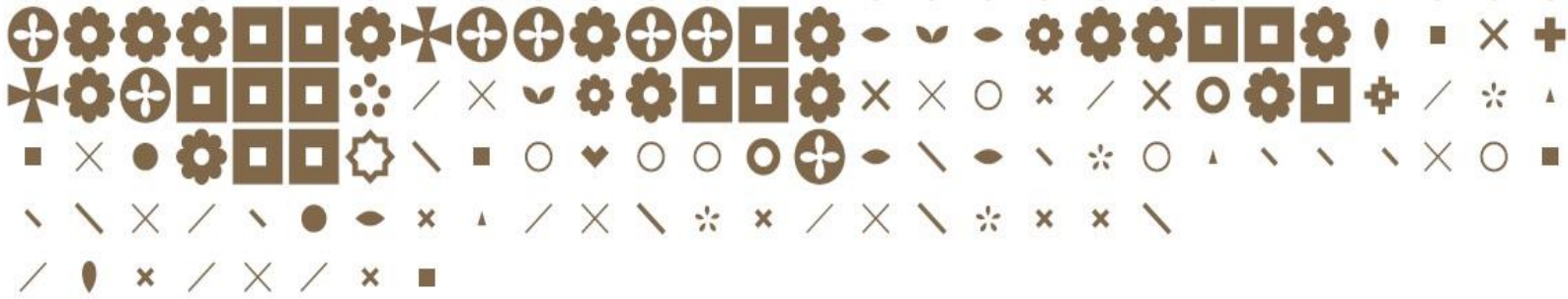


ENERGY THAT MAKES A DIFFERENCE

INTERNAL AUDIT

PROGRESS REPORT OF THE
INTERNAL AUDIT DIVISION OF THE
EDP GROUP 2014





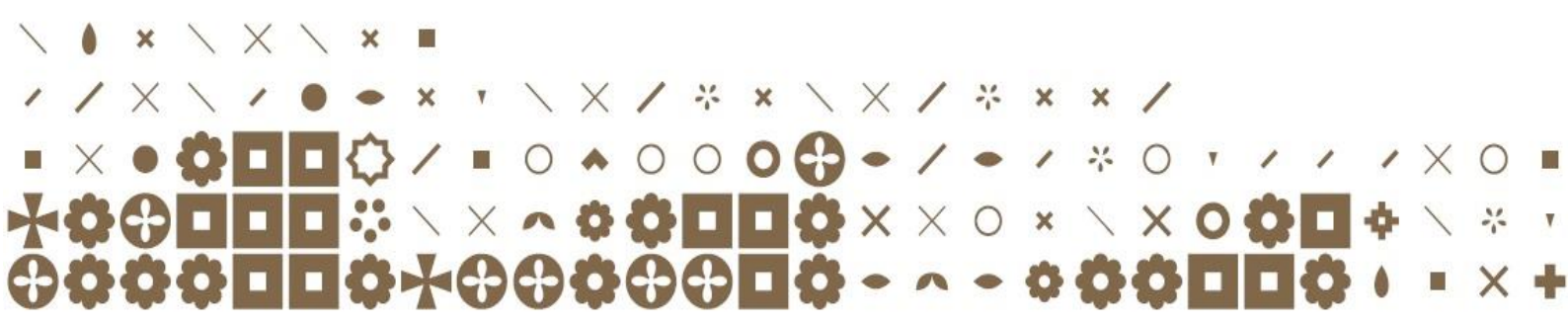
edp

ENERGY

THAT MAKES A DIFFERENCE

TRANSFORM, IMPROVE, MAKE THE WORLD MOVE...
THAT'S WHERE WE PUT ALL OF OUR ENERGY.
AN ENERGY THAT IS BUILT IN 14 COUNTRIES,
MADE OF PROXIMITY, OF COMMITMENT,
OF INVOLVEMENT AND RESPONSIBILITY.

**BUT ABOVE ALL,
AN ENERGY THAT MAKES A DIFFERENCE.**





AN ENERGY THAT TRANSFORMS THE ECONOMY

A commitment to an increase in
the use of hydroelectric power plants,
promoting the country's energy independence.



01.

MESSAGE

It is our privilege to report another year of business activity, in which a diversified and ambitious audit plan was implemented, the SCIRF maintenance and monitoring was conducted, and support tools developed and implemented for IT control and supervision. Furthermore, business unit (BU) support initiatives were carried out across the board as well as humanitarian and volunteering work under the programmes promoted by the Group.

The annual internal audit plan, which is based on the identification of areas of greatest risk by the leaders of the BUs, EBD, FC-AC and the Audit Departments in the different countries, was composed by topics regarding the reliability of financial information, effectiveness, operational and regulatory efficiency, information systems audits, continuous auditing and follow-up of recommendations. The implementation rate was around 120%, consisting of scheduled audits, unscheduled audits, monitoring issues related to the environment and regulatory audits.

In the context of the activities relating to the SCIRF area, in addition to the regular maintenance and monitoring work, a job impact analysis of COSO 2013 was developed, which identified a set of short-term measures, implemented in full in all countries. This allowed the new framework to be adopted in the recommended period. It was even possible to extend the responsibilities model and the self-certification process for controls to Brazil.

In order to resolve the cross-cutting Non-Conformity (NC) of segregation of duties that existed in SCIRF, the GACS application – Access Management and Segregation of Duties was developed and deployed. This application is intended to mitigate the risk of segregation of duties and enhance the robustness and simplicity of the annual check of the revision of accesses.

Also to be noted is the participation of some employees in several structural projects, such as: the SIM, CRM, NORMA, EMIR, ETICAEDP projects and CIBER PERSEU Exercise; participation in the review of controls in the framework of the provision of services by EDP Valor to companies based outside Portugal, full review of the controls matrix of EDP Comercial, as well as participation as adviser for the automation of EDP Distribuição; Participation in the Global Testing of Disaster Recovery 2014, sponsored by IT Department.

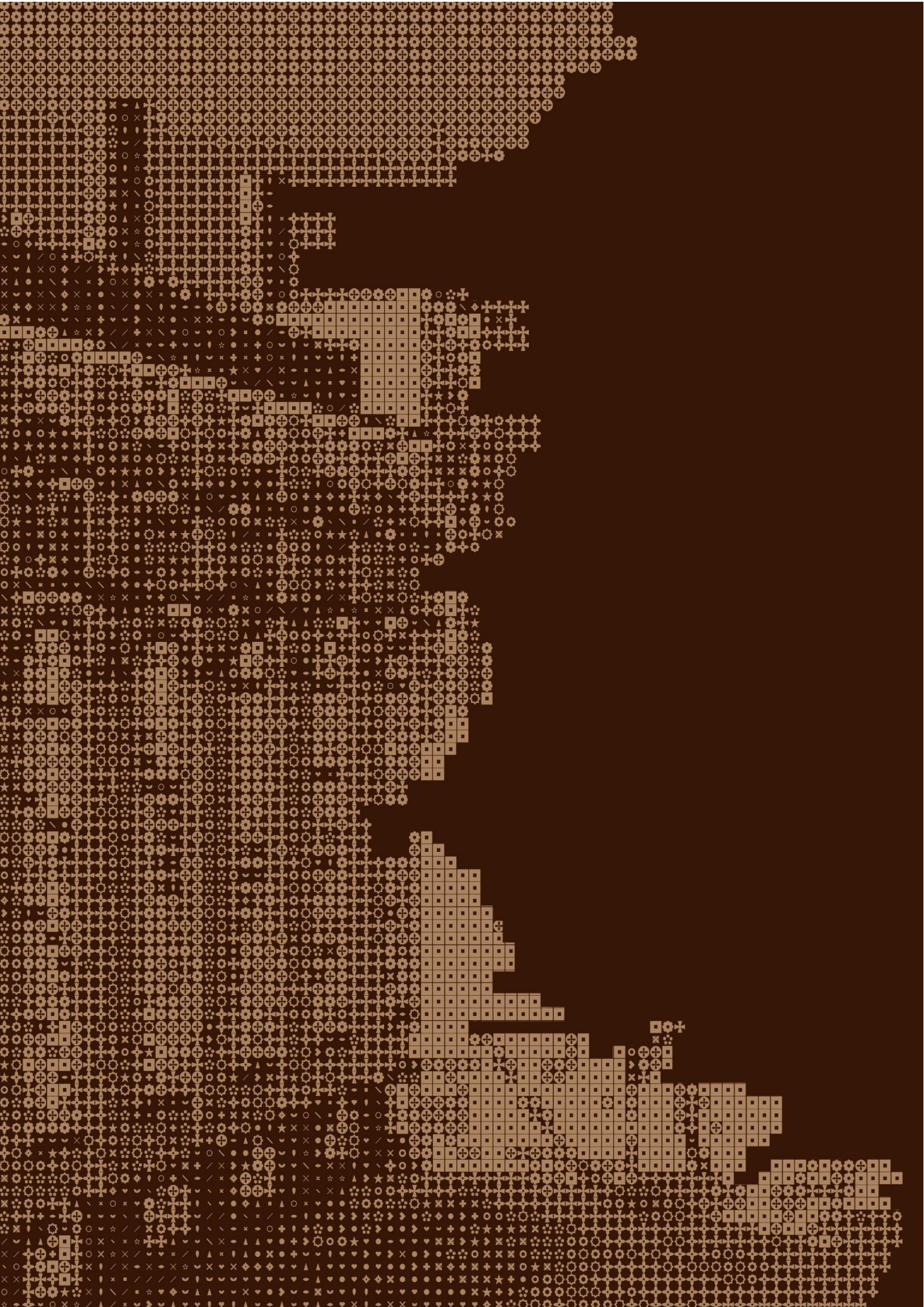
Topics related to volunteering also deserved the attention of employees, who took part in all the initiatives promoted by the Group, namely the *Reparar, Parte de Nós* and JAP-Junior Achievement Program projects.

The training effort has proven to be very stimulating for employees and managers, with CIA-Certified Internal Auditor certificates being obtained, MBA's and behavioural and technical training courses organised by the EDP University, as well as through our collaboration with this institution in the capacity of trainers.

The interest, availability and effort of all have contributed to the successful implementation of our activities plan. Hence, I thank all the employees, customers and managers at all different levels.



AZUCENA VIÑUELA
HERNANDEZ
INTERNAL AUDIT DIRECTOR



AN ENERGY THAT TRANSFORMS CULTURE

It is present in one of the most popular museums in Portugal, a museum dedicated to modern art, science and energy.



02.

SIGNIFICANT EVENTS 2014

1. JANUARY

- Participation in the ethical risk identification team;
- Macrostructure meeting;
- Meetings to present the final results of the SCIRF 2013 assessment by the External Auditor (EA).

2. FEBRUARY

- SCIRF 2013 Steering Committee and presentation of overall SCIRF 2013 results;
- Conclusion of the SCIRF 2013 assessment.

3. MARCH

- Issue of the Independent Report on the Internal Control System of the EDP Group, as well as the reports of HC/NG, EDP R and EDP Brasil;
- Start of the participation in the CRM Project for Liberalized Market.

4. APRIL

- Launch of the work to review the EDP C controls matrix;
- Start of the work to evaluate the implications of COSO 2013 on the SCIRF of the EDP Group;
- Start of the evaluation work under SCIRF 2014.

5. MAY

- Holding meetings with the board of directors of the companies on closing the SCIRF 2013 cycle and launching the SCIRF 2014 cycle.

6. JUNE

- Kick off the work to review the EDP Comercial controls matrix;
- Undertake the *Reparar* volunteering project in collaboration with Santa Casa da Misericórdia de Lisboa;
- Hold a workshop on communication in audits, with the support of Legacy Consulting and the EDP University, involving all of the employees of IAD CC;
- Presentation by the EA of the SCIRF 2014 assessment work plan;
- Participation in the IPAI Forum with a speech on the internationalisation of the EDP Group;
- Launch of GACS Segregation of Duties.

7. JULY

- Start of SCIRF 2014 assessment tests;
- Launch of Annual Review of Accesses through the GACS Review of Accesses.

8. SEPTEMBER

- Start of preparation of 2015 Audit Plan Proposal.

9. OCTOBER

- Presentation by the EA of the interim results of the 1st phase of testing of SCIRF 2014;
- Holding the Group's Internal Audit Conferences, in Madrid;
- Completion of the work to identify the impact of COSO 2013 on the EDP Group's SCIRF;
- Undertaking the self-certification of processes, groups of processes and business units/companies, relating to SCIRF.

10. NOVEMBER

- Implementation of short-term measures arising from the adoption of the COSO 2013 as the reference and support framework for the EDP Group's SCIRF.

11. DECEMBER

- Taking part in the *Parte de Nós* volunteering project, with an initiative in the paediatric service of the Lisbon IPO Cancer Hospital;
- Presentation of the 2015 Audit Plan Proposal.





AN ENERGY THAT TRANSFORMS ENVIRONMENTAL AWARENESS

A commitment to clean energy in an increasingly sustainable world, allied with a strong commitment to technological innovation.



FI
boat

03.

SUMMARY OF
PERFORMANCE
INDICATORS

HUMAN RESOURCES

40	AVERAGE AGE
17	AVERAGE YEARS OF WORK EXPERIENCE
52	HOURS OF TRAINING PER AUDITOR



ACTIVITY

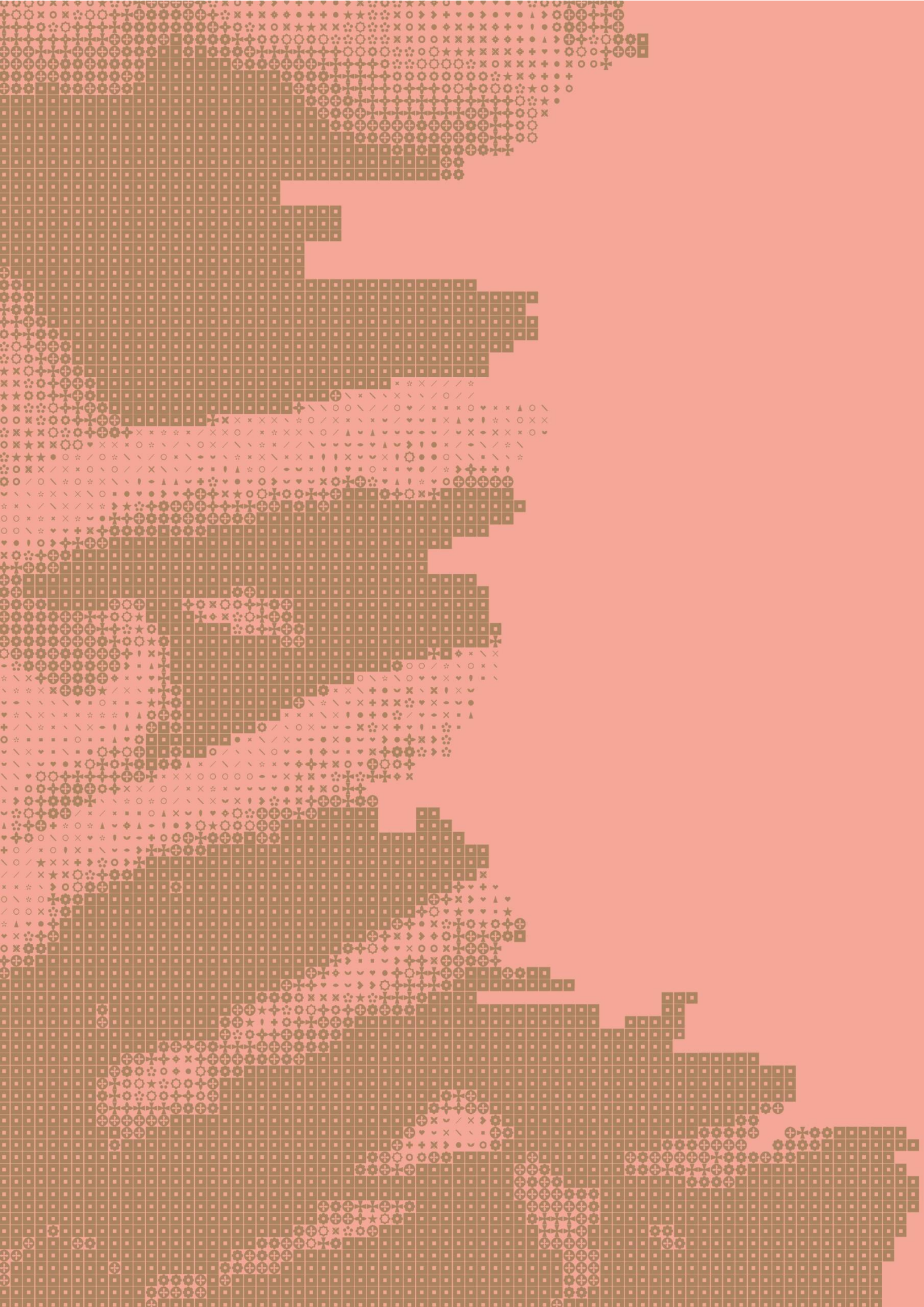
135	N° OF AUDIT REPORTS COMPLETED (EXCEPT SCIRF)
14	OTHER ACTIVITIES AND PROJECTS
104%	% AUDITS COMPLETED VS PLANNED
952	N° OF RECOMMENDATIONS (EXCEPT SCIRF)
4.014	N° OF SCIRF CONTROLS



QUALITY/EFFICACY

4,6	DEGREE OF SATISFACTION (QUESTIONNAIRES)*
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(*) Scale 1 (lowest) to 5 (maximum).





AN ENERGY THAT TRANSFORMS THE FUTURE

Engaged with the community
through its voluntary programmes
and initiatives that promote
social innovation.



04.

ACTIVITIES UNDERTAKEN IN 2014

THE STAND-OUT ACTIVITIES OF 2014 IN THE INTERNAL AUDIT DEPARTMENTS OF THE EDP GROUP CONSISTED IN AN AMBITIOUS AND DIVERSIFIED AUDIT PLAN, THE COSO 2013 IMPACT STUDY ON THE GROUP'S SCIRF, DEVELOPMENT AND IMPLEMENTATION OF GACS, AND PARTICIPATION IN STRUCTURING PROJECTS. .

4.1. INTERNAL AUDIT

The most important activities in 2014 were the following:

- ⊕ Development and implementation in the Naturgás Energy subgroup of the auditable processes prioritisation methodology, applied since 2013 in Portugal and in the HC Energia subgroup. This completed the implementation of this methodology in EDP Espanha, thus fostering the strengthening of an integrated and coordinated vision of Internal Audit of the processes where the reviews to be carried out should focus;
- ⊕ Using the training plan specifically developed by IAD for all internal auditors during 2013 as the basis for the definition of individual training needs and monitoring during 2014. This plan includes, among others, expanding the knowledge of the members of IAD on the specificities of the different Group businesses through the selective involvement of some employees in the different Business Schools of the EDP University;
- ⊕ Systematise the use of the GAR tool, developed in-house by IAD for the management and monitoring of the status of recommendations made during internal audit work;
- ⊕ Undertake the systematic and continuous assessment of the degree of effective implementation of the internal audit recommendations reported as completed, complementing the collection of quarterly information on the status of all recommendations issued pending implementation. This work culminated with the issue of information reports sent at the end of 2014 and early 2015 to the senior management of the main Group companies in Portugal and Spain.

4.2. SEGREGATION OF DUTIES AND ACCESS REVIEW

The GACS tool - Access Management and Segregation of Duties came into operation in 2014. This tool was designed and developed by the IAD's Information Systems area.

This tool implements two SCIRF controls:

- ⊕ Identification and validation of incompatible duties performed by the same employee;
- ⊕ Annual Review of Accesses of employees.

The control of Segregation of Duties solves an issue that had been noted by the External Auditor as a non-conformity and Significant Topic. The Access Review control has made the review being done annually more effective.

The tool was developed with Web technology and Microsoft Database and works on a large volume of historical data of employees' access to the main SAP environments, in relation to HR data and Identities. The Segregation of Duties Risks are identified on a monthly basis, resulting from the effective implementation, by the same employee, of incompatible transactions and those submitted for validation. The Access Review, in addition to the access rights of each employee, also includes information on the number of times used, thus making it clear that those not used for one or more years are, therefore, not necessary.

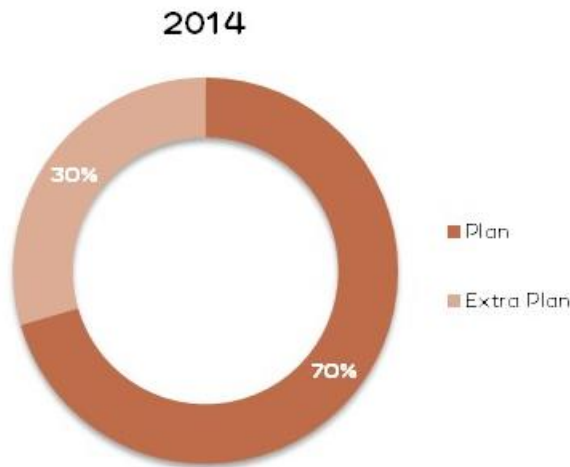
We plan to install a GACS pilot in Brazil in 2015 and, if all goes to plan, we intend to also use this tool in EDP Energias do Brasil.

4.3. WORK CONDUCTED IN ALL AREAS OF INTERVENTION

The following table summarises the activities planned/carried out in 2014:

Type of Work	Plan	Extra Plan	Total	Ongoing
Reliability of Financial Information	10	1	11	1
Operational and Legal Efficacy and Efficiency	64	23	87	9
Information Systems	6		6	2
Continuous Auditing	7		7	1
Follow Up	18	6	24	1
Other activities (*)		14	14	10
TOTAL	105	44	149	24

(*) Other activities than audits.



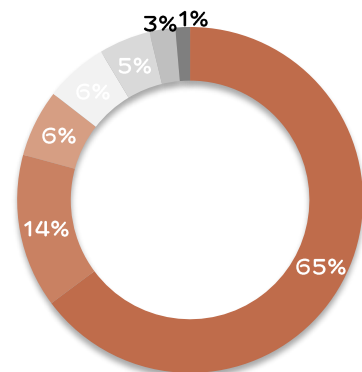
70% of the work was scheduled in the plans

30% was non – programmed work.

952 recommendations were made and improvement measures taken from the 149 jobs undertaken and completed, resulting in action plans in the audited companies or areas. These action plans, obtained during the process for the issue of reports, are the object of quarterly monitoring by the IAD.

The table and graph below show a summary of the recommendations made by type of activity in 2014:

Type of Recommendations	Issued in 2014
Efficacy and Efficiency of Operations	617
Compliance with Internal Policies and Standards	137
Reliability and Integrity of Financial Information	60
Safety and Security	56
Compliance with Legislation and Legal Standards	46
Applications	23
Service Management	13
Total	952



- Efficacy and Efficiency of Operations
- Compliance with Internal Policies and Standards
- Reliability and Integrity of Financial Information
- Safety and Security
- Compliance with Legislation and Legal Standards
- Applications
- Service Management



149

Tasks carried out and completed.



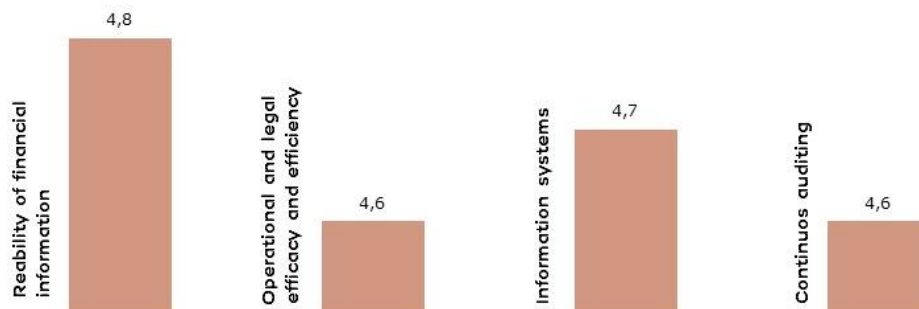
952

Recommendations and improvement measures.

4.4. 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.

The graph below shows the results of the surveys for each audited area, available by the year's end.



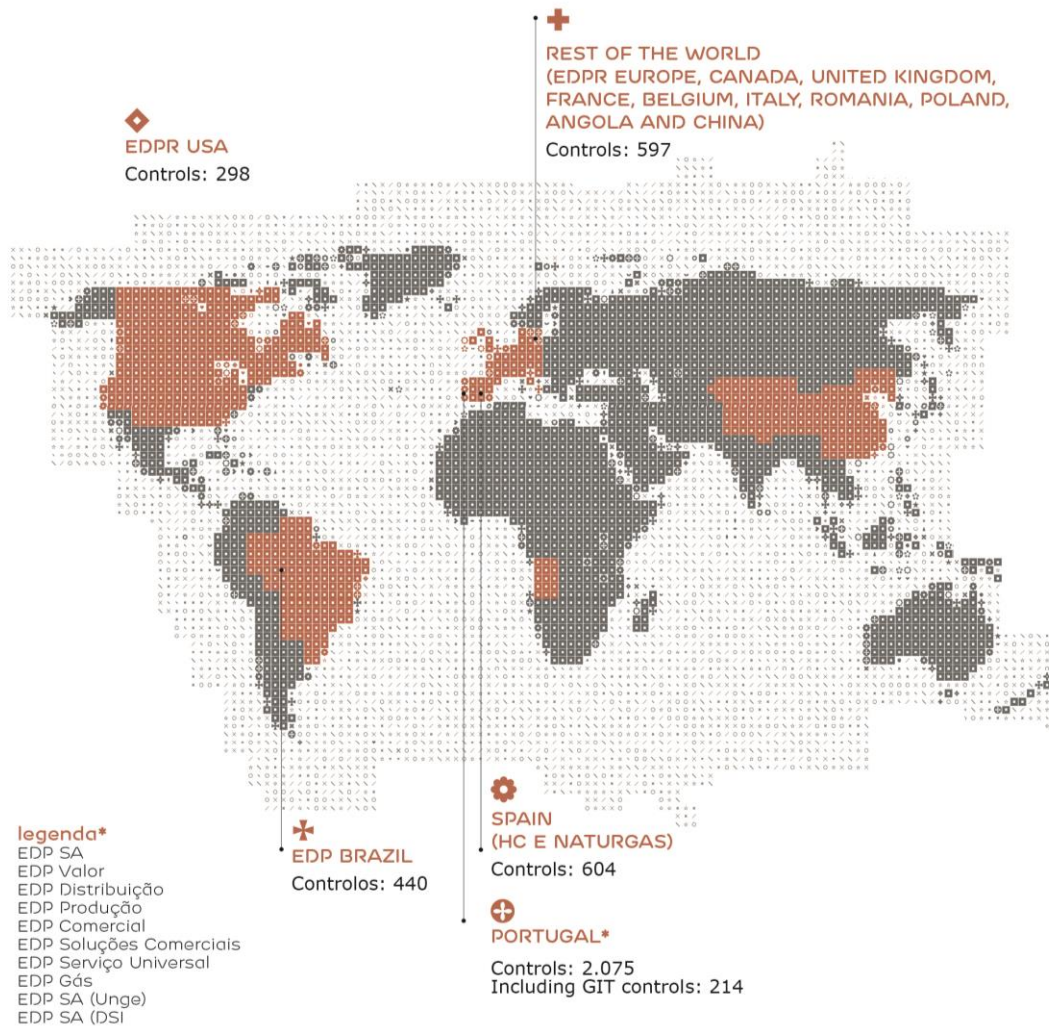
4.5. INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

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

The EDP Group is assessed in relation to SCIRF since 2009. That assessment is made by the External Auditor - KPMG, in accordance with the International Standard on Assurance Engagements (ISAE 3000).

Four Independent Certifications were issued by the EA following the SCIRF 2014 assessment, for the third consecutive year: Consolidated EDP Group and Stand Alone for EDP R, HC/NG and EDP Brasil.

4.5.1. PRESENTATION OF THE 2014 SCIRF IN THE EDP GROUP UNIVERSE



The

assessment of the 2014 SCIRF Cycle by the EA, which will take the form of the issue and publication in the Annual Report of an Independent Report on the Internal Control System of the EDP Group, as well as the issue and publication of stand alone reports by HC/NG, EDP R and EDP Brasil, in their Annual Reports, has required the following activities, among others:

- ⊕ Verification of the scope of the SCIRF 2014 based on the Financial Statements as at 31/12/2013 (Group and stand alone) - based on materiality criteria and risk criteria including those identified in the financial risk chart analysis;
- ⊕ Support the BU's in documenting/reviewing the new processes and controls and redesigning existing ones;
- ⊕ Support and monitoring the assessment carried out by the EA;
- ⊕ Launch and support the implementation of the SCIRF 2014 self-certification process. This was conducted in all countries, for the first time. One of the measures envisaged in COSO 2013 was also adopted, which was the extension of the scope of self-certification to include the Directors of the companies responsible for the SCIRF;
- ⊕ Monitor the rate of solving NC's, on a quarterly basis, and issue reports to the FC/AC, EBD and managers of the relevant BU's;
- ⊕ Monitor and issue ISAE 3402 reports on IT service providers;
- ⊕ Update and validate the results of the SCIRF 2014 assessment in the support computer systems.

4.5.2. OTHER ACTIVITIES ARISING FROM THE SCIRF MAINTENANCE WORK

- ⊕ The publication of the new COSO 2013 framework led to an impact assessment on the Group's SCIRF, with a view to its adoption during the 2014 cycle. Accordingly, a joint initiative was conducted in partnership with Spain and Brazil resulting in an identification of a set of short-term measures that were implemented by the end of November, as well as the identification of other best practices, which will be the object of reflection in the course of 2015;
- ⊕ In relation to the implementation of the short-term measures of COSO 2013, the global controls in all countries were reviewed in general, and an additional set of new controls were described;
- ⊕ Review the EDP Comercial controls matrix, in response to the structural changes of that BU;
- ⊕ Review the financial risks matrix and update the allocated controls;
- ⊕ Consolidate the GACS application – Access Management and Segregation of Duties – intended to mitigate the risk of performing duties considered incompatible;
- ⊕ Approve the SCIRF responsibilities model in EDP Brasil, which will mean it is completed in all countries;
- ⊕ Participate as adviser in the automation of the co-payments process of customers in Portugal, review of the controls of the Financial Resources and Human Resources processes of EDP Valor, DFN, and EDP Finance and EDP Sucursal.

4.6. OTHER ACTIVITIES AND PROJECTS

- ⊕ Continue the collaboration, already begun in previous years, with the Group companies that undergo regulatory external audits (including the preparation of the specifications for the audits, selection of the companies to conduct the audits, monitoring the results, and developing any plans for implementing improvements);
- ⊕ Holding training courses on SCIRF, as part of the training provided at the EDP University;
- ⊕ Taking part in the NORMA project;
- ⊕ Analysis of the results of the GAIN questionnaire - obtained based on the answers in the questionnaire sent out at the end of 2013 by the IIA - Institute of Internal Auditors, in order to find out about the work conducted in the EDP Group, in relation to the international best practices of the Internal Audit field;
- ⊕ Collaborating with the development of the EMIR – European Markets Infrastructure Regulation project;
- ⊕ Collaborating with the ÉTICAEDP project;
- ⊕ Participation in CRM Project for Liberalized Market;
- ⊕ Participation in IAM Team Work with all companies of the Group;
- ⊕ CIBER PERSEU is an exercise that is being conducted by Portuguese Army, in coordination with NATO, that wants to build a national cyber defense capability and allows to exercising the response of the national critical infrastructure to a cyber attack. Has been running since 2012 but only in 2014 EDP was invited to participate.





AN ENERGY THAT TRANSFORMS THE PRESERVATION OF BIODIVERSITY

A commitment to such projects
as the reintroduction of the
osprey to Europe, with the
release of 50 birds by 2015.



05.

HUMAN RESOURCES

5.1. NUMBER OF EMPLOYEES

There were 55 permanent employees working for the internal audit departments of the EDP Group as at 31 December 2014.

The structure and size of the IAD's went from 54 employees, at the end of 2013, to 55 employees at the end of 2014. We highlight the main changes here:

- ⊕ The team of auditors at EDP Brasil hired a new employee to replace an auditor who left;
- ⊕ The team of auditors at Naturgás Energía hired a new employee to replace an auditor who left through a process of internal mobility in the Group;
- ⊕ The team of auditors at EDP Renováveis, in Houston, hired a new employee to replace an auditor who left the group;
- ⊕ A new employee was hired to strengthen the team of auditors in Portugal;
- ⊕ Maintenance of the matrix structure and exchange of employees on the Iberian Peninsula, with a view to the optimisation of resources, and to capture the available expertise according to the work performed.

In addition to the group of employees described above, three new trainee auditors were hired in Portugal during 2014, from outside the Group, for a period of 12 months. The reasons for this were to assist the operational and financial audit and SCIRF areas and provide opportunities for young graduates to have their first contact with the business world (one of the trainee internships ended four months before the contracted date of termination, at the initiative of the trainee, who decided to enrol in a Master's degree course outside Portugal).

5.1.1. ADMISSIONS

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

COUNTRY	EMPLOYEE NAME
EDP Portugal	Ana Luísa Vasques
EDP Brasil	Marcelo de Almeida Santos
EDP Renováveis - EUA	Stephen Armstrong
Naturgás Energía	Patricia Ruiz Vigiola

5.1.2. EXITS

The table below shows the employees who left and their distribution by company and country:

COUNTRY	EMPLOYEE NAME
EDP Brasil	Daniel Rocha Carezzato
EDP Renováveis - EUA	Henry Cisneros
Naturgás Energía	Ibone Ortiz Zárata

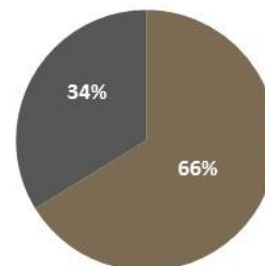
5.2. VOCATIONAL TRAINING

The table below shows the training courses attended by employees, by training area and skill, and for all countries:

TRAINING AREA	Nº Hours	%
Subject		
BEHAVIOURAL	386	13
Interpersonal Relationships and Communication	363	
Leadership	23	
MANAGEMENT	322	11
Finance	110	
Management	100	
MBA/Master's/Post-Grad Courses	96	
Time Management	16	
ORGANISATIONAL	632	22
Executive Development Program	289	
Energizing Development Program	141	
Client EDP 365	68	
New Quiosque EDP	52	
Ethics Course EDP	34	
APD 2014 - Improvements made to the Evaluation Cycle 2014	31	
Dealing with Cultural Diversity	7	
New Application Management Model of EDP	6	
New Clarification Session of ACT	4	
TECHNICAL	1530	53
The Energy Business	419	
Languages	415	
Workshop on SAP GRC	131	
Internal Control	80	
IPAVIIA	65	
Legal/Regulation	47	
Internal Audit	43	
Information Systems	37	
Prevention and Safety	36	
Reporting	32	
Visual Basic	27	
eCloud	19	
Business	13	
SIM PT +MM Requesters	15	
Audit Sampling	8	
Risk Management	4	
CIA	4	
Others	137	
TOTAL	2870	100

66% In-House
Training

34% External
Training



Total training hours in 2014 rose to 2,870 hours. The average number of training hours per employee was approximately 52 hours in 2014 (January to December 2014), representing a decrease of about 17% compared to 2013. This decrease in training hours is in line with the decrease of the Group's budget for such activities.

The training courses organized correspond to those available in the Group's training plan, training courses contracted from outside the Group in partnership with reference entities and training activities taught by the employees of the Department.

With regard to the number of training hours taught internally and externally we can verify, by analysing the chart, that the external component in 2014 lost ground to internal training, which currently accounts for about 66% of the training provided in contrast to the 43% recorded in 2013.



10

EMPLOYEES THAT
HAVE RECEIVED
CIA STATUS

Ten employees are already certificated with CIAs – Certified Internal Auditors, and seven are in the process of CIA certification. Moreover, six employees have completed an MBA (Master of Business Administration) and one is attend this type of training course. In relation to additional certification, it should be noted that one employee holds CISA certification - Certified Information Systems Auditor, and another holds a CRMA certificate - Certification in Risk Management Assurance.



6

EMPLOYEES WITH
MBAS



AN ENERGY THAT TRANSFORMS OPPORTUNITIES

Making a difference to our customers' lives, offering them innovative solutions, and also to the lives of employees and shareholders, combining rigorous ethical conduct with enthusiasm and initiative.



06.

OUTLOOK FOR 2015

6.1. INTERNAL AUDIT

According to the plan of activities for 2015, we highlight, in addition to normal work, the following matters as being particularly important:

- ⊕ Submitting the Internal Audit duty of the Group to another Quality Assessment, to be carried out by external and independent assessors, in compliance with the specifications of the International Standards on Auditing issued by the Institute of Internal Auditors. This assessment process aims to renew the Certification issued in October 2010, with the highest rating granted by that entity;
- ⊕ Strengthening the coordination of the activity of the Oviedo (HC Energia) and Bilbao (Naturgás Energía) audit teams, taking into account the growing integration/consolidation of activities, processes and areas of the two companies of EDP Espanha. A significant step in 2014 was the preparation of a joint audit plan;
- ⊕ Review/Update of the financial reporting risks chart developed by IAD, as a support tool for SCIRF and for the prioritisation of the financial internal audit work;
- ⊕ Limited review of the Internal Audit Manual, supplementing the more comprehensive review conducted in 2013. The aim is to only review certain internal procedures of IAD, where local specificities have to be considered;
- ⊕ Monitoring the Group's risk management initiatives.

6.2. INTERNAL FINANCIAL REPORTING CONTROL SYSTEM

We highlight the following topics, in line with the plan of activities established for 2015:

- ⊕ SCIRF 2015 cycle management:
 - Identification of the scope of the SCIRF 2015, based on the Financial Statements of 31/12/2014;
 - Survey/Redesign of new controls, resulting from the scope and/or procedural, structural and regulatory changes;

- Assessment of the SCIRF 2015 cycle;
 - Undertaking the SCIRF 2015 cycle self-certification process;
 - Monitoring the process of issuing the ISAE 3402 reports relative to the certification of Service Organisations.
- ⊕ Other topics related to organisation, methods, processes, support methods and support tools:
- Review of the responsibilities model;
 - Possible implementation of the new SCIRF support tool;
 - Continuation of work for the allocation/update of controls of the financial reporting risk chart;
 - Analysis of best practices resulting from the COSO 2013;
 - Optimisation of operations carried out on the basis of incompatible transactions from the point of view of the segregation of duties.

6.3. OTHER ACTIVITIES

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

- ⊕ Continued monitoring of professional internships for graduates as part of the Group's participation in the social responsibility programme.

