net income for the year 2009 when compared with the previous accounting framework (“IFRS”), namely:

- Equity method

In accordance with NCRF 15 - Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company proceeded to measure the financial investments in subsidiaries and associate companies based on the equity method, which were previously recorded at cost according with the previous accounting framework (“IFRS”).

The detail of the adjustments with effect on equity at January 1, 2009 and December 31, 2009, for NCRF conversion purposes are as follows:

<b>EQUITY RECONCILIATION:</b>	<b>01.01.2009</b>	<b>31.12.2009</b>
<b>Equity in accordance with the previous framework (IFRS)</b>	<b>851,089</b>	<b>901,299</b>
Equity method	190,170	148,400
	<b>190,170</b>	<b>148,400</b>
<b>Equity adjustment</b>	<b>190,170</b>	<b>148,400</b>
<b>Equity in accordance with NCRF</b>	<b>1,041,259</b>	<b>1,049,699</b>



The effects on the balance sheet at December 31, 2009, derived from the conversion of the financial statements prepared in accordance with previous accounting framework (IFRS) for the restated financial statements in accordance with the NCRF, is detailed as follows:

31-12-2009				
Itens	IFRS	NCRF conversion adjustments - Equity method	NCRF conversion reclassifications	NCRF
<b>ASSETS</b>				
<b>Non current:</b>				
Tangible fixed assets	263	-	-	263
Shares in Group companies	1,102,856	148,400	-	1,251,256
Available-for-sale financial assets	89,386	-	-	89,386
Trade and other receivables	1,234,113	-	-	1,234,113
Other financial assets	7,276	-	-	7,276
Deferred taxes assets	3,723	-	-	3,723
<b>Total non current assets</b>	<b>2,437,616</b>	<b>148,400</b>	<b>-</b>	<b>2,586,016</b>
<b>Current:</b>				
Trade and other receivables	501,506	-	(135)	501,371
State and other public entities	24,998	-	-	24,998
Accruals	-	-	135	135
Cash and cash equivalents	3,439	-	-	3,439
	<b>529,943</b>	<b>-</b>	<b>-</b>	<b>529,943</b>
<b>Total Assets</b>	<b>2,967,559</b>	<b>148,400</b>	<b>-</b>	<b>3,115,959</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity:</b>				
Share capital	534,000	-	-	534,000
Treasury shares	-10,728	-	-	(10,728)
Legal reserves	67,221	-	-	67,221
Other reserves	94,417	-	-	94,417
Retained earnings	71,895	190,170	-	262,065
Profit for the year attributable to equity holders of the Company	144,494	-41,770	-	102,723
<b>Total equity</b>	<b>901,299</b>	<b>148,400</b>	<b>-</b>	<b>1,049,699</b>
<b>Liabilities</b>				
<b>Non current</b>				
Borrowings	1,573,241	-	-	1,573,241
Derivative financial instruments	10,149	-	-	10,149
<b>Total non current liabilities</b>	<b>1,583,390</b>	<b>-</b>	<b>-</b>	<b>1,583,390</b>
<b>Current</b>				
Trade and other payables	36,468	-	(36,468)	-
Provisions	982	-	-	982
Suppliers	-	-	638	638
State and other public entities	-	-	306	306
Borrowings	445,421	-	-	445,421
Other payables	-	-	34,846	34,846
Accruals	-	-	676	676
<b>Total current liabilities</b>	<b>482,870</b>	<b>-</b>	<b>-</b>	<b>482,869</b>
<b>Total liabilities</b>	<b>2,066,260</b>	<b>-</b>	<b>-</b>	<b>2,066,260</b>
<b>Total Equity and liabilities</b>	<b>2,967,559</b>	<b>148,400</b>	<b>-</b>	<b>3,115,959</b>

For the year ended December 31, 2009, the adoption of accounting principles and policies in accordance with the NCRF had the following effects on net profit of the Company:

RELATED INCOME RECONCILIATION:	Period ended 31-12-2009
<b>Net income as former accounting standard (IFRS)</b>	<b>144,494</b>
Equity method	-41,770
	<b>-41,770</b>
<b>NCRF income</b>	<b>102,723</b>

The effect on the income statement for the year ended December 31, 2009 resulting from the adoption of NCRF is detailed as follows:

	31-12-2009		
	IFRS	NCRF conversion adjustments - Equity method	NCRF
Sales and Services rendered	9,963	-	9,963
Gains/loses on associated and Group companies	-	116,952	116,952
Outside supplies and services	-4,773	-	-4,773
Personnel costs	-4,675	-	-4,675
Provisions (Increase/Decrease)	-982	-	-982
Fair value increase/(decrease)	-	-	-
Other gains	158,728	-158,723	5
Other expenses and losses	-1,701	-	-1,701
<b>Profit before depreciations, financial expenses and taxes</b>	<b>156,561</b>	<b>-41,770</b>	<b>114,790</b>
Costs/reversions of the depreciation and amortization	-85	-	-85
<b>Net operating profit (before financial expenses and taxes)</b>	<b>156,475</b>	<b>-41,770</b>	<b>114,705</b>
Interest and similar earnings	61,109	-	61,109
Interest and similar costs	-77,447	-	-77,447
Dividend received from associated companies	3,286	-	3,286
<b>Profit before income tax</b>	<b>143,424</b>	<b>-41,770</b>	<b>101,652</b>
Income tax of the period	1,071	-	1,071
<b>Net profit for the period</b>	<b>144,494</b>	<b>-41,770</b>	<b>102,723</b>

### 3. Summary of main accounting policies

The main accounting policies used to prepare these financial statements are as follows:

#### 3.1 Basis of presentation

The accompanying financial statements were prepared on a going concern basis from the accounting records of the Company, maintained in accordance with accounting and financial reporting standards.

The accompanying financial statements reflect only the Company's separate accounts, prepared as required by law for approval by the Shareholders' Meeting. Although the financial investments have been recorded based on the equity method, which is in accordance with NCRF,

these financial statements do not reflect the effect of a full consolidation of assets, liabilities, costs and income, which are reflected on the consolidated financial statements prepared in accordance with Accounting and Financial Reporting ("Normas Contabilísticas e de Relato Financeiro") as adopted by the European Union.

On 31 December 2010, the differences between net profit and equity (separate and consolidated financial statements) arise essentially from the fact that the subsidiaries are recording actuarial gains and losses relating to employee benefits in accordance with the "corridor" methodology, being that effect appropriate by the Company in its separate financial statements, when applying the equity method in the valuation of those subsidiaries and in the consolidated

accounts prepared under IFRS, actuarial gains and losses of those benefits to employees are recorded directly in equity.

### 3.2 Investments

Investments in subsidiaries, jointly controlled entities and associated companies are recorded based on the equity method, under which they are initially recorded at cost and then increased or decreased by the amount corresponding to the proportion owned of the net equity of these companies. Company's results include the proportion of the results of these entities. In addition dividends received from these companies are recorded as decreases in the amount of these investments.

The excess of acquisition cost over the fair value of identifiable assets and liabilities of each acquired entity at the acquisition date is recognized as goodwill and is maintained in the amount of financial investment. If the difference between the acquisition cost and fair value of assets and liabilities acquired is negative, it is recognized as income for the year.

According to NCRF 3 - First-time Adoption of Accounting and Financial Reporting Standards, the Company chose not to restate goodwill calculated in accordance with previous framework - International Financial Reporting Standards (IFRS), at January 1, 2009 (date of transition to NCRF).

Recoverable amount of investments are assessed for impairment when there are indications that might suggest the assets may be impaired, being recognised as expenses in the income statement, the impairment losses.

When the Company proportion of the accumulated losses of subsidiary, jointly controlled entities or associated companies exceeds their book value, the investment is stated by a nil balance, except when the Company has assumed commitments to cover the losses of the subsidiaries, jointly controlled entities or associated companies, where additional losses determine the recognition of a liability. If these companies subsequently report profits, the company incorporates the recognition of its share of those profits only after its share of the profits equals the share of losses not recognized.

Unrealised gains on transactions with subsidiaries, jointly controlled entities and associated companies are eliminated in proportion to the Company interest in the subsidiaries, joint controlled entities and associated companies, by the corresponding entry in the caption of investment. Unrealised losses are also eliminated but only until the point that such loss did not result from a transfer of an asset being impaired.

### 3.3 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses.

Cost includes the purchase price of the asset, costs directly attributable to their acquisition and costs incurred to prepare the assets to start operating.

Current repair and maintenance costs are charged to the statement of profit and loss for the period in which they are incurred.

Tangible fixed assets are depreciated on a straight-line basis over its estimated period of useful life, as from the date it is ready for use.

The estimated useful life of tangible fixed assets is as follows:

	Years
Transport equipment	From 4 to 6
Administrative equipment	From 3 to 10

The useful life of the assets is reviewed at the end of each year so that the depreciation recorded is in accordance with the consumption standards of the assets. Changes in useful lives are treated as changes in accounting estimates and are applied prospectively.

Gains and losses on the sale of assets are determined by the difference between the proceeds of the sale and the book value of the asset, these being recorded in the statement of profit and loss.

### 3.4 Leasing

The tangible fixed assets, in which REN has substantially all the risks and rewards incidental to ownership of an asset, is classified as a finance lease. Agreements which an analysis of one or more matters of the contract point a finance lease are also classified as finance leases. All other leases are classified as operating leases.

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

The tangible fixed assets acquired through finance leases is depreciated at the shorter of the estimated useful life of the asset and the lease term, when the Group does not have a purchase option at the end of the contract, or at its estimated useful life when the Group has the intention of acquiring the asset at the end of the contract.

In operating lease contracts, the lease payments due are recognised as expenses in the statement of profit and loss, on a straight-line basis over the lease term.

### 3.5 Financial assets and liabilities

The Company chose to apply fully the IAS 32 - Financial Instruments: Presentation, the IAS 39 - Financial Instruments Recognition and Measurement, in accordance with the paragraph 2 of Accounting and Financial Reporting Standards (NCRF) 27.

The Board of Directors decides the classification of financial assets at the time of initial recognition, in accordance with the purpose for which the financial assets were acquired and reassesses that classification at each reporting date.

Financial assets may be classified into the following categories:

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

- (ii) loans granted and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;
- (iii) investments to be held to maturity – includes non-derivative financial assets with fixed or determinable payments and fixed maturities, that the entity intends and has the capacity to hold until the maturity date; and
- (iv) Available-for-sale financial assets – includes non-derivative financial assets designated as available-for-sale at inception date or other financial assets not classified in any of the other financial asset categories. Available-for-sale financial assets are recognized as non-current assets unless management intends to sell them within 12 months of the balance sheet date.

Purchases and sales of investments in financial assets are recognized on the transaction date – the date on which REN SGPS commits itself to purchase or sell the asset.

Financial assets at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the statement of profit and loss. Such assets are subsequently adjusted to fair value, gains and losses arising from changes in fair value being recognised in the statement of profit and loss caption net financial costs for the period in which they arise, which also includes interest income and dividends received.

Loans and receivables are classified as “Trade and other receivables” in the balance sheet, and are carried at amortised cost using the effective interest rate method, less any provision for impairment. A impairment loss of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the transactions that gave rise to the receivables.

Available-for-sale financial assets are initially recognised at fair value including transaction costs. In subsequent periods these assets are adjusted to fair value, the changes in fair value being recognised in a fair value reserve within Equity. Dividends and interest income from available-for-sale financial assets are recognised in the statement of profit and loss caption other financial income for the period in which the right to receive them is established.

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

At each reporting date, REN SGPS assesses whether there is objective evidence that the financial assets are impaired. An impairment loss was recognized for accounts receivable which were considered to be of doubtful collection, in accordance with the collection risk analysis performed by the Company. The amount of the impairment represents the difference between the carrying amount of receivables and the expected recoverable value at the reporting date.

Financial assets are derecognised when the rights to receive cash flows from the investments expire or are

transferred, as well as all the risks and rewards of ownership.

### Financial liabilities

The Company chose to apply fully IAS 32 - Financial Instruments: Presentation, IAS 39 - Financial Instruments Recognition and Measurement, in accordance with the paragraph 2 of Accounting and Financial Reporting Standards (NCRF) 27.

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

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

Other financial liabilities include “Borrowings” and “Trade and other payables”. Trade and other payables are initially recognised at fair value and subsequently adjusted to amortised cost, using the effective interest rate method.

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

### 3.6 Financial derivative instruments

The company enters into a variety of derivative financial instruments, namely, swaps, under its policy of risk management of interest rate and exchange rate.

Derivative financial instruments are initially recorded at fair value. At each reporting date the investments are remeasured at fair value, being the corresponding gain or loss on remeasurement is recorded immediately in the income statement, unless such instruments are designated as hedging instruments. If they are designated as hedging derivative financial instruments, gains or losses resulting from remeasurement is recorded in income statement when the hedged position affects the results.

A derivative financial instrument with positive fair value is recognizes as a financial asset under the caption “Derivative financial instruments”. A derivative financial instruments with a negative fair value is recognizes as a financial liability in caption “Derivative financial instruments”.

A derivative financial instrument is presented as non-current if its remaining maturity is for more than 12 months and it is not expected to be realised or settled within 12 months.

### Hedge accounting

The Company designates as hedging instrument certain hedging instruments (mainly derivatives), as part of hedging the risks of interest rate and exchange rate.

The criteria for applying the rules for hedge accounting are:

- Proper documentation of the hedging;
- The risk to be covered is one of the risks described in IAS 39;
- It is expected that the changes in fair value or cash flows of the hedged item, attributable to the risk to cover, are virtually offset by changes in fair value of the hedging instrument.

At the inception of the hedge relationship, the Company documents the relationship between the hedging

instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

### Hedging of fixed exchange rate

Changes in the fair value of derivatives that are designated as hedging instrument under fixed exchange rate hedges are immediately recognized in profit or loss, together with any changes in the fair value of the hedging item attributable to the hedged risk. These changes are recorded in the income statement in the line of the relating hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires, is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

### Hedging of risk of variability of interest rates, foreign exchange risk under a commitment or a highly probable future transaction

The changes in the fair value of derivative financial instruments designated as hedging instrument of an hedge of a risk of variability of interest rate in the context of a commitment or a highly probable future transaction are recorded in equity under the heading of "Other reserves – hedge reserves". The gains or losses recorded under "Other reserves – hedge reserves" are reclassified to results in periods when the hedged item affects the income statement and are presented in the line affected by the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires, is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any amount recorded as "Other reserves – hedge reserves" is only reclassified into results when the hedged position affects the results. When the hedged position is related with a future transaction which is not expected to occur, any amount recorded as "Other reserves – hedge reserves" is immediately reclassified into income statement.

## 3.7 Income

Income includes the fair value of the services rendered, net of tax and discounts, received or receivable.

Services rendered are recognized in the period to which they relate in accordance with the accruals basis. The amounts recognized as services rendered refer to amounts charged to subsidiaries on account of management costs.

Revenue relating to investments in subsidiaries is recognized based on the equity method, and the right to receive dividends is reduced in caption "Financial investments – equity method".

Interest income is recognized on an accruals basis, considering the amount of the liability and the effective interest rate over the period and to maturity.

Income and costs are recorded in the period to which they relate, independently of when they are received or paid, in accordance with the accruals basis. Differences between the amounts received and paid and the corresponding income and expenses are recorded in accruals and deferrals in the captions receivables, payables and deferrals.

## 3.8 Critical accounting judgments and key sources of estimation uncertainty

When preparing the attached financial statements, judgments, estimates and assumptions have been made, which affect the carrying amounts of assets and liabilities, as well as the amounts recorded as gains and losses of the period.

The estimates and underlying assumptions were determined with reference to the reporting date based on historical experience, past accumulated experience and expectations about future events that, under the circumstances, are believed to be reasonable. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical estimates and judgements

#### 3.8.1 Actuarial assumptions

The determination of the liability for retirement pensions and healthcare plans requires the use of assumptions and estimates of a demographic and financial nature, which may significantly affect the liability calculated at each reporting date. The more sensitive assumptions refer to: the discount rates used to update the liability, the estimated return on assets and the mortality tables.

#### Retirement and other benefit obligations – Life insurance

The Company's costs with respect to life insurance are recognised over the period in which the employees entitled to these benefits, being the liability reflected on the balance sheet caption "Retirement and other benefit obligations". Payments to the beneficiaries each year are recorded as reductions in the provisions.

The Company carries out the accounting of expenses resulting from life insurance in accordance with NCRF 28.

#### 3.8.2 Provisions

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

Provisions are measured at the present value of the estimated expenditure required to settle the liability using a pre-tax rate that reflects the market assessment of the discount period and the risk of the provision.

### 3.8.3 Fair value

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

### 3.9 Income tax

Income tax expense includes current income tax and deferred income tax. Income tax is recognised in the statement of profit and loss, except when related to items recognised directly in equity.

The tax currently payable is computed based on the taxable profit for the year. Taxable profit differs from the accounting profit because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax refers to temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### 3.10 Foreign currency balances and transactions

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions. Exchange gains and losses resulting from the settlement of such transactions and from translation of foreign currency monetary assets and liabilities at the year-end exchange rates are recognised as finance costs in the statement of profit and expenses if relating to borrowings and in other operating income and costs in the case of all the other balances/ transactions.

### 3.11 Accruals basis

The Company records income and expenses on an accruals basis, under which income and expenses are recorded in the period to which they relate, independently of when they are received or paid. Differences between the amounts received and paid and the related income and expenses are recorded as assets or liabilities.

### 3.12 Distribution of dividends

The distribution of dividends to shareholders is recognized as a liability in the Company’s financial statements in the period the dividends are approved by the shareholders up to the time of their payment.

### 3.13 Share Capital and Own shares acquired

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

Own shares acquired through contract or directly on the stock market are recognised as a deduction in equity. In accordance with the Portuguese Company Commercial Code REN SGPS must ensure at all times that there are reserves in Equity to cover the value of own shares, limiting the amount of reserves available for distribution.

Own shares are recorded at cost if they are acquired in a spot transaction or at estimated fair value if acquired in a deferred purchase.

### 3.14 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits, other short-term highly liquid investments with initial maturities of up to three months, and bank overdrafts. Bank overdrafts are shown in the “Borrowings” caption in current liabilities on the balance sheet, and are included in the statement of cash flows, as cash and cash equivalents.

### 3.15 Subsequent events

Events that occur after the balance sheet date that provide additional information on conditions that existed at the end of the reporting period (“adjusting events” or events after the balance sheet date that lead to adjustments) are recognised in the separate financial statements. Events that occur after the balance sheet date that provide information on conditions that exist after the balance sheet date (“non-adjusting events” or events after the balance sheet date that lead to no adjustments) are disclosed in the notes to the separate financial statements.



## 4. Cash flows

For the purpose of the cash flow statement, cash and equivalent includes cash, bank deposits readily available and marketable securities, net of overdrafts and others short-term financings equivalents. The caption cash and cash equivalents at 31 December 2010 and 2009 is made as follows:

	2010	2009
Bank deposit – short term	472	3,439
Cash applications	102,400	-
	<b>102,872</b>	<b>3,439</b>
Bank overdrafts (Note 15)	-389	-444
	<b>102,483</b>	<b>2,995</b>

## 5. Tangible fixed assets

During the years ended 31 December 2010 and 2009, the changes in tangible fixed assets, as well as in the respective accumulated depreciation and impairment losses, were as follows:

2009	Transport equipment	Office equipment	Total
<b>Assets</b>			
at 1 January	348	51	399
Additions	-	8	8
At 31 December	348	59	407
<b>Accumulated depreciation and impairment losses</b>			
at 1 January	51	9	60
Depreciation for the year	78	7	85
At 31 December	129	15	145
<b>Net assets</b>	<b>219</b>	<b>44</b>	<b>263</b>
<hr/>			
2010	Transport equipment	Office equipment	Total
<b>Assets</b>			
at 1 January	348	59	407
Additions	140	87	226
At 31 December	488	146	634
<b>Accumulated depreciation and impairment losses</b>			
at 1 January	129	15	145
Depreciation for the year	90	13	103
At 31 December	219	28	247
<b>Net assets</b>	<b>268</b>	<b>118</b>	<b>386</b>



## 6. Financial leases

As of 31 December 2010 and 2009 the Company maintains the following leased assets:

	2010		2009	
	Cost	Depreciation	Net amount	Net amount
Transport equipment	377	-142	235	219

The minimum payments of financial leases as of 31 December 2010 and 2009 are made up as follows:

	Present value of minimum payment		Minimum payment	
	2010	2009	2010	2009
Until 1 year	86	63	91	64
Between 1 and 5 years	142	97	147	98
	<b>228</b>	<b>160</b>	<b>238</b>	<b>162</b>

## 7. Financial investments in subsidiaries

Investments in associated companies, their head offices and the percentage or interest held as of 31 December 2010 and 2009 are as follows:

Entity	Address	At 31 December 2010					Share equity held		
		Share Capital	Assets	Equity	Net income	%	Shares in group companies	Provision (Note 14)	Proportional net income (Note 24)
<b>Equity method</b>									
REN - Rede Eléctrica Nacional, S.A.	Lisboa	586,759	2,720,062	656,615	64,849	100	656,615	-	64,849
REN Trading, S.A.	Lisboa	50	173,313	-1,733	-2,118	100	-	-1,733	-2,118
REN Gasodutos, S.A.	Lisboa	404,931	936,779	455,942	41,982	100	455,942	-	41,982
REN Atlântico, Terminal de GNL, S.A. (a)	Sines	13,000	330,426	69,955	12,909	100	73,729	-	12,910
REN Armazenagem, S.A.	Pombal	76,386	139,950	83,331	5,213	100	83,331	-	5,213
RENTELECOM - Comunicações, S.A.	Lisboa	100	5,967	3,884	3,188	100	3,884	-	3,188
REN Serviços, S.A.	Lisboa	50	9,931	3,132	3,075	100	3,132	-	3,075
Enondas, Energia das Ondas, S.A.	Pombal	250	237	216	-34	100	216	-	-34
OMIP - Operador do Mercado Ibérico (Portugal), SGPS, S.A.	Lisboa	2,610	17,232	17,285	10	90	4,545	-	9
							<b>1,281,394</b>	<b>-1,733</b>	<b>129,074</b>

Entity	Address	At 31 December 2009					Share equity held		
		Share Capital	Assets	Equity	Net income	%	Shares in group companies	Provision (Note 14)	Proportional net income (Note 24)
<b>Equity method</b>									
REN - Rede Eléctrica Nacional, S.A.	Lisboa	586,759	2,597,396	649,382	57,785	100	649,382	-	57,785
REN Trading, S.A.	Lisboa	50	201,575	1,046	695	100	1,046	-	695
REN Gasodutos, S.A.	Lisboa	404,931	871,471	450,538	38,507	100	454,312	-	38,507
REN Atlântico, Terminal de GNL, S.A. (a)	Sines	13,000	308,864	57,341	13,827	100	57,342	-	13,827
REN Armazenagem, S.A.	Pombal	76,386	141,697	83,097	5,242	100	83,097	-	5,242
RENTELECOM - Comunicações, S.A.	Lisboa	100	10,672	1,439	782	100	1,439	-	782
REN Serviços, S.A.	Lisboa	50	6,142	156	104	100	156	-	104
OMIP - Operador do Mercado Ibérico de Energia, S.A.	Lisboa	2,500	5,668	4,979	11	90	4,481	-	10
							<b>1,251,256</b>	<b>-</b>	<b>116,952</b>

(a) At 31 December 2010 and 2009, the financial investment in REN Atlântico includes a goodwill amounting to 3.774 thousand Euros.

The changes in these captions in 2010 and 2009 were as follows:

<b>FINANCIAL INVESTMENTS - EQUITY METHOD</b>				
<b>2010</b>	<b>Share equity held (asset)</b>	<b>Goodwill</b>	<b>Share equity held provisions (Note 14)</b>	<b>Total</b>
<b>At 1 January</b>	<b>1,247,482</b>	<b>3,774</b>	<b>-</b>	<b>1,251,256</b>
Income attributable by equity method application ( Note 19)	130,807	-	-1,733	129,073
Dividends received from Group companies	-97,800	-	-	-97,800
Appropriation of equity variations from subsidiaries	-3,171	-	-	-3,171
Incorporation of new companies	304	-	-	304
<b>At 31 December 2010</b>	<b>1,277,622</b>	<b>3,774</b>	<b>-1,733</b>	<b>1,279,661</b>
<b>2009</b>				
<b>At 1 January</b>	<b>1,289,252</b>	<b>3,774</b>	<b>-</b>	<b>1,293,027</b>
Income attributable by equity method application ( Note 14)	116,952	-	-	116,952
Dividends received from Group companies	-158,724	-	-	-158,724
<b>At 31 December 2009g</b>	<b>1,247,482</b>	<b>3,774</b>	<b>-</b>	<b>1,251,256</b>

At 31 December 2010, REN Trading has a negative share capital in the amount of 1,733 thousand Euros. As there is a loss coverage agreement, all such losses were appropriated by the Company.

The caption "Appropriation of equity variations from subsidiaries" in the amount of 3,171 thousand Euros corresponds to the appropriation of changes recorded directly in the subsidiaries equity (changes resulting from the impact, in deferred taxes, of the state surcharge).

At 31 December 2010 and 2009, the goodwill included in the caption "Financial investments - Equity method" is made up as follows:

<b>Entity</b>	<b>Acquisition</b>	<b>2010</b>		<b>2009</b>
		<b>Initial amount</b>	<b>Amount at end of period</b>	<b>Amount at end of period</b>
REN Atlântico, Terminal de GNL, S.A.	2006	3,774	3,774	3,774
		<b>3,774</b>	<b>3,774</b>	<b>3,774</b>

Goodwill represents the difference between the amount paid for the acquisition of the participation in subsidiaries and the fair value of the equity of REN Atlântico, S.A. under the natural gas business unbundling process.

### Goodwill Impairment test

REN made a goodwill impairment test at 31 December 2010 in terms of the cash generating unit ("CGU") to which REN Atlântico corresponds. The business of REN Atlântico is subject to a concession contract and regulated tariffs so that the recoverable amount of the CGU was determined based on value-in-use calculations. The cash flows projections considered the expected regulatory terms in place for the remaining term of the concession, the most significant assumption in determining it being the rate of remuneration of the regulated assets. The cash flow was discounted considering an average market pre-tax interest

rate, adjusted for the natural gas regasification activities risk, of 8% (post-tax discount rate of 5.68%).

The recoverable amount obtained was 59,505 thousand Euros, which enables the net amount of the fixed asset plus goodwill of 3,774 thousand Euros to be recovered.

## 8. Income tax

The companies belonging to REN group are taxed based on the special regime for taxation of group of companies ("RETGS"). Consequently, estimated income tax, tax amounts withheld by third parties and corporate income tax paid in advance are recorded in the balance sheet as accounts payable and receivable from REN SGPS.

In accordance with current legislation, tax returns are subject to review and correction by the tax authorities for a period of four years (five years for social security), except when there are tax losses, tax benefits granted or tax inspections, claims or contestations in progress, in which case the period can be extended or suspended, depending on the circumstances. Consequently, the Company's tax returns for the years from 2007 to 2010 are still subject to review.

The calculation of income tax for the year was changed in accordance with Law 12-A/2010 of 30 June, which established a state surcharge corresponding to application of an additional rate of 2.5% on taxable income in excess of 2 million Euros.

Consequently the rate of tax used to determine the amount of taxable and deductible temporary differences at 31 December 2010 is 29% (26.5% in 2009).

The Company's Board of Directors believes that any correction to the tax returns resulting from tax reviews /inspections carried out by the tax authorities will not have a significant effect on the financial statements as of 31 December 2010 and 2009.

Income tax expense of the years ended 31 December 2010 and 2009 are detailed as follows:

	2010	2009
Current tax	222	-229
Excessive/insufficient estimated taxes	1,032	-157
Income tax expenses	-216	1,457
<b>Income tax expense</b>	<b>1,038</b>	<b>1,071</b>

The income tax expense of 2010 and 2009 is made up as follows:

	2010	2009
<b>Profit before income taxes</b>	<b>106,240</b>	<b>101,652</b>
Non deductible provisions or higher than legal limits	11,686	982
Equity method effect cancelation	2,152	-
Financial costs	14,072	15,722
Dividends received	-3,790	-3,286
Equity method effect	-131,210	-117,013
Other	2,295	976
<b>Temporary differences</b>		
Life insurance provision	6	-
Future contracts fair value	-640	-
<b>Tributable income</b>	<b>811</b>	<b>-967</b>
Taxe income costs - rate 25.0%	203	-242
Autonomous taxation	20	13
<b>Current income tax</b>	<b>222</b>	<b>-229</b>
Deferred income tax	-216	1,457
Excessive/insufficient estimated taxes	1,032	-157
<b>Income tax expense</b>	<b>1,038</b>	<b>1,071</b>
Effective tax rate	0.98%	1.05%

## Deferred tax

The amounts of deferred tax assets and liabilities as of 31 December 2010 and 2009 are made up as follows:

Subject	At 31 December 2010		At 31 December 2009		Increase/(decrease) of the period	
	Base	Deferred tax	Base	Deferred tax	Income	Equity
<b>Deferred tax assets</b>						
Life insurance provision	6	2	-	-	2	-
Tax losses	4,205	1,051	4,205	1,051	-	-
Fair value of available - for-sale financial assets	-	-	3,743	496	-	-496
Fair value of future contracts	1,572	456	-	-	456	-
Swaps fair value	3,688	1,069	8,210	2,176	-32	-1,074
	<b>9,471</b>	<b>2,578</b>	<b>16,158</b>	<b>3,723</b>	<b>426</b>	<b>-1,570</b>
<b>Deferred tax liabilities</b>						
Fair value of future contracts	2,212	642	-	-	642	-
Swaps fair value	1,594	462	-	-	-	462
	<b>3,806</b>	<b>1,103</b>	<b>-</b>	<b>-</b>	<b>642</b>	<b>462</b>
<b>Cost of the period</b>					<b>216</b>	<b>2,032</b>

## 9. Financial assets

### Trade and other receivables

Trade and other receivables at 31 December 2010 and 2009 are made up as follows:

ACCOUNTS RECEIVABLE	2010	2009
<b>Non current</b>		
Other receivable:		
Group companies - loans (Note 26)	1,209,333	1,234,113
<b>Current</b>		
Trade receivable	51	-
Other receivables:		
Group companies - loans (Note 26)	34,916	44,082
Group companies - treasury management (Note 26)	359,306	386,631
Group companies - RETGS (Note 26)	90,398	64,362
Group companies - Debtors (Note 26)	71,682	6,282
Other	87	13
	<b>556,389</b>	<b>501,371</b>
	<b>1,765,774</b>	<b>1,735,484</b>

The caption “Other receivables – group” includes the amounts receivable resulting from the adoption of the special regime for taxation of groups of companies.

### Other financial assets

The caption “Other financial assets” in the amount of 7,119 thousand Euros (7,276 thousand Euros at 31 December 2009), respects to the financial investment of 126 participation units of the closed-ended fund “Luso Carbon Fund”, with a maturity of 10 years. This investment is recorded at its fair value, considering the funds participation unit value.

## 10. Derivative financial instruments

At 31 December 2010 and 2009 the Company had the following derivative financial instruments contracted:

	Nacional	Asset		Liabilities	
		Current	Non Current	Current	Non Current
<b>DERIVATIVE TO HEDGE CASH FLOW MOVEMENTS</b>					
<b>AT 31 DECEMBER 2009</b>					
Interest rate Swaps	384,000,000 EUR	-	-	-	-6,066
Interest rate and foreign exchange swaps	10,000,000,000 JPY	-	-	-	-4,083
<b>Total derivative to hedge cash flow movements</b>		-	-	-	<b>-10,149</b>
<b>AT 31 DECEMBER 2010</b>					
Interest rate Swaps	384,000,000 EUR	-	-	2,803	2,875
Interest rate Swaps	200,000,000 EUR	-	1,553	-	-
Interest rate and foreign exchange swaps	10,000,000,000 JPY	-	19,146	-	-
Trade derivatives		2,212		1,572	
<b>Total derivative to hedge cash flow movements</b>		<b>2,212</b>	<b>20,699</b>	<b>4,376</b>	<b>2,875</b>

The amount recorded in this caption relates to four interest rate swap and two forward start interest rate swaps contracts, that were contracted by REN SGPS to hedge the risk of fluctuation of future interest rates.

The amounts presented include interest receivable and payable relating to financial instruments of 2,512 thousand Euros, net, at 31 December 2010.

The features of the swaps contracted at 31 December 2010 and 2009 are as follows:

Reference value	Payment periods	Receipt/payment	Maturity date	Fair value at 31.12.2010	Fair value at 31.12.2009
200 000 thEuro	- payable: 16 April, interest settled annually; - receivable: 16 of each month, interest settled monthly	REN receives Euribor 1M and pays 1.68%	April 2011	-2,803	-3,927
10 000 000 000JPY 72 899 thEuros	Interest counting periods: payable: 26 June and December – interest settled half yearly; receivable: 26 June and December – interest settled half yearly.	REN receives 2.71% and pay 5.64% (annual) up to June 2019 and Euribor 6M + 190 p.b. from that date to maturity	June 2024	19,146	-4,083
50 000 thEuros	Interest counting periods: payable: 5 February, May, August and November – interest settled quarterly; receivable: 5 February, May, August and November – interest settled quarterly.	REN receives Euribor 3M and pays 2.19%	May 2012	-781	-576
134 000 thEuros	Interest counting periods: payable: 15 March, June, September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2.28%	June 2012	-2,094	-1,563
100 000 mEuros	Interest counting periods: payable: 15 March, June, September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2.72%	December 2016	848	-
100 000 thEuros	Interest counting periods: payable: 15 March, June, September and December – interest settled quarterly; receivable: 15 March, June, September and December – interest settled quarterly.	REN receives Euribor 3M and pays 2.77%	December 2016	706	-
<b>Total</b>				<b>15,022</b>	<b>-10,149</b>

## Cash flow hedges

The Group hedges part of its future payments of interest on borrowings, bonds issued and commercial paper through designation of interest rate swaps on which it pays a fixed rate and receives a variable rate with a notional value 384,000 thousand euros (384,000 thousand euros at 31 December 2009). This is the hedging of the interest rate risk on payments of interest at variable rates on recognized financial liabilities. The risk covered is the indexer of the variable rate to which the borrowing interest coupons relate. The object of this hedging is to transform loans at variable interest rates to fixed rates, the credit risk not being hedged. The fair value of the interest rate swaps at 31 December 2010 is 4,125 thousand euros negative (6,066 thousand euros negative at 31 December 2009).

In 2010 the Group contracted two forward-start interest rate swaps starting in 2012 for the purpose of hedging interest rate fluctuations on emissions in commercial paper futures that Management estimates contracting. The instruments have a notional value of 200,000 thousand Euros, REN paying a fixed rate and receiving a variable rate. The risk hedged is the indexer of the variable rate to which the interest coupons of the loans relate. The objective of this hedge is to transform the variable rate borrowing into a fixed rate, the credit risk not being covered. The value of the interest rate swaps at 31 December 2010 was 1,553 thousand Euros positive.

In addition, REN hedges its exposure to cash flow risk on its issuance of 10,000 million JPY resulting from exchange risk, through a cross currency swap with the main characteristics equivalent to the debt issued. The same hedging instrument is used to hedge the fair value of the exchange rate risk of the bond issue through the forward start swap component which will only start in June 2019. The variations in the fair value of the hedging instrument are also recognized in hedging reserves being, in the case of the exchange hedge, transferred to profit and loss for the year as the instrument covered generates an impact on profit and loss.

As from June 2019 the object will be to cover exposure to JPY and the interest rate risk, transforming the operation into a fair value hedge, the changes in fair value of the debt issued resulting from the hedged risks becoming recorded in the statement of profit and loss. The credit risk is not hedged. The fair value of the cross currency swap at 31 December 2010 is 19 146 thousand euros (4,083 thousand euros negative at 31 December 2009).

The exchange variation on the underlying loan in 2010, in the amount of approximately 16,941 thousand Euros, was recorded net of the effect of the hedging instrument in the statement of profit and loss for the year.

The amount recorded in reserves relating to the above mentioned cash flow hedges was 1,607 tEuros (7,556 tEuros in December 2009).

The changes in the fair value of the derivatives held for negotiation are recorded in the net profit and detailed as follows:

	2010	2009
Future contracts fair value	640	-

## Fair value hedge

In February 2009 REN SGPS contracted an interest rate swap to hedge the fair value of an issuance of 300 thousand Euros. This hedge was discontinued in November 2009, and at that date the instrument hedged had a fair value adjustment resulting from the hedge of 677 thousand Euros. This amount will be amortised to profit and loss in accordance with the effective interest rate method over the period to maturity of the hedged instrument.

## Futures

REN – Redes Energéticas Nacionais, SGPS, S.A., through its subsidiary REN Trading, S.A., has carried out some financial operations in the energy, coal and CO<sub>2</sub> emission licence futures market, through entering into standard contracts with International Swaps and Derivatives Association Inc. ("ISDA") as well as through participation in futures trading exchanges.

REN SGPS and REN Trading entered into an agreement under which REN Trading manages the financial derivative contracts on account and for the benefit of REN SGPS, therefore ensuring a clear and transparent separation between these businesses, on a previously defined basis, continuously monitored as being of low exposure to risk.

This financial derivatives contract in the futures market does not imply any physical liquidation of the underlying assets, being an activity of a purely financial nature, merely the financial management of assets, not being confused with regulated activities of the Commercial Agent.

The fair value of the futures energy contracts and CO<sub>2</sub> licences at 31 December 2010 was as follows:

	Current asset	Current liabilities
<b>Fair value at 31 December 2009</b>	-	-
Financial contracts in the energy market for 2011	1,941	-
CO <sub>2</sub> licences	271	-
Carbon financial contracts	-	1,572
<b>Fair value at 31 December 2010</b>	<b>2,212</b>	<b>1,572</b>

## 11. Available-for-sale financial assets

The assets recognised in this caption at 31 December 2010 correspond to equity instruments held in strategic market entities in the Spanish electricity market, as follows:

	% held	2010	2009
Red Electrica Corporation, S.A. ("REE")	1%	47,651	52,551
Enagás, S.A.	1%	35,617	36,835
<b>Total</b>		<b>83,267</b>	<b>89,386</b>

The changes in this caption in 2009 and 2008 are as follows:

	REE	ENAGÁS	Total
At 1 January 2010	48,733	37,157	85,890
Fair value adjustment	3,818	-322	3,496
<b>31 December 2009</b>	<b>52,551</b>	<b>36,835</b>	<b>89,386</b>
	52,551	36,835	89,386
Fair value adjustment	-4,901	-1,218	-6,119
<b>31 December 2010</b>	<b>47,651</b>	<b>35,617</b>	<b>83,267</b>

REE and ENAGÁS participations held by REN SGPS are recorded at fair value, which was determined using the stock market closing price of each company at 31 December 2010.

Red Eléctrica de España (“REE”) is the Spanish entity responsible for managing the electricity network in Spain. REN, SGPS acquired a 1% participation in REE as part of an agreement between the Portuguese and Spanish Governments. REE is listed in Euronext – Spain and the financial asset was recorded on the balance sheet at the market price on 30 December 2010, which resulted in the recognition of a fair value gain of 4,900 thousand Euros.

ENAGÁS is the entity responsible for the transport and management of the natural gas system in Spain. REN, SGPS acquired a 1% participation in Enagás as part of a strategic partnership agreement, the asset having been recorded at the market price at 30 December of 2010, which resulted in the recognition of a fair value loss of 1,218 thousand Euros.

The adjustments to fair value of available-for-sale financial assets are recognised in the equity caption “Fair value reserve”:

	2010	2009
<b>Adjustment to fair value</b>		
Change in fair value	-6,118	3,496
Impact of deferred tax	-496	-464
<b>Net adjustment to equity</b>	<b>-6,614</b>	<b>3,032</b>

In the year ended 31 December 2010 REE and Enagás distributed dividends of 2,001 and 1,789 thousand Euros (1,732 and 1,554 thousand Euros in 2009), respectively. These amounts were recognized in the statement of profit and loss caption “Dividends from affiliated companies”.

## 12. Deferrals (Assets)

At 31 December 2010 and 2009 the caption “Deferred costs” is made up as follows:

	2010	2009
<b>Deferrals (assets)</b>		
Insurance paid in advance	115	93
Other expenses	13	42
	<b>128</b>	<b>135</b>

## 13. Capital

### Share capital

REN SGPS’s subscribed and paid up share capital at 31 December 2010 is made up of 534,000,000 shares of 1 euro each.

Share capital at 31 December 2010 and 2009 is made up as follows:

	Number of shares	Share capital
Made up share capital	534,000,000	534,000,000

The main shareholders at 31 December 2010 are as follows:

	Number of shares	%
Capitalpor SGPS, S.A.	245,645,340	46.0%
Parpública SGPS, S.A.	20,826,000	3.9%
Caixa Geral de Depósitos, S.A.	6,265,888	1.2%
Logoplaste Gestão e Consultoria Financeira, S.A.	45,044,826	8.4%
Gestmin, SGPS, SA	28,146,479	5.3%
EDP – Energias de Portugal, S.A.	26,700,000	5.0%
Oliren, SGPS, S.A.	26,700,000	5.0%
Red Eléctrica Corporación, S.A.	26,700,000	5.0%
Own shares	3,881,374	0.7%
Free float	104,090,093	19.5%

At 31 December 2010 and 2009 REN SGPS had the following own shares:

	Number of shares	Proportion	Amount
Own shares	3,881,374	0.7268%	10,728

In 2009 REN acquired 1,382,672 own shares corresponding to 0.2589% of its capital.

No own shares were acquired in the year ended 31 December 2010.

In accordance with the Commercial Company Code (Código das Sociedades Comerciais) REN SGPS must at all times ensure the existence of sufficient Equity Reserves to cover the value of the own shares, limiting the amount of reserves available for distribution.

### Legal reserve

In accordance with the Commercial Company Code (Código das Sociedades Comerciais) the Company must transfer a minimum of 5% of its annual net profit to a legal reserve until the reserve reaches 20% of share capital. The legal reserve cannot be distributed to the shareholders but may in certain circumstances be used to increase capital or to absorb losses after all the other reserves have been used up.



As of 31 December 2010 the caption “Legal reserve” amounts to 74,445 thousand Euros (67,221 thousand Euros in 2009).

### Distributions

The dividends paid during the years ended 31 December 2010 and 2009, amounted to 88,530 thousand Euros (0,166 Euros per share) and 88,110 thousand Euros (0,165 Euros per share), respectively.

### Other reserves

The caption “Other Reserves” includes changes in, available-for-sale financial assets and derivative financial instruments fair value.

In accordance with the Commercial Company Code, capital increases that result from changes of fair value can only be distributed to shareholders when the assets or liabilities that originated the fair value are sold, executed, extinct, liquidated or used. At 31 December 2010, the Company has recorded in its capital the negative amount of 11,003 thousand Euros (8,801 thousand Euros negative in 2009) that is non distributive, related with application of fair value.

## 14. Provisions, contingent liabilities and contingent assets

### Guarantees given

At 31 December 2010 and 2009 REN Group had given the following bank guarantees:

Beneficiary	Purpose	Beginning	2010	2009
Direcção Geral de Geologia e Energia	Concession of the natural gas transmission activities	2006-09-25	10,000	10,000
EIB	For loan covenants	2006-06-26	244,591	204,589

### Provisions

At 31 December 2010 and 2009 the caption “Provisions” is made up as follows:

	2010		2009
	Non current (Note 7)	Current	Current
At 1 January	-	982	-
Increases	1,733	12,470	982
Decreases	-	-982	-
<b>At 31 December</b>	<b>1,733</b>	<b>12,470</b>	<b>982</b>

The caption provisions (current) at 31 December 2010 corresponds to the provision to cover the contingency relating to litigation with Amorim Energia over dividends received from GALP Energia in 2006, which was recorded in 2010 following notification of the decision of the Arbitration Court of the International Chamber of Commerce (ICC) of Paris on 16 March 2010 and corresponding addendum of 8 July 2010, requiring REN to pay 20,300 thousand Euros, equivalent to half of the amount claimed by Amorim Energia, plus interest. REN believes, based on a legal analysis of the arbitration decision, that the provision recorded is adequate to cover the risk resulting from this process.

At 31 December 2009, the provision in the amount of 981 thousand Euros relates to a tax provision regarding adicional payment of income tax and VAT of the year 2006, which were only paid during 2010.

## 15. Financial liabilities

At 31 December 2010 and 2009 the captions “Suppliers” and “Other accounts payable” were made up as follows:

	2010	2009
<b>Current</b>		
<b>Current suppliers:</b>		
Group	153	101
National	860	504
Foreign	43	32
	<b>1,056</b>	<b>638</b>
<b>Other trade payable:</b>		
Fixed assets suppliers	57	-
Group companies - RETGS (Note 26)	-	33,972
Group companies - loans (Note 26)	3,260	-
<b>Accrued costs</b>		
Remunerations	419	299
Other	240	45
Others creditors (Note 26)	32,086	529
	<b>36,062</b>	<b>34,846</b>
	<b>37,118</b>	<b>35,484</b>

## Borrowings

The borrowings are made up, in terms of type and maturity (current and noncurrent), as follows:

	2010	2009
<b>Non Current:</b>		
Commercial Paper	227,000	155,000
Bonds	942,039	923,553
Bank loans	609,675	494,591
Finance lease (Note 6)	142	97
	<b>1,778,856</b>	<b>1,573,241</b>
<b>Current:</b>		
Commercial Paper	260,000	400,000
Bank loans	34,916	34,916
Bank overdrafts (Note 4)	389	444
Finance lease (Note 6)	86	63
Interest payable	12,314	14,258
Interest receivable	-3,778	-4,260
	<b>303,927</b>	<b>445,421</b>
	<b>2,082,784</b>	<b>2,018,662</b>

REN SGPS has subscribed ten Commercial paper programs amounting to 1,200,000 thousand Euros, having used 487,000 thousand Euros at 31 December 2010.

In 2010 the following operations were carried out:

- in March the amount of 75,000 thousand Euros was paid relating to a loan contract signed in 2009;
- in October a new loan contract was signed and in December 75,000 thousand Euros was paid.

Bank borrowings are not secured by REN's assets.

Regarding bonds, there were no transactions during the current year, withstanding the public placement of 800,000 thousand Euros, maturing in December 2013 and the private placements of 50,000 thousand Euros maturing in December 2013 and 10 thousand lines, maturing in June 2024.

The REN Group's financial liabilities have the following main types of covenant: Cross default, Pari Passu, Negative Pledge, change in shareholder control (change in shareholder control alone is not sufficient reason to cause early maturity of the contract. For this to happen a series of additional cumulative conditions must apply).

At the end of 2010, REN also had the following credit lines negotiated and not used:

VARIABLE INTEREST RATE	2010	2009
Short term	120,000	120,000

The credit lines maturing in up to 1 year are automatically renewable annually or quarterly. The credit lines maturing in more than 1 year have no defined limits.

## 16. State and other public entities

At 31 December 2010 and 2009 the caption "State and other public entities" was made up as follows:

	2010	2009
<b>Current assets</b>		
Income tax	-	24,998
VAT receivable	2	-
<b>Tax receivables</b>	<b>2</b>	<b>24,998</b>
<b>Current liabilities</b>		
Income tax	59,741	-
VAT payable	241	214
Retained income tax	113	57
Social support contribution	53	35
<b>Tax payables</b>	<b>60,148</b>	<b>306</b>

## 17. Deferrals (Liabilities)

At 31 December 2010 and 2009 the caption "Deferred revenue" was made up as follows:

DEFERRALS (LIABILITIES)	2010	2009
Dividends to receive	745	676

## 18. Revenue

The company's revenue recognition as of 31 December 2010 and 2009 is made up as follows:

SERVICES RENDERED	2010	2009
Management and administrative fees to the Group companies (Note 26)	10,218	9,963

## 19. Gains and losses with subsidiaries

The gains with subsidiaries in the years ended 31 December 2010 and 2009 are made up as follows:

	2010	2009
REN – Rede Eléctrica Nacional, S.A.	64,849	57,785
REN Gasodutos, S.A.	41,982	38,507
REN Atlântico, Terminal de GNL, S.A.	12,909	13,827
REN Armazenagem, S.A.	5,213	5,242
RENTELECOM – Comunicações, S.A.	3,188	782
REN Serviços, S.A.	3,075	104
OMIP, SGPS, S.A.	9	-
OMIP, S.A.	-	10
ENONDAS – Energia das Ondas, S.A.	-34	-
REN Trading, S.A.	-2,118	695
	<b>129,074</b>	<b>116,952</b>

## 20. External supplies and services

At 31 December 2010 and 2009 the caption “External supplies and services” is made up as follows:

	2010	2009
Fees relating to external entities	3,084	1,911
Service rendered to group companies (Note 26)	1,573	1,245
Publicity and promotional expenses	952	965
Travel costs	249	109
Other	796	544
	<b>6,655</b>	<b>4,773</b>

## 21. Personnel costs

At 31 December 2010 and 2009 the caption “Personnel costs” is made up as follows:

	2010	2009
Board of directors	1,930	3,003
Personnel	1,375	978
Charges on remunerations	432	328
Bonuses	158	140
Other	122	226
	<b>4,018</b>	<b>4,675</b>

### Personnel employed

During the years ended 31 December 2010 and 2009 the average number of personnel employed at the Company was 21 and 30 respectively.

## 22. Other gains

At 31 December 2010 and 2009 the caption “Other gains” is made up as follows:

	2010	2009
Energy hedging	5,938	-
Supplementary income	530	-
Other	14	5
	<b>6,482</b>	<b>5</b>

## 23. Other expenses and losses

At 31 December 2010 and 2009 the caption “Other expenses and losses” is made up as follows:

	2010	2009
Donations	618	1,432
Contribution	122	145
Taxes	103	107
Others	59	17
	<b>902</b>	<b>1,701</b>

## 24. Interests and other similar income and expenses

At 31 December 2010 and 2009 the caption “Interest and other similar earnings and costs” is made up as follows:

	2010	2009
<b>Interests and similar expenses:</b>		
Interest on bonds issued	51,026	49,193
Borrowing interests	22,845	15,481
Interests on commercial paper issued	9,086	11,900
Centralized management treasury interest	644	203
Other finance costs	51	670
	<b>83,653</b>	<b>77,447</b>
<b>Interests and similar income:</b>		
Interest of group company loans (Note 26)	56,005	53,288
Gain on derivative financial instruments	-	4,919
Interest on centralized treasury management	7,671	2,721
Interests on bank deposits	159	15
Other finance income	-	165
	<b>63,835</b>	<b>61,109</b>

## 25. Dividends received

During the years ended 31 December 2010 and 2009 the Company received the following dividends from associate companies:

	2010	2009
<b>Dividends received:</b>		
- REE	2,001	1,732
- Enagás	1,789	1,554
	<b>3,790</b>	<b>3,286</b>

## 26. Related parties

During the years ended 31 December 2010 and 2009 the following transactions were maintained with related parties:

Entity	2010				Interest and similar expenses supported
	Services rendered (Note 18)	Interest and similar income obtained (Note 24)	External services and supplies	Other expenses	
REN - Rede Eléctrica Nacional, S.A.	5,903	55,637	565	-	-
REN Trading, S.A.	104	1,591	330	-	-
REN Serviços, S.A.	1,464	6	620	-	27
RENTELECOM - Comunicações, S.A.	35	-	58	-	24
REN Gasodutos, S.A.	2,037	5,147	-	4	-
REN Armazenagem, S.A.	153	325	-	-	-
REN Atlântico, Terminal de GNL, S.A.	522	969	-	1	-
	<b>10,218</b>	<b>63,675</b>	<b>1,573</b>	<b>5</b>	<b>51</b>

Entity	2009				Interest and similar expenses supported
	Services rendered (Note 18)	Interest and similar income obtained (Note 24)	External services and supplies	Other expenses	
REN - Rede Eléctrica Nacional, S.A.	5,757	47,287	574	-	17
REN Trading, S.A.	102	1,023	-	-	116
REN Serviços, S.A.	1,425	30	636	-	0
RENTELECOM - Comunicações, S.A.	34	-	35	-	44
REN Gasodutos, S.A.	1,987	6,476	-	-	19
REN Armazenagem, S.A.	149	95	-	-	5
REN Atlântico, Terminal de GNL, S.A.	509	1,099	-	-	-
	<b>9,963</b>	<b>56,009</b>	<b>1,245</b>	<b>-</b>	<b>203</b>

At 31 December 2010 and 2009 the Company maintains the following balances with related parties:

Entity	2010		
	Current Other trade receivables (Note 9)	Non current Other trade receivables (Note 9)	Trade and other payables (Note 15)
REN - Rede Eléctrica Nacional, S.A.	282,405	1,050,000	195
REN Trading, S.A.	68,844	-	31,871
REN Serviços, S.A.	3,858	-	1,193
REN Gasodutos, S.A.	174,733	134,675	-
REN Armazenagem, S.A.	20,066	-	-
REN Atlântico, Terminal de GNL, S.A.	6,388	24,657	-
OMI CLEAR, S.A.	-108	-	-
OMIP S.A.	7	-	-
ENONDAS	5	-	-
RENTELECOM - Comunicações, S.A.	-	-	2,239
	<b>556,199</b>	<b>1,209,332</b>	<b>35,498</b>

Entity	2009		
	Current Other trade receivables (Note 9)	Non current Other trade receivables (Note 9)	Trade and other payables (Note 15)
REN - Rede Eléctrica Nacional, S.A.	210,421	1,050,000	515
REN Trading, S.A.	105,636	-	33,870
REN Serviços, S.A.	1,222	-	101
REN Gasodutos, S.A.	153,238	169,591	-
REN Armazenagem, S.A.	23,039	-	-
REN Atlântico, Terminal de GNL, S.A.	12,618	14,522	-
OMI CLEAR, S.A.	-33	-	103
OMIP S.A.	-59	-	-
RENTELECOM - Comunicações, S.A.	-4,724	-	15
	<b>501,358</b>	<b>1,234,113</b>	<b>34,604</b>

## 27. Remuneration of the management

The Board of Directors of REN were considered in accordance with NCRF 5 to be the only key elements in the management of the Group. Remuneration of the Board of Directors of REN in the year ended 31 December 2010 and 2009 were as follows:

	2010	2009
Remuneration and other short term benefits	1,930	2,871

There are no loans granted to the members of the Board of Directors.

## 28. Other matters

### Disagreement with Amorim Energia B.V.

In December 2007, as duly informed to the market, REN – Redes Energéticas Nacionais, SGPS, S.A. (REN) was notified of an arbitration process being judged by the International Chamber of Commerce (“ICC”) brought against it by Amorim Energia B.V. regarding a matter relating to the “Shareholders Agreement relating to GALP ENERGIA, SGPS, S.A.” signed on 29 December 2005, between REN, AMORIM and ENI PORTUGAL INVESTMENT, S.p.A. (“Shareholder Agreement”), especially with respect to dividends distributed by Galp Energia, SGPS, SA relating to profit for 2005.

In 2006 REN and Amorim Energia BV had a disagreement as to whom the amount corresponding to the Dividends belonged, and on 15 June 2006 the Arbitration Court, especially called for the purpose by agreement between the parties, issued its decision, with one contrary vote, considering the action brought about by Amorim BV as

unfounded and definitively recognizing REN's right to maintain the Dividends.

In the second arbitration, carried out by the ICC, Amorim Energia B.V., based largely on different facts, requested that REN be required to pay indemnity in the amount of the Dividends.

On 16 March 2010 REN was notified of the arbitration decision, with one vote in disagreement, which condemned it to pay 20,334,883.91 Euros to Amorim Energia B.V., equivalent to half of the amount requested by the latter and corresponding to half of the amount of the Dividends, plus accrued interest.

Following the request for clarification made by REN, on 8 July 2010 the Arbitration Court notified the Company of an addendum to the Judgement.

After analysis of the arbitration decision and its fundamentals, as well as the related addendum, it was considered that there are possibilities of reacting, which at this time enable the Company to believe, based on known facts, that there is still a significant possibility of REN's position prevailing.

Therefore, REN believes, based on a legal analysis of the arbitration decision and related addendum, that the provision of 12,470 thousand Euros recorded in the year ended 31 December 2010 is adequate to face the inherent risk of this process, and corresponds to the best expectation of cost to be incurred by REN.

## 29. Disclosures required by legal diplomas

### Fees invoiced by the statutory auditor

The information regarding fees paid to the statutory auditor is disclosed in the Consolidated Financial Statements.

## 30. Explanation added for translation

These consolidated financial statements are a translation of financial statements originally issued in Portuguese in accordance with the Accounting and Reporting Financial Standards ("NCRF"). In the event of discrepancies, the Portuguese language version prevails.

### The Accountant n.º 30275

### The Board of Directors:

Rui Manuel Janes Cartaxo (President)

Aníbal Durães dos Santos (Executive Director)

João Caetano Carreira Faria Conceição (Executive Director)

João Nuno de Oliveira Jorge Palma (Executive Director)

João Manuel de Castro Plácido Pires (Executive Director)

Luís Maria Atienza Serna (Director)

Gonçalo José Zambrano de Oliveira (Director)

Manuel Carlos Mello Champalimaud (Director)

José Isidoro de Oliveira Carvalho Netto (Director)

Filipe Maurício de Botton (Director)

José Luís Alvim Marinho (President of the Audit Board)

José Frederico Viera Jordão (Member of the Audit Board)

Fernando António Portela Rocha de Andrade (Member of the Audit Board)

## STATUTORY AUDIT REPORT AND AUDITORS' REPORT

### CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese)

#### Introduction

1. In accordance with the applicable legislation, we present the Statutory Audit Report and the Auditors' Report on the consolidated financial information contained in the Management report and the consolidated financial statements of REN – Redes Energéticas Nacionais, S.G.P.S., S.A. (the "Company") and subsidiaries (the "Group") which comprise the Consolidated Statement of Financial Position as of 31 December 2010 that presents total assets of 4,460,503 thousand Euros and equity of 1,021,901 thousand Euros, including a consolidated net profit of 110,265 thousand Euros, the Consolidated Statements of Profit and Loss, Comprehensive Income, Changes in Equity and Cash Flows for the year then ended and the corresponding Notes.

#### Responsibilities

2. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial information that present a true and fair view of the financial position of the companies included in the consolidation, the results and the consolidated comprehensive income of their operations, consolidated changes in equity and consolidated cash flows; (ii) the preparation of historical financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and that is complete, true, timely, clear, objective and licit, as required by the Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system; and (iv) informing any significant facts that have influenced their operations or the operations of the companies included in the consolidation, their financial position or comprehensive income.

3. Our responsibility is to review the financial information contained in the above mentioned account documents, including verifying if, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Securities Market Code, and issue a professional and independent opinion, based on our examination.

#### Scope

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the financial statements

and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used and that the financial statements of the companies included in the consolidation have been appropriately examined, assessing the adequacy of the accounting policies used and their uniform application and disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept and assessing the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the information is complete, true, timely, clear, objective and licit. Our examination also comprises verifying that the consolidated financial information contained in the Management report is in accordance with the other consolidated documents of account, as well as verifying the required in the numbers 4 and 5 of article 451<sup>o</sup> of Commercial Companies Code. We believe that our examination provides a reasonable basis for expressing our opinion.

#### Opinion

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above, present fairly, in all material respects, the consolidated financial position of REN – Redes Energéticas Nacionais, S.G.P.S., S.A. and subsidiaries, as of 31 December 2010, the results and the consolidated comprehensive income of its operations, the consolidated changes in equity and the consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union, which were applied, except for the matter described in paragraph 6 below, consistently with the previous year, and the information contained on those is, in accordance with the standards mentioned in the paragraph 4 above, complete, true, timely, clear, objective and licit.

#### Emphasis

6. As explained in Note 3.2 of the Notes, on 1 January 2010 the Company adopted IFRIC 12 – Service Concession Agreements, for the first time, having restated the financial information for the year ended 31 December 2009, presented for comparative purposes.

#### Reporting over other legal requirements

7. It is also our opinion that the financial information contained in the consolidated Management report is in accordance with the consolidated financial statements of the year and the reporting of the corporate governance practice includes the elements required to the Company in accordance with article 245<sup>o</sup>-A of the Securities Market Code.



Lisbon, 16 March 2011

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Deloitte & Associados, SROC S.A.  
Representada por Jorge Carlos Batalha Duarte Catulo

## STATUTORY AUDIT REPORT AND AUDITORS' REPORT

### SEPARATE FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese)

#### Introduction

1. In accordance with the applicable legislation, we present the Statutory Audit Report and the Auditors' Report on the financial information contained in the Management report and the financial statements of REN – Redes Energéticas Nacionais, S.G.P.S., S.A. (the "Company") which comprise the Balance Sheet as of 31 December 2010 that presents total assets of 3,266,432 thousand Euros and equity of 1,063,075 thousand Euros, including a net profit of 107,277 thousand Euros, the Statements of Profit and Loss, Changes in Equity and Cash Flows for the year then ended and the corresponding Notes.

#### Responsibilities

2. The Company's Board of Directors is responsible for: (i) the preparation of financial information that present a true and fair view of the financial position of the Company, the results of its operations, changes in equity and cash flows; (ii) the preparation of historical financial statements in accordance with generally accepted accounting principles in Portugal and that is complete, true, timely, clear, objective and licit, as required by the Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system; and (iv) informing any significant facts that have influenced its operations, its financial position or results.

3. Our responsibility is to review the financial information contained in the above mentioned account documents, including verifying if, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Securities Market Code, and issue a professional and independent opinion, based on our examination.

#### Scope

4. Our examination was performed in accordance with the auditing standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the financial statements and assessing the significant estimates, based on judgements and criteria defined by the Board of Directors, used in their preparation. Our examination also included assessing the adequacy of the accounting policies used and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the financial statements and assessing if, in all material respects, the financial information is complete, true, timely,

clear, objective and licit. Our examination also comprises verifying that the financial information contained in the Management report is in accordance with the other documents of account, as well as verifying the required in the numbers 4 and 5 of article 451<sup>o</sup> of Commercial Companies Code. We believe that our examination provides a reasonable basis for expressing our opinion.

#### Opinion

5. In our opinion, the financial statements referred to in paragraph 1 above, present fairly, for the purposes mentioned in paragraph 7 below, in all material respects, the financial position of REN – Redes Energéticas Nacionais, S.G.P.S., S.A., as of 31 December 2010, the results of its operations, the changes in equity and the cash flows for the year then ended, in conformity with generally accepted accounting principles in Portugal (see paragraph 6 below), and the information contained on those is, in accordance with the standards mentioned in the paragraph 4 above, complete, true, timely, clear, objective and licit.

#### Emphasis

6. As mentioned in Note 2 of the Notes to the financial statements, the Company adopted with effects since 1 January 2010 the new accounting framework in Portugal ("Sistema de Normalização Contabilística"), including the corresponding conceptual framework, financial statements models and the accounting and financial reporting standards ("NCRF"). In the transition process from the previous accounting standards adopted by the Company - International Financial Reporting Standards ("IFRS") as adopted by the European Union, to the NCRF, the Company followed the requirements established in NCRF 3 - First time adoption of NCRF, being the transition date reported to 1 January 2009. Consequently, the financial information of 2009, previously presented in accordance with IFRS, was restated, for comparative purposes, to NCRF.

7. The financial statements referred to in paragraph 1 above refer to the Company's operations on an individual basis and were prepared in conformity with generally accepted accounting principles in Portugal for approval and publication in accordance with current legislation. As explained in Note 3.2 to the financial statements, the investments in subsidiaries are recorded in accordance with the equity method. In accordance with current legislation the Company prepared consolidated financial statements, in conformity with the International Financial Reporting Standards as adopted in the European Union, for separate publication.

### **Reporting over other legal requirements**

8. It is also our opinion that the financial information contained in the Management report is in accordance with the financial statements of the year and the reporting of the corporate governance practice includes the elements required to the Company in accordance with article 245<sup>o</sup>-A of the Securities Market Code.

Lisbon, 16 March 2011

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Deloitte & Associados, SROC S.A.  
Representada por Jorge Carlos Batalha Duarte Catulo

## REPORT AND OPINION OF THE AUDIT COMMITTEE

### CONSOLIDATED ACCOUNTS

Within the competences which are attributed to the Audit Committee, the latter has overseen the evolution of the activities of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A. and its affiliates, ensured the compliance with the law, regulations and articles of association, supervised the observance of the policies and accounting practices and supervised the procedure of execution and disclosure of the financial information, the legal revision of the accounts and the efficiency of the internal control and risk management systems. It also supervised the activity of the Statutory Auditor and of the External Auditor, including their independence and autonomy.

The Audit Committee also examined the consolidated financial information contained in the Management Report and the attached financial statements of the fiscal year which ended in December 31, 2010 regarding to REN – Redes Energéticas nacionais, SGPS, S.A. and its subsidiaries, including the Consolidated Financial Position Statement, which evidences a global amount of 4,460,503 thousand Euro and an own share capital of 1,021,901 thousand Euro, including a net consolidated result of 110,265 thousand

Euro, the Results Consolidated Statements, the Total Income, the Amendments to the Own Share Capital and the cash flows of the fiscal year which ended in the referred date and the corresponding Annex.

The Auditor Committee analyzed the Legal Certification of the Accounts and the Audit Report on the consolidated financial information, executed by the Statutory Auditor and the External Auditor, with which the Audit Committee has agreed upon.

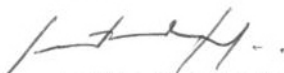
Within the scope of the referred assessments, the Audit Committee also supervised the compliance and adequacy of the policies, procedures and accounting practices and of the adopted value criteria, as well as of the regularity and quality of the Company's accounting information.

Hence, the Audit Committee considers that the Consolidated Financial Statements and the Consolidated Management Report, as well as the proposal expressed therein, comply with the applicable legal and statutory accounting provisions, for which it recommends its approval by the General Meeting.

Lisbon, March 16, 2011



José Luis Alvim (Chairman)



José Frederico Jordão (Member)



Fernando António Portela Rocha de Andrade (Member)

## REPORT AND OPINION OF THE AUDIT COMMITTEE

### INDIVIDUAL ACCOUNTS

Within the competences which are attributed to the Audit Committee, the latter has oversaw the evolution of the activities of REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A., ensured the compliance with the law, regulations and articles of association, supervised the observance of the policies and accounting practices and supervised the procedure of execution and disclosure of the financial information, the legal revision of the accounts and the efficiency of the internal control and risk management systems. It also supervised the activity of the Statutory Auditor and of the External Auditor, including their independence and autonomy.

The Audit Committee also examined the individual financial information contained in the Management Report and the attached financial statements of the fiscal year which ended in December 31, 2010 regarding to REN – Redes Energéticas nacionais, SGPS, S.A., including the Financial Statement as of December 31, 2010, which evidences a global amount of 3,266,432 thousand Euro and an own share capital of 1,063,075 thousand Euro, including

a net result of 107,277 thousand Euro, the Results Statements by Nature, the Amendments to the Own Share Capital and the Cash Flows of the fiscal year which ended in the referred date and the corresponding Annex.

The Auditor Committee analyzed the Legal Certification of the Accounts and the Audit Report on the individual financial information, executed by the Statutory Auditor and the External Auditor, with which the Audit Committee has agreed upon.

Within the scope of the referred assessments, the Audit Committee also supervised the compliance and adequacy of the policies, procedures and accounting practices and of the adopted value criteria, as well as of the regularity and quality of the Company's accounting information.

Hence, the Audit Committee considers that the Individual Financial Statements and the Individual Management Report, as well as the proposal expressed therein, comply with the applicable legal and statutory accounting provisions, for which it recommends its approval by the General Meeting.

Lisbon, March 16, 2011



José Luis Alvim (Chairman)



José Frederico Jordão (Member)



Fernando António Portela Rocha de Andrade (Member)







## ELECTRICITY

### **ORDER *DESPACHO ERSE* N.º 679/2010**

11 January, Diário da República n.º 6, Série II  
Approves the time schedules of losses and consumption profiles to be applied from 1 January to 31 December 2010.

### **Government decree *Decreto-lei* n.º 23/2010**

25 March, Diário da República n.º 59, Série I  
Establishes the legal and compensation framework for the cogeneration activity.

### **Cabinet resolution *RCM* n.º 29/2010**

15 April, Diário da República n.º 73, Série I  
Approves the National Strategy for Energy 2020 (ENE 2020).

### **Government decree *Decreto-Lei* n.º 39/2010**

26 April, Diário da República n.º 80, Série I  
Establishes the legal framework for electrical mobility and the rules for creation of a pilot grid of electrical mobility.

### **Order *Despacho* n.º 7 253/2010**

26 April, Diário da República n.º 80, Série II  
Approves the invoicing rules of reactive energy.

### **Order *Despacho* *MEI-DGEG* n.º 7 377/2010**

27 April, Diário da República n.º 81, Série II  
Sets out the amounts and auctions for futures contracts listed on the OMPI.

### **Government decree *Decreto-lei* n.º 51/2010**

20 May, Diário da República n.º 98, Série I  
Simplifies the procedure to install additional equipment in wind farms, revises their compensation schemes and provides for the mandatory installation of equipments to support voltage dips.

### **Cabinet resolution *RCM* n.º 49/2010**

1 July, Diário da República n.º 126, Série I  
Approves the draft contract for the production of electrical energy from the energy of sea waves.

### **Ministerial regulation *Portaria* n.º 542/2010**

21 July, Diário da República n.º 140, Série I  
Changes the calculation of the remuneration of hydroland in the possession of the concession holder of the Portuguese transmission grid (RNT).

### **Ministerial regulation *Portaria* n.º 592/2010**

29 July, Diário da República n.º 146, Série I  
Approves the interruptibility framework for the electricity sector.

### **Ministerial regulation *Portaria* n.º 596/2010**

30 July, Diário da República n.º 147, Série I  
Approves the Regulations of the Transmission and Distribution Grid in the electricity sector.

### **Order *Despacho* *MEI* n.º 13416/2010**

12 August, Diário da República n.º 161, Série II–C  
Sets out the parameters to be used in the calculation formulas of the compensation for the interruptibility service.

### **Ministerial regulation *Portaria* n.º 765/2010**

20 August, Diário da República n.º 162, Série I  
Sets out the framework for power guarantee services that electricity-producing centres may provide to the National Electrical System.

### **Law *Lei* n.º 19/2010**

23 August, Diário da República n.º 163, Série I  
Changes government decree *Decreto-lei* n.º 23/2010, of 25 March, which sets out the legal and compensation framework

for electrical and mechanical energy and energy from useful heat, produced in cogeneration.

**Law Lei n.º 30/2010**

2 September, Diário da República n.º 171, Série I

Approves the definition mechanisms of human exposure limits to magnetic, electric and electromagnetic fields derived from electrical lines, facilities and equipments.

**Cabinet resolution RCM n.º 72/2010**

10 September, Diário da República n.º 177, Série I

Approves the launch of tenders to allocate licences to use water resources, in accordance with the provisions laid down in the Water Law.

**Order Despacho ERSE n.º 14 430/2010**

15 September, Diário da República n.º 180, Série II

Approves the valuation mechanism of new capital expenditure of the RNT at reference costs.

**EU Regulation n.º 838/2010**

23 September, JOUE n.º 250, Série L

Provides guidance for the clearing mechanism between transmission network operators.

**Government decree Decreto-Lei n.º 104/2010**

29 September, Diário da República n.º 190, Série I

Sets out the procedure applicable to the termination of regulated tariffs of electricity sales to end clients with consumption in very high voltage, high voltage, medium voltage and special low voltage.

**Government decree Decreto-Lei n.º 110/2010**

14 October, Diário da República n.º 200, Série I

Determines the termination of the mechanism of the hydraulicity account and sets out the transitory rules to be adopted until its termination.

**Ministerial regulation Portaria n.º 1057/2010**

15 October, Diário da República n.º 201, Série I

Sets out the Z coefficient applicable to concentration photovoltaic power plants in order to remunerate electricity generated and delivered to the grid.

**Government decree Decreto-lei n.º 126/2010**

23 November, Diário da República n.º 227, Série I

Sets out the implementation framework for hydroelectric use to which RCM n.º 72/2010, of 10 September refers.

**Order Despacho ERSE n.º 18898/2010**

10 December, Diário da República n.º 245, Série II-E

Changes the Operation Regulation of Grids of the Electricity Sector in Despacho n.º 17744 –A /2007, of 29 June.

**Order Despacho ERSE n.º 18899/2010**

14 December, Diário da República n.º 245, Série II-E

Approves the general conditions of network use contracts signed with marketing companies under the market regime or with clients with the status of market agent.

**Government decree Decreto-lei n.º 132 – A/2010**

21 December, Diário da República n.º 245, Série I

Approves, under ENE 2020, the allocation framework for reception capacity of the Public Service Electrical Grid to the electrical energy produced from photovoltaic solar plants, by public initiative.

**Order Despacho ERSE n.º 19 059/2010**

23 December, Diário da República n.º 247, Série II-E

Changes the Tariff Regulation of the Electricity Sector.

**Order Despacho ERSE n.º 19 113/2010**

27 December, Diário da República n.º 249, Série II-E

Tariffs and Prices for Electrical Energy in 2011.

**Government decree *Decreto-lei n.º 141/2010***

31 December, Diário da República n.º 253, Série I

Under ENE 2020, it sets out the Portuguese goals for the use of renewable energy.

## NATURAL GAS

**Order *Despacho ERSE n.º 110/2010***

5 January, Diário da República n.º 2, Série II

Approves the dispositions and conditions of the auction for the 2010-2011 gas year and its rules.

**Order *Despacho ERSE n.º 766/2010***

12 January, Diário da República n.º 7, Série II

Quarterly revision to be applied to the energy prices of natural gas tariffs in the first quarter of 2010.

**Order *Despacho ERSE n.º 4 878/2010***

18 March, Diário da República n.º 54, Série II

Revision of the regulations of the natural gas sector: Regulation of Commercial Relations, Tariff Regulation, Regulation of Access to Networks, Infrastructure and Interconnections, Regulation of Quality of Service and Regulation of Infrastructure Operation.

**Order *Despacho ERSE n.º 6 723/2010***

15 April, Diário da República n.º 73, Série II

Quarterly revision to be applied to the energy prices of natural gas tariffs in the second quarter of 2010.

**Government decree *Decreto-lei n.º 66/2010***

11 June, Diário da República n.º 112, Série I

Sets out the procedure applicable to the termination of regulated tariffs of natural gas sales to end clients, with annual consumption in excess of 10 000 m<sup>3</sup>.

**Order *Despacho ERSE n.º 8 327/2010***

17 May, Diário da República n.º 95, Série II

Approves the methodology to determine the percentage of the attributable safety reserve in LNG terminals and underground storage facilities.

**Order *Despacho ERSE n.º 10356/2010,***

14 June, Diário da República n.º 118, Série II

Changes the Tariff Regulation of the Natural Gas Sector.

**Order *Despacho ERSE n.º 10 422/2010***

22 June, Diário da República n.º 119, Série II

Approves the incentive mechanism to the existence of regulated exchanges of liquefied natural gas.

**Order *Despacho ERSE n.º 10 423/2010***

22 June, Diário da República n.º 119, Série II

Tariffs and prices of natural gas for the 2010-2011 gas year and parameters for the 2010-2013 regulation period.

**Commission decision 2010/685/UE,**

10 November 2010, JOUE n.º 293, Série L

Changes chapter 3 of appendix I of the Regulation (CE) n.º 715/2009 of the European Parliament and the Council regarding access conditions to transmission networks of natural gas.

**Order *Despacho ERSE n.º 19339/2010***

17 December, Diário da República n.º 252, Série II

It approves the exceptional revision of the tariffs of the global use of the system and the access tariffs to natural gas networks applicable to clients with consumption in excess of 10 000 m<sup>3</sup>.

**Order *Despacho ERSE n.º 19 340/2010,***

30 December, Diário da República n.º 252, Série II

Changes the Tariff Regulation of the Natural Gas Sector.



# Glossary



## FINANCIAL GLOSSARY

### CAPEX

Capital expenditure on acquisitions and upgrades of tangible fixed assets

### DIVIDEND PER SHARE

Ordinary dividend/total number of shares outstanding

### EBIT

Earnings before interest and taxes (operating profit)

### EBITDA

Earnings before interest, taxes, depreciation and amortisation

### EBITDA MARGIN

EBITDA/turnover

### NET DEBT

Short- and long-term financial debt – cash balances

### NET DEBT TO EQUITY RATIO

Net debt/equity

### PAYOUT RATIO

Ordinary dividend/net profit

### RETURN ON ASSETS (ROA)

EBIT/total assets

### RETURN ON EQUITY (ROE)

Net profit/equity

### TURNOVER

Sales and services provided

## TECHNICAL GLOSSARY

### ACRONYMS

#### AGC

Agreement on the Management of Natural Gas Consumption

#### CER

Certified Emissions Reductions

#### CESUR

Power Purchase Agreements for the Supplier of Last Resort

#### CIGRÉ

International Council on Large Electric Systems

#### CMVM

Portuguese securities market regulator

#### DGEG

Department of Energy and Geology

#### DR

*Diário da República*

#### DRS

Disaster Recovery System

#### DWDM

Dense Wavelength Division Multiplexing

#### EC

European Commission

#### ECX

European Climate Exchange

**EDP**

Energias de Portugal, S.A.

**EGIG**

European Gas pipeline Incident data Group

**EIB**

European Investment Bank

**EIT**

Equivalent interruption time

**EMTN**

Euro Medium Term Notes

**ENF**

Energy not supplied

**ERGEG**

European Regulators Group for Electricity and Gas

**ERSE**

Energy Services Regulatory Authority

**ETA**

Electricity transmission activity

**ETS**

Emissions Trading Scheme

**ETSO**

European Transmission System Operators

**EU**

European Union

**EUA**

European Unit Allowances

**EURELECTRIC**

European Union of Electricity Companies

**GDP**

Gás de Portugal, SGPS, S.A.

**GDP**

Gross Domestic Product

**GHG**

Greenhouse gases

**GMRS**

Gas Regulating and Metering Station

**GVA**

Gross value added

**HCPI**

Harmonised Index of Consumer Prices

**HV**

High voltage

**IEA**

International Energy Agency

**IES**

Independent Electricity System

**IFRS**

International Financial Reporting Standards

**IGU**

Independent Gasification Units

**INE**

Portuguese institute of statistics

**IP**

Internet Protocol

**ISDA**

International Swap and Derivatives Association

**LNG**

Liquefied natural gas

**MEFF**

Spanish Futures and Options Exchange

**MIBEL**

Iberian Electricity Market

**MLT**

Medium- and long-term

**MTSP**

Municipal Tax on Sale of Property

**NG**

Natural gas

**OECD**

Organisation for Economic Co-operation and Development

**OMEL**

Operador del Mercado Ibérico de Energía – Polo Español, S.A.

**OMI**

Iberian Market Operator

**OMICLEAR**

Sociedade de Compensação de Mercados de Energia, S. A.

**OMIP**

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

**OPEX**

Operating and maintenance costs

**PNALE**

Portuguese Emission Licence Award Plan

**PNBEPH**

Portuguese Plan for High Hydraulic Potential Dams

**POC**

Portuguese generally accepted accounting principles

**PPA**

Power Purchase Agreements

**PPDA**

Environmental Performance Promotion Plan

**PPEC**

Plan for the Promotion of the Efficient Use of Electricity

**PRE**

Subsidised producers

**QSR**

Quality of Service Regulation

**R&D**

Research & Development

**RAB**

Regulatory Asset Base

**RCCP**

Current ROE

**RDI**

Industrial data network

**RECS**

Renewable Energy Certificate System

**RENTELECOM**

RENTELECOM – Comunicações, S.A.

**REORT**

European Network of Transmission System Operators for Gas

**RES**

Directive on Renewable Energy Sources

**RNDGN**

National Natural Gas Distribution Network

**RNT**

National Electricity Transmission Grid

**RNTGN**

National Natural Gas Transmission Network

**RNTIAT**

National Natural Gas Transmission Network, Storage infrastructure and LNG terminals

**ROA**

Return on assets

**SAP**

Systems of applications and products for data processing

**SDH**

Synchronous Digital Hierarchy

**SEN**

National Electricity System

**SEP**

Public Electricity Supply System

**SGNL**

Sociedade Portuguesa de Gás Natural Liquefeito, S.A.

**SGPS**

Holding company

**SGRI**

South Gas Region Initiative

**SNGN**

National Natural Gas System

**SRPV**

Service of Private Voice Networks

**TEN**

Trans-European Networks

**TSO**

Transmission System Operators

**UCTE**

Union for the Co-ordination of Transmission of Electricity

**UGS**

Tariff of global use of the system

**URT**

Tariff of use of the transmission network

**VAT**

Value added tax

**VHV**

Very high voltage



## UNITS

bcm	10 <sup>9</sup> cubic metres
cent.€	euro cents
CO <sub>2</sub>	carbon dioxide
EUR	euro
€	euro
GHz	gigahertz
GJ	gigajoule
GW	gigawatt
GWh	gigawatt hour
k€	thousand euros
km	kilometre
kV	kilovolt
kWh	kilowatt hour
m <sup>3</sup>	cubic metre
m <sup>3</sup> (n)	normal cubic metre (volume of gas measured at 0° Celsius and at 1 atmosphere of pressure)
M€	million euros
mEuros	thousand euros
MVA	megavolt-ampere
Mvar	megavolt-ampere reactive
MW	megawatt
MWh	megawatt hour
p.p.	percentage points
s	second
t	tonne
tcm	10 <sup>12</sup> cubic metres
tCO <sub>2</sub> eq	equivalent tonne of CO <sub>2</sub>
TWh	terawatt-hour

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