



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

Audit Committee Report on the Financial Year of 2018

(pursuant to the provisions of Article 423(1)(g) of the Portuguese Company Code)

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 management bodies and an Audit Committee (hereinafter referred to as "Committee") and a Statutory Auditor (hereinafter referred to as "External Auditor") as supervision and control bodies.

The Committee consists of three, non-executive and independent members of the Board of Directors, including a Chairman, who were elected at the General Meeting of 3 May 2018 for the three-year period of 2018-2020.

All the members of the Committee comply with compatibility criteria for performing their respective duties as set out in Article 4 of the Audit Committee Regulations.

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

2. Audit Committee Activity during the Financial Year of 2018

The Committee held 14 meetings in 2018. All three members of the Committee were present at 12 of the 14 meetings, and two were present and the remaining two meetings.

At the invitation of the Committee, the head of the Internal Audit Department, the External Auditor, the Chief Financial Officer, the Committee Consultant and other REN directors took part in these meetings whenever opportune.

When performing its duties, the Committee has the means and resources necessary for the purpose. Work carried out by the Committee was based on the Annual Activities Plan and focused on the following aspects, that will be examined below.



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

In 2018, 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 findings of the 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, namely with respect to monitoring the activities of the External Auditor.

For the purposes of performing supervisory work, the Committee had access to all the necessary information and company employees, in order to assess the company's situation and development perspectives. Furthermore, the Audit Committee received and analysed the minutes of meetings held by the Executive Committee in 2018 (including the respective supporting documents). The Committee requested additional clarifications whenever it was considered opportune and such clarifications were duly provided.

During 2018, and at the request of the Remunerations Committee, the Audit Committee verified quantitative information pertaining to the process for assessing and setting the variable remuneration of the Executive Committee.

2.2. Inspection of compliance with accounting and supervision policies and practices during the legal review of accounts and external auditing and the process to prepare and disclose financial information

In this regard, Committee meetings were held with the External Auditor, the CFO and the Heads of Accounts, and Management Planning & Control respectively.

Compliance with accounting criteria, policies and practices, estimates, judgements, relevant disclosures and their consistent application in different financial years as well as the reliability of financial information were also supervised through an analysis of audit findings and assessments of procedures carried out during the financial year by the External Auditor.



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The Committee analysed the REN, SGPS, S.A. Consolidated Financial Statements for the period ending 30 June 2018 and issued a report and opinion on the consolidated financial information for the semester.

The Committee audited the legal review and external audit of accounts documents for the financial year of 2018. The Committee concluded that these processes were adequately 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).

The Committee further analysed the REN Corporate Governance Report and confirmed that it included all the information referred to in Article 245-A of the Portuguese Securities Market Code and in Regulation No 4/2013 of the Portuguese Securities Market Commission (CMVM).

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

The Committee, in line with its activity plan for the financial year of 2018, conducted several actions to monitor, inspect and assess the operation and adequateness of the internal control, risk management and internal audit processes.

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 processes, on strategic, operating, economic and financial aspects, and on compliance, human resources and the safeguarding of assets.

Work undertaken with respect to these processes had a relevant effect on activity by REN companies, in line with their size, business characteristics, and the complexity of the risks inherent to the activity.

The design and implementation of internal control and risk management processes is the responsibility of the Executive Committee, with the Board of Directors having an oversight role. The Committee monitored and inspected the integrity and efficiency of these processes during the year and in this regard, proposals were sent to the Executive Committee by the Committee for adjustments to the processes. Furthermore, in the activities plan for the financial year of 2018, the Committee addressed the monitoring and evaluation of the functioning and adequacy of the internal control and risk management processes. The Committee held several meetings with the External Auditor as well as with



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the heads of the different departments whose activities impact on the internal control and risk management processes. The departments involved were:

- Accounting;
- Information systems;
- Regulation and Statistics;
- Property and Rights-of-Way; and
- Quality, Environment and Safety (Operational Services Department).

The Committee analysed the reports in this regard drawn up by the External Auditor. The Committee then informed the company's management bodies of the main findings and forwarded all the reports drawn up by the Internal Audit Department.

The implementation of the recommendations arising from the different internal audits was also monitored as well as 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.

In this context, the Committee held the two regular meetings with the Risk Management Committee in January and December 2018.

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.

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 processes and risk management processes were followed-up. For this purpose, the Committee had access to all the reports prepared by the Internal Audit Department, which included matters relating to internal control, risk management and compliance.

The Committee considers that the Internal Audit Department carried out its duties with independence and proficiency and that when conducting internal audits, particular



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attention was paid to the assessment of internal control processes, 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 communicated to the Executive Committee, the Board of Directors, the External Auditor, in line with the duties performed by each of these bodies in the management and supervision of Company business.

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

During the year, the Committee performed its duty as one of the company's contact points with the External Auditor. The Committee received the respective reports and took all steps necessary to ensure that suitable conditions existed enabling their services to be provided.

In 2018, the Committee assessed the work carried out by 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 External Auditor.

In 2018, Deloitte & Asociados, SROC, S.A. ceased to be the REN External Auditor, and further to selection proceedings for a new External Auditor, Ernst & Young, Audit & Asociados, SROC S.A. was elected. These proceedings were the responsibility of the Committee and were conducted in an impartial manner, thus providing continuance of full compliance with legislation and recommendations in force. The Committee considers that this transition took place in an orderly manner.

The Committee further conducted an annual assessment of work by the External Auditor in 2018 and considered that they provided their services in a satisfactory manner. They have further 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.



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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 in order to ensure that situations of conflicts of interest did not arise and that these services did not represent more than 30% of total fees paid to the External Auditor. The 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 the Company in terms of auditing, as well their complementarity regarding audit services, would justify such award.

The Committee authorized three requests for non-audit services in 2018. Non-audit services were related to the following requirements: (i) limited review of interim accounts, as at 30 June 2018 (ii) reliability assurance procedures provided by the External Auditor with respect to the issuing of comfort letters relating to the EMTN (Euro Medium Term Notes) programme, under which REN Group issues its corporate bonds (iii) financial ratios defined in the loan contracts with the European Investment Bank (EIB).

2.6. Company business with related parties

During the year, no business was conducted between REN Group companies and holders of qualified holdings or entities in any relationship with such holders, as provided for in Article 20 of the Securities Code.

2.7. Whistleblowing

The Chapter “Applicable procedures for processing communications regarding irregularities and the assessment of irregularities”, included in the REN Group Code of Conduct, sets out the procedures applicable to the receipt and processing of irregularities communications – submitted by interested parties – and ascertaining whether such irregularities exist and its respective remedies.

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.

In 2018, the Committee was informed of three situations which were considered as potential irregularities. The Committee conducted investigations for these cases in compliance with current regulations and approved the respective reports and remedy measures, as justified in each of those cases.



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Lisbon, 2 May, 2019

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)