CEAM

EXECUTIVE MONITORING COMMITTEE OF THE IPCG CORPORATE GOVERNANCE CODE

ANNUAL MONITORING REPORT • 2018

COMISSÃO DE ACOMPANHAMENTO E MONITORIZAÇÃO

Instituto Português de Corporate Governance

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MONITORING COMMITTEE OF THE 2018 CORPORATE GOVERNANCE CODE

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The approval of this Annual Monitoring Report on the 13th of November 2019 by the Monitoring Committee of the Corporate Governance Code represents a further key milestone in the process set in motion by the Portuguese Institute of Corporate Governance (IPCG) more than seven years ago, to make available to the capital market a Code and a monitoring model originating from civil society, with a strong self-regulatory tendency. It was a lengthy endeavour, marked by numerous advances and setbacks, and several important key players.

The protocol entered by the CMVM (Portuguese Securities Market Commission) and by the IPCG in December 2017 was absolutely crucial to the success of this journey, bringing about a paradigm shift from a Code enacted by the regulator to a Code originated from self-regulation.

In 2018, the Code established an accompaniment and monitoring system, which simultaneously accomplished three goals: providing answers to doubts and questions arising from the adoption of the Code, its periodic review and the monitoring of its implementation. For this purpose, the IPCG signed a protocol with AEM — The Portuguese Issuers Association where this system was specified, and materialized in the creation of a Monitoring Committee (CAM) formed by 8 individuals with great corporate governance knowledge and experience, and with the necessary independence and credibility to positively contribute to the successful implementation of the Code.

Also, the widespread adoption of the Corporate Governance Code by listed companies in 2018, with impact throughout 2019 brought about its implementation in Portugal.

The publication of the Code's monitoring report, which through the individual analysis of each issuer's reporting (a process that enabled the implementation of a frank and open dialogue with listed companies) summarizes the degree to which the recommendations contained in the Code are being complied with and analyses the respective results, representing another decisive step towards the implementation of this self-regulatory path.

This report will serve a triple purpose: (1) report to all capital market stakeholders — investors, analysts, listed companies, regulators, etc. — the degree of compliance with the Code, (2) act as a benchmark for the analysis conducted by each issuer regarding their status and the way forward in the continuous improvement of corporate governance practices, and (3) provide a valuable contribution to the first review cycle of the Code which will soon be initiated.

It is, therefore, an important milestone in the life of IPCG, self-regulation and dissemination of best corporate governance practices in Portugal.

António Gomes Mota
Chairman of the Board
Portuguese Institute of Corporate Governance

COMISSÃO DE
ACOMPANHAMENTO
E MONITORIZAÇÃO

Approval of CEAM's 2018 Annual Monitoring Report

The Monitoring Committee of the IPCG Corporate Governance Code (CAM), through the powers conferred upon it by the Protocol entered by the IPCG and AEM (the Protocol), approved the Annual Monitoring Report prepared by the IPCG Code's Executive Monitoring Committee of the IPCG (CEAM) for the 2018 financial year.

In this way the CAM concluded its *first cycle of activity,* which essentially consisted in the *foundation* of a monitoring system and process for the IPCG Code. In addition to appointing two members of CEAM, as provided for in the Protocol, CAM began by defining the structure of the monitoring report, then accompanying the CEAM's work until its approval. Within the scope of this activity, the CAM collaborated with the CEAM in the preparation of a Code Interpretation Note as well as of the Multiple Recommendations Table, intended to guide the analysis of compliance with recommendations of multiple content.

In addition to these formal interventions, the CAM closely followed the CEAM's work developments.

At the end of this first cycle of activity, the CAM wants to make its appreciation of the very constructive and cooperative spirit that the Code monitoring has benefited from, starting with the listed companies. AEM deserves a special mention, as it emerged as a committed and collaborative partner in this very meaningful monitoring activity. The success of this new and challenging experience of self-regulation in the Portuguese market relies on its quality, rigour and demand. The CEAM (and its members) also deserve a special mention, not only for the quality of their intensive work, but also for the promptness with which it was executed, as well as for their ever-present attitude of dialogue whether in relation to the CAM or in relation to the listed companies.

The end of a cycle corresponds to the start of another, which should be defined by analysing the data collected from this first monitoring experience, and by promoting of all measures necessary to improve the quality of corporate governance.

CEAM

EXECUTIVE MONITORING COMMITTEE

IPCG CORPORATE GOVERNANCE CODE

ANNUAL MONITORING REPORT

2018

SUMMARY

I. EXECUTIVE SUMMARY

The Annual Monitoring Report (**RAM**) hereby presented is the first drafted under the Corporate Governance Code of the Portuguese Corporate Governance Institute 2018 (**2018 CGS**). It provides an account of the monitoring activity with respect to financial year of 2018.

This Code, comprised of 60 recommendations, further decomposed in 117 sub-recommendations for monitoring purposes, constitutes a significant step towards self-regulation in the field of Corporate Governance in Portugal.

In the spirit of cooperation between the Portuguese Corporate Governance Institute (**IPCG**), the Portuguese Securities Market Commission (**CMVM**) and the Portuguese Issuers Association (**AEM**), reflected in the Protocols agreed upon by the IPCG and each of these entities, it was possible to set up an independent and autonomous monitoring system, leading to the results presented herein in respect to compliance with the 2018 CGS recommendations[1].

[1] The Protocol entered by the CMVM and the IPCG is available at: https://cgov.pt/images/ficheiros/2018/protocolo-cmvmipcg.pdf.

Throughout this process, the Executive Monitoring Committee (**CEAM**) performed several tasks since the 2018 CGS came into force up until the drafting of this Report: in addition to interacting with the listed companies in order to clarify the interpretation of the 2018 CGS, the CEAM gathered public information indispensable for the monitoring task, dialogued with the listed companies for the purpose of analysing the preliminary results, answered to written comments on this process and, finally, shared with each of the listed companies their respective final results.

Hence, the elements and clarifications necessary for an informed monitoring exercise were gathered, ensuring the indispensable objectivity and impartiality, with attention to the singularities of each listed company, most importantly those reflected in the explanations provided in the corporate governance reports.

Therefore, in line with international best practices and the existing regulatory framework in Portugal, the assessment of compliance with each recommendation took due notice of the options explained by the companies in order to evaluate them, whenever suitable, as substantially equivalent to a direct compliance with the Code, thereby fulfilling the underlying comply or explain philosophy.

The monitoring results indicate that the average level of compliance with CGS 2018, regarding the universe of monitored listed companies and all of the recommendations and sub- recommendations, amounts to 78%, raising to 84% in the case of PSI 20 listed companies.

The Protocol signed between AEM and IPCG is available at: https://cgov.pt/images/ficheiros/2018/protocolo-ipcg-aem-monitorizao-f.pdf.

From the monitoring tasks, as herein reported and further detailed ahead, stems a positive outlook on the future: not only may the level of compliance with the recommendations be perceived as largely satisfactory already in the first monitoring year, but also, the contacts established with the listed companies demonstrate their growing concern with corporate governance issues, hence supporting the belief that companies will continue to implement their best efforts in a sustained improvement of governance practices.

II. INTRODUCTION

The Annual Monitoring Report (AMR) now being presented constitutes the first analysis prepared in reference to the 2018 CGS.

As highlighted above, the implementation of the new Code resulted from the effort carried out by IPCG, in cooperation with CMVM and AEM, a cooperation that is patent in the aforementioned Protocols entered by both entities[2].

The fundamental framework outlined by those instruments allowed to devise a monitoring system, under which the CEAM performs the tasks that now allow the dissemination of this Report.

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[2] In January 2019, in addition to the Protocol, the CMVM released the communication related to the new rules and procedures for 2019 regarding the supervision of the corporate governance recommendation framework, through the CMVM's Communication, "The supervision of the corporate governance recommendation regime — new rules and procedures for 2019", dated 11/01/2019, v. https://cam.cgov.pt/pt/noticia/1339-notificacao-da-cmvm-sobre-novas-regras-e-procedimentos-para-2019-em-materia-corporate- governance.

Consisting of five members, including an Executive Director responsible for coordinating all technical work, the Committee, among other tasks, shall:

– support listed companies in interpreting the Code, namely by clarifying the most pressing interpretative doubts; the Interpretation Note no. 1 of the 2018 CGS was issued[3] in this context;
– undertake the studies necessary for a successful transition phase of the CMVM's Code to the current advisory framework; to this purpose, CEAM carried out an analysis of the equivalences between Annex I of CMVM Regulation no. 4/2013 and the recommendations of the Code, in order to contribute to the preparation of corporate governance reports in listed companies in light of its recommendations[4], and prepared and disclosed, always in coordination with CAM — Accompaniment and Monitoring Committee (CAM), an identification table for recommendations of multifaceted content, seeking to break them down in order to contribute to a good implementation of the monitoring work[5];
– share with each of the listed companies the preliminary results of the monitoring carried out based on publicly available information, inviting them to comment on those preliminary results;

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[3] Available at: https://cam.cgov.pt/pt/documentos/1292-codigo-de-governo-das-sociedades-2018-nota-interpretativa-n-1.

[4] Available at: https://cam.cgov.pt/pt/documentos/1341-correspondencias-entre-o-anexo-i-do-regulamento-da-cmvm-n-4-2013-e-as-recomendacoes-do-codigo-de-governo-das-sociedades-do-ipcg-de-2018.

[5] Available at: https://cam.cgov.pt/pt/documentos/1344-tabela-de-recomendacoes-multiplas .

– analyse and consider all collected inputs for the purpose of establishing the final monitoring results that it communicates to each of the listed companies and based on which the Annual Monitoring Report is prepared.

Once approved with the unanimous vote of the CEAM members, the Report is submitted for final approval by the CAM.

Thus, adopting the structure defined by the CAM acting under the powers conferred upon it, this Report starts by presenting the principles governing monitoring (III.), followed by a presentation of the working methodology used (IV.).

After presenting such framework, it then proceeds to assess the degree of compliance with the recommendations of the Code (V.), giving preliminary notice of the treatment given to multiple recommendations, as well as to the non-applicable ones, and the way in which the results of the monitoring were defined.

In this context, it is important to recall the meaning of the "comply or explain" principle, on which the Code is based, as well as to report how "explain" was used by the listed companies and evaluated.

Based on this set of elements, the Report presents, chapter by chapter, the additional clarifications needed considering each CGS 2018 recommendations and the contents monitored by the CEAM, after which brief final conclusions are presented (VI.).

III. MONITORING PRINCIPLES

The monitoring work carried out by the CEAM has its fundamental framework in the Protocols entered by the CMVM and IPCG and between the IPCG and AEM.

In particular, this last document sets out the principles on which monitoring should be based, which allows to understand the terms and results of the analysis undertaken:

a) **Necessity** — monitoring the 2018 CGS is an indispensable element of the corporate governance system, as a means of knowing how and to what extent recommendations are being complied with, and, the most critical areas of non-compliance;

b) **Independence** — monitoring the 2018 CGS must be personally and institutionally assured by entities and persons who can provide the necessary guarantees of independence from the entities adopting the 2018 CGS;

b) **Autonomy** — monitoring the 2018 CGS is independent from the exercise of any competences by judicial or administrative authorities, in relation to their inspection, supervision or sanctioning activities, within the framework of their respective legal powers and duties;

d) **Universality** — the monitoring should cover all entities that have adopted the 2018 CGS;

e) **Objectivity and Impartiality** —monitoring should be carried out in an objective and impartial manner and should not include passing sentences on the adoption of 2018 CGS recommendations or on the conduct of adhering companies;

f) **Completeness** — monitoring should focus on all principles and recommendations of the 2018 CGS;

g) **Collaboration** — monitoring should be based on collaboration with entities that adopt the CGS 2018, whether by providing them with the elements and clarifications necessary for correct interpretation and application of the 2018 CGS, or by receiving from such entities the elements and clarifications necessary for an

informed monitoring; the collaboration extends to entities whose competences or scope are projected or intersected with the application of the 2018 CGS;

h) **Transparency** — monitoring should ensure that all mechanisms, criteria or information on which it is based are accessible to at least all adhering entities;

i) **Advertising** — monitoring results regarding the level of compliance with the CGS 2018 must be advertised in a global manner and without singling out or detailing the results of each adhering entity;

j) **Up to date**— monitoring should help to promote updating interpretation and application criteria for the 2018 CGS, as well as induce the necessary and/or appropriate changes to the evolution of the 2018 CGS;

k) **Annuity** — without prejudice to occasional interventions, monitoring will be based on an annual cycle of activity;

l) **"Comply or explain"**— the 2018 CGS is based on voluntary adoption and its compliance is based on the "comply or explain" rule; therefore monitoring should ensure the effective appreciation of "explain" with equivalence to the compliance with the recommendations.

IV. THODOLOGY

The monitoring process leading up to the preparation of the Annual Monitoring Report involved a number of activities, which are briefly summarized below.

Before starting the monitoring work for each of the corporate governance reports produced by the companies, the CEAM received enquiries from listed companies, identifying questions that they encountered when preparing their reports.

The monitoring work began by gathering the information published by the listed companies, focusing the analysis especially on — but not exclusively — their corporate governance reports.

Based on this public information, accessed namely through the CMVM's information system, the reports of thirty-two companies were analysed, with reference to the financial year ending on the 31st of December of 2018.

The first analysis culminated in the communication of the preliminary results of the monitoring conducted by the CEAM, reflected in individual tables sent to each of the listed companies, which contained, in addition to the assessment of each sub-recommendation — complied, non-complied, not applicable and "explain" assessment[6] — substantiated observations, whenever justified.

The companies were invited to comment on the preliminary monitoring results, thus putting into practice the interaction with listed companies referred to in the Protocol entered by the IPCG and AEM.

After submitting the respective preliminary results, the CEAM's executive team established contact with the listed companies, either in writing or by holding meetings.

This process resulted in valuable explanations for the monitoring work, allowing to clarify issues and contributing to the standardisation, in general, of the criteria for measuring compliance. It also

[6] About this assessment, see below, V.1.3. of this Report.

contributed to the ongoing debate on best corporate governance practices in the Portuguese securities market, bringing a pedagogical dimension to the monitoring exercise.

After the said interaction, the CEAM confirmed the preliminary results and made the respective final assessments available to each of the listed companies: these are considered as final results for the 2018 financial year and constituted the basis for the preparation of this Annual Monitoring Report.

The CEAM members have performed the tasks described in constant internal coordination.

V. ASSESSMENT OF THE DEGREE OF COMPLIANCE

V.1. Framework

V. 1.1. Multiple recommendations

Aiming at the successful implementation of the monitoring work, the CEAM, in coordination with the CAM, proceeded to the prior identification of Code recommendations with multiple content and to their respective analytical "breakdown", according to the following criteria:

- all mutually independent sub-recommendations were broken down;
- the following sub-recommendations were not broken down:
  - those containing a general clause with a clarification;
  - those in which there is a logical dependency between sub-recommendations.

This exercise resulted in 117 sub-recommendations, as identified in the Multiple Recommendations Table[7].

The monitoring activity, both in the analysis of individual corporate governance reports and in the subsequent global data processing, was based on the aforementioned sub-recommendations.

Throughout its monitoring work and for the interpretation and application of results regarding certain recommendations, the CEAM took into consideration that, as 2018 was a transition phase between different Corporate Governance Codes, the listed companies were not aware of the aforementioned division that the Code would be subjected to when the governance reports were prepared. For that reason, listed companies did not always report to the whole content of the multiple recommendations, namely for the purposes of declaring compliance or non-compliance.

V.1.2. Non-applicable recommendations

The decision to consider some recommendations as not applicable to certain or all listed companies is the result of the interpretative task carried out by the CEAM, according to a cross-check between recommendatory provisions and the responses from listed companies.

In that exercise, recommendations were considered to be either complied with, or not, when the listed companies classified them as not applicable, and vice-versa.

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[7] Available at: https://cam.cgov.pt/pt/documentos/1344-tabela-de-recomendacoes-multiplas.

When calculating compliance percentages, non-applicable recommendations were not taken into account. Nevertheless, in the presentation of the contents monitored by the CEAM (below, V.3) the non-applicable hypotheses were occasionally considered to be justified, whenever this allowed a better understanding of the results, given that, under certain circumstances, omissions regarding a given high level of non-applicability of a certain recommendation could lead to a distorted image of the assessment, in detriment of listed companies and of the market.

The non-applicability of certain recommendations arises from several circumstances, among which:

— the specifics of the governance model adopted by the listed companies;
— the interdependence between certain sub-recommendations;
— the factual circumstances highlighted in the context of the year 2018, which comprised the companies' transition phase between different governance codes, as well as the existence (or not) of elections for corporate bodies during the 2018 financial year.

V.1.3. Results

In each sub-recommendation and for each issuer, the respective individual tables listed four possible outcomes to be chosen from:

- S — compliance;
- N — non-compliance;
- NA — not applicable;
- E — "explain" materially equivalent to acceptance, as explained below regarding the quality of the "explain".

The set of individual results has been treated in an integrated way, as explained below.

Unless otherwise stated, reference to acceptance rates refers to the sum of the direct acceptance results ("S") and the "explain" results materially equivalent to acceptance ("E"), which when calculated together (S+E), make up a full or global compliance figure.

V.2. Quality of "explain"

V.2.1. The "comply or explain" principle

In accordance with the "comply or explain" principle on which the Code is based, pursuant to the Protocol signed between the IPCG and AEM, and as explained in Interpretation Note no. 1, companies should, on the one hand, reflect on the appropriateness and relevance of each recommendation to its reality and circumstances and, on the other hand, soundly explain their corporate governance options, particularly in light of the principles set out in the Code.

Ideally, "explain" implies three "statements" from the listed company: (1) declaration of non-compliance, (2) explanation regarding the adopted solution and (3) indication of the reason why said solution was deemed to be an equivalent option to Code recommendations.

Nonetheless, in this transition phase, the CEAM placed particular emphasis on the need to overcome any omissions from listed companies in an appropriate place, considering all materially explanatory information contained in the various parts of the corporate governance reports and other publicly available information.

Thus, in line with the "comply or explain" principle, special emphasis was given to the quality and depth of "explain", the analysis

of which may lead to an equivalence to "comply", taking the specific circumstances into account.

In any case, for the analysis of the quality of "explain", it is always necessary to assess in which cases a properly explained non-compliance has the same effect as compliance.

In this respect, CMVM Regulation no. 4/2013, which remains in force and therefore remains, for this matter, as a guiding document for listed companies, establishes the following:

— in its preamble, regarding the "comply or explain" principle, it states there will be "*material equivalence between compliance with the recommendations and the explanation for non-compliance*", when such explanation "*allows for an assessment of those reasons in terms that make it materially equivalent to compliance with the recommendation*".

— Annex I from the same Regulation, specifically point 2 of part II, states "*[the] information to be reported should include, for each recommendation:*

a) Information that allows to determine compliance with the recommendation or reference to the point in the report where the issue is dealt with in detail (chapter, title, point, page);

b) Justification for potential non-compliance or partial compliance;

c) In case of non-compliance or partial compliance, identification of any alternative mechanism adopted by the company for the purposes of pursuing the same objective as the recommendation."[8]

[8] Likewise, also the Commission Recommendation on the quality of corporate governance reporting ("comply or explain") of 9 April 2014, in Section

V.2.2. The assessment of "explain"

Based on these guidelines, the explanations provided in the event of non-compliance with recommendations were considered to be materially equivalent to compliance whenever the listed companies explained, in an effective, justified and substantiated manner, the reason for non-compliance with the recommendations provided for in the 2018 CGS, in terms that demonstrate the adequacy of the alternatively adopted solution to good corporate governance principles, and which allow a valuation of those reasons as materially equivalent to compliance with the recommendation: we quote, mutatis mutandis, Article 1(3) of CMVM Regulation no. 4/2013.

For the purposes of this assessment, Code principles were considered to be the guiding basis for the interpretation and application of the recommendations and, at the same time, a qualitatively relevant ground for the assessment of "explain" (see the Preamble to the 2018 CGS). For example, the invocation of means of promotion of shareholder participation and the proportionality of the adopted solutions as an alternative to recommendations regarding electronic voting and participation through telematic means (see Recommendations II.3. and II.4. and principles II.A and II.C) was taken into account. The size and structure of the company were also taken into account for the "explain", when properly supported and explained (see, e.g. recommendation V.4.2.).

III, contains instructions on the quality of explanations in case of divergence from a code. The Recommendation is available at: https://eur-lex.europa.eu/legal-content/PT/TXT/PDF/?uri=CELE-X:32014H0208&from=PL

On this point, it should also be noted that, on several occasions, listed companies have not provided an explanation for non-compliance because they have not taken into account the sub-recommendations set out below[9].

As the "explain" assessment is an essential pillar of the monitoring exercise of a recommendatory code, the importance of the provision of information in Part II of the governance report regarding the non-compliance with recommendations and accompanying explanation should be highlighted. While it is not necessary to repeat content in what regards "explain" and there may be specific remissions to Part I of the corporate governance report, it is important that listed companies always carry out the proper contextualization and reasoned justification of the motives for non-compliance with the recommendation in question and furthermore, to the identification of an alternative good corporate governance solution of corresponding adequacy, in terms of material equivalence to the solution recommended by the Code.

V.3. Contents of the Code monitored by the CEAM

Chapter I . *General Part*

Overall assessment of the chapter

The chapter contains twelve recommendations, broke down into five subchapters, in the form of a *General Part* covering a variety of subject matters: the relationship between the company and inves-

[9] See *supra*, text corresponding to no. 9.

tors and information, diversity in the composition and functioning of corporate bodies, the relationship between those corporate bodies, conflicts of interest and transactions with related parties.

Twenty-six sub-recommendations subject to monitoring resulted from the break down operation carried out.

The average compliance rate was 84 %, rising to 92 % when disregarding the results obtained in the last subchapter (I.5.1. and I.5.2.).

The percentage of compliance ranged from 100 % to 28 %.

Recommendations

I.1.1.

The first recommendation establishes the fundamental terms of the company's relationship with shareholders and other investors, to be treated equally, and also refers to the establishment of mechanisms and procedures for the appropriate treatment and disclosure of information — requirements which, in terms of the information provided, listed companies fully comply with.

I.2.1.

Regarding the profile of new corporate body members, the Code recommends that the companies establish general criteria and requirements relating to said profile, including individual characteristics and diversity requirements, in terms that do not necessarily depend on whether or not elections were held during the period considered — which is why a mere reference to the concrete profile of each member, as merely reflected in their *curricula*, or an acknowledgement that, in practice, such criteria and requirements had been taken into consideration, is not sufficient to meet the recommendation.

Without ignoring, however, the fact that 2018 represents a transition phase with regards to the Code, the recommendation was considered to be not applicable to 31 % of the listed companies, in which no elective Shareholder's General Meeting was held in 2018, while simultaneously underlying the importance of proving, in future years, the prior establishment of such criteria and requirements, including, with regards to diversity, possible measures that go beyond legal requirements for gender diversity.

The monitoring results for the listed companies to which the recommendation was applicable indicate a compliance level of 86 %.

I.2.2., I.2.3. and I.2.4.

The recommendations under consideration concern the existence and disclosure of internal regulations, minutes and other general information (including the structure and number of annual meetings) in. respect to the management and supervisory bodies, as well as internal committees.

With compliance levels equal to or above 83 %, non-applicability for part of the recommendations was only considered in situations, which occur in some listed companies, where internal committees are non-existent.

I.2.5.

The Code recommends not only the adoption of a whistleblowing policy allocated with the adequate resources, but also, as envisioned by the breakdown of the recommendation, the Code recommends the existence and guarantee of functioning mechanisms for the detection and prevention of irregularities.

With regards to this last sub-recommendation, the weighting of preliminary results and clarifications from listed companies led to the identification of a coincidence between such mechanisms and those associated with the functioning of risk management, internal control

and internal audit systems, with a consequent full compliance within the realm of listed companies monitored.

As for whistleblowing, there is evidence of the adoption of such a policy in 91 % of listed companies.

I.3.1. and I.3.2.

Recommendations I.3.1. and I.3.2. referring to the relationships between the corporate bodies, calling for the provision of information, both documentary and through access to relevant company employees, and to the existence of an information flow that ensures the adoption of pondered and efficient measures, within the framework of an articulated, harmonious relationship, displayed overall compliance levels of 88 % and 91 %, respectively, and, in both cases, of 100 % in PSI 20 companies.

I.4.1. and I.4.2.

Regarding conflicts of interest, full compliance with the obligation to provide occasional information, within each body or internal committee, on facts that may constitute or give rise to such a conflict, was also verified.

In addition, the guarantee of non-intervention of a member in potential conflict in the decision-making process is proven, directly or through solutions materially equivalent to the recommended one, in 69 % of cases.

I.5.1. and I.5.2.

The Code recommends the definition of the type, scope and minimum value of transactions entered into with related parties, which, due to the potential risks they entail, justify a double intervention, not only of the managing body, acting collegially (and therefore with the intervention of non-executive members), but also of the supervisory body; such transactions should be declared by the management to the supervisory body, at least every six months.

Notwithstanding the compliance level being of 60 % and 48 %, with regards to the aforementioned reporting, and 28 %, with regards to the double intervention requirement, this is a matter in which the interaction with listed companies allowed to realise the existence of, in several additional cases, practices that may materially correspond to the recommended ones, without, however, there being public information that could be taken into consideration in this context, which is why the results obtained may not reflect the more positive reality of compliance with these recommendations.

Chapter II . *Shareholders and General Meeting*

Overall assessment of the chapter

The chapter contains six recommendations, broken down into nine sub-recommendations in the context of monitoring, all dedicated to issues related to shareholder participation in general assembly meetings.

The average compliance level, similar to the previous chapter, was 87 %.

The percentage of compliance varied between 40 % and 100 %, and these results include the noteworthy resort to "explain" equivalent to compliance, present in recommendations II.2., II.3., II.4 and II.5.

Recommendations

II.1. and II.2.

By taking a position in regards to the proper involvement of shareholders in corporate governance, the Code begins by recommending companies not to establish an disproportional ratio between the number of shares and the number of corresponding votes, while at the same time recommending that companies do not establish deliberative quorums that are higher than those provided for by law, precisely to avoid hindering the passing of resolutions at meetings.

The first recommendation is fully complied with among all listed companies, whether by adopting the principle of one share, one vote, or by deviation from that principle, which, however, does not render exceedingly high the number of shares needed to confer the right to vote.

These results caused the next sub-recommendation, which called listed companies to explain their option in the governance report, whenever there was as a deviation from the aforementioned principle, to be largely non--applicable (84 %).

With regards to the deliberative quorums, the recommendation was complied with by 91 % of the listed companies, of which 75 % correspond to direct acceptance and 16 % to materially equivalent solutions which were duly explained.

II.3. and II.4.

The Code recommends the implementation of appropriate means for the exercise of voting rights by correspondence, including by electronic means (II.3.), as well as for participation in general meeting by telematic means (II.4.).

Listed companies broadly complied with recommendations in 69 % of cases: it should be noted that, with regards to the second recommendation, such a result is almost exclusively (66 % of 69 %) due to the assessment of "explain" by listed companies whenever, duly justified. They noted an intentional non-implementation of telematic means, notably in view of the high associated costs, resulting in the promotion of shareholder participation in person, and in the absence of requests for such means.

II.5. and II.6.

The recommendation that, in cases where there are statutory limitations on the number of votes held or exercised by a shareholder, there should also be a mechanism to subject such limitations to voting for their preservation or amendment, at least every five years (II.5.) was largely not applicable (84 %), as a result of the fact that, in the vast majority of cases, such limitations are not provided for.

In turn, during this transition phase, recommendation (II.6.) not to adopt mechanisms that lead to burden companies in case of transfer of control or changes in the composition of the managing body was fully complied with: not by the total absence of such mechanisms, given that in many cases they are reported, but rather, according to publicly available information, due to those mechanisms being frequently executed according to normal market practices, as explained by some listed companies, and due to there being no indication that the transactions in which the issue arises, usually resulting from normal financing needs, appear likely to harm the economic interest in the transfer of shares, as well as the shareholders' free assessment of management's performance.

Chapter III . *Non-executive management and supervision*

Overall assessment of the chapter

The chapter contains twenty-four recommendations, three of which apply only to the German governance model — III.2.(3), III.7.(1) and III.7.(2).

On the other hand, recommendations III.2.(1), III.3., III.4. and III.6. are not applicable to the German model.

Recommendation III.5., establishing a cooling-off period relevant to the assessment of the directors' independence criteria, was considered not applicable to the whole realm of companies analysed.

The average compliance was 74 %, ranging from 27 % to 100 %.

Recommendations

III.1.

In accordance with recommendation III.1, independent directors must design a lead independent director to act as coordinator among them, unless the chairman of the managing body is himself independent, which is the case in 6 % of the listed companies — to which the recommendation was considered to be not applicable.

In the absence of independent directors, at all or in sufficient numbers, such that it would not be possible to appoint a coordinator, the company should appoint a lead non-executive director, as explained in point 2 of Interpretation Note no. 1, in order to ensure compliance[10].

There is no record of the implementation of such a possibility by the listed companies.

In the event that the company has no (or has only one) non-executive directors, the possibility of appointing a coordinator of non-executive directors would also be undermined, which was why, in such cases, the recommendation was considered to be not applicable[11].

Of the companies to which this recommendation applies, 23 % designated a lead independent director and 5 % chose to "explain" which was valued, during monitoring, as equivalent to compliance, thus leading to an overall compliance of 27 %.

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[10] "Where the company does not comply with recommendation III.4 — by not appointing independent non-executive directors, or not appointing them in sufficient numbers —, and hence being logically impaired the possibility of appointing a lead independent director as literally recommended, a coordinator may be appointed from among the non-executive directors (lead non-executive director), and such an appointment should be considered equivalent to compliance with the recommendation, if, as a whole, the company's option is duly substantiated."

[11] This non-applicability result was introduced in the case of the adoption of the German model.

III.2. and III.3.

In recommendation III.2, the Code recommends that the number of non-executive members of the managing body, members of the supervisory body and members of the committee for financial matters[12] is to be adequate to the dimension and complexity of the risks inherent to its activity, but sufficient to efficiently ensure the functions entrusted to such bodies.

While recommendation III.2.(3), in respect to members of the committee for financial matters, is only applicable to the German model, recommendation III.2.(1) was regarded as not applicable to that same governance model, as it refers to non-executive members of the managing body.

While it is not for the monitoring exercise to formulate a judgement of adequacy regarding the concrete structure of governing bodies, it would always be necessary for the listed company to demonstrate in its governance report, in a substantiated manner, that it carried out such an evaluation, and in what terms. Although this is not always present in the governance reports analysed, it is considered that most of the listed companies comply with the recommendation in this financial year, given the concomitant circumstances of the entry into force of the Code in 2018.

In any event, this excludes cases in which the issuer's managing body does not have non-executive directors, as this total absence cannot be assessed as anything other than non-compliance, with regard to recommendation III.2.(1), given that it assumes the existence of non-executive directors — such an existence representing, in itself, a good governance practice.

In view of the above, recommendation III.2. (1) has a compliance level of 94 %, while III.2.(2) and III.2.(3) are 100 % complied with.

Recommendation III.3. stipulates that the number of non-executive directors must be higher than that of executive directors, which is the case in 61 % of cases.

III.4. and III.5.

The inclusion of at least one third of independent directors in the managing body is adopted by 52 % of listed companies.

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[12] Respectively, recommendations III.2.(1), III.2.(2) and III.2.(3).

In view of the content of point 3.a) of the Interpretative Note[13], this proportion was calculated in relation to the number of non-executive directors and not necessarily in relation to all members of the managing body.

Regarding the independence criteria, not all listed companies explicitly indicate whether the criteria they have applied comply regarding the provisions of the various subparagraphs of recommendation III.4.

In this regard, we recall that, in view of the continued applicability of Annex I to CMVM Regulation no. 4/2013, this regulator established, through a Communication, that:

> "*listed companies must: (i) in Part I, identify the non-executive directors who may be qualified as independent, in light of the criteria from point 18.1 from Annex I to CMVM Regulation no. 4/2013; and (ii) in Part II, declare whether they comply with recommendation III.4 of the IPCG Code, which includes criteria which are not entirely coincident with the ones in said regulation*"[14].

The issue of the cooling-off period does not arise in any listed company for the purposes of the independence of its directors, which is why recommendation III.5. had no applicability in this financial year.

III.6. and III.7.

In III.6(1), the Code recommends that non-executive directors take

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[13] "Taking into account the lack of clarity in the Recommendation's wording, it is recognised that the expression "not less than one third" is calculated solely by reference to the number of non-executive directors — and not in relation to all members of the managing body. Compliance with the recommendation necessarily requires that the number of non-executive independent directors be plural."

[14] CMVM Communication, "The supervision of the Corporate Governance recommendation regime — new rules and procedures for 2019", of 11/01/2019: see https://www.cmvm.pt/pt/Legislacao/Legislacaonacional/Circulares/Documents/Circular%2015.01.2019.pdf.

part in the definition, by the managing body, of the strategy, main policies, corporate structure and decisions that should be deemed strategic for the company, in view of their amount or risk; in turn, in III.6(2), it refers to the participation of non-executives in the assessment of the corresponding compliance.

In 9 % of the cases, both sub-recommendations were considered to be not applicable because there were no non-executive directors.

Given the scarce public information from which the concrete participation of non-executive directors in these matters could be safely concluded, monitoring of recommendation III.6.(1) was carried out jointly with recommendation IV.2., related to the delegation of powers, in the sense that, when faced with the compliance of the latter, we are dealing with cases in which the matters listed by the CGS 2018 were not delegated to an executive committee or to delegated directors, remaining in the remit of the managing body.

Accordingly, decisions on these matters must be taken collectively by the body in which the non-executive directors take part, thereby participating in the matters in question. This does not preclude that, preferably, in the coming financial years, it should become common practice that listed companies disclose, directly and justifiably, sufficient information to assess the compliance with the recommendation.

In any case, based on the described interpretation, this exercise amounted to a compliance level for III.6.(1) of 90 %.

Recommendation III.6.(2) refers specifically to the assessment of compliance with the matters listed by non-executive directors. As a result of the split that the recommendation was subject to, several listed companies have not become aware of the double issue at stake, consequently not referring to the second part of recommendation III.6, in the majority of cases.

For this reason and attending to the transitional character of this phase in compliance with the new recommendations, a compliance result has also been assumed in such cases.

Recommendations III.7.(1) and III.7.(2) are similar in content to what we have just described, adapted however to the German governance model, and in both, full compliance was obtained.

III.8.

Recommendation III.8. determines that the supervisory body, with respect to the competences conferred on it by law, should, in particular, monitor, evaluate and pronounce itself on the strategic lines and the risk policy defined by the managing body.

The division rendered autonomous the reference to strategic lines, on the one hand, and to risk policy, on the other, with compliance rising to 41 % and 28 %, respectively.

It should be noted that the Code also deals with the approval of the strategic plan and risk policy by the managing body in recommendation VI.1., in the context of the chapter on risk management, to which we also refer.

III.9.

The internal committees targeted by this recommendation are those "composed mostly by members of company's governing bodies to whom duties within the company are ascribed", as defined in the Glossary of the Code.

This definition expressly excludes the "remuneration committee appointed by the Shareholder's General Meeting under the terms set forth in article 399.º of the Companies Code".

In any case, given that the vast majority of listed companies have appointed such a committee, in accordance with article 399 of the Companies Code, invoking it for the purpose of compliance with recommendation III.9.(2), although without an explanation to this effect, these cases where deemed as an "explain" materially equivalent to compliance.

This same result was applied under recommendation III.9.(3), when this same committee designated by the Shareholder's General Meeting was given competences in relation to appointments.

It should be noted that paragraph 4 of the Interpretation Note allows the attribution to one single committee of competences in matters of remuneration and appointments.

Thus, the percentage of compliance, whether direct, or via "explain", is as follows: 50 % for the corporate governance committee; 97 % with respect to the remunerations and performance assessment committee; 38 % regarding the appointments committee.

Only in 3% of cases is there no internal committee, nor a committee appointed by the Shareholder's General Meeting for remuneration matters.

Of the listed companies with an appointments committee, 55 % attributed it competences exclusively in relation to corporate body members, while 45 % attributed, cumulatively, competences in relation to senior management, as explained below with regard to recommendation V.4.2., to which reference is also made.

In the realm of companies that have "internal" committees stricto sensu, both for remuneration and appointments, we find that in 75 % of cases it is a joint remuneration and appointments committee, whereas 25 % of the listed companies have a committee with competences in the three subjects: corporate governance, remuneration, and appointments; in this regard, it is important to recall that the recommendation expressly admits that the committees constituted cover "separately or cumulatively" matters of corporate governance, remuneration and performance assessment and appointments.

III.10, III.11 and III.12

All listed companies establish risk management and internal control systems[15], and 75 % of them also have an internal audit system.

For the non-establishment of a separate internal audit system, an explanation assessed in terms of equivalence to compliance was presented in 6 % of listed companies, thus leading to an overall compliance with recommendation III.10.(3) of 81 %.

Regarding the competence of the supervisory body to oversee the effectiveness of these systems, when present, and to also propose adjustments deemed necessary, 97 % of listed companies provide for it in regard to risk management and internal control systems (III.11.(1) and (2)) and 96 % for internal audit systems (III.11.(3)).

The same supervisory body provides its view on the work plans and resources allocated to internal control services, including compliance and internal audit — if any — in 59 % of cases, and is the recipient of reports issued by these services in 72 % of listed companies (III.12.).

Chapter VI of the Code deals with the risk management system, in particular and to which we refer.

15 Recommendations III.10.(1) and III.10.(2).

Chapter IV . *Executive management*

Overall assessment of the chapter

The chapter contains eight recommendations, for none of which "explain" was considered to be equivalent to compliance. The average compliance level was 79 %, ranging from 100 % to 63 %.

Recommendations

IV.1

66 % of the listed companies approve a framework for the executive directors through internal regulations or equivalent means, (IV.1.(1)) and 63 % also approve a framework for the exercise of executive functions in entities outside the group by these executive directors (IV.1.(2)).

Regarding IV.1.(2), compliance results were considered in cases where the company has established a ban on the exercise of functions outside the group.

Furthermore, it was considered sufficient, for the purpose of compliance, the mere indication that none of the executive directors of the company is currently exercising functions in entities outside the group.

Without prejudice, it was duly noted to listed companies that full compliance with recommendations would be favoured were the company to adopt a regime designed for when such a situation would occur.

IV.2.

Listed companies widely comply with the sub-recommendations referring to the delegation of powers — strictly speaking, to the non-delegation of powers in the matters listed therein by the Code: in 90 % of cases, the managing body does not delegate powers regarding to the definition of the company's strategy and main policies; the same is true of 93 % of listed companies with regard to the organisation and coordination of the corporate structure; and in 86 % with regard to matters that should be considered strategic in view of the respective amount, risk or special characteristics.

The recommendation was considered not applicable in the German model, as well as in cases where the managing body had no non-executive directors, circumstances under which there is no delegation of powers.

IV.3.(1), IV.3.(2) and IV.4.

These recommendations are interconnected and revolve around the determination of risk-taking objectives by the managing body, which occurs in 72 % of cases.

In cases where there is no indication of the determination of these objectives, recommendations IV.3.(2) and IV.4 were considered non-applicable.

In cases of compliance with recommendation IV.3.(1), 100 % of the listed companies determine that the managing body should ensure the pursuit of the established objectives; and in 74 % the supervisory body has the competence to guarantee that the risks effectively incurred are consistent with these objectives.

It should be noted however, that within the cases of compliance with IV.4., publicly available information on whether the supervisory body is internally organised, implementing mechanisms and periodic control procedures with a view to ensure consistency between the risks effectively incurred and the objectives previously set, as recommended by the Code, was not always as clear and unequivocal as recommended.

Chapter V . *Evaluation of Performance, Remuneration and Appointments*

Overall assessment of the chapter

The chapter is subdivided into four subchapters, containing twenty-nine sub-recommendations. The average compliance of this chapter was 78 %, ranging from 100 % to 29 %.

Recommendations

V.1.1.

Subchapter V.1. concerns the annual evaluation of performance and, as such, recommendation V.1.1. determines that the managing body annually conducts its self-assessment (V.1.1.(1)), the assessment of its committees (V.1.1.(2)) and delegated directors (V.1.1.(3)), taking into account compliance with the company's strategic plan and budget, risk management,

its internal functioning and the contribution of each member to this effect, as well as the relationship between the company's bodies and committees.

As mentioned, this sub-recommendation is broken down according to the subjects of the evaluation. The conclusion from the analysis carried out is that V.1.1.(1) has a compliance rate of 50 %, V.1.1.(2) of 31 % and V.1.1.(3) of 46 %.

In this analysis, the assessment of the executive committee was included in this last sub-recommendation, whenever applicable, in view of the unequivocal parallel with the role performed by the delegated directors.

If, on the one hand, the non-applicability rate of sub-recommendation V.1.1.(1) is 0 % — due to the fact that all listed companies have one managing body, whatever the governance model adopted —, on the other hand, sub-recommendations V.1.1.(2) and V.1.1.(3) may or may not apply depending on whether there are managing body committees and delegated directors/executive committee, respectively.

In result of the study carried out, the non-applicability rates for the sub-recommendations were 50 % and 19 %, respectively.

V.1.2.

According to recommendation V.1.2., the supervisory body should supervise the company's management and, in particular, annually evaluate the fulfilment of the company's strategic plan and budget, risk management, the internal functioning of the managing body and its committees, as well as the relationship between the company's bodies and committees.

Thus, within the general supervisory competence over the company's management, which is otherwise supported by articles 420/1, a), and 423-F/1, a), of the Companies Code, several subtopics arose, which were taken into account in monitoring.

This recommendation, which is applicable to all listed companies, had a compliance rate of 50 %, a percentage which was due, in particular, to the fact that some companies make general references to the governance report or internal regulations of the supervisory body where there is only reference to the generic competence to "supervise the management of the company" or, in addition, simply highlight the competence of that body to evaluate the effectiveness of the risk management system, a matter subject to evaluation in another recommendation (III.11).

Even so, not ignoring that it is a transitional phase with regard to the entry into force of the Code, there were several cases in which the recommendation was considered complied with in the current financial year, even though not all competences evidenced in the recommendation were touched upon.

V.2.1.

Recommendation V.2.1. is part of the subchapter on the subject of remuneration and enshrines a double requirement that leads to the sub-division carried out:

(1) a committee should be responsible for determining remuneration, and (2) the structure of that committee should ensure its independence from management.

In accordance with point 5(a) of Interpretation Note no. 1, and contrary to the case of the internal committee with competence in matters of remuneration foreseen in recommendation III.9.(2), the committee in question may be the committee foreseen in article 399(1) of the Companies Code, that is, a remuneration committee elected at the Shareholder's General Meeting.

Thus, where listed companies only created the remuneration committee foreseen in Article 399 of the Companies Code — which is quite common —, this recommendation was deemed as complied with, even though recommendation III.9.(2) was not[16].

For sub-recommendation V.2.1.(1), the high degree of compliance, which amounts to 94 %, should be highlighted, meaning that only two companies did not comply: this was due, in one case, to the effective non-existence of a remunerations committee, and, in the other case, to the fact that the existing committee only determines the remuneration for members of the supervisory body and of the members of the board of the shareholders' meeting, not determining the remuneration for the managing body.

Sub-recommendation V.2.1.(2) indicates that the committee members should be independent in relation to the management.

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[16] See above, what was written regarding III.9.(2).

Pursuant to point 5(b) of Interpretation Note no. 1, the independence of the remunerations committee is not impaired by the presence of directors, provided that they are a minority.

In addition, it should be noted that, for monitoring purposes, it is understood that the independence criterion may be assessed in relation to the executive management.

This sub-recommendation obtained a 90 % compliance rate, with 6 % of non-applicability resulting from cases where sub-recommendation V.2.1.(1) was considered not complied with.

V.2.2.

The recommendation in question provides for the need for the remunerations committee to approve, at the beginning of each term of office, to implement and confirm, annually, the remuneration policy of the members of the company's bodies and committees, in which the respective fixed components are determined (V.2.2.(1)). Regarding executive directors or directors occasionally vested in executive tasks, in case there is a variable component of remuneration, to determine its respective allocation and measurement criteria, the limitation mechanisms, the mechanisms of deferral of remuneration payment and remuneration mechanisms based on the company's own options or shares (V.2.2.(2)).

As for V.2.2.(1), given that this is the only recommendation which establishes the requirement to approve /propose a remuneration policy, this was at the core of the recommendation for monitoring purposes, even if the exact establishment of fixed components was not included in that policy.

90 % compliance was obtained in this context; only one listed company has this recommendation as non-applicable (3 %), consistently with the impossibility of assessing this recommendation where the company has not established a remuneration committee.

Recommendation V.2.2.(2) is not applicable whenever there is no variable remuneration in the company, as this would make it impossible to analyse (a) allocation and measurement criteria, (b) limitation and deferral (c) mechanisms for the payment of remuneration and (d) remuneration mechanisms based on options or shares; all these aspects were considered in order to analyse the degree of compliance with the recommendation.

The recommendation was 97 % complied with and was not applicable to two companies — one for not having a remuneration committee, another because there was no variable component for the remuneration of executive directors.

V.2.3.

This recommendation is broken down into six sub-recommendations, according to each subparagraph i) to vi).

In this initial monitoring exercise for the new Code, the fact that the information required in those subparagraphs is effectively provided for in the government report, although not in the declaration on remuneration policy, as recommended, was taken into account.

As a sub-recommendation applicable to all companies, the compliance rate of V.2.3.(1) — recommending that the statement on remuneration policy include total remuneration broken down by different components, relative proportion of fixed and variable remuneration, an explanation on how the total remuneration complied with the remuneration policy adopted, including how it contributed to long-term performance of the company, and information on how the performance criteria were applied — was 94 %.

It should be noted, however, that a significant proportion of the companies have not provided in the report or in the remuneration policy statement an explanation on how the total remuneration complies with the remuneration policy adopted, including how it contributes to the company's long-term performance, and information on how the performance criteria have been applied.

In such cases, the absence was noted to the listed companies, seeking to contribute to the inclusion of this information in the remuneration policy statement in future financial years.

Sub-recommendation V.2.3.(2), establishing that remuneration from companies belonging to the same group should be included in the remuneration policy statement, is not applicable to the majority of listed companies (53 %), since it is assumed to be not applicable to companies which declare that there is no remuneration coming from companies belonging to the same group.

Compliance of the sub-recommendation was 93 % of the companies to which it applied.

Regarding V.2.3.(3), requiring that the remuneration policy statement states the number of shares and share options granted or offered, as well as the main conditions for the exercise of the rights, including the price and date of such exercise and any change to those conditions, the sub-recommendation does not apply to a significant percentage of companies (84 %), which is due to the fact that the overwhelming majority of companies did not adopt share or option allocation plans, or to a lesser extent, because there was no variable component in the remuneration of executive directors.

The five companies that have or foresee the existence of an allocation plan for shares or options are 100 % compliant with this sub-recommendation.

Full compliance resulted from the analysis carried out for sub-recommendation V.2.3.(4), concerning the possibility of requesting the return of variable remuneration.

If in some cases companies expressly refer to such an (im)possibility, in others, in accordance with the understanding shared by several listed companies, the absence of an express possibility to request the return of variable remuneration was accepted as a form of compliance.

There is only one case in which the non-applicability of the sub-recommendation was considered, due to the inexistence of a variable component in the remuneration of executive directors.

Regarding sub-recommendation V.2.3.(5), according to which the statement on remuneration policy should contain information on any deviation from the procedure for applying the approved remuneration policy, there was 97 % compliance: while some companies complied with the recommendation by expressly stating that during the 2018 financial year there was no deviation, in other companies such an assessment resulted from the absence of reports on said deviation.

Finally, as regards V.2.3., sub-recommendation V.2.3.(6), on the provision of information regarding the enforceability or non-enforceability of payments claimed in regard to the termination of office by directors, was fully complied with.

V.2.4.

This recommendation is broken down into two parts: the remuneration committee must approve (1) the directors' pension benefit policy, if the by--laws allow it, and (2) the maximum amount of all compensations payable

to the member of any company body or committee due to the respective termination of office.

As a result of the analysis carried out, in almost all cases listed companies did not break down the recommendation, and only assessed and responded directly to sub-recommendation V.2.4.(1).

In 81 % of companies it was confirmed to be non-applicable mainly due to the fact that the by-laws did not allow a pension benefit policy or, if they did, it was not actually adopted; and also due to the fact that, in some companies', pensions are paid under a previous framework which no longer exists.

The six companies to which this sub-recommendation applies fully complied with it.

The same is true for V.2.4.(2), applicable to all listed companies, based on the information provided regarding the absence of agreements for compensation payments or for the actual non-payment of any compensation other than that legally due.

V.2.5.

87 % of the companies complied with the recommendation of participation of one member of the remuneration committee in the yearly General Assembly Meeting, or in any other on which the agenda includes a matter relating to remuneration.

Only in one case this recommendation is not applicable (3 %), as the company's structure does not include a remuneration committee.

The 13 % non-compliance rate for the recommendation results from the absence of public indication regarding the presence of any member of the remuneration committee at the aforementioned general assembly meetings, or from justifications not equivalent to compliance with the recommendation.

V.2.6.

It results that 90 % of listed companies comply with sub-recommendation V.2.6.(1), in the sense that, within the company's budget limitations, the remuneration committee should be able to freely decide on the contracting of consulting services by the company.

In turn, 39 % of companies certify that their remuneration committee ensures that services are provided independently[17] and that the respective providers will not be hired to provide any other services to the company itself or to others in a controlling or group relationship without the express authorization of the committee, as per V.2.6.(2).

It should be noted that, according to the understanding explained above, the duty to ensure that services are provided independently is deemed to be a line of conduct, therefore not subject to monitoring.

It should also be noted that there is no dependency between sub-recommendations V.2.6.(1) and V.2.6.(2): in fact, failure to comply with recommendation V.2.6.(1) does not determine the non-applicability of V.2.6.(2) given that, even though it is not up to the remuneration committee to decide on the contracting of consulting services, the matter of compliance with the sub-recommendation (2) can still be raised.

V.3.1.

Subchapter V.3. refers to the remuneration of directors, under the rationale that there be a variable remuneration leading to the alignment of interests between the company and the executive directors.

Thus, the requirement that the variable component should reflect the sustained performance of the company and not stimulate excessive risk-taking was assessed on the basis of the overall calculation of the information provided by listed companies regarding variable remuneration.

In view of this assessment, there was a compliance level of 94 %, reflecting the establishment and explanation, by almost all listed companies, of the criteria for determining the variable component of remuneration.

The other 6 % result, in one case, from the lack of a variable component of the remuneration of executive directors and, in the other, from the lack of available elements from which to extract the alignment of interests between the company and those executive directors through variable remuneration.

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[17] Note the non-susceptibility of monitoring the duty of ensuring that services are provided independently, as this has been understood to be a line of conduct.

V.3.2.

55 % of companies have a significant part of the variable component partially deferred over time, for a period of not less than three years.

This sub-recommendation is only not applicable to one company that has not assigned a variable component to the executive directors.

Given the dependence relationship between the sub-recommendation described and V.3.2.(2) — "associating it to the confirmation of performance sustainability, in the terms defined by the company's internal regulations" —, the non-compliance with the former may lead to the non-applicability of the latter, which happens in 47 % of cases.

Sub-recommendation V.3.2.(2) recorded a degree of compliance of 82 % in the realm of those to which it was applicable.

In this initial monitoring exercise, the omission in internal regulations does not necessarily lead to non-compliance, as the definition of the association of the deferred variable component is valued with the confirmation of sustainability in other publicly accessible elements, such as the governance report or the remuneration policy statement.

V.3.4.

The recommendation is not applicable, since no issuer has assigned variable remuneration that comprises options or other instruments that are directly or indirectly dependent on the value of shares.

The cases in which variable compensation comprises shares are not computed for the purposes of this recommendation, but rather in V.2.2.(3) and V.2.3.(3), to which reference is made.

V.3.5.

The recommendation does not apply to companies that due to their governance model or internal structure, do not have non-executive directors, which applied to 9 % of cases.

Moreover, in 90 % of the listed companies the remuneration of non-executive directors does not include any component whose value depends on the performance of the company or on its value.

The remaining 10 % accommodates the cases where non-executive directors remunerated under the terms referred above, namely because they

are the chairman of the board of directors or because they are considered non-executive non-independent.

V.3.6.

The results of compliance with recommendation V.3.6., which amount to 97 %, are the result of the information provided by the listed companies regarding the absence of agreements or contractual limitations on compensation payable to directors in the event of termination of service prior to the expiration of their term of office, in addition to compensation resulting from the common applicability of the scheme provided for by law.

V.4.1.

In subchapter V.4., on the subject of appointments, monitoring recommendation V.4.1. was based on an initial identification of the companies in which elective general assemblies were not held in 2018, making up 56 % of the group monitored: the recommendation was not applied to these companies, notwithstanding the explanation offered to the listed companies during monitoring, that it will apply from the year in which an election takes place.

For the others, 29 % of the listed companies complied with the recommendation, while non-acceptance (71 %) is due in particular to the fact that listed companies often have considered reference to curricula vitae and compliance with the requirements of Article 289(1) d) of the Companies Code to be sufficient.

However, such references do not correspond to the need for the proposals for the election of members of the governing bodies to be accompanied by a concrete and individual justification regarding the adequacy of the profile, experience and curriculum to the role to be fulfilled by each candidate: although it is understood that this reasoning is primarily for shareholders to offer in their proposals, the recommendation is explicit in the. sense that it is for the company to fulfil it, in the way it deems appropriate, but in a demonstrable manner.

V.4.2.

According to the Code's Glossary, executive staff are considered to be "persons who are part of senior management, but that do not belong to the company's bodies".

Accordingly, it was in the light of this definition, which does not coincide with that of article 248-B of the Securities Code, in conjunction with Regulation (EU) no. 596/2014, of the European Parliament and of the Council of 16 April 2014, that the monitoring of this recommendation was carried out.

From the analysis carried out, the absence of executive staff was only unequivocally evidenced in the corporate governance reporting in three cases (9 %), so the recommendation was considered not applicable in relation to such listed companies.

This Recommendation should not be mistaken by the above recommendation III.9.(3), regarding the establishment of an internal committee specialised in nominating members of the company bodies, without prejudice of the attribution to said committee of competences for nominating members of the company bodies and executive staff..

Indeed, within the realm of listed companies analysed, eleven have a nomination committee: six of them are only competent for nominating company body members (55 %), the remaining five present a single committee with competences for nominating both company body members as well as executive staff (45 %).

Within the realm of companies to which the recommendation applies, 17 % have a nomination committee with the role of accompaniment and supporting nomination of executive staff.

It is recalled that, in accordance with point 6 of Interpretation Note no. 1, the recommendation "also applies to companies of a family nature or whose capital structure is very concentrated, since the only justification criterion for non-compliance, provided for in the recommendation, is that of the size of the company. Without prejudice, the family nature of the company or the concentration in capital structure may, among others, be invoked in the context of "explain" and its importance appreciated within that same context".

In particular, the invocation of company size did not determine the non-applicability of the recommendation (notwithstanding a different understanding which led several companies to consider the recommendation as not applicable), but which may however be invoked under "explain", as suggested by the Interpretation Note, in terms that prove to be substantiated, by invoking particular characteristics of the company and identifying the equivalent option adopted by the company.

Accordingly, 21 % of the companies presented an "explain" which, accordingly, was valued as materially equivalent to compliance with recommendation V.4.2.

V.4.3. and V.4.4.

Recommendations V.4.3 and V.4.4 assume the existence of a nomination committee, irrespective of whether it is the committee provided for in III.9.(3) or V.4.2, in such a way that, if the latter are not complied with or applicable, V.4.3. and V.4.4. become inapplicable.

As a result, V.4.3. did not apply to 69 % of listed companies, V.4.4. to 66 %.

Within the realm of companies that have nomination committees, 60 % complied with V.4.3. and by55 %. Complied withV.4.4.

Regarding V.4.4., non-compliance situations (45 %) were mainly due to cases in which the availability of the terms of reference and the induction of open selection processes was not demonstrated in the listed companies' corporate governance reports.

Chapter VI . *Risk management*

Overall assessment of the chapter

The chapter contains nine recommendations, all of which applied to the entire realm of listed companies included in the monitoring carried out.

No recommendation considered "explain" to be equivalent to compliance.

Average compliance was 84 %, ranging from 100 % to 66 %.

Recommendations

VI.1.

VI.1. foresees that the managing body should debate and approve the company's strategic plan and risk policy, which includes the definition of acceptable risk levels.

In this context, 84 % of listed companies state that their managing body discusses and approves the strategic plan; 66 % declare the approval of a risk policy, although there is not, in all these cases, an express statement about the levels of risk considered acceptable.

The role of the supervisory body in the accompaniment, assessment and issue of opinion on strategic lines and risk policy defined by the managing body, according to the above recommendation III.8., is 41 % and 28 %, respectively.

At this stage, given the link with recommendation IV.3.(1) — which provides for the managing body setting objectives related to risk-taking —, the monitoring of VI.1.(2) took into account references to the existence of a risk policy.

VI.2. and VI.3.

With respect to IV.2.(1) to (5), all companies established mechanisms for the main risks to which they are subjected in the development of their respective activities; 81 % expressly indicate that they identify the probability of said risks, as well as their impact.

94 % establish mitigation instruments and measures, while 97 % define risk monitoring procedures.

Regarding the evaluation of the risk management system itself, 94 % establish supervisory proceedings, periodic evaluation and the adjustment of said system.

The specific annual assessment of the degree of internal compliance and performance of the risk management system, as well as the prospect of changing the previously defined risk framework, as recommended in VI.3., is carried out by 72 % and 69 % of monitored companies, respectively.

Chapter VII . Financial Information

Overall assessment of the chapter

After being broken down, this chapter contains twelve sub-recommendations.

The last four, corresponding to VII.2.4 and VII.2.5, were generally considered not applicable, given the content of paragraph 8 of the

Interpretation Note, and given the verification, throughout the monitoring tasks, of the infeasibility of monitoring the duties embodied therein, which are incumbent on the certified chartered accountant.

Average compliance level was 57 %.

The percentage of compliance within the chapter varies between 97 % and 22 %, with no "explain" situations considered equivalent to compliance, and the other recommendations — VII.1.1., VII.2.1., VII.2.2. and VII.2.3. — applicable to all companies.

Recommendations

VII.1.1.

Given that it is anticipated that the supervisory body's regulation should include a set of competences, there is a compliance level of 94 %, even if during the 2018 financial year, situations in which the clarification of such competences from the supervisory body's internal regulations does not occur, but for which the corresponding information exists in the corporate governance report, were also taken into account.

There are also cases, where one or another of these competences is not explicitly listed. These were subject to individual comments to the listed companies as a result from monitoring.

VII.2.1.

As the recommendation was broken down into its four subparagraphs, each was accordingly assessed individually; all were applicable in the universe of monitored listed companies.

Similarly to the previous recommendation, information contained not only in the internal regulations of the supervisory body, as recommended, but information contained in the corporate governance report itself was equally taken into account.

In view of the explicit content of the Code ("through internal regulations, the supervisory body should define (...)"), it is considered that for full compliance the identification of its competence for such a definition, in the governance report or the body's internal regulations, is not sufficient, but rather the very definition itself.

As provided for in VII.2.1.(1), the supervisory bodies of 22 % of the listed companies defined the criteria and selection process for the statutory auditor, with a compliance rate of 25 % with regard to the definition of the company's communication methodology with the statutory auditor (VII.2.1(2)).

The definition of supervisory proceedings to ensure the independence of the statutory auditor (VII.2.1(3)) and the definition of non-audit services that cannot be provided by the statutory auditor (VII.2.1(4)) are accepted in 28 % and 31 % of cases, respectively.

VII.2.2.

RegardingVII.2.2.(1), in 84 % of companies, the supervisory body is the main contact for the statutory auditor in the company.

In this regard, it should be noted that the supervisory body, even though it may not be exclusive[18], as follows from paragraph 7(a) in Interpretation Note no. 1, should be the first recipient of the corresponding reports — but there may be other recipients, according to the quoted interpretation.

It was further observed, now with respect to VII.2.2.(2), that in 75 % of listed companies that the supervisory body is responsible for proposing the remuneration of the statutory auditor.

In view of the division carried out, the recommendation that, within the company, the supervisory body ensures the appropriate conditions for the provision of services by the statutory auditor was considered as a line of conduct, not subject to independent monitoring.

[18] According to paragraph 7(b) of Interpretation Note no. 1, "the recommendation does not prevent the managing body from also having immediate knowledge of the reports disclosed to the supervisory body. But it prevents that the existence of interaction between the statutory auditor and the managing body is not be disclosed to the supervisory body".

VII.2.3.

Notwithstanding occasional deviations regarding the explanation of any of the duties listed in the recommendation, which were the subject of a note to listed companies in every case, it can be said that for 97 % of listed companies it is found that, on an annual basis, the supervisory body has the duty to assess the work performed by the statutory auditor, their independence and suitability for the exercise of functions, and may propose their dismissal or termination of contract for the provision of their services to the competent body whenever there is just cause.

VI. CONCLUSIONS

The monitoring carried out by CEAM allows us to conclude that the average degree of compliance with the IPCG Code — through direct acceptance and "explain" equivalent to acceptance — across all monitored listed companies, with respect to all recommendations and sub-recommendations, amounts to 78 %.

This percentage rises to 84 % when only companies listed on the PSI 20 index are included.

Given that, for the first time, the preparation and monitoring of corporate governance reports refer to the 2018 IPCG Code, as well as to all vicissitudes that such an exercise involved, the identified levels of compliance appear quite satisfactory.

As mentioned, the breakdown operated in relation to the recommendations of the Code resulted in 117 sub-recommendations, identified in the *Multiple Recommendations Table*.

The monitoring activity, both in the analysis of individual corporate governance reports and subsequent global data processing, was based on the aforementioned sub-recommendations.

Among the recommendations that received a greater degree of compliance are the provisions that run through almost all chapters of the Code, and which in essence concern the establishment of appropriate mechanisms for adequate relationships with investors and the disclosure of company information, aimed at avoiding conflicts of interest and hindrances to shareholder participation in the company's life, the non-adoption of measures likely to harm the company's economic interests in the face of changes in control, and the adequacy of risk management and internal control systems.

Thus, from this evaluation, a set of fifteen sub-recommendations is identified that deserve to be highlighted, given their complete acceptance (100 %) in the thirty-two listed companies monitored, namely: I.1.1.(1), I.1.1.(2), I.1.1.(3), I.2.4.(1), I.2.5.(1), I.4.1., II.1.(1), II.6.(1), II.6.(2), III.2.(2), III.10.(1), III.10.(2), V.2.3.(6), V.2.4.(2) and VI.2.(1).

Although not applicable to all listed companies, the following nine sub-recommendations are also noteworthy due to their full compliance within the universe of their application, explain equivalent to compliance included: II.5.(2), III.2.(3), III.6.(2), III.7.(1), III.7.(2), IV.3.(2), V.2.3.(3), V.2.3.(4) and V.2.4.(1).

Among the least accepted recommendations are those concerning the need to create committees for appointing members of the governing bodies and executive staff, the annual performance evaluation, the need for double intervention of governing bodies in transactions with related parties (as provided for in I.5.1.), the competences assigned to the supervisory body (as identified in III.8.) and the definition of particular points in the internal regulations of the latter body, with respect to matters reflected in VII.2.1.

Thus, within the framework of sub-recommendations less complied with — considering those applicable to the majority of listed

companies[19] and deemed complied with directly or through an explain equivalent to compliance — we find twelve sub-recommendations, identified below in descending order of acceptance: V.2.6.(2), V.4.2., III.9.(3), V.1.1.(2), VII.2.1.(4), I.5.1.(1), I.5.1.(2), III.8.(2), VII.2.1.(3), III.1., VII.2.1.(2) and VII.2.1.(1).

Assuming the same criterium[20] but now looking exclusively at the companies listed on the PSI 20, the least accepted recommendations drop to only seven, in the universe of one hundred and seventeen, namely: V.1.1.(2), III.1., II.5.(1), VII.2.1.(4), VII.2.1.(3), VII.2.1.(2) and VII.2.1.(1).

All subject matters identified, among the recommendations where the least compliance was observed, were widely mentioned in the meetings held with the listed companies.

Against this backdrop, a substantiated conviction arises that, following the results of such contacts and clarifications, the degree of acceptance of these recommendations may increase already in respect to the 2019 financial year.

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19 Applicable to at least 50 % of the overall universe of the thirty-two listed companies.

20 In this event, assuming the criterium of applicability equal to or greater than 50 % of monitored companies listed on the PSI 20 Index.

ANNEX I

Individual results table for the 117 sub-recommendations

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
I.1.1.(1)	100%	100%
I.1.1.(2)	100%	100%
I.1.1.(3)	100%	100%
I.2.1.(1)	86%	93%
I.2.1.(2)	86%	93%
I.2.2.(1)	88%	94%
I.2.2.(2)	91%	100%
I.2.2.(3)	85%	80%
I.2.2.(4)	97%	94%
I.2.2.(5)	91%	89%
I.2.2.(6)	85%	88%
I.2.3.(1)	96%	94%
I.2.3.(2)	97%	94%
I.2.3.(3)	83%	92%
I.2.4.(1)	100%	100%
I.2.4.(2)	97%	100%
I.2.5.(1)	100%	100%
I.2.5.(2)	91%	100%
I.3.1.	88%	94%

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
I.3.2.	91%	100%
I.4.1.	100%	100%
I.4.2.	69%	83%
I.5.1.(1)	28%	50%
I.5.1.(2)	28%	50%
I.5.2.(1)	60%	80%
I.5.2.(2)	48%	67%
II.1.(1)	100%	100%
II.1.(2)	80%	100%
II.2.	91%	94%
II.3.	69%	78%
II.4.	69%	78%
II.5.(1)	40%	33%
II.5.(2)	100%	100%
II.6.(1)	100%	100%
II.6.(2)	100%	100%
III.1.	27%	36%
III.2.(1)	94%	100%
III.2.(2)	100%	100%
III.2.(3)	100%	100%
III.3.	61%	76%
III.4.	52%	59%
III.5.	-	-

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
III.6.(1)	90%	88%
III.6.(2)	100%	100%
III.7.(1)	100%	100%
III.7.(2)	100%	100%
III.8.(1)	41%	67%
III.8.(2)	28%	50%
III.9.(1)	50%	56%
III.9.(2)	97%	100%
III.9.(3)	38%	56%
III.10.(1)	100%	100%
III.10.(2)	100%	100%
III.10.(3)	81%	89%
III.11.(1)	97%	100%
III.11.(2)	97%	100%
III.11.(3)	96%	100%
III.12.(1)	59%	78%
III.12.(2)	72%	83%
IV.1.(1)	66%	78%
IV.1.(2)	63%	72%
IV.2.(1)	90%	88%
IV.2.(2)	93%	88%
IV.2.(3)	86%	88%
IV.3.(1)	72%	83%

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
IV.3.(2)	100%	100%
IV.4.	74%	87%
V.1.1.(1)	50%	56%
V.1.1.(2)	31%	36%
V.1.1.(3)	46%	47%
V.1.2.	50%	72%
V.2.1.(1)	94%	94%
V.2.1.(2)	90%	88%
V.2.2.(1)	90%	89%
V.2.2.(2)	97%	94%
V.2.3.(1)	94%	94%
V.2.3.(2)	93%	100%
V.2.3.(3)	100%	100%
V.2.3.(4)	100%	100%
V.2.3.(5)	97%	100%
V.2.3.(6)	100%	100%
V.2.4.(1)	100%	100%
V.2.4.(2)	100%	100%
V.2.5.	87%	83%
V.2.6.(1)	90%	94%
V.2.6.(2)	39%	56%
V.3.1.	94%	94%
V.3.2.(1)	55%	59%

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
V.3.2.(2)	82%	100%
V.3.4.	-	-
V.3.5.	90%	94%
V.3.6.	97%	100%
V.4.1.	29%	50%
V.4.2.	38%	60%
V.4.3.	60%	63%
V.4.4.	55%	56%
VI.1.(1)	84%	89%
VI.1.(2)	66%	83%
VI.2.(1)	100%	100%
VI.2.(2)	81%	94%
VI.2.(3)	94%	100%
VI.2.(4)	97%	100%
VI.2.(5)	94%	100%
VI.3.(1)	72%	78%
VI.3.(2)	69%	78%
VII.1.1	94%	100%
VII.2.1.(1)	22%	28%
VII.2.1.(2)	25%	33%
VII.2.1.(3)	28%	33%

Recommendation	Global compliance (S+E)	
	All listed companies	PSI 20 listed companies
VII.2.1.(4)	31%	33%
VII.2.2.(1)	84%	83%
VII.2.2.(2)	75%	78%
VII.2.3.	97%	100%
VII.2.4.(1)	-	-
VII.2.4.(2)	-	-
VII.2.4.(3)	-	-
VII.2.5.	-	-


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