



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: 667,191,262 Euros

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

*Non-binding translation  
For information purposes only*

## PROPOSAL OF RESOLUTION

### ITEM 6 OF THE AGENDA FOR THE ANNUAL GENERAL SHAREHOLDERS MEETING OF MAY 3<sup>RD</sup>, 2018

#### 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<sup>th</sup>, 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 be 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 April 17<sup>th</sup>, 2015, being composed by three members who are independent towards the members of the managing and supervisory bodies of REN and with appropriate experience regarding remuneration issues.
5. 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 of the corporate bodies, as follows.

## I. CONTEXT

- 1.1. During 2016, the Remuneration Committee adopted, directly and through the specialized and independent advisors, several proceedings, notably market analysis and study of the legal framework and recommendations applicable to the remuneration policy, directly and through specialised and independent advisors;
- 1.2. The remuneration policy and conditions adopted in 2017 which, regardless some systematic improvements and some updates, remains similar to the previous policy (applicable since 2012), retaining its structure and principles, , was deeply analysed and it was concluded that such policy complies with the legal and regulatory requirements, it is in accordance with the best market practices and it is suitable to the structure and financial conditions of the company, and thus said policy will be applicable during 2018 financial year;
- 1.3. For such purpose, the Remuneration Committee submits to the General Meeting the approval of the following statement about the remuneration policy of the corporate bodies and which will enter into force after such approval.



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## II. POLICY AND CONDITIONS APPLICABLE DURING THE FINANCIAL YEAR OF 2016

### A. 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
- 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



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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 benefits concerning the use of a company vehicle, related expenses and insurances (with an annual cost of approximately 20,000 Euros (twenty thousand euros) per Director).

## **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. The performance evaluation of the executive



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directors is carried out by the Remuneration Committee and is based on the main shareholders' opinion, as well as the non-executive directors' opinion, considering a report prepared by the Nominations and Appraisals Committee. The Audit Committee validates before the end of February of each year the benchmarks to the said performance evaluation;

- b) The degree of achievement of defined objectives is measured by means of the annual performance evaluation, based on a pre-defined matrix. Accordingly, if the compliance of objectives is below 80% (minimum level of performance) 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; between 100% and 119% of the achieved objectives, the percentage of fixed remuneration to be awarded as a global variable component is totally proportional to the level of compliance (instead of being indexed to level steps) .
- 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. The latter is only taken into consideration when it is negative. In this case it will not be awarded any variable component of remuneration.
- d) The following Key Performance Indicators will be considered for this purpose: (i) *Average Cost of Debt*, (ii) *Return on Invested Capital*, (iii) *EBITDA abroad*, (iv) *Earnings per share* and (v) *EBITDA*.
- 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



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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.
- 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,



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the STVR to be allocated shall correspond to between 10% and 60% of the fixed remuneration.

- b) The MTVR 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. This value is fixed attending to the average of the closing price of REN's shares at Euronext Lisbon market during the past 30 days prior to the General Meeting that approves the accounts of the relevant financial year and said value shall have a development equal to the Total Shareholder Return (TSR) of REN's share.
- d) If REN's shares cease to be admitted to trading on a regulated market, several circumstances of output prices are provided (as applicable).
- e) 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. The right of each executive director to the conversion of the RU will persist even if the termination of functions occurs due to the change of shareholder control of REN, by virtue of the director having been effectively in office during the period at stake (and thus said conversion not having a compensatory nature), as well as the non-voluntary nature of the termination of functions (contrary to what occurs, notably, due to resignation).
- f) The RU will automatically be converted into cash or, if the General Shareholders Meeting of REN resolves correspondingly (and pursuant to the terms and conditions laid down by the same), 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 (one third per year, beginning on the year after the 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. The consequences of the event of termination before its term are established depending on the reasons of the said termination.

## B. REMUNERATION OF NON-EXECUTIVE DIRECTORS

The non-executive directors (including the members of the Audit Committee) 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:

- (i) An annual gross amount of 80,000.00 Euros (eighty thousand euros) to the Vice-Chairman of the Board of Directors;
- (ii) An annual gross amount of 75,000.00 Euros (seventy-five thousand euros) to the Chairman of the Audit Committee;
- (iii) An annual gross amount of 60,000.00 Euros (sixty thousand euros) to the remaining members of the Audit Committee;
- (iv) An annual gross amount of 36,000.00 Euros (thirty-six thousand euros) to the remaining non-executive directors.
- (v) The members of the Corporate Governance Committee and the Nomination and Appraisals Committee earn the following additional remuneration (except the Chairman of the Board of Directors and/or the Chairman of the Executive Committee, who will not earn any additional remuneration for the exercise of their office):
  - (i) Chairman: € 5,000.00 (five thousand euros); and
  - (ii) Other members: € 3,000.00 (three thousand euros).





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### **C. 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:

- 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; and
- 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 listed herein, 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 relating to year 2017 may correspond to 2,666,000.00 Euros (two million six hundred and sixty six 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 eleven 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



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only be fully attributable if the corresponding maximum performance goals are reached, according to the terms better described above.

Indeed, and regarding the variable remuneration, the latter will 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 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.

#### **D. REMUNERATION OF THE STATUTORY AUDITOR**

The remuneration of the Statutory Auditor is defined considering the remuneration criteria and practice for this kind of services according with the standard market conditions, and it is not related with REN's performance.

#### **E. 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, which from 2016 was established in the following amounts:

- To the Chairman, an amount of 15,000.00 Euros (fifteen thousand euros);
- To the Vice-Chairman, an amount of 5,000.00 Euros (five thousand euros);
- To the Secretary, an amount of 3,000.00 Euros (three thousand euros).



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### III. REMUNERATION POLICY OF THE MEMBERS OF THE CORPORATE BODIES FOR FINANCIAL YEAR 2018 OF THE CURRENT TERM OF OFFICE

For the financial year of 2017 of the current term of office, the Remuneration Committee will apply the same policy, as described above, preserving its structure and principles.

Finally, the maximum potential amount (gross annual value) of the global aggregate remuneration of the members of the Board of Directors and the Audit Committee relating to year 2018 may correspond to a maximum of 2,666,000.00 Euros (two million six hundred and sixty six thousand euros), plus the complementary benefits referred to in 2.3. above and without prejudice to the evolution of the granted RU. Said amount (i) assumes, as stated above, a maximum potential amount, which includes all the current members of the Board of Directors (three executive members and nine non-executive members) and the members of the Audit Committee (three of the non-executive members) as well as the members of the Audit Committee, and all components of the remuneration, including the variable remuneration of the executive directors, and (ii) it will only be fully attributable if the corresponding maximum performance goals are reached, according to the terms better described above. This value should be adapted in the proportion and to the extent that there is a change in the number of members of the relevant corporate body.

Lisbon, March 20, 2018

The Remuneration Committee

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