

**Audit to the sustainability of state-owned companies – Report no. 29/2011 – 2<sup>nd</sup>  
Chamber**

<b>FINAL SUMMARY</b>
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The operational audit covered the period between 2006 and 2009. Its global objective was to ascertain the extent to which several incorporated state-owned companies constitute viable and self-sustainable projects, from an economic and financial perspective. The audit encompassed 14 public companies.

A number of 100% state-owned public limited companies have been set up, whose corporate purpose is restricted to the pursuit of the works required to draw up a final decision (implementation of studies, opinions, etc). In the case in hand, these are also exclusively instrumental companies, such as NAER and RAVE, which have no turnover, and whose assets have been capitalised on the expectation of generating future economic benefits.

There has been no systematic recording of turnover in these companies and their annual activity has been restricted to implementing capitalisable investments, without recording any operational credits demandable against third parties. As to several other companies, their operating revenues are quite marginal in comparison with their main activity.

The absence of conducting business activities in this group of state-owned companies apparently stands in contradiction with the legal form chosen by the State, when it incorporated them. Indeed, their “*core business*” does not in fact correspond to any mercantile activity, nor does it foresee the generation of any operating revenues, thereby placing them in the financial dependence of their shareholder – the State.

This group of public companies has a marked financial dependence on the State: either in relation to the deed of incorporation itself, wherein the share capital was paid up by the State, or in relation to the subsequent transfer of funds allocated within the State Budget via chapter 50 (CADIEP - Central Administration Development and Investment Expenses Programme), in relation to Community financing (for studies based on the implementation of public investments that will have an impact upon European cohesion) or other subsidies. Given that the majority of these companies do not have any turnover, or only a marginal level of turnover, they are evidently highly dependent on public resources.

The State has allocated considerable sums in order to ensure that these companies comply with their established objectives valued at 634,993 million Euros from 1993 until the end of 2005. In the period between 2006 and 2009 – the time horizon of the audit – the State’s financial outlay stood in the amount of approximately 339.052 million Euros.

As of 31-12-2009, the 14 public companies audited total debt to third parties valued at 433.197 million Euros. Around 280.401 million Euros (65%) of this amount corresponded to short-term debt, whereas the remainder – 152.796 million Euros (35%) – corresponded to medium- and long-term debt. The companies’ bank debts corresponded to 81% of the total debt, totalling about 351.879 million Euros on the very same date.

Most of the debt was concentrated in 6 of the 14 companies. The other 8 companies had no medium/long term debts. The latter, as a rule, were companies that had been specifically incorporated in order to implement public investment projects, financed essentially by public funds.

The fact that a sub-section of these companies has ascertained annual losses gave rise to a situation of financial imbalance, reflected in a substantial drop of the ratio between their equity capital and share capital. Such was the case with Parque Expo 98, Coimbra Viva SRU and GIL, inasmuch as their equity capital fell to below 50% of their share capital in 2009. The Government must consider the consequences of the fact that several of these public companies have now attained the ratio between equity capital and share capital that is specified in article 35 of the Companies Code. In addition those

public companies are also obliged to comply with the provisions laid down in no. 2 of article 171 of the same Code, in other words, they must state the existence of this situation in all contracts, correspondence, publications, announcements, Internet sites and, generally, in all their external activities.

The adoption of the public limited company model for this group of public companies, having their effective activity been restricted to the pursuit and implementation of public projects and organisation of studies for the purposes of future decision-making, should have been pondered carefully and previously, to the extent that such business structures originate costs, specifically those related to maintenance of their governing bodies and other expenses. The **prior choice of the organisation appropriate model would have been preferable to carefully consider the different options available, in order to select the most cost-effective alternative for the State and for public funds.**

Regarding the set of measures already announced towards a **restructuring of the State owned Companies Sector**, the Court considers opportune to **recommend**:

**A.** To the Government, via the Minister of State and Finance, in its capacity as public shareholder, that:

**1.** In the current context of sustainability, budgetary affordability and control of public expenses, Define which companies, given their non-mercantile characteristics and specificities, should form an integral part of the Public Administrative Sector.

**2.** Conduct a preliminary appraisal of the various options available in relation to the forms of entities organisation, in order to gauge the respective advantages arising therefrom and thus conclude which option best serves the public interest, supplying greater benefits for public funds, without constituting a model that escape from budgetary transparency and discipline and, also, adjust to the nature of the corporate mission that has been conferred to such entities for implementation of the projects entrusted to them.

**B.** To the Government, via the Minister of State and Finance, and other entities, in their capacity as public shareholder, that:

**3.** Pursue best efforts, in the wake of previous recommendations made by the *Tribunal de Contas* (Court of Auditors) aiming to recapitalise companies whose equity capital has fallen below the limit specified in article 35 of the Companies Code.