



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

AUDIT COMMITTEE REPORT ON THE FINANCIAL YEAR OF 2014

I. 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 to supervise and monitor the Company's business activity.

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

The members currently serving on the Audit Committee are:

Chairman: José Luís Alvim Marinho

Member: José Frederico Vieira Jordão

Member: Aníbal Durães dos Santos

The Chairman and the member José Frederico Vieira Jordão were elected at the General Meeting held on 27 March 2012.

The member Aníbal Durães dos Santos replaced the previous member Emílio Rui Vilar.

Emílio Rui Vilar submitted his resignation as a member of the REN Audit Committee on 6 March 2014. On 3 April 2014, Parpública – Participações Públicas (SGPS), S.A., represented by Aníbal Durães dos Santos - appointed by Parpública - Participações Públicas (SGPS), S.A. was elected by the REN General Meeting to replace him,

All the members of the Audit 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 - 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 - can be broken down into the following main areas of intervention:



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- Monitoring of compliance with the REN Principles of Corporate Governance;
- Supervising the management of REN and ensuring that the law and the Articles of Association are observed;
- Verifying the accuracy of the accounting documents prepared by the Board of Directors and overseeing the process to prepare and disclose financial information, including the drawing up of the legal opinion on the Annual Report and Accounts and on the six monthly accounts;
- Supervising the integrity and effectiveness of the internal control and risk management systems and present proposals for their improvement;
- Supervising the activity of the REN Internal Audit Office (GSAD-AI);
- Monitoring on a regular basis of the independence of the activity of the Statutory Auditor and External Auditor; more specifically with regard to provision of additional services;
- Complying with internal procedures with regard to trades with related parties, more specifically, issuing a prior opinion on significantly relevant trades to be undertaken with owners of qualified holdings; and
- Receiving whistleblowing communications.

II. Activity of the Audit Committee during the Financial Year of 2014

In accordance with the respective Regulations, the Audit Committee meets at least once a month.

In 2014, the Audit Committee held 13 (thirteen) meetings, for which the respective minutes were drawn up. The three members of the Audit Committee were always present at the meetings.

At the invitation of the Audit Committee, also participating whenever necessary and suitable, in these meetings were the Head of the Internal Audit Office (GSAD-AI), the



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Statutory Auditor and External Auditor as well as the CFO, the Company Secretary and the Heads of Accounts and Management Planning and Control.

In order to better comply with its duties, the Audit Committee considered it equally relevant to invite the heads of REN's different operational areas - Human resources, real estate, legal services, procurement, studies and regulation, IT systems, risk management and sustainability, internationalisation and business development and general services - to take part in some of its meetings.

When performing its duties, the Audit Committee has the means and resources necessary for the purpose, more specifically, the possibility of hiring specialized outside consultants.

Based on the 2014 Activities Plan, the actions undertaken by the Audit Committee focused mainly on the following areas:

1) Supervision of REN management and observance of compliance with the law and the Articles of Association;

In 2014, the Audit Committee monitored the functioning of the corporate governance system implemented by REN.

Work carried out by the Audit 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, supplied to the Audit Committee throughout 2013.

The Audit 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 Office (GSAO-AI), the Statutory Auditor and the External Auditor.

As in previous years, in 2014 the Audit Committee continued to work to improve REN corporate governance, more specifically through a number of adjustments to different



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internal regulations, after the corresponding approval by the Corporate Bodies with the powers for this purpose.

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 for 2014.

Furthermore, the Audit Committee received and analysed the calls for meetings (when applicable) and the minutes of meetings held by the Executive Committee in 2014. It also occasionally requested additional clarifications which were suitably provided.

During 2014, and at the request of the Remunerations Committee, the Audit Committee verified quantitative information on the Executive Committee assessment process.

Also within the context of monitoring matters relating to Corporate Governance, the Audit Committee analysed the Corporate Governance Report for the financial year of 2014, and confirmed that this report includes the information required by Article 245-A of the Portuguese Securities Market Code and CMVM Regulation 4/2013.

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, Audit Committee meetings were held with the Statutory Auditor and External Auditor, the CFO and the Heads of Accounting, and Planning and Management Control.

Supervision of compliance with accounting criteria, policies and practices and the reliability of financial information was also conducted, through an analysis of the audit conclusions and assessments of procedures carried out during the financial year by the Statutory Auditor and External Auditor.

The Audit Committee analysed quarterly reports drawn up by the Statutory Auditor.

The Audit Committee audited the legal review and external audit to accounts documents for the financial year of 2014. It concluded that these processes were suitably carried out



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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 value criteria, accuracy of documents and legal certification of accounts).

The Audit Committee issued an opinion on the Consolidated Accounts for the 1st Semester, also taking into consideration the reports produced by the Statutory Auditor and External Auditor.

Moreover, the Audit Committee analysed the Management Report for the financial year of 2014, as well as the proposals and individual and consolidated financial statements expressed therein, and is of the opinion that they are in accordance with applicable accounting, legal and statutory provisions, and as such (i) expressed its agreement with the annual Management Report and accounts for the financial year, (ii) recommends their approval at the General Shareholder Meeting and (iii) analysed and issued opinion in accordance with and for the purposes of Articles 423(F), 451 and 452 of the Commercial Company Code.

The Audit Committee participated at the Executive Committee meeting at which the Company's individual and consolidated financial statements for 2014 were analysed.

Access by the Audit Committee to financial information and the preparing of this information by REN Executive Directors was unhindered and no constraints were placed on the performance of its duties.

In light of the above, the Audit Committee considers that it implemented, during 2014, the measures required to monitor the process for the preparation and disclosure of financial information as followed by management.

3) Monitoring and inspection of the effectiveness of the internal control and risk management systems

The Audit Committee, in line with its activity plan for the financial year of 2014, conducted several actions to monitor, inspect and assess the operation and suitability of the REN internal control, risk management and internal audit systems.



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The Audit Committee continues to consider that the REN management and supervisory bodies have placed growing and reinforced importance on the development and improvement of internal control and risk management systems with regard to strategic, operational, economic, and financial aspects. This approach has also been implemented with regard to compliance, human resources and asset security, with relevant impact on the activities of REN companies, in line with the Company's size and business and the complexity of the associated risks and with CMVM recommendations.

During 2014, the Audit Committee monitored and inspected the integrity and efficiency of REN internal control and risk management systems and that of internal audit, the creation and implementation of which are the responsibility of the Executive Committee and ultimately the Board of Directors. In this regard, the Audit Committee sent to the Executive Committee, the proposals to adjust the abovementioned systems which are considered necessary.

The Audit 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) .

Therefore, The Audit Committee considers that the assessment of the main internal control systems was conducted regularly in the different REN Group companies, with the following underlying principles:

- To strengthen and improve effectiveness and efficiency in the use of resources;
- To safeguard assets;
- To analyse the information processing system;
- To check the reliability and accuracy of financial, accounting and other kinds of information;
- Preventing and detecting fraud and errors;
- To promote operational effectiveness and efficiency, and



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- To check for compliance of the Group's operations and business with applicable legal and regulatory provisions, as well as with general policies and Company regulations;

Equally relevant in this sphere is the activity of the 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.

The duties of the Risk Management Committee are to:

- Promote the identification and systematic evaluation of business risks and their impact on REN's strategic objectives;
- Provide a reporting structure and prioritize the risks to be addressed, as well as the corresponding preventive opportunities identified;
- Identify and define the persons responsible for risk management;
- Monitor significant risks and REN's general risk profile;
- Approve periodical risk reporting mechanisms by different businesses areas, and
- Approve, or submit to the Executive Committee, recommendations for the prevention, warning, mitigation, sharing or transfer of significant risks.

In 2014, the Risk Management Committee, with support from risk owners from the different units in the REN Group, reviewed the various risks to which REN is exposed, thereby updating the REN Group's risk profile.

The Risk Management Committee also identified a new series of risks of greater severity, including risks relating to the insolvency of suppliers and the critical nature of facilities from a point of view of asset security.



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4) Supervision of the activity of the REN Internal Audit Office (GSAD-AI)

The Audit Committee supervised the activity of the Internal Audit Office (GSAD - AI), which reports functionally to the Audit Committee and its main duties are to:

- Review risk management and internal control policies in force;
- Assess the degree of implementation of internal control (organizational structure and governance, delegation of powers, ethics and code of conduct, policies and procedures);
- Conduct financial, IT, operational and management audits in the different areas of the REN Group, confirming the following:
 - Trustworthiness, integrity, opportunity and usefulness of the information;
 - Compliance with policies, rules and regulations;
 - Safeguarding and custody of Group assets;
 - Effective and efficient use of resources;
 - Achievement of goals; and
 - Compliance with the Group's guidelines and interests.
- Identify risk warnings through;
 - An inventory of risks;
 - Internal analysis;
 - Information from the Risk Committee;
 - Monitoring of performance;
 - Interviews and meetings;
 - Process flow analysis; and
 - Monitoring of indicators.
- Definition, jointly with the various areas, of measures to correct any weaknesses and non-compliances identified during audits;



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- Monitor the implementation of corrective measures, through follow-up reports; and
- Support high-level management in defining and/or implementing control and governance measures.

These attributions were taken on by the Internal Audit Office (GSAD - AI) as part of its activities plan which was approved by the Audit Committee, which analysed the scope of the activities in question and the resources allocated to the Internal Audit Office (GSAD - AI). It also took the initiative of including additional activities in the plan which it considered relevant.

The duties undertaken by the Internal Audit Office (GSAD - AI) were regularly monitored by the Audit Committee, more specifically with regard to the conclusions on how risks relating to processes, systems and business units are managed and the corresponding proposals for improvements to the internal control and risk management systems. For this purpose, the Audit Committee has access to all the reports prepared by the Internal Audit Office (GSAD - AI), which include matters relating to the presenting of accounts, potential conflicts of interest and the detecting of possible irregularities.

The abovementioned activities plan of the Internal Audit Office (GSAD - AI) for 2014 was based on the following priority objectives:

- To align the internal audit with REN Group strategy;
- Focus on the audits in areas of greatest risk;
- To assess the efficiency of the internal control systems implemented;
- To cover a significant number of areas of business; and
- To contribute to the generating of value by the REN Group.

In order to comply with the rules set out by The Institute of Internal Auditors (IIA), in 2014, a 'Diagnosis of the REN Internal Audit Function' was carried out by an external and independent consultant.



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With this work, which measured the degree of maturity of the function and compared it with a benchmark of current market practices, it was possible to check whether the Internal Audit complies with IIA standards and if it has established consistent procedures. It was also possible to establish a series of improvement actions.

The Audit Committee considers that the Internal Audit Office (GSAD-AI) performed its duties with independence and competence and when conducting the different internal audits, particular attention was paid to the assessment of internal control systems, to compliance with established procedures, to the efficient use of resources, to the effective monitoring of processes and to the assessment and minimization of identified risks.

Whenever deemed suitable, the results of the work done by the Internal Audit Office (GSAD-AI) was reported to the Executive Committee, the Board of Directors, the Statutory Auditor and the External Auditor, in line with the competences of each of these bodies in the management and supervision of Company business and so as to be able to be considered in financial information and the Company's internal control system.

Also with regard to the monitoring of the effectiveness of the internal control and risk management systems, the Audit Committee met with the Statutory Auditor, the External Auditor and the Executive Directors responsible for the respective areas, so as to ensure the compliance of the internal control and risk management systems at the different Group companies with best practices.

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

5) Analysis of the activity and inspection of the independence of the Statutory Auditor and the External Auditor

The Audit Committee performed its duty of main Company interlocutor with the Statutory Auditor and the External Auditor and as first recipient of the respective reports. The Audit Committee further ensured that all the necessary conditions were in place for them to conduct their work.



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In 2014, the Audit Committee carried out an evaluation of the activity of the Statutory Auditor and the External Auditor, through regular monitoring of their activities, namely by analysing periodic reports and overseeing the performance of audit and review services, as well as by assessing any changes in procedures recommended by the Statutory Auditor or the External Auditor.

The Audit Committee also conducted an annual assessment of the work carried out by the Statutory and External Auditors in 2014, considering that they provided their services in a satisfactory manner, complied with rules and regulations, including international auditing rules and that the required technical level was evident in their work. As such, a proposal to appoint new Statutory and External Auditors in this current term of office is not required. This analysis mainly took into account the following factors:

- The accuracy, presentation and clarity of the activities plans;
- Scope of the services, including a review of accounting policies and practices, the effectiveness and functioning of internal control mechanisms and the reporting of any shortcomings to the Audit Committee, as well as the implementation of corporate bodies remuneration policies and systems;
- The quality of the conclusions presented within the scope of the work undertaken;
- The effectiveness and efficiency of the recommendations presented; and
- Competence with regard to the procedures followed.

The Audit Committee is also responsible for supervising and evaluating 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.

Within the scope of compliance with the independence rules established in relation to the External Auditor, in 2014, REN's Audit Committee monitored the provision of non-audit services provided by Deloitte & Associados, SROC, S.A. in order to ensure that situations of conflicts of interest did not arise. The Audit Committee approved the provision of these services by the External Auditor, due to fact that they were matters in relation to which the specific knowledge of REN in terms of auditing, as well their complementarity regarding



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audit services, would justify such adjudication, especially because of the advantage offered in the associated cost control.

As such, CMVM Recommendation IV.2 was complied with as the services other than audit services did not extend beyond the 30% limit, given that 83% of the total services provided by the External Auditor are services for the legal review of accounts, as well as audit related services.

6) Company business with related parties

The 2014 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.

In 2014, the Audit Committee conducted prior verification on two commercial trades, as criteria existed 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'.

Therefore, after having analysed the suitability of pre-contractual and contractual procedures implemented for both 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.

Also under the terms of Internal Regulations, during the financial year of 2014, the Audit Committee analysed other trades with related parties and issued two six monthly reports, concluding that these trades had been conducted suitably under market conditions in accordance with how such trades of the same nature are normally conducted.



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7) Whistleblowing Policy

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

In 2014, no potential cases of irregularities within the REN Group were reported to the Audit Committee.

Lisbon, 19 March 2015

José Luís Alvim (Chairman)

José Frederico Jordão (Member)

Aníbal Durães dos Santos (Member)