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Company Standard - Procedure

NT-P-029

THIRD PARTY INTEGRITY VERIFICATION

Approved by the Executive Committee on 2018-12-20

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1. Object and scope of application

1.1 Purpose

This standard establishes the procedure for verifying the integrity of third parties/counterparties that engage in transactions with entities of Galp Group.

1.2 Scope

1.2.1 All the Organisational Units (OUs) of Galp Group and its subsidiaries or other entities, irrespective of their legal nature, in which Galp holds control of its management (collectively the "Galp Group" and individually "Galp Group entity") are covered by this standard, which encompasses all locations in which the Group operates.

1.2.2 In cases where there is no group relationship between the above mentioned companies and Galp, the individuals appointed by it to occupy management positions in those companies will be responsible for ensuring that this standard procedure is approved and adopted by the respective managing bodies, and, if necessary, the adaptation thereof to local law through advice from the Legal and Governance Department (*Direção de Assuntos Jurídicos e Governance*, "DAJG") for such purposes.

1.2.3 Employees appointed by Galp for governing bodies in companies or *joint ventures* with no legal personality, in which Galp does not hold management control, shall foster measures within these companies and/or *joint ventures* that are conducive to the recognition and adoption of the rules and procedures established in this standard (or others of an equivalent nature).

1.2.4 Galp shall promote the adoption of third party integrity risk management criteria equivalent to those established in this standard by its most relevant *stakeholders*.

2. Criteria

2.1 The integrity verification established in this standard is applicable if the third party falls within one or more of the following criteria in a current or future transaction with a Galp Group entity:

1. Potential new contracts with new (i) suppliers or (ii) purchasers of energy services or oil products, natural gas and its derivatives, or electricity, in any case including *trading* activities, whenever this involves allocation of rights/investment/costs/billing to a Galp Group entity, of actual or estimated value, current or future, exceeding 5 million euros per contract;

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2. Potential new contracts with new (i) service providers or (ii) suppliers of goods and equipment whenever this involves the allocation of rights/investment/costs/invoicing to a Galp Group entity, of actual or estimated value, current or future, greater than 5 million euros per contract;
3. Potential new contracts for the formation of *joint ventures* with new (i) shareholders/partners in incorporated *joint ventures* or (ii) partners in consortia/*joint ventures* without legal personality, regardless of the current or future actual or estimated value of such contract;
4. Potential new contracts to be entered into by (i) Galp's partners acting as consortium /*unincorporated joint venture* operators to which a Galp Group entity is a party or by (ii) the managers of companies where Galp does not control its management in which Galp is a partner/shareholder, with service providers, suppliers of equipment and goods, or consultants, when (a) such contracts are dependent on the exercise of the voting right by a Galp Group entity in accordance with the respective governance documents of such *unincorporated joint ventures* or companies, and (b) whenever this involves allocation of rights/investment/costs/invoicing for the entity of the Galp Group, of actual or estimated value, current or future, greater than 5 million euros per contract;
5. Potential new contracts to be entered into (i) by a Galp Group entity acting as a consortium/*joint venture* operator or by (ii) managers appointed by a Galp Group entity in which Galp Group controls its management, with service providers, suppliers of goods and equipment, or consultants, whenever this involves allocation of rights/investment/costs/invoicing to the entity of the Galp Group, of actual or estimated value, current or future, greater than 5 million euros per contract;
6. Potential new distributors, resellers or agents of Galp products whenever this involves allocation of rights/investment/costs/invoicing to the entity Galp Group, of actual or estimated value, current or future, greater than 5 million euros per contract;
7. Potential new contracts with entities of (i) public nature (except those of an educational nature) or (ii) under control of public entities, or (iii) whose actual beneficiaries are politically exposed persons, regardless of actual or estimated value, current or future, of such contract;
8. Potential new contracts with intermediaries or consultants acting on behalf of a Galp Group entity (i) with public entities or public officials, regardless of value of the contract, or (ii) in relation to private entities, whenever this involves the attribution of rights/investment/costs/invoicing for the entity of the Galp Group, of actual or estimated value, current or future, greater than 5 million euros per contract;
9. New banking institutions with which Galp enters into a contract to open a bank account or to provide other financial services;
10. Foundations and associations, regardless of value of the contract;

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11. Community members, or entities of any nature to which the Galp group entity intends to make a donation or assign a sponsorship;
12. Contracts of any nature and value to be entered into with entities that are based in a country captured on the list of countries at high risk of corruption or money laundering, to be made available by DAJG on an annual basis.

2.2 Provided that any of the above criteria is met, the third-party integrity verification process established in this standard is also applicable to the renewal of contracts or the execution of amendments thereto with current counterparts.

3. Request for integrity verification

3.1 Each OU shall appoint a “focal point” that will be responsible for carrying out the procedures described in the following numbers and interacting with DAJG in all matters related to the performance of the verification of integrity of third parties within the scope of said OU.

3.2 Prior to the initiation of negotiations with any entity/individual for the execution of contractual instruments or unilateral acts involving any entity of the Galp Group, a review of the integrity of that entity/individual shall be requested in advance to the DAJG, if one or more of the criteria set out above is met.

3.3 The process of verification of integrity of the counterparty shall be initiated by the submission by the OU of the following information to DAJG, using the digital platform available for that purpose (<http://mygalp/conhecagalpenergia/unidadesareasnegocio/servicoscorporativos/servjuridicos/Pages/newhomepagejuridicos.aspx>): (i) indication of the entity of Galp Group that will execute the contract with the counterparty, (ii) the name or full name of the entity/individual to be verified, (iii) indication of the criteria met under paragraph 2.1 above, or the specific risk factor, pursuant to paragraph 3.5 of this standard, (iv) description of the predominant nature of Galp’s legal/business relationship with the third party, (v) estimated value of the rights/investment/costs/invoicing associated with the transaction in question, (vi) the e-mail contact of the representative of the third party who shall fill in the integrity verification form (except for paragraph 4 of item 2.1, where such filling is not applicable).

3.4 In the cases indicated by DAJG, the OU shall inform the third party that it will receive an integrity verification form to be sent by a computer platform used by DAJG for this purpose.

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3.5 The OU will inform DAJG of any known risk factors that may assist in the verification of integrity, namely the existence of any of the factors described in the appendix to this standard (“red flags”).

4. Integrity verification

4.1 In possession of the dully filled integrity verification form and together with the available information obtained by using the digital platform system support, or other sources of public nature, or in other cases where it is proven necessary or useful, by obtaining complementary information from an integrity verification service provider, DAJG shall place the received information in the digital platform system and issue a recommendation in accordance with paragraph 4.4.

4.2 For the issuance of the recommendation set forth in paragraph 4.4, the DAJG must assign a risk score to the counterparty that obeys the following factors: impact, detectability and probability. Each of these criteria is scored 1 to 4 points, as it fulfils the elements of support for *scoring* attributed below to each factor, with the impact factor being valued twice that of each of the other factors.

4.3. The risk *scoring* has a minimum of 4 and a maximum of 16 points, being ranked according to the following scale and criteria identified below:

LOW – 4 to 7 points;

MEDIUM – 8 to 11 points;

HIGH – 12 to 16 points (from 14 to 16 will be considered “Very High”);

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Impact:

Dimension	Financial	Continuity of Operations	Compliance	Reputational	Strategy
Reduced 1	<p>Transactions representing up to 2% of the EBITDA of the business segment in question</p> <p>Award of contracts by the Procurement and Contracts Area up to the value of EUR 5 million</p>	<p>Reduction of the supply capacity of the product and/or service without interruption of operations</p>	<p>Application of sanction < EUR 100,000</p>	<p>Effects noted only internally, with no noticeable reaction in the media nor perceived impact by stakeholders</p>	<p>Limited impact on strategy</p>
Moderate 2	<p>Transactions representing up to 5% of the EBITDA of the business segment in question</p> <p>Award of contracts by the Procurement and Contracts Area up to the value of EUR 15 million</p>	<p>Interruption of operations or services up to 1 day. One-off break event in service/product supply</p>	<p>Application of sanction \geq EUR 100,000 and < EUR 1,000,000</p>	<p>Effects noted internally and externally (e.g. local or regional stakeholders) and occasional reactions in media</p>	<p>Some impact on strategy that can be corrected through the adoption of mitigation actions</p>
High 3	<p>Transactions representing up to 10% of the EBITDA of the business segment in question</p> <p>Award of contracts by the Procurement and Contracts Area up to the value of EUR 30 million</p>	<p>Interruption of operations or services up to 5 days. Significantly affecting the supply capacity of the product/ service, forcing the existence of apportionments in the market</p>	<p>Application of sanction \geq EUR 1,000,000 and < EUR 2,500,000</p>	<p>Extensive internal and external effects (e.g. national stakeholder concerns), with prolonged reactions in various media</p>	<p>Impact on strategy; cannot be corrected through mitigation actions; requires reassessment of the strategy and its implementation</p>
Very High 4	<p>Transactions representing up to 20% of EBITDA of the business segment in question</p> <p>Award of contracts by Procurement and Contracts Area above the value of EUR 30 million</p>	<p>Interruption of operations or services over 5 days. Generalized break in the supply of product/ service to the market.</p>	<p>Application of sanction \geq EUR 2,500,000</p>	<p>Negative effects on key stakeholders (e.g. populations, shareholders, regulator, national and international States), chain reactions in the media and impact on market capitalization</p>	<p>Serious threat to the company's strategic position; Requires immediate action</p>

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Probability:

Dimension	Classification	Qualitative Frequency	Quantitative Frequency	Scope
Remote	1	Conceptually possible but no record of occurrence	Period between risk occurrences greater than 5 years	Single risk source or risk sources, non-transversal to the process
Unlikely	2	It is not expected to occur, however there is a record in the process history	Period between risk occurrences between 1 and 5 years	≥ 2 and < 5 independent risk sources, transversal to the process
Likely	3	There is sufficient record of occurrences in the process to support the presumption that it occurs again	Period between risk occurrences less than or equal to 1 year	≥ 5 and < 10 independent risk sources, transversal to the process
Frequent	4	There are continuous occurrences in the process history	Period between risk occurrences less than or equal to 1 quarter	≥ 10 independent sources of risk, transversal to the process

Detectability:

Size	Classification	Description
High	1	Controls are highly effective in all situations; the risk event can be anticipated prior to materialization or before the causative event
Medium	2	Controls are partially effective in some situations; the risk event is known concurrently with the risk factor
Low	3	Controls are rarely effective; the risk event is known after the impact has been determined
Non-existent	4	There are no controls in place or they are typically ineffective; the risk event may never be known

4.4 The risk *scoring* of the counterparty, the DAJG's recommendation for (i) acceptance, (ii) pre-acceptance (subject to verification of compliance with certain requirements), or (iii) non-acceptance of the counterparty, as well as the treatment and risk mitigation measures to be taken, will be transmitted by the DAJG to the applicable OU.

4.5 If the recommendation of the DAJG is made in the sense of not accepting the counterparty, or termination of legal and/or commercial relationships with the same party and there is a divergence of positions between the OU and DAJG, the OU shall submit the matter to the Risk Management Committee for a final decision.

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4.6 If the OU is in possession of information about a counterparty that points to the existence of an integrity risk factor not listed in the criteria described above, it shall request the DAJG a preliminary integrity verification.

4.7 DAJG performs periodic reassessments of risk that the counterparty represents according to the risk level assigned, with the following frequency: low risk level: 2 years; average risk level: 1 year; high risk level: 6 months.

4.8 Should the OU, the Risk Management Department (RMD) or the DAJG become aware of the existence of a new risk element related to a third party/counterparty, DAJG will, based on this new information, promote an update of the risk assessment.

4.9 In the event of a change in the risk *scoring* that results in a recommendation to terminate a counterparty relationship, the relevant OU will work with the DAJG to define an exit strategy.

4.10 The Internal Audit Department shall inform the DAJG of any relevant elements for the purposes of this standard that are obtained in the audits performed on the counterparties analysed by DAJG.

5. Matrix of Responsibilities

Task	Member of company agencies of Galp Group companies	Galp representatives in management agencies of Joint Ventures	Galp Representatives before other stakeholders	Employee	Department of Legal Affairs and Governance	Internal Audit Department	Risk Management Department
Learn and respect the rules	X	X	X	X	X		X
Ensure implementation of such rules by Galp's UOs and Group entities, in addition to ensuring their adaptation to local legislation	X						
Fostering of equivalent rules, processes and procedures in joint ventures that are not part of the Galp Group		X					
Fostering of equivalent procedures before stakeholders			X				
Request for integrity analysis of certain counterparty and sending of relevant information	X	X	X	X			
Analysis report of the counterparty					X		
Reassessment in the event the UO decides not to follow DAJG's recommendation							X
Becoming aware of and communication of new compliance risk factors	X	X	X	X	X		X
Issuance of high corruption and money laundering risk country list					X		
Definition of "Exit Strategy"	X	X	X	X	X		
Update of information on relevant compliance elements obtained through audits						X	
Clarification of doubts regarding contents of rules					X		

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6. Protection of Personal Data

The general principles captured in NT-R-019 | Personal Data Protection shall apply to the processing of any personal data that may be carried out pursuant to the fulfilment of the activities described in this Standard.

7. Periodicity and control of reviews

7.1. Galp ensures the adequacy of this standard with the compliance of international standards of organisation, corporate governance and internal control.

7.2. This standard is subject to regular verification of its adequacy, in a term not longer than two years.

8. Final and transitory provisions

8.1. This standard enters into force on the business day after its publication on Mygalp.

8.2. Any questions regarding the interpretation and application of this standard shall be submitted to the DAJG.

Appendix – Illustrative List of *red-flags*

Illustrative list of medium and high counterparty risk situations or indicators, associated with the nature of the transaction or entity:

- a. The third party does not have a *compliance* structure (disciplinary employment policies, code of conduct, among others);
- b. Someone in a leadership position in the third party's management structure was convicted for a crime related to *compliance* matters in the last 5 years;
- c. The third party has been target of legal/regulatory actions related to *compliance* matters in the last 5 years;
- d. The third party, the entity that it controls or the entity that controls such third party, is subject to restrictive measures or sanctions;
- e. The third party is under investigation or in litigation related to corruption or any other significant *compliance* risks;
- f. The third party appears to have no conditions to perform the work for which it was contracted;
- g. The third party was recommended to Galp Group entity by an entity or owner of a foreign public agency;
- h. The third party has a close connection (e.g., family/personal/professional affiliation) with the entity or owner of a foreign public agency;
- i. The third party is controlled or held in part or entirely by a public official;
- j. The third party makes frequent political contributions or in an abnormally high value;
- k. Large sales are directed to government agencies with high unit price or low frequency;
- l. The third party requires an abnormally high commission;
- m. The third party requires anonymity;
- n. The third party only uses post office box addresses;
- o. There is little transparency in expenses or accounting records of third party;
- p. The third party has carried out (in the last 12 months) a significant number of cash payments;
- q. The third party has carried out (within the last 12 months) recent payments to a bank located in a country unrelated to the transaction or to an undisclosed third party;
- r. Undisclosed subagents or subcontractors will assist in the development of the third party's work;

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- s. The third party uses agents that would not be necessary in the market conditions in which the transaction occurs;
- t. The effective beneficiaries of the third party are not identified.