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STATEMENT ON THE REMUNERATION POLICY OF THE EXECUTIVE BOARD OF DIRECTORS OF EDP – ENERGIAS DE PORTUGAL FOR THE THREE YEAR PERIOD 2012-2014

- 1 According to the existing legal dispositions, the new General and Supervisory Board was elected by the EDP – Energias de Portugal, S.A. (EDP) General Shareholders' Meeting on 20th February 2012. At its first meeting, held on 21 of the same month, the General and Supervisory Board decided to appoint a Remuneration Committee (RC) responsible, according to EDP's Articles of Association, for the definition of the remuneration policy for the members of the Executive Board of Directors (EBD) of EDP. Since the three members of the previous RC had their mandates renewed, the decision was to maintain the composition of the previous RC. Considering the short time until the deadline for public disclosure of the guidelines of the new remuneration policy, this resolution had the advantage of empowering members having previous experience and that would continue a path in line with previous decisions of the majority of the shareholders of EDP.
- 2 This proposal maintains the same fundamental guidelines that have been used to determine the remuneration of EBD for the two previous mandates without ignoring the current changes of EDP's shareholder structure, the ongoing revision of EDP's business plan, as well as the lessons of the recent past. As for continuity, two aspects deserve to be highlighted: On the one hand, the maintenance of a variable component weighing twice the fixed one, and in which the multiannual performance indicators are weighted stronger than the annual ones; on the other hand, the intensification of the exercise of *benchmarking*, either with similar sized national companies of PSI20 or with foreign companies, namely Iberian and/or that are listed on *Eurostoxx Utilities*. The following sections will show in detail how these criteria have been applied.
- 3 In any case, it would be unwise to ignore the potential implications of the ongoing transformation of EDP's shareholder structure and, in particular, the consequences that it may have on the business plan revision. Still, the information gathered from the discussion already held points towards the conclusion that the impact on the major guidelines of EBD's remuneration policy will not be substantial. The model so far adopted is both solid (in its foundations and on the indicators chosen) and flexible (seemingly able to accommodate changes in the activities of the company, provided that they are not disruptive). The need to make some minor adjustments in some of the criteria adopted, both in terms of content and weight, may arise but they will not be substantial. At the same time, the preliminary discussions already held did not reveal any radical change in the positioning of the shareholders regarding the main principles of the remuneration policy.
- 4 The compensation policy of EDP's EBD has become oriented towards the generic purpose of ensuring the achievement of the objectives set for the company, taking into account the constraints imposed by political, economic and social environment.



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- 5 The management of companies with the scale, diversity and geographic scope of activity as the ones already reached by EDP assumes a complexity that, naturally, points towards the separation of the role of capital owners (shareholders) and the effective exercise of management (ensured by professional managers, often without any participation or with a diminished participation in the company's share capital). Therefore, the remuneration policy should ensure that EDP is able to attract and retain the most competent managers, but also encourage that their activity is aligned with the strategic interests of its shareholders and of its business partners as well as with its stakeholders.
- 6 Despite the criticism that, up to the moment, has been made to it, the model of remuneration of the executive members of the board with a variable component linked to the performance of the company, continues to be regarded as the one with the greatest potential to safeguard the strategic alignment of interests mentioned above. The remuneration committees, the supervisory bodies and the General Shareholders' Meeting have the responsibility to design and approve the model that best suits the specific circumstances of the company and of its economic activity.
- 7 Strictly speaking, with greater or lesser sophistication, these strategic orientations are incorporated in EDP's remuneration policy since the year 2001 when, within the scope of the one-tier governance model existing at the time, it was decided that the salaries of the members of the Executive Committee would have a fixed and a variable component. In 2003, with the separation of the functions of the Chief Executive Officer and the Chairman, this remuneration model was reinforced with the introduction of a multiannual variable component aiming to stimulate the consistency of the executive management with a medium and long term perspective of the company's sustainability. Meanwhile, for the three year period 2006-2008, when the two-tier governance model was already in force, the referred remuneration model initiated in 2003 was maintained and it was approved by the shareholders at the 2007 General Shareholders' Meeting and, following the legal changes that occurred, approved annually by the shareholders from 2010 on.
- 8 In this context, continuing an experience that deserved the approval of the EDP shareholders and that has been recognized as a reference in the Portuguese market by independent assessments, the Remuneration Committee of the General and Supervisory Board proposes, for the period 2012-2014, a remuneration system for the members of the Executive Board of Directors of EDP, that is based on two objectives: 1) Ensure, after a national and international benchmark analysis, a competitive remuneration plan, and 2) accomplish an incentive system that guarantees the alignment of management with shareholders interests on an economical and financial sustainability perspective.
- 9 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, the published fixed remunerations of chairmen of listed companies that integrate Eurostoxx Utilities and PSI-20, adapting the data to the governance model adopted (one tier or dual).



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- 10 As a result of this analysis, it is considered that the value of € 600 000 already practiced in the last two mandates, i.e. from 2006, remains appropriate for the fixed component of the remuneration of the Chairman of the Executive Board of Directors. As well as the maintenance of the relation between the fixed salary of the other members of the Executive Board and their Chairman in 80%. As per the data available, such value would put that remuneration component substantially below the average of the analyzed universe. Also as a result of this decision, if approved, at the end of this term, this component of the remuneration as well as the limit for the total compensation of the members of EBD will be the same, in nominal terms, for 9 consecutive years.
- 11 On the other hand, the execution of the second objective (the alignment of the interests of management with the strategic interests of the company) demands not only a variable component that integrates the global remuneration, but also that the same be attributed subject to the verification of a set of requirements that act as incentives for good management practices as measured by international standards, which are increasingly multidimensional.
- 12 Considering the best international practices – 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.
- 13 As mentioned before, in general, these criteria have already been followed since 2006, 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 the entire term of office, acquired after 2009 an increased weight. Therefore:
- 14 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).
- 15 Multiannual variable compensation – between 2006 and 2008, its amount was fixed between 0 and 100% of the gross fixed remuneration of the term of office, as the result of the accumulated annual appraisal of the directors' "*performance*" in the materialization of EDP's Group economical sustainability. The attribution of this remuneration, though annually calculated, would only become effective if, at the end of the term of office, at least 90% of the strategic objectives established were reached; the referred objectives would be evaluated as the result of the performance of the company and of its comparison of the reference strategic universes.
- 16 Regularly RC carries out a compared analysis of EDP's remuneration policy against the one practiced by the most significant referenced companies (main PSI-20 companies, Iberian piers and companies integrating Eurostoxx Utilities) and, above all, with the



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principal guidelines of the main supervision institutions. This analysis has been showing the general suitability of the policy followed. As a result, the RC of the General and Supervisory Board has decided not to alter, significantly, the existing model but only to introduce some adjustments resulting from modifications verified on the orientations of supervisory entities and from the evolution of the national and international economical context that will be detailed later.

17 Apart from the requirement stemming from the quantitative limits set out, above the average of the reference strategic universes, it should be kept in mind that the goals proposed by the EBD are subject to a prior opinion of the General and Supervisory Board and validated by the General Meeting, the supreme social body of the company, at the accounts approval.

18 As is evident today, 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 linked to the results achieved during the term of office, with equal weight to the annual component. Even though and in order to comply with the orientations that point out to the reinforcement of the relevance of the multiannual performance, the RC of the General and Supervisory Board has decided, in 2009, 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.

19 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. After the experience in last term of office the proposal of this RC to the General Meeting of Shareholders is to maintain this structure. In fact, despite the actual impact of media coverage that, nowadays, the attribution, by the end of the term of office, of a high remuneration to the members of EBD will have the truth is that if it is materialized, it will be the best proof that the company's performance has reached the ambitious and multipurpose objectives set. Additionally, the understanding of this RC is that the limits to obtain the maximum values (greater than or equal to 110%), or to be deprived of the variable remuneration (below 90%) must be maintained, since the exigency related to the company's management is highly demanding and well above average.

20 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 detailed as follows:

- a. **Annual performance indicators:** value of *Total Shareholder Return* of EDP's Group when compared with the verified in *Eurostoxx Utilities* and *PSI20*, actual capacity of shareholder value creation and growth of *Gross Profit*, *Net Profit* and *EBITDA*. To the weighted average of these indicators is assigned an overall weight of 90%, which is common to all the members of the EBD, in calculating the variable



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component of the remuneration. The remaining 10% are the result of an individualized assessment, made by the Chairman of the Executive Board of Directors, based on the individual contribution to the team. The Chairman of EBD is subject to an assessment by the Remuneration Committee.

- b. **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 EDP's Group. Identically to the annual performance indicators, 10% are attributed upon an individualized assessment, made by the Chairman of the EBD, which, in turn is subject to an assessment of the Remuneration Committee.

21 The development of EDP's activity has increasingly added an international dimension, which may affect the remuneration and compensation policies. Beyond the regime of remuneration associated with work performed abroad, consigned to the purview of the EBD, the RC, within the framework of its statutory powers, proposes that the fixed and variable remuneration, irrespective of the geography where members of EBD are to operate, be treated, for domestic purposes, under the existing tax regime in Portugal, so as to prevent unjustified discrepancies in net remuneration between members of EBD.

In accordance to the applicable law and EDP's Articles of Association, the 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 with the above stated terms.

Lisbon, March 15, 2012

Alberto João Coraceiro de Castro

Chairman of the Remuneration Committee of the General and Supervisory Board