



REN - REDES ENERGÉTICAS NACIONAIS, S.G.P.S., S.A. - listed company

Registered Office: Avenida dos Estados Unidos da América, no. 55, Lisbon

Share capital: 534,000,000 Euros

Company and registration number with the Lisbon Commercial Registry Office: 503 264 032

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## RESOLUTION PROPOSAL

### ITEM 6 OF THE AGENDA FOR THE ANNUAL GENERAL SHAREHOLDERS MEETING OF APRIL 3<sup>rd</sup>, 2014

#### STATEMENT OF THE REMUNERATION COMMITTEE ON THE REMUNERATION POLICY FOR THE MEMBERS OF THE CORPORATE BODIES

1. Pursuant to paragraph 1 of article 2 of the Law no. 28/2009, of June 19, the management body or the remuneration committee, if any, of a company with securities admitted to trading on a regulated market shall submit annually to the approval of the General Shareholders Meeting a statement on the remuneration policy for the members of the management and supervisory bodies.
2. In turn, Recommendation II.3.3. of the Code of Corporate Governance approved by the Portuguese Securities Market Commission (hereinafter referred to as "CMVM") in 2013, recommends that the statement referred to in the preceding paragraph should also contain the additional information described therein, particularly in relation to (i) the criteria used to fix the remuneration to be granted to the members of the corporate bodies, (ii) the maximum potential amount, both in individual and aggregate terms, to be paid to the members of the corporate bodies as well as the identification of the circumstances under which such amounts may become due and (iii) any payments relating to dismissal or termination of the offices of directors;
3. Pursuant to article 26 of the Articles of Association of REN - Redes Energéticas Nacionais, SGPS, S.A. (hereinafter referred to as "REN"), the Remuneration Committee of REN is competent and responsible for determining the fixed and, if applicable, the variable remunerations of each Director, as well as for determining the remuneration to be ascribed to the members of the remaining corporate bodies.



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4. Under the applicable legal terms, as well as pursuant to the Articles of Association, the Remuneration Committee was appointed by the General Meeting on March 27<sup>th</sup>, 2012, being composed by three members who are independent in regard to the members of the managing and supervisory bodies of REN and with appropriate experience regarding remuneration issues.
5. By letter dated of 29<sup>th</sup> November, 2013, the three members of the Remuneration Committee resigned from said office, nevertheless fully remaining in office until their replacement, on the date of the Annual General Shareholders Meeting, thus maintaining their duty of submitting the present Statement.
6. Therefore, on the one hand, in the interest of transparency and legitimacy of the fixing of remuneration according to the *say-on-pay* principle, internationally recognized as a best practice in corporate governance and, on the other hand, for purposes of compliance with the legal and recommendatory provisions described above, the Remuneration Committee submits to the appraisal of the annual General Meeting, the following statement on the remuneration policy for the current term of office, corresponding to the three year period 2012-2014, which terms were subject to prior resolutions of this Committee.

## I. CONTEXT

- 1.1. The Remuneration Committee carried out an in-depth review of the remuneration conditions and policy applicable to the members of the corporate bodies of REN for the current term of office, corresponding to the three year period 2012-2014;
- 1.2. For such purpose, said Committee carried out several activities, namely the market analysis and the study of the legal requirements and recommendations regarding the remuneration policy, which were implemented jointly with specialized and independent advisors;



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- 1.3. In particular, the Commission considered and analyzed, as a comparison element, the remuneration policies and practices of the following *peers*: Brisa (Portugal), Red Eléctrica de España (Spain), National Grid (United Kingdom), Dong (Denmark) and EDP Renováveis (Spain);
- 1.4. Consequently, the Remuneration Committee elected on the General Shareholders Meeting of March 27<sup>th</sup>, 2012, approved a new remuneration policy for the members of the corporate bodies which came into force since June 1<sup>st</sup>, 2012.

## II. REMUNERATION OF THE EXECUTIVE DIRECTORS

### 1. Guiding principles

- 1.1. The remuneration policy regarding the executive directors follows the following guiding principles:
  - Be simple, clear, transparent and aligned with REN's corporate culture;
  - Be appropriate and adjusted to the size, nature, scope and specificity of REN's activity;
  - Ensure a total remuneration that is competitive and fairly aligned with the best practices and the latest trends at national and European level, in particular with REN's peers;
  - Incorporate a fixed component adjusted to the directors' functions and responsibilities;
  - Incorporate a reasonable overall variable component in relation to the fixed remuneration, with a short-term and medium-term component, both with maximum limits;
  - Define a variable remuneration indexed to the evaluation of the individual and organizational performance, according to the achievement of specific objectives, measurable and aligned with the Company's and shareholders' interests; and



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- Define a variable medium term remuneration component indexed to the development in REN's share price, ensuring the linkage of the executive directors' remuneration to the results' sustainability and to the value creation to the shareholders.
- 1.2. Bearing this principles in mind, the remuneration of the members of the Executive Committee is mainly determined on the basis of four general criteria: (i) competitiveness, taking into account the practices of the Portuguese market; (ii) fairness, whereas the remuneration must be based on uniform, consistent, fair and balanced criteria; (iii) performance evaluation, in accordance with the functions and level of responsibility of each person and with the assumption of appropriate levels of risk and compliance with the rules governing the activities of REN; and (iv) the alignment of director's interests with the Company's interests and its sustainability and wealth creation in the long term.
  - 1.3. Executive directors' remuneration has a fixed component and a variable component. The latter is comprised by a short-term performance portion and a medium-term performance portion.

## 2. Fixed component

- 2.1. The fixed component of the remuneration is exclusively composed by the basic remuneration, as there is no other remuneration.
- 2.2. This component is monthly paid, in cash.
- 2.3. The fixed remuneration of executive directors corresponds to an annual gross amount of 385.000,00 Euros (three hundred and eighty-five thousand euros), regarding the Chief Executive Director, and of 305.000,00 Euros (three hundred and five thousand euros), regarding the remaining executive directors. There is not any fixed remuneration to be added to said amount, without prejudice to complementary advantages concerning the use of a company vehicle, related expenses and insurances (considering the costs for 2013, it is estimated that in



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2014 said advantages amount to 20.000 Euros (twenty thousand euros) per director).

- 2.4. If an executive director obtains remuneration for the performance of any other professional activity, the fixed remuneration shall be reduced in the same amount, so that the total fixed remuneration corresponds to the amount defined by the Remuneration Committee.

### **3. Variable Component**

3.1. The variable component integrates a short-term and a medium-term portion.

3.2. Common requirements to both portions:

- a) The allocation of the variable remuneration occurs after the approval of the accounts of each financial year and the evaluation of the performance concerning the year to which the payment relates, and only occurs if there is compliance with the pre-defined objectives, measured using indicators of individual performance and company metrics linked to the strategic plan of REN.
- b) The degree of achievement of defined objectives is measured by means of the annual performance evaluation, based on a pre-defined matrix. Accordingly, below the minimum level of performance (*i.e.* with a level of compliance with objectives below 80%), there is no payment of variable remuneration, but if the level of compliance with objectives is between 80% and 120% or higher, the total variable remuneration allocated will correspond, gradually, to a percentage between 20% and 120% of the fixed remuneration.
- c) The annual performance evaluation is based on the Key Performance Indicators (KPI) of REN on a consolidated basis (weight of 80%) and on an individual performance evaluation (weight of 20%), which, should it be negative, leads to the variable remuneration not being granted.



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- d) The following Key Performance Indicators will be considered for this purpose: *Average Cost of Debt, Return on Invested Capital, EBITDA abroad, Earnings per share (compound annual growth rate - CARG), and EBITDA CARG.*
- e) Taking into account the goals of the remuneration policy herein described, the executive directors cannot enter into contracts that mitigate the risk inherent to the variability of their remuneration.
- f) Considering the criteria and requirements applicable to the variability of the remuneration and the value of the fixed remuneration, as referred on 2.3., the maximum potential amount (annual gross value) of the variable remuneration may correspond to 462.000,00 Euros (four hundred and sixty-two thousand euros), regarding the Chief Executive Officer, and 366.000,00 Euros (three hundred and sixty-six thousand euros), regarding the remaining executive directors, without prejudice to the evolution of the value of the allocated remuneration units (RU), as described *infra*. Said amount corresponds to a maximum potential amount, defined according to maximum performance goals which essentially envisage to motivate the management team, and which depend on the degree of completion of said goals for a three-year term of office and on the annual performance evaluation, and are also subject to immeasurable aspects inherent to the sector's and the country's context, as well as to the business and commercial specificities.

### 3.3. Short Term Variable Remuneration

- a) The Short Term Variable Remuneration (STVR) is paid in cash and relates to the annual performance evaluation, and its amount varies according to the degree of performance of the objectives set forth in the abovementioned *Key Performance Indicators*.
- b) Therefore, if the annual performance evaluation is below 80% (minimum level of performance), the payment of the STVR will not occur. But, if the annual performance evaluation is between 80% and 120% or higher, the STVR will correspond to between 10% and 60% of the fixed remuneration.



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- c) The allocation of the STVR shall correspond to an amount up to 50% of the global variable remuneration granted in relation to each relevant financial year.

#### 3.4. Medium Term Variable Remuneration

- a) The Medium Term Variable Remuneration (MTVR) has the purpose to strengthen the alignment of interests of REN's executive directors with those of REN and its shareholders. Its amount depends on the annual performance evaluation (i.e. on the requirements already mentioned in 3.2. above) and varies according to the same matrix as STVR. Moreover, the STVR to be allocated shall correspond to between 10% and 60% of the fixed remuneration.
- b) The RVMP is fixed in Remuneration Units (RU), concerning each financial year of the term of office in which an executive director has performed his/her duties.
- c) The RU will have a value corresponding to the listing price of REN's shares on the date of the fixation of the MTVR and said value shall have a development equal to the Total Shareholder Return (TSR) of REN's share.
- d) The right of each executive director to the conversion of the RU is established progressively, and it consolidates regarding 1/3 of the total amount in the end of the respective financial year, and each remaining 1/3 will consolidate in the end of each of the following two financial years, provided that the director performs executive duties in the respective financial year (unless the termination occurs due to an acquisition of shareholder control of REN).
- e) The RU will automatically be converted into cash or, if the General Shareholders Meeting of REN resolves correspondingly, in part or in whole into shares representative of REN's share capital, after a period of 3 years from the date of its allocation.



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### 3.5. Termination of office

In the event of termination of office of an executive director by resignation or by dismissal without fair grounds (“*justa causa*”), no compensation will be paid, other than the legally due, if the dismissal or resignation is due to inappropriate performance by the director.

## III. REMUNERATION OF NON-EXECUTIVE DIRECTORS

The members of the Audit Committee, the non-executive directors and the Vice-Chairman of the Board of Directors will obtain the fixed remuneration mentioned below, paid monthly and defined in line with the best practices of large firms in the Portuguese market, being applicable the established in 3.5. above:

- An annual gross amount of 80.000,00 Euros (eighty thousand euros) to the Vice-Chairman of the Board of Directors;
- An annual gross amount of 75.000,00 Euros (seventy-five thousand euros) to the Chairman of the Audit Committee;
- An annual gross amount of 60.000,00 Euros (sixty thousand euros) to the remaining members of the Audit Committee;
- An annual gross amount of 36.000,00 Euros (thirty-six thousand euros) to the remaining non-executive directors.

## IV. REMUNERATION OF THE BOARD OF DIRECTORS INTENDED TO PROMOTE THE ALIGNMENT OF INTERESTS WITH REN, SUSTAINABILITY AND CREATION OF WEALTH IN THE LONG TERM

As mentioned above in detail, the remuneration policy of the members of the Board of Directors shall allow the pursuit of the following objectives:





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- A global remuneration that is competitive and fair and is aligned with the best practices and recent trends on both national and European levels;
- The motivation of the management team for the pursuit of the established objectives and the attraction and retention of qualified staff;
- The balance between a fixed remuneration component that is in line with the directors' functions and responsibilities and a variable remuneration component that is globally appropriate in relation to the fixed remuneration;
- A variable remuneration that is indexed to the performance evaluation, both individual and organizational, in accordance with specific and measurable objectives that are in line with the Company's and the shareholders' interests.

Considering the principles of the remuneration policy herein listed, as well as the abovementioned sections concerning each of its components, the maximum potential amount (gross annual value) of the global aggregate remuneration of the members of the Executive Board and the Audit Committee may correspond to 2.752.000,00 Euros (two million seven hundred and fifty-two thousand euros), plus the complementary advantages referred to in 2.3. above and without prejudice to the evolution of the granted RU. Said amount (i) corresponds, as stated above, to a maximum potential amount, which includes all members of the Board of Directors (three executive members and twelve non-executive members) and the members of the Audit Committee (three of the non-executive members) and all components of the remuneration, including the variable remuneration of the executive directors, and (ii) will only be fully paid if the corresponding maximum performance goals are reached, according to the terms better described above.

Indeed, and regarding the variable remuneration, the latter not be granted if the compliance with the pre-determined goals is below 80%, and it holds a gradual character, i.e., the global variable remuneration shall correspond to between 20% and 120% of the fixed remuneration, in the event that the completion of the maximum performance goals is between 80% and 120% or



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higher. The completion of said maximum performance goals intended to motivate the management team and to align the management interests is, thus, contingent upon an evaluation process, on the company's evolution and on the involving context.

#### **V. REMUNERATION OF THE MEMBERS OF THE GENERAL SHAREHOLDERS MEETING BOARD**

The remuneration of the members of the General Shareholders Meeting Board corresponds to a fixed annual amount, pursuant to the following terms:

- To the Chairman, an amount of 5.000,00 Euros (five thousand euros);
- To the Vice-Chairman, an amount of 3.000,00 Euros (three thousand euros);
- To the Secretary, an amount of 2.000,00 Euros (two thousand euros).

Lisbon, 6<sup>th</sup> March, 2014

THE REMUNERATION COMMITTEE

Carlos Rodrigues

Pedro de Sommer Carvalho

Rui Horta e Costa