



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

Audit Committee Report on the Financial Year of 2016

1. Introduction

REN - Redes Energéticas Nacionais, SGPS, S.A. (REN) has adopted an Anglo-Saxon management and supervision model which consists of a Board of Directors and an Executive Committee as corporate management bodies and an Audit Committee (hereinafter referred to as "Committee") to supervise and monitor the Company's business activity.

The Committee consists of three largely independent members (including its chairman) in compliance with the criteria set out in Article 414(5) of the Portuguese Companies Code.

The members currently on the Audit Committee, elected at the General Meeting of 17 April 2015, are:

The Chairman: Mr. Manuel Ramos de Sousa Sebastião

Member: Ms. Maria Estela Guedes Barbosa Rodrigues de Magalhães Barbot

Member: Mr. Gonçalo Miguel Marques dos Santos Gil Mata

All the members of the Committee comply with compatibility criteria for performing their respective duties as set out in Article 414-A(1) of the Portuguese Companies Code.

The main powers and competences, forms of organization and functioning of the Audit Committee are described in the respective Internal Regulations which may be consulted on REN's official Internet site at <http://www.ren.pt/>, in Portuguese and English.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

2. Audit Committee Activity during the Financial Year of 2016

The Committee met 13 times in 2016, and all three members were always present.

At the invitation of the Committee, the Head of the Internal Audit Department, the Statutory Auditor and External Auditor, the CFO, and other REN directors took part in these meetings whenever opportune. The meetings were attended by the alternative company secretary, Mr. Guilherme von Cupper, until March and after that by the Audit Committee Secretary, Ms. Ana Luísa Rosa.

When performing its duties, the Audit Committee has the means and resources necessary for the purpose. The work of Audit Committee is based on an annual activities plan which served as a guide for the implementation of the following initiatives and actions:

2.1. Supervision of REN management and observance of compliance with the law and the Articles of Association;

In 2016, the Committee monitored the functioning of the corporate governance system implemented by REN.

Work carried out by the Committee on compliance with the law and the Articles of Association, which always took into account the structure of Corporate Governance in effect at the Company, included the analysis and assessment of the conclusions of the Statutory Auditor and External Auditor, provided to the Committee throughout the year.

The Committee also monitored the evolution of legal and regulatory provisions as well as the relevant recommendations for it to perform its duties, especially those issued by the Portuguese Securities Market Commission (CMVM), more specifically by monitoring the activities described in more detail below of the Internal Audit Department (GSAO-AI), the Statutory Auditor and the External Auditor.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

In 2016, the Committee, following work of previous years, continued with actions to improve REN governance, more specifically through a number of adjustments to different internal regulations, after approval by the Company Bodies with the powers for this purpose.

As part of supervisory work on the observance of regulations in effect, the Internal Audit Department undertook an analysis of service provision contracts among REN Group companies. From the analysis carried out, it was seen that the framing of inter-company service operations is suitable.

In order to improve the capability to implement and monitor its respective duties, the Audit Committee and the Executive Committee held status meetings on initiatives underway and to define specific cooperation actions.

Furthermore, the Audit Committee received and analysed the minutes of meetings held by the Executive Committee in 2016. It also occasionally requested additional clarifications whenever it was considered appropriate.

At the request of the Remunerations Committee, the Audit Committee verified quantitative information on the Executive Committee annual assessment process.

2.2. Supervision of compliance with accounting policies and practices. Supervision of the legal review of accounts by external auditors as well as the process for the preparation and disclosure of financial information

In this regard, Audit Committee meetings were held with the Statutory Auditor and External Auditor, the CFO and the Heads of Accounts.

Supervision of compliance with accounting criteria, policies and practices and the reliability of financial information was also conducted, through an analysis of the audit



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

conclusions and assessments of procedures carried out during the financial year by the Statutory Auditor and External Auditor.

The Audit Committee audited the legal review and external audit to accounts documents for the financial year of 2016. It concluded that these processes were suitably carried out and covered the activities required by Articles 446 and 451 of the Commercial Company Code (more specifically, with regard to the correctness of accounting records and supporting documentation, accounting policies and evaluation criteria, accuracy of documents and legal certification of accounts).

2.3. Monitoring and inspection of the effectiveness of the internal control and risk management systems

The Committee, in line with its activity plan for the financial year of 2016, conducted several actions to monitor, inspect and assess the operation and suitability of the internal control, risk management and internal audit systems.

The Committee continues to consider that the REN management and supervisory bodies have placed due importance on the development and improvement of internal control and risk management systems, on strategic, operating, economic and financial aspects, as well as on compliance, human resources and asset security. Work undertaken with respect to these systems had a relevant effect on the activity of REN companies, in line with their size, business characteristics, and the complexity of the risks inherent to the activity. This work was carried out in accordance with CMVM recommendations.

The creation and implementation of internal control systems for risk management and internal audit systems are the responsibility of the Executive Committee and ultimately, the Board of Directors. The Committee monitored and inspected the integrity and efficiency of these systems during the year and in this regard, proposals were sent to the Executive Committee by the Audit Committee suggesting adjustments to the systems. Supervision of the internal control system is carried out by the Internal Audit



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

Department and in line with this principle, in 2016, the GSAD-AI conducted an analysis of the policies, processes, tasks and behaviour which make up the REN Internal Control System. The results of this analysis were reviewed by the Committee.

During the year, the Committee analysed and discussed a relevant aspect of risk management, namely the provisions relating to legal proceedings in 2016. The analysis was carried out with the assistance of the Legal Services Department.

The Committee considers that REN has implemented a series of changes to its internal control and risk management systems, involving the components provided for in CMVM Recommendations. In its risk management process, it has also been guided by the rules of the International Organization for Standardization (ISO).

Equally relevant in this regard is the activity of the Risk Management Committee, an internal structure whose mission is to support the Board of Directors in monitoring the REN Group's risks, as well as ensuring the enforcement of risk management policies common to the entire REN Group and the internal disclosure of best practices for Risk Management.

In 2016, the Audit Committee held two meetings with the Risk Management Committee, the first was in July and the second in December.

2.4. Supervising the activity of the REN Internal Audit Department;

The Committee supervised the activity of the REN Internal Audit Department, which reports functionally to the Committee.

The Internal Audit Department carried out its work in accordance with an annual plan duly approved by the Committee. In order to determine the priority of activities, the Committee considered the scope of the initiatives, their relevance and the availability of resources used in this activity.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

Work carried out by the Internal Audit Department was regularly monitored by the Committee, more specifically with regard to findings on how risks are managed in relation to company processes, systems and business units. Proposals for improvement both for internal control systems as well as risk management were followed-up. For this purpose, the Committee had access to all the reports prepared by the Internal Audit Department (GSAD - AI), which include matters relating to the submission of accounts, potential conflicts of interest and the detecting of possible irregularities.

The Committee considers that the Internal Audit Department carried out its duties with independence and competence and that when conducting internal audits, particular attention was paid to the assessment of internal control systems, compliance with established procedures, the integrity of the information produced and disclosed, the efficient use of resources, the effective monitoring of processes, compliance with laws and regulations in force and to the assessment and minimization of identified risks.

Whenever deemed suitable, the results of the work carried out by the Internal Audit Department were sent to the Executive Committee, the Board of Directors, the Statutory Auditor and the External Auditor, in line with the duties performed by each of these bodies in the management and supervision of Company business.

Also with regard to the monitoring of the effectiveness of the internal control and risk management systems, the Committee met with the Statutory Auditor, the External Auditor and the CFO, so as to ensure compliance with the internal control and risk management systems at the different Group companies.

As such, the Committee analysed the reports drawn up by the Statutory Auditor and the External Auditor and transmitted the findings which were considered relevant to the REN management bodies.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

2.5. Analysis of the activity and inspection of the independence of the Statutory Auditor and the External Auditor

During the year, the Committee performed its duty as the company's main interlocutor with the Statutory Auditor and the External Auditor. The Committee is the first recipient of the respective reports and took all steps necessary to ensure that suitable conditions existed enabling their services to be provided.

In 2016, the Committee analysed work carried out by the Statutory Auditor and the External Auditor, regularly monitoring their activity by analysing the periodic and monitoring reports on review and audit work. It also assessed recommendations for changes to procedures formulated by the Statutory Auditor and the External Auditor.

The Committee further conducted an annual assessment of work by the Statutory Auditor and the External Auditor and considered that they have provided their services in a satisfactory manner. They have also complied with applicable standards and regulations, including international standards on auditing and they performed their duties with suitable technical accuracy

The Committee is also responsible for supervising and assessing the activity and independence of REN's External Auditor, as well as for approving the respective fees for audit services and contracting of additional services.

In compliance with the independence rules established in relation to the External Auditor, during the year the Committee monitored the provision of non-audit services provided by Deloitte & Asociados, SROC, S.A in order to ensure that situations of conflicts of interest did not arise. The Audit Committee authorised the provision of these services by the External Auditor, due to fact that it involved matters in relation to which the specific knowledge of REN in terms of auditing, as well their complementarity regarding audit services, would justify such award. It was also in the company's interests, as it allowed costs to be reduced.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

In this regard, CMVM Recommendation IV.2 of the corporate governance code 2013 was complied with as the non-audit services fell below the threshold of 30% of the total value of services provided to REN by companies which are part of the External Auditor's group of companies. The Audit Committee authorized eight requests for non-audit services in 2016. Non-audit services accounted for 23.6% of total services provided by the External Auditor as compared to 8.4% in 2015 and 17.0% in 2014.

2.6. Company business with related parties

The 2016 Corporate Governance Report contains the description of the main elements of the business and operations carried out between the REN Group companies and holders of qualified shareholdings or entities with which they are in any relationship, under the terms of Article 20 of the Portuguese Securities Code.

During the year, the Committee conducted prior verification on five commercial transactions, as the criteria arose in which such intervention is required, in accordance with Internal Regulations ('Analysis and control of transactions with related parties and prevention of conflict of interests').

Following the analysis of the suitability of pre-contractual and contractual procedures adopted for all five operations and the reasonableness and suitability of the justification presented (particularly with regard to corporate interests and comparability with normal market conditions), the Audit Committee decided to issue a favourable opinion.

2.7. Whistleblowing policy

Shareholders, members of corporate bodies, employees, service providers, clients, suppliers and other stakeholders in REN or REN Group companies may communicate any irregular practices they have knowledge of or which are duly founded to the Audit Committee. This procedure is to prevent, stop or sanction irregularities which could cause adverse effects.



REN – REDES ENERGÉTICAS NACIONAIS, SGPS, S.A.

At the beginning of February, the Energy Services Regulator (ERSE) raised the issue of incompatibility of the appointment by Gestmin, SGPS, S.A. (Gestmin) of members of REN management bodies and the performance of non-executive director duties at REN SGPS, S.A., by the Chairman of Gestmin, Mr. Manuel Carlos de Mello Champalimaud. Therefore, the Committee decided to temporarily suspend the performance of duties by Mr. Manuel Carlos de Melo Champalimaud as the Non-Executive Director of REN SGPS, S.A.

ERSE then determined a suspension period of two months. The Committee later requested information from Gestmin in order to establish whether the reasons leading to the incompatibility had been overcome. Having received confirmation of this fact and reconfirming the situation with ERSE, the Committee decided to lift the abovementioned temporary suspension, effective as of 1 April 2016.

Lisbon, 26 July 2017

Mr. Manuel Ramos de Sousa Sebastião (Chairman)

Ms. Maria Estela Guedes Barbosa Rodrigues de Magalhães Barbot (Member)

Mr. Gonçalo Miguel Marques dos Santos Gil Mata (Member)