

## **EXECUTIVE BOARD OF DIRECTORS REMUNERATION POLICY FOR THE THREE YEAR PERIOD 2009-2011**

- According to EDP – Energias de Portugal, S.A. (EDP) Articles of Association, the remuneration policy of the Executive Board of Directors is defined by the Remuneration Committee of the General and Supervisory Board and guided by the general purpose of accomplishing objectives established for the company by its shareholders, bearing in mind the restrictions imposed by the political, social and economical environment.
- Within the companies with the dimension and complexity in their management like EDP there is a natural dissociation between capital holders (shareholders) and the exercise of effective management (assured by professional managers, frequently without any participation in the share capital of the company). Therefore, the remuneration policy must have in mind not only the guarantee that EDP is able to attract and retain the most competent managers, but also encourage that the respective activity is aligned with the shareholders strategic interests.
- These strategic guidelines reflect and shape EDP's remuneration policy since 2001, within the scope of the one tier model existing at that time, where the salaries of the Executive Committee members have a fixed component and a variable component, in order to promote the alignment of management practice with EDP's shareholders strategic interests.
- In 2003, with the dissociation of the functions of the Chief Executive Officer and the Chairman, this remuneration model was reinforced, with the introduction of a multiannual variable component determined to stimulate the consistency of an executive management with a medium and long term perspective of the company's sustainability.
- Meanwhile, for the three year period 2006-2008, when the dual model was already in force, the referred remuneration model initiated in 2003 was maintained and was presented to the shareholders on the 2007 and 2009 Shareholders' General Meetings.
- In this context, Remuneration Committee of the General and Supervisory Board approved, on the 2009-2011 three year period, a remuneration system for the members of EDP's Executive Board of Directors, which was based in two piers: 1) assure, on a benchmark analysis, a competitive remuneration plan, and 2) accomplish an incentive system that guarantees management alignment with shareholders interests on an economical and financial sustainability perspective.
- Pursuant to the first objective, and taking into account EDP's dimension and importance regarding the national economy as well as the international expression of its current activity, it was considered, for comparison purposes,

published remunerations of chairmen of listed companies that integrate Eurostoxx Utilities and PSI-20, in order to standardize the exercise of the management model adopted (one tier or dual).

- As a result of the referred analysis, and for the reasons detailed below, it was considered adequate to maintain the value of € 600 000 already practiced on the former three year period for the Chairman of the Executive Board of Directors, as well as the maintenance, in 80% of the relation between the salary of the other members of the Executive Board of Directors and their Chairman. As per the data available, such value would put that remuneration component substantially below the average of the analyzed universe.
- On the other hand, the execution of the second purpose demands not only a variable component that integrates the global remuneration, but also that the same is attributed subject to the verification of a set of requirements.
- Considering the best international practices – as companies' policies or guidelines issued by international institutions such as European Commission or supervisory entities – the remuneration variable component must: 1) be relevant, meaning, have an expressive relevance in the remuneration; 2) result from a set of indicators that reflect the shareholders perspective over the company performance and 3) depend, on a significant part, from the multiannual performance.
- As mentioned before, these criteria were already observed on the 2006-2008 three year period, materialized on a remuneration structure where the variable part may duplicate the fixed part and where the variable multiannual component, which reflects the appraisal for all term of office, has the same relevance as the fixed component. Therefore:
  - Annual Variable Remuneration - the respective value might vary between 0 and 100% of the annual gross fixed remuneration, as the effective performance would be 90% below of the established on the business plan (in case no payment was conferred) or overcame it, in 10% (in case it would be conferred a 100% payment).
  - Multiannual Variable Remuneration – the respective value would be established between 0 and 100% of the term of office gross fixed remuneration, in result of the accumulated annual appraisal of the directors performance in the materialization of EDP' Group economical sustainability. The attribution of this multiannual remuneration, though annually calculated, would only become effective if, at the end of the term of office, at least 90% of the strategic established purposes were reached; the referred purposes would be evaluated in result of the performance and of the comparison of the reference strategic universes.
- Beyond the demand resulting from the referred quantitative limits, we should note that the targets proposed by the Executive Board of Directors are

approved by the General and Supervisory Board – corporate body that, although integrating independent members is also represented by EDP’ referenced shareholders.

- A compared analysis of EDP’s remuneration policy against the one practiced by the most significant referenced companies (main PSI-20 companies, iberian congeners and companies integrating Eurostoxx Utilities) and, above all, with the principal guidelines of the main supervision institutions, demonstrates the adequacy of the policy followed. As a result, when it was proposed to define the new guidelines for the 2009-2011 three year period, Remuneration Committee of the General and Supervisory Board has decided not to alter, significantly, the existing model but only to perform some adjustments resulting from modifications verified on the orientations of supervisory entities (*maxime*, CMVM) and from the evolution of the national and international economical context.
- As a reflection of the economical context evolution, namely of the foreseeable low inflation, Remuneration Committee of the General and Supervisory Board has decided to maintain frozen the fixed remuneration established for the former term of office. In result of this decision, at the term of the current term of office, the members of the Executive Board of Directors have not received any raise for a six year period.
- On the other hand, as the fixed part of the remuneration establishes the limits for the variable components, this same principle regarding the freezing of remuneration is applied to the maximum EDP’s executive directors may receive.
- In parallel, the economical international crisis has demonstrated the bankruptcy of remuneration policies based on short term performance. As mentioned before, that was not EDP’s case, as it was established since 2003 a multiannual variable remuneration component.
- Even though, and in order to comply with the orientations that point out to a reinforcement of the evaluation relevance of the multiannual performance, Remuneration Committee of the General and Supervisory Board has decided to redistribute the structure of the variable component of the remuneration, decreasing the relevance of the annual variable part and, as counterpart, increasing the multiannual.
- Taking this into account, the maximum value of the annual performance bonus will be decreased for 80% of the fixed component, and the multiannual bonus may reach 120% of the fixed remuneration earned during the term of office. The limits to obtain the maximum values, or to be deprived of the variable remuneration, must be maintained, attending to the exigency related to the company’s management.

- At last, the indicators used to appraise the Executive Board of Directors performance, namely the ones related to the comparison between EDP's and the Iberian and European peers stock behavior and to the valuation of the economical and financial performance of the company, are maintained with slight adjustments:
  - **Annual performance indicators:** value of the Total Shareholder Return of EDP's Group when compared with the one verified on Eurostoxx Utilities and on PSI-20, real capacity of shareholder value creation, Gross Profit, Net Profit and EBITDA increase.
  - **Multiannual performance indicators:** comparison universes are the same but the indicators used take into account, for this purpose, all term of office as reference. Critical indicators are relative performance of EDP's Group EBITDA, its capacity of value creation, total return for the shareholder as well as performance of the Sustainability Index applied to EDP's Group (with the methodology of Dow Jones Sustainability Index). Additionally, Remuneration Committee of the General and Supervisory Board will take in consideration, although without resource to quantitative indicators, the evolution of EDP's Group image regarding national and international markets, the change capacity and the ability to adapt to new market demands and, above all, the compliance with the strategic targets set for EDPs' Group.

**In compliance of the law and of EDP's Articles of Association, Remuneration Committee of the General and Supervisory Board submits to the approval of the Shareholders the declaration on remuneration policy of the members of the Executive Board of Directors, in accordance to the above stated terms.**

Lisbon and EDP, March 29<sup>th</sup> 2010

The Chairman of the Remuneration Committee of the General and Supervisory Board.

(Alberto João Coraceiro de Castro)