



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

### **Activity Report by the Audit Committee regarding the financial year of 2011**

#### **I. Introduction**

REN – Redes Energéticas Nacionais, SGPS, S.A. adopts an Anglo-Saxon inspired management and supervisory model, comprising the Board of Directors and the Executive Committee as the corporate bodies carrying out the management of the company's business and the Audit Committee as the corporate body in charge of the supervision and control of the company's activity.

The Audit Committee of REN – Redes Energéticas Nacionais, SGPS, S.A. is composed of three independent members, in compliance with the criteria established in number 5 of article 414 of the Portuguese Companies Code.

The current members of the Audit Committee are the following:

President: José Luís Alvim Marinho

Member: José Frederico Vieira Jordão

Member: Fernando António Portela Rocha de Andrade

The President, José Luis Alvim Marinho, and the members José Frederico Vieira Jordão and Fernando António Portela Rocha de Andrade have been appointed in the Annual General Shareholders Meeting held on March 15, 2010.

All the members of the Audit Committee fulfil the compatibility requirements for the exercise of the respective function provided for in number 1 of article 414-A of the Portuguese Companies Code.

The Audit Committee's main powers and attributions, organization and functioning methods, as established by the respective Internal Regulation, available at the website [www.ren.pt](http://www.ren.pt), may be integrated within the following main areas of action:

- To supervise the management of the Company and compliance with the law and the Company's Articles of Association;
- To ascertain the accuracy of the accounting documents prepared by the Board of Directors and to supervise the process of preparation and disclosure of financial information, including the preparation of an opinion regarding the annual Report and Accounts and the semi-annual accounts;
- To supervise the integrity and efficiency of the internal control and risk management systems and to present proposals for the improvement of the respective functioning;
- To perform the regular monitoring of the independence and activity of the Statutory Auditor and the External Auditor;
- To receive any communication of irregularity.



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### **II. Activity carried out by the Audit Committee regarding the financial year of 2011**

According to the respective Regulation, the Audit Committee meets at least once per month. During the year of 2011 the Audit Committee held 14 (fourteen) meetings.

The activities carried out by the Audit Committee, autonomously and independently, have focused mainly in the following areas:

#### **a) Supervision of the management of the Company, of the compliance with the law and with the Articles of Association**

During 2011 the Audit Committee carried out the monitoring of the functioning of the corporate governance system adopted by REN.

The actions undertaken by the Audit Committee regarding compliance with legal and statutory provisions, which always took into account the corporate governance structure in force in the company included, among others, the analysis and assessment of the conclusions reached by the Statutory Auditor and the External Auditor, provided to the Audit Committee throughout the year 2011.

The Audit Committee also monitored the development of the legal and regulatory provisions, as well as the recommendations relevant to the exercise of its functions, especially those issued by the Portuguese Securities Market Commission (CMVM).

The Audit Committee has not identified any situations of non-regular market conditions in businesses entered into by the Company with related entities, particularly with shareholders with a qualified holding or entities related thereto.

#### **b) Supervision of the compliance with the accountability policies and practices and of the statutory audit and of the process of preparation and disclosure of financial information**

In this context, meetings were held between the Audit Committee and the Statutory and External Auditors, as well as the Executive Officer in charge of financial matters.

Supervision of compliance with the accountability policies, criteria and practices and of the reliability of financial information has also been carried out, through the appraisal of the conclusions of the audits and of the evaluations regarding proceedings undertaken throughout the financial year by the Statutory Auditor and the External Auditor.

The Audit Committee analysed the quarterly reports prepared by the Statutory Auditor.

The Audit Committee supervised the statutory auditing of the financial reporting documents regarding the financial year of 2011, having concluded that such auditing was conveniently carried out.

The Audit Committee's access to the financial information and the respective preparation by the Directors and Managers was regularly executed, without the risk of any constraints to the exercise of its functions.



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The Audit Committee issued an opinion regarding the Consolidated Accounts in relation to the first semester and to the third quarter of 2011, also taking into consideration the reports rendered by the Statutory Auditor and the External Auditor.

Within the same context, the Audit Committee has issued an opinion regarding the individual and consolidated financial statements for the financial year of 2011.

### **c) Monitoring and supervision of the effectiveness of the internal control and risk management systems**

The Audit Committee, as provided for in its activity plan for the financial year of 2011, undertook several monitoring, supervision and assessment actions regarding the functioning and adequacy of the internal control, risk management and internal auditing systems of REN.

The Audit Committee considers that REN's management and supervisory bodies have been attributing increasing relevance to the development and improvement of the internal control and risk management systems, in the strategic, operational, economic, financial, compliance and human resources perspectives, with major impact in the activities of REN's companies, in line with the recommendations issued nationally and internationally, especially CMVM's Recommendations regarding the Corporate Governance Code.

Throughout 2011, the Audit Committee monitored and supervised the integrity and efficiency of REN's internal control, risk management and internal auditing systems, whose creation and implementation are a responsibility of the Audit Committee and, ultimately, of the Board of Directors.

The Audit Committee considers that REN has been implementing, in its internal control, risk management and internal auditing systems, the components provided for in Recommendation no. II.1.1.2 of CMVM's "Corporate Governance Code", envisaging the set of rules of the International Organization for Standardization (ISO) as a reference in such process.

Throughout 2011, actions were undertaken regarding the design, development and implementation of an homogeneous and integrated risk management corporate strategy – present in the whole organization – aligned and according to the priorities and specific characteristics of each area of the company.

Thus, the Audit Committee considers that the appraisal of the main internal control systems was regularly carried out in relation to the Group's companies, with the following underlying principles:

- Strengthening and improvement of the effectiveness and efficiency in the use of resources;
- Assets protection;
- Analysis of the information processing system;
- Verification of the reliability and accuracy of the financial and accounting information, as well as of any other information;
- Prevention and detection of fraud and errors;
- Promotion of the operational effectiveness and efficiency;



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- Verification of compliance with the applicable legal and regulatory provisions, general policies and Company's regulations by the Group's operations and businesses.

In this context, the creation of the Risk Management Committee – through a resolution by the Executive Committee of December, 2010 –, which responsibility is to support the Board of Directors in the monitoring of the Group's risks, as well as to ensure the implementation of risk management policies to be applied to the whole Group and the internal disclosure of the best practices in this matter, had in 2011 an important contribution through the undertaking of the following responsibilities :

- To promote the systematic identification and assessment of business risks and the respective impact on REN's strategic objectives;
- To rank and prioritize risks to be handled, as well as the identified opportunities;
- To identify and define the responsible persons for the risk management;
- To monitor significant risks and REN's risk profile;
- To approve the periodic risk reporting mechanisms by the various business units;
- To approve, or to submit to the Executive Committee, recommendations for the prevention, mitigation, sharing or transfer of significant risks.

The Audit Committee supervised the activity of the Internal Audit Office, which functionally reports to the Audit Committee and has the main following responsibilities:

- Review of the risk management and internal control policies in force;
- Assessment of the degree of implementation of the internal control (organizational and governance structure, delegation of powers, code of ethics and code of conduct, policies and procedures);
- Execution of financial, IT, operational and management audits within the various areas of REN Group, confirming compliance with the policies and regulatory and legal provisions;
- Identification of risk alerts through a systematic indicator monitoring;
- Definition, jointly with the various areas, of corrective measures for the weaknesses and nonconformities identified by the audits;
- Control of the implementation of corrective measures, through monitoring reports;
- Top management support in the definition and/or implementation of measures.

Such responsibilities were undertaken by the Internal Audit Office through the design and execution of a timetable activity plan based on the risk assessment regularly monitored by the Audit Committee, notably in what concerns the conclusions on how risks are managed in relation to processes, systems and business units, as well as the corresponding proposals for the improvement of the internal control and risk management systems.

The abovementioned GAI [Internal Audit Office] Activity Plan for 2011, approved by the Audit Committee, reflected the following main objectives:

- To focus the audits in areas subject to higher risks;
- To assess the efficiency of the implemented Internal Control systems;



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- To cover all the Group's companies;
- To add value to the Group.

The Audit Board considers that the execution of the various audits paid attention to the evaluation of the systems for internal control, to the compliance with the established procedures, to an efficient use of resources, to an effective control of the processes and to the assessment and minimization of the identified risks.

The results of the Internal Audit Office's works have been reported, when appropriate, to the Executive Committee, to the Board of Directors, to the Statutory Auditor and to the External Auditor, to the extent of the responsibilities of each of such bodies in the management and supervision of the company's activity.

In connection with the monitoring and supervision of the effectiveness of the internal control and risk management system, the Audit Committee met with the Statutory Auditor, the External Auditor and the Executive Directors in charge of the respective areas, in order to ensure conformity between the internal control and risk management systems in the various companies of the Group and the best practices.

In this context, the Audit Committee analysed the reports prepared by the Statutory Auditor and the External Auditor and provided the Management Bodies with the most relevant conclusions.

### **d) Appraisal of the activity and supervision of the independence of the Statutory Auditor and the External Auditor**

The Audit Committee exercised its function as the first contact of the Company with the Statutory Auditor and the External Auditor and as the first recipient of the respective reports, and paid maximum attention to the creation of adequate conditions for the development of their works.

The Audit Committee executed, in 2011, the appraisal of the activities of the Statutory Auditor and the External Auditor, regularly monitoring such activity, notably through the analysis of the periodic reports and the monitoring of the execution of the revision and auditing works, as well as evaluating the recommendations for changes in the procedures carried out by the Statutory Auditor and the External Auditor.

In the context of the appraisal and supervision of the activity of the Statutory Auditor and the External Auditor, the Audit Committee took particularly into account the following factors:

- Correction, presentation and clarity of the activity plans;
- Quality of the conclusions presented in the context of the work developed;
- Effectiveness and efficiency of the presented recommendations; and
- Competence in the context of the development of the executed procedures.

The Audit Committee also monitored the compliance with independence rules established in relation to the Statutory Auditor and to the External Auditor, notably the impartiality in the



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provision of non-audit services. The provision of such services was confined to the matters in relation to which the specific knowledge of the company from an auditing perspective or its complementarity in relation to the auditing services justified its assignment considering the related advantages in terms of quality and cost control.

### **e) Businesses between the Company and related parties**

Annex II to the Corporate Governance Report describes the main elements of the businesses and operations entered into by the Company, on one side, and the holders of qualified interests or related entities, on the other, pursuant to article 20 of the Portuguese Securities Code.

All the businesses described in the abovementioned annex have been executed in regular market conditions and emerged of REN's regular activity, resulting mostly from regulatory obligations, wherefore, for that reason, they have not been previously submitted to the auditing body's appreciation.

Taking into account the nature of REN's shareholders and the specificity of the transactions with related parties that took place in 2011, identical to those which took place in 2010, and which will presumably take place in 2012, the Audit Committee, in spite of having monitored such transactions, considered relevant to analyse the treatment granted to this subject nationally and internationally and to establish the necessary procedures and criteria in order to define the relevance of said transactions.

Following the referred analysis, the Board of Directors, subsequently to a proposal by the Audit Committee dated November 28, 2011, has approved in its meeting dated December 15, 2011 an internal regulation on the processing and disclosure of transactions with related parties, as well as on the methodology to be followed in case of a potential conflict of interests, ("Regulation on Transactions with Related Parties"), which is available at REN's website at [www.ren.pt](http://www.ren.pt).

### **f) Communication of irregularities**

In 2011 two potential irregularities in REN Group have been reported to the Audit Committee. Following the execution of appropriate investigations, in articulation with the Executive Committee, the processes have been closed as a result of the existence of any irregularities not having been confirmed.

Lisbon, March 1st, 2012

José Luis Alvim (President)

José Frederico Jordão (Member)

Fernando António Portela Rocha de Andrade (Member)