



THE NAVIGATOR COMPANY, S.A.
Public company
Capital - € 500,000,000.00
Corporate person no. 503025798
Registered at the Setubal Companies Registry
Registered Offices - Península da Mitrena, parish of Sado – Setúbal

ANNUAL GENERAL MEETING
23 MAY 2018

PROPOSAL RELATING TO ITEM SEVEN
ON THE AGENDA

STATEMENT ON THE REMUNERATION POLICY
FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES
OF THE NAVIGATOR COMPANY

I. Introduction

The Company's Remuneration Committee drew up a remuneration policy statement for the first time in 2008, successfully submitting it for approval by the Company's General Meeting that year. This statement was drafted at that time in line with a recommendation issued on this matter by the Securities Market Commission (Comissão de Mercado de Valores Mobiliários).

The Remuneration Committee declared at this time that it felt that the options set out in the statement should be maintained until the end of the term of office of the Company's officers then underway. This term ran from 2007 to 2010.

It was then necessary to review the statement in 2010 in the light of the provisions of Law 28/2009, of 19 June, requiring the Remuneration Committee to submit a remuneration policy statement each year to the General Meeting.

This Committee continues to believe that, due to its nature as a set of principles, the remuneration policy statement should be mostly stable throughout the term of office of the Company officers, , which is why the content of this year's statement will remain unchanged.



There is a significant divide between the two most common systems for setting the remuneration of Company officers. The first is for such remuneration to be set by the General Meeting; this solution is rarely adopted, being rather impractical for a variety of reasons. The second is for remuneration to be set by a Remuneration Committee, which decides in keeping with criteria on which the shareholders have had not always had the opportunity to pronounce.

The solution now before us amounts to an intermediate system whereby the shareholders can appraise a remuneration policy to be followed by the Committee. This seeks to draw on the best features of both theoretical systems, as we propose to do in this document, reasserting the position we have previously defended whilst also including the contribution from the additional experience and expertise acquired by the Company, and complying with the legal requirements in this field.

II. Legal framework and recommendations

This statement is issued in the legal framework formed by Law 28/2009, of 19 June (as referred to above), and the recommendations of the Securities Market Commission (2013).

In addition to rules on the frequency with which the statement must be issued and approved and on disclosure of its content, this law also stipulates that this content should include information on:

- a) *Procedures to permit directors' interests to be aligned with those of the Company;*
- b) *The criteria for setting the variable component of remuneration;*
- c) *The existence of share bonus and share option plans for directors and auditors;*
- d) *The possibility of the variable remuneration component, if any, being paid, in full or in part, after the accounts for the periods corresponding to the entire term of office having been drawn up;*
- e) *Procedures for capping variable remuneration, in the event of the results showing a significant deterioration in the Company's performance in the last period for which accounts have been reported or when such a deterioration may be expected in the period under way.*

The current recommendations of the Securities Market Commission make the following requirements:

"II.3.3. The statement on the remuneration policy for the management and supervisory bodies referred to in Article 2 of Law No. 28/2009 of 19 June, shall also contain the following:



- a) Identification and details of the criteria for determining the remuneration paid to the Company officers;
- b) Information regarding the maximum potential amount, in individual terms, and the maximum potential amount, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances in which these maximum amounts may be payable;
- c) Information on whether payments are due for the dismissal or termination of appointment of board members.”

III. Rules deriving from law and the Articles of Association

Any remuneration system must inevitably take into account both the general legal rules and the specific rules established in the Articles of Association, if any. The legal rules for the directors are basically established in Article 399 of the Companies Code, from which it follows that:

- Remuneration is to be set by the General Meeting of Shareholders or by a committee appointed at such meeting.
- The remuneration is to be fixed in accordance with the duties performed and the Company’s state of affairs.
- The remuneration may be fixed or may consist in part of a percentage of the profits of the period, but the maximum percentage for distribution to directors must be authorized by a clause in the articles of association, and shall not apply to the amounts allocated to reserves or to any portion of the profits not legally available for distribution to the shareholders.

For the members of the Audit Board and the officers of the General Meeting, the law lays down that the remuneration shall consist of a fixed sum, which shall be determined in the same way by the General Meeting of Shareholders or by a committee appointed by the same, taking into account the duties performed and the state of the Company’s affairs.

A specific clause in the Company’s Articles of Association (article no. 21) provides that the remuneration of directors may be differentiated. The second paragraph of this clause lays down that the General Meeting may issue rules on pension plans and complementary pension schemes for directors.

This is the formal framework to be observed in defining remuneration policy.

IV. Historical background

From the Company’s transformation into a *sociedade anónima* in 1991 and through to 2004, the remuneration of all of the directors consisted of a fixed component, payable fourteen times a year, and set by a Remuneration



Committee, and of a variable component, determined annually, depending on the specific circumstances, by decision of the State, as shareholder.

After the second phase of privatization in 2004, the formal principle was first instituted of remuneration being divided into fixed and variable components, the latter being based on the Company's results and the specific performance of each director.

This procedure has been repeated annually since 2004, with directors receiving fixed remuneration and also a variable component.

It should be noted that the allocation of a percentage of profits is not applied directly, but rather as an indicator, and also as a limit, in line with the articles of association, on amounts which are determined in a more involving process, taking into account the factors set out in the remuneration policy statement in force and the KPIs referred to below.

There has therefore been a constant procedure since 2004, with the directors' remuneration comprising a fixed component and a variable component.

Since the incorporation of the Company, members of the Audit Board have received fixed monthly remuneration. Since the officers of the General Meeting started to receive remuneration, this has been set on the basis of the number of meetings actually held.

V. General principles

The general principles to be observed when setting the remuneration of the Company officers are essentially those which in very general terms derive from the law: on the one hand, the duties performed and on the other the state of the Company's affairs. If we add to these the general market terms for similar situations, we find that these appear to be the three main general principles:

a) Duties performed.

It is necessary to consider the duties performed by each Company officer not only in the formal sense, but also in the broader sense of the work carried out and the associated responsibilities. Not all the executive board members are in the same position, and the same is also true, for example, for the members of the audit board. Duties have to be assessed in the broadest sense, taking into account criteria as varied as, for example, responsibility, time dedicated, or the added value to the Company resulting from a given type of intervention or representation of a given institution.

The fact that time is spent by the officer on duties in other controlled companies also cannot be taken out of the equation, due, on the one hand, to the added responsibility this represents, and, on the other hand, to the existence of another source of income.



It should be noted that Navigator's experience has shown that the directors of this Company, contrary to what is often observed in other companies of the same type, have not always been neatly split into executive and non-executive. There are a number of directors with delegated powers and who are generally referred to as executive directors, but some of the directors without delegated powers have been closely involved in the life of the Company in a variety of ways. Namely regarding the allocation of variable remuneration, the position of the Chairman of the Board of Directors is especially relevant here; although he is not a member of the Executive Committee, he is closely involved in major decisions taken regarding the Company's day-to-day affairs.

b) The state of the Company's affairs.

This criterion must also be understood and interpreted with caution. The size of the Company and the inevitable complexity of the associated management responsibilities, is clearly one of the relevant aspects of the state of affairs, understood in the broadest sense. There are implications here for the need to remunerate a responsibility which is greater in larger companies with complex business models and for the capacity to remunerate management duties appropriately.

c) Market criteria.

It is unavoidably necessary to match supply to demand when setting any level of pay, and the officers of a corporation are no exception. Only respect for market practices makes it possible to retain professionals of a calibre required for the complexity of the duties performed and the responsibilities shouldered, thereby assuring not only their own interests but essentially those of the Company, and the generation of value of all its shareholders. In the case of this Company, in view of its characteristics and size, the market criteria to be considered are those prevailing internationally, as well as those to be observed in Portugal.

VI. Compliance with legal requirements and recommendations

Having described the historical background and the general principles adopted, we shall now consider the issue of compliance by these principles with the relevant legal requirements.

1. Article 2 a) of Law 28/2009. Alignment of interests

The first requirement that Law 28/2009 regards as essential in terms of the information in this statement is for a description of the procedures which assure that the directors' interests are aligned with those of the Company.

We believe that the remuneration system adopted in the Company is successful in assuring such alignment. Firstly, because the remuneration



sets out to be fair and equitable in the light of the principles set out, and secondly because it links board members to results by means of a variable remuneration component which is set primarily in the light of these results.

2. Article 2 b) of Law 28/2009. Criteria for the variable component.

The second requirement established by the law is for information on the criteria used to determine the variable component.

The variable remuneration is set on the basis of a target amount applicable to each board member and is paid according to the individual's performance and performance of the Company, that correspond to the expectations and the criteria defined beforehand. The target amount is weighted by the aforementioned principles - market, specific functions, state of the Company -, in particular comparable market circumstances in positions equivalent in function.

Another relevant factor used in setting targets is the Company's policy of not offering stock or stock option schemes.

Actual performance compared to the expectations and goals, which determine target variations, is weighted against a set of quantitative and qualitative KPIs of the Company's performance and of the relevant board member, which include in particular EBITDA, net income and cash flow.

In addition to those criteria, in accordance with commitments undertaken by the Company within its sustainability strategy and recognizing the importance of an efficient use of energy, and the need to reduce fossil CO2 emissions from its economic activities, the implementation of a corporate program for energy efficiency, approved in 2016, is also included in the weighing.

3. Article 2 c) of Law 28/2009. Share or option plans.

The decision whether or not to provide share or option plans is structural in nature. The existence of such a plan is not a simple add-on to an existing remuneration system, but rather an underlying to change to the existing system, at least in terms of the variable remuneration.

Although a remuneration system of this type is not incompatible with the Company's articles of association, we feel that the wording of the relevant provisions in the articles and the historical background to the existing system argue in favour of maintaining a remuneration system without any share or option component.

This is not to say that we see no merits in including a share or option component in directors' remuneration, nor that we would not be receptive to restructuring directors' remuneration to incorporate such a plan. However, such a component is not essential in order to promote the



principles we defend and, as we have said, we do not believe that this was the fundamental intention of the Company's shareholders.

4. Article 2 d) of Law 28/2009. Date of payment of variable remuneration.

Specialists in this field have drawn attention to significant advantages in deferring payment of the variable component of remuneration to a date when the entire period corresponding to the term of office can in some way be appraised.

We accept this principle as theoretically sound, but it appears to us to offer few advantages in the specific case of the Company and other similar companies.

One of the main arguments supporting this system is that directors should be committed to achieving sustainable medium-term results, and that the remuneration system should support this, avoiding a situation where remuneration is pegged simply to one financial year, which may not be representative, and which may present higher profits at the cost of worse results in subsequent years.

However, whilst this danger is real and is worth safeguarding against by means of systems such as this in companies where the capital is completely dispersed and the directors may be tempted to take a short term view, maximizing quick results by sacrificing long term potential, this does not correspond to the situation in a company such as the Company, with a stable shareholder structure and management, where these concerns are inherently less of an issue.

5. Article 2 e) of Law 28/2009. Procedure limiting variable remuneration.

Procedures of this kind are designed to limit variable remuneration in the event of the results showing a significant deterioration in the Company's performance in the last reporting period or when such deterioration may be expected in the period under way.

This type of provision also reflects a concern that good performance in the short term, which may boost directors' remuneration, could be achieved at the cost of future performance.

Also in this case, even more so, the arguments presented above also apply here. It should also be noted that a system of this kind would have little practical effect if not combined with significant deferral of remuneration, which is not proposed for the Company.

6. Recommendation II.3.3. a) Criteria for setting remuneration.

The criteria for setting the remuneration for the Company officers are those deriving from the principles set out in chapter V above and, in relation to



the variable component of directors' remuneration, those described in item 2 of chapter VI above.

In addition to these, there are no other mandatory pre-set criteria in the Company for setting remuneration.

7. Recommendation II.3.3. b). Potential maximum value of remuneration, on an individual and aggregate basis.

There are no numerical upper limits on remuneration, notwithstanding the limitation resulting from the principles set out in this document.

8. Recommendation II.3.3. c). Severance or termination pay

This Committee has never adopted any agreements concerning severance pay for the Company's directors.

There are no agreements, and no such provisions have been defined by this Committee, on payments by the Company relating to dismissal or termination of Board Members' duties.

This fact is the natural result of the particular situations existing in the Company, and not a position of principle taken by this Committee against the existence of agreements of this nature.

The supplementary legal rule in this matter applies here.

VII. Specific Options

The specific options for the remuneration policy we propose may therefore be summarized as follows:

1. The remuneration of the executive members of the Board of Directors and of the Chairman of the Board of Directors, as stated in item a) of Chapter V, will comprise a fixed part and a variable component.
2. The remuneration of non-executive members of the Board of Directors will comprise only a fixed component, which may be complemented when these directors accumulate additional responsibilities.
3. The remuneration of the members of the Audit Board and the officers of the General Meeting shall comprise a fixed component only.
4. The fixed component of the remuneration of directors shall consist of a monthly amount payable fourteen times a year or of a pre-set amount for each meeting of the Board of Directors attended.
5. A monthly rate shall be set for the fixed component of the remuneration of directors for all those who are members of the Executive Committee and those who, although not members of such Board, perform duties or carry out specific work of a repeated or ongoing nature.



6. The pre-set amount for participation in meetings by members of the Board of Directors shall be fixed for those who have duties which are essentially advisory and supervisory.
7. The fixed remuneration of the members of the Audit Board shall consist in all cases of a pre-set amount paid fourteen times a year.
8. The fixed remuneration of the officers of the General Meeting shall consist in all cases of a pre-set amount for each meeting, the remuneration for second and subsequent meetings being lower than that for the first General Meeting of the year.
9. In setting all remuneration, including in particular the distribution of the total amount allocated to the variable remuneration of the Board of Directors, the general principles established above shall be observed: the duties performed, the state of the Company's affairs and market criteria.

27 April 2018

The Remuneration Committee

Chairman: José Gonçalo Ferreira Maury

Member: Frederico José da Cunha Mendonça e Meneses

Member: João Rodrigo Appleton Moreira Rato