



**CATOLICA
LISBON**
SCHOOL OF BUSINESS & ECONOMICS

CENTRO DE ESTUDOS APLICADOS

CORPORATE GOVERNANCE

2011



PORTUGUESE MARKET REPORT CORPORATE GOVERNANCE INDEX CORPORATE GOVERNANCE RATING



**CATOLICA
LISBON**
SCHOOL OF BUSINESS & ECONOMICS



ASSOCIAÇÃO DE EMPRESAS EMITENTES DE VALORES COTADOS EM MERCADO

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1. OVERVIEW

The present study was carried out by the *Universidade Católica Portuguesa (CATÓLICA-LISBON)* at the request of *AEM – the Portuguese Issuers Association*, having been conducted in the scope of the *CEA – Centre for Applied Studies of CATÓLICA-LISBON School of Business & Economics*.

The study was assisted by an interdisciplinary team that involved both Faculties of Law and Economics and Business, with extensive academic and practical experience in the field of corporate governance originating from the branches of Law and Corporate Management as well as from Econometrics and Statistics.

The coordinators of the study were Professors of both of the mentioned Faculties of Universidade Católica as follows:

Paulo Câmara, Miguel Athayde Marques, and Leonor Modesto

together with a team made of the following members:

Patrícia Cruz, Francisco Boavida Salavessa e Sofia Thibaut Trocado.

The study, beyond its conceptual formulation, involved a data collection work concerning the corporate governance practices followed by companies admitted to trading in the Portuguese Regulated Stock Market (designated as Euronext Lisbon Stock Exchange).

Its empirical basis lies in a thorough analysis and recording of compliance, by listed companies, with the Corporate Governance Code issued by the Portuguese Securities Market Commission – Comissão do Mercado de Valores Mobiliários (CMVM), in accordance with the information recorded in their Corporate Governance Reports for the year of 2010, the last report published.

The adopted perspective for observation and analysis, in the present study, is that of the investor, in the capital market, who generally may only access information made available publicly through each company's Corporate Governance Report.

Moreover, it is known that a quite significant part of the investment carried out in the Portuguese Stock Exchange is currently originating from abroad (in most recent years, the liquidity generated in the Euronext Lisbon Stock Exchange market originating from outside Portugal has been more than 50% of its total). As such, nowadays the investors will naturally have a clear inclination to judge the level of compliance with the recommendations on corporate governance by the companies in the light of international benchmarks, with which they are familiar.

For this reason, the study has adopted a methodology where the level of compliance with the recommendations on corporate governance is evaluated according to a higher weighing for the most relevant recommendations, in terms of international benchmarks, combined with a lesser weighing regarding those recommendations that have little or no significance at an international level.

As a result, this study and report breaks new ground, when compared to any other indicator of compliance currently existing for the Portuguese capital market, in that:

- It is solely based on the information any investor may access to; and
- It assesses the level of compliance regarding the Corporate Governance Code recommendations applied in Portugal, considering their adherence to the relevant international benchmarks.

The contribution of the present study, in a likewise pioneering sense, also lies in the production of two new indicators that synthesize the mentioned level of compliance with the Corporate Governance recommendations in Portugal, thus allowing a collective assessment of the companies admitted to trading in the Portuguese stock market and their position regarding the different categories of compliance.

In particular, these indicators take on the form of a Corporate Governance Index and Corporate Governance Rating, which, being now published for the first time, and based on the practices reported in the 2010 corporate governance reports, establish a foundational reference element from which it will be possible to determine, in the future, the evolution of the Portuguese companies in the domain of Corporate Governance.

2. INTRODUCTION

In Portugal, the companies listed on a regulated market are subject to the obligation of annually informing on the degree of compliance with the Corporate Governance Code - which consists of a set of recommendations issued by the Portuguese Securities Market Commission (CMVM), under the dispositions of the article 245 -A of the Securities Code and CMVM Regulation no. 1/2010.

In this context, and at the request of *AEM – the Portuguese Issuers Association*, the *CATÓLICA-LISBON School of Business & Economics* conducted an independent and pioneer study on the degree of compliance with the current recommendations concerning corporate governance in Portugal, from which has resulted the present “Report on the degree of compliance with Corporate Governance Recommendations in Portugal and production of the Católica Lisbon/ AEM Corporate Governance Index and Corporate Governance Rating” (henceforth “Report”).

The present study has multiple goals.

On one hand, it seeks to identify the degree of compliance with the recommendations in place, by the listed companies, according to information stated in their governance reports regarding the exercise of the year 2010.

On the other hand, it aims to create and present a compliance index on corporate governance (henceforth abbreviated as “Católica Lisbon / AEM Index”), with a different weighing for each recommendation measured by their actual relevance. Moreover, a corporate rating is structured to evaluate the degree of compliance with the Corporate Governance Code (henceforth designated as “Católica Lisbon/ AEM Rating”).

And lastly, it shall analyse the statistically collected data comparing it with several variables, which may explain the factors susceptible of inducing a higher acceptance of the referred recommendations of good corporate governance.

The study comprises a total of 44 companies listed on a regulated market which includes, among others, the companies comprising the PSI 20 index (cf. the list of companies in ANNEX I).

We should further add that the present study refers to companies under the Portuguese Law, except for EDP Renováveis, S.A., which, despite being a company incorporated by the Spanish law, is listed in the Portuguese regulated market and is therefore subject to CMVM recommendations.

As a final criterion for the selection of the companies to be analysed, we excluded from the present study those whose exercise does not match the calendar year.

As previously stated in the Introduction chapter, the study takes on the perspective of the investors in the capital market. So being, it is solely based on the detailed analysis of the information publicly disclosed and exclusively contained in the yearly Corporate Governance Reports prepared by the mentioned companies, without having engaged in direct or indirect contact with any of them.

The respect for the rule of *comply or explain* was primary for the assessment of the compliance with the CMVM recommendations by the target companies and, to that extent, the statements that, while expressing a non-compliance, explicitly presented alternative and dully justified solutions, which may be considered as functionally equivalent to the implicit objective of each recommendation, were object of valuation equivalent to a compliance (*comply*).

In order to meet the objectives set, the Report is structured so as to preliminarily facilitate a thorough indication regarding the grounds, purpose and methodologies of the Católica Lisbon/AEM Corporate Governance Index and Corporate Governance Rating (chapter 3).

The data on the degree of compliance with corporate governance in Portugal for the year 2010 (chapter 4) is subsequently delivered, as well as production of the Católica Lisbon/AEM Index (chapter 5) followed by (chapter 6) documentation on the relations between the corporate governance Index and the different characteristics of the companies under analysis.

The Report closes with some final considerations and conclusions (chapter 7).

3. CATÓLICA LISBON/ AEM CORPORATE GOVERNANCE INDEX AND RATING - EXPLANATION

3.1. BACKGROUND AND PURPOSE

In Europe, the recommendatory codes for good corporate governance are the basis of the annual reports on Corporate Governance for companies listed on regulated markets. This is a direct result of the European Parliament and Council Directive 2006/46/CE, of 14th June 2006.

Portugal is not an exception and therefore the listed companies must submit, annually, a report with the full description of their governing structure.

The present Report takes as a source of reference the Corporate Governance Code approved by CMVM, and imposed by article 245-A of the Securities Code and is presented in accordance with the instructions arising from Annex I of CMVM Regulation no. 1/2010.

In this context, the listed companies are required to inform on the degree of compliance with the recommendations contained in the Corporate Governance Code (*comply*) as well as to explain the grounds for a non-compliance with the recommendations (*explain*).

This information model (*comply or explain*), British in its origin, is nowadays imposed at a European level, and as previously referred, presents itself as a mechanism which combines the mandatory submission of information on each company's corporate governance with an element of flexibility regarding the choices that each company may make in this regard.

In Portugal, the supervisory authority (CMVM) has taken on the task of monitoring the content of the mentioned Corporate Governance Reports.

However, according to European law, the governance codes do not necessarily undergo a public scrutiny as to their degree of compliance. In fact, the trend is quite contrary. Due to the recommendatory nature of the information stated in the corporate governance codes, the current Portuguese monitoring model, used by the administrative authority, is unlike any other existing in most of the European Union State-Members.

Taken this into account, our purpose is to, firstly, enable a private and independent assessment of the degree of compliance with the Corporate Governance Code. This objective is based on the premise, just stated, that the monitoring of the mentioned reports may be carried out by private entities according to both national Law as well as European Law.

Also, in this context, it should be emphasized that the eminently private supervision of corporate governance has legislative expression in the fact that it is each listed company's supervisory board's function to verify the completeness of the information contained in

the annual corporate governance reports (cf. article 420, no. 5 and 451, no. 4, of Código das Sociedades Comerciais – the *Portuguese Commercial Company Act*).

Moreover, the private monitoring brings forth advantages when compared to the exercise of compliance verification carried out by the supervisory entities, avoiding the indistinction between governance and compliance, which tends to occur in public monitoring.

On the other hand, one of the most relevant features of each corporate governance code has to do with its length.

In the Portuguese case, in its original version, dated back from 1999, the CMVM Recommendations were but 13 recommendatory mentions.

It so follows that, from 1999 until the present date, several legislative changes took place that had a direct impact on corporate governance, in general, and on listed companies' corporate governance, in particular.

To be noted, namely, the change to the *Portuguese Commercial Company Act* set forth by the Decree-Law no. 76-A/2006, of 29th March (with implications particularly in the context of fiduciary duties of the members of the management bodies and corporate governance models), Law no. 28/2009, of 19th June (which concerns the appraisal, by the General Assembly, of the statement on remuneration policy), the transposition of the Directive no. 2007/36/CE, of the European Parliament and Council of the 11th July (regarding the exercise of certain rights of listed companies' shareholders), promoted by the Decree-Law no. 49/2010, of 19th May, and Decree-Law no. 88/2011, of 20th July (on the remuneration policy of credit institutions). As a whole, these regulations- herein referred as examples – have led to a considerable increase in duties related to corporate governance for the Portuguese companies in general, but most particularly, for listed companies.

As such, it would be expected that the high number of recent legislative reforms could have determined some stabilization to the recommendatory statements or even resulted in their reduction.

Nevertheless, the opposite occurred: over the course of the successive revisions to the Corporate Governance Code, there was a significant addition of recommendations that gave way to a multiplication of its original length.

In the original recommendatory text, as aforementioned, there were 13 recommendations. Presently, the Code comprises 54 recommendations. Among the existing recommendations, the Code also includes several multiple recommendations- (*maxime*, the recommendation II.1.5.1 regarding remuneration) – which means that the actual number of recommendations largely exceeds the six dozens.

As previously stated, the present Report, drawn at the request of AEM, was also a response to the background just described.

For this reason, a further underlying purpose of the present Report is to determine whether the recommendatory density currently existing in Portugal has a match in other jurisdictions of reference and whether the companies, object of the study, comply at a higher degree or not with the recommendations relevant in different selected jurisdictions.

Naturally, the considerations over the relevance of the recommendations are neither random nor discretionary. They are rather the result of the application of a matching criterion with reference to international legal texts, according to the method thoroughly described below.

One other important goal of the present Report is to provide a prompt and timely assessment on the degree of compliance with the national corporate governance recommendations in order to avoid a time lag between the disclosure of the corporate governance reports by the companies and their analysis under the dispositions of the existing Corporate Governance Code..

Indeed, the evaluation currently produced by the regulator, through the preparation of an analytical annual report on the degree of compliance with the recommendations contained in the Corporate Governance Code, report that is disclosed to the public, has revealed a systemic delay.

Considering the most recent years, this delay normally exceeds a year over the disclosure of the examined reports. As such: on the 27th April 2010, the results concerning the year of 2008 were released; on the 19th May 2011, the CMVM Annual Report on Corporate Governance for Listed Companies, referring to the 2009 annual corporate governance statements, was presented.

This delay creates a time lag between the disclosure of the company's documents and their interconnection in the general landscape of the national listed business.

And it is not only a matter of a statistical delay, but, most importantly, it is the judgment of the supervisory entity that is affected in its capacity to influence, in due time, the shaping of the governance practices of the listed companies.

The mentioned delay also generates some iniquity in the sense that when the report is disclosed, some companies have already corrected any deviations from the recommendations that are publicly indicated. This is another reason why, being historically dated, the use of CMVM's report by the investors is therefore lower.

This scenario is further worsened by the relevant changes introduced by CMVM in the system each two years: it became customary that, in odd-numbered years, a reformulation of the recommendations is made – this occurred in 2001, 2003, 2005, 2007 and 2010. As a result of this mobility – and constant development in length – of the recommendatory texts, there is a total lack of correspondence between the moment when

the administrative authority discloses the assessment and the recommendations framework in force at the time.

Furthermore, there was the absence, felt in Portugal, of an index that summarizes the level of compliance with the corporate governance recommendations, by degree of importance.

Thus, in this Católica/AEM Report, the most relevant recommendations have a higher weighting when compared with the ones with a lower or no correspondence with the international benchmarks and priorities of the wide investors' community.

Finally, this setting brings forth pertinence and opportunity to the development of a data collection taking place in the very same year the reports are disclosed, so as to reinforce the informational and shaping functions that these studies provide.

3.2. CORPORATE GOVERNANCE INDEX - METHODOLOGY

The construction method of the Index results, as previously mentioned, from the analysis of different international benchmarks. For this purpose, the following international texts, in matters of corporate governance, were used:

- (i) The recommendations and rules arising from European Law;
- (ii) The OCDE principles on Corporate Governance;
- (iii) The UK Corporate Governance Code.

We hereinafter set forth the reasons for the selection of the mentioned documents as relevant indicators regarding corporate governance recommendations.

The recommendations and rules arising from the European Law were taken into account for they are a necessary reference to the national Law.

The relevance of the OCDE Principles on Corporate Governance (dated from 1999 and revised in 2004) is due to its unique global purpose.

Finally, the United Kingdom Corporate Governance Code, (in its most recent version of 2010) was also considered due, once more, to its unique pioneering approach in global terms and for indisputably being the most influent.

Subsequent to the identification of the above-mentioned benchmarks, the adequacy of the recommendatory body to the national code was verified. An assessment on the matching degree of the Portuguese normative content with the international benchmarks was therefore carried out. This analysis revealed that most of the recommendations do mirror the international texts although some of them do not show any correspondence.

To this extent, and since it became evident the absence of homogeneous relevance between them, the national recommendations had to be weighed.

Thus, the Católica Lisbon/ AEM Index arises from the consideration of each recommendation according to their level of similarity with the international benchmarks, as further explained below:

- A maximum relevance was recognized to those recommendations which show a total match with the selected international benchmarks;
- A median relevance was given to those recommendations that match two selected international benchmarks;
- A minimum relevance was given to those recommendations that correspond to only one of the selected international benchmarks;
- A null relevance was attributed to those recommendations that do not match any of the selected international benchmarks.

It should be noted that the matching among recommendations hereby used does not require a complete match of content, but does imply an equivalence of the essential elements in the recommendations compared.

From the comparative analysis conducted, 20 recommendations are appointed with a null relevance, 13 with a minimum relevance, 13 with a mean relevance and 15 with a high relevance.

The significant number of recommendations without an international correspondence is, on its own, a revealing and concerning indicator, in that it shows an excessive recommendations gold plating phenomenon – that is, the addition of an important number of domestic recommendations unparalleled with the international legal systems.

The Report is also concerned with the application of an analytical criterion as to the degree of compliance with the recommendations on corporate governance. It is therefore important to note that, in the particular case of multiple recommendations, a weighing of each of the sub-recommendations was carried out. Indeed, and as an example, the recommendation II.1.5.1, applicable to the remuneration policy, was split into 8 sub-recommendations and each one subject to a benchmarking exercise in order to determine an adequate weighing of the recommendation as a whole.

This Report does not aim to analyse compliance with the mandatory legal regulations but does rather deal with the acceptance of those recommendations.

Therefore, it is of great importance to clarify that the acceptance of these recommendations is utterly optional and furthermore, that the corporate decision not to comply with some of the Corporate Governance Code recommendations is entirely lawful.

For this reason, it was sought to recover, in its essence and truth, the respect for the rule of *comply or explain*.

And to this extent, the statements considered in the present study that, although expressing a non-compliance with the recommendations in question, explicitly presented alternative and dully justified solutions functionally equivalent to the implicit objective of each of the recommendations, were subject of a valuation equivalent to a Comply.

With this purpose, when analyzing the companies' Corporate Governance Reports, the explanations presented by those to justify the non-compliance with a particular recommendation were markedly valued. As an example, among several, we took into consideration the following justifications:

- Recommendation I.3.3.: Companies who justify the non-matching of one vote per share, explaining that in the case of non-existing voting caps, the smaller shareholders may gather to exercise their voting right.;
- Recommendation II.2.5.: the companies that state not having a rigid and abstract policy of portfolio rotation in the Board of Directors, but report a structured mechanism for the selection and assignment of positions;
- Recommendation II.5.1.: companies which decide not to create specific committees for determined issues justifying that, due to their small size, they do not deem it necessary or adequate.

In doing so, the production method chosen for building the Index reveals a greater trend to analyze the degree of compliance with the recommendations and provides an assessment on the companies that accept a greater number of corporate governance recommendations that are more relevant at an international level.

Lastly, we should also refer that, for a more reliable correspondence with the logic of *comply* or *explain*, the Index is not represented in terms of percentage. In addition, a percentage would be similar to the mechanical measuring of *compliance* and *box-ticking*, which is herein deliberately avoided.

3.3. METHOD FOR THE ASSIGNMENT OF THE CORPORATE GOVERNANCE RATING

As a complement to the presentation of the Católica Lisbon/ AEM Index, the same method was used to create a Rating framework for corporate governance, thus bringing the rating to the statistics class to which each company belongs, when considering their compliance with the recommendations.

As is the case with the companies' individual results, in this first year Report, the individual rating assessment of corporate governance is not disclosed by AEM – it is, therefore, only, communicated to each of its members, individually.

4. COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS IN PORTUGAL IN 2010

In this chapter, we analyse, for each of the most relevant recommendations¹ on corporate governance, in Portugal, the degree of compliance by the companies listed in the regulated stock market (Euronext Lisbon) on the 31st December 2010.

As mentioned earlier (chapter 2), the companies considered for the study were those under the Portuguese Law (except EDP Renováveis) which are listed in the Portuguese regulated market, defined as Euronext Lisbon Stock Exchange, managed by Euronext Lisbon, Sociedade Gestora de Mercados Regulamentados, S.A., and as such, subject to the CMVM recommendations.

For each of the recommendations considered, we further determined the degree of compliance among the companies which form the PSI 20 Index and the companies in the sample that are not part of this Index.

The results are shown in Table 4.1.

First of all, and at a general level, the degree of compliance with the most relevant recommendations in the corporate code by the Portuguese listed companies, in 2010, was high.

We further note that, in generic terms, this compliance is in fact higher among the PSI 20 Index companies.

The analysis of the findings for each of the most relevant recommendations is looked at as follows (please see next page):

¹ The recommendations considered as most relevant being those with maximum or mean relevance (see Chapter 2).

		Recommendations		all companies	PSI 20	Others
General Meeting	Voting and exercising of voting rights	I.3.1	Postal voting	97,7%	100,0%	95,8%
	Measures on Corporate control	I.6.1	Measures aimed at preventing successful takeover bids	77,3%	70,0%	83,3%
		I.6.2	Free transmission of shares	100,0%	100,0%	100,0%
1.1.1.1.1 Board of Directors and Supervisory Board	Structure and duties	II.1.1.1	Assessment of the adopted corporate model.	86,4%	95,0%	79,2%
		II.1.1.2	Internal control and risk management systems	86,4%	90,0%	83,3%
		II.1.1.3	Assessing the functioning of the internal control and risk management systems	81,8%	100,0%	66,7%
		II.1.1.4	Identify risks and describe the performance and efficiency of risk management system	86,4%	95,0%	79,2%
		II.1.1.5	Regulations for the Board of directors and Supervisory Board	68,2%	85,0%	54,2%
	Incompatibility and Independence	II.1.2.1	Number of non-executive members	85,7%	100,0%	75,0%
		II.1.2.2	Independent members	47,6%	66,7%	33,3%
		II.1.2.3	Assessment of independence	64,3%	66,7%	62,5%
	Eligibility and appointment criteria	II.1.3.1	Independence of the Chair of the Supervisory Board, Auditing and Financial Matters committees	95,5%	90,0%	100,0%
		II.1.3.2	Selection of non-executive members	50,0%	66,7%	37,5%
	Policy on the reporting of irregularities	II.1.4.1	i) Internal communication; ii) communication handling	79,5%	100,0%	62,5%
	Remuneration	II.1.5.1				
		(i)	Remuneration of Directors with executive duties	63,6%	90,0%	41,7%
		(vi)	Variable remuneration	33,3%	75,0%	0%
		(vii)	No compensation in the dismissal without due cause of a Director	20,9%	30,0%	13,0%
		(viii)	Remuneration of the non-executive board members	75,0%	72,2%	77,3%
		II.1.5.4	Approval in the General Meeting of plans for the allotment of shares and/or options for share purchase	77,3%	81,8%	72,7%
		II.1.5.6	Presence in the General Meeting of one representative of the Remuneration Committee	86,0%	95,0%	78,3%
	Board of Directors	II.2.1	Delegated duties	80,5%	88,9%	73,9%
		II.2.2	Duties non-delegable	82,9%	88,9%	78,3%
		II.2.3	Coordination mechanisms regarding non-executive members	80,0%	87,5%	75,0%
	Special Committees	II.5.1	Set up of Special Committees for the assessment of performance of executive Directors, adopted governance system and identification of potential candidates for a director position	75,0%	75,0%	75,0%
		II.5.2	Independence and duties of the Remuneration Committee members	68,2%	75,0%	62,5%
		II.5.3	Prevention of conflicts of interest	79,5%	85,0%	75,0%
Information and auditing	General Disclosure Duties	III.1.1	Principle of equality for shareholders and equal access to information	97,7%	100,0%	95,8%
		III.1.4	External Auditor duties	72,7%	85,0%	62,5%
		III.1.5	Limits to the relations with External Auditor	65,9%	65,0%	66,7%

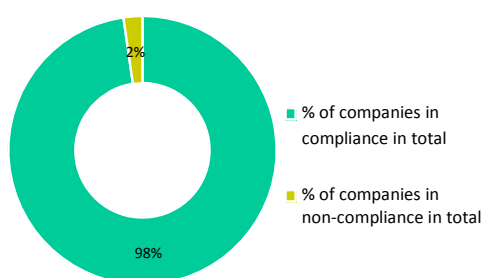
Table 4.1 – Percentage of the compliance with the corporate governance recommendations in 2010

4.1. RECOMMENDATIONS CONCERNING THE GENERAL MEETING

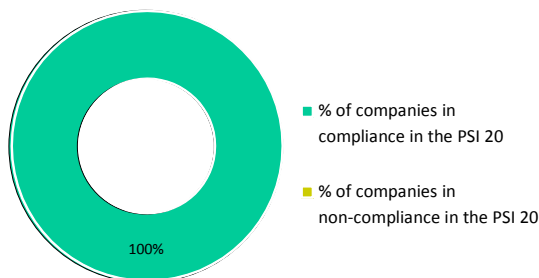
In this case, it is noted that:

- 97.7% of the listed companies welcome the recommendation that prohibits any statutory restriction to the exercise of voting rights by post. This percentage reaches 100% in the case of the PSI 20 companies.

Recommendation I.3.1: Voting by post

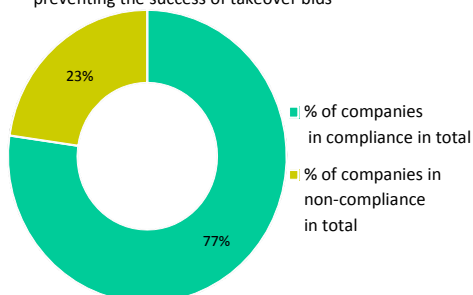


Recommendation I.3.1: Voting by post

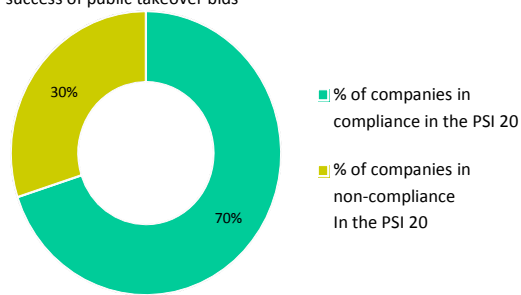


- Concerning the recommendation on the use of the measures adopted preventing the success of public takeover bids; we note it is accepted by 77.3% of the companies. In this particular case, the compliance by the PSI 20 companies is lower, only 70%.

Recommendation I.6.1: Measures preventing the success of takeover bids

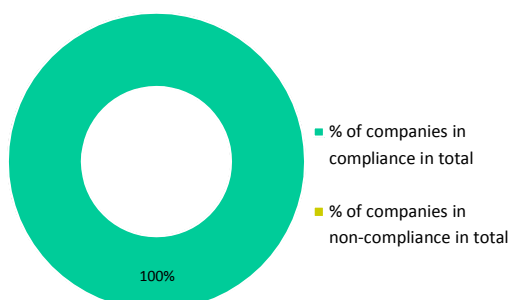


Recommendation I.6.1: Measures preventing the success of public takeover bids

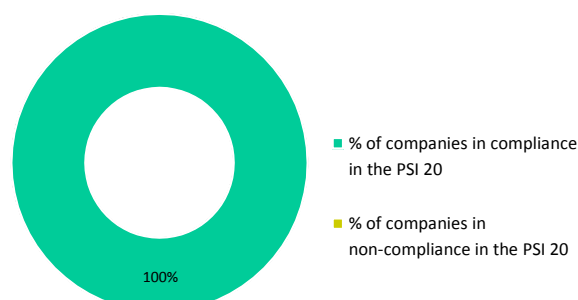


- The recommendation that promotes the free transmission of shares is accepted by 100% of the listed companies.

Recommendation I.6.2: Free transmission of shares



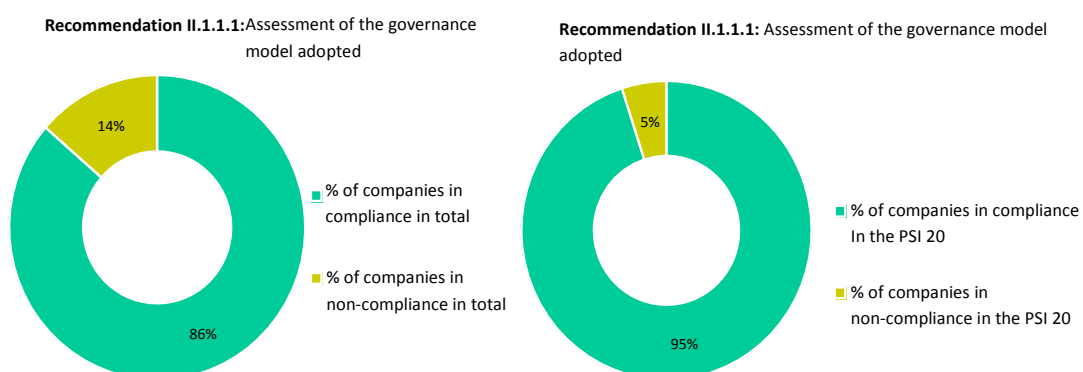
Recommendation I.6.2: Free transmission of shares



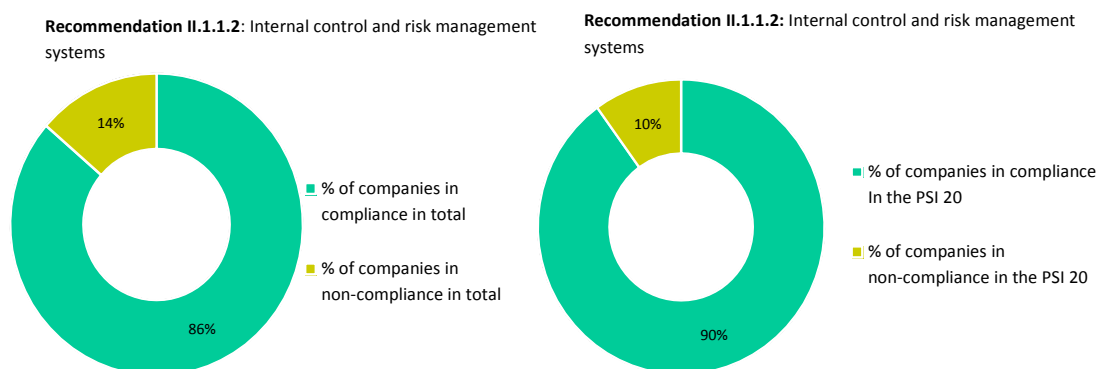
4.2. RECOMMENDATIONS REGARDING MANAGEMENT AND SUPERVISORY BODIES

4.2.1. STRUCTURE AND DUTIES

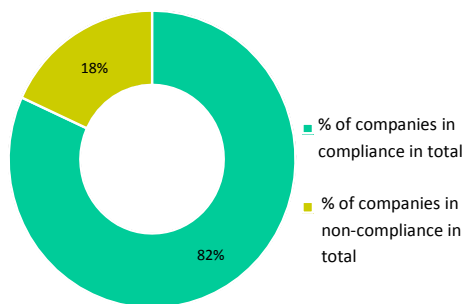
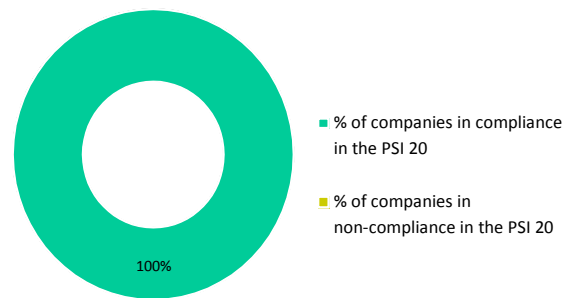
- The recommendation on the need to assess the adopted corporate model, and possible measures to improve its functioning is accepted by 86.4% of the companies. This percentage reaches 95%, when referring to the PSI 20 companies.



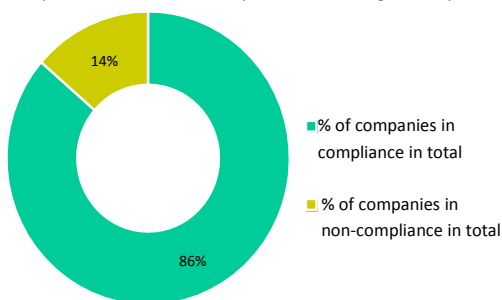
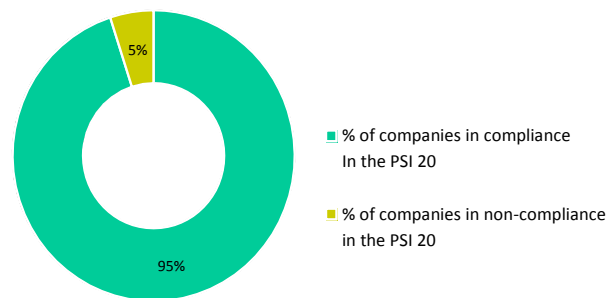
- The recommendation that advocates the establishment of internal control and risk management systems is followed by 86.4% of the companies and by 90% of the PSI 20 companies.



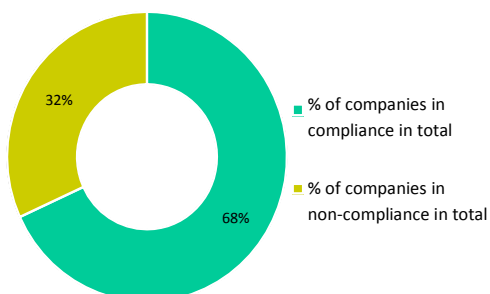
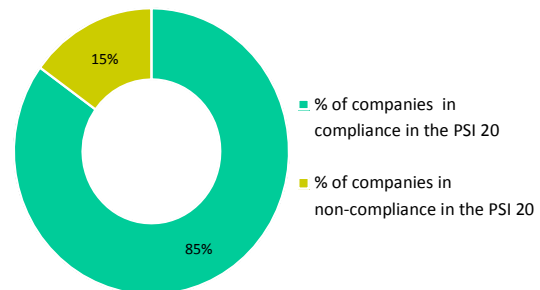
- 81.8% of the companies follow the recommendation that calls for the establishment of effective internal control and risk management systems. In what regards the PSI 20 companies, the compliance is total.

Recommendation II.1.1.3: Assessment of internal control and risk management systems functioning**Recommendation II.1.1.3:** Assessment of internal control and risk management systems functioning

- 86.4% of the listed companies identify, in their annual reports, the main economic, financial and legal risks to which the company is exposed, and also describe, the performance and efficiency of the risk management system. This percentage reaches 95% for the PSI 20 companies.

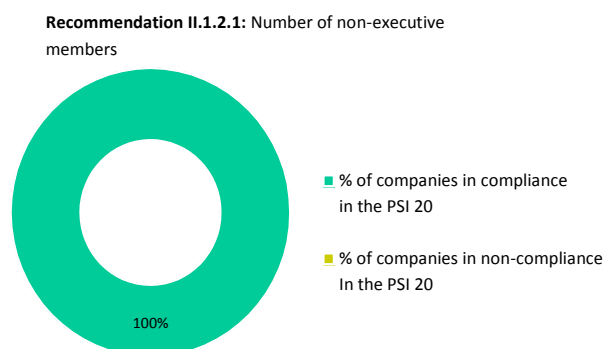
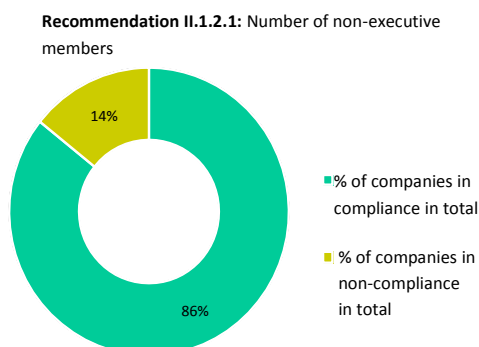
Recommendation II.1.1.4: Identifying risk and describing the performance and efficiency of the risk management system**Recommendation II.1.1.4:** Identifying risk and describing the performance and efficiency of the risk management system

- 85% of the PSI 20 companies disclose, on their Internet website, the operational regulations for the management and supervisory bodies. This percentage becomes much lower when concerning all listed companies, i.e., around 68%.

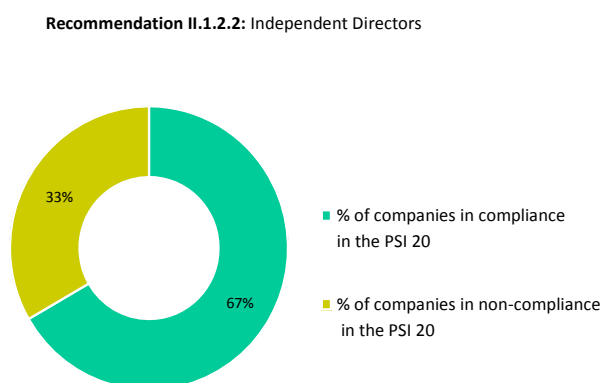
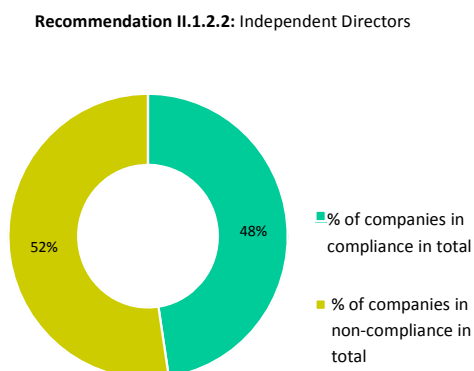
Recommendation II.1.1.5: Regulations for the functioning of the Management and Supervisory bodies**Recommendation II.1.1.5:** Regulations for the functioning of the Management and Supervisory bodies

4.2.2. INCOMPATIBILITY AND INDEPENDENCE

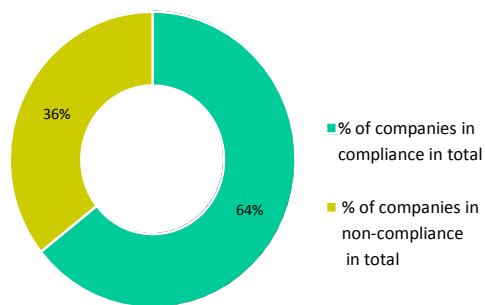
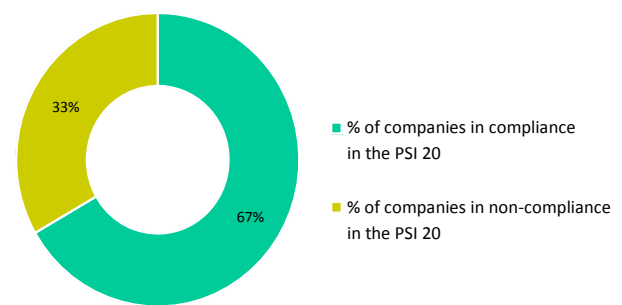
- The recommendation establishing that the number of non-executive directors in the Management Board should be enough to guaranty the effective supervision, monitoring and assessment of the executive members' activity is accepted by all PSI 20 companies and by 75% of the remaining listed companies, i.e., those which do not integrate the PSI 20.



- The Recommendation according to which, among the non-executive members, there should be a number of independent directors never below one fourth of the total number of directors, is one of the recommendations that is least accepted among the Portuguese listed companies, followed by two thirds of the PSI 20 companies, and only one third of the remaining companies.

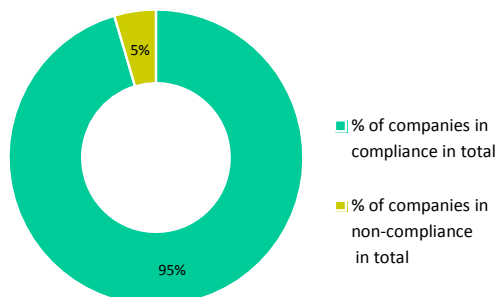
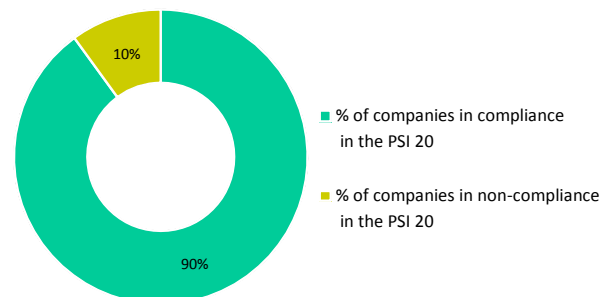


- The recommendation that establishes how the independence of the non-executive members should be assessed is accepted by 64.3% of the companies. This becomes slightly higher, i.e., 66.7%, for the companies part of the PSI 20 Index.

Recommendation II.1.2.3: Assessment of independence**Recommendation II.1.2.3: Assessment of independence**

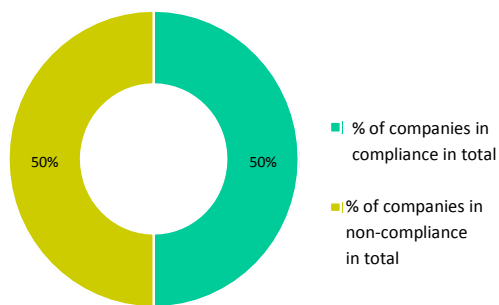
4.2.3. ELIGIBILITY AND APPOINTMENT CRITERIA

- The percentage of PSI 20 companies that follow the recommendation according to which the Chair of the Supervisory Board, of the Auditing Committee and of the Financial Matters Committee, must be independent and adequately competent to carry out his/her duties, is of 90%. It should be noted that all the remaining companies accept this principle.

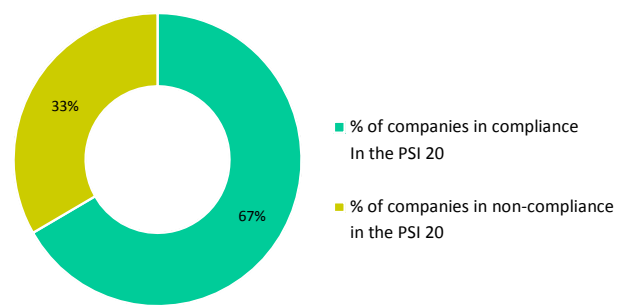
Recommendation II.1.3.1: Independence of the Chair of the Supervisory, Auditing and Financial Boards**Recommendation II.1.3.1: Independence of the Chair of the Supervisory, Auditing and Financial Boards**

- The recommendation concerning the selection process of the non-executive members, which states that this process must be designed so as to prevent the interference of the executive members, is only accepted by half of the Portuguese listed companies. As for the PSI 20 companies, this compliance is higher, although still low: only two thirds follow the mentioned recommendation.

Recommendation II.1.3.2: Selection of candidates for non-executive directors



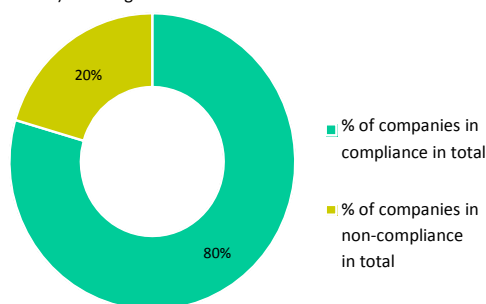
Recommendation II.1.3.2: Selection of candidates for non-executive directors



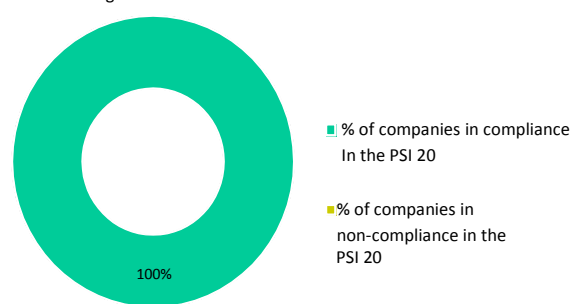
4.2.4. POLICY ON THE REPORTING OF IRREGULARITIES

- All of the PSI 20 companies adopt a policy on the reporting of irregularities pursuant to the international recommendations regarding corporate governance. This percentage is of 62.5% in the remaining companies.

Recommendation II.1.4.1: i) internal communication; ii) handling communications



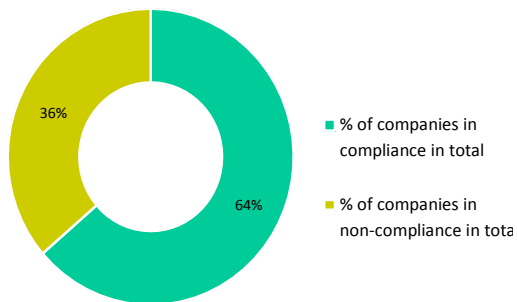
Recommendation II.1.4.1: i) internal communication; ii) handling communications



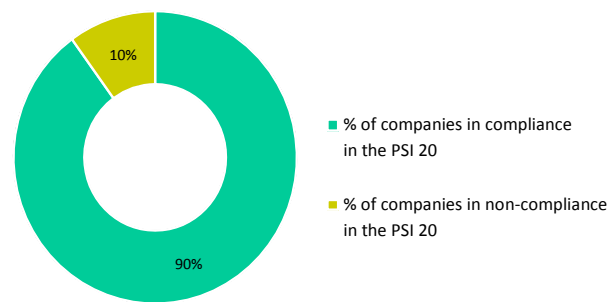
4.2.5. REMUNERATION

- As recommended, for 90% of the PSI 20 companies the remuneration of the executive directors includes a variable component, which is determined by a performance evaluation. This percentage is much lower, being 41.7% in the remaining companies, i.e., those which do not integrate the PSI 20 index.

Recommendation II.1.5.1 (i) Remuneration for Directors with executive duties

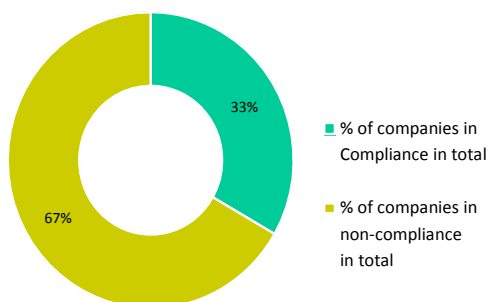


Recommendation II.1.5.1 (i) Remuneration for Directors with executive duties

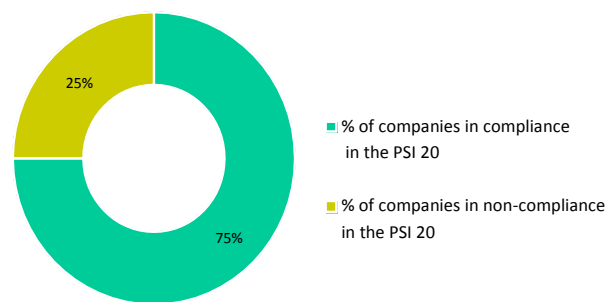


- The recommendation regarding the treatment of options, when they are considered part of the variable remuneration, is followed by 75% of the PSI 20 companies and by none of the other companies.

Recommendation II.1.5.1(vi) Options in the variable remuneration scheme

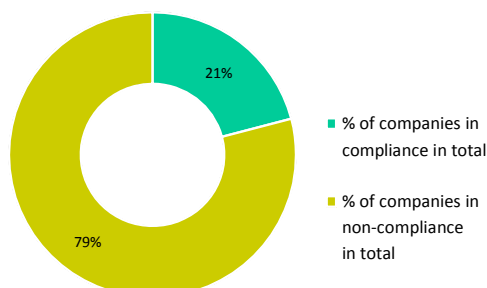


Recommendation II.1.5.1 (vi) Options in the variable remuneration scheme

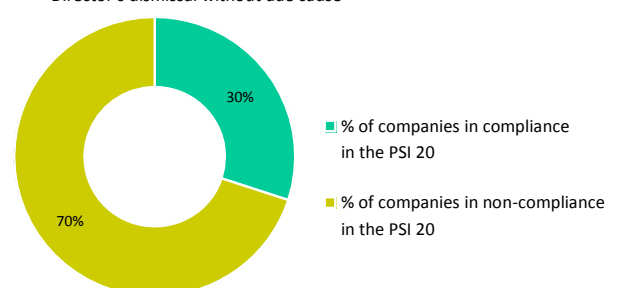


- The recommendation which states that, the compensation established for any Director's dismissal, without due cause, should not be paid if the dismissal results of the director's inappropriate performance, is the least accepted in the Portuguese corporate governance overall picture. Indeed, only 30% of the PSI 20 companies pursue it, and among other companies this percentage drops to 13%.

Recommendation II.1.5.1 (vii) Lack of compensation for Director's dismissal without due cause

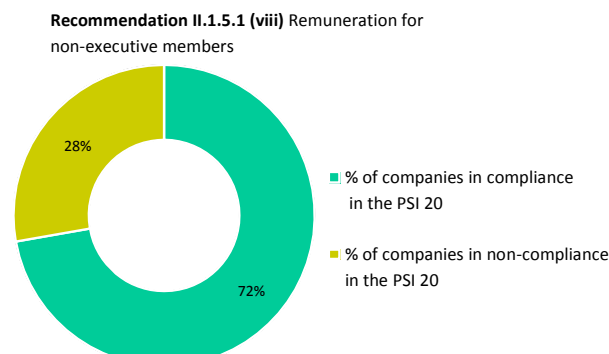
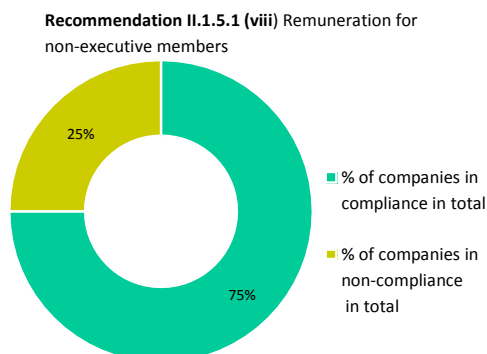


Recommendation II.1.5.1 (vii) Lack of compensation for a Director's dismissal without due cause

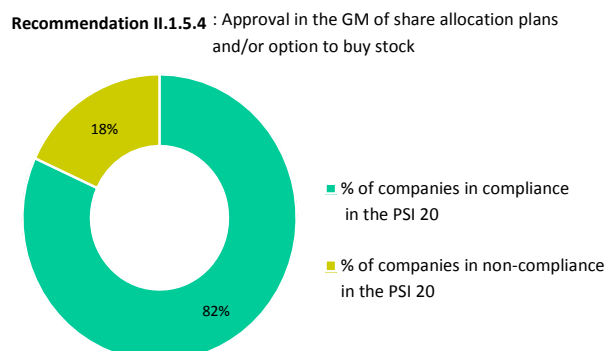
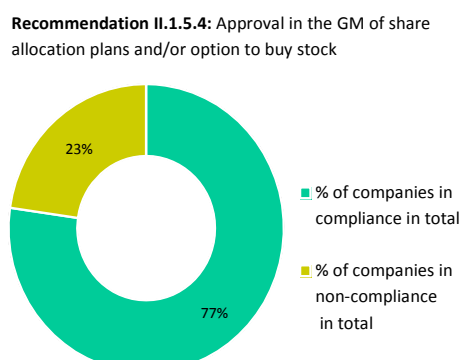


- The number of companies that complies with the recommendation according to which the remuneration of the non-executive members of the Management body should not include any component whose amount may depend on performance or

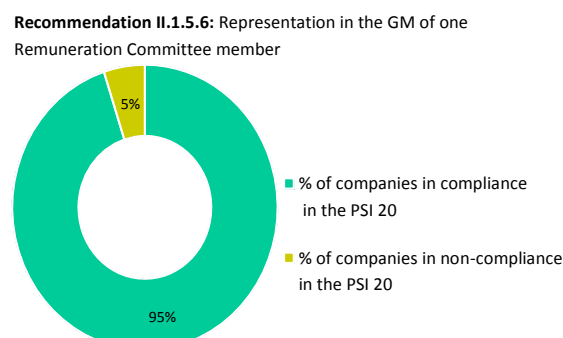
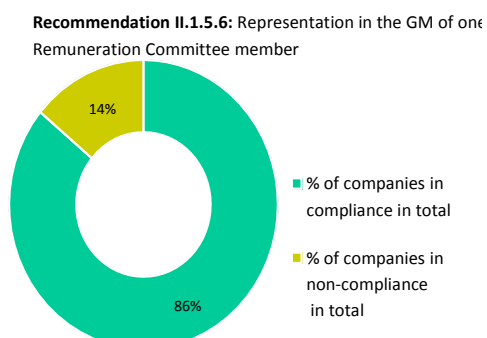
the value of the company, is 72.2% of the PSI 20 companies. In the case of the remaining issuers, this figure soars, i.e., 77.3%



- 81.8% of the PSI 20 companies submit, to the General Meeting, the proposal regarding the approval of share allocation and/or option to buy stocks for members of the Management and Supervisory bodies as well as further directors. In what concerns other companies, this percentage drops to 72.7%.

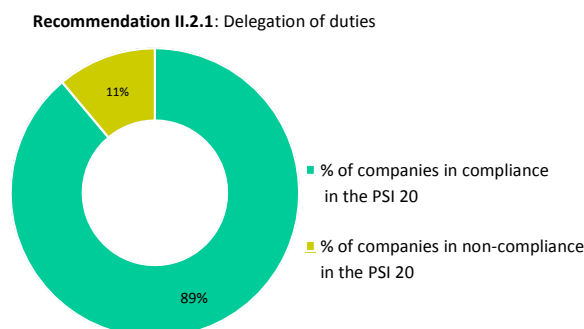
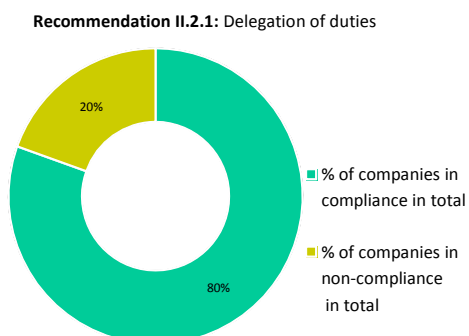


- For 95% of the PSI 20 companies, and 78.3% of other listed companies, at least one representative of the remuneration committee is present in the General Shareholders Meeting.

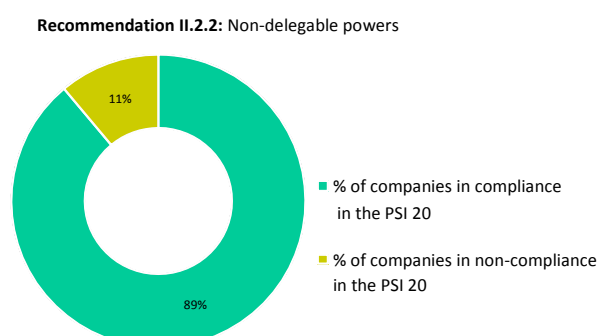
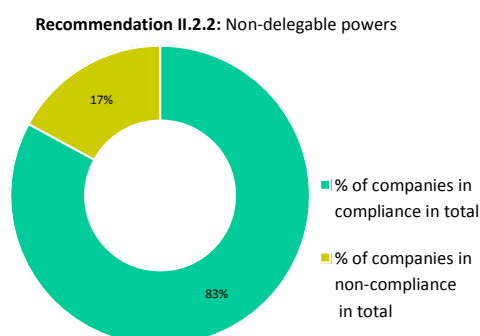


4.2.6. BOARD OF DIRECTORS

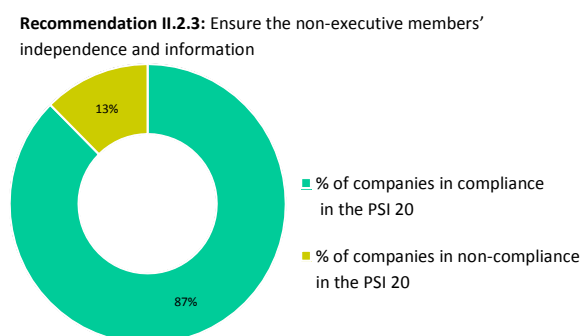
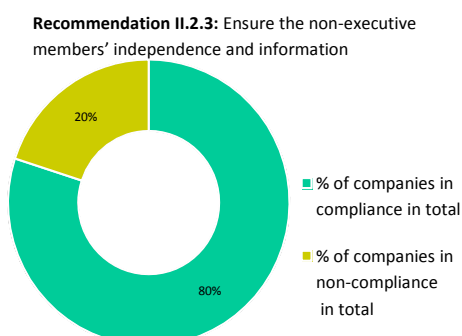
- Recommendation suggesting that the Board of Directors should delegate the daily management of the company, and the delegated powers should be identified in the annual Corporate Governance Report, is followed by 80.5% of the listed companies. This figure soared to 88.9% in what concerns the PSI 20 Index companies.



- The recommendation that sets forth the powers not delegable is pursued by 82.9% of the listed companies and by 88.9% of the PSI 20 companies.



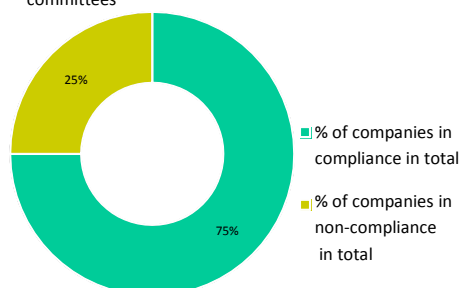
- 87.5% of the PSI 20 companies and only 75% of the remaining companies comply with the recommendation which states that, if the Chair of the Management Board has executive duties, the Management Board must find mechanisms to ensure that the non-executive members are able to decide in an independent and informed manner.



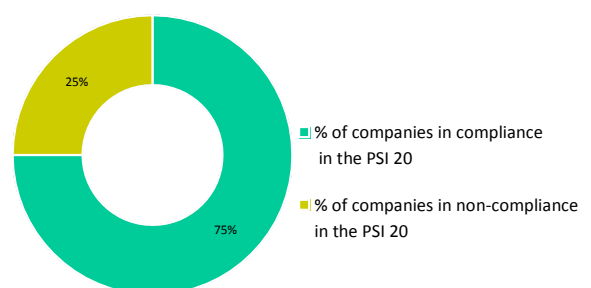
4.2.7. SPECIAL COMMITTEES

- 75% of the Issuers (within and outside the PSI 20 Index) have the necessary committees in order to: i) ensure a competent and independent assessment of performance; ii) ponder and improve the adopted governance system; and iii) identify, in due time, the potential candidates to perform the duties of a director.

Recommendation II.5.1: Creation of special committees

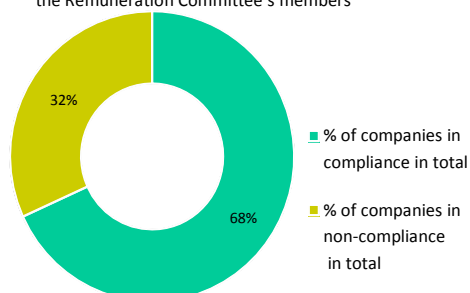


Recommendation II.5.1: Creation of special committees

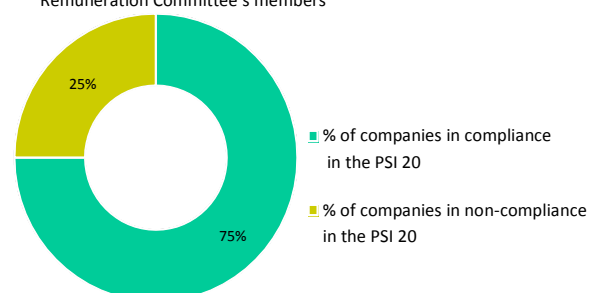


- The recommendation, which envisions the independence of the Remuneration Committee's members from the members of the Board of Directors, including, at least, one member with wide knowledge and experience on matters concerning remuneration policies, is followed by 75% of the PSI 20 Index companies. However, this figure drops to 62.5% for the other companies.

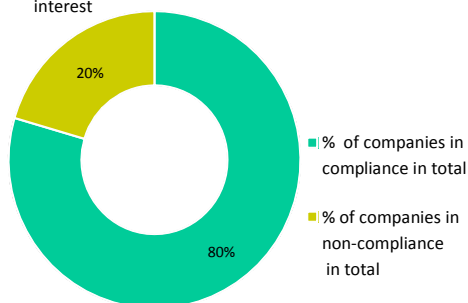
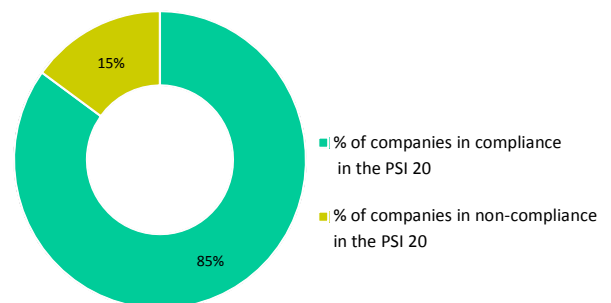
Recommendation II.5.2: Independence and duties of the Remuneration Committee's members



Recommendation II.5.2: Independence and duties of the Remuneration Committee's members

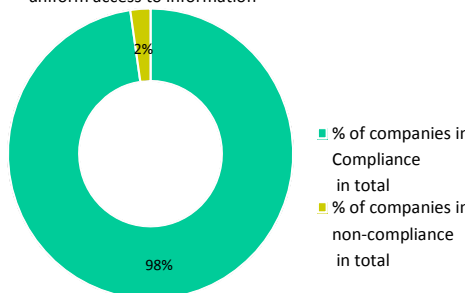
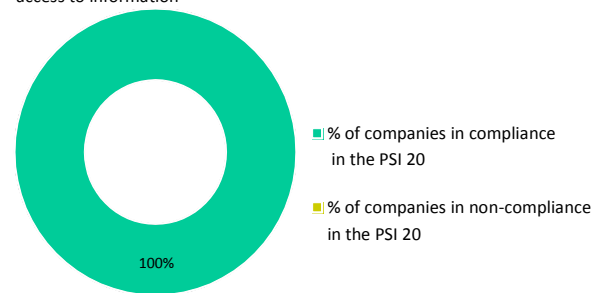


- The recommendation that aims to prevent conflicts of interest when establishing remunerations, namely by setting that, a person who has rendered services, over the last three years, to the company, shall not be recruited to assist the Remuneration Committee on this matter, is welcomed by 85% of the PSI 20 Index companies and 75% of the remaining companies.

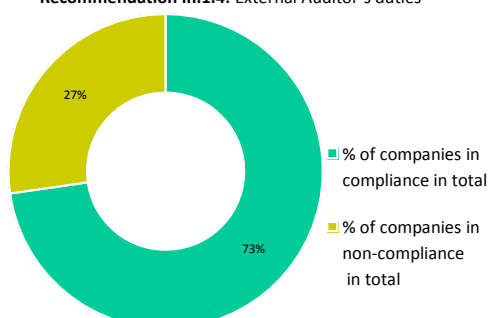
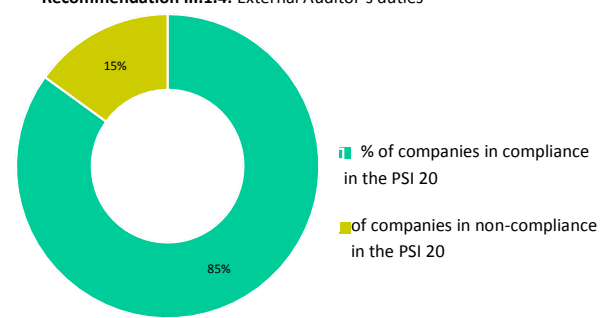
Recommendation II.5.3: Preventing conflicts of interest**Recommendation II.5.3: Preventing conflicts of interest**

4.3. INFORMATION AND AUDITING

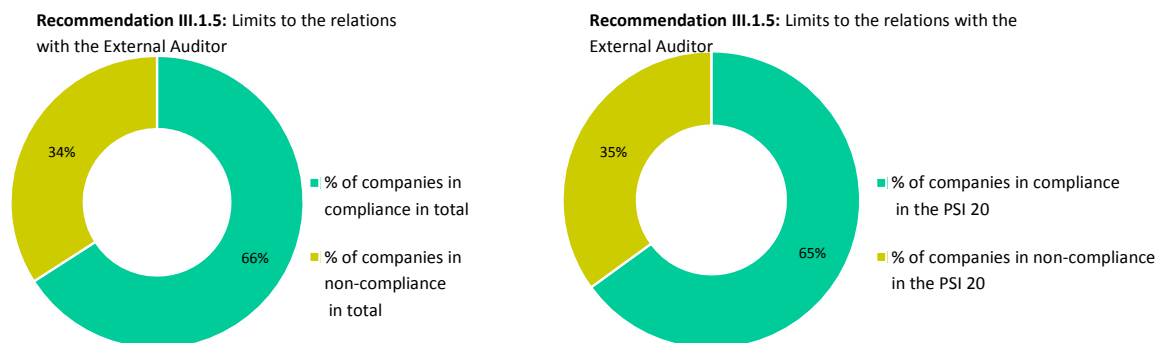
- The overall PSI 20 Index companies respect the principle of shareholders equality, preventing asymmetries in the access to information by investors with the creation of an Investor Assistance Unit. This is true for 95.8% of the remaining listed companies.

Recommendation III.1.1: Shareholder equality principle and uniform access to information**Recommendation III.1.1: Shareholder equality principle and uniform access to information**

- The recommendation regarding the duties of the External Auditor is followed by 85% of the companies in the PSI 20 Index and by 62.5% of the other listed companies.

Recommendation III.1.4: External Auditor's duties**Recommendation III.1.4: External Auditor's duties**

- The recommendation which states that the company shall not hire an External Auditor for a significant amount of services, other than auditing services, is complied with by 65.9% of the listed companies (65% when referring to PSI 20 Index companies).



4.4. SOME FINAL COMMENTS

Among the recommendations with a lower degree of compliance we find mostly those concerning remuneration. Indeed, the recommendation according to which there should not be a compensation for the dismissal without due cause of a director is only followed by 30% of the PSI 20 companies and 13% of the non PSI 20 companies. Furthermore, none of the lastly referred companies comply with the recommendation regarding the use of options in the variable remuneration scheme.

One other area where it is also possible to observe a low degree of compliance concerns the issues of incompatibility and independence of the Management and Supervisory bodies. The recommendation that sets forth the proper process to assess the independence of the non-executive directors is only welcomed by 64.3% of the companies. The recommendation regarding the percentage of independent directors is followed by two thirds of the PSI 20 companies and only by one third of the non PSI 20 companies.

It is further noted that, by companies outside the PSI 20 Index, there is in fact a very low degree of compliance in what concerns the recommendations in matters of, selection of candidates for non-executive directors (37.5% in compliance), remuneration due to directors with executive duties (41.7% of compliance), regulations for the Management and Supervisory Boards (54.2% of compliance), independence and competence of the Remuneration Committee members (62.5% of compliance), duties of the External Auditor (62.5% of acceptance) and policy on the reporting of irregularities (62.5% of compliance).

In what concerns the PSI 20 Index companies, in addition to the recommendations previously mentioned, a low compliance is also recorded in the following issues: i) selection of candidates for non-executive directors (66.7% of compliance,); and ii) restriction to the relations with the external auditor (65% of compliance).

5. CORPORATE GOVERNANCE INDEX AND RATING IN 2010

5.1. CORPORATE GOVERNANCE INDEX – ANALYSIS AND RESULTS

In this section we present and discuss the production of the Católica Lisbon/ AEM Index.

The Index measures, for each company listed in the regulated stock market, the degree of compliance with the national governance recommendations, which have correspondence with the relevant international recommendations and regulations (see chapter 2).

As a matter of fact, and as explained earlier, in creating the Index, only the Portuguese code recommendations which do have a parallel with the international reference texts were considered. Among these, we highlight, as most relevant, those with a stronger and highest number of correspondences with international benchmarks.

The Católica Lisbon/ AEM Index is, therefore, a pondered Index that doesn't take into account the recommendations in the Portuguese code without parallel with international texts. It should be further pointed out that, in the production of the Index for each company, the recommendations not deemed applicable to that same company have not been considered. As such, the considerations are not exactly the same for each of the companies in question. This means that we have a new and unique Index, in its assumptions, which is not directly comparable with any other compliance indicator existing for the Portuguese capital market.

Thus, the value of the Index, for each company, represents the reflected level of compliance with the corporate governance rules applied in Portugal, which have international relevance.

The Index, in its own scale, may present values in a range from 5.000 to 10.000, the value of 5.000 corresponding to a total lack of compliance and the value of 10.000 to a complete compliance.

The following table (please see next page) presents some descriptive statistics concerning the distribution of the Católica Lisbon/ AEM Index, in 2010, for the 44 companies that were considered, including those that are part of the PSI 20 Index.

	All the Companies	Companies In PSI 20
Mean	8920	9337
Variable	523649	171937
Standard deviation	724	415
Median	9070	9425
1st Quartile	8626	9070
3rd Quartile	9452	9668
Inter quartile range	827	598
Maximum	9816	9816
Minimum	7244	8345
Range of variation	2571	1471
Coefficient of variation	8%	4%
Number of companies	44	20

Table 5.1 –Católica Lisbon/ AEM Index-2010 – Descriptive Statistics

On average, the degree of compliance considered for the corporate governance regulations, which have an international matching, by the Portuguese listed companies in 2010, was of 8.920.

When we distinguish among the companies that make up or not make the PSI 20 Index, we find that the mean degree of compliance of the former ones is significantly higher than the latter ones.

Moreover, when considering the 28 companies which are a part of the present study and, simultaneously, are AEM members, the mean degree of compliance was considerably higher than that obtained by the non-affiliated companies, i.e., 9.298 versus 8.257 points.

For the overall of the listed companies, as well as for the PSI 20, the median values were above average, i.e., 9.070 and 9.425 respectively. This means that, for 50% of the listed companies, the Index value was higher than 9.070 and that for half of the PSI 20 companies, it exceeded 9.425 points. By comparing the median and the mean, it is evident that, for the group of 44 companies considered, and the subset of 20 companies in the PSI 20 Index, there is a concentration of observations on the right side of the distribution that corresponds to higher values. It should be noted that the same is true for AEM members, who are part of the present study; for these, the median was of 9.396 points.

The values thus obtained for the first and third quartiles confirm this result. As a matter of fact, for 75% of the 44 companies considered, the value of the Index was above 8.626, and, for 25% of the companies, the Index value was above 9.452.

Considering only the PSI 20 companies, in 75% of the cases, the Index value was over 9.070 points, and in 25% of the cases, it exceeded 9.668.

Concerning the 28 companies that are AEM members, the first and third quartiles were of 9.070 and 9.580 respectively.

We now move on to discuss the dispersion that we verify not to be very important.

Indeed, in 2010, the Index recorded values between 7.244 and 9.816, which implies a variation range of only 2.571 points. The standard deviation was of 724, which corresponds to a coefficient of variation of 8%. As shown in Table 5.1, concerning the PSI 20 Index companies, the dispersion is significantly lower. The same applies to the 28 AEM's affiliated companies. In what concerns the PSI 20 companies, the Index recorded values between 8.345 and 9.816. The standard deviation was of 390, implying a coefficient of variation of 4%. Note that all the PSI 20 companies are associated and for that reason the results for the latter and the affiliated companies are quite similar.

5.2. CORPORATE GOVERNANCE RATING – ANALYSIS AND RESULTS

Having obtained, for each listed company, a specific Index value for the degree of compliance with the corporate governance recommendations, we may now group the companies in different categories of compliance, thus making up a Corporate Governance Rating.

This is, therefore, a further contribution of the present study which, in addition to the creation of the Index, presents a Rating concerning the compliance with the recommendations on corporate governance in Portugal, which have international correspondence. In the following Table, we present the different categories of ratings considered, their limits, and the respective designation as well as the number and percentage of companies that are part of each one.

Rating	Category	No. companies	% Companies
D	Lower than 6850	0	0
C	6850-7300	1	2.3%
CC	7300-7750	4	9.1%
B	7750-8200	2	4.5%
BB	8200-8650	5	11.4%
A	8650-9100	12	27.3%
AA	9100-9550	12	27.3%
AAA	9550-10000	8	18.2%

Table 5.2 – Católica Lisbon/ AEM Corporate Governance Rating - 2010

The study considered a division into 8 categories, following a terminology already established, and a rating was assigned to each one ranging from triple A to D.

The D rating corresponds to a very poor degree of compliance and is equivalent to the notion of *junk*, already existing for other criteria. Noteworthy is the fact that, for the year 2010, no listed company fell in this category.

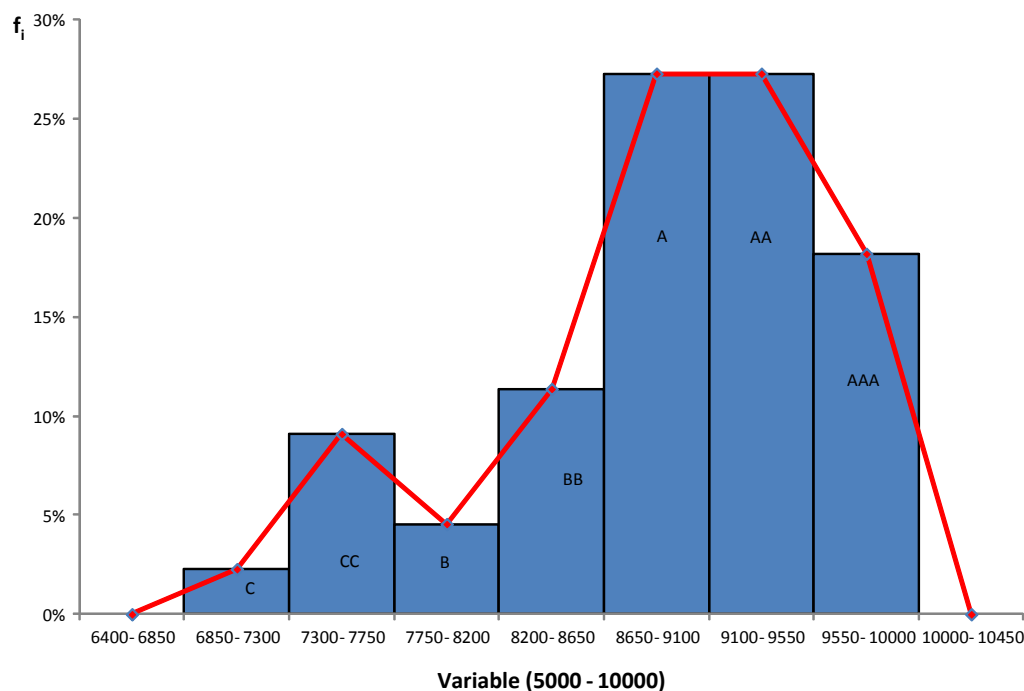
The CC or C ratings reflect a sub-compliance status regarding the Corporate Governance recommendations. As verified in table 5.2, there are 5 companies that fall in this category. Interestingly, none of these companies is an AEM member nor does it belong to PSI 20 Index.

15.9% of the companies are included in the BB and B ratings and the Index may present values ranging from 7.750 to 8.650. The degree of compliance is, in this case, considered average-good.

In order to achieve an A rating, the Index must exceed 8.650 points, which is verified for 72.7% of the listed companies.

An AAA rating is given to a company with an Index above 9.550 points. In 2010, 18.2% of the companies achieved this rating.

For a clearer screening of the distribution of the companies in the defined ratings, a graphical representation is shown below.



Picture 5.1 – Rating categories

First of all, as already shown in Tables 5.1 and 5.2., the percentage of companies that record sub-compliance situations is reduced. Indeed, only 11.4% of all the companies studied are included in the lower rating categories, i.e., in the CC and C ratings.

One other significant result is that 84.1% of the companies are concentrated in the BB, A, AA and AAA categories. Also noteworthy is the fact that, in the two highest ratings, i.e., AA and AAA, we find 45.5% of the listed companies. On the other hand, 32 companies (72.7% of the total) present a rating greater than or equal to A.

Once more, we highlight that the corporate governance ratings presented, as well as the Index for the degree of compliance with corporate governance recommendations, on which the work was based, are calculated allowing different weights of the recommendations, using a unique scale. Therefore, they are not directly comparable to other possibly existing corporate governance indicators for the Portuguese capital market.

6. RELATIONS BETWEEN THE CORPORATE GOVERNANCE INDEX AND THE CHARACTERISTICS OF THE COMPANIES

Having described, in the previous chapters, the corporate governance practices followed by the companies included in the present study, and having undertaken an assessment on the degree of compliance with the recommendations on corporate governance for each one of them, which resulted in the creation of the Católica Lisbon/ AEM Corporate Governance Index and Corporate Governance Rating, we aim, in the present chapter, to determine which of the companies' characteristics may explain the differences found in the degrees of compliance.

As a matter of fact, we seek herein to understand how the degree of compliance with these recommendations, revealed by the Portuguese listed companies, varies according to certain characteristics of each of the companies mentioned.

6.1. CHARACTERISTICS OF THE COMPANIES

Having based the analysis on previous academic studies², it was deemed appropriate to include, as explanatory of the Corporate Governance Index, the following characteristics:

1. Size of the company
2. Sector of activity
3. Performance and profitability of the company
4. Return for the Investor
5. Shareholder structure
6. Experience in the capital market
7. Governance model

In order to measure the size of the company, the following variables were considered:

- Market capitalization, registered in the Euronext Lisbon Stock Exchange market on 31.12.2010 (size criterion is used, for instance, by *Financial Times* in its well-known *Directory* "FT 1000");
- Volume of sales (profits) stated in the companies' Financial Reports referring to the exercise of 2010 (it is a size criterion used by several sources, from which we may highlight *Fortune* in its *Directories* "Fortune 500" and "International Fortune 500");

² Cf. , for instance, Bhagat and Bolton (2008) and Alves and Mendes (2009)

- Number of employees, accounted for in the companies' Financial Reports regarding the exercise of 2010 (the headcount or full-time equivalent criteria are commonly used in literature to define the size of the company).

As for the sector of activity, taking into account the existing literature, and the given size of the sample, as well as its density in terms of sector classes, the distinction was made only between financial and non-financial companies.

As performance and profitability indicators, the following variables were used: Net Income, Earnings Before Interest and Taxes (*EBIT*), Earnings Before Interest, Taxes, Depreciation and Amortization (*EBITDA*), and the Financial Debt ratio/*EBITDA* as a leverage measure.

In what concerns the return to Investor, the Return on Equity indicator (ROE) was used.

In order to determine the shareholder structure, a free float variable was introduced. This variable represents the amount of capital represented in shares admitted to trading in the regulated market, i.e., the percentage of the total shares admitted in the Stock Exchange that are available for free trading in the secondary market. For purposes of the present study, was considered the free float registered for each company in the Euronext Lisbon Stock Exchange market, on the 31st December 2010. In accordance with the official regulations for the PSI 20 Index, *Index Rule Book Version 11-02*, published by NYSE Euronext, "*Free float is defined as the outstanding capital less shareholdings exceeding 5%, except where such interests are held by a. collective investment schemes/mutual funds or b. pension funds. In addition, certain insider holdings (e.g. shares held by directors, employees, founders and family), government holdings and holdings of the company itself (including subsidiaries) are not considered free float, irrespective of the size*" (page. 17).

The capital market experience was measured considering the number of years in the Stock Exchange, i.e., the time elapsed between the date of initial dispersion, or initial public offer of each company, and the 31st December 2010.

As for the governance model, the three models foreseen under the Portuguese law were considered: the classical model, the dualist model ("German model"), and the Anglo-Saxon model ("English-American model").

In what concerns supervision, the classical model comprises a Managing Board, a supervisory board and a statutory auditor (SA)³; the dualist model, envisions the existence of an executive Managing Board and a Supervisory Board, to which a statutory auditor is added; the Anglo-Saxon model, in turn, contemplates a Managing Board, an Audit Committee and an Statutory Auditor.

In addition to the seven predefined variables described above, one other was introduced, to distinguish companies belonging to the PSI 20 Index and those that do not, therefore making up a General PSI Index.

This new variable aggregates two characteristics, size and liquidity, according to the official regulations for the inclusion of a company in the PSI 20 Index (cf. *PSI 20 Index Rule Book Version 11-02*). So being, each of the twenty companies, that are part of the benchmark Index for the Portuguese market, present bigger stock capitalizations and higher levels of liquidity when compared to the remaining 24 companies included in the present study.

6.2. ECONOMETRIC RESULTS

The relationship between the Corporate Governance Index on governance recommendations in Portugal and the features of the companies above described was tested econometrically by using a linear regression model. The estimation results are presented in Annex II pertaining to this Report.

The results obtained may be summarised as follows:

- (i) No significant statistical relation was found between the degree of compliance and the size variables considered, that is, the stock capitalization, sales volume and number of employees.
- (ii) The performance and profitability indicators used do not explain the degree of compliance with corporate governance recommendations either. Indeed, significant correlations were not found between the level of compliance of each company and their respective performance indicators, measured via the four variables described above (Net result, EBIT, EBITDA and leverage). Likewise, the return to investor did not produce significant statistical results.

³ This description is directed towards the business community object of the study. We should bear in mind that the inclusion of a Statutory Auditor, replacing the Supervisory Board and the possible integration of an SA in the Supervisory Board is not accepted for listed companies (article 278, no. 3 and 413, no. 2. a) of the Commercial Company Code). For further developments: Câmara, P. (2007), *Modelos de Governo das Sociedades Anónimas*, 197-258 = *Reformas do Código das Sociedades*, ed. IDET, Almedina (2007), 179-242.

- (iii) On the other hand, a very significant relation was found, statistically speaking, between the values of compliance index and whether these companies belong or not to the PSI 20 Index. The study demonstrates that a company in the PSI 20 Index complies, to its best, with the corporate governance recommendations. This factor corresponds to an increase of 443 points in the individual compliance Index⁴.
- (iv) An additional factor, which reveals itself explanatory of the corporate governance Index, was the shareholder structure. As a matter of fact, there is a positive and very significant relation, in statistical terms, between the free float variable and the compliance degree. Actually, the data shows that the greater the outstanding shares the better the compliance with recommendations is. The estimates carried out show that an addition of one percent in the free float corresponds to an increase of 14.18 points in the corporate governance recommendations compliance Index.
- (v) The choice of governance models affects likewise the degree of compliance with the recommendations. The study data allows the conclusion that those companies that follow the Anglo-Saxon model tend to comply with the recommendations at a higher rate.
- (vi) Lastly, the present study does not determine a statistically significant relation between the compliance Index and the capital market experience or the sector of activity (financial companies versus non-financial companies)⁵.

To briefly summarise, from the results of the present study we conclude that the companies with bigger size and more liquidity generated at the Stock Exchange (i.e., companies part of the PSI 20 Index), present a higher degree of compliance with the corporate governance recommendations.

An additional, and quite interesting result, original in terms of empirical evidence shown by the literature in this area, is the fact that the higher percentage of stocks available in the secondary market (free float) the better the degree of compliance of a given company is.

As a whole, these above-mentioned results show that a wider exposure to the capital markets means a better acceptance of the corporate governance code, which we deem as an important conclusion of the present study.

⁴ Note that in the study for the Portuguese Market by Alves and Mendes (2009) this positive relation was also found.

⁵ These results contrast with those previously obtained for the Portuguese companies by Alves and Mendes (2009).

7. FINAL CONSIDERATIONS

- A. The present study took on an innovative methodology to analyze the degree of compliance regarding the recommendations stated in the Corporate Governance Code, by issuing companies admitted to trading in the *Euronext Lisbon* Stock Exchange, according to the corporate governance reports referring to December 2010. This methodology is grounded on five key characteristics: *i)* the private nature of the assessment; *ii)* the independence of the assessment; *iii)* a timely analysis; *iv)* increased analytical effort, namely concerning the multiple recommendations; and *v)* relevance of the recommendations in light of internationally recognized benchmarks.
- B. The present study started off by evaluating the level of density of the recommendations contained in the Corporate Governance Code disclosed by CMVM. It is deemed relevant and drawn throughout the study the conclusion which reveals that more than half of those recommendations do not match any, or have only a minimal correspondence, with the international benchmarks (cf. *above* 3.2). It therefore follows that the level of recommendatory density in Portugal is heavier when compared to the international benchmarks and, therefore, it is considered excessive.
- C. The present study aims to demonstrate as well the feasibility and advantage of holding private inquiries concerning the degree of compliance with good governance recommendations as a tool for a sharper separation between, on one hand, the compliance area (as administrative activity for the enforcement of legal rules) and, on the other hand, the assessment of the practices freely undertaken by the companies in matters of governance.
- D. An essential contribution of the present study has been the creation of a Corporate Governance Index on the compliance with the recommendations in force in Portugal, the Católica Lisbon/ AEM Index. The mean of the Católica Lisbon/ AEM Index reaches the value of 8.920, for the current year, in a maximum of 10.000. It may therefore be stated that, on average, the degree of compliance with the corporate governance recommendations by the national listed companies is quite high. Such results are consistent with the positive assessment carried out, this year, by OCDE to the national corporate governance practices and structures (*OECD/ Corporate Governance Committee, Peer Review. Board Practices: Incentives and Governing Risks, (2011)*).
- E. Another relevant contribution of the present study derives from the production of a Corporate Governance Rating, designated Católica Lisbon/ AEM Rating. It is based on an 8-category rating, ranging from D (minimum rating) to AAA (maximum rating). The implementation of this rating presented results consistent with the above mentioned, placing only 11.4% of the analyzed companies in lower

ratings (D, CC and C). In turn, 72.8% of the listed companies recorded ratings ranging from AAA to A.

- F. In what concerns the analysis of the explanatory variables on the different degrees of compliance with good governance practices, it was found that, on one hand, the bigger firms with more liquidity generated in the stock market (those in the PSI 20 Index) present a higher degree of compliance with the corporate governance recommendations. On the other hand, it was also found that the higher the free float, the higher is the degree of compliance by the company. All the gathered data converges to represent that a bigger exposure to the capital market means a better compliance with the recommendations.
- G. Finally, there are implications concerning legislative policies, which may be drawn from the present study– as to the future direction of the Portuguese corporate governance system and its enforcement – namely in what concerns the recommendatory density in force, the inconveniences of multiple recommendations and the monitoring system for the degree of compliance with the governance codes. However, given the nature of the present study and, although briefly pointed out arising from the above findings, it is not the purpose of this study to explore in all its length these implications.

ANNEX I

LIST OF COMPANIES INCLUDED IN THE STUDY

Altri, S.G.P.S., S.A.

Banco BPI, S.A.

Banco Comercial Português, S.A.

Banco Espírito Santo, S.A.

Banif – S.G.P.S., S.A.

Brisa - Auto Estradas de Portugal, S.A.

Cimpor - Cimentos de Portugal, S.G.P.S., S.A.

Cofina, S.G.P.S., S.A.

Compta - Equipamentos e Serviços de Informática, S.A.

Corticeira Amorim, S.G.P.S., S.A.

EDP - Energias de Portugal, S.A.

EDP Renováveis, S.A.

Estoril Sol – S.G.P.S., S.A.

F.Ramada - Investimentos, S.G.P.S., S.A.

Fisipe - Fibras Sintéticas de Portugal, S.A.

Galp Energia, S.G.P.S., S.A.

GLINTT – Global Intelligent Technologies, S.G.P.S., S.A.

Grupo Média Capital, S.G.P.S., S.A.

Grupo Soares da Costa, S.G.P.S., S.A.

Ibersol, S.G.P.S., S.A.

Imobiliária Construtora Grão Pará, S.A.

Impresa, S.G.P.S., S.A.

Inapa - Investimentos, Participações e Gestão, S.A.

Jerónimo Martins – S.G.P.S., S.A.

Lisgráfica - Impressão e Artes Gráficas, S.A.

Martifer – S.G.P.S., S.A.

Mota-Engil, S.G.P.S., S.A.

Novabase – S.G.P.S., S.A.

Portucel - Empresa Produtora de Pasta de Papel, S.A.

Portugal Telecom, S.G.P.S., S.A.

Reditus – S.G.P.S., S.A.

REN - Redes Energéticas Nacionais, S.G.P.S., S.A.

SAG GEST – Soluções Automóvel Globais, S.G.P.S., S.A.

Semapa - Sociedade Investimento e Gestão, S.G.P.S., S.A.

Sociedade Comercial Orey Antunes, S.A.

Sonae – S.G.P.S., S.A.

Sonae Capital, S.G.P.S., S.A.

Sonae Indústria, S.G.P.S., S.A.

SONAECOM – S.G.P.S., S.A.

Sumol + Compal, S.A.

Teixeira Duarte - Engenharia e Construções, S.A.

Toyota Caetano Portugal, S.A.

VAA - Vista Alegre Atlantis, S.G.P.S., S.A.

Zon Multimédia – Serviços de Telecomunicações e Multimédia, S.G.P.S., S.A.

ANNEX II

RESULTS OF THE ECONOMETRIC ESTIMATION

The model chosen to explain the behaviour of the Católica Lisbon/ AEM Corporate Governance Index (IND), was

$$IND_i = \beta_1 + \beta_2 PSI_i + \beta_3 FF_i + \beta_4 AS_i + e_i$$

where the PSI is a qualitative variable equal to 1 if the company belongs to the PSI 20 Index and equal to 0 if not; FF represents the free-float and AS is a qualitative variable equal to 1 if the Anglo-Saxon corporate governance model is adopted by the company and equal to 0 if not.

The model represented above was estimated according to the ordinary least square method by using data from a sample of 44 companies included in the study. The choice of the method was validated by the endogeneity tests carried out.

The heteroscedasticity tests carried out conclude that the variance of the model errors is not constant. As such, we opted for the estimation of robust standard deviations to the presence of heteroscedasticity.

Below, we present the results arising from the chosen specification.

Equation 1
=====

Method of estimation = Ordinary Least Squares

Dependent variable: IND
Current sample: 1 to 44
Number of observations: 44

Mean of dep. var. = 8919.57	LM het. test = 17.5498 [.000]
Std. dev. of dep. var. = 732.002	Durbin-Watson = 2.07793 [<.755]
Sum of squared residuals = .106916E+08	Jarque-Bera test = 1.53256 [.465]
Variance of residuals = 267291.	Ramsey's RESET2 = 2.98222 [.092]
Std. error of regression = 517.002	F (zero slopes) = 15.4001 [.000]
R-squared = .535965	Schwarz B.I.C. = 342.819
Adjusted R-squared = .501162	Log likelihood = -335.251

Variable	Estimated Coefficient	Standard Error	t-statistic	P-value
C	8094.85	202.619	39.9511	[.000]
PSI	442.753	143.836	3.07819	[.004]
FF	14.1794	3.93090	3.60716	[.001]
AS	571.925	118.285	4.83514	[.000]

Standard Errors are heteroscedastic-consistent (HCTYPE=2).

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