



# Annual Report on Financial Analysis Supervision

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2010

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## Executive Summary

This report aims to depict the financial analysis activity on listed shares in Portugal and outline the CMVM's supervision in that context. Financial analysis or research is considered to be an examination and analysis of information concerning a certain issuer or financial instrument in order to draw up a report that provides an opinion on said issuer or instrument; a forecast as to the respective performance or progress; or a direct or indirect general recommendation for the investment or divestment concerning an issuer, securities issued by said issuer or other financial instruments intended for public distribution channels.

The analysis is based on the period from 1st October 2009 until 30th September 2010. The trend of investment recommendations is the first aspect analysed. It is noted that there is bias in the recommendations released by financial intermediaries advocating 'Buy' as the weighting of such recommendations reflected 57.4% of the total, while 'Sell' recommendations accounted for only 13.6% of the total and 'Hold' recommendations represented the remaining 29.0%.

As a general rule, in an efficient market (within the meaning of 'semi-strong' expounded by *Fama*, according to which prices display all the public information available), investment recommendations should not have any impact whatsoever on prices of the financial instruments pertaining thereto, as same are (mere) opinions (even though technically substantiated) that are based on public information. However, in actual fact, it appears that sometimes these opinions trigger changes in the behaviour of some investors, such change being reflected in the share prices under analysis. In this context, the report finds that the impact of investment recommendations was higher in 'Sell' recommendations. Actually, it was found that the 'Sell' recommendations had a non-negligible impact on the share price, at least as far as certain financial intermediaries were concerned, unlike the 'Buy' recommendations where it appeared to have been residuary for almost all financial intermediaries. The analysis per issuer indicates that the upshot of 'Sell' recommendations was higher in non-PSI-20 companies and non-financial companies, particularly for companies in the infrastructure and telecommunications sector. As the recommendations for this type of issue is not released as often, it appears that the investors attach greater importance to said recommendations. This in addition to the fact that the number of financial intermediaries covering each of these companies is small warrants special attention from the supervisor concerning the release of recommendations for this type of issuer. However, investors also need to ask themselves if they are not placing too much emphasis on these recommendations.

The level of agreement among financial analysts was higher for the recommendations issued on the financial sector and the PSI-20 companies. Furthermore, it was found that the recommendations by the domestic financial intermediaries were closer, on average, to market consensus than the recommendations by foreign financial intermediaries.

With regard to the medium-term adjustment of investment recommendations, investment portfolios based on the recommendations from each financial institution were simulated in order to gain some insight into the consequences arising from its follow-up. This simulation was started with a portfolio that replicated the composition of the PSI-20 on 1 October 2009 and had an initial value of EUR 100,000. The weighting of the securities in this portfolio were increased or decreased according to the recommendations' trend. For all 10 financial intermediaries under analysis, this analysis reveals that as at 30 September 2010, following the recommendations would have led to losses of - EUR 14,049.33 (14.05% of the initial amount invested). Taking into consideration that investing in a portfolio that replicates the PSI-20 as at 1 October 2009 would have led to losses of EUR 7,610.00 (7.61% of the initial amount invested), it is clear that by following these recommendations a below-normal result of -EUR 6,439.33 (-6.44%) was recorded. In other words, taking into consideration all the financial intermediaries analysed, it would have been better not to follow the investment recommendations and choose a passive investment strategy. As for individual performance, only *Banif IB's* and *Fidentiis Equities'* portfolios displayed a better performance than that of the portfolio that replicates the PSI-20 Index. In other words, individually, a great majority of the financial intermediaries' portfolios failed to outperform the PSI-20 Index and thus these recommendations did not benefit the majority of investors.

The appreciation potential implied in target prices issued on Euronext Lisbon shares was mostly high: more than half the published target prices indicated a potential value of more than 15%. On the other hand, less than a fifth of the target prices display a negative potential, in accordance with the percentage of 'Sell' and 'Reduce' recommendations.

The median target price variation was 0%. However, when the research period is divided with reference to 19 January 2010, it is found that 60% of target prices issued after said date result in a negative variation against the previous target price. This displays an increasing sense of pessimism among financial analysts after that date. The analysis per sector and size/liquidity of the issuer shows a negative variation in the target prices for most non-PSI-20 Index companies and companies in the financial sector.

Agreement among financial analysts concerning the target prices issued is lower when the target-issuer comprises the infrastructure and telecommunications sector or the financial sector. The domestic financial intermediaries are often closer to the 'average' target price than the foreign financial intermediaries.

As for the differences between target prices and market prices ascertained at the end of the time frame in question, it was found that the target prices issued for the end of December 2009 were mostly attained, but this did not happen to that issued for the end of 2010 and the target prices issued for 12 months. In approximately 18.2%, 43.5% and 13.8% of the reports, the percentage difference between the market price at the end of the time frame and the target price was less than 10% (in absolute terms) for 12 month time frames, for the end of 2009 and the end of 2010, respectively. Thus it was concluded that not only the financial analysts' ability to get it right is reduced, but also that financial intermediaries have greater foresight in target prices issued for the end of 2009, as opposed to target prices for 12 months and the end of 2010. Departures from forecasts were as a rule more evident in companies of the financial sector. As a result the differences between market prices ascertained at the end of the time frame and target prices were greater for these companies.

The earnings per share forecasts issued by financial intermediaries in the financial analysis reports were also analysed. *Jerónimo Martins* was the company that provided more agreement among financial analysts, as against *BES* and *Portugal Telecom*, where the highest differences in financial analysts' forecasts were recorded. On the other hand, the financial intermediaries that moved the least away from the 'midpoint' of financial analysts' forecasts were *Deutsche Bank* and *Santander IB*. *Caixa BI*, *Fidentiis* and *Millenium IB* recorded the highest divergence level.

Finally, other variables used in the models for assessing analyst firms were also examined. Basically, the disagree/agree of analysts to basic parameters used in valuation models of each of the companies analysed needs to be examined. In one case referred to below, the beta co-efficient of *EDP Renováveis* and *Mota-Engil* were considered to be defensive by a couple of financial analysts and aggressive by others. The extent of dispersion relating to growth rate of profits in perpetuity adopted by financial analysts was higher in *Galp Energia*, *EDP* and *Portugal Telecom*, whereas in *Semapa* a high degree of homogeneity of analysts' growth forecasts was ascertained. The weight of future growth in the notional value of *EDP Renováveis* (79.2%) should also be noted, since much of its value is linked to future growth prospects of its activities (and profits).

### **Supervision by the CMVM on Research Activity**

In order to continue the work already undertaken to date, the CMVM established in December 2009, the requirement for submitting all research reports on shares admitted to trading on Euronext Lisbon, by financial intermediaries, independent analysts and other individuals via Instruction No. 2/2009. By means of this

Instruction, the CMVM formally adopted a procedure that was usually followed by most financial intermediaries that issued investment recommendations on shares admitted to trading on a regulated market or multilateral trading facility located or operating in Portugal. The CMVM was already receiving research reports from 29 financial intermediaries (8 domestic and 21 international) on a daily basis since last year. The CMVM continued to regularly monitor the disclosure of investment recommendations, especially concerning the quality of information and transparency. It also monitored disclosure in the media and disclosure of potential conflicts of interest between the recommendation's author or entity related thereto and the issuer regarding which the recommendation is released.

Within the supervision context, and taking into account the need for research activities to comply with stringent criteria of professional qualifications and ethical standards/code of practices, it was found that the legal framework needed to be amended, with the introduction of specific strict standards by the CMVM Regulation No. 3/2010 (Duties of Conduct and Professional Qualifications of Analysts). This Regulation has overhauled the rules and regulations in CMVM Regulation No. 2/2007, especially relating to financial analysis and laid down the requirements for good repute, duties of conduct, professional qualifications and operating principles for investor protection and market efficiency.

The pertinence of the recommendations for investment or divestment decisions by professional or retail investors and its broad and widespread disclosure, namely through the media, led to the upgrading of the CMVM's approach in this area as several newspapers (paper version and online), television and radio programmes wherein investment recommendations broadcast to the public were subjected to supervision as it did not comply with the legal provisions envisaged (Article 12-D - Third Party Recommendations) and the CMVM Understanding on the implementation of Article 12-D Securities Code.

Finally, the CMVM also channelled part of its supervisory activity to the unauthorized publication of research on websites by independent analysts that had no prior registration to pursue said activity.

760 new investment recommendations on issuers that were admitted to trading on Euronext Lisbon were identified by the CMVM from 1 October 2009 until 30 September 2010. Restatements of the recommendation and target price are not included in this calculation as it is considered that these recommendations relate to previous ones.

Around 96% of the overall 760 investment recommendations identified by the CMVM were received at the CMVM by email. The other 4% concerned certain foreign financial intermediaries that were not forwarding the research reports to the CMVM in the period under analysis.

In the abovementioned period, the CMVM carried out 733 summary analyses concerning the research reports received during the period in question and other reports. The daily reports (Dailys, Morning Mails) submitted by financial intermediaries are also usually subject to a summary analysis, but these were not included in said calculation.

Last year, the CMVM carried out in-depth analysis of 14 cases related to investment recommendations, which included 45 research reports, six disclaimers in research reports, two software applications provided by an economic newspaper wherein news reports relating to investment recommendations were published, 23 press articles, 7 cases of pursuing financial analysis not authorized by the CMVM, three websites (analysed in the cases of research not authorised by CMVM) and 6 videos made available online by newspapers. A detailed analysis of a client list that was provided by a foreign financial intermediary was also carried out.

### **Analysis of Compliance with CMVM Recommendations on Research Activity**

The CMVM recommendations that concentrate on the activity of financial analysis are intended primarily for financial intermediaries and other financial analysts that draw up research reports, issuers referred to in the investment recommendation or target price, journalists and investors. Thus, after more than two years have elapsed since the disclosure to the public of the *Recommendations on Financial Analysis Reports (Research) aimed at Issuers, Financial Intermediaries and other Analysts, Journalists and Investors* in August 2008, it was considered appropriate to carry out the first quantification and analysis of the compliance thereof. For that purpose, 116 news reports and related research reports, disclaimers of research reports of the six key national financial intermediaries in this activity and the websites of 25 Portuguese listed companies were analysed.

Among the key results, the conclusion is that the level of compliance is generally reduced. Even the financial intermediaries that adhere the most only wholly comply with two out of the five recommendations affecting said intermediaries. This appears to be clearly inadequate.

As for compliance with the recommendations addressed to journalists, 116 news reports from three media organisations were analysed. Only three of the recommendations assessed reflected a compliance ratio greater than 50%, which is grossly inadequate. As is inferred, the media still has a long way to go in that context with respect to adopting best practices. It is regarded to be particularly appropriate to comply more often with the recommendation for documenting conflicts of interest, and the recommendation relating to the reporting on the lower and upper limits of the range of target prices and respective time frame, and not be restricted to indicating the maximum target price or investment recommendation.

As for adopting the recommendations designed for issuers, the more compliant companies implemented six recommendations, and only one recommendation was complied with in two cases. In the case of individual recommendations analysed, compliance by issuers turns out less satisfactory (with a compliance level of only 48%), with the recommendation on the issuer utilising the website to let the public know about the meetings and briefings held with the analysts, including the information conveyed therein and, whenever possible, to send said information on said meetings and briefings in real-time through the website. However, it should be clearly emphasized that two companies failed to comply with Recommendation 12 and this is considered to be highly unfavourable. (This Recommendation states that issuers should refrain from appointing or hiring professionals who have been involved in covering the company for the last 2 years.)

## 1. INTRODUCTION

In light of the publication in 2010 of the first Annual Report on the Supervision of Financial Analysis, this Report closely examines investment recommendations issued on the shares listed in Portugal in the period from 1 October 2009 to 30 September 2010. This Report is structured into three sections. The first describes financial analysis in Portugal, the second summarises the supervision by the CMVM in this field and the third addresses compliance with the CMVM's Recommendations for research designed for financial intermediaries and other analysts, journalists and issuers.

The Report deals separately with four of the main components of financial analysis: the issue of investment recommendations, the disclosure of target prices, the estimates of financial analysts relating to earnings per share and the key parameters used in valuation models. Only the first two components were examined in the previous report. This analysis is being broadened to include the financial analysts' forecasts for earnings per share, the growth rate of revenue/profit in perpetuity for target companies of investment recommendations and the cost of capital, core variables in establishing the shares' theoretical value.

The first subsection deals with the time frame trend of producing financial analysis reports and the issue of investment recommendations, and the concurrent concentration of activity at the level of financial intermediaries and the companies being covered. The types of investment recommendations and changes to the recommendation are also examined. The differences noted among the recommendations are also closely examined. The dispersion of the investment recommendations is thereby evaluated against consensus for the purpose of identifying the financial intermediaries that are closer to or further away from the general opinion of other financial analysts (or the market average).

Some investors are capable of being swayed by the recommendations from analysts. Although it was not the main purpose of this report, investment portfolios constituted from the financial (intermediaries) analysts' recommendations were simulated. This enabled the returns of investment portfolios constituted from analysts' recommendations to be compared throughout the analysis' time period.

The impact of the investment recommendations' disclosure on the securities' prices is also investigated. To this end, the actual and abnormal returns in the two/five days following the recommendation's issuance were computed. At a later stage, a clustering of abnormal and actual returns per type of recommendation was carried out, and concurrently, per financial intermediary and company. In addition to ascertaining whether the impact of 'Buy' recommendations is similar (symmetrical) to the 'Sell' recommendations, the methodology used shows whether it is uniform when comparing the various companies being analysed and financial intermediaries that issued the investment recommendations.

The disclosure of target prices is analysed in the second subsection, in the aspect of potential for underlying valuation. Thus, the correlation of several financial intermediaries as regards consensus with the aim of identifying the financial intermediaries that steer clear the most from the more general viewpoint of financial analysts is examined. In addition, the securities where there is less agreement among analysts concerning the future performance are also analysed. The comparison of market prices ascertained at the end of time frames with the target prices issued is carried out. This comparison enables i) to determine the distribution of divergences and assessment of the existence of a systematic asymmetry/bias of divergences, ii) to calculate the ratio of financial analysis reports where the target price is attained at the end of the time frame, and iii) to calculate the average divergence of the differences per financial intermediary and security.

The estimated earnings per share of companies are a vital component in assessing its theoretical value, which is why this theme was taken up in this Report. In this initial analysis, the level of agreement of several financial analysts in relation to these estimates was ascertained. The accuracy of estimated earnings per share is also expected to be assessed in future reports by comparing these estimated earnings with the values subsequently reported by the companies.

Finally, the values of the key data for the evaluation of shares, which are related to the growth rate in perpetuity of the revenue/profit and the cost of capital, are analysed in the fourth sub-section. Here a descriptive analysis of these variables per security is undertaken in order to ascertain what the 'consensus' is and what the level of agreement among financial analysts is.

Two final comments on the first part of the report: firstly, and in line with the 2009 Annual Report on the Supervision of Financial Analysis, the analysis focuses only on financial reports identified or submitted to the CMVM by financial intermediaries (which may not represent the range of reports and recommendations issued by analysts and financial intermediaries); secondly, the categories used by most financial intermediaries include three or five classes of recommendations and the terms used differ from intermediary to intermediary, and therefore there was a need to standardize the classification of recommendations of the various financial intermediaries.

The second part of the document deals with the supervision of financial analysis carried out by the CMVM. Supervision was stepped up at the end of 2008, with the CMVM undertaking as the main objective to combat the misuse of investment recommendations for the pursuit of strategies of market manipulation or for purposes other than the issue of an honest and competent opinion on the analysed financial instrument.

The second part of the report is divided into two subsections. Firstly, the supervision by the CMVM is characterised. Within this characterization, the themes of the legal framework are thoroughly examined, with focus on some additions to the current legal framework, the CMVM Recommendations on financial analysis, and the procedures and types of analysis conducted pursuant to the supervision of research.

Some statistics (number of recommendations identified and received, clarifications requested from financial intermediaries, concise analysis, applications for registration and cancellation of registration for pursuit of the activity) are set out in the second subsection and some examples of in-depth analysis conducted pursuant to the supervision of this activity are given.

Finally, the third part of the report converges on the analysis of compliance with the CMVM Recommendations pursuant to financial analysis. The recommendations intended for financial intermediaries and other financial analysts, journalists/media and, finally, the issuers are considered in this exercise. 116 news reports and related research reports, disclaimers of research reports of the six most relevant domestic financial intermediaries in this activity and the Internet websites of 25 listed companies in Portugal were selected and analysed for this purpose.

## **2. DESCRIPTIVE ANALYSIS OF RESEARCH ACTIVITY IN THE PORTUGUESE MARKET**

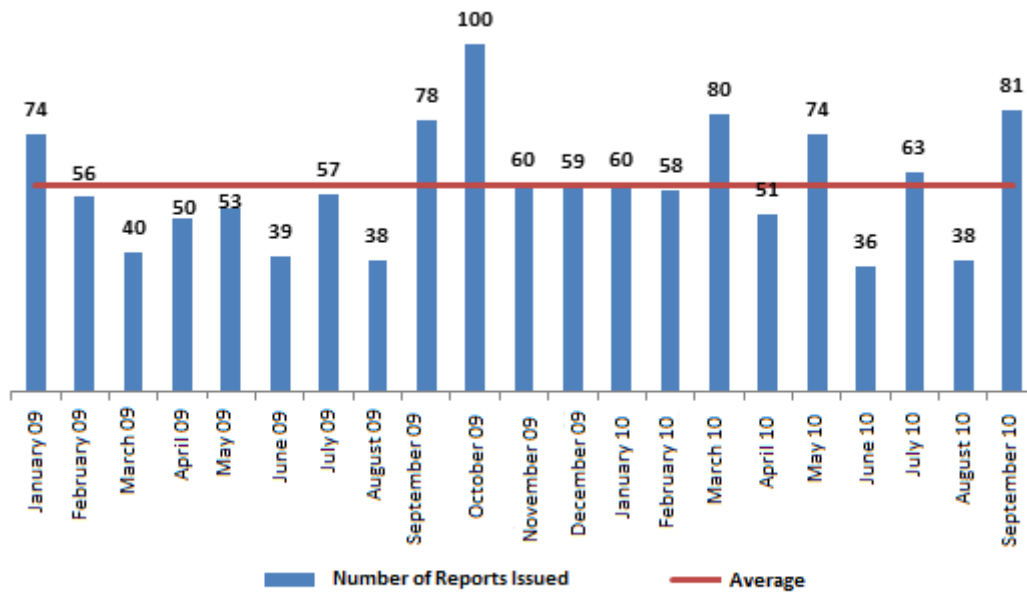
### **2.1. INVESTMENT RECOMMENDATIONS**

#### **2.1.1. TIME FRAME TREND OF THE NUMBER OF INVESTMENT RECOMMENDATIONS ISSUED**

The database utilised for drawing up this Report contains 760 records for the timeframe from 1 October 2009 to 30 September 2010, corresponding to the financial analysis reports identified by the CMVM during this 12 month period. Most of the recommendations identified (707) concern securities for which the CMVM is the relevant supervisory authority and 53 focus on securities not domiciled in Portugal but are under dual-listing (*Banco Popular Espanhol* and *Banco Santander Central Hispano*).

Chart 1 reflects the time frame distribution of the recommendations identified by the CMVM, showing the heterogeneous issue, like last year. The months of June and August recorded a low number of recommendations issued when compared with other months analysed. A large number of recommendations were issued in September and October. From the comparison of the first three quarters of 2009 and 2010, it is possible to conclude that there was an increase in the number of recommendations issued. This may be justified by the increased tension linked with the sovereign debt market in Southern Europe (including Portugal) and which could have led analysts to revise their recommendations as a result of constraints on external financing of the Portuguese economy and an increase in financing costs of most companies operating in Portugal.

CHART 1 – TIME FRAME TREND OF THE NUMBER OF INVESTMENT RECOMMENDATIONS



## 2.1.2. DISTRIBUTION OF INVESTMENT RECOMMENDATIONS PER SECURITY AND FINANCIAL INTERMEDIARY

The distribution of investment recommendations by the various companies listed on Euronext Lisbon provides some indication concerning the concentration of financial analyst coverage for the listed companies in Portugal (TABLE 1). *Portugal Telecom* was the security that attracted the most interest from analysts (12.2%), followed by *EDP Renováveis* (8.8%) and *Jerónimo Martins* (7.8%). The 12 securities with the greatest coverage represented 68.7% of the total number of financial analysis reports identified by the CMVM.

Broadly speaking, the results are quite close to those obtained for the same period last year, particularly with regard to the three most representative securities and the concentration level of 12 securities with increased coverage. Amid the three securities which are the most representative, the weighting of *Portugal Telecom* increased the most (2.54 pp). This growth is largely linked to the *Telefonica* bid for the position of *Portugal Telecom* in *Vivo*; the potential benefits of this deal for *Portugal Telecom* were subject to intense scrutiny by investment firms and financial analysts.

As for the drawing up of financial analysis reports, *Millennium IB* (16.8%), *BPI ER* (13.4%) and the *Espírito Santo ER* (5.9%) were financial intermediaries with the largest number of reports identified during this time period. En bloc, the weight of these three institutions stands at 36.2%, which displays an increased level of concentration in the research activity in comparison with the same period (approximately 31.7%). From these results, it is also important to note that the three financial intermediaries with the most weighting in the activity of financial analysis on securities traded on the Euronext Lisbon are domiciled in Portugal.

TABLE 1 – INVESTMENT RECOMMENDATIONS PER COMPANY AND FINANCIAL INTERMEDIARY

Security	No. of Reports	% of Total	Financial Intermediary	No. of Reports	% of Total
Altri	23	3.0%	Banco Sabadell	9	1.2%
Banco BPI	21	2.8%	Banesto Bolsa	1	0.1%
Banco Popular	24	3.2%	BBVA	9	1.2%
Banif	8	1.1%	Bernstein	2	0.3%
BCP	27	3.6%	Banif BI	33	4.3%
BES	32	4.2%	Barclays	23	3.0%
Brisa	51	6.7%	BPI ER	102	13.4%
BSCH	29	3.8%	Berenberg Bank	1	0.1%
Cimpor	22	2.9%	Caixa BI	37	4.9%
Cofina	10	1.3%	Citigroup	34	4.5%
Corticeira Amorim	1	0.1%	Credit Suisse	21	2.8%
EDP	44	5.8%	Deutsche Bank	10	1.3%
EDP Ren.	67	8.8%	Equita	6	0.8%
Galp	44	5.8%	Esp. Santo ER	45	5.9%
Ibersol	6	0.8%	Fidentiis	44	5.8%
Impresa	10	1.3%	Goldman Sachs	25	3.3%
Inapa	3	0.4%	HSBC	10	1.3%
JM	59	7.8%	Ibersecurities	1	0.1%
Martifer	18	2.4%	ING	11	1.4%
Media Capital	2	0.3%	Exane	11	1.4%
Mota-Engil	25	3.3%	JP Morgan	11	1.4%
Novabase	8	1.1%	KBW	18	2.4%
Portucel	16	2.1%	Lisbon Brokers	6	0.8%
PT	93	12.2%	Macquarie	33	4.3%
Reditus	2	0.3%	Merrill Lynch	22	2.9%
REN	20	2.6%	Millennium IB	128	16.8%
SAG	2	0.3%	Morgan Stanley	14	1.8%
Semapa	9	1.2%	Natixis	19	2.5%
Soares da Costa	3	0.4%	Execution	7	0.9%
Sonae	15	2.0%	Nomura	13	1.7%
Sonae Capital	7	0.9%	Oddo & Cie	4	0.5%
Sonae Indústria	12	1.6%	Raymond James	1	0.1%
SonaeCom	16	2.1%	Santander IB	22	2.9%
Sumol+Compal	1	0.1%	SG	4	0.5%
Teixeira Duarte	3	0.4%	S&P	1	0.1%
ZON	27	3.6%	UBS	22	2.9%
<b>Total</b>	<b>760</b>	<b>100.0%</b>	<b>Total</b>	<b>760</b>	<b>100.0%</b>

A sectorial analysis reflects the weighting of the Infrastructures/Telecommunications sector (about 51.2% excluding the shares traded under dual-listing - *vide* Table 2/Panel A). The financial sector was concentrated in 18.6% of the total financial analysis reports. However, if the shares traded under dual-listing were excluded, that weighting declined to 12.4% due to the shares with said characteristics fully integrating the financial sector.

There is a significant size effect in the coverage of securities by financial intermediaries. The weighting of the securities comprising the PSI-20 Index attains 88.5% – *vide* Table 2/Panel B. All companies that comprise this Index at the end of September had been subject to coverage by financial analysts. On the contrary, no investment recommendations were identified in nine companies that do not comprise the PSI-20.

TABLE 2 – INVESTMENT RECOMMENDATIONS PER BUSINESS SECTOR AND SIZE

	Securities	Sector	No. of Reports	% of Total
Panel A	Domestic	Infra-structures /Telecommunications	362	51.2%
		Financial Sector	88	12.4%
		Others	257	36.4%
		Total	707	100.0%
	Foreign	Financial Sector	53	100.0%
		Total	53	100.0%
Panel B			<b>No. of Reports</b>	<b>% of Total</b>
		PSI-20	626	88.5%
		Others	81	11.5%
	Total	707	100.0%	

Note:

(1) *Portugal Telecom, Zon Multimédia, Sonaecom, EDP, EDP-R, REN, BRISA* and *Galp* were included in the Infra-structures/Telecommunications sector.

(2) The securities under dual-listing were not taken into account in Panel B.

The following Table displays the importance of foreign financial intermediaries pursuing financial analysis that concentrates on securities listed on the Portuguese market. By restricting the analysis to the securities, with the CMVM being the relevant supervisory authority thereto, it appears that the relative weighting of

these intermediaries reached 52.3% in the period under analysis.<sup>1</sup> The weighting of the securities under dual-listing rises up to 73.6%. This means that domestic financial intermediaries issued 14 financial analysis reports on shares under dual-listing (i.e., shares of *Banco Popular Espanhol* and *Banco Santander Central Hispano*).

TABLE 3 – INVESTMENT RECOMMENDATIONS PER NATIONALITY OF FINANCIAL INTERMEDIARY

Securities	Financial Intermediaries	No. of Reports	% of Total
Domestic	Domestic	337	47.7%
	Foreign	370	52.3%
	Total	707	100,0%
Foreign	Domestic	14	26.4%
	Foreign	39	73.6%
	Total	53	100.0%

### 2.1.3. TYPES OF INVESTMENT RECOMMENDATIONS

Analysing the types of investment recommendation implicated the standardization of the scales used by several financial intermediaries, and three classes of recommendations were defined: Sell/Reduce, Hold and Accumulate/Buy. The first (Sell and Reduce) advises reducing investors' exposure to a security, while the latter suggests increasing said exposure.

Table 4 displays the structure of investment recommendations issued by financial analysts. The imbalance between the recommendations to 'Buy/Accumulate' and 'Sell/Reduce' is prominent. The 'Sell/Reduce' recommendations corresponded to only 13.6% of the total recommendations issued and the 'Buy/Accumulate'

<sup>1</sup> This percentage may be undervalued due to the gradually increasing coverage of foreign financial intermediaries in the database used.

recommendations to almost three in five of the recommendations published in the said period.<sup>2</sup> Comparing these results with those obtained for the period from 1 October 2008 to 30 September 2009 suggests a decline in the proportion of 'Sell/Reduce' recommendations (-3.7 pp) and an increase in the 'Buy/Accumulate' recommendations (0.1 pp).

The imbalance between the various types of recommendations was apparent throughout the course of the period in question. Except for October 2009<sup>3</sup>, the proportion of 'Buy/Accumulate' recommendations consistently surpassed 50%, with April, May and August 2010 (64.6%, 63.6% and 64.7% of recommendations issued, respectively) being the highest.<sup>4</sup> The weighting of 'Sell/Reduce' recommendations peaked in October 2009 and February 2010 (22.2% and 22.6% respectively) and hit bottom in April and May 2010 (6.3% and 6.1%, respectively), during which time the PSI-20 recorded a cumulative loss of 13.6 %.

TABLE 4 – INVESTMENT RECOMMENDATIONS PER TYPE

Securities	Recommendation		
	Sell/Reduce	Hold	Accumulate/Buy
Domestic	14.0%	28.2%	57.7%
Foreign	7.5%	39.6%	52.8%
Total	13.6%	29.0%	57.4%

Note: Only 751 recommendations were considered.

As for the securities that are addressed in a recommendation, the optimism of analysts with some of the securities in the financial sector should be noted, namely *Banco Santander Central Hispano* and *Banco Espírito Santo* (72.4% and 71.9% of the recommendations, respectively, were 'Buy/Accumulate'). In two cases, the 'Sell/Reduce' recommendations were less than 5% of the total. On the contrary, *Banco BPI*, *Banco Comercial Português* and *Banco Popular* were the securities that attracted the lowest percentage of 'Buy/Accumulate' recommendations. These were the only three securities wherein the weighting of 'Buy/Accumulate' recommendations was less than a third of the recommendations issued concerning same (23.8%, 25.9% and 29.2%, respectively). *Altri* and *Zon Multimedia* (26.1% and 25.9% of the recommendations, respectively) were the securities that were the most exposed to 'Sell/Reduce' recommendations.

<sup>2</sup> Only 751 recommendations were considered under this analysis as investment recommendations were not issued in nine financial analysis reports (e.g. the security may be 'under review').

<sup>3</sup> The proportion of 'Buy/Accumulate' recommendations recorded 44.4% this month.

<sup>4</sup> The highest proportion of 'Buy/Accumulate' that took place in April and May comes in the wake of a cumulative loss of 11.3% of the PSI-20 Index that was recorded in January and February.

TABLE 5 – INVESTMENT RECOMMENDATIONS PER TYPE AND TARGET COMPANY

	Sell/Reduce	Hold	Accumulate/Buy
Altri	26.1%	26.1%	47.8%
Banco BPI	9.5%	66.7%	23.8%
Banco Comercial Português	22.2%	51.9%	25.9%
Banco Espírito Santo	3.1%	25.0%	71.9%
Banco Popular	16.7%	54.2%	29.2%
Banco Santander Central Hispano	0.0%	27.6%	72.4%
Brisa	21.6%	11.8%	66.7%
Cimpor	5.0%	45.0%	50.0%
EDP	6.8%	25.0%	68.2%
EDP Renováveis	4.5%	31.3%	64.2%
Galp Energia	7.0%	30.2%	62.8%
Jerónimo Martins	11.9%	32.2%	55.9%
Mota-Engil	20.0%	16.0%	64.0%
Portugal Telecom	14.3%	31.9%	53.8%
REN	0.0%	30.0%	70.0%
Zon Multimédia	25.9%	22.2%	51.9%
Others*	20.3%	20.9%	58.8%

\* Includes companies targeted in approximately 20 or less investment recommendations.

On the securities for which the CMVM is the relevant authority, the distribution of comments per business sector reveals that companies in the financial sector were the least covered by the 'Buy/Accumulate' recommendations during the period in question. Yet in the Infra-structures/Telecommunications sector, the 'Buy/Accumulate' recommendations accounted for just over 6 out of 10. The 'Buy/Reduce' recommendations focused mainly on companies outside the financial sector. Comparing these results with those obtained for the corresponding time period, the reduction of 24.2 pp from the weighting of 'Sell/Reduce' recommendations in securities of the financial sector down to 10.2% should be highlighted.<sup>5</sup>

<sup>5</sup> This most certainly will not be outside the good results achieved by the domestic financial sector in the stress tests, which sought to assess the financial soundness of European banks.

The segmentation of domestic securities according to the integration in the PSI-20 reveals a couple of differences between the two groups of companies. The fact is that the proportion of 'Buy' recommendations for companies outside said Index soared to 49.4% of the recommendations issued on these companies, lower than for the companies that integrate the PSI-20 Index (58.8%). The most significant difference is in the weighting of 'Sell' recommendations, which is substantially higher in smaller companies with reduced liquidity (difference of 13.4 pp).

TABLE 6 – INVESTMENT RECOMMENDATIONS PER TYPE AND BUSINESS SECTOR/SIZE

Security	Sector	Recommendation			
		Sell/Reduce	Hold	Accumulate/Buy	
<b>Panel A</b>	Domestic	Infra-structures/Telecommunications	12.0%	27.0%	61.0%
		Financial Sector	10.2%	47.7%	42.0%
		Others	18.3%	23.1%	58.6%
		Total	14.0%	28.2%	57.8%
	Foreign	Financial Sector	7.5%	39.6%	52.8%
	Total	7.5%	39.6%	52.8%	

Security	Sector	Recommendation			
		Sell/Reduce	Hold	Accumulate/Buy	
<b>Panel B</b>	Domestic	PSI-20	12.6%	28.7%	58.8%
		Others	26.0%	24.7%	49.4%
		Total	14.0%	28.2%	57.8%

Note: Securities under dual-listing were not considered in Panel B.

In the analysis per financial intermediary for domestic securities, it appears that *Santander IB*, *Caixa BI* and *Banif IB* issued the highest percentage of 'Buy' recommendations. Then again, *Barclays Capital*, *Natixis Securities* and *Credit Suisse* strongly advised a reduction in exposure to domestic securities (*vide* Table 7 – Panel A). *Citigroup* and *Espírito Santo ER* did not issue any 'Sell/Reduce' recommendation concerning securities for which the CMVM is the relevant supervisory authority during the period in question.

TABLE 7 – INVESTMENT RECOMMENDATIONS PER TYPE AND FINANCIAL INTERMEDIARY

		Sell/Reduce	Hold	Accumulate/Buy
<b>Panel A – Domestic Securities</b>	Banif BI	6.3%	18.8%	75.0%
	Barclays	39.1%	21.7%	39.1%
	BPI ER	11.3%	25.8%	62.9%
	Caixa BI	6.3%	9.4%	84.4%
	Citigroup	0.0%	34.8%	65.2%
	Credit Suisse	26.3%	10.5%	63.2%
	Espírito Santo ER	0.0%	39.0%	61.0%
	Fidentiis Equities	4.5%	22.7%	72.7%
	Goldman Sachs	20.8%	29.2%	50.0%
	Macquarie	7.7%	57.7%	34.6%
	Merrill Lynch	15.8%	36.8%	47.4%
	Millennium IB	20.0%	24.8%	55.2%
	Natixis	38.9%	11.1%	50.0%
Santander IB	4.8%	9.5%	85.7%	
UBS	10.0%	55.0%	35.0%	
Others*	16.4%	35.1%	48.5%	
* Includes financial intermediaries that issued less than 18 investment recommendations.				
		Sell/Reduce	Hold	Accumulate/Buy
<b>Panel B – Securities under dual-listing</b>	BPI ER	0.0%	20.0%	80.0%
	Caixa BI	0.0%	0.0%	100.0%
	Citigroup	9.1%	36.4%	54.5%
	Espírito Santo ER	0.0%	50.0%	50.0%
	KBW	0.0%	42.9%	57.1%
	Macquarie	0.0%	100.0%	0.0%
	Others#	20.0%	26.7%	53.3%

# Includes financial intermediaries that issued less than 4 investment recommendations.

The optimism of domestic financial intermediaries when compared to the foreigners is also clear from the analysis conducted, both for domestic securities and for securities listed on the Portuguese stock exchange under dual-listing. The 'Buy/Accumulate' recommendations accounted for 63.0% of the recommendations disclosed by domestic intermediaries concerning domestic securities. Comparing this result with the corresponding period, there is however a reduction of 13.3 pp for this type of recommendations. The 'Sell/Reduce' recommendations amounted to 15.8% of the recommendations issued by foreign financial intermediaries on domestic securities. This was higher than the 12.0% recorded for the domestic financial intermediaries – *vide* Table 8.

TABLE 8 – INVESTMENT RECOMMENDATIONS PER TYPE AND NATIONALITY OF FINANCIAL INTERMEDIARY

Security	Financial Intermediary	Recommendation		
		Sell/Reduce	Hold	Accumulate/Buy
Domestic	Domestic	12.0%	25.0%	63.0%
	Foreign	15.8%	31.1%	53.1%
	Total	14.0%	28.2%	57.8%
Foreign	Domestic	0.0%	21.4%	78.6%
	Foreign	10.3%	46.2%	43.6%
	Total	7.5%	39.6%	52.8%

#### 2.1.4. CHANGES TO INVESTMENT RECOMMENDATIONS

In addition to the information component of investment recommendations, some investors pay special attention to the signs emanating from financial analysts when investment recommendations undergo changes. The first half of 2010 was punctuated by some turbulence in the sovereign debt bond markets which had an impact on the stock markets. However, no substantial changes to the recommendations issued by financial analysts were recorded in the period in question. It was noted that the proportion of 'Hold' recommendations surpassed 50% in any of the securities that were analysed. For example, this proportion was equal to or higher than 80% of the recommendations issued on *Brisa*, *Banco Santander Central Hispano* and *Zon Multimédia*. (Table 9).<sup>6</sup>

*EDP Renováveis*, *Banco Popular*, *Portugal Telecom* and *BCP* were the securities that gained the most from the new recommendations. These securities recorded a strong positive difference between the weighting of 'Upgrades' and 'Downgrades'. *Cimpor* (-16.6 pp) and *BES* (-7.2 pp) were the securities that derived the least benefit from the new recommendations.<sup>7</sup> It should also be pointed out that the

<sup>6</sup> 'Downgrade' corresponds to a negative variation of the recommendation (a call to reduce exposure to the security when compared to the previous recommendation), while the 'Upgrade' corresponds to a positive variation of the recommendation (a call for increasing exposure to the security in comparison with the previous recommendation).

<sup>7</sup> *Cimpor* was the target of a Takeover bid and attained a high valuation by the end of 2009. The depletion of the takeover bid effect brought the market to incorporate a hostile takeover premium in the listing price and the financial analysts began to advise against buying this security.

proportion of 'Downgrades' was higher than 'Upgrades' in seven companies and that 'Upgrades' was greater than 'Downgrades' in another seven companies. Broadly speaking, this introduces a certain ambiguity concerning the market trend as viewed by financial analysts.

TABLE 9 – CHANGES TO INVESTMENT RECOMMENDATIONS PER COMPANY

	Downgrade	Upgrade
Altri	9.1%	13.6%
Banco BPI	22.2%	16.7%
BCP	18.2%	27.3%
BES	17.9%	10.7%
Banco Popular	4.3%	21.7%
BSCH	10.7%	7.1%
Brisa	9.1%	6.8%
Cimpor	33.3%	16.7%
EDP	7.7%	12.8%
EDP Ren.	4.8%	22.2%
Galp	12.2%	22.0%
JM	23.1%	19.2%
Mota-Engil	12.0%	12.0%
PT	10.7%	23.8%
REN	21.1%	21.1%
Zon	11.5%	7.7%
Others*	12.6%	14.8%

\* Includes companies subject to nine or less investment recommendations.

Note: The proportion of financial analysis reports that maintained the previous recommendation issued by the financial intermediary may be obtained by the difference between 100% and the sum of the proportion of 'Downgrades' and 'Upgrades'.

Financial intermediaries with greater weighting of 'Hold' recommendations overall were *Caixa BI*, *Credit Suisse* and *Natixis Securities* – vide TABLE 10. *Millennium IB*, *Merrill Lynch* and *Banif BI* were the financial intermediaries with the highest proportion of 'upgrade' recommendations in comparison to the previously issued recommendations. *Millennium IB* and *Banif BI* recorded the highest number of 'Downgrades'. There is thus no question of linking these financial intermediaries to a general increase in expectations of the domestic securities' performance. *Credit Suisse* (like what took place in the corresponding period) and *UBS* did not release any 'Downgrade' for domestic securities.

TABLE 10 – CHANGES TO INVESTMENT RECOMMENDATIONS PER FINANCIAL INTERMEDIARY

	Downgrade	Upgrade
Banif BI	17.9%	21.4%
Barclays	4.8%	14.3%
BPI ER	13.5%	11.5%
Caixa BI	4.8%	4.8%
Citigroup	15.0%	10.0%
Credit Suisse	0.0%	11.8%
Espírito Santo ER	16.2%	8.1%
Fidentis	5.1%	20.5%
Goldman Sachs	16.7%	20.8%
Macquarie	15.8%	21.1%
Merrill Lynch	11.8%	23.5%
Millennium IB	21.1%	24.4%
Natixis	6.7%	6.7%
Santander IB	15.8%	10.5%
UBS	0.0%	15.8%
Others*	11.6%	19.0%

\* Includes financial intermediaries that issued less than 15 investment recommendations.

Note: The proportion of financial analysis reports that maintained the previous recommendation issued by the financial intermediary may be obtained by the difference between 100% and the sum of the proportion of 'Downgrades' and 'Upgrades'.

The weighting of 'Downgrades' was significantly lower in the Infra-structures/Telecommunications sector when compared to the other sectors being analysed and weighting of 'Upgrades' was higher than that of 'Downgrades' in the Financial and Infra-structures/Telecommunications sectors. The domestic securities revealed increased volatility in the recommendations compared to the analysed securities under dual-listing, recording a bolstering of 'Upgrades' and 'Downgrades'.

The breakdown of the PSI-20 Index companies reveals that the larger companies with better cash flow and greater liquidity had a higher proportion of 'Hold' recommendations. The lower percentage of 'Hold' recommendations in the non-PSI-20 Index companies may be due to the smaller number of recommendations released on these companies and the concomitant longer duration between each series of two recommendations during the high volatility in financial markets. For

these companies, the number of 'Upgrades' was less than the number of 'Downgrades' while in the group of PSI-20 Index securities the weighting of the 'Upgrades' surpassed the weighting of 'Downgrades' by 4.5 pp – *vide* Table 11 - Panel B. This is in stark contrast with those obtained for the 01/10/2008 to 30/09/2009 period where all the categories analysed displayed a higher weighting for 'Downgrades' in comparison with 'Upgrades'.

TABLE 11 – CHANGES TO INVESTMENT RECOMMENDATIONS PER BUSINESS SECTOR OF COMPANY/SIZE

	Securities	Sector	Changes to Recommendation	
			Downgrade	Upgrade
<b>Panel A</b>	Domestic	Infra-structures/Telecommunications	9.7%	17.9%
		Financial Sector	17.1%	18.4%
		Others	17.0%	15.2%
		Total	13.2%	17.0%
	Foreign	Financial Sector	7.8%	13.7%
		Total	7.8%	13.7%
<b>Panel B</b>	Domestic	PSI-20	12.2%	16.7%
		Others	20.8%	19.4%
		Total	13.2%	17.0%

Note 1: The securities under dual-listing were not considered.

Note 2: The proportion of financial analysis reports that maintained the previous recommendation issued by the financial intermediary may be obtained by the difference between 100% and the sum of the proportion of 'Downgrades' and 'Upgrades'.

Analysis by nationality of the financial intermediary reveals that the proportion of 'Hold' recommendations was marginally higher among foreign financial intermediaries. There was an improvement in the expectations of foreign financial intermediaries with regard to the domestic securities as the 'Upgrades' surpassed the 'Downgrades' by 7.9 pp. This is in contrast with that of the domestic financial intermediaries wherein a higher percentage of 'Downgrades' was recorded. This is in line with that seen in the corresponding period.

TABLE 12 – CHANGES TO INVESTMENT RECOMMENDATIONS ACCORDING TO NATIONALITY OF THE FINANCIAL INTERMEDIARY

Securities	Financial Intermediaries	Changes to Recommendation	
		Downgrade	Upgrade
Domestic	Domestic	17.2%	16.5%
	Foreign	9.5%	17.4%
	Total	13.2%	17.0%
Foreign	Domestic	7.1%	21.4%
	Foreign	8.1%	10.8%
	Total	7.8%	13.7%

Note: The proportion of financial analysis reports that maintained the previous recommendation issued by the financial intermediary may be obtained by the difference between 100% and the sum of the proportion of 'Downgrades' and 'Upgrades'.

#### 2.1.5. IMPACT ON QUOTATIONS

In this section, the immediate impact of investment recommendations on securities quotations was analysed. The disclosure of financial analysis reports and more specifically investment recommendations and target-prices covered therein, often leads to abnormal variations in quotations. As a rule, this should not take place as it is only analysts' opinion on the financial instrument analysed and backed-up by information that is publicly available. However, disclosure of said reports all too often produces effects on prices and transactions. One of the reasons for this, is that conclusions may be drawn from information that is still publicly available requires a level of analysis only exclusive to experts. Many investors (possibly the least informed and sophisticated) end up by superficially following the recommendations issued by widely-known entities.

Two different time frames to assess the impact on prices were set out: two and five trading sessions after the date of the financial analysis report's disclosure.<sup>8</sup> Two different methodologies to measure such an impact on prices were taken into account:

- i. percentage change of prices in the defined time frames;
- ii. calculating abnormal yield.

<sup>8</sup> The day of the report's disclosure was also included because the majority of reports are published prior to the markets' opening, as dealing with 3- and 6-day time frames.

The approach for calculating abnormal returns is based on the methodology used in event studies. This methodology particularly consisted of:

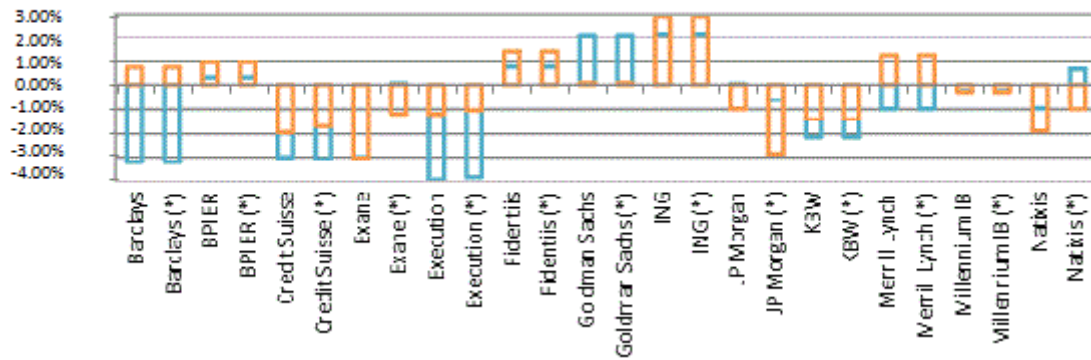
- i. the use of an estimate window of 120 trading sessions. This window corresponds to the period including the 130 trading sessions before the recommendation's issue date and the 10 trading sessions prior to said date;
- ii. in using the market model for computing the daily 'normal' returns;
- iii. in calculating accumulated 'abnormal' yields for each of the time frames considered.

As a first variant, the analysis postulates the absence of other events that may have had an impact on quotations, in addition to investment recommendations. In the second variant, the procedure was as follows: The disclosure dates of material information (material facts, financial reporting, capital increases, *inter alia*) were ascertained. The investment recommendations in respect of which there has been disclosure of at least one communication of material information within a period of 5 trading days focused on the disclosure date of the investment recommendation were removed from the calculations. The idea behind this is to ensure that any impact from investment recommendations on quotations have resulted exclusively from the disclosure of said recommendations and not any other events. The results obtained with this alternative methodology is marked with an asterisk (\*) in the following Charts.

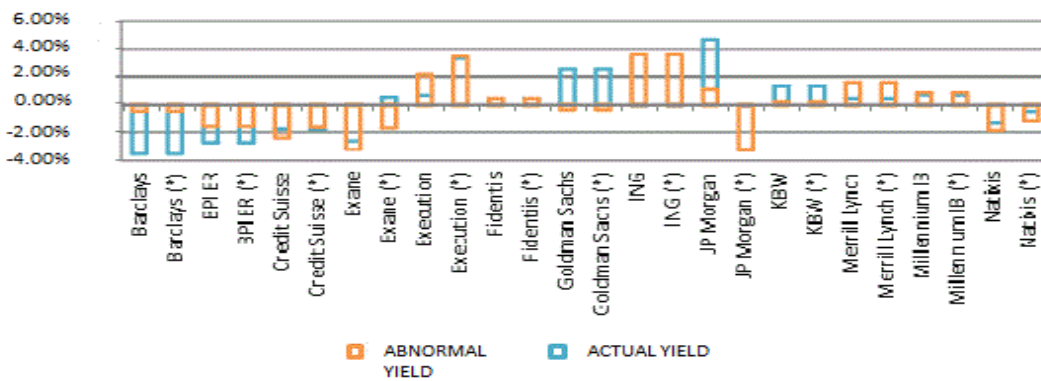
The analysis of the impact of investment recommendations on quotations focuses on two different parts: financial intermediaries and companies. The purpose is to ascertain if the influence on quotations differs among the various financial intermediaries and even if all the securities can also be influenced by investment recommendations. Thus, an aggregation of actual and abnormal returns per type of recommendation ('Buy' and 'Sell') and per financial intermediary or company is carried out.

## CHART 2 – IMPACT OF THE 'SELL' RECOMMENDATIONS ON QUOTATIONS (FINANCIAL INTERMEDIARIES)

### PANEL A – 3-DAY TIME FRAME



### PANEL B – 6-DAY TIME FRAME



Note: Only financial intermediaries that issued three or more 'Sell' recommendations were included. Either in this Chart or in subsequent Charts, the number of financial intermediaries (or issuers) considered varies depending on whether dealing with 'Buy' or 'Sell' recommendations and the quite different number of recommendations for each type.

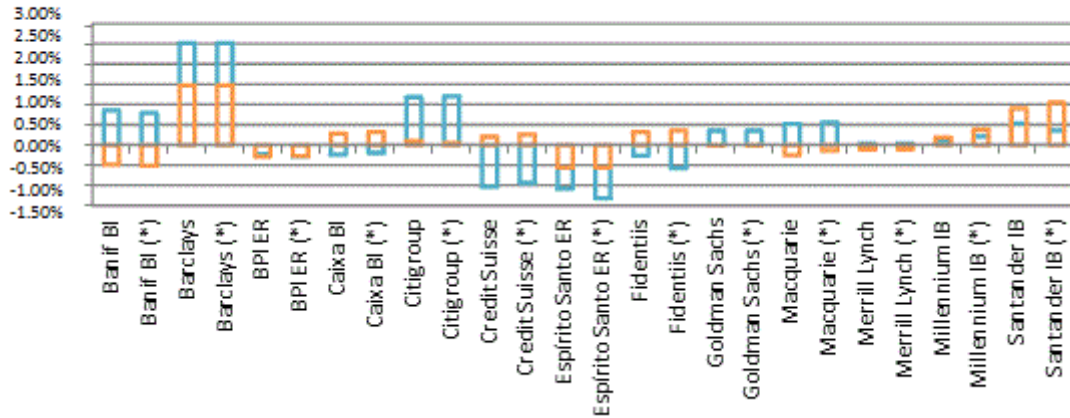
For the first time frame considered - from the disclosure of the recommendation to the end of the second subsequent day - it was established that the influence of the 'Sell' recommendations release differs among the various financial intermediaries. It is also different for abnormal or actual returns (Chart 2 – Panel A). The greatest negative impact came from the 'Sell' recommendations released by *Exane BNP Paribas* (abnormal yield of -3.03% and actual yield of -3.00%), *Credit Suisse* (abnormal yield of -1.94% and actual yield of -3.01%), *KBW* (abnormal yield of -1.41% and actual yield of -2.13%) and *Execution* (abnormal yield of -1.21% and actual yield of -3.91%). These results contrast with that obtained for the same period as none of these financial intermediaries had a significant negative impact on prices in that period. Also in the case of *JP Morgan*, a negative impact from such recommendations was witnessed, particularly where the disclosure of investment recommendations does not take place simultaneously or close to the disclosure of material facts.

On the contrary, if the period from the date of disclosure to the end of the fifth subsequent day is considered (Chart 2 – Panel B), it appears that the greatest negative impact came from the 'Sell' recommendations issued by *Exane BNP Paribas* (abnormal returns of -3.17% and actual returns of -2.52%), *Natixis Securitiz* (abnormal returns of -1.88% and actual returns of -1.33%), *Credit Suisse* (abnormal returns of -2.30% and actual returns of -1.75%), *BPI ER* (abnormal returns of -1.58% and actual returns of -2.65%) and *Barclays Capital* (abnormal returns of -0.41% and actual returns of -3.51%). The findings referred to in the preceding paragraph are maintained in the case of *JP Morgan*.

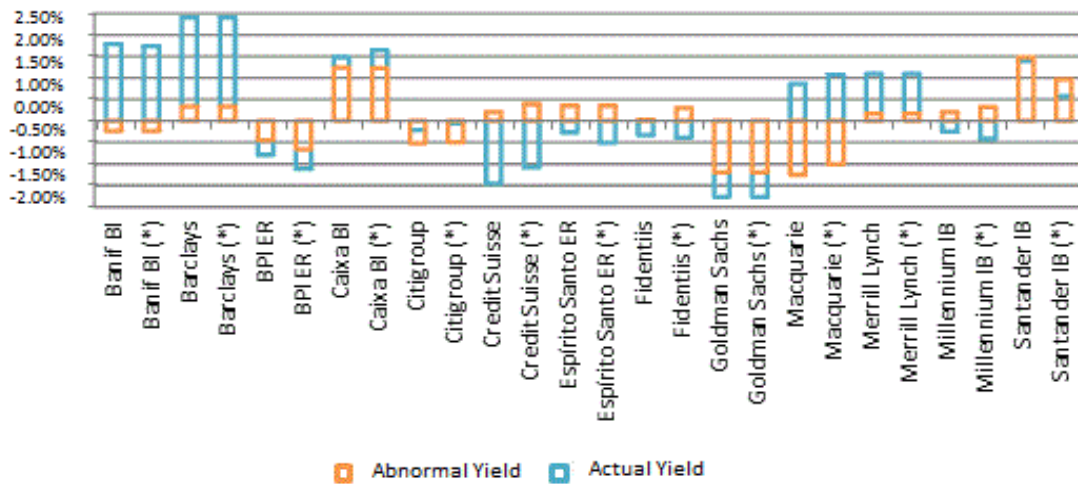
As for 'Buy' recommendations, the results point towards a purely sporadic impact of such recommendations. Thus, it appears that for the shorter time frame (Chart 3– Panel A), only two of the analysed financial intermediaries (*Barclays Capital* and *Santander IB*) show on average positive abnormal returns greater than 1%. In the same period, the 'Buy' recommendations of these two financial intermediaries were also linked to the positive abnormal returns greater than 1%.

CHART 3 – IMPACT OF THE 'BUY' RECOMMENDATIONS ON QUOTATIONS – 3-DAY TIME FRAME (FINANCIAL INTERMEDIARIES)

PANEL A – 3-DAY TIME FRAME



PANEL B – 6-DAY TIME FRAME

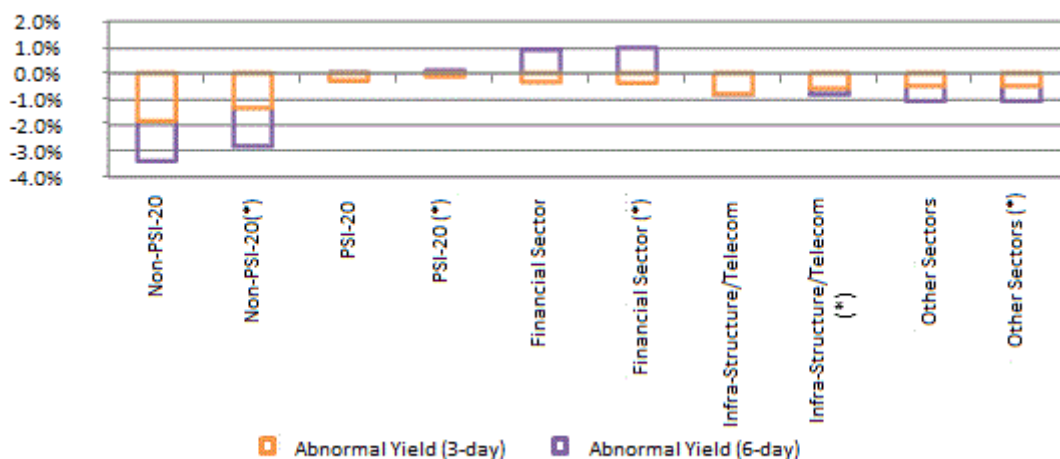


Note: Only financial intermediaries that issued 10 or more 'Buy' recommendations were included.

In the case of a much longer time frame (Chart 3 – Panel B), only *Caixa BI* and *Santander IB* released 'Buy/Accumulate' recommendations with an abnormal impact on prices close to or greater than 1%. There were also average actual returns greater than 1% (*Barclays Capital*, *Banif IB*, *Caixa BI*, *Merryl Lynch* and *Santander IB*). These results differ from those found for the corresponding period as *Santander IB* was the only financial intermediary out of the abovementioned to issue recommendations linked with abnormal returns or non-negligible actual returns.

The analysis per company showed that companies not included in the PSI-20 were on average more influenced by the release of 'Sell' recommendations on both time frames – Chart 4. One reason for said difference in the results may be that the coverage of larger companies with better cash-flow is higher than that of other companies as the reports for the companies that are not included in the Index is issued less often and thus become increasingly relevant. These results contrast with that obtained for the period from 1 October 2008 to 30 September 2009, wherein it was determined that the PSI-20 companies were on average more influenced by the release of 'Sell' recommendations on a 3-day time frame. As for the business sector, the impact of 'Sell' recommendations was higher in non-financial companies.

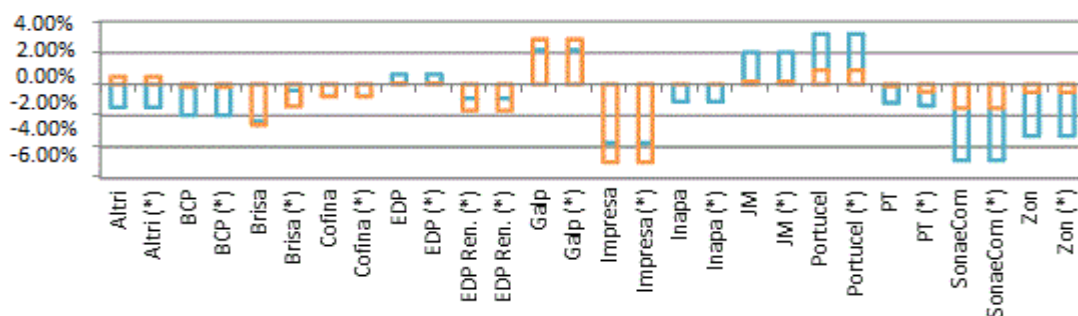
CHART 4 – IMPACT OF THE 'SELL' RECOMMENDATIONS ON QUOTATIONS – 3-DAY AND 6-DAY TIME FRAME (SIZE/BUSINESS SECTOR)



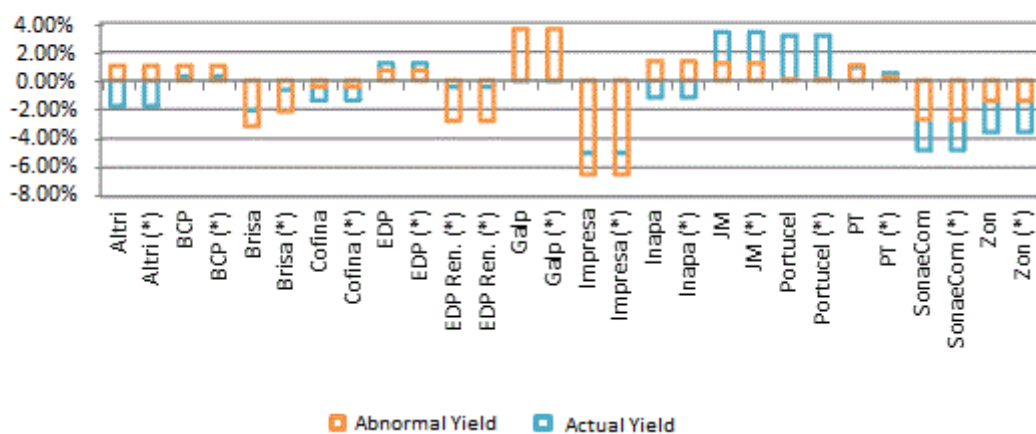
*Impresa*, *Brisa* and *SonaeCom* were the securities with an increasing sensitivity to 'Sell' recommendations (CHART 5) but the market does not appear to appreciate the 'Sell' recommendations issued on some companies. Thus, 5 (8) of the companies displayed positive cumulative abnormal returns (though in some cases relatively negligible) within three (six) days after the 'Sell' recommendations issued on said companies were disclosed.

CHART 5 – IMPACT OF THE 'SELL' RECOMMENDATIONS ON QUOTATIONS (COMPANIES)

PANEL A – 3-DAY TIME FRAME



PANEL B – 6-DAY TIME FRAME (COMPANIES)

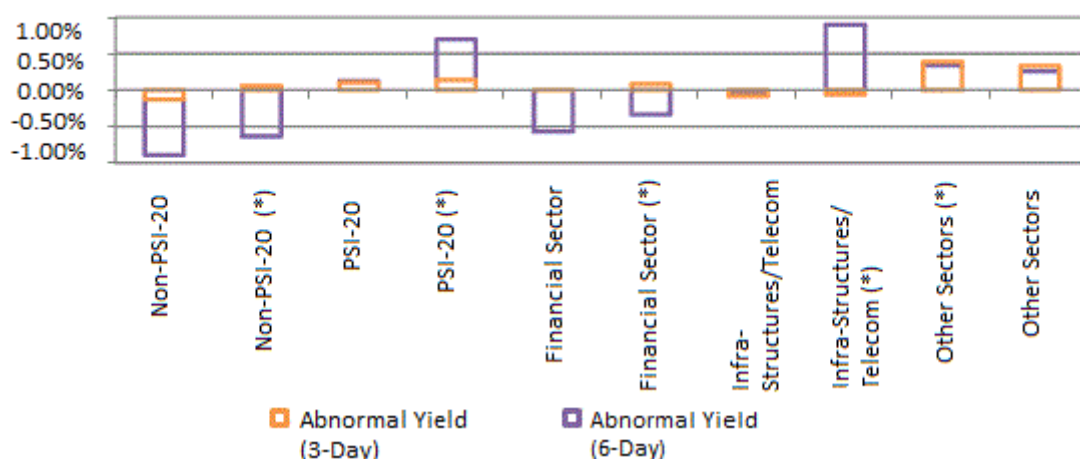


Note: Includes only companies targeted in approximately three or more 'Sell' recommendations.

The results for 'Buy' recommendations are less robust as substantial differences are displayed. These differences are dependent on whether or not those that are linked to the disclosure date of the material facts are withdrawn. However, the impact of the 'Buy' recommendations is less than 1% both in companies that comprise the PSI-20 and in smaller companies with reduced liquidity. The sectorial analysis shows that the impact of 'Buy' recommendations on companies that are part of 'Other Sectors' is positive, although negligible (i.e. less than 0.5%).

These results are different from that of the corresponding period. Thus, it had previously been concluded that the impact of 'Buy' recommendations was positive, particularly for the shorter time frame and for financial companies, but it appears to be have been negligible for the time period under analysis.

CHART 6 – IMPACT OF THE 'BUY' RECOMMENDATIONS ON QUOTATIONS – 3-DAY AND 6-DAY TIME FRAME (SIZE/BUSINESS SECTOR)



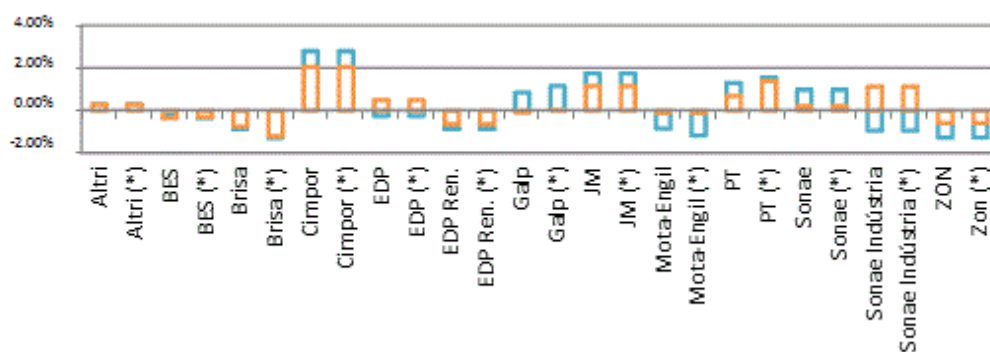
This set of findings is not the same for all companies. For both time frames, the largest positive impacts originated from the investment recommendations issued on *Cimpor*, *Jerónimo Martins* and *Portugal Telecom* (Chart 7). However, it should be noted that *Cimpor* was the target of a takeover bid, whereby the acquisition premiums offered by buyers (and subsequent price reviews) were key factors in the abovementioned results. A bid was also submitted on a company owned by *Portugal Telecom*.<sup>9</sup> The price offered by the buyer underwent several reviews, which further improved the stock market performance of this company.

<sup>9</sup> Bid proposal by *Telefonica* for *Vivo*.

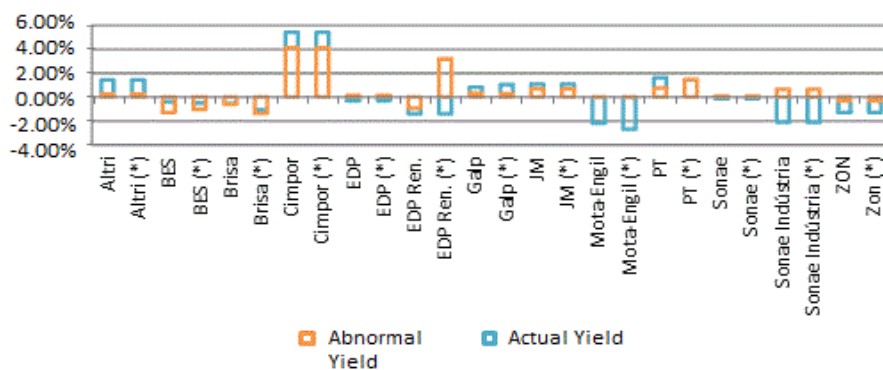
As with 'Sell' recommendations, there are cases where the market appears to have underrated the 'Buy' recommendations such as *Brisa*, *BES*, *Mota-Engil* and *Zon Multimédia*. In these cases the cumulative abnormal returns for the three and six days following the disclosure of 'Buy' recommendations issued on said companies were negative.

CHART 7 – IMPACT OF THE 'BUY' RECOMMENDATIONS ON QUOTATIONS (COMPANIES)

PANEL A – 3-DAY TIME FRAME



PANEL B – 6-DAY TIME FRAME



Note: Includes only companies targeted in approximately 11 or more 'Buy' recommendations.

## 2.1.6. DISSEMINATION OF INVESTMENT RECOMMENDATIONS IN LIGHT OF CONSENSUS PER SECURITY AND INVESTMENT FIRM

This section examines which financial intermediaries/analysts are the furthest from the 'average' estimates of their peers. Consensus is defined as the average of all the recommendations<sup>10</sup> concerning the issuer in question that was disclosed within 30 days prior to the disclosure of each financial analysis report (excluding the reports published by the financial intermediary).<sup>11</sup>

TABLE 13 displays the investment firms' position with regard to consensus. *Espírito Santo ER*, *Fidentiis Equities*, *Citigroup* and *BPI ER* were the financial intermediaries that released above-consensus recommendations more often. Meanwhile, *ING*, *Macquarie* and *Exane BNP Paribas* by and large issued below-consensus recommendations.

By comparing these results with those for the corresponding period, the reversal of *Fidentiis'* expectations is evident. In the period from 1 October 2008 to 30 September 2009, approximately 80.0% of the recommendations from this financial intermediary were below-consensus, but this percentage was only 18.5% for the latest period.

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<sup>10</sup> In order to ascertain this 'average', an ordinal number range between 1 and 3 was created. Thus, the 'Sell' and 'Reduce' recommendations corresponded to 1. 'Hold' and 'Accumulate'/'Buy' represented 2 and 3, respectively.

<sup>11</sup> The average of the three most recent recommendations published in the 30 days prior to the Report's disclosure was utilized.

TABLE 13 – TREND OF RECOMMENDATIONS AND CONSENSUS

	Below Consensus	Above Consensus
Banif BI	23.1%	69.2%
Barclays	40.0%	53.3%
BPI ER	20.7%	72.4%
Caixa BI	10.0%	60.0%
Citigroup	18.8%	75.0%
Credit Suisse	30.8%	61.5%
Espírito Santo ER	15.4%	84.6%
Exane	50.0%	50.0%
Fidentiis	18.5%	77.8%
Goldman Sachs	38.5%	53.8%
ING	63.6%	36.4%
Macquarie	50.0%	42.9%
Merrill Lynch	40.0%	53.3%
Millennium IB	46.2%	48.1%
Natixis	43.8%	50.0%
Others*	50.6%	43.8%

\*Includes financial intermediaries that issued less than 10 investment recommendations.

Note: The proportion of financial analysis reports wherein the recommendation issued by the financial intermediary corresponds to the market consensus may be obtained by the difference between 100% and the sum of the proportion of the 'above' and 'below' consensus recommendations.

The circulation level of investment recommendations is assessed by Root Mean Square Error (RMSE). This indicator is calculated from the square root of the percentage difference between the investment recommendation ( $R_i$ ) and consensus, i.e.

$$RMSE = \sqrt{\sum_{i=1}^N \frac{1}{N-1} \left( \frac{R_i - Consensus_i}{Consensus_i} \right)^2}$$

The analysis per security (Table 14) shows that the company wherein greater consistency among the different analysts was displayed during the period under analysis was *Banco BPI* with a 16.6% RMSE. Conversely, *Altri* and *Martifer* were the securities with the greatest discrepancies with investment recommendations.

TABLE 14 – DISSEMINATION OF INVESTMENT RECOMMENDATION TRENDS  
PER COMPANY

Issuer	RMSE
Altri	77.5%
Banco BPI	16.6%
BCP	30.2%
BES	26.6%
Brisa	41.9%
Cimpor	26.7%
EDP	36.8%
EDP Ren.	24.3%
Galp	27.4%
JM	33.3%
Martifer	57.5%
PT	34.5%
Zon	37.4%

Note: Only includes the target companies with at least five investment recommendations.

In the issuers' activity sector, the dissemination of the recommendations' trends pertaining to companies in the financial sector (RMSE=24.2%) was lower than the others, be it infrastructure and telecommunications companies (RMSE=32.8%) or other companies (RMSE=42.6%). These results are different from those for the corresponding period wherein the financial sector recorded a lower level of agreement among analysts with regard to future stock market performance. The fact that the last quarter in 2008 and first half of 2009 were tainted by the financial crisis and some doubts on the solvency of a couple of European banks (which was not as acute in 2010) and disclosure of results of the stress tests carried out on the financial sector will certainly serve to explain the improved agreement.

In the case of companies' size it appears that the PSI-20 companies display a significantly lower RMSE. Financial analysts seem to agree more with each other when dealing with larger companies with better cash-flow. This may be linked with a larger number of analysts that provide cover for these companies.

Those who are further removed from the consensus are identified from the individual analysis per financial intermediary. *Fidentiis Equities*, *Exane BNP Paribas* and *Natixis Securities* displayed greater disagreement as against consensus. *Macquarie*, *Citigroup* and *BPI ER* recorded the lowest RMSE in the period in question.

TABLE 15 – DISSEMINATION OF INVESTMENT RECOMMENDATION TRENDS  
PER FINANCIAL INTERMEDIARY

	RMSE
Banif BI	30.0%
Barclays	37.6%
BPI ER	28.7%
Caixa BI	30.0%
Citigroup	26.6%
Credit Suisse	33.7%
Espírito Santo ER	33.2%
Exane	41.7%
Fidentiis	49.1%
Goldman Sachs	33.8%
ING	36.8%
Macquarie	18.4%
Merrill Lynch	30.7%
Millennium IB	39.0%
Natixis	41.0%
Others*	33.7%

\* Includes the financial intermediaries that issued less than 10 investment recommendations.

The RMSE of foreign financial intermediaries was slightly below that of domestic financial intermediaries for the same period. This is not the case for the timeframe being examined now. Actually, the RMSE was 33.7% for the national financial intermediaries and 35.1% for foreign financial intermediaries during the period in question.

#### 2.1.7. MEDIUM TERM PERFORMANCE OF INVESTMENT RECOMMENDATIONS

Assessing the performance of the securities recommended by financial analysts was based on the establishment of securities portfolios for each of the financial intermediaries, with these portfolios being equalised pursuant to the respective investment recommendations. The methodology utilised is based on the following assumptions:

- 1- assessing the investment firm's performance is conducted for the period from 1 October 2009 until 30 September 2010;

- 2- as at 1 October 2009, the sum of EUR 100,00 as initial investment is assigned to each financial intermediary;
- 3- this amount is invested in a portfolio representative of the PSI-20 Index;
- 4- on the day that the financial intermediary releases an investment recommendation, the portfolio is readjusted. This readjustment complies with the following rules:
  - i. a 'Buy/Accumulate' recommendation on the security will result in a 50% increase in the exposure to this security. However, in absolute terms, this increase will be limited to EUR 20,000. In order to finance the increased exposure to the security targeted by the 'Buy/Accumulate' recommendation, the exposure to other securities in the investment portfolio shall be reduced (this reduction shall be proportional to the weight represented in the portfolio);
  - ii. a 'Sell/Reduce' recommendation on a security will result in a 50% decrease in the exposure to this security. Decrease in exposure will be limited to EUR 20,000. The amount resulting from reducing exposure to the security targeted by the 'Sell/Reduce' recommendation will be applied to the other portfolio securities (this shall be proportional to the weight represented in the portfolio);
- 5- as at 30 September 2010, the portfolio value of several financial intermediaries was established and returns for one year (i.e. between 1 October 2009 and 30 September 2010) was calculated;<sup>12</sup>
- 6- In addition, the portfolio value is calculated by taking the payment of brokerage fees for the portfolio readjustment into account.<sup>13</sup>

Table 16 reflects the portfolio value as at 30 September 2010. All financial intermediaries' portfolios experienced losses of between -5.11% and -23.60%, and the average devaluation of all financial intermediaries amounted to -14.05% (not taking the brokerage charges into account). Irrespective of whether or not the brokerage fees were considered, *Banif BI* presents the portfolio with the lowest devaluation and *BPI ER*'s portfolio underwent the worst devaluation.

The PSI-20 Index suffered a -7.61% decline in the period under analysis and only the portfolios of *Banif BI* and *Fidentis Equities* achieved a higher return than this Index. However, the PSI-20's portfolio was changed during the period under review. If this had not taken place, the variation would have been -8.35%. A

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<sup>12</sup> Adjusted share prices are used at closing price.

<sup>13</sup> A brokerage fee of 0.2525% for each transaction was taken into account. This value was obtained from the average fees applicable to transactions submitted via the Internet and for amounts equal to EUR 7,500.

comparison of portfolio returns achieved by several financial intermediaries should be undertaken with the PSI-20 portfolio, accepting that this Index's composition does not change during the period being analysed. However, substantial changes in the results were not recorded: only two portfolios attained higher returns than that of the portfolio (static) that replicates the PSI-20 Index.

TABLE 16 – VALUE AND PROFITABILITY OF PORTFOLIOS CONSTITUTED FROM THE RECOMMENDATIONS OF FINANCIAL INTERMEDIARIES

	Portfolio value as at 30-09-2010	Var (%)	Portfolio value as at 30-09- 2010 (less commissions)	Var (%) (less commissions)
Banif BI	94,886.62	-5.11%	94,759.07	-5.24%
BPI ER	76,399.01	-23.60%	75,737.84	-24.26%
Caixa BI	85,952.20	-14.05%	85,781.18	-14.22%
Citigroup	83,126.10	-16.87%	82,917.62	-17.08%
Credit Suisse	86,548.28	-13.45%	86,227.65	-13.77%
Espírito Santo ER	85,016.95	-14.98%	84,812.51	-15.19%
Fidentiis	93,627.71	-6.37%	93,079.25	-6.92%
Macquarie	86,109.01	-13.89%	85,934.05	-14.07%
Merrill Lynch	82,530.95	-17.47%	82,418.82	-17.58%
Millennium IB	85,309.90	-14.69%	84,921.41	-15.08%

Note: Only 10 financial intermediaries (5 domestic and 5 foreign) that issued the most investment recommendations during the period in question ('Hold' recommendations were excluded) were included.

## 2.2. TARGET-PRICES

### 2.2.1. DISTRIBUTION OF TARGET PRICES REFERRING TO LAST QUOTATION AND PREVIOUS TARGET PRICE PUBLISHED BY INVESTMENT FIRM

As in investment recommendations, the issued target prices also warrant the investors' attention in general and the media, which shall be examined below. As a first step, two variables are taken into account: the 'appreciation potential' and 'target-price variation'. The first variable relates to the financial analysts' expectations concerning the appreciation of securities subject to the recommendation. The potential appreciation is calculated according to the following:

$$\text{Potential appreciation} = \frac{\text{Target Price}_t}{\text{Quotation}_t} - 1$$

wherein  $\text{Target Price}_t$  concerns Target Price in  $t$  and  $\text{Quotation}_t$  relates to the market price as stated in the financial analysis report.

The Target price variation is as follows:

$$\text{Target Price Variation}^{i,h}_t = \frac{\text{Target Price}^{i,h}_t}{\text{Target Price}^{i,h}_{t-1}} - 1$$

where the  $\text{Target Price}^{i,h}_t$  is the Target price of security  $i$  as issued by the financial intermediary  $h$  in  $t$ .

The sample was divided between the domestic securities and listed securities on Euronext under dual-listing, and it was found that the potential for appreciation implicit in the target prices of the securities covered by financial analysts is high, as a general rule.

TABLE 17 – DISTRIBUTION OF TARGET PRICES REFERRING TO THE LAST QUOTATION AND THE PREVIOUS TARGET PRICE PUBLISHED BY THE INVESTMENT FIRM

	Securities	Target Price Variation	
		Percentile	Appreciation Potential
<b>Panel A</b>	Domestic	10	-3.0%
		20	4.0%
		30	8.8%
		40	11.9%
		50	15.8%
		60	21.6%
		70	26.3%
		80	33.7%
		90	46.7%
	Foreign	10	-3.0%
		20	3.3%
		30	6.9%
		40	9.4%
		50	15.2%
		60	19.5%
		70	27.3%
		80	35.6%
		90	43.0%

	Percentile	Target Price Variation	
		Until 19-01-2010	After 19-01-2011
<b>Panel B</b>	10	-2.8%	-19.5%
	20	0.0%	-13.6%
	30	0.0%	-9.8%
	40	0.0%	-6.4%
	50	3.9%	-3.1%
	60	7.0%	0.0%
	70	11.0%	2.9%
	80	15.8%	6.1%
	90	27.6%	12.5%

On the one hand, less than 20% of the issued target prices on national securities published during the period under analysis corresponded to a negative appreciation potential of the securities. This is in accordance with the percentage of 'Sell'/'Reduce' recommendations issued (13.9% - TABLE 4). On the other hand, more than half the target prices issued indicated gains in value of more than 15%<sup>14</sup> and the maximum and minimum appreciation potential found amid the domestic securities were 111.0% and -82.5%, respectively. In terms of target price variation, the minimum and maximum values found among domestic securities were -86.2% and 200%, respectively. It should also be noted that three 'Buy' recommendations wherein the target price was below the market price in the financial analysis report and another six 'Buy' recommendations in cases of null and void appreciation potential were identified.<sup>15</sup>

It also appears that for domestic securities and listed securities under dual listing, 50% of the target prices disclosed display negative variations in comparison to the last target price released by the financial intermediary. It was also ascertained in the case of domestic securities, 20% of financial intermediaries issued price targets of 10% above and likewise for target prices below the previous target price.

The PSI-20 Index displayed two distinct behaviours in the period under analysis. From 1 October 2009 to 19 January 2010, the Index did not indicate a definite trend (On 19 January 2010, the PSI-20 quoted the same value as on 1 October 2009). The period from 20 January 2010 until 30 September 2010 was denoted by the sovereign debt crisis and investment recommendations were tainted by this crisis. Thus, while approximately 20% of target prices showed negative variations to the target price target for the period ending 19 January 2010, this percentage had risen to 60% of financial analysis reports for the 20 January 2010 - 30 September 2010 period.

TABLE 18 displays that the appreciation potential expected by financial analysts was higher in PSI-20 companies. The median appreciation potential of these companies was around 16.4% and 12.2% for other companies. Furthermore, 50% of target prices issued over smaller companies with reduced liquidity corresponded to negative variations greater than -5.3% in comparison to the previous target price, while this variation was 0% among the PSI-20 companies. It follows that the financial analysts' optimism is lower for non-PSI-20 companies. In addition, there is a wider interquartile range of target price variation between the groups of non-PSI-20 companies (27.1%). This greater variability may be explained by the lower average number of target prices issued on these companies and the longest time period between two consecutive recommendations for the same company.

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<sup>14</sup> The timeframe for the issue of target prices is not the same for all recommendations, so therefore these results should be interpreted with caution. Thus, some target prices are issued for a one-year timeframe, some for the end of the year and there are still others that have no definite time frame.

<sup>15</sup> 17 'Hold' recommendations with a negative appreciation potential were also identified.

In the activity sector, the median appreciation potential of companies in the financial sector was higher than that of other companies. However, with regard to variations in target prices, the financial companies were the hardest hit during the period under analysis. Thus, the financial sector is the only one that displays a negative median target price variation which indicates that over 50% of target prices published reflect negative variations compared with previous target price. Also in the corresponding period the financial sector companies were hit particularly hard in the issue of new target prices. This could indicate that the financial analysts' confidence concerning the performance of the financial sector had not been totally restored since the beginning of the financial crisis unlike in other sectors.

Most analysts appear to expect a greater impact from the international crisis on the financial sector companies and also envisage that these companies are slower in recovering from the crisis.

TABLE 18 – DISTRIBUTION OF TARGET PRICES REFERRING TO THE LAST QUOTATION AND THE PREVIOUS TARGET PRICE PUBLISHED BY THE INVESTMENT FIRM

		Percentile	Appreciation Potential	Target Price Variation
<b>Panel A</b>	Infra-Structures/ Telecommunications	25	9.4%	-6.6%
		50	17.6%	0.0%
		75	28.9%	6.0%
	Financial Sector	25	7.8%	-15.4%
		50	17.7%	-8.1%
		75	27.5%	5.4%
	Others	25	0.1%	-5.3%
		50	13.5%	1.1%
		75	33.5%	10.9%
	PSI-20	25	7.8%	-6.5%
		50	16.4%	0.0%
		75	30.1%	7.0%
Non-PSI-20	25	-2.0%	-18.4%	
	50	12.2%	-5.3%	
	75	28.5%	8.7%	
<b>Panel B</b>	Financial Intermediaries Domestic	25	4.8%	-7.8%
		50	16.3%	0.0%
		75	33.3%	6.6%
	Foreign	25	8.3%	-7.7%
		50	15.5%	0.0%
		75	27.5%	8.0%

The median appreciation potential assigned to securities by domestic financial intermediaries is 16.3%. This is higher by 0.8 percentage points to that of foreign financial intermediaries (TABLE 18 – Panel B). The median difference of this variable among domestic and foreign financial intermediaries in the corresponding period was 10 pp. This corresponds to a blatant approach to the expectations as to the trend of the Portuguese stock market performance between the two types of intermediaries. As for the target prices' variations, the findings presented by domestic and foreign financial intermediaries are alike.

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#### 2.2.2. DISPERSION OF TARGET PRICES OF EACH FINANCIAL INTERMEDIARY ACCORDING TO CONSENSUS

Similar to the exercise carried out in Section 2.1.6., the degree of agreement among financial analysts as to the target prices issued by same are now examined. The consensus target prices are defined as the average of target prices issued on the security in question in the months preceding the issue (excluding investment firms).

TABLE 19 identifies the percentage of target prices issued above and below the consensus. It was noted that financial intermediaries with the highest proportion of target prices issued above the consensus indicator are *Espírito Santo ER*, *Fidentiis Equities* and *Citigroup*. Those with the highest proportion of target prices below the consensus are *ING*, *Macquarie* and *Exane BNP Paribas*. *Millennium IB* was the only financial intermediary among the domestic financial intermediaries to present a proportion of target prices issued above the consensus (less than 60%). Only three foreign financial intermediaries (*Credit Suisse*, *Fidentiis* and *Citigroup*) record a proportion of target prices issued above said percentage.

TABLE 19 –TARGET PRICE VS CONSENSUS PER FINANCIAL INTERMEDIARY

	Below Consensus	Above Consensus
Banif BI	23.1%	69.2%
Barclays	40.0%	53.3%
BPI ER	20.7%	72.4%
Caixa BI	10.0%	60.0%
Citigroup	18.8%	75.0%
Credit Suisse	30.8%	61.5%
Espírito Santo ER	15.4%	84.6%
Exane	50.0%	50.0%
Fidentiis	18.5%	77.8%
Goldman Sachs	38.5%	53.8%
ING	63.6%	36.4%
Macquarie	50.0%	42.9%
Merrill Lynch	40.0%	53.3%
Millennium IB	46.2%	48.1%
Natixis	43.8%	50.0%
Others*	50.6%	43.8%

\* Includes financial intermediaries that issued less than 10 target prices during the period under analysis.

Note: The proportion of target prices published identical to market consensus may be obtained from the difference between 100% and the sum of the proportion of target prices above and below consensus.

The target price dispersion for companies and financial intermediaries is calculated from the Root Mean Square Error (RMSE) concept as used in Section 2.1.6:

$$RMSE = \sqrt{\frac{1}{N-1} \sum_{i=1}^N \left( \frac{Target Price_i - Target Price consensus_i}{Target Price consensus_i} \right)^2}$$

Where the consensus target price is as defined above.

TABLE 20 – Panel A contains the target prices dispersion of various securities and shows that financial analysts appear to be more in agreement concerning *Cimpor*, *EDP*, *Martifer* and *Jerónimo Martins*, with all reflecting values of less than 9% for the RMSE.<sup>16</sup> On the other hand, *Zon Multimédia* recorded the highest RMSE.

TABLE 20 – TARGET PRICE DISPERSION OF INVESTMENT FIRMS AS AGAINST CONSENSUS PER TARGET COMPANY

PANEL A: COMPANIES		PANEL B: FINANCIAL INTERMEDIARIES	
Issuer	RMSE	Financial Intermediary	RMSE
Altri	13.5%	Banif BI	12.4%
Banco BPI	9.1%	Barclays	10.3%
BCP	18.3%	BPI ER	13.2%
BES	11.3%	Caixa BI	11.7%
Brisa	11.2%	Citigroup	10.3%
Cimpor	6.4%	Credit Suisse	7.1%
EDP	8.4%	Espírito Santo ER	13.1%
EDP Ren.	9.7%	Exane	11.2%
Galp	11.1%	Fidentis	12.1%
JM	8.7%	Goldman Sachs	12.3%
Martifer	8.5%	ING	21.6%
PT	13.4%	Macquarie	11.3%
Zon	22.5%	Merrill Lynch	9.6%
Other Companies*	11.4%	Millennium IB	7.9%
		Natixis	11.3%
		Other FI**	13.0%

\* Includes companies that were subjected to less than 5 target prices disclosed in the period under analysis.

\*\* Includes financial intermediaries that issued less than 9 target prices during the period under analysis.

Analysing per activity sector reveals that the agreement among financial analysts was very similar to companies in the financial sector and those included in the

<sup>16</sup> The result of *Cimpor* is dependent on the Takeover bid wherein the company was the target. The estimates of the appreciation potential of the security make it less risky owing to the underwriting of shares at the offer's price.

infrastructure and telecommunications sector (RMSE of 12.0% and 12.7%, respectively). Both sectors displayed a level of agreement among financial analysts lower than that for the group of other non-financial companies (RMSE equal to 9.8%). When compared with the analysis for the period from 1 October 2008 to 30 September 2009, there was a sharp downturn in RMSE across all the sectors examined, and as such, an increase in agreement among financial analysts overall.

Calculating the RMSE per financial intermediary (Table 20 – Panel B) indicates that *Credit Suisse* and *Millennium IB* were closer to the consensus.<sup>17</sup> On the other hand, *ING* was the financial intermediary that most often deviated from the average target price of financial analysts (issued the preceding month). It is also important to remember that *ING* was the financial intermediary that issued the most below consensus target prices.

On average, the domestic financial intermediaries were more often closer to consensus than the foreign financial intermediaries (10.7% RMSE lower than 12.1% of foreign intermediaries). These results are in contrast with those achieved for the same period, where the average RMSE of the domestic financial intermediaries was significantly higher than that of the foreign intermediaries (a difference of +9.9 pp).

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### 2.2.3. TARGET-PRICE VS MARKET PRICE

Another key aspect in the analysis of the target price issued is the clash with the market prices as at the end of the timeframe for which said prices were determined. For the purposes of analysing the accuracy of financial analysts in issuing target prices, only those with a 12 month time frame are considered<sup>18</sup>, the end of 2009 (FY2009) and the end of 2010 (FY2010). From among the target prices issued between 1 January 2009 and 30 September 2010 for domestic securities, 687 attained the respective time frame as at 31 December 2010 (where, *inter alia*, the most common time frame was the end of 2010 with 297 records).

The domestic financial intermediaries mainly issued target prices with time frames ending at the end of the tax year, while the financial intermediaries preferably issued 12-month target prices.

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<sup>17</sup> In the same period, *Millennium IB* presented the highest value for RMSE.

<sup>18</sup> Target price with a timeframe that was attained.

TABLE 21 – TIME FRAME OF TARGET PRICE

Time Frame	Financial Intermediary		Total
	Domestic	Foreign	
12 Month	2	135	137
FY2009	253	-	253
FY2010	271	26	297

Firstly, the percentage difference between the market price recorded on the date of the timeframe and target price issued is calculated. In the case of target prices issued for a 12 month time frame, the percentage difference was negative in more than 50% of cases and the difference was greater than -13% in at least 40 % of the cases (see TABLE 22 – Panel A). In the case of target prices with a time frame for the end of 2009, the percentage difference was positive in more than 50% of the cases. Finally, in the case of target prices with a time frame for 31 December 2010, the percentage difference was negative in nearly 80% of the records. It should also be pointed out that a target price issued on a domestic security was exceeded by 597.3% of the market price at the end of the time frame (see TABLE 22 – Panel B).

TABLE 22 – PERCENTAGE DIFFERENCE BETWEEN MARKET PRICE AND TARGET PRICE

(PANEL A)

Percentile	Time Frame		
	12 Month	FY2009	FY2010
10	-40.1%	-29.9%	-50.8%
20	-31.0%	-16.6%	-44.3%
30	-22.3%	-10.9%	-40.5%
40	-13.2%	-7.7%	-35.7%
50	-3.3%	0.4%	-29.3%
60	6.9%	6.0%	-20.5%
70	15.1%	9.1%	-11.9%
80	23.0%	15.7%	1.7%
90	43.3%	30.6%	15.4%
No. of Comments	137	253	297

(PANEL B)

	Minimum	Maximum
12 Month Target Price	-64.7%	156.6%
Target Price for the end of 2009	-55.2%	597.3%
Target Price for the end of 2010	-67.1%	88.9%

In another analysis, it was found that approximately 18.2%, 43.5% and 13.8% of reports, the percentage difference between the market price ascertained and target price was below 10% (absolute terms) for a 12 month time frame, for the end of 2009 and the end of 2010, respectively. This set of findings would indicate that financial intermediaries denote a greater capacity to forecast target prices issued for the end of 2009, as opposed to the target prices issued for 12 months and for the end of 2010. In the latter two cases, forecast errors may be considered to be very significant.

The sample split between the PSI-20 companies and non-PSI-20 companies (Table 23 – Panel A) shows that the median percentage difference between the market price recorded and the target price issued for the end of 2010 was significantly

lower in the second group of companies (difference of -14.4 pp), as the market prices (target price time frame) were lower than the target prices issued in a greater proportion in the case of smaller firms with reduced liquidity, which implies that the difficulties in evaluating these companies are more substantial. On the other hand, it should also be noted that the proportion of target prices issued that were surpassed by the market price was 25% for PSI-20 companies in the PSI-20 and only 5% for the Non-PSI-20 companies.

The grouping of companies per activity sector indicates that the divergences between the target prices and market prices were generally more prominent for companies in the financial sector, when compared with the infrastructure and telecommunications sector. In the case of target prices issued for the end of 2010, the percentage difference between the market price recorded and target price issued was negative in more than 75% of the records linked to financial companies. This means that the target price was not attained. But that was not the case in the infrastructure and telecommunications sector (TABLE 23– Panel B).

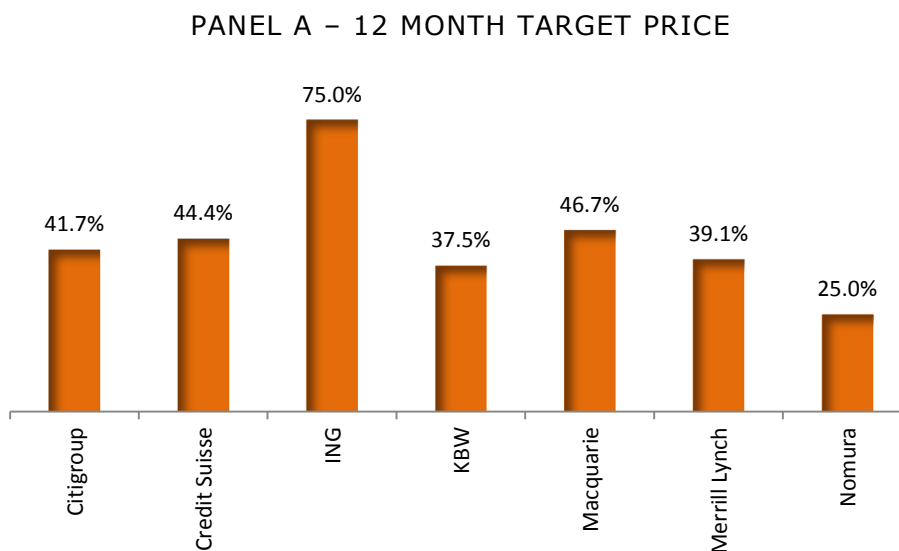
TABLE 23 – PERCENTAGE DIFFERENCE BETWEEN MARKET PRICE AND TARGET PRICE- BUSINESS SECTOR/COMPANY SIZE

		Time Frame			
		Percentile	12 Month	FY2009	FY2010
<b>Panel A</b>	PSI-20	25	-25.1%	-11.4%	-40.4%
		50	-3.0%	2.9%	-27.0%
		75	19.5%	9.5%	0.8%
	Non-PSI-20	25	-	-17.0%	-57.5%
		50	-	-4.6%	-41.4%
		75	-	12.6%	-23.7%
		Time Frame			
		Percentile	12 Month	FY2009	FY2010
<b>Panel B</b>	Infra-Structures/Telecommunications	25	-25.0%	-11.6%	-36.9%
		50	-3.3%	-7.3%	-17.5%
		75	18.8%	8.9%	7.7%
	Financial Sector	25	-29.1%	-7.8%	-43.9%
		50	-10.1%	1.3%	-40.3%
		75	10.1%	8.8%	-30.9%
	Others	25	43.2%	-15.9%	-48.3%
		50	51.0%	2.9%	-30.1%
		75	76.7%	12.2%	-10.3%

The proportion of reports wherein the target price issued was attained or even exceeded by the end of the time frame is also examined. It appears that *ING* was the financial intermediary with the highest proportion of target prices attained at the end of the time frame (75.0%) in the case of the 12 month time frame (Chart 8 – Panel A). This financial intermediary, as stated above, also displays the lowest proportion of target prices below consensus (TABLE 19) and a greater RMSE when compared to consensus (Table 20). It is apparent from Chart 8 – Panel A that out of the seven financial intermediaries analysed (with 12 month target price) only one displayed a proportion of achieved target prices (at the end of the time frame) equal to or greater than 50%.

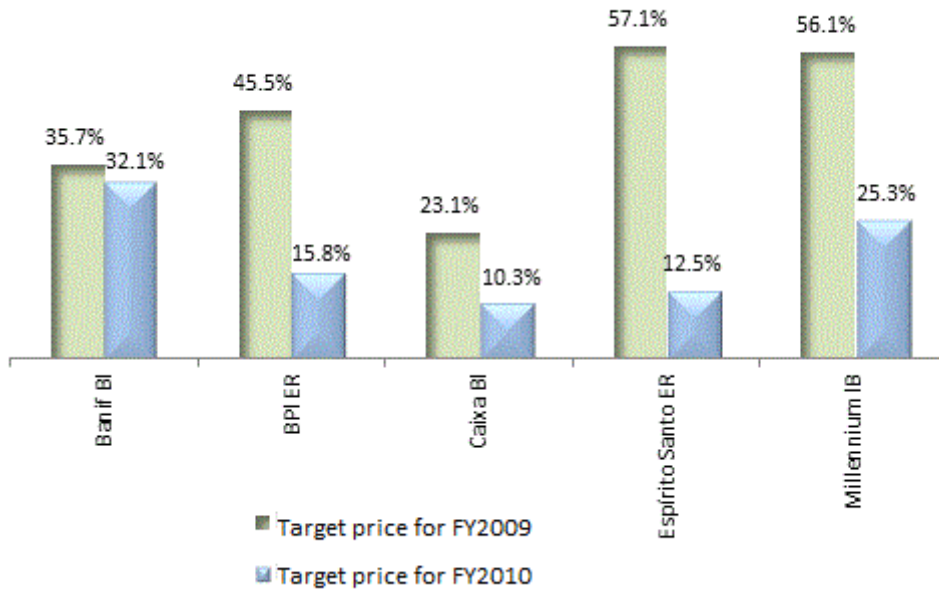
Regarding the target price where the time frame was the end of 2009, only *Espírito Santo ER* and *Millennium IB ER* showed a proportion of target prices achieved over 50%. *Caixa BI* revealed the lowest proportion of target prices achieved (see Chart 8 – Panel B). In the case of price targets with a timeframe for the end of 2010, it appears that less than 1/3 of the target prices were attained. *Banif BI* was the financial intermediary with the greater proportion of target price achieved (32.1%).

CHART 8 - RATIO OF RECOMMENDATIONS WHERE THE MARKET PRICE REACHES OR EXCEEDS THE TARGET PRICE - PER FINANCIAL INTERMEDIARY



Note: Only the financial intermediaries with more than 12 target prices disclosed were included.

PANEL B – TARGET PRICE FOR THE END OF 2009 AND 2010

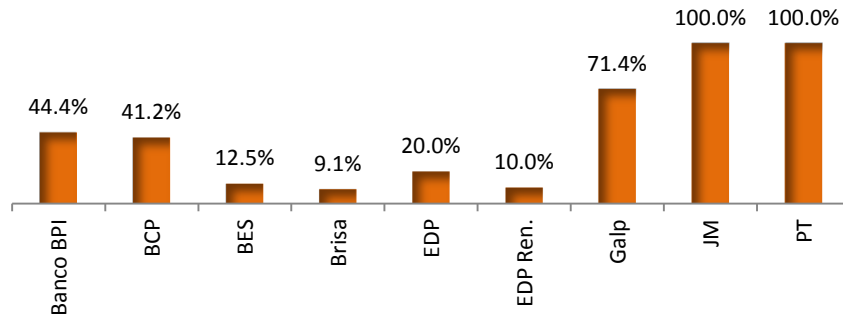


Note: Only the financial intermediaries with more than 13 target prices disclosed were included.

The analysis per company was also conducted taking into account the time frame of the target prices. All target prices issued on *Jerónimo Martins* were attained at the end of the different time frames used. However, the target prices issued on *EDP Renováveis* and *Martifer* for the 2009 (and 2010) financial year were attained in any case at the end of the year. The lowest percentages of 'adjustment' took place in target prices issued for the end of 2010. It was noted that none of the target prices issued on *Altri*, *Banco BPI*, *BES*, *Brisa*, *EDP Renováveis*, *Martifer*, *Mota-Engil*, *Ren* and *Zon Multimédia* were attained (see Chart 9 – Panel C).

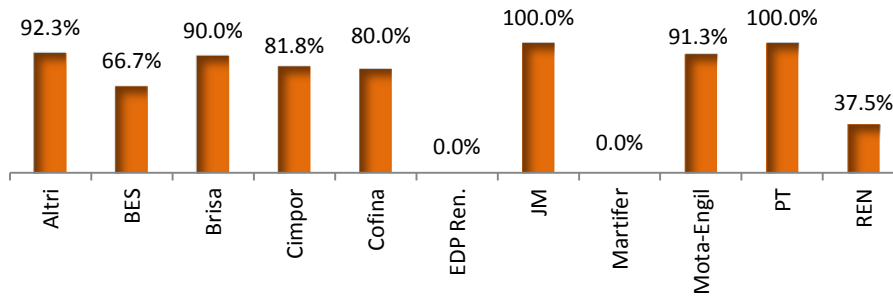
CHART 9 – RATIO OF RECOMMENDATIONS WHERE THE MARKET PRICE REACHES OR EXCEEDS THE TARGET PRICE – PER ISSUER

**PANEL A – 12 MONTH TARGET PRICE**



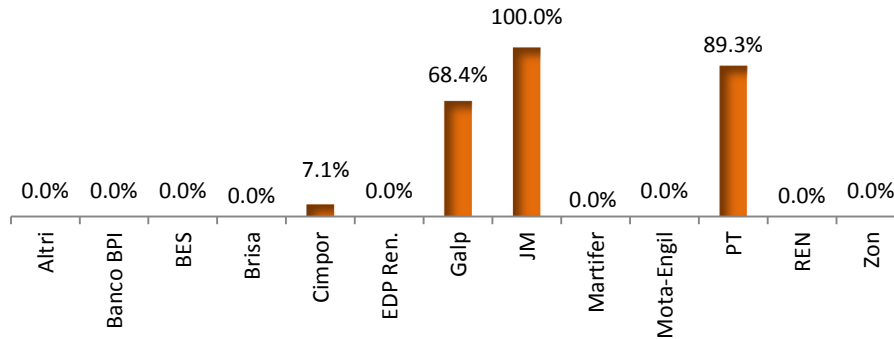
Note: Only the securities with more than eight target prices disclosed were included.

**PANEL B – TARGET PRICE FOR THE END OF 2009**



Note: Only the securities with more than nine target prices disclosed were included.

### PANEL C – TARGET PRICE FOR THE END OF 2010



Note: Only the securities with more than 10 target prices disclosed were included.

In the aggregate, the larger companies with increased liquidity display a proportion of reports wherein the market price attains a higher target price than that of other companies, regardless of the time frame taken into account. In the financial sector, the proportion of achieved target prices was lower than that for other sectors when the time frame regarded is 12 months or the end of 2010.

An alternative to calculating the proportion of achieved target prices is based on the calculation of Root Mean Square Error, defined as the average percentage divergence between the security quotation at the end of the time window taken into account and the target price issued per each financial intermediary (or security):

$$RMSE = \sqrt{\sum_{i=1}^N \frac{1}{N-1} \left( \frac{Quotation\ at\ the\ end\ of\ time\ frame_i - Target\ Price_i}{Target\ Price_i} \right)^2}$$

The idea behind this indicator is that the divergences are equally weighted when the target price on the time frame considered is not attained and also when it exceeds this target price. For 12 month target prices, *KBW* and *Credit Suisse* record

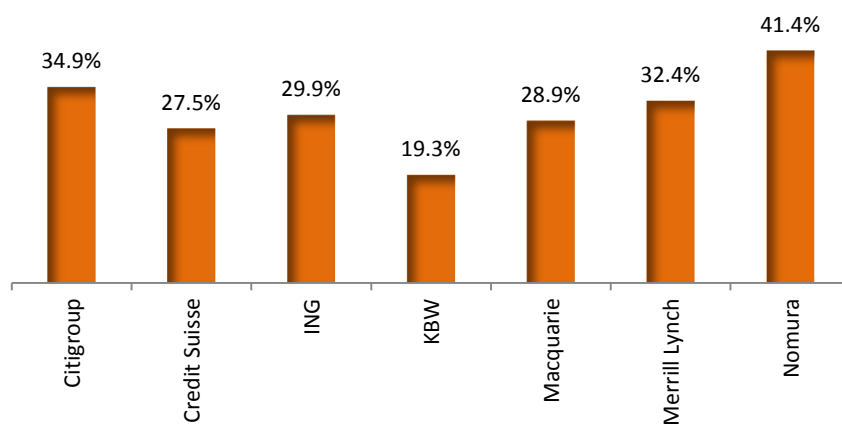
the lowest RMSE, i.e. the financial intermediaries reflect the lower forecast divergence in this time frame. *Nomura* and *Citigroup* displayed lesser accuracy than the other financial intermediaries insofar as higher average forecast divergences were revealed.

In the case of target prices with a time frame as at 31/12/2009, it appears that *Caixa BI* and *Banif BI* were the financial intermediaries which displayed the smallest divergence as against the market price recorded.

*Banif BI* demonstrated greater accuracy in the target prices as at 31-12-2010. On the other hand, *Millennium IB* recorded the greatest average divergence as against the quotation ascertained (41.8% RMSE) (CHART 10 – Panel B).

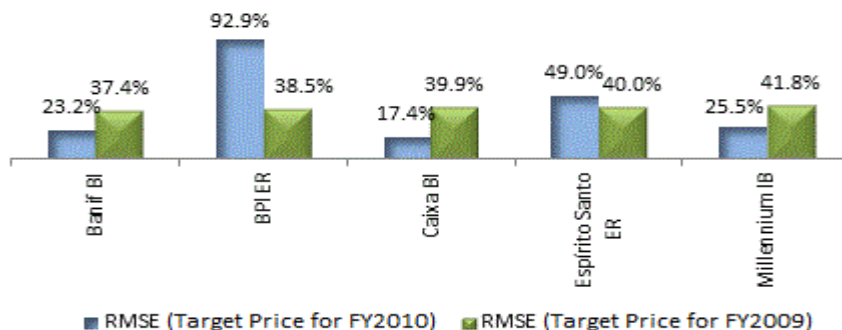
CHART 10 – ROOT MEAN SQUARE ERROR PER INVESTMENT FIRM

**PANEL A – 12 MONTH TARGET PRICE**



Note: Only financial intermediaries with more than 11 target prices disclosed were included.

**PANEL B – TARGET PRICE FOR THE END OF 2009 AND THE END OF 2010**



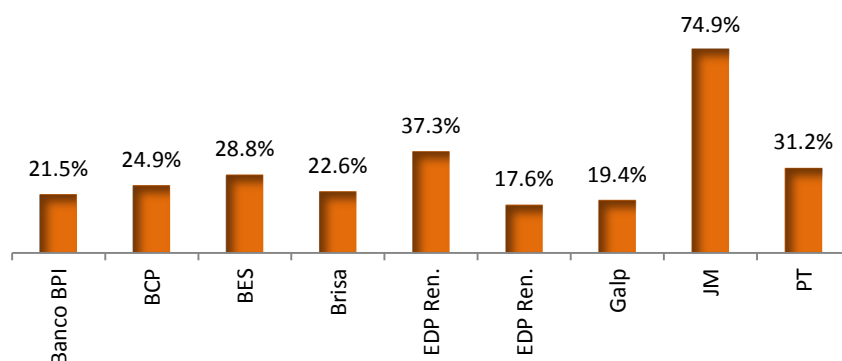
Note: Only financial intermediaries with more than 13 disclosed target prices were included.

The analysis per security shows that *EDP* and *Galp* were the companies with the lowest average divergence between the target price and market price for 12 month time frames. It therefore follows that the disclosed target prices for these entities were the closest to the market prices for this time frame (Chart 11 – Panel A). Conversely, *Jerónimo Martins* recorded the highest RMSE.

Comparing these results with those obtained for the end of 2009 and 2010 time frames, suggests instability in the accuracy with which estimates of target prices for the various companies are formulated. Thus, in certain cases (e.g. *EDP Renováveis* and *Mota-Engil*) the RMSE for the end of 2009 is the lowest, but the RMSE for the end of 2010 is the highest. In other cases (e.g. *Jerónimo Martins*) the RMSE is the highest for all time frames. Only *Cimpor* displays similar RMSE in both cases.

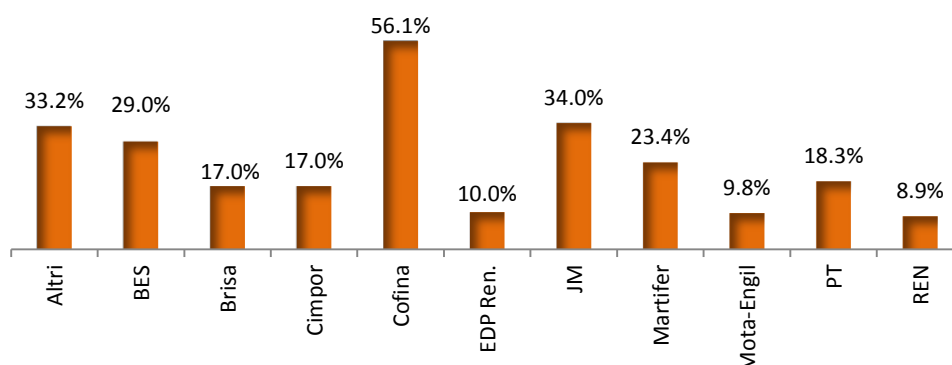
CHART 11 – ROOT MEAN SQUARE ERROR PER SECURITY

**PANEL A – 12 MONTH TARGET PRICE**



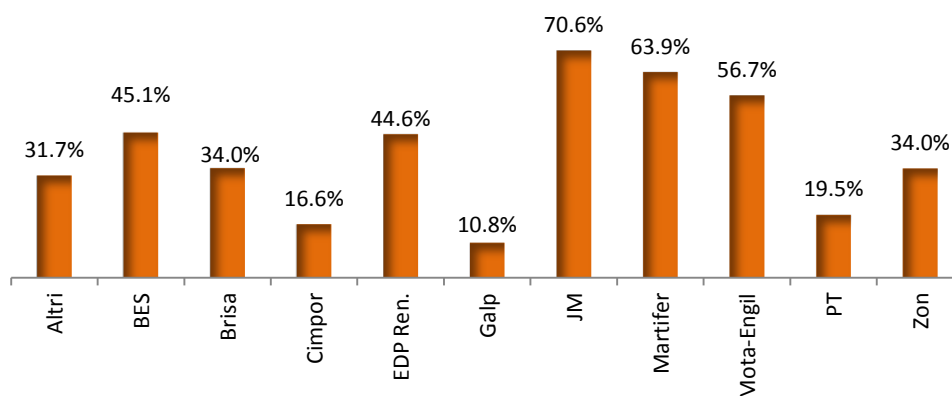
Note: Only financial intermediaries with more than eight disclosed target prices were included.

**PANEL B – TARGET PRICE FOR THE END OF 2009**



Note: Only financial intermediaries with more than nine disclosed target prices were included.

### PANEL C – TARGET PRICE FOR THE END OF 2010



Note: Included only companies where at least 11 target prices were issued.

In terms of size and liquidity, the RMSE was lower (denoting higher accuracy) in the PSI-20 companies, irrespective of the time frame regarded. The non-financial companies and the infra-structure and telecommunications sector had higher values for this indicator.

## 2.3. ESTIMATE COMPANY EARNINGS

Although not assigned the same importance that is attached to target prices in the disclosure of financial analysis reports, the estimates of earnings per share (EPS) of companies form an essential component in most models of fundamental valuation of shares. Some empirical research has displayed a strong and robust influence on variables such as surprises as against the estimate of company earnings and change in estimate of the earnings drawn up by analysts in the stock performance of securities. Other studies showed the presence of bias in analysts' estimates, as is the case with target prices.<sup>19</sup>

<sup>19</sup> On this point, see Ramnath, Sundaresh (2008), 'The financial analyst forecasting literature: A taxonomy with suggestions for further research', International Journal of Forecasting.

The analysis of the EPS estimates undertaken by financial analysts aims to determine the level of agreement among several analysts concerning said estimates.<sup>20</sup> The EPS of consensus is defined as the average EPS estimates issued by analysts on the security concerned, in the month preceding the issue (excluding those issued by the investment firm). The dispersion of target prices for companies and financial intermediaries is calculated from the concept of Root Mean Square Error (RMSE).

This has already been utilised in previous sections:

$$RMSE_i = \sqrt{\frac{1}{N-1} \sum_{j=1}^N \left( \frac{EPS_{i,j} - EPS \text{ Consensus}_i}{EPS \text{ Consensus}_i} \right)^2}$$

where 'i' relates to the security and 'j' to the financial intermediary/analyst.

Relatively speaking, *Deutsche Bank*, *Exane BNP Paribas* and *UBS* were the financial intermediaries that issued the most below consensus EPS estimates. On the other hand, in all cases it appears that financial intermediaries issued below consensus estimates in more than 50% of cases, which demonstrates a continuous lowering of expectations inasmuch as the new estimates are generally lower than the average of estimates disclosed in the preceding month. This is slightly more distinctive in the estimates for 2011.

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<sup>20</sup> The comparison of earnings per share estimates with actual figures is not undertaken due to the reduced number of comments (less than 25), whereby the analysis would lack statistical relevance.

TABLE 24 – RATIO OF ABOVE (BELOW) CONSENSUS EPS ESTIMATES - PER FINANCIAL INTERMEDIARY

		Below Consensus	Above Consensus
2010	Barclays	67%	33%
	BPI ER	87%	13%
	Caixa BI	56%	44%
	Deutsche Bank	86%	14%
	Espírito Santo ER	55%	45%
	Exane	100%	0%
	Fidentiis	73%	27%
	Macquarie	67%	33%
	Millennium IB	61%	39%
	Santander IB	83%	17%
	UBS	100%	0%
2011	Barclays	67%	33%
	BPI ER	87%	13%
	Deutsche Bank	100%	0%
	Espírito Santo ER	73%	27%
	Exane	83%	17%
	Fidentiis	67%	33%
	Macquarie	78%	22%
	Millennium IB	71%	29%
	Santander IB	67%	33%
	UBS	100%	0%

Note: Includes only financial intermediaries with five or more EPS estimates disclosed.

The level of agreement among financial intermediaries may also be measured by RMSE. *Deutsche Bank* and *Santander IB* recorded the lowest mean deviation compared to the consensus of financial analysts, both in 2010 and in 2011. *Caixa BI*, *Fidentiis* and *Millennium IB* were more distanced from the 'average' among analysts. Financial intermediaries with minor deviations also displayed higher percentages of below consensus estimates. This means that notwithstanding issuing relatively more EPS estimates of below peer average, the differences were not distinct. The opposite took place with financial intermediaries with larger RMSE: the percentages recorded the most balanced estimates above and below consensus, but in these cases, differences in comparison to consensus were more noticeable, which leads to higher RMSE- Table 25.

TABLE 25 – RMSE OF EARNING ESTIMATES AS AGAINST CONSENSUS

Per Financial Intermediary			Per Issuer		
	2010	2011		2010	2011
Barclays	2.69	0.87	BCP	1.00	0.95
BPI ER	0.95	0.59	BES	6.53	1.50
Caixa BI	10.54	n/a	Brisa	2.71	0.63
Deutsche Bank	0.45	0.43	EDP	1.32	0.56
Espírito Santo ER	1.53	0.58	EDP Ren.	1.15	0.63
Exane	0.60	0.62	Galp	2.27	0.78
Fidentiis	3.99	1.01	JM	0.27	0.24
Macquarie	0.60	0.60	Mota-Engil	0.80	0.78
Millennium IB	4.56	0.96	PT	3.14	1.04
Santander IB	0.55	0.50	ZON	1.44	0.79
UBS	0.77	0.81			

Note: Only includes financial intermediaries/companies with five or more EPS estimates disclosed.

The analysis per issuer reveals that *Jerónimo Martins* was the company that created greater consensus among analysts, while *BES* and *Portugal Telecom* recorded the highest RMSE. Along similar lines, it is ascertained that companies in the infrastructure/telecommunications sector had a higher level of agreement among analysts on average, unlike companies in other sectors that recorded the highest divergence level. Finally, a strong relationship between higher values for the EPS and price-target is not noticeable. Although positive, the correlation between the two variables is low (0.058).

## 2.4. THE KEY PARAMETERS USED IN ASSESSMENT MODELS

The key parameters used in company assessment models are based on recommendations and target prices. As a general rule, the theoretical price of a security records a great sensitivity to these parameters, wherefore as a last resort, makes a substantial contribution to the value of companies. Among the parameters

that are highly important for the 'theoretical' value of a company, the following are particularly salient: growth rate of profits in perpetuity; weighted average cost of capital; cost of capital; cost of debt capital; market risk premium; Beta and risk-free interest rate.

A substantial number of financial analysis reports do not include any information concerning the assumptions used in assessment models, and whereby the sample used in this section is smaller (e.g. in the case of the weighted average cost of capital, the number of comments is 230, which corresponds to less than 1/3 of the recommendations identified).

It should be noted that certain companies analysed have business units in several markets in addition to the Portuguese market. The method used by some analysts to evaluate the business of these companies involves assessing the various business units individually, thereafter the sum of the value of the various business units and show the overall value of the company. Nevertheless, the assessment criteria used for the various business units may differ both as to country, and the sector<sup>21</sup> under which it falls. The key parameters used in the assessment models displayed in this section relate to the business unit with more weight in the company's total assessed value.

As for the growth rate of profits in perpetuity, the analysts assigned the lowest average rate to *EDP* (0.38%) and the highest to *Impresa* (2.76%). *Galp Energia* reflected the greatest amplitude (4.50%). The degree of dispersion for this variable (measured by the coefficient of variation) was higher in *Galp Energia*, *EDP* and *Portugal Telecom*. This suggests greater disagreement among financial analysts as to the growth rate of profits in perpetuity of these companies. On the other hand, *Semapa* denotes the highest agreement among financial analysts concerning the value of growth rate of profits in perpetuity – see Table 26. This set of results reveals that analysts have quite different expectations about future company profits, with consequent impacts on target prices issued. There are even cases of zero growth rates of profits in perpetuity (*EDP*, *Galp Energia*, *Mota-Engil* and *Portugal Telecom* – Table 26).

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<sup>21</sup> Certain companies operate in different sectors of activity.

TABLE 26 –GROWTH RATE OF PROFITS IN PERPETUITY (INFLATION ADJUSTED)

Issuer	Mean	Median	Max.	Min.	D-P	Coef. Var.
Altri	1.78%	2.00%	2.50%	1.00%	0.51%	28.5%
BCP	1.17%	1.50%	2.50%	0.50%	0.71%	60.6%
BES	1.56%	1.50%	3.00%	0.50%	1.08%	69.3%
EDP	0.38%	0.15%	1.00%	0.00%	0.49%	128.2%
Galp	1.13%	0.40%	4.50%	0.00%	1.76%	155.0%
Impresa	2.76%	2.25%	4.50%	2.00%	1.07%	38.8%
JM	2.51%	2.50%	4.25%	0.50%	1.05%	41.7%
Martifer	1.54%	1.50%	3.30%	1.00%	0.81%	52.8%
Mota-Engil	2.09%	1.75%	3.50%	0.00%	1.24%	59.2%
Portucel	1.81%	2.00%	2.00%	1.00%	0.37%	20.5%
PT	1.18%	1.00%	3.50%	0.00%	1.07%	91.3%
Semapa	1.83%	2.00%	2.00%	1.50%	0.26%	14.1%
Sonae Indústria	1.50%	1.50%	2.00%	1.00%	0.55%	36.5%
ZON	1.60%	1.50%	2.50%	0.75%	0.56%	34.8%

Note: Includes only securities with more than five records for this variable.

The market risk premium in assessment models used by financial analysts varied on average between 4.71% and 5.64% (see Table 27). *EDP Renováveis*, *Galp* and *Portucel* indicated the highest risk premiums. This may be related to the diversification of their international activities. There were also range of variations equal to or greater than three percentage points in the cases of *Brisa* and *Portugal Telecom*. The analysts' estimates for the market risk premium were more homogeneous than those relating to earnings growth in perpetuity, as can be seen from comparing the coefficients of variation for these two variables.

TABLE 27 – MARKET RISK PREMIUM

Issuer	Mean	Median	Max.	Min.	D-P	Coef. Var.
Altri	5.25%	5.00%	6.00%	4.00%	0.71%	13.5%
Brisa	5.29%	5.00%	6.50%	2.75%	0.89%	16.8%
EDP	5.28%	5.00%	6.25%	4.00%	0.75%	14.2%
EDP Ren.	5.60%	5.50%	6.70%	5.00%	0.66%	11.8%
Galp	5.64%	5.00%	7.00%	4.50%	1.03%	18.2%
Jerónimo Martins	5.38%	5.50%	6.00%	4.00%	0.74%	13.7%
Martifer	4.83%	5.00%	6.00%	4.00%	0.75%	15.6%
Mota-Engil	5.16%	5.00%	6.30%	4.00%	0.75%	14.6%
Portucel	5.67%	6.00%	6.00%	5.00%	0.52%	9.1%
Portugal Telecom	5.27%	5.30%	7.00%	4.00%	1.06%	20.1%
REN	5.38%	5.13%	6.00%	5.00%	0.49%	9.2%
Sonae Capital	4.83%	5.00%	6.00%	4.00%	0.75%	15.6%
ZON	4.71%	4.00%	6.00%	4.00%	0.95%	20.2%

Note: Includes only securities with more than five records for this variable.

The highest average risk-free interest rate was *Jerónimo Martins* (5.31%) – see Table 28. This could be due to the branching out of this company's business into Poland. This country does not belong to the Eurozone and has higher interest rates. In this sample of companies, the minimum risk-free interest rate found was 3.25% and was reported by 10 companies (*BES, Brisa, Cimpor, EDP, EDP Renováveis, Martifer, Mota-Engil, Portugal Telecom, REN* and *Zon*).<sup>22</sup>

<sup>22</sup> It was noted that a couple of financial intermediaries made ambiguous changes to the value of risk-free interest rate. As an example, one of the intermediaries reduced the value of the risk free interest rate for one of the businesses while increasing said rate for other companies whereon investment recommendations were issued (including other companies in the same sector of activity) during the course of a period of turmoil in the Portuguese sovereign debt market. Three months later, the same analyst converged the value of risk-free interest rate of said company with the other companies in the same sector of activity.

TABLE 28 – RISK-FREE INTEREST RATE

Issuer	Mean	Median	Max.	Min.	D-P	Coef.Var.
Altri	4.30%	4.25%	5.10%	3.80%	0.43%	9.9%
BES	4.08%	4.25%	4.50%	3.25%	0.50%	12.2%
Brisa	4.43%	4.50%	5.60%	3.25%	0.69%	15.7%
Cimpor	4.64%	4.88%	5.60%	3.25%	0.90%	19.3%
EDP	4.18%	4.20%	6.00%	3.25%	0.82%	19.5%
EDP Ren.	3.88%	3.75%	5.00%	3.25%	0.74%	19.0%
Galp	4.19%	4.25%	5.00%	3.30%	0.52%	12.3%
JM	5.31%	5.81%	6.02%	3.50%	0.85%	16.0%
Martifer	4.25%	4.38%	5.00%	3.25%	0.59%	13.9%
Mota-Engil	4.07%	4.25%	4.75%	3.25%	0.56%	13.8%
Portucel	4.43%	4.50%	5.10%	4.00%	0.41%	9.2%
PT	4.01%	4.00%	5.00%	3.25%	0.69%	17.1%
REN	4.39%	4.25%	5.70%	3.25%	0.99%	22.6%
Semapa	4.52%	4.50%	5.10%	4.00%	0.47%	10.4%
Sonae Capital	4.68%	4.50%	5.50%	4.00%	0.53%	11.3%
ZON	4.11%	4.50%	4.50%	3.25%	0.59%	14.4%

Note: Includes only securities with more than five records for this variable.

As regards the Beta coefficient of the security, the high amplitude recorded in some cases (*EDP Renováveis*, *Mota-Engil*, *Brisa* and *Sonae Capital*) should be noted. In the first two cases, there are some discrepancies by financial intermediaries, since some assign a Beta coefficient that is significantly less than one (and, as such, consider the securities to be defensive), unlike others that assign a Beta coefficient that is greater than one – see Table 29. It was noted that the financial intermediaries were more in agreement concerning the Beta coefficient in *Zon Multimédia*, *Portugal Telecom*, *Sonae Indústria* and *EDP*. These companies display lower coefficients of variation.

TABLE 29 – BETA COEFFICIENT OF THE SECURITY

Issuer	Mean	Median	Max.	Min.	D-P	Coef.Var.
BES	1.13	1.10	1.30	1.00	0.13	11.7%
Brisa	0.78	0.80	1.05	0.50	0.17	21.4%
EDP	0.95	0.95	1.11	0.82	0.09	9.3%
EDP Ren.	0.87	0.86	1.35	0.40	0.31	35.2%
Galp	1.20	1.20	1.50	1.01	0.16	13.7%
JM	1.12	1.00	1.33	1.00	0.14	12.9%
Mota-Engil	1.27	1.49	1.50	0.70	0.34	26.9%
PT	1.12	1.10	1.22	1.00	0.08	7.1%
REN	0.68	0.70	0.76	0.50	0.08	11.9%
Sonae Capital	1.23	1.20	1.55	1.00	0.25	20.6%
Sonae Indústria	1.32	1.30	1.46	1.20	0.12	8.9%
ZON	1.20	1.20	1.29	1.15	0.04	3.6%

Note: Includes only securities with more than five records for this variable.

Table 30 reveals the cost of capital, ensuring *REN*, *EDP* and *Brisa* to be identified as companies that the analysts view as having a lower rate of return on own capital required by shareholders. At the other end, the cost of own capital equity, on average, was higher for *Martifer* and *Portugal Telecom*. The agreement among financial analysts, concerning the value acquired by this variable, was higher in companies of the banking sector, namely, *BCP*, *BES* and also *REN*. *Brisa* records the highest coefficient of variation for the cost of own capital. This reveals some diversity in the prospects of financial analysts on this variable.

TABLE 30 – COST OF CAPITAL

Issuer	Mean	Median	Max.	Min.	D-P	Coef.Var.
Altri	10.21%	10.00%	12.00%	8.80%	1.05%	10.28%
BCP	10.44%	10.50%	11.10%	10.00%	0.41%	3.93%
BES	10.14%	10.00%	11.10%	9.50%	0.56%	5.52%
Brisa	9.21%	9.00%	12.40%	7.00%	1.42%	15.42%
EDP	9.14%	8.80%	11.40%	8.10%	1.09%	11.93%
EDP Ren.(*)	9.61%	9.57%	11.00%	8.79%	0.73%	7.56%
JM(*)	10.86%	10.60%	12.37%	9.54%	0.96%	8.81%
Martifer	11.03%	11.15%	12.50%	9.70%	1.16%	10.52%
Mota-Engil(*)	10.63%	10.23%	13.33%	8.10%	1.61%	15.13%
Portucel	9.53%	9.95%	10.80%	7.00%	1.34%	14.06%
PT(*)	10.98%	11.28%	12.67%	7.00%	1.65%	15.04%
REN	8.44%	8.47%	9.31%	7.70%	0.52%	6.16%
ZON	10.17%	9.30%	12.85%	9.10%	1.39%	13.67%

Note: Includes only securities with more than five records for this variable.

(\*) For these securities, the cost of capital was obtained as a weighted average of capital of the group's major units.

As for the cost of debt capital, the high level of agreement among financial analysts concerning the cost of debt financing in *Mota-Engil*, *Portucel* and *EDP* (coefficients of variation of 4.5%, 6.1% and 6.6%, respectively) should be noted. These companies are in contrast with *REN* and *Brisa* that have the highest level of relative dispersion (coefficient of variation of 19.8% and 23.9%, respectively) – see Table 31.

TABLE 31 – COST OF DEBT CAPITAL

Issuer	Mean	Median	Max.	Min.	D-P	Coef.Var.
Altri	6.70%	7.00%	7.50%	5.80%	0.62%	9.3%
Brisa	5.31%	5.00%	8.70%	3.55%	1.27%	23.9%
EDP	6.03%	6.00%	6.75%	5.50%	0.40%	6.6%
EDP Ren.	6.04%	6.03%	7.00%	5.00%	0.67%	11.1%
JM	7.27%	7.50%	8.77%	5.00%	1.20%	16.5%
Martifer	6.42%	6.63%	8.00%	5.10%	1.12%	17.5%
Mota-Engil	7.24%	7.28%	7.75%	6.50%	0.32%	4.5%
Portucel	6.60%	6.50%	7.10%	6.00%	0.40%	6.1%
REN	4.68%	4.20%	6.50%	3.80%	0.93%	19.8%
Semapa	6.77%	6.75%	7.50%	6.00%	0.54%	7.9%
ZON	6.17%	6.20%	6.75%	5.50%	0.47%	7.6%

Note: Includes only securities with more than five records for this variable.

Furthermore, the agreement of the analysts as to the value of the weighted average cost of capital was higher in *Portucel* and *Sonae Indústria* (coefficient of variation of 4.9% and 6.6%, respectively). The security that displayed the greatest disagreement among financial analysts as to this variable's value was *REN*.

TABLE 32 – WEIGHTED AVERAGE COST OF CAPITAL

Issuer	Mean	Median	Max.	Min.	D-P	Coef.Var.
Altri	8.19%	8.10%	9.20%	6.90%	0.69%	8.4%
Brisa	7.10%	7.00%	9.00%	6.00%	0.70%	9.8%
EDP	6.72%	6.75%	8.80%	5.40%	0.83%	12.3%
EDP Ren.	6.87%	7.00%	8.00%	5.61%	0.51%	7.4%
Galp	10.25%	10.20%	14.00%	7.50%	1.70%	16.6%
Impresa	9.01%	9.00%	11.30%	7.20%	1.47%	16.3%
JM	9.90%	9.60%	11.42%	8.24%	1.07%	10.8%
Martifer	8.62%	8.42%	11.00%	7.00%	1.07%	12.4%
Mota-Engil	10.31%	9.50%	13.30%	8.50%	1.62%	15.7%
Portucel	8.45%	8.44%	9.10%	7.92%	0.41%	4.9%
PT	8.76%	8.55%	10.50%	7.50%	0.78%	8.8%
REN	6.66%	6.22%	8.80%	4.59%	1.61%	24.2%
Sonae Indústria	8.58%	8.50%	9.60%	8.00%	0.57%	6.6%
ZON	8.39%	8.40%	9.10%	7.60%	0.56%	6.7%

Note: Includes only securities with more than five records for this variable.

Finally, from the earnings per share variables, cost of capital and target price set out in the financial analysts' reports, it is expected that the weight of future growth in the theoretical value of the shares is as follows:

$$\text{Growth weight} = \frac{\left(\text{Target Price} - \frac{\text{EPS}}{K_e}\right)}{\text{Target Price}}$$

wherein the Target Price relates to the target price, EPS represents earnings per share and  $K_e$  is the cost of capital of the company under analysis.

Table 33 reflects the average weight of future growth in the theoretical value of the underlying shares in each financial analysis report.

TABLE 33 – WEIGHT OF FUTURE GROWTH IN COMPANY'S THEORETICAL VALUE

Securities	Weight of Future Growth in Share's Theoretical Value
BCP	40.0%
BES	28.2%
Brisa	63.0%
EDP	13.6%
EDP Ren. (*)	79.2%
JM(*)	61.8%
Mota-Engil(*)	28.6%
PT(*)	27.5%
REN	12.5%

Note: Mean values. Includes only securities with more than five records for this variable.

(\*)For these securities, the cost of capital was obtained as a weighted average of capital of the group's major units.

The weight of future growth in the theoretical value of *REN* and *EDP* is 12.5% and 13.6%, respectively. This means that most of the theoretical value assigned to these companies originates from current cash-flow/profit generated levels. Conversely, the theoretical value of *EDP Renováveis* (79.2%) and *Brisa* (63.0%) are linked to the growth prospects of its business (and respective future profits).

## 3. SUPERVISION OF INVESTMENT RECOMMENDATIONS FROM OCTOBER 2009 TO SEPTEMBER 2010

### 3.1. CHARACTERISTICS

#### 3.1.1. BASIC LEGAL FRAMEWORK AND ADDENDA

##### A) BASIC LEGAL FRAMEWORK

The basic legal framework on investment recommendations is fundamentally outlined in Articles 12-A *et seq.* of Securities Code.

The transposition of Directive 2004/39/EC (MiFID) was based on the new requirements of Articles 12-A to 12-E of Securities Code. The financial analysis is now included in the list of ancillary investment services (Article 291 of the Securities Code), the provision of general investment recommendations to be carried out pursuant to high professional and ethical standards, particularly when rendered by entities that combine this activity with (main) investment services. In this field, MiFID stepped up the existing regulatory framework, in particular, by requiring the adoption of a written policy that is designed to identify potential conflicts of interest and remove or reduce the risk of same taking place. Therefore, financial intermediaries are now required to adopt a policy for managing conflicts of interest, especially, concerning financial analysis, which envisages:

- a) Effective procedures to prevent or control the exchange of information between employees;
- b) Monitoring the employees involved in providing services to clients;
- c) Removal of any direct link between the remuneration of employees engaged in activities which may cause conflicts of interest;
- d) Adoption of measures aimed at preventing or restricting any person from exercising inappropriate influence over how an employee carries out the duties;
- e) Adoption of measures intended to prevent the simultaneous or sequential involvement of an employee in various activities.

MiFID also added two sets of rules to investment recommendations: (i) rules to safeguard the financial intermediaries' independence and (ii) rules to prevent market abuse. In order to ensure independence, financial intermediaries, analysts and others involved in drawing up recommendations should not accept unlawful benefits from those who have a substantial interest in the recommendation or undertake to issue a favourable assessment to the issuers whereto the recommendation refers. Financial intermediaries should adopt procedures so as to avert conflicts of interest. These procedures should be aimed, in particular, at ensuring that the employees involved in the financial analysis activity do not carry out certain transactions in a personal capacity and that issuers or their employees do not have access to the recommendation, prior to the disclosure thereof.

## **B) ADDENDA TO THE BASIC LEGAL FRAMEWORK**

The CMVM published two legislative instruments that supplement the basic legal framework on investment recommendations during the period from October 2009 till September 2010: Instruction No. 2/2009 (Research) and CMVM Regulation No. 3/2010 (Duties of Conduct and Professional Qualification of Financial Analysts).

Instruction No. 2/2009 came into force on 1 January 2010 and applies to financial intermediaries, independent analysts and other natural or legal persons referred to in Article 12-A of the Securities Code. Concerning the investment recommendations relating to shares admitted to trading on a regulated market or multilateral trading facility located or operating in Portugal, this Instruction regulates the duty of submitting the financial analysis reports to the CMVM. The Instruction also calls for the submission of all investment recommendations disclosed to one or more clients through public distribution channels between 1 January 2009 and the date of the Instruction's notification. Thus, for that purpose, a circular letter was sent to a group of domestic and international financial intermediaries (13 domestic and 37 international) that the CMVM identified as responsible for the drawing up of research reports on Portuguese companies under the conditions set out above.

This Instruction's key aim was to formalise a practice that was already informally implemented for the purposes of ensuring immediate access by the CMVM to the investment recommendations disclosed in order to better monitor this activity, assess the impact on market developments and monitor the different forms of disclosure.

## **TEXTBOX 1 – INSTRUCTION NO. 2/2009 (RESEARCH)**

Within the context of its supervisory powers pursuant to Chapter II of Title VII of the Securities Code, the CMVM requires financial intermediaries, independent analysts and other natural or legal persons referred to in Article 12-A of the Securities Code to submit recommendations on investment research relating to shares admitted to trading on a regulated market or Multilateral Trading Facility (MTF) located or operating in Portugal, which are intended for distribution channels or the public.

Accordingly, this Instruction applies to financial intermediaries, independent analysts and other natural or legal persons referred to in Article 12-A of the Securities Code and governs the duty to submit recommendations to the CMVM on investment research relating to shares admitted to trading on a regulated market or Multilateral Trading Facility (MTF) located or operating in Portugal.

This Instruction also determines the format for submitting the abovementioned information to the CMVM.

Accordingly, the CMVM pursuant to the provisions of Article 369/1 and /5 of the Securities Code decrees the following:

**Rule Number 1:** This Instruction governs the submission to the CMVM by the financial intermediaries, independent analysts and other natural or legal persons referred to in Article 12 -A of the Securities Code that draw up and disclose recommendations on investment research relating to shares admitted to trading on a regulated market or Multilateral Trading Facility (MTF) located or operating in Portugal.

**Rule Number 2:** The entities referred to in the preceding Rule shall submit to the CMVM the recommendations on investment research relating to shares admitted to trading on a regulated market or Multilateral Trading Facility (MTF) located or operating in Portugal at the same time that said recommendations are disclosed to their clients or made available through distribution channels or to the public.

**Rule Number 3:** The submission of recommendations to the CMVM should be forwarded via e-mail to [research@cmvm.pt](mailto:research@cmvm.pt), in pdf format.

**Rule Number 4:** The transmission of data via e-mail is subject to the use of encryption mechanisms on the files.

**Rule Number 5:** Within the context of this Instruction, the person or persons responsible for drawing up investment research recommendations and the quality of information submitted shall be responsible for liaison with the CMVM.

**Rule Number 6:** This Instruction shall come into force on 1 January 2010.

**Rule Number 7:** All investment recommendations disclosed to one or more clients or made available through distribution channels or to the public between 1 January 2009 and the notification of this Instruction, and which relate to shares admitted to trading on a regulated market or MTF located or operating in Portugal are to be sent to the CMVM by 31 January 2010.

*Lisbon, 23<sup>rd</sup> December 2009*

The CMVM Regulation No. 3/2010 came into force on 16 April 2010. This Regulation redrafted the legal provisions in Regulation No. 2/2007, especially the provisions on financial analysis (the provisions that pursuant to Article 12-A of the Securities Code draw up or release investment recommendations 'which are designed for distribution channels or the public'). It established the requirements of good repute, duties of conduct and professional qualifications, and operating principles.

On the one hand, financial analysts should devise policies and procedures that self-regulate under what circumstances personal transactions may be conducted, how conflicts of interests that are subject thereto are to be managed (including remuneration matters) and the methodologies to be used. Alternatively, may subscribe to a code of conduct and/or ethics of a relevant competent professional association, thereby replacing the definition of own policies and procedures.

Conversely, financial analysts should have certain professional certification that in accordance with the new framework consists in having a Certificate issued by one of the internationally recognised certifying entities, such as the CFA Institute, the European Federation of Financial Analysts Societies and the Association of Certified International Investment Analysts. This Regulation also recognizes the possibility of other training courses and/or examinations also achieving this objective, and being subject to the CMVM's appraisal.

When it comes to implementation during the transitional period, the professional qualification requirements referred to the CMVM Regulation No. 3/2010 applies to all financial analysts that intend to pursue the activity as from 1 January 2011. However, the CMVM has established a transitional framework for financial analysts who want to pursue the activity since the entry into force of the Regulation until 1 January 2011, with the registration being subject to approval by the CMVM based on gained skills and experience. Registration is valid for a four year period as from the date whereon it was granted or updated, and depends on attaining the envisaged professional qualification. Some candidates may be exempted therefrom if show that they have acquired enough knowledge through other channels to pursue the profession.

With this Regulation, the CMVM sought to harmonize as much as possible the certification of the professional qualifications for individuals carrying out the financial analysis activity and simultaneously aimed at boosting the planning and implementation of self-regulation models that can promote the quality of investment recommendations drawn up.

**TEXTBOX 2 – EXCERPT FROM CMVM REGULATION NO. 3/2010 –  
DUTIES OF CONDUCT AND PROFESSIONAL QUALIFICATION  
OF FINANCIAL ANALYSTS  
(AMENDS CMVM REGULATION NO. 2/2007)**

(...)

**Article 10**

**Professional Qualifications**

1. The professional qualifications and competency required pursuant to Article 301 of the Securities Code and Article 17/c) of the Decree-Law No. 357-B/2007 of 31 October are assessed by the CMVM in accordance with this Regulation and are a prerequisite for registration as financial analysts under this Article.

2. Applicants who prove that they have the following qualifications are considered eligible for admission to register as financial analysts:

a) A certificate issued by one of the following entities:

i) CFA Institute;

ii) European Federation of Financial Analysts Societies; or

iii) Association of Certified International Investment Analysts;

b) Certificate attesting the successful completion of the Master's curricular course with accreditation from CFA Partners.

c) Certificate attesting the successful completion of the course or exam considered by the CMVM, after closely examining the curricular content degree of requirements, as being equal to the level of said qualifications.

3. The CMVM publishes the training courses and/or exams that have been recognised. Such recognition may be applied for by the training entity or holder of qualifications from said entity that has not yet been recognised by the CMVM.

## **Chapter VII**

### **Investment Recommendations**

#### **Article 35**

##### **Scope**

1. This Chapter applies to the following:

a) Legal persons qualified as financial intermediaries that carry out financial analysis;

b) Legal persons that are not financial intermediaries but carry out financial analysis; and

c) Individuals that carry out financial analysis as an independent or forming part of a financial intermediary or another institution, irrespective of the nature thereof and the legal relationship between said person and the institution in question.

2. For purposes of this Regulation, the activity of an analyst or financial analysis is deemed to be the issue of investment recommendations pursuant to Article 12-A/1 and /2 of the Securities Code.

3. The person whose name appears on the recommendation is always responsible for its preparation, notwithstanding the responsibility of any responsible superior and legal person.

(...)

#### **Article 10-A**

##### **Financial Analysts Reputation and Code of Conduct**

1. In addition to the professional qualifications required pursuant to the previous Article, financial analysts should be of good repute and have relevant professional experience, in compliance with high standards, suitable to conducting the activity in a professional manner.

2. It is considered to be a lack of good repute on discovery of any of the circumstances envisaged in Article 9 of this Regulation or the fact that the financial analyst has been penalised with expulsion or suspended from the professional association that was reported to the CMVM as envisaged in Article 10-C/1.

3. Financial analysts should act independently, impartially and according to high standards of diligence, integrity and transparency, focusing on the protection of investors and market efficiency.

## **Article 10-B**

### **Policies and Procedures**

1. Financial analysts should adopt appropriate and effective written policies and procedures that regulate, namely:

a) The standards of ethics, independence, professional qualifications and internal organisation that should be complied with in the performance of its duties;

b) The professional procedures and practices used to ensure the quality of the service;

c) Under what conditions personal transactions can be carried out on the financial instruments covered by its financial analysis activity or the financial instruments relating thereto;

d) its policy on interests, conflicts of interest and the method for calculating the remuneration that should be adopted in order to ensure the independence and objectivity of the recommendation produced and, namely, ensure that the financial analysts' remuneration is not dependent on the recommended investments;

e) The rules on professional secrecy.

2. The financial intermediaries to which the financial analysts belong, should release own policies and procedures, including the minimum content envisaged in the preceding paragraph and ensure the compliance thereof, and apply the rule on compilation as envisaged in Article 13.

3. The financial analysts not covered by the preceding paragraph are exempt from implementing policies and procedures envisaged in the preceding paragraphs provided said analysts are subject to a Code of Conduct and/or Ethics approved by a financial analysts professional association that ensure the monitoring and sanctioning of the non-compliance thereof.

4. In the case where financial analysts are not covered by paragraph 2 and are legal persons, said analysts should ensure compliance with the code by all employees, irrespective of the type of legal relationship with said employees.

5. The preceding paragraph shall not affect the supervisory and sanctioning powers of the CMVM pursuant to this Regulation and other regulatory requirements.

## **Article 10-C**

### **Financial Analysts Professional Associations**

1. Professional associations representing any natural or legal persons pursuing financial analysis that purport to adopt a code of conduct and/or ethics for the purposes of exemption envisaged in paragraph 3 of the preceding Article should notify the CMVM thereof.

2. The Codes of Conduct and/or Ethics approved by professional associations for purposes of exemption as envisaged in paragraph 3 of the preceding Article should define the operating policies and procedures to be complied with in carrying out financial analysis and at least, cover the matters referred to in Article 10-B/1.

3. The exemption set out in paragraph 3 of the preceding Article also depends on the associations having the technical and human resources required for monitoring and sanctioning the non-compliance thereof.

4. The policies and procedures in this Code of Conduct and/or Ethics should be capable of providing the issue of investment recommendations based on competence, independence and objectivity.

5. Codes of conduct and/or ethics adopted by professional associations for purposes of exemption as envisaged in paragraph 3 of the preceding Article should be made available to the public on the website.

## **Article 36-A**

### **Good Repute, Rules of Conduct, and Policies and Procedures**

1. Articles 10-A and 10-B are also applicable to financial analysts. Said Articles relate to the requirements for good repute, rules of conduct and policies and procedures for investment advisers.

2. The policies and procedures of financial analysts or, if applicable, the code of conduct and/or ethics to which said analyst is subject should be available on request, with the investment recommendations open to the public including a clear reference thereto and means of access thereof, except for non-written recommendations.

3. The financial analyst should also display his registration number on the investment recommendations released to the public.

(...)

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### 3.1.2. PURPOSE OF SUPERVISION

The purpose of the CMVM's supervision in this field includes any investment recommendation on an issuer of securities, securities or other financial instruments, in the Portuguese market and that is aimed at distribution channels or the public.

According to Article 12-A of the Securities Code, there are two large groups of people that the investment recommendations framework applies:

1. Financial intermediaries or other legal entities, natural or legal persons (independent analysts and any entities that are primarily pursuing the issuance of investment recommendations; and
2. Legal entities, natural or legal persons that within the context of the respective profession or activity issue investment or divestment recommendations on a certain financial instrument.

The form, oral or written, of the recommendation or suggestion that is made or disclosed is not relevant for applying the framework established. However, in the case of non-written recommendations, Article 12-E of Securities Code shall apply i.e. the possibility of complying with the disclosure requirements may be carried out by a mere reference to where said information is available. It is important to point out that advice provided under the investment advice activity for investment in securities directly addressed to a client or clients that meet a certain investment profile, which was previously ascertained by the investment advisor, is excluded from the all-embracing concept of recommendations. The opinions issued by credit rating agencies on the creditworthiness of a particular issuer or financial instrument on a specific date are likewise not investment recommendations.

The 'distribution channel' concept is linked to any means of disclosure (electronic or paper) to which investors may have access, irrespective of their type (professional and retail), especially via e-mail, Internet or SMS. Furthermore, investment recommendations may be disclosed in an unchanged, changed or summarised form by a person other than the producer. The investment recommendation released by third parties should clearly and prominently state the identity of the person or entity responsible for the disclosure thereof and also point out the conflicts of interest of the author, provided same is public knowledge.

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### 3.1.3. PROCEDURES

Supervision of the research is based on a set of fundamental procedures, the most important being:

- Daily monitoring of the recommendations that are published by domestic and foreign financial intermediaries on issuers listed on the Euronext Lisbon;
- Daily monitoring of the disclosure of investment recommendations by third parties, especially the media;
- Ascertain compliance with the provisions of Article 12-A et seq. of Securities Code (formal analysis);
- Check for abnormal returns on securities whereon investment recommendations have been released;
- Requests for clarification from financial intermediaries linked to recommendations and/or research reports, asking specifically for the submission of the assessment model concerned, where appropriate;
- In-depth analysis of said assessment models;
- On a quarterly basis, check the compliance by investment firms and credit institutions that issue or disclose investment recommendations of third parties, disclosure on the *website*, information on the *'percentage of 'Buy', 'Hold' or 'Sell' recommendations or similar expressions in all its recommendations'* and also *'the percentage of recommendations relating to issuers for which said entities have provided substantial investment banking services during the course of the previous 12-month period preceding production of the recommendation'* as set out in Article 12-C/5 of Securities Code.

Referring to this last point, the CMVM supervised 11 websites of domestic financial intermediaries during the year under analysis and a high degree of compliance with the Securities Code was ascertained. As a rule, it was found that many foreign financial intermediaries have the same information in their research reports.

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#### 3.1.4. TYPES OF ANALYSIS

Supervision of investment recommendations is mainly active in three separate strands: (i) *formal analysis*, in order to check the compliance of investment recommendations with the regulations in force, particularly, information required to be published in investment reports by the financial intermediaries; (ii) *summarised substantial analysis* as to the contents of investment recommendations, namely, regarding the assessment model and the underlying assumptions, in such a way so as to measure the consistency of these with the price target displayed. Within this context, particular attention is paid to reports from inception of coverage and changes in direction of the recommendation. and may move to an in-depth analysis, where appropriate; (iii) *in-depth substantial analysis*, wherein the context in which the investment recommendation was issued is examined in greater detail. Within this context, the CMVM requests, as and when necessary, additional details and clarifications from financial intermediaries in order to authenticate the contents and direction of investment recommendations, especially, the assessment model. Furthermore, the analysis of news reports involving the sector/company and also other investment recommendations concerning the same issuer was undertaken.

*Formal analysis* always precedes the other two types of analysis. This analysis aims to assess compliance with the Securities Code concerning the contents of investment recommendations (Article 12-B) and disclosure of conflicts of interest (Article 12-C).

As regards the contents of investment recommendations, the Securities Code envisages, *inter alia*, that the identity of the recommendation's author, information sources, calculation basis and methodology used for assessing the issuer is clearly and prominently displayed. The investment recommendations are also required to contain a clear distinction between factual material and a set of projections, forecasts and target prices, with specific reference to the assumptions used to determine same. It is a requirement that the research reports include information, clearly and prominently, on the differences of the recommendation as against previous recommendations on the same issuer or financial instrument that was issued in the preceding 12 months and also an indication of the date wherein disclosed.

The analysis of the disclaimer published in research reports concerning the disclosure of conflicts of interest, presupposes knowledge of the range of cross-holdings between issuers listed on Euronext and the financial intermediaries responsible for the producing and disclosing investment recommendations.

An in-depth analysis of investment recommendations takes into account some basic aspects. At the outset, the recommendation and target-price is compared with that previously disclosed by the financial intermediary concerned, seeking to quantify the size of the revision and analyse the justification submitted in order to monitor the consistency. The assumptions underlying the assessment are analysed, including the risk premium concerned, beta co-efficient, cost of equity and debt capital, weighted average cost of capital, risk-free interest rate, real growth rate in perpetuity and pay-out ratio, and any amendments thereto as against the previous recommendation. The market estimates and multiples are analysed in the in-depth analysis. Whenever deemed appropriate therein, the assessment models underlying the recommendations are requested and analysed.

In analysing investment recommendations, the behaviour of the securities' quotation, on which the investment recommendations were released, is noted on its release date, the day before and the days immediately following. This is aimed at foiling any market abuse and ascertaining the impact of said recommendations' disclosure on the quotations. Abnormal returns are calculated by comparing the value of the securities' quotation whereon the investment recommendations were released to the trend of benchmarks (e.g. PSI-20). This is an important factor in the analysis.

Another important aspect is the framework for the investment recommendations disclosed, in particular, by comparing with other recommendations for the same issuer. News reports published in the media relating to the issuer concerned or the sector wherein it is inserted which may have influenced the recommendation are also closely examined.

## **3.2. STATISTICAL DATA AND EXAMPLES OF IN-DEPTH ANALYSIS**

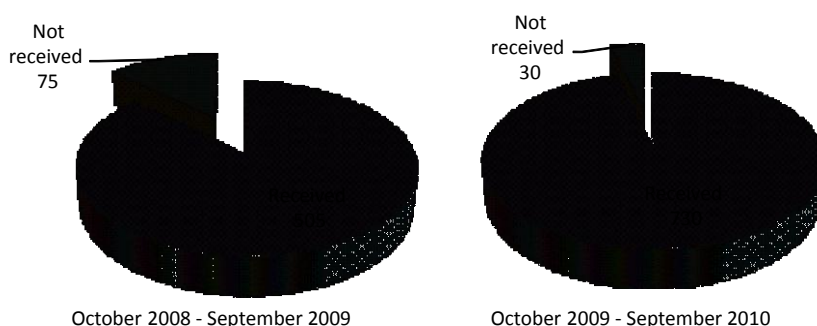
### **3.2.1. RECOMMENDATIONS IDENTIFIED AND RECEIVED BY THE CMVM**

The CMVM identified 760 new investment recommendations concerning listed issuers on the Euronext Lisbon from 1 October 2009 to 30 September 2010. Repeated recommendations and target prices are not taken into account for this calculation, as this is considered to refer to existing recommendations.

Furthermore, the daily reports (commonly known as 'Morning Mails' and 'Dailys') disclosed by financial intermediaries are also not included in said data. Although said reports are usually subject to analysis, any changes to recommendations and/or target prices are not included as a general rule therein.

Approximately 96% of the total 760 investment recommendations identified by the CMVM were received by email at the CMVM, with the remaining 4% relating to a couple of foreign financial intermediaries that in the period under analysis were not submitting research reports to the CMVM. In the preceding year, the CMVM identified 580 new recommendations, whereof 87% were received by email.

CHART 12 – TOTAL OF IDENTIFIED INVESTMENT RECOMMENDATIONS  
(RECEIVED VS NOT RECEIVED AT THE CMVM)



Currently, the CMVM receives research reports on a daily basis from 41 financial intermediaries, whereof 11 are domestic and 30 are foreign. In the previous year, the number of financial intermediaries that submitted their research reports to the CMVM amounted to 29 (8 domestic and 21 international).

### 3.2.2. CLARIFICATION REQUESTED

From 1 October 2009 to 30 September 2010 and within the scope of supervising the financial analysis activity, the CMVM requested 33 clarifications from financial intermediaries and other entities related to investment recommendations, whereof approximately 85% (28) concern domestic entities. 16 of the 33 requests for clarifications were addressed to financial intermediaries. This represented close to 81% of domestic financial intermediaries.

TABLE 34 – SCOPE OF REQUESTS FOR CLARIFICATION

Analysis of Research Reports	6
Non-authorized Research	15
Registration for Research Activity	5
Contents of Newspapers	3
Others	2
<b>Total</b>	<b>33</b>

### 3.2.3. CONCISE ANALYSIS

The CMVM carried out 733 concise analyses in the abovementioned period, in respect of the research reports received during the period in question and other reports. Daily reports (Dailys, Morning Mails) submitted by financial intermediaries are also as a general rule subject to a brief analysis but were not included in that number.

TABLE 35 – TOTAL OF CONCISE ANALYSES

Reports received from financial intermediaries	730
Reports from one non-financial company	2
Online Video	1
<b>Total</b>	<b>733</b>

### 3.2.4. IN-DEPTH ANALYSIS

Last year, the CMVM analysed in detail 14 cases relating to investment recommendations, which included 45 research reports, six disclaimers in research reports, two software applications provided by an economic newspaper wherein news reports relating to investment recommendations were published, 23 press

articles, 7 cases of pursuing financial analysis not authorized by the CMVM, three websites (analysed in the cases of research not authorised by the CMVM), 6 videos made available online by newspapers, and a detailed analysis of a client list that was provided by a foreign financial intermediary).

Approximately 96% of the 45 research reports, which were subject to in-depth analysis, were disclosed by foreign financial intermediaries (43 reports). An in-depth analysis was carried out of one report by a domestic and one by non-financial entity that pursued the activity without prior approval from the CMVM.

In supervising the investment recommendations within the context of carrying out concise analysis on all reports received, sometimes doubts arise as to the contents, especially as to the basis of the assumptions of the assessment. This leads to requests for clarification from the respective financial intermediaries and said applications may include the assessment model underlying a certain recommendation.

On the other hand, in-depth analysis by the CMVM may also be derived by questions raised by investors, issuers, financial intermediaries or others. Within this context, the CMVM unleashed an in-depth analysis on the research reports relating to six domestic issuers released by a foreign financial intermediary (25 reports in total were analysed). This analysis was undertaken following a notification sent to the CMVM by the Board of one of the issuers analysed and following a complaint submitted by a private investor. Comparing the consistency of investment recommendations and target prices expressed in the research reports in question was undertaken, and also the possible existence of market manipulation by the financial intermediary by taking into account the timing of the disclosure thereof.

Another factor that often contributes to triggering off an in-depth analysis is the fact of it being the highest target price in the market for a certain issuer concerned, at the time of disclosure of an investment recommendation. The CMVM launched another in-depth analysis of a research report produced by a domestic financial intermediary, wherein there was a substantial change in the target price of an issuer admitted to trading on a domestic regulated market. Taking into account that the report contained little detail regarding the assessment (sum-of-the-parts), the CMVM requested clarification from the financial intermediary in order to better understand the calculations underpinning the target price.

As a rule, whenever a particular security records abnormal returns on the day that the investment recommendations were disclosed, an in-depth examination of the underlying research report(s) is conducted. In the period under analysis, the CMVM analysed several research reports issued on another domestic issuer particularly as to the assumptions used after the share recorded an abnormal return in the days when the investment recommendations were disclosed.

Furthermore, the analysis of research reports in cases for review or investigation of potential market manipulation practices was also undertaken. The CMVM requests clarification in these cases and conducts in-depth analysis of the contents of investment recommendations released by the suspect financial intermediaries.

Several clarifications were requested from an international financial intermediary, so as to understand if a certain research report on an issuer admitted to trading on Euronext Lisbon was first disclosed to an exclusive client list and only thereafter to their general clients.<sup>23</sup> Representations were made to the Compliance Officer of the financial intermediary concerned in order to obtain additional information (the official date of the research report's disclosure, the names of clients to whom the reports were sent, E-mail addresses, etc.).

Within the scope of supervising the disclosure of investment recommendations through the media, the CMVM initiated two analyses on the software applications provided by an economic newspaper to its readers via its websites. These applications enabled its users to access information on the investment recommendations and target prices issued by domestic and international financial intermediaries. The analyses undertaken concentrated mainly on the consistency and timeliness of information disseminated, particularly the validity of target prices and/or recommendations. In one analysis, it was concluded that the software application does not disseminate information in real time. There is a considerable gap between the disclosure date of the information in the newspaper and update of the same information in the application, which would be capable of misleading investment decisions. In the other case, it was concluded that the investment recommendations were released based on average target prices where the calculation thereof resorted to out of date information and that there was no compliance with the provisions of the Securities Code with regard to the disclosure of information concerning current potential conflicts of interest between the original recommendation's author and the issuer. In both cases, the authors of investment recommendations were notified and the disclosure of said recommendations was suspended.

The CMVM also examined two websites where investment recommendations were broadcast without prior authorisation from the CMVM. To this end, the comparison of information published via the websites with the provisions of Article 12-A *et seq.* of the Securities Code, *mutatis mutandis* was conducted and its circulation was taken into account. The first case dealt with the disclosure of investment

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<sup>23</sup> It is to be noted that it is a shared understanding among European Regulators, that advanced notice of the forthcoming publication of a research report may constitute inside information (see CESR's Advice on Level 2 Implementing Measures for the Proposed Market Abuse Directive, December 2002).

recommendations in video format through the use of technical analysis. There was no reference to the conflicts of interest between the recommendations' author and the companies analysed in the video or the holding of financial instruments by the analyst. The second case related to the issue of investment recommendations by the employee of a financial intermediary registered with the CMVM, with same not being informed of its employee's activity. In this case, the website also did not comply with the provisions of the Securities Code, and added to this is the fact that the investment recommendation's author is not registered with the CMVM for this purpose.

As for the unauthorized conduct of research, the CMVM also detected two other websites that contained investment recommendations where the independent analysts thereof were not registered as their details had not been previously reported. The CMVM ordered the immediate suspension of the disclosure of investment recommendations in both cases and required prior registration of the analysts and the adaptation of contents to the provisions of the legal framework on this matter.

**TEXTBOX 3 – EXAMPLE OF AN IN-DEPTH ANALYSIS OF  
AN INTERNATIONAL FINANCIAL INTERMEDIARY  
THAT PUBLISHED SEVERAL PRICE TARGETS FOR  
DOMESTIC ISSUERS IN A SHORT PERIOD OF TIME**

In August 2010, the CMVM received several requests for analysis from a certain investor concerning a journalist and the board of directors of an issuer on the merits and consistency of several target prices issued by an international financial intermediary concerning a number of entities admitted to trading in Portugal. In this case, already referred to in house in the CMVM and subject to analysis, there were misgivings above all as to the significant changes in the issuers' target prices in a short time period (in a couple of cases, there were three target prices for the same issuer in approximately two weeks). This could indicate possible manipulation of the research for market abuse. In the case of an international financial intermediary and featuring the weak liquidity of some of the shares at issue, the impact of target prices was substantial.

25 research reports on six domestic entities in the energy, pulp and paper, and holdings sectors were analysed. 56% of the reports analysed were sectoral i.e. it was reports with recommendations for a number of companies in the same sector and the basis for changes in the target price was the common factor between them

(changes in prices of raw materials, prices of pulp and paper, energy prices, *inter alia*). It should also be pointed out that this financial intermediary uses its own method in assessments unlike most financial intermediaries that use the traditional assessment methods (Discounted Cash-Flow Model, Gordon Model or Market Multiples). This makes it harder to perceive the impact of the change of each assumption on the target price.

The analysis of the reports revealed that the changes in target prices extended to all the companies in the sector and were carried out at about the same magnitude, with no companies being more penalized in terms of reducing the target price than the competitors. Likewise it was concluded that despite little technical detail

released in the assessments of companies, the rationale for the change in target prices were ostensibly consistent in all the reports. There was also no evidence of market abuse after the appropriate investigations. However, there are still doubts (in terms of credibility that the readers deserve) regarding this change in assumptions (with substantial impact on assessment) in such a short space of time.

#### Target Price Trends of an International Financial Intermediary regarding a Domestic Issuer

Research Data	Target Price	Closing Price Dt.Div-1	Closing Price Dt.Div.	Δ%
10 Jun 2010	€3.20	€1.974	€2.018	2.23%
20 Jul 2010	€1.70	€2.105	€2.140	1.66%
27 Jul 2010	€1.90	€2.170	€2.157	-0.60%
2 Aug 2010	€2.05	€2.201	€2.218	0.77%

Legend: Closing Price Dt.Div-1 refers to the closing price on the date prior to the disclosure of the recommendation and Closing PriceDt.Div. corresponds to the closing price on the disclosure date of the recommendation.

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### 3.2.5. APPLICATION FOR REGISTRERING AND CANCELLING THE REGISTRATION OF THE ACTIVITY OF INVESTMENT RECOMMENDATION

The CMVM received three registration applications for the activity of drawing up investment recommendations by financial intermediaries. In the course of these processes, the CMVM requested additional information from the three financial institutions, especially on the structure and functioning of its research department in order to assess whether said institutions had the necessary and adequate resources to carry out same pursuant to best practices in this field.

The CMVM also received three registration applications for the activity of drawing up investment recommendations from independent analysts. One independent analyst was a person who regularly took part in television programmes and during said programmes disclosed investment recommendations to the public. The second application for registration was requested by a journalist with expertise in Economics/Finance and who worked with several newspapers. The third registration application for independent financial analysis was from a non-financial company responsible for the publication of periodicals in the field of consumer protection and that had several employees working in this field. Because independent analysts are not included in the financial intermediary, the CMVM required a greater level of detail in the various registration applications, particularly with reference to policies on conflict of interest, rules of conduct, good repute and policies and procedures.

During the period under analysis, the CMVM did not record any cancellation of registration for the activity of drawing up investment recommendations.

## **4. ANALYSIS OF THE FINANCIAL ANALYSIS ACTIVITY'S COMPLIANCE WITH THE CMVM RECOMMENDATIONS**

In 2007, the CMVM issued a set of recommendations that focuses on research, in particular, on the production, issuance and disclosure of information contained in the financial analysis reports. These recommendations are mainly aimed at the financial intermediaries and other financial analysts that produce research reports, the issuers referred to in the investment recommendation or target price, journalists and investors. For the first time, the CMVM carries out and discloses to the general public an assessment of compliance with these recommendations by financial intermediaries and financial analysts, issuers and journalists during 2010.<sup>24</sup>

### **4.1. INVESTMENT RECOMMENDATIONS ADDRESSED TO FINANCIAL INTERMEDIARIES AND OTHER ANALYSTS**

The financial intermediaries and other analysts play a key role in producing and disclosing information on the companies listed on the capital markets. Said intermediaries and analysts are subject to a set of six recommendations related to research activity.

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<sup>24</sup> This report does not identify financial intermediaries, media and issuers as it is the first time that this assessment is carried out.

## **TEXTBOX 4 – RECOMMENDATIONS FOR FINANCIAL INTERMEDIARIES AND OTHER ANALYSTS**

The following are recommended to financial intermediaries and other financial analysts when drawing up and disclosing financial analysis reports:

1. The following points should be highlighted, *inter alia*, in the information to be legally included in the publication of investment recommendations:

1.1 The link of the financial intermediary or financial analyst with the issuer of the securities that is covered in the investment recommendation and who, in particular, provided banking services or holds other business relationship;

1.2 Participation in a consortium or consortium agreement for service or placement of securities issued by the issuer, irrespective of the capacity of participation, in the 12 months prior to drawing up the recommendation;

1.3. The material agreements concluded between the issuer and the author of the investment recommendation which are capable of affecting investors' analysis;

1.4. The holding of financial instruments subject to the recommendation by financial analysts and/or financial intermediaries of which are employees;

1.5. Express indication as to whether the issuer is or is not aware of any recommendation and the possible confirmation of assumptions made before disclosure.

2. Include in financial analysis reports warning alerts addressed to retail investors concerning the risk inherent in the recommendation made and the fact that it is likely to change according to the trend of the analysed company's environment or adjustment to the forecasts, assumptions and methods used.

3. When publicly issuing a proposal for investment or divestment in securities of a certain issuer:

3.1. Provide the financial analysis report underlying the recommendation made or indicate the location or electronic address where and from when the report may be consulted;

3.2. Specify if the report previously had any particular addressee without identifying said person;

3.3. Draw up a summary of the report to accurately reflect the contents thereof, to enable those who disclose (summarised) faithfully and without bias the opinion of its authors, particularly in respect of the key factors that influence the target price or investment recommendation and update the cases of conflicts of interest.

4. Systematically confirm the consistency of financial analysis models, especially with regard to the assessment method and assumptions used.

5. With a 3-month time span, disclose in the website's public area, the historical record of investment recommendations drawn up and released in the past 12 months, organised per issuer, with details relating to the issue date of the recommendation, target price, direction of the recommendation, the time frame of the target price and recommendation, identification of the analyst who issued the recommendation and analysis of differences between the target prices and market prices ascertained.

6. Disclose information as to the presence of a financial analyst at meetings in preparation for the involvement of a financial intermediary in placing or assisting in public offerings of securities issued by the issuer that is the subject of the recommendation.

The first recommendation is intended for financial intermediaries to uncover possible conflicts of interest with the issuer to which the financial analysis reports relate. This recommendation is considered to be complied with when the financial intermediary (or analyst) discloses information relating to all five items referred. The proportion of financial intermediaries and other analysts that fully complied with the recommendation during the period in question was only 17%, i.e., only one of the financial intermediaries for whom the CMVM is the competent authority.

All financial intermediaries and other analysts issued information concerning the link with the securities' issuer that is subject of the investment recommendation. However, only 83.3% published information on participation in a consortium or consortium agreement for service or placement of securities issued by the issuer (irrespective of the capacity of participation) in the 12 months prior to drawing up the recommendation and only 66.7% disclosed information relating to material agreements concluded between the issuer and the author of the investment recommendation which are capable of affecting investors' analysis.

The non-disclosure of information relating to items 1.4 and 1.5 (lack of focus on the holding of financial instruments that is the subject of the recommendation, and the failure to indicate explicitly whether the issuer is or is not aware of any recommendation and the possible confirmation of assumptions made before disclosure, respectively) contributed a great deal to the non-compliance of this recommendation. Regarding the focus on the holding of financial instruments that is the subject of the recommendation, it is found that 83.3% of financial intermediaries disclosed the holding of financial instruments that is the subject of the recommendation by its employees (financial analysts) and close to 50% announced the holding of financial instruments that is the subject of recommendation in its own portfolio. An overall compliance ratio of 50% was obtained for this item from combining these results. Alternatively, the ratio of compliance with item 1.5 was also 50%. It was found that 66.7% of financial intermediaries and other analysts indicated in the research report if the issuer took cognizance of the investment recommendation prior to disclosure and half revealed in the research report the possible confirmation by the issuer of assumptions on which the investment recommendation is based.

The second recommendation was fully complied with by two out of three financial intermediaries and other analysts. Thus, on the one hand, it was found that 83.3% of financial intermediaries and other analysts included in financial analysis reports warning alerts aimed at retail investors for the risk inherent in the recommendation made and warned that the investment recommendation (or target price) is likely to change in response to the changing environment of the company analysed. On the other hand, 66.7% of financial intermediaries and other analysts referred to the investment recommendation (or target price) being liable to be adjusted due to changes in the forecasts, assumptions and methods used.

In the third CMVM recommendation, it appears that (i) only one financial intermediary provided the financial analysis report underlying the recommendations made or indicated the place or electronic address where and from when the reports may be consulted; (ii) two financial intermediaries stated whether their reports previously had any specific addressee (identification is not needed); and finally, (iii) even though it was considered that all financial intermediaries had a summary that accurately reflects the report's contents and only one did not refer to the key factors that affect the target price or investment recommendation, there are no reports on conflicts of interest. Since none of the financial intermediaries complied simultaneously with the three items of the recommendation, it was considered that this was not adopted in all cases.

The CMVM also recommends the systematic confirmation of the coherence of financial analysis models, specifically, as regards the assessment method and assumptions used. However, there is no adequate information available to confirm or rule out the compliance with this recommendation by financial intermediaries and other analysts, whereby its adoption is not analysed.

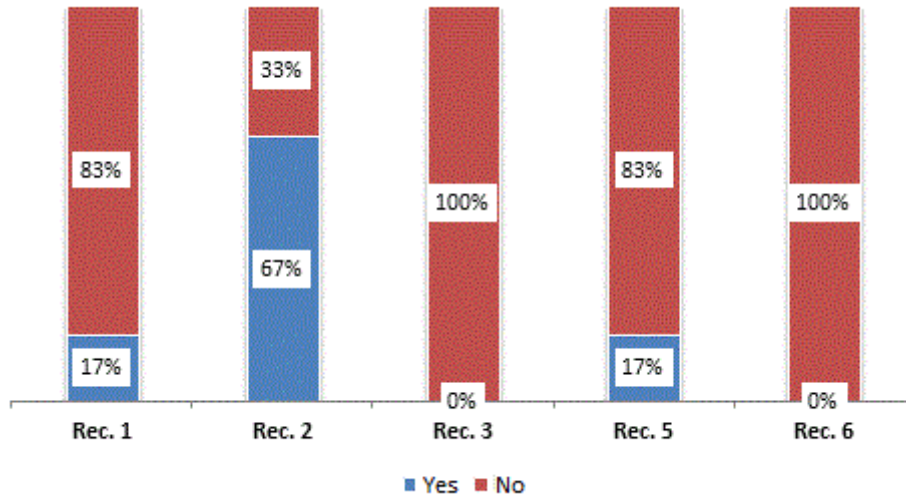
Assessing the compliance with Recommendation 5 was carried out in two phases. In the first place, it was examined whether the disclosure of the historical record of investment recommendations drawn up and released in the past 12 months was carried out (with a three month time span) in the public area of the websites of the various financial intermediaries. It was concluded that only one financial intermediary did not do this. Secondly, how this information is organized and the integrity thereof was assessed.<sup>25</sup> Only one financial intermediary adopted the CMVM's suggestions. Taking account of these two aspects simultaneously, it is concluded that only one financial intermediary complies fully with this recommendation.

Finally, reference to the presence of a financial analyst at meetings in preparation for the involvement of a financial intermediary in placing or assisting in public offerings of securities issued by the issuer that is the subject of the recommendation was not detected in any of the reports' disclaimers of various financial intermediaries analysed. As a consequence, it was considered that this recommendation was not adopted in any case.

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<sup>25</sup> Should include the date of the recommendation's disclosure, target price, direction of the recommendation, the time frame of the target price and recommendation, identification of the analyst who issued the recommendation and analysis of differences between the target prices and market prices ascertained.

CHART 13 – COMPLIANCE WITH THE RECOMMENDATIONS AIMED AT FINANCIAL INTERMEDIARIES AND OTHER ANALYSTS



To sum up, the joint analysis of the CMVM recommendations intended for financial intermediaries and other analysts reveals that only one financial intermediary recorded the greatest number of recommendations fully complied with (two) in the period in question, and that another did not adopt any of these recommendations (TABLE 36).

TABLE 36 – NUMBER OF RECOMMENDATIONS WHOLLY COMPLIED WITH BY FINANCIAL INTERMEDIARIES AND OTHER ANALYSTS

	Number of Recommendations Fully Complied	Recommendations Fully Complied
Financial Intermediary I	1	Rec. 5
Financial Intermediary II	2	Rec. 1 and Rec. 2
Financial Intermediary III	1	Rec. 2
Financial Intermediary IV	1	Rec. 2
Financial Intermediary V	0	-
Financial Intermediary VI	1	Rec. 2

## **4.2. INVESTMENT RECOMMENDATIONS AIMED AT JOURNALISTS**

The CMVM also issued a set of six recommendations addressed to journalists who disclose financial analysis reports that is hereby recorded.

### **TEXTBOX 5 – RECOMMENDATIONS ADDRESSED TO JOURNALISTS**

It is recommended that journalists, who disclose financial analysis reports, should:

1. Reproduce the summaries so as to accurately reflect the authors' views, whenever drawing up financial analysis reports.
2. When preparing news reports based on information orally provided by the financial analysis reports' authors or other sources, confirm that said information actually corresponds to the reports' contents.
3. Avoid phrasing headlines that are restricted to an indication of the target price or investment recommendation and which may lead to a biased perception of the analysis in the financial analysis report; whenever drafting headlines that refer to target price or investment recommendation, highlight the main assumptions that influences its findings in the immediately following text.
4. Report conflicts of interest and particularly highlight those identified in the financial analysis report.
5. Report the lower and upper limit of the target price range and respective time frame in the financial analysis report and not only the maximum target price or investment recommendation.
6. Whenever reporting a new target price or new investment recommendation, also report the previous target prices and investment recommendations issued by that entity or author for the financial instrument in question in the previous 12 months, and also report the differences between the target prices compared to the market prices ascertained.

In order for the CMVM to assess compliance with this Recommendation, 116 news reports published in Portuguese newspapers between 1 October 2009 and 30 April 2010 were analysed. These news reports were strictly limited to financial analysis. The most represented media organization in this sample has 70 news reports, with the other two media organisations having 26 and 20 respectively.

As a result of the CMVM's assessment carried out on the selected news reports, it was found that there was an 83.6% overall compliance with recommendation 1. The most compliant media organisation displays a compliance ratio of 88.5%, while the less compliant only complied with the recommendation in 81.4% of news reports assessed.

TABLE 37 – COMPLIANCE WITH RECOMMENDATION 1 BY THE MEDIA

	Rec. 1	
	No	Yes
Media Organisation I	15.0%	85.0%
Media Organisation II	18.6%	81.4%
Media Organisation III	11.5%	88.5%
Total	16.4%	83.6%

Recommendation 2 advocates that journalists who prepare news reports based on information supplied orally by the authors of the financial analysis reports or other sources should confirm that said information does indeed correspond to the reports' contents. Nevertheless, there is no proof that enables the CMVM to confirm the compliance thereof by the various media organisations. Therefore compliance with this recommendation was not assessed in this report.

As for Recommendation 3, it appears that in 93.1% of the news reports analysed, the journalists did not merely confine the heading to indicate the target price or investment recommendation when drafting the heading. Secondly, it appears that in 94.0% of the news reports included in the sample, the journalists ensured that the headlines were not likely to lead to a biased perception of the analysis in the financial analysis report (worth pointing out that this happened with all the news reports from a certain media organisation). Finally, in 65.3% of the news reports

(which highlights the rate of compliance with the same media organization referred to above as being 80.8%) the journalists referred in the text to at least a couple of the key assumptions that influenced confirmation of the investment recommendation. The simultaneous consideration of these three analytical factors suggests that Recommendation 3 was implemented in 60.3% of the news reports analysed.

TABLE 38 – COMPLIANCE WITH RECOMMENDATION 3 BY THE MEDIA

	<b>Rec. 3</b>	
	No	Yes
Media Organisation I	35.0%	65.0%
Media Organisation II	45.7%	54.3%
Media Organisation III	26.9%	73.1%
<b>Total</b>	<b>39.7%</b>	<b>60.3%</b>

With regard to Recommendation 4, it was found that potential conflicts of interest between the analyst or financial intermediary responsible for drawing up the featured research report and the issuer (especially those included in said report) were disclosed within the text of the news report in only 14.7% of the news reports analysed. It was also ascertained that only one media organization (partially) implemented the recommendation (approximately 65.4% of all news reports published by said media organization were consistent with the CMVM Recommendation 4 designed for journalists).

TABLE 39 – COMPLIANCE WITH RECOMMENDATION 4 BY THE MEDIA

	<b>Rec. 4</b>	
	No	Yes
Media Organisation I	100.0%	0.0%
Media Organisation II	100.0%	0.0%
Media Organisation III	34.6%	65.4%
<b>Total</b>	<b>85.3%</b>	<b>14.7%</b>

Recommendation 5 deals with references in the text of the news report to the time frame of the target prices and the lower and upper limits of the range. It was found that 23.3% of the news reports analysed indicated the timeframe linked to the target price and respective recommendation. In terms of the reference to the lower and upper limits of the target price range, only one news report in the sample focussed on a research report with these characteristics. The CMVM Recommendation was not implemented in this particular case.

TABLE 40 – COMPLIANCE WITH RECOMMENDATION 5 BY THE MEDIA

	Rec. 5	
	No	Yes
Media Organisation I	80.0%	20.0%
Media Organisation II	81.4%	18.6%
Media Organisation III	61.5%	38.5%
Total	76.7%	23.3%

Finally, compliance with Recommendation 6 was ascertained in two steps. Firstly, it was found that 85.3% of news reports included in the sample displayed previous target prices and investment recommendations. Secondly, it was found that 63.8% of news reports included in the sample reported on differences of the target price as against the ascertained market prices (which may be designated by potential for valuation). The implementation of Recommendation 6 in 56.9% of news reports assessed resulted from the joint analysis of these two aspects – *vide* TABLE 41.

TABLE 41 – COMPLIANCE WITH RECOMMENDATION 6 BY THE MEDIA

	Rec. 6		
	N/A	No	Yes
Media Organisation I	15.0%	15.0%	75.0%
Media Organisation II	0.0%	30.0%	70.0%
Media Organisation III	0.0%	92.3%	7.7%
Total	1.7%	41.4%	56.9%

### **4.3. INVESTMENT RECOMMENDATIONS AIMED AT ISSUERS**

The third point of the analysis of the CMVM Recommendations for the Research Activity focuses on the issuers' conduct. These recommendations are aimed at governing the relations between the latter and financial intermediaries/analysts so as to promote the production of more transparent and impartial financial analysis reports.

The CMVM issued a set of 13 recommendations addressed to issuers. In this report, Recommendations 1), 2), 3), 6), 11) and 12) were closely examined. Data could not be obtained that would enable the implementation of other recommendations intended for issuers to be confirmed.

#### **TEXTBOX 7 – RECOMMENDATIONS FOR ISSUERS**

It is recommended that issuers within the relationship context with financial analysts for drawing up financial analysis reports and as to the data provided should:

1. Encourage the financial analysts to correctly and impartially assess the company and the securities issued by same, namely, by explaining and ensuring that the corporate strategy and objectives are understood.
2. Clearly distinguish the data relating to the company's current economic and financial position, objectives, forecasts or the outlook for their activity, business or results.
3. Indicate, with clarity and objectivity, the assumptions and criteria used in the formulation of objectives, forecasts or prospects.
4. Update the information that was previously conveyed to the financial analysts, particularly through its periodic review.
5. To refrain from wielding, currently or in the future, any influence whatsoever on the financial analyst as regards the contents of the financial analysis report and direction of recommendations to be made by the financial analyst.

6. Draft a list identifying the financial analysts who have expressed interest in issuing investment recommendations, in the last 12 months, on the company or securities issued by same, for disclosure in the public area of its website, and also identify the financial analysts who took part in road shows organized by the issuer in the last 12 months.
7. Invite, with the appropriate advance notice, all the financial analysts included in the lists referred to in the preceding paragraph to take part in presentation sessions as part of road shows or meetings of analysts promoted directly by the company.
8. Disclose to all the financial analysts referred to in paragraph 6 above, the information provided in road shows or meetings held regardless of their presence at these meetings, without prejudice to disclosing public information in due course.
9. Do not reply in an impromptu manner to questions in order to avoid disclosing material information.
10. At the end of each meeting, disclose a summary of replies, when not repeating information that is already publicly available.
11. Use the website to inform the general public of meetings and briefings held with analysts, including the information conveyed therein and whenever possible send information on said meetings and briefings in real-time through the website.
12. Refrain from appointing or recruiting professional analysts who have been involved in covering the company for the past two years.
13. When preparing prospects or initial public offers, *mutatis mutandis*, the recommendations set out in the preceding paragraphs should also be complied with and the analysts from the entities of the Placement Syndicate should not be favoured.

The issuers' website was consulted to ascertain whether it contained company's presentations to investors (e.g. Investor's Day), detailed information on the company's business, objectives and estimates for the business trend in order to confirm compliance with Recommendation 1). It was found that the websites included this information in 76% of the cases and the recommendation was considered to be implemented in these cases. Only 6 issuers did not comply with this recommendation.

In assessing compliance with Recommendations 2) and 3), six issuers that have not adopted Recommendation 1) were excluded on account of there being no information that would enable confirmation of compliance with these recommendations. Thus, issuers that comply with Recommendation 1), with the exception of one case, the published historical data was easily distinguished from the company's estimates (usually marked with an 'e' or 'f') in the other cases and thereby Recommendation 2) was considered to be adopted.

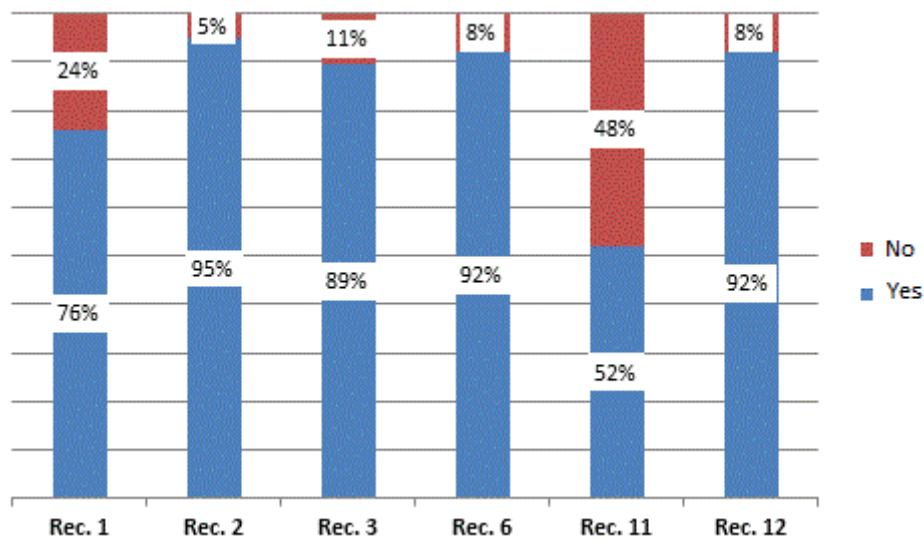
89% of issuers analysed complied with Recommendation 3). Only two issuers did not clearly and objectively indicate the assumptions and criteria used in formulating the objectives, forecasts or prospects. In one case, the distinction between the installed capacities and the objectives/guidance of the company is not always visible. Furthermore, relatively little information was provided on operational data and per business areas. In the other case, future prospects included in the presentations did not contain any numerical forecasts and explanations or assumptions for the company's future strategy or development.

In turn, Recommendation 6) may be divided in two parts: disclosure of the list identifying the financial analysts that issued investment recommendations in the last 12 months in the public area of the website and disclosure of the list of financial analysts that took part in road shows organized by issuer in the last 12 months. As for the first part, it was found that 92% of issuers disclosed the list identifying the financial analysts that issued investment recommendations in the last 12 months in the public area of the website. As regards the second part, there is not enough information to assess compliance, which is why this recommendation is only assessed according to compliance with the first part referred to above.

In order to monitor compliance with Recommendation 11), the issue of transmission in real time of issuers' meetings and briefings with financial analysts via the website is excluded. On the other hand, the following group of three is taken into account: (i) display on the calendar of events the date of Investor Day, seminars, conferences. and if have already taken place, the presentations thereof; (ii) include presentations with transcripts of questions by the analysts who took part and the replies that were provided thereto on the website; (iii) publish the conference calls held during the presentation of results on the website. It was found that these three items were only simultaneously complied with by 52% of issuers.

Finally, pursuant to Recommendation 12), the issuers should refrain from appointing or recruiting analysts who have been involved in covering the company for the last two years. It was identified that two issuers had not implemented this recommendation during the period under analysis. In both cases the companies recruited an analyst who issued investment recommendations on the company in question.

CHART 14 – COMPLIANCE WITH THE RECOMMENDATIONS INTENDED FOR ISSUERS



In conclusion, the results of the analysis conducted show that there are 11 issuers that complied the most with the CMVM Recommendations on financial analysis, all with six recommendations complied. Two issuers are less compliant with only one recommendation implemented.

TABLE 42 – TOTAL RECOMMENDATIONS COMPLIED WITH PER ISSUER

Issuers	Total Recommendations Complied with
Issuer 1	3
Issuer 2	1
Issuer 3	6
Issuer 4	6
Issuer 5	6
Issuer 6	5
Issuer 7	2
Issuer 8	2
Issuer 9	6
Issuer 10	6
Issuer 11	6
Issuer 12	6
Issuer 13	5
Issuer 14	5
Issuer 15	5
Issuer 16	2
Issuer 17	2
Issuer 18	5
Issuer 19	6
Issuer 20	1
Issuer 21	5
Issuer 22	6
Issuer 23	4
Issuer 24	6
Issuer 25	6

## 5. FINDINGS

In the first part of this report, a description of the financial analysis activity in Portugal was undertaken. Four aspects linked with research reports that focused on listed companies in the Portuguese market were examined: investment recommendations, target prices issued, forecasts for the accounting results per share and the basic parameters used in company assessment models.

In the period under analysis, the CMVM received 760 financial analysis reports and a certain concentration of said activity was noted. Thus, *BPI*, *Millennium IB* and *Espírito Santo ER* were responsible for more than one third of the total reports released and the 12 securities with greater coverage corresponded to 68.7% of the total reports published. Bias towards 'Buy' recommendations which accounted for 57.4% of all recommendations released was also confirmed, while 'Sell' recommendations accounted for only 13.6% of the total (i.e. 43.8 pp less than the 'Buy' recommendations). The percentage of 'Hold' recommendations was 29.0%.

The analysis of the investment recommendations' impact on quotations led to the conclusion that the 'Sell' recommendations had a substantial negative impact on quotations, while the impact of 'Buy' recommendations was residual. Regarding agreement of financial intermediaries, by analysing the dissemination of investment recommendations as against consensus, it appears that this is greater when the security targeted by research is from the financial sector and/or when the research is from a domestic financial intermediary.

The second component of the analysis concerns target prices. Firstly, the appreciation potential assigned by investment firms to securities listed on the Portuguese market and the percentage changes of target prices were examined. The results reflect that less than 20% of disclosed target prices assigned a negative appreciation potential of securities. Notwithstanding the optimism shown by financial analysts, half of the disclosed target prices appeared to display a negative change in the securities' target price. Furthermore, when the analysis focuses on financial companies and infra-structure/telecommunication companies, it was found that the degree of agreement among financial intermediaries towards the target prices issued was lower. As for the forecasting ability of financial analysts, it appears that the target prices issued for the end of December 2009 were largely attained. However, this did not happen with that issued for the end of 2010.

Moreover, in approximately 18.2% of reports, the percentage difference between the market price recorded at the end of the timeframe and the 12-month target price was less than 10% in absolute terms. In the case of target prices for the end of 2009 and the end of 2010, the percentage difference was less than 10% (in absolute terms) at 43.5% and 13.8% of the reports, respectively. This led to the conclusion that financial intermediaries showed a relatively greater ability to forecast target prices issued for the end of 2009 as compared with the target price for 12 months and the end of 2010. It is important to point out that the departures from forecasts were as a rule more evident in the financial sector companies. This means that the differences between the target prices and the prices recorded were greater in these cases.

The earnings per share forecasts and the basic parameters used in models for assessing companies depict two new themes covered in the Annual Report on Financial Analysis Supervision. As for earnings per share, it was found that the financial intermediaries that moved the least away from the financial analysts' consensus were *Deutsche Bank* and *Santander IB* (*Caixa BI*, *Fidentiis* and *Millennium IB* recorded the highest divergence level among financial intermediaries), whereas *Jerónimo Martins* was the issuer that recorded the highest level of agreement (contrary to *BES* and *Portugal Telecom*, where the highest differences in financial analysts' were recorded).

The results are mixed for the basic parameters of the assessment model. *Inter alia*, the analysis displays the high amplitude in some companies, which shows fewer consensuses among analysts in these cases. In one case depicted in the text, the beta coefficients of *EDP Renováveis* and *Mota-Engil* were considered to be defensive by a couple of financial analysts and aggressive by others. Cases involving strong agreement among financial analysts on this variable were found (*Zon Multimedia*, *Portugal Telecom*, *Sonae Indústria* and *EDP*). On the other hand, the extent of dispersion relating to growth rate of profits in perpetuity was higher in *Galp Energia*, *EDP* and *Portugal Telecom*, whereas a high degree of homogeneity of analysts' growth forecasts was ascertained in *Semapa*.

The second part of the report covers the supervision of the drawing up and disclosure of investment recommendations. Within this context, the CMVM established in December 2009, the requirement for submission of all research reports on shares admitted to trading on Euronext Lisbon, by financial intermediaries, independent analysts and other individuals via Instruction No. 2/2009. Furthermore, it should be pointed out the entry into force of CMVM

Regulation No. 3/2010 (Duties of Conduct and Professional Qualifications of Analysts), that overhauled the rules and regulations in CMVM Regulation No. 2/2007, especially relating to financial analysis and laid down the requirements for good repute, duties of conduct, professional qualifications and operating principles for investor protection and market efficiency.

At the same time, the monitoring of the disclosure of investment recommendations in the media and disclosure of potential conflicts of interest between the recommendation's author or entity related thereto and the issuer regarding which the recommendation is released was stepped up. The analyses carried out by the CMVM covered not only research reports but also articles published in the media, television programmes, online videos, *inter alia*, wherein investment recommendations appear in the contents thereof. In the period at issue, the CMVM undertook 733 summary analyses concerning the research reports received during the period in question and other reports. The daily reports (Dailys, Morning Mails) submitted by financial intermediaries are also usually subject to a summary analysis, but these were not included in said calculation.

In-depth analysis of 14 cases was also carried out. These concerned 45 research reports, six disclaimers in research reports, two software applications provided by an economic newspaper wherein news reports relating to investment recommendations were published, 23 press articles, 7 cases of pursuing financial analysis not authorized by the CMVM, three websites (analysed in the cases of research not authorised by CMVM) and 6 videos made available online by newspapers and a detailed analysis of a client list that was provided by a foreign financial intermediary. Most of the in-depth analyses resulted from doubts on the contents of research reports received, and also from concerns expressed by investors, issuers, financial intermediaries or others. Some in-depth analyses were triggered off when confirming the highest target price (or lowest) in the market for a certain issuer, at the same time as the disclosure of an investment recommendation or as part of processes for analysing or investigating potential market abuse practices.

At the same time, the CMVM received three applications for the registration of the activity relating to drawing up investment recommendations by financial intermediaries and also three applications for registration by independent analysts.

Finally, the key findings of assessing compliance with the CMVM's recommendations relating to financial analysis activity were disclosed in the third and last part. Firstly, compliance with the recommendations aimed at financial intermediaries and other analysts were assessed and it was found that the most compliant financial intermediary only fully implemented two of the five recommendations that were subject to scrutiny. One financial intermediary did not comply with any recommendations.

116 news reports from three media organisations were analysed for the compliance with recommendations addressed to journalists. Only three of the recommendations assessed displayed a compliance ratio higher than 50%, which is grossly inadequate. This is particularly worrying because the compliance rate is very low in two very important recommendations: Recommendation 4 on documenting conflicts of interest (whose degree of compliance is merely 14%) and Recommendation 5 on reporting the lower and upper limits of the target price range and its time frame (which was only complied with in 23% of the news reports analysed). As is inferred, the media still has a long way to go in this context as to adopting best practices.

As regards the level of adoption of recommendations aimed at issuers, it was concluded that the 11 most compliant companies implemented six recommendations and only two companies implemented one recommendation.