



STATEMENT ON THE REMUNERATION POLICY OF THE EXECUTIVE BOARD OF  
DIRECTORS OF EDP – ENERGIAS DE PORTUGAL, S.A. TO BE PRESENTED AT THE  
GENERAL SHAREHOLDERS' MEETING ON 19 APRIL OF 2016

1. On the 21st of April of 2015, at the General Shareholders' Meeting of EDP – Energias de Portugal, S.A. (EDP), it was presented and approved, according to the law, the remuneration policy of the members of EDP Executive Board of Directors (EBD) for the term of office 2015-2017. In the document presented remained the basic principles that have presided over the definition of remuneration of the EBD in the last three mandates, in particular in terms of fixed remuneration, their relation with the variable component, the relative weight, within this, the part concerning the annual and multi-annual performance and, finally, the criteria used for determining the performance bonuses. Still, not ignoring that the election of the governing bodies for the period 2015-2017 at the general shareholders meeting could justify some changes, due to changes in the Remuneration Committee of the General and Supervisory Board (Committee or REMC) composition, responsible for setting the remuneration policy of the EBD members. In fact, the General and Supervisory Board (GSB) decided to change the REMC composition, which is now comprised of the following five members: Yang Ya (Chairman), Fernando Maria Masaveu Herrero, Ilídio da Costa Leite de Pinho, João Carvalho das Neves and Vasco Joaquim Rocha Vieira. Initiated its functions, the REMC hired an external consultant to do a comparative study of the remuneration policies with companies of similar size of the PSI20 and with foreign peers that integrate the Iberian *Eurostoxx Utilities*, to assess the adequacy of the remuneration policy of the EBD members in force. The conclusions of that study suggested that, in order to align the present policy with the practiced in the market, some adjustments are required to the level of the fixed remuneration and the performance indicators used for the calculation of the annual and multiannual variable remuneration. After several working meetings, and based on, among other factors, the conclusions of the aforementioned study, the REMC decided to propose to this General Shareholders Meeting, on the one hand, the ratification of REMC's resolution by the assignment of an extra bonus to the Chairman of EBD, in the amount of € 360 000, corresponding to € 120 000 for each year of the previous term of office (2012-2014) and, on the other hand, certain amendments, which seek to align the policy of remuneration of the EBD members of EDP



with market practice, which you see in the following paragraphs, not without first reiterate certain principles which remain unchanged.

- 1.1. On the side of continuity, protrude two facts: on the one hand, maintaining a variable component, which ceiling, could achieve double the fixed part value, and in that the evaluation factors of the multiannual performance are weighted more heavily (in the ratio 60/40) than for the annual performance; On the other hand, the persistence and strengthening the benchmarking exercise with either the PSI 20 companies or with foreign peers, particularly Iberian and incorporating the Eurostoxx Utilities, to ensure alignment with the best national and international practices.
- 1.2. The changes concern the fixed remuneration update and the update of the indicators used for performance evaluation and weight, aimed closer alignment with the interests of shareholders.
2. In summary, it is proposed to amend the remuneration policy for the EBD members for the 2016 and 2017 exercises as regards the fixed remuneration and annual variable, and for the period 2015-2017, as regards remuneration multiannual variable, on the following terms and conditions:
  - 2.1. Fixed remuneration of the EBD Chairman of € 800 000. Based on the analysis undertaken, although competitive, this value is below the average remuneration of the analyzed universe.
  - 2.2. Fixed remuneration of the EBD administrator responsible for finance matters (CFO) and the Chief Executive Officer (CEO) of EDP Renováveis Group (EDPR) at € 560 000 each.
  - 2.3. Fixed remuneration of the other EBD Members in € 480 000 each.
  - 2.4. Retirement Saving Plans (RSP) assigned to Directors during their term of office, amounting in net terms to 10% of their fixed annual remuneration. The terms of these standard RSP are according to the applicable Law in place to these financial products.
  - 2.5. Remuneration structure by which the variable component may be twice of the fixed component. The multiannual variable component, which reflects the evaluation for the whole term of office, will have a weighting of 60% compared with 40% of the weight assigned to the annual variable component.
  - 2.6. Minimum and maximum thresholds to define the existence of a performance bonus and the highest value that it may take. More specifically, if the actual performance



falls below 90% of the set targets submitted to the GSB, as a reference to the performance assessment, there will not be any payment. If, on the other hand, it exceeds 10% of its targets, it shall be assigned, always and only, the maximum value. These general criteria apply both to the annual variable component (limited to 80% of the fixed remuneration) as to the multiannual component (which may be of up to 120% of the fixed remuneration).

- 2.7. Criteria that determines the allocation of the multiannual variable remuneration regarding the performance throughout the entire term of office: although it is calculated annually, it only becomes effective if, at the end of the term, at least on average 90% of the goals have been achieved, according to the performance of the company, its comparison with strategic benchmarks of reference and the individual contribution of each member of the EDB for that objective.
- 2.8. Individual performance will weight 20% regarding the annual qualitative objectives and 35% for multiannual qualitative targets.
- 2.9. Payment of the multiannual bonus is deferred in time, for a period not less than three years, getting the appropriate payment conditional on the non-realization of intentional unlawful acts, known after the completion of the evaluation and that jeopardize the sustainability of the performance of the company, being paid after the clearance and REMC approval.
- 2.10. The indicators used to evaluate the performance of the EBD, will be as follows:

- a. **Annual performance indicators compared to the annual budget**

- a.1. Quantitative component and its weight:

Total shareholder return vs Eurostoxx utilities and PSI20	(25%)
Earnings per Share	(20%)
Net debt to EBITDA	(15%)
Operating cash flow excluded regulatory receivables	(13%)
Residual Income	(7%)

The 80% resulting from the weighted sum of these indicators reflect the performance that is common to all EBD members.

- a.2. Qualitative component

The remaining 20% result from an individualized evaluation by the REMC, based on the individual performance of each one of the EBD members.



a.3. The resulting value of the quantitative and qualitative component is also weighted, as previously mentioned, by a factor of 80% of the fixed annual remuneration.

**b. Multiannual performance indicators compared to the business plan**

b.1. Quantitative component and its weight

Total shareholder return vs Eurostoxx utilities and PSI20	(18.5%)
Earnings per Share	(18.5%)
Net debt to EBITDA	(15%)
Sustainability Performance Indicator	(8%)
Operating cash flow excluded of regulatory receivables	(5%)

The 65% resulting from the weighted sum of these indicators reflect a performance, which is common to all EBD members.

b.2. Qualitative component

The remaining 35% result from an individualized assessment by REMC, based on the individual performance of each one of the EBD members.

b.3. The resulting value of the quantitative and qualitative component is also weighted, as previously mentioned, by a factor of 120% of the fixed annual remuneration.

2.11. In accordance with the criteria set out above, in annual terms, the potential maximum amount (fixed and variable remuneration plus retirement saving plan), to be assigned to the members of EBD, may the set goals have been completely achieved, which implies the payment of the maximum values set for the annual and multi-annual variable remuneration, as described above, is as follows:

- a. EBD Chairman: € 2 583 908
- b. CFO and CEO of EDP Renováveis: € 3 617 471
- c. Other EBD members: € 7 705 379
- d. Total: € 13 906 758

2.12. EDP Directors shall not enter into any contracts, either with the company or with third parties, in view of the mitigating the inherent risk of the variability of their remuneration established by the company.



- 2.13. It is further clarified that within EDP there are no contracts in place, which foresees payments in the event of dismissal or termination by agreement of the directors' functions, nor in this regards any payments were made during the year of 2015.
- 2.14. The development of EDP's activity has increasingly added an international dimension, which may entail the remuneration and compensation policies. Beyond the remuneration regime associated to the work performed abroad, committed to the purview of the EBD, the RC, within the framework of its statutory competences, proposes that the fixed and variable remunerations, irrespective of the geography where members of EBD are to operate, be treated, for internal purposes, under the existing tax regime in Portugal, so as to prevent unjustified discrepancies in net remunerations between the members of EBD.

Pursuant to article 2, no. 1, of the Law 28/2009, 19<sup>th</sup> June and article 27<sup>o</sup>, no. 2 of EDP Bylaws, the Remuneration Committee of the General and Supervisory Board of EDP submits to approval of the shareholders the statement on the remuneration policy of members of the executive board of directors of EDP under the terms above.

Lisbon, 3<sup>rd</sup> of March 2016

A handwritten signature in black ink, appearing to read 'Yang Ya', is written above a horizontal line.

**Yang Ya**

**Chairman of the Corporate Governance and Sustainability Committee**