

**MEMORANDUM OF UNDERSTANDING ON THE ECONOMIC AND  
FINANCIAL ADJUSTMENT PROGRAMME IN PORTUGAL –  
PRIVATISATIONS TIMETABLE**

**JUNE 2011**

**Introduction**

The purpose of this note is to summarize the measures concerning to the privatisation of companies wholly or partially owned by the Portuguese State or other public entities that are set out in the Memorandum of Understanding on Specific Economic Policy Conditionally, signed on the 17<sup>th</sup> of May 2011, by the Minister of State and Finance of Portugal, the Governor of the Bank of Portugal and a representative of the European Commission and in the Memorandum of Financial and Economical Policies, signed on the same date by the Minister of State and Finance of Portugal, the Governor of the Bank of Portugal and a representative of the International Monetary Fund (“IMF”), which will be jointly referred to as “Memorandums”. In spite of the current economic and financial situation, these measures may boost private investment.

For that purpose, the following aspects shall be addressed:

1. Framework
2. Planned privatisations
3. Table summarising the privatisations

**1. Framework**

The Memorandums were signed in the wake of the formal request for financial assistance submitted by the Portuguese State, following the ensuing negotiations concerning financial assistance and subsequently to the agreement with the Portuguese authorities concerning the economic and financial adjustment programme to be implemented in Portugal until mid 2014.

The financial assistance consists of a loan in the total amount of 78 billion euro, which shall be granted in three equal instalments by the European Financial Stabilisation Mechanism (“EFSM”), by the European Financial Stability Facility (“EFSF”) and by the IMF, and its attainment depends on the adoption by the Portuguese State of the financial and economical adjustment measures set out in the Memorandums.

The economic and financial adjustment programme to be implemented by Portugal includes structural reforms aimed at fostering growth, creating jobs and increasing competitiveness, also providing for the consolidation of public finances.

The financial assistance will be subject to quarterly reviews of conditionality for the duration of the programme. The first review will be carried out in the third quarter of 2011 and the 12th and last review in the second quarter of 2014. Release of the instalments will depend on the compliance with quantitative performance criteria, respect for EU Council decisions and recommendations in the context of the excessive deficit procedure and on a positive evaluation of progress made with respect to the measures set out in the Memorandums.

## 2. Planned Privatisations

The Memorandums provide for a set of measures to be implemented by the Portuguese State with a view to the granting of financial assistance by the European Union and the IMF, which cover the most varied matters – from fiscal policy to the regulation and supervision of the financial market, including structural fiscal measures, labour market and education, products' and services' markets, housing market, judicial system, competition and public procurement.

This analysis will focus essentially on the chapter dedicated to structural fiscal measures, in particular, measures to accelerate the privatisation programme previously established by the Government.

### 2.1. Privatisation programme established by the Government (PEC 2010-2013)

The Stability and Growth Pact "PEC" 2010-2013 submitted by the Portuguese Government provided for the sale, in the 2010-2013 period, of the State owned holdings in a group of companies in the field of energy, shipbuilding and ship repair, information and communication technologies, postal service, airport infrastructures, air and rail transport.

The Pact further provided for the sale of assets abroad, such as holdings in Mozambique, namely in HCB – Hidroelétrica de Cahora Bassa, S.A. and in Angola, namely in Sociedade Mineira do Lucapa, Lda., indirectly held by the Portuguese State through Sociedade Portuguesa de Empreendimentos, SPE, S.A.

In brief, the privatisation programme then covered the following companies:

- BPN - Banco Português de Negócios, SA (financial sector – sale of State's holding of 100%)
- INAPA – Investimentos, Participações e Gestão, S.A. (paper sector – sale of the entire State's holding of 32.7%)
- Edisoft (defence sector – sale of the entire State's holding of 60.0%),
- EID (defence sector – sale of the entire State's holding of 38.57%)
- Empordef TI (defence sector – sale of the entire State's holding of 100.0%)

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- Sociedade Portuguesa de Empreendimentos SPE. S.A. (mining sector – sale of the entire State’s holding of 81.1%)
- Hidroelétrica de Cahora Bassa, S.A. (energy – sale of the entire State’s holding of 15.0%)
- GALP Energia, SGPS, S.A. (energy – partial sale of the State’s holding of 8.0%)
- EDP – Energias de Portugal, S.A. (energy – partial sale of the State’s holding of 25.73%)
- REN – Redes Energéticas Nacionais, S.A. (energy – partial sale of the State’s holding of 51.08%)
- Estaleiros Navais de Viana do Castelo, S.A. Construção Naval (construction – partial sale of the State’s holding of 100.0%)
- CP – Carga, S.A. (transport – partial sale of the State’s holding of 100.0%)
- TAP, SGPS, S.A. (transport – partial sale of the State’s holding of 100.0%)
- ANA – Aeroportos de Portugal, S.A. (transport – partial sale of the State’s holding of 100.0%)
- EMEF – Empresa de Manutenção de Equipamento Ferroviário, S.A. (transport – partial sale of the State’s holding of 100.0%)
- CP – lines operation (transport – concession of operation 100.0%)
- CTT – Correios de Portugal, S.A. (communications – partial sale of the State’s holding of 100.0%)
- Caixa Seguros (financial sector – partial sale of the State’s holding of 100.0%)

### 2.2. Timetable established in the MoU

The Memorandums provide for the acceleration of the privatisation programme already established by the Portuguese Government<sup>1</sup> and determines that, in certain cases (such as, for instance, the case of EDP and REN) the privatisations will include all public holdings and adds additional measures as shown in the table below.

In addition to the privatisations, the Memorandums provide for measures aimed to enhance competition and to eliminate special rights held by the Portuguese State in certain private companies (golden shares).

MEASURES	TIME FOR COMPLETION
Privatisation of shares held by the public sector in EDP, REN and TAP	End of 2011
Identification of two additional large companies to privatise.	End of 2012
Updated privatisations plan	1 <sup>st</sup> Quarter of 2012
Inventory of assets, including real estate assets, owned by public entities, assessing the scope of their privatisation/sale <sup>2</sup>	2 <sup>nd</sup> Quarter of 2012

<sup>1</sup> Assuming that the reference is PEC 2010-2013, see 2.1. above

<sup>2</sup> This may concern the gradual sale of all non-core subsidiaries of CGD, such as holdings in the area of health or real estate.

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MEASURES	TIME FOR COMPLETION
Privatisation of the freight of goods branch of the national railway operator, as well as some suburban lines	3 <sup>rd</sup> Quarter of 2012
Report on the operations and finances of <b>State-owned enterprises</b> <sup>3</sup> at central, regional and local government level, which will include an <b>assessment of their privatisation</b> and the adoption by the Government of the necessary legal changes to carry out that operation	1 <sup>st</sup> Quarter of 2012
Setting out of a more ambitious schedule toward the sale of the <b>insurance</b> business of the <b>CGD</b> group and of a programme for the gradual disposal of all non-core subsidiaries <sup>4</sup>	(-)

**2.3. In particular – the privatisation of ANA – Aeroportos de Portugal, S.A. and of TAP – SGPS, S.A.**

The Memorandums do not specifically refer to the privatisation of ANA – Aeroportos de Portugal, S.A. (“ANA”) or of TAP – SGPS, S.A. (“TAP”) other than the reference to the same within the calendar for the envisaged privatizations pointed out in section 2.2 above.

However, Resolution of the Council of Ministers No. 20/2007 of 14 February determined that the privatisation of ANA and the design, construction, financing and operation of the new Lisbon airport should be carried out in a single operation by international public tender and further established that the share capital of TAP – Transportes Aéreos Portugueses, S.A. should be opened to private investors with the entry of a strategic partner.

Subsequently, following the approval of the concession bases for the operation of the airport auxiliary public service for civil aviation, through Decree-Law No. 33/2010 of 14 April, of which ANA holds the concession, it was established that the design, construction and financing of new airports – including the new Lisbon airport – also falls within the scope of the concession granted to ANA.

As to the design of the new Lisbon airport, and having in mind the remarks made in the Memorandums on the Public Private Partnerships (“PPP”), it should be considered that the same is suspended. As a matter of fact, the Memorandums observe, among other things that the Government must (i) avoid engaging in new PPPs, before the completion of the analysis and review of the existing PPPs, and (ii) put in place a strengthened legal and institutional framework, within the Ministry of Finance, for assessing financial risks of engaging into PPPs and for monitoring their execution.

<sup>3</sup> In the Portuguese legal system, the concept of “State-owned enterprise” includes (i) private limited liability (*sociedades anónimas*), the capital of which is wholly or majority owned by public bodies, which can be privatised – that is, the share capital of which can be acquired by those private entities, in accordance with the legislation applicable to privatisations or reprivatisations, as the case may be; as well as (ii) public business entities, which are public legal persons. The latter cannot be privatised or reprivatised without being first transformed into private legal persons – which, in accordance with the legislation in force can only occur upon enactment of a legislative act.

<sup>4</sup> See footnote 2.

Furthermore, the financial assistance shall certainly imply the redefinition of the whole financial model initially planned for the project, with the increase of the shareholdings of private investors.

### 3. Table summarising the privatisations

In accordance with the Memorandums and based on the privatisations planned in the PEC 2010-2013, the table below can be drawn up; the table shows the companies expected to be privatised in the next few years and, as referred above, the privatisation of EDP, REN and TAP is expected to take place before the end of 2011.

COMPANIES	SECTOR	PUBLIC HOLDING
BPN	Financial	100%
Caixa Seguros	Financial	100%
INAPA – Investimentos, participações e Gestão, SA	Paper	32.7%
Edisoft	Defence	60%
EID		38.57%
Empordef		100%
Sociedade Portuguesa de Empreendimentos, SPE, S.A.	Mining	81.1%
Hidroelétrica de Cahora Bassa, S.A.	Energy	15%
Galp Energia, SGPS, S.A.		8%
<b>EDP – Energias de Portugal, S.A.</b>		<b>25.73%</b>
<b>REN – Redes Energéticas Nacionais, S.A.</b>		<b>51%</b>
Estaleiros Navais de Viana do Castelo, S.A.	Shipbuilding	100%
CP – Carga, S.A.	Transports	100%
<b>TAP, SGPS, S.A.</b>		<b>100%</b>
ANA - Aeroportos de Portugal, S.A.		100%
EMEF – Empresa de manutenção de Equipamento Ferroviário, S.A.		100%
CP (railway operator under a concession)		100%
CTT – Correios de Portugal, S.A.	Communications	100%

Source: Ministry of Finance and Public Administration, March 2010

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