

**CORPORATE GOVERNANCE REPORT**  
**2016**



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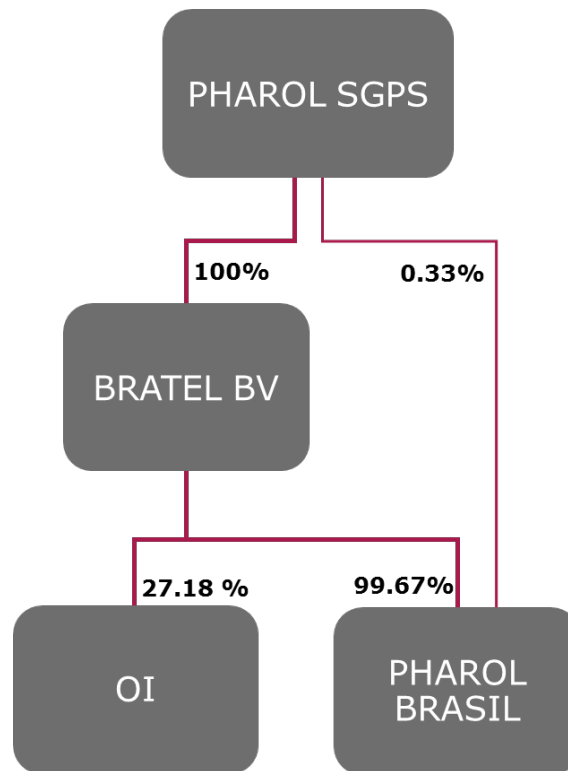
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## INTRODUCTION

**PHAROL, SGPS S.A.** (“PHAROL” or “Society”) is an open society, issuer of securities, admitted to trading on the Euronext Lisbon regulated market.

PHAROL investments and group structure as on 31 December 2016, was as follows:



## PART I – INFORMATION ON SHAREHOLDER STRUCTURE, ORGANIZATION AND CORPORATE GOVERNANCE

### A. SHAREHOLDER STRUCTURE

#### I. CAPITAL STRUCTURE

##### 1. CAPITAL STRUCTURE

The share capital in PHAROL is, as from 10 December 2008, 26,895,375 Euros, and it is fully paid up and represented by 896,512,500 common shares in the par value of three Euro cents each.

Until 29 May, 2015, there were 500 shares of Class A, that after the PHAROL's bylaw changes in that date, were converted in common shares.

After the deliberation of Euronext to admit to trading these 500 shares, on April 6, 2017, all PHAROL ordinary shares are admitted to trading on the Euronext Lisbon regulated market.

On 6 February 2015, PT SGPS was given notice by the New York Stock Exchange ("NYSE") that the Company was below the continuous trading criteria established under Section 802.01C of the NYSE Listed Company Manual as the average closing price of its American Depositary Shares ("ADSs") on the NYSE was below 1.00 dollar for a consecutive trading period of 30 days. In this way, considering such factors, as well as the possibility of achieving a reduction in the costs of the Company through the elimination of the charges associated to keep trading of ADSs on the NYSE, PT SGPS communicated, on 9 March 2015, that the Board of Directors had approved the withdrawal of PT SGPS' ADSs from trading on NYSE. PT SGPS kept its American Depositary Receipts programme, thus permitting investors to hold ADSs and trade the same in OTC transactions. The last day of trading for the Company's ADSs on the NYSE was 27 March 2015.

On July 26, 2016, PHAROL ended the reporting obligation with SEC, including the obligation to submit annual reports on Form 20-F and on Form 6-K.

##### 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 2016, the Company held 30,865,000 own shares.

On 1 February 2016, PHAROL initiated a buyback program of own shares as approved at the General Meeting of Shareholders held on 4 November 2015 and communicated to the market in terms and for the purposes of paragraph b) of no.2 of article 11 and article 13 of CMVM Regulation 5/2008 (with the amend by CMVM Regulation No. 5/2010).

From that date until 11 April 2016, PHAROL acquired 10,225,000 shares and, after the purchase transactions, now holds 30,865,000 own shares corresponding to 3.44% share capital of PHAROL.

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

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

Under shareholders' agreement, in the event of a change of control in Portugal Telecom, Samba would have a put option to sell to PT SGPS its entire shareholding in Africatel, B.V. The 75% share previously held by PT SGPS in Africatel BV is currently held by Oi, through Africatel GmbH, following the contribution of PT Portugal, SGPS, S.A. ("PT Portugal") within the framework of the Oi Capital Increase.

In November 2014, Africatel GmbH and PT SGPS were informed that Samba, the holder of the remaining 25% in Africatel B.V., had commenced arbitration proceedings against Africatel GmbH and Portugal Telecom at the Arbitration Court of the International Chamber of Commerce in respect of its supposed put option to sell its share in Africatel B.V., among other allegations. This arbitration proceedings was concluded in 2016, with the signing of an agreement on January 2017.

There are no significant agreements entering into force in the event of change in control in PHAROL. Also, 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. PHAROL therefore complies with CMVM Recommendation no. I.5.

### 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. Therefore, PHAROL complies with CMVM Recommendation I.4.

## 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

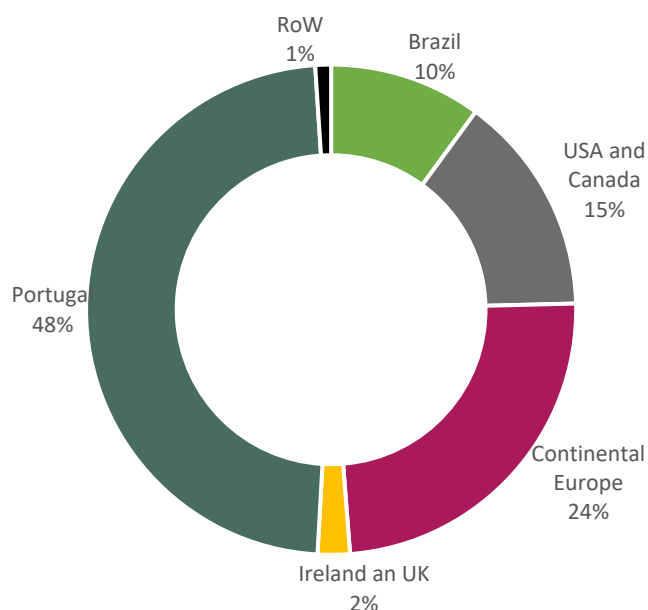
As at 31 December 2016, qualified holdings represented about 45% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
05/31/2012	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
07/05/2016	Novo Banco S.A. (a)	85,665,125	9.56%	9.56%
08/14/2015	Banco Comercial Português, S.A.	55,304,969	6.17%	6.17%
12/05/2016	High Seas Investments LLC	46,657,016	5.20%	5.20%
11/22/2016	Hestia Investments DAC	43,476,423	4.85%	4.85%
07/26/2016	Norges Bank	37,183,570	4.15%	4.15%
01/02/2014	Grupo Visabeira	23,642,885	2.64%	2.64%
06/02/2016	Renaissance Technologies LLC	18,003,736	2.01%	0.00%

(a) This holding refers only to the shares holding by Novo Banco and do not included shares held by societies in a controlling relationship or group, leaders and members of the Governing Bodies of Novo Banco.

PHAROL has a diversified shareholder structure, with around 52% of its share capital held by foreign shareholders, essentially divided between Europe, North America (US and Canada) and Brazil, representing 24%, 15% and 10% respectively of the shareholder basis. The Portuguese market represents around 48% of the shareholder basis.

## GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDER BASE



Source: Interbolsa (12/31/2016)

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.

PHAROL's Bylaws authorize the Board of Directors, upon a favourable opinion by the Fiscal Council, to increase the share capital, one or more times, through contributions in cash in up to the amount of 15,000,000 Euros, provided however that this decision is preceded by a resolution of the General of Shareholders establishing the parameters to which such increase or increases are subject, such definition to be made as provided for under the Bylaws. This authorization was renewed by the shareholders at the Annual Shareholders' General Meeting held on 27 April 2012 and shall be in force for the maximum term set forth in law, *i.e.*, 5 years.

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

On 8 September 2014, PT SGPS and Oi entered into a *Contrato de Permuta* ("Exchange Agreement") and a *Contrato de Opção de Compra* ("Call Option Agreement"), both subject to the laws of Brazil, the most relevant terms and conditions of which are as follows:

- An exchange between PT SGPS and Oi's wholly-owned subsidiaries PT Portugal and PTIF (both referred to as "Oi's Subsidiaries") whereby PT SGPS acquired a credit over Rio Forte, corresponding to all short-term applications subscribed for or acquired by Oi's Subsidiaries in the subscribed for the amount of €897 million ("Rio Forte Instruments"), in consideration of the delivery by PT SGPS of 47,434,872\* ordinary shares and 94,869,744\* preferred shares in Oi representing around 16.9% of the share capital in Oi and 17.1% of the voting share capital in Oi (Oi's own shares excluded) ("Oi Shares Subject to Exchange") ("Exchange");
- At the same time, PT SGPS was given an irrevocable non-transferrable call option ("Call Option") to repurchase the Oi Shares Subject to Exchange ("Oi Shares Subject to Option") with an exercise price of R\$20.104\* for ordinary shares and R\$18.529\* for preferred shares, which price will be adjusted by the Brazilian CDI rate added by 1.5% per year;
- The Call Option became effective on the date of execution of the Exchange (i.e. 30 March 2015) and will have a 6-year maturity. The number of Oi Shares Subject to Option available to the exercise of the Call Option will be reduced in 10% on the first anniversary of the effective date of the Call Option and 18% on the following anniversaries;
- Any amount received as a result of the monetization of the Call Option through the issue of derivatives or back-to-back instruments must be used for exercising the Call Option;
- During the validity of the Call Option, PT SGPS may purchase Oi or CorpCo shares only through the exercise of the Call Option;
- The Call Option may be extinguished on the initiative of Oi if (i) PT SGPS's bylaws are amended in order to suppress or change the provision establishing that the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or a representative of another shareholder, that exceed 10% of the total voting rights corresponding to PT SGPS' share capital shall not be counted, other than in compliance with a legal provision or relevant government order, (ii) PT SGPS carries out, whether directly or indirectly, any business that competes with any business kept by Oi or any of its controlled companies in countries where these latter operate, therefore compromising the purpose of the Business Combination between PT SGPS and Oi as originally established between the parties, or (iii) PT SGPS violates certain obligations derived from the Call Option Agreement (limitation to the purchase of shares in Oi/CorpCo only upon exercise of the Call Option; limitation to the transfer of the

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\* As a result of the grouping of Oi shares approved at the general meeting of shareholders held on 18 November 2014, the number of shares and the exercise price were adjusted.

Call Option and creation or assignment of any rights derived from the Call Option without Oi's prior authorisation; engagement to immediately allocate any resources obtained from the monetization of the Call Option to the purchase of shares in CorpCo by exercising the Call Option);

- Under the agreements, Oi and TmarPart have given PT SGPS and its directors, with the execution of the Exchange, acquaintance as to the subscription of the applications in Rio Forte Instruments, their subsequent use for the purpose of contributing to the Oi Capital Increase (settled on 5 May 2014) and any omissions or incompleteness in information specifically related to the Rio Forte Instruments, their position and any risks involved.

Taking into account that the Exchange implied the acquisition by the Oi Subsidiaries of Oi shares considered as own shares, the completion of the Exchange was submitted to the approval of the Brazilian Securities Commission (*Comissão dos Valores Mobiliários – "CVM"*), as well as keeping Oi shares (and after Oi's incorporation, of CorpCo shares) as own shares in a volume equivalent to the maximum number of Oi Shares Subject to Exchange, and the granting of the Call Option by the Oi Subsidiaries to PT SGPS in a volume equivalent to the maximum number of Oi Shares Subject to Option under the conditions provided for under the Call Option Agreement. On 4 March 2015, CVM authorised the Exchange and the Call Option in accordance with the terms of the agreements entered into on 8 September 2014, and the implementation of the Exchange and Call Option was subject to the following conditions: (i) the approval thereof by the general meeting of shareholders of Oi ("Oi GMS"), at which PT SGPS was not allowed to vote, and (ii) granting of voting rights to holders of preferred shares in Oi at the Oi GMS. The Oi GMS, which took place on 26 March 2015, approved the terms and conditions of the Exchange Agreement and Call Option Agreement entered into on 8 September 2014.

On 24 March 2015, Portugal Telecom entered into with Oi, the Oi Subsidiaries and CorpCo the *Instrumento Particular de Cessão de Direitos e Obrigações e Outras Avenças* (Private Act for Assignment of Rights and Obligations and Other Agreements) (the "Assignment Act") whereby PT Portugal transferred the Rio Forte Instruments held by PT Portugal to PTIF and assigned to PTIF all rights and obligations related thereto under the Exchange Agreement (the "Assignment").

The Assignment Act also provides that the delivery, upon the Exchange, of the Oi Shares Subject to Exchange could be implemented by means of transfer by PT SGPS of the Oi Shares Subject to Exchange or ADSs (American Depositary Shares) representing the Oi Shares Subject to Exchange, at the discretion of PT SGPS. Oi's ADR Programmes are governed (i) by the Deposit Agreement (Ordinary Shares) entered into on 27 February 2012, as amended, between Oi, the Bank of New York Mellon, in its capacity as depository (the "Depository") and all holders of ADSs ("ADSs ON") issued under the said Agreement; and (ii) by the Deposit Agreement (Preferred Shares) entered into on 27 February 2012, as amended, between Oi, the Depository and all holders of ADSs ("ADSs PN") issued under the said Agreement.

The Exchange was consummated on 30 March 2015, and thereby PT SGPS (i) deposited the Oi Shares Subject to Exchange with the Depository; and (ii) instructed the Depository to record the transfer to PTIF of 47,434,872 ADSs ON and 94,896,744 ADSs PN (jointly, the "ADSs Subject to Exchange") representing the Oi Shares Subject to Exchange.

In this way, on 30 March 2015, PT SGPS transferred the ADSs Subject to Exchange to PTIF, and PTIF transferred to PT SGPS the Rio Forte Instruments in the total amount of €897 million.

The *Primeiro Aditivo ao Contrato de Opção* ("1st Amendment to the Option Agreement"), dated 31 March 2015, established the possibility for PT SGPS to assign or transfer the option to purchase Oi shares, provided such assignment or transfer covers at least a quarter of the Oi Shares Subject to Option, regardless of prior consent by Oi (subject to the right of first refusal as described in the paragraph below), and use any resources derived from such transactions freely. On the other hand, PT SGPS cannot, without the express prior consent of Oi, either create or grant any rights derived from the Call Option or else grant any security over the Call Option.

Under the 1st Amendment to the Option Agreement, Oi will have a right of first refusal in the acquisition of any portion of the Call Option that PT SGPS may be interested in assigning or transferring. PT SGPS shall give notice to Oi in the event PT SGPS receives a binding offer from a third party to dispose of the Call Option. Oi shall reply within no more than 20 days as from receipt of such notice.

The effectiveness of the 1st Amendment to the Option Agreement would be subject to approval at a General Meeting of Shareholders of Oi, together with the granting of voting rights to holders of preferred shares.

The shareholders in TmarPart approved, also on 31 March 2015, an alternative structure for the Business Combination, which does not involve the incorporation of Oi's shares in CorpCo or the migration of CorpCo to the Novo Mercado segment of BM&FBOVESPA. The parties agreed upon a new shareholder and management structure for Oi (the "New Structure"), which is characterized by the fact that all the corporate organisation and governance transformation takes place in Oi, and the need for creation of CorpCo is eliminated.

Relevant transactions executed during 2016 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 2016. There are no other relevant commercial relations between owners of qualified holdings and the Company.

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

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

The General Meeting of shareholders, composed of shareholders with the right to vote, 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.

The meetings are held at the registered office or other location as chosen by the Chairman of the Board pursuant to the law. They cannot take place by remote-access telematics means. The General Meeting of shareholders is called and conducted by the Chairman of its Board or, in his absence or impossibility to conduct the works, by the Secretary that will invite a shareholder to assist.

Shareholders may participate directly in the General Meeting or appoint their representatives, within the broadest terms provided for under the Portuguese Companies Code. A duly signed letter addressed to the Chairman of the Board of the General Meeting of shareholders is a sufficient instrument of representation.

For such purpose, shareholders may access the representation letter form made available on the website [www.pharol.pt](http://www.pharol.pt) in accordance with information disclosed by the Company in the relevant General Meeting notice, in compliance with article 23 of the Portuguese Securities Code.

In carrying out their duties, notably in the preparation, call and conduction of General Meetings of shareholders, as well as in replying to queries raised or requests submitted by the shareholders, the Chairman of the Board of the General Meeting of shareholders, in addition to being assisted by the Secretary of the Board of the General Meeting of shareholders, has the support of the services of the Company's General Secretariat, which is provided with human and technical resources as required for the General Meeting to be appropriately held, taking into account, inter alia, the number of participants and the agenda of each meeting. 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)

The members of the Board of the General Meeting of shareholders comply with the independence requirements of article 414,5 and incompatibility rules of article 414A,1, both of the Portuguese Companies Code, applicable by virtue of the provisions of article 374A of that same Code.

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

#### 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\*

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João Vieira de Almeida	Chairman
Sofia Barata	Secretary

\*The members of the Board of the General Meeting of Shareholders were elected on 29 May 2015 for the 2015-2017 three-year term of office, however both submitted the resignation on July 2016.

Pursuant to the Bylaws, the Chairman of the Fiscal Council assumed the position of Chairman of the Board of the General Meeting and according to the Bylaws, to be a General Shareholders' Meeting by a shareholder.

## *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 for such purpose (in relation to the shareholders as well as the financial intermediaries with whom the respective individual securities accounts are open) may attend, participate and vote in a General Meeting of shareholders.

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 a practice implemented in the Company, 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.

Additionally, the Bylaws provide that 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 of time implemented 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 fully complies with CMVM Recommendation No. 1.1, promoting 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. PHAROL therefore complies with CMVM Recommendation No. 1.2.

## II. MANAGEMENT AND SUPERVISION

### COMPOSITION

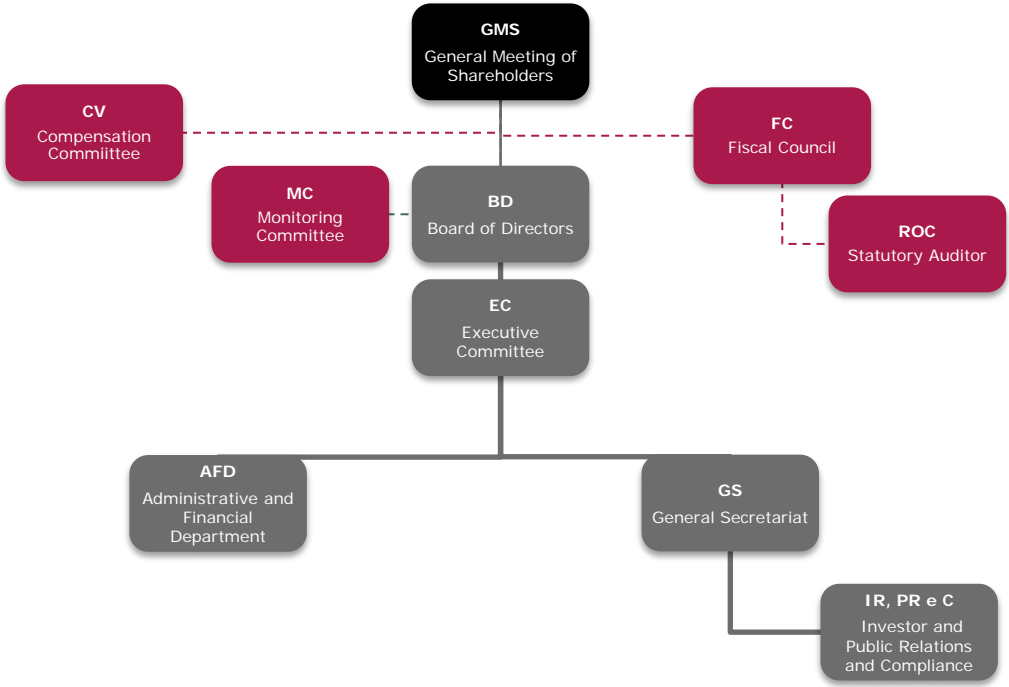
15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL

PHAROL follows a classic-type 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.

PHAROL's 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 2016, PHAROL' governance model could be schematised as follows:



Following the appointment of the new members of the corporate bodies of PHAROL for the term corresponding to the three-year period 2015-2017, a review of corporate governance mechanisms was made in order to adapt to the new reality of the Company, ensuring, on one hand, that the adopted governance model guarantees an effective performance and articulation of PHAROL's members of the corporate bodies and, on the other hand, contributes to the accountability of the Company and its management towards shareholders, investors and the market. In this way, the Board of Directors determined the PHAROL's governance structure should rely on an Executive Committee with powers delegated by the Board of Directors, which would act on a predominantly operational basis.

On 30 June 2015, the Board of Directors approved a Monitoring Committee and its functions. However, because the Board of Directors met regularly, analysing and discuss the issues that had been defined as the main attributes of the Monitoring Committee and because of the reduced size of the society, filling the posts of Monitoring Committee were not defined as a priority

Also, the costs associated with it were duly considered following the decision by the Compensation Committee which set certain compensation amounts for the performance of those places. The Board of Directors continues to assess this situation.

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

PHAROL's General Meeting of shareholders, in its turn, resolves on matters as specially assigned by law or the Company's Bylaws, as well as on matters not comprised within the responsibilities of the other corporate bodies.

## 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

The members of the Board of Directors were elected on 29 April 2015 for the 2015-2017 three-year term of office.

On 31 December 2016, the composition of the Company's Board of Directors was as follows:

<i>Members (date of first appointment)</i>	<i>Board of Directors</i>	<i>Executive Committee</i>	<i>Independence (1)</i>	<i>No. of shares</i>
Luís Maria Viana Palha da Silva (2015)	President	President		200,000
Rafael Luís Mora Funes (2007)	Member	Member		
André Cardoso de Meneses Navarro (2015)	Member			397
João do Passo Vicente Ribeiro (2015)	Member		Yes	
João Manuel Pisco de Castro (2015)	Member			
Jorge Telmo Maria Freire Cardoso (2014)	Member			
José Manuel Melo da Silva (2016)				
José Mauro Mettrau Carneiro da Cunha (2015)	Member			
Maria do Rosário Amado Pinto-Correia (2015)	Member		Yes	40
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.

The Board of Directors of PHAROL is composed of a minimum of 9 and a maximum of 11 members, who are elected by a majority of the votes cast at the General Meeting of shareholders.

Directors are appointed for a three-year term of office. and may be re-elected one or more times within the limits of the law.

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

Executive members report on all of the relevant matters to all other members of the Board of Directors. Thus, the Company substantially complies with CMVM Recommendations no. II.1.6 and II.1.8.

In accordance with the above-mentioned regulation, each Director shall timely inform the Chairman of the Board of Directors of any conflict of interest, being in such case restrained from discussing and voting the matters in question.

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

As referred to in item 17 above, as at 31 December 2016 the Company distinguishes executive and non-executive directors. In the same item, those directors that are considered independent are identified.

As at 31 December 2016, the Board of Directors of PHAROL has 3 independent directors, from among 10 members of the Board.

All directors deemed independent by PHAROL, as of 31 December 2016, 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 Internal Regulation no. 2,14, 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.

Thus, it is considered to comply with CMVM Recommendations II.1.7.

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

The *curricula* of PHAROL's directors are shown in Appendix I.

## 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 2016:

- Luís Maria Viana Palha da Silva: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Rafael Luís Mora Funes: was a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL. Resigned to the office on 7 March 2017.
- André Cardoso de Meneses Navarro: he is a member of the Board of Directors of Oi, S.A and performs his professional duties in Millennium BCP, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- João do Passo Vicente Ribeiro: was an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL. After the resignation of Rafael Luis Mora Funes, became an effective member of the Board of Directors of Oi, S.A., on 7 March 2017.
- João Manuel Pisco de Castro: he is an alternate member of the Board of Directors of Oi, S.A., and he is Vice- President of Grupo Visabeira, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Jorge Telmo Maria Freire Cardoso: he is director for the financial area of Novo Banco, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- José Manuel Melo da Silva: he is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- José Mauro Mettrau Carneiro da Cunha: he is Chairman of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Maria do Rosário Pinto Correia: she is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Pedro Zañartu Gubert Morais Leitão: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.

## 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 of the Executive Committee.

In order to guarantee the existence of a structure as appropriate for PHAROL's management needs, the Board of Directors, at the beginning of the 2015-2017 term of office, delegated day-to-day management powers to the Executive Committee, and retained the duties of supervision and control. Within said delegation of powers, the Board of Directors assigned the Executive Committee all powers required for such purpose, without prejudice to the Board's authority to take on any of the delegated powers, other than those in respect of the matters listed hereinafter:

- 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, where these might later be decided on by the Executive Committee.

The Board of Directors thus consider that CMVM Recommendation no. II.1.2 is complied with, as 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, as explained in item 15 the solution adopted.

Notwithstanding the Fiscal Council's powers, the Board of Directors is also responsible for ensuring the Company has implemented effective internal control and risk management procedures.

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.

However, the Board of Directors is authorised to increase the share capital, following an opinion in favour issued by the Fiscal Council and a resolution approved by the General Meeting of shareholders, as described in item 9 of Part I of this report.

In addition to its strategy defining role, and according to its internal regulation, PHAROL's Board of Directors is responsible for ensuring the Company has implemented effective internal control and risk management procedures. The structures responsible for the implementation of these systems are described in C.III of Part I hereto.

The Chairman of the Board of Directors simultaneously served as Chairman of the Executive Committee. However, the Company believes that the effective monitoring of the matters covered by the charges attributed and the respective report to the Board of Directors by the administrators allows to ensure coordination of the work of non-executive members.

To the extent that this mechanism allows all members of the Board of Directors to make informed decisions on the matters before them, and is therefore considered appropriate and enough to ensure the objectives of the recommendation. II.1.10.

### **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 on the basis of management expediency;
- Ensuring that the resolutions of the Board of Directors are properly complied with.

### **Executive Committee**

Until 31 December 2016, the Board of Directors delegated on an Executive Committee the daily management of the Company, while retaining supervision and control functions. This situation had change in 2017, after the nomination of a Managing Director.

Thus, it is considered to comply with CMVM Recommendations II.1.1.



## 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:

- a) Inspect the Company's management;
- b) Monitor compliance with the law and the Company's Bylaws;
- c) Confirm that the books, accounting records and their supporting documents are in due order;
- d) 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;
- e) 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;
- f) Check whether the accounting policies and the valuation criteria applied by the Company result in a correct valuation of its assets and results;
- g) Prepare an annual report on its inspection activities and issue an opinion on the report, accounts and proposals presented by the board;
- h) Convene the General Meeting, when such is not performed by the respective Chairman of the Board of the General Meeting of Shareholders;
- i) Inspect the quality, integrity and effectiveness of the risk management system, internal control system and internal audit system, including the annual review of its adequacy and effectiveness, and generally supervise the performance of any duties carried out within the scope of the Company's internal audit and internal control system;
- j) Receive notifications of deficiencies, claims and/or complaints submitted by shareholders, Company employees or others, and implement procedures to receive, record and process those notifications when related with aspects of accounting, auditing and internal control procedures in these matters;
- k) Contract services provided by experts to assist the members of the Fiscal Council members in carrying out their duties, whereby contracting and remuneration of said experts shall take into account the importance of the issues for which they are responsible and the Company's economic situation;
- l) Inspect the process for preparing and disclosing financial information;
- m) Propose to the General Meeting the appointment of the Statutory Auditor;
- n) Inspect the review of the Company's accounts and the auditing of its accounting statements, and also supervise and evaluate internal procedures regarding accounting and auditing matters;
- o) Inspect the independence of the Statutory Auditor, in particular any provisioning of additional services by the said auditor;

Fiscal Council has also the following duties:

- To analyze and issue its opinion on relevant issues related with 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;
- Direct and exclusive responsibility to appoint, contract, confirm or terminate duties and to stipulate the remuneration of the Company's independent auditors, as well as to inspect their qualifications and independence, and to approve the auditing services and/or other services to be rendered by the said independent auditors or by persons who are their associates;
- To 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;
- To issue a statement and a prior opinion within the scope of its legal and statutory rules and, whenever it deems such necessary or convenient, about any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities.

The Company therefore complies with CMVM Recommendations no. II.2.2 to II.2.5.

### **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 Fiscal Council, 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

On 30 June 2015, the Board of Directors adopted its internal operation regulation. The full text of this regulation may be consulted on the Company's website, link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06\\_June/Regulamento\\_CA\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/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.

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 2016 financial year, 13 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%. The Chairman of the Board of Directors sends to the Board of Directors and to the Chairman of the Fiscal Council all notices and minutes of the Board and the Executive Committee meetings, in order to allow for the adequate information and disclosures. In this way, CMVM Recommendation no. II.1.9 – as well as evaluation of compliance in material terms – are understood as applicable to PHAROL' management body and its Chairman.

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

The Compensation Committee determines the remunerations of the executive members of the management body 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 24 May 2016, 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 Annex II.

In 2016, the Remuneration Committee decided on the basis of criteria defined at the General Meeting of Shareholders on 24 May 2016, does not assign any variable remuneration to executive directors.

This Declaration complies with CMVM Recommendations no. II.3.3.

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 Chief Executive Officer ("CEO") and all other members of the Executive Committee.

The Executive Committee shall schedule the dates and periodicity of its own ordinary meetings, and shall meet extraordinarily whenever called upon by its Chief Executive Officer.

The Executive Committee may not deliberate without the presence or representation of the majority of its members and, in case it is composed of two members, without being present or represented by all of its members. During 2016, Executive Committee sought 40 times.

As of 31 December 2016, the composition of the Executive Committee was as follows:

### Composition

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Luís Maria Viana Palha da Silva	President
Rafael Luís Mora Funes	Member

#### 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

The Fiscal Council is composed of three effective members and an alternate member. Effective member were appointed by the General Meeting of shareholders and one of them as a Chairman. The alternative member was not filled, is expected to happen on the General Meeting of shareholders on 2017.

As at 31 December 2016, the Company's Fiscal Council was composed as follows:

### Composition

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José Maria Rego Ribeiro da Cunha	Chairman
Isabel Maria Beja Gonçalves Novo	Member
Pedro Miguel Ribeiro de Almeida de Fontes Falcão	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 and other market rules to Corporate issuers of securities admitted to trading on a regulated market.

The Company therefore complies with CMVM Recommendations no. II.2.1.

### 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

The Fiscal Council adopted its Internal Regulation, which may be consulted on the following electronic address:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10\\_October/Regulament\\_o\\_Conselho\\_Fiscal\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10_October/Regulament_o_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 2016 financial year, 10 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 2016, 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.

Therefore, PHAROL believes that it complies with CMVM Recommendation no. IV.2.

#### 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 2015-2017 three-year term of office of the Statutory Auditor commenced on 29 May 2015, its effective member being the firm 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 2016 financial year.

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

In 2016, the Statutory Auditor also rendered the external audit service to PHAROL and thereis 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, 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, 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 and in line with CMVM Recommendation no. II.2.3, the Company's Fiscal Council assessed and confirmed the independence of BDO & Associados, SROC, Lda., and appraised its work relating to the Company's 2016 financial audit.

**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 and to companies in a control relationship with PHAROL by the External Auditor and entities in a holding relationship with or incorporated in the same network 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 274,106 euros to which VAT is added at the legal rate, referring to 2016.

## C. INTERNAL ORGANIZATION

### I. BYLAWS

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

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

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**

Where an amendment to the Bylaws of the Company is at issue, the General Meeting of shareholders resolves by a majority of two-thirds of the votes cast.

However, if shareholders holding at least half the share capital are present or represented at a General Meeting held on second call, an amendment to the Bylaws may be resolved by a majority of the votes cast, and no two-third majority is therefore required.

Thus, PHAROL's Bylaws establish no quorum other than established by the law for the General Meeting to be held or to approve resolutions.

The Board of Directors is, however, authorised to increase the share capital, subject to an opinion in favour issued by the Fiscal Council and following a resolution of the General Meeting of shareholders, fixing the parameters to which the increase or increases of capital are subject to. The Board of Directors may also move the registered office of the Company within the national territory.

### II. WHISTLEBLOWING

49. WHISTLEBLOWING

In December 2016, PHAROL revised a set of procedures called regarding to the rules and the procedimiento to adopte in the System for Qualified Communication of Undue

Practices or Whistleblowing.

Within Whistleblowing, “undue 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.

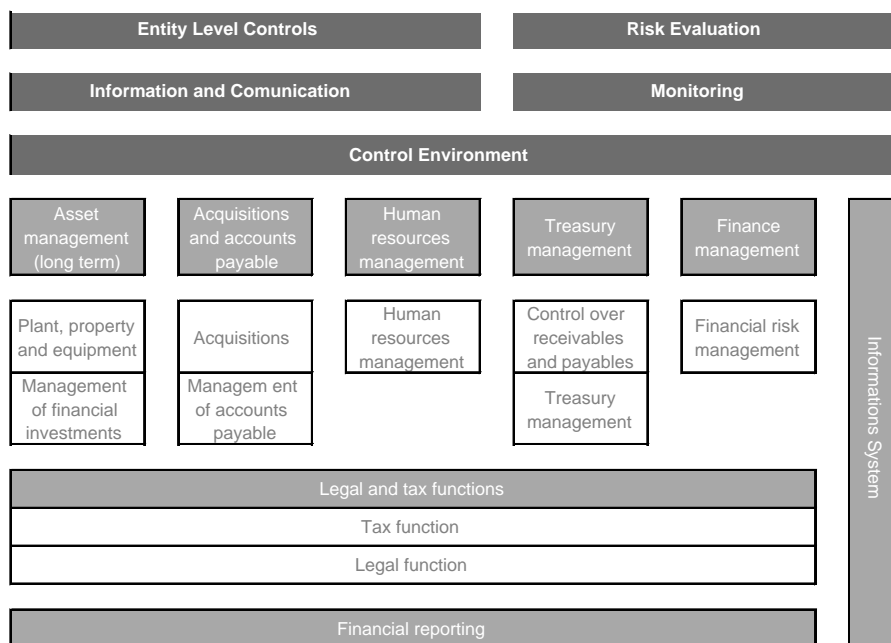
### III. INTERNAL CONTROL AND RISK MANAGEMENT

#### **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 in full compliance with the CMVM Recommendation no. IV.1, 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.

## 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 is annually approved by the Executive Committee and informed to the Fiscal Council of PHAROL, wherein are defined the audits to be performed and the scope of internal control reviews. The objective of these 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 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.

As referred to above, the Company considers itself to comply with CMVM Recommendations no. II.2.4 and no. II.2.5.

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

Risk Management is promoted by the Board of Directors and the Executive Committee 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 Executive Committee 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 Executive Committee, 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:

Relevant Risks		
<b>Economic Risks</b>	<b>Oi's Performance</b>	<p>The main risk to which PHAROL is subject derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends.</p> <p>Oi's performance is also dependent on the performance of the Brazilian economy and, at this time in particular, the evolution of</p>

		<p>the judicial recovery process that the Company has adopted. Despite the fact that this process can bring financial and operational stability to the Company, it depends on numerous wills not fully controlled by Oi.</p> <p>In the event of failure in negotiations with creditors, Oi may face serious difficulties in the normal development of their activities.</p>
<b>Financial Risks</b>	<b>Exchange Rates</b>	<p>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 translation of the results attributable to PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	<b>Interest Rate</b>	<p>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. It is important to point out that, at December 31, 2016 PHAROL has no debt.</p> <p>Regarding debt, Oi is consolidated by the equity method in PHAROL's Financial Statements.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	<b>Treasury Applications</b>	<p>PHAROL is mainly subject to credit risks in its treasury applications.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	<b>Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange</b>	<p>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.</p>
	<b>Exercise of the call option on Oi's shares</b>	<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of which will depend, in its turn, on Oi's performance, including its operations, financial position, business outlook and its judicial reorganization develop.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
<b>Legal Risks</b>	<b>Court proceedings</b>	<p>The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, so as 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.</p>
	<b>Tax contingencies</b>	<p>PHAROL may incur future liabilities under its tax obligations with the Tax Authorities. In the context of the agreement with Oi, where Oi</p>

	has been assuming responsibility for the payment of all contingencies until May 5, 2014, PHAROL remains and severally liable for these contingencies.
<b>Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</b>	PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's financial position and the capacity to fully implement the Business Combination.

## 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 supervise the execution of the functions performed by the Executive Committee.

### ***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 formalises 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
<b>Financial Risks</b>	Exchange rates Interest rates Credit Liquidity Default by Rio Forte as to the reimbursement of the instruments that PT SGPS holds following the execution of the Exchange Exercise of the call option on Oi's shares
<b>Legal Risks</b>	Agreements with Oi / Business Combination Court proceedings Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination

### ***Risk assessment***

In its risk assessment, the Board of Directors and Executive Committee 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 Executive Committee 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 Executive Committee).

### **Risk monitoring, control and management**

The Board of Directors allocates responsibilities to the Executive Committee 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>Board of Directors</b>	Identifies main risks affecting PHAROL; Decides on action and prioritisation of mitigating actions.
<b>Executive Committee</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 Executive Committee, 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, 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.

The Company therefore complies with CMVM Recommendations no. II.1.5.

#### 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 entitie: CMVM.

PHAROL regularly prepares communications and press releases on quarterly, 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.

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



Luís Sousa de Macedo

Investor Relations Director

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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 - Edifício Amoreiras Square 1250-133 Lisboa - Portugal
Company Switchboard:	+351.212.697.690
Website:	<a href="http://www.pharol.pt">www.pharol.pt</a>

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In addition to other information, PHAROL keeps the following information updated on its website, in Portuguese and in English, fully complying with CMVM Recommendation no. VI.1:

- 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, interim and quarterly 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.

In addition, the Investor Relations Office regularly 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 in compliance with CMVM Recommendation no. VI.2.

## 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/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/20156.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 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.

The remuneration policy applicable to the PHAROL's officers other than those incorporating the management and supervisory bodies, is determined by the Executive Committee.

### 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

The current members of the Compensation Committee, elected for the 2015-2017 three-year term of office, are the following:

##### Composition

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Álvaro Pinto Correia

Francisco de Lacerda

António Sarmento Gomes Mota

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. PHAROL therefore complies with CMVM Recommendation no. II.3.1.

#### 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 2016 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2014 Annual General Meeting of Shareholders on 24 May 2016, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009. Such declaration is reproduced in Appendix II hereto.

However, for the reasons set out above in point 25, the Remuneration Committee, during 2016, does not assign any variable remuneration to its executive directors.

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. Therefore PHAROL complies with CMVM Recommendation no. III.1 and III.2.

#### 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 results from the remuneration policy approved at the General Meeting of 24 May 2016 and contained in Annex II, the remuneration was based on a fixed and variable component. As already mentioned in paragraphs 25 and 69, in 2016, the Remuneration Committee decided, to not allocate any variable remuneration to the executive directors.

The information provided in **itens 71 to 74** of the form attached to CMVM Regulation No. No. 4/2013 is not applicable to PHAROL, as during the 2016 financial year, as stated in points 25 and 69, the remuneration policy in force does not include the allocation of variable remuneration.

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

In 2016, there were no bonus, annual bonus 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.

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 shown hereinafter:

Board of Directors (year of designation)		Remunerations 2016 (euro)
André Cardoso de Meneses Navarro (2015)		35,000
Francisco Ravara Cary (2014)	(1)	22,350
João do Passo Vicente Ribeiro (2015)		35,000
José Manuel Melo da Silva (2016)	(2)	15,257
João Manuel Pisco de Castro (2015)		35,000
Jorge Freire Cardoso (2014)		35,000
José Mauro Mettrau Carneiro da Cunha (2015)		35,000
Luís Maria V. Palha da Silva (2015)		294,000
Maria do Rosário Pinto Correia (2015)		35,000
Pedro Zañartu Gubert Morais Leitão (2015)		35,000
Rafael Luís Mora Funes (2007)		267,359
Ricardo Malavazi Martins (2015)	(3)	32,185
<b>Total</b>		<b>876,151</b>

(1) He resigned on 25 July 2016.

(2) Cooptaded on 25 July 2016.

(3) He resigned from his duties in PHAROL on 21 October 2016.

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

During 2016, 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 2016, which will be presented to the General Meeting of shareholders, does not 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 2016, 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 Supervisory Board is composed of a fixed annual amount based on the Company's situation and market practices and there is no variable remuneration.

The gross remuneration of the Fiscal Council for the year 2016 was as follows:

<b>Fiscal Council</b>	<b>Remunerations 2016 (euro)</b>
José Maria Rego Ribeiro da Cunha	49.000
Isabel Maria Beja Gonçalves Novo	31.500
Pedro Miguel Ribeiro de Almeida Fontes Falcão	31.500
<b>Total</b>	<b>112.000</b>

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

The net remuneration of the Chairman of the Board of the General Meeting of Shareholders for the year 2016 was Euro 4,000.

### 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 as provided for 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 2016 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, regarding PHAROL directors or 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)

According to the current Regulation, notwithstanding its exclusion of certain transactions (notably if not exceeding certain amounts), in case of transactions between PHAROL, or any of its subsidiaries, and related parties (as redefined exclusively by reference to the concept in IAS 24), or any renewals thereof, the aggregate amount per party of which is in excess of 100,000 Euros (one hundred thousand Euros), the execution of the same may be approved only upon a prior favourable opinion by the supervisory body.

For such purpose, the supervisory body shall be provided with relevant information on the transaction as to which it has to give its opinion, including sufficient information on the characteristics of the transaction in question, notably under the strategic, financial, legal and fiscal viewpoint, information on the nature of the relationship existing between PHAROL and the other party in question, and the impact of the transaction on the financial position of the Company.

The following related party transactions are excluded from the scope of the mentioned internal regulation:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of PHAROL and its subsidiaries, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;



- c) Made between companies in a control or group relationship with PHAROL or between these and PHAROL;
- d) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- e) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- f) The payment by PHAROL of the remuneration of the Key Corporate Members and Employees (as defined in the Service Order) for the performance of their duties;
- g) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;
- h) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- i) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL.

As a result of the definition of the concept of “Related Parties” for the purposes of the respective internal regulation – which no longer includes the owners of qualified holdings in PHAROL share capital, as opposed to what happened before, and now adopts the criterion resulting from IAS 24 – the Company considered it was convenient to create specific rules applicable to transactions with owners of qualified holdings, as detailed in item 91 below.

As such, PHAROL considers that CMVM Recommendation No. V.2 is complied with.

## 90 and 91. TRANSACTIONS SUBJECT TO CONTROL AND INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING

Under the normative, currently under review, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 100,000 Euros, can only be approved after PHAROL supervisory body has issued a prior favourable opinion.

In addition, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 1,000,000 Euros per year, are subject to approval by the Board of Directors, after the supervisory body has issued its prior favourable opinion.

Currently, the following situations are excluded from the rules applicable to transactions with owners of qualified holdings:

- a) Purchases of goods or provision of services agreed in compliance of the

internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;

- b) Banking operations of PHAROL, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- d) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- e) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;
- f) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- g) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL

On 2016, there were no transactions between the Company and owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code which have not been demonstrably made under normal market conditions. Thus, PHAROL considers CMVM Recommendation No. V.1 complied with in respect of the fiscal year ended on 31 December 2016.

## II. 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 2016. There are no transactions with related parties' shareholders to disclose in respect of the fiscal year ended on 31 December 2016.

Information on the transactions executed during the fiscal year ended on 31 December 2016 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 2015.

## PART II – CORPORATE GOVERNANCE EVALUATION

### 1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL complies with a high proportion the recommendations set out on CMVM Corporate Governance Code as published in July 2013 (“CMVM Code” or “CMVM Recommendations”)<sup>1</sup> – which assessment is set out on this report –, which are reflected on its Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese Companies Code.

The Board of Directors approved on 28 March 2016 the deregistration of its securities registered at SEC as a foreign private issuer. On 26 April 2016, PHAROL filed with on the SEC the Form 15F to implement the deregistration, and by the rules of the SEC, PHAROL's obligations to file annual reports (Form 20-F) and type Form reports 6-K with the SEC are immediately suspended from that date. After 90 days, the deregistration of securities to PHAROL the SEC become effective, and PHAROL is no longer be subject to a set of rules on corporate governance.

PHAROL is also subject to other rules adopted at internal level, which are relevant in its corporate governance structure.

Additionally, PHAROL complies with several internal conduct and transparency rules, namely the Code of Ethics, the Code of Ethics for Senior Financial Officers, rules on Officer Transactions, rules on Transactions with Related Parties and rules on Transactions with Owners of Qualified Holdings. A short description of all these rules is attached hereto as Appendix III. PHAROL further adopts rules and structures for internal control, risk management and whistleblowing.

PHAROL, for the 2015-2017 three-year term, following the Annual General Meeting of Shareholders held in 2015, returned to its former management model, namely delegating functions in an Executive Committee. In 2017, the Director Board decided to delegate the day-to-day management to Managing Director.

Additionally, are in force a set of internal rules that determine, notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

### 2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL feels it is appropriate to maintain a certain stability regarding recommendations which serve as a reference for the declaration of compliance to be included in this report referring to 2016, thus following to this end the CMVM Code.

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 CMVM Code.
- When it was applicable, PHAROL complied with mandatory rules and best practices applicable to foreign private issuers registered with SEC under US laws.

PHAROL adopts the CMVM Recommendations, available here:

[http://www.cmvm.pt/en/Legislacao/National\\_legislation/Recommendations/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.pdf](http://www.cmvm.pt/en/Legislacao/National_legislation/Recommendations/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.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 CMVM Recommendations are identified hereunder.

CMVM RECOMMENDATION		COMPLIANCE	REPORT
<b>I. VOTING AND CORPORATE CONTROL</b>			
I.1.	Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Yes	Item 12
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than the one provided for by law.	Yes	Item 14
I.3.	Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	Yes (a)	Item 5
I.4.	The articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or jointly with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals), on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution all votes issued are to be counted without applying said restriction.	Yes (a)	Item 5
I.5.	Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Yes	Item 4
<b>II. SUPERVISION, MANAGEMENT AND OVERSIGHT</b>			
<b>II.1 SUPERVISION AND MANAGEMENT</b>			
II.1.1	Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance	Yes	Item 21
II.1.2	The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: (i) define the strategy and general policies of the company, (ii) define business structure of the group, (iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Item 21

II.1.3	The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company	Not Applicable	
II.1.4	Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: (a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees; and (b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Yes	Items 21 and 27
II.1.5	The Board of Directors or the General and Supervisory Board, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Yes	Items 50 to 55
II.1.6	The Board of Directors shall include a number of non- executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Yes	Item 17
II.1.7	Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Fiscal Council shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to: a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years; b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person; c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member; d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings; e. Being a qualifying shareholder or representative of a qualifying shareholder	Yes	Item 18
II.1.8	When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Yes	Item 17

II.1.9	The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Fiscal Council, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	Yes	Item 23
II.1.10	If the chairman of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so these can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination	Yes	Item 21
<b>II.2 SUPERVISION</b>			
II.2.1	Depending on the applicable model, the Chairman of the Supervisory Board, the Fiscal Council or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Yes	Item 32
II.2.2	The supervisory body shall be the main representative of the External Auditor and the first recipient of the relevant reports, and is responsible, <i>inter alia</i> , for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Item 21
II.2.3	The supervisory board shall assess the External Auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of its services when there is a valid basis for said dismissal.	Yes	Items 21 e 45
II.2.4	The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary	Yes	Items 21 e 51
II.2.5	The Fiscal Council, the General and Supervisory Board and the Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties are concerned	Yes	Items 21 e 51
<b>II.3 REMUNERATION SETTING</b>			
II.3.1	All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	Item 67 e 68
II.3.2	Any natural or legal person that provides or has provided services in the past three years to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Item 67
II.3.3	A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law no. 28/2009, of 19 June, shall also contain the following:  a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies; b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be	Yes	Items 25 and 69

	payable; d) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.		
II.3.4	Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	Not Applicable	
II.3.5	Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said scheme.	Not Applicable	
<b>III. REMUNERATION</b>			
III.1.	The remuneration of the executive members of the board shall be based on actual performance and shall discourage excessive risk-taking.	Yes	Item 69
III.2.	The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value	Yes	Items 69 and 77
III.3.	The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components	Not Applicable	Items 25, 69 and 75
III.4.	A significant part of the variable remuneration should be deferred for a period not less than three years, and the right to receive it shall depend on the continued positive performance of the company during that period	Not Applicable	Items 25, 69 and 75
III.5.	Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Yes	Items 25 and 69
III.6.	Executive board members shall maintain the company's shares that were allotted to them by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their term of office.	Not Applicable	Items 25 and 69
III.7.	When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Not Applicable	Items 25 and 69
III.8.	When the removal of a board member is not due to serious breach of his duties nor to his unfitness for the normal exercise of his functions but is yet due to inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Yes	Item 83
<b>IV. AUDITING</b>			
IV.1.	The External Auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company	Yes	Part I C.III
IV.2.	The company or any entity with which it maintains a control relationship shall not engage the External Auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the supervisory board and explained in its Annual Report on Corporate Governance - said should not exceed more than 30% of the total value of services rendered to the company.	Yes	Item 37

IV.3.	Companies shall support auditor rotation after two or three terms of office, depending on the term of office being of four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of the auditor's independence and the benefits and costs of its replacement.	Yes	Item 44
<b>V. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS</b>			
V.1.	The company's business with holders of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code shall be conducted in normal market conditions.	Yes	Item 91
V.2.	The supervisory or oversight board shall establish the necessary procedures and criteria to define the relevant level of significance of business with owners of qualified holdings or entities with which they are in any of the relationships described in article 20.of the Portuguese Securities Code. Execution of significant relevant business shall be dependent on prior opinion of said body.	Yes	Item 89
<b>VI. INFORMATION</b>			
VI.1.	Companies shall provide, via their websites in both Portuguese and English language, access to information on their progress as regards the economic, financial and governance state of play.	Yes	Items 56 and 59
VI.2.	Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion, and a record of the submitted requests and their processing shall be kept.	Yes	Items 56 and 58

a) As the Company's Bylaws considers a limitation on the counting of votes, this issue was taken to the shareholder's consideration in General Meeting on 24 May 2016. Was decided to keep this limitation.



## 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 the Executive Committee)***

Member of Board of Directors of Oi S.A.  
Chairman of the Fiscal Council of Seguradoras Unidas  
Director of Bratel B.V.

#### ***André Cardoso de Meneses Navarro (Director)***

General Manager of Millennium Investment Bank  
Non-Executive Board of Member of Oi S.A.  
Board of Member of Interoceânico, SGPS S.A.

#### ***João do Passo Vicente Ribeiro (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Member of the Corporate Governance and Finance Committee of Oi S.A.  
Member of the Risks and Contingence Committee of Oi S.A.  
Member of the Fiscal Council of Bensaúde Holding  
Member of the Fiscal Council of Vila Galé Gest, a real estate funds management company  
Member of the Project Evaluation Committee of Naves, a venture capital company

#### ***João Manuel Pisco de Castro (Director)***

Full member of the Board of Directors of Oi S.A.  
Vice-President of Grupo Visabeira, SGPS S.A.  
President of Visabeira Indústria, SGPS, S.A.  
Chairman of Vista Alegre Atlantis, SGPS S.A.  
Chairman of Vista Alegre USA  
President of MOB – Indústria de Mobiliário, S.A.  
President of Faianças da Capoa – Indústria de Cerâmica, S.A.  
President of Cerexport – Cerâmica de Exportação, S.A.  
President da Pinewells, S.A.  
President da Real Life – Tecnologias de Informação, S.A.

President of Visagreen, S.A.  
Director of Gevisar, SGPS, S.A.  
Director of Visacasa S.A.  
Director of Constructel (Bélgica)  
Director of Constructel Sweden AB

Director da Constructel (Rússia)  
Director of Construtel (UK)  
Director of Constructel GmbH  
Director of Constructel (France)

***Jorge Telmo Maria Freire Cardoso (Director)***

Member of the Board of Directors and CFO of Novo Banco, S.A.  
Member of the Board of Directors of NB Finance, Ltd.  
Member of the Board of Directors of Banque Espírito Santo et de la Vénétie, S.A.  
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.

***José Manuel Melo da Silva (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Senior Manager of Parvalorem, S.A.

***José Mauro Mettrau Carneiro da Cunha (Director)***

Chairman of the Board of Directors of Oi S.A.  
Full Member of the Board of Directors of Santo António Energia S.A.

***Maria do Rosário Amado Pinto-Correia (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Teacher on Católica Lisbon School of Business and Economics  
Executive Consulting of CEA / Católica Lisbon

***Pedro Zañartu Gubert Morais Leitão (Director)***

Member of the Board of Directors of Oi S.A.  
Chairman of the Board of Directors of Prio Energy SGPS  
Chairman of the Board of Directors of MoteDALma SGPS  
Non-Executive Director of Quifel Natural Resources, SGPS  
Non-Executive Director of Villas Boas ACE, S.A.  
Managing Partner of Ficonline Lda

***Rafael Luís Mora Funes (Director and Member of the Executive Committee)***

Member of the Board of Directors of Oi S.A.  
Chairman of Comité of Engenharia of Oi S.A.  
Chairman of the Board of Directors of Webspectator Corp.  
Member of the Advisory Board of ISCTE Business School

## **Professional qualifications and professional activities performed during the last 5 years**

*Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and the Executive Committee)*  
*Portuguese, 61 years old*

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 the Companies Tranquilidade Vida, Logo e Açoreana | Chairman of the Fiscal Council of Fórum para a Competitividade | Chairman of the Fiscal Council of Fundação Francisco Manuel dos Santos | Chairman of the Board of the General Meeting of Gesbanha – Gestão e Contabilidade, S.A. | Chairman of the Board of EPIS - Empresários pela Inclusão Social | Chairman of the Fiscal Council of Companhia de Seguros Tranquilidade, S.A. | Member of the Strategy Council of Faculdade de Ciências Económicas e Empresariais of Universidade Católica Portuguesa | Degree in Economics from Instituto Superior de Economia | Degree in Business Management from Universidade Católica Portuguesa | AMP – University of Pennsylvania – Wharton School of Economics.

*André Cardoso de Meneses Navarro (Director)*  
*Portuguese, 53 years old*

Chief Executive Officer of Banco Privado Atlântico – Europa, S.A. from 2008 to 2014 | Chief Executive Officer of Societé Générale – Corporate and Investment Bank (Lisbon, Portugal) from 2002 to 2008 | Non-Executive Board Member of Crediagora (Lisbon

Portugal) from 2006 to 2008 | Law Degree from Universidade Estadual Rio de Janeiro (Rio de Janeiro, Brasil) | Pos Graduation in Finance from Fundação Getúlio Vargas (Rio de Janeiro, Brasil) | MBA from Thunderbird, American Graduate Scholl of International Business (Arizona, EUA).

*João do Passo Vicente Ribeiro (Director)*  
*Portuguese, 68 years old*

Chairman of the Board of Directors of AMP - Sociedade Gestora de Fundos de Investimento Mobiliários from 2014 to 2015 | From November 2011 till March 2012 he coordinated the Working Group on Financial Mechanisms to support Tourism Companies, appointed by the Secretary of State of Tourism of the Portuguese Government | From 2008 till 2009 he was a Board Member of SLN – Sociedade Lusa de Negócios, as well as President of several sub-holdings | In 2008 we was an Executive Board Member of the Portuguese bank BPN – Banco Português de Negócios (Presidency of Miguel Cadilhe) | From 2007 to June 2008 he was President and CEO of Quadrantis Capital, a Portuguese venture capital company that he founded | From 2004 till 2007 he was the President and CEO of PME Investimentos, a Portuguese state vehicle for venture capital funding of SME,s and new companies | Prior to this, and for over most of his 30 years of professional experience, he has enjoyed a number of senior positions at both the private and state Portuguese banking institutions. The most relevant by inverse chronological order are Chairman of the Portuguese Association of Asset and Portfolio Management Companies, Executive Director of AF Investimentos (Group Millennium BCP), General Manager of the International and Domestic Private Banking Departments (Group Millennium BCP), General Manager of Corporate Banking of Banco Português do Atlântico. Member of the Board of Leasing Atlântico and General Manager of Retail Banking department of Banco Português do Atlântico | Internationally, João Vicente Ribeiro held the positions of Deputy General Manager of the London and Paris Branches of Banco Português do Atlântico and that of Manager of the International department of Instituto de Crédito de Angola in Luanda | Graduated in Finance from Instituto Superior de Economia, Lisbon, where he also lectured, 1973, and a MBA graduate of INSEAD (Fontainebleau) 1979.

*João Manuel Pisco de Castro (Director)*  
*Portuguese, 62 years old*

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 from 2002 to 2007 | Member of the Board of Directors 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).

*Jorge Telmo Maria Freire Cardoso (Director)*  
*Portuguese, 45 years old*

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 | Director of CaixaBI Brasil – Serviços de Assessoria Financeira Ltda. from May 2012 to November 2013 | Chairman of the Executive Board of Caixa – Banco de Investimento, S.A. from May 2011 to August 2013 | Non-Executive Vice Chairman of the Board of Directors do Banco Nacional de Investimento, S.A. from May 2012 to December 2012 | Non-Executive Member of the Board of Directors of ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. from January 2008 to July 2012 | Non-Executive Member of the Board of Directors da Dornier, S.A. from February 2010 to July 2012 | Non-Executive Member of the Board of Directors of Empark Portugal – Empreendimentos e Exploração de Parqueamentos, S.A. from February 2010 to June 2012 | Graduate in Economics by Universidade Nova de Lisboa | MBA by Insead.

*José Manuel Melo da Silva (Director)*  
*Portuguese, 58 years old*

Senior Manager of Banco Português de Negócios, S.A. from 2010 to 2012 | Head of Treasury of Banco Efisa S.A. from 1997 to 2010 | Degree in Economics from Instituto Superior de Economia | Post-Graduation in Banking Management by ISGB/Universidade Católica Portuguesa, Lisboa.

*José Mauro Mettrau Carneiro da Cunha (Director)*  
*Brazilian, 67 years old*

Chairman of Board of Directors of Tele Norte Leste Participações S.A. (“TNL”) since 2007 to 2012 | Chairman of Board of Directors of Telemar Norte Leste S.A. since 2007 to 2012 | Chairman of Board of Directors of Tele Norte Celular Participações S.A. since 2008 to 2012 | Chairman of Board of Directors of Coari Participações S.A. since 2007 to 2012 | Chairman of Board of Directors of TNL PCS S.A. since 2007 to 2012 | Chairman of the Board of Directors of Dommo Empreendimentos Imobiliários since 2007 to 2016 | Full Member of the Board of Directors of Telemar Participações S.A. since 2008 to 2015 | Full Member of the Board of Directors of Vale S.A. since 2010 to 2015 | Full Member of the Board of Directors of Log-In Logística Intermodal S.A. since 2007 to 2011 | Full Member of the Board of Directors of Lupatech S.A. since 2006 to 2012 | Full Member of the Board of Directors of Braskem S.A. since 2007 to 2010 |

Degree in Mechanical Engineering from Universidade Católica de Petrópolis, Rio de Janeiro, December 1971 | Executive Program in Management from Anderson School, University of Califórnia, Los Angeles, EUA, December 2002.

*Maria do Rosário Amado Pinto-Correia (Director)*  
*Portuguese, 58 years old*

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 | Degree in Economics by Universidade Católica de Lisboa | Master of Business by Universidade Nova de Lisboa | MBA by Wharton School.

*Pedro Zañartu Gubert Morais Leitão (Director)*  
*Portuguese, 51 years old*

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.

*Rafael Luís Mora Funes (Director and Member of the Executive Committee)*  
*Spanish, 51 years old*

Vice Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A. | Chairman of the Board of Directors of Realtime Corp. | Managing Partner of Heidrick & Struggles | Associate Partner of Accenture | Graduate in Economics and Management by Malaga University.

## **CV data of the members of the Compensation Committee**

*Álvaro João Duarte Pinto Correia (Chairman of the Compensation Committee)*

Member of the Compensation Committee since 2007.

Graduate in Civil Engineering by Instituto Superior Técnico, where he was an assistant professor.

Engineer at Sonefe in Portugal and Angola (Cambambe Dam) | State Secretary for Civil Construction and Housing and Urban Planning | Manager at Caixa Geral de Depósitos | Chairman of Banco Totta & Açores and Companhia de Seguros Fidelidade | Chair of the Negotiation Committee for the Debt of Angola | Director of Hidroeléctrica de Cahora Bassa | Chairman of the Fiscal Council of Montepio Geral – Associação Mutualista.

Chairman of Fundação Cidade de Lisboa since July 2000 | Chairman of the Inspection Board of Autoridade de Supervisão de Seguros e Fundos de Pensões de Portugal (ASF) since December 2004 | Chairman of INAPA – Investimentos e Participações e Gestão, S.A: since May 2010 | Chairman of the General and Supervisory Board of Caixa Económica Montepio Geral since October 2015 | Member of Portuguese Honour Orders: *Comendador da Ordem de Mérito Industrial* and *Grande Oficial da Ordem do Infante D.Henrique*.

*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 his office between August 2012 and March 2014).

Graduate in Business Administration and Management, Universidade Católica Portuguesa (1982).

Chairman and CEO of CTT – Correios de Portugal since August 2012, Chairman of Banco CTT, S.A. since 2015, Non-Executive Director of Endesa Energia and Chairman of Cotec Portugal since 2015. All along 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, a Portuguese listed bank with relevant operations in Central and Eastern Europe, for which he was responsible, upon which he performed duties in also listed Portuguese organisations, such as CEO of Cimpor – Cimentos de Portugal SGPS, S.A., an international cement group operating in 12 countries and one of 5 largest companies on the NYSE Euronext Lisbon securities market, and Non-Executive Director and Member of the Audit Committee of EDP Renováveis, the third largest renewable energy company in the world.

| Chairman of CTT Expresso – Serviços Postais e Logística, S.A. since 2014 | Chairman of Tourline Express Mensajería, S.L.U. since 2014 | Non-Executive Director of Norfin – Portuguese Property Group, S.A. from May to October 2014 | Chairman and CEO of CTT - Correios de Portugal, S.A. since 2012 | CEO of Cimpor – Cimentos de Portugal SGPS, S.A. from 2010 to 2012 | Chairman of Cimpor Inversiones, S.A. from 2010 to 2012 | Chairman of Sociedade de Investimento Cimpor Macau, S.A. from 2010 to 2012 | Non-Executive Director of EDP Renováveis, S.A. from 2008 to 2012 and Member of the Audit Committee from 2008 to 2011 | Managing Partner of Deal Winds – Sociedade Unipessoal, Lda. from 2008 to 2012 | Director of International Post Corporation since 2014 | Member of the Directorate of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado since 2014 | Chairman of the Board of the General Meeting of Shareholders of Correio Expresso de Moçambique, S.A. since 2013 | Member of the Advisory Board of Nova School of Business & Economics since 2011 | Member of the Advisory Board of the Finance Master of Católica Lisbon School of Business & Economics since 2006 | Member of the General Council of Clube Naval de Cascais since 2006., Vice-Commodore since 2016.

*António Sarmento 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.

Vice Chairman (non-executive) of the Board of Directors of CTT, S.A., Lead Independent Director and Chairman of the Audit and Corporate Governance, Evaluations and Appointments Committees since 2014 | 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 Soares da Costa 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; Member of the Audit Committee (2009/2015) and Performance and Competition (2012/2015) and Chairman of the Committee of EDP - Energias de Portugal, S.A. since 2015 | 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.

## **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.

Between 1977 and 1981 worked as auditor manager at the Statutory Auditor company “António Almeida e Augusto Martins Moreira”.

In 1981, after become Statutory Auditor, he entered as a member of the Ordem dos Revisores Oficiais de Contas (the professional body) in which has the number 497.

In 1981 he joined and has become partner of “Amável Calhau, Ribeiro da Cunha e Associados”, having been managing partner in the company since that date, performing several professional works within the following areas: auditing, evaluation of companies and consulting, among others.

Since 1981, also, he has been working as Statutory Auditor in representation of the above mentioned company, either as Statutory Auditor or integrating Supervisory Boards or Audit Committees, 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, also, he carries out positions in governing bodies, in compliance with the professional Knowledge required to the members of those corporate bodies or Supervisory Boards: President of Supervisory Board at GNB Seguros de Vida, S.A., Member of Supervisory Board at GNB Companhia de Seguros, S.A., President of Supervisory Board at Novo Banco dos Açores, S.A..

*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, Londres  
Graduated in Organization and Business Management – Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE)  
Managing for Success – BNP Paribas, Bruxelas  
Leadership for Growth – Fortis Bank, Mello  
Analysis and Credit Risk Control – NPF Pesquisa e Formação  
Introduction of the International Accounting Standards – Instituto de Formação Bancária  
Account Consolidation Course II – Centro Internacional de Formação e Apoio à Gestão  
Certificate of Proficiency in English – Universidade de Cambridge, Lisbon  
Diplôme Supérieur d'Études Françaises Modernes – Alliance Française, Lisbon  
Pedagogical Skills Certificate – F607896/2013, Lisboa

Professional activity in the past five years

Current Positions:

Member of the Fiscal Council of Best – Banco Eletrónico de Serviço Total, S.A. (since December 2016)  
Member of the Fiscal Council of PHAROL, SGPS S.A. (May 2015 to present)  
Financial and Business Advisory (April 2013 to present)

Past Positions:

Director of the Credit Analysis Department, BNP Paribas Fortis – Portuguese Branch (September 2010 – October 2012)  
Director of the Risk and Credit Analysis Department, Fortis Bank – Portuguese Branch (October 1995 – September 2010)  
Vice-Chairman of Federação de Triatlo de Portugal (December 2012 - January 2017).

*Pedro Miguel Ribeiro de Almeida Fontes Falcão (Member of the Fiscal Council)*

Educational background and professional training

Graduated in Business Management (Universidade Católica Portuguesa, Lisbon)  
MBA (Harvard Business School)  
PhD in Management (ISCTE)

Professional activity in the past five years

Current Positions:

Member of the Fiscal Council of PHAROL, SGPS S.A. | Visiting Assistant Professor in ISCTE since 2005 | Associate Dean of ISCTE Business School since 2014 | Executive Director of the Executive MBA of INDEG – IUL since 2004 | Visiting Lecturer in INDEG – IUL and in Instituto Superior Técnico since 2005.

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 | Advisory in management (until 2013).

## APPENDIX II

Declaration by the Wages Committee about the Remuneration Policy applicable to members of the management and audit bodies of PHAROL, SGPS, S.A.

Taking into account that:

1. Pursuant to Law no. 28/2009, of 19 June (“Remuneration Law”) and to Decree-Law no. 225/2008, of 20 November, the management body or the Wages Committee, if it exists, of companies issuing securities admitted to trading on a regulated market (“Issuing Companies”) shall annually submit to the General Meeting a declaration on the remuneration policy applicable to members of management and audit bodies (“Remuneration Policy Declaration”);
2. Moreover, numbers 69 to 76 of section D. III. of the “Corporate Governance Report Model” approved in an annex to CMVM (Securities Market Commission) Regulation no. 4/2013 (“CMVM Governance Code”) stipulates that the Corporate Governance Report of Issuing Companies include the Remuneration Policy Declaration and other information about, in particular, the remuneration structure and its alignment with the company’s long-term interests, the performance evaluation and dissuasion of excessive risk taking, the relation between the performance evaluation and the variable remuneration component, payment deferral of the variable component, among other aspects.
3. At the General Meeting of 29 May 2015 the Wages Committee submitted the remuneration policy applicable to members of the management and audit bodies for the 2015-2017 three-year period to be assessed by the shareholders who approved the said policy.

This Remuneration Policy Declaration is submitted to the General Shareholders Meeting to be held on 24 May of 2016 which essentially establishes the principles defined by the said remuneration policy approved at the General Meeting of 29 May 2015, and which merely makes some adjustments to the definition of the variable remuneration of executive directors, based on experience obtained in the first year in which the said remuneration policy was in effect for the 2015 – 2107 three-year period.

## I – Remuneration policy for non-executive directors and for Audit Board members:

The remuneration of non-executive members of the Board of Directors and of Audit Board members shall comply with an unvarying model, consisting of a fixed annual remuneration defined by the Wages Committee (broken down into 14 payments per year), without attendance fees, whereby the remuneration shall be aligned with the average remuneration of non-executive directors at companies with a similar market capitalisation listed on EURONEXT Lisbon.

The fixed remuneration takes into account the fact that some directors also perform duties in one/some of the delegated committee(s) of the Board of Directors providing assistance to its operation and also carrying out their own non-delegable duties.

This remuneration policy is structured to allow an alignment with the company's interests and a remuneration level that promotes adequate performance. No means of variable remuneration are stipulated for non-executive members of the management body or for members of the audit body.

## II. Remuneration policy for executive directors:

Remuneration for executive directors includes a fixed and a variable component, the latter consisting of a part that remunerates short-term performance and another part to remunerate long-term performance. This approach creates a reasonable balance between the dissuasion of taking excessive risks and an effective alignment between management interests and the interests of the company's shareholders.

### A) Fixed remuneration

The fixed remuneration component takes into account market competitiveness, such that it must be aligned with the average remuneration of executive directors at companies with a similar market capitalisation listed on EURONEXT Lisbon and also aligned with the nature and complexity of duties and expertise required. The fixed component is stipulated based on the definition of a monthly salary paid 14 times per year. The following complementary benefits shall be added to the said amount according to practices in effect: option to use a company car (including fuel and toll payments),

life and personal accident insurance, and use of a credit card for company representation expenses.

## B) Variable remuneration

The variable remuneration is linked to the performance of the executive directors and shall be paid according to the different fulfilment levels of specific and previously approved goals associated to objective, simple, transparent and measurable performance indicators. The Wages Committee analysed changes in the company's economic, organisational and operational setting and in which the executive directors have carried out their activities and took into account that, in view of the changes in this setting, an adjustment is justified in the model for determining the variable remuneration for the remaining years of the mandate in progress and to thereby provide a better solution to a fair evaluation of performance by executive directors. The model amended shall continue to include the TSR criterion, but now applied to PHAROL, which will reflect the success in the management of OI, in which it has a stake, and in the process of recovering the Rio Forte credit, criteria defined in the remuneration policy declaration approved at the General Meeting of 29 May 2015, and also adds a criterion of measuring the company's operating efficiency. Therefore, the variable remuneration for the years 2016 and 2017 is determined based on 2 indicators:

- i) The Total Shareholder Return (TSR) of the company's shares (75%)
- ii) The company's operating efficiency, measured by the relation between budgeted and actual costs (25%)

The variable remuneration value may vary between zero and a maximum that shall never exceed twice the annual fixed remuneration.

The variable remuneration shall be paid in cash, 50% in the month subsequent to the date on which the accounts are approved by the General Shareholders Meeting, and 50% within a 3-year deferral period and subject to confirmation of the company's positive performance in the period taken into account, as judged by the Wages Committee that shall take into account the financial sustainability and the economic situation of the company and of its sector, in addition to exceptional factors that cannot be controlled by the management but may affect the company's performance.

These principles and indicators determining the variable remuneration component aim to ensure a clear alignment between the interests of the executive directors and the company's interests, thereby promoting the pursuit and fulfilment of objectives, through quality, work capacity, dedication and business know-how, and an incentive and compensation policy that will make it possible to attract, motivate and maintain the best professionals.

The Wages Committee is also of the opinion that, due to the company's nature and objectives, if any extraordinary event representing an undeniable creation of value for shareholders takes place, the payment of an equally extraordinary premium may also be considered, within the terms to be defined and according to the concrete characteristics of the said event.

### III – Assignment of shares and options

The company currently has no plans to assign shares or stock option plans for staff.

### IV – Termination of duties by executive directors

If an executive director terminates his/her duties for any reason whatsoever other than dismissal for just cause, payment of the determined variable remuneration that has been deferred may be paid only at the time of termination of management duties if, until that date, there is sufficient and sustained evidence that the company's performance will be foreseeably positive in the remaining period within terms that, with all probability, would permit the payment of the said deferred component.

### V – Alignment of the directors' interests with the company's interests

Consequent to the aforementioned, the variable remuneration of the company's executive directors depends on their performance and on the company's sustainability and capacity to attain specific strategic objectives.

The current remuneration policy will also create a reasonable overall balance between

the fixed and variable components and the deferral of a significant part of the variable remuneration, payment of which, in accordance with the previously described terms, will therefore depend on the company's positive performance during that period. As such, the policy aims to contribute to maximising long-term performance and to dissuade decisions of excessive risk.

Additionally, with the aim to reinforce the component of evaluating the performance of the directors, save for agreement or deliberation by the Wages Committee to the contrary, the company and its directors shall act in accordance with the following principles:

- i) Directors shall not sign contracts, either with the company or third parties, that mitigate the risk inherent to the variability of the remuneration stipulated by the company;
- ii) In case of dismissal or resignation from management duties upon agreement, no compensation shall be paid to directors when the said dismissal or resignation has proven to have resulted from their inadequate performance.

#### VI – Remuneration policy for the Statutory Auditor

The company's statutory auditor is remunerated according to normal remuneration practices and conditions for similar services, consequent to the signing of a services rendering contract and through a proposal by the company's Fiscal Council.

The Compensation Committee of PHAROL, SGPS SA

## APPENDIX III

### **Code of Ethics**

PHAROL's Code of Ethics approved in 2016 and 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.

### **Code of Ethics for Senior Financial Officers**

PHAROL approved in 2016 a new Code of Ethics for Senior Financial Officers. This Code applies to all for Senior Financial Officers that collaborate with the company, who are thus obliged to act in accordance and perform their duties with high standards of diligence, competence and professionalism.

This Code is also available on the Company's website ([www.pharol.pt](http://www.pharol.pt)).

### **Procedures implemented by PHAROL for compliance with the rules applicable to Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings**

Following the appointment of new members of PHAROL corporate bodies for the 2015-2017 three-year term of office and in the context of the intended revision of the corporate governance structures currently in force, the rules for Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings are being revised.