

# ANNEX

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

(Amounts expressed in thousands of Euros - tEuros)

### 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, S.A.. 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. As from October 2011 its position in the Management of Derivative Markets was reduced to 35%, thus losing control of this 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 (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 Maintenance of Contractual Balance Contracts (Contratos para a Manutenção do Equilíbrio Contratual – 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 Gas business includes the following companies:

- a) REN Gás, S.A., was founded on 29 March 2011, with the corporate objectives of promoting, developing and carrying out projects and developments in the natural gas sector, as well as defining the overall strategy and coordination of the companies in which it has participations.
- b) REN Gasodutos, S.A. was founded on 26 September 2006, the capital of which was paid up through integration into the company of the gas transport

infrastructures (network; connections; compression);

c) REN Armazenagem, S.A., was founded on 26 September 2006, the capital of which was paid up through integration into the company of the underground gas storage assets;

d) REN Atlântico, Terminal de GNL, S.A., 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 marine 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.

On 15 November 2010 the Board of Directors approved a restructuring operation of the natural gas company.

On 30 March 2011, after the capital increase through payment in kind of 539,272,988 Euros relating to the capital of the companies REN Gasodutos, S.A. and REN Armazenagem S.A., REN Gás S.A. became sole shareholder of the two companies.

On 12 April REN SGPS, S.A. sold to REN Serviços S.A. its participation in REN Gás S.A.

Therefore the above subsidiaries are indirectly fully owned by REN SGPS as its subsidiary REN Serviços, S.A. (fully owned by REN SGPS) is sole shareholder of REN Gás, S.A.

The telecommunications business is managed by RENTELCOM 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 OMclear (Clearing Agent for the Energy Market), a company founded and fully owned by OMIP, the role of which 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..

In the process of creating the Sole Operator of the Iberian Electricity Market (Operador Único do Mercado Ibérico de Electricidade - OMI) and in conformity with an Agreement between the Portuguese Republic and the Kingdom of Spain regarding the forming of an Iberian electric energy market, in October and December 2011 REN SGPS sold, for 9,153,254 Euros, 55% of the capital of OMIP, Operador do Mercado Ibérico (Portugal), SGPS, S.A., through transmission of lots of shares representing 5% of the capital of the company, becoming holder of 35% of the capital of the company. Supplementary capital contributions of 4,545,200 Euros were also transferred in that transaction.

At the same time, REN acquired 10% of the capital of OMEL, Operador del Mercado Ibérico de Energia, S.A., Spanish pole of the Sole Operator, for 3,166,800 Euros.

In conformity with the Iberian Agreement, REN must also sell a further 25% of the capital of OMIP, Operador do Mercado Ibérico (Portugal), SGPS, S.A., under the

same conditions as those above, so that REN's final participation in that company is 10%.

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, commonly referred to as back office services, for related companies and third parties, receiving remuneration for this, as well as the management of participations the company has in other companies.

### 1.1 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors at a meeting held on 1 March 2012. 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) to manage the Public Electric Supply system (PES), utilize the National Transmission Network as well as develop 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 the available production excesses. On the gain in these intermediary operations, REN had the right to retain 50% of the commercial profit.

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

#### 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.

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 immovable 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 the 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: non-compliance 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, for the purpose 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 is 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 depreciation 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 management and operation of the conceded operations; or 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, the 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:

- Reception, storage, treatment and regasification of liquid natural gas unloaded from methane tankers in the Port of Sines;
- the injection of high pressure natural gas into the National Natural Gas Transport Network (Rede Nacional de Transporte de Gás Natural - RNTGN) or its dispatch by specialised trucks; and
- 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 depreciation 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 rights 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 needed to 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 related 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 and 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 cancel 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 UNDERGROUND GAS 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:

- i) 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

- ii) construction, utilization, maintenance and expansion of the underground storage tanks.

The model of the concession contract ensures contractual equilibrium through recovery of depreciation 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 needed repairs, renewals and adaptations necessary to 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 termination date 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 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 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.

### 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 2011. 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**

The following standards, interpretations, amendments and revisions endorsed by the European Union are of mandatory application for financial years beginning on or after 1 January 2011:

**IAS 24** "Disclosure of Related Party Transactions (2009 revision) – This revision has brought some clarifications relating to related parties, especially regarding entities connected to the public administration. This change has not had a significant impact of REN's financial statements as of 31 December 2011.

**IAS 32** "Financial Instruments: Presentation' (change) (to be applied to years beginning on or after 1 February 2010). This change clarified under what conditions rights issued can be classified as equity instruments. This change had no impact on the consolidated financial statements of REN as of 31 December 2011.

**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 and simplifies the requirements to disclose comparatives regarding financial instruments in the first time adoption of IFRS. This change had no impact on the consolidated financial statements of REN as of 31 December 2011.

**IFRS 7** "Disclosures – Transfers of Financial Assets (Change) This change introduced a series of additional disclosures aimed at facilitating the assessment of risk relating to the transfer of financial assets as well as their effect on the Company's financial statements. This change had no impact on the consolidated financial statements of REN as of 31 December 2011.

**IFRIC 14** "Prepayment of a minimum financing requirement' (change) – 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 had no impact on the consolidated financial statements of REN as of 31 December 2011.

**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 had no impact on the consolidated financial statements of REN as of 31 December 2011.

In relation to these standards and interpretations issued by the IASB, not yet endorsed by the European Union, we are do not expect significant impacts to arise on the 31 December 2011 consolidated financial statements.

|   | APPLICABLE FOR FINANCIAL YEARS<br>BEGINNING ON / AFTER |
|---|--|
| IFRS 9 - Financial Instruments  | 1-Jan-13   |
| Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets          | 1-Jan-12   |
| Amendments to IFRS 1 - Severe Hyperinflation and Removal of Fixed dates for | 1-Jul-11   |
| Amendments to IFRS 7 - Financial Instruments: Disclosures                   | 1-Jul-13   |
| IFRS 10 - Consolidated Financial Statements                                 | 1-Jan-13   |
| IFRS 11 - Joint Arrangements  | 1-Jan-13   |
| IFRS 12 - Disclosure of Interests in Other Entities                         | 1-Jan-13   |
| IFRS 10 - Fair Value Measurement  | 1-Jan-13   |
| IAS 27 (Revised 2011) - Separate Financial Statements                       | 1-Jan-13   |
| IAS 28 (Revised 2011) - Investments in Associates and Joint Ventures        | 1-Jan-13   |
| Amendments to IAS 1 - Presentation of Comprehensive Income                  | 1-Jan-12   |
| Amendments to IAS 19 - Post Employment Benefits                             | 1-Jan-13   |
| IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine        | 1-Jan-13   |

### 3.2 COMPARABILITY OF THE FINANCIAL STATEMENTS

In 2011 the Group started reversing the excess costs of the CAE invoiced and recorded as “services rendered” up to 31 December 2010 by corresponding entry to the cost, recorded in the caption “other

operating costs” as they are pass through items in the Company’s agency role of the two remaining CAEs. For comparative purposes, the Company restated these captions in the statement of profit and loss for the year ended 31 December 2010.

|  | 31.12.10         | CAE<br>OVER-COSTS | 31.12.10<br>RESTATED |
|--|------------------|-------------------|----------------------|
| Sales  | 917              | -                 | 917                  |
| Services provided                              | 757,910          | (248,062)         | 509,848              |
| Revenue from construction of concession assets | 420,483          | -                 | 420,483              |
| Other operating income                         | 37,806           | -                 | 37,806               |
| Share of (loss)/profit of joint ventures       | 8,092            | -                 | 8,092                |
| <b>Operating income</b>                        | <b>1,225,207</b> | <b>(248,062)</b>  | <b>977,145</b>       |
| Cost of goods sold                             | (747)            | -                 | (747)                |
| Cost of construction of concession assets      | (394,548)        | -                 | (394,548)            |
| Supplies and services                          | (80,423)         | -                 | (80,423)             |
| Personnel costs                                | (51,223)         | -                 | (51,223)             |
| Depreciation and amortization                  | (172,633)        | -                 | (172,633)            |
| Provisions                                     | (12,774)         | -                 | (12,774)             |
| Other expenses                                 | -                | -                 | -                    |
| Outros gastos operacionais                     | (262,340)        | 248,062           | (14,278)             |
| <b>Operating costs</b>                         | <b>(974,688)</b> | <b>248,062</b>    | <b>(726,626)</b>     |
| Operating profit                               | 250,519          | -                 | 250,519              |
| Financial costs                                | (89,883)         | -                 | (89,883)             |
| Financial income                               | 2,194            | -                 | 2,194                |
| Investment income - dividends                  | 3,790            | -                 | 3,790                |
| Net financial costs                            | (83,900)         | -                 | (83,900)             |
| Profit before income tax                       | 166,619          | -                 | 166,619              |
| Income tax expense                             | (56,353)         | -                 | (56,353)             |
| Net profit for the year before non-controlling | 110,266          | -                 | 110,266              |
| Attributable to:                               |                  |                   |                      |
| Equity holders of the Company                  | 110,265          | -                 | 110,265              |
| Non-controlling interests                      | 1                | -                 | 1                    |
| <b>Net profit for the year</b>                 | <b>110,266</b>   | <b>-</b>          | <b>110,266</b>       |

### 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 their 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 recognizing 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.

REN applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Losses attributable to non-controlling interests 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.

### **3.4 SEGMENT REPORTING**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and 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 OMIclear, during 2010, 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 (up to 2010 only). The Electricity segment includes the transmission of very high tension electricity and overall management of the public electricity supply system and management of energy purchasing contracts ("CAE") not terminated on 30 June 2007. 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, in the case of the latter only up to 2010) are also presented separately although they do not qualify for disclosure.

The column "Others" includes the operations of REN SGPS and REN Serviços.

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.

### 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.

### RATES USED

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

### FOREIGN CURRENCY EXCHANGE RATES

| Currency | 11     | 10      |
|----------|--------|---------|
| USD      | 1.2939 | 1.3362  |
| CHF      | 1.2156 | 1.2504  |
| GBP      | 0.8353 | 0.86075 |
| SEK      | 8.912  | 8.9655  |
| NOK      | 7.754  | 7.8     |
| DKK      | 7.4342 | 7.4535  |
| RON      | 4.3233 | 4.262   |
| JPY      | 100.2  | 108.65  |

### 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.

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, after write off of the component substituted.

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

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 depreciation or amortization recorded is in accordance with the consumption standards of the assets. Changes in useful life 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.

#### **ASSETS OF THE CONCESSION – 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 1 January 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:

- the REN Group companies (REN – Rede Eléctrica Nacional, S.A., REN Gasodutos, S.A., REN Armazenagem, S.A., 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;
- 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;
- the conceding entity controls the services rendered and the conditions under which they are rendered, through the regulator ERSE;
- 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 define the following models:

- 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.

- 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.
- 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.

In this respect 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 2011.

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 believes 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 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 (increase in the concession rights), 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 in the captions “revenue from construction of concession assets” and “costs of construction of concession assets”.

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 is covered by the Concession Contracts entered into between REN and the Portuguese State and is remunerated based on its amortization, not being disassociated, as such from the other assets of the concession, being an integral part of a common cash generating unit.

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 states 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, and as a result of applying IFRIC 12, the REN Group classifies assets relating to the concessions in accordance with the intangible asset model, being amortized on a straight line basis as from the date in which they become available for use in accordance with the expected consumption of future benefits model, which corresponds to the regulatory period defined by ERSE and considering that at the end of the concession the Group has the right to receive the net book value of the assets.

Intangible assets in progress reflect the concession's assets still under construction, being recorded at cost less any impairment losses, being amortized as from the time the investment projects are completed or available for use.

### 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 for possible reversal of the impairment loss previously recognised.

For the assets valued in accordance with the depreciated cost model, impairment losses and any 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 are acquired.

Financial assets may be classified under the following categories:

- **financial assets at fair value through profit or loss** – includes non-derivative financial assets held for short-term trading and assets designated at fair value through profit and loss at the inception date;
- **loans granted and receivables – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;** – includes non-derivative financial assets with fixed or determinable payments that are not listed in an active market;
- **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
- **available-for-sale financial assets** – includes non-derivative financial assets designated as available-for-sale at the 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 recognized 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 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 recorded 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 cost and current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit and 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 the risks and rewards of ownership.

### 3.9 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially 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.

Derivative financial instruments are recognized in the caption "Derivative financial instruments", and if they have a positive or negative fair value they are recorded as financial assets or liabilities, respectively.

Derivative financial instruments are classified as non-current when their remaining period to maturity exceeds twelve months and they are not expected to be realized or settled within twelve months.

#### HEDGE ACCOUNTING

In hedging its interest rate and exchange rate risk the Group contracts a series of financial derivative instruments, namely swaps.

The criteria for applying hedge accounting rules are:

- Adequate documentation of the hedge;
- 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 covered, are virtually offset by changes in fair value or cash flows of the hedging instrument.

At the inception of the hedge operation, the Company documents the relationship between the hedging instrument and the hedged item, its risk management objectives, strategy for managing the risk and its assessment of the effectiveness of the hedging instrument to offset variations in the fair value and cash flows of the item hedged.

In the fair value hedge of an asset or liability, the book value of the asset or liability, determined based on the accounting policy used, is adjusted so as to reflect the variation of its fair value attributable to the risk hedged. Variations in the fair value of the hedging instruments are recognized in the statement of profit and loss together with variations in the fair value of the assets or liabilities hedged attributable to the risk hedged.

In a hedging operation of the exposure to variations of great probability in future cash flows (cash flow hedge) the effective part of the fair value variation of the hedging instrument is recognized in hedging reserves, being transferred to the statement of profit and loss in the period the item hedged affects results. The ineffective part of the hedge is recognized in the statement of profit and loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires, is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

### 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 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 in the statement of financial position, and are included in the consolidated statement of cash flows, as cash and cash equivalents.

### 3.13 CAPITAL AND OWN 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 treasury 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 FINANCIAL LIABILITIES

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

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

The caption other financial liabilities includes "Borrowings" (Note 3.15) 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 extinguished through payment, are cancelled or expire.

### 3.15 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 settlement of the liability for at least 12 months after the statement of financial position date, in which case they are classified as non-current liabilities.

### 3.16 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 it relates 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 statement of financial position 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.

### 3.17 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, pre-retirement bonus and death subsidy.

#### i) REN – Rede Elétrica 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 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.

The liability for 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 in 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 plan of benefits granted, resulting from adjustments to actuarial assumptions, experience adjustments or in the benefits scheme are recorded directly in equity.

#### ii) REN – Rede Elétrica 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 Contracts

The Group companies provide their employees with life insurance benefits. The costs are recognized during the period in which they serve. This liability is covered by a specific provision.

Actuarial gains and losses determined in the year are recognized directly in equity.

Actuarial gains and losses for the year are recognized directly in equity.

### 3.18 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 the occurrence (or not) 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.

### 3.18 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 only 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

### 3.20 ACCRUALS BASIS

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.

### 3.21 INCOME

#### ELECTRICITY SEGMENT

Income recognition for concession activities is determined based on 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 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.

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), is remunerated through an incentive mechanism.

To stimulate the "Commercial Agent" activity, in the beginning of 2008 ERSE established a mechanism to optimise management of the PPA's, a mechanism to optimise the management of CO2 emission licences, as well as the parameters to be in place for calculating the incentives established. Revenue obtained by use of these mechanisms, is the main part of the results obtained from the "Commercial Agent" activity.



Income 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 for each component of the system, such as: generation, transmission and distribution. REN, SA's income 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 results obtained from electricity transmission charged to third parties.

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

- amortization of the concession assets relating to overall management of the system;
- amortization of the concession assets relating to the generating station sites;
- a return on the average net book value of the generating station sites (land);
- 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;
- operating costs (relating to the activity, payroll and others); and
- operating costs of the regulator;

#### **GAS SEGMENT**

Income 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 income is calculated in accordance with the tariffs determined by the regulator as from 1 of July 2007. Up to 30 June 2007, income was recognized 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. Income 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.

#### **TARIFF DEVIATIONS S**

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.

### 3.22 LEASES

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 to 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 are 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.

### 3.23 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recorded based on the equity method, under which they are initially recorded at cost and then adjusted based on the post acquisition changes in the Company's share of the net assets of these companies. The 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 the investments.

The excess of cost in relation to the fair value of identifiable assets and liabilities of each entity acquired as of the acquisition date is recognized as goodwill and is maintained in the amount of the investment. If the difference between cost and the fair value of assets and liabilities is negative, it is recognized as income for the year.

A valuation of investments is made when there are indications that an asset can be impaired, any impairment losses being recognized as cost in the statement of profit and loss.

When the Company's proportion of the accumulated losses of a subsidiary or associated company exceeds its book value, the investment is stated by zero, except when the Company has assumed commitments to cover the losses of the subsidiary or associated company, when the additional require the recognition of a liability. If these companies subsequently report profits, the Company only starts recognizing its share of those profits after its share of the profits equals the losses not recognized.

Unrealized gains on transactions with subsidiaries and associates are eliminated in proportion to the Company's interest in them, by corresponding entry to the caption investment. Unrealized losses are also eliminated but only up to the point that such loss does not result in the transferred asset being impaired.

### 3.24 SUBSEQUENT EVENTS

Events that occur after the statement of financial position date that provide

additional information on conditions that existed at the date of the statement of financial position ("adjusting events" or events after the statement of financial position date that lead to adjustments) are recognized in the financial statements. Events that occur after the statement of financial position date that provide information on conditions that exist after that date ("non-adjusting events" or events after the statement of financial position date that do not lead to adjustments) are disclosed in the notes to the consolidated financial statements, if material.

## FINANCIAL RISK MANAGEMENT POLICIES

### 4.1. FINANCIAL RISK FACTORS

The Group's activities are exposed to a variety of financial risks: including credit risk, liquidity risk and cash flow risk relating to interest rate and exchange rate.

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 of 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 2011, would have a negative impact on equity of around 5,283 thousand Euros (5,395 thousand Euros in 2010), 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 the Group's liabilities by intervals to residual contracted maturity and includes derivative financial instruments the financial liquidation of the related flows of which is made at the net amount. The amounts shown in the table are non-discounted cash flows contracted.

(MILLION OF EUROS)

AT 31 DECEMBER 2011

|                                  | LESS THAN<br>1 YEAR | 1 - 5<br>YEARS   | OVER<br>5 YEARS | TOTAL            |
|----------------------------------|---------------------|------------------|-----------------|------------------|
| <b>Borrowings:</b>               |                     |                  |                 |                  |
| Finance lease                    | 1.128               | 721              | –               | 1.849            |
| Bank borrowings                  | 62.940              | 312.973          | 508.057         | 883.970          |
| Commercial paper                 | 26.886              | 566.268          | –               | 593.154          |
| Bonds                            | 77                  | 1.087.905        | 96.327          | 1.184.309        |
| Bank overdrafts                  | 1.049               | –                | –               | 1.049            |
|                                  | <b>92.080</b>       | <b>1.967.867</b> | <b>604.384</b>  | <b>2.664.331</b> |
| Derivative financial instruments | 1.553               | 1.060            | –               | 2.613            |
| Trade and other payables         | 332.949             | 16.890           | –               | 349.839          |

(MILLION OF EUROS)

AT 31 DECEMBER 2010

|                                  | LESS THAN<br>1 YEAR | 1 - 5<br>YEARS   | OVER<br>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:

(MILLION OF EUROS)

AT 31 DECEMBER 2011

|  | LESS THAN<br>1 YEAR | 1 - 5<br>YEARS | OVER<br>5 YEARS | TOTAL   |
|--|---------------------|----------------|-----------------|---------|
| Hedging derivative financial instruments |                     |                |                 |         |
| Cross Currency Interest Rate Swap        |                     |                |                 |         |
| Outflows                                 | 4.180               | 16.686         | 96.327          | 117.193 |
| Inflows                                  | 2.705               | 10.818         | 120.085         | 133.608 |

(MILLION OF EUROS)

AT 31 DECEMBER 2010

|                                   | LESS THAN<br>1 YEAR | 1 - 5<br>YEARS | OVER<br>5 YEARS | TOTAL   |
|-----------------------------------|---------------------|----------------|-----------------|---------|
| Derivative financial instruments  |                     |                |                 |         |
| Cross Currency Interest Rate Swap |                     |                |                 |         |
| Outflows                          | 4.169               | 16.686         | 99.064          | 119.919 |
| Inflows                           | 2.494               | 9.977          | 113.240         | 125.711 |

**INTEREST RATE 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 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 five interest rate swaps (of which three in the amount of 150,000 thousand Euros were contracted in 2011) to hedge the risk of fluctuation of variable interest rates, one cross currency swap and two forward starting 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 2011 and 2010, 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 financial assets and liabilities are estimated discounting 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 2011 would result in a decrease of profit before tax of around 2,015 thousand Euros (1,4752 thousand Euros in 2010) and a decrease in equity (excluding results) of around 125 thousand Euros (increase of around 5,211 thousand Euros in 2010).

**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 2011 would have a negative impact on equity of 7.9 million Euros (8.3 million Euros in 2010).

**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.

**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 the statement of financial position, 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 investment in regulated assets; ii) the remuneration rates of regulated assets as determined in the tariff regulations in force, the dividend policy and the liquidity position.

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 as presented in the consolidated statement of financial position), adjusted by the amounts of cash and cash equivalents and exchange hedge derivatives. Total capital is calculated as equity (as presented in the consolidated statement of financial position) plus net debt.

**5. MAIN ESTIMATES AND JUDGEMENTS**

The estimates and assumptions with impact on REN's consolidated 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:

**6. SIGNIFICANT ACCOUNTING ESTIMATES****5.1. PROVISIONS**

The REN Group periodically analyses the existence of possible liabilities resulting from past events that should be recognized or disclosed.

The subjectivity inherent to the determination of the probability and amount of the resources necessary to settle these liabilities 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 ESTIMATES**

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 depreciation to be recognized in the consolidated statement of profit and loss for each year.

These two parameters are defined in accordance with Management's best judgement for the assets and business.

**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 for 2010 and income for the nine month period ended 30 September 2011, as from when it left the consolidation perimeter) are also presented separately although they do not qualify for disclosure.



The results by segment for the year ended 31 December 2011 were as follows:

|   | ELECTRICITY    | CAS            | TELECOM.     | ELECTRICITY<br>MARKET<br>OPERATOR | OTHERS       | TOTAL          |
|---|----------------|----------------|--------------|-----------------------------------|--------------|----------------|
| <b>Revenue from construction of concession assets</b> | <b>267.888</b> | <b>81.380</b>  | <b>–</b>     | <b>–</b>                          | <b>–</b>     | <b>349.269</b> |
| Total sales and services rendered                     | 350.519        | 199.747        | 5.629        | 1.991                             | 32.794       | 590.680        |
| Inter-segment sales and services rendered             | (1.060)        | (26.491)       | (726)        | (84)                              | (31.498)     | (59.859)       |
| <b>Sales and services rendered</b>                    | <b>349.459</b> | <b>173.256</b> | <b>4.903</b> | <b>1.907</b>                      | <b>1.296</b> | <b>530.821</b> |
| Operating profit by segment                           | 200.082        | 110.748        | 3.702        | (51)                              | (31.292)     | 283.189        |
| Financial costs                                       | (65.392)       | (20.175)       | (1)          | (5)                               | (26.369)     | (111.942)      |
| Financial income                                      | 85             | 423            | –            | 260                               | 7.823        | 8.591          |
| <b>Profit before income tax</b>                       |                |                |              |                                   |              | <b>179.838</b> |
| Income tax expense                                    |                |                |              |                                   |              | (59.250)       |
| <b>Net profit for the period</b>                      |                |                |              |                                   |              | <b>120.588</b> |
| <b>Other expenses:</b>                                |                |                |              |                                   |              |                |
| Depreciation and amortization                         | (128.558)      | (52.842)       | (17)         | (168)                             | (180)        | (181.765)      |
| Provisions  | 91             | (45)           | –            | –                                 | (15.280)     | (15.234)       |

Results by segment for the year ended 31 December 2010 were as follows:

|   | ELECTRICITY    | CAS            | TELECOM.     | ELECTRICITY<br>MARKET<br>OPERATOR | OTHERS       | TOTAL          |
|---|----------------|----------------|--------------|-----------------------------------|--------------|----------------|
| <b>Revenue from construction of concession assets</b> | <b>293.859</b> | <b>126.625</b> | <b>–</b>     | <b>–</b>                          | <b>–</b>     | <b>420.483</b> |
| Total sales and services rendered                     | 606.629        | 177.416        | 6.562        | 3.635                             | 33.939       | 828.181        |
| Inter-segment sales and services rendered             | (286.642)      | (33)           | (700)        | (1.123)                           | (28.918)     | (317.416)      |
| <b>Sales and services rendered</b>                    | <b>319.987</b> | <b>177.383</b> | <b>5.862</b> | <b>2.512</b>                      | <b>5.021</b> | <b>510.765</b> |
| Operating profit by 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>Net profit for the period</b>                      |                |                |              |                                   |              | <b>110.266</b> |
| <b>Other expenses:</b>                                |                |                |              |                                   |              |                |
| Depreciation and amortization                         | (122.299)      | (49.991)       | (13)         | (212)                             | (118)        | (172.633)      |
| Provisions  | (304)          | –              | –            | –                                 | (12.470)     | (12.774)       |

Inter-segment transactions are carried out under normal market conditions, equivalent to transactions with third parties.

Assets and liabilities by segment at 31 December 2011 as well as capital expenditure for the year then ended were as follows:

|   | ELECTRICITY      | CAS              | TELECOM      | OTHERS           | TOTAL            |
|---|------------------|------------------|--------------|------------------|------------------|
| <b>Total assets</b>                     | <b>2.902.833</b> | <b>1.360.064</b> | <b>2.743</b> | <b>208.034</b>   | <b>4.473.675</b> |
| <b>Liabilities</b>                      | <b>795.022</b>   | <b>310.691</b>   | <b>509</b>   | <b>2.330.014</b> | <b>3.436.236</b> |
| Capital expenditure - tangible assets   | 1                | –                | 37           | 105              | 143              |
| Capital expenditure - intangible assets | 267.888          | 81.380           | –            | –                | 349.269          |
| <b>Capital expenditure - total</b>      | <b>267.889</b>   | <b>81.380</b>    | <b>–</b>     | <b>105</b>       | <b>349.412</b>   |

Assets and liabilities by segment at 31 December 2010 as well as capital

expenditure for the year then ended were as follows:

|   | ELECTRICITY      | CAS              | TELECOM      | ELECTRICITY<br>MARKET<br>OPERATOR | OTHERS           | TOTAL            |
|---|------------------|------------------|--------------|-----------------------------------|------------------|------------------|
| <b>Total 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.

**7. TANGIBLE AND INTANGIBLE FIXED ASSETS**

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 – 2011**

|   | JANUARY 2011 |                          |                |            | CHANGES                  |           |
|---|--------------|--------------------------|----------------|------------|--------------------------|-----------|
|   | COST         | ACCUMULATED DEPRECIATION | NET BOOK VALUE | ADDITIONS  | DISPOSALS AND WRITE-OFFS | TRANSFERS |
| <b>Tangible Assets</b>  |              |                          |                |            |                          |           |
| Transmission and electronic equipment                                     | 103          | (58)                     | 45             | –          | –                        | –         |
| Transport equipment   | 677          | (261)                    | 416            | 132        | (95)                     | 72        |
| Office equipment  | 3.534        | (2.924)                  | 610            | 12         | –                        | (72)      |
| Fixed assets in progress  | 130          | –                        | 130            | –          | –                        | –         |
| OMIP depreciation charge until the exclusion from consolidation perimeter | –            | –                        | –              | –          | –                        | –         |
|   | <b>4.443</b> | <b>(3.243)</b>           | <b>1.200</b>   | <b>143</b> | <b>(95)</b>              | <b>–</b>  |

|   | JANUARY 2011     |                          |                  |                | CHANGES                  |           |
|---|------------------|--------------------------|------------------|----------------|--------------------------|-----------|
|   | COST             | ACCUMULATED DEPRECIATION | NET BOOK VALUE   | ADDITIONS      | DISPOSALS AND WRITE-OFFS | TRANSFERS |
| <b>Intangible Assets</b>                    |                  |                          |                  |                |                          |           |
| Concession Assets                           | 5.821.735        | (2.440.750)              | 3.380.985        | 975            | (3.321)                  | 425.491   |
| Concession assets in progress               | 339.872          | –                        | 339.872          | 348.293        | –                        | (425.491) |
|   | <b>6.161.607</b> | <b>(2.440.750)</b>       | <b>3.720.857</b> | <b>349.269</b> | <b>(3.321)</b>           | <b>–</b>  |
| Goodwill                                    | 3.774            | –                        | 3.774            | –              | –                        | –         |
| <b>Total tangible and intangible assets</b> | <b>6.169.824</b> | <b>(2.443.993)</b>       | <b>3.725.831</b> | <b>349.412</b> | <b>(3.416)</b>           | <b>–</b>  |

| CHANGES                             |                        |   | DECEMBER 2011                       |            |                             |                      |
|-------------------------------------|------------------------|---|-------------------------------------|------------|-----------------------------|----------------------|
| OMIP<br>EXCLUSION -<br>TOTAL ASSETS | DEPRECIATION<br>CHARGE | DEPRECIATION -<br>DISPOSALS AND<br>WRITE-OFFS | OMIP<br>ACCUMULATED<br>DEPRECIATION | COST       | ACCUMULATED<br>DEPRECIATION | NET<br>BOOK<br>VALUE |
| –                                   | (13)                   | –   | –                                   | 103        | (71)                        | 32                   |
| (108)                               | (168)                  | 71  | 17                                  | 678        | (341)                       | 336                  |
| (3,287)                             | (29)                   | –   | 2,886                               | 187        | (68)                        | 119                  |
| (129)                               | –                      | –   | –                                   | –          | –                           | –                    |
| –                                   | (168)                  | –   | –                                   | –          | –                           | –                    |
| <b>(3,524)</b>                      | <b>(379)</b>           | <b>71</b>                                     | <b>2,902</b>                        | <b>967</b> | <b>(480)</b>                | <b>488</b>           |

| CHANGES                             |                        |   | DECEMBER 2011                       |                  |                             |                      |
|-------------------------------------|------------------------|---|-------------------------------------|------------------|-----------------------------|----------------------|
| OMIP<br>EXCLUSION -<br>TOTAL ASSETS | DEPRECIATION<br>CHARGE | DEPRECIATION -<br>DISPOSALS AND<br>WRITE-OFFS | OMIP<br>ACCUMULATED<br>DEPRECIATION | COST             | ACCUMULATED<br>DEPRECIATION | NET<br>BOOK<br>VALUE |
| –                                   | (181.387)              | 2.744   | –                                   | 6.244.879        | (2.619.393)                 | 3.625.486            |
| –                                   | –                      | –   | –                                   | 262.675          | –                           | 262.675              |
| –                                   | (181.387)              | 2.744   | –                                   | 6.507.554        | -2.619.393                  | 3.888.161            |
| –                                   | –                      | –   | –                                   | 3.774            | –                           | 3.774                |
| <b>(3,524)</b>                      | <b>(181.765)</b>       | <b>2.815</b>                                  | <b>2.902</b>                        | <b>6.512.296</b> | <b>(2.619.873)</b>          | <b>3.892.423</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

|                                       | JANUARY 2010 |                          |                | CHANGES    |                          |           |
|---------------------------------------|--------------|--------------------------|----------------|------------|--------------------------|-----------|
|                                       | COST         | ACCUMULATED DEPRECIATION | NET BOOK VALUE | ADDITIONS  | DISPOSALS AND WRITE-OFFS | TRANSFERS |
| <b>Tangible Assets</b>                |              |                          |                |            |                          |           |
| Transmission and electronic equipment | 103          | (45)                     | 58             | –          | –                        | –         |
| Transport equipment                   | 500          | (218)                    | 282            | 280        | (103)                    |           |
| Office equipment                      | 3.111        | (2.725)                  | 386            | 218        | (36)                     | 241       |
| Fixed assets in progress              | 159          | –                        | 159            | 212        | –                        | (241)     |
|                                       | <b>3.873</b> | <b>(2.988)</b>           | <b>885</b>     | <b>710</b> | <b>(139)</b>             | <b>–</b>  |

|   | JANUARY 2010     |                          |                  | CHANGES            |                          |           |
|---|------------------|--------------------------|------------------|--------------------|--------------------------|-----------|
|   | COST             | ACCUMULATED AMORTIZATION | NET BOOK VALUE   | ADDITIONS (NOTE 6) | DISPOSALS AND WRITE-OFFS | TRANSFERS |
| <b>Intangible Assets</b>                    |                  |                          |                  |                    |                          |           |
| Concession Assets                           | 5.414.778        | (2.272.589)              | 3.142.189        | 30.188             | (4.304)                  | 381.073   |
| Concession assets in progress               | 308.803          | –                        | 308.803          | 412.142            | –                        | (381.073) |
|   | <b>5.723.581</b> | <b>(2.272.589)</b>       | <b>3.450.992</b> | <b>442.330</b>     | <b>(4.304)</b>           | <b>–</b>  |
| Goodwill                                    | 3.774            | –                        | 3.774            | –                  | –                        | –         |
| <b>Total tangible and intangible assets</b> | <b>5.731.228</b> | <b>(2.275.577)</b>       | <b>3.455.651</b> | <b>443.041</b>     | <b>(4.443)</b>           | <b>–</b>  |

| DEPRECIATION<br>CHANG | CHANGES                                     | DECEMBER 2010 |                             |                   |
|-----------------------|---|---------------|-----------------------------|-------------------|
|                       | DEPRECIATION<br>DISPOSALS AND<br>WRITE-OFFS | COST          | ACCUMULATED<br>DEPRECIATION | NET BOOK<br>VALUE |
| (13)                  | –   | 103           | (58)                        | 45                |
| (143)                 | 100   | 677           | (261)                       | 416               |
| (200)                 | 1   | 3.534         | (2.924)                     | 611               |
| –                     | –   | 130           | –                           | 130               |
| <b>(355)</b>          | <b>101</b>                                  | <b>4.444</b>  | <b>(3.243)</b>              | <b>1.201</b>      |

| DEPRECIATION<br>CHANG | CHANGES                                     | DECEMBER 2010    |                             |                   |
|-----------------------|---|------------------|-----------------------------|-------------------|
|                       | DEPRECIATION<br>DISPOSALS AND<br>WRITE-OFFS | COST             | ACCUMULATED<br>AMORTIZATION | NET BOOK<br>VALUE |
| (172.278)             | 4.117                                       | 5.821.735        | (2.440.750)                 | 3.380.985         |
| –                     | –   | 339.872          | –                           | 339.872           |
| <b>(172.278)</b>      | <b>4.117</b>                                | <b>6.161.608</b> | <b>(2.440.750)</b>          | <b>3.720.858</b>  |
| –                     | –   | 3.774            | –                           | 3.774             |
| <b>(172.633)</b>      | <b>4.218</b>                                | <b>6.169.825</b> | <b>(2.443.993)</b>          | <b>3.725.833</b>  |

The additions in the year ended 31 December 2011 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 tank of the Sines Terminal, which is expected to be completed in 2012.

The increase in other intangible assets, which corresponds to income from the construction of conceded assets comparing to the year ended 31 December 2010 to the year ended 31 December 2011,

corresponds essentially realization of the Group's investment plan in conceded assets.

Financial costs capitalized in fixed assets in progress in 2011 amounted to 18,820 thousand Euros (12,821 thousand Euros in 2010), while overhead and management costs amounted to 13,554 thousand Euros (13,113 thousand Euros in 2010).

The net book value of the assets acquired through finance lease contracts at 31 December 2011 was as follows:

|   | 11      | 10      |
|---|---------|---------|
| Cost                                      | 6.590   | 5.846   |
| Accumulated depreciation and amortization | (4.720) | (2.616) |
| Net book value                            | 1.870   | 3.230   |

#### GOODWILL

Goodwill represents the difference between the amount paid for the acquisition and equity of REN Atlântico, S.A. as of the date of acquisition under the natural gas business unbundling process.

#### IMPAIRMENT TEST OF GOODWILL

REN made an impairment test of goodwill at 31 December 2011 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 4.99%, 5.68% in 2010).

The recoverable amount calculated was 95,317 thousand Euros (59,505 thousand Euros at 31 December 2010), which enables the net amount of the fixed asset plus goodwill of 3 774 thousand Euros to be recovered.

#### 8. INVESTMENT IN ASSOCIATES AND CHANGES IN CONSOLIDATION PERIMETER

Under the process to create the Sole Operator of the Iberian Electricity Market (OMI) and in conformity with the what was established in the Agreement between the Republic of Portugal and the Kingdom of Spain regarding the foundation of an electric energy Iberian market, in October and December 2011 REN sold, for 9,153 thousand Euros, 55% of the capital of OMIP, Operador do Mercado Ibérico (Portugal), SGPS, S.A. through the transmission of lots of shares representing 5% of the capital of the company, becoming holder of 35% of the capital of the company, totalling 8,717 thousand Euros at 31 December 2011. Supplementary capital contributions of 4,545 thousand Euros were also sold in the transaction.



As a result of this transaction the Group lost control of the subsidiary. The consolidated statement of profit and loss includes income and expenses of the entity computed on a full consolidation basis up to the date of loss of control.

#### CHANGES OF THE CONSOLIDATION PERIMETER

The effect on the consolidation of the exclusion of the participation of OMIP was as follows:

|                                 | 01.01.2011 | 30.09.2011 |
|---------------------------------|------------|------------|
| Assets (Note 14)                | 80.358     | 106.363    |
| Liabilities (Note 14)           | 75.472     | 101.193    |
| Equity-Non-controlling interest | 505        | 517        |
| Net profit for the year         | (933)      | 157        |
| Income-Non-controlling interest | 1          | 12         |

The most significant change corresponds to the effect of the exclusion from Assets and Liabilities of guarantee deposits of 100,053 thousand Euros in September 2011 and 74,234 thousand Euros in December 2010 (Note 14).

The effect of the sale of the participation in OMIP SGPS, which after the loss of control started being recorded at fair value, resulted recognition of the 35% fair value participation in the amount of 8,717 thousand Euros. The result obtained from

the sale of 55% of the participation for 13,698 thousand Euros and the recording of the fair value of the 35% participation for 8,717 thousand Euros resulted in a gain, reflected in the Group's consolidated statement of profit and loss, of 10,326 thousand Euros.

#### 9. DEFERRED TAX ASSETS AND LIABILITIES

The effect of the changes in the deferred tax captions in the years presented was as follows:

|  | 11           | 10             |
|--|--------------|----------------|
| <b>Impact on the statement of profit and loss (Note 29):</b> |              |                |
| Deferred tax assets  | 835          | 22.516         |
| Deferred tax liabilities                                     | 4.055        | 13.669         |
|  | <b>4.890</b> | <b>3.6184</b>  |
| <b>Impact on equity:</b>                                     |              |                |
| Deferred tax assets  | 1.701        | (279)          |
| Deferred tax liabilities                                     | 462          | (3.634)        |
|  | <b>2.163</b> | <b>(3.913)</b> |
| <b>Net impact of deferred tax</b>                            | <b>7.053</b> | <b>32.271</b>  |

The changes in deferred tax by nature was as follows:

### CHANGE IN DEFERRED TAX ASSETS – DECEMBER 2011

|   | PROVISIONS   | LOSS<br>CARRIED<br>FORWARD | PENSIONS      | DERIVATIVE<br>FINANCIAL<br>INSTRUMENTS | TARIFF<br>DEVIATIONS | OTHERS     | TOTAL         |
|---|--------------|----------------------------|---------------|--|----------------------|------------|---------------|
| <b>At 1 January 2011</b>                          | <b>1.337</b> | <b>1.244</b>               | <b>19.149</b> | <b>1.525</b>                           | <b>36.602</b>        | <b>945</b> | <b>60.802</b> |
| Increase/decrease through equity                  | –            |                            | (1.665)       | 3.362                                  | –                    | 3          | 1.701         |
| Increase through profit and loss                  | 1.059        |                            | 359           | –                                      | 8.369                | 2          | 9.789         |
| Reversal through profit and loss                  | (8)          | (1.051)                    | (1.862)       | (504)                                  | (5.470)              | (58)       | (8.954)       |
| Exclusion of OMIP from the consolidation (Note 8) | –            | (192)                      |               |  | (88)                 | –          | (281)         |
| Change in the year                                | 1.051        | (1.244)                    | (3.167)       | 2.858                                  | 2.810                | (53)       | 2.255         |
| <b>At 31 December 2011</b>                        | <b>2.388</b> | <b>–</b>                   | <b>15.982</b> | <b>4.383</b>                           | <b>39.412</b>        | <b>892</b> | <b>63.057</b> |

### CHANGE IN DEFERRED TAX ASSETS – DECEMBER 2010

|  | PROVISIONS   | TAX<br>LOSSES | PENSIONS      | DERIVATIVE<br>FINANCIAL<br>INSTRUMENTS | AVAILABLE-FOR-<br>SALE FINANCIAL<br>ASSETS | TARIFF<br>DEVIATIONS | OTHERS       | TOTAL         |
|--|--------------|---------------|---------------|--|--|----------------------|--------------|---------------|
| <b>Year ended 31 December</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> |
| Increase/decrease through equity             | –            | –             | 1.291         | 928                                    | (496)                                      | –                    | (2.002)      | (279)         |
| Increase through profit and loss             | 196          | 193           | –             | 597                                    | –  | 22.359               | 83           | 23.428        |
| Reversal through profit and loss             | (261)        | –             | (651)         | –                                      | –  | –                    | –            | (912)         |
| Change in the year                           | (65)         | 193           | 640           | 1.525                                  | (496)                                      | 22.359               | (1.919)      | 22.237        |
| 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 2011 correspond mostly to liabilities for benefit plans granted to employees

and tariff deviations to be given to subsequent year tariffs.

## EVOLUTION OF DEFERRED TAX LIABILITIES – DECEMBER 2011

|  | TARIFF<br>DEVIATIONS | REVALUATION    | DERIVATIVE<br>FINANCIAL<br>INSTRUMENTS | TOTAL          |
|--|----------------------|----------------|--|----------------|
| <b>At 1 January 2011</b>                                 | <b>36.089</b>        | <b>34.359</b>  | <b>1.103</b>                           | <b>71.551</b>  |
| Year ended 31 December 2011                              |                      |                | (462)                                  | (462)          |
| Increase/decrease through equity                         | 20.844               | 276            | –                                      | 21.120         |
| Increase through profit and loss                         | (22.430)             | (2.104)        | (642)                                  | (25.176)       |
| Reversal through profit and loss                         | (158)                | –              | –                                      | (158)          |
| <b>Exclusion of OMIP from the consolidation (Note 8)</b> | <b>(1.745)</b>       | <b>(1.828)</b> | <b>(1.103)</b>                         | <b>(4.676)</b> |
| <b>Changes in the year</b>                               | <b>34.345</b>        | <b>32.531</b>  | <b>–</b>                               | <b>66.875</b>  |

## EVOLUTION OF DEFERRED TAX LIABILITIES– DECEMBER 2010

|   | TARIFF<br>DEVIATIONS | REVALUATION   | DERIVATIVE<br>FINANCIAL<br>INSTRUMENTS | TOTAL           |
|---|----------------------|---------------|--|-----------------|
| <b>At 1 January 2010</b>                | <b>47.973</b>        | <b>33.613</b> | <b>–</b>                               | <b>81.586</b>   |
| Year ended 31 December 2010             | –                    | 3.172         | 462                                    | 3.634           |
| Increase/decrease through equity        | –                    | –             | 642                                    | 642             |
| Increase through profit and loss        | (11.884)             | (2.426)       |  | (14.310)        |
| <b>Reversal through profit and loss</b> | <b>(11.884)</b>      | <b>746</b>    | <b>1.103</b>                           | <b>(10.035)</b> |
| <b>Changes in the year</b>              | <b>36.089</b>        | <b>34.359</b> | <b>1.103</b>                           | <b>71.551</b>   |
| <b>At 31 December 2010</b>              |                      |               |  |                 |

Deferred tax liabilities relating to revaluations result from revaluations made in preceding years under legislation. The effect of these deferred taxes reflects the non tax deductibility of 40% of future depreciation of the revaluations.

The calculation of tax for the period was updated in accordance with Law 64-B/2011 of 31 December, that introduced a State surcharge corresponding to the application of an additional 3% on taxable profit from 1,500 thousand Euros to 10,000 thousand

Euros and 5% on taxable profit in excess of 10,000 thousand Euros. These rates apply to taxable profit for the two taxable periods starting on or after January 2012.

Consequently, the tax rate used to value the temporary taxable and deductible differences at 31 December 2011 was updated for the companies included in the consolidation using the average rate considering the estimated future profit of the companies recoverable in the next two years (29% in 2010).

# 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:

| 2011                                | CREDITS AND RECEIVABLES | DERIVATIVE FINANCIAL INSTRUMENTS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | OTHER FINANCIAL ASSETS/LIABILITIES | TOTAL            | TOTAL            |
|-------------------------------------|-------------------------|----------------------------------|-------------------------------------|------------------------------------|------------------|------------------|
| <b>Assets</b>                       |                         |                                  |                                     |                                    |                  |                  |
| Cash and cash equivalents           | 16                      | 69.407                           | –                                   | –                                  | –                | 69.407           |
| Guarantee deposits received         | 14                      | –                                | –                                   | –                                  | –                | –                |
| Trade and other receivables         | 12                      | 306.870                          | –                                   | –                                  | –                | 306.870          |
| Other investments                   | 15                      | –                                | –                                   | –                                  | 5.667            | 5.667            |
| Available-for-sale financial assets | 11                      | –                                | –                                   | 82.051                             | –                | 82.051           |
| Income tax receivable               | 29                      | 14.015                           | –                                   | –                                  | –                | 14.015           |
| Derivative financial instruments    |                         | –                                | 1.553                               | –                                  | –                | 1.553            |
| <b>Total financial assets</b>       |                         | <b>390.292</b>                   | <b>1.553</b>                        | <b>82.051</b>                      | <b>5.667</b>     | <b>479.564</b>   |
| <b>Liabilities</b>                  |                         |                                  |                                     |                                    |                  |                  |
| Borrowings                          | 19                      | –                                | –                                   | –                                  | 2.407.619        | 2.407.619        |
| Guarantee deposits payable          | 14                      | –                                | –                                   | –                                  | –                | –                |
| Trade and other payables            | 22                      | –                                | –                                   | –                                  | 496.093          | 496.093          |
| Income tax payable                  | 29                      | –                                | –                                   | –                                  | 520              | 520              |
| Derivative financial instruments    | 15                      | –                                | –                                   | –                                  | –                | –                |
| <b>Total financial liabilities</b>  |                         | <b>–</b>                         | <b>–</b>                            | <b>–</b>                           | <b>2.903.712</b> | <b>2.904.232</b> |

  

| 2010                                | NOTES | CREDITS AND RECEIVABLES | DERIVATIVE FINANCIAL INSTRUMENTS | AVAILABLE-FOR-SALE FINANCIAL ASSETS | OTHER 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>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                            | 539.455          |
| 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>2.938.648</b> |

The caption "Other investments" corresponds to the Company's investment in the closed fund "Luso Carbon Fund" with a maturity of 10 years.

#### 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 2011 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                 | 82.051        |               |         | 82.051        |
| Financial assets at fair value                           | Hedging derivatives    |               | 26.696        |         | 26.696        |
| Financial assets at fair value recorded in income        | Negotiable derivatives | 1.144         |               |         | 1.144         |
| <b>Liabilities</b>                                       |                        |               |               |         |               |
| Financial liabilities at fair value recorded in reserves | Hedging derivatives    |               | 14.880        |         | 14.880        |
| Financial liabilities at fair value recorded in income   | Negotiable derivatives | 1.095         |               |         | 1.095         |
|  |                        | <b>82.100</b> | <b>11.817</b> |         | <b>93.916</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:

|  | <b>11</b>      | <b>10</b>      |
|--|----------------|----------------|
| <b>Trade and other receivables</b>       |                |                |
| A-                                       | -              | 85.269         |
| BBB                                      | 91.455         | -              |
| Others without rating                    | 215.414        | 257.031        |
| <b>Total trade and other receivables</b> | <b>306.870</b> | <b>342.300</b> |
| <b>Cash and cash equivalents</b>         |                |                |
| AAA a AA-                                | 1.328          | 994            |
| A+ a A-                                  | 60             | 136.865        |
| BBB+ a BBB-                              | 30.340         | 668            |
| BB+ a B-                                 | 37.669         | -              |
| Without rating                           | 9              | 71             |
| <b>Total cash and cash equivalents</b>   | <b>69.407</b>  | <b>138.598</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 2011 are as follows:

- i) Trade and other receivables include 822 thousand Euros (Note 3.11) which have been adjusted for impairment, for which there is pending litigation in process;

- ii) There are some fairly old receivables relating to transactions with EDP group companies, for which the credit risk is considered as nil.

- iii) 2,650 thousand Euros (Note 12) to cover the amount of interest on the tariff deficit not received in April 2008.

**II. ASSETS AVAILABLE FOR SALE**

The assets recognized in this caption at 31 December 2011 and 2010 correspond to equity instruments held in strategic market entities in the Spanish electricity market, as follows:

|  | % OWNED | ENTITY     | <b>11</b>     | <b>10</b>     |
|--|---------|------------|---------------|---------------|
| OMEL - Operador del Mercado Ibérico de Energía (Polo Espanhol) | 10,00%  | OMIP, SGPS | -             | 1,033         |
| OMEL - Operador del Mercado Ibérico de Energía (Polo Espanhol) | 10,00%  | REN, SGPS  | 3,167         | -             |
| Red Electrica Corporacion,S.A. ("REE")                         | 10,00%  | REN, SGPS  | 44,760        | 47,651        |
| Enagás, S.A.   | 10,00%  | REN, SGPS  | 34,125        | 35,617        |
| <b>Total</b>   |         |            | <b>82,051</b> | <b>84,301</b> |

The changes in this caption in 2011 and 2010 were as follows:

|                                 | OMEL         | REE           | ENACAS        | TOTAL         |
|---------------------------------|--------------|---------------|---------------|---------------|
| <b>At 1 January 2010</b>        | <b>1.033</b> | <b>52.551</b> | <b>36.835</b> | <b>90.419</b> |
| Acquisitions                    | –            | –             | –             | –             |
| 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> |
| <b>At 1 January 2011</b>        | <b>1.033</b> | <b>47.651</b> | <b>35.617</b> | <b>84.301</b> |
| Exit of OMIP from consolidation | (1.033)      | –             | –             | (1.033)       |
| Acquisitions                    | 3.167        | –             | –             | 3.167         |
| Fair value adjustments          | –            | (2.891)       | (1.493)       | (4.383)       |
| <b>At 31 December 2011</b>      | <b>3.167</b> | <b>44.760</b> | <b>34.125</b> | <b>82.051</b> |

The participations of REN in Enagás are recorded at fair value determined based on stock exchange closing quotations of financial participations at 31 December 2011.

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 the 31 December 2011 listed price, which resulted in the recognition of a fair value loss of 2,891 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 at the 31 December 2011 listed price, which resulted in the recognition of a loss of 1,493 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:

Change in fair value

(4.383)

In the year ended 31 December 2011 REE and Enagás distributed dividends of 2,538 and 2,001 thousand Euros (2,001 and 1,789 thousand Euros in

2010), respectively. These amounts were recognized in the statement of profit and loss caption “Financial income”.



**12. TRADE AND OTHER RECEIVABLES**

Trade and other receivables at 31 December 2011 and 2010 are made up as follows:

|                                    | <b>11</b>      |                |                | <b>10</b>      |                |                |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                    | CURRENT        | NON<br>CURRENT | TOTAL          | CURRENT        | NON<br>CURRENT | TOTAL          |
| Trade receivables (i)              | 198.448        | 155            | 198.603        | 212.696        | 65             | 212.760        |
| Trade receivables impairment       | (822)          |                | (822)          | (844)          | -              | (844)          |
| <b>Trade receivables net</b>       | <b>197.626</b> | <b>155</b>     | <b>197.781</b> | <b>211.852</b> | <b>65</b>      | <b>211.916</b> |
| Tariff deviations                  | 31.694         | 79.924         | 111.618        | 58.066         | 66.441         | 124.507        |
| Adjustments to receivables         | (2.650)        | -              | (2.650)        | -              | -              | -              |
| State and other public entities    | 120            | -              | 120            | 5.878          | -              | 5.878          |
| <b>Trade and other receivables</b> | <b>226.791</b> | <b>80.079</b>  | <b>306.870</b> | <b>275.796</b> | <b>66.505</b>  | <b>342.301</b> |

i) The most significant amounts in trade receivables are the receivable from EDP – Distribuição de Energia, SA in the amount of 85,717 thousand Euros (79,344 thousand Euros in 2010) and Galp in the amount of 19,701 thousand Euros (11,437 thousand Euros at 31 December 2010).

An impairment of 2,650 thousand Euros on accounts receivable was recognized at 31 December 2011, corresponding to half of the interest recorded on the tariff deficit not received in April 2008.

On 18 July 2011 Decree-Law 87/2011 was published, which formalized the treatment of tariff variations of the gas segment making it equivalent to that of electricity variations in accordance with Decree-Law 237B/2006.

The ageing of trade receivables, net of impairment, is as follows:

| AGEING OF RECEIVABLES | <b>11</b>      | <b>10</b>      |
|-----------------------|----------------|----------------|
| 30 days or less       | 195.475        | 188.883        |
| 31-60 days            | 316            | 15.844         |
| 61-90 days            | 118            | 85             |
| 91-120 days           | 78             | 52             |
| More than 120 days    | 2.616          | 7.896          |
|                       | <b>198.603</b> | <b>212.760</b> |

**13. INVENTORIES**

Inventories at 31 December 2011 and 2010 are made up as follows:

|                    | <b>11</b>    | <b>10</b>    |
|--------------------|--------------|--------------|
| Goods              | 3            | 93           |
| Other materials    | 3.625        | 3.954        |
| <b>Inventories</b> | <b>3.628</b> | <b>4.047</b> |

**14. GUARANTEE DEPOSITS**

Up to 2010 guarantee deposits referred to deposits given by participants in the electricity derivatives market, monitored by the group company OMlclear, which was excluded from the consolidation perimeter in 2011.

These deposits are considered as restricted cash, that is OMlclear receives cash deposits from participants in guarantee of compliance with futures contracts, which are deposited in a separate bank account in name of the

company. However, use of these deposits is restricted and can only be used when a participant in a futures contract does not comply with the contract, OMlclear being obliged to assume that position with the other counterparty. Restricted deposits are recorded as assets as well as the liability to the participant. These deposits are repaid when the participant stops negotiating futures contracts with MIBEL.

The amounts recognized in the statement of financial position as of 31 December 2011 and 2010 are as follows:

|  | 11(a) | 10       |
|--|-------|----------|
| <b>Current assets:</b>                         |       |          |
| Deposits in guarantee of participants (Note 8) | –     | 74.234   |
| <b>Current liabilities:</b>                    |       |          |
| Amounts owing to participants (Note 8)         | –     | (74.234) |

a) Zero balances due to the exclusion of OMIP SGPS from the consolidation perimeter (shareholder of OMIP and OMlclear).

**15. DERIVATIVE FINANCIAL INSTRUMENTS**

At 31 December 2011 and 2010 the REN Group had the following derivative financial instruments contracted:

|   |                    |              |               |              |               | 31 DECEMBER 2011 |                   |
|---|--------------------|--------------|---------------|--------------|---------------|------------------|-------------------|
|   |                    |              |               |              |               | ASSETS (EUR)     | LIABILITIES (EUR) |
| DERIVATIVES DESIGNATED AS CASH FLOW HEDGES              | NOTIONAL           | CURRENT      | NON CURRENT   | CURRENT      | NON CURRENT   |                  |                   |
| Interest rate swaps                                     | 334.000.000 EUR    | –            | –             | 640          | 3.585         |                  |                   |
| Interest rate swaps                                     | 200.000.000 EUR    | –            | –             | –            | 10.654        |                  |                   |
| Interest rate and currency swaps                        | 10.000.000.000 JPY | –            | 26.696        | –            | –             |                  |                   |
|   |                    | –            | 26.696        | 640          | 14.239        |                  |                   |
| Trading derivatives                                     |                    | 1.144        | –             | 1.095        | –             |                  |                   |
| <b>Total derivatives designated as cash flow hedges</b> |                    | <b>1.144</b> | <b>26.696</b> | <b>1.735</b> | <b>14.239</b> |                  |                   |

| 31 DECEMBER 2010  |                    |              |                |                   |                |
|---|--------------------|--------------|----------------|-------------------|----------------|
| DERIVATIVES DESIGNATED AS<br>CASH FLOW HEDGES               | NOTIONAL           | ASSETS (EUR) |                | LIABILITIES (EUR) |                |
|   |                    | CURRENT      | NON<br>CURRENT | CURRENT           | NON<br>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         | –                 | –              |
|   |                    | –            | 20.699         | 2.803             | 2.875          |
| Trading derivatives   |                    | 2.212        |                | 1.572             |                |
| <b>Total derivatives designated<br/>as cash flow hedges</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 five interest rate swaps, one cross currency swap and two forward start interest rate swap contracts, that were contracted by REN SGPS to hedge the risk of fluctuation of future interest and exchange rates.

The amounts include interest receivable and payable relating to financial instruments of 2,614 thousand Euros payable net at 31 December 2011.

The features of the swaps contracted at 31 December 2011 and 2010 are as follows:

| REFERENCE<br>VALUE               | PAYMENT PERIODS  | RECEIPT/<br>PAYMENT   | MATURITY<br>DATE | FAIR<br>VALUE AT<br>31.12.2011 | FAIR<br>VALUE AT<br>31.12.2010 |
|----------------------------------|--|---|------------------|--------------------------------|--------------------------------|
| Interest rate swaps:             |  |   |                  |                                |                                |
| 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         | (197)                          | (781)                          |
| 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        | (443)                          | (2.094)                        |
| 50 000 mEuros                    | Interest payment periods: payable: 27 April and October – interest settled semesterly; receivable: 27 April and October – interest settled semesterly.                                     | REN receives Euribor 6M and pays 2.26%  | October 2014     | (1,224)                        | –                              |
| 50 000 mEuros                    | Interest payment periods: payable: 27 April and October – interest settled semesterly; receivable: 27 April and October – interest settled semesterly.                                     | REN receives Euribor 6M and pays 2.23%  | October 2014     | (1,209)                        | –                              |
| 50 000 mEuros                    | “Interest payment periods: payable: 12 Jan and Jul – interest settled semesterly; receivable: 12 Jan and Jul – interest settled semesterly.”   | REN receives Euribor 6M and pays 2.15%  | July 2014        | (1,152)                        | –                              |
| 334 000 mEuros                   |  |   |                  |                                |                                |
| 200 000 mEuro                    | Interest counting periods: payable: 16 April – Interest settled yearly; receivable: 16th of each month - interest settled monthly  | REN receives Euribor 1M and pays 1.681%   | April 2011       | –                              | (2.803)                        |
|                                  |  |   |                  | (4.225)                        | (5.678)                        |
| Forward-start swaps:             |  |   |                  |                                |                                |
| 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    | (5,211)                        | 847                            |
| 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    | (5,443)                        | 706                            |
| 200 000 mEuros                   |  |   |                  | (10.654)                       | 1.553                          |
| Cross-currency swap:             |  |   |                  |                                |                                |
| 10 000 000 000 JPY 72 899 mEuros | 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 pays 5.64% (annual) up to June 2019 and Euribor 6M + 190 b.p. from that date to maturity | June 2024        | 26.696                         | 19.146                         |
| 10 000 000 000 JPY               |  |   |                  | 26.696                         | 19.146                         |
| Total                            |  |   |                  | 11.817                         | 15.021                         |

**SWAPS:****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 334 000 thousand Euros (384 000 Euros in December 2010). 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 2011 was 4,225 thousand Euros negative (5,678 thousand Euros negative at 31 December 2010).

The Group has two interest rate forward start swaps starting in 2012 with the objective of hedging the risk of interest rate fluctuation on the Group's recurring debt. 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 2011 was 10,654 thousand Euros negative (1,553 thousand Euros positive at 31 December 2010).

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. As from 2019 the objective will be to hedge exposure to JPY and the interest rate risk, transforming the operation into a fair value hedge, changes in fair value of the debt issued resulting from the risks covered becoming recorded in profit and loss. The credit risk is not hedged.

The amounts resulting from the hedging instrument are recorded in the statement of profit and loss when the hedged transaction affects results for the year.

The fair value of the cross currency swap at 31 December 2011 was 26,696 thousand Euros positive (19,146 thousand Euros positive at 31 December 2010). The underlying (loan) exchange variation in 2011, in the amount of approximately 7,762 thousand Euros, was offset by a similar variation in 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 14,793 thousand Euros (1,607 thousand Euros at 31 December 2010).

The changes in this caption in 2011 and 2010 were as follows:

|                         | FAIR VALUE      | DEFERRED TAXES<br>IMPACT | HEDGING<br>RESERVES |
|-------------------------|-----------------|--------------------------|---------------------|
| 1 January 2010          | (7.556)         | 2.002                    | (5.554)             |
| Changes in fair value   | 5.949           | (1.537)                  | 4.412               |
| <b>31 December 2010</b> | <b>(1.607)</b>  | <b>466</b>               | <b>(1.142)</b>      |
| 1 January 2011          | (1.607)         | 466                      | (1.142)             |
| Changes in fair value   | (13.186)        | 3.824                    | (9.362)             |
| <b>31 December 2011</b> | <b>(14.793)</b> | <b>4.290</b>             | <b>(10.503)</b>     |

#### FAIR VALUE HEDGE

In February 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, and on this date the hedged instrument had 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 period 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 CO<sub>2</sub> 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 CO<sub>2</sub> licences at 31 December 2011 and 2010 was as follows:

|  | CURRENT<br>ASSETS | CURRENT<br>LIABILITIES |
|--|-------------------|------------------------|
| <b>Financial contracts in the energy market for 2012</b> | 570               | –                      |
| Financial contracts in the energy market for 2013        | 392               |                        |
| CO <sub>2</sub> licences                                 | –                 | 1.095                  |
| Carbon financial contracts for 2012                      | 182               | –                      |
| Fair value at 31 December 2011                           | 1.144             | 1.095                  |

|  | CURRENT<br>ASSETS | CURRENT<br>LIABILITIES |
|--|-------------------|------------------------|
| <b>Financial contracts in the energy market for 2011</b> | 1.941             | –                      |
| CO <sub>2</sub> licences                                 | 271               | –                      |
| Carbon financial contracts                               | –                 | 1.572                  |
| Fair value at 31 December 2010                           | 2.212             | 1.572                  |

The change in fair value of trading derivatives that were recognized in profit and loss, together with the change in fair value of the assets or liabilities attributable to the risk hedged were 592 thousand Euros negative at 31 December 2011 (640 thousand Euros positive at 31 December 2010).

#### 16. CASH AND CASH EQUIVALENTS

The caption “Cash and cash equivalents” at 31 December 2011 and 2010 was made as follows:

|               | <b>11</b>     | <b>10</b>      |
|---------------|---------------|----------------|
| Cash          | –             | 10             |
| Bank deposits | 69.407        | 138.588        |
|               | <b>69.407</b> | <b>138.598</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 statements of cash flows for the years ended 31 December 2011 and 2010 are made up as follows:

|                                  | <b>11</b>     | <b>10</b>      |
|----------------------------------|---------------|----------------|
| Cash                             | –             | 10             |
| Bank overdrafts (Note 19)        | (1.049)       | (36.727)       |
| Bank deposits                    | 69.407        | 138.588        |
| <b>Cash and cash equivalents</b> | <b>68.358</b> | <b>101.871</b> |

#### 17. CAPITAL

REN's subscribed and paid up share capital at 31 December 2011 was made up of 534,000,000 shares of 1 euro each.

|               | NUMBER OF<br>SHARES | SHARE CAPITAL  |
|---------------|---------------------|----------------|
| Share capital | 534.000.000         | 534.000        |
|               | <b>534.000.000</b>  | <b>534.000</b> |

At 31 December 2011 and 2010 REN SGPS had the following own shares:

|            | NUMBER OF<br>SHARES | PROPORTION | AMOUNT   |
|------------|---------------------|------------|----------|
| Own shares | 3.881.374           | 0,7268%    | (10.728) |

No own shares were acquired or sold in the years ended 31 December 2011 and 2010.

In accordance with the Commercial Company Code (Código das Sociedades Comerciais) REN SGPS must at all times ensure that there are sufficient Equity Reserves to cover the value of own shares, limiting the amount of reserves available for distribution.

#### 18. OTHER RESERVES

The legal reserve has not yet reached the full amount required 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 2011 and 2010 was as follows:

|                           | 11            |                  |                  | 10             |                  |                  |
|---------------------------|---------------|------------------|------------------|----------------|------------------|------------------|
|                           | CORRENT       | NON<br>CORRENTE  | TOTAL            | CORRENT        | NON<br>CORRENTE  | TOTAL            |
| Commercial Paper          | –             | 555.000          | 555.000          | 260.000        | 227.000          | 487.000          |
| Bonds                     | –             | 1.100.123        | 1.100.123        | –              | 942.039          | 942.039          |
| Bank Borrowings           | 41.173        | 698.208          | 739.381          | 40.828         | 739.381          | 780.209          |
| Bank overdrafts (Note 16) | 1.049         | –                | 1.049            | 36.727         | –                | 36.727           |
| Finance Lease             | 1.088         | 702              | 1.790            | 1.260          | 1.743            | 3.003            |
|                           | 43.310        | 2.354.032        | 2.397.342        | 338.814        | 1.910.162        | 2.248.976        |
| Accrued interest          | 14.831        | –                | 14.831           | 12.098         | 488              | 12.586           |
| Prepaid interest          | (4.554)       | –                | (4.554)          | (3.778)        | –                | (3.778)          |
|                           | <b>53.587</b> | <b>2.354.032</b> | <b>2.407.619</b> | <b>347.134</b> | <b>1.910.650</b> | <b>2.257.784</b> |

At 31 December 2011 REN had ten active commercial paper programs amounting to 1,200,000 thousand Euros, having used 555,000 thousand Euros. Extension of the terms of all the commercial paper programs resulted in classification of the full amount of the liability as non-current. At 31 December 2011 the amount of bank loans was around 739,381 thousand Euros.

In 2011 REN issued bonds totaling 150,000 thousand Euros, which mature in July and October 2014.

The REN Group's financial liabilities have the following main types of covenant: Cross default, Pari Passu, Negative Pledge, Gearing (ratio of total consolidated equity to the amount of the Group's total conceded assets). The borrowings from EIB – European Investment Bank include covenants relating to change in shareholder control and covenants relating to rating: (i) in the event of change in shareholder control, if EIB makes a negative assessment of its credit position motivated by the new shareholder Group, it can be required to



provide a guarantee acceptable to EIB;  
(ii) in the event of ratings below the levels specified, the Group can also be called to provide a guarantee acceptable to EIB.

At the end of 2011, REN also had the following credit lines negotiated and not used:

|                         | 11             | 10             |
|-------------------------|----------------|----------------|
| Variable interest rates |                |                |
| 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 periodically (if they are not rescinded in the contractually specified period for that purpose) or by agreement between the parties prior to their maturity.

#### BORROWINGS

The exposure of the Group's borrowings to changes in interest rates on the contractual re-pricing dates is as follows:

|                  | 11               | 10               |
|------------------|------------------|------------------|
| 6 months or less | 805.997          | 774.045          |
| 6 - 12 months    | 250.000          | -                |
| 1 - 5 years      | 1.134.000        | 1.253.139        |
| Over 5 years     | 177.283          | 182.063          |
|                  | <b>2.367.280</b> | <b>2.209.247</b> |

The effective interest rates on the statement of financial position dates were as follows:

|                                 | 11    | 10    |
|---------------------------------|-------|-------|
| Bank deposits                   | 3,90% | 1,31% |
| Borrowings and Commercial Paper | 4,72% | 3,99% |

The book value and fair value of the borrowings were as follows:

|                  | BOOK VALUE       |                  | FAIR VALUE       |                  |
|------------------|------------------|------------------|------------------|------------------|
|                  | 11               | 10               | 11               | 10               |
| Commercial Paper | 555.000          | 487.000          | 544.282          | 487.101          |
| Bank loans       | 739.381          | 780.209          | 772.085          | 778.345          |
| Bonds            | 1.100.123        | 942.039          | 1.227.784        | 1.047.257        |
| Bank overdrafts  | 1.049            | 36.727           | 1.049            | 36.727           |
|                  | <b>2.395.553</b> | <b>2.245.974</b> | <b>2.545.200</b> | <b>2.349.430</b> |

Fair value is calculated in accordance with the discounted cash flow method, using the interest rates at the statement of financial position date, in accordance with each type of borrowing.

## 20. LIABILITY FOR RETIREMENT BENEFITS AND OTHERS

As explained in Note 3.17 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). The gas sector companies also grant their employees life assurance plans.

There were no changes in relation to 31 December 2010 in the benefits granted to the employees.

At 31 December 2011 and 2010 the Group had the following amounts recorded relating to liabilities for retirement and other benefits:

|  | 11            | 10            | 09            | 08            | 07            |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Liability on the Balance Sheet</b>              |               |               |               |               |               |
| Pension plan                                       | 25.416        | 33.966        | 40.327        | 18.103        | (7)           |
| Healthcare plan and other benefits                 | 29.586        | 31.959        | 29.438        | 27025         | 27963         |
| Life assurance plan                                | 108           | 106           | 81            | 70            | 60            |
|  | <b>55,110</b> | <b>66,031</b> | <b>69,846</b> | <b>45,198</b> | <b>28,016</b> |
| <b>Charges to the statement of profit and loss</b> |               |               |               |               |               |
| Pension plan                                       | 2.163         | 2.830         | 4.138         | 1554          | 392           |
| Healthcare plan and other benefits                 | 2.045         | 2.040         | 2.211         | 2160          | 2138          |
| Life assurance plan                                | 14            | 14            | 11            | 10            | 10            |
|  | <b>4.222</b>  | <b>4.884</b>  | <b>6.360</b>  | <b>3.724</b>  | <b>2.540</b>  |

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 the commitments established in the pension plan and related retirement benefit liabilities, are as follows:

|   | <b>11</b> | <b>10</b> | <b>09</b> | <b>08</b> | <b>07</b> | <b>06</b> |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Annual discount rate  | 5,00%     | 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) | 10,00%    | 10,00%    | 10,00%    | 10,00%    | 10,00%    | 10,00%    |
| Expected percentage of serving employees eligible for early retirement ( less than 60 years of age) | -         | -         | -         | 10,00%    | -         | -         |
| In 2009   | -         | -         | 45,00%    | -         | -         | -         |
| In 2010   | -         | -         | 45,00%    | -         | -         | 0,00%     |
| In 2011   | -         | 45,00%    |           |           |           | 0,00%     |
| In subsequent years   | 5,00%     | 5,00%     | 5,00%     | -         | -         | 0,00%     |
| Annual salary growth rate   | 2,80%     | 1,30%     | 3,30%     | 3,30%     | 3,30%     | 3,30%     |
| Annual pension growth rate  | 2,00%     | 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%     | 2,00%     |
| Inflation rate  | 2,00%     | 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%     | 4,00%     |
| Management costs (per employee/year)  | 200 €     | 175 €     | 150 €     | 150 €     | 150 €     | 233 €     |
| Growth rate of the management costs   | 2,20%     | 2,20%     | 2,70%     | 2,70%     | 2,70%     | 2,70%     |
| Rate of return on assets  | 5,80%     | 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  | TV 88/90% |

In 2011 the annual discount rate used increased from 4.54% to 5% as it was considered to be more adequate considering the duration of the liabilities of the various plans and in accordance with the recommendations of IAS 39 considering the variations in the rates of bonds in 2011.

If a discount rate of 5.25% were used for the calculation of the REN Group's liability as of the date of the statement of financial

position, the liability of the pension plan would be 1,143 thousand Euros less and the liability of the healthcare plan would be 1,006 thousand Euros less.

## 20.1 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 2011 the subsidiary REN – Rede Eléctrica Nacional, S.A. made contributions totalling 2,300 thousand Euros to the REN Pension Fund.

The assets of the REN Pension Fund at 31 December 2011 and 2010 were as follows, in accordance with information provided by the managing entity:

|                            | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     |
|----------------------------|---------------|---------------|---------------|---------------|
| Bonds                      | 26.104        | 29.163        | 26.560        | 23.846        |
| Shares                     | 8.070         | 10.040        | 11.815        | 8.706         |
| Investment funds           | 5.270         | 6.100         | 2.110         | 2.271         |
| Term deposits              | –             | –             | 4.489         | 3.028         |
| Readily available deposits | 2.936         | 245           | –             | –             |
| Operations to be settled   | (42)          | (1.384)       | –             | –             |
| <b>Total</b>               | <b>42.338</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.

return of the fund's assets and the planned investment strategy.

The expected rate of return of the plan's assets for 2011 was determined based on an estimate of the expected long term

Evolution of the assets of the Pension Fund in 2011 and 2010 was as follows:

|                                | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     | <b>07</b>     |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>At 1 January</b>            | <b>44.163</b> | <b>44.974</b> | <b>37.851</b> | <b>42.570</b> | 41.707        |
| Contributions to the Fund      | 2.300         | –             | 4.538         | 2.038         | 2.118         |
| Actuarial gain / (loss)        | (4.649)       | (1.468)       | 2.003         | (7.586)       | (1.904)       |
| Benefits paid                  | (1.778)       | (1.750)       | (1.636)       | (1.595)       | (1.550)       |
| Expected return on plan assets | 2.302         | 2.407         | 2.218         | 2.424         | 2.199         |
| <b>At 31 December</b>          | <b>42.338</b> | <b>44.163</b> | <b>44.974</b> | <b>37.851</b> | <b>42.570</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.

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 liability and corresponding annual costs are determined by annual actuarial calculations, using the projected unit credit

The amount of the liability recognized in the consolidated statement of financial position was determined as follows:

|                                | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     | <b>07</b>  |
|--------------------------------|---------------|---------------|---------------|---------------|------------|
| Present value of the liability | 67.754        | 78.129        | 85.300        | 55.954        | 42.563     |
| Fair value of plan assets      | (42.338)      | (44.163)      | (44.973)      | (37.851)      | (42.570)   |
|                                | <b>25.416</b> | <b>33.966</b> | <b>40.327</b> | <b>18,103</b> | <b>(7)</b> |

The changes in the present value of the underlying liability of the pension plan were as follows:

#### RECONCILIATION OF THE PENSION PLAN LIABILITY

|                        | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     | <b>07</b>     |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>At 1 January</b>    | <b>78.130</b> | <b>85.301</b> | <b>55.954</b> | <b>42.563</b> | 46.917        |
| Current Service costs  | 1.104         | 1.062         | 1.412         | 587           | 585           |
| Interest costs         | 3.361         | 4.175         | 4.944         | 3.391         | 2006          |
| Benefits paid          | (7.723)       | (7.522)       | (4.938)       | (4.794)       | (4.636)       |
| Actuarial(gains)/loses | (7,118)       | (4.886)       | 27.928        | 14.207        | (2.309)       |
| <b>At 31 December</b>  | <b>67.754</b> | <b>78.130</b> | <b>85.301</b> | <b>55.954</b> | <b>42.563</b> |

The amount of 27,928 thousand Euros recorded as actuarial (gain)/loss in 2009 results from the change in REN's actuarial assumptions, regarding the entry of employees into pre-retirement between the ages of 55 and 60. In compliance with the Group's accounting policy for 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>11</b>    | <b>10</b>    | <b>09</b>    | <b>08</b>    | <b>07</b>  |
|--|--------------|--------------|--------------|--------------|------------|
| Current service costs                    | 1.104        | 1.062        | 1.412        | 587          | 585        |
| Interest costs                           | 3.361        | 4.175        | 4.944        | 3.391        | 2006       |
| Expected return on assets                | (2.302)      | (2.407)      | (2.218)      | (2.424)      | (2.199)    |
| <b>Total included in personnel costs</b> | <b>2.163</b> | <b>2.830</b> | <b>4.138</b> | <b>1.554</b> | <b>392</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 were as follows:

|   | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     | <b>07</b>     |
|---|---------------|---------------|---------------|---------------|---------------|
| Present value of the obligation                         | 29.586        | 31.959        | 29.438        | 27.025        | 27.963        |
| <b>Liability in the statement of financial position</b> | <b>29.586</b> | <b>31.959</b> | <b>29.438</b> | <b>27.025</b> | <b>27.963</b> |

The changes in the amount of the obligation for healthcare and other benefits were as follows:

#### RECONCILIATION OF THE LIABILITY FOR HEALTHCARE AND OTHER BENEFITS

|                       | <b>11</b>     | <b>10</b>     | <b>09</b>     | <b>08</b>     | <b>07</b>     |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| <b>At 1 January</b>   | <b>31.960</b> | <b>29.438</b> | <b>27.025</b> | <b>27.963</b> | <b>32.128</b> |
| Current service costs | 491           | 422           | 433           | 528           | 637           |
| Interest costs        | 1.423         | 1.489         | 1.662         | 1.523         | 1.420         |
| Benefits paid         | (1.159)       | (1.091)       | (950)         | (1.270)       | (859)         |
| Actarial (gain)/loss  | (3.261)       | 1.572         | 1.152         | (1.829)       | (5.443)       |
| Other benefits        | 131           | 129           | 116           | 109           | 82            |
| <b>At 31 December</b> | <b>29.586</b> | <b>31.960</b> | <b>29.438</b> | <b>27.025</b> | <b>27.965</b> |

The effects of the plan on the consolidated statements of profit and loss were as follows:

|  | <b>11</b>    | <b>10</b>    | <b>09</b>    | <b>08</b>    | <b>07</b>    |
|--|--------------|--------------|--------------|--------------|--------------|
| Current service costs                    | 491          | 422          | 433          | 528          | 637          |
| Interest costs                           | 1.423        | 1.489        | 1.662        | 1.523        | 1.420        |
| Other benefits                           | 131          | 129          | 116          | 109          | 82           |
| <b>Total included in personnel costs</b> | <b>2.045</b> | <b>2.040</b> | <b>2.211</b> | <b>2.160</b> | <b>2.139</b> |

#### 20.3-LIFE ASSURANCE

The amount of the liability recognized on the consolidated statement of financial position was determined as follows::

|                          | <b>11</b>  | <b>10</b>  | <b>09</b> | <b>08</b> | <b>07</b> |
|--------------------------|------------|------------|-----------|-----------|-----------|
| Provision                | 108        | 94         | 81        | 70        | 60        |
| <b>Total liabilities</b> | <b>108</b> | <b>106</b> | <b>81</b> | <b>70</b> | <b>60</b> |

The impact of the life assurance plan on the consolidated statement of profit and loss was as follows:

|   | <b>11</b> | <b>10</b> | <b>09</b> | <b>08</b> | <b>07</b> |
|---|-----------|-----------|-----------|-----------|-----------|
| Increase in the provision for the liability | 14        | 13        | 11        | 10        | 10        |
| <b>Total included in personnel costs</b>    | <b>14</b> | <b>13</b> | <b>11</b> | <b>10</b> | <b>10</b> |

## 21. PROVISIONS

The changes in provisions in the years ended 31 December 2011 and 2010 were as follows:

|                          | 11            | 10            |
|--------------------------|---------------|---------------|
| <b>Beginning balance</b> | <b>17.081</b> | <b>5.288</b>  |
| Increases                | 15.324        | 12.774        |
| Utilization              | (91)          | (981)         |
|                          | —             | —             |
| <b>Ending balance</b>    | <b>32.314</b> | <b>17.081</b> |
| Current provision        | 27.794        | 12.470        |
| Non-current provision    | 4.520         | 4.611         |
|                          | <b>32.314</b> | <b>17.081</b> |

The caption “Provisions” at 31 December 2011 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 (4,520 thousand Euros); (ii) estimate of the amount 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. On 17 November 2011 REN was notified of the decision of Cour d’Appel de Paris, denying the request to annul the CCI Agreement. At 31 December 2011, based on a legal analysis of the arbitration decision and related addenda, the Company decided to increase the provision of 15,280 thousand Euros to 27,749 thousand Euros, corresponding to the full amount of the process plus interest up to that date, to cover the risk under the process. In January 2012 the Company paid the full amount of 27,749 thousand Euros (Notes 38 and 39).

**22. TRADE AND OTHER PAYABLES**

The caption "Trade and other payables" at 31 December 2011 and 2010 was made up as follows:

|  | <b>11</b>      |                |                | <b>10</b>      |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
|  | CURRENT        | NON<br>CURRENT | TOTAL          | CURRENT        | NON<br>CURRENT | TOTAL          |
| <b>Trade payables</b>                      |                |                |                |                |                |                |
| Current suppliers                          | <b>174.525</b> | –              | <b>174.525</b> | <b>184.478</b> | –              | <b>184.478</b> |
| <b>Other creditors</b>                     |                |                |                |                |                |                |
| Sundry creditors                           | 44.513         | 13.689         | 58.203         | 70.494         | 9.704          | 80.198         |
| Tariff deviations                          | 102.312        | 26.842         | 129.154        | 8.435          | 120.618        | 129.053        |
| Suppliers of fixed assets                  | 117.111        | –              | 117.111        | 133.892        | –              | 133.892        |
| <b>State and other public entities (1)</b> | 12.355         | –              | 12.355         | 7.060          | –              | 7.060          |
| <b>Deferred income</b>                     |                |                |                |                |                |                |
| Grants related to assets                   | 20766          | 340.964        | 361.730        | 23.673         | 321.617        | 345.291        |
| Other deferred income                      |                |                | –              | –              | –              | –              |
| <b>Accrued costs</b>                       |                |                |                |                |                |                |
| Holidays and holidays subsidies            | 4.747          | –              | 4.747          | 4.774          | –              | 4.774          |
| <b>Trade and other payables</b>            | <b>476.328</b> | <b>381.495</b> | <b>857.823</b> | <b>432.806</b> | <b>451.940</b> | <b>884.746</b> |

**(i) The balance of State and other public entities corresponds to VAT, personal income tax and other taxes.**

The ageing of trade suppliers, sundry creditors and suppliers of fixed assets is as follows:

| AGEING OF RECEIVABLES | <b>11</b>      | <b>10</b>      |
|-----------------------|----------------|----------------|
| 30 days or less       | 240,015        | 224,356        |
| 31-60 days            | 85,872         | 118,210        |
| 61-90 days            | 5,314          | 1,807          |
| 91-120 days           | 1,748          | 455            |
| More than 120 days    | 16,890         | 53,740         |
|                       | <b>349,839</b> | <b>398,568</b> |



**23. SALES AND SERVICES RENDERED**

Sales and services rendered recognized in the consolidated statement of profit and loss is made up as follows: :

|   | NOTE | 11             | 10             |
|---|------|----------------|----------------|
| Goods   |      |                |                |
| Domestic market   |      | 798            | 917            |
|   |      | 798            | 917            |
| Electricity transmission and overall systems management |      | 344.663        | 312.413 a)     |
| Natural gas transmission                                |      | 124.002        | 122.678        |
| Regasification  |      | 35.395         | 40.997         |
| Underground gas storage                                 |      | 13.721         | 13.623         |
| Telecommunications network                              |      | 4.244          | 5.030          |
| Trading   |      | 4.795          | 6.399          |
| Electricity services                                    |      | 1.907          | 6.196          |
| Others  |      | 1.296          | 2.513          |
|   |      | <b>530.023</b> | <b>509.848</b> |
| <b>Total sales of goods and services</b>                |      | <b>530.821</b> | <b>510.765</b> |

a) This amount was restated in relation to the 2010 financial statements (Note 3.2).

**24. SUPPLIES AND SERVICES**

The caption supplies and services for the years ended 31 December 2011 and 2010 is made up as follows:

|   | 11            | 10            |
|---|---------------|---------------|
| Gas transport subcontracts i)           | 2.145         | 23.672        |
| Maintenance costs                       | 14.531        | 21.352        |
| Fees relating to external entities ii)  | 12.768        | 11.957        |
| Cross border interconnection costs      | 2.633         | 3.204         |
| Electric energy costs                   | 4.942         | 4.593         |
| Insurance costs                         | 2.971         | 2.829         |
| Reserve capacity costs iii)             | 1.297         | 1.763         |
| Publicity costs                         | 1.847         | 1.233         |
| Security                                | <b>2.023</b>  | <b>1.927</b>  |
| Others (less than 1,000 thousand Euros) | <b>7.766</b>  | <b>7.893</b>  |
|   |               |               |
| Supplies and services                   | <b>52.923</b> | <b>80.423</b> |

i) The decrease note in the caption “Gas transport subcontracts” is mainly related to the inclusions of the Gasodutos Campo Maior-Leiria-Braga, S.A. and Braga-Tuy, S.A. in the consolidation perimeter, resulting in the de-recognition of the debits made by these companies.

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 revision of accounts services as well as consulting services rendered by audit companies recorded as expenses in 2011, as follows:

|  | 11         | 10           |
|--|------------|--------------|
| <b>Audit and revision of accounts:</b> |            |              |
| J. Monteiro & Associados, SROC         | -          | 25           |
| Luis Borges Assunção                   | -          | 156          |
| Deloitte                               | 577        | 613          |
| Pricewaterhousecoopers                 | -          | 10           |
| <b>Consultancy:</b>                    |            |              |
| Deloitte                               | 205        | 131          |
| Pricewaterhousecoopers                 | -          | 156          |
| <b>Other services:</b>                 |            |              |
| Deloitte - Other services              | 29         | 11           |
|  | <b>811</b> | <b>1.102</b> |

iii) 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 in accordance with the regulatory model currently in force.

## 25. PERSONNEL COSTS

Personnel costs are made up as follows:

|   | 11            | 10            |
|---|---------------|---------------|
| <b>Remuneration</b>                               |               |               |
| Board of directors                                | 1.675         | 2.859         |
| Personnel   | 33.027        | 29.848        |
|   | <b>34.702</b> | <b>32.707</b> |
| <b>Social charges</b>                             |               |               |
| Post-employment and other benefits cost (Note 20) | 4.222         | 4.883         |
| Performance bonuses                               | 2             | 2.703         |
| Charges on remuneration                           | 7.227         | 7.165         |
| Social support costs                              | 1.817         | 1.149         |
| Other   | 314           | 2.616         |
|   | <b>13.582</b> | <b>18.516</b> |
| <b>Total personnel costs</b>                      | <b>48.284</b> | <b>51.223</b> |

The average number of employees of the Group in 2011 was 737 (2010: 743).

## 26. OTHER OPERATING COSTS

Other operating costs are made up as follows:

|                                       | 11            | 10            |
|---------------------------------------|---------------|---------------|
| ERSE operating costs i)               | 10.314        | 10.335        |
| Donations                             | 593           | 722           |
| Taxes                                 | 1.546         | 1.285         |
| Market operations costs OMIP/Omiclear | 263           | 557           |
| Dismantling of power lines            | 1.043         | 182           |
| Sale of investments                   | -             | 28            |
| Others                                | 1.799         | 1.169         |
|                                       | <b>15.558</b> | <b>14.278</b> |

i) The caption "ERSE operating costs" corresponds to ERSE's operating costs, to be recovered through electricity and gas tariffs.

## 27. OTHER OPERATING INCOME

The caption "Other operating income" is made up as follows:

|   | 11            | 10            |
|---|---------------|---------------|
| Amortisation of investment subsidies          | 17.464        | 23.673        |
| Interconnection income - coverage of costs i) | 2.086         | 4.968         |
| Supplementary income                          | 3.027         | 1.358         |
| Hedging ii)                                   | 391           | 5.938         |
| Others  | 3.941         | 1.869         |
|   | <b>26.909</b> | <b>37.806</b> |

i) The amount recorded as interconnection income results from the decision taken by ERSE to allocate part of the income received to cover the cost of cross border connections and systems services incurred in the year, recognized in "Supplies and services".

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.

ii) This amount corresponds to gain on financial operations in the futures energy market, coal, and CO2 emission

## 28. FINANCIAL COSTS AND INCOME

Financial costs and income are made up as follows:

|                                     | 11             | 10            |
|-------------------------------------|----------------|---------------|
| <b>Financial costs</b>              |                |               |
| Interest on bonds issued            | 57.007         | 50.584        |
| Interest on commercial paper issued | 21.176         | 7.194         |
| Other borrowing interest            | 25.632         | 23.087        |
| Loss on other investments           | 1.452          | -             |
| Swaps                               | 6.674          | 9.018         |
|                                     | <b>111.942</b> | <b>89.883</b> |
| <b>Financial income</b>             |                |               |
| Interest income                     | 3.995          | 1.554         |
| Liquidation of swaps                | -              | 640           |
|                                     | <b>3.995</b>   | <b>2.194</b>  |

**29. INCOME TAX**

Income tax for the years ended 31 December 2011 and 2010 includes current and deferred tax as follows:

| <b>INCOME TAX</b>                   | 11            | 10            |
|-------------------------------------|---------------|---------------|
| Current income tax                  | 59.782        | 90.429        |
| Correction of prior year income tax | 4.358         | 2.108         |
| Deferred income tax (Note 9)        | (4.890)       | (36.184)      |
| <b>Income tax</b>                   | <b>59.250</b> | <b>56.353</b> |

Reconciliation between tax  
calculated at the nominal tax rate

and tax recorded in the statement  
of profit and loss is as follows:

|   | <b>11</b>      | <b>10</b>       |
|---|----------------|-----------------|
| <b>Consolidated profit before income tax</b>                              | <b>179.838</b> | <b>166.619</b>  |
| <b>Permanent differences</b>  |                |                 |
| Non tax deductible costs  | 19.080         | 29.950          |
| Non taxable income  | (10.403)       | (12.675)        |
| <b>Timing differences</b>   |                |                 |
| Tariff deviations   | 12.726         | 123.625         |
| Provisions  | 5.131          | 1.609           |
| Revaluations  | 7.257          | 8.366           |
| Income loss for tax purposes  | -              | 756             |
| Fair value of financial instruments                                       | (2.359)        | (3.284)         |
| Pension, healthcare and life assurance plans                              | 474            | (640)           |
| Others  | (154)          | (121)           |
| <b>Taxable income</b>   | <b>211.590</b> | <b>314.206</b>  |
| Tax rate - 25%  | 50.547         | 77.867          |
| State surcharge - 1,5%  | 3.437          | 4.686           |
| State surcharge - 2,5%  | 5.360          | 7.461           |
| Autonomous taxation   | 439            | 416             |
| <b>Current income tax</b>   | <b>59.782</b>  | <b>90.429</b>   |
| Deferred income tax   | (4.371)        | (38.708)        |
| Effect of updating state surcharge on deferred tax assets and liabilities | (519)          | 2.524           |
| <b>Deferred income tax</b>  | <b>(4.890)</b> | <b>(36.184)</b> |
| Adjustments of prior year tax   | 4.358          | 2.108           |
| <b>Income tax</b>   | <b>59.250</b>  | <b>56.353</b>   |
| Effective tax rate  | 32.95%         | 33.82%          |

The tax rate used to determine the amount of tax in the consolidated financial statements was as follows:

#### RATES OF CURRENT TAX

|                     | <b>11</b>  | <b>10</b>  |
|---------------------|------------|------------|
| Tax rate            | 25%        | 25%        |
| Municipal surcharge | 2%         | 2%         |
| State surcharge     | 2.5%       | 2.5%       |
|                     | <b>29%</b> | <b>29%</b> |

The caption "Income tax" payable and recoverable at 31 December 2011 and 2010 is made up as follows:

|   | 11            | 10              |
|---|---------------|-----------------|
| <b>Income Tax:</b>                          |               |                 |
| <b>Corporate income tax - estimated tax</b> | (56.086)      | (94.495)        |
| Corporate income tax - payments on account  | 68.304        | 33.626          |
| Income tax withheld by third parties        | 1.798         | 943             |
| Income tax receivable / (payable)           | <b>14.015</b> | <b>(59.925)</b> |
| <b>Corporate income tax - estimated tax</b> | (3.696)       | (72)            |
| Corporate income tax - payments on account  | 3.144         | 400             |
| Income tax withheld by third parties        | <b>32</b>     | <b>32</b>       |
| <b>Income tax receivable / (payable)</b>    | <b>(520)</b>  | <b>361</b>      |

### 30. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2011 and 2010 were calculated as follows:

|   |         | 11          | 10          |
|---|---------|-------------|-------------|
| Consolidated net profit used to calculate earnings per share    | (1)     | 120.576     | 110.265     |
| Number of ordinary shares outstanding during the year (Note 16) | (2)     | 534.000.000 | 534.000.000 |
| Effect of treasury shares (Note 16) (average number of shares)  |         | 3.881.374   | 3.881.374   |
|   | (3)     | 530.118.626 | 530.118.626 |
| Basic earnings per share (euros per share)                      | (1)/(3) | 0.23        | 0.21        |

### 31. DIVIDENDS PER SHARE

Dividends paid in 2011 and 2010 amounted to 89,060 thousand Euros (0.167 Euros per share) and 88,530 thousand Euros (0.166 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 2011 and 2010, were as follows:

|                              | 11             | 10             |
|------------------------------|----------------|----------------|
| Power lines                  | 80.146         | 107.692        |
| Substations                  | 55.941         | 123.832        |
| Gas pipelines                | 1.687          | 7.223          |
| Sines gas reception terminal | 68.482         | 73.725         |
| Underground gas storage      | 12.614         | 21.881         |
|                              | <b>218.870</b> | <b>334.353</b> |

### 33. GUARANTEES GIVEN

At 31 December 2011 and 2010 the REN Group had given the following bank guarantees:

| BENEFICIARY  | PURPOSE   | BEGINNING  | 11      | 10      |
|--|---|------------|---------|---------|
| European Community   | To comply with the contractual requirements of the loan contract  | 05-12-2007 | 3       | 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     | 462     |
| Gondomar Municipal Courts  | Guarantee for 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   | 04-08-2006 | 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   | 15-02-2007 | 190     | 190     |
| MEFF   | To guarantee payments resulting from participation as purchaser in the Spanish market   | 0          | 0       | -       |
| Direcção Geral de Geologia e Energia                                     | Concession of the gas transport operations  | 25-09-2006 | 399,497 | 364,671 |
| Municipal Council of Seixal  | To guarantee processes in progress  | 02-11-2006 | 3,853   | 3,853   |
| EIB  | To guarantee loans  | 26-06-2006 | 399.497 | 364671  |
| Loures Financial Services  | To guarantee processes in progress  | 0          | -       | -       |
| Lisboa Financial Services  | To guarantee a process in progress  | 0          | -       | 1,080   |
| Tabua Municipal Court  | Expropriation of plots of land  | 07-12-2007 | 171     | 171     |
| Vila Pouca de Aguiar Municipal Court                                     | Expropriation of plots of land  | 18-04-2007 | 81      | 81      |
| OMEL - Operador del Mercado Español de Electricidad                      | To guarantee payments resulting from trading participation as purchaser in the Spanish market   | 26-06-2007 | 2000    | 2000    |
| 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     | 731.5   |
| Ministry of the Economy and Innovation                                   | To guarantee settlement of debt execution nº 7873/2006  | 30-12-2008 | 1       | 1       |
| Fortia   | Financial contract under the ISDA contract (International Swaps and Derivatives Association, Inc.)  | 19-04-2011 | 1000    | 2000    |
| 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       |
| Mogadouro Municipal Court  | To guarantee coverage of the cost of acquiring land to expand the Mogadouro substation  | 30-07-2009 | 18      | 18      |
| EP - Estradas de Portugal - Delegação Regional de Santarém               | Natural Gas Transport Network - CCC pego - connection to the Thermoelectric plant of Tejo   | 25-08-2009 | 5       | 5       |
| Tavira Municipal Court   | 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     | 200     |
| EUROSCUT NORTE - Sociedade Concessionária da SCUT do Norte Litoral, S.A. | Ensure compliance with the obligations assumed resulting from the contract relating to the installation of a gas pipeline in the conceded area of EUROSCUT NORTE. | 25-01-2010 | 250     | 250     |
| Tax Services   | Guarantee suspension of the VAT litigation process  | 23-09-2010 | -       | 688     |
| Director of DAGEF from Municipal Council of Seixal                       | To guarantee settlement of debt execution nº 3500/2010 a aps.- nº 35800/2010, 35801/2010, 35802/2010 and 35803/2010   | 21-12-2010 | 616     | 616     |

| BENEFICIARY                          | PURPOSE   | BEGINING   | 11      | 10      |
|--------------------------------------|---|------------|---------|---------|
| 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 resources | 19-10-2010 | 500     | 500     |
| Santa Maria da Feira Municipal Court | Expropriation of 35 plots of land - Louredo e Romariz, Concelho de Sta Maria da Feira to build substation   | 14-01-2011 | 590     | -       |
| Valongo Municipal Court              | To guarantee coverage of the cost of acquiring land to construct Valongo transition Post  | 15-02-2011 | 125     | -       |
| EP - Estradas de Portugal            | To guarantee compliance with the obligations assumed resulting from the contract relating to the construction of a gas pipeline in Mangualde/Celorico/Guarda- EN 330  | 25-08-2011 | 5       | -       |
| EP - Estradas de Portugal            | To guarantee compliance with the obligations assumed resulting from the contract relating to the construction of a gas pipeline in Mangualde/Celorico/Guarda- EN 221  | 25-08-2011 | 5       | -       |
| EP - Estradas de Portugal            | To guarantee compliance with the obligations assumed resulting from the contract relating to the construction of a gas pipeline in Mangualde/Celorico/Guarda- EN 234  | 25-08-2011 | 5       | -       |
| EP - Estradas de Portugal            | To guarantee compliance with the obligations assumed resulting from the contract relating to the construction of a gas pipeline in Mangualde/Celorico/Guarda- EN 232  | 25-08-2011 | 5       | -       |
| EP - Estradas de Portugal            | Related to the following work: connecting the Valongo Post - SE Ermesinde to 220kV - double-circuit underground cable (208Km EN 12 770 + 13 to + 280 km   | 02-09-2011 | 37      | -       |
|                                      |   |            | 433.668 | 401.527 |



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

The following companies were included in the consolidation perimeter as of 31 December 2011:

| NAME / HEAD OFFICE  | ACTIVITY  |
|---|---|
| <b>Electricity sector:</b><br>"REN - Rede Electrica Nacional, S.A.<br>Av. Estados Unidos da América, 55 - Lisboa"   | Operator of the very high tension national network of transmission lines                                    |
| "REN Trading, S.A.<br>Av. Estados Unidos da América, 55 - Lisboa"   | Purchase and sale, import and export of electricity and natural gas   |
| "Enondas-Energia das Ondas, S.A.<br>Mata do Urso - Guarda Norte - Carriço- Pombal"                                  | Management of the concession to operate a pilot area for the production of electric energy from ocean waves |
| <b>Telecommunications Sector:</b><br>"RENTELECOM - Comunicações S.A.<br>Av. Estados Unidos da América, 55 - Lisboa" | Telecommunications network operation  |
| <b>Other sectors:</b><br>"REN - Serviços, S.A.<br>Av. Estados Unidos da América, 55 - Lisboa"                       | Back Office and Management of participations  |
| <b>Natural Gas Sector:</b><br>"REN Atlântico , Terminal de GNL, S.A.<br>Terminal de GNL - Sines"                    | Liquefied Natural Gas Terminal maintenance and regasification operation                                     |
| <b>Owned by Ren Serviços, S.A.:</b><br>"REN Gás, S.A.<br>Av. Estados Unidos da América, 55 -12º - Lisboa"           | Management of projects and ventures in the natural gas sector   |
| <b>Owned by Ren Gas, S.A.:</b><br>"REN - Armazenagem, S.A.<br>Mata do Urso - Guarda Norte - Carriço- Pombal"        | Underground storage developement, maintenance and operation   |
| "REN - Gasodutos, S.A.<br>Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas"                                   | RNTGN operator and Natural Gas overall manager  |
| <b>Owned by REN Gasodutos, S.A:</b>   |   |
| "Gasoduto Braga Tuy, S.A.<br>Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas"                                | Gas transmission  |
| Gasoduto Campo Maior - Leiria - Braga,S.A.<br>Estrada Nacional 116, km 32,25 - Vila de Rei - Bucelas                | Gas transmission  |

| REFERENCE<br>DATE | SHARE<br>CAPITAL | EQUITY  | ASSETS    | LIABILITIES | INCOME  | PROFIT/<br>(LOSS) | % OWNED |            |
|-------------------|------------------|---------|-----------|-------------|---------|-------------------|---------|------------|
|                   |                  |         |           |             |         |                   | GROUP   | INDIVIDUAL |
| Dec. 2011         | 586,759          | 674,544 | 2,895,578 | 2,221,034   | 348,987 | 79,535            | 100%    | 100%       |
| Dec. 2011         | 50               | 3,831   | 129,986   | 126,155     | 5,415   | 3,563             | 100%    | 100%       |
| Dec. 2011         | 250              | 217     | 806       | 589,028     | -       | 0                 | 100%    | 100%       |
| Dec. 2011         | 100              | 3,262   | 5,051     | 1,788       | 5,629   | 2,407             | 100%    | 100%       |
| Dec. 2011         | 50               | 37,171  | 773,268   | 736,097     | 21,780  | 36,960            | 100%    | 100%       |
| Dec. 2011         | 13,000           | 78,082  | 365,441   | 287,359     | 35,099  | 8,127             | 100%    | 100%       |
| Dec. 2011         | 539,323          | 591,131 | 761,174   | 170,043     | -       | 51,808            | 100%    | 0%         |
| Dec. 2011         | 76,386           | 83,793  | 144,200   | 60,406      | 13,667  | 5,415             | 100%    | 0%         |
| Dec. 2011         | 404,931          | 462,305 | 938,883   | 476,578     | 127,861 | 46,246            | 100%    | 0%         |
| Dec. 2011         |                  |         |           |             |         |                   |         |            |
| Dec. 2011         | 2,680            | 4,807   | 4,891     | 85          | 440     | 265               | 100%    | 0%         |
| Dec. 2011         | 23,712           | 47,348  | 86,914    | 39,566      | 21,230  | 9,041             | 100%    | 0%         |

#### CHANGES IN THE CONSOLIDATION PERIMETER IN 2011

Inclusions in the perimeter: Foundation of REN Gás, S.A. on 29 March 2011.

Exclusions from the perimeter: Under the process to create the Sole Iberian Electricity Market Operator (Operador Único do Mercado Ibérico de Electricidade - OMI), and in conformity with an Agreement between the Portuguese Republic and the Kingdom of Spain regarding the forming

of an Iberian electric energy market, in October and December 2011 REN sold for 9,153,254 Euros, 55% of the capital of OMIP Operador do Mercado Ibérico (Portugal), SGPS, S.A. through the transmission of lots of shares representing 5% of the capital of the company, becoming holder of 35% of the capital of the company. Supplementary capital contributions of 4,545,200 Euros were also sold in the transaction.

These companies stopped being included in the Group's consolidation as from October 2011 the date the REN Group lost control of them. As from that date the Group started recording these investments in accordance with the equity method, the initial recording of the participation being made based on the sales price of the transactions that gave rise to the loss of control.

### 35. TRANSACTIONS WITH RELATED PARTIES

At 31 December 2011 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:

#### Acionistas:

Grupo EDP  
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.  
Portgás, S.A.  
EDP Gás.Com, S.A.  
EDP Gás, SGPS, S.A.  
O&M Serviços, S.A.  
Sávida, S.A.  
Labelec, S.A.  
Grupo CGD  
Caixa Geral de Depósitos, S.A.  
Caixa BI  
Outros:  
Red Eléctrica Corporación, S.A.  
Capitalpor – Participações Portuguesas, SGPS, S.A.  
Gestmin, SGPS, S.A.  
EGF – Gestão e Consultoria Financeira, S.A.  
Oliren, SGPS, S.A.  
Parpública – Participações Públicas, SGPS, S.A.

During the year the REN Group realised the following transactions with these related parties:

### 35.1 INCOME

|                                | 11               | 10               |
|--------------------------------|------------------|------------------|
| <b>Invoicing issued</b>        |                  |                  |
| Electricity - EDP              | 1.146.657        | 1.487.362        |
| Other services - EDP           | 274.342          | 20.930           |
| <b>Financial income</b>        |                  |                  |
| Interest on applications - CGD | 1.548            | -                |
| <b>Total</b>                   | <b>1.422.547</b> | <b>1.508.292</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, the income and costs of which are reversed in the consolidated statement of profit and loss.

**35.2 COSTS**

|  | <b>11</b>      | <b>10</b>      |
|--|----------------|----------------|
| <b>Invoicing received</b>                      |                |                |
| Electricity - EDP                              | 657.364        | 642.814        |
|  | <b>657.364</b> | <b>642.814</b> |
| <b>Purchase of services</b>                    |                |                |
| Sundry services - EDP                          | 9.733          | 10.139         |
| <b>Financial costs</b>                         |                |                |
| Interest on Commercial paper - CGD             | 1.480          | 2.878          |
| Borrowings fees - CGD                          | 539            | 640            |
| Derivative financial instruments               | 461            | -              |
| Other interest - CGD (leases and credit lines) | 22             | 31             |
|  | <b>12.235</b>  | <b>13.688</b>  |

The amounts shown as electricity invoicing received relate to the intermediation role of REN in the purchase and sale of electricity, the income and costs of which are reversed in the statement of profit and loss.

**35.3 BALANCES WITH RELATED PARTIES**

The balances at 31 December 2011 and 2010 resulting from transactions with related parties were as follows:

|                                     | <b>11</b>      | <b>10</b>      |
|-------------------------------------|----------------|----------------|
| <b>Trade and other receivables</b>  |                |                |
| EDP - Trade receivables             | 89.984         | 84.467         |
| EDP - Other receivables             | 1.471          | 802            |
| <b>Cash and cash equivalents</b>    |                |                |
| CGD - Treasury investments          | 26.000         | 63.100         |
| CGD - Bank deposits                 | 701            | 1.527          |
|                                     | <b>118.156</b> | <b>149.896</b> |
| <b>Trade and other payables</b>     |                |                |
| EDP - Trade payables                | 9.979          | 7.674          |
| EDP - Other payables                | 268            | 234            |
| CGD - Trade payables                | -              | 36             |
| <b>Borrowings</b>                   |                |                |
| CGD - Borrowings (Commercial paper) | 5.000          | 27.000         |
| CGD - Finance lease                 | 406            | 131            |
|                                     | <b>15.653</b>  | <b>35.075</b>  |

**35.4 MANAGEMENT REMUNERATION**

The Board of Directors of REN, SGPS was considered in accordance with IAS 24 to be the only key entity in the management of the Group.

Remuneration of the Board of Directors of REN, SGPS in the year ended 31 December 2011 amounted to 1,670 thousand Euros (2,031 thousand Euros in 2010), as shown in the following table:

|  | <b>11</b>    | <b>10</b>    |
|--|--------------|--------------|
| Remuneration and other short term benefits | 1.670        | 2.031        |
|  | <b>1.670</b> | <b>2.031</b> |

The amounts indicated refer only to fixed remuneration and meal allowance, as the Board of Directors does not receive any

other income listed in paragraph 17 of IAS 24.

**36. REVENUE AND COSTS OF CONSTRUCTION – CONCESSION ASSETS**

As of 31 December 2011 and 2010, the captions “Revenue from construction of concession assets” and “Cost of construction of concession assets” were made up as follows:

|  | <b>11</b>      | <b>10</b>      |
|--|----------------|----------------|
| Revenue from construction of concession assets |                |                |
| - acquisitions                                 | 349.269        | 420.483        |
| Cost of construction of concession assets      |                |                |
| - acquisitions                                 | 349.269        | 420.483        |
| - own work capitalised :                       |                |                |
| Other  | (13.554)       | (13.113)       |
| Financial expenses                             | (19.409)       | (12.822)       |
|  | <b>316.305</b> | <b>394.548</b> |

**37. NON-CONTROLLING INTERESTS**

The change in non-controlling interests (0 thousand Euros at 31 December 2011 compared to 6,329 thousand Euros at 31 December 2010) results from the acquisition by REN Gasodutos, S.A. of all the share capital of Gasoduto Campo Maior-Leiria-Braga and Gasoduto Braga-Tuy.

**38. OTHER MATTERS****DISAGREEMENT WITH AMORIM ENERGIA B.V.**

Following the sale by REN – Redes Energéticas Nacionais, SGPS, S.A. (REN) to Amorim Energia BV in September 2006 of the participation held by REN in the capital of Galp Energia, SGPS, SA, the parties had a disagreement as to

which party the dividends distributed by Galp Energia, SGPS, SA in July 2006 should belong and agreed to constitute an arbitration court in Lisbon to decide.

On 15 July 2007 the Arbitration Court, specially constituted for the purpose by agreement between the parties, issued a decision, with one vote against, judging the action brought about by Amorim Energia BV as invalid and recognizing definitively the right of REN to maintain the dividend.

In December 2007 REN was notified of a second arbitration process requested by Amorim Energia B.V., this time with headquarters in Paris, under the auspices of the International Chamber of Commerce ("CCI"), regarding the 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 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 an indemnity in the amount of the Dividends.

On 16 March 2010 REN was notified of the arbitration decision, with one vote against, which condemned it to pay 20,334,883.91 Euros to Amorim Energia B.V., for alleged pre-contractual and contractual responsibilities, equivalent to half of the amount requested by the latter.

On 20 July 2010 REN brought a claim against Amorim Energia B.V., in Cour d'Appel in Paris, requesting annulment of the decision of the CCI Arbitration Court as it believed that it could make its position prevail.

On September 2010 Amorim Energia B.V. brought a special process against REN to revise the foreign arbitration sentence, requesting recognition in Portugal of the arbitration decision issued on 16 March in Paris by the CCI Court, so that it could be executed in Portugal. In October 2010 REN presented its opposition to the proposal of Amorim Energia.

Subsequently, on 17 November 2011 REN was notified of the decision of Cour d'Appel in Paris, which denied the request to annul the CCI Decision.

In any case, following the opposition presented by REN, the action proposed by Amorim Energia B.V. continued pending, in September 2010, with the objective of recognition in Portugal of the CCI Decision, development of the process being awaited.

On 31 December REN, based on a legal analysis of the arbitration decision and related addendum, decided to increase the provision from 14,847,265.15 Euros to 27,749,247.61 Euros, corresponding to the full amount of the process plus interest to that date (Note 21), so as to cover the risk resulting from the process (Note 39).

#### NEW MEMBERS OF THE BOARD OF DIRECTORS

In mid March 2011 the Directors Gonalo Oliveira, Luis Atienza, Manuel Champalimaud and Filipe de Botton presented their resignation from the functions of member of the Board of Directors to the President of the Board of Directors, being substituted at the Shareholders' Annual General Meeting held on 15 April, by the following entities:

Logoplaste, Gesto e Consultoria Financeira, S.A. (currently called EGF, Gesto e Consultoria Financeira, S.A.), Gestmin, SGPS, S.A., Oliren, SGPS, S.A. and Red Elctrica Corporaci3n, S.A..

In compliance with the requirements of item 4 of article 390 of the Commercial Company Code, these entities appointed the following individuals to exercise the functions of member of the Board of Directors in their own name:

Luis Guedes da Cruz Almeida (appointed on 27/07/2011);

José Manuel Félix Morgado (appointed on 14/09/2011);

Gonçalo Xavier de Araújo (appointed on 14/09/2011);

Luis Atienza (appointed on 14/09/2011).

lots of shares of the Company, amounting together to all the shares subject to direct sale under the 2nd phase of the privatization of REN.

Oman Oil will acquire 80 100 000 shares, representing 15% do of REN's capital, for the price of 205,056,000 Euros, including a premium of 23% in relation to the market price of the shares on 1 February 2012.

State Grid will acquire 133 500 000 shares, representing 25% of REN's capital, for the price of 387,150,000 Euros, including a premium of 40% in relation to the market price of the shares on 1 February 2012.

### 39. SUBSEQUENT EVENTS

#### NEW MEMBERS OF THE BOARD OF DIRECTORS

On 2 January 2012 the Director João Nuno de Oliveira Jorge Palma presented his resignation from the position of Executive Director and Chief Financial Officer to the President of the Board of Directors, it having been decided, until the appointment of a new Chief Financial Officer, that Rui Manuel Janes Cartaxo would accumulate these functions.

#### DISAGREEMENT WITH AMORIM ENERGIA B.V.

On 26 January 2012, 27,837 thousand Euros was paid relating to the amount claimed plus interest accrued up to the date of payment (Note 38), on the Amorim Energia B.V. process.

#### 2ND PRIVATIZATION PHASE OF THE COMPANY

On 2 February 2012 the Council of Ministers, in accordance with information transmitted to Parpública, selected Oman Oil Company S.A.O.C. ("Oman Oil") and State Grid International Development Limited ("State Grid") to acquire distinct

The Presidency of the Council of Ministers published in the Official Journal of the Republic of 8 February 2012, resolution 13/2012 that selects the purchasers of the direct sale relating to the 2nd phase of REN's above mentioned privatization process.

#### CHANGES TO CONCESSION CONTRACTS

On February 21, 2012, the following additions to the concession agreements in effect between the Portuguese State and the Group companies were signed, namely: i) the concession of transport activity of electricity through the National Network of Transport of Electricity signed with REN – Rede Eléctrica Nacional, S.A.; ii) the concession of transport activity of natural gas through the National Network of Natural Gas Transportation, signed with REN Gasodutos, S.A.; iii) the concession activity of reception, storage and regasification of liquefied natural gas to the terminal in Sines, signed with REN Atlântico, terminal GNL, S.A.; iv) the concession of the activity of underground storage of natural, signed with REN Armazenagem, S.A..

These concession contracts were changed with the main purposes of: i) detailing the functions of the operators of the national networks of electricity and natural gas transportation; ii) develop arrangements for monitoring and supervising the activities of dealers by the Portuguese State and iii) specify the terms applicable to provide information by each of the dealers, adapting the respective contractual clauses to the legal provisions and regulations in force, in particular Decree-Law no. No. 77/2011 and n. No. 78/2011, both of 20 June.

#### 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 2011. In the event of discrepancies, the Portuguese language version prevails

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#### The Accountant

Maria Teresa Martins

#### The Board of Directors

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**Rui Manuel Janes Cartaxo**  
(President)

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**José Frederico Vieira Jordão**  
(Member of the Audit Committee)

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**Aníbal Durães dos Santos**  
(Executive Director)

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**Fernando António Portela Rocha de Andrade**  
(Member of the Audit Committee)

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**João Caetano Carreira Faria Conceição**  
(Executive Director)

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**Luis Guedes da Cruz Almeida**  
(Director appointed by EGF, Gestão e Consultoria Financeira, S.A. on 27/07/2011)

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**João Manuel de Castro Plácido Pires**  
(Executive Director)

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**Luis Maria Atienza Serna**  
(Director appointed by Rede Eléctrica Corporacion, S.A. on 14/09/2011)

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**José Isidoro de Oliveira Carvalho Netto**  
(Director)

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**Gonçalo Xavier de Araújo**  
(Director appointed by Oliren, SGPS, S.A. on 14/09/2011)

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**José Luís Alvim Marinho**  
(President of the Audit Committee)

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**José Manuel Félix Morgado**  
(Director appointed by Gestmin, SGPS, S.A. on 14/09/2011)

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Note – The remaining pages of this Report and Accounts were initialled by the Company Secretary, Pedro Cabral Nunes, and the Accountant, Maria Teresa Martins



## STATEMENT OF COMPLIANCE

### STATEMENT PROVIDED FOR IN ARTICLE 245, NO. 1, PARAGRAPH C) OF THE SECURITIES CODE

Pursuant to and for the purposes of Article 245., No. 1, paragraph c) of the Securities Code, each member of the Board of Directors of REN - Redes Energéticas Nacionais, SGPS, SA, identified below by their name, endorsed the statement which is transcribed herein [1]:

"I solemnly declare, pursuant to and for the purposes specified in Article 245., No. 1, paragraph c) of the Securities Code, to the best of my knowledge, and serving as and in the scope of the functions assigned to me, based on the information made available to me within the Board of Directors and / or Executive Committee, as applicable, the condensed financial statements have been prepared in accordance with the applicable accounting standards, thus providing a true and fair view of assets and liabilities, financial position and results of REN - Redes Nacionais, SGPS, SA and of the companies included in its scope of consolidation, and that the management report for the fiscal year of 2011 faithfully describes the occurrences in that period and the impact in the respective financial statements, also containing a description of the principal risks and uncertainties for the following year."

Rui Manuel Janes Cartaxo  
Aníbal Durães dos Santos  
João Caetano Carreira Faria Conceição  
João Manuel de Castro Plácido Pires  
Luís Maria Atienza Serna  
Luís Guedes da Cruz Almeida  
Gonçalo Xavier Araújo  
José Manuel Félix Morgado  
José Isidoro de Oliveira Carvalho Neto  
José Luís Alvim Marinho  
José Frederico Vieira Jordão  
Fernando António Portela Rocha de Andrade

Lisbon, 1<sup>st</sup> March 2011