

## **REGULATIONS ON CONFLICT OF INTEREST AND TRANSACTIONS BETWEEN RELATED PARTIES OF EDP (REGULATIONS)<sup>1</sup>**

### **1. Preamble**

The General and Supervisory Board (GSB) has played a pioneering role in creating an internal mechanism for preventing, identifying and handling potential corporate conflict of interest, an issue that was only expressly laid down in the Securities Market Commission (CMVM) Corporate Governance Code at the beginning of 2010. Following the commitment made by the GSB to adopt best corporate governance practices, these Regulations replace the “Framework for handling conflict of interest” approved on 16 October 2008.

The rules voluntarily adopted by EDP in relation to conflict of interest are meant to be reviewed within a period of at least one year from entering into force. The application of the aforementioned rules has allowed the GSB to issue a reasoned and qualified opinion on this issue as part of its appraisal of the management reports and accounts. In this regard, these Regulations seek to provide continuity to the work carried out in coordination with the Executive Board of Directors (EBD), given their common interest in improving governance practices and promoting transparency and objectivity in managing conflict of interest.

In operational terms and according to best governance practice, supervision and monitoring duties in this regard are the responsibility of the Corporate Governance and Sustainability Committee (CGSC), a specialised committee of the GSB with a majority independent membership.

These Regulations take into consideration CMVM Regulation no. 1/2010 and the CMVM Corporate Governance Code.

### **2. Objective**

In addition to the compliance of the applicable legal, regulatory and statutory provisions, these Regulations seek to strengthen the internal corporate procedures for preventing, identifying and resolving relevant conflicts of interest, in particular those concerning significant transactions between related parties. In particular, these Regulations complement the internal mechanisms developed by EDP to comply with IAS 24.

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<sup>1</sup> Approved by the GSB in 29.07.2010.

### 3. Definitions

#### 3.1. Related Parties

3.1.1. *Related parties are defined as such by virtue of a direct or **indirect** relationship involving EDP and:*

- a) *A director of EDP or one of its subsidiaries.*
- b) *A shareholder with a qualifying shareholding of at least 2% in EDP or one of its subsidiaries, calculated pursuant to Article 20 of the Securities Code.<sup>2</sup>*
- c) *A third party with whom EDP or one of its subsidiaries maintains **relevant common business interests**, namely cooperation or business partnership agreements.*

3.1.2. *For the purposes of the previous item, a relevant **indirect relationship** exists where the intervention of third parties may be ascribed to a related party, namely:*

- a) *The spouse or de facto partner of the related party, dependents or other family members with whom they have co-habited for over one year.*
- b) *Any entity that is directly or indirectly controlled by the related party, has been set up in their name, or of which they are a member of the management or audit boards, or if they are not a member, they have regular access to classified information and participate in decisions on its management and business strategy.*

3.1.3. *There is a **relevant common business interest** where the transaction performed between EDP or one of its subsidiaries and a third party has been submitted to the GSB for previous opinion.*

**3.2. Directors** – *Members of a company’s management or audit boards and other officers who, albeit not members of these boards, are identified by the EBD as having regular access to classified information and participate in decisions on the company’s management and business strategy.*

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<sup>2</sup> When calculating qualifying shareholdings, besides the voting rights inherent in the shares that the shareholder owns or controls, the following voting rights are also considered:

a) Those held by third parties in their own name, but on behalf of the shareholder; b) Those held by a company controlled by or in a group relationship with the shareholder; c) Those held by holders of voting rights with whom the shareholder has signed an agreement for their exercise, except if the same agreement is subject to following the instructions of a third party; d) If the shareholder is a company, those held by the members of its management and audit boards; e) Those which the shareholder may acquire by virtue of an agreement signed with their holders; f) Those linked to shares held in guarantee, managed or held in deposit by the shareholder, if the voting rights have been transferred to him/her; g) Those held by holders of voting rights who have conferred on the shareholder discretionary powers for their exercise; h) Those held by persons who have signed an agreement with the shareholder with a view to acquiring control of the company or blocking change of control, or which constitute an instrument for the concerted exercise of influence over the company; i) Those ascribable to any persons referred to in the above sub-paragraphs by application of the criteria from any other sub-paragraph, with due adaptations.

**3.3. Subsidiaries** – Companies controlled or in the same group as EDP pursuant to Article 21 of the Securities Code, by virtue of:

- a) Ownership of a majority of the voting rights or being able to exercise these through a shareholders agreement; or
- b) Being able to appoint or dismiss the majority of the members of its management board.

**3.4. Relevant Situations** – Legal transactions or situations of fact existing between related parties that are liable to cause a conflict of interest between the subjects involved and which may affect the pursuit of EDP's interests.

**3.5. Significant Transactions** – For the purposes of these Regulations, these are legal transactions that may be classified as relevant situations and which, pursuant to the applicable internal rules, require a favourable previous opinion from the GSB.

#### 4. Reporting relevant situations

4.1. Within 30 days of the end of each quarter, the EBD should inform the CGSC of:

- a) Transactions classified as relevant situations that were performed during the period in question and:
  - i. Have a financial value of over EUR 5 million, or the accumulated annual value of which exceeds this amount, and/or
  - ii. Need to be included in the management report, by virtue of their material relevance or their having been performed outside normal market conditions.
- b) Shareholders owning a qualifying shareholding of at least 2% in EDP or one of its subsidiaries, calculated pursuant to Article 20 of the Securities Code, and who in the period under review:
  - i. Are EDP creditors holding at least 5% of its liabilities.
  - ii. Are customers representing at least 1% of total billing or have generated income of over EUR 5 million.
  - iii. Are suppliers representing at least 1% of the overall value of external supplies and services or from whom services to a value of at least EUR 5 million have been acquired.

4.2. The information described in sub-paragraph a) of paragraph 4.1. above should include:

- a) Summary description of the operations and the responsibilities taken up by the parties.
- b) Outline of the procedures used to select the counterparty, i.e. whether the operation was based on a tender competition/consultation or direct award.
- c) In cases of direct award, the grounds for this decision and the mechanisms adopted to mitigate the risk of potential conflict of interest.

- d) In cases of tender competition/consultation, the type of contact established with the potential interested parties and the identity of those parties.
- e) In case of competitive tenders, the details of the different tenders and the criteria used for selection.
- f) The parameters used to check whether the transaction was performed under “normal market conditions for similar operations”.
- g) Measures taken to prevent or resolve potential conflict of interest.

4.3. In addition to providing the information described in IAS 24, before signing, or where not possible immediately after signing, the EBD shall inform the CGSC of any contracts or addenda to existing contracts agreed between EDP and its subsidiaries where the value of the transaction is equal to or greater than:

- a) EUR 75 million, for subordinated and standard loans.
- b) EUR 75 million, for purchase, sale, marketing or supply of electricity and natural gas (and connected products and services).
- c) EUR 5 million for all other transactions.

4.4. The EBD should report to the CGSC any relevant situations of which it has knowledge and are liable to damage or have damaged EDP’s corporate interest, as soon as possible and regardless of the financial value in question, in accordance with a standard of diligence to be reasonably expected of a diligent and organised manager.

4.5. Upon analysis of the information reported by the EBD, the CGSC:

- a) May request the EBD to provide any additional information or documentation it deems necessary to formulate a reasoned opinion on the situations under review.
- b) Should submit to the GSB its opinion on the analysis performed of the reported information, and may make proposals for recommendations to be passed on to the EBD.
- c) Having identified a relevant situation that is liable to damage EDP’s corporate interests, it should communicate this situation to the GSB with immediate effect and may suggest the adoption of measures to resolve or manage the situation in line with these interests.

## **5. Previous opinion on significant transactions**

5.1. For significant transactions, the EBD should provide the information listed in paragraph 4.2. together with their request for a GSB previous opinion or its exemption.

5.2. For significant transactions submitted for GSB previous opinion:

- a) If the CGSC is able to meet before the GSB meeting, the opinion of this committee should be requested, to be passed on to the GSB for the purposes of issuing the decision.

- b) If the CGSC cannot hold the aforementioned meeting, the potential conflict of interest should be appraised directly by the GSB as part of its decision-making process.

5.3. For significant transactions subject to a request for exemption from GSB previous opinion, at least three members of this board should be consulted, a majority of whom should be independent.

5.4. Upon appraisal of the EBD's request, the CGSC, GSB or the Chairman of the GSB (in the case described in 5.3), may recommend the EBD to take suitable measures to resolve the potential conflict of interest.

## **6. Responsibilities of the GSB and CGSC**

6.1. Without prejudice to its decision-making powers and its ability to evoke these at any time, the GSB shall delegate to the CGSC the permanent monitoring, evaluation and auditing of the internal procedures governing conflict of interest, as well as the effectiveness of the systems in place for their assessment and resolution.

6.2. The duties of the CGSC with regard to conflict of interest include:

- a) Informing the GSB of its activity on a regular basis.
- b) Submitting recommendations to the GSB, as well as adopting adequate measures to identify, prevent and resolve conflict of interest in relevant situations.
- c) Reporting the results of its activity in the GSB's annual report, including a conclusive opinion on the EBD's performance in terms of meeting the guidelines defined for handling conflict of interest.
- d) Assessing whether these Regulations are still fit for purpose on an annual basis and, if deemed necessary, propose their revision to the GSB.

6.3. In addition to its other duties, the GSB should:

- a) As part of its assessment of EDP's annual and interim management reports, and taking into account the work carried out by the CGSC, issue an opinion on the application of these Regulations in relation to transactions performed between related parties.
- b) Recommend to the EBD appropriate measures for reinforcing the mechanisms for identifying, preventing and resolving conflict of interest.
- c) In case of relevant situations that are damaging to EDP's interests, assess the consequences of these situations and take any measures required to safeguard their interests.

6.4. It should be ensured that no GSB members involved in appraising relevant situations are themselves in a situation of conflict of interest.