

***REPORT AND OPINION OF THE SUPERVISORY
BOARD OF
EP - ESTRADAS DE PORTUGAL, S.A.
FOR FINANCIAL YEAR 2014***

1. INTRODUCTION

Under the terms of the By-laws of EP - Estradas de Portugal, S.A. (EP) and in accordance with the provisions of Article 420 (1-g)) of the Portuguese Commercial Companies Code (CCC), the Supervisory Board (SB) is responsible for preparing an annual global report on its supervising activity and for issuing an opinion on the Annual Report and Accounts for the year ended on 31 December 2013 presented by the Board of Directors (BD).

The SB acted in accordance with the provisions of Article 33 (1) of the Legal Regime for the Public Entrepreneurial Sector (PES), as approved by Decree-Law (DL) no. 133/2013 of 3 October, the 2015 State Budget Law (LOE2015), as approved by Law no. 82-B/2014 of 31 December, and also the guidelines received throughout the year from the relevant Government members.

This is the context in which the members of the supervisory body of EP – Estradas de Portugal, S.A. issue the present Report.

2. METHODOLOGY ADOPTED

In accordance with the supervision model provided under Article 313 of the Companies Code (CC), which comprises a Supervisory Board (SB) and a Statutory Auditor (SA), these bodies maintained and developed a relationship of mutual understanding and cooperation, prizing each other's independence and accountability. This involved the exchange of information and technical positions viewing, among others, the avoidance of redundant interventions, overlappings or any relevant supervision blanks.

The method adopted stressed a close, frank and loyal cooperation between EP's Board of Directors (BD), the SB, the SA and the External Auditors, evidenced in the prompt availability of information and answers to any clarification requested.

3. ACTIVITY DEVELOPED

In 2014, by resolution of the General Meeting of 25 July, Ms. Elsa Maria Roncon Santos was appointed Chairman of the Supervisory Board, to serve the 2012/2014 mandate. The current Supervisory Board was appointed by resolution of the shareholder of 23 April 2015.

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As part of its supervision functions, during the year the Company's SB monitored the activity of EP through the financial information produced, the minutes of the Board of Directors' meetings and the meetings held with company officers, the SA and the External Auditors. The Supervisory Board held a total of 12 meetings during the year, of which minutes were drawn up and recorded in the Company's Minutes Book, and issued its opinion on the "Board of Directors' Annual Report and Financial Statements, and corresponding Notes for financial year 2013", and the "Board of Directors' Financial Report and Financial Statements and corresponding Notes for the 1st half of 2014".

4. MAIN FINDINGS

4.1. Overall management model

During 2014 the BD elected by Unanimous Written Resolution of 17 July 2012 for the 2012-2014 term of office comprised one chairman, one vice-chairman and two members, one of whom resigned his position with effects on 1 March, each with different areas of responsibility.

In general terms, the BD intervenes in all the strategic and operational activities of the company and in the monitoring of its business. Its decisions are generally supported by proposals of the directors responsible for the respective area; there are no identifiable elements of qualitative or quantitative performance to assess the individual merit of each director, which overall was strict, high quality and very positive and for which all of them deserve high marks.

The year under review was significantly affected by the impact on EP of the ongoing economic, financial and fiscal situation in Portugal, namely in terms of wage cuts, legal decisions, financial aid from the shareholder, and the guidelines received from the supervising governmental entities concerning a reduction of costs.

In the management information analysed by the BD, the company's business areas are organised as follows:

- Operation and maintenance: this activity is concerned with the management and maintenance of roads and engineering structures and the improvement of safety conditions in the road network under EP's direct management;
- Own construction: this activity involves the construction and rehabilitation works of roads and engineering structures under EP's direct management;
- Concessions: this activity consists in the management of the concession contracts with the Portuguese State;

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- Sub-Concessions: this activity involves the management of EP's Sub-Concession Contracts.

In 2014 the Company posted positive operating margin in all business areas, mainly underpinned by growth in the sub-concessions, due to the current phase of conclusion of works, and in operation and maintenance, as a result of the increase in the Road Service Contribution (RSC) revenue.

The company's key management instrument - the K 16 strategic plan, approved by the BD - focuses on sustainability, service levels and the stakeholders, and involves the employees in the target of reducing the risk of unsustainability.

In this context, EP pursued a tight cost control plan across all areas of the company, in line with the restrictive measures established in the State Budget Law for the public administration and the public entrepreneurial sector, which the company fully complied with.

In 2014 EP's workforce was reduced by 62 employees (a year-on-year reduction of 5.6%), totalling 1,028 at the end of the year.

The SP also stresses the publication of Decree-Law no. 87/2014 of 29 May, which had a profound impact towards the optimisation of the national road network's service levels, having established the general rules on the operation of service areas, and on the licensing of new fuel stations alongside roads.

The remuneration of four sub-concession contracts - Douro Interior, AE Transmontana, Baixo Tejo and Litoral Oeste - started to be paid in 2014. In the case of the Douro Interior sub-concession, because it is not being renegotiated, invoices were paid in full, except for the contingent remuneration. In fact, in light of the reservations pointed out by the Court of Auditors, the BD decided not to authorise yet the payment of contingent availabilities. The other sub-concessionaires, after having entered preliminary agreements with EP that reduce the scope of their sub-concessions and respective costs, are now renegotiating their contracts with the Negotiation Committee set up for the purpose. Hence, in line with the budgetary consolidation effort required from the State, EP was able to materialise part of these savings in 2014.

EP has maintained its support to the Project Unit set up by UTAP (the project monitoring technical unit), namely providing technical support to the Negotiation Committees, which, despite the efforts undertaken, only concluded in 2014 the agreements with the Ascendi, Norscut and Scutvias concessionaires. As was the case with the sub-concessions, and in view of the expected reduction in the contractual remuneration, these savings were materialised in 2014. As regards the ex-SCUT concessions (formerly toll-free) where toll payment was more recently introduced (Algarve, Beira Interior and Interior Norte), EP continued to pay the rents according to the initial contract.

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4.2. Management performance

Although there is no knowledge of management contracts having been signed with each of the directors, the objectives pursued by management in 2014 were those established in the Concession Contract (CC), which were included in the Road Safety Plan for 2014 and in the 2013/16 Strategic Plan, known as K16.

The Board of Directors' Management Report refers the level of compliance with these objectives in accordance with a set of indicators established by the Shareholder: Operating Costs, Free Cash Flow, Total Income, Income from Ancillary Services; Road Safety Index.

The results achieved permit to conclude that on the whole the main objectives were met, save as concerns the projected income for the A23 concession (€65m), while the Free Cash Flow objective was surpassed, representing the financing effort required from the shareholder. The value of the 2014 Road Safety Index is not yet known.

The Board of Directors pursued a sustainable management course, taking action at all areas and structural levels of the company: the indicators provided in the Management Report reflect its good economic, financial, operational performance, the good performance of the network and also the positive performance at environmental and social level.

During 2014 the Board of Directors was faced with the changes arising from the Ombudsman's recommendation for EP not to position itself as a licensing entity of roadside advertising, which significantly harmed the fulfilment of the established objectives for ancillary and infrastructure-based revenue.

We should also note that the negative evolution of the Proximity plan aggregate implementation Indicator reflects the company's need for financial retrenchment, having resulted from the decrease in the number of works launched in 2014 relative to the initial plan. On the other hand the cost of works (procurement versus execution cost) improved by 1%.

Taking into account the caps on debt increase defined for 2014 in the 2014 State Budget according to the method provided in the shareholder guidelines for the preparation of the IPG - 2014, EP registered a 27% increase in adjusted indebtedness. This reflects the shift occurred in 2014 in the shareholder's funding strategy, which is now based on the conversion into equity of shareholder loans and respective interest maturing in the year, and on new capital injections, totalling €1,521,595 thousand.

Hence from 2013 to 2014 the total amount of loans obtained by EP dropped by more than €748m.

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4.2. Compliance with the PES legal obligations

As provided in article 420 of the CCC, the SB, in coordination with the Statutory Auditor, followed the management and activity of EP, based on the minutes of the meetings of the BD, and meetings held with the Board of Directors and other managers, discussing issues affecting the company, to finally issue its opinion and conclusion expressed in this document.

4.2.1. Compliance with remuneration reductions as provided in Law no. 82- B/2014, of 31 December.

According to the financial statements prepared by the company, the remuneration reductions for the corporate bodies and remaining staff established under the terms of article 33 of Law no. 83-C/2013 of 31 December, approving the State Budget Law for 2014, were duly applied.

4.2. Specific areas

The BD report describes with sufficient scope, reliability, in-depth and accessibility the evolution of the Company's affairs, which facilitates the understanding of its results and performance. These areas comprise services provided, human resources, material resources and technologies, financial resources, economic resources, and corporate governance. The report also presents the more relevant decisions taken by the Board of Directors and EP's outlook for the short term, as expressed in the K 16 strategic plan's multi-annual financial model.

5. FOLLOW-UP AND CONTROL

EP has a separate internal control unit known as Internal Audit, which reports to the BD.

EP has also contracted an external auditor, PricewaterhouseCoopers & Associados, SROC, SA, which in its auditors' report expressed the opinion that the financial statements present, in a true and appropriate manner, in all materially relevant respects, the financial position of EP at 31 December 2014, the result of its operations, the changes in equity and cash flows in the financial year ending on that date, as well as the adoption of adequate accounting principles and policies and an appropriate internal control systems, in accordance with the accounting principles generally accepted in Portugal.

EP has in place a credible Risk Management Plan, including risks of Corruption and Related Administrative Infractions, as well as specific rules on the selection, assessment and qualification of suppliers of goods and services, and its website contains relevant information on transparency issues.

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The management model and decision-making process followed by the company (as described above) are inherently transparent and inducer of good practices. The Company has also established a risk management policy where the main risks addressed are Regulation and Compliance, Financial, Operational, Technological, Reputation and Business.

The statutory auditor has monitored EP's businesses and records, in cooperation with the SB, as referred to above, having issued a comprehensive and qualified annual report, as well as the legal certification of accounts relating to 2014, with no reservations, and containing the emphases reproduced below:

"9.1 As referred in Notes 3.4, 4.1 and 9 to the Financial Statements, the Company is amortising the concession rights booked under Tangible Assets in accordance with IFRIC no. 12, taking into account certain assumptions, namely those concerning the future revenue and investments estimated in the Plan for the concession period. In compliance with mandatory disclosure requirements, part of the forward-looking 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 any new facts that may substantially alter the Plan.

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. "

The Statutory Auditor, as well as PwC, also sent to the Supervisory Board the statement as provided in article 62-B of the Official Auditors Association, approved by DL 224/2008, of 20 November, relating to the auditing of EP's 2014 financial statements.

6. FINANCIAL SITUATION

The BD's Report and Accounts faithfully reflect EP's economic and financial situation and its net worth, where we point out the following:

- The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union, and following the conceptual structure and standards established for financial reports and accounts, as well as the interpretative standards applicable in the period ending on 31 December 2014.
- The Company's total debt was reduced by approximately €748m, from €3,561m on 31 December 2013 to €2,813m at the end of 2014, reflecting the capitalisation effort made by the shareholder;
- €20m reinforcement of the provision for the VAT process, to €302m on 31 December 2014,

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which corresponds to the amount of VAT which EP estimates it would cease to receive from the TA if they consider that the RSC is not subject to VAT;

- No arrears of payment over 90 days, the company reporting an average payment period of 22 days in 2014.
- The net profit for the year reached €16.5m;
- Based on the above the Supervisory Board stresses the need for the shareholder State to continue to reprogramme investments in tandem with the economic context, while it should continue to meet the company's funding needs to allow its timely compliance with assumed commitments. The Supervisory Board also expresses its concern that the Company's future results may be affected by the fact that amortisation is calculated based on the assumed period of the Concession, 75 years, which is too long.
- The savings obtained up to 2014 in the concessions and sub-concessions through the memoranda of understanding signed and the Negotiation Committees appointed by the UTAP (project monitoring technical unit) already show their impact on EP's Financial Statements for financial year 2014.

7. OPINION

The SB took notice of the Legal Certification of the Accounts performed by Esteves Pinho e Associados, SROC, S.A. and the opinion issued by the external auditors, PricewaterhouseCoopers & Associados, SROC, SA, which deserved its agreement.

The SB also analysed the financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union, having concluded that said elements show the true financial and net worth situation of EP as at 31 December 2014 and the manner in which the results for the financial year were determined.

Within the scope of our mandate, we have verified that the statement of income by nature, the cash flow statement, the statement of changes in equity and the corresponding notes presented by EP permit an adequate understanding of the financial situation, the results, and the cash flows of the Company.

The 2014 Management Report is sufficiently clear about the evolution of the businesses and the situation of the Company, highlighting their most expressive aspects, and follows the instructions issued by the Directorate General for the Treasury and Finance.

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The Supervisory Board thus issues the following opinion:

- The 2014 Annual Report presented by the Board of Directors of EP should be approved;
- The financial statements should be approved, taking note of the emphasis expressed in the Legal Certification of Accounts issued by Esteves Pinho e Associados, SROC, S.A.;
- The proposed appropriation of the year's results included by the BD in its Management Report should be approved.

Lisbon, 12 May 2015

The Supervisory Board

Chairman,

Member,

Member,

(José Emílio Castel-Branco)

(Bernardo Alabaça)

(William Hall Woolston)