

# CONSOLIDATED ANNUAL REPORT

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2019

## PHAROL, SGPS S.A. – 2019 RESULTS

- PHAROL's net income for 2019 finish in 20.7 million Euros, mainly due to: (1) gain from the agreement between PHAROL and Oi which resulted in compensation for damages caused to PHAROL in the amount of Euros 36.8 million; (2) impairment of Euro 11.6 million as a result of the reduction in the expected value of Rio Forte, and (3) operating costs of Euro 4.2 million;
- As a result of what was reported by the Judicial Administrators in Luxembourg in their last report, regarding some uncertainty about the value of the Assets in Latin America, the expected value of the credit on Rio Forte was reduced by 1.47 million Euros in this second semester of 2019, in addition to the 10.1 million Euros of impairment already recorded in the first half of the same year;
- The company's equity decreased by 14.7 million euros in 2019, ending the year at 131.5 million euros and reflecting: (1) the positive net result of 20.7 million euros, and (2 ) the devaluation of the stake in Oi by 33.3 million Euros due to the fall in the stock exchange price and the devaluation of the Real;
- PHAROL's recurring operating costs amounted to 4.2 million, which corresponds to a 22% decrease compared to the same period in 2018. It was possible to maintain the discipline of cost containment and benefit from a significant reduction in the acquisition of services. related to the position in Brazil.

### MESSAGE FROM CEO

Luís Palha da Silva

"The year of 2019, for PHAROL's main asset, its participation in Oi, was marked by a series of external and internal factors that tend to be positive. Firstly, there was a renewal of the political situation, which, although timidly, has shown some recovery in the economic areas and has already allowed favorable legislative changes in the telecommunications sector in Brazil. Internally, Oi concluded an ambitious capital increase program, reached an agreement with PHAROL for the mutual abandonment of several open disputes and contingencies, saw a strategic plan recognized by the market based on its greatest capabilities and competences, rejuvenated its management team and started a process of selling non-core assets, with emphasis on the participation in Unitel, which ended in 2020.

However, this positive evolution ended up not having, as it should had a positive impact on Oi's quotation and, consequently, on PHAROL's. However, we maintain the conviction that the improvement in operational efficiency proposed in Oi's Strategic Plan, resulting from efficient investments in fiber (FTTH) and the cost containment program, will begin to bear fruit in the coming quarters.

In the process of recovering credit over Rio Forte, there was an insurmountable slowness throughout the year in the different instances that PHAROL has resorted to, namely in the judicial spheres of Portugal and Luxembourg. This ended up having repercussions, in the evaluation of the value of this asset, imposing its reduction in the company's accounts.

During the year, Pharol observed strict operating cost discipline, with a special focus on personnel and legal expenses, a policy that will continue to be one of our top priorities in 2020."

### Highlights

#### PHAROL

(Euro million)	2019	2018
<b>Recurring EBITDA</b>	(4.2)	(5.3)
<b>Net Income</b>	20.7	(5.6)
(Milhões de Euros)	2019	2018
<b>Assets</b>	144.1	161.7
<b>Liabilities</b>	12.6	15.4
<b>Equity</b>	131.5	146.2

### Contactos

Luís Sousa de Macedo  
 Investor Relations  
 Tel: +351 212 697 698 - Fax: +351  
 212 697 949  
 E-mail: ir@pharol.pt

# **PHAROL, SGPS S.A.**



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**2019**

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**“PHAROL”, “Group PHAROL”, “Group” and “Company” is a reference to the companies that are part of PHAROL, SGPS S.A. or to one of them, depending on the context.**

## 01. FINANCIAL REVIEW

### FINANCIAL REVIEW

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As at December 31, 2019, PHAROL main assets are composed of (1) 326,259,859 common shares and 1,800,000 preferred shares of Oi, S.A. (“Oi”), representing 5,5% of the total share capital of Oi, (2) debt securities of Rio Forte Investments S.A. (“Rio Forte”) with a nominal value of Euro 897 million. Also, PHAROL has a Call Option on 17,076,553.92 common shares and 34,153,107.84 preferred shares of Oi with an exercise price of R\$20.104 per common share and R\$18.529 per preferred share, adjusted by the Brazilian rate CDI plus 1.5% per annum, and with a 6-year maturity. The Call Option has partial expiration dates throughout the period, so the option volume is reduced by 10% at the end of the first year and by 18% per year thereafter and to be corrected for the capital increases meanwhile carried out in Oi. This call option is currently valued at zero Euros.

As of December 31, 2014, after the capital increase of Oi, concluded on May 5, 2014 (the “Oi Capital Increase”), PHAROL held a 39.7% direct and indirect stake in Oi. This included a portion classified as a non-current asset held for sale, following the Exchange agreement (“Exchange”) entered into on September 8, 2014 and completed on March 8, 2015, and the remaining stake of 22.8% classified as investment in joint ventures and associates and therefore accounted for using the equity method.

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to Portugal Telecom International Finance, B.V. (“PT Finance”), a subsidiary of Oi, an aggregate amount of 47,434,872 common shares and 94,869,744 preferred shares of Oi, and (2) received from PT Finance debt securities of Rio Forte with a nominal value of Euro 897 million and a call option on the transferred shares (“Call Option”). After the completion of the Exchange, PHAROL held an effective stake of 27.48% in Oi corresponding to the 22.8% stake referred above plus 4.7% due to the decrease in the number of outstanding shares of Oi.

The relevant agreements for the implementation of the New Structure of Oi were signed on July 22, 2015. On September 1, 2015, a General Meeting of Shareholders of Oi was held where the New Structure was approved.

As of September 30, 2015, after the implementation of the New Structure, but prior to the voluntary conversion of preferred shares to ordinary shares of Oi, PHAROL held, directly or indirectly through wholly owned subsidiaries, 84,167,978 common shares and 108,016,749 preferred shares of Oi.

As of October 8, 2015, following the voluntary conversion of preferred shares into common shares of Oi, PHAROL now holds, directly and indirectly through wholly owned subsidiaries, 183,662,204 common shares of Oi, representing 27.18% of total share capital of Oi (excluding treasury shares). PHAROL’s voting rights in Oi were limited to 15% of the total common shares of Oi.

With the implementation of the New Structure on July 30, 2015, the shareholders’ agreements, through which joint control of Oi was exercised, were terminated. Up to that date, PHAROL accounted for its stake in Oi as an Investment in Joint Ventures. After this date, PHAROL considered it had significant influence over Oi and classifies it as an associate company. As a result, from July 30, 2015 the investment in Oi continued to be accounted for according to the equity method, based on PHAROL’s economic stake in Oi’s results.

On April 29 and May 19, 2016, PHAROL, due to a corporate reorganization, transferred direct ownership of 128,213,478 common shares issued by Oi S.A., to its 100% owned subsidiary BRATEL B.V.. Due to the Corporate Reorganization, BRATEL B.V. now directly holds (and PHAROL indirectly holds) 183,662,204 common shares of Oi S.A., which represented 22.24% of Oi S.A.'s entire share capital (27.18% excluding treasury shares).

On 15 September 2017, in order to concentrate all its operations in Luxembourg, PHAROL transferred the ownership of all the shares that BRATEL BV has in Oi SA to its subsidiary BRATEL S.à.r.l., 100% owned by BRATEL B.V.

In December 2017, and after the decision by the Court of the 7th Business Court of Rio de Janeiro (which it handles the Judicial Recovery of Oi) and which decided to withdraw the rights of the members of the Board of Directors of Oi in the approval of the Judicial Recovery Plan, it was understood that PHAROL lost the significant influence it had until then on its associate Oi. Consequently, on 31 December 2017, PHAROL began to measure its investment in Oi at market value and classify it as "Financial Assets".

Oi S.A., in the disclosure of its consolidated results for 2017, announced that it had restated its Consolidated Equity on January 1, 2016 and December 31, 2016, amounting to BRL 18 billion and BRL 19 billion, respectively. Following this restatement, PHAROL's investment in Oi, being recorded under the equity method, was restated and valued at zero in the periods of January 1, 2016 and December 31, 2016.

On July 20, 2018, following the homologation of the Capital Increase through the conversion of debt into shares, Oi's share capital increased from 825,760,902 shares for a total of 2,340,060,505 shares, was a dilution of PHAROL's participation in Oi to less than 8%.

On January 9, 2019, as part of the capital increase due to the Entry of New Resources, Oi went from 2,340,060,505 shares to a total of 5,954,205,001 shares representing its share capital, with a dilution of PHAROL's stake in Oi to less than 4%, even though it partially accompanied the referred capital increase.

On April 2, 2019, with the approval of an agreement between PHAROL and Oi on January 8, 2019, in which Oi committed itself to reimburse PHAROL for the damages for damages suffered through Oi's actions and resources for the acquisition of Oi shares subscribed in the aforementioned capital increase, PHAROL now holds a 5.51% interest in Oi's share capital.

The consolidated net profit for 2019 was 20.7 million Euros and essentially reflects (1) the compensation of damages under the Agreement between Oi and Bratel Sarl in the amount of 36.8 million Euros, (2) a loss of 11.6 million Euros due to the reduction in the expected amount of recovery of credits over Rio Forte, and (3) operating costs in the amount of 4.2 million Euros.

## CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT		
	Euro million	
	2019	2018
Wages and salaries	1.6	1.6
Supplies, external services and other expenses	2.3	3.3
Indirect taxes	0.4	0.4
<b>Loss before financial results and taxes</b>	<b>(4.2)</b>	<b>(5.3)</b>
Depreciations	0.1	0.1
<b>Earnings before interest and taxes</b>	<b>(4.3)</b>	<b>(5.4)</b>
Net other gains	(12.6)	11.6
<b>Loss before financial results and taxes</b>	<b>8.2</b>	<b>(17.0)</b>
Losses in associates	(36.8)	-
Net losses on financial assets and other investments	11.6	0.9
Net other financial losses (gains)	0.0	0.2
<b>Loss before taxes</b>	<b>33.4</b>	<b>(18.2)</b>
Income taxes	12.7	(12.5)
<b>Attributable to equity holders of PHAROL, SGPS S.A.</b>	<b>20.7</b>	<b>(5.6)</b>

Consolidated operating costs amounted to 4.2 million Euros in 2019 compared to 5.3 million Euros in 2018. This evolution is explained almost entirely by lower costs with legal services and advisory services.

Results before tax in 2019 amounted to 33.4 million Euros.

Net losses on financial assets and other investments as of December 31, 2018 include the devaluation of the Call Option amounting to 926 thousand Euros.

The net result attributable to PHAROL Shareholders recorded a profit of 20.7 million Euros in 2019, which compares with a loss of 5.6 million in the same period of 2018. The net result in 2019 essentially reflects (1) the reimbursement of damages under the Agreement between Oi and Bratel Sarl in the amount of 36.8 million Euros; (2) a loss of 11.6 million Euros due to the reduction in the expected amount of recovery of credits on Rio Forte and (3) the consolidated operating costs of 4.2 million Euros. The net loss in 2018 essentially reflects the consolidated operating costs of 5.3 million Euros, and (2) a loss of 1.15 million Euros resulting from a devaluation of the Call Option.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position		
	Euro million	
	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	17.9	38.1
Accounts receivable	0.1	1.9
Non-current assets held for distribution to holders	0.0	0.0
Investments in joint ventures and associates	0.0	0.0
Tangible assets	0.3	0.1
Taxes receivable	0.1	0.1
Financials assets	62.6	46.9
Other assets	63.0	74.7
<b>Total assets</b>	<b>144.1</b>	<b>161.7</b>
<b>LIABILITIES</b>		
Short-term debt	0.3	0.1
Accounts payable	0.2	0.1
Accrued expenses	0.8	1.7
Taxes payable	0.2	0.2
Provisions	0.0	12.5
Other liabilities	11.1	0.9
<b>Total liabilities</b>	<b>12.6</b>	<b>15.4</b>
<b>Total equity</b>	<b>131.5</b>	<b>146.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>144.1</b>	<b>161.7</b>

The accompanying notes form an integral part of these financial statements.

The cash position and accounts receivable net of liabilities associated with gross debt, accounts payable, accrued costs, taxes payable and potential amounts payable to the Portuguese Tax Authority, shown in the caption "Other liabilities", represented 6.4 million Euros on December 31, 2019 and 25.4 million Euros on December 31, 2018.

Financial assets correspond essentially to PHAROL's effective investment in Oi, 5.5% on December 31, 2019 and 6.8% in 2018, which is recorded at market value.

The other assets on December 31, 2019 and 2018, in the amounts of 63 million Euros and 74.7 million Euros respectively, correspond to the best estimate of the fair values of the assets related to the debt instruments issued by Rio Forte, whose value nominal value amounts to 897 million Euros.

Equity amounted to Euro 131.5 million on December 31, 2019, compared to Euro 146.2 million on December 31, 2018, a decrease of Euro 14.7 million, mainly reflecting (1) the positive net income generated in 2019 in the amount of 20.7 million Euros, and (2) losses on financial assets recognized directly in the amount of 33.3 million Euros and (3) acquisition of own shares in the amount of 2.2 million of Euros.



## OI RESULTS KEY HIGHLIGHTS

The information within this section arise from the 3Q2019 Report of Oi.

- **3.6 million homes passed (HPS) with fiber (FTTH) at the end of september**
  - HPS are expected to reach 4.6 million in 2019 and 16 million in 2021.
- **11.4% of homes passed (HPS) with fiber were connected in september**
  - We closed the quarter with 408 thousand customers connected to FTTH, 72% growth compared to 2Q19.
- **36% market share of net adds in postpaid in 3q19**
  - Second-highest share of net adds in the market for the period. From January to August 2019, Oi recorded 1.1 million net adds in the postpaid segment.
- **13.8% year-on-year growth in postpaid customer revenues**
  - Strong base growth translates into accelerated revenue increase in the postpaid segment
- **192% year-on-year growth in IT revenues in the corporate segment**
  - IT revenues are one of the main growth drivers of the corporate segment, due to high value-added products.

	Milhões de Reais *		
	3T19	3T18	2T19
<b>Oi S.A.</b>			
Total Net Revenues	5,001	5,481	5,091
EBITDA	979	1,459	1,218
EBITDA Margin (%)	19.6%	26.6%	23.9%
Routine EBITDA - IFRS16	1,374	n.a.	1599.0%
Routine EBITDA Margin (%) - IFRS16	27.5%	n.a.	31.4%
Consolidated Net Earnings (Loss)	-5,747	-1,336	-1,559
Net Debt	14,713	10,976	12,573
Available Cash	3,192	5,161	4,296
CAPEX	2,065	1,526	2,061

\*Or otherwise stated

	Milhões de Reais *		
	3T19	3T18	2T19
<b>BRAZIL</b>			
Revenue Generating Unit ('000)	55,191	58,832	55,870
Residential	13,532	15,173	14,011
Personal Mobility	34,703	36,454	34,701
Corporate / SMES	6,702	6,565	6,761
Public Telephones	254	640	396
<b>Total Net Revenues</b>	<b>4,955</b>	<b>5,431</b>	<b>5,046</b>
Net Services Revenues (1)	4,917	5,382	5,004
Residential	1,803	2,084	1,857
Personal Mobility	1,726	1,765	1,691
Clients (2)	1,667	1,670	1,633
Corporate / SMEs	1,367	1,474	1,418
<b>Net Clients Revenues (2)</b>	<b>4,823</b>	<b>5,230</b>	<b>4,900</b>
Routine EBITDA	1,008	1,454	1,208
Routine EBITDA Margin (%)	20.3%	26.8%	23.9%
CAPEX	2,060	1,502	2,057
Routine EBITDA - CAPEX	-1,053	-49	-849

\*Or otherwise stated

(1) Excludes handset revenues.

(2) Excludes handset and network usage revenues.

## 02. BUSINESS PERFORMANCE

Below we list all the events that occurred between January 1, 2019 and February 27, 2019, that can be read in full at PHAROL's website ([www.pharol.pt](http://www.pharol.pt)).

### QUALIFIED PARTICIPATIONS IN PHAROL

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The main changes in qualifying holdings of PHAROL were as follows:

**03/Jan/2019** | Blackhill Holding Limited, LLC. held a qualifying holding of 43,311,406 shares, representing 4.83% of PHAROL's share capital and voting rights.

**03/Jan/2019** | High Seas Investments, LLC decreased its share of 7.24% to 2.41% of PHAROL's share capital and voting rights.

**04/Jan/2019** | Grupo Visabeira SGPS, S.A. reported that it sold a total of 1,000,000 shares, representing 0.1115% of the share capital and voting rights of PHAROL.

As a result of the sales, Grupo Visabeira SGPS, S.A. became the holder of 15,067,041 shares, representing 1.6806% of the share capital and voting rights of PHAROL.

Furthermore, pursuant to the provisions of article 20 of the Portuguese Securities Code, in view of the existing holdings, Fernando Campos Nunes (NIF: 175,776,083) is deemed to be responsible for the total of 15,067,041 shares representing the share capital of PHAROL SGPS, SA, corresponding to 1.6806% of the share capital and voting rights.

**10/Jan/2019** | Blackhill Holding Limited, LLC reported that are attributable to Nelson Tanure 43,311,406 shares representing 4.83% of the capital and voting rights of PHAROL acquired by Blackhill Holding Limited LLC, of which he is a beneficial owner, and further informed that Nelson Tanure holds a personal title of 10,000 shares representing 0.00111%. In total, 43,321,406 shares are attributable to Nelson Tanure, corresponding to 4.83% of PHAROL's share capital and voting rights.

**12/Mar/2019** | Adar Capital Partners Ltd. decreased its stake from 10.285% to 4.8% of PHAROL's share capital and voting rights.

**12/Mar/2019** | High Bridge Unipessoal, Lda. Increased its stake from 6.17% to 9.99% of PHAROL's share capital and voting rights.

**12/Mar/2019** | Blackhill Holding Limited, LLC. increased its share from 4.83% to 6.31% of PHAROL's share capital and voting rights.

**25/Mar/2019** | Blackhill Holding Limited, LLC. increased its stake from 6.31% to 7.06% of PHAROL's share capital and voting rights.

**17/Apr/2019** | Blackhill Holding Limited, LLC. decreases its stake from 7.06% to 4.85% of PHAROL's share capital and voting rights.

**14/May/2019** | High Seas Investments, LLC decreased its stake from 2.41% to 1.39% of PHAROL's share capital and voting rights.

**20/May/2019** | Blackhill Holding Limited, LLC. decreases its share from 4.85% to 1.92% of PHAROL's share capital and voting rights.

**12/Aug/2019** | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. Of 9.99% of PHAROL's share capital and voting rights is imputable to it as a creditor benefiting from financial pledges.

**19/Sep/2019** | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. Decreased to 4.88% of PHAROL's share capital and voting rights.

**09/Oct/2019** | Real Vida Seguros, S.A. reported that it now holds a qualified holding through 38,875,874 shares, representing 4.34% of PHAROL's share capital and voting rights.

**14/Oct/2019** | Adar Capital Partners Ltd. reduced its 4.8% stake to less than 2% of PHAROL's share capital and voting rights.

**29/Nov/2019** | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. decreased to 1.95% of PHAROL's share capital and voting rights.

**10/Dec/2019** | High Bridge Unipessoal, Lda informed that since December 5, 2019, it no longer holds any interest in the share capital of PHAROL SGPS S.A., not holding any share representing it.

**26/Fev/2020** | Abante Asesores, S.A. reported that holds a qualified holding through 18,200,000 shares, representing 2.03% of PHAROL's share capital and voting rights since August 28, 2019.

## **CORPORATE EVENTS OF PHAROL AND OI**

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Below we list the main corporate events of PHAROL and Oi:

**09/Jan/2019** | PHAROL informed that Oi and its shareholder Pharol/Bratel have reached an agreement for the termination and extinction of any and all judicial and extrajudicial litigation in Brazil, Portugal and all the various countries where there are ongoing discussions involving companies of the two groups.

The agreement is in line with the most modern practices of alternative dispute resolution, which the 7th Corporate Court of Rio de Janeiro has already declared effective.

Oi's and Pharol's Boards of Directors have unanimously approved the agreement. Oi's management and Pharol are in good faith aligned as to Oi's best interests, so that the Company may focus entirely on its operational turnaround and eliminate the distractions and costs relating to litigation.

The terms of the agreement, which have been stipulated in detail in a specific legal instrument, will only be considered valid and effective after approval by the restructuring court. The terms and conditions of this legal instrument are summarized below:

**I. Objective:**

The extinction of all litigation between Oi and Pharol.

**II. Conditions to be met by Oi:**

- a) EUR 25 million payment to Pharol.
- b) Delivery of 33.8 million shares of Oi held in treasury to Pharol.
- c) confirmation of obligations, assumed by Oi, with respect to the assumption of costs with judicial guarantees related to legal proceedings of Pharol in Portugal;
- d) future deposits in an escrow account of amounts to cover losses relating to tax proceedings whose chance of loss is assessed as probable, according to obligation.

**III. Conditions to be met by Pharol:**

- a) use of a minimum of EUR 25 million in the subscription of the Capital Increase – New Resources provided for the Company in its Judicial Reorganization Plan;
- b) attendance and favorable vote in any of Oi's General Shareholders Meetings concerning the approval or ratification of any act or measure contemplated in the Judicial Reorganization Plan;
- c) maintenance of alignment with Oi and support in all instances for the implementation of the approved and ratified Judicial Reorganization Plan; and
- d) authorization of Oi's use of any amount returned to Pharol by the Portuguese Tax Authority beginning on March 24, 2015, with guarantee costs and tax-related contingencies, for the purposes of item II.c.d, above.

Oi will also have the right to nominate a member to Pharol's Board of Directors for this mandate, and failure to implement this right is a condition for termination of the agreement.

**11/Jan/2019** | PHAROL informed that at the Extraordinary General Meeting of Shareholders held today, the Shareholders resolved to suspend the meeting until 8 February 2019.

**28/Jan/2019** | Oi informed that on January 25, 2019, 1,604,268,162 new common shares, corresponding to the balance of new common shares not subscribed by the shareholders during the exercise period of the preemptive right and the period for subscription of excess shares in the Capital Increase – New Resources.

**28/Jan/2019** | PHAROL informed that has subscribed 127,548,955 new shares in the context of the capital increase of Oi, which the final figures were disclosed today. Using its own funds, PHAROL subscribed

41,827,181 new shares. In addition to the 166,710,904 shares previously held, if the agreement is approved and these operations take effect, PHAROL will hold 328,059,859 shares, representing 5.51% of Oi's share capital.

**08/Feb/2019** | PHAROL informed that the following resolutions were adopted by the Shareholders at the Annual Meetings of Shareholders held today:

1. Election of the members of the corporate bodies and the Compensation Committee for the three-year period 2018-2020:

#### **Board of the General Meeting**

Chairman: Diogo Campos Barradas de Lacerda Machado

Secretary: Maria de Lourdes Vasconcelos Pimentel da Cunha Trigoso

#### **Board of Directors**

Chairman: Luís Maria Viana Palha da Silva

Directors:

Jorge Telmo Maria Freire Cardoso

Nelson Sequeiros Rodriguez Tanure

Bryan Schapira

Maria do Rosário Amado Pinto Correia

Pedro Zañartu Gubert Morais Leitão

Jorge Augusto Santiago das Neves

Avelino Cândido Rodrigues

Maria Leonor Martins Ribeiro Modesto

Isabel Maria Ferreira Possantes Rodrigues Cascão

Aristóteles Luiz Menezes Vasconcellos Drummond

#### **Fiscal Council**

Chairman:

José Maria Rego Ribeiro da Cunha

Members:

Isabel Maria Beja Gonçalves Novo

João Manuel Pisco de Castro

Alternate Member:

Paulo Ribeiro da Silva

### **Remuneration Committee**

Chairman:

António Sarmiento Gomes Mota

Francisco José Queiroz de Barros Lacerda

Pedro Miguel Ribeiro de Almeida Fontes Falcão

**09/Feb/2019** | Oi informed that it approved the repurchase aims to guarantee that the Company will undertake its commitment assumed by the Company to transfer the shares of its issuance held in escrow to Bratel S.À.R.L. ("Bratel"), wholly-owned subsidiary of Pharol SGPS, S.A., pursuant to the agreement executed between them, as disclosed in the Material Fact dated as of January 8, 2019.

**29/Mar/2019** | PHAROL informed that at the Annual General Shareholders' Meeting held the following resolutions were adopted by the Shareholders:

1. the management report, balance sheet and individual accounts for the financial year 2018;
2. the management report, balance sheet and consolidated accounts for the financial year 2018;
3. The proposed appropriation of results;
4. A vote of appreciation and confidence to the Board of Directors, the Supervisory Board and the Statutory Auditor and each of its members for the manner in which they conducted the management of the Company in 2018;
5. The acquisition and disposal of treasury shares by the Company, subject to a decision of the Board of Directors taking into account the market situation, for the period of eighteen months from the resolution, and the consideration, in the acquisitions, shall be within Up and down 25% on the lowest and average shares respectively of the shares to be acquired on Euronext Lisbon during the 3 regulated market sessions immediately prior to the date of acquisition or the constitution of the right to acquire or allocate shares, or correspond to the acquisition price resulting from contracted financial instruments and, on disposals, not less than 25% lower than the average Euronext Lisbon quotation of the shares to be disposed of during the 3 regulated market sessions immediately prior to the disposition, also setting the other conditions. applicable to such operations;
6. The statement of the Remuneration Committee regarding the remuneration policy of the members of the Company's management and supervisory bodies.

**3/Apr/2019** | PHAROL has informed, in addition to its Notice issued on January 9, 2019, that the Approval of the Instrument of Agreement entered into on January 8, 2019 between Bratel S.à.r.l. ("Bratel") and Pharol (indirect shareholder of Oi) and Oi (collectively "Parties") became effective as a period of 15 (fifteen) business days from the publication of the judgment that granted it.

Accordingly, as determined in that Agreement, the date for the fulfillment of the second part of the obligations under both Parties shall begin on this date, including (a) the request to terminate all disputes

involving the Parties indicated in the Agreement instrument ( (Litigation)) and (b) the delivery to Bratel of 33.8 million Oi shares held in its Treasury, of which 32 million common shares and 1.8 million preferred shares.

In addition, a number of obligations and rights of the Parties described in the Communiqué issued by Pharol and the Material Fact disclosed by Oi, both dated January 9, 2019, which could be resolved if not agreed, become definitively effective. had been approved by the Judicial Reorganization Court.

**17/Apr/2019** | PHAROL reported that following the ratification of the agreement by the Judicial Reorganization Court and the subsequent transfer of 33.8 million shares held in Oi's Treasury, PHAROL became the holder of 326,259,859 common shares and 1,800,000 preferred shares, totaling 328,059,859 shares, representing 5.51% of Oi's share capital.

**21/Nov/ 2019** | PHAROL informed about the call for the Extraordinary Shareholders' Meeting of December 18, 2019.

**08/Jan/2020** | PHAROL informs that, at the Extraordinary General Meeting of Shareholders, on Second Date, the Shareholders resolved:

1: Reduce the minimum and maximum number of members of the Company's Board of Directors, with the consequent amendment to paragraph 1 of Article Eighteenth of the Company's Bylaws, which will now read as follows: "The Board of Directors is composed of a minimum of three and a maximum of seven members";

2: As a result of the approval of the reduction of the maximum and minimum number of members of the Board of Directors and amendment of the Company's bylaws, under the scope of point One, approve the termination of functions by dismissal, with immediate effect, of the directors, Aristóteles Luiz Menezes Vasconcellos Drummond, Jorge Augusto Santiago das Neves and Nelson Sequeiros Rodriguez Tanure who, on 12.6.2019, had already resigned from his duties as a member of the Board of Directors.

**29/Jan/2020** | PHAROL informed following the indirect sale, by Oi, of its participation in Unitel, SA, and as agreed in the Private Instrument of Transaction and Other Covenants, signed between PHAROL and Oi on January 8, 2019, Oi, through the PT Participações SGPS, SA, made a deposit in a guarantee account in the amount of Eur.34,340,803.32, intended to guarantee PHAROL in case of eventual condemnation in tax contingencies under Oi's responsibility.

## OTHER MATERIAL EVENTS OF PHAROL AND OI

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Below we list the other material events of PHAROL and Oi:

**01/Feb/2019** | PHAROL informed that the curators of Espírito Santo International SA, a Luxemburg law company, declared bankrupted in October 2014 ("ESI"), have summoned PHAROL as a precautionary measure to interrupt any period of limitation, in view of a possible cancellation of Notes' payments, made by ESI, during the month of January 2014. PHAROL reaffirmed that it does not owe any moneys whatsoever to ESI. PHAROL will therefore challenge the proceedings and exercise all available and adequate rights, for the protection of PHAROL's stakeholders. PHAROL furthermore reaffirms that the case is totally ungrounded.



**28/Aug/2019** | PHAROL reported on the acquisition of own shares. The program for the purchase of own shares ran until September 20 and PHAROL now holds a total of 50,071,714 own shares, corresponding to 5.585% of its share capital.

**09/Sep/2019** | PHAROL informed that Isabel Maria Ferreira Possantes Rodrigues Cascão resigned, on September 9, 2019, from the respective post of non-executive member of the Board of Directors of PHAROL.

**31/Oct/2019** | PHAROL reported that Bryan Schapira resigned, on October 31, 2019, from the respective post of non-executive member of the Board of Directors of PHAROL.

**10/Dec/2019** | PHAROL informed that Nelson Sequeiros Rodriguez Tanure resigned, on December 6, 2019, from the respective post of non-executive member of the Board of Directors of PHAROL.

## OTHER MATERIAL EVENTS OF OI

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Below we list the other material events of Oi:

**15/Jan/2019** | Oi called AGM for April 30, 2019.

**29/Jan/2019** | Oi reported that the date of the convened AGM changed to April 26, 2019.

**28/Feb/2019** | Oi informed that it became aware, on February 27, 2019, of the final decision rendered by the Arbitral Tribunal constituted in connection with the arbitration initiated by PT Ventures, SGPS SA, an indirect subsidiary of Companhia against the other shareholders of Unitel ("Other Shareholders of Unitel"), based on the shareholders agreement between PT Ventures and Unitel's Other Shareholders ("Shareholders Agreement").

**27/Mar/2019** | Oi announced Fourth Quarter 2018 Results

**27/Mar/2019** | Oi announced the Call Notice - Ordinary and Extraordinary General Meeting

**29/Apr/2019** | Oi announced to the market the filing of the Annual Report (Form 20-F) with the SEC.

**14/May/2019** | Oi Releases First Quarter 2019 Results.

**21/May/2019** | Oi has informed its shareholders and the market that its indirect subsidiary PT Ventures SGPS SA has sold and on that date transferred all the shares held by it in the Cape Verde telecommunications company Cabo Verde Telecom, SA ("CVT"), representing 40% of CVT's capital stock, for a total amount of US \$ 26.3 million, pursuant to the provisions of clauses 3.1.3 and 5.1 of the Judicial Reorganization Plan of Oi and its subsidiaries in judicial reorganization.

**24/May/2019** | Oi informed the market about the RJ Judgment on the filing embargoes filed by Capricorn Capital and Goldentree Distressed Fund.

**11/Jul/2019** | Oi provided the market with a clarification on a press release about a new capital increase for new resources.

**16/Jul/2019** | Oi announces to the market a new Strategic Plan for the Company contemplating the projections and estimates (guidance) plan of Routine Net Revenue and EBITDA.

**15/Aug/2019** | Oi released its second quarter 2019 results.

**20/Sep/2019** | Oi informed the market that after hearing the Judge of the 7th Business Court of the District of the Capital of the State of Rio de Janeiro and MPRJ, Oi's Board of Directors elected on this date Mr. Rodrigo Modesto de Abreu to assume the position of Director Statutory, without specific designation, with the functions of Chief Operational Officer - COO, reporting to the Company's Chief Executive Officer.

**31/Oct/2019** | Oi informed that, in accordance with the sentence handed down by the Judge of the 7th Business Court of Rio de Janeiro, in the context of a procedural incident under the secrecy of justice, on October 30, 2019, Oi's Board of Directors elected (i) Ms. Camille Loyo Faria to assume the position of Chief Financial and Investor Relations Officer, replacing Mr. Carlos Augusto Machado Pereira de Almeida Brandão; and (ii) Mr. Antonio Reinaldo Rabelo Filho to assume the position of Legal Director, a position that until then was accumulated by the Chief Executive Officer, Mr. Eurico de Jesus Teles Neto, who maintains the exercise of his duties as CEO.

**02/Dec/2019** | Oi released its third quarter 2019 results.

**06/Dec/2019** | Oi informed that it filed a petition on the Court of the 7th Business Court of Rio de Janeiro requesting that the judicial supervision of Oi Companies is not terminated on February 4, 2020, the date on which the ratification of the Judicial Recovery Plan ("Plano de RJ") ) turns two years. The measure of non-closure of judicial supervision does not bring changes to the current situation of Oi Companies and has no impact on compliance with the RJ Plan in force, nor in relation to current credits and any new resources that may be accessed by Oi's Companies. It is worth noting that the continuity of judicial supervision at the end of the two-year period is a natural measure that has been applied in most judicial reorganization processes.

**10/Dec/2019** | Oi informed that Mr. Eurico de Jesus Teles Neto announced on this date that he will leave the position of Chief Executive Officer of the Company on January 30, 2020, according to the Term of Adjustment and Transition Model of the Executive Board approved by the Court of the 7th District Business Court of the District of the Capital of the State of Rio de Janeiro.

**12/Dec/2019** | Oi informed that, as indicated by the Board of Directors of Oi, Mr. Rodrigo Modesto de Abreu assumes the position of Chief Executive Officer of the Company on January 31, 2020, after the departure of Mr. Eurico de Jesus Teles Neto, announced to take place on January 30, 2020.

**23/Dec/2019** | Oi informed that its subsidiary Oi Móvel SA entered into a deed for the issuance of simple debentures, not convertible into shares, of the type with real guarantee, with additional personal guarantee, in a single series, for private placement, of its issue, in the total amount of up to R \$ 2.500.000.000,00.

**26/Dec/2019** | Oi informed that the National Superintendence of Private Pension Plans - Previc - approved the distribution of surplus for the PBS-A plan, managed by Sistel. As Sponsors of said plan, the Company and its subsidiaries Telemar Norte Leste S.A will receive from Sistel the total amount of R \$ 669,053,543.20 in 36 monthly installments of R \$ 18,584,820.64. The payment of the first installment, for the month of December 2019, has already been made by Sistel.

**24/Jan/2020** | Oi informed that its indirect subsidiary Africatel Holdings BV ("Africatel") has just sold and transferred all the shares issued by the Portuguese holding company PT Ventures SGPS SA ("PT Ventures")

to the Angolan company Sociedade Nacional de Combustíveis de Angola, Empresa Public - Sonangol EP ("Sonangol"). The total value of the transaction is US \$ 1 billion, of which: (i) US \$ 699.1 million paid to Africatel by Sonangol on this date, (ii) US \$ 60.9 million already paid to Africatel before the transfer of the shares of PT Ventures; and (iii) US \$ 240 million, fully guaranteed by a letter of guarantee issued by a first-tier bank, to be paid unconditionally by Sonangol to Africatel until July 31, 2020, with Africatel being guaranteed a minimum monthly flow of US \$ 40 million , starting in February 2020.

### 03. MAIN RISKS AND UNCERTAINTIES

Among the various risks that may adversely affect the business of PHAROL, the following should be highlighted:

Macro Risk	Sub-Risk	Risk Factors
Economic Risks	Oi's Performance	With the Judicial Recovery measures already in their final phase of implementation and consequently PHAROL had suffered a dilution in its participation, PHAROL will again be subject in Brazil to the operational performance of the company Oi.
	Information Security	PHAROL is exposed on a daily basis to security risks, including the availability, integrity and confidentiality of the information.
Financial Risks	Exchange Rates	Foreign currency exchange rate risks relate mainly to PHAROL's investment in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the valorization of Oi shares held by PHAROL, and therefore impact PHAROL's results and financial position.
	Interest Rate	Interest rate risks basically relate to financial expenses and the floating interest rate debt and cash applications. PHAROL is indirectly exposed to this risk specially in Brazil. Market interest rates also affect the discount rates used for impairment testing to the various assets of the company.
	Treasury Applications	PHAROL is mainly subject to credit risks in its treasury applications.
	Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange	The Rio Forte Instruments currently held by PHAROL, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.
Legal Risks	Court proceedings	PHAROL may incur in liabilities in connection with litigation or other future proceedings and incur in defense costs in such litigation or other proceedings. Any liability incurred could adversely affect PHAROL's financial situation.
	Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination	The Rio Forte Instruments and the Business Combination carried specific risks due to the complexity of Rio Forte's insolvency process and the Business Combination with Oi.
	Tax contingencies	In accordance with the agreements with Oi, Oi is responsible for the payment of all contingencies until May 5, 2014 and PHAROL remains and severally liable for these contingencies.

## 04. QUALIFIED HOLDINGS

On December 31, 2019, qualified holdings represented about 25.93% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
<b>31/05/2012</b>	<b>Telemar Norte Leste S.A.</b>	<b>89,651,205</b>	<b>10.00%</b>	<b>10.00%</b>
	Telemar' s sole shareholder is OI S.A..			
	Total attributable	89,651,205	10.00%	10.00%
<b>02/04/2018</b>	<b>Novo Banco S.A.</b>	<b>85,665,125</b>	<b>9.56%</b>	<b>9.56%</b>
	Directly	85,665,125		
	Shares held by companies in a controlling or group relationship with Novo Banco, S.A.	916		
	Shares held by directors and members of the Corporate Bodies	595		
	Total attributable	85,666,636	9.56%	9.56%
<b>09/10/2019</b>	<b>Real Vida Seguros S.A.</b>	<b>38,875,874</b>	<b>4.34%</b>	<b>4.34%</b>
	Patris Investimentos SGPS SA	38,875,874	4.34%	
	Gonçalo Pereira Coutinho	Holds 54,518% Patris Investimentos SGPS SA		
	Total attributable	38,875,874	4.34%	4.34%
<b>26/02/2020</b>	<b>Abante Asesores, S.A.</b>	<b>18,200,000</b>	<b>2.03%</b>	<b>2.03%</b>
	Abante Asesores, S.A. holds 99.99% of Abante Asesores Gestión SGIIC, S.A. (management company of Abante Pangea Fund) and 99.99% of Abante Pensiones EGFP, S.A. (management company of Tempus 30-75 Pensiones F.P.)			
	Total attributable	18,200,000	2.03%	2.03%

### THE BOARD MEMBERS AND SUPERVISORY BODIES SHAREHOLDINGS

Under the terms of article 9, number 1 c), of Regulation number 5/2008 of CMVM, the following information is presented with respect to the qualified holdings held by the board members and supervisory bodies in PHAROL's share capital, which the company was informed about regarding December 31, 2019 or the previous date, as indicated:

#### Board of Directors

- Luís Maria Viana Palha da Silva owns 200,000 shares of PHAROL. He was appointed for the Board of Directors of PHAROL on May 29, 2015.
- Avelino Cândido Rodrigues does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on February 8, 2019.

- Aristotle Luiz Menezes Vasconcellos Drummond does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on September 28, 2017.
- Jorge Augusto Santiago das Neves does not hold any securities of PHAROL or other companies that are in a controlling or group relationship. He was appointed for the Board of Directors of PHAROL on June 30, 2017.
- Jorge Telmo Maria Freire Cardoso does not own any securities of PHAROL or other companies that are in a domain or group relationship. He was appointed for the Board of Directors of PHAROL, on November 5, 2014. He is also an administrator of Novo Banco, SA. and served as an alternate member of Oi until February 17, 2016, when he resigned his position.
- Maria do Rosário Amado Pinto Correia owns 40 shares of PHAROL. She was co-opted for the Board of Directors of PHAROL on September 2, 2015.
- Maria Leonor Martins Ribeiro Modesto does not hold any securities of PHAROL or other companies that are in a controlling or group relationship. She was appointed for the Board of Directors of PHAROL on September 7, 2018.
- Nelson Sequeiros Rodriguez Tanure owns 10,000 shares of PHAROL and 17,241,517 shares attributable to him, corresponding to 1.92% of PHAROL's share capital and voting rights, held by the company Blackhill Holding Limited LLC, of which he is the beneficial owner. He was appointed for the Board of Directors of PHAROL on June 30, 2017 and resigned on December 6, 2019, with effect from January 8, 2020.
- Pedro Zañartu Gubert Morais Leitão does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on May 29, 2015.

On January 8, 2020, the Extraordinary General Shareholders' Meeting resolved to terminate functions by dismissal, with immediate effect, of the directors, Aristóteles Luiz Menezes Vasconcellos Drummond, Jorge Augusto Santiago das Neves and Nelson Sequeiros Rodriguez Tanure.

### **Fiscal Council**

The fiscal council members, identified below, do not own any shares of PHAROL.

- José Maria Rego Ribeiro da Cunha
- Isabel Maria Beja Gonçalves Novo
- João Manuel Pisco de Castro
- Paulo Ribeiro da Silva

### **Managing-Director**

The managing-director Luís Maria Viana Palha da Silva is also member of the Board of Directors.

### **Statutory Auditor (“ROC”)**

The Statutory Auditor, identified below, does not own any shares of PHAROL.

- Effective ROC - BDO & Associados - SROC, represented by Dr. Rui Carlos Lourenço Helena
- Substitute ROC - Dr. Pedro Manuel Aleixo Dias

## 05. OUTLOOK

PHAROL, SGPS, SA, today has a very limited portfolio of assets. Starting from an expected 39.7% stake in the Brazilian telecommunications company Oi, PHAROL reduced its stake, successively, to 27.18%, with the return of a credit on Rio Forte, and, already in 2018, to 6.8%, as a result of capital increases decided under the Judicial Reorganization that the company faced. After the most recent capital increase and the agreement signed in January 2019, PHAROL now holds 5.51% of Oi's capital. Even within the scope of the agreements signed with Oi in 2014, Pharol received a credit back on Luxembourg company Rio Forte, which in the meantime filed for bankruptcy in 2014.

Oi, after the aforementioned agreement signed with Pharol, has been developing efforts to strategically focus on the FTTH (Fiber to the Home) segments and to sell non-core assets. In the first of these guidelines, although the most advanced indicators - namely number of new customers - are encouraging, the impact on operational performance and income accounts is not yet visible. As regards the sale of non-core assets and debt reduction, it was possible to proceed with the sale of several real estate assets and, mainly, to negotiate the sale of the stake held in Unitel, an Angolan telecommunications company, an operation that would come to realize in early 2020. For the short to medium term, the possibility of selling the mobile communication business does not appear to be excluded, which, if materialized, would significantly increase the investment capacity in fiber infrastructure.

At Rio Forte, significant progress has not been made in the different legal processes in which Pharol is involved. In Luxembourg, the list of creditors accepted by the Judicial Administration has not yet been made public and, in Portugal, the cases brought against former Administrators and the External Auditor have not had any relevant developments. In turn, Rio Forte's assets for credit satisfaction remain, for the most part, captive to the order of the Portuguese State. Taking into account this drag of processes, Pharol recorded, during 2019, a new impairment of the associated assets, with the credit book value of 63 million Euros today, equivalent to 7.02% of its nominal value.

In 2019, was maintained prudence in the management of Pharol's cost structure. In view of the extended timetable that the current circumstances of the different processes foresee, the policy of keeping in treasury the resources that are essential to the company's operation in the coming years was also pursued.



## 06. STATEMENT FROM THE BOARD OF DIRECTORS

For the purposes of article 245 of the Portuguese Securities Code, the members of the Board of Directors of PHAROL, SGPS S.A., identified hereunder, hereby declare, in their capacity and within their functions as described therein, that, as far as they are aware, and based on information that they have had access to, through the Board of Directors and/or Executive Committee, as applicable, while in office:

- The information featured in the management report, financial statements, and other accountability documents required by law or regulations concerning to 2019, was prepared in accordance with the applicable set of accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of PHAROL, SGPS S.A. and companies included in the respective consolidation perimeter;
- 2017 management report outlines the progress of the business activities, the performance and position of PHAROL, SGPS, SA and companies included in the respective consolidation perimeter, and it contains a correct description of the main risks and uncertainties that these entities face.

Lisbon, February 28, 2020

Luís Maria Viana Palha da Silva, Chairman of the Board of Directors and Managing Director

Avelino Cândido Rodrigues, Board Member

Jorge Telmo Maria Freire Cardoso, Board Member

Maria do Rosário Amado Pinto Correia, Board Member

Maria Leonor Martins Ribeiro Modesto, Board Member

Pedro Zañartu Gubert Morais Leitão, Board Member

## 07. ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS

According to its Regulations, PHAROL's Board of Directors has restated the commitment to provide its Non-Executive members with effective powers to monitor, evaluate and supervise the executive management of the Company.

During 2019, PHAROL's Non-Executive Directors could carry out their duties effectively and without constraints of any kind. In this context, the following activities are highlighted:

- In addition to the performance of their role not delegated to the Managing-Director, PHAROL's Non-Executive Directors carried out their duties of supervising the activity of the executive management, under and for the purposes of Article 407, no. 8 of the Portuguese Companies Code and the Regulation of the Board of Directors. In fact, under those rules, the delegation of authority to the Managing-Director does not preclude the legal duty of general monitoring by the Non-Executive Directors;
- The effective performance of their functions by PHAROL's Non-Executive Directors was also enhanced by the significant number of independent members within the Board

On December 31, 2019, PHAROL's Board includes 6 independent directors corresponding to 75% of the Non-Executive directors and more than 80% of the Board members, with an active and assiduous participation in the Board meetings.

Additionally, the concentration of the Chairman / Managing Director roles has not prejudiced in any way the effective performance of the functions of the Non-Executive Directors, being particularly adequate to the current stage of PHAROL's life, for the following reasons:

- Such concentration of roles in one person is fully in line with the efficient and rigorous performance of functions by Board members in the current period; the actual governance model maintains the segregation of powers between the Board and the Executive Committee, through the roles carried out by the Non-Executive Directors.
- In 2019, PHAROL's Board of Directors kept in place various practices and mechanisms aiming at facilitating the informed and independent decision making by Non-Executive Directors, including inter alia the following:
  - Managing Director providing detailed presentations during the meetings of the Board of Directors, regarding relevant issues concerning the activity developed, granting the Non-Executive Directors any additional information requested and promoting a productive debate regarding the activity of the Company (particularly in what regards strategic decisions);
  - The Non-Executive Directors gathering, jointly or separately, the information necessary or convenient to the exercise of their duties, allowing for an adequate and timely answer to be given;
  - Without prejudice to cases of acknowledged urgency, the meetings of the Board of Directors are convened with a minimum prior notice of five days and the agenda and supporting documentation of the meeting is made available at least three days in advance;

- The Non-Executive Directors frequently attending the meetings of the Board of Directors, which were held in a significant number (12 meetings), as well as informal meetings and presentations with Non-Executive Directors intended to clarify and debate specific issues concerning the financial information and the business of the Company.

In addition to these activities, it is important to note that, having the Company opted for the classic corporate governance model, its supervisory body is a Fiscal Council which, in the performance of their legal and regulatory duties, as well as those laid down in the articles of association, as described in the Company's Corporate Governance Report, presents the result of its activities in autonomous reports and opinions, including the report of supervisory activity and the opinions on the individual and consolidated annual reports, to be issued each year.

# PHAROL, SGPS S.A.



CONSOLIDATED FINANCIAL STATEMENTS

2019

## 08. CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS

<b>PHAROL, SGPS S.A.</b>			
<b>CONSOLIDATED INCOME STATEMENT</b>			
<b>PERIODS ENDED DECEMBER 31, 2019 AND 2018</b>			
	<b>Notes</b>	<b>2019</b>	<b>Euro 2018</b>
<b>COSTS, LOSSES AND (INCOME)</b>			
Wages and salaries	6	1,572,023	1,611,521
Supplies, external services and other expenses	7	2,312,077	3,338,945
Indirect taxes	8	353,795	388,204
Depreciation		111,476	66,786
Net other losses (gains)		(12,581,664)	11,624,353
		<b>(8,232,294)</b>	<b>17,029,809</b>
<b>Income (loss) before financial results and taxes</b>		<b>8,232,294</b>	<b>(17,029,809)</b>
<b>FINANCIAL LOSSES AND (GAINS)</b>			
Net interest income	9	(10,840)	(21,424)
Net foreign currency exchange losses		(4,637)	187,621
Net losses on other non-current assets		11,617,900	926,029
Net losses on financial assets	13	(36,812,568)	-
Net other financial expenses		43,217	31,754
		<b>(25,166,928)</b>	<b>1,123,979</b>
<b>Income (loss) before taxes</b>		<b>33,399,223</b>	<b>(18,153,788)</b>
Income taxes	10	12,655,388	(12,505,345)
<b>NET INCOME</b>		<b>20,743,834</b>	<b>(5,648,443)</b>
<b>Attributable to equity holders of the parent</b>		<b>20,743,834</b>	<b>(5,648,443)</b>
<b>Earnings per share</b>			
Basic and Diluted	11	0.02	(0.01)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
PERIODS ENDED DECEMBER 31, 2019 AND 2018

	Notes	2019	Euro 2018
<b>Net Income recognised in the income statement</b>		<b>20,743,834</b>	<b>(5,648,443)</b>
<b>Income (expenses) recognised directly in shareholders' equity</b>			
<b>Items that may be reclassified subsequently to the income statement</b>			
Foreign currency translation adjustments		11,134	44,666
Gains (expenses) recorded in shareholders' equity related to joint ventures			
<b>Items that will not be reclassified to the income statement</b>			
Gains (losses) on financial assets at fair value		(33,290,229)	(109,898,055)
<b>Total earnings recognised directly in shareholders' equity</b>		<b>(33,279,095)</b>	<b>(109,853,389)</b>
<b>Total comprehensive income</b>		<b>(12,535,261)</b>	<b>(115,501,833)</b>
<b>Attributable to shareholders of PHAROL SGPS</b>		<b>(12,535,261)</b>	<b>(115,501,833)</b>

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**PERIODS ENDED DECEMBER 31, 2019 AND 2018**

		Euro	
	Notes	2019	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	20	17,948,653	38,090,992
Accounts receivable		140,500	1,852,245
Taxes receivable		53,836	54,705
Prepaid expenses		13,850	14,554
<b>Total current assets</b>		<b>18,156,839</b>	<b>40,012,495</b>
<b>Non-Current Assets</b>			
Tangible assets		309,388	141,950
Financials assets	13	62,625,391	46,892,131
Other non-current assets	14	63,022,881	74,637,747
<b>Total non-current assets</b>		<b>125,957,661</b>	<b>121,671,829</b>
<b>Total assets</b>		<b>144,114,500</b>	<b>161,684,324</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	15	173,598	124,757
Accrued expenses	16	809,587	1,679,280
Taxes payable		220,924	174,835
Provisions	17	-	12,500,000
Other current liabilities	17	11,100,627	856,988
<b>Total current liabilities</b>		<b>12,304,737</b>	<b>15,335,860</b>
<b>Non-Current Liabilities</b>			
Medium and long-term debt		263,427	99,955
<b>Total non-current liabilities</b>		<b>263,427</b>	<b>99,955</b>
<b>Total liabilities</b>		<b>12,568,164</b>	<b>15,435,815</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	26,895,375	26,895,375
Treasury shares		(181,842,907)	(179,675,995)
Legal reserve		6,773,139	6,773,139
Reserve for treasury shares		188,813,227	186,646,315
Other reserves and accumulated earnings		90,907,501	105,609,675
<b>Total equity</b>		<b>131,546,335</b>	<b>146,248,509</b>
<b>Total liabilities and shareholders' equity</b>		<b>144,114,500</b>	<b>161,684,324</b>

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
PERIODS ENDED DECEMBER 31, 2019 AND 2018**

	Euro						
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Total equity
<b>Balance as at December 31, 2017</b>	<b>26,895,375</b>	<b>(179,675,995)</b>	<b>6,773,139</b>	<b>186,646,315</b>	<b>221,111,507</b>	<b>261,750,341</b>	<b>261,750,341</b>
Income (expenses) recognized directly in equity	-	-	-	-	(109,853,389)	(109,853,389)	(109,853,389)
Income recognized in the income statement	-	-	-	-	(5,648,443)	(5,648,443)	(5,648,443)
<b>Balance as at December 31, 2018</b>	<b>26,895,375</b>	<b>(179,675,995)</b>	<b>6,773,139</b>	<b>186,646,315</b>	<b>105,609,675</b>	<b>146,248,509</b>	<b>146,248,509</b>

	Euro						
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Total equity
<b>Balance as at December 31, 2018</b>	<b>26,895,375</b>	<b>(179,675,995)</b>	<b>6,773,139</b>	<b>186,646,315</b>	<b>105,609,675</b>	<b>146,248,509</b>	<b>146,248,509</b>
Acquisition of own shares	-	(2,166,912)	-	2,166,912	(2,166,912)	(2,166,912)	(2,166,912)
Income (expenses) recognized directly in equity	-	-	-	-	(33,279,095)	(33,279,095)	(33,279,095)
Income recognized in the income statement	-	-	-	-	20,743,834	20,743,834	20,743,834
<b>Balance as at December 31, 2019</b>	<b>26,895,375</b>	<b>(181,842,907)</b>	<b>6,773,139</b>	<b>188,813,227</b>	<b>90,907,501</b>	<b>131,546,335</b>	<b>131,546,335</b>

The accompanying notes form an integral part of these financial statements.



**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**PERIODS ENDED DECEMBER 31 2019 AND 2018**

	Notes	2019	Euro 2018
<b>OPERATING ACTIVITIES</b>			
Payments to suppliers	20.a	(3,123,439)	(3,260,066)
Payments to employees		(1,667,360)	(1,665,421)
Payments relating to income taxes		(56,006)	(21,700)
Other cash receipts, net	20.b	(473,229)	6,915,727
<b>Cash flows from operating activities (1)</b>		<b>(5,320,034)</b>	<b>1,968,539</b>
<b>INVESTING ACTIVITIES</b>			
Cash receipts resulting from:			
Tangible and intangible assets		8,000	30,001
Interest and related income		7,508	25,858
Capital gains and other equity instruments	20.c	-	10,925,697
		<b>15,508</b>	<b>10,981,555</b>
Payments resulting from:			
Financial investments		(12,610,973)	-
Tangible and intangible assets		(48,130)	(1,210)
		<b>(12,659,103)</b>	<b>(1,210)</b>
<b>Cash flows from investing activities (2)</b>		<b>(12,643,595)</b>	<b>10,980,345</b>
<b>FINANCING ACTIVITIES</b>			
Payments resulting from:			
Loans repaid		(22,412)	(46,419)
Interest and related expenses		(4,740)	(4,164)
Dividends		-	-
Purchase of own shares	20.d	(2,166,912)	-
		<b>(2,194,064)</b>	<b>(50,583)</b>
<b>Cash flows from financing activities (3)</b>		<b>(2,194,064)</b>	<b>(50,583)</b>
Cash and cash equivalents at the beginning of the period		38,090,992	25,152,142
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(20,157,693)	12,898,302
Effect of exchange differences		15,354	40,549
<b>Cash and cash equivalents at the end of the period</b>	20.e	<b>17,948,653</b>	<b>38,090,992</b>

The accompanying notes form an integral part of these financial statements.

(Amounts stated in Euros, except where otherwise mentioned)

## 1. Introduction

On December 31, 2019, PHAROL now holds, indirectly through wholly owned subsidiaries, 326,259,859 common shares and 1,800,000 preferred shares of Oi, S.A. ("Oi"), representing 5,5% of the total share capital of Oi.

Based on the agreements concluded on March 30, 2015 between PHAROL and Oi, PHAROL currently holds Rio Forte debt securities with a nominal value of Euro 897 million and a Call Option for shares of Oi. On March 30, 2019, once part of the call option reached maturity, PHAROL holds the call option on 17,076,554 common shares and 34,153,108 preferred shares of Oi.

## 2. Basis of presentation

The consolidated financial statements for the financial year ending on December 31, 2019 were approved by the Board of Directors and authorized for issue on February 28, 2020, but still subject to approval at the Shareholders' General Meeting, pursuant to applicable legislation.

The consolidated financial statements are presented in Euros since this is the operating currency of PHAROL. The financial statements of the investing companies given in foreign currency were converted to Euros according to the accounting policies described in Note 3.j.

The PHAROL consolidated financial statements were prepared according to the International Financial Reporting Standards ("IFRS") as adopted by the European Union, including all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that were in effect on January 1, 2019, approved for adoption by the European Union (EU).

The consolidated financial statements were prepared on the assumption of continuity of operations.

In the preparation of the consolidated financial statements in compliance with IFRS, the Board of Directors adopted certain assumptions and estimates that affect the reported assets and liabilities, as well as income and costs relating to the reported periods (Note 3).

### a) Principles of consolidation

#### Subsidiaries

PHAROL fully consolidated the financial statements of all controlled companies. A company is considered to be controlled when the Group is exposed, or has rights, to variable returns resulting from its involvement with the investee and has the ability to affect those returns through the same power it exercises over that company. In situations where the Group has, in substance, control of other entities established for a specific purpose, even if it does not possess a majority of the voting rights, they are consolidated using the full consolidation method.

When there is a participation of third parties in the equity and net income of the consolidated companies is presented separately in the Consolidated Statement of Financial Position and the Consolidated Income Statement, respectively, in the "Non-controlling Interests" caption.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their respective fair value at the acquisition date. Any excess of the cost of acquisition over the fair value of identifiable net assets is recorded as goodwill. In cases when the cost of acquisition is less than the fair value of identifiable net assets, the difference is recorded as a gain in the consolidated statement of results for the year. The interests of non-controlling shareholders are presented by the respective proportion of the fair value of identifiable assets and liabilities.

The results of subsidiaries acquired or sold during the period are included in the Consolidated Income Statement from the date of acquisition or up to the effective date of disposal, respectively.

Transactions and balances between subsidiaries are eliminated on consolidation. Capital gains arising from transactions between Group companies are also eliminated in the consolidation process.

Where necessary, adjustments are made to the financial statements of subsidiaries with a view to standardizing their accounting policies with the Group.

The PHAROL Group consists of the following companies:

					dec/19	dec/18
Company	Head office	Type of Company	Activity	Direct	Effective	Effective
Bratel BV	Amsterdam	Subsidiaries	Management of investmen	Pharol SGPS (100%)	100%	100%
PT Brasil	São Paulo	Subsidiaries	Management of investmen	Bratel BV (100%)	100%	100%
Bratel S.a.r.l.	Luxembourg	Subsidiaries	Management of investmen	Bratel BV (100%)	100%	100%

In addition, it should be noted that PHAROL as of December 31, 2019 and 2018 held an indirect interest through its subsidiary Bratel S.a.r.l. in the capital of Oi of 5.51% and 6.8%, respectively.

### 3. Principal Accounting Policies, Judgements and Estimates

#### Principal Accounting Policies

##### a) Classification of the Consolidated Statement of Financial Position

Assets realizable up to one year from the date of the Consolidated Statement of Financial Position are classified as current. Liabilities are also classified as current when they are due in less than one year or when there is no unconditional right to defer their liquidation for a period of at least 12 months after the date of the Consolidated Statement of Financial Position.

##### b) Tangible Assets

Tangible assets are stated at acquisition cost, net of accumulated depreciation, investment subsidies and accumulated impairment losses, if any. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets.

They are depreciated on a straight-line basis from the month they are available for use, during its expected useful life. The amortization period of tangible assets is monitored annually and adjusted whenever necessary to reflect its economic useful life. The amount of the asset to be depreciated is reduced by any residual estimated value. The depreciation rates used correspond to the following estimated average economic useful lives:

	<b>Years</b>
Buildings and other constructions	3 - 50
Transportation equipment	4 - 8
Tools	4 - 8
Administrative equipment	3 - 10
Other tangible fixed assets	4 - 8

Estimated losses resulting from the replacement of equipment before the end of their economic useful lives are recognized as a deduction to the corresponding asset's carrying value, against results of the period, as well as any impairment of these assets. The cost of recurring maintenance and repairs is charged to net income as incurred. Costs associated with significant renewals and betterments are capitalized if any future economic benefits are expected and those benefits can be reliably measured.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognized in the Consolidated Income Statement under the caption "Gains on disposals of fixed assets, net" when occurred.

### **c) Intangible Assets**

When existing, intangible assets are stated at acquisition cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets are recognized only if any future economic benefits are expected and those benefits as well as the cost of the asset can be reliably measured.

### **d) Impairment of Tangible and Intangible Assets**

The Group performs impairment tests for these assets if any event or change results in an indication of impairment. In case of any such indication, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of i) fair value less cost to sell, and ii) the value in use. In assessing fair value less cost to sell, the amount that could be received from an independent entity is considered, reduced by direct costs related to the sale. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the specific risk to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognized immediately in the Consolidated Income Statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized immediately in net income.

## **e) Provisions, Liabilities and Contingent Liabilities**

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where any of the above-mentioned criteria does not exist, or is not accomplished, the Group discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions for restructuring are only recognized if a detailed and formal plan exists and if the plan is communicated to the related parties.

Provisions are updated on the date of the Consolidated Statement of Financial Position, considering the best estimate of the Group's management.

Obligations for dismantling and removal costs are recognized from the month the assets are in use and if a reliable estimate of the obligation is possible (Notes 3.b). The amount of the obligation is discounted, being the corresponding effect of time value recognized in net income, under the caption "Net interest expense".

## **f) Financial Assets and Liabilities**

Financial assets and liabilities are recognized in the Consolidated Statement of Financial Position when the Group becomes a party of the respective contractual relationship.

### (i) Accounts Receivable

Accounts receivable, loans granted and other accounts receivable that have fixed or defined payments and that are not quoted in an active market are classified as accounts receivable or loans granted.

Accounts receivable do not have implicit interest, are presented at the respective nominal value deducted from estimated losses in yield, calculated essentially based (a) on the age of the balance receivable and (b) on the credit profile of the specific debtor.

### (ii) Other financial assets

The investment in Oi's shares (5.51% on December 31, 2019 and 6.68% on December 31, 2018) is measured at fair value through other comprehensive income, with gains and losses arising from changes in fair value recognized directly in other comprehensive income, in accordance with IFRS9.

Investments in debt securities issued by Rio Forte are measured by the best estimate of their fair value at each reporting date, with changes in fair value being recognized in the income statement.

### (iii) Financial liabilities and Equity Instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Equity instruments issued by the Group are recognized based on their proceeds, net of any issuance costs.

### (iv) Accounts Payable (Note 15)

Trade payables are recognized at nominal value, which is substantially similar to their fair value.

#### (v) Treasury Shares (Note 19)

Treasury shares are recognized as a deduction to shareholders' equity, under the caption "Treasury shares", at acquisition cost, and gains or losses obtained in the disposal of those shares are recorded under "Accumulated earnings".

#### (vi) Cash and Cash Equivalents and Short-Term Investments (Note 20)

The amounts included under "Cash and Cash Equivalents" correspond to the cash values, bank deposits, terms deposits and others, maturing in three months or less and that may be immediately callable with insignificant risk of change in value. The heading "Cash and Cash Equivalents" also includes deposits from clients and other entities that were not yet compensated. For the purposes of the Consolidated Cash Flow Statement, the heading "Cash and Cash Equivalents" also includes bank overdrafts included on the Consolidated Statement of Financial Standing under the heading "Short-Term Debt", where applicable.

#### **g) Leases (Company as Lessee)**

##### Recognition

The Company recognizes a right to use an asset and a lease liability on the start date of the lease. The right to use the asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the start date, in addition to any initial direct costs incurred, as well as an estimate of dismantling and removal costs of the underlying asset (if applicable), less any incentives granted.

The liability of the lease is initially recognized at the present value of the rent not yet paid at the date of the lease, discounting the interest at an interest rate implicit in the lease, or in the event that it is not possible to determine this rate easily, using the rate incremental interest rate. In general, the Company uses its incremental interest rate as the discount rate to be applied.

Lease payments included in the measurement of the lease liability include the following:

- fixed payments, less any incentives already received;
- variable lease payments, depending on a specific rate or index;
- amounts that are due under a residual value guarantee;
- exercise price of the call option, if the lessee is reasonably certain to exercise the option; and
- payment of penalties for terminating the contract, if it is reasonably certain that the lessee cancels the contract.

Liability for leases is remeasured when there are changes in future payments arising from a change in the rate or index or rate, if there is a change in the Company's estimate of the amount that must be paid under a residual value guarantee, or if the Company changes your assessment of the purchase option, its extension or termination.

When the liability for leases is remeasured, the value of the right to use is also adjusted, or a profit or loss is recorded in the income statement, if the carrying amount of the right of use asset was already reduced to zero.

The Group presents the rights to use assets and liabilities for leases in items duly segregated in the consolidated statement of financial position.

#### Short-term finance leases or leases of low-value assets

The Company does not recognize as asset use rights or lease liability, lease agreements of less than 12 months or low value lease. The Company recognizes the expenses associated with these leases, as an exercise cost during the life of the contracts.

#### Amortization

The right to use the asset is depreciated using the straight-line method, based on the lowest of the useful life of the asset's right to use or the end of the lease term. The estimated useful life of the right-of-use assets is determined on the same basis as for the remaining tangible assets.

#### Impairments

The right to use the asset is periodically reduced by impairment losses, and adjusted for certain variations in the obligation for leases associated with the asset.

#### Accounting estimates and judgments

#### Useful lives, residual values of assets and discount rates

The calculation of residual values of assets, estimated useful lives and discount rates are based on premises of lease agreements (or similar assets) and are defined based on Management's judgment, as well as the best practices in use by the sector.

### **h) Income Tax**

Income tax for the period is recognized in accordance with IAS 12 Income Taxes ("IAS 12") and is comprised of current tax and deferred tax.

Within income tax for the period, in addition to current tax, the effect of the deferred tax is also recognized, calculated based on the difference between the carrying amount of the assets and liabilities at a given time and the corresponding amount for tax purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are only recognized when there is reasonable assurance that they may be used to reduce future taxable profit, or when there is an offset with deferred tax liabilities that are expected to reverse in the same period.

Deferred tax assets are reviewed at the date of the Consolidated Statement of Financial Position and are reduced when it is no longer probable that they will be used in the future.

Tax amounts, either in respect of current or deferred tax, resulting from transactions or events recognized directly in shareholders' equity are recorded directly in those captions. The impact of changes in the tax rate is recognized in net income, except when it relates to items recognized directly in shareholders' equity, in which case the impact is also recognized directly in shareholders' equity.

#### **i) Foreign Currency Transactions and Balances**

Transactions denominated in foreign currencies are translated to the Euro at the exchange rates prevailing at the time the transactions are made. At the date of the Consolidated Statement of Financial Position, assets and liabilities denominated in foreign currencies are adjusted to reflect the exchange rates prevailing at such date. The resulting gains or losses on foreign exchange transactions are recognized in net income. Exchange differences on non-monetary items, including goodwill, and on monetary items representing an extension of the related investment and where settlement is not expected in the foreseeable future, are recognized directly in shareholders' equity under the caption "Cumulative foreign currency translation adjustments", and included in the Consolidated Statement of Comprehensive Income.

The financial statements of subsidiaries operating in other countries are translated to Euro, using the following exchange rates:

- Assets and liabilities at the exchange rates prevailing at the date of the Consolidated Statement of Financial Position;
- Profit and loss items at the average exchange rates for the reported period;
- Cash flow items at the average exchange rates for the reported period, where these rates approximate the effective exchange rates (and in the remaining cases, at the rate effective on the day the transaction occurred); and
- Share capital, reserves and retained earnings at historical exchange rates.

The effect of translation differences is recognized in shareholders' equity under the caption "Cumulative foreign currency translation adjustments" and is included in the Consolidated Statement of Comprehensive Income. In accordance with IAS 21, when a reduction of PHAROL's investment in a foreign entity occurs, through the sale or reimbursement of share capital, the accumulated effect of translation differences is transferred to the Consolidated Income Statement, considering the proportion of the reduction occurred.

PHAROL choose to use the exception under IFRS 1 relating to cumulative translation adjustments as of January 1, 2004 and transferred this amount from "Foreign currency translation adjustments" to "Accumulated earnings". As from January 1, 2004, the Group has been recognizing all translation adjustments directly in shareholders' equity and therefore these amounts are transferred to net income only if and when the related investments are disposed off or there is a repayment of the investment made.

#### **j) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that qualifies as part of the cost of that asset are capitalized. Other borrowing costs obtained are recognized as



an expense in the period in which they are incurred in accordance with the accrual principle and in accordance with the effective interest rate method.

### **k) Consolidated Statement of Cash Flows**

The Consolidated Statement of Cash Flows is prepared under IAS 7, using the direct method. PHAROL classifies as “Cash and cash equivalents” all highly liquid investments, with original maturity of up to three months and an insignificant risk of change in fair value. The “Cash and cash equivalents” item presented in the Consolidated Statement of Cash Flows also includes overdrafts, classified in the Consolidated Statement of Financial Position under “Short-term debt”.

Cash flows are classified in the Consolidated Statement of Cash Flows according to three main categories, depending on their nature: (1) operating activities; (2) investing activities; and (3) financing activities. Cash flows from operating activities include primarily collections from clients, payments to suppliers, payments to employees, payments relating to post retirement benefits and net payments relating to income taxes and indirect taxes. Cash flows from investing activities include primarily acquisitions and disposals of financial investments, dividends received from associated companies and purchase and sale of property, plant and equipment. Cash flows from financing activities include primarily borrowings and repayments of debt, payments relating to interest and related expenses, acquisition of treasury shares and payments of dividends to shareholders.

### **l) Subsequent Events (Note 24)**

Events occurring after the date of the Consolidated Statement of Financial Position that could influence the value of the assets and liabilities existing on the date of said statement are considered when preparing the financial statements for the period. These events, if significant, are disclosed in the notes to the consolidated financial statements.

### **Judgements and Estimates**

When preparing the consolidated financial statements in accordance with IFRS, PHAROL’s Board of Directors uses estimates and assumptions that affect the application of accounting policies and reported amounts. Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be probable under the circumstances on which the estimates are based, or as a result of new information or more experience. The main accounting estimates reflected in the consolidated financial statements are as follows:

- (a) Valuation of the investment in Oi** – On May 5, 2014, the Company valued its new stake in Oi based on Oi’s reference share price in the capital increase on that date, having as of that date, appropriated its stake in Oi’s income using the equity method. Additionally, from September 8, 2014, onwards, the portion of the investment to be delivered within the scope of the Exchange Agreement was classified as a non-current asset held for sale, and measured at fair value up till the execution of the Exchange Agreement on March 30, 2015. As at December 31, 2019 and 2018, the measurement of the Company’s investment in Oi was based on its market value, namely the stock price, given that PHAROL has lost its significant influence. Until December 2017, this investment was valued by the equity method.

**(b) Valuation of the Rio Forte** - On March 30, 2015, the Rio Forte instruments were obtained following the execution of the exchange related to Oi's shares. On that date, after a market consultation, the Company valued the instrument for 15 % of its notional value. This valuation was reviewed on September 30, 2016, having reduced the notional amount to 9.56%. This valuation was reviewed again on December 31, 2017, decreasing the recovery expectation to 8.32%, and, again during the year of 2019, decreasing to 7.19%. Still in the year of 2019, a second downward review was made to 7.02%.

**(c) Valuation and useful life of intangible and tangible assets** – PHAROL uses estimates to determine the useful life of its property, plant and equipment (Note 3).

**(d) Recognition of provisions and adjustments** – PHAROL is party to various ongoing legal claims for which, based on the opinion of its legal advisors, a judgment was made to determine the recognition of a possible provision for these contingencies (Note 17). Adjustments for accounts receivable are calculated based primarily on the aging of the accounts receivable, the risk profile of the customers and their financial situation.

The estimates were determined based on the best information available during the preparation of the consolidated financial statements, however, situations may arise in subsequent periods which, not foreseeable at that time, were not taken into consideration in these estimates. In accordance with IAS 8, changes to estimates which occur after the reporting date of the consolidated financial statements are applied prospectively in net income.

#### **4. Changes in Accounting Policies**

During fiscal year 2019, PHAROL has adopted the following standards issued by the International Accounting Standards Board (IASB) and approved by the European Union:

- **Amendments to IFRS 9: Characteristics of prepayments with negative contribution (Regulation 2018/498, of 22 March)**

This amendment to IFRS 9 now allows certain instruments to qualify for measurement at amortized cost or at fair value through other comprehensive income (depending on the business model) even if they do not satisfy the conditions of the SPPI test. Applicable to annual periods beginning on or after 1 January 2019.

- **IFRS 16: Leases (Regulation 2017/1986, of October 31)**

IFRS 16 establishes the principles applicable to the recognition, measurement, presentation and disclosure of leases. The purpose of the standard is to ensure that tenants and lessors provide relevant information in a manner that faithfully represents these transactions, revoking IAS 17 - Leases, as well as a set of interpretations (SIC and IFRIC), namely: IFRIC 4 - Determine whether a Agreement Contains a Lease; SIC 15 - Operating Leases - Incentives; and SIC 27 - Evaluation of the Substance of Transactions Involving the Legal Form of a Lease. Applicable to annual periods beginning on or after 1 January 2019.

The impacts of the adoption of IFRS 16 at Pharol, with reference to the respective initial application date (January 1, 2019), were as follows:

- Tangible Fixed Assets (Assets under Right of Use): Increase of 231,547 euros
- Medium- and Long-Term Debt (Lease Liabilities): Increase of 231,547 euros

- **Adoption of IFRIC 23: Uncertainty regarding income tax treatments (Regulation 2018/1595, of 23 October)**

This interpretation clarifies how the IAS 12 recognition and measurement requirements should be applied when there are uncertainties regarding the treatment of income tax. Applicable to annual periods beginning on or after 1 January 2019.

- **Amendments to IAS 28: Long-term interests in associates and joint ventures (Regulation 2019/237, of 11 February)**

This amendment clarifies that an entity should apply IFRS 9 to long-term interests in associates and joint ventures in which the equity method is not applied. Applicable to annual periods beginning on or after 1 January 2019.

- **Amendments to IAS 19: Alteration, reduction or settlement of defined benefit plans (Regulation 2019/402, of 13 March)**

This amendment requires an entity to use updated assumptions for remeasuring the cost of current service and the net interest cost for the remaining period after modifying the plan. Applicable to annual periods beginning on or after 1 January 2019.

- **Annual improvements: 2015-2017 cycle (Regulation 2019/412, of March 14)**

The improvements include minor amendments to three international accounting standards, as follows:

- **IFRS 3 Business combinations and IFRS 11 Joint arrangements**
- **IAS 12 Income taxes**
- **IAS 23 Borrowing costs**

Applicable to annual periods beginning on or after 1 January 2019.

*New standards, interpretations and changes, with date of entry into force in years beginning on or after January 1, 2020*

- **Changes to references to the revised IFRS Conceptual Framework (Regulation 2019/2075, of 29 November)**

In March 2018, the IASB revised the IFRS Conceptual Framework. For entities that use the Conceptual Framework to develop accounting policies when no IFRS applies to a particular private transaction, the revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020.

- **Amendments to IAS 1 and IAS 8: Definition of Material (Regulation 2019/2104, of 29 November)**

- These changes to IAS 1 and IAS 8 update the definition of “material”, in order to facilitate the judgments made by the entities about materiality. The definition of “material”, an important accounting concept in IFRS, helps entities to decide whether or not the information should be included in the financial statements. The amendments clarify the definition of “material” and the way in which it should be used by including in the definition of guidelines that until now were not part of the IFRS. In addition, the explanations that accompany this definition have been improved. Finally, the changes made ensure that the definition of “material” is consistent across all IFRS. Applicable to annual periods beginning on or after 1 January 2020.

- **Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of reference interest rates (Commission Regulation 2020/34, of 15 January)**

These amendments to IAS 39, IFRS 9 and IFRS 7 are intended to respond to the uncertainties that have arisen as a result of the future discontinuation of interest rate benchmarks, such as interbank interest rates (IBORs) and modify the requirements related to accounting for hedge accounting. In order to provide some relief from the potential consequences of IBOR reform. In addition, these Standards have been amended to require additional disclosures explaining how the entity's hedging relationships are affected by the existing uncertainties related to the reform of the IBORs. These changes correspond to Phase 1 of the IASB project related to the reform of the IBORs. The IASB is currently working on Phase 2, which will consider additional implications for financial reporting. Applicable to annual periods beginning on or after 1 January 2020.

*Standards (new or revised) issued by the “International Accounting Standards Board” (IASB) and interpretations issued by the “International Financial Reporting Interpretation Committee” (IFRIC) and not yet endorsed by the European Union*

Additionally, until the date of approval of these financial statements, the following standards and interpretations are still issued by the IASB, not yet endorsed by the European Union:

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued by the IASB on September 11)**

This amendment clarifies the accounting treatment for transactions when a parent company loses control in a subsidiary by selling all or part of its interest in that subsidiary to an associate or joint venture accounted for using the equity method. The date of application of these changes has not yet been defined and the endorsement process by the European Union will only start after confirmation of the date of application of the changes by the IASB.

- **IFRS 14: Accounting for Regulatory Deferrals (issued by the IASB on January 30, 2014)**

This standard allows adopters of IFRSs for the first time to continue to recognize regulatory assets and liabilities in accordance with the policy followed under the previous standard. However, to allow comparability with entities that already adopt IFRS and do not recognize regulatory assets / liabilities, these amounts must be disclosed in the financial statements separately. Applicable to years beginning on or after 1 January 2016, the European Commission having decided not to start the process of endorsing this transitional rule and to wait for the final rule to be issued by the IASB.

- **IFRS 17: Insurance Contracts (issued by the IASB on 18 May 17)**

IFRS 17 solves the comparison problem created by IFRS 4 by requiring that all insurance contracts be accounted for consistently, thus benefiting both investors and insurance companies. Insurance obligations are accounted for using current values instead of historical cost. The information is updated regularly, providing more useful information to users of the financial statements. Applicable to years beginning on or after 1 January 2021, this new standard is still subject to endorsement by the European Union.

- **Amendments to IFRS 3 - Business combinations (issued by the IASB on 22 October 18)**

These amendments to IFRS 3 improve the definition of concentration of business activity, helping entities to determine whether a given acquisition actually refers to a business activity or just a set of assets. In addition to the definition change, this amendment provides some additional guidance. Applicable to years beginning on or after 1 January 2020, this new standard is still subject to endorsement by the European Union.

- **Amendments to IAS 1 - Presentation of Financial Statements (issued by the IASB on 23 January 20)**

These changes to IAS 1 - Presentation of Financial Statements, clarify the requirements that an entity applies to determine whether a liability is classified as current or as non-current. These changes, in nature, are intended to be just a reduction in scope, clarifying the requirements of IAS 1, and not a modification to the underlying principles.

## 5. Exchange rates used to translate foreign currency financial statements

As at December 31, 2019 and 2018, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	2019	2018
Real	4.5157	4.4440
USD	1.1234	1.1450

During the years 2019 and 2018, the financial statements, income statements and cash flows of subsidiaries and joint ventures denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

<b>Currency</b>	<b>2019</b>	<b>2018</b>
Real	4.4134	4.3085
USD	1.1195	1.1810

## 6. Wages and Salaries

The composition of this caption in the 2019 and 2018 financial years is as follows:

	<b>2019</b>	<b>Euro 2018</b>
Fixed and variable remuneration	1,286,325	1,290,535
Social security	257,201	273,759
Other	28,497	47,227
	<b>1,572,023</b>	<b>1,611,521</b>

## 7. Supplies and external services

The composition of this caption in the 2019 and 2018 financial years is as follows:

	<b>2019</b>	<b>Euro 2018</b>
Specialized work (i)	1,270,418	2,447,551
Insurance	283,734	274,643
Travel	83,322	163,427
Other	674,603	453,324
	<b>2,312,077</b>	<b>3,338,945</b>

(i) In 2019 e 2018 this caption reflects mainly financial and legal services occurred in operational scope concerning the Oi investment in Brazil.

## 8. Indirect taxes

The composition of this caption in the 2019 and 2018 financial years is as follows:

	<b>2019</b>	<b>Euro 2018</b>
VAT	261,424	374,430
Other	92,371	13,775
	<b>353,795</b>	<b>388,204</b>

## 9. Net interest income

The composition of this caption in 2019 and 2018 is as follows:

	<b>2019</b>	<b>Euro 2018</b>
<b>Net interest earned</b>		
Related to cash and cash equivalents (i)	(10,840)	(21,424)
	<b>(10,840)</b>	<b>(21,424)</b>

(i) Interest income obtained in 2018 and 2017 essentially relates to cash amounts applied in term deposits by PHAROL.

## 10. Taxes and rates

In 2019, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 21.0%, plus (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) a state surcharge levied at the rates of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million, 5.0% on taxable income between Euro 7.5 million and Euro 35 million and 9.0% on taxable income in excess of Euro 35.0 million, resulting in a maximum aggregate tax rate of approximately 31.5% for taxable income higher than Euro 35 million. When calculating taxable income to which the above tax rate is applied, non-tax-deductible amounts are added to or subtracted from accounting records.

The composition of the corporate income tax for as at December 31, 2019 and 2018 is as follows:

	2019	Euro 2018
<b>Income tax</b>		
Income tax - current	12,655,388	(12,505,345)
	<b>12,655,388</b>	<b>(12,505,345)</b>

In 2019, and following the signing of the aforementioned agreement with Oi, this item essentially reflects the reversal of refunds received from the Tax Authority relating to IRC from previous years, which had been recorded as income in the first half of 2018, in the amount of 12,542,510 euros.

## 11. Earnings per Share

Earnings per share for 2019 and 2018 were as follows:

		2019	Euro 2018
<b>Net loss attributable to equity holders of Pharol</b>	(1)	<b>20,743,834</b>	<b>(5,648,443)</b>
<b>Weighted average common shares outstanding in the period</b>	(2)	<b>846,440,786</b>	<b>865,647,500</b>
<b>Earnings per share from continuing operations</b>			
Basic and diluted	(1)/(2)	0.02	(0.01)

## 12. Taxes receivable and payable

On December 31, 2019 and 2018, this caption has the following composition:

	31 Dec 2019		31 Dec 2018	
	Receivable	Payable	Receivable	Payable
<b>Euro</b>				
<b>Current taxes</b>				
Operations in Portugal				
Value-added tax	-	1,783	-	8,379
Income taxes	-	107,495	-	27,194
Personnel income tax withholdings	-	30,239	-	33,460
Social Security Contributions	-	74,873	-	77,166
Other	-	102	-	196
	-	<b>214,493</b>	-	<b>146,395</b>
Taxes in foreign countries	-	6,432	-	28,440
	-	<b>220,924</b>	-	<b>174,835</b>
<b>Non-current taxes</b>				
Taxes in foreign countries	53,836	-	54,705	-
	<b>53,836</b>	<b>220,924</b>	<b>54,705</b>	<b>174,835</b>

### 13. Financial Assets

This caption corresponds to the investment in Oi, which since December 2017 has been measured at fair value. Until that date, Oi was classified as associate and measured by the equity method.

On September 8, 2014, as explained above, PHAROL entered into an Exchange Agreement with Oi, for the Exchange of a portion of Oi shares held directly by PHAROL for the Rio Forte Investment and the Call Option over the shares. The Exchange was completed on March 30, 2015, after obtaining all necessary approvals. Because of the Exchange, the portion of the investment in Oi delivered in connection with the Exchange was classified as a non-current asset held for sale and measured at fair value based on the price of Oi shares until the Exchange Agreement date. The remaining interest of 22.8%, including the interests of 15.9% and 3.0% held directly by PHAROL and Bratel Brasil, respectively, and the interest of 3.9% owned indirectly through the controlling holding companies of Oi, remained classified as an investment in joint ventures, measured according to the equity method of accounting. After the Exchange Agreement, on March 30, 2015, the interest was 27.5%.

As referred to above, leading up to the New Ownership Structure of Oi, the Shareholder Agreements through which Oi was jointly controlled were terminated on July 30, 2015. The simplification of the structure occurred on September 1, 2015, and led to the incorporation by Oi of several assets at fair value that were not previously booked by the holding companies.

As a result of the transaction, PHAROL's effective share in Oi reduced from 27.5% to 27.4%. Furthermore, during 2015, changes to Oi's bylaws were approved, which included a 15% limitation on the voting rights of any individual shareholder.

On October 8, 2015, Oi's Board of Directors homologated the voluntary conversion of Oi's preferred shares into common shares ("Voluntary Conversion of PSs"), approved the effective conversion of the preferred shares, object to the conversion manifestations in BM&FBovespa and in the Bank of Brazil, and accepted the conversion solicitations presented by the holders of American Depositary Shares ("ADSs") representative of preferred shares ("Preferred ADSs"). The ADSs representative of the new common shares, resulting from the Offer to Exchange, related with the Voluntary Conversion of PSs, were issued on October 13, 2015. Following this operation, PHAROL's effective stake in Oi decreased from 27.4% to 27.2%.



In accordance with IAS 28 – Investments in Associates and Joint Ventures, there is a presumption that significant influence exists when voting rights are higher than 20%. For voting rights less than 20%, there should be clear indications through which significant influence may be exercised. The limitation to 15% of PHAROL’s voting rights, considering the remaining available voting rights, represented as at December 31, 2016, an effective voting right of 18.83%. By analogy, IFRS 10 – Consolidated financial statements consider that control may occur when there is a concentration of significant voting rights, with the remainder of voting rights largely dispersed (“de facto control”). In Oi’s shareholder structure, over 30% of ordinary shares are dispersed in free float, and two other shareholders besides PHAROL have voting rights of between 5% and 9% each.

However, in December 2017, and after the decision by the 7th Business Court of the District of the Capital of the State of Rio de Janeiro, which handled the Judicial Recovery (“Judgment”), which decided to withdraw the rights of the members of the Council Board of Directors of Oi in the approval of Oi’s Judicial Recovery Plan in which Oi is located, and subsequent events, it was understood that PHAROL had lost the significant influence it had until then on its associate Oi SA.

Therefore, since December 31, 2017, PHAROL started to record its investment in Oi at market value, and it was classified as “Financial Assets”.

Therefore, on December 31, 2019 and 2018, the accounting for Oi Investment, is as follows:

		2019	2018
Stock Price Oi (ON)	<i>R\$</i>	0.86	1.25
Stock Price Oi (PN)	<i>R\$</i>	1.23	1.26
Shares Outstanding (ON)	<i>Million</i>	5,796	2,298
Shares Outstanding (PN)	<i>Million</i>	156	158
Market Cap.	<i>R\$ Million</i>	5,177	3,072
Number of shares owned by PHAROL (ON)	<i>Million</i>	326.3	166.7
Number of shares owned by PHAROL (PN)	<i>Million</i>	1.8	-
% Participation	<i>%</i>	5.51%	6.88%
Market value R\$	<i>R\$ Million</i>	282.8	208.4
Market value Eur.	<i>Eur. Million</i>	62.6	46.9

#### 14. Other non-current assets

This caption includes an estimated future recovery of 63 million Euros related to the debt instruments issued by Rio Forte on 31 December 2019.

Regarding the debt instruments issued by Rio Forte, after having learned the Report of Judicial Administrators in the Rio Forte insolvency process (Rapport n° 4 des Curateurs), dated August 31, 2016, available at [www.espiritasantoinsolvencies.lu](http://www.espiritasantoinsolvencies.lu), PHAROL initiated efforts to analyze the financial, accounting and legal implications of what is contained in point 2.1.6., which is transcribed in free translation:

“Predictable recovery

The information currently available to the Judicial Administrators does not allow an estimate to be made, either of the total recovery, or of the recovery to be made by the company in bankruptcy.

It cannot be ruled out that judicial foreclosure and the possible rights of third parties involved will prevent for a prolonged period, or even definitively, the bankruptcy estate from recovering and distributing certain

assets. In fact, it is not excluded that the judicial authorities have the objective of confiscating the assets now being held.”

PHAROL's Management, after due diligence and supported by the analysis of its advisors, concluded, by a principle of prudence, that the expected values of recovery of assets by the mass of the insolvent and, consequently, by PHAROL, with Rio Forte had reduced. PHAROL's investment in Rio Forte's securities was initially valued at fair value upon its initial recognition on March 30, 2015, and subsequently measured at amortized cost less any impairment losses. Based on the basic principles set out in IAS 39 (currently IFRS 9), Management, based on the information available, used its judgment in the definition of assumptions that culminated in a credit appreciation of Rio Forte by 85.7 million Euros at 31 December 2016. This reflects a value of about 9.5% of the nominal value, against approximately 15% of the nominal value at 31 December 2015, which determined the accounting of an impairment in the amount of € 48.8M.

Additionally, in December 2017, after the update of the amount of credit complaints considered in the last report of the Judicial Administrators was higher than previously considered, the debt recovery valuation was revised downwards again, having registered at 8.32 % of recovery, which is equivalent to a reduction of 11.1 million Euros to the amount of 74.6 million Euros. At 31 December 2018, the debt recovery amount remained at 8.32%.

In April 2019 and 5 years after the credit claim was filed against Rio Forte, a new report by the Judicial Administrators was released on April 30, essentially pointing to: 1) postponement of the results of the conclusion of the administrative analysis of the statements of debt; and 2) downward revision of the value of Rio Forte's assets in Latin America; thus and based on these new factors, the recovery of debt recovery was once again revised downwards, having registered a 7.19% recovery of nominal value, which is equivalent to a reduction of 10.1 million Euros to the amount of 64.5 million Euros. Even in the year of 2019 and after the analysis of the last report issued by the Judicial Administrators, with effect on December 31, 2019, it was once again revised downwards, with the face value recovery set at 7.02 %, which is equivalent to an additional reduction of 1.5 million Euros to a total recovery amount of 63 million Euros.

Additionally, and still within the scope of the credit on Rio Forte, PHAROL in December 2017 learned of a statement from the curators of Espirito Santo International, SA, ("ESI") in which they declare that this bankrupt company will evaluate the possibility to sue PHAROL, asking for the latter to be ordered to reimburse 750 million Euros, without specifying the grounds for that request.

Following this statement, already in January 2019, PHAROL was notified by ESI's curatorship, as a precautionary measure to interrupt any limitation period, with a view to an eventual cancellation of Notes payments made by ESI during January 2014.

After analyzing the aforementioned subpoena, PHAROL considers the probability of being able, on the basis of the alleged facts, to be able to obtain any condemnation of PHAROL under the subpoenaed terms highly remote. Accordingly, PHAROL has not made any provision in its financial statements.

## **15. Accounts Payable**

As at December 31, 2019 and 2018, the composition of this caption is as follows:

	Euro	
	2019	2018
<b>Current accounts payable</b>		
Current suppliers	164,454	141,666
Others	9,144	(16,910)
	<b>173,598</b>	<b>124,757</b>

## 16. Accrued Expenses

As at December 31, 2019 and 2018, the composition of this caption is as follows:

	Euro	
	2019	2018
Supplies and external services	522,513	1,243,556
Vacation pay and bonuses	221,259	345,959
Others	65,815	89,765
	<b>809,587</b>	<b>1,679,280</b>

## 17. Provisions

As at December 31, 2019 and 2018, the composition of this caption is as follows:

	Euro	
	2019	2018
<b>Provisions</b>		
Others	-	12,500,000
	-	<b>12,500,000</b>

The provision made in 2018 considers eventual liabilities resulting from the position assumed by the company with respect to tax refunds and tax benefits from previous years.

This provision was recorded as a contra entry to the statement of income "Other costs (gains), net".

In 2019, following the agreement signed with Oi that clarified the destination to be given to these tax refunds from previous years, the existing provision was reversed and the referred refunds from the Tax Authority were recognized on "Other accounts payable".

## 18. Guarantees and financial commitments

As at December 31, 2019 and 2018, this caption has the following composition:

	Euro	
	2019	2018
Bank and other guarantees presented to the tax authorities	84,617,476	84,617,476
	<b>84,617,476</b>	<b>84,617,476</b>

The bank and other guarantees presented to the tax authorities essentially include Euro 85 million on December 31, 2019 and 2018, respectively, related to the tax assessments received by PHAROL. The company presented legal challenges to these assessments and, in accordance with the Portuguese Law, provided collateral, in order to avoid the initiation of enforcement proceedings, which, in the absence of guarantee or payment of the contested tax, would continue until the request of a pledge of sufficient assets to cover the requested tax. The Portuguese Law, while always allowing for the appeal over taxes liquidated

by the tax authorities, only suspends enforcement proceedings upon payment of the tax, or the provision of a guarantee. Providing a guarantee, thereby, avoids the payment of tax before the appeal decision or attachment of assets in enforcement proceedings. The change in the value of the guarantees provided in 2018 occurred due to cancellation due to the expiration of part of the guarantees. During the year of 2018, there was a change in the value of the guarantees provided due to the cancellation resulting from the expiration of part of the guarantees.

These guarantees were presented by PHAROL as the controlling company of the consolidated tax in the years in question, even though, as at December 31, 2019, the contingencies associated to these guarantees are not the Company's responsibility, having been contractually transferred to Oi, while PHAROL remains and severally liable for these contingencies. Notwithstanding the expiration and consequent cancellation of part of the Guarantees, the tax proceedings are still ongoing and Oi is responsible for them and may amount to up to 378 million euros. According to the agreements with Oi, Oi is obliged to substitute the bank guarantees provided by PHAROL to the tax authority for guarantees provided by Oi. In cases where this substitution is not possible, Oi has undertaken to provide guarantees with the same value in favor of PHAROL.

As such, on December 31, 2019, a Pledge Agreement on the shares of Telemar Norte Leste with a maximum amount up to the limit of the potential liabilities currently, is in place.

In January 2020, as agreed in the Private Instrument of Transaction and Other Covenants, signed between PHAROL and Oi on January 8, 2019, Oi, through PT Participações SGPS, SA, made a deposit in a guarantee account in the amount Eur.34,340,803.32, intended to guarantee PHAROL in the event of eventual conviction in tax contingencies under Oi's responsibility.

## 19. Capital

### 19.1. Share capital

The share capital of PHAROL, which is fully subscribed and paid in, was as at December 31, 2019 and 2018, Euro 26,895,375, represented by 896,512,500 common shares, with a nominal value of three Euro cents each.

### 19.2. Treasury shares

As at December 31, 2019 and 2018, this caption is made up as follows:

	2019	Euro 2018
Shares held by PHAROL	181,842,907	179,675,995
	<b>181,842,907</b>	<b>179,675,995</b>

PHAROL held 50,071,714 treasury shares, corresponding to 5.6% of the share capital PHAROL

### 19.3. Legal reserve

Commercial law and PHAROL's articles of association provide that at least 5% of the net annual income must be appropriated to strengthen the legal reserve until this reserve represents 20% of the share capital. This reserve is not available for distribution to shareholders, unless on company liquidation, but may be used to absorb losses, once all other reserves have been exhausted, or for incorporation in the share capital. As at

December 31, 2019 and 2018, the legal reserve was Euro 6,773,139 and was already fully incorporated, corresponding to more than 20% of the share capital.

#### 19.4. Reserve for treasury shares

The reserve for treasury shares relates to the recognition of a non-distributable reserve equivalent to the nominal value of the cancelled shares, or to the acquisition cost of treasury shares held by PHAROL. This reserve has the same legal regime as the legal reserve. As at December 31, 2019 and 2018, this reserve relates to shares cancelled on December 20, 2007, March 24, 2008, and December 10, 2008, in the amount of Euro 6,970,320, as well as the treasury shares acquired between 2014, 2016 e 2019, amounting to Euro 181,842,907.

#### 19.5. Revaluation reserve, other reserves and accumulated earnings

As at December 31, 2019 and 2018, this caption was made up as follows:

	2019	Euro 2018
Retained earning	110,355,831	116,004,274
Net income	20,743,834	(5,648,443)
Free reserves	105,209,244	105,209,244
Cumulative foreign currency translation adjustments (i)	(46,210)	(57,344)
Income and expenses recognized directly in equity (ii)	(145,355,197)	(109,898,055)
	<b>90,907,501</b>	<b>105,609,675</b>

(i) The variation of this caption reflects mainly the exchange effect arising from the transfer of the subsidiary Pharol Brasil.

(ii) On December 31, 2019 and 2018, with IFS9 application, the investment of the associate Oi, which started to be classified as an investment in equity instruments at fair value through other comprehensive income, all the fair value changes occurred in this investment were recognized in equity.

#### 20. Consolidated Statement of Cash Flows

##### (a) Payments to suppliers

In 2019 and 2018, payments to suppliers mainly reflect payments of as third party suppliers and consultants.

##### (b) Other net receipts

In 2018, other net receipts essentially include reimbursements made by the Portuguese Tax Authority in relation to taxes paid in previous years.

##### (c) Capital Realization and other equity instruments

In 2018, this heading relates to the sale of shares and subscription rights in capital increase of the company Oi S.A..

##### (d) Acquisition of Treasury Shares

In 2019, this item refers to the acquisition of 19,206,714 Treasury shares.

##### (e) Cash and cash equivalents at the end of the period

At 31 December 2019 and 2018, the composition of this caption is as follows:

	2019	Euro 2018
Cash	1,247	1,767
Demand deposits	9,947,407	38,089,225
Time deposits	8,000,000	-
	<b>17,948,653</b>	<b>38,090,992</b>

## 21. Related Parties

During the years ended December 31, 2019 and 2018, the fixed remuneration of the Board members, which was established by the Remuneration Committee, amounted to Euro 627 and 605 thousand, respectively.

On December 31, 2019 and 2018, no share-based payment was in force, nor any termination benefit program.

## 22. Shareholders with Qualified Holdings

The Company believes that it is relevant to disclose outstanding balances and transactions with its main shareholders, namely those with a qualified holding of more than 2% in PHAROL's share capital, and with all the entities reported by these shareholders as being part of the respective economic groups. The tables below present the balances as at December 31, 2019 and 2018, and the transactions occurred in the years ended December 31, 2019 and 2018 between PHAROL and the entities that are identified as shareholders with qualified holding and respective economic groups:

	2019	Euro 2018
		<b>Cash and bank deposits</b>
<b>Shareholder</b>		
Novo Banco	5,389,599	1,094,507
	<b>5,389,599</b>	<b>1,094,507</b>

	2019		2018	
	Costs and losses	Net interest income	Costs and losses	Net interest income
<b>Shareholder</b>				
Novo Banco	992	3,849	613	9,584
	<b>992</b>	<b>3,849</b>	<b>613</b>	<b>9,584</b>

## 23. Financial instruments

### 23.1. Financial risks

PHAROL is exposed basically to (i) market risks related with changes in currency exchange rates and interest rates, (ii) credit risks. The main objective of risk management at PHAROL is to reduce these risks to an acceptable level.

#### 23.1.1 Currency exchange risk

Currency exchange risks are essentially related with PHAROL investments in Brazil. On December 31, 2019 and 2018, net exposure (assets less liabilities, net of non-controlling interests) in Brazil amounted to R\$282 million (Euro 62.5 million) and R\$219 million (Euro 49.4 million), respectively. Risks relative to Company investments in operations abroad basically concern Oi investments. PHAROL does not have any contracted derivative instrument to hedge currency exchange risk associated with investments in foreign companies.

The effect on PHAROL's equity resulting from hypothetical changes in relevant risk variables is the impact of the valuation (devaluation) of the Real against the Euro in 0.1, from 4.52 to 4.62 (4.42), would be an increase (decrease) in net assets on December 31, 2019, of approximately Euro 1.36 million (Euro 1.42 million), corresponding to adjustments in currency exchange conversion for investments in Brazil.

### 23.1.2 Credit risks

Credit risk is essentially associated with the risk of a counterpart defaulting on contractual obligations, resulting in a financial loss to the Group. PHAROL is essentially subject to credit risk in its operational and treasury activities.

Criteria used to calculate adjustments to accounts receivable are based on a recoverability analysis of accounts receivable on a regular basis.

On December 31, 2019, the receivables balance was not considered as significant.

Risks associated with treasury activities essentially result from investments made by the Group in cash investments. As mentioned before, in order to mitigate this risk, PHAROL put into place an investment diversification policy as of July 2014, so that investment in a financial institution is not greater than 34% of the total treasury applications. Thus, it ensures that amounts are invested in short term applications in diverse and reputed financial institutions.

PHAROL is also subject to credit risk in its investment in Rio Forte Investments, but has adjusted the value accordingly. In addition, and in connection with the Rio Forte debt instruments, PHAROL was informed of a statement from the curators of Espírito Santo International, SA ("Insolvency"), stating that this bankrupt company is going to sue PHAROL for the conviction of this company refund of EUR 750 million, without specifying the grounds for such a request.

Following this announcement, as of January 2019, PHAROL was summoned by the curator of Espírito Santo International, SA, as a precautionary measure to interrupt any limitation period, with a view to canceling ESI Notes payments during the month of January 2014.

After analyzing the abovementioned summons, PHAROL considers it highly remote that, on the basis of the alleged facts, it is possible to obtain any conviction of PHAROL in the terms provided. Accordingly, PHAROL has recorded any provision in its financial statements.

## 24. Subsequent events

Oi's stock price evolution between December 31, 2019, and February 27, 2020, can be found below:

	<b>31 dec 19</b>	<b>27 feb 20</b>
Oi ON share price (Reais)	0.86	0.98
Oi PN share price (Reais)	1.23	1.33
Exchange rate Real/Euro	4.5157	4.8975
Oi ON share price (Euro)	0.19	0.20
Oi PN share price (Euros)	0.27	0.27

# **PHAROL, SGPS S.A.**

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**REPORT AND OPINION OF THE FISCAL COUNCIL**



**REPORT AND OPINION  
OF THE FISCAL COUNCIL**

**For Financial Year of 2019  
(consolidated financial statements)**

To the Shareholders of  
PHAROL, SGPS S.A.

1. In compliance with the provisions of paragraph g) of number 1 of article 420 of the Commercial Companies Code, it is incumbent upon us, as members of the Fiscal Council of "PHAROL SGPS, S.A." (hereinafter PHAROL), issue the annual report on our inspection action, as well as give an opinion on the management report, the consolidated financial statements and the proposal for the application of results presented by the Board of Directors for the year ended on 31 December 2019.

2. We must mention, as a supervisory body, that:

2.1. On January 8, 2019, Bratel S.à.rl/PHAROL and Oi signed an Agreement for the closure and termination of any and all judicial and extrajudicial disputes in Brazil, Portugal and in all different countries where there are discussions involving companies from two groups. On April 2, 2019, with the approval of the aforementioned Agreement, PHAROL became the holder of a 5.51% interest in Oi's share capital;

2.2. For the effective performance of our functions, we obtained the collaboration of the Managing Director and the Board of Directors, those responsible for the relevant areas, as well as the Statutory Auditor and External Auditor.

3. Also, through the clarifications and information collected from the aforementioned managers, we became aware of the development of PHAROL's management and activity.

We also proceeded to verify the consolidated financial information produced during the year of 2019, carrying out the analyzes deemed convenient and necessary.

4. Our work has always consisted in complying with the legally established matters, in permanently monitoring PHAROL's activity, and in verifying that the valuation criteria adopted in the preparation of the accounts are in accordance with the accounting framework in force.

5. The Fiscal Council met eleven times, in the performance of its duties, having developed several actions of which the following stand out:

- 5.1. Appraisal of the effectiveness of internal control systems, risk management and adjustments to accounts, obtained from the Statutory Auditor and External Auditor;
  - 5.2. Analysis of the consolidated financial information disclosed;
  - 5.3. Appreciation of the accounting policies followed by PHAROL as to their adequacy and consistency;
  - 5.4. Verification of the compliance of the consolidated financial statements with the applicable legal requirements.
6. In terms of the internal regulation, which defines the rules and procedures to be adopted in the System of Qualified Participation of Undue Practices (Whistleblowing), we became aware of the semiannual reports of the activity developed by the Center for Analysis of Qualified Participations, dated July 16, 2019 and January 2, 2020, with no Participations occurring during the 2019 financial year.
  7. The Supervisory Board, still within the scope of its functions, exercised its powers in terms of supervising the qualifications, independence and exercise of functions of the Statutory Auditor and External Auditor. We met with the latter, who always provided all the clarifications, technical and accounting, considered necessary, having delivered the additional report to the supervisory body, prepared in a detailed and clarifying manner.
  8. We became aware of the conclusions of the audit and external audit work on the consolidated financial statements for 2019, which comprise the balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, consolidated statement of cash flows and respective notes.
  9. We also became aware of the content of the legal certification of the accounts and the audit report regarding the consolidated financial statements, with a reservation and an emphasis, issued by the Statutory Auditor and External Auditor, a document that deserved our agreement.

It is the understanding of the Statutory Auditor and External Auditor that consist of relevant audit matters:

- i) Measurement of investment in Oi, S.A.
- ii) Measurement of investment in debt securities issued by Rio Forte Investments, S.A.

In these areas, audit procedures and tests deemed relevant in the circumstances were developed.

10. In the course of our duties, we have verified that the Board of Directors' report mentions the most significant administrative facts, complements the accounts and contains references to PHAROL's activity, adequately clarifying the management of the financial year.
11. We also verified that the PHAROL Corporate Governance Report disclosed includes the elements required under article 245 - A of the Securities Code, being prepared in accordance with the annex to CMVM Regulation No. 4/2013 of 1 January 2014 and the circular issued by the same Commission on January 11, 2019.
12. The Fiscal Council declares that, as far as it is aware, the information provided for in paragraph a) of paragraph 1 of article 245 of the Securities Code, for consolidated financial statements:
  - i) It was prepared in accordance with the applicable accounting standards, giving a true and appropriate image of PHAROL's assets and liabilities, financial situation and results;
  - ii) It faithfully exposes the business evolution, performance and position of PHAROL and the companies included in the consolidation perimeter; and
  - iii) It contains a description of the main risks and uncertainties that PHAROL faces in its activity.
13. Based on the above report, we are of the opinion that the management report and the consolidated financial statements for the 2019 financial year be approved.
14. Finally, the members of the Supervisory Board express their recognition and thanks to the Board of Directors, to the principal officers and other employees of PHAROL for their collaboration.

Lisbon, February 28, 2020

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José Maria Ribeiro da Cunha — Chairman

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Isabel Maria Beja Gonçalves Novo — Member

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João Manuel Pisco de Castro - Member

# **PHAROL, SGPS S.A.**

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**STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT**

## STATUTORY AUDITOR'S CERTIFICATION AND AUDIT REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail)

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Qualified Opinion

We have audited the accompanying consolidated financial statements of Pharol, SGPS, SA Group (Group), which comprise the consolidated statement of the financial position as at December 31, 2019 (showing a total of 144 114 500 euro and a total net equity of 131 546 335 euro, including a net profit of 20 743 834 euro) and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the “Basis for qualified opinion” section of our report, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Pharol, SGPS, SA Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

#### Basis for qualified opinion

The Independent auditor's report on the individual and consolidated financial statements for the year ended December 31, 2018 of Oi, SA, dated March 26, 2019, included a “Material uncertainty as to going concern” of Oi, SA. Bearing in mind the Independent auditor's review report on the interim individual and consolidated financial statements for the period ended September 30, 2019 of Oi, SA, dated December 2, 2019, we highlight the following paragraph of the Emphasis titled “Going concern”, taking also into account the note 13 to the present consolidated financial statements: *“We draw attention to Note 1 to the individual and consolidated interim financial information, on the section about going concern, which informs that the individual and consolidated interim financial information has been prepared assuming the continuity of the*

*Company as a going concern, considering the success of the implementation of the Judicial Reorganization Plan (“PRJ”) and compliance with the requirements set forth in Law No. 11.101/2005. These events or conditions indicate that there are significant uncertainties that may cast significant doubt on the Company’s going concern. (...)*”. Up to the present date, neither the individual and consolidated financial statements for the year ended December 31, 2019 of Oi, SA, nor the corresponding Independent auditor’s report, are yet available, situation that limits the scope and depth of the audit. As referred in the note 13 to the present consolidated financial statements, the investment in Oi, SA, as at December 31, 2019 is measured by the market value at that date, determined using the closing stock exchange listed market price. As presented in note 24 to the present consolidated financial statements, the listed market price of the ordinary shares of Oi, SA evolved from R\$ 0,86 (€ 0,19) as at December 31, 2019 to R\$ 0,98 (€ 0,20) as at February 27, 2020 and the listed market price of the preferred shares of Oi, SA evolved from R\$ 1,23 (€ 0,27) as at December 31, 2019 to R\$ 1,33 (€0,27) as at February 27, 2020.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section below. We are independent of the Group entities in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Emphasis of matter

The chapter 3 of the Consolidated Annual Report 2019 and the notes 3 and 14 and 23 to the present consolidated financial statements, disclose, on one hand, that the measurement of the debt securities issued by Rio Forte Investments, SA reflects the management's best estimate concerning the recoverable amount of those securities and, on the other hand, that the Group was summoned by the curators of Espírito Santo International SA (ESI), in view of a possible cancellation of Notes' payments, made by ESI, during the month of January 2014. Pharol, SGPS, SA (Pharol) considers a very low probability, based on alleged facts, of obtaining any conviction of Pharol under the terms provided. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Synthesis of audit response
<b><i>Measurement of Oi, SA investment</i></b>	
<p>The equity investment in Oi, SA (voting rights of 5,63%) is presented as financial assets measured by the market value.</p> <p>Oi, SA is a large entity with high public and media profile, being highly relevant to the Group financial statements. Oi, SA is under a judicial reorganization process since June 2016. The respective financial statements are audited by other auditors.</p> <p>Related disclosures: Notes 2, 3 and 13 to the present consolidated financial statements.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Confirmation of the shares held by the Group as at December 31, 2019, through the verification of the documentation from the custodian banks where these shares are deposited.</p> <p>Verification of the adequate form of classification and measurement of this investment, bearing in mind the provisions of the applicable IFRS.</p> <p>Obtaining and analysing the independent auditor's review report on the most recent available individual and consolidated financial statements (as at September 30, 2019) of Oi, SA;</p> <p>Analysis and validation of the calculations inherent to the measurement by market value;</p> <p>Evaluation of the reasonableness of the financial statements' disclosures.</p>

Key audit matters	Synthesis of audit response
<b><i>Measurement of the investment in debt securities issued by Rio Forte Investments, SA</i></b>	
<p>At March 30, 2015 the debt securities issued by Rio Forte Investments, SA (Rio Forte) were returned to the Group, following the performance of the exchange contract signed on September 8, 2014 between Oi Group and the Group.</p> <p>Rio Forte is under an insolvency process taking place in Luxembourg, with high public and media profile. This investment is relevant within the scope of the Group financial statements and the respective measurement involves significant judgements.</p> <p>Related disclosures: Notes 3, 14 and 23 to the present consolidated financial statements.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Analysis of the information present in the reports and announcements issued by the Rio Forte insolvency curators;</p> <p>Analysis of the judgements made by the management in determining the recoverable amount of the debt securities at December 31, 2019;</p> <p>Circularization of the banks where the debt securities are deposited;</p> <p>Monitoring of possible developments arising from an announcement issued by the insolvency curators of Espírito Santo International, SA issued in November 14, 2017 and the corresponding subpoena in the meanwhile received in 2019;</p> <p>Analysis and appraisal of the legal opinion about the expected outcome for Pharol of the subpoena received from ESI referred before, prepared by Pharol's legal consultants that are following this process.</p> <p>Circularization of the lawyers that handle the insolvency process;</p> <p>Evaluation of the reasonableness of the financial statements' disclosures.</p>

### **Responsibilities of management and of the supervisory body for the consolidated financial statements**

Management is responsible for:

- (i) the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union;
- (ii) preparation of the management report and the corporate governance report in accordance with the applicable laws and regulations;
- (iii) designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;



- (iv) the adoption of accounting policies and principles appropriate in the circumstances; and
- (v) assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (i) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- (ii) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- (iii) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (iv) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- (v) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (vi) obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group Audit. We remain responsible for our audit opinion.
- (vii) communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- (viii) determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes their public disclosure;
- (ix) provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451.º of the Portuguese Companies' Code.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **On the management report**

Pursuant to article 451.º, n.º 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatements.

### **On the corporate governance report**

Complying with article 451.º, n.º 4, of the Portuguese Companies' Code, in our opinion, the corporate governance report includes the information required to Pharol to provide under article 245.º-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

### **On the additional matters provided in article 10.º of Regulation (EU) n.º 537/2014**

Pursuant to article 10.º of the Regulation (EU) n.º 537/2014 of the European Parliament and of the Council, of 16 April 2014, in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Pharol in the shareholders general assembly held on May 29, 2015 for a first mandate from 2015 to 2017. We were appointed for a second mandate, from 2018 to 2020, as auditors of Pharol in the shareholders general assembly held on May 25, 2018.
- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism, and we design audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement on the consolidated financial statements due to fraud.

- We confirm that our audit opinion issued is consistent with the additional report that we prepared and delivered to the supervisory body of Pharol on February 28, 2020.
- We declare that we have not provide any prohibited services as described in article 77.º, number 8, of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.
- We inform that, in addition to the audit, we have not provided to the Group any other services.

Lisbon, February 28, 2020

*Rui Lourenço Helena, as representative of*

*BDO & Associados - SROC*

**CORPORATE GOVERNANCE REPORT**  
**2019**



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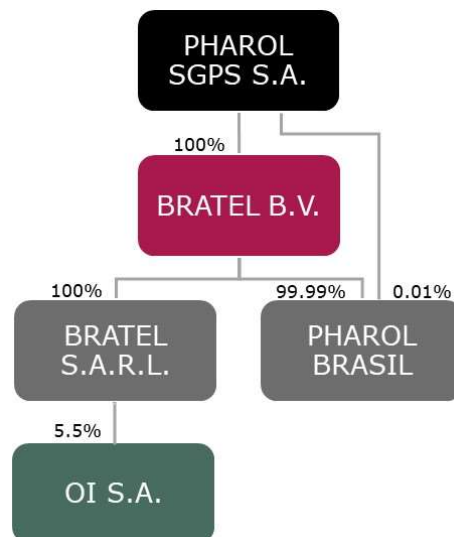
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## INTRODUCTION

PHAROL, SGPS SA, is headquartered at Rua Joshua Benoliel, 1, 2C, Edifício Amoreiras Square, 1250-133 Lisboa, with a share capital of EUR 26,895,375.00, registered on the Commercial Registry Office under unique registration and personal number collective 503215058 ("PHAROL" or "Company") is public listed company, issuer of securities admitted to trading on the regulated market of Euronext Lisbon.

In this report, PHAROL complies with the recommendations contained in the Corporate Governance Code of the Portuguese Institute of Corporate Governance ("CGS IPCG") which entered into force on January 1, 2018 and continues to prepare the Report in accordance with the annex to Regulation of CMVM nº 4/2013 of January 1, 2014 and with the circular issued by the same Commission on January 11, 2019. This Report intends to reflect the adjustment and the pertinence of each recommendation to the reality and conjuncture of the Company with reflecting its classic corporate governance model and the provisions of paragraph a) of no. 1 of article 278 of the Commercial Companies Code.

The structure and investment of the PHAROL Group as of December 31, 2019 are as follows:



**A. SHAREHOLDER STRUCTURE**

**I. CAPITAL STRUCTURE**

**1. CAPITAL STRUCTURE**

The share capital in PHAROL is 26,895,375 Euros and it is fully paid up and represented by 896,512,500 common shares with a par value of three Euro cents each.

All PHAROL ordinary shares are admitted to trading on the Euronext Lisbon regulated market.

PHAROL keeps ADRs program, traded Over the Counter, allowing the trade to American investors.

**2. RESTRICTIONS TO SHARE TRANSFERABILITY, SUCH AS CONSENT CLAUSES FOR DISPOSAL, OR LIMITATIONS TO SHARE OWNERSHIP**

The Company does not adopt any specific limitations as to share transferability. However, the Bylaws provide that shareholders carrying out, directly or indirectly, a business competing with the business of companies in a control relationship with PHAROL may not be the owners, without the prior authorisation of the General Meeting of shareholders, of ordinary shares representing more than 10% of the share capital in the Company.

**3. NUMBER OF OWN SHARES, CORRESPONDING CAPITAL PERCENTAGE AND CORRESPONDING VOTING RIGHTS PERCENTAGE**

On 31 December 2019, the Company held 50,071,714 own shares, corresponding to 5.585% of PHAROL share capital.

The voting rights inherent to the own shares are suspended, in accordance with the applicable legislation.

**4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES**

There are no significant agreements entering into force in the event of change in control in PHAROL. There are no measures requiring payment or assumption of fees by the Company in the event of change of control or change in the composition of the Board of Directors and which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members.

**5. RENOVATION / REVOCATION OF DEFENSIVE MEASURES, IN PARTICULAR THOSE PROVIDING FOR THE RESTRICTION OF THE NUMBER OF VOTES THAT MAY BE HELD OR EXERCISED BY A SINGLE SHAREHOLDER**

PHAROL's Bylaws include a limitation on the counting of votes whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13, 10).

The Company's bylaws provide a limitation on the counting of votes. On 24 May 2016, the discussion of this point was taken to the Shareholders' Meeting and it was decided to keep this limitation.

Also, the Regulation of the Board of Directors approved at the beginning of 2020 is stipulated that, providing for the Company's bylaws a limitation on the number of votes that can be held or exercised by a single shareholder, individually or in concert with others, the Board of Directors must promote that, at least every 5 years, should it be submitted to deliberation by the general meeting the change or maintenance of this statutory requirement.]

## 6. SHAREHOLDERS' AGREEMENTS OF WHICH THE COMPANY IS AWARE AND MIGHT LEAD TO RESTRICTIONS IN THE TRANSFER OF SECURITIES OR VOTING RIGHTS

The Company has no knowledge of the existence of any shareholders' agreements that might lead to restrictions in the transfer of securities or voting rights.

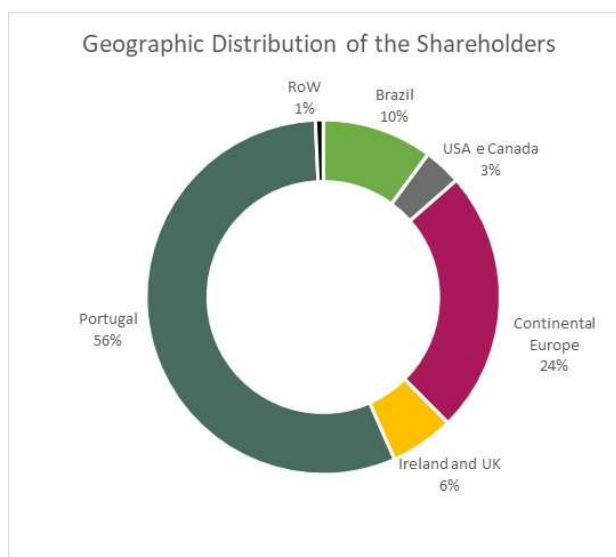
## II. SHAREHOLDINGS AND BONDS

### 7. OWNERS OF QUALIFIED HOLDINGS, PERCENTAGE OF CAPITAL AND VOTES ATTRIBUTABLE, SOURCE AND CAUSES FOR ATTRIBUTION

As at 31 December 2019, qualified holdings represented about 25.9% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
<b>31/05/2012</b>	<b>Telemar Norte Leste S.A.</b>	<b>89,651,205</b>	<b>10.00%</b>	<b>10.00%</b>
	Telemar's sole shareholder is OI S.A..			
	Total attributable	89,651,205	10.00%	10.00%
<b>02/04/2018</b>	<b>Novo Banco S.A.</b>	<b>85,665,125</b>	<b>9.56%</b>	<b>9.56%</b>
	Directly	85,665,125		
	Shares held by companies in a controlling or group relationship with Novo Banco, S.A.	916		
	Shares held by directors and members of the Corporate Bodies	595		
	Total attributable	85,666,636	9.56%	9.56%
<b>09/10/2019</b>	<b>Real Vida Seguros S.A.</b>	<b>38,875,874</b>	<b>4.34%</b>	<b>4.34%</b>
	Patris Investimentos SGPS SA	38,875,874	4.34%	
	Gonçalo Pereira Coutinho	Holds 54,518% Patris Investimentos SGPS SA		
	Total attributable	38,875,874	4.34%	4.34%
<b>26/02/2020</b>	<b>Abante Asesores, S.A.</b>	<b>18,200,000</b>	<b>2.03%</b>	<b>2.03%</b>
	Abante Asesores, S.A. holds 99.99% of Abante Asesores Gestión SGIIC, S.A. (management company of Abante Pangea Fund) and 99.99% of Abante Pensiones EGFP, S.A. (management company of Tempus 30-75 Pensiones F.P.)			
	Total attributable	18,200,000	2.03%	2.03%

PHAROL has a diversified shareholder structure, with around 44% of its share capital held by foreign shareholders, essentially divided between Brazil, North America (US and Canada) and Europe, representing 10%, 11% and 30% respectively of the shareholder basis. The Portuguese market represents around 56% of the shareholder basis.



Source: Interbolsa (December 2019)

For further information on the source and cause of the qualified holdings, please refer to the section called "Qualified Holdings" on the annual management report.

Updated information on qualified holdings in the Company may be consulted at [www.pharol.pt](http://www.pharol.pt) and on CMVM website.

8. NUMBER OF SHARES AND BONDS HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

Regarding this matter, please see item 17 of Part I below.

Members of the supervisory bodies do not hold PHAROL shares.

9. SPECIAL POWERS OF THE MANAGEMENT BODY, NOTABLY AS REGARDS CAPITAL INCREASE RESOLUTIONS

The powers of PHAROL's Board of Directors are described in item 21 below.

Prior to the resolution of the General Meeting setting parameters for capital reinforcement or reinforcement, PHAROL's bylaws authorize the Board of Directors, with the favorable opinion of the Fiscal Council, to resolve to increase the capital stock by one or more times, and by cash inflows, in value up to 80,000,000 euros. The total amount of the authorized capital increase includes not only the nominal value of the issue(s) and the issue premium(s). For the calculation of the overall limit of 80,000,000.00, convertible bonds issued under Article 8 of the bylaws shall always be taken into account.

10. SIGNIFICANT COMMERCIAL RELATIONSHIPS BETWEEN OWNERS OF QUALIFIED HOLDINGS AND THE COMPANY

PHAROL does not have significant commercial relationships with holders of any qualifying holdings.

Nevertheless, PHAROL and Oi still have a Call Option Agreement under which PHAROL holds a call option to repurchase Oi shares that were the subject of the Exchange Agreement entered into in September 2014. Currently, this option concern over 25,614,830.88 common shares and 51,229,661.76 preferred shares of Oi, with an exercise price of 20.104 reais for common shares and 18.529 reais for preferred shares, to be adjusted by the Brazilian CDI rate plus one, 5% per year from March 30, 2015, and a maturity of 6 years, with the possibility of exercising the option for PHAROL at 10% at the end of the first year and at 18% at the end of each subsequent year.

Relevant transactions executed during 2019 with other owners of qualified holdings, who are not related parties, are described in Note 22 the consolidated financial statements included in the Report and Consolidated Accounts 2019. There are no other relevant commercial relations between owners of qualified holdings and the Company.

PHAROL/BRATEL and Oi reached a consensus to close and extinguish judicial and extrajudicial disputes in Brazil, Portugal and in all the different countries where there are discussions involving companies from both Groups and was signed an agreement to that effect on 9 January 2019.

## **B. CORPORATE BODIES AND COMMITTEES**

### **I. GENERAL MEETING OF SHAREHOLDERS**

#### *COMPOSITION OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS*

The General Meeting of shareholders ordinarily meets once a year or whenever it is requested to the Chairman of Board of the General Meeting of shareholders by the Board of Directors, the Fiscal Council or by shareholders representing at least 2% of the share capital.

Shareholders may participate directly in the General Meeting or appoint their representatives, within the broadest terms provided for under the Portuguese Companies Code, using the form available at [www.pharol.pt](http://www.pharol.pt) and the specific information given in the respective notice.

The Compensation Committee is represented in all General Meetings.

The Chairman of the Board of the General Meeting of shareholders is also provided with logistic support as required to carry out his duties, and the shareholders may contact the Board of the General Meeting of shareholders as follows:

Presidente da Mesa da Assembleia Geral  
Rua Joshua Benoliel, 1, 2C, Edifício Amoreiras Square, 1250-133, Lisboa  
Tel. - + 351800207369  
Fax - + 351 212697949  
E -mail: [assembleia@pharol.pt](mailto:assembleia@pharol.pt)

#### **11. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS, COMMENCEMENT AND EXPIRATION OF TERM OF OFFICE**

##### **Board of the General Meeting of Shareholders**

---

Diogo Lacerda Machado	Chairman
Maria de Lourdes Cunha Trigoso	Secretary

The members of the Board of the General Meeting of Shareholders were elected on 25 May 2018 to complete the 2018-2020.

#### *EXERCISE OF VOTING RIGHTS*



## 12. POSSIBLE LIMITATIONS ON VOTING RIGHTS

Under the Company's Bylaws, each share grants the right to one vote. Only shareholders entitled to vote on the record date (i.e., on the fifth trading day prior to the General Meeting) and in compliance with the procedures and periods set forth in the notice.

Within the framework of American Depositary Receipts (ADR) or Global Depositary Receipts (GDR) programmes having as their object Company shares, the holders of ADR or GDR are deemed to be the shareholders, while the entity in whose name the shares are registered is deemed a simple representative of the shareholders, provided however that such shareholders comply with the conditions set forth in the Bylaws for the exercise of such right. These conditions are communicated to the holders of the right to vote in each notice for the General Meeting of shareholders.

According to article 13 of the Company's Bylaws, the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total voting rights corresponding to the share capital shall not be counted. Shares held by a person in situations as provided for under article 20 of the Portuguese Securities Code shall be deemed to belong to the shareholder, and the limitation on the counting of votes cast by each person affected by the said provision shall be proportional to the number of votes held and cast.

There are no shares not granting voting rights, without prejudice to the limitations described above.

The Company Bylaws provide that the voting by correspondence or by electronic means may encompass all matters contained in the notice, under the terms and conditions set forth therein, and votes cast in this way shall be considered at the time of the counting by adding the same to the voting rights exercised in the course of the General Meeting.

The Bylaws further provide that the terms and conditions for voting by correspondence or by electronic means shall be defined by the Chairman of the Board of the General Meeting of shareholders in the notice, in order to ensure their authenticity, regularity, security, reliability and confidentiality up to the time of voting rights exercised in their course of the General Meeting.

Correspondence vote authenticity shall be ensured before the Chairman of the Board of the General Meeting of shareholders by means of a communication with a legally acknowledged signature, in the case of corporations, or, in the case of individuals, with a simple signature together with a photocopy of the relevant identity card. In order to guarantee vote confidentiality, said communication shall be sent in a closed envelope that will only be considered at the time of vote counting.

In respect of voting by electronic means, and according to the Company's practice, shareholders may vote through the website [www.pharol.pt](http://www.pharol.pt) in observance of the requirements established thereon, provided that, by the time and date scheduled on the notice for the General Meeting of shareholders, they deliver to the Chairman of the Board of the General Meeting a communication, prepared in accordance with the form made available on that same website, with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and setting out the post address to where the email and password should be sent by the Company.

Votes cast by correspondence or by electronic means are deemed as negative votes as to any resolution proposals submitted after such votes were cast. The presence at a General Meeting of a shareholder who had exercised his voting rights by correspondence or by electronic means, or of his representative, determines the revocation of the vote so cast.

According to PHAROL's practice, the procedure for voting by correspondence shall be as follows:

- Shareholders entitled to vote may, according to article 22 of the Portuguese Securities Code, exercise such vote by correspondence, provided that, by the time and date scheduled on the notice, a communication addressed to the Chairman of the Board of the General Meeting is delivered to the latter, such communication to be with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and set out the address to where voting papers and other documentation should be sent. In reply, the voting papers and other relevant documentation will be sent to such shareholders, who shall send to the Chairman of the Board of the General Meeting, in such a way as to be received by the time and date scheduled on the notice for

the General Meeting a closed envelope containing another closed envelope with the duly filled in voting papers;

- Notwithstanding the possibility of downloading the voting papers from the Internet according to the next paragraph, there are voting papers available to shareholders at the offices of the Company, and the same may also be provided by hand delivery, by post or by electronic mail;
- As an alternative, shareholders may also download the voting papers from the website [www.pharol.pt](http://www.pharol.pt), and send the same, addressed to the Chairman of the Board of the General Meeting, duly filled in and in a closed envelope, in such a way as to be received, together with an envelope containing a copy of the identity card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.

The period for receipt of declarations of vote by correspondence according to PHAROL practice is 3 business days prior to the date of the General Meeting.

PHAROL' s Bylaws do not provide for any system of detachment of patrimonial rights pertaining to the shares.

Considering the above described mechanisms for the participation and vote at the General Meeting, PHAROL promotes shareholder participation through voting by correspondence, by electronic means and by duly appointed representative in accordance with the legal and bylaw rules above.

#### 13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT MAY BE EXERCISED BY A SINGLE SHAREHOLDER OR BY SHAREHOLDERS CONNECTED TO THE FORMER THROUGH ANY OF THE RELATIONSHIPS SET FORTH IN ARTICLE 20.1 OF THE PORTUGUESE SECURITIES CODE

Regarding this matter, please see item 12 of Part I above.

#### 14. SHAREHOLDER RESOLUTIONS WHICH, ACCORDING TO THE BYLAWS, CAN ONLY BE ADOPTED WITH QUALIFIED MAJORITY, APART FROM THOSE LEGALLY PROVIDED FOR

Under article 14 of the Company's Bylaws, the General Meeting of shareholders resolves, on a first or subsequent call, by a majority of votes cast, without prejudice to any qualified majority as required in cases as provided for by law.

In this way, the constitutive and resolute quorum of the General Meeting of shareholders established under PHAROL' s Bylaws is no different from that established under the Portuguese Companies Code.

## II. MANAGEMENT AND SUPERVISION

### COMPOSITION

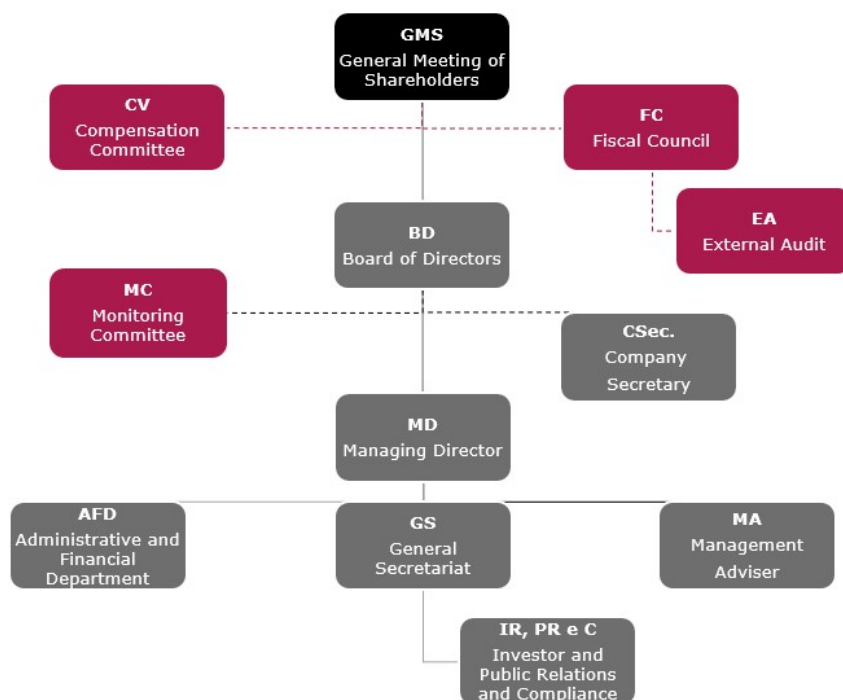
#### 15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL

PHAROL follows a governance model, which is based on the existence of a Board of Directors and a Statutory Auditor ("ROC") elected by the General Meeting of shareholders upon a proposal by the Fiscal Council. In 2017, the Board of Directors appointed a Managing Director with an operational role, and a Monitoring Committee, which, however, was not fulfilled considering the size of the company and the high frequency of meetings of the Board of Directors.

PHAROL' organisation structure further includes a Compensation Committee elected by the General Meeting of shareholders, which is responsible for determining the remunerations of the members of corporate bodies.

The members of the corporate bodies and of the Board of the General Meeting of Shareholders are elected for a three-year term of office, and they may be re-elected one or more times within the limits of the law.

On 31 December 2019, PHAROL' governance model could be schematised as follows:



The Fiscal Council, together with the Statutory Auditor, perform the supervision functions set forth in the applicable laws and regulations.

#### 16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

The members of the Board of Directors are elected by the General Meeting of shareholders as described in item 17 of Part I below.

The Bylaws determine that the absence of any director from more than half the ordinary meetings of the Board of Directors during one financial year, in a consecutive way or not, without a justification acceptable to the Board of Directors, shall be deemed as a definitive absence of such director. Such definitive absence shall be declared by the Board of Directors, and the director in question shall be replaced as provided for by law and the Bylaws.

#### 17. COMPOSITION OF THE BOARD OF DIRECTORS

On December 31, 2019, under the statutory terms, the Board of Directors of PHAROL was composed of a minimum of 9 and a maximum of 11 members, elected by the shareholders at a General Meeting by a majority of the votes cast.

On January 8, 2020, the amendment to the bylaws was decided at the General Meeting, and at present, the Board of Directors is composed of a minimum number of 3 and a maximum of 7 members.

The Company is also subject to the provisions of Law no. 62/2017, of August 1 (regime of balanced representation between women and men in the administrative and supervisory bodies of the entities of the public sector and companies listed). Under the terms of this law, the proportion of persons of each sex reassigned to each management and supervisory body of each company may not be less than 20% from the first elective general meeting after January 1, 2018.

The term of office of the directors is three years, and may be re-elected one or more times, within the limits established by law.

On December 31, 2019, the board of directors effectively in office was as follows:

<b>Members (date of first appointment)</b>	<b>Board of Directors</b>	<b>Independence<sup>(1)</sup></b>	<b>No. of shares</b>
Luís Maria Viana Palha da Silva (2015)	President	No	200,000
Aristóteles Luiz Menezes Vasconcellos Drummond (2017) (*)	Member	Yes	
Avelino Cândido Rodrigues (2019)	Member	Yes	
Jorge Augusto Santiago das Neves (2017) (*)	Member	Yes	
Jorge Telmo Maria Freire Cardoso (2014)	Member	No	
Maria do Rosário Amado Pinto Correia (2015)	Member	Yes	40
Maria Leonor Martins Ribeiro Modesto (2018)	Member	Yes	
Nelson Sequeiros Rodriguez Tanure (2017) (**)	Member	No	10,000
Pedro Zañartu Gubert Morais Leitão (2015)	Member	Yes	

(1) Evaluation of independence made in accordance with internal regulation, article 414-5 of the Portuguese Companies Code and item 18 of the form attached to CMVM Regulation no. 4/2013, as the case may be.

(\*) Termination of office on January 8, 2020.

(\*\*) Resigned on December 6, 2019 with termination of office on January 8, 2020.

The Board of Directors non-executive members are the majority of the directors in office.

The Managing-Director reported on all of the relevant matters to all other members of the Board of Directors.

## 18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA

As referred to in item 17 above, as at 31 December 2019 the Company distinguishes executive and non-executive directors. In the same item, those directors that are considered independent are identified.

As at 31 December 2019, the Board of Directors of PHAROL has 6 independent directors, from among 9 members of the Board. On January 8, 2020, date of the General Meeting to deliberate the reduction of the minimum and maximum number of members of the Board of Directors, the number of independent directors decreased to 4 from among 6.

All directors deemed independent by PHAROL, as of 31 December 2019, as set out in item 17 above, meet the conditions required for the performance of their duties and compliance with their obligations to act diligently and in the interest of the Company in an independent manner. Thus, the Board of Directors considers that the Company's management body includes a number of independent members that is appropriate to its size and shareholder structure.

According to PHAROL's Internal Regulation no. 3/2017, the members of the Board of Directors of the Company, must send to the Chairman of the Board, within 10 business days as from their election or co-optation, and no later than 31 January of each year, declarations prepared in accordance with an Appendix to the said Internal Regulation.

Where the independence situation of any member of the Board of Directors is subsequently changed, the director in question must send to the Chairman of the Board an updated declaration, in the 10 business days following such subsequent change.

The Board of Directors assesses the independence of its non-executive members, on the basis of such declarations, as well as of any other information of which the Board may be aware.

#### 19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS

The composition and qualifications of the members of the Board of Directors of PHAROL are defined in the internal regulations of this Board, referred in point 21 of this report.

PHAROL also complies with the provisions of Article 245-A of the CVM and with the balanced representation regime between women and men between the management and supervisory bodies of public sector entities and listed companies, law 62/2017.

The *curricula* of PHAROL's directors, in Appendix I, fit all legal requirements.

#### 20. FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS

As at 31 December 2019, no member of the board of directors has no family, professional or commercial relationships, frequent and significant, with owners of qualified holdings above 2% of the voting rights, except:

- Jorge Telmo Maria Freire Cardoso: he is director for the financial area of Novo Banco, S.A., an entity having a qualified holding more than 2%

#### 21. DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY

##### MANAGEMENT BODY

##### **Board of Directors**

Pursuant to the Bylaws, the Board of Directors is the corporate body responsible for managing the Company's businesses and practicing all acts regarding the corporate scope that are not within the powers of other corporate bodies. It establishes the strategic orientation of PHAROL and monitors the day-to-day management delegated to the Managing Director, designated in 2017 to ensure the existence of a structure more suited to the management needs of PHAROL.

On November 19, 2019, the shareholder with a qualified holding in PHAROL, Real Vida Seguros, requested that a General Meeting be convened to amend paragraph 1 of Article 18 of the Company's Bylaws, with the Board of Directors now being composed of a minimum of three and a maximum of seven members. The said Meeting took place on December 18, 2019, however, due to the lack of a deliberative quorum on that date, this proposal was approved by the General Meeting held on the second date, on January 8, 2020.

Due to this fact at the end of 2019, the new regulations of the Board of Directors and Chief Executive Officer, duly autonomous and which were under analysis and approval by the Board of Directors in December 2019, were only approved at the beginning of 2020. Despite this, PHAROL understands that they should be taken into account in this report regarding the principles of performance, composition and qualifications of the Board of Directors, which, in this way, is governed by the following guidelines:

The Board of Directors will perform its duties in accordance with the corporate interest and with the

applicable legal and statutory provisions, taking into account the general objectives and fundamental principles of the Company, the long-term interests of its shareholders and other investors and the sustainable development of the activity corporate structure of the Company and its subsidiary company (ies). Corporate governance should promote and enhance the performance of companies and the capital markets and consolidate the confidence of investors, workers and the general public in the quality and transparency of management and supervision and in the sustained development of society.

The Company's Board of Directors is composed of the members elected in accordance with the applicable legal and statutory provisions framed in an open and transparent culture with respect for diversity.

The Directors, whose profiles will have to correspond to criteria and requirements of technical competence, independence, integrity, loyalty, availability, experience and gender diversity, will develop their respective qualifications, knowledge and experience with a view to the exercise of their duties and competences and the fulfilment respective duties and functions.

The duties and powers of the Board of Directors are as follows:

1. The Board of Directors is responsible for managing the Company's business dealings and activities and carrying out all actions regarding the corporate purpose that do not fall within the scope of other corporate bodies. It will also establish the strategy for the Company and its subsidiary(ies), engaging, to this purpose, in the necessary managerial and supervisory activities.
2. Regardless of any other powers provided for in the applicable laws and bylaws and of powers delegated to the Managing Director, the Board of Directors is responsible, in particular, for:

Establishing the general objectives and the fundamental principles of the policies applicable to Company and its subsidiary(ies). These are to be submitted to the General Meeting for approval;

Approving the general policies and the strategy for the Company and its subsidiary(ies), considering the objectives and principles approved by the General meeting;

Establishing and deciding on any amendments to the business structure of the Company or of its subsidiary(ies), whenever these do not constitute mere internal restructurings of the Company and/or its subsidiary(ies) that fall within the scope of the general objectives and fundamental principles approved by the General Meeting;

Deciding on important extensions or reductions in the Company's business activities or in those of its subsidiary(ies);

Adopting any other decisions deemed strategic for the Company and its subsidiary(ies), taking into account it's the amount, risk or special characteristics involved;

Evaluating the Company's corporate governance model on an annual basis and disclosing such evaluation in the Annual Governance Report, identifying any constraints on the operation of this model and proposing adequate measures to overcome such constraints;

Ensuring that the Company has efficient internal control, risk management and internal audit systems;

Replacing directors who are definitively absent, through co-optation;

Appoint and establish the day-to-day management skills in the Managing Director, delegating the skills whose inclusion is not prohibited by article 407 of the Commercial Companies Code;

Annually evaluate itself performance through a self-assessment model, as well as that of the Managing Director and, if applicable, the performance of its committees, taking into account the fulfilment of the Company's strategic plan and budget, the management of risks, its internal functioning and the contribution of each member to the effect, and the relationship between the Company's bodies and commissions;

Providing for the Company's statutes to limit the number of votes that can be held or exercised by a single shareholder, individually or in consultation with other shareholders, the Board of Directors must promote that, at least every 5 years the amendment or maintenance of this statutory provision is subject to deliberation by the general meeting.

Appointing and removing the General Secretary and the Company Secretary and their alternate(s).

Within the delegation of powers, the Board of Directors assigned the Managing Director all powers necessary for the day-to-day management of the Company, except for those matters that are not delegable

pursuant to article 407 of the Portuguese Companies Code listed below:

- a) Selection of the Chair of the Board of Directors;
- b) Co-opting directors;
- c) Request to convene General Meetings;
- d) Annual report and accounts, to be submitted to the General Meeting for approval;
- e) Acquisition, sale and disposal of real estate and capital holdings;
- f) Provision of real or personal sureties or guarantees by the Company, where the competence for this lies with the Board of Directors, without prejudice to the stipulations of sub-paragraph h) of article 15 of the Company's Articles of Association;
- g) Change in the location of the Company's registered offices;
- h) Projects for the merger, demerger or transformation of the company, to be submitted to the General Meeting, or any corporate acquisitions, disposals, mergers, demergers, strategic partnership agreements or other forms of long-lasting cooperation that involve the Company and/or its subsidiary(ies), whenever such operations do not constitute mere internal restructurings of the Company and/or its subsidiary(ies) that fall within the scope of the general objectives and fundamental principles approved by the General Meeting;
- i) Projects for increases in capital, to be submitted to the General Meeting;
- j) Changes to the articles of association, to be submitted to the General Meeting;
- k) Important extensions or reductions in the Company's business activities or important changes to the Company's organizational structure;
- l) Annual business plans, budgets or investment plans;
- m) Setting of the amount to be proposed each year to the General Meeting for the issue of bonds or other securities.

No authority of the Board of Directors is delegated as regards: (i) the determination of the Company's general strategy and policies, and strategic decisions due to their amount, risk or special features, notably, regarding this latter, as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its Internal Regulation.

Regarding the Monitoring Committee, it is explained in item 15 the solution adopted.

Notwithstanding the Fiscal Council's powers, the Board of Directors is also responsible for ensuring the Company practice effective internal control and risk management procedures, in accordance with the rules of procedure. The application structures of these systems are described in C.III of Part I of this report.

Other than any matters excluded by law, the Board of Directors is forbidden from passing resolutions on matters assigned by the Bylaws to the General Meeting of shareholders. Shareholders, in their turn, may only resolve on management matters at the request of the management body.

All members of the Board of Directors take informed decisions on the matters submitted to them.

The Board of Directors during 2019 met with high frequency, having held 12 meetings, between ordinary and extraordinary meetings.

The Board discussed the main issues relevant to the Company, namely discussing its Strategic Plan and approving the Budget, as well as all other matters of importance to the Company's management. Budgetary deviations and in-depth strategic options were regularly assessed for each of the assets included in PHAROL's portfolio.

The Board of Directors met with the Audit Board whenever necessary or imposed by the rules and regulations and received periodic information notes on the main issues and decisions made by the Chief Executive Officer.

The participation and contribution of all Directors for the evaluation and deliberation of all situations brought to the Board was a constant.

Do to the information received from the Managing Director and the regularity with which the Board met, the Board of Directors has maintained that it is not necessary for a Commission to follow up on it.

### **Powers of the Chairman of the Board of Directors**

Pursuant to the Bylaws and to the Board of Directors' internal operating rules, the Chairman of the Board of Directors is entrusted with the following duties:

- Convening and directing the meetings of the Board of Directors;
- Representing the Board of Directors in legal and non-legal matters
- Co-ordinating the activity of the Board of Directors and apportioning tasks among members when recommended based on management expediency;
- Ensuring that the resolutions of the Board of Directors are properly complied with.

### **Managing-Director**

Since 2017, the Board of Directors delegated on a Managing-Director the daily management of the Company, according to the respective delegation of powers, retaining supervision and control functions.

As mentioned above, and for the reasons set out in relation to the delay in formalizing the approval of the new autonomous regulations for the Board of Directors and Chief Executive Officer, the latter has in its regulation a description of its powers and delegation of powers.

PHAROL considers that, in this matter, and similarly to what happens with the Regulations of the Board of Directors, also the Regulations of the Managing-Director approved at the beginning of 2020, should be considered in this report.

Within the scope of these Regulations, it is incumbent upon the Managing-Director to decide the instructions or guidelines to be given by the Company to the directors of its subsidiary companies, regarding the matters referred to in its delegation of powers, under the terms and in compliance with the provisions of the applicable law.

### **Powers of the Managing Director**

1. The Managing Director is responsible for the management of the the daily management of the Company, in accordance with the terms of the Portuguese Companies Code and the Bylaws.

2. Within the quantitative limits established by the Board of Directors, it is the responsibility of the Chief Executive Officer, namely:

- a) propose to the Board of Directors the goals and management policies of the Company;
- b) prepare annual activity and financial plans;
- c) manage the social affairs and practice all acts and operations related to the corporate purpose that do not fit in the competence attributed to other Bodies of the Company;
- d) represent the Company in and out of court, actively and passively, being able to withdraw, compromise and confess in any lawsuits, as well as to conclude arbitration agreements;
- e) to resolve on the issue of bonds and other securities in accordance with the Bylaws;
- f) establish the technical and administrative organization of the Company and the internal rules,



namely on personnel and their remuneration;

- g) to establish representatives with the powers they deem appropriate, including those to be replaced;
- h) exercise the other powers attributed to it by law or by the General Meeting.

## SUPERVISORY BODIES

### **Fiscal Council**

As a supervisory body, the Fiscal Council has, in addition to all other powers established in the law or the Bylaws, the following specific rules:

#### 1. The Fiscal Council shall:

- a) supervise the administration of the Company and, in particular, annually assess the fulfilment of the strategic plan and budget of the Company, the risk management, the internal functioning of the Board of Directors and its committees, as well as the relationship between the Company's bodies and committees, if any;
- b) accompany, assess and give its opinions on the strategic lines and the risk policy defined by the Board of Directors;
- c) monitor compliance with the law and the Company's Articles of Association;
- d) confirm that the books, accounting records and their support documents are in due order;
- e) when it deems convenient and through the means it finds adequate, confirm available cash and the existence of any type of goods or values belonging to the Company or received by it as a guarantee, deposit or other purpose;
- f) confirm the accuracy of the accounting statements and, generally, supervise the quality and integrity of the financial information specified in the Company's accounting statements;
- g) check whether the accounting policies and the valuation criteria applied by the Company result in a correct evaluation of its assets and results;
- h) prepare an annual report on its supervisory activities and issue an opinion on the report, accounts and proposals presented by the board, in which it expresses its agreement or not with the annual management report, with the fiscal year accounts, and with the audit clearance or a declaration of impossibility of issuing such clearance, besides including a statement signed by each of its members, as provided for in Art. 245(1)(c) of the Portuguese Securities Market Code;
- i) convene the General Meeting, when the Chairman of the Bureau should, but does not do so;
- j) supervise the process for the preparation and disclosure of financial information, including the suitability of the accounting policies, estimates, judgements, relevant disclosures and their consistent application between fiscal years, in a duly documented and communicated manner;
- k) accompany the legal review of the individual and consolidated accounts, as well as supervise and assess the internal procedures regarding accounting and auditing matters;
- l) supervise the quality, integrity and effectiveness of the risk management system, internal control system and internal audit system, if any, including the annual review of its adequacy and effectiveness, propose any changes that are deemed necessary, and serve as the recipient of the corresponding reports, in order to guarantee that the risks effectively faced by the Company are consistent with the objectives established by the board;
- m) receive notifications of deficiencies, claims and/or complaints ("whistleblowing") submitted by shareholders, Company employees or others, and implement procedures to receive, record and process those notifications when related to aspects of accounting, auditing and internal control procedures in these matters;
- n) contract services provided by experts to assist the Fiscal Council members in carrying out their duties, such contracting and remuneration of said experts to take into account the importance of the issues for which they are responsible and the Company's economic situation;

- o) verify that the disclosed report on the corporate governance structure and practices includes the information specified in Art. 245 – A of the Securities Market Code;
  - p) propose to the General Meeting the appointment of the statutory auditor or a firm of statutory auditors, using a selection process based on the commercial evaluation (overall amount of the proposals) and on a technical assessment using the following criteria: experience as an auditor/statutory auditor, methodology of the account auditing procedure, planning of the works and the allocation of human resources, and the Curricula Vitae of the people in charge and of the members of the audit team directly assigned to the work;
  - q) supervise the independence of the statutory auditor, including obtaining the formal written confirmations provided for in Arts. 63 and 78 of the Statutes of the Association of Statutory Auditors and, in particular, verifying the suitability and approving the provision of other services beyond those of auditing, pursuant to the terms of Art. 77(10) and (11) of the Statutes of the Association of Statutory Auditors;
  - r) be the main interlocutor for the independent auditor and the statutory auditor or the firm of statutory auditors and the first recipient of the corresponding reports, having the responsibility, specifically, of proposing the corresponding remuneration and diligently ensuring there are suitable conditions in the Company for the provision of their services;
  - s) annually evaluate the work carried out by the independent auditor and the statutory auditor or the firm of statutory auditors, their independence and suitability for exercising their duties, and propose to the competent corporate body their dismissal or the resolution of the contract for the provision of their services whenever there is just cause for such.
2. The methodology of communication between the Company and the statutory auditor or the firm of statutory auditors shall conform to the good practices of corporate governance.
3. Any member of the Fiscal Council shall carry out, jointly or individually and at any time throughout the year, all acts of supervision and inspection deemed convenient for the fulfilment of his supervisory obligations.
4. The Fiscal Council also has the following duties:
- a) Analyse and issue its opinion on relevant issues related to accounting and auditing aspects and the impact on the financial statements caused by alterations to accounting standards applicable to the Company and to its accounting policies;
  - b) Settle any disputes between the Company's Board and the independent auditors indicated in the previous subparagraph, in regard to the financial information to be included in the accounting statements to be reported to the competent entities and in regard to the process of preparing the audit reports to be issued by the said independent auditors;
  - c) It will issue a statement and a prior opinion within the scope of its legal and statutory competences, and whenever it deems such necessary or convenient, on any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities;
  - d) Issue a prior opinion on transactions with related parties, under the terms defined by the Company's regulations;
  - e) Issue a statement on work plans and the resources allocated to the internal control services, including monitoring compliance with the norms applicable to the Company (compliance services) and internal auditing, if any;
  - f) Receive the reports made by the internal control services, at least when dealing with matters related to the presentation of accounts, or the identification or resolution of conflicts of interest and the detection of potential irregularities.

### **Statutory Auditor**

Under articles 420,1(c), (d), (e) & (f) and 446,3 of the Portuguese Companies Code, it is the duty of the Statutory Auditor to control the regularity of the books, accounting records and documents supporting the same, as the Statutory Auditor deems fit and appropriate, the extension of cash and inventory of any kind of assets or values owned or received as collateral, deposit or otherwise by the Company, and furthermore the accuracy of individual and consolidated financial statements, as well as that the accounting policies and criteria adopted by the Company lead to a correct assessment of its assets and results.

Following entry into force of Decree-Law no. 185/2009 of 12 August 2009, similarly to the Statutory Auditor, it also became the duty of the Statutory Auditor to verify whether the Company's governance report disclosed each year includes all legally required data as regards, inter alia, qualified shareholdings in the Company capital, identification of shareholders of special rights and description of such rights, any restrictions in respect of voting rights, rules applicable to appointment and replacement of directors, Bylaw amendment and powers and resolutions of the management body, and the main constituents of the internal control and risk management systems implemented in the Company in connection with the financial information disclosure procedure.

## COMMITTEES AND SUPPORTING STRUCTURES

### *FUNCTION*

#### 22. OPERATING RULES OF THE BOARD OF DIRECTORS

The full text of the Board of Directors regulation may be consulted on the Company's website, link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2018/Regulamento\\_CA\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2018/Regulamento_CA_en.pdf)

Under the terms of article 24 of the Bylaws and the Board's Internal Regulation, the Board of Directors shall meet, at least, every three months of each year, and shall meet in extraordinarily sessions whenever convened by its Chairman, by two Directors or by the Fiscal Council. Detailed minutes are drawn up from these meetings.

The Board of Directors may not work without the presence of the majority of its members in office. The Chairman of the Board of Directors may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or through a power of attorney, although a director may not represent more than one other director.

The resolutions of the Board of Directors are passed by a majority of votes cast, and the Chairman has a casting vote.

#### 23. NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2019 financial year, 12 meetings of the Board of Directors took place. The degree of attendance of directors at these meetings of the Board of Directors of PHAROL was 100%

#### 24. INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

The Compensation Committee determines the remunerations of the members with executive functions based on objective criteria as approved by such Committee.

Furthermore, pursuant to the law, the General Meeting of shareholders makes an annual general appraisal of the management (and supervision) of the Company.

#### 25. PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

On March 29, 2019, the General Meeting of Shareholders adopted the Declaration of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies, included on Appendix II.

26. AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS

The functions exercised by the Company' directors in other companies as well as their other relevant activities are shown in Appendix I, there being highlighted the duties performed and the attendance and active participation of the directors in the meetings of the Board of Directors (in respect of all its members) – see item 23 of Part I above – evidence the availability of each member of the Board of Directors to perform duties as director of the Company.

*COMMITTEES WITHIN THE MANAGEMENT OR SUPERVISION BODIES AND DELEGATED DIRECTORS*

27. COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF ITS OPERATING RULE

The Regulation for the Monitoring Committee may be consulted on the Company's website, link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06\\_June/RegulamentoComissaoAcompanhamento\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/RegulamentoComissaoAcompanhamento_en.pdf)

28. COMPOSITION OF THE EXECUTIVE COMMITTEE AND/OR IDENTIFICATION OF MANAGING DIRECTORS

According to the Bylaws, the Board of Directors appoints the Managing Director.

As of December 31, 2019, the Managing Director was the Chairman of the Board of Directors, Luís Maria Viana Palha da Silva

29. DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES

Regarding this matter, please see items 21 and 27 of Part I above.

**III. SUPERVISION**

*COMPOSITION*

30. IDENTIFICATION OF THE SUPERVISORY BODY

The supervisory body is the Fiscal Council.

31. COMPOSITION OF THE FISCAL COUNCIL

Pursuant the Company Bylaws, the Fiscal Council is composed of three effective members and one alternate member, appointed by the General Meeting of shareholders.

On December 31, 2019, the Fiscal Council was composed as follows:

José Maria Rego Ribeiro da Cunha	Chairman
Isabel Maria Beja Gonçalves Novo	Member

João Manuel Pisco de Castro

Member

Paulo Ribeiro da Silva

Alternate member

32. IDENTIFICATION OF THE MEMBERS OF THE FISCAL COUNCIL COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE

The Fiscal Council members meet the requirements on incompatibilities, independence and specialization arising from legal and regulatory requirements to Corporate issuers of securities admitted to trading on a regulated market.

33. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE FISCAL COUNCIL

The *curricula* of the members of PHAROL's Fiscal Council are shown in Appendix I.

*OPERATION*

34. OPERATING RULES OF THE FISCAL COUNCIL

All powers of the Fiscal Council are described in the Company's Bylaws, in addition to the Fiscal Council having adopted an internal regulation of operation, approved unanimously by all members of the Fiscal Council on October 29, 2015 and reviewed on November 18, 2019, which may be consulted at the following link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10\\_October/Regulamento\\_Conselho\\_Fiscal\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10_October/Regulamento_Conselho_Fiscal_en.pdf)

According to such Regulation, the Fiscal Council meets at least once every three months, on the day and at the place established by its Chairman, although extraordinary meetings may be called upon by its Chairman or at the request of a majority of its members.

The Fiscal Council shall not function without the presence of the majority of its members in office. Its Chairman may, when clearly urgent or there is a justified impossibility, waive the presence of that majority if the same is ensured through voting by correspondence or by power of attorney.

The Fiscal Council's resolutions are approved by a majority of the votes cast, and its Chairman has a casting vote.

35. NUMBER OF MEETINGS OF THE FISCAL COUNCIL AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2019 financial year, 11 meetings of the Fiscal Council took place. The degree of attendance of each member to these meetings was 100%.

36. AVAILABILITY OF EACH MEMBER OF THE FISCAL COUNCIL AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE FISCAL COUNCIL

The functions exercised by the members of PHAROL's Fiscal Council in other companies as well as their other relevant activities are shown in Appendix I.

#### COMPETENCES AND DUTIES

#### 37. PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR

In the year 2019, PHAROL did not contract to the external auditor or any entity with a group relationship or that incorporate the same network, for any other services than audit services.

#### 38. OTHER DUTIES OF THE SUPERVISORY BODIES

Regarding this matter, please see item 21 of Part I above.

### IV. STATUTORY AUDITOR (REVISOR OFICIAL DE CONTAS / ROC)

#### 39. IDENTIFICATION OF THE STATUTORY AUDITOR AND OF ITS REPRESENTING PARTNER

The Statutory Auditor effective for the period from 2018-2020 is BDO & Associados, SROC, Lda., registered in the Statutory Auditor's Professional Association ("OROC") under no. 29 and at CMVM under no. 20161384, represented by its partner and manager Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor, under no. 923.

#### 40. NUMBER OF YEARS DURING WHICH THE STATUTORY AUDITOR PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

The firm BDO & Associados, SROC, Lda., performs duties as Statutory Auditor in the Company since 29 May 2015. Pursuant to its duties, PHAROL's Fiscal Council confirmed the independence of the Statutory Auditor, and appraised its work during the 2019 financial year.

#### 41. OTHER SERVICES RENDERED TO THE COMPANY BY THE STATUTORY AUDITOR

In 2019, the Statutory Auditor also rendered the external audit service to PHAROL and there is no other services rendered.

### V. EXTERNAL AUDITOR

#### 42. IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM

PHAROL's current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 20161384, and it is represented by its partner and director Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor under no. 923.

#### 43. NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

PHAROL's current External Auditor is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 20161384, began its functions in March 2015.

44. POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER

There is no internal policy for the External Auditor's mandatory rotation, apart from the one legally applicable to public interest entities. The mandatory rotation period applicable to the Statutory Auditor that represents the External Auditor in the performance of its duties results from article 54,2 of the OROC Statutes (7 years).

45. CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION

The Fiscal Council annually evaluates the External Auditor's performance and independence, as described in the annual Report of the Fiscal Council's activities.

Pursuant to its duties, the Company's Fiscal Council assessed and confirmed the independence of BDO & Associados, SROC, Lda., and appraised its work relating to the 2019 financial audit of the Company.

46. SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSES OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING

There were no services other than auditing services provided to the Company or to the companies in a control relationship with PHAROL by the External Auditor beyond the role of the Statutory Auditor.

47. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE

BDO & Associados, SROC, Lda. for the external audit and Statutory Auditor simultaneously will represent a total cost of 80,000 euros to which VAT is added at the legal rate, referring to 2019.

## C. INTERNAL ORGANIZATION

### I. BYLAWS

48. RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY

#### **Constitutive quorum for the General Meeting of Shareholders**

The PHAROL's Bylaws do not establish a constitutive quorum higher than that established by law.

Where an amendment to the Bylaws is at issue, the General Meeting of shareholders may only resolve, on a first call, if shareholders owning shares corresponding to at least one-third of the share capital are present or represented. On a second call, no such requirement exists, and the General Meeting may resolve on any matter whatever the number of shareholders present.

#### **Resolution quorum for the General Meeting of Shareholders**

The PHAROL's Bylaws do not establish a resolution quorum higher than that established by law.

Decisions regarding the amendment of the Bylaws must be approved by a minimum of two thirds of the votes cast, whether the General Meeting meets first or second call, unless, in the latter case, shareholders holding at least half of the share capital, and such resolutions may then be taken by a majority of the votes cast (paragraphs 3 and 4 of article 386 of the Portuguese Companies Code).

The Board of Directors may move the Company's headquarters within the national territory and decide to increase the share capital, provided, in this case, previously authorized by the General Meeting and with the favorable opinion of the Fiscal Council, which will determine changes to the bylaws of the Company.

## II. WHISTLEBLOWING

### 49. WHISTLEBLOWING

In December 2016, PHAROL revised a set of procedures called regarding to the rules and the procediment to adopte in the System for Disisclosure of Unethical Practices or Whistleblowing.

Within Whistleblowing, "Unethical Practices e/ou irregularities" mean all acts or omissions, wilful or negligent, performed within the activities of the companies pertaining to PHAROL, that may have an impact on the financial statements or information sent to the Portuguese regulatory authority, CMVM, or those that cause damage to PHAROL's assets and reputation.

Suitable safety measures were implemented for the protection of information and data contained in communications. In particular, restricted access will be guaranteed, from a physical and logical perspective, to the System servers, and the means for gathering and filing information must be exclusive to the System.

Both confidentiality of the communication and anonymity of the person reporting will be ensured at all times, unless the person concerned unequivocally intends and declares otherwise.

In no case is any kind of retaliation against those that make the said communications tolerated.

Disclosure of Unethical Practices (Whistleblowing).is available on the Company's website

<http://pharol.pt/en-us/qoverno-sociedade/participacao-praticas-indevidas/pages/enquadramento.aspx>

## III. INTERNAL CONTROL AND RISK MANAGEMENT

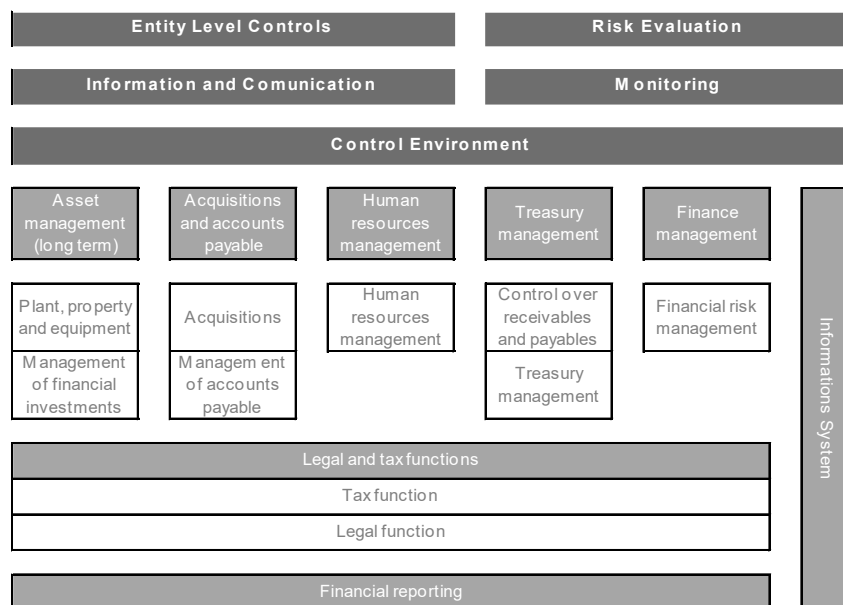
### Internal Control System

The Internal Control System implemented at PHAROL was based on an internationally acknowledged model – COSO (Committee of Sponsoring Organisations of the Treadway Commission) – making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii) Process Level Controls.

PHAROL designed a manual and implemented controls for the most representative business cycles within the Company. As to lesser business cycles, and within the framework of improvement of internal control and risk management environment, PHAROL defined a set of minimum internal control requirements.

PHAROL's internal control manual and most relevant business cycles may be summarised in the table below:





The identification and design of the controls that are relevant to financial reporting, whether preventive, detective or corrective, are documented in the proper manual according to the layers established by COSO. The manual is revised where changes in the processes occur or periodically, in order to attest their adhesion to the reality of PHAROL's operations.

Currently, PHAROL has already identified around 62 controls, of which 39 are considered as key controls.

The internal control system is checked by the External Auditors and the External Auditors also verify the implementation of remuneration policies and systems in force in the Company.

50. PERSONS, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITING AND/OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS

The Fiscal Council monitors PHAROL permanently as follows:

- a) evaluate internal procedures for accounting and auditing matters;
- b) assess the effectiveness of the Risk Management System regarding tax, legal, economic and financial aspects;
- c) evaluate the effectiveness of the internal control system;
- d) review the External Audit function.

The internal control system is monitored by the Board of Directors, which identifies the risks of the company, the results of the risk management process, the materiality level of financial reporting and proposes the implementation of measures.

Given the size of the company, is not implemented an internal audit system and these activities are ensured when necessary by the External Auditor.

51. HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCE RELATIONS VIS-À-VIS OTHER CORPORATE BODIES OR COMMITTEES

The annual plan in respect of the External Audit and Risk Management function, in which the audits to be carried out and their scope are defined, is annually approved by the Managing Director and informed to the Fiscal Council of PHAROL. The objective of these audit procedures is to ensure that internal

control mechanisms are in place to ensure the reliability and integrity of financial and operational reports, operational efficiency and compliance with applicable laws and regulations.

The progress of the execution of the annual audit plan as defined, as well as the aggregate results of audits carried out, are reported to the Fiscal Council and to Managing Director for the follow-up of the progress of the internal control and risk management system and definition of action plans for mitigation and resolution of risks detected.

## 52. OTHER FUNCTIONAL AREAS HAVING RISK CONTROL POWERS ROLE

Risk Management is promoted by the Board of Directors and the Managing Director in such a way as to identify, assess and manage uncertainties, threats and opportunities that might affect the pursuance of the plan and strategic goals, to decide on the level of exposure and overall risk limits to be undertaken by PHAROL in its different activities and to ensure that management risk policies and procedures are followed.

PHAROL risk level results from the degree of the Board's acceptance for risk, which is kept within limits according to criteria as agreed between the Board of Directors, the Managing Director and the Fiscal Council, this latter under legal terms, responsible for evaluating the effectiveness of the Risk Management System under the fiscal, legal, economic and financial viewpoint.

Risk Management is entrusted to the Board of Directors, performed by the Managing Director, although it depends on the supervision of the Fiscal Council.

## 53. MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS TO WHICH THE COMPANY IS EXPOSED IN THE CONDUCT OF ITS BUSINESS

Among the various risks that may adversely affect the business of PHAROL, the following should be highlighted:

Macro Risk	Sub-Risk	Risk Factors	Mitigation Measures
<b>Economic Risks</b>	Oi's Performance	With the Judicial Recovery measures already in their final phase of implementation and consequently PHAROL had suffered a dilution in its participation, PHAROL will again be subject in Brazil to the operational performance of the company Oi.	PHAROL continues to monitor the Judicial Recovery process and, whenever necessary, intervene through legal means to guarantee its rights as a shareholder. PHAROL also evaluates and analyzes Oi's investment every six months.
	Information Security	PHAROL is exposed on a daily basis to security risks, including the availability, integrity and confidentiality of the information.	PHAROL has implemented backup, firewall and antivirus procedures in its systems, as well as building security, in order to mitigate risks related to information security.
<b>Financial Risks</b>	Exchange Rates	Foreign currency exchange rate risks relate mainly to PHAROL's investment in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the valorization of Oi shares held by PHAROL, and therefore impact PHAROL's results and financial position.	The Company, in order to reduce exchange rate risk, can hedge its position using derivatives for which there is a market, however, it currently does not have a policy to cover the value of the financial investment.

	Interest Rate	Interest rate risks basically relate to financial expenses and the floating interest rate debt and cash applications. PHAROL is indirectly exposed to this risk specially in Brazil. Market interest rates also affect the discount rates used for impairment testing to the various assets of the company.	On December 31, 2019 PHAROL has no debt.
	Treasury Applications	PHAROL is mainly subject to credit risks in its treasury applications.	In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications and this policy has reviewed in 2019.
	Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange	The Rio Forte Instruments currently held by PHAROL, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.	PHAROL evaluates this instrument every year, with the supervision of the Fiscal Council and External Audit and closely monitors Rio Forte's insolvency process taking place in Luxembourg.
<b>Legal Risks</b>	Court proceedings	PHAROL may incur in liabilities in connection with litigation or other future proceedings and incur in defense costs in such litigation or other proceedings. Any liability incurred could adversely affect PHAROL's financial situation.	The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, to know, for each claim, their assessment as to PHAROL's liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PHAROL's interests.
	Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination	The Rio Forte Instruments and the Business Combination carried specific risks due to the complexity of Rio Forte's insolvency process and the Business Combination with Oi.	PHAROL has hired a team of Luxembourg lawyers specialized in insolvency proceedings to ensure the closest possible monitoring of the Rio Forte Instruments. It also has other legal advisors in Portugal who follow the Business Combination with Oi from the beginning and, whenever necessary, request legal advice from specialists in Brazilian law.
	Tax contingencies	In accordance with the agreements with Oi, Oi is responsible for the payment of all contingencies until May 5, 2014 and PHAROL remains and severally liable for these contingencies.	Oi has deposited in escrow Eur.34,340,803.32 as a guarantee to PHAROL in the event of tax contingencies that shall be incurred by Oi.

54. RISK IDENTIFICATION, ASSESSMENT, MONITORING, CONTROL AND MANAGEMENT PROCEDURE

**Risk Management Procedure**

The Risk Management procedure implemented in PHAROL is based on an internationally acknowledged methodology – COSO II, developed by the Committee of Sponsorship Organisations of the Treadway Commission. This approach is based on the identification and analysis of key value drivers and uncertainty factors that might affect value generation and compliance with the plan and strategic goals.

PHAROL’s priority commitment consists in the implementation of mechanisms for assessment and management of risks that might affect its operations. Such mechanisms are based on an integrated transversal risk management model, which seeks to ensure, implementation of good corporate governance practices and transparency in communication to the market and shareholders.

The whole process is monitored and supervised by the Fiscal Council. Within the functions of this body regarding the supervision of the efficiency of the risk management system, we point out the analysis of the quality, integrity and effectiveness of the risk management system and internal control system, including the annual review of its adequacy and effectiveness, and generally monitoring the execution of the functions performed by the Managing Director.

**Risk Management Methodology**

Considering PHAROL’s need for clear assessment and management mechanisms for the risks affecting its businesses, the following components were defined in the implementation of the risk assessment and management procedure:

- **Risk Typology**, which defines the risk factors that might generally affect PHAROL.
- **Economic Risks:** reflect the risks from the macroeconomic environment as well as the impact of entities and assets not controlled by PHAROL;
- **Financial Risks:** associated to the PT SGPS’ financial performance and to the transparency in its communication to the market;
- **Legal Risks:** result of past situations, current and future associated with hiring, assumption of rights and responsibilities and relationships with regulators and authorities.
- **Risk Management**, which formalizes the analysis of processes and procedures, the mitigation and reporting of relevant risks.

**Identified risks**

The table below shows the risks currently identified at the level of the Risk Management Model of PHAROL on which all risk management procedures are developed.

<b>Economic Risks</b>	Oi’s Performance
	Information Security
<b>Financial Risks</b>	Exchange rates
	Interest rates
	Credit
	Liquidity
	Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange
<b>Legal Risks</b>	Agreements with Oi / Business Combination
	Court proceedings

**Risk assessment**

In its risk assessment, the Board of Directors and Managing Director considers the existence of predictable and unpredictable events. While most events are recurrent and have already been dealt with in already prepared management programs and budgets, there are events that are often unpredictable. The Board of Directors and Managing Director assesses the risks that may cause a significant impact on the Company, taking into account both the inherent risk of materialization of the risk and the residual risk (the risk that still exists after measures have been taken by the Board of Directors and the Managing Director).

**Risk monitoring, control and management**

The Board of Directors allocates responsibilities to the Managing Director in order to formalise procedures that are aligned with the strategy and exposure level/risk tolerance determined for PHAROL, in such a way as to identify:

- Monitoring procedures to mitigate for each risk, according to the risk management strategy adopted by the Board of Directors and supervised by the Fiscal Council;
- Disclosure and reporting procedures for information issued regarding the risk management procedure.

Operational implementation of the risk management methodology is an interactive cyclical process that may be summarised in the following table:

<b>Risk Management Methodology</b>	
<b>Board of Directors</b>	Identifies main risks affecting PHAROL; Decides on action and prioritisation of mitigating actions.
<b>Managing Director</b>	Implement policies and controls in accordance with the strategy set by the Board of Directors. Monitors the implementation of controls.
<b>Fiscal Council</b>	Supervises and evaluates risk management model; Proposes improvements & changes to model; Reviews the main risks.

**55. MAIN ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPLEMENTED IN THE COMPANY IN CONNECTION WITH THE FINANCIAL INFORMATION DISCLOSURE PROCEDURE**

The wider scope of the internal control system implemented by PHAROL includes existing controls both as to the accuracy and completeness of disclosures and as to compliance thereof with the Company’s financial information. At the beginning of the process, the Managing Director, together with the Company services, the External Auditor and the Statutory Auditor, establish a timeline for the process and identify the participants/responsibility aimed at the preparation/disclosure of the financial information.

Before approval by the Board of Directors and by the Managing Director, financial information disclosures are submitted to the Fiscal Council within the context of the Company’s governance model. Both the Board’s approval and the Fiscal Council’s opinion are preceded by a set of validation and accuracy procedures carried out by the Company services.

#### IV. INVESTOR SUPPORT

##### 56. INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS

It is PHAROL's policy to supply clear and transparent information, on a regular basis, to its shareholders and other members of the financial community.

The purpose of the Investor Relations Office consists in ensuring adequate relations with shareholders, investors, analysts and financial markets in general, in particular with the Markets and Stock Exchanges where PHAROL is listed and the respective regulatory entity: CMVM.

PHAROL regularly prepares communications and press releases on interim and annual results, as well as any inside information affecting the Company. It also provides all sorts of clarifications to the financial community in general – shareholders, investors and analysts.

The financial information that is disclosed is previously audited and validated by the External Auditors and by the Management and Supervisory Bodies.

In addition, material information in relation to its activity or to the securities issued is disclosed immediately and publicly, and shareholders and other stakeholders may access it through the company's website.

Any interested party may have access to the Investor Relations Office through the following contacts:

Luís Sousa de Macedo	
Investor Relations Director	
Telephone:	+351.212.697.698
Fax:	+351.212.697.949
E-mail:	<a href="mailto:ir@pharol.pt">ir@pharol.pt</a>
Address:	Rua Joshua Benoliel, 1, 2C - Edificio Amoreiras Square 1250-133 Lisboa - Portugal
Company Switchboard:	+351.212.697.690
Website:	<a href="http://www.pharol.pt">www.pharol.pt</a>

In addition to other information, PHAROL keeps the following information updated on its website, in Portuguese and in English:

- Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- The Bylaws;
- Operating rules of the corporate bodies and of the committees created within the Board of Directors;
- The identity of the members of the corporate bodies and of the representative for relations with the market;
- Duties of and access means to the Investor Relations Office as described above;
- For a period of five years, the annual and interim financial statements;
- A schedule of corporate events, which includes, among other information, scheduled General Meetings of shareholders and disclosure of annual, interim and quarterly accounts;

- Notices of the General Meetings of shareholders, as well as proposals to be submitted to discussion and voting by the shareholders, at least 21 days in advance of the meeting date;
- Historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results, regarding the previous three years;
- In general, information allowing an updated knowledge about the Company's evolution and reality in economic, financial and corporate governance terms.

#### 57. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Regarding this matter, please see item 56.

#### 58. INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS

The Investor Relations Office regularly receives calls with various questions, including clarifications on dividends, General Meetings of shareholders and others, typically answered immediately, when the information is public.

Also, receives requests by e-mail or post and depending on the technical complexity of the query it may take longer to answer, but typically it takes less than five business days.

Therefore, PHAROL believes that its Investor Relations Office ensures a permanent contact with investors, analysts and the market in general as well as a treatment of investors' requests.

## V. INTERNET WEBSITE

#### 59. ADDRESS

PHAROL makes available, through its website, , [www.pharol.pt](http://www.pharol.pt) , all information of a legal nature or on corporate governance, updates on the conduct of the business of the Company, as well as a complete set of Company financial and operational data, in order to facilitate inspection and access to such information by PHAROL's shareholders, financial analysts and other parties concerned.

#### 60. LOCATION OF INFORMATION ON THE COMPANY NAME, ITS NATURE OF PUBLIC COMPANY, REGISTERED OFFICE AND OTHER DATA PURSUANT TO ARTICLE 171 OF THE PORTUGUESE COMPANIES CODE

All information pursuant to article 171 of the Portuguese Companies Code may be found on PHAROL website at:

<http://pharol.pt/en-us/a-empresa/pages/informacao-corporativa.aspx>

#### 61. LOCATION OF INFORMATION ON THE BYLAWS AND OPERATING RULES OF THE CORPORATE BODIES AND/OR COMMITTEES

The bylaws and operating rules of the corporate bodies and of the committees created within the Board of Directors may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/estatutos.aspx>

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-fiscal.aspx>

<http://pharol.pt/en-us/governo-sociedade/comissoes-internas/pages/enquadramento.aspx>

62. LOCATION OF INFORMATION ON THE IDENTITY OF THE MEMBERS OF THE CORPORATE BODIES, THE REPRESENTATIVE FOR RELATIONS WITH THE MARKET, THE INVESTOR RELATIONS OFFICE OR EQUIVALENT, THEIR DUTIES AND ACCESS DETAILS

The identity of the members of the corporate bodies, the representative for relations with the market, the Investor Relations Office or equivalent, their duties and access details may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-administracao.aspx>

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-fiscal.aspx>

<http://pharol.pt/en-us/contactos/pages/relacao-investidores.aspx>

63. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE FINANCIAL STATEMENTS, WHICH MUST BE ACCESSIBLE FOR FIVE YEARS AT LEAST, AS WELL AS A SCHEDULE OF CORPORATE EVENTS, DISCLOSED AT THE BEGINNING OF EACH HALF-YEAR, INCLUDING, AMONG OTHERS, GENERAL MEETINGS OF SHAREHOLDERS, DISCLOSURE OF THE ANNUAL, HALF-YEAR AND, IF APPLICABLE, QUARTERLY FINANCIAL STATEMENTS

The financial statements, as well as the schedule of corporate events may be found on PHAROL' website at:

<http://pharol.pt/en-us/informacao-financeira/relatorios/pages/2019.aspx>

<http://pharol.pt/en-us/informacao-financeira/calendario-financeiro/Pages/calendario-financeiro.aspx>

64. LOCATION WHERE THE COMPANY MAKES AVAILABLE NOTICES OF THE GENERAL MEETING OF SHAREHOLDERS AND ALL PREPARATORY AND SUBSEQUENT INFORMATION RELATED TO THE SAME

Notices of the General Meeting of Shareholders and all preparatory and subsequent information related to the same may be found on PHAROL's website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

65. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE HISTORICAL COLLECTION WITH THE RESOLUTIONS PASSED AT THE GENERAL MEETINGS OF SHAREHOLDERS, THE SHARE CAPITAL THEREIN REPRESENTED AND THE VOTING RESULTS, REGARDING THE PREVIOUS THREE YEARS

The historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

## **D. REMUNERATION**

### **I. COMPETENCE FOR DETERMINATION**



## 66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE OR MANAGING DIRECTOR AND COMPANY OFFICERS

The Compensation Committee is elected by the shareholders at a General Meeting and serves the purpose of defining the remuneration policy of the members of the corporate bodies, determining the remunerations applicable and taking into consideration the performance and the economic position of the Company.

For the completion of this task, the Compensation Committee continuously follows up and evaluates the directors' and the Company's performance, checking the extent to which the proposed targets have been achieved. The Compensation Committee meets whenever necessary.

Within the delegation of powers, the remuneration policy applicable to the PHAROL's officers is determined by the Managing Director.

## II. COMPENSATION COMMITTEE

### 67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS

On December 31, 2019, the following members of the Remuneration Committee (also known as the Remuneration Committee) were elected:

- António Sarmento Gomes Mota
- Francisco José Queiróz de Barros Lacerda
- Pedro Miguel Ribeiro de Almeida Fontes Falcão

Notwithstanding the necessary articulation of this committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body.

No member of the Compensation Committee is a member of any corporate body or committee within the Company, and no member of the Compensation Committee has any family connection to any member of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree.

### 68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy. Some of them belong or have belonged to compensation committees of other listed companies. Appendix I hereto sets out the most relevant curriculum elements of the members of the Compensation Committee.

## III. REMUNERATION STRUCTURE

### 69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the supervisory body) in force during the 2019 financial year is described on the statement of the Compensation Committee on this matter as approved by the Annual General Meeting of

Shareholders on 29 March 2019, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009. Such declaration is reproduced in Appendix II hereto.

At the same time, the remuneration policy applicable to non-executive members of the Board of Directors does not include any variable component, - i.e. - the value of which dependant on the performance of the Company or its value.

70. INFORMATION ON HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING

As result from the remuneration policy approved at the General Meeting of 29 March 2019 and presented in Annex II, the remuneration was based on a fixed and variable component.

71. REFERENCE, IF APPLICABLE, TO THE EXISTENCE OF A VARIABLE COMPONENT OF THE REMUNERATION AND INFORMATION ON THE WAY AS SUCH COMPONENT DEPENDS ON PERFORMANCE EVALUATION

Regarding this matter, please see the statement of the Compensation Committee Appendix II hereto.

72. DEFERMENT OF PAYMENT OF THE VARIABLE COMPONENT OF THE REMUNERATION, MENTIONING THE DEFERMENT PERIOD

Regarding this matter, please see the statement of the Compensation Committee Appendix II hereto.

73. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN SHARES IS BASED; EXECUTIVE DIRECTORS KEEPING ANY SHARES GRANTED THEM IN THE COMPANY; ANY AGREEMENT EXECUTED AS TO SUCH SHARES, NOTABLY HEDGING OR RISK TRANSFER AGREEMENTS, THE LIMIT THEREOF, AND THEIR RELATIONSHIP TO THE AMOUNT OF THE OVERALL ANNUAL REMUNERATION

Not applicable, since the remuneration policy in force does not include the allocation of a variable remuneration in shares.

74. CRITERIA ON WHICH THE ALLOCATION OF A VARIABLE REMUNERATION IN OPTIONS IS BASED, AND INDICATION OF DEFERMENT PERIOD AND EXERCISE PRICE

Not applicable, since the remuneration policy in force does not include the allocation of a variable remuneration in options.

75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS

In 2019, there were no bonuses, annual bonuses or non-pecuniary benefit systems of any nature whatsoever in force in PHAROL.

76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS

No PHAROL director is covered by complementary pension or early retirement system plan.

#### IV. REMUNERATION DISCLOSURE

77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY

Pursuant to Law no. 28/2009 of 19 June 2009, individual and global gross remunerations paid to the members of the management body are shown hereinafter:

Board of Directors (year of designation)	Fixed Remuneration 2019	Variable Remuneration 2019
Luís Maria Viana Palha da Silva (2015)	294,000	163,513 (*)
Aristóteles Luiz Menezes Vasconcellos Drummond (2017) (1)	35,000	
Avelino Cândido Rodrigues (2019)	31,436	
Bryan Schapira (2018) (2)	27,131	
Isabel Maria Ferreira Possantes Rodrigues Cascão (2019) (3)	27,385	
João Manuel Pisco de Castro (2015) (4)	2,917	
Jorge Augusto Santiago das Neves (2017) (1)	35,000	
Jorge Telmo Maria Freire Cardoso (2014)	35,000	
Maria do Rosário Amado Pinto Correia (2015)	35,000	
Maria Leonor Martins Ribeiro Modesto (2018) (4)	35,000	
Nelson Sequeiros Rodriguez Tanure (2017) (1)	35,000	
Pedro Zañartu Gubert Morais Leitão (2015)	35,000	
<b>Total</b>	<b>627,869</b>	<b>163,513</b>

(1) Termination of office on January 8, 2020.

(2) Resigned on October 31, effective November 30, 2019.

(3) Resigned on September 9, effective October 31, 2019.

(4) Was in office in the Board of Directors until February 8, 2019.

(\*) Pursuant to the Declaration on the Remuneration Policy, approved at the General Meeting, annex II of this report, the Remuneration Committee understood that, due to the nature and objectives of the Company, the Agreement with Oi constituted an extraordinary event that represented a undeniable and measurable creation of value for shareholders, having thus attributed an equally extraordinary premium to the Managing-Director.

78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL

During 2019, no amounts were paid to PHAROL's members of the Board of Directors by companies in a control or group relationship or subject to common control.

79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED

The remuneration policy of the members of the Board of Directors in 2019, which was presented to the General Meeting of shareholders March 29, 2019, does not predict the provide for the allocation, in general terms, of this type of remuneration.

80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF TERMINATION OF OFFICE DURING THE FINANCIAL YEAR

During the year 2019, there is no compensation paid for the contract termination of executive directors.

81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY

The remuneration of the Fiscal Council is composed of a fixed annual amount based on the Company's situation and market practices without the existence of a variable remuneration.

The gross remuneration of the Fiscal Council for the year 2019 was as follows:

Fiscal Council		Remunerations 2019
José Maria Rego Ribeiro da Cunha		49,000
Isabel Maria Beja Gonçalves Novo		31,500
João Manuel Pisco de Castro	(1)	28,944
Paulo Ribeiro da Silva	(2)	N/A
<b>Total</b>		<b>109,444</b>

(1) Elected on February,8, 2019.

(2) Alternate member.

82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

The Chairman of the Board of the General Meeting, Diogo Lacerda Machado, for his functions at General Meetings granting the gross remuneration of Euro, 12,000.

**V. AGREEMENTS WITH REMUNERATION IMPLICATIONS**

83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION

There are no agreements that establish a right to compensations upon removal without just cause of a director, other than the ones provided by law.

84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL

There are no agreements between PHAROL and the members of the management body or officers providing for compensation in the event of resignation, removal without just cause or termination of employment relationship following a change of control in the Company.

**VI. SHARE ALLOTMENT OR STOCK OPTION PLANS**

The information set forth in **items 85 to 87** of the form attached to CMVM Regulation no, 4/2013 is not applicable to PHAROL, as during the 2018 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, in regard to PHAROL directors, employees or any third parties.

88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES

Not applicable, since there is no system specifically providing for any share capital holding by employees in the Company.

## E. RELATED PARTY TRANSACTIONS

### I. CONTROL MECHANISMS AND PROCEDURES

89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS (IAS 24)

To ensure full compliance with PHAROL's obligations to disclose Related Party Transactions, the Company has implemented the procedures and internal control mechanisms designed to identify and ensure transparency of the decision-making processes for Transactions with Related Parties, and, secondly, determine the Transactions whose disclosure is relevant in accordance with the legal, regulatory and accounting rules to which it is bound.

For these purposes, the following transparency rules in the processes of deciding Related Party Transactions are fully complied by all stakeholders:

1. To preserve the transparency of PHAROL's decision-making processes when dealing with Related Party Transactions, such processes are subject to a general principle that no major corporate member and key contributor has formal authority within the PHAROL Group to authorize Transactions with himself, with any family member or entity under his control.
2. In such situations, approval of Related Party Transactions shall be held by an equivalent or superior member in the PHAROL Group hierarchy to ensure the independence of the decision-making process on the concerned Transaction.
3. Whenever Transactions of PHAROL or its Subsidiaries with Related Parties, or their renewals, whose aggregate value per entity exceeds Euro 200,000 (two hundred thousand euros) per semester, the realization thereof may only be approved once obtained prior favorable opinion of the supervisory body confirming that, in view of the reasoning given, the nature of the Related Party of the counterparty did not influence the decision to contract and the terms and conditions agreed.
4. The Transactions of PHAROL or its Subsidiaries held with shareholders holding a qualifying holding pursuant to article 16 of the Portuguese Securities Code or entities that with the latter are in one of the relations provided for in article 20 of the Code or its renewals, whose aggregate value per entity exceeds Euro 1,000,000 (one million euros) per year, are subject to approval by the Board of Directors, after obtaining a prior favourable opinion from the supervisory body, confirming that, given the reasons given, nature of a shareholder holding a qualifying holding or entity that is in one of the relationships provided for in article 20 of the CMVM of the counterparty did not influence the decision to contract or the terms and conditions agreed.
5. The transactions of PHAROL or its Subsidiaries made with members of the Board of Directors of PHAROL shall be subject to approval by the Board of Directors, regardless of the respective amount, pursuant to paragraph 2 of article 397 of the Commercial Companies Code.
6. Proposals for Transactions submitted by the above-mentioned bodies must be substantiated and should specifically mention the advantages inherent to the Transactions in question.
7. For the purposes set out in points 3 and 4 above, the Board of Directors shall be instructed to provide the following information regarding the Transaction on which it is called upon: (i) sufficient information on the characteristics of the transaction in question, in particular from a strategic, financial, legal and fiscal point of view; (ii) information on the nature of the relationship between PHAROL, or its Subsidiaries, and the counterparty concerned; (iii) the procedures and financial terms agreed in the scope of the operation; (iv) the evaluation procedure adopted and the respective assumptions, including

prices used as a reference; (v) the hiring process; and (vi) the impact of the transaction on the financial position of the PHAROL Group.

8. The information referred to in item 7. above shall be prepared by the proposer of the Transaction.
9. The supervisory board shall inform the Board of Directors of opinions issued on Transactions not subject to approval by the Board of Directors of PHAROL at the meetings of the Board of Directors to approve the semiannual and annual financial information immediately following the issuance of said opinions.
10. Where the execution of any of the operations referred to in points 3 or 4 entails the successive completion of several transactions where the second and subsequent transactions are mere acts of execution of the first, as provided for in points 3 to 9. the first transaction.
11. The following transactions with related parties are therefore excluded from the scope of application of the said internal regulations:
  - a) Purchases of goods or services contracted with compliance with internal rules regarding purchases, suppliers and service providers that are in force at the time of hiring;
  - b) Banking operations of PHAROL and Subsidiaries, including collection, payment, deposits and other financial investments, short- and medium-term financing operations, commercial paper issuance, foreign exchange operations, hedging derivatives and guarantees provided that they do not exceed the aggregate value of Euro 300,000 (three hundred thousand euros) per year;
  - c) Between companies in a control or group relationship with PHAROL or between PHAROL and PHAROL;
  - d) where the consideration is determined based on official quotations (e.g. exchange or interest rate and commodity contracts) if the agreed ranges correspond to normal market practices;
  - e) where the consideration is determined based on tariffs or charges fixed by the competent regulatory authorities to which it competes;
  - f) The payment by the PHAROL Group of the remuneration of the main corporate members and key employees for the performance of their duties;
  - g) The operations accessible to all employees or shareholders of the PHAROL Group under equivalent conditions;
  - h) The acquisition of technical services, such as legal or tax consultancy, where the approval procedure provided for in this article may jeopardize the timely provision of such services, taking into account the specific nature of the services to be rendered, namely, taking into account the qualifications and degree of knowledge required for the provision of the services in question, as well as the time limit for their implementation;
  - i) Transactions that constitute the execution of transactions already contracted under general contracts already in force in the PHAROL Group.

#### 90. TRANSACTIONS SUBJECT TO CONTROL

In 2019, there were no transactions subject to the rules described in paragraph 89.

#### 91. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING

In this respect, reference is made to point 89 of Part I above.

## I. TRANSACTION DETAILS

### 92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE

Information on related party transactions is available on Note 21 to the consolidated financial statements for the year 2019. There were no transactions with related parties' to disclose in respect of the fiscal year ended on 31 December 2019.

Information on the transactions executed during the fiscal year ended on 31 December 2019 with owners of qualified holdings who are not related parties in accordance with IAS 24 is available in Note 22 to the consolidated financial statements for the year of 2019.

## PART II – CORPORATE GOVERNANCE EVALUATION

### 1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

As previously mentioned, the Company has adopted the Corporate Governance Code of IPCG, ensuring an adequate level of protection of shareholders' interests and transparency of Corporate Governance.

PHAROL is also subject to other internal standards adopted in its corporate governance structure such as various internal rules of conduct and transparency, specifically the Code of Ethics, the Rules on Management Transactions, Related Party Transactions and Transactions with Qualified Holders.

PHAROL, held in 2019 the management model delegating the day-to-day management to Managing-Director.

### 2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL complies with the recommendations set out in the IPCG Corporate Governance Code, which entered into force in January 1, 2018.

Within this context, PHAROL's corporate governance model and principles:

- Observe all legal rules of a binding content applicable to the Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese Companies Code;
- Take in a significant set of recommendations and best practices in this field as established under the IPCG Code, duly substantiating duly its corporate governance options in accordance with the "comply or explain" principle.

PHAROL adopts the IPCG Recommendations published in June 2018, available here:

<https://cgov.pt/images/ficheiros/2018/codigo-en-2018-ebook.pdf>

The items in Part I of this Corporate Governance Report that contain a description of the measures taken by the Company for compliance with the IPCG Recommendations are identified hereunder.

RECOMENDAÇÃO DO IPCG		COMPLIANCE	REPORT
Chapter I · GENERAL PROVISIONS			
I.1. Company's relationship with investors and disclosure			
I.1.1	The Company should establish mechanisms to ensure, in a suitable and rigorous form, the production, management and timely disclosure of information to its governing bodies, shareholders, investors and other stakeholders, financial analysts, and to the markets in general.	Complied	Items 56, 58 and 59
I.2. Diversity in the composition and functioning of the company's governing bodies			
I.2.1.	Companies should establish standards and requirements regarding the profile of new members of their governing bodies, which are suitable according to the roles to be carried out. Besides individual attributes (such as competence, independence, integrity, availability, and experience), these profiles should take into consideration general diversity requirements, with particular attention to gender diversity, which may contribute to a better performance of the governing body and to the balance of its composition.	Complied	Items 19, 21 and Appendix I
I.2.2.	The company's managing and supervisory boards, as well as their committees, should have internal regulations –	Complied	Items 21, 22, 27, 31 and 34



	namely regulating the performance of their duties, their Chairmanship, periodicity of meetings, their functioning and the duties of their members —, and detailed minutes of the meetings of each of these bodies should be carried out.		
I.2.3.	The internal regulations of the governing bodies — the managing body, the supervisory body and their respective committee — should be disclosed, in full, on the company's website.	Complied	Items 22, 27, 34 and 61
I.2.4.	The composition, the number of annual meetings of the managing and supervisory bodies, as well as of their committees, should be disclosed on the company's website.	Complied	Items 17, 23, 31, 35, 59
I.2.5.	The company's internal regulations should provide for the existence and ensure the functioning of mechanisms to detect and prevent irregularities, as well as the adoption of a policy for the communication of irregularities (whistleblowing) that guarantees the suitable means of communication and treatment of those irregularities, but safeguarding the confidentiality of the information transmitted and the identity of its provider, whenever such confidentiality requested.	Complied	Items 21 and 49
<b>I.3. Relationships between the company bodies</b>			
I.3.1.	The bylaws, or other equivalent means adopted by the company, should establish mechanisms that, within the limits of applicable laws, permanently ensure the members of the managing and supervisory boards are provided with access to all the information and company's collaborators, in order to appraise the performance, current situation and perspectives for further developments of the company, namely including minutes, documents supporting decisions that have been taken, calls for meetings, and the archive of the meetings of the managing board, without impairing the access to any other documents or people that may be requested for information.	Complied	Items 22, 34 and 61
I.3.2.	Each of the company's boards and committees should ensure the timely and suitable flow of information, especially regarding the respective calls for meetings and minutes, necessary for the exercise of the competences, determined by law and the bylaws, of each of the remaining boards and committees.	Complied	Items 22, 34 and 61
<b>I.4. Conflicts of interest</b>			
I.4.1.	The duty should be imposed, to the members of the company's boards and committees, of promptly informing the respective board or committee of facts that could constitute or give rise to a conflict between their interests and the company's interest.	Complied	Items 34 and 89
I.4.2.	Procedures should be adopted to guarantee that the member in conflict does not interfere in the decision-making process, without prejudice to the duty to provide information and other clarifications that the board, the committee or their respective members may request.	Complied	Items 34 and 89
<b>I.5. Related party transactions</b>			
I.5.1.	The managing body should define, in accordance with a previous favorable and binding opinion of the supervisory body, the type, the scope and the minimum individual or aggregate value of related party transactions that: (i) require the previous authorization of the managing board, and (ii) due to their increased value require an additional favorable report of the supervisory body.	Explain	Items 17, 21 and 89  In 2019 PHAROL did not carry out transactions with related parties. In

			addition, the service order relating to this matter is under review on this date in order to fully comply with all legal requirements and respective recommendations.
I.5.2.	The managing body should report all the transactions contained in Recommendation 1.5.1. to the supervisory body, at least every six months.	Complied	Items 21 and 89
<b>Chapter II · SHAREHOLDERS AND GENERAL MEETINGS</b>			
II.1.	The company should not set an excessively high number of shares to confer voting rights, and it should make its choice clear in the corporate governance report every time its choice entails a diversion from the general rule: that each share has a corresponding vote.	Complied	Item 12
II.2.	The company should not adopt mechanisms that make decision making by its shareholders (resolutions) more difficult, specifically, by setting a quorum higher than that established by law.	Complied	Item 14
II.3.	The company should implement adequate means for the exercise of voting rights through postal votes, including by electronic means.	Complied	Item 12
II.4.	The company should implement adequate means in order for its shareholders to be able to digitally participate in general meetings.	Explain	<ul style="list-style-type: none"> <li>• Bylaws, article 16 n<sup>o</sup>4.</li> <li>• The Company understands that, given the relevance of the General Shareholders' Meeting, the participation in by telematic ways can jeopardize the integrity of the information and entails risks of dissemination of information that the Company, out of respect for its shareholders, does not want to put in question.</li> </ul>
II.5.	The bylaws, which specify the limitation of the number of votes that can be held or exercised by a sole shareholder, individually or in coordination with other shareholders, should equally provide that, at least every 5 years, the amendment or maintenance of this rule will be subject to a shareholder resolution — without increased quorum in comparison to the legally established — and in that resolution, all votes cast will be counted without observation of the imposed limits.	Complied	Items 5 and 21
II.6.	The company should not adopt mechanisms that imply payments or assumption of fees in the case of the transfer	Complied	Item 4

	of control or the change in the composition of the managing body, and which are likely to harm the free transferability of shares and a shareholder assessment of the performance of the members of the managing body.		
<b>Chapter III · NON – EXECUTIVE MANAGEMENT, MONITORING AND SUPERVISION</b>			
III.1.	Without prejudice to question the legal powers of the chair of the managing body, if he or she is not independent, the independent directors should appoint a coordinator (lead independent director), from amongst them, namely, to: (i) act, when necessary, as an interlocutor near the chair of the board of directors and other directors, (ii) make sure there are the necessary conditions and means to carry out their functions; and (iii) coordinate the independent directors in the assessment of the performance of the managing body, as established in recommendation V.1.1.	Explain	Item 21 Due to the size of the Board of Directors, all directors make an informed decision on the matters submitted to them.
III.2.	The number of non-executive members in the managing body, as well as the number of members of the supervisory body and the number of the members of the committee for financial matters should be suitable for the size of the company and the complexity of the risks intrinsic to its activity, but sufficient to ensure, with efficiency, the duties which they have been attributed.	Complied	Items 17, 18, 21 and 31
III.3.	In any case, the number of non-executive directors should be higher than the number of executive directors.	Complied	Items 17, 18 and 21
III.4.	Each company should include a number of non-executive directors that corresponds to no less than one third, but always plural, who satisfy the legal requirements of independence. For the purposes of this recommendation, an independent person is one who is not associated with any specific group of interest of the company, nor under any circumstance likely to affect his/her impartiality of analysis or decision, namely due to: <ul style="list-style-type: none"> <li>i. having carried out functions in any of the company's bodies for more than twelve years, either on a consecutive or non-consecutive basis;</li> <li>ii. having been a prior staff member of the company or of a company which is considered to be in a controlling or group relationship with the company in the last three years;</li> <li>iii. having, in the last three years, provided services or established a significant business relationship with the company or a company which is considered to be in a controlling or group relationship, either directly or as a shareholder, director, manager or officer of the legal person;</li> <li>iv. having been a beneficiary of remuneration paid by the company or by a company which is considered to be in a controlling or group relationship other than the remuneration resulting from the exercise of a director's duties;</li> <li>v. having lived in a non-marital partnership or having been the spouse, relative or any first degree next of kin up to and including the third degree of collateral affinity of company directors or of natural persons who are direct or indirect holders of qualifying holdings, or</li> <li>vi. having been a qualified holder or representative of a shareholder of qualifying holding.</li> </ul>	Complied	Items 17 and 18
III.5.	The provisions of (i) of recommendation III.4 does not inhibit the qualification of a new director as independent if, between the termination of his/her functions in any of the company's bodies and the new appointment, a period of 3 years has elapsed (cooling-off period).	Not Applicable	Item 17

III.6.	Non-executive directors should participate in the definition, by the managing body, of the strategy, main policies, business structure and decisions that should be deemed strategic for the company due to their amount or risk, as well as in the assessment of the accomplishment of these actions.	Complied	Item 21
III.7.	The supervisory body should, within its legal and statutory competences, collaborate with the managing body in defining the strategy, main policies, business structure and decisions that should be deemed strategic for the company due to their amount or risk, as well as in the assessment of the accomplishment of these actions.	Not Applicable	
III.8.	The supervisory body, in observance of the powers conferred to it by law, should, in particular, monitor, evaluate, and pronounce itself on the strategic lines and the risk policy defined by the managing body.	Complied	Item 21 and 34
III.9.	Companies should create specialized internal committees that are adequate to their dimension and complexity, separately or cumulatively covering matters of corporate governance, remuneration, performance assessment, and appointments.	Explain	<p>Item 15</p> <p>Given the nature and objectives of the company and its small size, it is not necessary to set up several internal commissions. Considering, in particular, the close and frequent monitoring that the board of directors does of all matters that could be the responsibility of the referred commissions. And it is in this line, despite the fact that the Board of Directors approved, on June 30, 2015, a Monitoring Committee and the respective powers, led to the fact that filling the posts of that Committee had not been considered a priority. Also, in this option, the costs associated with it continued to weigh given the decision taken by the Remuneration Committee that fixed certain amounts of remuneration for the performance</p>

			of those posts. The Board of Directors keeps this matter under review.
III.10.	Risk management systems, internal control and internal audit systems should be structured in terms adequate to the dimension of the company and the complexity of the inherent risks of the company's activity.	Complied	Items between 50 to 55
III.11.	The supervisory body and the committee for financial affairs should supervise the effectiveness of the systems of risk management, internal control and internal audit, and propose adjustments where they are deemed to be necessary	Complied	Item 34
III.12.	The supervisory body should provide its view on the work plans and resources of the internal auditing service, including the control of compliance with the rules applied to the company (compliance services) and of internal audit, and should be the recipient of the reports prepared by these services, at least regarding matters related with approval of accounts, the identification and resolution of conflicts of interest, and the detection of potential irregularities.	Complied	Items 21, 34 and 51
<b>Chapter IV EXECUTIVE MANAGEMENT</b>			
IV.1.	The managing body should approve, by internal regulation or equivalent, the rules regarding the action of the executive directors and how these are to carry out their executive functions in entities outside of the group.	Not Applicable	PHAROL complies with the provisions of Article 398 of the CSC. Also, the only executive director has full-time duties.
IV.2.	The managing body should ensure that the company acts consistently with its objects and does not delegate powers, namely, in what regards: i. the definition of the strategy and main policies of the company; ii. the organization and coordination of the business structure; iii. matters that should be considered strategic in virtue of the amounts involved, the risk, or special characteristics.	Complied	Item 21
IV.3.	In matters of risk assumption, the managing body should set objectives and look after their accomplishment.	Complied	Item 52
IV.4.	The supervisory board should be internally organized, implementing mechanisms and procedures of periodic control that seek to guarantee that risks which are effectively incurred by the company are consistent with the company's objectives, as set by the managing body	Complied	Items 21 and 51
<b>Chapter V · EVALUATION OF PERFORMANCE, REMUNERATION AND APPOINTMENT</b>			
<b>V.1. Annual evaluation of performance</b>			
V.1.1.	The managing body should annually evaluate its performance as well as the performance of its committees and delegated directors, taking into account the accomplishment of the company's strategic plans and budget plans, the risk management, the internal functioning and the contribution of each member of the body to these objectives, as well as the relationship with the company's other bodies and committees.	Complied	Item 21

V.1.2.	The supervisory body should supervise the company's management, especially, by annually assessing the accomplishment of the company's strategic plans and of the budget, the risk management, the internal functioning and the contribution of each member of the body to these objectives, as well as the relationship with the company's other bodies and committees.	Complied	Item 21 e 34
<b>V.2. Remuneration</b>			
V.2.1.	The remuneration should be set by a committee, the composition of which should ensure its independence from management.	Complied	Items 67 and 68
V.2.2.	The remuneration committee should approve, at the start of each term of office, execute, and annually confirm the company's remuneration policy for the members of its boards and committees, including the respective fixed components. As to executive directors or directors periodically invested with executive duties, in the case of the existence of a variable component of remuneration, the committee should also approve, execute, and confirm the respective criteria of attribution and measurement, the limitation mechanisms, the mechanisms for deferral of payment, and the remuneration mechanisms based on the allocation of options and shares of the company.	Complied	Appendix II
V.2.3.	The statement on the remuneration policy of the managing and supervisory bodies, pursuant to article 2 of Law no. 28/2009, 19th June, should additionally contain the following: i. the total remuneration amount itemized by each of its components, the relative proportion of fixed and variable remuneration, an explanation of how the total remuneration complies with the company's remuneration policy, including how it contributes to the company's performance in the long run, and information about how the performance requirements were applied; ii. remunerations from companies that belong to the same group as the company; iii. the number of shares and options on shares granted or offered, and the main conditions for the exercise of those rights, including the price and the exercise date; iv. information on the possibility to request the reimbursement of variable remuneration; v. information on any deviation from the procedures for the application of the approved remuneration policies, including an explanation of the nature of the exceptional circumstances and the indication of the specific elements subject to derogation; vi. information on the enforceability or non-enforceability of payments claimed in regard to the termination of office by directors.	Complied	Appendix II
V.2.4.	For each term of office, the remuneration committee should also approve the directors' pension benefit policies, when provided for in the bylaws, and the maximum amount of all compensations payable to any member of a board or committee of the company due to the respective termination of office.	Not Applicable	Appendix II
V.2.5.	In order to provide information or clarifications to shareholders, the chair or, in case of his/her impediment, another member of the remuneration committee should be present at the annual general meeting, as well as at any other, whenever the respective agenda includes a matter linked with the remuneration of the members of the company's boards and committees or, if such presence has been requested by the shareholders.	Complied	Item I. General Meeting

V.2.6.	Within the company's budgetary limitations, the remuneration committee should be able to decide, freely, on the hiring, by the company, of necessary or convenient consulting services to carry out the committee's duties. The remuneration committee should ensure that the services are provided independently and that the respective providers do not provide other services to the company, or to others in controlling or group relationship, without the express authorization of the committee.	Explain	Appendix II There was never any request to contract these kinds of services. If so, the company will proceed, taking into account budget limits and rules of independence.
<b>V.3. Director remuneration</b>			
V.3.1.	Taking into account the alignment of interests between the company and the executive directors, a part of their remuneration should be of a variable nature, reflecting the sustained performance of the company, and not stimulating the assumption of excessive risks.	Complied	Item 69 and Appendix II
V.3.2.	A significant part of the variable component should be partially deferred in time, for a period of no less than three years, thereby connecting it to the confirmation of the sustainability of the performance, in the terms defined by a company's internal regulation.	Complied	Items 25, 72 and Appendix II
V.3.4.	When variable remuneration includes the allocation of options or other instruments directly or indirectly dependent on the value of shares, the start of the exercise period should be deferred in time for a period of no less than three years.	Not Applicable	Appendix II
V.3.5.	The remuneration of non-executive directors should not include components dependent on the performance of the company or on its value.	Complied	Items 69, 77 and Appendix II
V.3.6.	The company should be provided with suitable legal instruments so that the termination of a director's time in office before its term does not result, directly or indirectly, in the payment to such director of any amounts beyond those foreseen by law, and the company should explain the legal mechanisms adopted for such purpose in its governance report.	Not Complied	Items 83 and Appendix II
<b>V.4. Appointments</b>			
V.4.1.	The company should, in terms that it considers suitable, but in a demonstrable form, promote that proposals for the appointment of the members of the company's governing bodies are accompanied by a justification in regard to the suitability of the profile, the skills and the curriculum vitae to the duties to be carried out.	Not Applicable	There was no elective general meeting in 2019, however, we refer to point 21 that establishes the criteria and requirements of technical competence, independence, integrity, loyalty, availability, experience and gender diversity, they will develop their respective qualifications, knowledge and experience for the exercise of their duties and competences and

			the fulfillment of the respective duties and functions.
V.4.2.	The overview and support to the appointment of members of senior management should be attributed to a nomination committee, unless this is not justified by the company's size.	Explain	The size of the Society does not justify it.
V.4.3.	This nomination committee includes a majority of nonexecutive, independent members.	Not Applicable	
V.4.4.	The nomination committee should make its terms of reference available, and should foster, to the extent of its powers, transparent selection processes that include effective mechanisms of identification of potential candidates, and that those chosen for proposal are those who present a higher degree of merit, who are best suited to the demands of the functions to be carried out, and who will best promote, within the organization, a suitable diversity, including gender diversity.	Not Applicable	
<b>Chapter VI · RISK MANAGEMENT</b>			
VI.1.	The managing body should debate and approve the company's strategic plan and risk policy, which should include a definition of the levels of risk considered acceptable.	Complied	Item 21 and 54
VI.2.	Based on its risk policy, the company should establish a system of risk management, identifying (i) the main risks it is subject to in carrying out its activity; (ii) the probability of occurrence of those risks and their respective impact; (iii) the devices and measures to adopt towards their mitigation; (iv) the monitoring procedures, aiming at their accompaniment; and (v) the procedure for control, periodic evaluation and adjustment of the system.	Complied	Items 53, 54 and 55
VI.3.	The company should annually evaluate the level of internal compliance and the performance of the risk management system, as well as future perspectives for amendments of the structures of risk previously defined.	Complied	Items 21 and 51
<b>Chapter VII · FINANCIAL STATEMENTS AND ACCOUNTING</b>			
<b>VII.1. Financial information</b>			
VII.1.1.	The supervisory body's internal regulation should impose the obligation to supervise the suitability of the preparation process and the disclosure of financial information by the managing body, including suitable accounting policies, estimates, judgments, relevant disclosure and its consistent application between financial years, in a duly documented and communicated form.	Complied	Items 21 and 34
<b>VII.2. Statutory audit of accounts and supervision</b>			
VII.2.1.	Through the use of internal regulations, the supervisory body should define: i. the criteria and the process of selection of the statutory auditor; ii. the methodology of communication between the company and the statutory auditor; iii. the monitoring procedures destined to ensure the independence of the statutory auditor; iv. the services, besides those of accounting, which may not be provided by the statutory auditor.	Complied	Items 21 and 34
VII.2.2.	The supervisory body should be the main interlocutor of the statutory auditor in the company and the first recipient of the respective reports, having the powers, namely, to propose the respective remuneration and to ensure that	Complied	Item 21



	adequate conditions for the provision of services are ensured within the company.		
VII.2.3.	The supervisory body should annually assess the services provided by the statutory auditor, their independence and their suitability in carrying out their functions, and propose their dismissal or the termination of their service contract by the competent body when this is justified for due cause.	Complied	Items 21 and 45
VII.2.4.	The statutory auditor should, within their powers, verify the application of policies and systems of remuneration of governing bodies, the effectiveness and the functioning of the mechanisms of internal control, and report any irregularities to the supervisory body.	Complied	Items 21 and 51
VII.2.5.	The statutory auditor should collaborate with the supervisory body, immediately providing information on the detection of any relevant irregularities as to the accomplishment of the duties of the supervisory body, as well as any difficulties encountered whilst carrying out their duties.	Complied	Items 21 and 51

## APPENDIX I

### **Functions performed by members of the management body in other companies**

The functions performed by each director in companies other than PHAROL are as follows:

#### ***Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and Managing Director)***

Director of Bratel B.V.  
Director of Bratel S.à.r.l.  
Chairman of the Board of the General Meeting and Member of the General and Supervisory Council of EDP – Energias de Portugal, S.A.  
Non-Executive Director of Kasmunaygas  
Chairman of the Fiscal Council of Seguradoras Unidas, S.A.  
Non-executive Director of Sovena

#### ***Aristóteles Luiz Menezes Vasconcellos Drummond (Director)***

Member of the Board of Directors of SEBRAE/RJ  
Director and Vice-President of Associação Comercial do Rio de Janeiro since 1968  
Member of the Advisory Committee – Associação Cultural da Arquidiocese do Rio de Janeiro  
Director of Fundação Luso-Brasileira since 2000  
Alternate Member of the Board of Directors of Light Energia S.A. (03,09,2018)  
Alternate Member of the Board of Directors of Light Serviços de Eletricidade S.A. (03.09.2018)  
Alternate Member of the Board of Directors of Light S.A. (03.09.2018)

#### ***Avelino Cândido Rodrigues (Director)***

In 2007 entered, as a founding partner, in the constitution of the “ACR & Associados – Sociedade de Advogados R.L.”

Founding Partner and Managing Partner of “ACR & Associados – Sociedade de Advogados R.L.” – registered with the Portuguese Bar Association

Member of the Portuguese Bar Association  
Member of the Brazilian Bar Association

- Legal Services Main Areas:
- Corporate Law;
- Contract Law;
- Administrative Law;
- I.T. Law;
- Copyright and Industrial Property Law;
- Criminal Law;
- Labour Law;
- Bankruptcy and Business Recovery Law;
- Procedural Law;
- Investments

#### ***Jorge Augusto Santiago das Neves (Director)***

Lawyer at BAS Advogados, Lisbon

#### ***Jorge Telmo Maria Freire Cardoso (Director)***

Member of the Executive Board of Directors of Novo Banco, S.A.  
Member of the Board of Directors of NB Finance, Ltd.  
Chairman of the Board of Directors of E.S. Teach Ventures, SGPS S.A.  
Non-Executive Member of the Board of Directors of Enternext, S.A.

***Maria do Rosário Amado Pinto-Correia (Director)***

Chairman of the Board of Sixty Degrees – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.  
Board Member and CEO of Experienced Management S.A.  
Member of the Advisory Board of Fundiestamo - Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.  
Lecturer of licentiate programs and Executive Education at Catolica Lisbon School of Economics  
Coordinator of Executive Education programs at Catolica Lisbon School of Business and Economics

***Maria Leonor Martins Ribeiro Modesto (Director)***

Full Professor of Economics, Universidade Católica Portuguesa, June 2008 to present  
Managing Partner of Modelling Mind, Lda. since June 2010

***Nelson Sequeiros Rodriguez Tanure (Director)***

Doesn't perform any function in another Companies.

***Pedro Zañartu Gubert Morais Leitão (Director)***

Chairman of the Board of Directors of Prio Energy SGPS  
Managing Partner of MoteDALma Lda.  
Managing Partner of Fikonline-Internet e Energia Lda.

**Professional qualifications and professional activities performed during the last 5 years**

*Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and Managing Director)  
Portuguese, 64 years old*

Member of Board of Directors of Oi S.A. from 2015 to 2018 | Vice Chairman of the Board of Directors da Galp Energia, SGPS, S.A. | Member of the Board of Directors of Petróleos de Portugal – Petrogal, S.A. | Member of the Board of Directors of Galp Exploração e Produção Petrolífera, S.A. | Member of the Board of Directors of GDP – Gás de Portugal, SGPS, S.A. (redenominated Galp Gas & Power, SGPS, S.A. in February 12, 2015) | Member of the Board of Directors of Galp Gás Natural Distribuição, S.A. | Member of the Board of Directors of Galp Energia, S.A. | Member of the Board of Directors of Galp Energia España, S.A. | Member of the Board of Directors of Galp Energia E&P B.V. | Member of the Board of Directors of Galp Exploração e Produção (Timor-Leste), S.A. | Chairman of the Board of Directors of Galp Marketing International, S.A. | Chairman of the Management Board of Petrogal Angola, Lda. | Chairman of the Management Board of Petrogal Guiné-Bissau, Lda. | Chairman of the Management Board of Petrogal Moçambique, Lda. | Chairman of the Executive Board of Galp Moçambique, Lda. | Chairman of the Board of Directors of Galp Gambia, Limited | Chairman of the Board of Directors of Galp Swaziland, Limited | Chairman of the Board of Directors of CLC – Companhia Logística de Combustíveis, S.A. | Director of Galp Sinopec Brazil Services B.V. | Member of the Board of Directors of Petrogal Brasil, S.A. | Member of the Board of Directors of Galp Energia Brasil, S.A. | Member of the Board of Directors of Fima – Produtos Alimentares, S.A. | Member of the Board of Directors of Victor Guedes Indústria e Comércio, S.A. | Member of the Board of Directors of Indústrias Lever Portuguesa, S.A. | Member of the Board of Directors of Olá – Produção de Gelados e Outros Produtos Alimentares, S.A. | Manager of Unilever Jerónimo Martins, Lda. | Manager of Gallo Worldwide, Lda. | Member of the Technologic and Scientific Committee of ISPG – Instituto de Petróleo e Gás, Associação para a Investigação e Formação Avançada | Chairman of APETRO – Associação Portuguesa de Empresas Petrolíferas

| Chairman of the Board of AEM – Associação dos Emitentes Portugueses | Member of the Board of Directors (non executive) of NYSE Euronext and Member of Audit Committee of NYSE Euronext | Chairman of the Fiscal Council of Fórum para a Competitividade | Chairman of the Board of EPIS - Empresários pela Inclusão Social | Chairman of the Fiscal Council of Companhia de Seguros Tranquilidade, S.A. Logo e Açoreana and Açoreana de Seguros since 2017 Seguradoras Unidas, S.A. | Degree in Economics from Instituto Superior de Economia | Degree in Business Management from Universidade Católica Portuguesa | AMP – University of Pennsylvania – Wharton School of Economics.

*Aristóteles Luiz Menezes Vasconcellos Drummond (Director)*  
*Brazilian, 75 years old*

Fiscal Council Member of CEMIG from 1999 to 2015 | Fiscal Council Member of Light from 2006 to 2015, Elected Chairman of the Board | Contributor to the Jornal do Brasil, Diário do Comércio – SP, Hoje em Dia – BH, Correio da Serra – Barbacena, Diário de Petrópolis - RJ, Destak, Edição Nacional, jornal O Dia – RJ, and others | Journalist registered as redator at DRT/RJ | Professional in Public Relations registered at Conselho Regional de Profissionais de Relações Públicas | Director registered at Conselho Regional de Administração.

*Avelino Cândido Rodrigues*  
*Portuguese, 60 years old*

Degree in Law  
Post-graduation course in Capital Markets, Financial Institutions and Products  
Course in the Contracting of goods and Services with the Government's Public Administration and I.T. Agreements

*Jorge Augusto Santiago das Neves (Director)*  
*Portuguese, 59 years old*

Chairman of the Fiscal Council of Hiperclima, S.A. from 1995 to 2017 | Counsel, Gomez Acebo & Pombo (2012-2014) | Partner, Gomez Acebo & Pombo (2010-2012) | Law Degree, Universidade Lusíada of Lisbon, 1986 | Master's Degree (LL.M.), Corporate and Commercial Law, University College of London, Reino Unido, 1987.

*Jorge Telmo Maria Freire Cardoso (Director)*  
*Portuguese, 48 years old*

Chairman of the Board of Directors of Banque Espírito Santo et de la Vénétie, S.A. from April 2017 to December 2018 | Non-Executive Member of the Board of Directors of Banque Espírito Santo et de la Vénétie, S.A. from April 2016 to April 2017 | Non-Executive Member of the Board of Directors of Visabeira from April 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Totta Angola, S.A. from April 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Capital – Sociedade de Capital de Risco, S.A. from March 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Desenvolvimento, SGPS, S.A. from March 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Geral Brasil, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa – Banco de Investimento, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Caixa Seguros e Saúde, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Gerbanca, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Partang, SGPS, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors da Wolfpart, SGPS, S.A. from November 2013 to September 2014 | Member of the Board of Directors and Member of the Executive Committee of Caixa Geral de Depósitos, S.A. from July 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of CGD Investimentos Corretora de Valores e Câmbio, S.A. from May 2012 to April 2014 | Graduate in Economics by Universidade Nova de Lisboa | MBA by Instead.

*Maria do Rosário Amado Pinto-Correia (Director)*  
*Portuguese, 61 years old*

Alternate Board Member and Member of the Remuneration Committee at Oi S.A. from 2016 to 2018 | Executive Consultant at CEA – Católica from 2016 to 2018 | Chairman of Ferreira Marques & Irmão / Topázio from 2012 to 2016 | Senior Advisor at Bewith and CEA/CLSBE from 2008 to 2012 | Director of Gestão do Conhecimento of PT Comunicações, Director of Qualidade e Satisfação do Cliente in Grupo Portugal Telecom, Board Member of PT Asia, Chairman da CTTC – Archway (Pequim) and CEO da Macau Cable TV from 2003 to 2008 | Head of Office da OgilvyOne from 1994 to 2002 | Publisher of the Marie Claire magazine from 1992 to 1994 | Director of Client Service at McCann – Erickson from 1987 to 1992 | Financial Products Manager, Director of the Direct Mail in CTT – Correios de Portugal from 1981 to 1987 | Master of Business by Universidade Nova de Lisboa | MBA by Wharton School | Degree in Economics by Universidade Católica de Lisboa.

*Maria Leonor Martins Ribeiro Modesto (Director)*  
*Portuguese, 62 years old*

President of the Scientific Council of Católica Lisbon School of Business and Economics, October 2015-January 2019 | Director of CEA (Centre for Applied Studies), December 2008 to January 2017 | Associate Dean for Research of CLSBE, 2012 – May 2014 | Director of CUBE – Unidade de Investigação da CLSBE, 2007 – May 2014 | Agregação, Universidade Católica Portuguesa, July 2004 | Docteur en Sciences Economiques, Université Catholique de Louvain and European Doctoral Program, Belgium September 1987 | Licenciatura in Economics, Universidade Católica Portuguesa, 1980,

*Nelson Sequeiros Rodriguez Tanure*  
*Brazilian, 68 years old*

Qualified shareholder of Petrório S.A. since 2013 | Incorporates Intelig with TIM Brasil em 2010, from 2010 to 2015, Brazilian major shareholder of TIM Brasil | Chairman of CBM – Companhia Brasileira de Multimídia from 2000 to 2006 | Degree in Business Administration, Universidade Federal de Bahia, 1975 | Graduated from Institut des Hautes Etudes of Developpment Economique et Social – Université Paris I – 1976 | Graduated from Harvard Business School, Owner/President Management III Cambridge – Boston.

*Pedro Zañartu Gubert Morais Leitão (Director)*  
*Portuguese, 54 years old*

Non-Executive Director of Villas Boas ACE, S.A. from 2012 to 2018 | Chairman of the Board of Directors of ONI, SGPS from 2012 to 2013 | Director of Unyleya Brasil and Unyleya Portugal from 2010 to 2011 | Graduated in Business Management from Universidade Católica Portuguesa de Lisboa | Masters in Business Management from Kellogg Graduate School of Management at Northwestern University in Chicago, EUA.

## **CV data of the members of the Compensation Committee**

*António Sarmiento Gomes Mota (Member of the Compensation Committee)*

Member of the Compensation Committee since 2013.

Graduate in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa (1981), MBA, Universidade Nova de Lisboa (1984), Doctor in Business Management, ISCTE (2000).

He has a corporate career of over 20 years in management positions in the banking, consulting and financial services fields. He was Director of ISCTE Business School from 2003 to 2012 and President of INDEG/ISCTE from 2005 to 2012. He is a Professor at ISCTE Business School since 2005. He has a large experience as consultant in the areas of strategy, corporate assessment and risk management for Portuguese and

international corporations. He is the author of various reference works in the financial field. He has held leadership positions in various Boards of Directors and Supervisory Boards in Portuguese listed corporations.

Chairman of the Board of Directors of CTT, S.A., since 2017 and Vice Chairman from 2014 to 2017 | Chairman of the Audit Board of Mystic Invest S.A. since 2019 | Chairman of the Audit Board of Mystic Invest SGPS S.A. (2018/2019) | Vice Chairman of the Board of Directors (non-executive) of Soares da Costa Construção SGPS, S.A. from 2014 to 2015 | Chairman of the Board of Directors (non-executive) of SDC Investimentos, SGPS, S.A. from 2013 to 2016 | Chairman of the Instituto Português de Corporate Governance since 2016 | Member of the General and Supervisory Council from 2009 to 2018; Member of the Audit Committee (2009/2015) and Performance and Competition (2012/2015) and Chairman of the Audit Committee of EDP - Energias de Portugal, S.A. (2015/2018) | Non-Executive Member of the Board of Directors and Chairman of the Appointments and Remunerations Committee of CIMPOR - Cimentos de Portugal SGPS, S.A. from 2009 to 2012.

*Francisco de Lacerda (Member of the Compensation Committee)*

Member of the Compensation Committee of PHAROL, SGPS S.A. (ex- Portugal Telecom, SGPS S.A.) since 2009 (suspended this role between August 2012 and March 2014).

Graduated in Management & Business Administration, Universidade Católica Portuguesa (1982). Training programs in INSEAD, France.

Non-Executive Independent Director of Endesa Energia (also member of the Audit Committee and the Nomination and Remuneration Committee) from 2015 and Director of Cotec Portugal from 2015 (Chairman from 2015 to 2018). During 25 years up to 2008, he held various positions in investment, corporate and retail banking, including CEO of Banco Mello and Executive Member of the Board of Directors of Millennium BCP, then from 2010 to 2012 ,was CEO of Cimpor - Cimentos de Portugal SGPS, S.A., an international cement group operating in 12 countries, from 2008 to 2012, Non-Executive Independent Director of EDP Renováveis (also member of the Audit Committee and later of the Remuneration Committee), Chief Executive Officer (CEO) of CTT - Portugal Post from 2012 to 2019 and Chairman of Banco CTT from 2015 to 2019.

Chief Executive Officer (CEO) of CTT - Correios de Portugal, S.A. from 2012 to 2019, also Chairman of the Board of Directors from 2012 to 2017 and Vice Chairman from 2017 to 2019 and member of the Corporate Governance, Evaluation and Nominations Commission from 2014 to 2016 | Chairman of the Board of Directors of Banco CTT from 2015 to 2019, also Chairman of the Board's Remuneration Commission and member of the Selection Commission from 2015 to 2019 and Chairman of the Shareholders Remuneration Commission from 2016 to 2019 | Chairman of CTT Expresso - Serviços Postais e Logística, S.A. from 2014 to 2019 | Chairman of Turline Express Mansajeria, S.L.U from 2014 to 2019 | Member of the Board of Directors of Portuguese Foundation of Communications from 2012 to 2019 | Chairman of the General Meeting of Shareholders of Correio Expresso de Moçambique, S.A. since 2013 | Member of the Board of Directors of International Post Corporation from 2014 to 2017 | Member of the Board of Cotec Portugal since 2015, Chairman from 2015 to 2018 | Member of the Board of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado from 2014 to 2017 | Member of the General Council of Clube Naval de Cascais since 2006, Vice-Commodore since 2016.

*Pedro Miguel Ribeiro de Almeida Fontes Falcão (Member of the Compensation Committee)*

Educational background and professional training

Graduated in Business Management (Universidade Católica Portuguesa, Lisbon)  
MBA (Harvard Business School)  
PhD in Management (ISCTE-IUL)

Professional activity in the past five years

Current Positions:

Chairman of the "Audit Committee" ("Conselho Fiscal") of Montepio Holding, Banco BEM, Montepio Crédito and

Montepio Valor since 2018 | Member of the "Audit Committee" ("Conselho Fiscal") of F&C Portugal since 2017 | Member of the Board of the "Ordem dos Economistas" since 2018 | Visiting Assistant Professor in ISCTE since 2005 | Visiting Lecturer in INDEG-ISCTE since 2005 | Director of the Executive MBA of INDEG-ISCTE since 2004 | Management Consultant.

#### Past Positions:

Non-executive Member of the Board of Directors of Caixa Geral de Depósitos from July 2013 to August 2016 | Member of the Audit Commission of Caixa Geral de Depósitos from July 2013 to August 2016 | Member of the Remuneration Committee of Caixa Geral de Depósitos from 2015 to August 2016 | Associate Dean of ISCTE Business School from 2014 to 2017.

### **CV data of the members of the Fiscal Council**

*José Maria Rego Ribeiro da Cunha (Chairman of the Fiscal Council)*

Degree in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF – 1972)

Between 1975 and 1977 worked as auditor at the international company Arthur Andersen & Co.

In 1981 he passed a Statutory Auditor examination. He is the member 497 of the Certified Auditor's Association.

Between 1977 and 1981 worked as auditor manager at the chartered accountant company "António Almeida e Augusto Martins Moreira, SROC".

In 1981 he joined and has become partner of "Amável Calhau, Ribeiro da Cunha & Associados", having been since managing partner in the company since 2018, performing several professional works within the following areas: auditing, evaluation of companies and consulting, among others.

In 2018, as part of a restructuring, he constituted JM Ribeiro da Cunha & Associados, SROC, Lda., a company of which is also a managing partner.

JM Ribeiro da Cunha & Associados, SROC is:

- Member of the Bar Association of Statutory Auditors, registered under nº 325; and
- Registered at the (CMVM) Portuguese Securities Market Commission under n, ° 20180024

Since 1981, also, he has been working as Chartered Accountant in representation of the above-mentioned company, either as Statutory Auditor or integrating Supervisory Boards, in a great deal of companies covering several business activity sectors, such as: Financial Institutions and Insurance, Industry and Construction, Public Entities, Services, Tourism, Commerce, etc.

On a personal basis he worked as supervisory board in:

- PHAROL, SGPS S.A. - Chairman of the Supervisory Board
- Haitong Capital SCR, S.A. – Chairman of the Supervisory Board
- Mellogere, SGPS, S.A. – Chairman of the Supervisory Board
- GNB Gestão de Activos, SGPS, S.A. - Chairman of the Supervisory Board

He works as Chairman or Member of the Supervisory Board of the following non-profits institutions:

- Associação de Ajuda ao Recém-Nascido (Banco do Bebé)
- Bens de Utilidade Social (BUS)
- Plataforma para o Crescimento Sustentável (PCS)
- Associação de Tratamento de Toxicodependentes / FAROL (ATT)

Fluent in English, French and Spanish.

*Isabel Maria Beja Gonçalves Novo (Member of the Fiscal Council)*

Educational background and professional training

International Management Programme – INSEAD, Fontainebleau  
Post graduation in Finance (European Business Certificate) – South Bank University, London  
Graduated in Business Management and Organisation – Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE)  
Managing for Success – BNP Paribas, Brussels  
Leadership for Growth – Fortis Bank, Mello  
Certificate of Proficiency in English – Universidade de Cambridge, Lisbon  
Diplôme Supérieur d'Études Françaises Modernes – Alliance Française, Lisbon  
Pedagogical Skills Certificate – F607896/2013, Lisbon

Professional activity in the past five years

Current Positions:

Member of the Supervisory Board of Best – Banco Eletrónico de Serviço Total, S.A. (since December 2016)  
Member of the Supervisory Board of PHAROL, SGPS S.A. (since May 2015)  
Financial and Business Advisory (since April 2013)

Past Positions:

Head of the Credit Analysis Department, BNP Paribas Fortis – Portuguese Branch (September 2010 – October 2012)  
Head of Credits, Fortis Bank – Portuguese Branch (October 1995 – September 2010)  
Vice-Chairman of Federação de Triatlo de Portugal (December 2012 - January 2017),

*João Manuel Pisco de Castro (Member of the Fiscal Council)*

President of Visabeira Global, SGPS S.A.  
President of Empreendimentos Turísticos Montebelo, SGPS, S.A.  
Director of Grupo Visabeira, SGPS S.A.  
Director of Vista Alegre Atlantis, SGPS S.A.  
Director of Visabeira Indústria, SGPS, S.A.  
Chairman of Vista Alegre USA  
Director of Real Life – Tecnologias de Informação, S.A.  
Director da Constructel (Rússia)  
Director of Birla – Visabeira LTD

### **Professional qualifications and professional activities performed during the last 5 years**

President of MOB – Indústria de Mobiliário, S.A. to 2017 | President of Faianças da Capoa – Indústria de Cerâmica, S.A. to 2017 | President of Pinewells, S.A. to 2017 | President of Visagreen, S.A. to 2017 | Director of Visacasa, S.A. to 2017 | Director of Constructel (Belgium) to 2017 | Director of Constructel Sweden AB to 2017 | Director of Constructel (UK) até 2017 | Director of Constructel GmbH to 2017 | Director of Constructel (France) to 2017 | President of Instituto de Gestão Financeira e de Infra-Estruturas da Justiça, I.P. from 2007 to 2009 | Member of the Board of Directors of Grupo Visabeira SGPS S.A. from 2002 to 2007 | Member



of the Board of Director of Visabeira Telecomunicações e Construção, SGPS S.A. from 2002 to 2006 | Director of Visabeira Serviços SGPS, S.A. from 2003 to 2005 | Graduated in Electrotechnical Engineering, Telecommunications and Electronics track from Instituto Superior Técnico (1983) | MBA from Faculdade de Economia, Universidade de Lisboa (1990).

*Paulo Ribeiro da Silva (Alternate Member of the Fiscal Council)*

#### Educational background and professional training

Graduated in Financial Audit – ISCAL – Instituto Superior de Contabilidade e Administração de Lisboa

Post-graduated in Corporate Finance – INDEG/ISCTE

Post-graduated in Security and Computer Auditing – ISTECS – Instituto Superior de Tecnologias Avançadas

#### Professional activity in the past five years

Partner of JM Ribeiro da Cunha & Associados, SROC, Lda. since 2018

Partner Manager of BRAVI – Fiscalidade e Consultoria, Lda., since November 2017

## **“Declaration on the remuneration policy applicable to members of the management and supervisory bodies**

Pursuant to Law no, 28/2009, of 19 June, and Decree-Law no. 225/2008, of 20 November, the Remuneration Committee hereby submits to the company’s General Meeting the following declaration on its remuneration policy applicable to the members of the management and supervisory bodies.

### 1. Introduction

The governing bodies began their new mandate in 2018. The Remuneration Committee analysed the remuneration policy for the previous mandate and concluded that, essentially, it guaranteed the main objectives and emphasised management performance and alignment with the company’s interests. Within this context, the committee decided to maintain the basic principles of the policy applicable to the previous mandate, which was approved by the shareholders every year, although some adjustments and enhancements deemed appropriate were made.

### 2. Remuneration Policy for non-executive directors and members of the Supervisory Board:

Remuneration of non-executive members of the Board of Directors and members of the Supervisory Board consists of a fixed annual remuneration (divided into 14 payments per year), without including attendance fees.

In defining the fixed remunerations, an effort was made to ensure a remuneration level that recognises the responsibility inherent to the respective duties and that fosters adequate performance of the said duties.

We decided to maintain the values applied in the previous mandate which had been determined in line with values paid by companies with a similar market capitalisation listed in Euronext Lisbon.

No type of variable remuneration is foreseen for non-executive members of the Board of Directors and members of the Supervisory Board.

Therefore, the annual remunerations stipulated for this mandate are of 35,000 euros for non-executive directors and 42,000 and 31,500 euros for the president and members of the supervisory board, respectively.

### 3. Remuneration Policy for Executive Directors

The remuneration for Executive Directors, which since 27 March 2017 has been applied to the Managing Director’s remuneration, consists of a fixed component and a variable component.

In defining the variable remuneration, we endeavoured to maintain a reasonable balance between dissuading excessive risk-taking and an effective alignment of management interests with the interests of the company’s shareholders.

#### A) Fixed remuneration

The fixed remuneration component takes into account: (i) that the executive board consists of a single person (managing director); (ii) that the managing director is also the chairman of the company’s board of directors; (iii) that it is expected to remain competitive by endeavouring to maintain it aligned with average remunerations of executive directors at companies with a similar market capitalisation listed on Euronext Lisbon; and (iv) that the position is complex and requires expertise. Therefore, it was decided to maintain an annual payment of 294,000 euros for this mandate, as applied in the previous year, for the managing director’s fixed remuneration, paid through a monthly salary 14 times per year. A benefit of life insurance and personal accident insurance is added to the said remuneration.

#### B) Variable Remuneration

The variable remuneration is associated to the managing director’s performance. The variable remuneration will be determined according to the different levels of achieving the specific objectives approved in advance, associated to performance objectives that are objective, simple, transparent and measurable. The Remuneration Committee assessed the evolving scenario in the stock market, economy and company’s operation and concluded that it should maintain the two criteria that were applied in the previous mandate, although with a slight alteration of the respective weights, as follows: the Total Shareholder Return (TSR) of

the Company's shares (80%) and the company's Operational Efficiency, measured by the ratio between budgeted and real recurring expenses (20%).

The variable remuneration has a maximum value of 100% of the fixed annual remuneration, a limit that decreases to 50%, in the 2nd and following years of the mandate if the accumulated TSR is not positive.

Therefore, the variable remuneration will represent a maximum of 50% of the total annual remuneration.

The variable remuneration will be paid in currency, 50% in the month subsequent to the date when the accounts are approved by the General Shareholders Meeting and 50% with a 3-year deferment and subject to confirmation of the company's positive performance in the period in question, to be determined by the Remuneration Committee, which will take into account the financial sustainability and economic situation of the company and of its business sector, in addition to exceptional factors not subject to control by the management and that may affect the company's performance.

These principles and indicators for determining the variable component of the remuneration aim to ensure a clear alignment between the interests of the executive director and of the company, thereby fostering the pursuit and achievement of objectives through quality, work capacity, dedication and business know-how and an incentive and compensation policy to attract, motivate and retain the best professionals.

The Remuneration Committee also believes that, due to the company's nature and objectives, should an extraordinary event occur representing an undeniable and measurable creation of value for shareholders during the year in which the event becomes definitive, the granting of a reward equally extraordinary to the Managing Director will be taken into consideration, within the terms to be specified in time and according to the concrete characterisation of the said event and if the said reward is justifiably proposed by the company's Board of Directors.

#### 4. Awarding shares or share options

The company does not have or advocate a policy of awarding shares or share options for the mandate in progress.

#### 5. Termination of duties by executive directors

If the Executive Director terminates his duties, for any reason other than dismissal by just cause, any determined and deferred variable remuneration amounts may be paid at the time of the said termination of the management relations only if, until that date, there is sufficient and sustained evidence that the company's performance will be foreseeably positive in the remaining period to the extent that, in all probability, such would allow payment of the said deferred component.

#### 6. Clause for reversal of the variable remuneration ("clawback")

Reversal through withholding and/or returning the variable remuneration whose payment is already an acquired right may be demanded by decision of the Remuneration Committee if: (i) a director comes to be judicially sentenced for an illicit act that results in adverse alterations to the company's asset situation; (ii) in the event of serious or fraudulent breach of the code of conduct or of the internal regulations with a significant impact, or situations that justify dismissal by just cause; (iii) and/or false declarations and/or materially relevant errors and omissions in the financial statement to which the director's conduct consisted of a decisive contribution.

#### 7. Alignment of the directors' interests with the company's interests

The variable remuneration of the company's executive directors depends on their performance and on the sustainability and capacity of reaching specific company objectives.

The current remuneration policy also makes it feasible to reach a reasonable overall balance between the fixed and variable components and a deferral of a significant part of the variable remuneration, whereby its payment will be restricted when a positive performance is not achieved during that period according to the previously described terms. This approach is designed to contribute to maximising long-term performance and to dissuade excessive risk-taking.

Also, to reinforce the component of evaluating the performance of directors, save for agreement or deliberation by the Remuneration Committee to the contrary, the company and its directors must act in accordance with the following principles:

- i) Directors must not sign contracts, either with the company or with third parties, for the purpose of diminishing the risk inherent to the variability of the remuneration stipulated by the company;

- ii) In case of dismissal or of termination of duties by decision of the management, when such is proven to have been caused by inappropriate performance, no compensation will be paid to directors.

8. Remuneration of the general meeting board

The general meeting board chairman and secretary will be paid a presence fee of 4,000 and 2,000 euros per meeting, respectively.

9. Remuneration policy for the Statutory Auditor

The company's Statutory Auditor is paid according to normal remuneration practices and conditions for similar services, after the signing of a service contract with the company, through a proposal by the Supervisory Board.

Lisbon, 1 March 2019

The Remuneration Committee

António Gomes Mota  
President"

## APPENDIX III

### **Code of Ethics**

PHAROL's Code of Ethics, approved in 2016, applies to all employees of the Company in order to guarantee a set of common ethical standards. Its implementation is permanently monitored by the management bodies.

The full text of the PHAROL's Code of Ethics is available for consultation on the Company's official website ([www.pharol.pt](http://www.pharol.pt)) and may also be made available through the Investor Relations Office.

## **Contacts**

### **Investor Relations**

Luís Sousa de Macedo  
Investor Relations Director  
PHAROL, SGPS S.A.  
Rua Joshua Benoliel, 1, 2c  
Edifício Amoreiras Square  
1250-133 Lisboa, Portugal  
Tel: +351 21 269 7698  
Fax: +351 21 269 7949  
E-mail: [ir@pharol.pt](mailto:ir@pharol.pt)

Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual, half year, and quarter reports, press releases, etc.).

### **Depository bank**

Deutsche Bank Trust Company Americas  
ADR Division  
Floor 27  
60 Wall Street  
New York 10005-2836  
Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PHAROL's depository bank for ADRs in New York.

### **Website**

All publications and communications, as well as information regarding the businesses performed by the Company, are available on PHAROL's Internet page, at the following address: [www.pharol.pt](http://www.pharol.pt)

### **Registered Office**

Rua Joshua Benoliel, 1, 2c  
Edifício Amoreiras Square  
1250-133 Lisboa, Portugal  
Tel: +351 21 269 7690

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