

## **Statement of the Remuneration Committee regarding the remuneration policy of the members of the corporate bodies of the Company for 2017**

### **I. Introduction**

The Remuneration Committee of Galp Energia, SGPS, S.A., hereinafter referred to as "Galp" or "Company", under the powers to it conferred to determine the corporate bodies' remunerations, and within the mandate given to it by the General Shareholders Meeting, pursuant to article 8 of the Company's Articles of Association, hereby submits to the Galp's General Shareholders Meeting approval to be held on May 12, 2017, the following statement on the Remuneration Policy of the corporate bodies, in accordance to article 2 of the Law no. 28/2009 of June 19, and in accordance with the CMVM Regulation no. 4/2013 and the Corporate Governance Code CMVM Recommendations approved in 2013.

The proposed statement describes the process followed to define and implement the Remuneration Policy of Galp's corporate bodies for 2017, as well as the goals and underlying principles thereof, taking into consideration the recommendations from CMVM and the best practices of corporate governance, with a view to ensure clarity and effectiveness in the communication both to the market and to shareholders.

The corporate bodies' Remuneration Policy is annually updated and approved at the General Shareholders Meeting upon a Remuneration Committee's proposal.

Therefore, this document presents the corporate bodies' Remuneration Policy for 2017, which reflects the underlying principles defined in the Remuneration Policy for 2016, approved at the General Shareholders Meeting held on May 5, 2016.

Information regarding the implementation of the 2016 Remuneration Policy and the 2016 individual remuneration of the Board of Directors' members, as well as that of the Supervisory Board, is detailed on the 2016 Galp's report (cf. Chapter 6, point D – Remunerations).

## **II. Underlying Principles**

The corporate bodies' Remuneration Policy aims at reinforcing values, skills, abilities and behaviors, in view of the Company's long term interest, culture and strategy, and is, particularly, guided by the following underlying principles:

- (i)* Attract, motivate and retain the best professionals for the roles to be performed at the Company and ensure the stability on the same roles of the members of the governing bodies elected;
- (ii)* Appropriately reward, in line with market conditions, the work, know-how and results obtained, in a way that is consistent with the skills and responsibilities inherent to the roles of the corporate bodies' members;
- (iii)* Reward the efficiency and productivity increase and the long term value created for the shareholders, by defining and implementing an incentive-based system related to the attainment of pre-defined, measurable economic, financial and operational goals, with a view to foster sustained results growth and discourage excessive risk taking.

Taking into account the aforementioned purposes, the Remuneration Committee defined and approved the 2017 policy to set the Company's corporate bodies' remunerations.

## **III. 2017 Remuneration Policy**

### **1. Board of Directors**

#### 1.1 Non-executive Directors

The remuneration of non-executive members of the Board of Directors will amount to a fixed monthly remuneration paid 12 times a year, at an amount determined by the Remuneration Committee in line with market practices.

Equally in line with these market practices, the non-executive directors' remuneration may be different for the Chairman, due to the distinct roles of Company's representation attributed to him, and for non-executive members of the Board of Directors which undertake distinct supervisory and monitoring duties

within the Company, as a result of a special charge given by the Board of Directors or under the framework of existing Committees, or that may be created by the Board of Directors.

The remuneration of non-executive members does not include any component dependent on the performance of the Company or its value.

## 1.2 Executive Management

The remuneration of Galp's Executive Directors comprises two components: one fixed and one variable.

### 1.2.1 Fixed remuneration

The fixed component will correspond to a fixed monthly remuneration, paid 14 times a year, to be determined by the Remuneration Committee after considering the duties and responsibilities assigned and practices observed in the market for equivalent position in large Portuguese and international companies.

### 1.2.2 Variable remuneration

The variable remuneration component, in the form of one-off payments, is determined by the Remuneration Committee and is dependent upon the achievement of certain economic, financial and operational goals with a view of creating a competitive remuneration framework and to implement a system of rewards which ensure the alignment of the interest of the executive management with the interests of the Company and their respective stakeholders, from an economic and financial sustainability perspective.

In order to best stimulate the alignment of the executive directors' practices with the Company's long term sustainable interests, a multi-annual objectives policy was introduced in 2012, and entered into force in 2013, postponing during a period of three years a significant part of the variable remuneration, which stays associated to the performance of the Company during this period.

On an annual basis, objectives are defined for the subsequent three-year period, with the three-year assessment being made at the end of each three-year

period. The first three-year period for which multi-annual objectives were determined was 2013-2015.

This policy allows Galp to approach the good practices of the market as well as the CMVM recommendations with regard to corporate governance of listed entities.

The variable remuneration of executive directors includes two components:

- Annual variable remuneration, representing 50% of the total variable remuneration;
- Tri-annual remuneration, representing 50% of the total variable remuneration.

The amount of annual variable remuneration for each year is determined by the Remuneration Committee in accordance with the extent to which the Company's specific goals, with the maximum potential limit of 60% established by this Committee with reference to the total fixed annual remuneration. This is in line with generally recognized practice in the Portuguese market which represents a reasonable proportion between the variable and fixed remuneration components.

The indicators set by the Remuneration Committee for 2017 to determine the annual variable remuneration are as follows:

- (i)* Galp Added Value (GVA) of Galp, with a weight of 33.3%;
- (ii)* Total Shareholder Return (TSR), with a weight of 33.3%, which allows the evolution of Galp's share performance to be compared (including the payment of dividends) against a peer group consisting of the following: Total, Repsol, OMV, MOL and ENI, together with the PSI 20 Index;
- (iii)* Galp replacement cost EBITDA, with a weight of 33.3%.

Galp's EBITDA, at Replacement Cost, to be considered for the purpose of determine the annual variable remuneration may reflect reasonable adjustments regarding exogenous factors, previously defined by the Remuneration Committee, that are adequate to encourage management objectives.

As regards the tri-annual variable remuneration, in line with the best market practices, the following indicators have been defined:



- Galp's Total Shareholder Return (TSR) vs peer group, with a weight of 50%;
- Galp replacement cost EBITDA, with a weight of 50%.

Although this component is calculated annually by the Remuneration Committee, the respective amount is only pay if, by the end of the three years, the targets were met. Given the nature of the functions of the executive directors, the payment of the multi-annual variable remuneration component will occur at the end of the period 2017-2019, after the clearance of the accounts for the last financial year.

The above mentioned indicators contribute in 65% to the definition of the annual and three-year variable remuneration applicable, corresponding the remaining 35% of each of the components of the variable remuneration alluded to the result of qualitative assessment by the Remuneration Committee of the activity performed by the executive directors yearly or during the relevant three-year period, as appropriate.

In order to ensure consistency between the results obtained and the total variable remuneration paid, this depends on the results achieved by Galp. Thus, if the Company has net earnings lower than 80% of the budget, there will be no scope for paying the variable remuneration.

The indicators' nature and their respective relative-weight on the determination of the actual variable remuneration ensure the alignment of the interest of the executive management with the Company's interest.

On the other hand, the remuneration of the executive management is based on the Company's actual performance and on discouraging excessive risk taking.

### 1.2.3 Other benefits

Pursuant to article 402 of the Companies Code and article 18, no. 3 of the Company's by-laws, the board of directors' executive management is entitled to the creation by the Company of retirement benefits or other financial product of a similar nature to the benefit thereof, which terms and conditions it is hereby authorized to be defined the Remuneration Committee.

The value of the aforementioned plan will be calculated annually by the Remuneration Committee, and shall be subject to the necessary adjustments so that in the year which sees the beginning or ending of director's functions, this value is calculated on a pro-rata basis for the period in which these functions were performed.

For executive directors whose permanent residence is outside the area where the Company is based, the Remuneration Committee shall set a housing allowance.

#### 1.2.4 Other conditions

The remuneration of Galp's board members includes all the remuneration due for the performance of office in management bodies in other group companies.

Considering the evolution in the international market for recruiting senior executives with experience and committed to be available in the medium/long term, as well as the need of the Company to ensure competitive conditions both for recruiting and retention of such officers, this policy allows, in exceptional and duly motivated circumstances, in particular in the case of critical managerial functions, for specific compensation or incentive mechanisms, which may not contemplate a period of office higher than two consecutive terms.

Without prejudice to the foregoing, this policy does not encompass the allocation of any indemnity or compensation to board members as a result of their dismissal or termination of their contracts, namely when such can be linked to insufficient performance, and affords no entitlement to damages or compensation beyond those provided for by the legal framework. The resolutions of the Remuneration Committee correspond to the appropriate and required legal instrument to determine the absence of such entitlement.

The members of the Board of Directors shall not enter into contracts with the Company or with third parties that have the effect of mitigating the risk inherent in the variability of the remuneration set by the Company.

Currently, Galp does not have a system for allocating variable remuneration via shares or stock options.

## **2. Supervisory Board and Statutory Auditor**

The remuneration for the members of the Supervisory Board and the Statutory Auditor of the Company is based on the national and international market practice and is aligned with the interests of the Company and its stakeholders.

The remuneration of the members of the Supervisory Board amounts to a fixed monthly remuneration, paid 12 times a year, being the remuneration of its Chairman different from that the remaining Supervisory Board members, considering the specific functions performed by such member.

The remuneration of the Supervisory Board members does not include any component dependent on the Company's performance or value.

The Statutory Auditors' remuneration rewards the review and legal certification of the Company's accounts and is in line with market conditions.

## **3. Board of General Shareholders Meeting**

The remuneration of the Board of the General Shareholders Meeting corresponds to a fixed annual amount defined by the Remuneration Committee and is different for the Chairman, Vice-chairman and the Board Secretary, being linked to the Company's performance and practices observed in the market.

Lisbon, April 10, 2017

The Remuneration Committee