



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

Audit Committee Report on the Financial Year 2017

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, as well as 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 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 organisation and functioning of the 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.

2. Audit Committee Activity during Financial Year 2017

The Committee met 12 times in 2017, and all three members were always present.

In these meetings, at the invitation of the Committee, the Head of the Internal Audit Department, the Statutory Auditor and External Auditor, the Chief Financial Officer, the Audit Committee consultant and other REN managers took part whenever opportune.

Assisting the meeting was the Committee Secretary, Ms. Ana Luísa Rosa, who drew up the respective minutes.

When performing its duties, the Committee had the means and resources necessary for the purpose.



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The Committee conducted its work based on an Annual Activities Plan, which focused on the following aspects:

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

In 2017, 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 considered 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 of the Statutory Auditor and the External Auditor.

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

Furthermore, the Committee received and analysed the minutes of meetings held by the Executive Committee in 2017. It occasionally requested additional clarifications, whenever considered appropriate.

During 2017, at the request of the Remunerations Committee, the Committee verified quantitative information on the Executive Committee assessment process.

The Committee appraised and issued favourable opinions on the proposed sale of subscription rights on the company's own shares as well as on the proposal to increase REN capital.



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2.2. Supervision of compliance with accounting policies and practices during the legal review of accounts and external auditing. Supervision of the process of preparation and disclosure of financial information

In this regard, the Committee met with the Statutory Auditor and External Auditor. The Committee also met with the CFO, the Head of Accounting as well as the Head of Planning and Management Control.

The Committee conducted the supervision of compliance with accounting criteria, policies and practices and the reliability of financial information, 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 Committee appraised the REN, SGPS, S.A. Consolidated Financial Statements for the period ending 30 June 2017, and issued the report and opinion on the consolidated six-monthly information.

The Committee audited the legal review and external audit to accounts documents for the financial year of 2017. It concluded that these processes were suitably carried out and covered the activities required by Articles 446 and 451 of the Portuguese Companies 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 supervision of the effectiveness of the internal control and risk management systems

The Committee, in line with its activity plan for the financial year of 2017, conducted several actions to monitor, supervise and assess the operation and suitability of the internal control, risk management and internal audit systems.

The Audit 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, and on compliance, human resources and the safeguarding of assets.

Work undertaken with respect to these systems had a relevant effect on REN company activity, 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.



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The creation and implementation of internal control systems for risk management and internal audit systems are the responsibility of the Executive Committee and ultimately of the Board of Directors. The Committee monitored and supervised the integrity and efficiency of these systems during the year and in this regard, proposals were sent to the Executive Committee by the Committee suggesting for adjustments to the systems. In its activity plan for the financial year of 2017, the Committee took steps to monitor and evaluate the functioning and adequacy of the internal control and risk management systems. It held several meetings with the Statutory Auditor and External Auditor as well as with the Heads of different departments whose activities impact on the internal control and risk management systems, more specifically:

- Information Systems;
- Asset Management;
- Procurement;
- Planning and Management Control;
- Accounting; and
- Regulations and Statistics.

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

The implementation of recommendations resulting from different internal audits was monitored, particularly with regard to the audit of information systems security and the analysis of general I.T. controls, in close liaison with the Information Systems Department.

The Group's internal control system was assessed by the Internal Audit Department (GSAD-AI). In line with this principle, in 2017, the Internal Audit Department continued to analyse the policies, processes, procedures and controls, which make up REN's internal control system. The Committee reviewed the results of this analysis.

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 Organisation for Standardisation (ISO).

In this regard, the Committee monitored 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



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common to the entire REN Group and the internal disclosure of best practices for Risk Management.

The Committee held one meeting with the Risk Management Committee, in April 2017. During the year, GSAD-AI started an assessment of the Risk Management System, the results of which support the monitoring conducted by the Audit Committee.

2.4. Supervising the Internal Audit Department activity

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 were 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 for both internal control systems as well as risk management were followed-up appropriately. For this purpose, the Committee had access to all the reports prepared by the Internal Audit Department, which included matters relating to the submission of accounts, internal control, 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 due professional care. The Department, when conducting internal audits, gave particular attention to the assessment of internal control systems, compliance with established procedures, the integrity of information produced and disclosed, the efficient use of resources, the effective monitoring of processes, compliance with laws and regulations in force. Internal Audit assessed identified risks and made recommendations to minimise those 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.



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

During the year, the Committee performed its duty as the company's main interface 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 2017, 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.

In 2018, REN will change its External Auditor. Should Deloitte & Associados, SROC, S.A., who has been a Statutory Auditor and External Auditor of REN since 2010, have been re-elected for the 2018-2019 term, they would have served a fourth term, following the previous terms of 2010-2012, 2012-2014 and 2015-2017. This would have exceeded the legal limit of ten years with the same company.

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 & Associados, SROC, S.A. in order to ensure that conflicts of interest did not arise. 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 REN in terms of auditing, as well their complementarity regarding audit services, would justify a non-audit mandate. This was also in the company's interests as it allowed cost reductions.

Non-audit services provided by the External Auditor / Statutory Auditor essentially related to conducting agreed audit procedures with a view to the validation of financial ratios, the issuing of letters of comfort, the review of a prospectus for a capital increase and the drawing up of a report on pro-forma financial information.



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The Committee authorised ten requests for non-audit services in 2017. Non-audit services accounted for 18.4% of total services provided by the External Auditor as compared to 23.6% in 2016 and 8.4% in 2015.

2.6. Company business with related parties

The 2017 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 of one commercial transaction, 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 the operation 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.

The Audit Committee also approved the issue of an opinion on the acquisition from the EDP Group of all the shares in EDP Gás SGPS, S.A. (and two subsidiaries) by REN SGPS, S.A.

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 aims to prevent, stop or sanction irregularities, which could cause adverse effects.

In 2017, no potential cases of irregularities within the REN Group were reported to the Audit Committee.



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Lisbon, 4 June 2018

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)