

PROGRESS REPORT
OF THE INTERNAL
AUDIT DIVISION
OF THE EDP GROUP 2013





INDEX



PROGRESS REPORT OF THE
INTERNAL AUDIT DIVISION
OF THE EDP GROUP 2013



1. MESSAGE	4
2. SIGNIFICANT EVENTS	6
3. SUMMARY OF PERFORMANCE INDICATORS	8
4. ACTIVITIES UNDERTAKEN IN 2013	10
4.1 INTERNAL AUDITS	11
4.2 INTERNAL QUALITY INDICATORS	14
4.3 INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING	15
4.4 OTHER ACTIVITIES/PROJECTS	18
5. HUMAN RESOURCES	19
6. OUTLOOK FOR 2014	23
6.1 INTERNAL AUDITS	24
6.2 INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING	24
6.3 OTHER ACTIVITIES	25



MESSAGE

AZUCENA VIÑUELA HERNANDEZ

AUDIT DIRECTOR

1. MESSAGE

"Having covered the route outlined in the business plan, with ambition and determination, we are grateful for the results achieved, the support, the collaboration and the stimulus of the participants with whom we had the privilege of interacting. Our thanks to one and all.

The Internal Audit teams present in the different countries have successfully established the several lines of work considered most important and necessary for the Group, in the context of great technological, competitive and regulatory challenges.

As part of these audits it was possible to carry out a broad range of work concerning the different areas and risk profiles, some requested by executive and supervisory management, as well as the follow-up to relevant audits previously carried out, which were necessary because of their importance and execution level.

The updating of the business unit risk maps constitutes a fundamental element in the selection of work, preparation of plans and identification and analysis of the GAP between the execution controls under the Internal Control System of the Financial Reporting (SCIRF) methodology and the detected needs, with a view to strengthening control.

The Internal Control System over Financial Reporting (SCRIF) was strengthened in all countries, and was assessed by the external auditor, resulting in the issuing of independent reports that were published in the respective reports and accounts (EDP Group consolidated and the stand-alone reports for EDP R, HC/NG and EDP Brasil).

In the area of Information Systems, a number of new programs were developed in addition to the

specialized audit tasks, using IT tools providing direct access to the databases in order to automatically capture the relevant information. The results are available in a management tool complete with recommendations, and are permanently available and accessible in all countries (GAR) via a browser.

In line with the development of training passports, an extensive training plan was established, through which it will be possible to carry out several training activities delivered by internal employees who will make their skills and knowledge available to their work colleagues.

In response to the Group's social responsibility program, it provided several placements close to active life, and participated in the "Parte de Nós" volunteer program.

It also participated in several working groups, cross-cutting and in different areas of activity, with the aim of incorporating value to the development of projects, making use of the specialized competences, analytical vision and control inherent in auditing.

The economic, regulatory and business context suggest the Group is facing great challenges, which provide a strong motivation for the audit teams to energetically produce the 2014 business plan in the framework of the professional development of our staff, and in the service of our internal and external customers."



AZUCENA VIÑUELA HERNANDEZ
AUDIT DIRECTOR

1
2
3
4
5
6

2013 SIGNIFICANT

EVENTS

2013

JANUARY	MARCH	MAY	JULY	OCTOBER	DECEMBER
<ul style="list-style-type: none"> SCIRF 2012 Steering Committee. 	<ul style="list-style-type: none"> Meetings and SCIRF 2012 conclusions; 	<ul style="list-style-type: none"> Preparatory meetings to assess SCIRF 2013; 	<ul style="list-style-type: none"> Beginning of External Auditor assessment of SCIRF 2013; 	<ul style="list-style-type: none"> Completion of first phase of evaluation tests of SCIRF 2013 and presentation to companies; 	<ul style="list-style-type: none"> Publication of a new version of the Internal Audit Manual;
FEBRUARY	<ul style="list-style-type: none"> Publication of the Third Independent SCIRF report by the external auditor, prepared in accordance with the International Standard on Assurance Engagements "ISAE 3000". 	<ul style="list-style-type: none"> Workshops for potential suppliers of SCIRF support tools 	<ul style="list-style-type: none"> Formation of audit teams in "Communication In Audits". 	<ul style="list-style-type: none"> Participation in conference of Spain's Institute of Internal Auditors; 	<ul style="list-style-type: none"> 2013 internal audits carried out;
<ul style="list-style-type: none"> Closure of 2012 Internal Audit Plan (PAI) and launch of the 2013 plan; Completion of evaluation of SCIRF 2012; Kick-off of the detailed analysis of the requirements for the launch of a request for proposals (RFP) for suppliers of SCIRF support tools. 	<ul style="list-style-type: none"> Publication of report on Internal Audit Department (IAD) activities for 2012; Effective implementation of a specialized training plan for all IAD staff in Portugal; Iberian-level coordinating meeting of all internal audit managers; Restructuring of EDP Brasil's IAD, with the area of risk passing to another Department. 	JUNE	AUGUST	<ul style="list-style-type: none"> Internal training on SCIRF I to IAD employees; 	<ul style="list-style-type: none"> Completion of 2013 plan of activities.
		<ul style="list-style-type: none"> Planning meetings to assess SCIRF 2013; Beginning of analysis of the financial risk maps associated with SCIRF; Publication of an article about EDP Group internal audits in the magazine of Spain's Institute of Internal Auditors; Implementation of the Audit and Recommendation Management (GAR) tool in Portugal, Spain and Brazil. 	<ul style="list-style-type: none"> Visit to IAD by a team from CTG. 	<ul style="list-style-type: none"> Follow-up on "Communication in Audits" course; 	
			SEPTEMBER	NOVEMBER	
			<ul style="list-style-type: none"> Adaption and extension of the specialized internal auditing training plan to IAD employees in Spain; Training course on SCIRF for EDP Group employees; Start of preparatory work on the planned proposal for internal audits in 2014, with the implementation of a new methodology for the identification of risk and the prioritization of auditable processes. 	<ul style="list-style-type: none"> Submission of the Global Audit Information Network (GAIN) Benchmark survey; Self-certification process by companies included within the scope of SCIRF 2013; In-house training of Internal Regulatory Group. 	
	APRIL				
	<ul style="list-style-type: none"> Start work defining SCIRF 2013. 				



SUMMARY OF PERFORMANCE

INDICATORS

SUMMARY OF PERFORMANCE INDICATORS



HUMAN RESOURCES

Average Age

39

Average years of work experience

17

Hours of training per auditor

70



ACTIVITY

Number of audit reports completed (except SCIRF)

146

Other Activities and Projects

14

% Audits completed vs. planned

109%

Number of recommendations (except SCIRF)

677

Number of SCIRF controls

4.029



QUALITY/ EFFICACY

Quality/ Efficacy (Questionnaires)*

4,6

(*) Degree of Satisfaction.



ACTIVITIES

UNDERTAKEN IN 2013

4. ACTIVITIES UNDERTAKEN IN 2013

IN 2013 THERE WAS AN IN-DEPTH REVISION OF THE OPERATIONAL AND FINANCIAL RISK ANALYSIS METHODS, A HIGH DEGREE OF COMPLETION OF THE PLAN OF ACTIVITIES, FOLLOW-UP OF RECOMMENDATIONS MADE, IMPROVEMENT OF CONTINUOUS AUDITING, IDENTIFICATION OF ALTERNATIVE SCIRF SUPPORT TOOLS AND CONTINUATION OF ASSESSMENT AND RESOLUTION OF RELEVANT ISSUES IN THE SCIRF.

4.1 INTERNAL AUDITS

The following were the most important activities in 2013:

- | Systematization of revision of the design and efficacy of SCIRF controls under the scope of internal operational and financial audits;
- | Carrying out of a systematic continuous task to assess the degree of effective implementation of the internal audit recommendations reported to have been concluded, complementing the collection of quarterly data on the current state of all recommendations issued but not yet implemented. The work culminated in the production of two reports that at the end of 2013 were sent to the boards of the Group's main companies in Portugal and Spain.
- | Drafting of a new version of the Internal Audit Manual, which includes the new items introduced in the methodology adopted by IAD in the development of its activities over the past years that has sought to improve the coherence and homogeneity of the activities of the teams operating in different countries.
- | Revision of the report model, seeking to strengthen the description of the nature of the risks affecting the audited processes, as well as highlighting the important aspects in terms of results;
- | The effective implementation, in Spain and Portugal, of a plan of specialized training for EDP Group internal auditors, distributed according to the seniority and knowledge of each employee and executed through training activities delivered by IAD itself or by external trainers;
- | Development and implementation, in Portugal and at the level of the HC Energia subgroup (with a pilot in Spain), of a new methodology for the prioritization of auditable processes, which consist of the explicit identification of potential risks (business, market, credit, operational, etc.) and in the qualitative assessment of the impact and probability of the same in the processes and activities developed by the EDP Group.

4. ACTIVITIES UNDERTAKEN IN 2013

| Formalization with the Group companies that are subject to regulatory external audits, of a regular collaboration with the IAD. The IAD's plan of action includes the collaboration of its members in internal working groups created to prepare the audit specifications, select the companies to be audited, follow the results of the same and the development of any resulting remediation plans.

REVISION OF DESIGN AND EFFICACY OF SCIRF CONTROLS IN INTERNAL AUDITS

In each internal audit task in which the processes in question are of relevance to the SCIRF, specialized tests are performed to validate the design and efficacy of the controls.

The results of these validations, which have been made since 2012 and were systematized in 2013, are part of the audit conclusions and are reported to the IAD SCIRF team and to contacts in the companies or areas affected.

ONGOING AUDITS

During the 2013 exercise the ongoing audits, a project that began in 2010, were consolidated, constituting a robust monitoring and

assessment model that was very important for the automatic processing of the large volume of data, enabling efficiency gains in terms of internal control and in the prevention and detection of irregularities.

Presently, ongoing audits assess/analyze several projects of an operational nature in the commercial support, internal control and information systems areas. Monitoring indicators and alerts were designed and implemented, which over the course of the year were adapted to new realities.

In 2013 the IAD designed and implemented two applications: GAR – Audit and Recommendation Management and GACS – Access and Function Segregation Management:

| GAR is an application that has been developed to register and follow up on audits carried out by the IAD. It allows registration of the recommendations and respective actions, enabling companies access to the current state of play in relation to the execution of its actions. This application is used by corporate IAD, by the IADs in Spain, the United States and Brazil, and by companies headquartered in Portugal.

4. ACTIVITIES UNDERTAKEN IN 2013

GACS is an application that seeks to analyze the incompatibilities that occur at the level of IT applications used by companies and to certify whether there are risks or not with the reliability and quality of the financial information produced.

WORK CONDUCTED IN ALL AREAS OF INTERVENTION

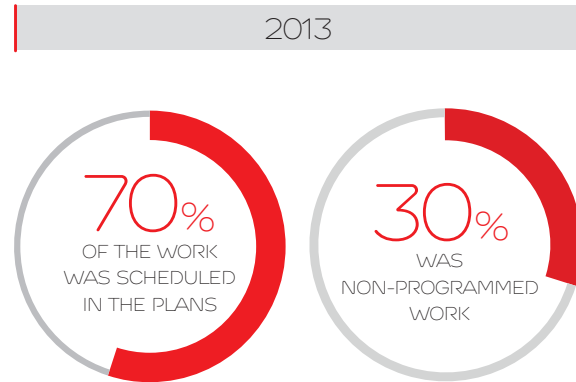
The table below shows activities planned and performed in 2013:

	PLAN	EXTRA PLAN	TOTAL COMPLETED	ONGOING
FI	12	1	13	2
OP	74	26	100	9
SI	9	2	11	1
AC	5		5	3
FU	10	7	17	
TR		12	12	6
Other Activities ^(*)		2	2	
TOTAL	110	50	160	21

(*) Activities other than audits.

FI Reliability of Financial Information | OP Operational and Legal Efficacy and Efficiency
 SI Information Systems | AC Continuous Auditing | FU Follow up | TR Group Wide

Around 70% of the work completed in 2013 was scheduled in the IADs' plans of activity. The remaining 30% was non-programmed work.



From the 160 tasks carried out and completed 677 recommendations and improvement measures were issued, resulting in action plans by the companies or areas audited. These action plans are obtained during the issue of reports and are subject to quarterly monitoring by the IAD.



4. ACTIVITIES UNDERTAKEN IN 2013

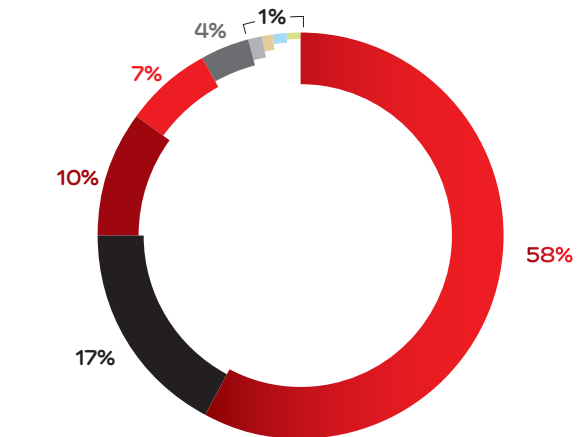
The table below shows the recommendations made by type of activity in 2013:

TYPE OF RECOMMENDATIONS	ISSUED IN 2013
CNI	113
EEO	397
FII	67
SIS	8
CNE	45
S IA	7
S IE	6
INP	7
SIG	27
TOTAL	677

4.2 INTERNAL QUALITY INDICATORS

As set out in the Group's Internal Audit Manual, completed tasks underwent quality assessment in the form of a survey filled in by the company or area audited.

Nº OF RECOMMENDATIONS MADE BY TYPE, 2013



EEO Efficacy and Efficiency of Operations **CNI** Compliance with Internal Policies and Standards
FII Reliability and Integrity of Financial Information
CNE Compliance with Legislation and Legal Standards
SIG Management of services **SIS** Safety and Security **S IA** Applications
S IE Infrastructures **INP** Integrity of Property

The table below shows the results of the surveys for each area audited available by the end of the year.

2013	
TYPE OF ACTIVITY	AVERAGE
Reability of Financial Information	4,3
Operational and Legal Efficacy and Efficiency	4,4
Information Systems	4,8
Continuous Auditing	4,8
AVERAGE	4,6

FI Reliability of Financial Information | **OP** Operational and Legal Efficacy and Efficiency
SI Information Systems | **AC** Continuous Auditing

4.3 INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The EDP Group's management includes an internal control system which has been formalized by the SCIRF - Internal Control System over Financial Reporting and designed on the basis of the best international practices and the COSO and COBIT models.

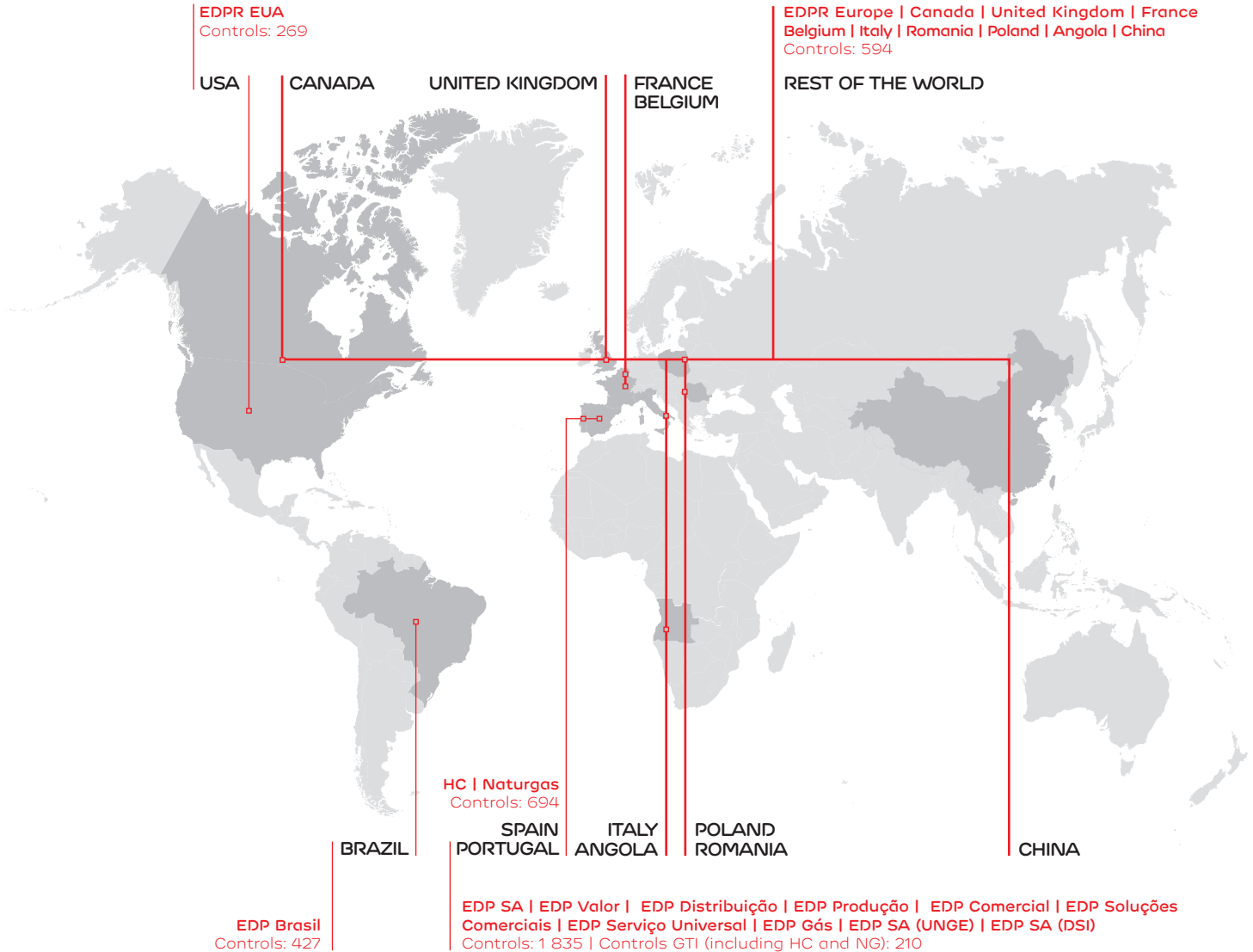
Since 2009 the external auditor has been assessed in accordance with SCIRF, with this assessment carried out by the external auditor, KPMG, in accordance with the International Standard on Assurance Engagements "ISAE 3000".

As a result of the SCIRF 2013 assessment, and for the second consecutive year, the external auditor issued four independent certificates: EDP Group Consolidated and EDP R, HC/NG and EDP Brasil.

*SINCE 2009
THE EXTERNAL AUDITOR
HAS BEEN ASSESSED IN
ACCORDANCE WITH SCIRF*

SCIRF
INTERNAL CONTROL
SYSTEM OVER FINANCIAL
REPORTING

INTRODUCTION OF SCIRF 2013 INTO THE EDP GROUP UNIVERSE



4.3.1 THE MOST IMPORTANT ACTIVITIES IN EACH COUNTRY ARE:

- | Annual planning and monitoring of the cycle, maintenance and revision of the reference models;
- | Methodological and conceptual assistance for business units (BUs) and organizational units (OUs);
- | Identification of the scope of the SCIRF 2013 cycle by using the model on the consolidated financial statements as at 31.12.2012 based on criteria of materiality and risk from a top-down and bottom-up point of view;

Application of the scope model resulted in identifying new subjects for documentation and implementation of controls by local managers (bottom-up) and different processes being redesigned as a result of organizational, structural, legislative and operational changes;

- | Use of the EDP Group financial risk map in the:

Detailed analysis of identified risks and association of risk controls;

Identification of areas with specialized needs for strengthening of controls to mitigate the detected GAPS;

- | Monitoring and quarterly reporting of the current status of the resolution of Non Conformities identified during the SCIRF assessment cycles;
- | Monitoring and quarterly reporting of the current status of the resolution of Relevant Issues and other Issues to be followed up on, identified during the SCIRF assessment cycles;
- | Updating the results of testing the SCIRF support tool;
- | Assistance and follow up of the assessment by the External Auditor;
- | Self-certification process, through which those responsible for the SCIRF conduct a self-assessment of the items under their scope, starting from the processes, respective controls and groups of processes going all the way to the corporate level;
- | Revision of the SCIRF Manual, in which the developments of the concepts occurred were included, following their approval in 2008;
- | The implementation of the Accountability Model is under way for EDP Brasil and according to the harmonization process.

4.4 OTHER ACTIVITIES/ PROJECTS

The following activities were also undertaken as part of the collaboration and interaction with the Group's businesses and projects in the following areas:

- | Monitoring of the development of the SIM (Multi-Country System) project. Two teams are monitoring SIM's work: one in IT and the other for articulation with the remaining areas;
- | Maintenance of activities associated with the Group of Competences and Function Segregation;
- | A new training initiative for SCIRF managers in Portugal was held in partnership with the Training, Recruitment and Documentation Department at EDP Valor, focusing on control concepts and practices;
- | Analysis of potential suppliers of SCIRF support tools;
- | Participation in the EMIR (European Markets Infrastructure Regulation) operational project;
- | Participation in the Ethic Program revision project;
- | Completion of the GAIN benchmark survey.



HUMAN
RESOURCES

5. HUMAN RESOURCES

THE TOTAL NUMBER OF EMPLOYEES IN THE MANY EDP GROUP IADS, REPORTING AS AT 31 DECEMBER 2013, IS 54.

During 2013, there was some movement of employees, as shown in the details presented below.

54
TOTAL NUMBER
OF EMPLOYEES

ADMISSIONS

The IAD staffing levels were improved with two new employees; one aged 37 the other 26, for the office and the auditor's group, respectively.

The table below shows the new recruits and their distribution by company and country.



COUNTRY	EMPLOYEE
EDP Brasil	Edneia Aparecida Neves Gabriel Nava Sotello



COUNTRY	EMPLOYEE
EDP Brasil	Cyntia Patapovas Raquel Negrini Kamizono Ricardo de Castilho Agostini
Naturgás Energía	Maria Luísa Calvo Rivas

VOCATIONAL TRAINING

The table below shows a summary of the training events attended by employees by subject for all countries.

TRAINING AREA	SUBJECT	Nº COURSES	Nº HOURS	%
BEHAVIOURAL		59	588	16
	Communication in Audit	21	232	
	Leadership	13	101	
	Negotiation	4	51	
	Time Management	6	50	
	Emotional Intelligence	2	32	
	Others	13	122	
MANAGEMENT		27	860	23
	Finance	13	297	
	MBA / Master's / Post-Grad Courses	3	442	
	Others	11	121	
ORGANISATIONAL		23	160	4
	Energyzing Program	13	122	
	Others	10	38	
TECHNICAL		190	2,181	58
	Languages	11	654	
	Information Systems	18	228	
	Financial and Operation Audit	72	368	
	Regulation and Competition	22	175	
	The Energy Business	14	155	
	Internal Audits	14	354	
	Introduction to Corporate Finance	1	90	
	Certified Internal Auditor	4	32	
	Others	34	125	
TOTAL		299	3,789	100

5. HUMAN RESOURCES

There was a significant increase in the volume of training hours by IAD employees in 2013 compared to 2012 (approximately 40%), as well as the average number of training hours per employee (from 48 to 70).

This change was accounted for mainly by the increase in technical training resulting from the effective implementation of a plan of specialized training for EDP Group internal auditors, through training activities delivered by IAD itself or by external trainers.

The plan of training activities undertaken corresponds to the activities made available in the Group's program of educational solutions, through externally contracted training and activities and training offered by the department's own employees.

Nine employees have received Certified Internal Auditor (CIA) status, and nine are in the process of CIA certification. There are another five employees with MBAs and another two who are currently doing the course.

With respect to the number of activities provided internally and externally, by analyzing the graphic we can note that in 2013 this was very balanced, even as the external axis continues to show greater numbers.





OUTLOOK

FOR 2014

6.1 INTERNAL AUDITS

According to the plan of activities for 2014, in addition to normal work, the following matters are especially important:

- | Extension of the implementation of the new methodology for the prioritization of auditable processes in the Naturgás Energia and EDP Renewables subsidiaries;
- | Continuation of design and efficacy tests of SCIRF controls as part of internal auditing work;
- | Increase in collaboration between the IAD and EDP Soluções Comerciais, S.A. in surveying and identifying the highest risk activities, based among other aspects on continuous auditing techniques.

6.2 INTERNAL CONTROL SYSTEM FOR FINANCIAL REPORTING

According to the plan of activities for 2014, in addition to normal maintenance of the SCIRF cycle, the following matters are especially important:

- | The maintenance of SCIRF assessment and the issue of independent reports on the internal control system by the external auditors to be published in annual reports and accounts;
- | Presentation to IAD supervisory bodies (GSB, CAUD, EBD) of the final consolidated results of the SCIRF 2014 cycle;
- | Alteration of the quarterly report models, taking into account the results of the internal design and efficiency tests;
- | Implementation of the Responsibilities Model and of the self-certification methodology in EDP Brasil and its maintenance in other countries;

6. OUTLOOK FOR 2014

- | Annual renewal of the Internal Audit Department self-assessment;
- | Analysis of the impact of the application of the new methodology contained in the COSO 2013 framework.

6.3 OTHER ACTIVITIES

In addition to activities referred to, the following are also worthy of mention:

- | Development of corporate training activity relative to internal control, as a complementary contribution to existing measures for training and/or raising the awareness of EDP Group employees;
- | Monitoring of professional internships for graduates as part of the Group's participation in the social responsibility program;
- | Analysis of the results of the responses to the GAIN benchmark survey.



EDP – Energias de Portugal

Praça Marquês de Pombal, nº 13,

1250-162 Lisboa – Portugal

phone number +351 21 002 11 57

fax +351 21 002 11 30

email | azucenavinuela.hernandez@edp.pt

www.edp.pt