



**ANNUAL GENERAL MEETING OF GALP ENERGIA, SGPS, S.A.**

**APRIL 12, 2019**

**PROPOSAL REGARDING POINT 6**

**Resolve on the statement of the Remunerations Committee on the remuneration policy of the Company's management and supervisory bodies and members of the Board of the General Shareholders Meeting**

**Statement of the Remuneration Committee regarding the remuneration policy of the members of the corporate bodies of the Company for 2019**

**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 approval by Galp's General Shareholders Meeting to be held on April 12, 2019, 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 of the Portuguese Institute of Corporate Governance hereinafter referred to as the IPCG Governance Code.

The proposed statement describes the process followed to define and implement the Remuneration Policy of Galp's corporate bodies for 2019, as well as the goals and underlying principles thereof, taking into consideration the recommendations from the IPCG Governance Code 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 2019, which follows the underlying principles defined in the Remuneration Policy for 2018, approved at the General Shareholders Meeting held on May 15, 2018.

Information regarding the implementation of the 2018 Remuneration Policy and the 2018 individual remuneration of the Board of Directors' members, as well as that of the Audit Board, is detailed on the 2018 integrated management report (cf. Chapter 7, Part I, 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;
- (iv)* Reward safety, environmental sustainability and energy efficiency in activities material to the Company, through incentives related with the execution of objectives and targets, including within the context of the appropriate management of the respective carbon intensity.

Taking into account the aforementioned purposes, the Remuneration Committee defined and approved the 2019 policy to set the Company's corporate bodies' remunerations.

### **III. 2019 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, as well as 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 Committees, existing 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 a long-term 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 3 years a significant part of the variable remuneration, which is linked to the performance of the Company during this period.

On an annual basis, objectives are defined for the subsequent three-year period, with the final 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 IPCG Governance Code recommendations with regard to corporate governance of listed entities.

The variable remuneration of executive directors includes two components:

- Annual variable remuneration, which maximum potential cap represents 50% of the maximum potential cap of the total variable remuneration;
- Tri-annual remuneration, which maximum potential cap represents 50% of the maximum potential cap of the total variable remuneration.

The amount of annual variable remuneration for each year is determined by the Remuneration Committee in accordance with the achievement of specific goals previously defined, with the maximum potential cap of 60% of the total annual fixed remuneration for each variable remuneration component. This is in line with generally recognized practice in the Portuguese market and internationally and is considered to represent a reasonable proportion between the variable and fixed remuneration components.



As from 2019, the indicators defined by the Remuneration Committee to determine the annual variable remuneration, in addition to the economic dimension, which will be evaluated by reference to the generation of cash flow by business, will incorporate the achievement of objectives and targets related to safety and environmental sustainability of activities material to the company, in the context of the proper management of their respective carbon intensity, namely through the Accident Frequency and the Carbon Intensity Indexes.

Thus, the indicators set by the Remuneration Committee for determining the annual variable remuneration for the year 2019 are as follows:

- (i) Cash Flow From Operation (CFFO), with a weight of 75%;
- (ii) Energy Production Growth with a weight of 10%.
- (iii) Total Recordable Injury Rate (TRIR), with a weight of 10%;
- (iv) Carbon Intensity Index (CII), with a weight of 5%.

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

- (i) Cash Flow From Operations (CFFO), with a weight of 55%;
- (ii) • Galp's Total Shareholder Return (TSR) vs the Peer Group; the Peer Group is composed by Total, Repsol, OMV and ENI, as well as by the indexes PSI20TR and SXEGR, references of the national market and the European energy sector, respectively, with a weight of 25%;
- (iii) Return on Average Capital Employed (ROACE), with a weight of 20%.

The effective determination and payment of the multiannual component of the variable remuneration will take place not before the end of each three-year period, after approval of the accounts of the last financial year.

The above mentioned indicators contribute in 65% to the definition of the annual and three-year variable remuneration applicable. 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 the case may be.



In order to ensure consistency between the release of cash flow and the total variable remuneration, this depends on the level of cash flow achieved by Galp. Thus, if every year the Company has a CFFO lower than 80% of the target for the respective year, there will be no scope for paying the variable remuneration.

The determination of the annual and three-year variable remuneration may consider adjustments that are reasonable regarding exogenous factors and unforeseen economic decisions, as well as those necessary to ensure comparability, that are adequate to encourage management objectives, as previously defined by the Remuneration Committee.

The indicators' nature, their respective relative-weight on the determination of the actual variable remuneration, the deferred payment of a substantial part of the remuneration and the limits to the application of the variable remuneration set out a remuneration model based on the merits by reference to the effective performance of the Company and in the disincentive of excessive risk taking, while ensuring the alignment of the interests of the executive management with the long-term interests of the Company.

### 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.

Executive directors also benefit from using a light-duty vehicle and from health and life insurances.



#### 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.

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.

In case of a judicial decision for unlawful action against one or more members of the Executive Committee that results or has resulted in a restatement or an impairment of the financial statements in terms detrimental to the Company, the Remuneration Committee may request the Board of Directors to adopt the adequate measures for the clawback of an amount of the variable remuneration paid to said member(s) that is deemed appropriate in relation to the relevant period of said unlawful action.

The payment of the variable remuneration may be partially carried out through shares or stock options plans, or other payment methods, to be approved in internal regulations by the Remuneration Committee, which in the first case must establish, among other things, the number of shares or stock options granted, and the main conditions for the exercise of their respective rights, including the price and date of that exercise and any change in those conditions.

## **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, March 12, 2019

The Remuneration Committee