

**EDP CORPORATE GOVERNANCE
MANUAL**

Non Binding Translation

EDP CORPORATE GOVERNANCE MANUAL¹

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ACRONYMS AND ABBREVIATIONS

The following acronyms and abbreviations are used throughout this report for ease of expression, although the names and expressions they substitute may also be used occasionally:

GM - General Meeting

EA –External Auditor

EBD - Executive Board of Directors

GSB - General and Supervisory Board

CGSC - Corporate Governance and Sustainability Committee

SPC – Strategy and Performance Committee

FC – Financial Committee/Audit Committee

RC – Remuneration Committee

SC - Securities Code

CMVM - Portuguese Securities Market Commission

Code – Corporate Governance Code published by the CMVM in 2010

CC - Companies Code

EDP (or the Company) - EDP – Energias de Portugal, SA

Articles of Association – Current EDP Articles of Association as approved by its shareholders

GSBO - GSB Office

Manual – EDP Corporate Governance Manual

CFC – Chairman of the Financial Committee/Audit Committee

CEBD - Chairman of the Executive Board of Directors

CGSB - Chairman of the General and Supervisory Board

CGM – Chairman of the General Meeting

REDP – Recommendations of good governance practices developed by EDP

Subsidiaries – companies dominated by or in the same group as EDP pursuant to Article 21 of the Securities Code

1. PURPOSE

Since it took office in 2006, the General and Supervisory Board (GSB) and the Executive Board of Directors (EBD) have jointly sought to promote the development of EDP's governance model and enhance its practices.

Based on its experience, the GSB gave to the EBD the job, which it accepted, of drafting an EDP Corporate Governance Manual (Manual) to record the two bodies' shared understanding of the recommendations on good corporate governance practices and the appropriate guidelines to adopt with regard to them.

In the current legal framework, every year EDP is obliged to issue a report on its governance practices, which must include a statement on its adoption of the recommendations in the CMVM Corporate Governance Code (Code) or of an equivalent code issued by a specialized entity, justifying the choice made and specify the recommendations it does not adopt and why. Although it is possible to follow another code of recommendations, in Portugal there is not yet any alternative to that of the CMVM and so EDP will continue to use its Code as a standard.

Therefore, the goals of this initiative are as follows:

- To reflect critically on the best practice recommendations set out in the Code in order to make an active contribution to enhancing practices at EDP
- To select the recommendations deemed most appropriate to EDP's governance model, with special focus on the measures taken and indicating potential measures to be implemented for full adoption of good practices
- To identify recommendations that are not appropriate to EDP's interest and give reasons for this position, while indicating other practices that achieve the goals set out in the Code's recommendations but in a different way
- To help readers of the recommendations to reflect on the best governance practices to be followed at EDP
- To draft a formal document that will help compliance with reporting obligations on corporate governance practices, such as the annual report required by law
- To describe EDP's governance practices that are not set out in the Code but achieve the goal shared by the GSB and EBD of developing and furthering the quality of EDP's governance processes.

Where the last of these goals is concerned, the intention is to highlight something that is often mentioned but sometimes underestimated in the evaluation of corporate governance. There is no such thing as a perfect, universal corporate governance model that can be followed in all cases. Within the current legal framework, each company should be free to develop its own governance model in terms of good practices as a corollary of the principle of economic freedom, which points to a company's self-

determination in the pursuit of its interests. Therefore, in addition to the effort required of companies with regard to their commitment to best practices, the same effort should be required of the authorities that are responsible for assessing governance practices so that their assessments are truly qualitative and recognise the specificities of the companies that they assess and this exercise is not reduced to bureaucratic activity of mechanical compliance (“box ticking”) and tightly restricted to the “literal” adoption of certain recommendations.

As with other initiatives, the GSB and EBD are aware of the natural limitations of an ambitious undertaking like this Manual. Just like the recommendations that serve as a standard for it, this document is dynamic in nature and it will therefore be revised periodically in order to achieve the goal of excellence that characterises EDP’s commitment to its shareholders and other stakeholders.

2. THE CONCEPT OF CORPORATE GOVERNANCE

a) Contribution to a definition

Generally speaking, the concept of governance of a company covers the structures, policies, processes and practices that embody the way in which the company sets its decision making processes and operates in the pursuit of its imperative corporate interest. The governance of a company is, first and foremost, characterised by a vast collection of provisions laid down by law, regulations and the Articles of Association that define the limits on the governance of a particular company. However, within these limits there is broad freedom of compliance and so the decisions made by the different players who have corporate responsibilities end up marking the specific governance of a company.

Although the analysis to the “corporate governance” may be developed regarding any corporate organization, this Manual has taken for reference public limited companies in the capital markets. In this scope, corporate governance is, mainly, comprised by a serie of rules and mechanisms by which forms of control are established for the management of listed companies, which include instruments for monitoring the decisions taken by managers.

b) Agency costs

One of the central points of corporate governance has to do with so-called “agency costs resulting from the separation between ownership and management of companies, which takes on specific forms in listed companies with a dispersed shareholder structure in terms of numbers and geographical origin. Furthermore, the motivation of many of these shareholders is merely financial and short term and they have no direct interest in the control or governance of the company. In this context, the companies’ management is entrusted to professional managers who are chosen for their management skills and who, unlike in “traditional” companies, have no significant

holding in the company's capital. This results in the separation between ownership and management underlying agency costs, i.e. the cost borne by shareholders for having entrusted managers with the promotion of their interests.

The shareholders' ability to control the management is very tenuous and may be practically non-existent, and this allows a high degree of discretion on the part of managers when making decisions. Furthermore, the asymmetry of information between managers and shareholders makes it even more difficult for shareholders to learn in good time of any potential or actual conduct harmful to the company's interests.

This situation makes the shareholders quite vulnerable to the risk of the company management pursuing its own interests rather than those of the company, thereby increasing agency costs (which may involve significant losses for shareholders).

c) Supervision

Companies' internal supervisory bodies and independent auditors play an essential role in corporate governance as an indispensable complement to the management's discretion. The independence, objectivity and integrity of their work are essential attributes of the effectiveness of their powers.

In fact, given the complexity of managing listed companies and the limits and difficulties in monitoring by their shareholders, the requirements for performing (internal or external) supervisory duties must necessarily be high, particularly as a reflection of the fundamental responsibility for the trust of shareholders and investors.

d) Public interest

Very often, the damage caused by harmful practices in a company goes beyond the interests of the company and its shareholders. Indeed, deficient supervision of companies paves the way for situations in which the management may jeopardise the company's business activity and even bring about its collapse. This affects not only its shareholders but also a large group of stakeholders: creditors, workers, suppliers, etc. Yet more than this, in the case of listed companies, irregularities in the management of a company may jeopardise the regular functioning of capital markets and affect the essential confidence of investors. There is therefore a public interest in the quality of companies' governance.

e) Recommendations

In this context, the will to improve the company's governance mechanisms was confronted with the need to reconcile the demands of legal regulation with the needs for the flexibility and discretion that are typical of management. This led to the movement of companies' governance "recommendations", which have accompanied the developments in the financial markets in recent decades (such as the Model Business Corporation Act in the United States and the Cadbury Report in the United

Kingdom). This movement eventually expanded considerably as a result of landmark episodes of bankruptcy of listed companies, whose origin lay in governance problems. For a long time, the response to these episodes was the conviction that governance recommendations revolving around consensual principles of good governance and the explanation of their adoption or not (comply or explain) would be sufficient to protect the different interests in question.

However, scandals like Enron and Worldcom eventually accentuated a new trend in corporate governance. As the recommendations had proved ineffective, legislators promoted the widespread conversion into legal rules of many of the practices that had so far been mere recommendations (the approval of the Sarbanes-Oxley Act in 2002 was a turning point and also affected the European Union, where European law on companies and financial markets was reformed).

More recently, with the financial crisis initiated in 2007/2008, we have been assisting to a new legislative “wave” on the area of corporate governance of listed companies, namely by European initiative. In spite of this more interventionist trend, space for the adoption of companies’ recommendations on good practices is still recognised and though they are not mandatory, they mean that companies take a position on them.

3. EDP'S GOVERNANCE MODEL

Within the limits set by the CC, the governance model of a public limited company is determined basically by the choices made by the shareholders and enshrined in the company's Articles of Association. One of the main choices that the shareholders have to make is that of the model according to which they shall organise the company's management and supervisory bodies (though the GM is common to all of them). After the 2006 reform of the CC there are three possible models (without prejudice to each one's variants):

- **Latin unitary board model** – Board of Directors, Supervisory Board and Statutory Auditor
- **Anglo-Saxon unitary board model** - Board of Directors, including an Audit Committee and Statutory Auditor
- **Two-tier model** - Executive Board of Directors, General and Supervisory Board and Statutory Auditor

The main difference between the models is the organisation and separation of powers between the management body and the supervisory body. The main difference between the Latin and Anglo-Saxon model lies in the fact that the Supervisory Board is an integrally autonomous body different from the Board of Directors, while the Audit Committee is not and consists of members of the Board of Directors (without prejudice to the guarantees of independence in the performance of its duties). The main difference between the unitary board and two-tier models is the fact that, while the Supervisory Board and Audit Committee only perform supervisory duties, the General

and Supervisory Board may be required for to give its previous approval for certain acts to be performed by the Executive Board of Directors. Furthermore, the General and Supervisory Board must set up a Financial Committee specifically devoted to certain of its supervisory duties (not to be confused with the Audit Committee in the Anglo-Saxon unitary board model).

On 30 March 2006, in order to improve the quality of the company's governance practices, EDP's shareholders decided to relinquish the one-tier governance model that had been in effect until then and adopted the two-tier model in the Articles of Association, thus enhancing the maximisation of synergies resulting from the division of powers within the company, i.e. management, supervision and auditing of accounts.

This fundamental option is essential in understanding the current governance model at EDP² and the commitment to developing best governance practices by the GSB and EBD. In addition, the shareholders took advantage of the leeway recognised by the CC to define some specificities which are important for understanding EDP's governance model:

- As with the other corporate bodies, the EBD is elected by the GM and not the GSB (Article 11(2)(b) of the Articles of Association).
- The GSB may propose to the GM the dismissal of any member of the EBD and of the Statutory Auditor (Article 11(2)(b) and 22(1)(e) of the Articles of Association).
- Approval of the strategic plan and the performance of certain operations by EDP or subsidiaries require a prior opinion from the GSB (Article 17(2) of the Articles of Association).
- The remuneration of the EBD is fixed by a Remuneration Committee appointed by the GSB, while that of the other corporate bodies is fixed by a Remuneration Committee elected by the GM (Article 11(2)(d) and Article 27(1) of the Articles of Association).
- The GSB has the power to select and replace EDP's EA and instruct the EBD to hire and release it (Article 22(1)(q) of the Articles of Association).
- There is an Environment and Sustainability Board elected by the GM, which answers to the EBD and has advisory functions in the definition of the company's environment and sustainability strategy (Article 28 of the Articles of Association).

The GSB's specialised committees play an important role in its overall activity:

- **Financial Committee / Audit Committee** – its existence is required by law and it is devoted to the supervision of financial information and permanent monitoring of the work of the Statutory Auditor, the EA, the internal auditor and the internal control systems (Article 444(2) et seq of the CC and Article 23(2) of the Articles of Association).

² As mentioned in Chapter 4 "Methods", the adoption of the two-tier governance model affects the CMVM recommendations applicable to EDP.

- **Remuneration Committee** – its existence is permitted by law and it is enshrined in the Articles of Association. It is responsible for fixing the remuneration of the Chairman and other members of the EBD (Article 27 of the Articles of Association).
- **Corporate Governance and Sustainability Committee** – although its existence is provided for in the Articles of Association (Article 23(1)), it was appointed on the free initiative of the GSB. It is responsible for functions in the areas of corporate governance and EDP’s sustainability.
- **Competitiveness and Performance Analysis Committee** – committee incorporated under article 23(1) of the Articles of Association, having the purpose of permanently monitor matters related to (i) analysis of the Company’s corporate performance, (ii) benchmarking the Company’s corporate performance in relation to the sector’s leading companies and (iii) assessment of the competitiveness of EDP’s business portfolio.
- **Strategy and Performance Committee** – committee incorporated under article 23(1) of the Articles of Association, having competences to permanently monitor the following matters: (i) short, medium and long-term strategies and scenarios, (ii) strategic implementation, business planning and respective budgets, (iii) investments and divestments, (iv) debt and financing, (v) strategic alliances, (vi) development of markets and competitiveness, (vii) regulatory issues, (viii) analysis of EDP Group’s and its Business Units performance, (ix) benchmarking the EDP Group’s performance in relation to the sector’s leading companies and (x) assessment of the competitiveness of EDP’s business portfolio.

For a better understanding of how EDP’s corporate governance works, see its Articles of Association and the internal regulations of the EBD, GSB and its committees, which are available on www.edp.pt.

4. METHODOLOGY

In view of the purpose of the Manual, especially the interest in making it particularly practical, it has been drafted on the basis of the Code’s structure. However, given that an approach to good governance practices is limited if confined to the adoption or not the CMVM recommendations, another chapter has been added describing an exemplificative selection of other EDP practices that are considered important, although they are not set out in the Code, such as the development of the two-tier governance model.

Chapter 5 transcribes the text³ (RCMVM) and addresses the Code recommendations in the following order:

- **Relevant party** – as the adoption or not of the recommendations depends on the action of different parties, the powers of the different parties involved in the company’s governance are identified and explained.
- **Main regulatory sources** – there is a brief reference to legal and regulatory provisions governing the recommendation (a non-exhaustive selection for information purposes only).
- **Interpretation** – although the CMVM considers that adoption depends on literal compliance with the recommendation, this approach seems reductive. Therefore, in order to explain EDP’s position regarding its adoption, it is important to indicate the interpretation of the recommendation, as this may contribute to the future improvement of the recommendations.
- **Comparison** – as the CMVM recommendations were continuously revised – the more recent in 2013, they will be compared to the 2007 and 2010 Corporate Governance Code.
- **EDP practices** – indication of whether EDP adopts or does not adopt the CMVM recommendations.
- **EDP’s guidelines** – on the basis of whether or not EDP adopts the recommendation, an indication is given of the guidelines considered adequate for implementation of the recommendation or of the grounds for considering that such recommendation is not appropriate to the pursuit of EDP’s interests.

As mentioned above, **Chapter 6** describes some good governance practices at EDP that are not set out in the Code. They are described as follows:

- **EDP (REDP) guidelines** – a recommendation on good governance practices developed by EDP
- **Main regulatory sources** – a brief reference to the provisions in the law and Articles of Association on the practice in question
- **EDP practice** – description of the practice developed by EDP.

³ Given that the Code covers specific recommendations for the different organisation models allowed by law for public limited companies in Portugal, only those applicable to the two-tier model have been taken into account. The following recommendations have therefore not been considered as they are not applicable to the model: II.1.1, II.1.2, II.1.6 and II.1.10.

5. GUIDELINES ON CMVM RECOMMENDATIONS

I. VONTING AND CONTROL OF THE COMPANY

RCMVM 1. Companies shall encourage its shareholders to participate and vote at the general shareholders' meetings, namely by the non-establishment of an excessive number of shares necessary to have the right to vote and implementing the necessary means to the exercise of vote by correspondence or by electronic way.

1.1. Relevant parties: Shareholders, CGM

1.2. Main regulatory sources:

- The possibility of the Articles of Association stipulate a certain minimum number of shares to confer a vote – Article 379(5) of the CC.
- The possibility of the Articles of Association do the correspondence of one single vote to a certain number of shares – Article 384(2) of the CC.
- The possibility of the Articles of Association restricting postal votes (except for amendments to the Articles of Association and election of members of the corporate bodies) – Article 22(2) of the SC.
- Need for the company to verify the authenticity of postal votes and ensure their confidentiality until the vote is taken – Article 22(4) of the SC.
- Possibility of the form of vote being determined by the Articles of Association, or by decision of the shareholders or the CGM – Article 384(8) of the CC.
- Regulation of votes by correspondence, namely regarding the verification of the respective authenticity until the voting moment and the subsequent treatment (when allowed) – Article 384(9) of the CC.
- Information on the notice to convene meeting regarding the participation on the general shareholders' meeting – Article 377(5)(d) of the CC.
- Information on the notice to convene meeting on the exercise of vote by correspondence – Article 21B and 21C of the SC; Article 377(5)(f) of the CC.

1.3. Interpretation: International orientations tend to encourage shareholders to participate in GMs in person or remotely, including by electronic way (e.g. OECD recommendations and Directive 2007/36/CE). This recommendation therefore aims to protect shareholders' rights by extending the range of possibilities of participating in GMs (by exercising their voting rights). This right was reinforced by Decree-Law 49/2010, dated 19th May (transposing Directive 2007/36/EC).

The first part of the recommendation materializes the principle one share/one vote which is specially densified through RCMVM3, analysed below.

Nevertheless, and particularly on the second part of the recommendation, it seems relevant to register that Directive 2007/36/EC allows provisions for checking the identity and security of communications and also allows "rules aimed

at ensuring that the results of the voting reflect the intentions of the shareholders in all circumstances, including rules aimed at addressing situations where new circumstances occur or are revealed after a shareholder has cast his/her vote by correspondence or by electronic means”.

1.4. Comparison: The scope of the recommendation has been subject to continuous enlargements. In 2010, it has been extended to the vote by electronic means. From 2013 onwards, it is generally recommended that shareholders participate and vote at the general shareholders’ meetings and it is advised the non-establishment of an excessive number of shares necessary to have the right to vote.

1.5. EDP practices: Adopted. On the first part, Articles of Association (Article 14(1) and (2) establish that to each share corresponds one vote and all shareholders with voting right may participate at the general shareholders’ meetings as long as they have that quality on the registry date (Article 14(10) and state their intention to participate (Article 14(11) and (12). Regarding the second part, Articles of Association (Article 14(6 to 8) allow and determinet the procedure for the exercise of vote by correspondence, including by electronic means.

5.6. EDP guidelines: Besides adopting the recommendation, on a development perspective, it is understood that:

- a) The recommendation does not prevent that a shareholder has to declare its intention to participate on the general shareholders’ meeting.
- b) The requirements for voting in person at the GM and for voting by correspondence by post or email should be equivalent.
- c) This equivalence is compatible with measures which are essential to confirm the authenticity of the shareholders’ identity and their will.

RCMVM 2. Companies shall not adopt mechanisms that difficult the decision making process by its shareholders, namely establishing a deliberative quorum greater than that set out in the law.

2.1. Relevant parties: Shareholders

2.2. Main regulatory sources:

- Rules on the constitutive quorum at the GM (with the possibility to be amended by the Articles of Association) – Article 383 of the CC
- Rules on the deliberative quorum and vote count (with the possibility to be amended by the Articles of Association) – Article 386 of the CC

2.3. Interpretation: The recommendation is based on the principle that it is necessary to avoid solutions that difficult the decision making process by its shareholders and that, by this way, crystalize definitive situations. From this perspective, the imposition of a deliberative quorum superior to the legally foreseen represents the example of a practice that imposes unjustified limits on

ascertaining the shareholders' will. This does not mean that limitations to this principle cannot be admitted, as the law imperatively sets out some exceptions (e.g. Article 383(2) of the CC).

2.4. Comparison: Between 2007 and 2010 it were not registered modifications. In 2013, the recommendation started referring not only the deliberative quorum but also any other mechanism that difficult the decision making process by the shareholders.

2.5. EDP practices: Adopted. The deliberative quorum required by the Articles of Association is not higher than that required by law.

2.6. EDP guidelines: Continue to adopt the recommendation

RCMVM 3. Companies shall not establish mechanisms with the effect of provoking mismatch between the right to the dividend receiving or the subscription of new securities and the voting right of each ordinary share, unless if duly justified considering long term shareholders' interests.

3.1. Relevant parties: Shareholders

3.2. Main regulatory sources:

- Non mandatory nature of the "One share one vote" rule (i.e. it may be amended by force of the Articles of Association) – Article 384(1) to (5) of the CC.
- Legal limitations on voting rights – Articles 384 and 385 of the CC.
- Possibility of the Articles of Association alloww the issuance of preference shares with no voting rights and the regimes of theses shares – Article 341 et seq of the CC.

3.3. Interpretation: The first part of the recommendation is based on a principle common to international recommendations on good governance practices that one share should correspond to one vote (one share/one vote). In fact, the scope of the principle lies in giving shareholders with fewer shares equal conditions for participating in GMs.

According to the CMVM Public Consultation Document no. 2/2013, the supervision entity considered that the recommendation in force until 2013 should be considered adopted as long as the amount demanded to have the right to one vote was not – as it was not the current practice of listed companies in Portugal – sufficiently elevated to exclude minor investors from the general meetings. And, alternatively, it has adequate this proportionally principle considering certain exemplifying criteria as the shareholder cash flow and not the number or kind of shares held by this.

As so, the existence of limitations on the exercise of voting rights does not necessarily mean an "unjustified" deviation from the proportionality of voting rights, for example if the restriction applies to all shareholders or groups of shareholders for whom there is a material reason for this limitation (indeed, the

law itself establishes limitations on voting rights and prevents shareholders from voting in certain situations – Article 384(6) of the CC).

This interpretation is restricted by the main international recommendations (e.g. OECD, Germany and Spain) which consider that when the one share one vote rule is not followed, the existence of limitations must be identified and such limitations explained by the company.

3.4. Comparison: In 2010 it was included the part that considers that companies having shares with no voting rights or limitations on voting do not fulfil the proportionality rule. In 2013, it was eliminated part of the recommendation on the issuance of shares with different categories of rights, maintaining the proportionality rules but admitting that this may be derogated considering the long term interests of the shareholders.

3.5. EDP practices: Adopted. EDP's Articles of Association set out that one share corresponds to one vote– Article 14(2), derogating the rule only in the cases of issue of preference shares without vote, redeemable or not in accordance to the law (Article 5(2) – shares that until now were not issued – or in case of votes issued by one shareholder, on its behalf or as other representative, that exceed 25% of the total votes corresponding to the share capital (Article 14 (3 to 5). EDP understood that both derogations are justified in the light of the long term interests of the shareholders.

3.6. EDP guidelines: The purpose of the proportionality should be assessed in relative rather than absolute terms. Therefore, taking account of the interests covered by the recommendation, EDP's practice should take the following guidelines into consideration:

- a) Maintain the one share one vote rule in that it increases and encourages shareholders' participation in the company's governance.
- b) Consider the limit set out in Article 14(3) of the Articles of Association as an expression of the shareholders' wishes in protecting the company's specific interests (as the above rule in the Articles of Association only prevents the vote in excess of 25% of all votes corresponding to the share capital).

RCMVM 4. Companies' Articles of Association that limit the number of votes that can be held or cast by a single shareholder individually or with other shareholders must also set out that, at least every five years, the alteration or maintenance of this provision must be subject to a decision by the general meeting – without any requirements for a higher quorum than that established by law – and that all the votes cast in this decision must be counted without the limitation being imposed.

4.1. Relevant parties: Shareholders, EBD and GSB

4.2. Main regulatory sources:

- Non-mandatory character of the rule “to each share corresponded one vote” (ie, may be modified by the Articles of Association) – Article 384(1) of the CC.
- Legal limitations to the voting rights – Article 384 and 385 of the CC.
- Rules defensive measures in a takeover situation (measures that companies can adopt, suspension of their effect, inapplicability of suspension if a Member State owns securities in the company giving its special rights) – Article 182-A of the SC.

4.3. Interpretation: Considering the previous version of this recommendation, and in terms of control measures, such as obstruction of takeover bids, there is a trend towards recommending their elimination (OECD). However, the way of dealing with the question of limits imposed on voting rights have no parallel in international recommendations.

It does not seem correct to identify “limitations on voting rights” as “measures taken to prevent successful takeover bids”. On this field it is relevant to remind that Directive 2004/25/CE (and the legislation that transposes the Directive to national law), regarding public offer situations, does not foresees the generic elimination of the by-laws limitations to the voting rights. This Directive settles an optional model and recognised that only when a certain significative threshold of shareholder control of a listed company is achieved, subsequently a public offer procedure, one is before a justified circumstance of the attribution of the elimination of restrictions to the exercise of voting rights.

In addition, the “obligation” to confirm the clause in the Articles of Association every five years is of dubious legality, as this, apparently, would permit a change in the Articles of Association by a simple majority of the votes cast (as opposed to the requirement for approval by 2/3).

4.4. Comparison: In 2010, it was added the part considering that companies that have shares that do not grant voting rights or that impose limitations on their exercise do not comply with proportionality has been added. In 2013, it was eliminated the reference to acquisition public offers and to shareholders’ interests as criteria of justification of defensive measures.

4.5. EDP practices: Not adopted. EDP’s Articles of Association limit voting rights (Article 14 (3 to 5)), without setting out rules similar to those in the recommendation respecting the revision of the by-laws provision.

4.6. EDP guidelines: We do not agree with the CMVM recommendation in that it does not seem reasonable to repeat the issue of the existence of voting mechanisms (which is, indeed, dealt with in another recommendation). Therefore, the interests of EDP’s shareholders reflected by the limitation set out in Article 14 of the Articles of Association justify the non-adoption of the recommendation. Furthermore, in terms of company control measures, we believe that, before an acquisition public offer situation:

- a) In the event of a takeover bid, the EBD and GSB should analyse the bid in light of the company’s interests.

- b) The position to be taken by the EBD will be subject to prior approval by the GSB.
- c) The EBD and GSB should avoid taking any measures or positions that may unwarrantedly pose an obstacle to proper consideration of the takeover bid by the shareholders.

RCMVM 5. No defensive measures should be taken that cause the demanding of payments or the assumption of burdens by the company in the event of a transfer of control or a change in the membership of the Board of Directors and that may be susceptible to prejudice the free transferability of shares and free appreciation by the shareholders of the performance of the members of the Board of Directors.

5.1. Relevant parties: Shareholders, EBD, GSB.

5.2. Main regulatory sources:

- Limitations on the transfer of shares – Article 328 et seq of the CC.
- Obligations of the Board of Directors after learning of a takeover bid (prohibition of actions likely to relevantly alter the company's assets not pertaining to the normal management of the company and that may significantly affect the goals announced by the offeror) – Articles 181 and 182 of the SC.
- Shareholders' assessment of the performance of members of the Board of Directors (any member may be dismissed by decision of the GM at any time) – Articles 403 and 430 of the CC (the power to dismiss may be invested in the GSB).

5.3. Interpretation: This recommendation corresponds to a principle widely enshrined in international recommendations on good practices that the right conditions should be created for actual control of the company governance by the market. To note that the impact of eventual clauses of change of control that may be included in financial contracts must be subject to a case by case assessment and the Company shall demonstrate, considering the circumstances that such clauses do not comply with this recommendation – namely in result of imposition or the counterparty or in virtue of the respective absence prejudice the legal business at stake.

5.5. Comparison: Alterations are not registered between 2007 and 2010. In 2013 the option was to eliminate the reference to the defensive character of the measures or to the fact that they provoke a serious erosion of the company patrimony; the focus is put on the risk of prejudice to the free transferability of shares of the free assessment, by the shareholders, of the performance of the members of the Board of Directors.

5.5. EDP practices: Adopted. There are no known measures that are susceptible to affect the free transferability of shares and the free appreciation by the shareholders of the performance of the members of the Board of Directors.

5.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that, before an acquisition public offer situation:

- a) In the event of a takeover bid, the EBD and GSB must act in accordance with the company's interests.
- b) The EBD must not take any measures aiming to cause or resulting in jeopardizing the free transferability of shares and the free appreciation by the shareholders of the performance of the members of the Board of Directors.
- c) The EBD and GSB must not accept any agreements with members of the Board of Directors that provide for compensation in the event of termination or cessation of the company relationship or employment following a takeover bid.

II. SUPERVISION, MANAGEMENT AND AUDITING

II.1. SUPERVISION AND MANAGEMENT

RCMVM 6. The General and Supervisory Board shall, in addition to the competences of auditing that are attributed to this corporate body, also assume full responsibilities regarding the governance of the company and so, through by-laws provision or by equivalent way, shall be foreseen that this corporate body is obliged to assume a position on the strategy and main policies of the company, on the definition of the business structure of the group and on the decisions that should be considered strategic due to their amount, risk or special characteristics. This corporate body shall also assess the compliance of the strategic plan and the execution of the company's main policies.

6.1. Relevant parties: Shareholders, GSB.

6.2. Main regulatory sources:

- GSB's supervisory powers – Article 441 of the CC.
- Need for the EBD to obtain prior approval from the GSB to perform certain acts – Article 442 of the CC.

6.3. Interpretation: As a distinguishing feature of the two-tier corporate governance model, the GSB is the supervisory and auditing body of the company's activity (in addition to the statutory auditor). However, its specificity lies in the fact that its powers have a broader reach than those of the supervisory bodies typical of the unitary board model. Therefore, although it does not have management powers, the GSB has recognised, broad powers of supervision and the duty to monitor and advise the EBD. The GSB acts as an intermediary and institutional link between the GM, the body that represents the wishes of the shareholders, and the EBD, while an executive body. This link may be of varying degrees of intensity, depending on whether the GSB has the power:

- To appoint and dismiss members of the EBD;
- To Issue prior approval of certain operations by the EBD;

The recommendation is related to this important function of the GSB, which may be modelled by the shareholders in the Articles of Association (Article 442 of the CC). The matters indicated in the recommendation on which the GSB should issue an opinion are in line with those set out in international recommendations on the two-tier model (e.g. Germany and the Netherlands).

6.4. Comparison: Wording almost identical to the previous version

6.5. EDP practices: Adopted. The EBD must request prior approval from the GSB for the matters set out in Article 17(2) of the Articles of Association.

6.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The actual implementation of the GSB's powers under the law and Articles of Association requires high performance, diligence and availability from its members.
- b) It is particularly important to develop mechanisms for strengthening the institutional relationship that, while respecting the different powers of the EBD and GSB, promote broad participation of the GSB in EDP's activity.
- c) There must be clear, appropriate rules on the prior approval mechanism in order to reconcile flexibility of management by the EBD with the need for the GSB to issue a prior opinion.

RCMVM 7. Unless the company is of reduced size, the Board of Directors and the General and Supervisory Board, depending on the model adopted, must set up the necessary committees to: a) Ensure competent, independent evaluation of the performance of the executive directors and assess their own overall performance and that of the other committees; b) Reflect on the company's governance system, structure and practices, check its efficacy and propose improvement measures to the competent bodies.

7.1. Relevant party: GSB

7.2. Main regulatory sources:

- Right of the GSB to set up specialised committees for certain duties - Article 444(1) of the CC.
- Obligation to set up an FC – Article 444(2) of the CC.
- Right of the GSB to set up a Remuneration Committee – Article 429 of the CC.
- Power of the GSB to replace a director in the event of permanent or temporary absence – Articles 425(4) and 437(2) and (3) of the CC.
- Power of the GSB to supervise the activity of the EBD – Article 441(1)(d) of the CC.

7.3. Interpretation: Given the usual broad membership of the bodies in question and considering the specificities of the size of the company and its corporate bodies, the formation of specialised committees is justified for specific, permanent

monitoring of certain relevant matters in order to ensure that informed decisions are made by these bodies or that they are enlightened on matters of considerable complexity.

The recommendation should not be understood to mean that there must be a special committee for each of the duties identified and so a committee should be allowed to perform more than one of these duties.

7.4. Comparison: Compared to 2007, the 2010 recommendation considers autonomous the competence relative to the timely identification of potential candidates with the right profile to be directors. In 2013, this competence was eliminated and this recommendation was subject to several minor wording adjustments.

7.5. EDP practices: Adopted.

7.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) By delegation, the CGSC should perform the duties in the recommendation and propose to the GSB appropriate measures for performing them.
- b) If considered appropriate (and without prejudice of the mandatory creation of the FC), the GSB may set up special committees to perform the duties set out in the recommendation.

RCMVM 8. The Executive Board of Directors or the General and Supervisory Board, depending on the model adopted, shall establish goals on the assumption of risks issues and create systems for its control, in order to guarantee that the risks incurred are coherent with the said goals.

8.1. Relevant parties: Shareholders, EBD, GSB (FC)

8.2. Main regulatory sources:

- Responsibility of the management board for the current management of the company – Articles 406 and 431 of the CC.
- GSB competences regarding risk management – Article 441 of the CC.
- FC competences regarding risk management – Article 444 of the CC.
- Content of the management risks policies – Articles 305B and 305D of the SC and CMVM Regulation no. 4/2013, Attachment I, Part C.III, no. 50 to no. 55.
- Information to be provided in the annual report, in the annual consolidated report and in the company's governance report – Article 66 and 66A of the CC, Article 245-A and Article 508C and 508F of the SC and CMVM Regulation 4/2013, Annex I, part C.III, no. 50 to no. 55.

8.3. Interpretation: One of the critical aspects of introducing appropriate quality standards in a company's management is the integrity and reliability of internal control and risk management systems. It is therefore very important for there to be a solid, efficient control and risk management structure that guarantees

integrity in terms of the company's performance and management based on strict principles of transparency and accountability. In particular, the different aspects and areas of company activity in risk management have warranted special attention, especially after some important financial scandals due to deficiencies in risk management and control.

The most generic formulation of the new wording allows to each company to set out the components of the risk system more adequate to its governance and business models. However, still cause some perplexity the fact that the recommendation establishes that the control risks systems are created by the GSB – once, considering the applicable legal regime, this will be the corporate body responsible for its supervision. As a result, one shall assess this recommendation as advising for the creation of this kind of systems by the EBD. To the GSB (particularly to the FC) shall compete the monitoring of the respective suitability and effectiveness.

8.4. Comparison: In 2010, the characteristics of internal control and risk management systems are now specified in detail. In 2013, the option was to attribute such a competence to the GSB and to eliminate the components that shall define the management risks system and foresee a more flexible wording, sending to the company's corporate governance report the respective densification. This recommendation was also divided so that one part refers to the creation of these systems and the remaining to the monitoring of the same.

8.5. EDP practices: Adopted. EDP has created internal control and risk management systems that comply with the recommendation.

8.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The company's strategic goals with regard to risk should be assessed by the GSB (and by FC) after proposal by the EBD during the discussion of the company's business plan.
- b) The EBD must make constant efforts to improve internal control and risk management systems, assess their efficacy and take any measures appropriate to step up quality guarantee levels.
- c) Periodically, the EBD must report to the GSB (and to the FC) on the identification and evolution of the main risks associated with EDP's activity and quantify the impact and likelihood of the risks considered relevant.

RCMVM 9. Between non-executive directors, the company shall have an adequate proportion of independents, considering the governance model adopted, the dimension of the company and its shareholder structure and free float. The independence of the GSB members and of the FC members is ascertained in accordance with the legal applicable regime and regarding the remaining members of the Board of Directors it is considered independent the person that is not associated to any group of specific interests of the company nor is, in any circumstance, in a situation susceptible to affect its exemption of analysis or decision, namely in virtue of: (a) have

been employee of the company or of a company in a control or domain group with the first one over the past three years; (b) have, over the last three years, rendered services or set out a commercial significant relation with the company or with a company in a control or domain group with the first one, whether directly, or as a shareholder, manager or officer of a corporate entity; (c) benefit from a remuneration paid by the company or by a company in a control or domain group with the first one besides the remuneration received as a director; (d) to live with or be married or relative including third degree with managers or individual persons that hold, directly or indirectly, a qualified holding; (e) to hold a qualified holding or to be a representative of a shareholders holding qualified participations.

9.1. Relevant parties: GSB (FC)

9.2. Main regulatory sources:

- Dual model governance structure (EBD, GSB and Statutory Auditor) – Article 278 of the CC.
- Incompatibility regime applicable to GSB members (in case of the FC members, there are additional incompatibilities) – Article 434(4), 414A and 437 of the CC.
- Independence of the majority of GSB and FC members obligation – Article 64, 434(4), 414 and 444(6) of the CC and Article 3(2) of the Law no 148/2015, dated 9th September.
- Need to include on the FC at least one member that has the suitable degree to the exercise of functions, know-how in supervision and auditing and that is independent – Article 444(5) of the CC and Article 3(2) of the Law no. 148/2015, dated 9th September.
- Independence of the CFC (or of the supervision body in the wording of Law no. 148/2015, dated 9th September) and demand that the respective members have, as a whole, trainee and previous experience for the area in which EDP operates – Article 3(2) of the Law no 148/2015, dated 9th September.
- Identification on the corporate governance report of the GSB members together with the statement on the fulfilment of the rules on incompatibilities and independence – Regulation CMVM no. 4/2013, Attachment I, Part B.II, no 17 to no. 20.

9.3. Interpretation: Despite the conceptual difficulties of the “independent” member concept, it is recognized that the same has a symbolic and formal value that strengthen the “material independence” demanded to all members of the management and supervision (Article 64 of the CC). Nevertheless, as shown by compared experience and the Recommendation 2005/162/CE, it would be admitted other solution, as long as a majority of independent members is assured (which, among us, is legally required for the supervision body of listed companies), fact that is again underlined on the recent Law no. 148/2015, dated 9th September, within the scope of the Directive 2014/56/EU and of the Regulation (UE) No. 537/2014.

To be noted, in this context, the importance of the effective independence of the FC members (with focus on the respective Chairman), within the scope of promoting the adequate exercise of functions that, legally, the CC attributes to this GSB specialized Committee.

9.4. Comparison: No modifications were verified between 2007 and 2010. In 2013 this recommendation was substantially reviewed in order to concretize the concept of “independence” supplying examples for the effect in order to create a criteria that is applicable in an exclusive and adequate manner to the non-executive members of the board of directors.

9.5. EDP practices: Adopted. The Articles of Association and internal regulations contain rules regarding independence and are generically in line with the ones foreseen in the recommendation.

9.6. EDP guidelines: In line with this recommendation, it is foreseen that:

- a) It is considered as an independence criteria the absence of direct or indirect relations with EDP or its management body and the absence of circumstances that may affect the exemption of analysis of decision, namely in virtue of the persons at stake hold, or act on behalf of holders, of qualified participations equal or superior to 2% of the company’s share capital or have been reelected for up to more than two mandates, continuously or non-consecutively.
- b) The corporate body shall ascertain, in each moment, the independence of the respective members and expressly justified any divergence in face of the recommendations EDP shall attend to.
- c) FC shall be chaired by the CGSB only in case this is an independent member.
- d) FC is composed at least by three independent members with adequate qualifications and experience.

RCMVM 10. When asked to do so by other members of the corporate bodies, executive directors must provide the information requested appropriately and in a timely fashion.

10.1. Relevant parties: EBD, GSB

10.2. Main regulatory sources:

- EBD’s responsibility for the company’s current management – Articles 406 and 431 of the CC.
- Need for the EBD to obtain a prior opinion on certain acts (under Articles of Association) – Article 431 and 442(1) of the CC.
- GSB’s responsibility for supervision and issue of prior opinions – Articles 441 and 442 of the CC.
- EBD’s duty to inform the GSB – Article 432(1) and (2) of the CC.
- Right of the respective Chairman to ask the EBD for any information that s/he considers appropriate or that is requested by another member of the GSB – Article 432(4) of the CC.

- Right of the Chairman of the GSB, a delegate member appointed by the GSB for the purpose and the members of the FC to attend meetings of the EBD – Article 432(6) of the CC.
- Duty to pass on information received to the other GSB members – Article 432(7) of the CC.

10.3. Interpretation: The performance of their duties by other corporate bodies depends largely on the information managed by the management. In the two-tier governance model, articulation between the EBD and GSB (and, in particular, with the FC) in terms of information is particularly important and warrants the existence of specific legal provisions on the matter. The practices mentioned in the recommendation should therefore be included in laws and regulations governing the company.

10.4. Comparison: Wording the same as the previous versions.

10.5. EDP practices: Adopted. Several procedures have been set up for the provision of information by the EBD, especially to the GSB.

10.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) There should be permanent contact between the Chairman of the GSB, the Chairman of the FC and the Chairman of the EBD in order to monitor EDP's activity and coordinate the work of these bodies.
- b) Supporting documentation for GSB meetings, for which the EBD is responsible, should be provided sufficient time in advance.
- c) Given the presence of GSB members who do not speak Portuguese, the EBD must endeavour to provide supporting documents in English.
- d) The GSB should exercise its right to information in a compatible way with the normal functioning of the EBD, and the Chairman of the GSB must coordinate requests for information from the EBD to avoid overlapping and repetitions.
- e) The Chairman of the GSB shall manage the information from the EBD and have it distributed to the other GSB members in good time.

RCMVM 11. The Chairman of the Executive Board of Directors or of the Executive Committee, as applicable, must send to the Chairman of the Board of Directors, to the Chairman of the Supervisory Board, to the Chairman of the General and Supervisory Board and to the Chairman of the Financial Committee the invitations and minutes of their meetings.

11.1. Relevant party: Chairman of the EBD

11.2. Main regulatory sources:

- EBD's duty to inform the GSB – Article 432(1) and (2) of the CC.

- Right of the respective Chairman to ask the EBD for any information that s/he considers appropriate or that is requested by another member of the GSB – Article 432(4) of the CC.
- Right of the CGSB, a delegate member appointed by the GSB for the purpose and the members of the FC to attend meetings of the EBD – Article 432(6) of the CC.
- Duty to pass on information received to the other GSB members – Article 432(7) of the CC.

11.3. Interpretation: This recommendation is an offshoot from the previous recommendation and separates the question of sending invitations and minutes of EBD meetings. As a result of the legal framework mentioned regarding the previous recommendation, the CGSB acts as an intermediary between the GSB and EBD, especially for obtaining and distributing information. Given the broad composition of the GSB, this function is critical, as an atomistic approach to the relationship between the GSB and the EBD would be impractical and upset the healthy relationship that should exist between the two bodies. The recommendation should therefore be interpreted in light of the legal framework (Article 432(7) of the CC).

11.4. Comparison: Wording very similar to the previous versions.

11.5. EDP practices: Adopted. The Chairman of the EBD sends to the GSB support offices the invitations, minutes and support documents of its meetings.

11.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The CGSB should be sent the invitations and minutes of EBD meetings in good time.
- b) Procedures should be developed to provide efficient, feasible access to this information by the CFC and other members of the GSB.
- c) The CGSB must oversee the processing of the information provided by the EBD with a view to any subsequent requests for information sent to the EBD or prompting of action by the GSB (e.g. prior opinions).

II.2. AUDITING

RCMVM 12. Depending on the applicable model, the Chairman of the Supervisory Board, the Chairman of the Audit Committee or the Chairman of the Financial Committee must be independent, in accordance to the legal applicable criteria, and have the appropriate skills for his/her job.

12.1. Relevant party: GSB (FC)

12.2. Main regulatory sources:

- Two-tier governance structure: EBD, GSB (FC) and Statutory Auditor – Article 278 of the CC.

- Need for the GSB to set up a FC (specifically for certain supervisory duties) – Article 444(2) of the CC.
- Rules of incompatibilities applicable to members of the GSB (there are additional incompatibilities for FC members) – Article 434(4), Article 414A and Article 437 of the CC.
- Obligation for the majority of the members of the GSB and FC to be independent – Articles 434(4), 414 and 444(6) of the CC and Article 3(2) of the Law no. 148/2015, dated 9th September.
- Need for the FC to include at least one member who is independent and has an appropriate degree for his/her job and knowledge of auditing or accounting – Article 444(5) of the CC and Article 3(2) of the Law no. 148/2015, dated 9th September.
- Need for the CFC (or of the supervision body according to Law no. 148/2015, dated 9th September) to be independent and the respective members have, as a whole, the necessary previous trainee and know-how in the area EDP operates – Article 3(2) of the Law no. 148/2015, dated 9th September.
- Identification of the members of the GSB in the corporate governance report and statement of the rules on incompatibilities and independence - CMVM Regulation 4/2013, Attachment I, Part B.II, no. 17 to no. 20.

12.3. Interpretation: In international recommendations there is a general tendency for the audit committee (or similar body) to consist of a majority of independent members and preferably for all its members to be independent. For example, Recommendation 2005/162/EC only requires that the majority of the members of the Audit Committee are independent. In spite of the difficulties involving the concept of “independent”, it is recognised as having a symbolic, formal value that strengthens the “material independence” required of all members of the management and supervisory bodies (Article 64 of the CC). However, as shown by compared experience and Recommendation 2005/162/EC, another solution would be acceptable, provided that the majority of the members were independent (which is required by law in Portugal for companies with shares admitted to trading on a regulated market). Attention must be paid to the importance of ensuring the real independence of the FC (and its chairman in particular), so that it can properly perform the duties that this specialized GSB committee develops, which was again confirmed through Law no. 148/2015, dated 9th September (within the scope of the transposition of the Directive 2014/56/EU and of the Regulation (UE) no. 537/2014).

12.4. Comparison: Wording almost the same as the previous versions with minor adjustments.

12.5. EDP practices: Adopted. The Chairman of the FC meets the recommendation’s requirements; to note that, by the Articles of Association and FC internal regulation provisions, he/she shall be necessarily independent.

12.6. EDP guidelines: In line with this recommendation, it is foreseen that:

- a) a) It is considered as an independence criteria the absence of direct or indirect relations with EDP or with the respective management body and the absence of circumstances that may affect the exemption of analysis or decision, namely in virtue of the persons at stake hold, or act on behalf of holders, of a qualified participation equal or superior to 2% of the company's share capital or have been reelected for up to more than two mandates, continuously or non-consecutively.
- b) The corporate body shall ascertain, in each moment, the independence of the respective members and expressly justified any divergence in face of the recommendations EDP shall attend to.
- c) FC shall be chaired by the CGSB only in case this is an independent member.
- d) FC is composed at least by three independent members with adequate qualifications and experience.

RCMVM 13. The supervision body shall be the main interlocutor of the external auditor and the first recipient of the respective reports, and shall be responsible, namely, to propose the respective remuneration and assure that all the right conditions are created in the company for the adequate rendering of services.

13.1. Relevant party: GSB (FC)

13.2. Main regulatory sources:

- Power of the GSB to represent the company in hiring experts to assist in its duties – Article 441(1)(p) and Article 443(2) of the CC.
- GSB's powers to relate with the Statutory Auditor – Article 441(1)(m) to (o) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.
- Relationship competences of the FC with the Statutory Auditor and the EA – Article 444(2) of the CC and Article 3(3) of the Law no. 148/2015, dates 9th September.

13.3. Interpretation: The recommendation describes a practice that is mentioned in most international recommendations and is related to the need to ensure the independence of the EA and to promote simultaneously a good relation, on its whole, between the supervision body and the EA.

The requirements of independence and competence of auditors as key elements in the quality of control by external audits has warranted companies' supervisory bodies playing a decisive role in hiring, monitoring and evaluating auditors. This trend towards giving supervisory bodies the role of first and privileged interlocutors of external auditors with the company is based on the importance of ensuring their independence and the prevention of practices that foster familiarity between auditors and audited and promoting the involvement of these bodies in the analysis and interpretation of the auditors' work product, which serves as the basis for the supervisory body's actual activity (in particular when issuing an opinion on the accounts).

In two-tier models, the GSB is responsible for the company's relations with the EA which, in listed companies such as EDP, is necessarily attributed to the FC.

13.4. Comparison: From 2013 onwards, the corporate body targeted by this recommendation is designated, in generic way, by supervision body. Moreover, it was eliminated the competence of proposing the EA.

13.5. EDP practices: Adopted. The GSB performs the duties indicated in the recommendation either directly or through the FC.

13.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it, we consider that:

- a) Without prejudice to the formal powers of representation of the EBD, the GSB, either directly or through the FC, should represent EDP for all purposes in relations with the EA and should be responsible for appointing the provider of these services, the conditions on which they are provided and its remuneration, and ensure that the right conditions are created at EDP and subsidiaries for its duties. It should also be the interlocutor and first recipient of its audit reports.
- b) The GSB must work with the EBD and EA in defining the annual plan and timeline of activities for issuing its opinion on the financial statements.

RCMVM 14. The supervision body shall assess, annually, the external auditor and propose its dismissal or the contract resolution whenever there is just cause to do so.

14.1. Relevant party: GSB (FC)

14.2. Main regulatory sources:

- Power of the GSB to represent the company in hiring experts to assist in its duties – Article 441(1)(p) and Article 443(2) of the CC.
- Power of the GSB to relate with the Statutory Auditor and the EA – Article 441(1)(m) to (o) of the CC and Article 3(3) of the Law no. 148/2013, dated 9th September.
- Relationship competences of the FC with the Statutory Auditor and the EA – Article 444(2) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.

14.3. Interpretation: The recommendation highlights the importance of monitoring and evaluating the work of the EA by the supervisory body. This should result in its dismissal if there is found to be just cause.

14.4. Comparison: From 2013 onwards, the corporate body targeted by this recommendation is designated, in generic way, by supervision body.

14.5. EDP practices: Adopted. The GSB performs the duties indicated in the recommendation either directly or through the FC.

14.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The GSB, through the FC, assures the permanent monitoring of the EA.
- b) In the event of a serious violation of its legal and contractual duties, such as the integrity and independence of its activity, the GSB shall propose the dismissal of the EA with just cause.
- c) The FC must periodically report to the GSB its main conclusions of the monitoring of the EA's work.
- d) Every year, on the basis of a report to be submitted by the FC, the GSB must issue an opinion on the evaluation of the EA's activity and arrange for its dismissal, if it deems that there is just cause.

RCMVM 15. The supervision body shall assess the functioning of the internal control and risk management systems and propose the adjustments found necessary.

15.1. Relevant parties: GSB (FC)

15.2. Main regulatory sources:

- GSB competences regarding internal control and risk management systems – Article 441(1)(i) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.
- FC competences regarding internal control and risk management systems – Article 444(2) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.

15.3. Interpretation: One of the critical aspects regarding the effectiveness of the adequate quality standards on the management of a company consists of on the integrity and rigour of its internal control and risk management systems. This recommendation points out the importance of supervise the adequacy and effectiveness of these systems.

15.4. Comparison: In 2010 the internal control and risk management systems started to be specified in detail. In 2013, the option was to split up the recommendation into two, one regarding the creation of these systems and this one referring to its supervision.

15.5. EDP practices: Adopted. The GSB performs the duties indicated in the recommendation either directly or through the FC.

15.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The setting up of the companies' strategic goals regarding risks assumption shall be appreciated by the GSB (and by the FC) through EBD proposal, namely in the scope of the company's business plan analysis.
- b) Periodically, the EBD shall report to the GSB (and to the FC) the identification and evolution of the main risks related to EDP's activity, with the quantification of the impact and the probability of occurrence of the risks considered relevant.

RCMVM 16. The Financial Committee, the General and Supervisory Board and the Supervisory Board shall issue an opinion on the working plans and resources engaged in the internal audit services and in the services that veil for the compliance of the rules applicable to the company (compliance services) and shall be recipient of the reports performed by these services whenever the following matters are at stake: accounts, identification and resolution of conflict of interests and detection of potential illegalities.

16.1. Relevant parties: EBD, GSB (FC)

16.2. Main regulatory sources:

- Power of the GSB to supervised the internal audit and internal control system – Article 441(1)(j) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.
- Power of the o GSB to receive whistleblowing reports from shareholders, employees or other stakeholders – Article 441(1)(j) of the CC.
- FC competences regarding internal control and risk management systems and reception of whistleblowing reports from shareholders, employees or other stakeholders – Article 444(2) of the CC and Article 3(3) of the Law no. 148/2015, dated 9th September.

16.3. Interpretation: This recommendation is in line with some international recommendations that the supervisory body step up monitoring of the internal audit and compliance units (OECD, Germany, the Netherlands). The recommendation does not call into question the auditing units' hierarchy relation to the company's (executive) Board of Directors, which is legally responsible for managing them. Finally, it is essential for the supervisory body to have access to relevant information in order to monitor compliance with the rules and procedures to which the company is subject. Additionally, it shall be the supervision body competence to issue an opinion on the working plans and resources engaged in the internal audit services and compliance with the purpose of setting up a major intervention of the supervision body in this field.

16.4. Comparison: This recommendation was included in 2010 and in 2013 was modified in order to attribute a more active role to the supervision body.

16.5. EDP practices: Adopted. The GSB performs the duties indicated in the recommendation either directly or through the FC.

16.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The EBD must ensure that there is a report to the GSB (and to the FC) from the Audit Unit and form the General Secretariat on their activity related to EDP's compliance with its obligations and procedures.
- b) Without prejudice to other information that may be requested by the GSB (and by the FC), this report must cover situations that are or may be likely to materially affect the integrity and legality of the work of EDP and its

employees and, in particular, everything that can be related with the accounts, the identification and resolution of conflict of interests and detection of potential illegalities.

- c) In the event of any materially relevant irregularity, the GSB and EBD must analyse the situation jointly.
- d) By delegation from the GSB, the FC must monitor the information provided by the Audit Unit and Company Secretary in the report.
- e) The FC must periodically report to the GSB on its main conclusions of the monitoring of the information referred to in the previous point.

II.3. ESTABLISHMENT OF REMUNERATIONS

RCMVM 17. All the members of the Remuneration Committee or equivalent shall be independent from the executive members of the board of directors and include at least one member with knowledge and experience of remuneration policy.

17.1. Relevant party: GSB Remuneration Committee

17.2. Main regulatory sources:

- Power to fix the remuneration of the members of the EBD (GSB or its Remuneration Committee or, if determined by the Articles of Association, the GM or a committee appointed by it) – Article 429 of the CC.
- Obligation of the GM to approve a statement every year on the remuneration policy for the management and supervisory bodies – Article 2(1) of Law 28/2009.
- Obligation of members of the GSB to abide by their duty of care and follow high standards of professional diligence and loyalty in their company's interest – Article 64(2) of the CC.

17.3. Interpretation: This recommendation reflects a concern common to international recommendations on the transparency and objectivity of procedures for fixing the remuneration of the members of the Board of Directors. The practice in question is mentioned in Recommendations 2005/162/EC and 2009/358/EC. However, the concept of independence from the management could be understood as somewhat ambiguous, in that it apparently does not coincide with that of "independent member" normally used in governance models. The recommendation allows Remuneration Committees to include members who do not have the independent status as set out in Article 414(5) of the CC but are independent from the members of the board of directors. Therefore, being the respective members of the committee designated by the GS or by the GSB pursuant Article 429 of the CC, this independence is assured.

17.4. Comparison: In 2010, it was added the part relative to the inclusion of at least one member with knowledge and experience of remuneration policy. The 2013 wording was slightly modified establishing that the independence is ascertained only regarding the executive members of the board of directors.

17.5. EDP practices: Adopted. The membership of EDP's Remuneration Committees abides by the recommendation.

17.6. EDP guidelines: It is advisable to continue to abide by the recommendation.

RCMVM 18. No natural or legal person that has provided services in the last three years to any body answering to the management board or to the company's management board itself or that has a current relationship with the company or with the company consultant shall be hired to assist the Remuneration Committee in its duties. This recommendation also applies to any natural or legal person who is related to them through a work or service contract.

18.1. Relevant party: GSB Remuneration Committee

18.2. Main regulatory sources:

- Power of the GSB to represent the company in hiring experts to assist it in its duties – Articles 441(1)(p) and 443(2) of the CC.
- Need for members of the GSB to abide by their duty of care and follow high standards of professional diligence and loyalty in their company's interest – Article 64(2) of the CC.

18.3. Interpretation: This recommendation reflects a similar one from the European Commission (Recommendation 2009/358/EC). Its purpose is to reinforce the independence of consultants when providing their services, without prejudice to the power of decision of the Remuneration Committee or General Meeting when establishing remuneration policy for corporate bodies, particularly directors' remuneration.

18.4. Comparison: This recommendation was included in 2010 and maintained in 2013 with slight modifications from the wording point of view.

18.5. EDP practices: Adopted. EDP's Remuneration Committees have not reported the hiring of any support services for the bodies or people set out in the recommendation.

18.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) When hiring consultancy services, the Remuneration Committee must ensure that the person or entity hired is not in a situation described in the recommendation as contrary to good practices.
- b) The Remuneration Committee's annual report must provide information on compliance with this recommendation.

RCMVM 19. The statement on the remuneration policy of the management and supervisory bodies referred to in Article 2 of Law 28/2009 of 19 June shall contain, in addition: a) the identification and explanation of the criteria used for determining the

remuneration to attribute to the corporate bodies members; b) information on the maximum potential amount, in individual terms, and to the maximum potential amount, in aggregated terms, to be paid to the corporate bodies members and identification of the circumstances in which these maximum amounts may be due; c) information on the collectability or non-collectability of the payments in the event of dismissal or termination of the directors functions.

19.1. Relevant parties: Remuneration Committee of the GSB and Remuneration Committee of the GM

19.2. Main regulatory sources:

- Obligation of the GM to approve a statement on remuneration policy of the management and supervisory bodies every year – Article 2(1) of Law 28/2009, dated 19th June, as amended by Law no. 157/2014, dated 24th October.
- Specification of the content of the statement on remuneration policy of the management and supervisory bodies - Article 2(3) of Law 28/2009, dated 19th June, as amended by Law no. 157/2014, dated 24th October.

19.3. Interpretation: Article 2 of Law 28/2009, dated 19th June (as amended by Law no. 157/2014, dated 24th October) changed the traditional scheme of company law for fixing the remuneration of the management and supervisory bodies of the companies covered by it, such as companies with shares admitted to trading on a regulated market. Therefore, pursuant to paragraph 1 of the article “every year, the Board of Directors or Remuneration Committee, if any (...) shall submit for the approval of the General Meeting a statement on remuneration policy of the members of the management and supervisory bodies”. Irrespective of the correctness of this legal rule, it is now required that the GM issues an annual approval of a statement on remuneration policy of the members of the management and supervisory bodies that will later govern the subsequent establishment of their remuneration. This statement must provide minimum information necessary to be understood by the shareholders. The recommendation therefore merely increases the amount of additional information that must be provided to the shareholders for an understanding of the remuneration policy on which they must express an opinion. As a result, more important than disclosing the information indicated in the law and the recommendation, remuneration committees must be careful to provide all appropriate information for the shareholders to vote on the remuneration policy in an enlightened way.

19.4. Comparison: Initially included in 2010, this recommendation was, in 2013, substantially modified; it was eliminated the reference to the remuneration policies and practices of the group in which the company is integrated that was required in the past, for comparative effects and reinforcing the material content of the statement in order to assure the complement of the information to supply to the shareholders in this context.

19.5. EDP practices: Adopted

19.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The draft remuneration policy of the management and supervisory bodies must be specifically justified in light of the company's economic situation and the actual duties performed by each of their members.
- b) In addition to the information requirements set out in the law and recommendation, draft remuneration policies for the management and supervisory bodies must provide appropriate information for a shareholder, in accordance with a standard of diligence of an average person, to be able to understand all materially relevant aspects for the purpose of fixing said remunerations.

RCMVM 20. A proposal for approval of share allocation plans, share purchase option plans and/or plans based on variation in share prices to members of the corporate bodies. This proposal shall contain all the information necessary for a proper appraisal of the plans.

20.1. Relevant parties: Remuneration Committee of the GSB, Remuneration Committee of the GM and EBD.

20.2. Main regulatory sources:

- Rules on the purchase and sale of company's own shares (requires a decision by the GM) – Article 317 et seq of the CC.
- Need to include in the corporate governance report information on the GM's intervention in the company's remuneration policy, performance evaluation, share allocation plans and retirement benefit plans of the members of the Board of Directors, supervisory body and other directors - CMVM Regulation 4/2013, Attachment I, Part D.III. to D. VI (with exception of no 76).
- Provision of information in the corporate governance report on the main characteristics of share allocation plans and share purchase option plans adopted or in effect - CMVM Regulation 4/2013, Attachment I, Part D.VI., no. 85 and no. 86.
- Disclosure of information on the remuneration of the members of the EBD - CMVM Regulation 4/2013, Attachment I, D.IV. (in particular, no. 77 to no. 79).
- Disclosure of information on the remuneration of the members of the GSB and Statutory Auditor - CMVM Regulation 4/2013, Attachment I, Part D.IV., in particular no. 81.

20.3. Interpretation: In its previous version, this recommendation combined two different things: "share allocation plans, share purchase option plans and/or plans based on share price variations" and "the main characteristics of the retirement benefit scheme".

Basically, the former corresponds to the guidelines set out in Recommendations 2004/913/EC and 2009/358/EC.

The intention of splitting up the previous version from this recommendation is related with the critic that all multiple recommendations are subject to, once one can be adopted without happening the same to the other.

20.4. Comparison: Wording similar in the 2007 and 2010 versions. In 2013 this recommendation was split up into two different recommendations, being one related to the existence of stock options, shares acquisition plans and remuneration structure in general and the other to the pension complementary schemes. It was also eliminated the reference to directors.

20.5. EDP practices: Not applicable.

20.6. EDP guidelines: Not applicable.

RCMVM 21. It shall be submitted to the General Shareholders' Meeting a proposal on the approval of any retirement benefit system established in favour of the corporate bodies members. The proposal shall contain all the information necessary for a proper appraisal of the system.

21.1. Relevant parties: Remuneration Committee of the GSB, Remuneration Committee of the GM and EBD.

21.2. Main regulatory sources:

- Need to include in the corporate governance report information on the GM intervention regarding the creation of pension complementary schemes or retirement benefits to the members of the board of directors, supervisory body and other directors - CMVM Regulation 4/2013, Attachment I, Part D.III., no 76.

21.3. Interpretation: This recommendation combined two different things: "share allocation plans, share purchase option plans and/or plans based on share price variations" and "the main characteristics of the retirement benefit scheme".

On the retirement benefit schemes, Recommendation 2004/913/CE only refers the necessity of being disclosed, in case they exist.

20.4. Comparison: Wording similar in the 2007 and 2010 versions. In 2013 this recommendation was split up into two different recommendations, being one related to the existence of stock options, shares acquisition plans and remuneration structure in general and the other to the pension complementary schemes. It was also eliminated the reference to directors.

16.5. EDP practices: Not applicable.

16.6. EDP guidelines: Not applicable.

III. REMUNERATIONS

RCMVM 22. The remuneration of the executive members of the board of directors must be based on the effective performance and discourage excessive risk-taking.

RCMVM 23. The remuneration of the non-executive members of the board of directors and the remuneration of the supervision body shall not include any component which value depends upon the performance of the company or of its value.

RCMVM 24. The variable component of the remuneration shall be generally reasonable in relation to the fixed component and maximum limits shall be fixed for all the components.

RCMVM 25. A significant part of the variable remuneration shall be deferred for no less than three years and the right to its receiving shall be dependent on the company's continued positive performance over this period.

RCMVM 26. The members of the board of directors shall not enter into agreements with the company or third parties to mitigate the risks inherent in the variability of the remuneration fixed for them by the company.

RCMVM 27. Until the end of their term of office, the executive directors shall keep the company shares that they have received by force of variable remuneration schemes up to a limit of twice their total annual remuneration, with the exception of those that need to be sold to pay taxes resulting from the benefit of said shares.

RCMVM 28. If the variable remuneration includes options, the start of the exercise period shall be deferred for no less than three years.

RCMVM 29. When the dismissal of a director does not result from a serious infringement of its duties nor from its unfitness for the normal exercise of its functions but, even so, conducts to an inappropriate performance, the company shall hold the adequate and necessary legal instruments so that any indemnification or compensation, besides the legally due, is not demanded.

22.1. to 29.1. Relevant party: GSB Remuneration Committee

22.2. to 29.2 Main regulatory sources:

- Obligation of the GM to approve a statement on remuneration policy of the management and supervisory bodies every year – Article 2(1) of Law 28/2009, dated 19th June, as amended by Law no. 157/2014, dated 24th October.
- Power to fix the remuneration of the members of the EBD (GSB or its Remuneration Committee or, if so determined by the Articles of Association, the GM or a committee appointed by it) – Article 429 of the CC.

- Power to fix the remuneration of the members of the GSB (GM or a committee appointed by it – Article 440 of the CC).
- Power to fix the remuneration of the Statutory Auditor (GM or a committee appointed by it) – Article 422-A of the CC (ex vi 446 of the CC).
- The remuneration of the members of the EBD may be fixed or consist partially of a percentage of the profit for the financial year (with authorisation in the Articles of Association) – Articles 399 and 429 of the CC.
- The remuneration of the members of the GSB and Statutory Auditor consists exclusively of an invariable amount – Articles 440 and 422-A of the CC.
- Criteria for determining the remuneration of the management and supervisory bodies (duties performed and company's economic situation) – Articles 339, 422-A, 429 and 440 of the CC.
- Publication in the corporate governance report of a statement on remuneration policy for the members of management and supervisory bodies approved by the GM (and the annual remuneration received by the members of these bodies individually and all together) – Article 3 of Law 28/2009.
- Information in the corporate governance report on the main characteristics of share allocation and share purchase option plans adopted or in effect - CMVM Regulation 4/2013, Attachment I, Part D.IV., no. 85 and no. 86.
- Information on the remuneration of the members of the EBD - CMVM Regulation 4/2013, Attachment I, Part D.IV (in particular, no. 77 to no. 79).
- Information on the remuneration of the members of the GSB and Statutory Auditor - CMVM Regulation 4/2013 Attachment I, Part D.IV, in particular, no. 81.

22.3. to 29.3. Interpretation: The wording of the recommendations RCMVM 22 to RCMVM 29 is inspired by Recommendation 2009/385/EC, which complements Recommendations 2004/913/EC and 2005/162/EC. This recommendation seeks to address a series of concerns raised by the recent financial crisis regarding the remuneration of the management board in general and executive directors in particular. In the different formulas that it may follow, executives' remuneration is regarded as an extremely important aspect in the company's governance structure, as it is a question of paying monetary compensation for the performance of the people in charge of managing the company. The return on the shareholders' investment depends, at the end of the day, on this performance. Alignment of the interests of shareholders and managers is therefore the ultimate goal of a healthy executive remuneration policy. The fundamental point of the managers' remuneration policy should be a demonstration of the relationship between remuneration and the performance of the managers and the company itself within a framework of their strict, objective evaluation, taking special account of the need to ensure an appropriate balance between the company's long-term interests and short-term profits (during the term of office).

22.4. to 29.4. Comparison: The 2010 version of these recommendations while maintaining the same preamble, enlarges on the parameters for fixing the remunerations of the company's board of directors. It was, however, exposed to be considered a multiple recommendation, with difficulties in the application of the principle of explanation or adoption underlined to the recommendations. By this reason, in 2013, the recommendation, until then unified, was split up into several autonomous recommendations in order to facilitate the process of the respective adoption and not penalize excessively partial adoptions. From a material perspective, it were only inserted minor adjustments of wording comparing to the previous wording.

22.5. to 29.5 EDP practices: Adopted. The remuneration of EDP's corporate bodies is in line with all the recommendations, as applicable to a dual model.

22.6. to 29.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The remuneration policy for the members of the EBD must be drafted so as to promote the alignment of their interests with those of EDP, taking account of the duties performed by each member and the company's economic situation, and so the adoption of the criteria in the CMVM recommendation must be justified in light of this general principle.
- b) The criteria for determining remunerations should favour mechanisms that associate them with an individual performance evaluation of each member.
- c) Clear rules must be defined on compensations for termination of office (with or without just cause) and on payment schemes after said termination.
- d) Remuneration policy should take account of EDP's specific business, its characteristics and the competitive environment in which it is conducted.
- e) Remuneration policy should be formulated with a concern for defining stable principles on the establishment of the remuneration of the members of the EBD, irrespective of the people who hold these positions in order to foster the expectations of people who may occupy them in the future.

IV. AUDIT

RCMVM 30. As part of its duties, the external auditor must check compliance with remuneration policies and systems of the corporate bodies, the efficacy of internal control mechanisms and report any deficiencies to the company's supervisory body.

30.1. Relevant parties: EA, GSB

30.2. Main regulatory sources:

- Duty of the Statutory Auditor to issue an opinion on corporate governance matters – Article 451(4) and (5) of the CC.
- Functions of the EA and of the Statutory Auditor – Article 41 et seq of the New Statutory Auditor Statutes, approved in attachment to Law no. 140/2015, dates 7th September.

- Preparation of the financial statements in accordance with IAS/IFRS - Decree-Law 35/2005, dated 17th February, as amended by Decree-Law no. 237/2008, dated 15th December and CMVM Regulation 11/2005.

30.3. Interpretation: This new recommendation deals separately with the principles that arose from the appropriate role of the EA and its articulation with the company's supervisory body. While the last part of the proposal is generically subscribed (the Netherlands and United Kingdom), the checking of compliance with remuneration policies and systems has no parallel in international recommendations.

Finally, the recommendation is compatible with the reporting of any deficiencies detected to the Board of Directors and supervisory board (parallel place: the Netherlands).

30.4. Comparison: This recommendation was included in 2010 and maintained in 2013 without significant modifications.

30.5. EDP practices: Adopted. The statutory auditor's activity that develops the role of auditor includes the matters indicated in the recommendation.

30.6. EDP guidelines: in addition to the adoption of the recommendation, specific rules on monitoring this information should be considered.

RCMVM 31. The company, or any entities that maintain a domain relation with the former, shall not commission any services other than audit services from the External Auditor or from any entities in a group relation or in the same network of the External Auditor. If there is a reason for commissioning said services, which must be approved by the supervisory body and explained in its Annual Corporate Governance Report, they shall not represent more than 30% of the total value of the services provided to the company.

31.1. Relevant parties: GSB, EBD (FC)

31.2. Main regulatory sources:

- Duty of independence of auditors (including the definition of additional services that cannot be provided by the auditor to the audited company) and relevance for effects of fees – Article 59 and 77 of the New Statutory Auditor Statutes, approved in attachment to Law no. 140/2015, dates 7th September.
- Incompatibilities and impediments of auditors – Article 88 et seq of the New Statutory Auditor Statutes, approved in attachment to Law no. 140/2015, dates 7th September.
- Obligation to publish the fees charged to the audited company by the auditor (listing the types of service) - CMVM Regulation 4/2013, Attachment I, Part V., no. 47.

- Description in the corporate governance report of the means used to ensure the auditor's independence - CMVM Regulation 4/2013, Attachment I, Part V., no. 46.

31.3. Interpretation: The principle underlying this recommendation is that of ensuring the EA's objectivity and independence. The provision of non-audit services to the company by the auditor raises possible conflicts of interest with the nature and scope of the external audit, because it may result in self-review or generate undesirable situations of dependence or familiarity with the Board of Directors or create or exacerbate economic dependencies that should be avoided. A number of measures have been suggested to handle the disguised incentives that may arise during these activities and may affect the auditor's independence: disclosure of the fees paid to external auditors, total prohibition or tight restriction of non-audit work that an auditor can render its client, mandatory rotation of the External Auditor's partners responsible for audits, prohibition of auditors or their dependents owning financial interests or holding management positions in companies where they conduct audits, etc.

The recommendation is interpreted in this context, as it reconciles a general principle of not commissioning non-audit services from the auditor with the recognition that, in some cases and within reason, the commissioning of these services is compatible with good practices as long as it does not interfere with the auditor's independence or objectivity and may present some comparative advantages stemming from its knowledge of the company and unique data they possess.

From this perspective, the recommendation seems to offer a balanced solution that was chosen by the national legislator and, consequently, does not have only a recommendation character. In a next revision of the CMVM Corporate Governance Code, this recommendation shall be eliminated.

31.4. Comparison: The essential part of this recommendation was included in 2010. The 2013 wording expands the scope of the recommendation to any entities to which the company maintains a domain relation.

31.5. EDP practices: Adopted

31.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) The GSB should approve regulations setting out the internal rules and procedures that are intended to ensure the independence and objectivity of service providers which must be respected by EDP when commissioning non-audit services from the statutory auditor and EA. In particular the regulations must:
 - i. Establish prohibited services
 - ii. Define the procedure for the involvement of the GSB and FC in the approval of commissioning permitted services

- iii. Place a limit on fees for non-audit services, which, other than in exceptional, duly justified cases, must not exceed 30% of the total value of the services provided to the company.
- b) The GSB, through the FC, assures the monitoring of the implementation of these regulations and the FC must report periodically to the GSB on its activity in this sphere.
- c) Every year, on the basis of a proposal by the FC, the GSB must issue an opinion on the reasons for approval of non-audit services and this opinion must be included in the company's annual governance report.
- d) Every year, the GSB and the FC must assess the effectiveness of the regulations and amend any rules necessary.

RCMVM 32. Companies shall rotate auditors at the end of two or three terms of office, depending on whether they last for four or three years, respectively. If they are maintained for longer, this shall be justified in a specific opinion by the supervisory body expressly considering the auditor's independence and the advantages and costs of replacing it.

32.1. Relevant party: GSB (FC)

32.2. Main regulatory sources:

- Obligation to submit annual financial information for reporting and certification by a statutory auditor registered at the CMVM – Articles 8 and 245 of the SC, Article 451 et seq of the CC and Article 50(2) of the New Statutory Auditor Statutes, approved as attachment to Law no. 140/2015, dated 7th September.
- Requirement for statutory auditors to be registered with the CMVM and be supervised by it – Articles 171 et seq of the New Statutory Auditor Statutes, approved as attachment to Law no. 140/2015, dated 7th September, Articles 6 et seq, 8 and 25 of the Legal Regime of Supervision and Accounting approved by Law no. 148/2015, dated 9th September and Article 359 of the SC.
- Auditors' duty of independence – Article 61(2) and 71 of the New Statutory Auditor Statutes, approved as attachment to Law no. 140/2015, dated 7th September.
- Rotation of the partner responsible for overseeing or directly performing account audits after seven years – Article 54(3) of the New Statutory Auditor Statutes, approved as attachment to Law no. 140/2015, dated 7th September.
- Designation of the statutory auditor, limitation of mandates and minimum and maximum duration of the same – Article 17 of the Regulation (UE) no. 537/2014.
- The statutory auditor is elected by the GM after being proposed by the GSB and the FC – Article 441(1)(m) and 444(2) of the CC.
- Power of the GSB (FC) in ensuring the independence of the statutory auditor, especially in the provision of additional services – Article 441(1)(o) and 444(2) of the CC.

- Responsibility of auditors for losses caused to audited companies or third parties due to deficient reporting or opinion – Article 10 of the SC.

32.3. Interpretation: Regarding the rotation of the statutory auditor it is currently foreseen, as a legal duty, on article 17 of the Regulation (UE) no. 537/2014, reinforced by Article 54 of the New Statutory Auditor Statutes, approved as attachment to Law no. 140/2015, dated 7th September. Considering this, from the moment it enters into force obliges EDP and, as so, does not have a mere recommendation character. In a next revision of the CMVM Corporate Governance Code, this recommendation shall be eliminated.

32.4. Comparison: Recommendation included in 2010 and maintained unchanged in 2013.

32.5. EDP practices: Adopted. The discharge of the external auditor is the subject of specific reflection on the auditor's independence and the advantages and costs of replacing it.

32.6. EDP guidelines: In addition to adopting the recommendation, in order to further develop it we consider that:

- a) On the basis of an FC proposal or on its own initiative, the GSB must specifically justify the selection of the EA, including the choice of a call for tenders or a renewal.
- b) Irrespective of the duration of the ongoing provision of audit services, the proposal to hire an EA must justify the choice in terms of the auditor's independence and the advantages and costs of replacing it (when applicable).
- c) After the end of the time limit indicated in the recommendation, the GSB's decision to hire the same EA must be accompanied by a specific opinion on the auditor's independence and the advantages and costs of replacing it. This opinion must be published in the GSB's annual report.

V. CONFLICTS OF INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

RCMVM 33. The company's business with shareholders owning qualifying holdings or with entities related to them in any way, pursuant to Article 20 of the Securities Code must be conducted on normal market conditions.

33.1. Relevant parties: shareholders, EBD

33.2. Main regulatory sources:

- Rules on conflicts of interest in corporate decisions – Articles 58(1)(b), 384(6) and 410(6) of the CC.
- Rules on business of the management with the company – Articles 397 and 428 of the CC.
- Rules on the disclosure of privileged information and prohibition of insider trading – Article 248 et seq and Article 378 of the SC.

- Obligation for the corporate governance report to indicate transactions and operations between the company on one hand and the members of its management and supervisory bodies or subsidiary or group companies on the other - CMVM Regulation 4/2013, Attachment I, Part E., no. 90.

33.3. Interpretation: A company's activity takes place around an underlying network of internal and external interests, for example in the field of the company's relations with its shareholders and other stakeholders. Therefore, one of the greatest challenges of its management is to reconcile these interests. However, these conflicts may also take the form of alignment of interests and this should not always be considered negative. On the contrary, the creation of privileged business relationships may be an appropriate vehicle for fostering the creation of value for a company. The company's interests and strict compliance with the law must always be guaranteed, however. The reference to normal market conditions must therefore be interpreted in light of the company's interests.

33.4. Comparison: This recommendation was included in 2010 and maintained unchanged in 2013.

33.5. EDP practices: Adopted. The EBD provides specific information on transactions covered by the recommendation in its annual report.

33.6. EDP guidelines: This recommendation is related to the following one, which sets out the guidelines to be followed.

RCMVM 34. The supervision or audit body shall establish the procedures and criteria necessary for the definition of the relevant level of importance of the transactions with shareholders owning qualifying holdings – or entities related to them in any way in any of the situations foreseen in no. 1 of Article 20 of the Securities Code – and the completion of the transaction of relevant importance shall be subject to a prior opinion from that body.

34.1. Relevant parties: GSB, EBD

34.2. Main regulatory sources:

- Rules on conflicts of interest in corporate decisions– Articles 58(1)(b), 384(6) and 410(6) of the CC.
- Rules on transactions between management and the company – Articles 397 and 428 of the CC.
- Power of the GSB to issue prior opinions – Article 442 of the CC.
- Rules on allocation of voting rights – Article 20 of the SC.

34.3. Interpretation: The reasoning behind this recommendation essentially corresponds to that in the previous one on the need to promote the company's interests and eliminate normal, potential conflicts of interest that may arise from

a company's relations with shareholders and other related parties. As mentioned above, there are different legal and regulatory provisions with this aim that affect decision processes (e.g. the need for the supervisory body to intervene or the transparency and reporting required (e.g. in the annual report and financial statements – IAS 24).

What is new in the recommendation is the fact that it suggests a general mechanism for dealing with transactions of significant importance with shareholders owning qualifying holdings, by subjecting these transactions to a prior opinion from the supervisory body.

Given the nature of the matter and the requirements of the management of a company, it is necessary to find a balance that guarantees the effectiveness of the supervisory body and the essential flexibility of the company's management.

34.4. Comparison: This recommendation was included in 2010. In 2013 some wording adjustments were introduced but the material meaning of the recommendation was maintained.

34.5. EDP practices: Adopted. EDP's current rules on transactions between related parties are in line with the recommendation.

34.6. EDP guidelines: EDP has played a leading role in this matter since, even before this recommendation came out, it adopted a mechanism that goes beyond the scope of the recommendation by including all transactions with related parties. The following guidelines are therefore advocated taking account of the scope of the recommendation:

- a) The GSV must approve a regulation aimed at the pursuit of the company's interests that establishes procedures and rules on EDP's transactions with related parties. In particular, this regulation must:
 - i. Define the concepts of transactions and related parties for the purpose of implementation of the regulation
 - ii. Establish reporting obligations by the EBD on transactions deemed as relevant
 - iii. Determine the responsibilities of the participants in implementing the regulation, especially the GSB, CGSC and EBD
 - iv. Set out the criteria for identifying transactions of significant relevance requiring a prior opinion and the terms of its intervention
- b) The GSB must delegate to the CGSC the task of monitoring compliance with the regulation and the CGSC must send periodic reports to the GSB on its work in this area.
- c) The EBD must set up and implement procedures for identification, internal reporting and action to be taken in the event of a conflict of interest, in harmony with the principles laid down by the GSB.
- d) The GSB must issue an opinion on compliance with the regulation when appreciating EDP's annual and interim report, taking account of the work done by the CGSC.
- e) Every year, the GSB must assess the effectiveness of the regulation and amend any rules necessary.

V. INFORMATION

RCMVM 35. The companies shall made available, through its internet site, in portuguese and english, access to information that allow knowledge of its evolution and it current situation in economic, financial and governance terms.

35.1. Relevant parties: CGM, EBD, GSB

35.2. Main regulatory sources:

- Shareholders' right to information on minutes (requirement that they own at least 1% of the share capital) – Article 288(1)(b) of the CC.
- Additional requirements on the drafting of the minutes and the obligation to disclose information to shareholders and anyone having the right to participate and vote in the GM – Article 23-D of the SC.
- Disclosure of Corporate Governance Report and additional relevant information on the company's internet site – Article 3 of the CMVM Regulation no. 4/2013.

35.3. Interpretation: It is hereby defended a transparency policy related to the economic-financial situation of the company and its governance. One understand that should be here included the disclosure of internal regulations of the company corporate bodies. To note also that the recommendation, in its current wording, is extremely wide, and so it is suggested to publish all the information that may be relevant in this context.

35.4. Comparison: In 2010, the publication of the integral text of the minutes and the presence list was no longer recommended. In 2013, the wording was reviewed in order to eliminate the conservation term or limit the publication of the company's minutes.

35.5. EDP practices: Adopted. EDP publishes the information set out in the recommendation within the established time limit.

35.6. EDP guidelines: Besides adopting the recommendation and with the aim to develop it:

- a) The information provided on the GM and particularly the extract from the minutes should be written in Portuguese and English.
- b) The extract of the minutes published must be sufficiently clear to ensure that the sense of the shareholders' decision is understandable and include any statements of vote by shareholders.
- c) EDP publishes its internal regulations on its internet site.

RCMVM 36. Companies shall ensure that there is an investor support cabinet and permanent contact with the market that answers to investors requests in useful time and a record of the requests presented and of the respective treatment shall be maintained.

36.1. Relevant party: EBD

36.2. Main regulatory sources:

- Duty of companies issuing securities to provide information resulting from the SC – Article 7 and Article 244 et seq of the SC, CMVM Regulations 4/2013.
- Companies' duty to provide information resulting from the CC – Article 65 et seq, Article 288 et seq of the CC.
- Duty to provide information resulting from the Company Registration Code – Article 2 et seq of the CRC.
- Regulation 1606/2002 of the European Parliament and of the Council of 19 July.

36.3. Interpretation: The aim of this recommendation is to reinforce shareholders' legal rights to information (such as Article 288 et seq of the CC). There is also an interest in ensuring the regular operation of the financial markets (e.g. prohibition of insider trading). The practice suggested in the recommendation is reflected in most international recommendations (OECD, Germany and the Netherlands).

36.4. Comparison: Wording the same in 2007 and in 2010. In 2013, besides the reference to the investor support cabinet it was also established a contact recommendation, duly documented, with the market and react case-by-case the investors requests.

36.5. EDP practices: Adopted. EDP has an Investor Relations Department that registers the informative requests presented and promptly replies to the questions posed.

36.6. EDP guidelines: It is advisable to continue to abide by the recommendation.

6. OTHER EDP GOVERNANCE PRACTICES

6.1. Procedure for checking incompatibilities and the independence of the GSB

***REDP 1** – A procedure must be set up for objective, permanent checks on the absence of incompatibilities and on the independence of the members of the GSB.*

1.1. Main regulatory and by-laws sources:

- Rules on independence and on incompatibilities applicable to members of the GSB – Articles 414 and 414-A of the CC (ex vi Article 434(4) of the CC).
- Need for the GSB to consist of a majority of independent members – Article 414(6) of the CC (ex vi Article 434(4) of the CC) and Article 21(4) of the Articles of Association.
- Need for the FC and GSB Remuneration Committee to consist of a majority of independent members – Article 444(6) of the CC, Article 3(2) of the Law

no. 148/2015, dated 9th September and Article 27(1) of the Articles of Association.

- Need for the corporate governance report to indicate the internal rules applicable to incompatibilities and declare compliance by the members of the GSB with the rules on incompatibilities and independence - CMVM Regulation 4/2013, Attachment I, Part II a), no 18 to 20 and Part III a), no. 32.

1.2. EDP practices – A procedure for checking that there are no incompatibilities and to confirm, where applicable, the independence of the members of the GSB has been set up. This procedure includes the following elements:

- A position as a GSB member is accepted in a written statement which also declares:
 - Adequate knowledge of the rules laid down by law, regulatory mechanisms and the Articles of Association applicable to their activity and that of the Company
 - Unreserved acceptance of the rules of the GSB's internal regulation
 - The absence of incompatibilities with the performance of duties as a GSB member, pursuant to the law or Articles of Association
 - Fulfilment of the requirements of independence, if elected as an independent member of the GSB
 - The obligation to report to the GSB Chairman or, if it is the Chairman, directly to the GSB any subsequent circumstance that might result in incompatibility or loss of independence
- At the start of each financial year, the members of the GSB renew their statements on the non-existence of incompatibilities and, if applicable, fulfilment of the requirements of independence.
- The statements by the members of the GSB are published on the EDP website.
- Every year, the GSB conducts a general assessment of the implementation of the rules on incompatibility and independence based on an individual questionnaire completed by its members.

With the appropriate adaptations, this procedure is followed by the CGM, Vice-Chairman of the GM and the EBD.

6.2. Requirements of independence of the GSB

***REDP 2** – Without prejudice to those set out in the law, other criteria must be introduced for an objective evaluation of the independence of the GSB members.*

2.1. Main regulatory and by-laws sources:

- Legal requirements of independence – Article 414(5) of the CC
- Requirements of independence in the Articles of Association – Article 9 of the Articles of Association
- Identification in the corporate governance report of the independent members of the GSB and statement on the absence of incompatibilities -

CMVM Regulation 4/2013, Attachment I, Part II a), no. 18 to 20 and Part III a), no. 32.

2.2. EDP practices – Without prejudice to other situations that may affect its impartiality in analyses and decisions, in accordance with the rules laid down by the GSB, persons who are in one of the following situations directly or through their spouse or a direct relative up to and including the third degree of the collateral line, may not have the status of independent: member

- Holds, manages, is contractually bound to or acts on behalf of holders of a qualifying shareholding of 2% or more in the share capital or voting rights of EDP or any of its subsidiaries.
- Holds, manages, is contractually bound to or acts on behalf of holders of a qualifying shareholding of 2% or more in the share capital or voting rights of a competitor of EDP.
- Receives any remuneration, even if suspended, from EDP, its subsidiaries or any dependent non-profit institution, except remuneration for the performance of duties as a member of the GSB.
- Has been re-elected for more than two consecutive or non-consecutive terms of office.

6.3. Procedure for prior consent from the GSB

REDP 3 – Where applicable, the GSB must fix the parameters for its obligation to give prior approval for certain acts by the EBD in order to ensure flexibility in the company's management.

3.1. Main regulatory and by-laws sources:

- Need for the EBD to obtain prior approval from the GSB for certain acts – Article 442 of the CC
- Matters subject to GSB's prior favourable opinion - Article 442 and Article 17(2) of the Articles of Association
- Power of the GSB to fix the parameters for measuring the economic or strategic value of operations that must be submitted to it for an opinion – Article 21(7) of the Articles of Association.

3.2. EDP practices – Rules have been introduced in order to detail the legal and corporate powers of the GSB under the law and Articles of Association, with the following main characteristics:

- Fixing parameters for the obligation of the GSB to give a prior opinion on the assessment of EDP's business plan and budget and defining additional criteria for situations not covered in these documents
- Setting up a mechanism waiving a prior opinion for urgent, duly justified situations, which entails a decision by the GSB Chairman after consulting at least two members of the GSB
- Obligation to provide information in requests submitted to the GSB by the EBD and the minimum time in advance for submitting them

- Provision of information in the GSB's annual report on matters on which an opinion was given and those on which waiving of a prior GSB opinion occurred
- Periodic revision of the parameters and rules on prior GSB opinions

6.4. Procedure for evaluating the GSB and the EBD

***REDP 4** – Evaluations of the activity and performance of the GSB and EBD should be based on objective, transparent procedures that make it possible to identify positive aspects and those requiring improvement.*

4.1. Main regulatory and by-laws sources:

- Annual evaluation of the management and supervision of the company by the shareholders – Articles 376(1) and 455 of the CC.
- Power of the GSB to supervise the activity of the EBD – Article 441(1)(d) of the CC and Article 22(1)(o) of the Articles of Association.
- Power of the GSB to issue an opinion on the vote of confidence in the EBD – Article 455 of the CC and Article 22(1)(h) of the Articles of Association.
- Duty to draft an annual report to be submitted to the GM - Article 441(1)(d) of the CC.

4.2. EDP practices – In order to make the evaluation of the GSB's and EBD's activity and performance more objective and transparent, following the method developed by the CGSC, a process with the following characteristics has been instituted:

- The process starts with individual questionnaires completed by the members of the GSB, which are used to scrutinise performance indicators, and they are then given a qualitative score.
- The questionnaire results are examined at a GSB meeting and opinions on them are drawn up
- An opinion on the GSB's self-assessment is set out in the annual report and submitted to a vote by the shareholders
- The opinion on the evaluation of the EBD is included in the GSB's annual report and serves as a basis for the GSB's motion on a vote of confidence by the shareholders
- The GSB's annual report is posted on the EDP website, along with the annual financial statements.

6.5. Corporate Ethics Policy

***REDP 5** - EDP must define and implement a corporate ethics policy promoting high standards in its activity.*

5.1. Main regulatory and by-laws sources:

- Obligation of the members of the EBD and GSB to abide by their duties of care and loyalty – Article 64 of the CC.

- Power of the GSB to monitor and assess internal codes of ethics and conduct and compliance with them – Article 22(1)(j) of the Articles of Association.

5.2. EDP practices – The EDP Code of Ethics was approved in 2005. It sets out ethical principles and values to guide EDP’s activity and serve as a basis for the specific codes of conduct for its different areas of activity (such as “regulated transactions”). Meanwhile, under EDP’s new governance model, measures have been taken to step up requirements and strictness in this matter:

- Approval of the Code of Ethics Regulation by the GSB, which serves as an organisational and functional basis for promoting ethical principles and values in the EDP Group and monitoring compliance with them, including provisions for reprimands and sanctions for breaches
- Delegation to the CGSC of monitoring of compliance with the Code of Ethics, ensuring it is enforced in the EDP Group, with the help of the Ethics Committee
- Appointment of the Ethics Committee by the CGSC, which is responsible for appreciating issues related to the Code of Ethics and any breach thereof
- CGSC’s appointment of ethics ombudsmen to collect and handle any complaints submitted under the EDP Code of Ethics
- Introduction of an internal ethics training and awareness programme for all employees
- Information on the EDP Group ethics policy and data on monitoring of compliance with the Code of Ethics in the sustainability report

6.6. GSB support structure

REDP 6 - *The GSB must have an appropriate permanent support structure operating under the Chairman of the GSB.*

6.1. Main regulatory and by-laws sources:

- Duties of the Chairman of the GSB – Articles 432(2), (4) and (5) and 436 of the CC and Article 21(8) of the Articles of Association
- Power of the GSB to commission expert services to assist the members of the GSB in their duties and to obtain the financial and other resources that it deems necessary for its activity – Article 441(1)(p) of the CC and Article 22(1)(j) of the Articles of Association

6.2. EDP practices – In addition to the support from EDP departments under the direction of the EBD, a GSB support office (GSBSO) has been set up. It answers to the Chairman of the GSB and is permanently dedicated to organising and coordinating GSB activities and representing the GSB at institutional level. Given the GSB’s powers under the GSB regulation, the GSB Chairman has the following duties:

- Representing the GSB and acting as spokesman for its decisions
- Coordinating the GSB’s activities and supervising the correct functioning of its Committees, retaining the right to attend any meeting and request information on their activity

- Ensuring that the members of the GSB receive all the information necessary, in a timely manner, for them to perform their duties
- Asking the EBD to provide the relevant information for the exercise of the powers of the GSB and its committees, making it available to GSB members in a timely manner.
- Taking the necessary measures to ensure that the GSB adequately monitors the activity of the Company and the EBD in particular.

In terms of support and organisation of the GSB's activity, the most important features are:

- The GSBSO provides permanent support to the members of the GSB in performing internal organisational formalities and procedures, the study and development of subjects for appreciation by the GSB or its committees and preparation and monitoring of implementation of GSB decisions.
- The GSBSO provides logistical support for plenary meetings of the GSB and its committees, including providing resources and information necessary for the members' participation in these meetings.
- After selection and guidance from the Chairman of the GSB, the GSBSO prepares analyses of data on EDP's activity, processes information provided by the EBD and performs studies of matters for future appreciation by the GSB.
- The GSBSO draws up GSB budgets and plans of activity and manages and reports on their implementation after approval.

6.7. Issue of vote statements

REDP 7 - *The by-laws foresee that the antecedence for the reception of the vote statement issued by correspondence shall not be superior to three days.*

7.1. Main regulatory and by-laws sources:

- Regulation of the exercise of the voting right by correspondence (when admitted) – Article 384(8)(9) of the CC and Article 14(6)(7) of the By-Laws.
- Information to insert on the notice to convene meeting on the exercise of the voting right by correspondence – Article 21B and Article 22(3) of the SC; Article 377(5) of the CC.

7.2. EDP practices – On the exercise of the voting right by correspondence, the by-laws foresee an antecedence term for the reception of the vote statements issued by correspondence of three week days (Article 14(6)(7) of EDP By-Laws).

6.8. Irregularities communication policies

REDP 8 - *The company shall adopt an irregularities communication policy that allegedly occur, with the following elements: i) identification of the means through which the communication of irregular practices may be internally done, including the persons who shall be legitimate to receive them; ii) identification of the treatment that shall be given to the communications, including confidential treatment, in case the issuer so desires.*

8.1. Main regulatory and by-laws sources:

- GSB competence to receive irregularities communications presented by shareholders, employees of the company or others – Article 441(1)(j) of the CC.
- Exercise of the function of receiving the irregularities communications by the FC – Article 444(2) of the CC.

8.2. EDP practices – EDP has a Regulation of irregularities communications. This Regulation establishes the mechanisms and procedures of reception, retention and treatment of irregularities communications received by the company, in matters such as i) accounting, ii) internal accounting controls, iii) auditing, iv) combat against corruption, banking and financial crime that have been communicated by shareholders, employees of the companies and others.

Non Binding Translation