

*edp*

**ENERGY**  
**AS**  
**THE**  
**NEW**  
**ART**

**ANNUAL REPORT OF THE GENERAL  
AND SUPERVISORY BOARD  
2016**



# ENERGY AS THE NEW ART

40 years of EDP

It's time to celebrate energy

Over these 40 years, the world has changed and energy has changed with it. Through the art of reinventing, innovating, revolutionizing and transforming the future. Through creativity driven by the engine of technology. Today we look at the past as a gallery of memories that inspires us to create anew.

Energy embodies an infinite narrative built every day as an inexhaustible and inspiring work of art.

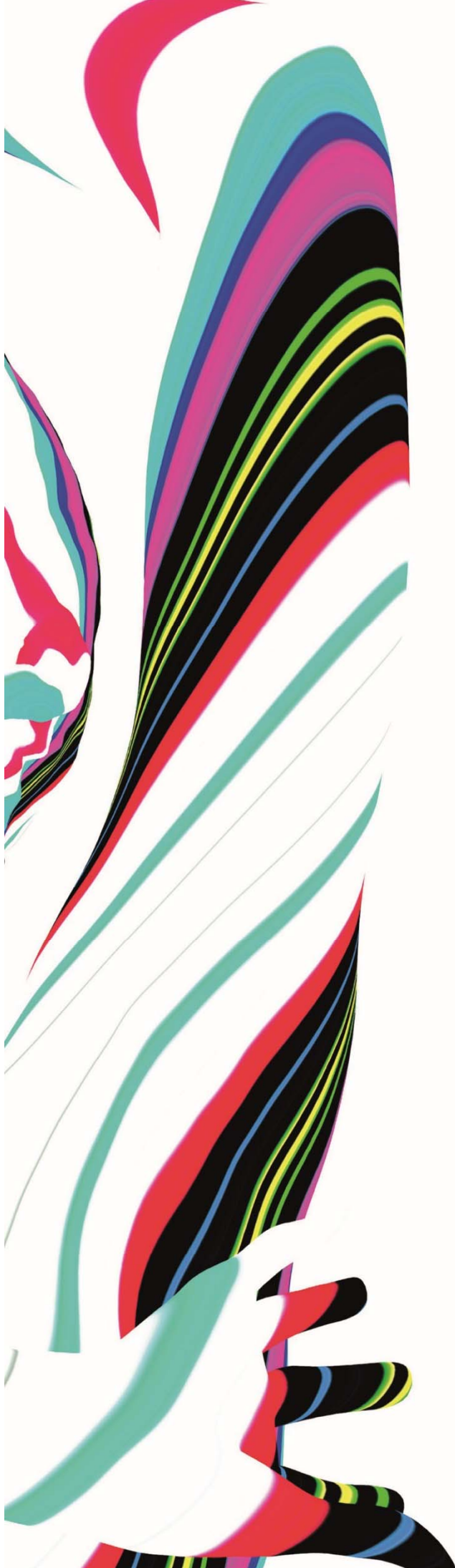
Energy as the new Art

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**HUMANITY  
AS THE NEWART**

# 1. Governance Model

In line with the practice implemented at EDP in recent years, information on the structure and practices of the corporate management bodies and the statement of compliance with the recommendations of the Corporate Governance Code published in 2013 by Portuguese Securities Market Commission (CMVM) is included in EDP's 2016 Annual Report & Accounts, "chapter 4. Governance of the Company".

It is understood, therefore, that this is the appropriate place for a brief reflection on the governance model in force at EDP since 2006 and, in a systematic way, record the course followed by EDP throughout 2016 regarding corporate governance practices.

EDP in Portugal is one of the few companies that, among the three government models legally established for limited companies, has adopted the dualist governance model. Eleven years after the entry into force of this model, at the risk of repeating a message already transmitted, the results indicate that the option adopted has been a winning bet.

In fact, and notwithstanding the efficacy of other possible models of government, the dualist model has been totally embedded in the dynamics of a company with a shareholder dimension and structure such as EDP. The flexibility and division of powers legally and statutorily established between the Executive Board of Directors and the General and Supervisory Board has ensured an efficient management, benefiting from constant supervision.

In 2016, dialogue and cooperation between the two bodies remained constant. Experience acquired since 2006 and the common desire to make the interest of the Company the ultimate objective of the activity shows that the system implemented is fully operational, functions smooth and is fully suitable.

The way that EDP has faced the adverse environment of recent years, not only in Portugal but also in the other geographical areas where the Group operates, is also a result of the advantages associated with the Company's dual governance system.

It is equally important to mention the issue of corporate governance. This is not a matter of compliance with legal regulations, but rather the degree of compliance with a series of recommendations based on good practices that Regulators, Stakeholders and society in general consider to be vitally important to ensure that companies are managed in line with social order principles, reflecting the evolution of the times.

It should be noted here that EDP has taken a pioneering role in this area. Indeed, since 2010, the Company has had a Corporate Governance Manual, which formalizes the good practices implemented in its business activity, and is based on the recommendations of the Regulator.

In 2015, this Manual was revised to accommodate changes meanwhile verified and the new version of EDP's Corporate Governance Manual was approved by the General and Supervisory Board and the Executive Board of Directors in January 2016. The primary objective of this Manual is to record and share the understanding of the two governing bodies, regarding the recommendations of good corporate governance practices applicable to EDP, as well as the guidelines that it considers appropriate to adopt by way of response.

2016 was also marked by the consensus reached between CMVM and the Portuguese Corporate Governance Institute (IPCG) regarding the unification of a Corporate Governance Code which, when approved by the competent bodies, will replace the code currently in force (CMVM Corporate Governance Code 2013).

The preamble to this Code states: "(...) *without being an injunction, the Code seeks to encourage practices in companies that comply with the guidelines that are recognized at national and international level as good governance: in this sense, the Code is, on the one hand, a complement to the legal system and, on the other hand, a guide to good corporate governance (...)*".



In parallel with this process, which will continue to be implemented, EDP will maintain compliance with good practices and the pursuit of the company's interest as a priority action, for which the CMVM's Code of Corporate Governance 2013 and the Group's Corporate Governance Manual will function as the guiding principles for the respective action.

Above all, EDP will maintain a culture of excellence in defense of the interests of the Company and its Shareholders, by maintaining, for this purpose, a conduct that meets the good practice recommendations, based on the current governance model.

## 2. General and Supervisory Board

### 2.1. Composition

Under the legal and statutory terms the General and Supervisory Board shall be composed of a majority of independent Members, shall have no fewer than nine Members and must always be composed by a higher number than the number of directors. It should be noted that, by virtue of his office, the Chairman of the General Shareholders' Meeting is also a Member of the General and Supervisory Board.

On 21 April 2015, the General Shareholders' Meeting elected 21 Members to the General and Supervisory Board for the three-year term 2015-2017, of which 11 have independent status, as indicated below:

General and Supervisory Board		Independent Members	Date of Initial Election
Chairman	China Three Gorges Corporation, represented by Eduardo de Almeida Catroga (1)		20-02-2012
Vice-Chairman	Luís Filipe Marques Amado	Independent	21-04-2015
	Banco Comercial Português, S.A., represented by Nuno Manuel da Silva Amado (2)		21-04-2015
	China International Water & Electric Corp., represented by Guojun Lu		20-02-2012
	China Three Gorges (Europe), S.A., represented by Dingming Zhang		20-02-2012
	China Three Gorges (Portugal), Sociedade Unipessoal, Lda., represented by Shengliang Wu		21-04-2015
	China Three Gorges New Energy Co. Ltd., represented by Ya Yang		20-02-2012
	DRAURSA, S.A., represented by Felipe Fernández Fernández		21-04-2015
	Fernando Maria Masaveu Herrero		20-02-2012
	Senfora BV, represented by Mohamed Ali Ismaeil Ali Al Fahim (3)		21-04-2015
	Sonatrach, represented by Ferhat Ounoughi		12-04-2007
	Alberto Joaquim Milheiro Barbosa	Independent	21-04-2015
	António Manuel de Carvalho Ferreira Vitorino	Independent	21-04-2015
	António Sarmento Gomes Mota	Independent	15-04-2009
	Augusto Carlos Serra Ventura Mateus	Independent	06-05-2013
	Ilídio da Costa Leite de Pinho	Independent	20-02-2012
	João Carvalho das Neves	Independent	21-04-2015
	Jorge Avelino Braga de Macedo	Independent	20-02-2012
	Maria Celeste Ferreira Lopes Cardona	Independent	20-02-2012
	Maria del Carmen Ana Fernández Rozado	Independent	21-04-2015
	Vasco Joaquim Rocha Vieira	Independent	20-02-2012

(1) Prof. Eduardo Catroga was member of the GSB during 2006-2008 and 2009-2011 as independent and chairman during 2012-2014 as independent

(2) In the 2012 – 2014 mandate, the office was exercised by Nuno Manuel da Silva Amado, BCP Chairman

(3) in the 2009 – 2011 and 2012-2014 mandates, the GSB Member was Senfora S.a.r.l.

In the EDP Annual Report & Accounts for 2016, there is a summary of the curriculum vitae of each Member of the General and Supervisory Board for the three-year term 2015-2017, including their professional qualifications and their professional activities in, at least, the last five years, covering functions performed in other companies.

In the EDP Annual Report & Accounts for 2016, in accordance with applicable legal and regulatory provisions, information is also provided on the ownership by Members of the General and Supervisory Board of shares and other financial instruments related to EDP.

#### 2.1.1 Regime of Incompatibilities and Independence

Members of the General and Supervisory Board are subject to an extensive regime of incompatibilities for the performance of their duties, both of a legal nature and a statutory nature. It should also be noted that, given the qualitative requirements of the composition of the body, the General and Supervisory Board must have a majority of Members with independent status.

In order to fulfil its commitment to the adoption of the best corporate governance practices, the General and Supervisory Board has in place a procedure to reinforce the verification of compliance with the requirements for absence of

incompatibilities and, where applicable, of the independence of members of the General and Supervisory Board, carried out on the basis of Members' statements of liability.

This procedure includes the following:

- Acceptance of membership of the General and Supervisory Board is made by written statement, in which the Member also acknowledges:
  - Sufficient knowledge of the legal, regulatory and statutory standards applicable to his and the Company's activity.
  - Unreserved acceptance of the rules laid down in the Internal Regulation of the General and Supervisory Board.
  - The absence of any situation of legal or statutory incompatibility for the term as a Member of the General and Supervisory Board.
  - Fulfilment of the independence requirements as set out in Article 7(1) of the Internal Regulation of the General and Supervisory Board, in the event of being elected as an independent Member of the General and Supervisory Board.
  - The obligation to report to the Chairman of the General and Supervisory Board or, in the latter's case, directly to the General and Supervisory Board, any supervening event likely to create a situation of incompatibility or loss of independence.
- At the beginning of each year, Members of the General and Supervisory Board must, within 30 days, renew their statements concerning the absence of incompatibility and, if such is the case, the independence requirements.
- Under the Internal Regulation of the General and Supervisory Board, any discovery of incompatibility implies the expiry of the mandate, and the Member should take the initiative to resign immediately.

Soon after their acceptance of their election, Members of the General and Supervisory Board signed a statement on the absence of incompatibilities and, where applicable, provided evidence of their independence, and this statement was renewed with reference to 31 December 2016.

Accordingly, under the internal procedures defined for this purpose, the General and Supervisory Board states that, based on information collected for the purpose, no situation was observed:

- Of incompatibility in relation to its Members;
- Likely to affect the independence of Members identified as such.

Members' statements are available to be consulted on EDP website ([www.edp.pt](http://www.edp.pt)).

## 2.2. Functions

In the exercise of its powers, the main mission of the General and Supervisory Board is to ensure, at all times, the monitoring, counselling and supervision of the management of EDP, cooperating with the Executive Board of Directors and other management and corporate bodies in the pursuit of social interest, pursuant to the Law and the Company's By-Laws, in particular Article 22.

In the Corporate Governance Report, a comprehensive description of the powers of the General and Supervisory Board is given. Due to their special relevance, the following aspects are emphasised:

- The function of supervising the activities of the Executive Board of Directors has to be understood in the broadest sense, with Shareholders requiring that this be performed on a permanent basis pursuant to Article 22(1)(a) of the By-Laws, to ensure that all of EDP's shareholders and stakeholders are adequately protected.
- The monitoring of management activities is not limited to EDP, but is extended to all Subsidiary companies; however, bearing in mind the different size of these companies and their large number, the General and Supervisory Board pays particular attention to the following companies:

- EDP – Gestão da Produção de Energia, S.A.
- EDP Distribuição – Energia, S.A.
- EDP Comercial – Comercialização de Energia, S.A.
- EDP Gás, SGPS, S.A.
- EDP Energias do Brasil, S. A.
- Hidroeléctrica del Cantábrico, S.A.
- Naturgas Energia Grupo, S. A.
- EDP Renováveis, S.A.
- EDP Internacional, S.A.
- All materially relevant operations (strategic plan, business plan, budget, acquisitions and disposals, financing, investments/divestments, establishment or termination of strategic partnerships and transactions of particular strategic significance) are systematically scrutinised by the General and Supervisory Board, namely through the prior opinion procedure.
- Clarifying matters which, due to their nature, may have implications for the image of EDP.

### 2.3. Organisation and Functioning

The organisation of the General and Supervisory Board is in accordance with the Law and EDP's By-Laws, and also takes into account recommendations of best governance practices applicable to listed companies, with an emphasis on the CMVM 2013 Corporate Governance Code.

The General and Supervisory Board works through plenary meetings and through specialised Committees, in which the General and Supervisory Board delegates the exercise of certain functions, without prejudice to maintaining responsibility for their performance, pursuant to article 444º of the Portuguese Companies Code.

Under the terms of EDP's By-Laws, there shall be an ordinary Plenary session at least once each quarter. However, that number of meetings has been largely exceeded due to the specific requirements of EDP Group's business dynamics. Therefore, whenever the nature, importance or urgency of the issues so warrant, the General and Supervisory Board shall meet in extraordinary sessions.

As part of its legal and statutory powers, it is the responsibility of the Chairman of the General and Supervisory Board to organise and coordinate activities, and to represent that company body, ensuring the proper implementation of its resolutions. Given the broad composition of the General and Supervisory Board, the Chairman of the Board is also the link between the activity of the General and Supervisory Board and the Executive Board of Directors. It is the responsibility of both Chairmen to maintain direct, constant contact, whether formal or informal, to provide mutual information about the main events related to the current management of the Company and its supervision. This contact has been a reality since the beginning of the functioning of the two boards.

In addition to the plenary meetings of the General and Supervisory Board and its specialized Committees, and in the light of this permanent contact, the Chairman of the General and Supervisory Board selects issues for clarification with the Chairman of the Executive Board of Directors, subsequently, and whenever appropriate, informing the Members of the General and Supervisory Board.

The By-Laws gives the Chairman of the General and Supervisory Board the right to attend meetings of the Executive Board of Directors, without voting rights. The same right is granted to the Chairman of the Executive Board of Directors, whose presence at the meetings of the General and Supervisory Board is provided for in the By-Laws also.

### 2.4. Specialized Committees

Given the nature and the functions assigned to it, the General and Supervisory Board has created specialized Committees for dealing with matters of particular importance.

These Committees are composed of members with appropriate qualifications, experience and availability, and their main mission is to carry out the continuous monitoring of the matters entrusted to them, in order to facilitate the analysis and the decision-making process of the General and Supervisory Board.

In the case of the Financial Matters/Audit Committee and the Remuneration Committee, they were set up in response to legal and statutory requirements. Regarding Corporate Governance and Sustainability Committee and Strategy and Performance Committee they were created upon the initiative of the General and Supervisory Board.

The General and Supervisory Board, through its Chairman, permanently monitors the activities of its Committees, which, in turn, must periodically report their activities to the Board.

The Corporate Governance Report contains a description of the composition and functions delegated by the General and Supervisory Board to each of its specialized Committees. On EDP website at [www.edp.pt](http://www.edp.pt), detailed information on the Committees and their Internal Regulations is also provided. To avoid redundancies, only their missions are below highlighted.

### 2.4.1 Financial Matters/Audit Committee

#### Mission

The Financial Matters/Audit Committee is appointed by the General and Supervisory Board under Article 23(2) of the By-Laws, and its main mission is to monitor and supervise the following, on a permanent basis:

- Financial matters relating to the Company.
- The internal procedures for auditing and accounting practices followed by the Company and the Internal Financial Reporting Control System (IFRCS) and the compliance function, in coordination with the Internal Audit and Compliance Department.
- Matters relating to the internal financial reporting control system and risk management processes, particularly relating to their fiscal, legal and financial aspects.
- The activity and independence of the Statutory Auditor (SA) of the Company with whom it must maintain a close relationship.

#### Composition

On 22 April 2015, the General and Supervisory Board established the Financial Matters/Audit Committee for the term of office 2015-2017, which is composed only by independent Members and, since that date, has the following composition:

Financial Matters/Audit Committee		Date of Initial Appointment
Chairman	António Sarmento Gomes Mota	07-05-2009*
Vice-Chairman	João Carvalho das Neves	22-04-2015
	Alberto Joaquim Milheiro Barbosa	22-04-2015
	Maria Celeste Ferreira Lopes Cardona	18-04-2012
	María del Ana Carmen Fernández Rozado	22-04-2015

\*Appointed Chairman of the Financial Matters/Audit Committee on 22 April 2015.

### 2.4.2 Remuneration Committee

#### Mission

The Remuneration Committee is appointed by the General and Supervisory Board in accordance with the provisions of Article 27(1) of the By-Laws and its main mission is:

- To define the policy and corporate objectives for setting the remuneration of the Chairman and Members of the Executive Board of Directors.
- To set the remuneration of the Chairman and Members of the Executive Board of Directors.
- To monitor and evaluate the performance of the Chairman and Members of the Executive Board of Directors in order to determine the variable remuneration.
- To monitor the disclosure of external information on remuneration and remuneration policy for the Executive Board of Directors.

The Remuneration Committee is different from the Remuneration Committee elected by the General Shareholders' Meeting as the latter is responsible for setting the remuneration policy of all corporate bodies, except the Executive Board of Directors.

#### Composition

On 22 April 2015, the General and Supervisory Board established the Remuneration Committee for the term of office 2015-2017, which is composed by a majority of independent Members and, since that date, has the following composition:

Remuneration Committee		Date of Initial Appointment
Chairman	Yang Ya	21-04-2015
	Fernando María Masaveu Herrero	21-04-2015
	Ildio da Costa Leite de Pinho	22-05-2012
	João Carvalho das Neves	21-04-2015
	Vasco Joaquim Rocha Vieira	21-04-2015

### 2.4.3. Corporate Governance and Sustainability Committee

#### Mission

The Corporate Governance and Sustainability Committee was established by the General and Supervisory Board as a specialized Committee with expertise in matters relating to:

- Corporate governance.
- Sustainability strategy;
- Internal codes of ethics and conduct;
- Systems for the assessment and resolution of conflicts of interest, particularly with regard to the relations between the Company and Shareholders.
- Monitoring the definition of selection criteria and necessary skills for the internal bodies and structures of the Company and its Subsidiary companies, as well as the assessment of their impact on their composition.
- Monitoring the preparation of succession plans.

#### Composition

On 22 April 2015, the General and Supervisory Board established the Corporate Governance and Sustainability Committee for the 2015-2017 term of office, which is composed by a majority of independent Members and, since that date, has the following composition:

Corporate Governance and Sustainability Committee		Date of Initial Appointment
Chairman	Luis Filipe Marques Amado	22-04-2015
	Felipe Fernández Fernández	22-04-2015
	Jorge Avelino Braga de Macedo	22-04-2015
	Maria Celeste Ferreira Lopes Cardona	18-04-2012
	Shengliang Wu	11-05-2012

## 2.4.4 Strategy and Performance Committee

### Mission

The Strategy and Performance Committee was established at the meeting of the General and Supervisory Board held on the 18 June 2015, as a result of the merger of the Strategy Committee and the Performance and Competitiveness Analysis Committee, as a specialized Committee with responsibility for matters relating to:

- Short, medium and long term scenarios and strategies.
- Strategic implementation, business planning and their budgets.
- Investments and divestments.
- Debt and financing.
- Strategic alliances.
- Evolution of markets and competitiveness.
- Regulation.
- Analysis of the performance of the Group and the Business Units.
- Benchmarking of the Group's performance, in relation to other leading companies in the sector.
- Evaluation of the competitiveness of EDP business portfolio.

### Composition

On 18 June 2015, the General and Supervisory Board established the Strategy and Performance Committee for the term of office 2015-2017, which has the following composition:

Strategy and Performance Committee		Date of Initial Appointment
Chairman	Eduardo de Almeida Catroga	18-06-2015
	Alberto Joaquim Milheiro Barbosa	18-06-2015
	Augusto Carlos Serra Ventura Mateus	18-06-2015
	Dingming Zhang	18-06-2015
	Ferhat Ounoughi	18-06-2015
	Fernando María Masaveu Herrero	18-06-2015
	João Carvalho das Neves	18-06-2015
	Jorge Avelino Braga de Macedo	18-06-2015
	Mohamed Ali Ismaeil Ali Al Fahim	18-06-2015
	Nuno Manuel da Silva Amado	18-06-2015
	Shengliang Wu	18-06-2015

### 3. General and Supervisory Board Activity

As part of its legal and statutory powers, the General and Supervisory Board is responsible for the permanent monitoring of the activity of the management of the Company and Subsidiary companies and for providing advice and assistance to the Executive Board of Directors, in particular with regard to the strategy, achievement of objectives and EDP's significant activities and decisions, ranging from business and management organization models to aspects of a highly operational nature, including investment and divestment decisions and the corresponding forms of financing, as well as internal and external reporting of results.

In fact, the most visible part of the General and Supervisory Board's work is in its Plenary and specialized Committee meetings. It is, therefore, essential to carefully and judiciously select and prepare the matters to be given special consideration by the General and Supervisory Board and the specialized Committees at these meetings. In this context, this selection of matters and themes plays a vital role and requires a common understanding on the implementation of the powers of the General and Supervisory Board, and this, of course, is more effective and efficient with experience.

#### 3.1. Permanent Activity

In order to ensure the proper organisation and preparation of meetings of the General and Supervisory Board, there is a permanent level of support activity on which it relies, which is also related to the scope of the institutional representation undertaken by the Chairman, who is employed in a full-time capacity and supported by the General and Supervisory Board's Support Office.

In this context, it is particularly important that the Chairman of the General and Supervisory Board exercises his responsibilities which, under the Internal Regulations, are as follows:

- Representing the General and Supervisory Board and being the spokesman for its decisions with the other governing bodies.
- Coordinate the activities of the General and Supervisory Board and the functioning of its specialized Committees, having the right to attend any meeting and to be kept informed of the activities carried out by them.
- Propose to the General and Supervisory Board Plenary the Members, the Chairman and, where appropriate, the Vice-Chairman of each Committee.
- Ensure that members of the General and Supervisory Board promptly receive all the information necessary for the full development of their functions.
- Control the execution of the General and Supervisory Board budget and manage the material and human resources allocated to this body.
- Convene and chair the meetings of the General and Supervisory Board and ensure the proper execution of its deliberations.

One of the most important functions of the Chairman is the institutional representation of the General and Supervisory Board, in particular through the following actions:

- Monitoring of weekly meetings of the Executive Board of Directors, with a mechanism for disclosing to the Chairman of the General and Supervisory Board the respective agendas and support folders, as well as the respective minutes.
- Permanent contact between the Chairman of the General and Supervisory Board and the Chairman of the Executive Board of Directors, as well as between the Chairman of the General and Supervisory Board and the other members of the Executive Board of Directors, with several working meetings to coordinate the activity of the two bodies.
- Obtaining and processing information on the management policy, the evolution of the business, materially relevant economic operations by EDP and Subsidiary companies.
- Active participation in the most significant events of EDP's institutional life, both internal and external, in particular before Public Authorities and Shareholders.



At the internal level of the General and Supervisory Board's own activities, the Chairman shall coordinate the activities carried out, in particular by:

- Attendance at meetings of the Committees of which he is not a member, as well as participation in discussion of matters that will later be decided by the General and Supervisory Board.
- Analysis of information obtained from the Executive Board of Directors and other sources, as well as its dissemination by the members of the General and Supervisory Board.
- Articulation of the procedures for waiving prior opinions, as detailed in paragraph 3.3.

During 2016, the Chairman of the General and Supervisory Board maintained his concern to involve the Members of the General and Supervisory Board in its activity, as well as to improve the selection of topics that deserve specific clarification by the Executive Board of Directors. In addition to the information provided in the meetings of the General and Supervisory Board and its Committees, the following were of note:

- The *General and Supervisory Board Special Reports*, internal and / or external structural studies on topics of strategic interest.
- The *General and Supervisory Board Newsletters*, with relevant current external information.
- The *General and Supervisory Board Macroeconomic Overviews*, with information on the macroeconomic outlook of the countries in which EDP operates.

### 3.2. Activity of Plenary Meeting

Overall, the General and Supervisory Board and its specialized Committees held 36 meetings in 2016, with an average participation of 89% of its Members.

During 2016, the General and Supervisory Board held 9 meetings with an average participation of 81% of its Members and issued 25 opinions and prior opinions. These opinions are supplemented by 11 waivers of prior opinions once, as provided in the By-Laws, the General and Supervisory Board may establish timely mechanisms for issuing or waiving of prior opinion in cases of exceptional urgency or when warranted by the nature of the matter.

With regard to the Budget of the General and Supervisory Board for 2016, which was approved on 17 December 2015, information on its implementation is provided in paragraph 3.6.

	2016	2015	Variation
Plenary meetings planned (no.)	8	8	-
Plenary meetings held (no.)	9	10	-10%
Attendance of Members in Plenary meetings (%)	81	84	-3p.p.
Committee meetings planned (no.)	28	31	-10%
Committee meetings held (no.)	27	31	-13%
Member attendance of Committee meetings (%)	91	90	+1p.p.
Attendance of the Chairman of the EBD at Plenary meetings (%)	100	90	+10p.p.
Opinions and prior opinions (no.)	24	21	+14%
Waivers of prior opinion (no.)	11	8	+38%
Training initiatives/workshops (no.)	2	2	-

Chart of meetings and attendance in 2016:

Name	21/Jan	03/Mar	20/Apr	04/May	07/Jul	28/Jul	22/Sep	03/Nov	15/Dec	%
Eduardo Almeida Catroga - Chairman	P	P	P	P	P	P	P	P	P	100
Luis Filipe Marques Amado - Vice-Chairman	P	A	P	P	A	P	P	P	P	77.8
Alberto Joaquim Milheiro Barbosa	P	P	P	P	P	P	P	P	P	100
António Manuel de Carvalho Ferreira Vitorino	P	P	P	P	A	P	P	P	A	77.8
António Sarmiento Gomes Mota	P	P	P	P	A	P	P	P	P	88.9

Name	21/Jan	03/Mar	20/Apr	04/May	07/Jul	28/Jul	22/Sep	03/Nov	15/Dec	%
Augusto Carlos Serra Ventura Mateus	P	P	P	P	A	P	P	P	P	88.9
Dingming Zhang	R	R	P	R	R	R	P	R	P	33.3
Felipe Fernández Fernández	P	P	R	P	P	P	P	P	P	88.9
Ferhat Ounoughi	A	P	P	A	A	P	P	P	P	66.7
Fernando María Masaveu Herrero	R	P	P	P	R	R	P	P	P	66.7
Guojun Lu	R	R	R	R	R	R	R	R	R	0
Ilídio da Costa Leite de Pinho	A	P	P	P	P	A	P	P	P	77.8
João Carvalho das Neves	P	P	P	P	P	P	P	A	P	88.9
Jorge Avelino Braga de Macedo	P	P	P	P	P	P	P	P	P	100
Maria Celeste Ferreira Lopes Cardona	P	P	P	P	P	P	P	P	P	100
Maria del Carmen Ana Fernández Rozado	P	P	P	P	P	P	P	P	P	100
Mohamed Ali Ismaeli Ali Al Fahim	P	P	P	P	P	P	P	P	P	100
Nuno Manuel da Silva Amado	P	P	P	A	P	P	P	P	P	88.9
Shengliang Wu	A	P	P	P	P	P	R	P	R	66.7
Vasco Joaquim Rocha Vieira	P	P	P	P	P	P	P	P	P	100
Ya Yang	A	P	P	P	P	P	P	P	P	88.9

P = Present; A = Absent; R = Represented

Total of 2016 meetings: 9

Average participation: 81%

As in previous years, the activity of the General and Supervisory Board in 2016 was based on the annual business plan and budget, which, on one hand, aimed at being flexible enough to accommodate the typical unpredictability of an ever-evolving sector and company, and secondly, organised and structured the work of the General and Supervisory Board, including its specialized Committees, and set priorities and goals to be achieved in the context of that activity, the following being the priority objectives:

- Improvement of the General and Supervisory Board's recurrent operational activity, namely with respect to issuing opinions and prior opinions.
- Improvement in monitoring Subsidiary companies, of EDP's competitive position and development of strategic partnerships.
- Consolidation of the supervision and monitoring of EDP Group's activities, structured from a preliminary selection according to the relative importance of the topics identified in terms of the sustainable development of EDP.
- Improvement in the efficacy and efficiency of the General and Supervisory Board's own activity.

The exercise of these duties requires that the General and Supervisory Board, directly or through its Chairman, its specialized Committees and the Support Office, have the means for monitoring the operation of the business structures and the key activities performed by EDP Group and have a reasonable, up-to-date overall knowledge of the Group's situation and of the markets in which it operates.

The outcome of direct or indirect action is expressed in the adoption of certain documents, the issuing of prior opinions or the formulation of recommendations, decided in meetings on the basis of documents prepared specifically for this purpose.

In the following paragraphs, a summary is presented of the activities defined for the General and Supervisory Board and its specialized Committees, grouped according to their nature, in:

- Recurrent: Primarily geared to the fulfilment of responsibilities of a deliberative nature, for example those related to the issue of opinions and prior opinions, and a non-deliberative nature such as the monitoring of specific areas of regulation, corporate governance or the performance of the Group companies.
- Non-recurrent: These are mainly aimed at deepening the General and Supervisory Board Members' knowledge of the Group's situation, the industry and the markets in which it operates.

In its annual reports, apart from a general description of its activity, the General and Supervisory Board also sought to highlight certain issues that deserved its attention.

In 2016, recurrent activities of a deliberative nature include, in particular, those relating to:

- 2015 Annual Report & Accounts.
- 2016 Interim Financial information.
- Preparation of the 2016 General Meeting.
- Monitoring of the execution of EDP's Budget for 2016.
- EDP Business Plan 2016-2020.
- EDP Energias do Brasil capital increase.
- EDP's Budget for 2017.
- Review of the Internal Regulations of the Corporate Governance and Sustainability Committee
- Review of the Internal Regulation on the Provision of SA Services.
- Revision of the Internal Regulations on Procedures to be adopted for the Reporting of Irregularities.
- Change to EDP Energias do Brasil By-Laws.
- Review of the Corporate Governance Manual.
- Issuance of prior opinions, as detailed in paragraph 3.3.

Recurrent activities of a deliberative nature include, in particular, those relating to the monitoring of:

- Subsidiary companies through the monitoring of the weekly meetings of the Executive Board of Directors and the periodic reporting of the institutional activity of the Chairman of the General and Supervisory Board and its specialized Committees.
- The implementation of activities subject to prior opinion, related to strategic partnerships, investments/divestments, debt and financing.
- The evolution of the regulatory framework in countries in which the Group is present.

Non-recurrent activities include, in particular, the following initiatives promoted by the General and Supervisory Board and its specialized Committees, whose main aim was to deepen the General and Supervisory Board Members' knowledge of EDP Group and of the sector in which it operates:

- *Workshop* on "The Challenges of the Energy Sector".
- *Workshop* on "Challenges and opportunities for EDP".
- Presentation on "Appetite for risk and the growth dilemma".

Certain issues that deserved the particular attention of the General and Supervisory Board in 2016 should also be mentioned, as they contain important material aspects justifying that they be singled out in this report, as follows:

- Conflicts of interests related to Transactions between Related Parties.
- Developments of the Strategic Partnership with China Three Gorges.
- Asset Rotation Programme.

- Eurobond Issue and Bond Repurchases (notes).
- Securitization of Receivables related to the Tariff Deficit.
- Major Technical Investments in Progress.

During 2016, the General and Supervisory Board met in 9 plenary sessions, to discuss, on average, 9 topics per meeting, the most important of which were the following:

No.	Date	Location	Main topics
1	21 Jan.	Lisbon	Acquisition of Repsol LPG assets in Cantabria, the Basque Country and Asturias
			Corporate Governance Manual
			Renewal of SLV concession in Portugal
			Strategic Information Systems Plan for the EDP group
			EDP University
			Vocational Training (AQTSE)
2	3 Mar.	Lisbon	Appetite for risk and the growth dilemma
			<b>The Challenges of the energy sector (workshop)</b>
			EDP 2015 Annual Report & Accounts
			Opinion on evaluation of the EBD 2015
			Opinion on evaluation of the GSB 2015
			GSB Budget Implementation for 2015
			Activity report for the specialized Committees in 2015
			GSB Annual Report 2015
			CGSC's Internal Rules
			Internal Regulation on the Provision of SA Services
			Internal Regulation on Procedures to be adopted for the reporting of irregularities
			Change to EDP Energias do Brasil By-Laws:
			Status of the real estate investment and divestment policy
Assignment of the extra cost deficit of production in special regime			
3	20 Apr.	Lisbon	Business Plan 2016-2020
			EDP Energias do Brasil capital increase
			Meadow Lake V 100 MW
			Champions project – waiver of prior opinion
			Assignment of SRP 2015 extra cost deficit - waiver of prior opinion
			<b>External view of "Challenges and Opportunities for EDP" (workshop)</b>
4	5 May	Lisbon	EDP Group Accounts 1Q2016
			Assignment of extra SRP deficit
			Business Plan 2016-2020
			Redbed Plains 98.7 MW Investment
			Quilt Block 98 MW Investment
			Santa Rosa and Mundo Novo investment project – waiver of prior opinion
5	7 Jul.	Lisbon	Social Tariff Regime
			Turtle Creek 200MW Investment
6	28 Jul.	Lisbon	EDP Group Interim Financial Reporting 1S2016
			Harmonization of transparency requirements - Dissemination of quarterly information
			<i>Eurobond Issue</i>
			EDP/CTG partnership: EDP Renováveis (Poland and Italy)
			Market Abuse regulation

No.	Date	Location	Main topics
			Solar USA strategy Conclusion of a Memorandum of Understanding between EDP and CTG as part of the strategic partnership - waiver of prior opinion Securitization of receivables related to tariff deficit SRP 2016 - waiver of prior opinion Assignment of SRP 2015 and SRP 2016 extra cost deficit - waiver of prior opinion Safe Harbor strategy - waiver of prior opinion Allocation of IFD financing to Venture Capital Funds - waiver of prior opinion Participation of EDP Energias do Brasil in Transmission Auction Admission to trading of shares representing 15.56% of EDP's share capital Strategic partnerships Update of the EDP / CTG Cooperation Memorandum Other partnerships
7	22 Sep.	Lisbon	Execution of main Investment projects - Update Relationships with Regulatory Entities / Government Tariffs 2017 and sustainability of the electricity sector Regulatory agenda and outstanding issues: Portugal, Spain and Brazil <i>Portfolio reshuffling analysis</i> : Analysis of investment / divestment options <i>Energy Outlook 2016</i>
8	3 Nov.	Lisbon	9M2016 interim financial information Beginning of Selection Process for Statutory Auditor for 2018-2020 - FMC proposal MoU to be signed by Hydro Global and the Peruvian Ministry of Energy and Mines <i>Portfolio reshuffling analysis</i> : Analysis of investment / divestment options Regulator proposal "Tariffs and Prices for Electricity and Other Services in 2017" Implications of the State Budget Proposal for 2017 and other regulatory and fiscal developments in Portugal Update of the EDP WACC Assignment of SRP 2016 extra cost deficit - waiver of prior opinion EDP Budget 2017 <i>Portfolio reshuffling analysis</i> : Analysis of investment / divestment options San Gaban II project - Update
9	15 Dec.	Lisbon	EDP/CTG Strategic partnership - Update Vintage project - Update GSB Activity Plan and Budget 2017 Code of Conduct for Top Management and Senior Financial Officers

### 3.3. Issuance of Opinions and Prior Opinions

According to the provisions of Article 22(1)(b) of EDP By-Laws, it is the responsibility of the General and Supervisory Board to issue an opinion on the Annual Report & Accounts. Therefore, following preliminary meetings leading to the preliminary assessment of the accounts for the year 2015 and the accounts for the first quarter, second half and first nine months of 2016, in collaboration with the Financial Matters/Audit Committee, the Corporate Governance and Sustainability Committee, the Strategy and Performance Committee, the Executive Board of Directors, the Officers of the relevant Corporate Center Departments and the Statutory Auditor, the General and Supervisory Board issued a favourable opinion on the referred accounts of EDP Group.

At the same time, it is important to highlight Article 17(2) of EDP By-Laws, that defines a number of matters subject to the prior favourable opinion of the General and Supervisory Board, which has the power to set the parameters for measuring the economic or strategic value of the operations that must be submitted for its opinion.

Matters subject to the prior favourable opinion of the General and Supervisory Board are as follows:

- The adoption of the Company's Strategic Plan.
- The performance by the Company or Subsidiary companies of the following operations:
  - Acquisitions and disposals of assets, rights or shareholdings of significant economic value;
  - Contracting financing operations of significant value;
  - Opening or closing of establishments or important parts of establishments and major activity expansion or downsizing;
  - Other business or operations of significant economic or strategic value;
  - Settlement or termination of strategic partnerships or other ways of lasting cooperation;
  - Splitting, merging or transformation projects;
  - Amendments to the By-Laws, including any change of headquarters or capital increase, when they are the initiative of the Executive Board of Directors.

On 18 June 2015, the General and Supervisory Board approved a set of rules for the issuing and waiver of prior opinions. These rules seek to ensure the effective exercise of the statutory powers of the General and Supervisory Board and the Executive Board of Directors, in order to promote the pursuit of the interests of the Company. In general terms, the mechanism created by the General and Supervisory Board has the following characteristics:

- Any legal operations and transactions carried out within the activities undertaken that comply with a set of predefined criteria, particularly in terms of their material relevance, are subject to the prior favourable opinion of the General and Supervisory Board.
- In cases of exceptional urgency or where the nature of the matter so warrants it, upon written justified request addressed to the General and Supervisory Board, the Executive Board of Directors may request a waiver of prior opinion from the General and Supervisory Board, a request that will be decided by the Chairman of the General and Supervisory Board, after prior consultation with, at least, two Members of the General and Supervisory Board (generally, independent Members).
- Definition of the specific reporting requirements for the implementation of operations for which prior opinion is waived.

Note that the General and Supervisory Board intervened in 35 operations, covering the issuing of an opinion, the issuing of a favourable prior opinion at a meeting and the waiver of prior opinion.

### 3.3.1 Opinions and Prior Opinions in Meetings

During the 2016 financial year, the General and Supervisory Board was requested to issue opinions and prior opinions 25 times, and all requests were given a favourable opinion:

Issuance of Opinions and Prior Opinions	
Date	Subject
21-Jan	Acquisition of Repsol LPG assets in Cantabria, the Basque Country and Asturias
02-Mar	EDP 2015 Annual Report & Accounts (issuing of opinion)
02-Mar	Change to EDP Energias do Brasil By-Laws
20-Apr	EDP Brasil capital increase
20-Apr	Meadow Lake V – 100 MW
04-May	EDP Group Interim Financial Reporting 1Q2016 (issuance of opinion)
04-May	Assignment of extra SRP deficit
04-May	Assignment of extra SRP deficit
04-May	Business Plan 2016 - 2020
04-May	Investment in Redbed Plains – 98.7 MW
04-May	Quilt Block Investment - 98 MW
07-Jul	Turtle Creek Investment - 200MW
28-Jul	EDP Group Interim Financial Reporting 1S2016 (issuance of opinion)
28-Jul	Harmonization of transparency requirements - Dissemination of quarterly information

Issuance of Opinions and Prior Opinions	
Date	Subject
28-Jul	<i>Eurobond Issue</i>
28-Jul	EDP/CTG partnership: EDP Renováveis (Poland and Italy)
22-Sep	Participation of EDP Energias do Brasil in Transmission Auction
22-Sep	Admission to trading of shares representing 15.56% of EDP's share capital
22-Sep	Strategic partnerships - Update of the EDP / CTG Cooperation Memorandum
03-Nov	EDP Group Interim Financial Reporting 9M2016 (issuance of opinion)
03-Nov	Purchase of EDP bonds
03-Nov	MoU to be signed by Hydro Global and the Peruvian Ministry of Energy and Mines
15-Dec	EDP Budget 2017
15-Dec	San Gabán III project
15-Dec	EDP/CTG Strategic partnership

### Valuation of Operations\*

Maximum value (M Euros)	1000
Average value (M Euros)	352

\*Only includes quantifiable operations

### 3.4.2 Waiver of Prior Opinion

In 2016, the waiver of prior opinion mechanism was used by the Executive Board of Directors in 11 cases, and the requests for waiver of prior opinion, after checking the procedures involved, were granted:

Waiver of Prior Opinion	
Date	Subject
27-Jan	Assignment of extra SRP 2014 deficit
31-Mar	Champions Project
13-Apr	Assignment of extra SRP 2015 deficit
29-Apr	Santa Rosa and Mundo Novo investment project
27-May	Entering into of a Memorandum of Understanding between EDP and CTG as part of the strategic partnership
27-Jun	Securitization of receivables related to SRP 2016 tariff deficit
27-Jun	Assignment of SRP 2015 and SRP 2016 extra cost deficit
05-Jul	Safe Harbor Strategy
21-Jul	Allocation of IFD financing to Venture Capital Funds
19-Oct	Assignment of extra SRP 2016 deficit
20-Oct	Assignment of extra SRP 2016 deficit

### Valuation of Operations\*

Maximum value (M Euros)	800
Average value (M Euros)	292

\*Only includes quantifiable operations

## 3.4. Activity of specialized Committees

### 3.4.1 Financial Matters/Audit Committee

No.	Date	Location	Main topics
1	21 Jan.	Lisbon	IACD - Activities Report for 2015; Self-Evaluation Report 2015; Business Plan for 2016 EBD/MCD - Scorecard for EDP Group in November 2015 EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA FMC - Activity, self-evaluation and irregularity reporting reports for 2015
2	11 Feb.	Lisbon	SA - Impairment test results for EDP Group assets for the year 2015; report on fees invoiced to EDP Group in the year 2015 EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA FMC - Regulation on the provisions of auditing services other than the audit provided by the EDP Group's SA
3	25 Feb.	Lisbon	SA - Report on the conclusions and opinion of the financial statements, evaluation of IFRCS and of the EDP Group's Sustainability Information and EDP Finance BV - year 2015 AUDIT COMMITTEES OF EDP ENERGIAS DO BRASIL and EDP RENOVÁVEIS - Opinions on the annual report and accounts and the IFRCS of the companies - year 2015 EBD/DCCF - Financial Reporting of the EDP Group and EDP Finance BV, year 2015; Requests for approval of auditing services other than the audit provided by the EDP Group's SA EBD/MCD - Results, Financial statements and scorecard for the EDP Group in 2015 EBD/GSLD - Report on "pending litigation" in the EDP Group for the year 2015 FMC - Opinion on the performance and independence of the SA in the year 2015; Opinion on the Annual Report & Accounts, IFRCS and risk management system of the EDP Group and EDP Finance BV - year 2015
4	7 Apr.	Lisbon	SA - Work plan and fees for Statutory Accounting and External Audit Services in the EDP Group - year 2016



No.	Date	Location	Main topics
			EBD/RMD - Activity performed in 2015; Relationship with the Risk Committee, Business Units and Other internal risk areas of the EDP Group; Business Plan for 2016
			EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA
5	28 Apr.	Lisbon	SA - Report on the conclusions of the financial statements of the EDP Group and EDP Finance BV and Limited Review Report on the interim financial report of the EDP Group - Q1 2016 AUDIT COMMITTEES OF EDP BRASIL and EDP RENOVÁVEIS - Opinion on the interim financial information of the companies - 2016 Quarter 1 EBD/DCCF - Interim financial reporting of the EDP Group and EDP Finance BV, 2016 Quarter 1; requests for approval of auditing services other than the audit provided by the EDP Group's SA EBD/MCD - Results, Financial statements and scorecard for the EDP Group for 2016 Quarter 1 FMC - Opinion on the interim financial report of the EDP Group - 2016 Quarter 1
6	2 Jun.	Lisbon	IACD - Activity Report Monitoring of the Audit Plan for 2016 and the issued recommendations; <i>Compliance</i> activity EBD/ISD – ICT governance model; activities performed and strategic plan for coming years EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA
7	23 Jun.	Lisbon	EBD/FND - EDP Group Financial Policy and Pension Fund EBD/MCD - <i>Scorecard</i> of the EDP Group, for April 2016 EBD/EA EDP SOLUÇÕES COMERCIAIS – Customer debt: EDP Portugal and EDP Espanha EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA
8	25 Jul.	Lisbon	SA - Report on the conclusions of the financial statements of the EDP Group and EDP Finance BV and Limited Review Report on the interim financial report of the EDP Group - Semester 1 2016 AUDIT COMMITTEES OF EDP BRASIL and EDP RENOVÁVEIS Opinion on the interim financial information of the companies - semester 1 2016. EBD/GSLD - Report on "pending litigation" in the EDP Group for the end of semester 1 year 2016 EBD/DCCF - Interim financial reporting of the EDP Group and EDP Finance BV, 2016 semester 1; requests for approval of auditing services other than the audit provided by the EDP Group's SA EBD/MCD - Results, Financial statements and scorecard for the EDP Group in Semester 1 2016 FMC - Opinion on the interim financial report of the EDP Group - Semester 1 2016; Activity Reports and Irregularity Reports - Semester 1 2016
9	12 and 13 Set.	Madrid	5th MEETING OF THE EDP GROUP AUDIT COMMITTEES – FMC; CAUD EDP Renováveis and CAUD EDP Brasil: - <i>Compliance</i> function in utilities and in the EDP Group - Reform of audit and Regulation on the provisions of auditing services other than the audit provided by the EDP Group's SA - Launch of the consultation process for the provision of EDP Group's external auditing services: 2018-2020 - Recent evolution and trends in regulation of the energy sector in Europe, USA and Brazil
10	27 Oct.	Lisbon	SA - Report on the conclusions of the financial statements of the EDP Group and EDP Finance BV and Limited Review Report on the interim financial report of the EDP Group - Quarter 3 2016 AUDIT COMMITTEES OF EDP ENERGIAS DO BRASIL and EDP RENOVÁVEIS Opinion on the interim financial information of the companies - quarter 3 2016. EBD/DCCF - Interim financial reporting of the EDP Group and EDP Finance BV, 2016 Quarter 3; Requests for approval of auditing services other than the audit provided by the EDP Group's SA EBD/MCD - Results, Financial statements and scorecard for the EDP Group - Quarter 3 2016 FMC - Opinion on Interim Financial Report of the EDP Group - Quarter 3, 2016; Consultation proposal for selection of SA, for Statutory Accounting and External Audit Services in the EDP Group - period 2018-2020
11	24 Nov.	Lisbon	IACD - Activity Report Monitoring of the Audit Plan for 2016 and the issued recommendations; <i>Compliance</i> activity; launch of business plan 2017 EBD/BD EDP Distribuição – Losses and frauds in energy consumption; Cuts for non-payment; Reconnections EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA FMC - 2017 Committee's Activity Plan

No.	Date	Location	Main topics
12	15 Dec.	Lisbon	EBD/RMD - Activity Report for the period; RMD links with other areas of EDP, in risk mapping, monitoring, management and mitigation; RMD's business plan for the first semester of 2017 EBD/DCCF - Requests for approval of auditing services other than the audit provided by the EDP Group's SA

### 3.4.2 Remuneration Committee

No.	Date	Location	Main topics
1	3 Mar.	Lisbon	Annual statement on the EBD Remuneration Policy Activity Report 2015
2	4 May	Lisbon	Variable annual and multi-annual remuneration of EBD Members for 2015

### 3.4.3. Corporate Governance and Sustainability Committee

No.	Date	Location	Main topics
1	2 Mar.	Lisbon	2015 Climate Survey: Assessment of Results Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 4Q2015 Conflict of interests and related parties: Assessment of 4T2015 information Corporate Governance: Assessment of EDP2015's Corporate Governance Manual Internal Regulation: Review of CGSC's Internal Rules CGSC's Annual Activity Report 2015: Analysis of the results of the Self-assessment of the CGSC's activity 2015 Assessment of CGSC's activity report 2015
2	3 May	Lisbon	Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 1Q2015 Annual Report of the Ethics Ombudsman 2015 Appraisal of the amendment to the composition of the Ethics Committee Conflict of interests and related parties: Assessment of 1Q2016 information EDP/Sonatrach long-term natural gas supply contracts
3	27 Jul.	Lisbon	Conflict of interests and related parties: Assessment of 2Q2016 information EDP/CTG Strategic partnership EDP Renováveis (Poland and Italy) Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 2Q2016 S12016 CGSC's Activity Report
4	2 Nov.	Lisbon	Conflict of interests and related parties: Assessment of information Q32016 Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 3Q2016 Code of Conduct for Top Management and Senior Financial Officers Sustainability: Analysis of EDP's Sustainability policies Analysis of results of the <i>Dow Jones Sustainability Index</i>
5	14 Dec.	Lisbon	Code of Conduct for Top Management and Senior Financial Officers Conflict of interests and related parties DJSI Performance of EDP 2015 - Corporate Governance

No.	Date	Location	Main topics
			Nominations and Succession
			GCSC - 2017 Activity Plan

### 3.4.4 Strategy and Performance Committee

No.	Date	Location	Main topics
			Performance of EDP Group's marketing activities
1	20 Jan.	Lisbon	Operational efficiency projects
			Monitoring of Strategic and Business Risks in EDP Group
			EDP Business Plan 2016-2020
			Performance of EDP Group's main Business Units in 2015
2	2 Mar.	Lisbon	Profitability by geography and unit of EDP Group's Business units (2011-2015)
			Performance of EDP share price in 2015
			EDP Business Plan 2016-2020
3	19 Apr.	Lisbon	EDP Business Plan 2016-2020
			EDP Business Plan 2016-2020
4	3 May	Lisbon	Performance of EDP Group's main Business Units in 1Q2016
			Performance of EDP Group's main Business Units in 1S2016
			Assessment of EDP – consensus of analysts
5	27 Jul.	Lisbon	Performance of the EDP Group's distribution activities
			Performance of EDP Renováveis
6	21 Sep.	Lisbon	Performance of EDP Brasil
			Portfolio assets reshuffling analysis: Analysis of investment/divestment opportunities
			Performance of EDP Group's main Business Units in 9M2016
			Operational efficiency in the businesses and geographies of the EDP Group ( <i>Business Plan 2016-2020</i> )
			EDP Group budget for 2017
8	7 Dec.	Lisbon	Analysis of the projects installed in 2011

## 3.5. Specific issues of the activity of the General and Supervisory Board

### 3.5.1 Conflicts of interests

There are several different aspects related to the issue of conflicts of interests in terms of corporate governance practices, which have been treated separately in the following sub-items:

#### 3.5.1.1 Conflicts of Interests related to Transactions between Related Parties

In accordance with Article 22 (1)(i) of EDP By-Laws, the General and Supervisory Board is responsible for "*monitoring and assessing issues related to the evaluation and resolution of conflicts of interests, including those concerning the*

*Company's relations with its Shareholders and for issuing opinions on such matters".* Responsibility for this task was delegated in the Corporate Governance and Sustainability Committee.

On July 29, 2010, the General and Supervisory Board approved the first version of the "Regulations on conflicts of interests", which was revised during 2015, and a new version was approved on October 29, 2015 (Regulation) available on EDP's website ([www.edp.pt](http://www.edp.pt)). In summary and in terms of reporting requirements provided for in the aforementioned Regulation, the following applies:

- The Executive Board of Directors shall inform the Corporate Governance and Sustainability Committee as to any operations with potential conflicts of interests, within 20 days subsequent to the end of each quarter.
- Within the same period, the Executive Board of Directors must identify those Shareholders holding the minimum qualified investment of 2% in EDP or in its Subsidiary companies, calculated in accordance with Article 20 of the Portuguese Securities Code, which during the period under review:
  - Are EDP's creditors of at least 5% of its liabilities.
  - Are customers representing at least 1% of total turnover or who have produced income of at least 5 million Euros.
  - Are suppliers representing at least 1% of the total value of external supplies and services or from whom services worth at least 5 million Euros were acquired.
- The Executive Board of Directors shall provide information on contracts and trade relations established between EDP and its Subsidiary companies.

The Regulation establishes the parameters for the requirement and procedure for the prior opinion related to any conflicts of interests (not to be confused with the procedure for the issue of prior favorable opinion of the General and Supervisory Board detailed in paragraph 3.3).

Under the rules applicable to EDP regarding significant transactions between related parties, the General and Supervisory Board examined the 16 cases of transactions undertaken with Shareholders with qualifying holdings in EDP, submitted to it by the Executive Board of Directors during 2016, under Section 5.1 of the Regulation and concluded that, during that year, there was no evidence of:

- Transactions between related parties that have materially affected the financial position of EDP or its performance.
- Transactions between EDP and its related parties that need to be reported in the management report, given their materiality or because they were not performed under normal market conditions.
- Potential conflicts of interests underlying the transactions identified by the Executive Board of Directors having been resolved in a manner contrary to the interests of the Company.

#### 3.5.1.2 Prevention of conflicts of interests in the meetings of the General and Supervisory Board

Due to its nature and composition, the General and Supervisory Board has resolved and prevented possible and potential conflicts of interests that could be identified from its activities, particularly when asked to resolve on matters that involve EDP qualified Shareholders as counterparties, with representatives of this body.

In all situations where potential conflicts of interests were identified, the Members involved took the initiative to refer the situation and abstained from participating in the respective discussions and voting process.

For legal transactions or situations between related parties that are likely to cause a conflict of interest between those involved that will have an impact on the interests of EDP, the Executive Board of Directors has to request the prior opinion of the General and Supervisory Board or its waiver, and also has to provide the following information:

- A brief description of the operations and obligations assumed by the parties.

- A statement on the procedures adopted for selecting the counterparty, particularly if the operation was based on a tender/consultation or limited tendering procedure.
- In the case of a limited tendering procedure, the reasons for such decision and the measures adopted to mitigate any risks from potential conflicts of interests.
- In the case of a tender/consultation, information on the type of contact established with potential stakeholders and identify such.
- In the event competitive offers existed, information on the terms of the different proposals and the reason for the choice made.
- Identification of the parameters to measure the operation performed under "normal market conditions for similar transactions".
- Measures taken to prevent or resolve potential conflicts of interests.
- Evidence, if applicable, of the multiannual nature of the operation, in which case the starting date of the selected tender/contract should be reported together with the date on which the supplies and/or services provided shall be provided or carried out.

With respect to legal business or cases that exist between related parties that are likely to give rise to a conflict of interests between those involved, which could impact the interests of EDP, these should be subject to a prior opinion from the General and Supervisory Board:

- If the Corporate Governance and Sustainability Committee can meet before the General and Supervisory Board meeting, an opinion from this Committee should be requested, which should be presented to the General and Supervisory Board for decision making purposes.
- If it is not possible for the Corporate Governance and Sustainability Committee to meet, the assessment of the potential conflict of interests must be made directly by the General and Supervisory Board.

With respect to legal business or cases that exist between related parties that are likely to give rise to a conflict of interests between those involved, that could impact the interests of EDP, and which are subject to a request for waiver of the prior opinion from the General and Supervisory Board, at least three Members of the Committee should be consulted, and the majority have to be independent.

When considering the request by the Executive Board of Directors, in the event of a request of waiving prior opinion, the Corporate Governance and Sustainability Committee, the General and Supervisory Board or the Chairman of this Board, may recommend to the Executive Board of Directors that appropriate measures are taken to address the potential conflict of interest.

### 3.5.1.3 Significant Trade Relationships between the Holders of Qualifying Holdings and the company

Whilst undertaking its activities, irrespective of relevance, EDP enters into business transactions and carried out operations under normal market conditions for similar transactions with various entities, particularly with financial institutions, which include Shareholders with qualifying holdings in EDP and related companies.

Thus, with reference to the year 2016, the following operations must be registered between EDP Group and entities with qualifying holdings in EDP's share capital:

- As part of the strategic partnership between EDP and CTG in December 2011, the transaction was completed for the sale of a minority interest in EDP Renováveis' wind power assets in Italy and Poland to CTG (49% of Shares and Shareholders' Loans), for which the contract of sale was signed on 28 December 2015 and duly reported in the version of this Report for the financial year 2015. On October 27, 2016, the *financial closing* of the transaction took place, in which CTG, through ACE Poland S.A.R.L. and ACE Italy S.A.R.L., both wholly owned by ACE Investment Fund LP, an entity owned by China Three Gorges Hong Kong Ltd, which is a wholly owned subsidiary of CTG, paid approximately € 363 million corresponding to the final price agreed between the parties.

- Banco Comercial Português (BCP) bank provided EDP Group with financial intermediary services, having integrated the syndicate of banks which acted as *Joint Lead Managers and Bookrunners* for the issue of bonds, in March and August 2016. Also in 2016, approximately € 200 million were transferred to BCP, through an assignment without recourse, relating to part of the extra-cost deficit of Special Regime Production (SRP) 2015 and to a portion of the extra-deficit of the 2016 SRPs.

- Sonatrach provided natural gas to EDP Group under long-term supply contracts, for the amount of € 133 million.

- EDP Group provided electricity and gas services to Cementos Tutela Veguín and other companies incorporated in the Masaveu Group in the approximate amount of € 19 million (Cementos Tutela Veguín is a subsidiary of Corporación Masaveu which, in turn, holds 55.9% of Oppidum Capital, SL. Oppidum Capital holds a 7.19% stake in EDP).

- EDP Group provided electricity and gas services to Liberbank and related companies amounting to approximately € 5.7 million (Liberbank holds 44.1% of Oppidum Capital, SL. Oppidum Capital holds a 7.19% stake in EDP).

### 3.5.2 Developments of the Strategic Partnership with China Three Gorges

As part of the developments referred to in 3.5.1.3 above, the transactions concluded during 2016 between EDP Group and CTG are described in this item:

On 27 May 2016, EDP signed a Memorandum of Understanding with CTG on the development of the strategic partnership established between the parties through the Framework Agreement (FWA) signed in December 2011. This Memorandum sets out the key principles and areas of cooperation that will contribute for the further development of the EDP/CTG strategic partnership. In addition, the agreement recognizes the demonstrated visibility of meeting the € 2 billion target agreed upon in the FWA, notably through ongoing or under analysis transactions, reiterating the common objective of EDP and CTG to strengthen the partnership as an integral part of their development strategies.

As referred to on 3.5.1.3, within the scope of the strategic partnership between EDP and CTG in December 2011, the transaction was completed with the sale to CTG of a minority interest in EDP Renováveis' wind power assets in Italy and Poland (49% of Shares and Shareholders' Loans), for which the sale contract was signed on 28 December 2015 and duly reported in the version of this Report for the financial year 2015. On October 27, 2016, the *financial closing* of the transaction took place, in which CTG, through ACE Poland S.A.R.L. and ACE Italy S.A.R.L., both wholly owned by ACE Investment Fund LP, an entity owned by China Three Gorges Hong Kong Ltd, which is a wholly owned subsidiary of CTG, paid approximately € 363 million corresponding to the final price agreed between the parties.

All of these themes have been considered by the General and Supervisory Board, given its responsibilities towards accompanying the activities of EDP Group.

### 3.5.3 Asset Rotation Programme

Throughout 2016, EDP continued with its asset rotation programme and sold minority interests to institutional investors. This strategy enabled the company to finance and crystallize the future *cash-flows* of ongoing projects and to reinvest the *cash-flows* to develop in new growth opportunities outlined in the Business Plan 2016-2020.

Thus, on April 19, 2016, EDP informed the market that EDP Renováveis had reached an agreement with the Vortex Fund, managed by EFG Hermes, for the sale of a representative share of 49% of the share capital and shareholders' loans related to a portfolio, held entirely by EDP Renováveis, of wind assets located in Spain, Portugal, Belgium and France for a total value of € 550 million (portfolio with 664 MW of installed capacity and 4 years' average life). The scope of the transaction included 348 MW in operation in Spain (with 6 years of average life), 191 MW in operation in Portugal (part of the ex-ENEOP assets), 71 MW in Belgium and 54 MW in France, of which 24 MW with start-up expected for the second quarter of 2016. Based on (i) the transaction price (including capex amount expected to complete the projects under construction) and (ii) the external net debt, the implied Enterprise Value for 100% of the assets amounted to € 1,151 million, an implicit unit multiple of € 1.73 million / MW. This transaction was part of EDP Renováveis' asset rotation

strategy, whereby the value of future project *cash flows* is reinvested in the development of quality and value-added projects, to enhance growth and create value.

The General and Supervisory Board continually monitored this issue, which was discussed and analysed during various Plenary meetings.

#### 3.5.4 Eurobond Issue and Bond Repurchases (notes)

In March, EDP Finance BV issued a EUR 600 million bond with 7 year maturity and a coupon of 2.375%. In August issued a EUR 1,000 million bond with maturity in February 2024 and a coupon of 1.125%. These issues allowed EDP Group to reach different markets and investors, extending the average life of its debt portfolio at competitive costs and reinforcing its liquidity position ahead of refinancing needs for the following years.

In November 2016, EDP agreed to purchase Note Entitlements in the amount of 250 million euros and 2,500 Make-whole Entitlements issued in 2008 in the "EUR 300,000,000 Floating Rate Notes due 2018", having such titles been cancelled. In December 2016, EDP concluded a "Tender Offer" over the issues "6.000% Notes due February 2, 2018" and "4.900% Notes due October 1, 2019", limited to a total value of 500 million US dollars. As a result of the offer, EDP S.A. acquired 469,462 thousand US dollars of the "6.000% Notes due February 2, 2018" and 30,538 thousand US dollars of the "4.900% Notes due October 1, 2019".

It should be noted that these operations were subject either to a favorable prior opinion from the General and Supervisory Board or a waiver of this opinion and, in either case, the supervision body performed a follow-up.

#### 3.5.5 Securitization of Receivables Related to the Tariff Deficit

Through 2016, several transactions of securitization and tariff deficit sale were performed, as below described:

- On 29 January, 2016, EDP Serviço Universal agreed to sell € 94 million, and the respective interest, of the 2014 Tariff Deficit, from the extra cost of the production under special regime.
- Regarding 2015 Tariff Deficit from the extra cost of the production under special regime, EDP Serviço Universal agreed to sell (i) € 700 million and the respective interest on 18 April 2016, (ii) € 73 million and the respective interest on 7 June 2016, (iii) € 100 million and the respective interest on 1 July 2016 and (iv) € 48 million and respective interest on 13 December 2016.
- On 21 July, 2016, EDP Serviço Universal agreed to assign, fully and without recourse, to Tagus – Sociedade de Titularização de Créditos, S.A., part of the 2016 Tariff Deficit, and respective interest, for the amount of € 600 million.
- Regarding 2016 Tariff Deficit from the extra cost of the production under special regime, EDP Serviço Universal agreed to sell (i) € 348 million and the respective interest on 9 May 2016 (through two different operations), (ii) € 100 million and the respective interest on 1 July 2016, (iii) € 100 million and the respective interest on 25 October 2016 and (iv) € 76 million and respective interest on 27 October 2016.

It should be noted that these operations were subject either to a favorable prior opinion from the General and Supervisory Board or a waiver of this opinion and, in either case, the supervision body performed a follow-up.

#### 3.5.6 Major Technical Investments in Progress

The position regarding significant ongoing technical investments is frequently discussed in the General and Supervisory Board meetings, which enables the supervisory body to accompany these positions where the EDP Group is located and where it develops these types of projects. This is a matter of great importance, considering the amounts involved and the added value to the Company from exploiting such.

### 3.6. Budget of the General and Supervisory Board

The budget of the General and Supervisory Board for 2016 was approved at the meeting held on 17 December 2015. The budgeted expenses were 3,391 thousand euros, of which 65% were related to the remuneration of the members of the GSB and 9% to the costs of the staff of the General and Supervisory Board Support Office.

In terms of implementation, the overall cost of the General and Supervisory Board, including remunerations, amounted to 3,323 thousand euros, a variation of approximately less 68 thousand euros on the budget and more 10 thousand euros year on year.



## 4. Assessment of Activity and Performance of the General and Supervisory Board

EDP voluntarily instituted a formal and objective process for assessment of its own activity. This pertains to a distinctive process adopted by the General and Supervisory Board that contributes directly to the evaluation of the *Dow Jones Sustainability Index*.

This self-assessment process, provided for in article 17 (2) of the Internal Regulation of the General and Supervisory Board, is based on a questionnaire that seeks to assess the personal perception of each Member of the General and Supervisory Board about the Board itself, namely at the level of:

- Composition, Organisation and Operation
- Activity performed in 2016
- Relationship with the specialized Committees
- Relationship with other EDP corporate bodies
- Individual Self-assessment

The questionnaire's purpose was to objectively support reflection by the General and Supervisory Board, accounting for the self-assessment opinion that this body shall issue.

In early 2017, Members of the General and Supervisory Board were invited to complete a self-assessment questionnaire.

Based upon the responses to the questionnaire, the General and Supervisory Board reflected as a whole upon such data and extracted the corresponding conclusions in the meeting held on 2 March 2017, as follows:

- The General and Supervisory Board considered its overall performance in 2016 to be excellent, with all of the following aspects considered very good or excellent:
  - Composition, Organisation and Functioning of the General and Supervisory Board.
  - Relationship with EDP's corporate bodies, namely with the Executive Board of Directors and the Statutory Auditor.
  - Relationship with the specialized Committees.
- With respect to the assessment of the activity of the General and Supervisory Board, in 2016 the following activities were also considered very good or excellent:
  - Supervision, monitoring and advice of/to the Executive Board of Directors.
  - Adequacy of the GSB's Internal Regulation considering legal and statutory requirements.
  - Monitoring of the Company's Strategic Plan.
  - Monitoring of the Business Plan and Budget.
  - Accompaniment of strategic partnerships.
  - Monitoring of financial and accounting information.
  - Independence of the Statutory Auditor.Suitability and execution of the Activities Plan of the General and Supervisory Board.

Without prejudice to the assessment conducted, the activity of the General and Supervisory Board is guided by the continuous improvement of respective performance in terms of the respective functions, the relationship with other corporate bodies of EDP and the defense of Shareholder interests.

The General and Supervisory Board has made the following observations to date:

No obstacles were identified that could materially limit or influence the exercise of its powers or its Committees.

The Executive Board of Directors has granted the financial and the other resources deemed necessary for the development of the activity of the General and Supervisory Board and has adopted the measures necessary to ensure independence and autonomous advice from the General and Supervisory Board.

The Executive Board of Directors has provided all information necessary to perform the tasks of the General and Supervisory Board and its Committees either through periodic reporting at its own initiative or by request from the General and Supervisory Board.

## 5. Challenges of the General and Supervisory Board in 2017

As part of the ongoing monitoring, advisory and supervision of the Company's management activities, the General and Supervisory Board will naturally continue, in 2017, to focus its activity in order to carry out its functions, by creating the conditions to achieve the Group's key strategic priorities and ensure that they are always aligned with the expectations of all Shareholders.

2017 will be one more year characterized by a challenging international, economic, political and regulatory environment. In fact, European Union will face, in 2017, a year of relevant uncertain politic in addition to the doubts on European and American monetary policies. In the electric sector, it will be discussed the European Commission package for climate and energy after 2020, with important impacts for the companies that operate in this sector. At the United States of America, where EDP has an important presence at renewable energy level, one is facing a period of short alignment between federal and regional policies supporting those energetic sources, though legal stability and long term visibility remain to determine the high attractiveness of this market. In Brazil, where EDP is developing important investments in hydric generation, it is expected a political stabilization and macro-economic recovery, allowing to develop this country's potential.

Before this context, it is considered fundamental that EDP maintains a position of excellence in the definition and execution of its strategy. It is even more necessary to understand the changes in course, to anticipate trends and events and to act with agility. EDP's strategic agenda aims to reconcile a set of priorities that the General and Supervisory Board and its Committees intend to follow: (i) balancing growth with financial deleveraging, (ii) maintaining a low-risk business profile, (iii) continuing to improve efficiency levels in both cost and investment terms, and (iv) continuing to deliver attractive returns to its Shareholders.

## **6. Acknowledgements**

The General and Supervisory Board wishes to thank:

The Shareholders, for the trust they have placed in this body and for the ongoing support that they have provided for its functioning.

The Chairman and other members of the Executive Board of Directors, for the results achieved and for their participation in the meetings of the General and Supervisory Board and of its specialized Committees.

The other Members of governing bodies of EDP and EDP Group companies.

The General Secretariat and the Legal Department of EDP, for the support provided to the functioning of the General and Supervisory Board.

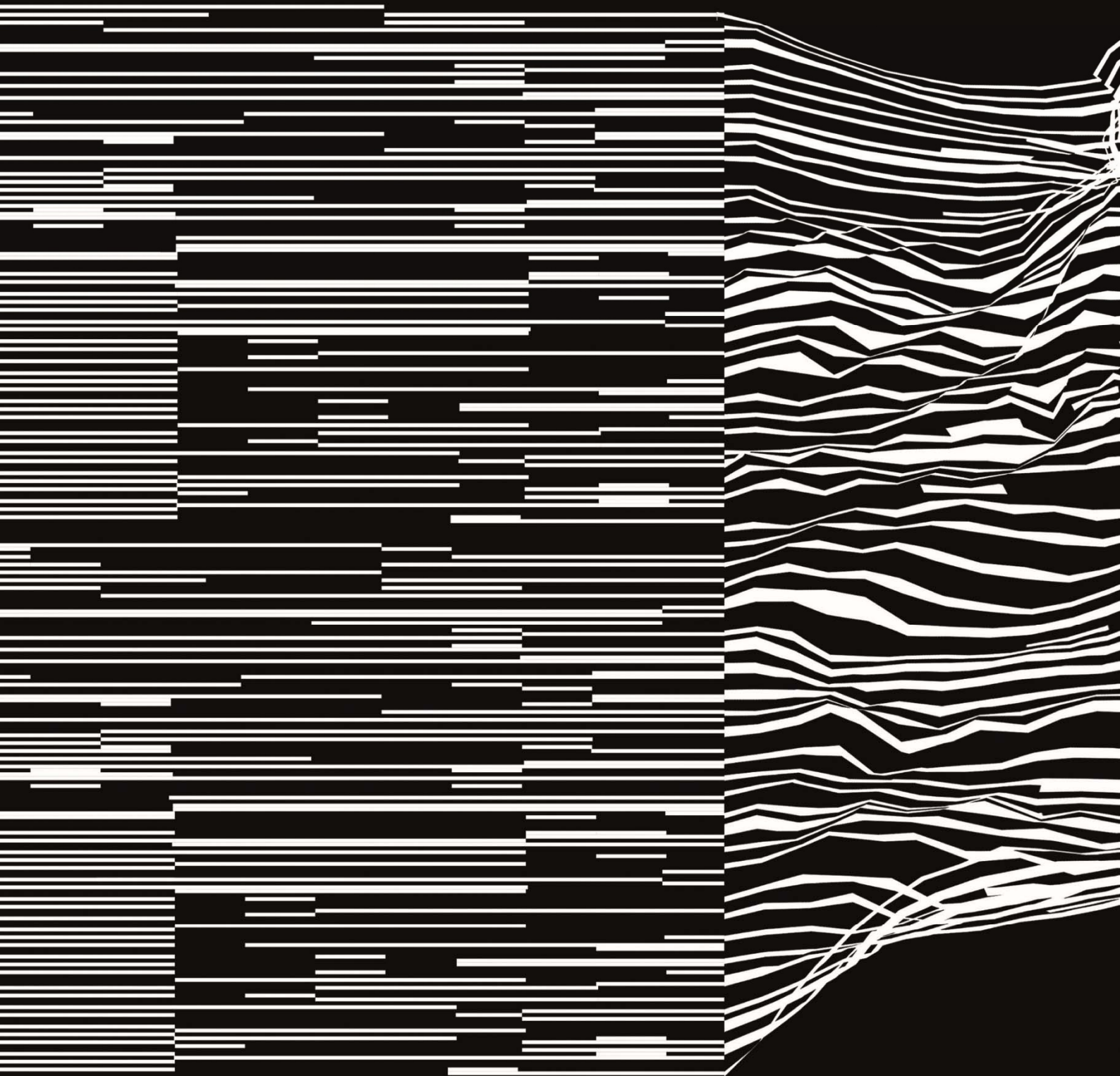
The Staff of the General and Supervisory Board Support Office for the support provided to the activity of this Board and its specialized Committees.

All employees of EDP Group for the manner they have contributed to the results achieved.

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# 1. Opinion of the General and Supervisory Body on EDP Annual Report and Accounts

## 1. Taking into consideration:

- a) The legal and regulatory requirements applicable to the preparation appraisal and publication of EDP's Account and Annual Report, in particular those from the Companies Code, the Portuguese Securities Code (CVM) and the CMVM regulations;
- b) The activity developed by the General and Supervisory Board (GSB) and its specialized Committees during 2016 as recorded in the Annual Report;
- c) The documentation presented for the assessment of EDP's Accounts and Annual Report 2016, provided by the Executive Board of Directors (EBD), the Statutory Auditor (SA), the Financial Matters/Audit Committee (FMC) namely:
  - i. The detailed presentation made by the EBD on EDP's Account and Annual Report 2016, highlighting the main financial indicators, which are reproduced below:

(EUR million)

Indicators	EDP SA	EDP Group
Gross profit	246	5.738
EBITDA	10	3.759
EBIT	-10	2.264
Net profit <sup>1</sup>	758	961
Net assets	22.424	44.084
Total equity <sup>1</sup>	7.425	9.406
Total liabilities	14.999	30.347
Gross debt	11.193	18.027

<sup>1</sup> – Attributable to the shareholders of EDP

- ii. The Legal Certification Accounts and the Audit Report of the SA whereby it is concluded, based on work performed, that:
  - The consolidated and the individual financial statements present fairly, in all material aspects, the financial position of EDP, as of the 31<sup>st</sup> of December 2016 and its financial performance and cash flows, regarding the year ended on that date, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
  - The management report was prepared in accordance with the applicable legal and regulatory requirements in force, the information of the same is consistent with the audited financial statements and, considering the knowledge and appreciation of the Group, no material inaccuracies were identified.
  - The corporate governance report includes the elements demanded under article 245—A of the CVM, and no material inaccuracies on the information disclosed in were identified, complying with the contents of paragraph c), d), f), h), i) and m) of the said article.
- iii. KPMG Independent Report on the Evaluation of the Financial Information Report Control System of EDP Group that concluded that the Group maintained, in all relevant aspects, a system of internal control over the financial report appropriate and efficient with reference to 31<sup>st</sup> December 2016, in accordance with the criteria set out by the rule framework of internal control issued by Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) regarding the business processes and global controls and by Control Objectives for Information and Related Technologies (COBIT) referent to general control of information technologies.
- iv. The FMC's opinion on the Accounts that states:

- A favorable opinion on the Management Report and on the individual and consolidated IFRS accounts of EDP Group for the exercise ending in 31 December 2016,
- The conclusion that the design and functioning of SCIRF is satisfactory and the operation of the Risk Management Systems minimizes business risks.

**2. The General and Supervisory Board has decided unanimously:**

- a) To express its agreement in relation to the EDP's Accounts and Annual Report 2016.
- b) To declare, under terms of article 245, no. 1, section c) of the CVM, that to its best knowledge the information referred to 2016 and foreseen in article 245, no.1 section a) of the Securities Code (annual report and accounts, legal certification of the accounts and all other financial documents) was prepared in conformity with applicable accounting rules, giving a true and appropriate image of assets and liabilities, financial situation and financial results of EDP and of companies in control or group relationship with EDP, and that the 2016 annual report presents fairly the business evolution, the position and the performance of EDP and of companies in control or group relationship with EDP, and describes the main risks and uncertainties faced.
- c) To confirm that the report on EDP corporate governance includes the elements required by article 245 -A of the CVM and CMVM Regulation No. 4/2013.
- d) To declare that given the information provided by the EBD in the course of 2016 there were no:
  - i. Transactions between related parties that have affected significantly EDP's financial situation or performance.
  - ii. Transactions between EDP and related parties that must be communicated in the management report, due to its material relevance or because they were concluded outside normal market conditions.
  - iii. Evidence that all the potential conflicts of interest derived from operations identified by the EBD, have been resolved in A WAY contrary to the company's interests.
- e) To express its agreement to the FMC opinion on the SA performance and independence, according to which the FMC has assessed positively the work performed by KPMG, considering that it has carried out its professional duties with quality, competence, accuracy, impartiality and with a degree of reasonable independence.
- f) To recommend to the EDP Annual General Shareholders' Meeting the approval of the 2016 individual and consolidated Accounts and Annual report, as well as the EBD's proposal for results allocation.

## 2. Statement of the General and Supervisory Board on EDP Annual Report and Accounts

### STATEMENT

Pursuant article 245<sup>a</sup> n.º 1, paragraph c) of Securities Code (CVM), to the best knowledge of each of the signatories, as Members of the General and Supervisory Board of EDP – Energias de Portugal, S.A (EDP), the information referred in article 245<sup>a</sup> of CVM (annual management report, annual accounts legal certification of the accounts and remaining account documents), regarding 2016 exercise, has been prepared in accordance with the accounting standards applicable, gives a true and fair view of the assets and liabilities, financial position and results of EDP and subsidiaries included in the consolidation perimeter, and that the 2016 annual management report faithfully states the trend of the business, the performance and position of EDP and subsidiaries included in the consolidation perimeter, and contains a description of the principal risks and uncertainties faced.

Lisbon, 2nd March 2017



Eduardo de Almeida Castro – Chairman (as representative of China Three Gorges Corporation)



Luis Filipe Marques Amado – Vice-Chairman



Yi Yang (as representative of China Three Gorges New Energy Co.)



Guojun Liu (as representative of China International Water & Electr. Corp.)



Dingming Zhang – Vice-Chairman (as representative of China Three Gorges (Europe) S.A.)



Shengling Wu (as representative of China Three Gorges (Portugal) Sociedade Unipessoal, Lda.)



Felipe Fernández Fernández (as representative of DRALURSA, S.A.)



Fernando Maria Moscovéu Hermo



Nuno Manuel da Silva Amado (as representative of Banco Comercial Português, S.A.)



Forhat O'neoughi (as representative of EDP Contract)



Mohamed Ali Al Fahim (as representative of Sengora B.V.)



António Sarmiento Gomes Mata



Maria Celeste Ferreira Lopes Cardoso



Ildio da Costa Leite de Fialho



Jorge Braga de Macedo



Vasco Joaquim Rocha Vieira




Augusto Carlos Serra Ventura Mateus



João Carlos de Sá Mendes



António Joaquim Milhazes Barbosa



Maria de I. Carmes Fernandes Rosado



António Manuel de Carvalho Ferreira Vitorino

### 3. Opinion of the Financial Matters/Audit Committee on EDP Annual Report and Accounts

1. Under the terms of the legal and statutory requirements, specifically as set in the Articles of Association and internal terms of reference, the Financial Matters/Audit Committee ("FMC" or "Committee") presents this Report and Opinion based on its understanding of the activity and business performance and its conclusions following the analysis of the information and supporting documentation received from the Executive Board of Directors (EBD) and the heads of EDP Group's corporate departments, the FMC of the Subsidiaries and the Statutory Auditor (ROC) of EDP Group.

2. For the period ended 31 December 2016, the FMC met with the EDP's Board of Directors and the heads of the corporate departments to monitor and analyze the most relevant aspects of the activity developed by the EDP Group, in particular with:

- i. The Executive Board of Directors, to assess the interim financial information, the condensed annual accounts (the financial statements, the *scorecard* and the results of the period), the year's management report and the opinion of the statutory auditor;
- ii. The corporate heads of the Consolidation and Financial Reporting Department, to supervise the fulfilment of the principles and accounting policies and the integrity of the process of preparation and disclosure of the financial and other information considered to be relevant, including unusual or significant value transactions and the subsequent events;
- iii. The corporate heads of the Internal Audit and Compliance Department, to monitor the implementation of the 2016 activities plan, which it approved, and to assess the results of the audit, internal control and compliance work, as well as the effectiveness of the implemented recommendations;
- iv. The corporate heads of the Risk Management Department, to assess the governance model and the risk policy of the company, as well as the effectiveness of the internal risk management systems, in order to anticipate and minimize the risks inherent in the activity developed and adjust the support systems;
- v. The corporate heads of the Legal Department, to assess the most relevant conclusions about the "litigation" process, focused in the main litigations and other contingencies and the review of the provisions, taking into account the risk assessment carried out in accordance with IAS 37;
- vi. The corporate heads of the Management Control, Financial Services and Information Systems Departments, in order to assess, respectively, the relevant management and business information; the financial management policy and the evolution of the Pension Fund; and the main subjects related to the integrated operation and the mechanisms of control and security of the information systems.

3. Also with reference to the period ended on 31 December 2016, the FMC held meetings with the subsidiaries Audit Committee's Chairmen, to assess and discuss the main issues and any significant matters which may affect EDP Group's Condensed Financial Statements, and received from:

- i. The Audit Committee of EDP Renováveis (EDPR) - the report and the supporting information and documentation to the issue of a favorable opinion on the Annual Report and the Individual and Consolidated Accounts of EDPR;

- ii. The Audit Committee of EDP Energias do Brasil (EDPB) - the report with the supporting information and documentation to the issue of a favorable opinion on the annual accounts of the Executive Board of Officers and of the financial statements of the company and its subsidiaries.

4. In the 2016 financial year, the FMC has met regularly with the Statutory Auditor (SA) of EDP, to assess and discuss the main issues of the audit work, in particular:

- i. The conclusions of the impairment tests on the goodwill, concession rights and other material fixed assets recorded in the consolidation accounts of EDP Group;
- ii. The conclusions of the audit work carried out on the financial statements of the main companies included in the consolidation perimeter of EDP Group;
- iii. The conclusions of the most relevant audit matters, included in the Additional and the Audit Reports of EDP Group: accounting for estimated sales; valuation of liabilities with pensions and employee benefits; income taxes; litigation and legal, regulatory and environmental risks; transactions with non-controlling interests; valuation of non-current assets and valuation of derivative financial instruments;
- iv. The conclusions of the assessment of the System of Internal Control over Financial Reporting (SCIRF), based on the criteria established in the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013), in relation with global business and control procedures and with the Control Objectives for Information and Related Technologies (COBIT), in relation to the general information technologies controls.

Considering the performance of the work carried out, the SA issued an unqualified opinion, with reference to the period ended December 31, 2016: (1) The Legal Certification and Audit Report on EDP's Individual and Consolidated Financial Statements, including the opinion on the Annual Report, the Corporate Governance Report and the additional elements provided for in Article 10<sup>th</sup> of Regulation (EU) number 537/2014; (2) The Independent Assess Report on the Internal Control System over Financial Reporting (SCIRF) of EDP Group and (3) The Independent Assurance Report over Sustainability Information of EDP Group.

5. Based on Audit Committee's oversight of the main aspects of EDP Group's activity and business performance, the analysis and discussion of the information and documentation provided by the Executive Board of Directors and the heads of Corporate Departments, EDP Subsidiaries' Audit Committees and by the SA, it is the FMC's understanding that it has received all necessary explanations to the questions raised and in relation to EDP Group's Annual Report and Accounts, for the period ended as at December 31, 2016.

6. Considering the mentioned above and not being aware of any material relevant events, which may affect the accuracy of the financial information prepared and made available by the company or the appraisal of the quality of the work performed by EDP's SA or its independence, on the period ended as at 31 December 2016, the FMC:

- i. Issues a favorable opinion on the Annual Report and the results of operations on that date, by virtue of its understanding that they are in accordance with the applicable accounting principles and the legal and statutory provisions in force;

- ii. Assesses positively the operation of the Internal Control System over Financial Reporting (SCIRF), whose continuous improvement has contributed to reinforce the robustness of the control environment of the company;
- iii. Considers satisfactory the integrated performance of the internal risk management systems, which is aligned with the governance model, policies and procedures defined by EDP, which has contributed to ensure the monitoring and mitigation of the inherent risks in the business.

Lisbon, 2 March 2017

## **4. Statement of the General and Supervisory Board on the Assessment of the Performance of the Executive Board of Directors**

In the exercise of its powers and without prejudice to the principle of institutional cooperation that guides relationships with the Executive Board of Directors in the uncompromising pursuit of EDP's interest, the General and Supervisory Board implemented a principle of the most exacting standards and full responsibility, which has special significance in terms of evaluating the activity and performance of the Executive Board of Directors.

EDP continues to be one of the few listed companies at national and international level that has voluntarily established a formal and objective process for assess the activity of the Executive Board of Directors. This pertains to a distinctive process adopted by the General and Supervisory Board that contributes directly to the evaluation of the *Dow Jones Sustainability Index*, recognising the ongoing efforts to achieve excellence in corporate governance practice that the General and Supervisory Board has sought to develop.

In early 2017, the Members of the General and Supervisory Board were invited to complete a self-assessment questionnaire, which was divided into the following areas:

- Composition and Organisation.
- Activity performed in 2016.
- Institutional relationships between the General and Supervisory Board and the Executive Board of Directors.
- Overall Assessment.

The questionnaire's purpose was to establish objective support for reflection by the General and Supervisory Board, accounting for the assessment opinion of the Executive Board of Directors that this body must issue and submit to a vote by EDP shareholders.

Based upon responses to the questionnaire, the General and Supervisory Board reflected as a whole upon such data and extracted the corresponding conclusions in the meeting held on 2 March 2017. Thus, according to the respective rules, approved in line with the best practices in corporate governance, the General and Supervisory Board intends to record the following conclusions related to the assessment process corresponding to the Executive Board of Directors activity and performance in 2016:

1. The General and Supervisory Board considered all of the aspects evaluated to be satisfactory in terms of:
  - Organization and competences of the Executive Board of Directors.
  - Compliance with the provisions defined by the General and Supervisory Board in matters of issuing and waiving prior opinions and handling conflicts of interest.



2. As a general evaluation of the activity carried out by the Executive Board of Directors in 2016, the General and Supervisory Board considered it to be excellent, with particular emphasis on the following areas of action:
  - o Strategy
  - o Management of Financing
  - o Cost control
  - o Execution of the 2016 Budget
  - o Management and Control Information
  - o Corporate Governance Practices
  - o Organizational Culture
  - o Communication and Image
  - o Relations with Shareholders and investors
  
3. Without prejudice to the completed evaluation, the activity of the Executive Board of Directors shall be underlined by the continuous improvement of the respective performance in terms of its own functions, relationships with other corporate bodies of EDP and defense of Shareholders' interests.

Lisbon, 2 March, 2017

## 5. Annual Report of the Financial Matters / Audit Committee

### 5.1. Introduction

Under the powers delegated by the General and Supervisory Board, the mission of the Financial Matters /Audit Committee is to permanently monitor and supervise:

- Financial matters relating to the Company.
- The internal procedures for auditing and accounting practices followed by the Company and the Internal Financial Reporting Control System (IFRCS) and the compliance function, in coordination with the Internal Audit and Compliance Department.
- Matters relating to the internal financial reporting control system and risk management processes, particularly relating to their fiscal, legal and financial aspects.
- The activity and independence of the Statutory Auditor of the Company with whom it must maintain a close relationship.

The Financial Matters /Audit Committee also must support other General and Supervisory Board Committees in the financial quantification of regulatory, strategic and marketing risks analysed by these Committees.

The activity to be pursued by the Committee within the realm of its duties also applies to Subsidiary/Group Companies and relevant information from other companies held directly or indirectly by the Company or Subsidiary/Group Companies.

Under the General and Supervisory Board's resolution dated 22 April 2015, the Committee was established on 13 July 2006 and is composed of the following Members, all of whom have independent status:

- António Sarmiento Gomes Mota (Chairman)
- João Carvalho das Neves (Vice-Chairman)
- Alberto Joaquim Milheiro Barbosa
- Maria Celeste Ferreira Lopes Cardona
- Maria del Carmen Ana Fernández Rozado

The skills, mission and powers of this Committee are set forth in its Internal Regulation (available at [www.edp.pt](http://www.edp.pt)), which was approved by the General and Supervisory Board on 18 June 2015.

### 5.2. Committee Meetings

The Financial Matters/Audit Committee formally met twelve times in 2016 on the dates indicated below:

Name	21 Jan	11 Feb	25 Feb	07 Apr	28 Apr	02 Jun	23 Jun	25 Jul	12/13 Sep	27 Oct	24 Nov	15 Dec	%
António Sarmiento Gomes Mota (Chairman)	P	P	P	P	P	P	P	P	P	P	P	P	100
João Carvalho das Neves (Vice-Chairman)	P	P	P	P	P	P	P	P	A	A	P	P	83
Alberto Joaquim Milheiro Barbosa	P	P	P	P	P	P	P	P	P	P	P	P	100
Maria Celeste Ferreira Lopes Cardona	P	P	P	P	P	P	P	P	P	P	P	P	100
Maria del Carmen Ana Fernández Rozado	P	P	P	P	P	P	P	P	P	P	P	P	100

P = Present; A = Absent; R = Represented

Total from 2016 meetings: 12

Average participation:

97%

Apart from these twelve ordinary meetings, the Members of the Committee, as usual, met frequently in 2016 for informal work meetings and exchanged information on the matters of greatest importance or those that required the most urgent resolution related to Financial Matters /Audit Committee activities.

### 5.3. Activities performed by the Committee

With respect to matters subject to monitoring and supervision and given the fulfilment of the defined statutory and regulatory rights and duties, the Financial Matters /Audit Committee:

- Participated in EDP Executive Board of Directors meetings, during which preliminary accounts for 2015, quarters 1 and 3 and semester 1 of 2016, were presented and discussed;
- As deemed necessary and timely, invited EDP directors and other managers with duties and responsibilities related to issues for which the FMC deemed necessary to consult with a higher level of seniority, to participate in the Committee meetings;
- Several meetings were also attended by managers from Internal Audit and Compliance (IACD), Risk Management (RMD) and the Statutory Auditor (SA) of the EDP Group.

The meetings addressed the themes set out in the Financial Matters /Audit Committee's 2016 Activities Plan and had the main objective of obtaining information and analysing the most relevant issues for the EDP Group, with particular focus on the following items:

- a. Supervision of financial and business information - Evaluation and discussion of financial reporting (accounting policies and criteria adopted; individual and condensed financial statements, changes to the consolidation perimeter; unusual transactions or transactions of significant values; subsequent events), Scorecard, Financial Management Policy, the Pension Fund position and other matters of relevance to the Financial Matters /Audit Committee;
- b. Monitoring of the activity of the Internal Audit and Compliance Department (IACD) – Approval of the proposed 2016 Activities Plan (EDP Portugal, EDP Espanha, EDP Renováveis and EDP Brasil); supervision of execution of the Annual Auditing Plan and monitoring of audit reports issued, as well as the implementation status of auditing recommendations and improvement actions from the IFRCS (Financial Reporting Internal Control System), in regard to the close of fiscal year 2015 and the first ten months of 2016.

The Financial Matters /Audit Committee also assessed the activity and performance of the Internal Audit and Compliance Department in calendar year 2016;

- c. Monitoring of Risk Management activity - Evaluation of work related to the mapping, control and management of risks and the methodology of relationship between the Corporate Risk Management Department with the corporate risk areas and the main Subsidiary companies;
- d. Monitoring of the "Litigation" Process - Supervision of information and documentation on ongoing litigation, for financial year 2016 and litigations and other relevant contingencies closed in the previous two financial years;
- e. Monitoring of the activity of the EDP Group Information Systems Department (ISD) – Evaluation of activities performed in relation to the governance model for Information and Communication Technologies (ICT), ICT policies and standards and information control and security mechanisms – Cybersecurity and technological risks;
- f. Monitoring of energy balance in Portugal - Assessment of technical losses in the grid, business losses, fraud in energy consumption and measures taken to prevent and contain it;
- g. Monitoring of customer debt in Portugal and Spain - Assessment of current and past due debt; debt with payment agreement; doubtful debts (debts in pre-litigation, litigation and others); irrecoverable claims (including prescribed debts); main debt indicators and actions taken and ongoing for the recovery of past due debts;

- h. Relationship with Audit Committees of subsidiaries – Monitoring of Activity, Agendas, Minutes of Meetings and Reports / Opinions issued by the Audit Committees of EDP Renováveis and EDP Energias do Brasil, concerning the accounts for the financial year ended 31 December 2015 and Financial Statements for quarters 1 and 3 and semester 1 of 2016;

Following this objective, on September 12 and 13, 2016, in Madrid, the Financial Matters /Audit Committee held the 5th Meeting of Audit Committees of EDP Group, with the participation of external entities (IESE, Deloitte and PWC) and internal EDP Group managers (EDP Renováveis, EDP Energias do Brasil and IACD) and other guests for the closing session (Chairman of the GSB and of the EBD).

This meeting once again allowed for relevant sharing of experiences and knowledge, as well as the establishment of procedures to improve the coordination and communication of the Financial Matters /Audit Committee with the Audit Committees of the subsidiaries.

- i. Monitoring of the contractual relationship with the Statutory Auditor and respective activity – Evaluation of the Report of conclusions and Opinion concerning the Report and Accounts and the Financial Reporting Internal Control System of EDP Group and EDP Finance BV, for the financial year ended 31 December 2015; evaluation and approval of the proposed procurement of Services for Legal Auditing of Accounts and Auditing for financial year 2016; Evaluation of the methodology and approach to the external auditing process at the EDP Group for financial year 2016; Assessment and approval of Requests for Other Audit Services and Additional Services by Statutory Auditor/External Auditor in 2016; Assessment of Reports of conclusions and Opinions on EDP's Interim Financial Report for quarters 1 and 3 and semester 1 of 2016.

In the context of the provision of separate audit services by the SA, the Committee requested clarification on the qualification of the audit and non-audit services from the Securities Market Commission (CMVM) in connection with the new auditing arrangements and the role of the supervisory bodies in the approval of those services. The FMC has not received a response from the CMVM until this date. Considering this, the Committee adopt a restrict interpretation of the concept "Audit Services" and included in the same only services related to the Statutory Audit Review and to the Opinion on the Regulated Accounts;

- j. Monitoring of Irregularities Reporting in Portugal – Analysis of thirty nine complaints and/or notices received from third-party entities and respective conclusions reported by EDP internal officers, of which thirty seven were closed.

Under the Regulation of Procedures to be Adopted Concerning the Reporting of Irregularities, approved by the General and Supervisory Board on 3 March 2016, at the proposal of the Financial Matters /Audit Committee, the Committee issued an independent report on this matter, with conclusions from investigations by the company and evaluation of results achieved, for 2016, as per Annex 7 of the General and Supervisory Board Report

- k. Launch of a consultation for the selection of the Statutory Auditor, for the three-year period 2018/2020 - Implementation and monitoring of the selection process of the entity(ies) that will provide the EDP Group with services for (i) Statutory Auditing of Accounts / Auditing of Accounts (ii) Evaluation of the IFRCS and (iii) Evaluation of Sustainability Information, under the terms approved by the General and Supervisory Board on 3 November, 2016.

As part of its activities, the Financial Matters /Audit Committee has always strived to deepen knowledge of the mechanisms and procedures applied to prevent or detect the occurrence of situations that may affect EDP Group's capacity for action in (i) Producing, analysing and disseminating relevant information that adequately and faithfully represents the economic and financial situation of EDP Group; (ii) Minimising the risks of intentional or unintentional errors in financial reporting and the misappropriation or misuse of the Company's own resources.

The conclusions drawn from these activities and tasks allowed the Financial Matters /Audit Committee to support the issuance of Opinions concerning the Report and Accounts of EDP and EDP Finance BV, related to financial year 2015, and EDP's interim reports, for quarters 1 and 3 and semester 1 of 2016.

It also bears mentioning that at the end of 2016 Financial Matters /Audit Committee approved the 2017 Agenda and Activities Plan, a working tool that contains the main actions to be conducted by this Committee in each month of that calendar year. These documents contribute not only to greater future effectiveness and efficiency of the Committee, but also align its actions with the prevailing and internationally accepted best practices for corporate governance.

#### 5.4. Process for evaluation of performance and independence of the EDP Group Statutory Auditor

The Financial Matters/Audit Committee paid special attention to the nature and scope of the services provided by the company that conducts the Statutory Audit of Accounts and the provision of Other Auditing and Non-Auditing Services for EDP Group in order to assess compliance with the principles and best practices governing the activity of the audit firms and their representatives at EDP and to objectively assess their independence.

The analysis of the information collected and addressed by the Financial Matters /Audit Committee in this regard did not identify any conflicts of interest or situations that objectively affect the independence of the Statutory Auditor in the provision of professional services to EDP Group in 2016.

It should be noted, however, that pursuant to Article 4 of Annex II of the Financial Matters /Audit Committee Internal Regulation, the annual assessment of the Statutory Auditor is subject to the issuance of an independent report on the performance of the Statutory Auditor and on the independence thereof, as per Annex 6 of the General and Supervisory Board Report.

#### 5.5. Self-Assessment of activity performed by the Committee and its members

As regularly observed and in accordance with Article 9 (3) of the Financial Matters /Audit Committee Internal Regulation, such body has performed its self-assessment exercise based on two essential objectives: (i) provide each member of the Financial Matter Committee/Audit Committee and Committee as a whole with a space for reflection on their performance, particularly with respect to how the Committee has addressed the themes that comprise its Annual Activities Plan, as well as with respect to the functions it is responsible for performing by law and pursuant to Company By-Laws, Financial Matter Committee/Audit Committee Internal Regulation and other regulatory instruments of EDP governing matters that the Financial Matters /Audit Committee must consider and (ii) allow the Committee to adopt, if applicable, measures to improve its procedures and courses of action in order to make it more efficient in the future.

Though the Financial Matters Audit Committee intends to continue improving its activities, considering its knowledge of the practices followed by other comparable national and international companies, the Committee firmly believes that it has been guided by high levels of standards aligned with recommended best practices that address the matters within its field of action.

As such, the Financial Matters /Audit Committee considers its overall activity to be positive and remains committed to orienting its activities to the principles of rigour, transparency and independence in the service of stakeholders and creation of value for the Company.

#### 5.6. Difficulties encountered by the Committee in the performance of its activities

Although the functions performed by the Financial Matters /Audit Committee are demanding - both in terms of the technical and general knowledge of the matters addressed and in the knowledge of the most relevant aspects of the business that are performed within EDP's corporate perimeter, in the context of the availability that the operation of the Committee requires of its members - the Committee is pleased to note that it has not been confronted with situations which create additional difficulties, calling into question the requirements on which its action must be based - freedom of analysis, research and investigation and freedom to discuss and inquire, at all levels, on subjects that it deems worthy of its full attention.

Likewise, no circumstances restricted the independence or freedom of action of the Committee's Members.

#### 5.7. Acknowledgements

In concluding this activities report, the Financial Matters /Audit Committee expresses its satisfaction with respect to the manner in which work was performed in 2016 and thanks the General and Supervisory Board and the Executive Board of Directors for their ongoing commitment to this Committee; to the officers of the Company with which the Committee has worked throughout this period; to the Audit Committees of the subsidiaries with which fruitful institutional relationships have been forged; to the Statutory Auditor of EDP for its ongoing commitment and work performed, and, finally, to the members of the General and Supervisory Board Support Office, for the professional manner they have contributed to the functioning and performance of this Committee.

## 6. Report and Opinion of the Financial Matters Committee / Audit Committee on the Assessment of the Independence of the Statutory Auditor of EDP Group – 2016 Financial Year

For the year ended 31 December 2016, the Financial Matters/Audit Committee ("FMC" or "Committee") has paid particular attention to the nature and scope of the Audit and Non Audit Services and External Audit provided to EDP Group ("EDP") by the Statutory Auditor / KPMG & Associados – Sociedade de Revisores Oficiais de Contas (SROC), S.A. ("ROC"; "KPMG" or "SROC"), in order to assess its performance and independence, in compliance with legal, regulatory and contractual provisions and the principles and best practices that governed the action of KPMG and its representatives with EDP.

The process of assessing EDP Group's ROC by the Committee, with reference to the year ended 31 December 2016, was basically based on the following:

- i. The assessment of the work done and the relationship of the ROC with the FMC;
- ii. The analysis of the execution of contracts for the provision of Audit and Non-Audit services between EDP and KPMG;
- iii. The analysis of the replies of the Committee Members to the internal Questionnaire on the assessment of ROC performance and independence;
- iv. The analysis of the information received from KPMG, within the scope of the communication requirements established in the Legal Regime of Audit Supervision and of the requirements of Article 3 of Annex II of the FMC Internal Regulation: (a) Governance structure of the ROC; (b) Internal quality control system of the ROC; (c) Statement on independence practices of the ROC which also confirms the completion of an internal review of the compliance of these independent practices; (d) Mechanisms used to assess whether any service provided to EDP is a threat to its independence; (e) Description of services provided and amount of the remuneration received; (f) Annual revenues from audit services provided; (g) Annual revenue from non-audit services provided and (h) Indication whether some potentially conflicting services with independence are provided.

The results of the analysis of the documentation and information previously mentioned to do not indicate the existence of conflicts of interest or situations that affect KPMG's independence, in providing professional services to EDP Group, with reference to the 2016 financial year. In the assessment process of the independence of the ROC, it should be noted that:

- a) The total fees billed, in the different geographies, by KPMG to EDP Group (7,062 thousand euros) represents less than 0,5% of KPMG's aggregate turnover in Portugal, Spain, Brazil and the United States of America, with reference to the previous financial year. Those fees decreased 19% compared to the year ended 31 December 2015 (8,744 thousand euros);
- b) The fees billed to EDP in Portugal (3,109 thousand euros) represent approximately 2% of KPMG Portugal's turnover in the last twelve months, ending on 30 September 2016. These fees decreased by 9% compared to the financial year 2015 (€3,418 thousand euros);
- c) The fees for the non-audit services billed by KPMG Portugal to EDP, SA and its subsidiaries in Portugal (957 thousand euros) were about 31% of the total services provided (3,109 thousand euros). The non-audit services required by

law (277 thousand euros) represented 9% and those not required by law (680 thousand euros) were 22% of that total;

- d) KPMG confirmed, in writing, the independence of the auditors under the terms and in accordance with the independence rules of the Order of Chartered Accountants, the Securities Market Commission and the KPMG network itself, including those defined by the 8th European Commission Directive, transposed into Portuguese law by Decree-Law n.º 224/2008, dated 20 November, as well as the independence rules defined by KPMG, through the application of the International Auditing Standards issued by the International Federation of Accountants.

Based on the conclusions drawn from the ROC assessment process and a broad exchange of views among the Financial Matters/Audit Committee Members, it noted with satisfaction, that there have been improvements in the ROC's relationship with the FMC, responding to a dynamic increasingly intervention of the Committee in this area, resulting in an improvement in the mechanisms and information tools and a more efficient way of acting.

Furthermore, the interaction that FMC developed with the ROC throughout the 2016 financial year, whether in meetings or by correspondence and the provision of the most varied contributions and clarifications, allowed the collection of information on its action, availability and attitude. Therefore, the Committee is of the opinion that the ROC has carried out its functions with quality, competence, rigor, exemption and with an acceptable degree of independence.

Notwithstanding of this assessment, it is fmc'S intention to continue developing, together with the ROC, a reflection, in order to identify areas that may require improvements, both in the provision of audit services and in the supervision of the ROC's performance and independence.

Lisbon, 2 March 2017.



## **7. Annual Report of the Financial Matters /Audit Committee on Reporting of Irregularities**

### **7.1. Introduction**

In compliance with the provisions of the Regulation on Procedures to be Adopted Concerning the Reporting of Irregularities, the Financial Matters /Audit Committee hereby submits this report on the outcomes of the process applied to irregularities reported in 2016.

### **7.2. Reporting of irregularities received and addressed by the Financial Matters /Audit Committee**

The Financial Matters /Audit Committee received and addressed thirty nine irregularities reported by third party entities during the reference period. The reports refer to complaints about customer consumption fraud and / or irregularities in electricity metering facilities and equipment.

The Financial Matters /Audit Committee requested, when deemed appropriate, that the competent departments at EDP monitor and inspect the facilities referred to in the communications and report the ensuing results of actions triggered, once completed.

### **7.3. Conclusions**

At the end of 2016, of the thirty nine reports of irregularities received, thirty seven had been concluded by the Financial Matters /Audit Committee based upon the conclusions drawn from analysing the response from EDP leaders. The two remaining complaints are still being investigated.

## 8. Annual Report of the Remuneration Committee

### 8.1. Introduction

The Remuneration Committee is appointed by the General and Supervisory Board in accordance with the provisions of Article 27(1) of the By-Laws and its main mission is:

- To define the policy and corporate objectives for setting the remuneration of the Chairman and the Members of the Executive Board of Directors.
- To set the remuneration of the Chairman and the Members of the Executive Board of Directors.
- To monitor and evaluate the performance of the Chairman and the Members of the Executive Board of Directors in order to determine the variable remuneration.
- To monitor the disclosure of external information on remuneration and remuneration policy for the Executive Board of Directors.

The Remuneration Committee is different from the Remuneration Committee elected by the General Shareholders' Meeting as the latter is responsible for setting the remuneration policy of all corporate bodies, except the Executive Board of Directors.

### 8.2. Composition

On 22 April 2015, the General and Supervisory Board established the Remuneration Committee for the period 2015-2017, which is composed by a majority of independent Members and, since that date, has the following composition:

Remuneration Committee		Date of Initial Appointment
Chairman	Yang Ya	21-04-2015
	Fernando María Masaveu Herrero	21-04-2015
	Ilídio da Costa Leite de Pinho	22-05-2012
	João Carvalho das Neves	21-04-2015
	Vasco Joaquim Rocha Vieira	21-04-2015

The powers of the Remuneration Committee, as well as its mission and responsibilities, are set out in the Internal Regulation (available at [www.edp.pt](http://www.edp.pt)) of such Committee, the terms of which were approved on 18 June 2015.

### 8.3 Meetings

Chart of meetings and attendance in 2016:

Name	03/Mar	04/May	%
Yang Ya - Chairman	P	P	100%
Fernando María Masaveu Herrero	P	P	100%
Ilídio da Costa Leite de Pinho	P	P	100%
João Carvalho das Neves	P	P	100%
Vasco Joaquim Rocha Vieira	P	P	100%

P = Present; A = Absent; R = Represented

Total from 2016 meetings: 2  
Average participation: 100%

## 8.4 Activity performed by the Committee

In 2016, the Remuneration Committee held two ordinary meetings with an average participation of 100% of its Members.

The first item for the first meeting, held on 3 March 2016, was the “Annual statement on the EBD Member Remuneration Policy.” The Remuneration Committee Members re-analysed the conclusion reached in the meeting held on 17 December 2015, where the main theme was the definition of the remuneration policy of the EBD Members for 2016 and 2017 in terms of fixed and variable annual remuneration for the 2015-2017 period in regard to multi-year remuneration, based on the findings of the study carried out during 2015 by the external consultant on the relative position of the remuneration policy of EDP's Executive Board of Directors Members compared to market practices, namely PSI20 And Euro Stoxx Util 600 Companies.

Consequently, the Remuneration Committee decided to submit the Annual Statement on the Executive Board of Directors Members Remuneration Policy for approval in the General Shareholders' Meeting.

In the second meeting, on 4 May, 2016, the main item was to determine the variable annual remuneration for financial year 2015 and the multi-year remuneration of Executive Board of Directors Members assigned to the same financial year, based on previously approved guidelines voted upon in the General Shareholders' Meeting. The Remuneration Committee called on the Chairman of the Executive Board of Directors, António Mexia, for this item of the meeting, to share his assessment of the performance of the other Members of the Executive Board of Directors with the Committee Members and provided necessary explanations.

Whenever deemed necessary, the Committee had the support of the staff of the General and Supervisory Board Support Office in performing its activity.

## 8.5 Self-assessment of Activity performed

Within the scope of its regulatory powers, the Remuneration Committee must annually conduct a self-assessment of its activity.

Accordingly, based upon the methodology implemented to assess the activity of the General and Supervisory Board and other specialized Committees of this Board, the Members of the Remuneration Committee were invited in January 2017 to complete a questionnaire on their assessment of activity performed by the Committee in 2016, which was divided into the following areas:

- Composition, Organisation and Operation
- Activity performed in 2016
- Individual Self-assessment

Based on response to the self-assessment questionnaire in the meeting conducted on 2 March 2017, the Committee Members reflected on the results thereof and concluded that the Committee performed its functions with excellence on an overall basis.

## 9. Annual Report of the Corporate Governance and Sustainability Committee

### 9.1. Introduction

EDP By-Laws establish that the General and Supervisory Board may create specialized or monitoring committees beyond those provided for by law to execute certain functions, particularly in relation to corporate governance and sustainability.

Accordingly, the General and Supervisory Board has set up the Corporate Governance and Sustainability Committee with the main task of monitoring and assessing issues related to corporate governance, sustainability, internal codes of ethics and compliance and systems of evaluation and resolution of conflicts of interest, including those concerning the Company's relations with its Shareholders and issuing opinions on such matters.

The Corporate Governance and Sustainability Committee was established by the General and Supervisory Board as a specialist committee with expertise in matters relating to:

- Corporate governance.
- The sustainability strategy;
- Internal codes of ethics and conduct;
- The systems for the assessment and resolution of conflicts of interest, particularly with regard to the relations between the Company and Shareholders.
- Monitoring the definition of selection criteria and necessary skills for the internal bodies and structures of the Company and its Subsidiary companies, as well as the assessment of their impact on their composition.
- Monitoring the preparation of succession plans.

### 9.2. Composition

On 22 April 2015, the General and Supervisory Board established the Corporate Governance and Sustainability Committee for the 2015-2017 period, which is composed by a majority of independent Members as follows:

Corporate Governance and Sustainability Committee		Date of Initial Appointment
Chairman	Luis Filipe Marques Amado	22-04-2015
	Felipe Fernández Fernández	22-04-2015
	Jorge Avelino Braga de Macedo	22-04-2015
	Maria Celeste Ferreira Lopes Cardona	18-04-2012
	Shengliang Wu	11-05-2012

### 9.3 Meetings

Chart of meetings and attendance in 2016:

Name	02/Mar	03/May	27/Jul	02/Nov	14/Dec	%
Luis Filipe Marques Amado - Chairman	A	P	P	P	P	80%
Felipe Fernández Fernández	P	P	P	P	P	100%
Jorge Avelino Braga de Macedo	P	P	P	P	P	100%
Maria Celeste Ferreira Lopes Cardona	P	P	P	P	P	100%
Shengliang Wu	P	P	P	P	A	80%

P = Present; A = Absent; R = Represented

Total from 2016 meetings: 5  
Average participation: 92%

#### 9.4 Activity performed by the Committee

In 2016, the Corporate Governance and Sustainability Committee held five ordinary meetings with an average participation of 92% of its Members. These meetings addressed many issues, among which the following were of most relevance:

No.	Date	Location	Main topics
1	2 Mar.	Lisbon	<p>2015 Climate Survey: Assessment of Results</p> <p>Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 4Q2015</p> <p>Conflict of interests and related parties: Assessment of 4T2015 information</p> <p>Corporate Governance: Assessment of EDP2015's Corporate Governance Manual</p> <p>Internal Regulation: Review of CGSC's Internal Rules</p> <p>CGSC's Annual Activity Report 2015:</p> <p>Analysis of the results of the Self-evaluation of the CGSC's activity 2015</p> <p>Assessment of CGSC's activity report 2015</p>
2	3 May	Lisbon	<p>Ethics and Conduct:</p> <p>Consideration of the opinions issued by the Ethics Committee in 1Q2015</p> <p>Annual Report of the Ethics Ombudsman 2015</p> <p>Appraisal of the amendment to the composition of the Ethics Committee</p> <p>Conflict of interests and related parties:</p> <p>Assessment of 1Q2016 information</p> <p>EDP/Sonatrach long-term natural gas supply contracts</p>
3	27 Jul.	Lisbon	<p>Conflict of interests and related parties:</p> <p>Assessment of 2Q2016 information</p> <p>EDP/CTG Strategic partnership EDP Renováveis (Poland and Italy)</p> <p>Ethics and Conduct: Consideration of the opinions issued by the Ethics Committee in 2Q2016</p> <p>S12016 GCSC's Activity Report</p>
4	2 Nov.	Lisbon	<p>Conflict of interests and related parties: Assessment of information Q32016</p> <p>Ethics and Conduct:</p> <p>Consideration of the opinions issued by the Ethics Committee in 3Q2016</p> <p>Code of Conduct for Top Management and Senior Financial Officers</p> <p>Sustainability:</p> <p>Analysis of EDP's Sustainability policies</p> <p>Analysis of results of the <i>Dow Jones Sustainability Index</i></p>
5	14 Dec.	Lisbon	<p>Code of Conduct for Top Management and Senior Financial Officers</p> <p>Conflict of interests and related parties</p> <p>DJSI Performance of EDP 2015 - Corporate Governance</p> <p>Nominations and Succession</p> <p>CGSC - 2017 Activity Plan</p>

## 9.5 Self-assessment of Activity performed

Under its regulatory activities, the Corporate Governance and Sustainability Committee must conduct an annual self-assessment of its activity.

Accordingly, based upon the methodology implemented to assess the activity of the General and Supervisory Board and other specialized Committees of this Board, the Members of the Corporate Governance and Sustainability Committee were invited in January 2017 to complete a questionnaire on their assessment of the activity performed by the Committee in 2016, which was divided into the following areas:

- Composition, Organisation and Operation
- Activity performed in 2016
- Individual Self-assessment

Based on response to the self-assessment questionnaire in the meeting conducted on 1 March 2017, the Committee Members reflected on the results thereof and concluded that the Committee performed its functions with excellence on an overall basis.

## 10. Annual Report of the Strategy and Performance Committee

### 10.1. Introduction

Pursuant to Article 23(1) of EDP By-Laws, the General and Supervisory Board may create specialized or monitoring committees beyond those provided for by law to execute certain functions, having created the Performance and Competitive Analysis Committee and the Strategy Committee during the previous three-year period (2012-2014).

Given the compatibility between matters concerning the Strategy Committee and the Performance and Competitive Analysis Committee, from 22 April 2015 onwards these Committees began to meet jointly and the General and Supervisory Board, in its 18 June 2015 meeting resolved to merge these Committees, resulting in the formation of the Strategy and Performance Committee, composed of the following members:

- Eduardo de Almeida Catroga
- Alberto Joaquim Milheiro Barbosa
- Augusto Carlos Serra Ventura Mateus
- Dingming Zhang
- Ferhat Ounoughi
- Fernando María Masaveu Herrero
- João Carvalho das Neves
- Jorge Braga de Macedo
- Mohamed Ali Al-Fahim
- Nuno Manuel da Silva Amado
- Shengliang Wu

The Strategy and Performance Committee was created as a specialized committee with authority for matters related to:

- Short, medium and long term scenarios and strategies;
- Strategic execution, business planning and respective budgets;
- Investments and divestments;
- Debt and financing;
- Strategic alliances;
- Evolution of markets and competitiveness;
- Regulation;
- Analysis of the performance of the Group and the Business Units;
- Benchmarking of the Group's performance in relation to other leading companies in the sector;
- Evaluation of the competitiveness of the EDP business portfolio.

The skills, mission and powers of this Committee are set forth in its Internal Regulation (available at [www.edp.pt](http://www.edp.pt)), which was approved by the GSB on 18 June 2015.

### 10.2. Composition

On 18 June 2015, the General and Supervisory Board created the Strategy and Performance Committee for the 2015 – 2017 period, which has the following composition:

Strategy and Performance Committee		Date of initial appointment
Chairman	Eduardo de Almeida Catroga	18-06-2015
	Alberto Joaquim Milheiro Barbosa	18-06-2015
	Augusto Carlos Serra Ventura Mateus	18-06-2015
	Dingming Zhang	18-06-2015
	Ferhat Ounoughi	18-06-2015
	Fernando Maria Masaveu Herrero	18-06-2015
	João Carvalho das Neves	18-06-2015
	Jorge Avelino Braga de Macedo	18-06-2015
	Mohamed Ali Ismaeil Ali Al Fahim	18-06-2015
	Nuno Manuel da Silva Amado	18-06-2015
	Shengliang Wu	18-06-2015

### 10.3. Committee Meetings

List of the Strategy and Performance Committee meetings and attendance in 2016:

Name	20-Jan	02-Mar	19-Apr	03-May	27-Jul	21-Sep	02-Nov	07-Dec	%
Eduardo de Almeida Catroga	P	P	P	P	P	P	P	P	100
Alberto Joaquim Milheiro Barbosa	P	P	A	P	P	P	P	P	87.5
Augusto Carlos Serra Ventura Mateus	P	P	P	P	P	P	P	P	100
Dingming Zhang	R	R	P	R	R	P	R	R	25
Ferhat Ounoughi	A	P	P	A	P	P	P	A	62.5
Fernando Maria Masaveu Herrero	R	A	P	P	A	P	A	P	50
João Carvalho das Neves	P	P	P	P	P	P	A	P	87.5
Jorge Avelino Braga de Macedo	P	P	P	P	P	P	P	P	100
Mohamed Ali Ismaeil Ali Al Fahim	P	P	P	P	P	P	P	P	100
Nuno Manuel da Silva Amado	A	A	A	A	A	P	A	A	12.5
Shengliang Wu	A	P	P	P	P	P	P	P	87.5

P = Present; A = Absent; R = Represented

Total from 2016 meetings: 8

Average participation: 74%

### 10.3. Activities performed by the Committee

During 2016, the Strategy and Performance held a total of eight meetings, with the involvement, where deemed relevant, of external staff, such as member of the management and executive staff of EDP and its Subsidiary companies.

In these meetings, the following topics were broached:

- Performance of EDP Group's business units in 2015 and in the first three quarters of 2016
- Performance of EDP, EDP Renováveis and EDP Brasil in 2015
- Performance of EDP Group's marketing activities
- Performance of EDP Group's distribution activities
- Strategic and performance analysis of EDP Renováveis
- Strategic and performance analysis of EDP Energias do Brasil
- State of play of operational efficiency improvement projects in EDP Group
- Monitoring of Strategic and Business Risks in EDP Group
- Profitability of EDP Group and its Business Units (2011 – 2015)
- Monitoring of the preparation of EDP Group's Business Plan (2016-2020)
- Portfolio reshuffling analysis: Analysis of investment/divestment opportunities
- Analytical framework of investment/divestment options



- Analysis of projects installed in 2011
- EDP Group budget for 2017

For the development of its activity the Strategy and Performance Committee has the support of the staff of the General and Supervisory Board Support Office.

#### 10.4. Activity assessment

Under its statutory powers the Strategy and Performance Committee must carry out an annual self-assessment of its activity.

Accordingly, using the methodology developed for the evaluation of the activity of the General and Supervisory Board and other specialized Committees of the Board, the Members of the Strategy and Performance Committee were invited to complete a questionnaire on the evaluation of activity performed by the Committee in 2016, which was undertaken in three main areas:

- Composition, Organisation and Operation
- Activity performed in 2016
- Individual Self-assessment

Based on response to the self-assessment questionnaire in the meeting conducted on 1 March 2017, the Committee Members reflected on the results thereof and concluded that, overall, the Committee performed its functions positively. However, in a context of continuous improvement, it was possible to identify activity areas for improvement, particularly in relation to the planning and means of distribution of supporting documentation.

## List of Abbreviations

For ease of explanation and without prejudice to the timely use of the designations and expressions that they are intended to replace, throughout this report, the following acronyms and abbreviations are used:

**GSM** – General Shareholders Meeting

**EA** – External Auditor

**EBD** – Executive Board of Directors

**PCAC** - Performance and Competitiveness Analysis Committee

**GSB** - General and Supervisory Board

**CGSC** - Corporate Governance and Sustainability Committee

**SPC** - Strategy and Performance Committee

**SC** – Strategy Committee

**FMC** - Financial Matters Committee /Audit Committee

**CTG** – China Three Gorges

**GSBPC** - Remuneration Committee (from GSB)

**CVM** - Securities Code

**CMVM** – Portuguese Securities Market Commission

**CSC** - Portuguese Commercial Companies' Code

**EDP (or Company)** - EDP – Energias de Portugal, S.A.

**EDP Brasil** - EDP Energias do Brasil, S.A.

**EDP R** - EDP Renováveis, S.A.

**EDP SU** - EDP Serviço Universal, S.A.

**GSBSO** - GSB Support Office

**HC** - Hidroeléctrica del Cantábrico, S.A.

**Natargas** - Natargas Energía, S.A.

**NGO** – Non-Governmental Organizations

**CEBD** - Chairman of the Executive Board of Directors

**CGSB** - Chair of the General and Supervisory Board

**R&C** - 2016 Annual Report & Accounts

**IR** - Internal Regulation

**SA** - Statutory Auditor

**Subsidiaries** – Companies controlled by EDP, under the terms of Article 21 of the Securities Code.

**Sonatrach** - Société Nationale pour la Recherche, la Production, le Transport, La Transformation et la Commercialisation des Hydrocarbures

NOTE: The identification of corporate bodies, without any other mention, should be interpreted as referring to EDP's corporate bodies.

**ENERGY**  
**AS**  
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**NEW**  
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