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## **ANNUAL GENERAL SHAREHOLDERS'S MEETING**

**EDP – ENERGIAS DE PORTUGAL, S.A.**

19<sup>th</sup> April 2016

### **PROPOSAL OF ITEM 7 OF THE AGENDA**

#### **Statement of the Remuneration Committee on the Remuneration Policy of the Corporate Bodies**

In accordance and for the effects of the contents of article 2, no. 1 of Law no. 28/2009, dated 19<sup>th</sup> June and of article 11, no. 2, paragraph d) of EDP – Energias de Portugal, S.A. (“EDP”) By-Laws, the Company’s General Annual Shareholders’ Meeting is responsible for the approval of the proposal on the Remuneration Policy of the Members of the Corporate Bodies that is submitted by the respective Remuneration Committee.

EDP – Energias de Portugal, S.A. By-Laws establish, on article 8, no. 1, that the Company’s Corporate Bodies are:

- a) The General Shareholders’ Meeting (GSM)
- b) The General and Supervisory Board (GSB)
- c) The Executive Board of Directors (EBD)
- d) The Statutory Auditor (SA)

On the other hand, the By-Laws of the Company also foresee the existence of other Corporate Bodies, with statutory dignity:



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- a) The Environment and Sustainability Board (ESB)
- b) The Remuneration Committee, elected by the General Shareholders' Meeting and, within the GSB, a Committee for the Monitoring of Financial Matters which according to the By-Laws, also assumes the designation of Audit Committee
- c) The Board of the General Shareholders' Meeting

The Remuneration Committee, elected by the General Shareholders' Meeting, is therefore, responsible for the determination of the remuneration of the members of the following corporate bodies: Board of the General Shareholders' Meeting; Chairman and members of the GSB; Statutory Auditor and Environment and Sustainability Board. The Financial Matters Committee or Audit Committee shall be dealt together with the other Committees of the GSB.

It is proposed that the General Meeting approves the following Statement of the Remuneration Committee on the Remuneration Policy of the Corporate Bodies, which describes the process followed by said Committee to define and implement the Remuneration Policy of EDP's Corporate Bodies, as well as the guiding principles adopted, in order to provide clear and complete information in this regard.

#### **I. Framework regarding EDP's Remuneration Policy**

EDP's remuneration Policy is framed by the guidelines defined by reference shareholders of the Company, which are issued in accordance with the applicable rules and recommendations and with the best practices in the sector.

The Corporate Bodies' Remuneration Policy is annually reviewed and a statement, which resumes its general guidelines, is, with the same periodicity, subject to approval by the General Shareholders under proposal of the Remuneration Committee. On the definition



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of said Remuneration Policy several proposals are formulated in order to assure that remunerations are adequate, reflect the risk profile and the long-term objectives of EDP and are in conformity with the legal rules, principles and pertinent national and international recommendations.

In what regards the evolution of remuneration of the members of EDP's Corporate Bodies, it should be noted that EDP's remunerations have not been reviewed since 2006, and, in some cases, remunerations have even been reduced.

Following the appointment of the members of the Remuneration Committee in-office by the Shareholders' General Meeting held on 21<sup>st</sup> April 2015, the Remuneration Committee initiated the works and procedures deemed appropriate to evaluate the remuneration policy regarding the corporate bodies whose remuneration shall be determined by said Commission.

Upon preliminary reflection on this matter, the Remuneration Committee decided that a benchmark study with comparable European companies which have a dual governance model, i.e., with a General Supervisory Board (GSB) and an Executive Board of Directors (EBD) should be carried out, in particular due to fact that EDP is the only company of PSI 20 which has adopted such corporate governance model and, therefore, it hired the consultant Mercer to perform such study.

In this context, Mercer held several meetings not only with the Remuneration Committee, but also with GSB's members. The Remuneration Committee promoted itself several interactions with GSB's members, shareholders and other professionals in order to assess the remuneration policy of EDP.



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Based on the work performed, the Remuneration Committee reached the following main conclusions in what regards the remuneration policy implemented in EDP's *peers* at an European level:

- i) The GSB Chairman's and Vice-Chairman's offices are not of exclusive exercise as several cases of accumulation of offices in corporate bodies of listed companies were identified.
- ii) In the comparable companies, the remunerations of the GSB Vice-Chairman are higher than the ones paid in EDP.
- iii) Likewise, the remuneration of the other members of the GSB in the identified companies is, in general, higher than the remuneration of EDP's GSB members.

As for EDP's specific situation, and comparing with the market, the following main conclusions can be drawn:

- i) The GSB Chairman performs his duties in an almost full-time basis and he is not a member of any corporate bodies of other PSI 20 companies. His remuneration is higher than the remunerations attributed to similar offices in comparable companies, but lower to the remunerations received in the cases of similar accumulation of offices.
- ii) In EDP, the functions of the GSB Vice-Chairman are not clearly identified and, according to opinions collected, require functional densification. In any case, the availability required is considerably lower in comparison with the Chairman's functions.





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- iii) It is important to further set the remuneration of the Chairman of the Financial Matters Committee/Audit Committee which is currently not fixed.
- iv) It was also acknowledged that the other Members of GSB are remunerated due to their participation in some committee but that they do not receive any additional amount for eventually participate in other committees. The Remuneration Committee considers that this situation shall be partially corrected, without, however, giving rise to excessive accumulations.

## II. Guiding Principles

The Remuneration Committee, considering the above mentioned, has based its decisions on the matter of remuneration policy on the following main guiding principles:

- i) Definition of a policy, which is simple, clear, transparent and aligned with EDP's culture, in order that the remuneration practice may be based on uniform, consistent, fair and balance criteria.
- ii) Definition of a policy, which is consistent with the management and control of risk, efficient to avoid excessive exposition to risk and to conflicts of interest, seeking coherence with the purposes and long-term values of the Company.
- iii) Assessment and stimulus of a careful performance, in which the merit shall be dully awarded, assuring homogeneity levels compatible with GSB necessary cohesion, considering also the economic and financial situation of the company and of the country, even if EDP operates in a global scale.
- iv) Alignment of the remunerations of the several corporate bodies members with the companies with higher stock market capitalization and congeners, naturally



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adapted to Portuguese market.

- v) The most recent recommendations issued by European Union and Portuguese Securities Commission.
- vi) Alignment of the remunerations with the specific responsibilities inherent to the office at stake.
- vii) Alignment of the remunerations with the time that is required to be spent in each office.

The remuneration policy of EDP's Corporate Bodies shall, in essence, be simple, transparent, moderated, adapted to the specific conditions of the work performed and to the company's economic situation, but also, competitive and equitable, in order to assure the purpose of value creation for the shareholders and remaining stakeholders.

### **III. Structure of remuneration policy**

Based on these criteria, and considering the challenges that the Company intends to pursue during the current civil year, the Commission defined the following remuneration policy guidance for the exercise that has begun on 1<sup>st</sup> January 2016 until the term of the respective mandates:

- i) It shall be maintained a differentiation between remunerations attributed to GSB members and the ones assigned to EBD members, and it shall not be attributed to the firsts a variable remuneration component or any other remuneration complement.



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- ii) It shall be taken into account the performance merit and the complexity of the functions performed by the members of each body, so that the cohesion, stability and development of the company is not endangered.
- iii) As to the GSB Chairman, it shall be particularly considered (a) the relevant duties exercised in a full-time basis (or, at least, for 80% of the available time); (b) that the Chairman is not member of any relevant corporate body in listed companies; (c) that the Chairman office's functions comprehend a strong component of institutional representation; and (d) that it also demands the selection of a public figure with a high-qualified curriculum and with public recognition and prestige;
- iv) In what regards the Deputy Chairman, it shall also be considered the duties and works performed by him in other committees, being expected, as mentioned, that, throughout the social exercise there will be a higher clarification of the respective functions.
- v) It is also important to distinguish the performance of other specific functions within GSB, namely the participation of GSB members in other committees, as well as the functions performed in those committees.
- vi) Finally, it should be considered that, historically, the remuneration of the Chairman of the General Shareholders' Meeting Board is similar to the remuneration attributed to a Committee Chairman. Therefore, the remuneration of the Chairman of the General Shareholders' Meeting Board shall be aligned accordingly.



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#### IV. Remuneration limits

Within this conformity, and considering the above mentioned, the Commission submits a remuneration proposal of the members of the corporate bodies mentioned below, for the exercise that begun on 1<sup>st</sup> January 2016 until the term of the respective mandates, as follows:

GSC	Annual Remuneration <sup>1</sup>
Chairman of GSC:	€ 515,000.00
Deputy Chairman of GSC:	€ 72,000.00
Regular Member of GSC:	€ 47,000.00

Financial Matters Committee/Audit Committee	Annual Remuneration <sup>1</sup>
To the base remuneration of the Member accrue the following amounts:	
(a) Chairman:	+ € 73,000.00 (total of € 120,000.00)
(b) Deputy Chairman:	+ € 43,000.00 (total of € 90,000.00)
(c) Regular Member:	+ € 23,000.00 (total of € 70,000.00)

Other Committees	Annual Remuneration <sup>1</sup>
Members of the GSB who also exercise functions in one or more committees:	
(a) For each committee in which participate as Chairman:	+ €23,000.00

<sup>1</sup> Gross amounts.





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(b) For each committee in which participate as Deputy Chairman:	+ €15,000.00
(c) For each committee in which participate as Regular Member:	+ €10,000.00

General Shareholders Meeting Board	Annual Remuneration <sup>1</sup>
(a) Chairman	€ 47,000.00, accrued with € 23,000.00 (total of € 70,000.00)
(b) Deputy Chairman	€ 3,000.00

Other Corporate Bodies	Remuneration <sup>1</sup>
(a) Statutory Auditor	The Committee resolved that the remuneration of the Statutory Auditor shall correspond to the values contained in the "Agreement for the Rendering of Statutory Audit Services" entered into between EDP and KPMG & Associados, Sociedade de Revisores Oficiais de Contas
(b) Environment and Sustainability Board	The members of this Board have the right to receive one attendance fee per meeting in the amount of € 1,750.00

In what regards the fixation of the above mentioned remunerations, the following additional rules shall apply:

- (a) The Chairman of the GSC and the Chairman of the Financial Matters Committee/Audit Committee are not entitled to any additional remuneration, even if they participate in other committees.



- (b) No other member of the GSB may accumulate, besides the base remuneration, a remuneration in more than two committees according to the above mentioned amounts, even if he participates in a higher number.

Lisbon, 15<sup>th</sup> March 2016

The Remuneration Committee

A handwritten signature in black ink, appearing to read 'Luís Cortes Martins'.

Luís Cortes Martins

Chairman

A handwritten signature in black ink, appearing to read 'José Gonçalo Maury'.

José Gonçalo Maury

Member

A handwritten signature in black ink, appearing to read 'Jaime Amaral Anahory'.

Jaime Amaral Anahory

Member