

2012

Data concerning 2011

CORPORATE GOVERNANCE IN PORTUGAL

Center of Applied Studies

CATÓLICA-LISBON School of Business & Economics

CORPORATE GOVERNANCE IN PORTUGAL 2012

Report on the Degree of Compliance with Corporate Governance Recommendations Corporate Governance Index and Rating

Data concerning 2011

With the support of:



“The comparison of the practices followed by the companies in 2011 with last year’s, shows a positive trend in the degree of compliance, which was already high; this means that the companies have improved, in a general matter, the good practices in what concerns *corporate governance*. “

Miguel Athayde Marques

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1. Introduction

The present Report was carried out, for the second consecutive year, by the Universidade Católica Portuguesa, at the request of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado (the Portuguese Issuers Association), having been conducted under the CEA – Center of Applied Studies of the CATÓLICA-LISBON School of Business & Economics.

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

The Report coordinators are teachers in both Faculties of the Católica University:

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working hand in hand with a team comprising the following members: Patrícia Cruz, Sofia Thibaut Trocado e Francisco Boavida Salvassa.

The production of the Report also had the support of Euronext Lisbon.

The Report, beyond its conceptual formulation also involved a work of data collection regarding the corporate governance practices accepted by companies with shares listed in the Portuguese Regulated Market (designated as Euronext Lisbon Stock Exchange). Its empirical basis rests in a thorough analysis and recording of acceptance of the Corporate Governance Code prepared by the Portu-

guese Securities Market Commission, in accordance with the information contained in the companies' Corporate Governance Reports for the exercise of 2011, the last Report published.

According to the analysis conducted on the mentioned companies' Corporate Governance Reports of 2011, the approach adopted in the present Report for observation and analysis is that of the average capital market investor, who generally may only access information made available publicly through each company's Corporate Governance Report.

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

As such, the present Report has adopted a methodology where the degree of compliance with the Corporate Governance recommendations is assessed according to the recommendations bearing higher relevance of in terms of international benchmarks, side by side with a lesser weighing for recommendations with little or no significance at an international level.

As a result, this Report retains its uniqueness when compared to any other indicator of compliance already existing for the Portuguese Capital Market in the sense that:

- it is solely based on the information any investor may access to;
- it assesses the degree of compliance with the recommendations of the Corporate Governance Code applied in Portugal, according to a derived reflection of the international benchmarks.

The contribution of the present Report also rests in the use of two indicators, built in a pioneering manner in its first edition, that encapsulate the level of compliance with Corporate Governance Code recommendations in Portugal, consequently allowing a collective assessment of the companies listed in the Portuguese market as well as their position regarding different classes of compliance levels.

Specifically, these indicators take on the form of a corporate governance index and rating which, based on the practices reported in the 2011 Corporate Governance Reports, for the second consecutive year, represent a reference from which it shall be possible to determine the future evolution of the Portuguese companies in this domain.

This second edition of the Report allows a comparative analysis with the data extracted from the 2010 Corporate Governance Reports and although the sample only relates to a two-year period, it nonetheless already reveals the increasing usefulness of the Corporate Governance Index and Rating and moreover, allows to sediment the importance of the present study in the context of the increment of good Corporate Governance practices.

2. Background and Purpose of the Report

In Portugal, the companies issuers of shares admitted to trading in the regulated market are subject to the duty of annually Reporting on their degree of compliance with the Corporate Governance Code - which consists of a number of recommendations developed by the Portuguese Securities Market Commission (abbreviated hereafter as CMVM), under the article nº. 245 - A of the Portuguese Securities Code and the CMVM Regulation nº. 1/ 2010.

In this context, and at the request of AEM, the Portuguese Issuers Association, the Universidade Católica Portuguesa (UCP) conducted, for the second consecutive year, an independent and pioneering study on the degree of compliance with the current recommendations on corporate governance in Portugal, which resulted in the preparation of the present Report entitled “Report on the degree of compliance with corporate governance recommendations in Portugal and production of the Católica Lisbon/AEM Corporate Governance Index and Rating” (hereinafter “Report”).

This Report has multiple purposes.

On one hand, it seeks to poll the degree of compliance with the recommendations by the listed companies in accordance to the information provided by these companies’ Governance Reports, for the exercise of 2011.

On the other hand, it aims to build and provide a compliance index on corporate governance recommendations (hereinafter abbreviated as “Católica Lisbon/AEM Index”), with a careful reflection on different recommendations measured by their effective relevance.

Furthermore, a corporate rating is structured to weigh up the degree of compliance with the Corporate Governance Code (hereinafter designated as “Católica Lisbon/AEM Rating”).

And lastly, it seeks to analyse the statistically collected data confronting it with several variables that could explain which factors may lead to a wider compliance with the recommendations for good corporate governance.

The present Report comprises a total of 44 companies, issuers of shares admitted to trading in the regulated market until the 31st December 2011, including, among others, the companies that make up the PSI 20 Index (see the list of companies in ANNEX A).

Only companies under the Portuguese law are included in this Report, 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’s recommendations.

As a final and additional criterion for selection, the companies whose exercise does not match the calendar year were excluded.

As mentioned in the Introduction chapter, the Report analyses information from the perspective of the investors in the capital market.

As such, and concerning last year’s exercise, the study focused on a detailed analysis of the information publicly disclosed and contained exclusively in the annual Corporate Governance Reports prepared by the referred companies, having engaged in no direct or indirect contact.

The perspective and continuity of the method have been maintained in order to firstly ensure equity and equal treatment among issuers and secondly to enable the comparison of historical data.

We should also clarify another methodological option concerning the interpretation of the recommendations contained in the Corporate Governance Code.

This Report follows a strict interpretative reading of the recommendatory texts and does not try to make any corrective interpretation.

This is mainly illustrated through the independence criteria fixed a propos the members of the Managing Board in n°. 5 of article 414 of the Corporate Code, to which the CMVM's document refers.

Otherwise said, it is not the aim of this Report to prepare or develop new *ad hoc* criteria concerning the concept of independence of the members of governing bodies, being bound to the criterion adopted by the regulator contained in the Corporate Governance Code text.

The respect for the rule “Comply or Explain” was crucial for the assessment of the acceptance or non-acceptance of CMVM's recommendations by the target companies and to that extent, the explain statements presented by the companies were thoroughly examined in respect to each recommendation.

In addition, the statements that while expressing a non-acceptance of the recommendations in question explicitly presented alternative and duly justified solutions considered as functionally equivalent to the implicit objective of each recommendation were measured as compliance.

However, the explanation provided may only produce a result equivalent to compliance if the purposes of the recommendatory indication are substantially met.

For the analysis carried out regarding each explanation the following factors are considered:

- i) the singularities of the context invoked by the company;
- ii) the nature and strength of its grounds, basis and substance directly presented by the company for the said non-compliance;

- iii) the temporary or permanent nature of the non-compliance; and

- iv) the measures adopted as alternative to the compliance or measures adopted for the mitigation of the non-compliance effect.

In order to meet the objectives set, this Report is structured so as to facilitate a careful and preliminary indication of the grounds, aim and method of the Católica Lisbon/AEM Corporate Governance Index and Rating (chapter 3).

The data on the degree of compliance with corporate governance recommendations in Portugal for the year 2011 (chapter 4) is subsequently delivered, as well as the production/calculation of the Católica Lisbon/ AEM Index (chapter 5).

The following chapter (chapter 6) documents the relations between the corporate governance Index and the different characteristics of the analysed companies. The Report closes with some final remarks (chapter 7).

3. Católica Lisbon/AEM Corporate Governance Index and Rating

3.1. Background and Purpose

In Europe, the recommendatory codes for good corporate governance are the foundation of the annual reports on corporate governance for companies with shares traded in regulated markets. This arises from the Directive 2006/46/CE, of the European Parliament and Council of the 14th June 2006.

Portugal is not an exception in this context and so being, the listed companies must prepare an annual report containing a description of their corporate governance structure.

This Report, which refers to the Corporate Governance Code approved by CMVM, is imposed by article 245º-A of the Portuguese Securities Code and is presented in accordance to the specifications arising from Annex I of CMVM's Regulation nº. 1/2010.

In this context, the listed companies must report on the degree of compliance with the recommendations contained in the Corporate Governance Code (comply) and, must also inform on the grounds of the respective non-compliance with the non-observed recommendations (explain).

This information model (comply or explain), British in origin, is presently imposed at a European level, and as previously referred, is in itself a mechanism that combines the mandatory provision of information on each company's corporate governance with a facilitating component concerning the choices each company may make.

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 the corresponding degree of compliance.

In fact, the trend is quite the opposite.

Due to the recommendatory nature of the information stated in the corporate governance codes, the monitoring/enforcement model in force in Portugal, by the administrative authority, is unlike any other existing in most of the European Union State-Members.

In these terms, the first objective is to 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/enforcement of the mentioned reports may be carried out by private entities according to both national and European Law.

In this context, it should be stressed that the eminently private supervision of corporate governance finds legislative expression in the fact that it is each listed company's board's function to verify the completeness of the information contained in the annual Corporate Governance Reports (see article 420, nº. 5 and 451, nº. 4, of the Commercial Companies Code).

Moreover, the private monitoring enforcement presents advantages when compared to the verification carried out by the supervisory entities, avoiding, for example, the confusion between governance and compliance, which tends to occur in public monitoring.

On this subject, one can see also the Company Law Experts' Response to the European Commission's Green Paper 'The EU Corporate Governance Framework' (July 2011), page 23.

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

In its original version, dated from 1999, the CMVM's Recommendations were but 13 recommendatory indications.

From 1999 until the present date, several legislative changes have taken place which carry a direct impact on corporate governance, in general, and on listed companies' corporate governance, in particular.

We refer, namely, to,

- the change to the Commercial Companies Code brought by the Decree-Law n.º. 76-A/2006, of 29th March (with implications particularly in the context of fiduciary duties of the members of the governing bodies and corporate governance models),
- Law n.º. 28/2009, of 19th June (under appraisal by the General Assembly, on the remuneration policy declaration),
- the transposition of Directive n.º. 2007/36/CE, of the European Parliament and Council of the 11th July (regarding the exercise of certain shareholders' rights in listed companies), promoted by the Decree-Law n.º. 49/2010, of 19th May,
- and Decree-Law n.º. 88/2011, of 20th July (on the remuneration policies of credit institutions).

As a whole, these regulations- herein referred as examples – have determined a considerable increase in duties related to corporate governance for the Portuguese companies in general, and listed companies in particular.

Some stabilization - or even a reduction - of the recommendatory texts would be expected due to the numerous recent legislative reforms.

However, the opposite took place.

Over the course of successive revisions to the Corporate Governance Code, there was a significant addition of recommendations which determined a multiplication of its original length.

In the original recommendatory text, as abovementioned, there were 13 recommendations.

Presently, the Code comprises 54.

Among the existing recommendations, the Code also includes several multiple recommendations - (in particular, the recommendation II.1.5.1 regarding remuneration) – which means that the actual number of recommendations largely exceeds the six dozens.

As aforementioned, the present Report was prepared at the request of AEM and also in response to the described framework.

For this reason, a further underlying objective of the present Report is to determine whether the recommendatory density currently existing in Portugal matches other jurisdictions of reference and whether the companies, object of the study, comply at a greater or lesser degree with relevant recommendations in other jurisdictions.

Naturally, the considerations over the relevance of the recommendations are neither random nor discretionary.

They are rather the result of the use of a matching criterion with international legal texts of reference, according to the method thoroughly described below.

An additional and important objective of the present Report is to provide a prompt and well-timed assessment on the degree of compliance with the national corporate governance recommendations in order to avoid a discontinuity between the disclosure of the Corporate Governance Reports released by the companies and their analysis, under the dispositions of the Corporate Governance Code currently in force.

Indeed, the assessment produced by CMVM through the preparation of an analytical

annual Report on the degree of compliance with the recommendations of the Code by the Portuguese listed companies with tables ranking compliance indexes – report that is disclosed to the public – has revealed a systematic delay.

Considering the most recent years, this delay normally exceeds a year over the disclosure of the examined reports, having the most recent Report exceeded a year and a half.

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 of Listed Companies, referring to the 2009 annual corporate governance statements, was presented;
- on the 31st July 2012, the CMVM Annual Report on Corporate Governance of Listed Companies concerning 2010 was published.

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

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

The mentioned delay also generates some iniquity in the sense that when the Report is disclosed, some companies have already corrected the deviations to the recommendations that are publicly pointed out.

In addition, being historically dated, the use of the Report by the investors is therefore lower.

This scenario is further worsened by the pace of a two-year change in the governance recommendations: the reformulation of the rec-

ommendations is customary in odd-numbered years – it occurred in 2001, 2003, 2005, 2007 and 2010.

As a result of this mobility and constant development of their length, the lack of correspondence between the moment of the disclosure of the assessment, by the administrative authority, and the recommendations framework in force is total.

In addition to the above mentioned, there is the absence, felt in Portugal, of an index that may summarise the level of compliance with the most relevant corporate governance recommendations in conjunction with the less significant in the international benchmarks picture and the priorities of the wide investors' community.

This background brings forth pertinence and opportunity to a data collection work in the very same year the reports are disclosed, so as to amplify the informational and shaping functions that these studies provide.

3.2. Method for the Production of the Index

The method for the production of the Index is the result, as previously referred, of an analysis of different international benchmarks.

For this purpose, the following international texts were used in matters of corporate governance:

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

We hereinafter present the reasons for the choice of the mentioned regulations as relevant indicators of 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 OECD 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 (considering its 2010 version and not the version released in September 2012) was also considered due to its unique pioneering approach in global terms and to its indisputable influence.

Once identified the abovementioned benchmarks, the adequacy of the recommended density of the national code was also verified.

An assessment of the degree of correspondence of the Portuguese normative content with the said international benchmarks was subsequently carried out.

This analysis revealed that most of the recommendations do mirror the international texts although some of them do not present any correspondence whatsoever.

To that extent, the national recommendations were object of a careful reflection since it became clear that not all have a uniform relevance.

The Católica Lisbon/ AEM Index results from a reflection on each recommendation according to their parallel with the international benchmarks, as further explained below:

- a maximum relevance was recognised to the recommendations that match all the selected international benchmarks;
- an medium relevance was attributed to the recommendations that match two of the selected international benchmarks;
- a minimum relevance was granted to the recommendations that correspond to only one of the selected international benchmarks;
- a null relevance was established for the recommendations that do not match any of the selected international benchmarks.

It should be emphasised that the concept of matching among recommendations hereby used does not require a complete match of content, but does imply an equivalence of es-

sential elements in the compared recommendations.

From the comparative analysis conducted, 16 recommendations bear a null relevance, 9 have a minimum relevance, 14 have an average relevance and 12 have maximum relevance.

For this count, the recommendations I.2.1, I.2.2 and II.1.5.7 were not considered since they are no longer in force.

On the other hand, the (sub) recommendations in multiple recommendations, although analysed individually as explained later, were considered as a whole for this particular purpose.

We reiterate that the significant number of recommendations without an international match is, on its own, a revealing and concerning indicator showing an excessive recommendation gold plating phenomenon – that is, the addition of an important number of domestic recommendations unparalleled with international legal systems.

The Report is also concerned with applying an analytical criterion as to the degree of compliance with the recommendations on corporate governance. It is therefore important to note that for the specific case of multiple recommendations, a weighing of each of the sub-recommendation contained therein was carried out.

As an example, the recommendation II.1.5.1, applicable to the remuneration policy was divided into 8 sub-recommendations and each one was gauged in order to determine an adequate weighing of the recommendation as a whole.

In turn and in order to imprint a greater density to the Report, the present edition has analysed 11 multiple recommendations separately thus allowing an improvement and refinement in the analysis of the degree of acceptance of the recommendations contained in the Corporate Governance Code.

The methodological refinement applied to this study allows a better understanding of the governance practices actually followed by the companies generating, nevertheless some difficulty in the inter-temporal comparison of results.

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

As a result, 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 which, although expressing a non-compliance with the recommendations in question, explicitly presented alternative and duly justified solutions considered as functionally equivalent to the implicit objective of each of the referred recommendations were subject of a valuation equivalent to a Comply in this study.

With this purpose, when analysing the companies' Corporate Governance Reports, the explanations presented to justify the non-acceptance of 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 rotation of functions in the Board of Di-

rectors, but report a structured mechanism for the selection and assignment of functions;

- Recommendation II.5.1.: companies which decide not to create specific committees for determined issues deemed unnecessary or inadequate due to their small size.

The method for the calculation of the Index, chosen in this Report, bears a highly analytical character concerning the degree of compliance with the recommendations.

It thus allows the identification of the companies that accept a greater number of the most internationally relevant corporate governance recommendations.

Lastly, it should also be referred that the Index is not presented in terms of percentage for a more reliable correspondence with the logic of comply or explain.

In addition, a percentage would be closer to the logic of a mechanical measuring of compliance and box-ticking, which is herein deliberately avoided.

3.3. Method for the Assignment of the Corporate Governance Rating

In order to complement the presentation of the Católica Lisbon/ AEM Index, the same base method was used in the creation of a rating matrix for corporate governance, bringing this rating to the statistical class to which each company belongs when considering their observance of the recommendations.

As it happens with the companies' individual results, the individual rating assessment conducted on corporate governance is not disclosed by AEM – it is but communicated to its members individually.

3.4. Comparability of Results

The method used in the preparation of this Report's second edition has remained unaltered in relation to the first edition, thus allowing comparability between the results obtained, aiming to progressively enrich the results of the analysis with additional data extracted, as for example the recording of developments, trends and other dynamics.

It is known, however, that the multiannual empirical observations concerning the degree of compliance with the recommendations of corporate governance vary widely over time, as the result of frequent regulatory changes.

In the present Report, the direct comparability with last year's data is not automatic due to legislative changes that have occurred with an impact on the scope of remuneration of credit institutions brought forth by the DL n.º 88/2011, of the 20th July.

In addition, the aforesaid comparability is hindered because, as it was already the case for some multiple recommendations, they were analysed in an unbundled process in order to allow an improvement and refinement of the analysis on the degree of compliance with the recommendations contained in the Corporate Governance Code.

However, in the presentation of this Report's results, mechanisms were used in order to allow a comparison between the results obtained in both editions.

4. Analysis on the Degree of Compliance with the Corporate Governance Recommendations in Portugal in 2011

In this chapter, we analyse, for each of the most relevant recommendations on corporate governance in Portugal, the degree of compliance reached by the companies listed in the Stock Exchange market (Euronext Lisbon) on the 31st December 2011.

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

We further determined the degree of compliance, concerning each of the recommendations considered, among the companies comprising the PSI 20 Index as well as those, in the sample, which are not included in the referred Index.

The results thus obtained are shown in Table 4.1.

The first general conclusion is that the degree of compliance with the most relevant recommendations of the Corporate Governance Code by the Portuguese listed companies in 2011 was considerably high.

It is further noted that this compliance is generally in fact higher among the PSI 20 Index companies.

Also to be noted that, for 2011, more detailed and complete information is available regarding the degree of compliance with the recommendations considering the disaggregation used for many of them as explained in the previous chapter.

The analysis of the results obtained for each of the most relevant recommendations is shown next.

Whenever possible, comparisons will be made between the values obtained for 2011 and those recorded in 2010.

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 1

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
General Meeting	Voting and Exercising voting rights	I.3.1	Vote by correspondence	100.0%	100.0%	100.0%
	Measures on the control of companies	I.6.1	Measures aiming to prevent successful takeover bids	83.7%	73.7%	91.7%
		I.6.2	Free transferability of shares	97.7%	100.0%	95.8%
Managing and Supervisory Bodies	Structure and duties	II.1.1.1	Assessment of the corporate model adopted	100.0%	100.0%	100.0%
		II.1.1.2				
		(i)	Implementation of internal control systems and risk management systems	93.2%	100.0%	87.5%
		(ii)	Components to be integrated in the internal control and risk management systems	70.5%	80.0%	62.5%
		II.1.1.3	Assessment of the functioning of the internal control and risk management systems	93.2%	100.0%	87.5%
		II.1.1.4				
		(i)	Identify economic, financial and legal risks	97.7%	100.0%	95.8%
		(ii)	Describe the performance and efficiency of the risk management system	88.6%	100.0%	79.2%

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 2

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
Managing and Supervisory bodies	Structure and duties	II.1.1.5				
		(i)	Operating regulations for the Managing Board	79.5%	100.0%	62.5%
		(ii)	Disclosure of the Managing Board's regulation in the Internet	75.0%	95.0%	58.3%
		(iii)	Operating regulations for the Supervisory Board	81.8%	100.0%	66.7%
		(iv)	Disclosure of the Supervisory Board's regulations in the Internet	77.3%	95.0%	62.5%
	Incompatibility and Independence	II.1.2.1	Number of non-executive members	85.7%	88.9%	83.3%
		II.1.2.2	Independent Directors	40.5%	61.1%	25.0%
		II.1.2.3	Assessment of independence	75.6%	77.8%	73.9%
	Eligibility and appointment criteria	II.1.3.1	Independence of the Chair of the Supervisory Board, Auditing and Financial Committees	90.9%	90.0%	91.7%
		II.1.3.2	Selection of non-executive Directors	35.7%	61.1%	16.7%

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 3

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
Managing and Supervisory bodies	Policy on the reporting of irregularities	II.1.4.1				
		(i)	Internal communication	84.1%	100.0%	70.8%
		(ii)	Treatment of communications	81.8%	100.0%	66.7%
	Remuneration	II.1.5.1				
		(i)	Remuneration of Directors with executive duties	69.8%	95.0%	47.8%
		(vi)	Variable remuneration schemes	66.7%	100.0%	0%
		(vii)	No compensation in a Director's dismissal without due cause	25.0%	45.0%	8.3%
		(viii)	Remuneration of the non-executive members	86.8%	88.2%	85.7%
		II.1.5.4				
		(i)	Approval in the General Meeting of plans for the share allocation plan and/or share purchase option plan	90.9%	100.0%	66.7%
		(ii)	Proposal must contain all the necessary elements for a correct assessment of the plan	100.0%	100.0%	100.0%

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 4

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
Managing and Supervisory bodies	Remuneration	(iii)	The proposal must contain the plan's regulations	100.0%	100.0%	100.0%
		(iv)	GM approval of retirement benefits for members of the Managing, Supervisory and remaining directors	83.3%	100.0%	50.0%
		II.1.5.6	One representative of the remuneration Committee in the GM	84.1%	95.0%	75.0%
	Board of Directors	II.2.1	Delegation of powers	83.3%	88.9%	79.2%
		II.2.2				
		(i)	Non-delegation of powers in the definition of the company's strategy and general policies	85.7%	88.9%	83.3%
		(ii)	Non-delegation of the definition of the group's corporate structure	92.9%	88.9%	95.8%
		(iii)	Non-delegation of strategic decisions	88.1%	83.3%	91.7%
		II.2.3	Ensure information and independence of the non-executive members	94.4%	100.0%	91.7%

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 5

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
Managing and Supervisory bodies	Specialised Committees	II.5.1				
		(i)	Creation of specialised committees for the assessment of executive Directors' performance	77.3%	75.0%	79.2%
		(ii)	Creation of specialised committees to for the assessment of the governance model adopted	84.1%	85.0%	83.3%
		(iii)	Creation of specialised committees to identify potential candidates for a director's position	75.0%	75.0%	75.0%
		II.5.2	Independence and duties of the Remuneration Committee members	71.8%	66.7%	75.0%
		II.5.3	Preventing conflicts of interest	93.2%	95.0%	91.7%
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%

Table 4.1

Percentage of compliance with the corporate governance recommendations in 2011

Page 6

				% of companies in compliance		
Recommendations				All companies	PSI20	Others
Information and auditing	General Disclosure Duties	III.1.4	Duties of External Auditor	84.1%	90.0%	79.2%
		III.1.5	Limits to the relations with External Auditor	77.3%	85.0%	70.8%

Key for the following pages

% of compliance in 2010

100%

100%

the percentage on the left side refers to the number of companies in compliance belonging to the PSI20 Index

100%

100%

the percentage on the right side refers to the number of companies in compliance of all listed companies.

4.1. Recommendations Regarding the General Meeting

Vote by Correspondence (I.3.1)

All listed companies welcome the recommendation which prohibits limits to the exercise of voting by correspondence.

In 2010, the corresponding figure was lower for all the companies, 97.7%. However, this recommendation was already accepted by all the companies in the PSI 20 Index in 2010.



Measures Aiming to Prevent Successful Takeover Bids (I.6.1)

The recommendation regarding the use of measures adopted to prevent the success of takeover bids is accepted by 83.7% of the companies.

In this case, the compliance by the PSI 20 companies is lower, only 73.7%. In 2010, the percentages were at 77.3% and 70% respectively. Therefore, an improvement has been recorded when looking at the degree of compliance with this recommendation.



Free Transferability of Shares (I.6.2)

The recommendation that promotes the free transferability of shares is accepted by 97.7% of the listed companies.

In 2010, the corresponding figure was higher; this recommendation was accepted by all the companies and it remained the case in 2011 but only for the PSI 20 companies.

100% 100% **97,7%** 100%

PSI 20 companies comply with the recommendation that promotes the free transferability of shares.

listed companies comply with the recommendation that promotes the free transferability of shares.

4.2. Managing and Supervisory Boards

4.2.1 Structure and Duties

Assessment of the Corporate Model Adopted (II.1.1.1)

The recommendation on the need to evaluate the corporate model adopted and possible need for measures to improve its functioning is accepted by 100% of the companies.

In 2010, this recommendation was complied with by 86.4% of the companies, reaching 95% in the case of the companies included in the PSI 20. Once more, the increased degree of compliance should be noted.

100% 95% **100%** 86,4%

PSI 20 companies comply with the recommendation on the need to evaluate the corporate model adopted.

listed companies comply with the recommendation on the need to evaluate the corporate model adopted.

To be noted that in 2010 the degree of compliance with the next two recommendations was analysed collectively, having been accepted by 86% of the listed companies and by 90% of the companies that make up the PSI 20 Index.

Implementation of Internal Control Systems and Risk Management Systems (II.1.1.2.i)

The recommendation that calls for the implementation of internal control systems and risk management systems is followed by 93.2% of the companies and by all the PSI 20 Companies.

100%

PSI 20 companies comply with the recommendation that calls for the implementation of internal control systems and risk management systems

93,2%

listed companies comply with the recommendation that calls for the implementation of internal control systems and risk management

Components to be Integrated in the Internal Control and Risk Management Systems (II.1.1.2.ii)

In turn, the recommendation that indicates the components to be integrated in the internal control systems and risk management systems is observed by 70.5% of the companies and by 80% of the companies in the PSI 20 Index.

80%

PSI 20 companies comply with the recommendation that indicates the components to be integrated in the internal control systems and risk management systems

70,5%

listed companies comply with the recommendation that indicates the components to be integrated in the internal control systems and risk management systems

Assessment of the Functioning of the Internal Control and Risk Management Systems (II.1.1.3)

93.2% of the companies follow the recommendation which calls for an assessment of their internal control systems and risk management systems.

This percentage was of 81.8% in 2010. For the PSI 20 companies, the percentage of compliance was total in both of the analysed exercises.



In 2010, the acceptance of the next two recommendations was analysed collectively and 86.4% of the listed companies and 95% of the PSI 20 companies identified, in their annual reports, the main economic, financial and legal risks to which the company is exposed by also describing the performance and efficiency of the risk management system.

Identify Economic, Financial and Legal Risks (II.1.1.4.i)

It is noted that 97.7% of the listed companies identify in their annual reports the main economic, financial and legal risks to which the company is exposed in the exercise of its business activity.

For the PSI 20 companies, this percentage reaches the full 100%.



Describe the Performance and Efficiency of the Risk Management System (II.1.1.4.ii)

In 2011, 88.6% of the listed companies also described the performance and efficiency of the risk management system in the mentioned annual report. This percentage reaches 100% for the PSI 20 companies.

100%

PSI 20 companies comply with the recommendation which concerns the description of the performance and efficiency of the risk management system.

88,6%

listed companies comply with the recommendation which concerns the description of the performance and efficiency of the risk management system.

In 2010, the degree of compliance with these next four recommendations was analysed jointly, standing at 85% of compliance by the PSI 20 companies. This figure was only at 68% for all the listed companies.

Operating Regulations for the Managing Board (II.1.1.5.i)

100% of the PSI 20 companies have operating regulations for the Managing Boards.

For all the listed companies, this percentage drops to 79.5%.

100%

PSI 20 companies comply with the recommendation which concerns the operating regulations for the managing boards.

79,5%

listed companies comply with the recommendation which concerns the operating regulations for the managing boards.

Disclosure of the Managing Board's Regulation in the Internet (II.1.1.5.ii)

75% of the listed companies disclose, in their internet website, the company's regulations for the functioning of the Managing Boards.

This percentage is 95% for the PSI 20 companies.

95%

PSI 20 companies comply with the recommendation which concerns the disclosure of the managing board's regulation in the internet.

75%

listed companies comply with the recommendation which concerns the disclosure of the managing board's regulation in the internet.

Operating Regulations for the Supervisory Board (II.1.1.5.iii)

All the companies in the PSI 20 Index have operating regulations for the Supervisory Boards.

For all the listed companies the percentage is 81.8%.

100%

PSI 20 companies comply with the recommendation which concerns the existence of operating regulations for the supervisory boards.

81,8%

listed companies comply with the recommendation which concerns the existence of operating regulations for the supervisory boards.

Disclosure of the Supervisory Board's Regulations in the Internet (II.1.1.5.iv)

77.3% of the listed companies disclose in their internet websites the operating regulations for the Supervisory Boards.

The corresponding percentage for the PSI 20 companies is of 95%.

95%

PSI 20 companies comply with the recommendation which concerns the disclosure of the supervisory board's regulation in the internet.

77,3%

listed companies comply with the recommendation which concerns the disclosure of the supervisory board's regulation in the internet.

4.2.2 Incompatibility and Independence

Number of Non-Executive Members (II.1.2.1)

The recommendation stating that the number of non-executive directors in the Managing Board should be sufficient to guaranty the effective supervision, monitoring and assessment of the executive members' activity is accepted by 88.9% of the PSI 20 companies and by 83.3% of the remaining listed companies, that is, those not included the PSI 20 Index.

Comparing the figures with those gathered in 2010, 100% and 85.7% respectively, a considerable decrease in the degree of compliance with this recommendation is found when referring to the PSI 20 Companies.

88,9% 100%

PSI 20 companies comply with the recommendation concerning the number of non-executive directors in the managing board.

85,7% 86%

listed companies comply with the recommendation concerning the number of non-executive directors in the managing board.

Independent Directors (II.1.2.2)

The recommendation defining a number of independent directors never below one fourth of the total number of members, among the non-executive directors, is still recording the lowest acceptance among the Portuguese listed companies. 61.1% of the PSI 20 companies and only 40.5% of the listed companies observe this particular recommendation.

It is important to note that these numbers are significantly worse than those recorded in 2010, which stood at 66.7% and 47.6% respectively.



Assessment of Independence (II.1.2.3)

The recommendation establishing the procedures to evaluate the non-executive directors' independence is accepted by 75.6% of the companies. This figure is slightly higher, 77.8%, in the case of the PSI 20 companies.

An improvement has been recorded when comparing to 2010, when the corresponding percentages were at 64.3% for the listed companies and 66.7% in the case of the companies in the PSI 20.



4.2.3 Eligibility and Appointment Criteria

Independence of the Chair of the Supervisory Board, Auditing and Financial Committees (II.1.3.1)

The percentage of companies in the PSI 20 Index that follow the recommendation stating that the Chair of the Supervisory Board, of the Auditing Committee or of the Financial Matters Committee must be independent and adequately competent to perform the respective duties is of 90%, figure slightly lower than that verified for all the listed companies, 90.9%.

In 2010, the percentage of compliance remained the same for the PSI 20 companies. However, the degree of compliance generally decreased considering it stood at 95% in 2010.

90% 90%

PSI 20 companies comply with the recommendation stating the independence of the chair of the supervisory board, of the auditing committee or of the financial matters committee.

90,9% 95%

listed companies comply with the recommendation stating the independence of the chair of the supervisory board, of the auditing committee or of the financial matters committee.

Selection of Non-Executive Directors (II.1.3.2)

The recommendation according to which the process of selection of the non-executive members must be designed so as to prevent the interference of the executive members is accepted by only 35.7% of the Portuguese listed companies. In the case of the PSI 20 companies, this compliance is higher although still low: only 61.1% accept this recommendation.

To be noted that the results on this issue have deteriorated in relation to 2010. For that year, the percentages observed were low but still superior: half of the listed companies and two thirds of the PSI 20 companies accepted this recommendation.

61,1% 66,7%

PSI 20 companies comply with the recommendation on selection of the non-executive directors.

35,7% 50%

listed companies comply with the recommendation on selection of the non-executive directors.

4.2.4 Policy on the Reporting of Irregularities

In 2010, the degree of compliance with these next two recommendations was analysed jointly, standing at 62.5% of compliance for all the companies which are not included in the PSI 20 Index.

Internal Communication (II.1.4.1.i)

As in 2010, all the companies in the PSI 20 Index accept the policy regarding the reporting of irregularities in accordance with the international recommendations of corporate governance.

For the remaining companies, i.e., those not included in the PSI 20 Index, this percentage is 70.8%.

100%

PSI 20 companies comply with the recommendation on internal communication of irregularities.

84,1%

listed companies comply with the recommendation on internal communication of irregularities.

Treatment of Communications (II.1.4.1.ii)

As in 2010, all the companies in the PSI 20 Index accept the policy regarding the reporting of irregularities in accordance with the international recommendations of corporate governance.

For the remaining companies, i.e., those not included in the PSI 20 Index, this percentage is 66.7%.

100%

PSI 20 companies comply with the recommendation on treatment of irregularities.

81,8%

listed companies comply with the recommendation on treatment of irregularities.

4.2.5 Remuneration

Remuneration of Directors with Executive Duties (II.1.5.1.i)

As recommended, for 95% of the companies in the PSI 20 Index the executive directors' remuneration includes a variable component, which is determined upon an assessment of performance.

This percentage is much lower, being 47.8%, for the remaining companies, i.e. those not included in the PSI 20 Index. Nevertheless, the degree of acceptance has improved when compared to 2010 when the corresponding percentages were at 90% for the PSI 20 companies and 41.7% for the remaining companies.

95% 90%

PSI 20 companies comply with the recommendation which concerns the remuneration of directors with executive duties.

69,8% 64%

listed companies comply with the recommendation which concerns the remuneration of directors with executive duties.

Variable Remuneration Schemes (II.1.5.1.vi)

The recommendation for the treatment of options, where these are part of the variable remuneration, is followed by the total number of companies in the PSI 20 but by none of the remaining companies.

Comparing with 2010, we found a significant increase in the degree of compliance with this particular recommendation by the PSI 20 companies. Indeed, in 2010 only 75% of the companies in the PSI 20 welcomed this recommendation. For the remaining companies, the situation remained unchanged. In 2010, as in 2011, none welcomed this recommendation.

100% 75%

PSI 20 companies comply with the recommendation for the treatment of options, where these are part of the variable remuneration.

33,3% 33,3%

listed companies comply with the recommendation for the treatment of options, where these are part of the variable remuneration.

No Compensation in a Director's Dismissal Without Due Cause (II.1.5.1.vii)

The recommendation that envisions the established compensation, in case of a Director's dismissal without due cause, should not be paid if the dismissal is the result of the director's inappropriate performance or misconduct is the least accepted.

Indeed, only 45% of the companies in the PSI 20 follow it, and among the remaining companies, those not included in the PSI 20, this figure drops to 8.3%. Compared to 2010, an improvement has been recorded in the degree of compliance in the PSI 20 companies which was only 30%. However, the situation has worsened when referring to other companies where this very same percentage was 13% in 2010.

45% 30%

PSI 20 companies comply with the recommendation that envisions no compensation in a director's dismissal without due cause.

25% 20,9%

listed companies comply with the recommendation that envisions no compensation in a director's dismissal without due cause.

Remuneration of the Non-Executive Members (II.1.5.1.viii)

The percentage of companies that follow the recommendation according to which the remuneration of the non-executive members of the Managing Board should not include any component where the amount may depend on performance or the value of the company is complied with by 88.2% of the PSI 20 companies. This figure was only 72.2% in 2010.

For the remaining issuer companies, that is, those not included in the PSI 20, this percentage has also soared. It went from 77.3% in 2010 to 85.7% in 2011.

88,2% 72,2%

PSI 20 companies comply with the recommendation which concerns the remuneration of non-executive members.

86,8% 75%

listed companies comply with the recommendation which concerns the remuneration of non-executive members.

In 2010, the acceptance of these next four recommendations was analysed as a whole and the following percentages were observed: 81.8% for PSI 20 companies and 72.7% for other listed companies.

Approval in the General Meeting of Plans for the Share Allocation Plan and/or Share Purchase Option Plan (II.1.5.4.i)

All the PSI 20 companies have submitted to the General Meeting, for approval, the proposal for a share allocation plan and/or share purchase option plan for members of the Managing, Supervisory Boards and further directors.

For other companies, those not included in the PSI 20, this percentage is of two thirds.

100%

PSI 20 companies comply with the recommendation that envisions the approval in the general meeting of plans for the share allocation and/or share purchase option.

90,9%

listed companies comply with the recommendation that envisions the approval in the general meeting of plans for the share allocation and/or share purchase option.

Proposal Must Contain all the Necessary Elements for a Correct Assessment of the Plan (II.1.5.4.ii)

For all the listed companies, the proposal submitted to the General Meeting contains all the necessary elements for a proper appraisal of the share allocation plan and/or share purchase option plan to members of the Managing, Supervisory Boards and further directors.

100%

PSI 20 companies comply with the recommendation that ensures that the proposal contains all the necessary elements for a correct assessment of the plan.

100%

listed companies comply with the recommendation that ensures that the proposal contains all the necessary elements for a correct assessment of the plan.

The Proposal Must Contain the Plan's Regulations (II.1.5.4.iii)

Again, for all of the listed companies, the proposal on the approval of share allocation plans and/or share purchase option plans to members of the Managing, Supervisory Boards and other directors is delivered with the respective regulations.

100%

PSI 20 companies comply with the recommendation that ensures that the the proposal contains the plan's regulations.

100%

listed companies comply with the recommendation that ensures that the the proposal contains the plan's regulations.

General Meeting Approval of Retirement Benefits for Members of the Managing, Supervisory and Remaining Directors (II.1.5.4.iv)

All the PSI 20 companies approved, in the General Meeting, the Managing, Supervisory boards' and remaining directors' retirement benefits.

For other listed companies, not included in the PSI 20 Index, only half accept this recommendation.

100%

PSI 20 companies comply with the recommendation which concerns the approval by the general meeting of the the managing, supervisory boards' and remaining directors' retirement benefits.

83,3%

listed companies comply with the recommendation which concerns the approval by the general meeting of the the managing, supervisory boards' and remaining directors' retirement benefits.

One Representative of the Remuneration Committee in the General Meeting (II.1.5.6)

For 95% of the companies in the PSI 20 Index and 75% of the remaining listed companies, at least one representative of the Remuneration Committee is present in the General Shareholders' Meetings.

In 2010, the corresponding percentages were at the same 95% for the PSI 20 companies but 78.3% for other companies.

95% 95%

PSI 20 companies comply with the recommendation which ensures that one representative of the remuneration committee is present in the general meetings.

84,1% 86%

listed companies comply with the recommendation which ensures that one representative of the remuneration committee is present in the general meetings.

4.2.6 Board of Directors

Delegation of Powers (II.2.1)

The recommendation stating that the Board of Directors should delegate the day-to-day company management with the corresponding delegated powers clearly identified in the annual Corporate Governance Report is followed by 83.3% of the listed companies (80.5% in 2010).

This figure was at 88.9% for the PSI 20 companies in 2010 and 2011.

88,9% 88,9%

PSI 20 companies comply with the recommendation on powers delegation.

83,3% 80,5%

listed companies comply with the recommendation on powers delegation.

In 2010, the three next recommendations were looked at as a whole and the recommendation on the non-delegable powers was followed by 82.9% of the listed companies and by 88.9% of the PSI 20 companies.

Non-Delegation of Powers in the Definition of the Company's Strategy and General Policies (II.2.2.i)

The recommendation prohibiting delegation when concerning the definition of the company's strategy and general policies is adhered to by 85.7% of the listed companies and by 88.9% of the companies in the PSI 20 Index.

88,9%

PSI 20 companies comply with the recommendation prohibiting delegation when concerning the definition of the company's strategy and general policies.

85,7%

listed companies comply with the recommendation prohibiting delegation when concerning the definition of the company's strategy and general policies.

Non-Delegation of the Definition of the Group's Corporate Structure (II.2.2.ii)

For 88.9% of the PSI 20 companies and 92.9% of all listed companies, the Board of Directors does not delegate the definition of the group's corporate structure.

88,9%

PSI 20 companies comply with the recommendation prohibiting delegation the definition of the group's corporate structure.

92,9%

listed companies comply with the recommendation prohibiting delegation the definition of the group's corporate structure.

Non-Delegation of Strategic Decisions (II.2.2.iii)

For 83.3% of the companies in the PSI 20 Index and 88.1% of all the listed companies, the Board of Directors does not delegate strategic decision making.

83,3%

PSI 20 companies comply with the recommendation that ensures the non-delegation of strategic decisions.

88,1%

listed companies comply with the recommendation that ensures the non-delegation of strategic decisions.

Ensure Information and Independence of the Non-Executive Members (II.2.3)

All of the companies in the PSI 20 Index (against 87,5% in 2010), and 91.7% of the remaining companies (75% in 2010) accepted the recommendation stating that in the event the Chair of the Board of Directors carries out executive functions, then the Board must find mechanisms to ensure that the non-executive members may make independent and informed decisions.

100% 87,5%

PSI 20 companies comply with the recommendation that ensures information and independence of the non-executive members.

83,3% 80%

listed companies comply with the recommendation that ensures information and independence of the non-executive members.

4.2.7 Specialised Committees

In 2010, these next three items were globally analysed and the following results obtained: in 75% of the issuer companies (inside and outside the PSI 20 Index) the necessary committees worked to ensure a competent and independent assessment of performance, to reflect on and improve the adopted corporate governance system, and timely identify potential candidates to perform the duties of Director.

Creation of Specialised Committees for the Assessment of Executive Directors' Performance (II.5.1.i)

For 75% of the companies in the PSI 20 Index and 79.2% of the remaining companies, the necessary committees function so as to ensure a competent and independent assessment of the executive members' performance.

75%

PSI 20 companies comply with the recommendation that ensures creation of specialised committees for the assessment of the executive members' performance.

77,3%

listed companies comply with the recommendation that ensures creation of specialised committees for the assessment of the executive members' performance.

Creation of Specialised Committees for the Assessment of the Governance Model Adopted (II.5.1.ii)

In 84.1% of the issuer companies and 85% of those in the PSI 20 Index, the necessary committees function to reflect on and improve the corporate governance systems adopted.

85%

PSI 20 companies comply with the recommendation that ensures creation of specialised committees for the assessment of the governance model adopted.

84,1%

listed companies comply with the recommendation that ensures creation of specialised committees for the assessment of the governance model adopted.

Creation of Specialised Committees to Identify Potential Candidates for a Director's Position (II.5.1.iii)

The necessary committees work, in 75% of the issuer companies (included or not in the PSI 20), to timely identify potential candidates for a Director's position.

75%

PSI 20 companies comply with the recommendation that ensures creation of specialised committees to identify potential candidates for a director's position.

75%

listed companies comply with the recommendation that ensures creation of specialised committees to identify potential candidates for a director's position.

Independence and Duties of the Remuneration Committee Members (II.5.2)

The recommendation that advocates the independence of the members of the Remuneration Committee in relation to the members of the Managing Board, including at least one with knowledge and experience in matters of remuneration policies, is acknowledged by 71.8% of the issuer companies and by a smaller figure of 66.7% of the companies in the PSI 20 Index.

We thus observe a poorer performance of the companies that comprise the Portuguese market benchmark index. These companies also record a negative evolution when compared to 2010, when this figure was at 71.8%.

On the other hand, we witness a very positive evolution by other companies, that is, those not included in the PSI 20 Index, where this proportion goes from 62.5% in 2010 to 75% in 2011.

66,7% 75%

PSI 20 companies comply with the recommendation that advocates the independence of the members of the remuneration committee.

71,8% 68,2%

listed companies comply with the recommendation that advocates the independence of the members of the remuneration committee.

Preventing Conflicts of Interest (II.5.3)

The recommendation that aims to prevent conflicts of interest in determining remunerations, namely by stipulating that a person who has rendered services over the last three years to the company shall not be recruited to assist the Remuneration Committee, is welcomed by 95% of the companies in the PSI 20 Index and by 91.7% of the other companies.

The corresponding numbers were 85% and 75% for 2010. Therefore, a significant improvement in the degree of compliance with this recommendation should be stressed.

95% 85%

PSI 20 companies comply with the recommendation that aims to prevent conflicts of interest in determining remunerations.

93,2% 79,5%

listed companies comply with the recommendation that aims to prevent conflicts of interest in determining remunerations.

4.3 Information and Auditing

4.3.1 General Disclosure Duties

Principle of Equality for Shareholders and Equal Access to Information (III.1.1)

As in 2010, all the companies in the PSI 20 Index respect the principle of shareholder equality, preventing asymmetries in the investors' access to information with the aid of the existing Investor Assistance Unit.

This percentage is 95.8% for the remaining listed companies in 2010 and 2011.

100% 100%

PSI 20 companies comply with the recommendation that ensures the principle of equality for shareholders and equal access to information.

97,7% 97,7%

listed companies comply with the recommendation that ensures the principle of equality for shareholders and equal access to information.

Duties of External Auditor (III.1.4)

The recommendation concerning the External Auditor's powers is followed by 90% of the companies in the PSI 20 Index (85% in 2010) and by 79.2% of the other listed companies (62.5% in 2010).

Here, we may also observe an improvement in the degree of acceptance especially by other listed companies, i.e., those not included in the PSI 20 Index.

90% 85%

PSI 20 companies comply with the recommendation concerning the external auditor's duties.

84,1% 72,7%

listed companies comply with the recommendation concerning the external auditor's duties.

Limits to the Relations with External Auditor (III.1.5)

The recommendation that the company should not take on an External Auditor for a significant number of services other than auditing services is accepted by 77.3% of the listed companies (85% in the case of the PSI 20 companies).

In 2010, this recommendation had been accepted by 65.9% of the listed companies (65% for the PSI 20 companies). Once more, it is worth noting a more significant acceptance by all the issuer companies.

85% 65%

PSI 20 companies comply with the recommendation that ensures limits to the relations with external auditor.

77,3% 65,9%

listed companies comply with the recommendation that ensures limits to the relations with external auditor.

4.4. Some Final Comments

Among the recommendations presenting a lower degree of acceptance we may stress those concerning remunerations.

In fact, the recommendation according to which there should not be a compensation in a director's dismissal without due cause is only followed by 45% of the PSI 20 companies (30% in 2010) and by 8.3% of the remaining listed companies (13% in 2010).

As in 2010, none of the latter follows the recommendation regarding the use of options in the variable remuneration scheme.

In addition, only 50% of the remaining companies approve the Managing, Supervisory Boards and other directors' retirement benefits in the General Meeting.

A low degree of compliance is also observed regarding matters of incompatibility and independence of the Managing and Supervisory Boards.

The recommendation concerning the necessary proportion of independent directors is welcomed by 61.1% of the PSI 20 companies and by only 25% of the other listed companies.

These percentages were two-thirds and one-third respectively in 2010. We thus conclude that the degree of compliance with this recommendation is lower.

It is further noted that, as in 2010, the degree of compliance on the part of the companies outside the PSI 20 Index is lower in what concerns the recommendations for the selection of candidates for non-executive directors' positions: (16.7% of compliance in 2011 and

37.5% in 2010), remuneration of directors with executive duties (47.8% in 2011 and 41.7% in 2010), operating regulations for the Managing and Supervisory Boards and its disclosure in the Internet (where the degree of compliance varies between 58.3% and 66.7% and was at 54.2% in 2010), and components to be integrated in the internal control and risk management systems (62.5% of compliance in 2011).

On the other hand, and still concerning these companies, the degree of compliance improved on the recommendations concerning the External Auditor's powers (79.2% of compliance in 2011 and only 62.5% in 2010) and the policy for the reporting of irregularities (70.8% for the internal communication and 66.7% for the treatment of communications in 2011, against 62.5% of combined compliance in 2010).

As for the companies in the PSI 20 Index, in addition to the recommendations above-mentioned, there is still a low acceptance in the following matters: i) selection of candidates to non-executive directors' positions (61.1% of compliance in 2011 and 66.7% in 2010); ii) independence and competence of the Remuneration Committee members (66.7% of compliance in 2011 against 75% in 2010) and (iii) measures aiming to prevent the success of public acquisition offers (73.7% of compliance in 2011 versus 70% in 2010).

5. Production of the Católica Lisbon/AEM Corporate Governance Index and Rating in 2011

5.1. Católica Lisbon/ AEM Corporate Governance Index

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

This Index measures, for each company listed in the Stock Exchange, the degree of compliance with national recommendations on corporate governance with matching international recommendations and regulations (see chapter 2).

In fact, as explained earlier, for the production of the present Index, only the recommendations of the Portuguese code with a correspondence in international reference texts have been selected. Within these, we further distinguish as most relevant the recommendations that present a wider correspondence with the international benchmarks.

The Católica Lisbon/AEM Index is, therefore, a carefully thought Index which does not consider the recommendations of the Portuguese code that do not have a parallel in international texts.

Also noteworthy is that the recommendations not deemed applicable to a certain company have not been considered for the calculation/production of the Index for that particular company.

As a result, we have an Index which is original in its assumptions, presented for the second consecutive year, and is not directly comparable with any other compliance indicator existing for the Portuguese capital market.

Accordingly, the methodological change introduced in the Index calculation this year and thoroughly explained throughout this Report, does not allow a direct comparison of the values obtained for 2011 with those available for 2010.

In order to solve this limitation, the descriptive statistics Appendix is presented, for the year 2011, calculated using the methodology considered in 2010 so as to allow an analysis on the temporal evolution of the compliance with the relevant corporate governance practices.

The Index value for each company will represent the respective reflected level of compliance with the corporate governance rules applied in Portugal, with international relevance.

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

In the following table, some descriptive statistics are presented concerning the distribution of the 2011 Católica Lisbon/AEM Index, for the 44 sample companies considering as well those included in the PSI 20 Index.

	All Companies	PSI 20 Companies
Mean	9165	9478
Variable	347544	157593
Standard deviation	590	397
Median	9343	9615
1st Quartile	8727	9364
3rd Quartile	9625	9774
Inter-quartile range	898	409
Maximum	10000	10000
Minimum	7583	8607
Range of variation	2417	1393
Coefficient of variation	6%	4%
Number of companies	44	20

Table 1 –Católica Lisbon/AEM Index 2011 – Descriptive Statistics

On average, the weighted degree of compliance for the corporate governance regulations bearing international correspondence, by the Portuguese listed companies in 2011, determined by the Index was 9.165.

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

Also for the 28 companies affiliated to AEM, included in the present Report, the mean degree of compliance was significantly higher to that obtained for the non-affiliated companies, 9.452 versus 8.663 points.

Both for the overall listed companies as well as for the companies in the PSI 20 Index, the median values were above average, 9.343 and 9.615 respectively.

This means that for 50% of the listed companies the Index value was higher than 9.343 and that for half of the PSI 20 companies, it exceeded 9.615 points.

By comparing the median and the mean, it becomes clear 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 which corresponds to higher values.

It should be noted that the same is true for the companies affiliated to AEM that are included in this Report; for these last ones the median was of 9.572 points.

The values obtained for the first and third quartiles confirm such results.

Indeed, for 75% of the 44 companies considered the respective Index result was higher than 8.727 and for 25% of the companies this value exceeded 9.625.

For the companies in the PSI 20, in 75% of the cases, the Index value was greater than 9.364 points, and in 25% of the cases exceeded 9.774.

Regarding AEM's 28 associated companies, the first and the second quartiles were at 9.263 and 9.755 respectively.

Now considering matters of dispersion, we verify that it is not very marked.

In fact, in 2011, the Index recorded values between 7.583 and 10.000, which implies a range of variation of only 2.417 points.

The standard deviation was of 590, which corresponds to a coefficient of variation of 6%.

As seen in Table 5.1, concerning the PSI 20 Index companies, the dispersion is significantly lower.

The same applies to the 28 affiliated companies.

For the PSI 20 companies, the Index recorded values between 8.607 and 10.000. The standard deviation was of 397, implying a coefficient of variation of 4%.

To be noted that all the PSI 20 companies are associated, reason why the results for these and the associated companies are quite similar.

9165

Mean of the degree of compliance for the corporate governance regulations bearing international correspondence, by the Portuguese listed companies in 2011.

9478

Mean of the degree of compliance for the corporate governance regulations bearing international correspondence, by the PSI 20 companies in 2011.

9343

Median of the degree of compliance for the corporate governance regulations bearing international correspondence, by the Portuguese listed companies in 2011.

9615

Median of the degree of compliance for the corporate governance regulations bearing international correspondence, by the PSI 20 companies in 2011.

5.2. Católica Lisbon/AEM Corporate Governance Rating

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

The result is an additional contribution of the present Report which beyond the creation of the mentioned Index, presents as well a Rating classification concerning the compliance

with the recommendations on corporate governance in Portugal that have an international correspondence.

In the following Table, we present the different rating classes considered, their limitations, the respective designation as well as the number and percentage of companies that pertain to each one.

Rating	Classes	Number of Companies	% of Companies
D	inferior a 6850	0	0
C	6850 - 7300	0	0
CC	7300 - 7750	1	2,3 %
B	7750 - 8200	2	4,5 %
BB	8200 - 8650	7	15,9 %
A	8650 - 9100	7	15,9 %
AA	9100 - 9550	11	25,0 %
AAA	9550 - 10000	16	36,4 %

Table 5.2 – Católica Lisbon/AEM Corporate Governance Rating - 2011

As in its first edition, the Report considered a division into 8 classes and following a terminology already established, a rating was assigned to each class 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 2011, there were no listed companies in this category.

The CC or C classes correspond to a sub-compliance status regarding the corporate governance recommendations.

As verified in table 5.2, there is only one company in this class. For the classes BB and B, we have 20.4% of the companies and the Index may range between 7.750 and 8.650.

This degree of compliance is considered as medium-high. In order to achieve an A rating, the Index must exceed 8.650 points, which is observed for 77.3% of the listed companies. An AAA rating is assigned to a company with an Index greater than 9.550 points.

In 2011, 36.4% of the companies obtained this rating, this class being the modal class, that is, the class with the largest number of companies.

To better visualize the distribution of companies through the different defined rating classes, we present the corresponding graphic representation below.

The first finding is that, as already shown in Tables 5.1 and 5.2., the percentage of companies that record sub-compliance is reduced.

In fact, there are no companies included in the D and C classes and we include only one company in the CC class which corresponds to 2.3% of the listed companies in the Report.

Another significant result is that 93.2% of the companies are concentrated in the BB, A, AA and AAA classes.

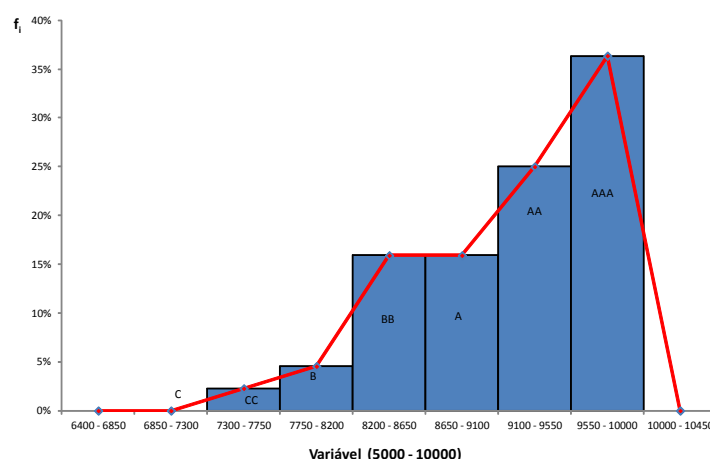
Also noteworthy is the fact that there are 61.4% of listed companies included in the two highest rating classes, the AA and AAA.

On the other hand, 34 companies (77.3% of the total number) present a rating higher 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 it is based, are calculated using a particular scale and methodology inherent to this study, not being, therefore, directly comparable to any other corporate governance indicator for the Portuguese capital market.

As explained in the previous chapter concerning the Index, the change in the methodology, introduced this year for the rating calculation, extensively detailed in this Report does not allow the comparison of the results obtained for 2011 with those available for 2010.

So being, in order to solve this limitation, the Appendix presents the rating classes for 2011, calculated according to the 2010 methodology so as to enable the analysis of the temporal evolution of the compliance with the relevant corporate governance practices.



Picture 5.1 –Católica Lisbon/AEM Corporate Governance Rating Classes -2011

6. Relations Between the Corporate Governance Index and the Characteristics of Companies

Having been described, in the previous chapters, the corporate governance practices accepted by the companies included in the study and having made an assessment on the degree of compliance with the recommendations on corporate governance for each one leading to the creation of the Católica Lisbon/AEM Index and Rating, the purpose is, in the present chapter, to determine which character-

istics of the companies may explain the respective different degrees of compliance.

As a matter of fact, we seek herein to understand how the degree of compliance with the corporate governance recommendations (measured by the individual Index obtained before), shown by the Portuguese listed companies, varies according to certain characteristics of these companies.

6.1. Characteristics of Companies

Having based the analysis on previous academic studies, it was deemed suitable to include as explanatory of the Index on the degree of compliance with corporate governance recommendations the following characteristics:

1. Size of the company
2. Sector of activity
3. Company performance and profitability
4. Return to investor
5. Shareholder structure
6. Experience in the stock market
7. Governance model

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

- market capitalisation, registered in the Euronext Lisbon Stock Exchange market on the 31.12.2011 (this size criterion is used, for example, by Financial Times in its well-known Directory “FT 1000”);

- trading volume (income) reported in the companies’ Financial Reports referring to the exercise of 2011 (a size criterion used by multiple sources, namely Fortune, in its Directori-

es “Fortune 500” and “International Fortune 500”);

- number of employees, reported in the companies’ Financial Reports regarding the exercise of 2011 (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, and following the existing literature, the given size of the sample and its density in terms of sectorial classes, it was only considered:

(i) the distinction between financial and non-financial companies, and,

(ii) the distinction between companies in the construction sector and others, given that the construction sector has been severely hit by the present economic crisis.

As indicators of performance and profitability, the following variables were used: Net Income, Earnings Before Interest and Taxes (EBIT), Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), and the Fi-

nancial Debt ratio/EBITDA as a leverage measure/debt service capacity.

With regard to the return to Investor, the return on equity indicator (ROE) was used.

To characterise the shareholder structure, a free float variable was introduced. This variable is the share capital represented in shares admitted to trading in the regulated market that is in circulation, *i.e.*, the percentage of the total shares admitted in the Stock Exchange that are available for free trading in the secondary market. For the purposes of the present Report, the free float considered was that registered for each company in the Euronext Lisbon Stock Exchange market, on the 31st December 2011.

In accordance with the official regulations for the PSI 20 Index, Index Rule Book Version 11-02, published by NYSE Euronext and in force since the 1st June 2011, *“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 14).

To measure the capital market experience, we considered the number of years in the Stock Exchange, *i.e.*, the date of initial dispersion or initial public offer (IPO) of each company and the 31st December 2011.

In what concerns the governance model, three models were considered under the Portuguese law: the classical model, the dualist model, and the anglo-saxon model. As for supervision, the classical model comprises a managing board, a supervisory board and a statutory auditor (SA) (this description is addressed to the business community object of this study. We should bear in mind that

the inclusion of the sole inspector as replacement for the Supervisory Board and the possible integration of the SA in the Supervisory Board are not accepted for listed companies (article 278, nº. 3 and 413, nº. 2. a) of the Corporate Code). For further developments: Câmara, P. (2007), *Modelos de Governo das Sociedades Anónimas*, 197-258 = *Reformas do Código das Sociedades*, ed. IDET, Almedina, 179-242.); 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 SA.

In addition to the seven predefined variables described above, one other was introduced to distinguish companies belonging to the PSI 20 Index and those which do not, therefore comprising 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). Thus, each of the twenty companies, part of the benchmark Index of the Portuguese market, present bigger market capitalizations and higher levels of liquidity than the remaining 24 companies included in the present study.

6.2. Econometric Results

The relationship between the Index of compliance with the corporate 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 B pertaining to this Report.

The results obtained may be summarised as follows:

(i) as in 2010, no significant statistical relation was found between the degree of compliance and the size variables considered, that is, the market capitalization, trading volume and number of employees..

(ii) the performance and profitability indicators used do not explain the degree of acceptance of the corporate governance recommendations either, the same as in 2010. In fact, no significant relations were found between the level of compliance of each company and their performance indicators, measured by the four variables described above (Net result, EBIT, EBITDA and leverage/debt service capacity). In addition, the variable return to investor did not produce significant statistical results.

(iii) in contrast, a very significant relation was found, in statistical terms, between the Index values on the degree of compliance and whether a company belongs to the PSI 20 Index or not. The results of the study demonstrate that a company in the PSI 20 Index complies best with the corporate governance recommendations. This factor corresponds to an increase of 447 points in the individual compliance Index. This figure

is very similar to the 443 points obtained in 2010. Note, however, that the methodology used for the calculation of the individual Indexes was reformulated in 2011 and therefore both regression exercises are not directly comparable.

(iv) the shareholder structure is another factor that became explanatory of the corporate governance Index. Indeed, there is a positive and very significant relation, in statistical terms, between the free float variable and the compliance degree. Actually, data shows that the bigger the number of shares in circulation the better the acceptance of the recommendations is. The estimates carried out show that an addition of one percent in the free float corresponds to an increase of 13.01 points in the companies' corporate governance compliance Index with the recommendations. The value obtained for 2010 was in fact quite similar: 14.18 points.

(v) the choice of governance models also affects the companies' degree of acceptance of the recommendations. The data of the study reveals that, as found in 2010, the companies that follow the anglo-saxon model tend to comply with the recommendations to a higher degree.

(vi) there was no significant statistical relation arising from the study between the compliance Index and the capital market experience. The distinction between financial and non-financial companies did not prove significant either. The same results were obtained in 2010.

(vii) Nevertheless, most of the companies in the construction sector tend to present compliance Indexes lower than other listed companies in the 2011 study. As conjectured, this result may be due to a greater exposure to the economic crisis which has severely stricken this sector.

To summarise, the results of the present Report indicate that the companies with, simultaneously, a bigger size and more liquidity generated in the Stock Exchange (in particular those included in the PSI 20 Index) demonstrate a higher degree of compliance with the corporate governance recommendations.

Another very interesting result, original in terms of empirical evidence shown by the literature in this area, is the fact that the higher percentage of stock in circulation in the secondary market (free-float) the better the degree of compliance of a given company is.

As a whole, these two results indicate that a higher exposure to capital markets means a better acceptance of the corporate governance code, and this is deemed an important conclusion of the present Report.

7. Closing Remarks

A.

The present Report incorporates the methodology used in the previous Report, based on an innovative approach in order to analyse the degree of compliance with the recommendations contained in the Corporate Governance Code, by companies, issuers of shares admitted to trading in the Euronext Lisbon Stock Exchange, according to the Corporate Governance Reports referring to December 2011.

This methodology remains grounded on five key characteristics:

- i) the private nature of the assessment;
- ii) the independence of the assessment;
- iii) the timing of the analysis;
- iv) its high analytical character, namely concerning multiple recommendations; and
- v) the relevance of the recommendations in light of internationally recognised benchmarks.

B.

This cycle of studies, on the degree of acceptance of good corporate governance practices, seeks to serve as a systematic demonstration of the feasibility and advantages of conducting a private scrutiny on the degree of compliance with recommendations of good corporate governance as a tool serving for a clearer distinction between, on one hand, the compliance area (as an administrative activity for monitoring/supervision and compliance with legal rules), and on the other hand, an assessment of the practices freely adopted by the companies in matters of governance.

C.

An important contribution of the present Report has been the creation of an Index on the compliance with the corporate governance recommendations in Portugal, designated as the Católica Lisbon/ AEM Index. The mean of the Católica Lisbon/ AEM Index reaches 9.165 points this year, in a maximum of 10.000.

Thus, it may be stated that, on average, the degree of compliance with the corporate governance recommendations by the national listed companies is quite considerable.

D.

Another relevant contribution of the present Report derives from the production of a Corporate Governance Rating, designated as Católica Lisbon/ AEM Rating. It is based on an 8-class rating, from D (minimum rating) to AAA (maximum rating).

The application of this rating classification presented results consistent with those previously obtained, where only 2.3% of the studied companies were placed in lower ratings (D, CC and C).

In turn, 77.3% of the listed companies recorded ratings ranging from A to AAA.

To be noted, also, that more than one third of the companies (36.4%) obtained the maximum AAA classification, an extremely satisfactory result.

E.

The comparison of the practices followed by the companies in 2011 with last year's shows a positive trend in the degree of compliance with the best corporate governance practices although the results of both studies are not directly comparable due to differences arising from multiannual empirical observations on the degree of observance of the recommendations.

So as to confirm this positive trend, all the frequency calculations and descriptive statistics for 2011 were conducted once more in line with the methodology used for 2010. The results have undoubtedly shown a general improvement on the degree of acceptance of good practices from year to year.

F.

Concerning the analysis of the explanatory variables on the different degrees of compliance with good governance practices, it was found that, on one hand, the companies in the PSI 20 Index, which simultaneously have a bigger size and more liquidity generated in the stock market, present a higher degree of compliance with the corporate governance recommendations.

On the other hand, it was also found that a company with a higher free float also complies better with the recommendations in question.

All the data converges to demonstrate that a bigger exposure to the capital market means a better compliance with the recommendations.

G.

To conclude, we reiterate that there are implications of legal nature which may be drawn from the present study – as to the future direction of the national corporate governance system and its enforcement.

The implications of the results presented in this study may prove themselves even more revealing in the present moment – when there is an ongoing discussion, in Portugal, regarding a corporate governance code of private initiative and at a moment when a new revision process has been started on the recommendations of the Corporate Governance Code.

We highlight, in particular, the positive evolution of the national corporate governance, the indicators on the recommendatory density, the inconveniences of multiple recommendations and the monitoring system on the degree of compliance with the governance codes.

The consistency of this data, as documented in last year's study, reinforces its relevance in order to be met in present and future regulatory and recommendatory reforms concerning the governance of listed companies.

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.

Católica Lisbon/AEM Corporate Governance Index and Rating 2011 by means of the 2010 Methodology

The methodological change carried out in the calculation of the individual indexes in 2011, explained in chapter 3.4, despite its advantages also presented in this paper, introduced an important problem in terms of comparability of results obtained for the year 2010 and 2011.

In order to overcome this difficulty, we chose to calculate the Index, for 2011, using the

less disaggregated methodology followed in 2010. In the present Annex, we describe the result of such exercise and compare the results of 2011, calculated with the disaggregation of 2010, with those obtained for 2010.

Firstly, we present the descriptive statistics.

	All Companies	PSI 20 Companies
Mean	9084	9433
Variable	398682	209097
Standard deviation	631	457
Median	9190	9601
1st Quartile	8587	9284
3rd Quartile	9625	9771
Inter-quartile range	1038	487
Maximum	10000	10000
Minimum	7583	8270
Range of variation	2417	1730
Coefficient of variation	7%	5%
Number of companies	44	20

Católica Lisbon/AEM 2011 Index – Descriptive Statistics (aggregation - 2010)

Comparing the results of 2011, calculated with the disaggregation of 2010, with those of 2010, it may immediately be concluded that the degree of compliance with the corporate governance recommendations by the listed companies has considerably improved between 2010 and 2011. This is evident through the

Index mean which goes from 8.920 to 9.084 and from 9.337 to 9.433, for the companies included in the PSI 20 Index. The median also shows an increase, *i.e.*, from 9.070 to 9.170 and from 9.425 to 9.601 in the case of the PSI 20 companies, which, as expected, recorded on average the highest degrees of compliance.

	All Companies	PSI 20 Companies
Mean	8920	9337
Variance	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
Míinimum	7244	8345
Variation Range	2571	1471
Coefficient of Variation	8%	4%
Number of companies	44	20

Católica Lisbon/ AEM Index 2010 – Descriptive Statistics

Looking at the dispersion, it seems to have decreased for all the companies but, on the other hand, has increased for the PSI 20 companies.

The following table presents the group of companies in different classes regarding compliance degrees thus making up a Corporate Governance Rating for 2011, from individual values of the Index calculated by means of the 2010 methodology. For purposes of comparison, the 2010 results are reproduced as well.

Noteworthy is the fact that the number of companies in the lower compliance classes has decreased. In fact, the number of companies in sub-compliance drops from five (5) to two (2). One more important change to consider is that the number of companies with an AAA rating has almost doubled, going from eight (8) to fifteen (15). The modal class, that is, the class with the biggest number of companies, moves towards the right, currently being the AAA rating class, with 34.1% of the companies.

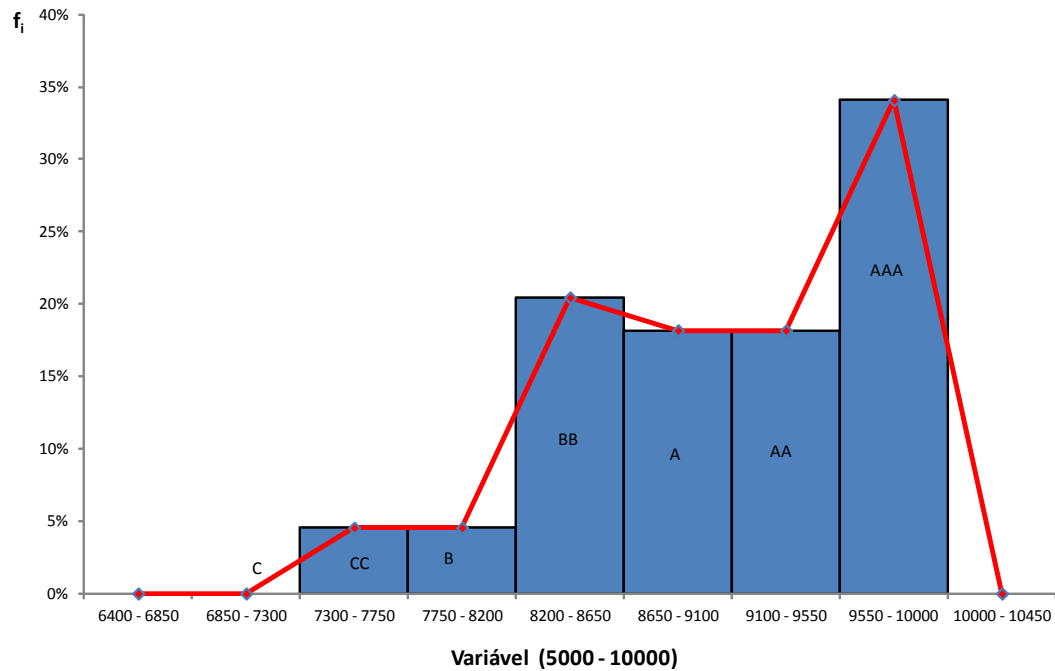
Rating	Classes	Number of Companies	% of Companies
D	inferior to 6850	0	0
C	6850 - 7300	0	0
CC	7300 - 7750	2	4,5 %
B	7750 - 8200	2	4,5 %
BB	8200 - 8650	9	20.5%
A	8650 - 9100	8	18,2 %
AA	9100 - 9550	8	18,2 %
AAA	9550 - 10000	15	34.1%

Católica Lisbon/ AEM Corporate Governance Rating 2011 (aggregation - 2010)

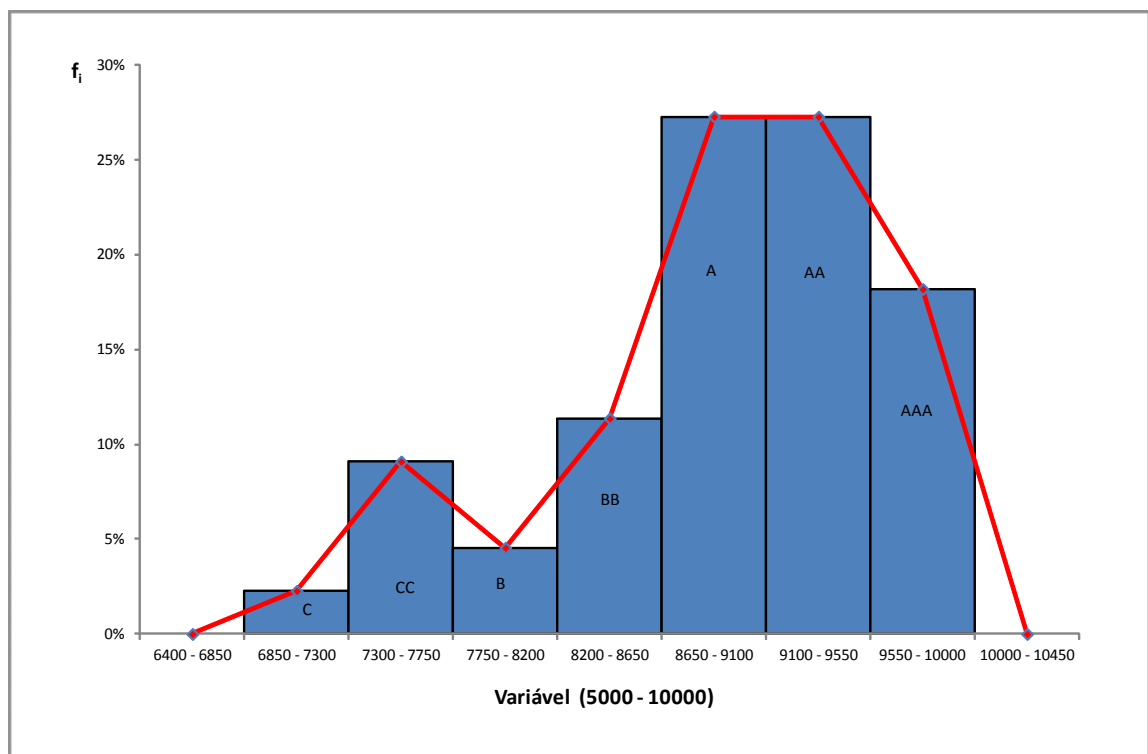
Rating	Classes	Number of Companies	% of Companies
D	inferior to 6850	0	0
C	6850 - 7300	1	2,3 %
CC	7300 - 7750	4	9,1 %
B	7750 - 8200	2	4,5 %
BB	8200 - 8650	5	11,4 %
A	8650 - 9100	12	27,3 %
AA	9100 - 9550	12	27,3 %
AAA	9550 - 10000	8	18,2 %

Católica Lisbon/ AEM Corporate Governance Rating 2010

To better visualise the distribution of companies by the defined rating classes, the corresponding graphic is presented next.



Rating Classes 2011 (aggregation - 2010)



Results of Econometric Estimation

The model chosen to describe the behaviour of the Católica Lisbon/AEM (IND) Index was:

$$IND_i = \beta_1 + \beta_2 PSI + \beta_3 FF_i + \beta_4 AS_i + \beta_5 HC1_i + e_i$$

where PSI is a qualitative variable indicating that the company belongs to the PSI 20 Index, FF represents the free-float, AS is a qualitative variable which indicates the Anglo-Saxon model of governance adopted by the company and HC1 is a qualitative variable used to identify construction companies with poorer performance.

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 presence of heterocedasticity was not detected. As such, we present the usual standard deviations.

Below, the results arising from the selected specification are presented.

Equation 1

=====

Method of estimation = Ordinary Least Squares

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

Mean of dep. var. = 9165.48	LM het. test = 2.54255 [.111]
Std. dev. of dep. var. = 596.344	Durbin-Watson = 1.70634 [<.352]
Sum of squared residuals = .555605E+07	Jarque-Bera test = .201610 [.904]
Variance of residuals = 142463.	Ramsey's RESET2 = 2.09940 [.156]
Std. error of regression = 377.442	F (zero slopes) = 17.0849 [.000]
R-squared = .636668	Schwarz B.I.C. = 330.310
Adjusted R-squared = .599403	Log likelihood = -320.850

Variable	Estimated Coefficient	Standard Error	t-statistic	P-value
C	8762.02	108.868	80.4831	[.000]
PSI	334.378	129.001	2.59205	[.013]
FF	7.16529	3.26131	2.19706	[.034]
AS	404.493	138.299	2.92478	[.006]
HC1	-1031.35	229.008	-4.50357	[.000]

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