

## 05. MANAGEMENT AND SUPERVISION SYSTEM



### 5.1 STRUCTURE ORGANIZATION AND FUNCTIONING

#### OVERVIEW

Within the framework of corporate governance models authorized by the Portuguese Companies Code, REN has adopted an Anglo-Saxon management and supervision model which comprises (i) a Board of Directors, responsible for the management of the Company's business – which delegates the day-to-day management of the Company to the Executive Committee – and (ii) an Audit Committee to supervise and monitor the Company's business activity.

At the management level, there is a clear delimitation between the powers of the Board of Directors and those of the Executive Committee, due to the meticulous and objective delegation of powers by the Board of Directors on March 15, 2010, as mentioned above. On the other hand, the fact that the Chairman of the Board of Directors is also the Chief Executive Officer ensures the coherence and transparency that is essential to the Company's management and its adequate monitoring by the remaining members of the management body.

In terms of supervision, the Audit Committee acts as an internal control mechanism, supervising and overseeing the Company's management in an independent and autonomous manner.

These functions are laid down by law (article 423\_F of the Portuguese

Companies Code) and in REN's Articles of Association (article 22) and include, among others, supervising the Company and its compliance with the law and the Articles of Association, monitoring the accuracy of the accounting documents and oversight of its review, monitoring and oversight of the preparation and release of financial information, of the effectiveness of internal control and risk management systems and the convening of the General Meeting whenever the Chairman of the Board of the General Meeting does not convene it, even though when bound to do so. In addition, the Audit Committee monitors the activity and supervises the independence of the Statutory Auditor and of the External Auditor.

Furthermore, the dual capacity of the director which are also members of the Audit Committee, as a member of both the supervisory body and the management body, renders the control process even more transparent, notably due to the special access afforded to the members of the Audit Committee to information and decision-making processes.

In light of the above, the Board of Directors evaluates the model of governance adopted by the Company positively, and does not identify any constraint to its functioning.

## 5.2 STRUCTURE ORGANIZATION AND FUNCTIONING OF THE BOARD OF DIRECTORS

Under article 14 of REN's Articles of Association, the Board of Directors consists of a minimum of 7 and maximum of 15 members, as determined by the General Meeting that elects said members.

The Board of Directors has currently 12 members<sup>8</sup>. In 2011, the Board of Directors included 8 non-executive members, which ensures its effective capacity to monitor and evaluate the activity of the executive members.

Within the Non-Executive Directors, 4 are independent directors, which is an appropriate number, considering the Company's size and its shareholder structure, in compliance with CMVM's Recommendation II.1.2.2.

The members of REN's Board of Directors are elected (and dismissed) by the General Meeting, under the terms of article 14 of REN's Articles of Association, without the intervention of the Executive Directors in the selection process of candidates for Non-Executive Directors of the Company.

Taking into account that, under the law and the Articles of Association, the election and dismissal of the members of the Board of Directors of the Company is within the scope of powers of the General Meeting, the shareholders have an exclusive role in this selection process.

The Board of Directors of the Company will only participate in said process in the event of replacement by co-option of missing directors, as described below. In this case, since it is non-delegable competence of the Board of Directors, all Directors are involved in the resolution of co\_option, except in the event of conflicts of interest.

In turn, in the absence of a specialized committee, concerning selection/appointment matters, as explained in 5.6. below, the continuous monitoring of matters related to the assessment of

the overall performance of the Board of Directors, as well as the analysis of the appropriate profile for the performance of the functions of REN Directors is a competence of the non-executive members of the Board of Directors, within their supervisory role.

Concerning to the election of Directors, the Articles of Association (paragraph 2 of article 14 of the Articles of Association) allow that a minority of shareholders who voted against the winning proposal appoint at least one director, provided that this minority represents at least 10% of the Company's share capital.

Should it be necessary to replace a Director (who is not a member of the Audit Committee), this replacement may take place according to one of the following procedures: (i) whenever there are no substitute directors, the Board of Directors will be entitled to co\_opt a director, subject to ratification in the first subsequent General Meeting (without intervention of the Executive Directors of the Company in the selection of candidates whose co-option is proposed to the Board of Directors); (ii) should the co\_option not take place within 60 days, then the Audit Committee shall appoint a substitute director, and this appointment shall also be subject to ratification in the first subsequent General Meeting; (iii) should that not occur, then the replacement shall be made by electing a new director in the General Meeting.

The Board of Directors has adopted a set of general and indicative principles concerning its policy on the rotation of responsibilities on the Board, as follows:

- Concerning the allocation of responsibilities, the Board of Directors will take into account, among others, the following factors: (i) the know\_how and experience appropriate to the relevant functions, (ii) the thorough knowledge of the sector and (iii) the diversity of skills and qualifications within the Board of Directors, as a body intended to be multidisciplinary;

<sup>8</sup> Since the resignation of the Executive Director, João Nuno de Oliveira Jorge Palma, announced on December 29, 2011..

- The allocation of responsibilities will fall within the human resources culture and management policy of the Company in order to allow, whenever this is desirable and in the interest of REN, the harmonization of global practices and maximization of synergies in the several business units;
- The Board of Directors will, on a case by case basis, proceed with the rotation of director's responsibilities, whenever such rotation is in line with the improvement of corporate governance and the pursuit of the Company's interests, notably when a refreshing of the adopted strategy with regards to a specific responsibility or role is considered to be positive;
- Usually, in the allocation of responsibilities to the executive members of the Board of Directors, particularly regarding financial matters and other highly complex and specialized roles, the tendency will be to give priority to the criteria mentioned on the first paragraph above, as it is considered that in such situations the experience, appropriate qualifications and, most of all, an in-depth knowledge of the Company and its business have a higher added value than rotation;
- On the other hand, with regard to its non-executive members, the Board of Directors will seek to promote the rotation of an adequate number of members, usually after the lapse of 3 consecutive terms of office, in order to contribute to the efficient performance of its functions of accompanying and monitoring the executive management.
- Granting of powers to one or more directors to specifically deal with certain management matters;
- Appointment of specialized committees' members, which may be established pursuant to article 9 of the Internal Regulation of the Board of Directors; and
- Replacement by co\_option of missing directors subject to ratification in the first subsequent General Meeting, according to the applicable legal provisions.

In accordance with paragraph 1 of article 19 of the Company's Articles of Association and the respective internal regulation, the Board of Directors holds ordinary meetings at least bi-monthly, on dates established by agreement between its members for each calendar year, and extraordinary meetings whenever convened by its Chairman, by any 2 directors or by the Statutory Auditor. During the financial year of 2011, the Board of Directors held 14 meetings, of which minutes were prepared.

Any director may be represented at a meeting of the Board of Directors by another director, by addressing a letter to the Chairman, which is only valid for that relevant meeting. No director may represent more than one director at any meeting.

Moreover, the Executive Directors may not be represented by members of the Audit Committee, nor the Audit Committee members may be represented by Executive Directors.

Pursuant to paragraph 2 of article 19 of REN's Articles of Association, REN's Board of Directors may not resolve unless a majority of its members is present or represented.

In accordance with paragraph 1 of article 20 of REN's Articles of Association, the Board of Directors shall pass its resolution by a majority of votes of the directors present or represented.

The Chairman of the Board of Directors is entitled with the casting vote. The

The abovementioned principles will apply from the date of their approval, in the context of the following powers of the Board of Directors, and bearing in mind the crucial role of the General Meeting in the election of directors:

- Appointment of the members of the Executive Committee and its Chairman;

Board of Directors appoints one of its members to replace the Chairman whenever the latter is unable to attend. The director replacing the Chairman also has the casting vote.

According to the Board of Directors Internal Regulation, this corporate body established efficient mechanisms for the coordination of the work of its members having non-executive functions, in particular in order to facilitate the exercise of their right to information, as follows:

- Without prejudice to the exercise of powers not delegated to the Executive Committee, directors of the Company having a non-executive function assume a supervisory role of the executive management;
- In order to make independent and informed decisions, the directors with non-executive functions may obtain the information they deem necessary or appropriate to perform their roles, powers and duties (in particular, information related to the delegated powers to the Executive Committee and its performance), by requesting such information from any member of the Executive Committee, and the answer should be adequately and timely provided;
- The directors of the Company having non-executive functions will hold ad hoc meetings, upon convening of the Chairman of the Board of Directors or, if the Chairman performs executive functions, by the Chairman of the Audit Committee, at its own initiative or upon request of 2 of those directors, in order to undertake an assessment of the management of the Company.

In addition, all supporting documentation for meetings of the Board of Directors is timely provided to the non-executive members of the Board of Directors, under paragraph 5 of article 5 of the Internal Regulation, and the Executive Committee's resolutions shall be always available for consultation, there being no constraints on access to information by these members.

Therefore, the Board of Directors considers that, through the mechanisms described above, all the conditions are established in order for the directors with non-executive functions to discharge their functions in an efficient and coordinated manner and to take independent and informed decisions.

Under article 7 of REN's Board of Directors Internal Regulation, the minutes of its meetings are drafted by the Secretary of the Company and shall be submitted to the Board of Directors for approval by the following ordinary meeting.

Regarding incompatibilities and the maximum number of positions that may be accumulated by the directors of REN in corporate bodies of other companies, the relevant rules from the Portuguese Companies Code are applicable, not existing, as of today, any additional limitations established internally.

As disclosed by the Company, a shareholder proposal of amendment of the Articles of Association to vote in the next General Meeting, said proposal consisting in the establishment of an incompatibilities regime with the exercise of functions in the corporate bodies, related to potential conflicts of interest arising from the direct or indirect exercise of activities in electric or natural gas sector, both in Portugal and abroad.

Concerning the activity of the Non-Executive Directors in 2011, 3 of the Non-Executive Directors, José Luís Alvim Marinho, José Frederico Vieira Jordão and Fernando António Portela Rocha de Andrade, have performed their functions as members of the Audit Committee. The remaining Non-Executive Directors performed their functions not only by means of participating in the meetings of the Board of Directors, which were held on a regular monthly basis, but also by permanently following the activity of the Executive Committee, through the submission, in a coordinated and efficient manner, of additional information requests concerning matters which have been analyzed by the Board of Directors, notably financial matters, governance matters and matters related to regulatory

issues. It shall be highlighted that Non-Executive Directors had no constraints in the performance of their duties, pursuant to the description of their activities set out in the annual management report.

The Board of Directors may delegate the day-to-day management of the Company to an Executive Committee, under paragraphs 3 and 4 of article 407 of the Portuguese Companies Code and article 16 of the Articles of Association, indicating the directors composing the Executive Committee and appointing its Chairman.

The Board of Directors' resolution delegating powers to the Executive Committee shall establish the limits thereof and the committee's composition, appoint its Chairman and determine its working method.

Currently, due to the resignation submitted by Executive Director João Nuno de Oliveira Jorge Palma, the Executive Committee comprises 4 members.

Under article 8 of the Board of Directors' Internal Regulation and paragraph 4 of article 407 of the Portuguese Companies Code, the following powers cannot be delegated: co-opting directors; requesting the convening of General Meetings; approving the annual report and accounts to be submitted to the General Meeting; approving the quarterly and half-yearly accounts to be published as required by law; providing personal or in rem guarantees by the Company; transferring the Company's registered office or increasing the Company's share capital as provided for in the Articles of Association; and approving plans for merger, demerger or transformation of REN.

Furthermore, the Board of Directors acts in line with its goals, not delegating to the Executive Committee its powers related to the definition of the strategy and of the general policies of the Company, as well as the definition of the Group corporate structure. Moreover, the Board of Directors does not delegate the power to approve strategic decisions, since they have an increased risk or value, or due to their particular characteristics.

In fact, under article 3 of the respective Internal Regulation, even though the Board of Directors has delegated the day-to-day management under the terms explained above, this corporate body has kept its management powers, particularly, with regard to: (i) the definition of the strategy, goals and management policies of the Company and the Group; (ii) the approval of business and financial annual plans, investment plans and budgets; and (iii) the establishment of partnerships by all affiliates.

Under the same provision of the Internal Regulation, the Board of Directors is also entitled to pass the following strategic resolutions, with no possibility of delegation: award of acquisitions and investments to be made by the Company or by its affiliates, notably by REN – Rede Eléctrica Nacional, S.A., REN Gás, S.A., REN Gasodutos, S.A., REN Atlântico, Terminal de GNL, S.A., and REN Armazenagem, S.A. – included in the Company's annual budget or in the affiliates' annual budget and which value is equal to or higher than € 25 000 000.

Under paragraph 4 of article 8 of the Internal Regulation of the Board of Directors, the delegation of powers to the Executive Committee ceases by resolution of the Board of Directors, or automatically in any of the following circumstances: replacement of the member of the Board of Directors appointed as Chief Executive Officer or of the majority of its members; end of the term of office of the Board of Directors that has delegated the powers.

Under paragraph 2 of article 1 of the Internal Regulation of the Executive Committee, the Chief Executive Officer appointed by the Board of Directors may choose one of the committee members to replace him in his absence or impairments.

In accordance with paragraph 1 of article 2 Internal Regulation of the Executive Committee, its meetings are convened and chaired by its Chairman (the Chief Executive Officer) and must be held once a week. Minutes are kept of each Executive Committee meeting.

## 5.4 ORGANIZATION AND FUNCTIONING OF THE AUDIT COMMITTEE

In 2011, the Executive Committee held 47 meetings, concerning which the relevant minutes were prepared.

In accordance with article 3 of the Internal Regulation of the Executive Committee, the same may only resolve when the majority of its members are present or represented. The Executive Committee members can appoint another member of the Executive Committee as representative, by means of a simple letter addressed to its Chairman. The representation of more than one director is not allowed at any meeting.

If Executive Directors are unable to attend a meeting and if the Chairman considers that the resolution is urgent, they are allowed to express their vote by means of a letter addressed to him, which shall only be valid for that relevant meeting.

The Executive Committee's resolutions are approved by a majority vote of the members present or represented, and the Chairman and his substitute have a casting vote in the event of a tie.

The Internal Regulation of the Executive Committee establishes that in each meeting a member shall be appointed to monitor the implementation of each resolution, in order to allow the supervision and the adoption of potential additional measures for its implementation.

The Chief Executive Officer sends to the Chairmen of the Board of Directors and of the Audit Committee the notices to convene and the minutes of the meetings of the Executive Committee. The Executive Committee provides timely and appropriate information to members of other corporate bodies upon their request.

In addition, the Executive Committee prepares and proposes to the Board of Directors resolution drafts on matters falling within its scope of powers and presents to the Board of Directors those matters that, due to their relevance, it considers that should be approved by the Board of Directors.

The Audit Committee shall be composed by 3 non-executive members of the Board of Directors, elected (and dismissed on solely fair grounds) by the General Meeting. Its Chairman is appointed at the time of said election.

The Chairman of the Audit Committee, José Luís Alvim Marinho, and the other members in office, José Frederico Vieira Jordão and Fernando António Portela Rocha de Andrade, are independent and appropriately qualified for their offices.

The Audit Committee has its own Internal Regulation containing rules governing its organization and functioning. In particular, pursuant to paragraph 1 of article 4 of the Internal Regulation, the Audit Committee must hold monthly meetings. In addition to its ordinary meetings, the Audit Committee may meet whenever convened by its Chairman or by the remaining two members.

In 2011, the Audit Committee held 14 meetings. Minutes of each meeting shall be drawn up.

Concerning the incompatibilities and the maximum number of positions that may be accumulated by the members of the Audit Committee in other company's corporate bodies, the relevant rules of the Portuguese Companies Code are applicable. Apart from such rules, there are no other limitations provided for internally.

As disclosed by the Company, a shareholder proposal of amendment of the Articles of Association to vote in the next General Meeting, said proposal consisting in the establishment of an incompatibilities regime with the exercise of functions in the corporate bodies, related to potential conflicts of interest arising from the direct or indirect exercise of activities in electric or natural gas sector, both in Portugal and abroad.

The Audit Committee is the Company's main discussion partner and the first recipient of reports from the external auditors, whose activity is monitored and supervised by the Audit Committee. The Audit Committee may obtain independent opinions or hire specialized consultancy services, as it deems necessary for the adequate performance of its functions. The Audit Committee

can also access any of REN's resources and means that are required for the performance of its functions.

Annual reports on the Audit Committee's activities shall include the description of the performed supervisory activity and are posted on the Company's website at [www.ren.pt](http://www.ren.pt), together with the financial statements.

## 5.5 DISCLOSURE OF INTERNAL REGULATIONS OF MANAGING AND SUPERVISORY BODIES

The Board of Directors internal Regulations, as well as the Audit Committee internal Regulations and of the Executive Committee internal

Regulations are available on the REN website, on [www.ren.pt](http://www.ren.pt) both in Portuguese and in English.

## 5.6 SPECIALIZED COMMITTEES

Taking into account the corporate governance model implemented by REN, which includes an Audit Committee as an internal control mechanism supervising and controlling REN's management activity as well as its corporate business, it has been understood that there is no need to establish specialized committees with the single purpose of assessing the performance of Executive Directors or the activity of the existing committees, given that this is achieved through the assessment activity developed by the Audit Committee and by the non-executive members of the Board of Directors.

In 2011, the Non-Executive Directors monitored issues related to: (i) the governance model and principles of the Company; (ii) the assessment of the overall performance of the Board of Directors and the analysis of the appropriate profile to perform the functions of a REN director; as well as (iii) the assessment of the performance of the Executive Directors.

Indeed, the assessment of the performance of the Executive Committee members is made by the Non-Executive

Directors, in order to create an adequate internal balance and an effective performance of non-executive tasks by all members of the Board of Directors and not only by some of them. Likewise, Non-Executive Directors monitor the global performance of the Board of Directors and analyze the functioning of the corporate governance system.

In addition, REN understands that the establishment of a specialized committee with powers regarding the identification of candidates with adequate profile for the office of director does not fit in with the Company's specific characteristics, since the process of selection has been appropriately carried out in the interest of the company, whether in the context of election in General Meetings, whether in the event of co-option by a resolution of the Board of Directors.

In particular, within the assessment of the overall performance of the Board of Directors and of the corporate governance system, its non-executive members have analyzed the appropriate profile to perform the functions of a REN director.



## 5.7 THE COMPANY'S INTERACTION WITH RELATED PARTIES

Annex II of this Corporate Governance Report contains the description of the main elements of the business and operations carried on between the Company, on the one hand and, on the other hand, holders of qualified shareholdings or entities with which they are in any relationship, under Article 20 of the Portuguese Securities Code.

All the operations described in the Annex were carried out under normal market conditions and were entered into in the course of REN's ordinary activity. For the most part, they arose out of regulatory obligations and, therefore, were not submitted to the supervisory body for prior assessment.

Taking into consideration the nature of REN's shareholders and the specific characteristics of the transactions with related parties that took place in 2011, which are identical to the ones that had already taken place in 2010, and to the ones that will take place again in 2012, the Audit Committee, despite having monitored those transactions, considered it appropriate to study the handling of these matters on a national and international level, as well as to establish the procedures and criteria necessary to define the relevance of those transactions.

After the said analysis, following the proposal put forth by the Audit Committee on November 28, 2011, the Board of Directors approved an internal regulation on the handling and disclosure of transactions with related parties, as well as on the proper course of action in the event of a potential conflict of interest, during the meeting held on December 15, 2011 ("Regulation on Transactions with Related Parties").

Under the said Regulation on Transactions with Related Parties, legal business between, on the one hand, (i) a Related Party - that is, a member of a managing or supervisory body of REN or of any other company in a control or group relationship with REN, pursuant to article 21 of the Portuguese Securities Code ("Affiliates") or any individual who, due to the post he or she holds in REN or in the Affiliates, serves in a senior or managerial capacity, or who has regular

or occasional access to privileged information ("Official") or a shareholder who holds a qualified shareholding of at least 2% of REN's share capital or of that of the Affiliates, calculated under article 20 of the Portuguese Securities Code ("Relevant Shareholder") - or even a third-party body, related to an Official or a Relevant Shareholder by means of any relevant commercial or personal interest and, on the other hand, (ii) REN or the Affiliates, which falls under the circumstances described below, shall be subject to a prior expert opinion to be given by the Audit Committee:

- Business between, on the one hand, members of the managing or supervisory body of REN or of the Affiliates and, on the other, REN or the Affiliates, under and for the purposes of the provisions of articles 397 and 423-H of the Portuguese Companies Code.
- The acquisition and sale of goods or the provision of services valued at over €5 000 000 (five million euros).
- The acquisition or transfer of shareholdings.
- New loans, financing and subscription of financial investments resulting in an overall annual indebtedness exceeding €100 000 000 (one hundred million euros), except when dealing with a mere renewal of existing circumstances or operations undertaken within the framework of pre-existing contractual conditions.
- Transactions not included in the contexts described above, the value of which exceeds €5 000 000 (five million euros).
- Any transaction which, though not covered by the above criteria, must be considered relevant for this purpose by either the Executive Committee or by the Board of Directors, as appropriate, by virtue of its nature or its particular susceptibility to giving rise to a conflict of interests.

In turn, any business between a Related Party as referred to above, on the one



hand, and REN or one of its Affiliates, which does not fall into any of the above circumstances, must later be submitted to the Audit Committee for its consideration.

The Executive Committee or the Board of Directors of REN (depending on whether the former or the latter is the competent body for approving the transaction in question) will be responsible for submitting any transaction with the Related Parties for consideration by the Audit Committee (for prior approval or later assessment, as applicable, as set out above).

When submitting any transaction with Related Parties to the Audit Committee for prior assessment, the Board of Directors or the Executive Committee (as appropriate) must provide the Audit Committee with the following information at least 15 days in advance of the date of the planned transaction:

- A brief characterization of the essential terms of the transaction in question;
- A brief contextualization of the transaction, including the pre-contractual procedures adopted;
- If several proposals have been submitted, the criteria adopted for finally selecting the other party;
- If no other body has been consulted, the reasons for adopting this procedure;
- If, because of its nature, it is necessary to complete the transaction urgently, this fact and the applicable circumstances should be mentioned and the appropriate justification given;
- The mechanisms adopted for preventing conflicts of interest and proof that the transaction will be carried out under normal market conditions.

If the Audit Committee issues an unfavorable advance expert opinion, approval of the transaction by the Board of Directors or by the Executive

Committee, as appropriate, must be particularly well-grounded so as to demonstrate that the completion of the transaction is in line with pursuing the corporate interest of REN or of its Affiliates.

It should also be pointed out that, under the Regulation on Transactions with Related Parties, the Audit Committee, in the transactions submitted to it, must assess the adequacy of the pre-contractual and contractual procedures adopted as well as the fairness and adequacy of the grounds presented, taking into account the following purposes:

- The pursuit of the corporate interest of REN and of the Affiliates.
- The appropriateness of the transaction's conditions to the conditions of the market in which this type of transaction normally takes place.
- The direct or indirect non-assignment of excessive benefits to the Related Party, within the context of carrying out the transaction.
- As part of its duties involving coordination of internal mechanisms for transactions with Related Parties, the following powers are also given to the Audit Committee:
  - To request information from the Board of Directors or from the Executive Committee, as appropriate, so as to issue a well-grounded expert opinion;
  - To submit recommendations to the Board of Directors, including measures to prevent and identify conflicts of interest.
  - Within this context, whenever a transaction that is liable to undermine the corporate interest of REN or of the Affiliates is identified, to suggest the adoption of measures to make completion of the transaction compatible with the corporate interest.
  - To issue an annual expert opinion on enforcement of the Regulation and its adequacy for its purposes and, whenever necessary, to revise it.

## 5.8 RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

- Finally, it should also be noted that there are no transactions between the Company, on the one hand, and the members of its managing or

supervisory bodies or companies in a group or control relationship, on the other.

The management and supervisory bodies of the Company have been attributing growing importance to the development and improvement of the internal control and risk management systems, with a significant impact on the activities of the Group's companies. This approach has been in line with national and international recommendations, including CMVM's recommendations as included in the Corporate Governance Code and the good governance principles contained in the Council of Ministers Resolution no. 49/2007, of March 28.

The Executive Committee and, ultimately, the Board of Directors, are responsible for creating and managing the internal control and risk management systems. The Audit Committee is responsible for assisting the Executive Committee in analyzing the integrity and efficiency of REN's Internal Control and Risk Management Systems. Furthermore, in its plan of activities for the financial year of 2011, the Audit Committee considered carrying out a number of steps to monitor and evaluate the functioning and adequacy of the internal control and risk management systems.

It is considered that a risk management and internal control system – as implemented by REN – should meet the following objectives, among others:

- Guarantee and supervise fulfillment of the objectives previously set by the Board of Directors;
- Ensure that information is reliable and complete;
- Ensure the complete, reliable and timely preparation and reporting of financial and accounting information, and apply an appropriate management information system;
- Guarantee the safeguarding of assets;
- Ensure prudent, appropriate valuation of assets and liabilities;
- Identify risk factors, risk occurrence consequences and mechanisms related to their treatment and minimization;
- Bring tolerable risk into line with the Group's strategy;
- Improve the quality of decisions;
- Promote the rational and efficient use of resources.

During the 2009 financial year, on May 13, 2009, the Executive Committee passed a resolution to set up the Internal Audit Department (IAD), with the mission of supervising the creation, operation and effectiveness of the Group's risk management control model and internal control and governance systems, through objective, independent and systematic monitoring. In operational terms, it reports to the Audit Committee, notwithstanding its hierarchical relationship with the executive management of the Company. The officer in charge of the Internal Audit Department is Gil Vicente Jorge Marcelino.

Noteworthy, among the various tasks of the Internal Audit Department are the following:

- Review of risk management and internal control policies in force;
- Assessment of the degree of implementation of internal control (organizational structure and governance, delegation of powers, ethics and conduct code, policies and procedures);
- Implementation of financial, IT, operational and management audits in the various areas of the REN Group, confirming compliance with the policies, laws and regulations (compliance services);
- Definition, jointly with the various areas, of measures to correct any

weaknesses and non-compliances identified during the audits;

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

All internal audits conducted by the IAD follow a plan based on risk assessment, whether corporate or by the IAD itself, the latter including an assessment of how risks are managed in terms of processes, systems and business units.

The IAD's Business Plan for 2011, approved by the Audit Committee, has defined and characterized the audits to be carried out. The Business Plan was designed to:

- Focus on the audits in areas of greatest risk;
- Assess the efficiency of the internal control systems implemented;
- Cover all Group companies;
- Add value to the Group.

In implementing the various 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.

In 2012, the audit procedures will be maintained and as far as the IAD's future plan of activities is concerned, we highlight the following objectives:

**ALIGN THE  
INTERNAL AUDIT  
WITH THE GROUP'S  
STRATEGY**

**ORIENTATE  
RESOURCES  
TOWARDS THE  
AREAS OF  
GREATER RISK**

**FOCUS THE AUDITS  
ON PROCESSES/  
ACTIVITIES WHICH  
DEMONSTRATE  
SIGNIFICANT  
SUBSTANTIALITY**

**COVER ALL  
COMPANIES OF  
THE GROUP**

**POSITION THE  
INTERNAL AUDIT AS A  
FUNCTION CAPABLE  
OF ADDING VALUE**

With the main concern being the monitoring of the main aspects of REN's activity, and in order to ensure the procedures followed are in compliance, an assessment of the main Internal Control Systems in the Group's various companies is conducted regularly, with the following underlying principles:

- Strengthening and improving effectiveness and efficiency in the use of resources;
- Safeguarding assets;
- Analyzing the information processing system;
- Checking of the reliability and accuracy of financial, accounting and other kinds of information;
- Preventing and detecting fraud and errors;

- Checking for compliance of the Group's operations and business with applicable legal and regulatory provisions, as well as with general policies and Company regulations;
- Promoting operational effectiveness and efficiency.

In addition, the mission of the Risk Management Committee, created in 2010, is to support the Board of Directors in monitoring the Group's risks, as well as ensuring the enforcement of risk management policies common to the entire Group and the internal disclosure of best practices for Risk Management. The Risk Management Committee's main functions are to:

- Promote the identification and systematic evaluation of business risks and their impact on REN's strategic objectives;

- Categorize and prioritize the risks to be addressed, as well as the opportunities identified;
- Identify and define the persons responsible for risk management;
- Monitor significant risks and REN's risk profile;
- Approve regular risk reporting mechanisms by different businesses areas.
- Approve, or submit to the Executive Committee, recommendations for prevention, mitigation, sharing or transfer of material risks.

In 2011, the Risk Management Committee, together with the company's various areas, identified "risk owners", whose main role is to contribute

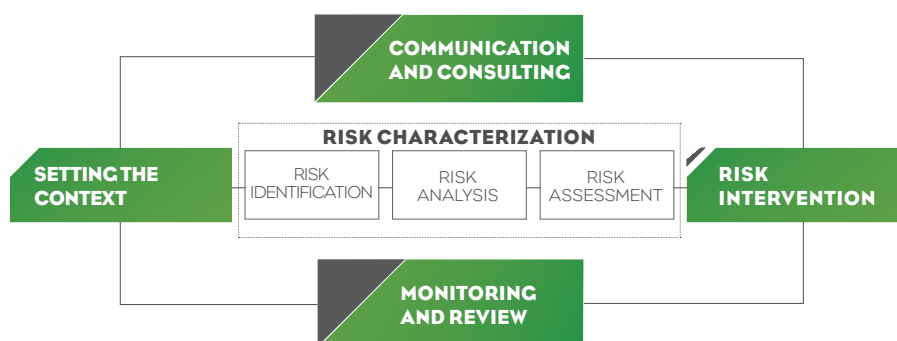
towards developing and enforcing a risk management strategy in line with the company's strategic objectives.

#### RISK MANAGEMENT PROCEDURE

REN has been implementing a set of changes to its internal control and risk management systems, involving the components provided for in the CMVM's Recommendation II.1.1.2. It has also been guided by International Organization for Standardization (ISO) rules.

In 2011, the company set out to design, develop and apply a homogeneous and integrated corporate risk management strategy across the entire organization, aligned and structured in accordance with the specific priorities and features of each of the company's areas.

REN's risk management procedure is based on the five areas in the following table:



1. **Establishing the context** enables the company to identify the main external and internal parameters to be considered in managing risk and to define the scope of the risk management process. The external and internal contexts and the context of risk management procedure in which REN carries on its operations are described in general terms under this heading.
2. The methodology for **characterizing risk** involves three stages:
  - a) **Identifying the risk**, where potential risks that could jeopardize the Group's normal operations and, subsequently, its strategic objectives are identified;
  - b) **Risk analysis**, reflecting a set of activities intended to understand the nature of the risk and to determine its likelihood and corresponding impact; and
  - c) **Risk assessment**, resulting in steps being taken that make it possible to prioritize the risks that need to be dealt with.
3. **Dealing with the risk** involves selecting, prioritizing and implementing one or more specific strategies and measures to handle the risk. The strategies to deal with risk that are put in place can avoid, transfer, share or retain the risk. The strategy to be chosen is not only the one that has

a greater ability to reduce risk, but also that one that has a greater ability to create additional benefits and opportunities. It is advisable to choose strategies that are able to address several risks simultaneously.

4. **Risk monitoring** aims to monitor the evolution of risks. It is carried out on a continuous basis and is included in the company's routine processes and activities. Associated with the monitoring process are a set of risk management indicators (Key Risk Indicators) which are defined for the main risks identified. These indicators make it possible to monitor risk factors and possible risk events, their likelihood and impact, as well as the control measures adopted.
5. **Risk review** consists of assessing the adequacy, effectiveness and efficiency of the risk management process and is aimed at identifying non-compliance or deficiencies and determining any need to implement corrective measures.
6. **Communication and consultation** establishes the guidelines for effective communication and consultation in the risk management process. This aspect is developed in a continuous and interactive manner by those involved in the risk management process,

over the various stages and activities involved in this process.

The goal of the risk management process is to contribute directly towards improving REN's performance, by including risk management activities as a factor for optimizing the Group's other activities and bringing about compliance with CMVM recommendations on governance of listed companies.

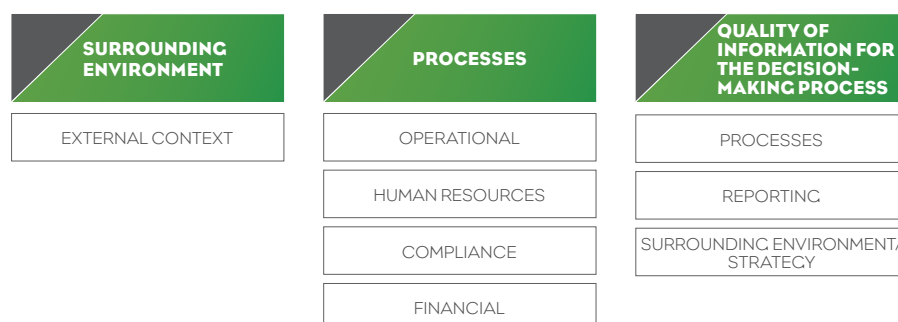
### REN Risks

When carrying out its business, REN is subject to multiple risks in every one of its own business areas or in those of its affiliates. These risks have been brought together in the following categories and subcategories:

The category Surrounding Environment analyzes factors external to the organization which could adversely affect the viability of the organization's business model and interfere with the achievement of its goals and strategy.

The category Processes considers the internal sources of risk that compromise the viability of the organization's business processes, as concerns effective and efficient operational management, as well as proper alignment with the strategy.

This category contains four subcategories:



- **Operational risks**, which represent the risk of operations becoming inefficient and ineffective in executing REN's business model, in meeting customer needs and in achieving quality, expenditure and time performance goals;
- **Human Resource** risks are the set of risks run by employees when they do not know how to put their activities into operation correctly or when they do not know what to do when they need to perform a task, because they have exceeded the

limits of the powers given to them or because they have been encouraged to act incorrectly;

- **Compliance risks** are linked to compliance with the provisions of concession contracts, laws and regulations, and with international standards and agreements; and
- **Financial risks**, representing a set of risks that compromise the efficient management of the organization's financial resources, including maximizing the availability of cash flow, reducing uncertainty linked to exchange rates, interest rates, credit and other financial risks, and the timely movement of funds without loss in value, to wherever they are most needed.
- Process risks, which are related to a lack of reliable and timely information on the organization's processes and activities;
- Reporting risks arising from a lack of reliable and timely reporting and aimed at addressees within and outside the Company;
- Surrounding environment/strategy risks, which represent the lack of reliable and timely information on the internal and external surroundings that prevents the organization from adapting to change or from maximizing its value.

The category **Quality of Information for Decision-Making** covers risks that compromise the information used for supporting the execution of the business model, internal or external reporting on performance and the continued assessment of the effectiveness of the organization's business model. This category considers every risk pertaining to activities involving the creation of value, as well as the corresponding management information that is produced.

This category includes three subcategories:

The appetite for risk reflects the amount of risk the company is willing to shoulder or to retain in pursuing its goals. REN adopts a prudent position as concerns its appetite for risk.

In 2011, the Risk Management Committee, with support from risk owners, identified the various risks to which REN is exposed, thereby determining the Group's risk profile. Given that the risks and controls for mitigating risks rely on internal and external factors, the risk profile is not static.

The most serious risks for the REN Group are shown in detail below, with their category and subcategory:

CATEGORY	SUBCATEGORY	NATURE	RISK
Surrounding Environment	External Context	Regulatory	Change to the regulatory model and parameters
		Financial Markets	REN's credit quality / rating
Processes	Operational	Business Interruption	Evolution of interest rates
		Investment Projects	Occurrence of a general incident
		Health and Safety	Approval of investment plans
		Information Technology	Occurrence of serious work accidents
		Human Resources	Information systems safety
Quality of Information for the Decision-Making	Reporting	Knowledge/Skills	Capacity to attract / retain skills and the know-how necessary for the business
		Accounting / Taxation	Adequacy of the management information

- **Changes to the regulatory model and parameters**

The risk of the existence of changes to the regulatory model and/or regulator decisions may affect the company's ability to run its business efficiently and is linked to the fact that the activity being developed by REN is a regulated activity.

REN manages such risk by monitoring the progress of the regulatory strategy as well as European regulatory trends.

- **REN's credit quality /rating**

REN's credit quality and changes to its rating could have an impact in terms of access to financing as well as the cost of such financing. REN manages this risk by building a position of sound liquidity and by an efficient management of its financing needs combined with effective initiatives for communicating with both the market and the various financial agents. It should be noted that the company's rating could be affected by any deterioration in Portugal's rating.

- **Evolution of interest rates**

The fluctuation of interest rates can have an impact on remuneration from regulated assets and on servicing REN's debt. A change to relevant benchmarks of market interest rates could result in higher financing expenses for the Group. REN manages exposure to the risk of changes in interest rates by hiring financial derivatives, in order to achieve a balanced ratio of fixed and variable interest rate and to minimize financial burdens in the medium and long term.

- **Occurrence of a generalized incident**

The company's performance could be influenced by the occurrence of events causing an interruption in the electricity supply service and by any difficulty in restoring the service in a timely manner. The infrastructures supporting REN's operations are exposed to a set of conditions (pollution, atmospheric conditions, fires, birds, among others), which could cause interruptions in the service. The plan for restoring service following a generalized incident implemented by REN and the

organization of drills to test the ability to restore the service in the event of an incident, are some of the initiatives adopted for managing this risk.

- **Approval of investment plans**

The existence of delays in the approval of investment plans by the Regulator or by other authorities can cause significant delays in implementing new infrastructures and/or loss of the investment made, with an impact on the quality of the service provided. REN has adopted procedures for managing this risk that involve the process of authorizing the investment to be made.

- **Occurrence of serious work accidents**

Non-compliance with safety and operational procedures for equipment could result in the occurrence of serious work accidents with damage to people and property during work organized by REN.

REN manages this risk through the safety management system, with specific training for operations involving risks and training for employees of REN's service providers on safety awareness.

- **Information systems security**

REN's activities rely heavily on the information systems and technologies used within the Group. Therefore, the security of information systems and technologies and their capacity to meet the needs of the company are crucial to REN performing well. To manage this risk, REN keeps its communication systems and the respective support services up to date by performing periodic inspections of the configurations of network and security equipment. At the same time, security measures are in place for systems deemed to be critical, such as the existence of redundant communications and the shielding of such systems from potentially dangerous traffic.

- **Ability to attract/retain the skills and know-how required for the business**

REN's success depends on the skills



and efforts of its employees and its management teams. The continuation of the company's success depends, to a great extent, on its ability to attract, keep and motivate skilled employees.

To this end, REN is developing its human resources policy by focusing on training, ethics, the development of potential and motivation. The human resources policy also aims to constantly update knowledge and strengthen a culture of quality, both of which are indispensable for it to fulfill its public service mission.

- **Adequacy of management information**

REN regularly provides management

information, to strictly monitor its operations. In this regard, all management information provided both for internal use and for disclosure to other organizations, is prepared on the basis of sophisticated IT systems. REN carries out initiatives that seek to continually improve the support information processes and systems that produce financial and management information.

In this way, the production of accurate, reliable information allows us to ensure that the information does not contain errors that could compromise the decision-making process.

## 5.9 NO DEFENSIVE MEASURES THAT AUTOMATICALLY CAUSE A SERIOUS EROSION OF THE COMPANY'S ASSETS IN THE EVENT OF CHANGE OF CONTROL HAVE BEEN ADOPTED

REN has not adopted any defensive measures which result in a serious, automatic erosion of the Company's assets in the event of change of control or a change in the composition of the management body. This prevents any limitations on the free transfer of shares and the shareholders freedom to evaluate the performance of the members of the management bodies.

In specific terms, there are no significant agreements to which REN is a party that would come into force, be amended or terminate in the event of a change in control

over the Company. Nor are there any agreements between REN and the members of the management body or other officers, pursuant to paragraph 3 of article 248-B of the Portuguese Securities Code, that would award compensation in the event of resignation or dismissal of any member of the management and supervisory bodies, or in the event of resignation of any employee, unfair dismissal or termination of the employment relationship, following a change in control over the Company.

Similarly, REN has not adopted any measure aimed at preventing the success of takeover bids.

However, the existence of legal limits on the ownership of shares representing REN's share capital should be highlighted, as sub-paragraphs i) and j) of paragraph 2 of article 25 of Decree-Law no. 29/2006, of February 15 (as amended by Decree-Law no. 78/2011, of June 20), as well as sub-paragraphs b) and c) of paragraph 3 of article 20-A and sub-paragraphs h) and i) of paragraph 3 of article 21 of Decree-Law no. 30/2006, of February 15 (as amended by Decree-Law no. 77/2011, of June 20) prohibit the ownership of shareholdings exceeding 5% or 10% of REN's share capital, depending on whether or not such entities carry out business directly or in any way indirectly in the respective sector.

the terms of the Resolution of the Council of Ministers no. 13/2012, of February 8, and in the context of the second reprivatization phase of the Company, amendments to the abovementioned legal documents concerning the ownership of shares representing REN'S capital share are expected.

On the other hand, and as disclosed by the Company, a shareholder proposal of amendment of REN's Articles of Association in order to not count the votes inherent to class A shares cast by any shareholder, on its own behalf or as

a representative of any other shareholder, exceeding 25% of all votes corresponding to REN's share capital, shall be submitted to vote in the next General Meeting,

and such amendment shall only enter into force after the amendment of the abovementioned legal rules.

## 5.10 WHISTLEBLOWING POLICY

REN's employees are required to report any irregular practices of which they become aware or suspect to the Audit Committee in order to prevent irregularities liable to cause financial loss or harm to REN's image. Similarly, the Audit Committee receives communications of irregular practices from any stakeholders.

Communications must be submitted in writing and the electronic address **comissao.auditoria@ren.pt**, which is only accessible by the Audit Committee, may be used for this purpose. Communications must contain all the

information the author has and considers necessary to the assessment of the irregularity. The author may also ask for his or her identity to be kept confidential.

The Audit Committee must assess the situation described and determine or propose actions that, in each case, are deemed appropriate, in accordance with the Internal Regulation approved by the Audit Committee.

In 2011, no potential cases of irregularities within the REN Group were reported to the Audit Committee.

## 5.11 EXTERNAL AUDITOR

The Audit Committee represents the Company for all purposes before the external auditor. It is responsible for proposing the service provider and the respective remuneration and for ensuring that the proper conditions for those services to be performed are met within the Company.

In accordance with paragraph 2.2 of article 3 of the Audit Committee's Internal Regulation, this body is responsible for regularly monitoring the activities of the external auditors and of the Statutory Auditor by analyzing their periodic reports and overseeing the audit and review processes. It also assesses any changes in procedures recommended by the external auditors or the Statutory Auditor.

Accordingly, the Audit Committee is responsible for undertaking an annual assessment of the external auditor and

has the power to propose the dismissal of the external auditor to the General Meeting if there are grounds to do so.

Taking into account the work carried out in 2011, the Audit Committee carried out its evaluation of the service provided to the Company by the external auditors. Consequently, the Audit Committee considers that the external auditors have provided their services in a positive way and have complied with the applicable standards and regulations, including international standards on auditing, and that they performed their activities with extreme technical accuracy.

Annex IV describes the annual fee paid to the external auditors, including the percentage for legal certification of accounts, other guarantees of accuracy and tax consultancy and other services.