Non-binding translation

(for information purposes only)

MEMORANDUM OF MERGER BY INCORPORATION AND TRANSFORMATION

PARTICIPATING COMPANIES

REDE FERROVIÁRIA NACIONAL - REFER, E.P.E

("Merging Company")

AND

EP - ESTRADAS DE PORTUGAL, S.A.

("Merged Company")

Contents

INTRODUCTION

This document was prepared jointly by the Boards of Directors of REDE FERROVIÁRIA NACIONAL - REFER, E.P.E (“**REFER**”) and EP - ESTRADAS DE PORTUGAL, S.A. (“**EP**”) with the sole purpose of publicly disclosing information on the ongoing merger of EP - ESTRADAS DE PORTUGAL, S.A. into REDE FERROVIÁRIA NACIONAL - REFER, E.P.E and the subsequent transformation of REFER, E.P.E. into Infraestruturas de Portugal, S.A. (“**IP**”).

Given the legal nature of the companies involved in the merger and transformation process and the absence of a specific legal framework to rule and govern the terms of a merger of a public corporation into a public limited company which is wholly publicly owned, it was decided to carry out such process by legal means.

Accordingly, the merger by incorporation of EP into REFER involves the extinction of EP, by virtue of specific legal act, in accordance with the legal framework in force for the State entrepreneurial sector.

Likewise, the legal act sets aside the application of provisions in the Commercial Companies Code, since it concerns a public corporation.

As far as creditors protection is concern, the said act will establish specific provisions for opposing the merger, as described in Chapter H of this memorandum of merger by incorporation and transformation (“**Memorandum**”).

The act concerned is a decree-law published on 29 May 2015 ("**Merger and Transformation DL**" or "**Decree-Law**").

In the event of any discrepancy between the information in this Memorandum and the said Decree-Law, provisions in the Merger and Transformation DL shall prevail.

This document is merely for information purposes and it will be subject to the final configuration of the merger and transformation process which will be provided in the said decree-law.

INTRODUCTION

1. **REDE FERROVIÁRIA NACIONAL – REFER, E.P.E.**, with head-office in Lisbon, Estação de Santa Apolónia 53, 1100-105, registered at the Companies Register Office of Lisbon under the sole registration and body corporate identification number of 503 933 813, with a statutory capital of € 2,186,000,000 (two thousand one hundred and eighty six million euros), hereinafter referred to as "REFER" or "Merging Company"; and
2. **EP – ESTRADAS DE PORTUGAL, S.A.**, with head-office in Almada, Praça da Portagem, 2809-013, registered at the Companies Register Office of Almada under the sole registration and body corporate identification number of 504 598 686, with a statutory capital of € 2,372,300,000 (two thousand three hundred seventy two million three hundred thousand euros), hereinafter referred to as "EP" or "Merged Company".

   Jointly referred to as "**Participating Companies**".

Under the terms herein, the Participating Companies intend to present the broad lines of the merger and transformation process, specifically the merger of EP into REFER and subsequent transformation of REFER into "Infraestruturas de Portugal, S.A." ("**IP**").

The main objective of this operation is to create a single company responsible for managing rail and road transport infrastructures in Portugal.

Therefore, following the merger of EP into REFER and the transformation of REFER into IP, under the legal status of publicly-owned company incorporated as a public limited company, IP shall be responsible for the design, construction, financing, maintenance, operation, renewal, expansion and modernisation of the national road and rail networks, including command and control of movements of trains.

IP shall take on the role of infrastructure manager, under the terms of the general concession contract for the national road network concluded with the State, and it shall manage the infrastructures under its administration.

This operation resulted from the analysis ordered by the Government within the scope of the Strategic Plan for Transport Infrastructures, approved at the council of minister meeting of 3 April 2014 ("PETI3+").

In line with the Government's resolution provided in PETI3+, on 6 August 2014 under the terms of Order nr. 10145-A/2014 issued by the State-Secretary for Treasury and the State-Secretary for Infrastructures, Transport and Communications, a Planning Committee (hereinafter "**Planning Committee**") was appointed to prepare the procedures required for the merger of EP into REFER and subsequent transformation into IP. The Planning Committee, which was extinguished on 31 December 2014 comprised the following members:

(i) António Manuel Palma Ramalho (Coordinator);

(ii) José Serrano Gordo;

(iii) José Luís Ribeiro dos Santos;

(iv) Alberto Manuel de Almeida Diogo;

(v) Vanda Cristina Loureiro Soares Nogueira;

(vi) José Carlos de Abreu e Couto Osório.

The work developed by the Planning Committee focused on the following aspects:

(i) Defining the legal framework of the merger and governance model for IP;

(ii) Drawing up the by-laws of IP;

(iii) Defining the strategic plan (including the business plan), which defines and establishes the guidelines for IP's operation for the 2015-2017 period;

(iv) Outlining the financial sustainability strategy for IP (in the short, medium and long term), including the exploration of European funding opportunities (namely, via applications for the "*connecting Europe facility*" programme);

(v) Drawing up of the organisational model, including a management change unit;

(vi) Outlining a "*quick wins*" plan, comprising, namely, a strategy for the disposal of assets and the identification of initiatives to achieve short term synergies;

(vii) Defining the strategy to merge information and interoperable systems.

The Planning Committee established five stages for implementing the merger and transformation process, specifically:

Stage 1 – Planning: During this stage, which is already concluded, the Planning Committee planned the entire merger and transformation process;

Stage 2 – Joint Management: This phase, which will end with phase 3, views achieving the following: i) organisation and assessment of both companies' staff, ii) strategic plan, iii) information systems diagnosis, iv) quick wins, and v) preparation of a consolidated budget for 2015;

Stage 3 – Legal Merger: Merger of EP into REFER and transformation of REFER into IP;

Stage 4 – Operational Merger: It started simultaneously with stage 2 and should be completed at the end of 2015, upon delivery of the following: i) IP business plan, and ii) merger of corporate services and shared services;

Stage 5 – Sustainability: This stage will start upon completion of Stage 3; it views to create the background for: i) a significant reduction in the structural deficit of infrastructure management, ii) lower dependence from the General Budget of the State, aiming at gradually achieving financial self-sufficiency.

To this end the Managing Boards of REFER and EP prepared this Memorandum of Merger by Incorporation and Transformation.

MEMORANDUM OF MERGER BY INCORPORATION AND TRANSFORMATION

A. IDENTIFICATION OF PARTICIPATING COMPANIES

1. **Merging company transformed following the merger**

REDE FERROVIÁRIA NACIONAL – REFER, E.P.E., with head-office in Lisbon, Estação de Santa Apolónia 53, 1100-105, registered at the Companies Register Office of Lisbon under the sole registration and body corporate identification number of 503 933 813, with a statutory capital of € 2,186,000,000 (two thousand one hundred and eighty six million euros), held by the State through the Directorate General of Treasury and Finance.

2. **Merged Company**

EP – ESTRADAS DE PORTUGAL, S.A., with head-office in Almada, Praça da Portagem, 2809-013, registered at the Companies Register Office of Almada under the sole registration and body corporate identification number of 504 598 686, with a statutory capital of € 2,372,300,000 (two thousand three hundred seventy two million three hundred thousand euros), represented by 474,460 shares with a par value of € 5,000 each, held by the State through the Directorate General of Treasury and Finance.

B. TYPE OF MERGER, MOTIVATIONS, CONDITIONS AND OBJECTIVES

1. TYPE OF MERGER

The fact that the merger involves two state-owned companies - a public corporation (in REFER's case) and a public limited company with exclusively public capital (in EP's case) requires compliance with provisions in Decree-Law nr. 133/2013 of 3 October (hereinafter referred to as "Decree-Law nr. 133/2013" or "DL 133/2013", which establishes the relevant principles and rules governing the public corporate sector.

The merger will be carried out by incorporation of EP into REFER, upon which EP will be dissolved and all its assets and liabilities will be transferred to REFER, including all rights and duties associated to EP's activity.

In contracts where guarantees were given in favour of EP, S.A. such guarantees shall remain valid pursuant to the transfer of all assets of EP to IP; likewise, the guarantees provided in favour of REFER, including those provided pursuant to any financing agreements entered by either EP or REFER, shall remain valid. The validity and duration of these guarantees do not require any additional formality by the State, as guarantor and sole shareholder of the share capital of REFER and EP.

Simultaneously with the merger by incorporation, REFER will be transformed into a public limited company renamed "*Infraestruturas de Portugal, S.A.*" ("IP, S.A." or "IP"), withholding its registration and corporate tax number and moving its head-office to Praça da Portagem, Almada. The by-laws of IP are included in Annex I to the Merger and Transformation DL.

The object of IP shall be the design, construction, financing, maintenance, operation, restoration, widening and modernisation of the national road and rail networks, including command and control of movements of trains.

The State may delegate onto IP the preparation of competitive award procedures for the operation of public rail transport services on railways, sections and branch lines comprised in or which may come to be comprised in the future in the National Railway Network, subject to the prior assessment and binding opinion of the Transport Mobility Authority (Autoridade da Mobilidade e dos Transportes), under the terms of its powers of regulation and promotion and protection of competition.

As relevant transport authority for passenger transport on heavy rail, the State may delegate or assign its position of relevant authority for the purposes of awarding to third parties the operation of public railway transport services, under the terms of the relevant European and national laws.

Additionally, the object of IP includes the business operation of the public railway and road domain, including autonomous assets, such as the operation of service stations, parking areas, information and traffic management systems, rail and road safety systems, technical channel and communication networks between infrastructures or between infrastructures and vehicles, or stations, or terminals or other railway facilities.

IP may also exercise complementary or subsidiary activities to its main object, relating namely to the exploitation of the know-how, innovation, technology and material and immaterial assets of IP, on a business or competitive basis, in Portugal or abroad, and develop any other commercial or industrial activities relating thereto provided they do not hinder or collide with the pursuit of such object.

As far as accounting principles are concerned, this operation will be governed by the international financial reporting standards as adopted by the European Union.

2. REASONS FOR THE MERGER

(i) Background

The Strategic Infrastructures and Transport Plan (PETI3+) approved on 3 April 2014 by the Council of Ministers envisages joining the railway network managing company and the road network managing company into a single managing company of infrastructures and transport in Portugal, called Infraestruturas de Portugal.

The merger by incorporation of REFER into EP will achieve two major strategic goals. On the one hand, it will ensure an integrated management of rail and road networks, encouraging intermodality and complementarity between the two modes of transport, while making full use of the synergies and know-how of both companies and reducing operating expenses; On the other hand, it will provide a financially sustainable business model, based on solid strategic guidelines and a financing framework for road and rail infrastructures that will not burden taxpayers.

At the same time, the implementation of a sustainable and efficient strategy leading to relevant operational synergies is key to an adequate management of public transport policies, providing correct solutions in this field.

The merger by incorporation of EP in REFER should result in relevant efficiency gains, namely at outsourcing level, while eliminating the overlapping of internal structures common to both companies, reducing expenses via economies of scale and permitting a better allocation of available resources; this will finally lead to significant improvements in the companies' economic and financial situation and to the achievement of sustainability goals at public corporate sector level, creating value to the State and the economy.

The operation will take place against a background of increasing fiscal consolidation, within the strict observance of the objectives undertaken by the Portuguese Government, specifically via the structural reduction of public spending.

It is worth noting that over the last decade the State invested approximately €12 billion in land infrastructures, i.e. railway and roads. This investment, albeit huge, privileged the road sector in particular; capital expenditure in roads was twice that made in railways.

Although the investment had a positive impact on the quality of rail and road assets in Portugal, it was not enough to achieve economic development goals. The absence of an integrated approach allowing for a more balanced development of rail and road infrastructures contributed to the deficits posted by REFER and EP over the years.

The significant investment in the national road network via public-private partnership (PPPs) gave rise to financial liabilities for EP (which will pass on to IP following the merger and transformation), which will perpetuate until mid 2030. This financial effort will be more acutely felt over the 2014-2025 period. Tolled concessions will start falling under IP's arm by 2028, permitting the beginning of an upturn in the financial position. In 2035 most financial liabilities deriving from concessions will reach their term and all tolled concessions will have reverted to IP. These circumstances will bring in annual proceeds of nearly € 2 billion as from 2035 onwards.

Since its creation back in 1997 REFER posted consecutive deficits leading to cumulative debt. It is true that the regulatory framework does not permit fixing sufficiently higher fees to cover the infrastructures management costs; moreover, the State's reduced aid to finance capital expenditure made it necessary to turn to interest-bearing funding sources, thus creating a third level of borrowing requirements associated with a growing debt service.

The purpose of the merger is thus to have a firm hold on the continuous deficits of the two companies resulting in IP, and reduce the burden on tax payers and future generations.

(ii) Description of the businesses of Participating Companies

a. <u>REFER (Merging Company)</u>

Overview

REFER was incorporated as an “Entidade Pública Empresarial” (E.P.E.) by Decree-Law 104/97, of 29 April 1997 as the Portuguese State-owned company responsible for managing the National Railway Network; it was entrusted with specific responsibilities viewing the development, modernisation and management of the railway infrastructure.

REFER’s aim is to develop its activities efficiently and effectively, ensuring quality, reliability and safety, protecting the environment and contributing to a greater use of the railway infrastructures. Its activities comprise the following:

(i) Infrastructure Management: operation, conservation and maintenance of the railway infrastructure;

(ii) Investment: activity carried out on behalf of the State, comprising the construction, renewal and modernisation of the railway infrastructure.

REFER has administrative and financial autonomy and it is subject to the supervision of the Ministry of Finance and the Ministry of Economy. Their supervision powers encompass the power to authorise or approve financing and investment plans, relevant accounting documents, appropriation of income and utilisation of reserves/capital endowments or other sums attributed by the State Budget and European Union funds. Additionally, according to provisions in REFER's by-laws, the Portuguese State undertook to safeguard the economic and financial balance of the Company, including any debt service.

Ownership and Capital Structure

REFER's share capital is not represented by shares since the company is an E.P.E. (public corporation); instead it holds a statutory capital which is held by the State, through the Directorate-General of the Treasury ("**DGTF**"). Under the terms of article 16 paragraph 1 of REFER by-laws, as provided in Annex 1 to Decree-law no. 141/2008, of 22 July,"*the statutory capital of REFER, E.P.E. is made up of the equity contributions made by the State, intended to meet the company's funding requirements, added of the value of the company's private domain assets, as provided by joint order issued by the Ministry for Finance and the relevant Ministry for the company".* The statutory capital of REFER is not represented by shares. REFER's statutory capital may be raised through contributions in specie or assets, or with cash from the State budget, in both cases pursuant to decision of the Minister of State and Finance and the Minister of Economy.

Corporate Governance

The management of REFER is conducted by a Board of Directors appointed by the Government on 31 December 2014 for a period of three years. Members of the Board of Directors REFER as of the date of this Memorandum are the following:

<u>The Board of Directors</u>

- António Ramalho (Chairman)
- José Ribeiro dos Santos (Vice-Chairman)
- José Serrano Gordo (Member)
- Alberto Manuel Diogo (Member)
- Vanda Nogueira (Member)
- José Carlos Osório (Member)

- Adriano Rafael Moreira (Member)

The activity of REFER's Board of Directors is currently supervised and monitored by its Supervisory Board and a Statutory Auditor appointed by a joint governmental order issued by the Minister of State and Finance and the Minister in charge of the railway sector. The Supervisory Board consists of three members appointed for a three year term, renewable up to three times. The Chairman of Supervisory Board has casting vote in the meetings held by this Board.

Supervisory Board (appointment on 29th May 2013)

Chairman: José Emílio Coutinho Garrido Castel-Branco

Member: Pedro Miguel do Nascimento Ventura

Member: Pedro Manuel Mota C. Grilo

Alternate member: Maria Isabel Louro Caria Alcobia

Statutory Auditor (appointed on 13 November 2013)

Sociedade P. Matos Silva, Garcia Jr., P. Caiado & Associados, SROC, Lda. (SROC no. 44) who is also the external auditor, registered with the Securities Commission under no. 1054, represented by João Paulo Raimundo Henriques Ferreira (ROC no. 851).

The auditor's firm Rosa Lopes, Gonçalves Mendes & Associados, SROC, Lda, (SROC nº 116), represented by José de Jesus Gonçalves Mendes (ROC no. 833) was appointed as alternate official auditor.

Overview of the Portuguese Railway Sector

EC Directive 91/440/EEC on the development of the Community's railways (which was subsequently amended by EC Directive 2001/12/EC, of 26 February 2001) and the "General Ground Transport Law'' (Lei de Bases do Sistema de Transportes Terrestres) (Law 10/90, of 17 March 1990) laid down the guidelines for the restructuring of the national rail system. These rulings emphasised the need to separate rail infrastructure management from the provision of transport services. In 1996 the Portuguese Government decided to develop a modernisation plan for the railway, comprising restructuring, financial overhaul and investment in infrastructure, leading to a reduction in operational costs and an increase in capacity, in addition to adequate public services. The Portuguese Government set forth the general guidelines for the reorganisation; thus, it separated major responsibilities within the sector into three entities holding distinct functions:

(i) a Railway Regulator, currently Authority for Mobility and Transportation (former Institute for Mobility and Transportation), whose main objective is to regulate the activities of rail operators and infrastructure managers and promote safety, quality, and preservation of the environment;

(ii) an infrastructure management company, which is responsible for ensuring the installation, development and maintenance of the railway infrastructure and for managing command and control functions; and

(iii) Transport operators, which are responsible for passenger and freight services (most notably Caminhos de Ferro Portugueses, E.P.E. (CP)).

With the creation of REFER in 1997 CP (previously both infrastructure manager and railway operator) handed its activities and assets related to the management of infrastructure over to REFER At the same time, REFER assumed all the rights and obligations and the assets of the offices for the Lisbon and Oporto rail networks, and those relating to the installation of a rail line on the —Bridge 25 de Abril (formerly managed by three separate state agencies).

The European Commission considers greater integration of the railway sector of the European Union an essential ingredient in creating the internal market and achieving sustainable mobility. It also considers that revitalising European railways, by way of broader access for international freight to the Trans-European Rail Freight Network, requires fair competition between rail and road transport, which specifically means giving due consideration to the various external effects such as environmental considerations, which have a bearing on the relative advantages of rail and road transport.

Appropriate pricing systems for use of the railway system, combined with appropriate pricing systems for other types of transport infrastructures and with the existence of competitive operators, will provide for an appropriate balance to be reached between different modes of transport. Pricing and capacity-sharing schemes must provide all companies with equitable and non-discriminatory access and seek, as far as possible, to satisfy the needs of all users and all types of traffic.

Directive 2001/14/EC, on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification revoked various previous regulations and directives and adjusted the legislative context to the needs and objectives set out for the sector. This directive was transposed into Portuguese law under the terms of Decree-Law 270/2003 of 20 October 2003 (as subsequently amended). Decree-Law 270/2003 defines the conditions for the rendering of railway transportation services and management of the railway infrastructure, aiming at the financial balance of the infrastructure manager. The implementation operated by the above mentioned Decree-Law emphasises and confirms the key role of REFER in the definition of the railway infrastructure in Portugal. The new legislation is mainly aimed at:

- Developing a legal and economic framework that will favour access to the freight operators market while ensuring healthy competition;
- Enabling user fees to be set so as to adequately remunerate the infrastructure manager‘s ordinary business without burdening operators;
- Strengthening the powers of the Regulator, namely regulatory powers; and
- Granting surveillance powers to the Regulator for supervising compliance with the new legal framework.

Decree-Law 270/2003, of 28 October (as amended from time to time) also established the obligation of REFER to publish a Network Directory (Directório de Rede); this is a comprehensive public document containing the technical specifications of the railway network, aimed at ensuring a transparent and non-discriminatory access to the network.

Decree-Law 78/2014 of 14 May created the Authority for Mobility and Transportation (Autoridade da Mobilidade e dos Transporte (AMT)), a new entity that brings together, in their entirety, the functions of regulation, supervision and competition previously belonging to Instituto da Mobilidade e dos Transportes, I.P. IMT and to other former land and maritime transport regulators (Instituto das Infraestruturas Rodoviárias, Instituto Portuário e dos Transporte Marítimos), which were dissolved.

At the same time Decree-Law 77/2014 changed the duties of Institute for Mobility and Transportation, withdrawing regulation and supervision powers and attributing responsibility for technical regulation and licensing.

Railway Operators

Since the issue of Decree-Law 104/97, of 29 April 1997 (as amended from time to time), CP is exclusively a railway operator. Its responsibilities include:

- Suburban transportation of passengers in the Greater Lisbon area;

- Suburban transportation of passengers in the Greater Oporto area;

- Inter-city and regional transportation of passengers;

CP is also an E.P.E. enjoying a status identical to that of REFER. CP pays REFER a user fee or track access fee (TAC) for the use of public domain assets. This user fee is linked to several factors including the cost of maintenance of assets. CP remains the sole company entitled to the concession of rail passenger transport in Portugal, except for a concession of approximately 54 kilometres granted to FERTAGUS, TRAVESSIA DO TEJO TRANSPORTES S.A. (FERTAGUS), a privately owned company which runs the railway link between the two banks of the Tagus. This concession began in 1999; it terminated at the end of 2010 and was renewed for a further period of 9 years.

FERTAGUS must pay REFER an operational fee for the rental of stations, an occupation fee for the use of the Coina railway complex (parking, repairing and maintenance of rolling stock), and a fee for using the infrastructure (TAC). The concession contract between FERTAGUS and the Portuguese State sets the TAC to be paid by FERTAGUS in the event that traffic volume exceeds minimum defined levels. Below this threshold, REFER is paid by the Portuguese State. Minimum traffic volume levels were reached in 2006.

The liberalization of freight transport in 2007 allowed new operators to access the market. Currently there are three operators: CP Carga, a CP subsidiary, TAKARGO and COMSA, both privately-owned companies. All three companies also pay REFER track access charges for the transportation of goods and logistics.

Infrastructure Management Activity

This activity covers the management of the railway infrastructure's capacity, maintenance and management of command and control systems, including signalling regulation and dispatching, so as to ensure the safety and quality levels required from a public railway service provider. In 2014 the management of the railway terminals and other terminals previously managed by CP Carga and CP were transferred to REFER.

Assets under its management belong to public railway domain.

REFER's main income from its operating activity is the following:

Track Access Charges (TAC) - TAC are paid by railway operators and reflect the utilization of capacity over the railway infrastructure. The methodology applied to set-up tariffs is defined by Decree-Law 270/2003 (as amended from time to time) and Regulation 630/2011. Annually, REFER publishes its Network Directory on an annual basis, aiming at providing railway operators with the relevant information for the access and utilization of railway infrastructure.

Non-core Income - this comprises income generated by the return on assets not allocated to railway operation. This type of income comprises rents for the concession of real estate assets attributed to REFER Património and for the concession of telecommunications granted to REFER Telecom, both affiliate companies of REFER. In the last few years the sale of rails and other ferrous material also brought in significant proceeds, as well as the distribution of dividends from affiliates.

Compensation Payments - As a public service provider, REFER activity cannot be undertaken on a purely commercial basis. Therefore, the financial compensation from the Portuguese State should enable REFER to cover its operating costs and provide a certain level of sustainable cash flow.

In order to ensure adequate service levels REFER incurs mainly in the following operating expenses:

Sub-contracts – Within the scope of its strategic maintenance plan REFER sub-contracts maintenance works for track, signalling, telecommunications, catenary and civil construction.

Other Supplies and Services – These include, amongst other, water, energy, surveillance, information systems, specialised services, vehicle fleet and cleaning services.

Payroll costs – Since 2011 REFER has led a significant rationalization effort, which has been leveraged by temporary wage cuts, as imposed by the Government within the scope of its fiscal policy for public administration and state-owned entities.

Investment activity

REFER is responsible for the construction, installation and modernisation of the infrastructure; it carries out this activity on behalf of the State. All new and upgraded assets belong to public railway domain. Investments made by REFER are made in its capacity as agent of the Portuguese State; therefore, such investments do not reflect an investment policy of REFER itself, but rather the Portuguese Government‘s options with respect to the railway sector.

REFER‘s capital expenditure relating to the railway infrastructure is entirely funded by EU funds and the Portuguese State either on a direct or an indirect basis. Pursuant to Art. 11, nr. of the Law 10/90, of 17 March 1990 (the law that approves the ground transport‘s main legal framework (Lei de Bases do Sistema de Transportes Terrestres), the Portuguese Government must provide adequate protection of REFER‘s economic and financial stability and ensure that REFER is able to service the debt assumed by it to finance the construction and maintenance of the railway infrastructure, so as to avoid any obstacles to the modernisation policy of national railway infrastructure.

Funding Policy

Since REFER's inception and until 2010 the Portuguese State has opted to encourage REFER to seek the most competitive funding sources in the market place as a way to diversify financing alternatives. Whenever appropriate, an explicit State guarantee for the total duration of the loans was provided as a complement to the Portuguese Government's financial support to REFER. Thus, by the end of 2010 REFER's financial obligations secured by a guarantee from the Portuguese State accounted for 71% of medium and long term debt.

In March 2011 within the scope of the excessive deficit procedure, the National Statistics Institute disclosed the impact on the State's borrowing requirements and public debt of the integration of public transport companies into the consolidation perimeter of the Budget. This event together with Portugal's bailout led to a new funding policy for Reclassified Public Companies (RPC) such as REFER, in line with the European System of National and Regional Accounts , by means of State Loans and/or equity through the annual State budget.

In 2013 Decree-law 133/2013 of 3 October "…*establishes the principles and rules applicable to the public corporate sector, including the general bases of the status of public corporations*…". In addition to establishing reporting and disclosure obligations, or setting up new organizational structures to follow-up the State entrepreneurial sector, this Law establishes and imposes clear rules on indebtedness levels and management of derivative financial instruments to be followed by RPCs. As a matter of fact, article 29 of the said Law determines that these companies (RPCs) cannot access funding with financial institutions and capital markets except for those of multilateral nature (e.g. European Investment Bank), while article 72 provides the transfer of these companies' derivatives portfolios to the Public Debt and Treasury Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, E.P.E..

At the end of 2014 the share of REFER's financial debt guaranteed by the State was of 40%, while loans entered with the State accounted for 39% of the total debt stock.

Public Service Provider

In 2014 REFER continued to record improvements in its services to operators. REFER achieved a punctuality rate of 75% for tilting trains, 85% for regional trains, 90% for suburban trains and 71% for freight transport trains. Likewise, it continued efforts from previous years to provide operators with an infrastructure equipped with systems that enable an increase in safety and reliability. At the end of 2014, 70% of wide track (on which 92% of trains run) was equipped with sophisticated circulation command and control systems in addition to automatic signalling systems which increase safety.

Investment

In 2014 REFER continued to develop a series of relevant projects for the modernisation of the existing network and improvement of safety and efficiency and in the area of logistic platforms and railway links to main Portuguese harbours. From a total investment plan of €77.6 million, €74.8 million were allocated to Investments in Long Duration Infrastructures (96% of total investment), whereas €2.8 million were allocated to investments in Management Support Structures (3% of total investment). REFER achieved a completion rate of 132% well above budgeted figures, as result of the transfer of railway terminals assets and respective operation from CP and CP Carga, as determined by a resolution of the Secretary of State for Infrastructure, Transport and Communications dated 23 April 2014.

Investment at technical costs €thousand

Programmes	2014		
	Budget (a)	Carried-out (b)	(b)/(a) %
Total	**77.625**	**102.659**	**132%**
Long term infrastructures investment	**74.817**	**99.851**	**133%**
Network Saffety and Efficiency	18.753	13.146	70%
Infrastructure renovation	18.206	9.030	50%
Inter regional links	22.211	8.479	38%
Links to logistics platforms and harbours	11.961	5.157	43%
Áreas Metropolitanas	3.595	1.095	30%
Mondego Mobility System	90	185	205%
Railway Terminals		62.760	---
Management Support Structures	**2.809**	**2.809**	**100%**
Operating expenditure	1.711	2.595	152%
Investment in fixed assets	878	214	24%
Studies	220		

Financial Debt

As of 31 December 2014 principal debt totalled € 6,418 million, which is 10% less than at 31 December 2013. Table below describes the debt structure:

	€Millions			
	Debt Outstanding (nominal amount)		Maturity	Interest Rate
	31-dez-14	31-dez-13		
Guaranteed by the Republic of Portugal				
EIB - Douro Line	9	13	Sep-16	Floating
EIB - Tagus Rail Crossing	20	30	Sep-16	Floating
EIB - Tagus Rail Crossing B	20	27	Sep-17	Floating
EIB - Tagus Rail Crossing C	31	38	Sep-18	Fixed (€17m)/Floating
EIB - Minho Line A	24	29	Sep-18	Fixed (€17m)/Floating
EIB - Minho Line B	48	52	Sep-21	Floating
EIB - CP III Northern Line-B	27	30	jun-22	Floating
EIB - CP III Northern Line-D	19	21	Sep-20	Floating
EIB - Lisbon-Algarve Line A	72	78	Sep-21	Floating
EIB - Lisbon-Algarve Line B	26	28	mar-12	Floating
EIB - CP III/2 - Northern Line A	90	95	mar-22	Floating
EIB - CP III/2 - Northern Line B	190	200	Dec-23	Floating
EIB - CP III/2 - Northern Line C	100	100	jun-26	Fixed
EIB - CP III/2 - Northern Line D	100	100	dez-26	Floating
EIB - Suburban Lines	71	76	jun-24	Floating
EIB - Suburban Lines B	76	81	Sep-25	Fixed
EIB – Suburban Lines C	45	47	mar-26	Fixed
REFER Eurobond 2006/2026	600	600	nov-26	Fixed
REFER Eurobond 2009/2019	500	500	fev-19	Fixed
REFER Eurobond 2009/2024	500	500	Oct-24	Fixed
Not guaranteed by the Republic of Portugal				
EIB – REFER V	152	160	mar-33	Fixed
EIB – REFER VI	99	105	set-32	Fixed
REFER Eurobond 2005/2015	600	600	mar-15	Fixed
REFER Eurobond 2006/2021	500	500	Dec-21	Fixed
State Loans				
State Loan 2011-2016	1.031	1.547	nov-16	Fixed
State Loan 2012-2017 (Feb)	205	273	nov-17	Fixed
State Loan 2012-2017 (Jun)	203	271	nov-17	Fixed
State Loan 2012-2017 (Oct)	192	256	nov-17	Fixed
State Loan 2013-2020 (May)	451	451	nov-20	Fixed
State Loan 2013-2020 (Nov)	354	354	nov-20	Fixed
State Loan 2014-2021 (May)	64	-	nov-21	Fixed
Total	**6.418**	**7.161**		

Total debt is made up entirely of long-term interest-bearing liabilities from which 40% are covered by guarantee from the Portuguese State and 39% are State Loans.

Personnel

As at 31 December 2014 REFER had 2,522 employees. From December 2010 to December 2014, the average number of payroll employees of REFER was as follows:

	2010	2011	2012	2013	2014
Average number of payroll employees	3.469	3.237	2.784	2.642	2.513

Litigation

REFER had the following pending legal proceedings as of 31 December 2014:

€thousand

Ongoing legal proceedings	31-Dec-14	Provision %
Labour	338	100%
Other	23.975	100%
TOTAL	**24.312**	**100%**

The amount of ongoing lawsuits rose by €3 million since 31 December 2013, following an additional lawsuit brought against the Company by a construction company.

Additionally, ongoing lawsuits relating to expropriations totalled €8.4 million as of 31 December 2014. Since all expropriations are classified as investment, no provisions were set up for this purpose according to REFER's policy.

Information on Subsidiaries

As of 31st December 2014, REFER held directly or indirectly 100% of the following subsidiaries:

REFER Engineering, S.A. Its object is the rendering of consultancy services and development of engineering studies and projects in the areas of transport, logistics and other, from design phase to management, maintenance and operation of respective infrastructures; rendering of consultancy and technical assistance services; development of mapping, topography, registration and expropriation activities; integrated management and supervision of undertakings; rendering of services in the fields of quality, environment and safety management.

REFER Telecom, S.A. Its object comprises the setting-up, management and operation of telecommunications infrastructures and systems, provision of telecommunication services and any related, subsidiary or accessory activities, either directly or through equity holdings in other companies. REFER Telecom is the subcontractor of railway telecommunications operation to REFER. Its mission consists of ensuring an efficient management of the telecommunications infrastructure concession granted by the Shareholder, providing a wide range of state-of-the-art and high quality services in the field of Information Technology and Communications, aiming at obtaining market returns.

REFER Património, S.A. Its strategic mission is to manage the real estate property held by REFER, ensuring its efficient use, valuation and return in line with the railroad infrastructure management goals. Its main duties are:

- Valuation, return and requalification of the real estate assets not allocated to railway operation, ensuring its financial and environmental sustainability;
- Creation and updating of the Public Railway Domain (PRD) database, permitting continuous access to all information available concerning REFER's real estate assets.
- Management, maintenance and current administration of stations, real estate undertakings and remaining property not allocated to railway operation.

  These services affect all users, whether railway passengers, concessionaires or users of deactivated and requalified property, as for instance ecotracks.

GIL – Gare Intermodal de Lisboa, S.A. - Its mission is exclusively the management and operation of Gare Intermodal de Lisboa, commonly known as “Estação do Oriente”.

b. EP (Merged Company)

Overview

Junta Autónoma de Estradas (hereinafter referred to as “JAE”) was created pursuant to government decree of July 1927. JAE was the first company mandated by the State to build and maintain a national road network, including engineering works. Once the annual State Budget was approved JAE could undertake the investment and expenses relating to its activity. This procedure was subject to a number of adjustments over time, but basically, it remained in force until 2004; In

2004 EP - Estradas de Portugal E.P.E. was created under the terms of Decree-Law 239/2004 of 21 December.

In 2007 the Government issued a number of regulations, which are summarized in the RCM 89/2007, resulting in a transformation of the road sector and creating EP - Estradas de Portugal, S.A. (EP, S.A.).

EP was incorporated as a public limited company (SA) by Decree-Law 374/2007 dated 7 November 2007, establishing a new model for managing and investing in roads, aiming at making the sector economically and financially viable and generationally equitable.

Decree-Law 374/2007 of 7 November 2007 regulated the change from EP, E.P.E. into EP, S.A., and RCM 174-A/2007 published the Concession Contract granted by the State to EP, S.A.. The registered office of EP is Praça da Portagem, 2800-199 Almada, Portugal. EP's single commercial registry and tax payer number is 504 598 686 and it is registered with the Almada Commercial Registration Office.

Corporate Governance

EP's current management is conducted by a Board of Directors appointed for a period of three years, according to shareholder's resolution issued on the 31 December 2014.

Members of the Board of Directors of EP as of the date hereof are as follows:

The Board of Directors

- António Ramalho (Chairman)
- José Serrano Gordo (Vice-Chairman)
- José Ribeiro dos Santos (Member)
- Alberto Manuel Diogo (Member)
- Vanda Nogueira (Member)
- José Carlos Osório (Member)
- Adriano Rafael Moreira (Member)

Board of the General Meeting

The Board of the General Meeting is made up as follows:

Chairman: Paulo Manuel Marques Fernandes

Vice-chairman Paulo Miguel Garcês Ventura

Secretary: Maria Fernanda Joanaz Silva Martins

The Board of the General Meeting was appointed for the 2012-2014 period.

The audit and monitoring of the activity of the Board of Directors of EP is currently carried out by its Supervisory Board and by a Statutory Auditor appointed by the general assembly. The Supervisory Board is composed of three members appointed for a three year term, renewable only once. The Chairman of Supervisory Board has casting vote in the meetings held by this Board.

The Supervisory Board meets at least quarterly and whenever summoned by its Chairman or at the request of the Board of Directors.

The Statutory Auditor is appointed by the general assembly upon proposal of the Supervisory Board.

The members of the Supervisory Board and Statutory Auditor as of the date hereof are as follows:

<u>Audit Board</u>

Chairman: José Emílio Coutinho Garrido Castel-Branco

Member: William Hall Woolston

Member: Bernardo Xavier Alabaça

Alternate member: Teresa Isabel Carvalho Costa

<u>Statutory Auditor</u> Sociedade Esteves, Pinho & Associados, SROC, Lda. represented by Rui Manuel Correia de Pinho. Luís Manuel Moura Esteves was appointed as alternate auditor

Concession Contract between the State and EP

The Bases of the Concession for the national road network attributed to EP, as approved by Decree-Law 380/2007 of 13 November, were subject to the following amendments:

a) Law nr. 13/2008 of 29 February alters the term of the concession, extending it until 0 hours of 31 December 2099;

b) Decree-Law nr. 110/2009 of 18 May changed the following: i) expansion of the object of the concession, now including the notion of availability, which consists of assessing the quality of the service provided to users, assessing accident levels and the levels of externalities deriving therefrom; it also included rules concerning accident levels; ii) the law clarifies the rules on assets purchased within the scope of expropriation proceedings, to the extent that any plot of land that is not allocated to the public domain will be allocated to the concessionaire's assets; iii) it specifically set forth the date when accounting effects of the concession would become effective, i.e. upon the entry into force of Law 55/2007 of 31 August; iv) it changed the formula to revise user fees setting a maximum amount, and indexing it to the total change in the consumer price index; v) it clarified that service stations located within the concession would become part of it following the initial term provided in nr. 5 of Base 2; and vi) it set forth new grounds for a rescission of the concession contract, specifically any failure by the concessionaire to comply with the sub-concession contracts of the EP concession contract;

c) Decree-Law nr. 44-A/2010 of 5 May that established the concessionaire's right to collect tolls from network users, as specifically set forth in the concession bases of the network concerned, and corresponding concession contracts; such tolls will be the concessionaire's revenues. Pursuant to this change in the Bases of the Concession, the concession contract - the draft of which was approved by Council of Ministers Resolution 174-A/2007 of 23 November - was also altered pursuant to Council of Ministers Resolution 39-A/2010 of 6 June, in order to include in the object of the concession the concessionaire's activity relating to the collection of tolls from road network users, thus establishing the concessionaire's right to respective revenues.

The concession model views the following:

- ✓ Create greater transparency in costs and tariffs in the road sector
- ✓ Increase public control over the performance and efficiency of EP

- ✓ Set forth public and contractually established objectives mainly in terms of the quality of service of national roads, decrease in accidents and penalties for environmental impacts.
- ✓ Create a management model capable of finding the best financing solutions in the market, so that the road sector may become self-sustainable and generationally equitable.

The model of the general concession was thus based on the following:

1. The State granted EP a 75 years concession on National Road Network (NRN), covering about 16,500 Km in length.
2. The object of the concession is: financing, maintenance, operation, requalification and expansion of the Current National Roadway Network; and, design, planning, construction, financing, maintenance, operation, requalification and expansion of the Future National Roadway Network.
3. Under the terms of the Concession Contract, existing road concessions granted by the State will revert to EP at the end of the Contract; therefore, EP will be liable for the payments due by the State until such date.
4. EP is entitled to the tolls charged in all concessions subject to agreement with the State
5. EP is also entitled to the newly created CSR (road service contribution) - Law nr. 55/2007 of 31 August.
6. New investments must be executed mostly through PPP's contracts/sub-concessions).
7. Since regulatory functions were transferred to the Regulator, EP must focus on the development/management of public roadway services.

Main Income

As consideration for performing the obligations defined in Concession Bases and the Concession Contract, EP will be entitled to following main revenues:

***Contribuição do Serviço Rodoviário* (CSR)** – It corresponds to a fixed amount paid by end users of national roads through a levy on the diesel and petrol consumption. The CSR was first introduced pursuant to Law no. 55/2007 of 31 August (as amended by Law no. 67-A/2007 of 31 December, Law no. 64-A/2008 of 31 December, Law no. 64-B/2011, of 30 December, Law no. 66-B/2012 of 31 December, Law no. 83-C/2013 of 31 December, Law no. 82-B/2014 of 31 December), and it not automatically indexed to inflation. The CSR was initially set at 6,4 cents per litre of petrol and 8,6 cents per litre of road diesel. Since 2014 the same scheme applies to natural gas used for transport purposes sold in petrol stations. In 2015 this levy will be of 8,7 cents per litre of petrol, 11,1 cents per litre of road diesel and 12,3 cents per kg of auto natural gas. These amounts are cashed on a monthly basis, actually two months after the actual consumption (sales).

	2008	2009	2010	2011	2012	2013	2014	2015
Cents per liter of petrol	6,400	6,400	6,400	6,400	6,547	6,632	6,700	8,700
Cents per liter of road diesel	8,600	8,600	8,600	8,600	8,798	8,912	9,100	11,100
Cents per kg of auto natural gas	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	10,300	12,300

Tolls - Since 2010, as a result of the negotiations conducted by the Government, EP became the receiver of tolls from several motorways granted to private developers. As from September 2010, tolls were introduced in a set of contracts, previously under a shadow toll regime. In 2011 tolls were introduced in all concessions formerly benefiting from shadow tolls. Most of the sub-concession contracts granted by EP in 2008/09/10 also have stretches of motorways in which tolls are charged to end users and revert to EP as core income. Currently EP benefits from tolls generated in 15 contracts, covering a total length of 1,300 Km. Tolls are indexed to the inflation rate.

Construction contracts – the Concession Contract establishes the obligation of EP to provide construction services to develop the National Road Network. Accordingly, construction contracts entered into by EP or sub-concessionaires are reflected in the accounts as revenues stemming from the Concession Contract in the accounting periods on which construction work is performed subject to respective completion rate. Tolls received by EP under existing road concessions granted by the State are deducted to this asset as a payment for the right over such road concessions.

Main Costs

Taking into account that it must see to the maintenance, operation, requalification and expansion of the Current and Future National Roadway Network, EP will incur in the following main costs:

Construction activity in the National Roadway Network – it includes construction costs incurred directly or through sub-concessions, deducted to the amount of tolls collected by EP concerning State concessions (adjusted of construction costs) for the acquisition of the rights over these concessions for the duration of respective contracts.

Periodic Conservation - it reflects the recognition of EP's accrued responsibility to maintain the level of service of the roads and engineering structures, as stipulated in the Concession Contract.

Current Conservation and Security – this item reflects the costs for the period related to current conservation interventions on roads, tunnels and bridges and road safety.

Tolls collection costs: these reflect the costs incurred to collect tolls.

Operating and Maintenance Sub-concessions (O&M) - recognition of sub-concession O&M execution costs, which will be paid according to the sub-concession agreements through availability and service payments.

CSR collection costs - charges due to the Tax Authority for collecting the CSR.

Funding Policy

As Public Institute until 2014, EP was directly financed by the State budget. Following its transformation into a public corporate company under the terms of DL 239/2004 of 21 December 2004, EP started covering its funding needs with short-term borrowings with the domestic banking sector, which were transformed into long-term debt instruments. Whenever required, the State issued a guarantee for the total duration of the loan.

In 2011 following amendment of the Budgetary Framework Law (Law no, 91/2001, of 20 August) the general government started to include those entities, which regardless of their nature and status, were included in the European System of National and Regional Accounts, amongst which stood EP. This event led to a new financing policy based on the granting of State loans and/or capital via the General Budget of the State.

In 2013 Decree-law 133/2013 of 3 October "…*establishes the principles and rules applicable to the public corporate sector, including the general bases of the status of public corporations*…". In addition to establishing reporting and disclosure obligations, or setting up new organizational structures to follow-up the State entrepreneurial sector, this Law establishes and imposes clear rules on indebtedness levels and management of derivative financial instruments to be followed by Reclassified Public Companies pursuant to the European system of national and regional accounts. As a matter of fact, Article 29 of the said Law determines that these companies (RPCs) cannot access funding with financial institutions and capital markets except for those of multilateral nature (e.g. European Investment Bank), while article 72 provides the transfer of these companies' derivatives portfolios to the Public Debt and Treasury Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, EPE (IGCP)) .

Business overview

EP's operations were split into Construction and Maintenance. The existing network has already reached maturity, therefore, construction activity is currently focused on a set of strategic projects as identified in the PETI3+. Completion of the "Túnel do Marão" - a public-private partnership (PPP) which recently reverted to State hands - is presently the most significant ongoing investment project. During 2014 investment totalled EUR 652 million, as shown in table below:

€ Million

Investment	31.12.2014	31.12.2013
Concessions	580	522
Subconcessions	32	246
Direct Investment	40	5
	652	773

Major investments paid by EP in recent years concern PPP contracts. These contracts were renegotiated viewing their streamlining and the reduction of the charges borne by the State and indirectly by EP. In 2014 EP starting paying the sub-concessions launched in 2008 and 2009.During the year, as compared to 2013, EP paid the following, per type of investment,:

€ Million

Payments	31.12.2014	31.12.2013
Concessions	651	611
Subconcessions	238	-
Direct Investment	269	6
	1.158	617

Conservation activity monitors and repairs approximately 13.500 Km of "roads" and 5,000 bridges and viaducts. Routine inspections are expected to cover 25% of the network each year. This enables early detection of potential problems and an adequate intervention. Main inspections to pavement, with recourse to laser technology, cover over 90% of the network on a given year.

Current conservation is subcontracted to different suppliers. EP has 20 conservation contracts entered normally for periods of 3 years, covering 18 continental districts and two contracts for the high density networks around Lisbon and Oporto.

Additional interventions may be required to improve safety or the profile of a specific stretch of the network.

EP awarded 7 sub-concession contracts which it oversees, and it ensures the payments on the State's behalf relating to the remaining 14 contracts granted by the State. The nature of these payments changes considerably according to the year of respective contract:

Toll Road Concessions

- Tolls charged to users by the concessionaire
- Risk of traffic assumed by the concessionaire
- The toll can be used as a tool of demand management through road pricing schemes

	Begin	End
Brisa	1997	2035
Lusoponte	1994	2030
Oeste	1998	2028
Norte	1999	2029
Litoral Centro	2004	2034
Grande Lisboa	2007	2037
Douro Litoral	2008	2034

Ex-Shadow Toll Road Concessions

- Tolls charged to users by the concessionaire and delivered to EP
- Payment of service and availability of the lane to the Concessionaire

	Begin	End
Beira Interior	1999	2029
Interior Norte	2000	2030
Algarve	2000	2030
Costa da Prata	2000	2030
Norte Litoral	2001	2031
Beiras Litoral e Alta	2001	2031
Grande Porto	2002	2032

Toll Road Subconcessions

- Tolls charged to users by the sub-concessionaire and delivered to the grantor
- Payment of service and availability of the lane to the sub-concessionaire
- Traffic risk sharing

	Begin	End
Transmontana	2008	2038
Douro Interior	2008	2038
Baixo Alentejo	2009	2039
Baixo Tejo	2009	2039
Litoral Oeste	2009	2039
Algarve Litoral	2009	2039
Pinhal Interior	2010	2040

A team of in-house project engineers provide expertise in different stages of the developments in all business segments.

Financial Debt

As of 31 December 2014 financial debt totalled €2,539 million, which is 21% less than at 31 December 2013. Table below details the debt portfolio:

€Millions

	Debt Outstanding (nominal amount)		Maturity	Interest Rate
	31-dez-14	31-dez-13		
Guaranteed by the Republic of Portugal				
EIB	194	201	Jun-29	Fixed
Not guaranteed by the Republic of Portugal				
Private Placement	125	125	Jul-30	Fixed
State Loans				
State Loan 2011-2016	853	1.279	Nov-16	Fixed
State Loan 2012-2017	153	204	Nov-17	Fixed
State Loan 2012-2017	173	230	Nov-17	Fixed
State Loan 2012-2017	56	75	Nov-17	Fixed
State Loan 2012-2017	21	28	Nov-17	Fixed
State Loan 2012-2017	33	44	Nov-17	Fixed
State Loan 2012-2017	60	80	Nov-17	Fixed
State Loan 2012-2017	25	34	Nov-17	Fixed
State Loan 2012-2017	118	157	Nov-17	Fixed
State Loan 2012-2017	12	16	Nov-17	Fixed
State Loan 2012-2017	10	13	Nov-17	Fixed
State Loan 2013-2020	85	85	Nov-20	Fixed
State Loan 2013-2020	136	136	Nov-20	Fixed
State Loan 2013-2020	17	17	Nov-20	Fixed
State Loan 2013-2020	26	26	Nov-20	Fixed
State Loan 2013-2020	266	266	Nov-20	Fixed
State Loan 2013-2020	28	28	Nov-20	Fixed
State Loan 2013-2020	26	26	Nov-20	Fixed
State Loan 2013-2020	25	25	Nov-20	Fixed
State Loan 2013-2020	18	18	Nov-20	Fixed
State Loan 2013-2020	4	4	Nov-20	Fixed
State Loan 2013-2020	22	22	Nov-20	Fixed
State Loan 2013-2020	50	50	Nov-20	Fixed
Total	**2.535**	**3.188**		

Total debt is represented by long-term interest-bearing liabilities, from which 87% are State Loans. The company has also a loan with the EIB guaranteed by the Portuguese

State and a bond loan listed on a non regulated market on the Frankfurt stock exchange, representing, respectively 8% and 5% of the debt stock as of 31 December 2014.

Personnel

	31.12.2010	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Average No. Employees	1.177	1.169	1.176	1.128	1.054

EP is seeking staff optimization, which is reflected in the reduction of average number of employees.

Litigation

The following lawsuits were pending as of 31 December 2014:

€thousands

Ongoing legal proceedings	31-12-2014	Provision %
General Risks	20.551	100%
Construction Contracts	59.094	100%
Expropriations	1.601	100%
TOTAL	**81.246**	**100%**

Additionally, EP set up a provision in the amount of € 301 million in view of the current dispute between EP and the Tax Authority, on the issue of whether or not the CSR should be subject to VAT. This provision reflects the best estimate of VAT deducted by EP in activities financed by the Road Service Contribution (CSR).

(iii) Reasons for the merger by incorporation and for the transformation

The merger by incorporation of EP into REFER (and subsequent transformation in IP) will achieve two major strategic goals:

(i) ensure an integrated management of the railway and road networks, encouraging intermodality and complementarity between the two modes of transport, while taking advantage of the synergies and know-how of both companies, thus reducing operating expenses;

(ii) ensure the existence of a financially sustainable business model, based on solid strategic guidelines and a financing framework for the road and railway infrastructures that does not burden taxpayers.

The merger and transformation will permit obtaining efficiency gains at outsourcing level, as well as to eliminate internal overlapping structures, reduce expenses thanks to economies of scale and to better allocate available resources.

Such efficiency gains should result in significant improvement of the financial and economic situation of the company, which will be responsible for managing the national railway and roadway infrastructures (i.e. of IP, as opposed to the current financial situation of REFER and EP), thus promoting the financial sustainability of these sectors, on par with a consistent creation of value for the national economy.

Moreover, the merger and transformation will allow coordinating and articulating operations at regional level, promoting concession management experience and increasing the revenues of respective infrastructure managers.

As far as the transport system is concerned, the fact of a single entity ensuring an integrated coordination and planning of rail and road infrastructures will enable a better organisation of the transport network and a more efficient allocation of resources.

Additionally, since both REFER and EP managed public domain assets, it is possible to fine-tune management, namely through an harmonised, efficient and dynamic management, which will contribute to increase revenues and reduce costs, by taking advantage of existing synergies and know-how of both companies.

Therefore, taking into consideration the existing complementarity and the need for a coordination of the goals pursued within the framework of PETI3+ relating to the railway and roadway sectors; bearing in mind the principles of quality, economy and efficiency; and in view of the public interest, we considered that the necessary conditions for the implementation of the merger concerned were met.

3. Objectives of the Merger and the Transformation

The merger of EP into REFER and subsequent transformation of the latter into IP aim at achieving the following goals:

1. Integrated planning and investment
2. Increased efficiency
3. Economies of scale in procurement
4. Achieving financial sustainability
5. Strategic positioning of European / global energy programmes

1. Integrated planning and investments

Both companies had similar purposes, i.e., to manage a set of infrastructures as determined by law. REFER managed the national railway infrastructure; EP managed the national road infrastructure.

Following the merger and transformation, IP takes on the former mission of the two companies, thus ensuring an integrated approach instead of having two modes of transport competing with each other.

IP seeks to find out about the complementary aspects of the two modes of transport, privileging people and freight mobility and harmonising investment plans.

2. Increased efficiency

As the two companies were autonomous in legal, administrative and financial terms, there existed overlapping departments. Joining the best practices of each company should give way to an improved corporate centre with meaningful cost savings. Likewise, a combined regional presence involving both companies should generate additional cost reductions. Finally, knowledge accumulated in a single company will prove useful in future situations. By way of example, EP's experience in the management of concession contracts may be used in future railway concessions; REFER, on the other hand, has a relevant know-how in asset management.

3. Economies of scale in procurement

As far as procurement and logistics are concerned, there was also overlap. Many contracts have similar provisions and a combined management should generate important savings.

4. Achieve financial sustainability

The combination of the different initiatives mentioned in the previous paragraphs with the development of critical actions concerning, for instance, the remuneration of railway services (redefinition of track access charges, investment program with the government, etc.), or the renegotiation of existing road PPPs and conversion into equity of historical debt should allow IP entering into a financially sustainable path.

5. Strategic positioning of European / global energy programmes

The definition of long term concessions granted by the State to IP for road and rail infrastructures allows the company to align its investments with EU guidelines. Mobility generates waste. Presently, energy policies, particularly as far as their environmental aspects are concerned, are likely to favour investment in the railway sector. An integrated approach to manage the two sides of land mobility will work as long term hedging to implement these policies.

C. SHAREHOLDING RELATIONSHIP BETWEEN PARTICIPATING COMPANIES

There are no shareholding relationships between Participating Companies in the merger and transformation.

D. FINANCIAL STATEMENTS OF PARTICIPATING COMPANIES

The audited financial statements of REFER (separate accounts) and EP as of 31 December 2014 are attached to this Memorandum (Annex I), forming an integral part thereof.

The separate and consolidated financial statements of REFER relating to 2013 were approved by the Board of Directors and subject to the approval of the relevant Government Ministry, jointly with the legal certification of accounts and the audit report and the annual reports and opinions of the Audit Board, which were also approved by the relevant Government Ministry.

The separate financial statements of REFER relating to 2014 were approved by the Board of Directors and subject to the approval of the relevant Government Ministry, jointly with the legal certification of accounts, the audit report and the annual report and opinion of the Audit Board.

The consolidated financial statements of REFER relating to 2014 were approved by the Board of Directors and subject to the approval of the relevant Government Ministry, jointly with the legal certification of accounts, the audit report and the annual report and opinion of the Audit Board.

The official approval by the relevant Government Ministry of the separate and consolidated financial statements of REFER relating to 2014 is still pending.

Annual reports and accounts are available at REFER website www.refer.pt and via CMVM information disclosure system at www.cmvm.pt.

Without prejudice to the reading in full of the Legal Certification of Accounts and Audit Report on the separate and consolidated financial statements relating to 2014, the emphasis contained in the said documents are transcribed hereinbelow:

Separate Financial Statements

"...

Emphasis of matters

Without affecting the opinion expressed in previous paragraph, we would draw attention to the following:

8. As at 31 December 2014 the Company has a negative shareholders' equity of 1,032,919 thousand euros. Despite the fact that the Company has improved its operating *income since 2011, as a consequence of the costs reduction measures imposed by the Portuguese State Budget and by the sole shareholder, the financing of the Company's future operating and investing activities depends on the continued financial support of the sole shareholder – the Portuguese State.*

As mentioned in Note 21. of the Notes to the Financial Statements, and as publicly disclosed, the initial procedures related with the merger of REFER and E.P. - Estradas de Portugal, S.A. ("E.P.") in which REFER will incorporate EP, are still in progress, according to the Strategic Plan of Transports and Infrastructures (PETI3), which states the redenomination of REFER as Infraestruturas de Portugal ("IP")."

9. As at 31 December 2014 the subsidiary company GIL - Gare Intermodal de Lisboa, S.A. ("GIL"), in which the Company has an investment of 100% (33,65% in 2013), has a negative shareholders' equity of approximately 38,9 million euros (adjusted for IFRS purposes). As mentioned in Note 5.7 of the Notes to the Financial Statements, as at December 31 2014, the loans granted by the Company to GIL, which amount to approximately 56,1 million euros (19,1 million euros as at December 31, 2013), were fully adjusted for.

10. As mentioned in Note 5.16 of the Notes to the Financial Statements, in 2014 the Company recognised deferred tax assets related with tax losses deductible in future years, which amount to approximately 22,3 million euros. This recognition was made in the assumption that according to the terms of the merger in progress, the estimated tax income for 2015 and the following years will allow the deduction of these tax losses.

…"

Consolidated financial statements

"...

Emphasis of matters

Without affecting the opinion expressed in previous paragraph, we would draw attention to the following:

8. As at 31 December 2014 the Group has a negative shareholders' equity of 949,243 thousand euros. Despite the fact that the Group has improved its operating income since 2011, as a consequence of the costs reduction measures imposed by the Portuguese State Budget and by the sole shareholder, the financing of the Group's future *operating and investing activities depends on the continued financial support of the sole shareholder – the Portuguese State.*

As mentioned in Note 25. of the Notes to the Consolidated Financial Statements, and as publicly disclosed, the initial procedures related with the merger of REFER and EP - Estradas de Portugal, S.A. ("EP") in which REFER will incorporate EP, are still in progress, according to the Strategic Plan of Transports and Infrastructures (PETI3), which states the redenomination of REFER as Infraestruturas de Portugal , S.A. ("IP").

9. As mentioned in Note 5 of the Notes to the consolidated financial statements, in December 2014, the Group REFER, through its parent-company, acquired the non-held share capital of GIL - Gare Intermodal de Lisboa, S.A ("GIL"). Following this acquisition the Group has made a preliminary assessment of the fair value of the assets and liabilities acquired through this business combination, so the price purchase allocation is still subject to changes until one year after the date of the acquisition, as required by IFRS 3 Business Combinations. The goodwill, calculated on a preliminary basis, related to this acquisition, amounts to approximately 25,8 million euros and the loss recorded on the remeasurement of the previous share capital held by the Group in GIL amounts to approximately 13,1 million euros.

10. As mentioned in Note 7.11 of the Notes to the Consolidated Financial Statements, in 2014 the Group recognised deferred tax assets related with tax losses deductible in future years, which amount to approximately 22,4 million euros. This recognition was made in the assumption that according to the terms of the merger in progress, the estimated tax income for 2015 and the following years will allow the deduction of these tax losses.

…"

The financial statements and remaining account information EP relating to 2013 and 2014 were approved by the Board of Directors and the Government on behalf of the State as shareholder, at the general meetings held on 25 July 2014 and 22 May 2015, respectively. Annual reports and accounts are available at EP website www.estradasdesportugal.pt and via CMVM information disclosure system at www.cmvm.pt.

Without prejudice to the reading in full of the Legal Certification of Accounts and Audit Report on the financial statements relating to 2014, the emphasis contained in the said documents are transcribed hereinbelow:

Legal certification of the accounts

"**Emphases**

9. Without qualifying our opinion expressed in paragraph 7, we draw attention to the following situations:

9.1. As referred in Notes 3.4, 4.1 and 9 to the financial statements, the Company is amortising the concession rights recognized as intangible assets in accordance with IFRIC no. 12, taking into account certain assumptions, namely those concerning the estimated revenues and investments estimated in the Plan for the concession period. In compliance with mandatory disclosure requirements, part of the prospective information contained in that Plan was included in Notes 33 and 34 c) to the financial statements This Plan will be subject to annual revisions to reflect the evolution of the Company and of certain variables, as well as the understanding of new facts that may change it significantly.

9.2. As referred in the management report, the process of merger by incorporation of the Company into REFER, E.P.E. is under way, originating a new company designated Infraestruturas de Portugal, S.A.. All the applicable legal and corporate issues regarding this process should be adequately addressed.

…"

Audit Report

"**Emphasis**

9. Without qualifying our opinion expressed in paragraph 7, we draw attention to the fact that, as mentioned in notes 3.4 and 9 of the Notes to the accounts, the amortisation of intangible assets were calculated with reference to IFRIC 12, based on certain assumptions, namely the total amount of investment and the estimated income of the concession, contained in the Financial Economic Projections for the remaining period of the concession. Given that future events frequently do not occur as expected due to the effect of certain macroeconomic variables, political and/or social decisions, the future results of the Company may be influenced if those assumptions are significantly altered, as shown in the sensitivity analysis included in note 4.1 of the Notes to the accounts.

…"

This merger and transformation operation is confined to the integration in accounting terms of the merged company (EP) into the merging company (REFER). The merger is carried out by integrating the accounting data of EP into REFER's pursuant to the tax neutrality regime.

All assets and liabilities of EP as shown in respective statement of financial position are globally transferred to REFER, pursuant to the general principle of tax neutrality provided in articles 73 and following of the CIT Code; accordingly, transmitted assets, where applicable, are transferred on the basis of respective book value as of the date of the statement of financial position of EP attached to the Memorandum.

The operations of EP are considered, from a tax and accounting point of view, as made on behalf of REFER/IP as from 01 January 2015.

As of 31 December 2014 REFER had a statutory capital of EUR 1,486,000,000 and equity totalling minus EUR 1,032,918,804.64. The Board of Directors proposed to allocate the net losses for 2014 in the amount of EUR -89,065,163.17 to results brought forward.

As of 31 December 2014 EP REFER had a share capital of EUR 1,994,585,000 and equity totalling EUR 2,511,042,724.31. The Board of Directors proposed to allocate the net profit for 2014 in the amount of EUR 16,510,871.80 as follows:

Legal Reserve	€ 825,543.59
General Reserve	€ 1,651,087.18
Reserve for investment purposes	€ 14,034,241.03

During January to April REFER and EP carried out capital increases in cash of EUR 700,000,000 and EUR 377,715,000, respectively.

In order to determine the share capital of IP, the following adjustments in the capital of the merging company (REFER/IP) were considered:

- Coverage against the Share Capital of the negative cumulative results of REFER in the amount of EUR 2,518,918,804.64 euros;

- Integration into the Share Capital and Reserves of the amounts of EUR 2,888,753,804.64 and EUR 3,919.67, respectively, corresponding to the share capital of EP.

Following these adjustments, the Share Capital of the merging company REFER, renamed as and transformed into Infraestruturas de Portugal, S.A., as result of the merger by incorporation of EP, is of EUR 2,555,835,000 represented by 511,167 shares with a nominal value of € 5 each, fully held by the Portuguese State through DGTF.

Table below shows the changes and adjustments occurred:

€euros	After appropriation of Net profit/(loss) 2014		Capital increase 2015		After capital increase between January 2015 and May 2015	
	REFER	EP	REFER	EP	REFER	EP
Statutory/Share Capital	1.486.000.000,00	1.994.585.000,00	700.000.000,00	377.715.000,00	2.186.000.000,00	2.372.300.000,00
Cumulative results/Retained earnings	-2.518.918.804,64	133.876.540,09			-2.518.918.804,64	133.876.540,09
Legal reserves		66.851.822,46				66.851.822,46
Other reserves		315.729.361,76				315.729.361,76
Shareholder's Equity	**-1.032.918.804,64**	**2.511.042.724,31**	**700.000.000,00**	**377.715.000,00**	**-332.918.804,64**	**2.888.757.724,31**

€euros	REFER	Adjustments related with the merger of EP	Offset of retained earnings/cumulative results	Infraestruturas de Portugal, SA
Statutory/Share Capital	2.186.000.000,00	2.888.753.804,64	-2.518.918.804,64	2.555.835.000,00
Cumulative results/Retained earnings	-2.518.918.804,64	-	2.518.918.804,64	-
Legal reserves				
Other reserves	-	3.919,67	-	3.919,67
Shareholder's Equity	**-332.918.804,64**	**2.888.757.724,31**	**0,00**	**2.555.838.919,67**

E. RISKS

Risks identified in this chapter are contingencies pinned down by REFER and EP which may or may not occur.

Moreover, the risks identified herein relating to REFER or EP must be read in the light of the incorporation of EP into REFER pursuant to the merger and subsequent transformation of REFER in IP. To such extent, risks must also be weighted from the perspective of the future IP.

Notwithstanding, REFER and EP are not expressing an opinion as to the possibility or likelihood of such contingencies eventually occurring; accordingly, this chapter is for information use only.

Risks related to the management of the railway infrastructure

REFER's main source of revenues includes track access charges (TAC) paid by railway operators as approved by the Regulator (IMT). Track Access Charges (TAC) are paid by railway operators and reflect the utilization of the railway infrastructure capacity. The methodology applied to set-up tariffs is defined by Decree-Law 270/2003 of 28 October (as amended from time to time) and Regulation 630/2011.

While a public service provider, REFER cannot develop its activity on a purely commercial basis. As such, the financial compensation to which it is entitled from the Portuguese State, corresponding to the so-called "compensatory payments" seeks to cover the Company's operating costs and ensure sustainable cash flow levels.

REFER is also responsible for the construction, installation and modernisation of the infrastructure, acting on behalf of the State. Investments carried out by REFER are made in its capacity as agent of the Portuguese State; therefore, such investments do not reflect an investment policy of REFER itself, but rather the Portuguese Government's options with respect to the railway sector.

To such extent, REFER's capital expenditure relating to the railway infrastructure is entirely funded by EU funds and the Portuguese State, either on a direct or an indirect basis. Under the terms of Law 11/90 no. 3 of 17 March (establishing the ground transport's main legal framework (Lei de Bases do Sistema de Transportes Terrestres), the Portuguese Government must provide adequate protection to safeguard REFER's economic and financial stability and ensure that REFER is able to service debt it incurred into to finance the construction and maintenance of the railway infrastructure, so as to avoid any hindrances to the modernisation policy of national railway infrastructure.

Therefore, REFER cannot ensure that the proposed charges and other fees will continue to be approved by IMT or that the railway operators will continue to pay or will timely pay the track access charges, operational tariffs and infrastructure charges.

Likewise, REFER cannot ensure that the State will continue to fund and maintain the compensation levels associated with construction and maintenance costs of the railway infrastructure, which are currently provided via the General State Budget, under the form of statutory capital and transfer of capital.

Failure to receive any part of the referred revenues, if not replaced by new revenue sources, may adversely affect the business, financial conditions or results of operations of REFER.

Risks related to the management of the road infrastructure

As consideration for complying with the obligations laid down in the Concession Bases and Contract entered with the State, EP obtains revenues including tolls and the road service contribution.

Toll rates paid by motorway users, though they are indexed to inflation, are strongly linked to the Portuguese economic cycle, since it has a direct impact on road traffic and consequently on the amount of tolls paid.

The "Contribuição do Serviço Rodoviário" (CSR), a fixed amount paid by the end users of national roads through a levy on diesel, petrol and auto natural gas consumption. CSR was provided by Law no. 55/2007 of 31 August (as amended from time to time) and it is not automatically indexed to inflation. As with tolls, CSR revenues may be affected by a drop in traffic caused by a slowdown in the economic cycle in Portugal. On the other hand, improvement in vehicle power efficiency and an increased use of vehicles powered by alternative energy sources may result in a decrease in fuel consumption levels, and consequently in CSR revenues.

The volume of EP revenues is therefore difficult to anticipate; EP makes projections and simulations on a regular basis about the level of potential toll and CSR revenues based on key macro economic variables.

Risks associated with PPPs (public-private partnerships)

(a) Legal framework of sub-concessions

As provided in Base 32 od the Concession Bases of EP (see Decree-law 380/2007 of 13 November, as amended), "*in the performance of these Bases the concessionaire [EP] must favour public-private partnerships*", i.e. in the development of the National Road Plan, EP must preferably make use of public-private partnership formulas.

However, the launching of any sub-concession is not determined by EP since it is the Portuguese State which is the grantor. In fact, under the terms of Base 21 of the Concession Bases, "*the roads comprised in the Future National Road Network as provided in PRN 2000 should all be operational on the date determined by the Government according to schedule to be approved until 31 December 2009*".

Therefore, all road sub-concessions contracted by EP were preceded by the following council of ministers resolutions:

(i) Council of Ministers Resolution no. 177/2007 – Auto-Estrada Transmontana and Douro Interior sub-concessions;

(ii) Council of Ministers Resolution no. 180/2007 – Baixo Tejo, Baixo Alentejo and Litoral Oeste sub-concessions;

(iii) Council of Ministers Resolution no. 56/2008 – Algarve Litoral sub-concession; and

(iv) Council of Ministers Resolution no. 106/2008 – Pinhal Interior sub-concession.

Under the terms of these Resolutions, the Portuguese State required that EP launched and contracted the said sub-concessions, under public-private partnerships. EP was thus responsible, under the terms of the Concession Bases and Contract entered with the State, to launch and carry out public tenders, and awarding the sub-concession contracts referred to above. Under the terms of the said Concession Bases and Contract, EP is also responsible for executing and managing the sub-concession contracts for a period of thirty years. This regime is currently still in force, i.e. if the Portuguese State should determine the launching of any sub-concession, EP must make the necessary arrangements, under the terms of the Public Contracts Code, conducting, awarding and ensuring the execution and management of such sub-concession contract.

(b) State Concessions

State concessions are those launched and contracted by the Portuguese State before awarding to EP the concession for the design, construction, financing, maintenance, operation, modernisation and widening of the national road network (see Base 1, sub-paragraph m) of the Concession Bases).

As far as these concessions are concerned, EP makes the payments which fall to the State and receives the amounts due by the State as grantor, in order to obtain rights over future economic benefits (see base 2, no. 7 and no. 8 of the Concession Bases).

(c) Major Risks

Sub-concession contracts establish, with no exception, that unless provided otherwise in respective contracts, all contractual risks are to be transferred to sub-concessionaires; hence:

(i) any contractual risk will only be allocated to EP if expressly provided so in respective contract;

(ii) any risks that are not expressly identified in the contract (as risks of the grantor or the sub-concessionaires) shall be considered as risks of the sub-concessionaires. These are the so called "residual risk" (or implicit risk).

To this extent, the risks contractually allocated to EP (according to a consolidated typology) are as follows:

(i) Risk of finding archaeological discoveries which were not expected when the partnership was launched and/or at the time of the final bid;

(ii) Risk associated with failure to issue in due time the Declarations of Public Utility;

(iii) Risks stemming from events of Force Majeure;

The occurrence of any such event may give rise to the reinstatement of the financial balance of the sub-concessions.

From a strictly financial point of view, risks associated with the execution of sub-concession contracts comprise the following:

(i) Risk of reinstatement of the financial balance of the sub-concessions, due to unilateral changes in respective contracts or changes in the law (laws, decree-laws, ministerial orders, Community directives and regulations) qualifying as specific for the purposes of respective contracts;

(ii) Risk of default interest payment for late payment of remuneration due, or for any failures in contracted availability or service;

(iii) Risk of default interest payment following any unavailability deductions declared void by any arbitral court; and

(iv) Risk associated with the fact of the conflicts being settled by Arbitral Courts, which are historically prone to accepting, fully or in part, the claims of private partners.

In relation to Concession Contracts entered between the State and private partners, EP is not a counterparty in such contracts, therefore, it holds no risks in relation to those contracts. Therefore, any claim for rights or balance reinstatements concerning such Concessions is not made with EP.

However, since EP is responsible for obtaining the payments, of whatever source or nature, which are due to the State as grantor, EP takes a financial risks in these contracts, namely the risk of having to reinstate the financial balance in similar terms to those provided in the sub-concession contracts.

Risks relating to IP

IP will be Portuguese wholly publicly-owned company responsible for managing the infrastructure for rail and road networks, entrusted with specific responsibilities for conception, project, construction, financing, conservation, operation, requalification, expansion and modernization of road and rail national networks. As a public limited company IP will be governed by the Merger and Transformation DL, its by-laws and the law governing the public corporate sector (DL 133/2013); in relation to any matter not covered by these regulations, the Portuguese Commercial Companies Code and other specific legislation and regulations shall apply.

The share capital of IP in the amount of €2,555,835,000 will be fully paid up and divided into 511,167 shares with a nominal value of €5,000 each wholly owned by the State through DGTF.

IP cannot guarantee that the Portuguese Government will not issue any ruling altering the legal status of EP or that it will not take measures likely to affect its status.

Risks Relating to the assets of IP

A substantial part of REFER'S (99%) and EP's (99.9%) assets belonged to the public domain, pursuant to article 84 no. 1 e) of the Constitution of the Portuguese Republic. According to Article 202 nr. 2 of the Portuguese Civil Code, assets belonging to the public domain may not be the object of rights of private parties.

IP thus withholds the rights and takes on the responsibilities of the State in relation to the public railway domain, under the terms of the relevant law and regulations, namely as provided in Decree-law 276/2003 of 4 November, as amended by Decree-law 29-

A/2011 of 1 March. This law sets the rules for the rationalisation of the management of the public railway domain, and for obtaining financial resources to invest and improve railway infrastructures. Accordingly, Decree-Law no. 276/2003 of 4 November provides that REFER, now IP, may propose the withdrawal of assets from the public railway domain as well as other forms of obtaining return out of such assets, and simultaneously establishes an exceptional legal regime of non application of the law on pledges, deposits or other injunction procedures (except as provided in no. 2 of article 10º) and embargo of construction works on land belonging to the public railway domain.

Road infrastructures comprised in the public road domain allocated to users traffic will remain under this regime under the administration of IP, which may exploit them for profit-making purposes, pursuant to concession or licence, except if such administration was awarded to a different entity, under the law or pursuant to contract.

In the light of the above, creditors cannot claim any assets of IP belonging to the public domain.

Risks associated with IP financial debt

The financial debt contracted by EP with its counterparties prior to the entering into force of the merger are assumed by IP in the exact same terms and conditions contracted by EP with the said counterparties.

Likewise, in financing contracts where guarantees were given in favour of EP, such guarantees will remain valid pursuant to the transfer of all assets of EP to IP; the guarantees provided in favour of REFER will remain valid.

As result, the debt service of IP will comprise the debt service deriving from the loans entered by REFER with its counterparties plus the debt service deriving from the loans entered by EP with its counterparties and the debt service deriving from any future loans.

Since in 2012 REFER and EP were integrated in the general government sector thereby becoming subject to the successive budgetary framework laws, their activity was included in the State Budget. This circumstance led to a new financing policy based on the granting of State loans and/or capital to these companies via the General Budget of the State, in order to ensure respective debt services. As of the date of the merger and until the end of 2015 IP will remain part of the general government and included in the State Budget.

IP cannot guarantee that the Portuguese State will not approve new legislation altering the general government status of IP, which means that it would cease to have the financing flows provided by the State Budget and therefore it cannot guarantee that it will not have to seek alternative funding sources to meet its present and future financial obligations.

F. IP BY-LAWS

Simultaneously with the merger by incorporation of EP into REFER, the latter is transformed into a public limited company, changing its name to "INFRAESTRUTURAS DE PORTUGAL" ("IP") and moving its registered office to Praça da Portagem, Almada. IP will keep the registration and corporate tax number of the merging company REFER.

The by-laws of IP form an integral part of the Merger and Transformation DL, revoking the former by-laws of REFER, as approved by Decree-Law no. 104/97 of 29 April (as amended from time to time).

G. CREDITORS PROTECTION MECHANISMS

The Merger and Transformation DL safeguards the rights of REFER and EP creditors.

Creditors will maintain the benefit of guarantees already provided in favour of EP and REFER, as these will remain valid, pursuant to the legal succession operated by the Merger and Transformation DL. The validity and duration of these guarantees do not require any additional formality by the State, as guarantor and sole shareholder of the share capital of REFER and EP. Their status as guaranteed creditors is not altered, in any way.

Anyway, creditors may submit their legal opposition to the merger. Within 30 days following publication of the said Decree-law, creditors holding claims dated prior to the date of publication of the Decree-law, provided they previously required REFER or EP to discharge respective debts or to provide adequate guarantee within not less than 15 (fifteen) days and these requests were not granted by REFER or EP, may file their opposition to the merger. Such opposition review must be based on the damages to the rights of such creditors likely to result out of the merger.

Creditor opposition shall not suspend the merger; if settled in favour of the creditor, IP shall be liable in the specific terms of the final court decision.

All assets and liabilities of EP will be integrated into REFER, automatically passing to IP pursuant to the law. Therefore, all contractual rights and duties of said entities will continue to exist in relation to IP. In particular, creditors will have the same rights, guarantees and duties towards IP as they had towards REFER and EP.

Thereupon, claims of EP's and REFER's creditors are not adversely affected by the operation, as the assets of IP following the merger will correspond to the sum of the assets of both companies as of 31 December 2014, further reinforced by the share capital increases referred to in Chapter D. hereinabove.

29 May 2015

On behalf of REDE FERROVIÁRIA NACIONAL – REFER, E.P.E.

[*Signature*]

On behalf of EP – ESTRADAS DE PORTUGAL, S.A.

[*Signature*]

ANNEX I

FINANCIAL STATEMENTS OF REFER AND EP

REFER - Separate Financial Statements - Statement of financial position

thousand euros

Assets	31-dec-14	31-dec-13
Management of Railway Infrastructure	**277 595**	**395 869**
Non current		
Tangible fixed assets	33 454	34 657
Intangible assets	2 587	1 576
Investments in subsidiaries	12 873	12 360
Investments in associates and joint ventures	0	0
Available-for-sale financial assets	32	32
Loans and accounts receivable	0	0
Deferred tax assets	22 648	13 879
	71 595	62 504
Current		
Inventories	21 406	19 852
Derivative financial instruments	0	3 383
Clients and other accounts receivable	109 126	229 107
Income tax refund	0	420
Other financial assets	0	168
Cash and cash equivalents	75 469	80 434
	206 001	333 365
Investment in long-term Infrastructure investments	**5 275 899**	**4 989 628**
Current		
Grantor - State - Account Receivable	5 254 047	4 970 380
Inventories	16 600	13 993
Clients and other accounts receivable	5 253	5 255
	5 275 899	4 989 628
Total assets	**5 553 494**	**5 385 497**

Equity and Liabilities	31-dec-14	31-dec-13
Equity		
Capital and reserves attributable to shareholders		
Share capital	1 486 000	451 200
Other changes in equity - deferred taxes	0	- 26 260
Cumulative results	- 2 429 854	- 2 314 458
	- 943 854	- 1 889 518
Net profit/(loss) for the year attributable to shareholders	- 89 065	- 89 136
Total equity	**- 1 032 919**	**- 1 978 654**
Liabilities		
Management of Railway Infrastructure	**2 624 356**	**2 329 080**
Non current		
Borrowings	1 135 952	1 467 414
Provisions	24 312	21 162
Deferred tax liabilities	0	26 260
	1 160 264	1 514 836
Current		
Borrowings	1 402 806	746 306
Derivative financial instruments		
Suppliers and other accounts payable	59 160	60 655
Income tax payable	2 127	7 283
	1 464 093	814 244
Investment in long-term Infrastructure investments	**3 962 057**	**5 035 070**
Non current		
Borrowings	3 801 786	4 879 119
	3 801 786	4 879 119
Current		
Borrowings	91 261	91 261
Suppliers and other accounts payable	69 010	64 690
	160 271	155 951
Total liabilities	**6 586 413**	**7 364 150**
Total equity and liabilities	**5 553 494**	**5 385 497**

REFER - Separate Financial Statements - Income Statement

thousand euros

Headings	31-dec-14	31-dec-13
Rendered Services	99 708	100 121
Operating subsidies	40 493	43 700
Cost of materials consumed	- 5 100	- 6 402
Supplies and services	- 95 456	- 94 404
Personnel expenses	- 81 409	- 90 559
Depreciation and amortisation for the year	- 3 106	- 2 762
Provisions	- 3 272	- 8 272
Impairments	- 37 110	- 4 750
Other expenses	- 8 259	- 1 982
Other income	42 395	23 018
Gains/(losses) on subsidiaries, associates and joint ventures	9 068	2 793
Operating Results	- 42 047	- 39 499
Financial losses	- 226 966	- 297 865
Financial gains	154 879	242 005
Results before tax	- 114 134	- 95 359
Tax for the year	25 069	6 223
Net profit for the year	**- 89 065**	**- 89 136**

REFER - Separate Financial Statements - Statement of Comprehensive Income

thousand euros

Headings	31-dec-14	31-dec-13
Results recognised in the income statement	- 89 065	- 89 136
Other comprehensive income		
Items that will not be reclassified in results		
Transition differences - deferred taxes	0	- 26 260
	0	**- 26 260**
Items that may be reclassified in results		
	0	0
Comprehensive Result	**- 89 065**	**- 115 396**

REFER - Separate Financial Statements - Statement of Changes in Equity

thousand euros

	Share capital	Other changes	Cumulative results	Income/(loss) attributable to shareholders	Total Equity
Balances at 31 December 2012	**430 200**	**0**	**- 2 222 344**	**- 92 114**	**- 1 884 258**
Transition differences - deferred taxes		- 26 260			- 26 260
Result stemming from the income statement				- 89 136	- 89 136
2013 Comprehensive Results	0	- 26 260	0	- 89 136	- 115 396
Appropriation of comprehensive results for 2012			- 92 114	92 114	0
Capital increase	21 000				21 000
Balances at 31 December 2013	**451 200**	**- 26 260**	**- 2 314 458**	**- 89 136**	**- 1 978 654**
Transition differences - deferred taxes		26 260	- 26 260		0
Result stemming from the income statement				- 89 065	- 89 065
2014 Comprehensive Results	0	26 260	- 26 260	- 89 065	- 89 065
Appropriation of comprehensive results for 2013			- 89 136	89 136	0
Capital increase	1 034 800				1 034 800
Balances at 31 December 2014	**1 486 000**	**0**	**- 2 429 854**	**- 89 065**	**- 1 032 919**

REFER - Separate Financial Statements - Cash Flow Statement

thousand euros

Headings	31-dec-14	31-dec-13
Operating Activities		
Cash receipts from clients	213 340	7 304
Cash paid to suppliers	- 99 332	- 97 846
Cash paid to personnel	- 78 674	- 85 362
Flows generated by operations	35 333	- 175 904
Other operating cash received/(paid)	22 588	47 754
Cash Flows from operating activities (1)	**57 921**	**- 128 150**
Investing activities		
Cash receipts relating to:		
Investment subsidies	11 747	87 245
Dividends	8 715	2 200
	20 462	89 445
Cash payments relating to:		
Tangible assets	145 583	86 088
	145 583	86 088
Cash Flows from investing activities (2)	**- 125 120**	**3 357**
Financing activities		
Cash receipts relating to:		
Borrowings	64 000	825 542
Capital injections	1 034 800	21 000
Interest	6 859	36 808
	1 105 659	883 350
Cash payments relating to:		
Borrowings	807 035	609 574
Interest and similar costs	229 579	287 520
	1 036 614	897 094
Cash Flows from financing activities (3)	**69 045**	**- 13 744**
Change in cash and cash equivalents (4)=(1)+(2)+(3)	**1 846**	**- 138 537**
Cash and cash equivalents at the end of the year	75 458	73 612
Cash and cash equivalents at the beginning of the year	73 612	212 149
Change in cash and cash equivalents	**1 846**	**- 138 537**

EP - Statement of financial position

€ thousands

	31 december 2014	31 december 2013
Assets		
Non-current		
Tangible fixed assets	24.432	25.260
Investment properties	120	126
Intagible assets	19.197.040	18.725.396
Deferred tax assets	101.993	88.526
	19.323.586	**18.839.308**
Current		
Costumers	40.570	36.004
Advances to suppliers	45.158	36.534
Income tax assets	93	533
State and other public entities	848.045	682.722
Other accounts receivable	113.950	107.505
Deferrals	737	404
Non-current assets held for sale	3	3
Cash and bank deposits	75.746	17.715
	1.124.303	**881.419**
Total Assets	**20.447.889**	**19.720.727**
Equity		
Capital and reserves attributable to the shareholders		
Share Capital	1.994.585	472.990
Legal reserves	66.026	65.288
Other reserves	300.044	282.313
Retained earnings	133.877	137.582
	2.494.532	**958.173**
Net profit for the year	16.511	14.764
Total Equity	**2.511.043**	**972.937**
Liabilities		
Non-current		
Provisions	858.676	830.453
Borrowings	305.593	318.970
Shareholders Borrowings	1.452.073	2.215.578
Deferred tax liabilities	-	3.705
Other Accounts payable	3.248.943	3.276.886
Deferrals	10.589.418	10.644.729
	16.454.702	**17.290.321**
Current		
Suppliers	17.174	25.703
Advances from costumers	12.280	10.521
State and other public entities	1.993	2.015
Borrowings	13.242	7.130
Shareholders Borrowings	768.581	661.415
Other Accounts payable	658.759	740.464
Deferrals	10.116	10.222
	1.482.144	**1.457.469**
Total Liabilities	**17.936.846**	**18.747.790**
Total Equity and liabilities	**20.447.889**	**19.720.727**

EP - Statement of Comprehensive Income

€ thousands

	31 december 2014	31 december 2013
Sales and services rendered	941.354	1.100.003
Costs of goods sold and materials consumed	(255.438)	(388.584)
External supplies and services	(157.841)	(163.113)
Conservation, reparation and security	(97.895)	(108.311)
Other current external supplies and services	(59.946)	(54.802)
Staff costs	(33.289)	(34.691)
Impairment of debts receivable (losses/reversals)	-	(94)
Provisions (increases/reductions)	(17.175)	(24.247)
Other income and gains	64.731	68.107
Other expenses and losses	(3.641)	(3.393)
Earnings before depreciation and amortization, interest and taxes	**538.701**	**553.988**
Expenses/reversals of depreciations and amortization	(182.810)	(203.286)
	(182.810)	**(203.286)**
Operation profit (before interest and taxes)	**355.891**	**350.702**
Finance income	596	5.512
Finance costs	(333.068)	(330.134)
Profit before income tax	**23.419**	**26.079**
Income tax	(6.908)	(11.315)
Profit for the year	**16.511**	**14.764**
Other comprehensive income	-	-
Total comprehensive income for the year	**16.511**	**14.764**

EP - Statement of Changes in Equity

€ thousands

	Share Capital	Legal Reserves	Other Reserves	Retained earnings	Net profit for the year	Total Equity
As 1 january 2013	464.000	63.454	243.566	141.476	36.688	949.183
Changes in the period						
Distributions	-	1.834	34.853	-	(36.688)	-
New accounting benchmark	-	-	3.894	(3.894)	-	-
Comprehensive income for the year	-	-	-	-	14.764	14.764
	-	**1.834**	**38.747**	**(3.894)**	**(21.924)**	**14.764**
Other Operations with shareholds in the period						
Share Capital increase	8.990	-	-	-	-	8.990
As 31 december 2013	**472.990**	**65.288**	**282.313**	**137.582**	**14.764**	**972.937**
Changes in the period						
Distributions	-	738	14.026	-	(14.764)	-
New accounting benchmark	-	-	3.705	(3.705)	-	-
Comprehensive income for the year	-	-	-	-	16.511	16.511
	-	**738**	**17.731**	**(3.705)**	**1.747**	**16.511**
Other Operations with shareholds in the period						
Share Capital increase	1.521.595	-	-	-	-	1.521.595
As 31 december 2014	**1.994.585**	**66.026**	**300.044**	**133.877**	**16.511**	**2.511.043**

EP - Cash Flow Statement

€ thousands

	31 december 2014	31 december 2013
Cash flows from operating activities		
Receipts from costumers	790.149	745.356
Payments to suppliers	(570.236)	(112.675)
Staff payments	(34.758)	(38.509)
Cash flows generated from operations	185.155	594.172
Income tax	(23.640)	(31.187)
Other receipts/payments	(168.951)	(93.304)
Net cash flows generated from operating activities	**(7.436)**	**469.681**
Cash flows from investing activities		
Payments relative to:		
Tangible fixed assets	(1.270)	(586)
Intangible fixed assets	(653.973)	(635.981)
Receipts derived form:		
Tangible fixed assets	1.352	736
Government Grants	386	6.161
Net cash flows from investing activities	**(653.506)**	**(629.670)**
Cash flows from financing activities		
Receipts derived form:		
Borrowings	-	702.628
Share Capital	793.210	8.990
Payments relative to:		
Borrowings	(6.689)	(451.085)
Interest and other financial expenses	(66.878)	(105.652)
Other financial activities	-	(8.988)
Net cash flows from financing activities	**719.643**	**145.893**
Cash and bank deposits at beginning of year	16.881	30.978
Cash and bank deposits at end of year	75.583	16.881
Net (decrease)/increase in cash and bank deposits	**58.702**	**(14.096)**