



WHYPORTUGAL 2017

THE CASE FOR INVESTING IN PORTUGAL



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Sociedade de Advogados, RL

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Foreword

Following harsh economic years, Portugal has shown an unexpected surge in tourism and in the real estate market in 2016 which is now catching the attention of local and foreign investors.

Portugal's moderate growth rate in 2016, the support of the European Central Bank's monetary policy and the commitment of the government to bring the deficit to 2.3% have renewed investors' interest in Portugal. Still there are challenges ahead. Portugal needs to reduce historically high levels of Government debt and unemployment.

After implementing a harsh economic program with little social unrest, Portugal has facilitated the creation of new businesses, reduced the time for obtaining administrative permits, improved its labour legislation and reduced its corporate tax to 21%.

For international investors looking for a place to invest in Europe, Portugal offers several advantages, of which many investors are not aware. Portugal is an ideal location for nearshoring industrial and services facilities because of its access to Europe's 500 million consumers' market and to the Portuguese-speaking world, which spreads across five continents: Europe, America, Africa, Asia and Oceania.

Portugal has a proven track record of successful foreign investments across a wide range of sectors. Investors that are considering Portugal as a place to invest want to know the hard facts about the country and not the stereotypes associated with the country and its people. Autoeuropa, Volkswagen's Portuguese auto-plant, is one of its most productive plants. Nokia Siemens Networks chose Portugal to install its new Global Networks Solutions Center. Microsoft, Colt, Ikea have also successfully invested in Portugal in recent years.

Portugal has one of the most favourable business environments in the world. The World Bank's "Doing Business 2017" Report ranks Portugal in the top 25 of the world's – 12th in the EU – most attractive locations to do business.

The «WhyPortugal 2017» report aims to answer the main questions of international businesses, institutional investors, private equities and industry players that are considering Portugal as a location to invest in Europe.

This report provides an overview of the opportunities and challenges of doing business in Portugal and reviews the main aspects to be considered by foreign investors considering Portugal as a place to invest as regards the setting up of a business, hiring employees, taxation and government incentives.



PART ONE

Why Portugal

General information

Capital: Lisbon

Main District Capitals: Oporto, Coimbra, Aveiro, Leiria

Area: 92,152 Km²

Currency: € / Euro

Population: 10,367,550

Working Population: 4,548,700

Unemployment rate: 10,6% (September 2016)

GDP per capita: €16.920,20

Exports of goods and services: €74,063.7 thousand million

Imports of goods and services: €70,949.7 thousand million

Source: Portuguese National Statistics Institute and Eurostat



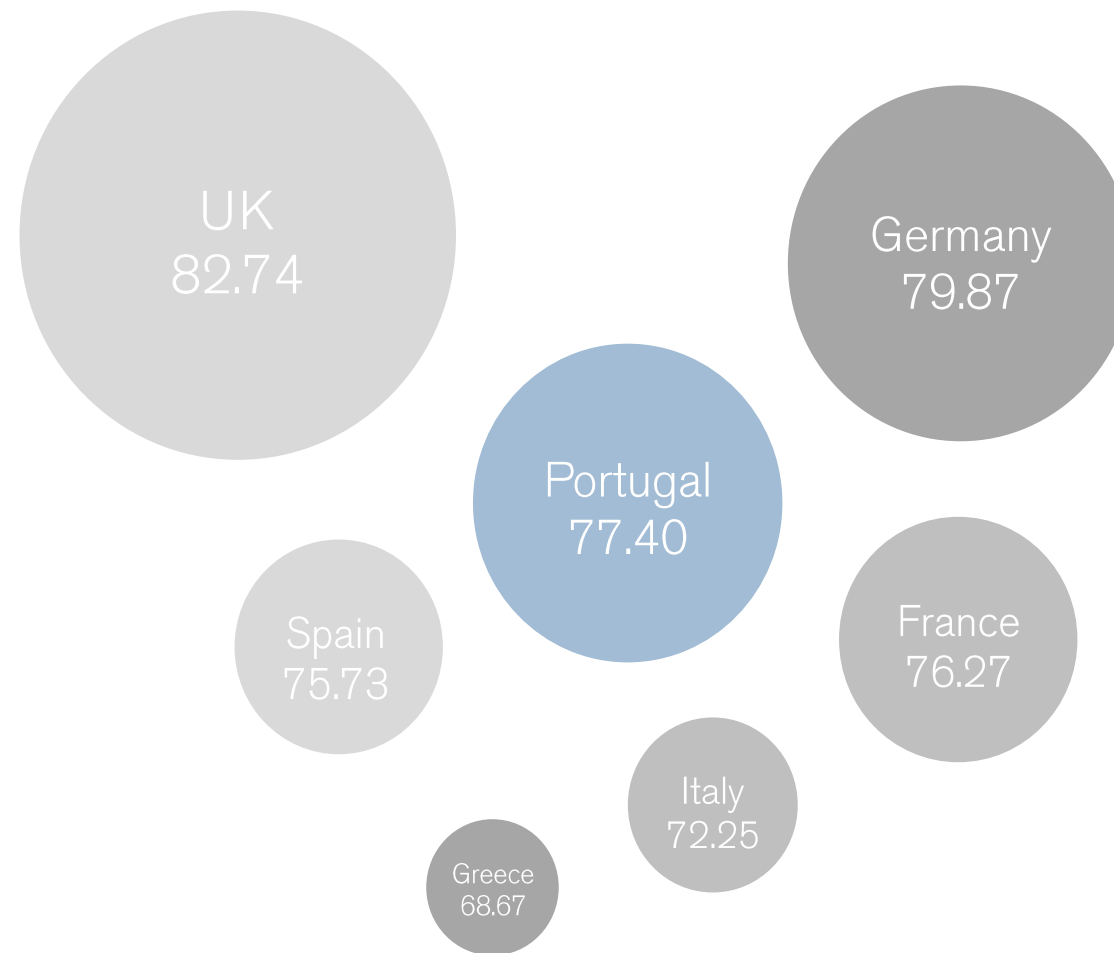
Why Portugal in «Doing Business 2017»

12th

most attractive
location to do business
in Europe

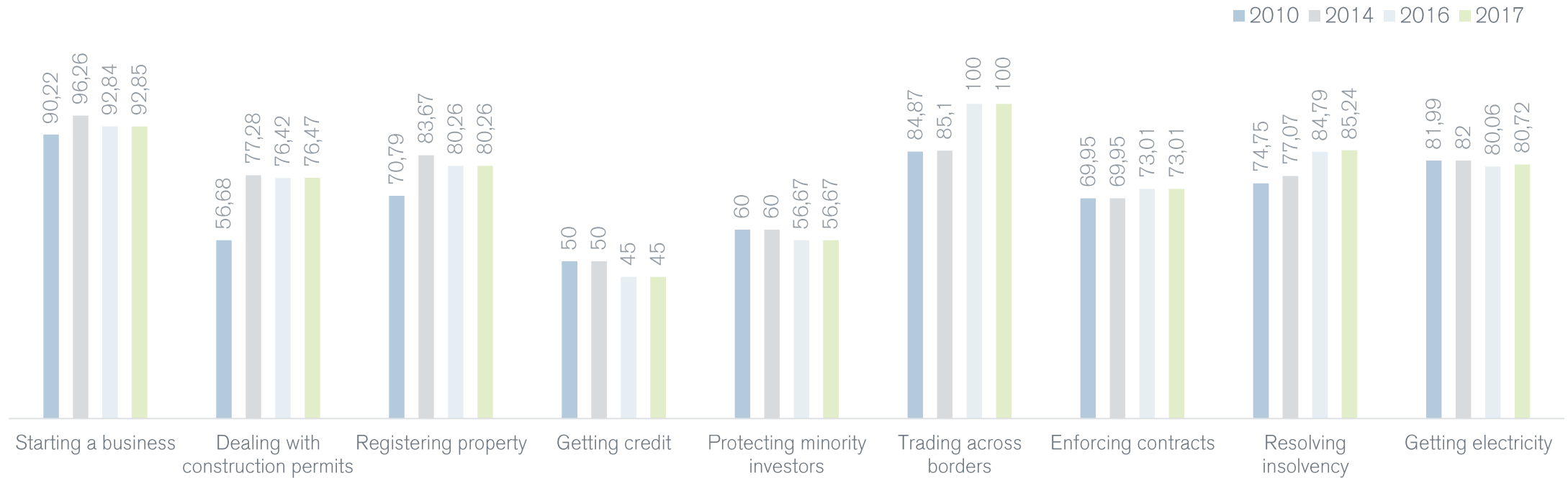
25th

in the World



World Bank | Doing Business 2017

Doing Business in Portugal from 2010 to 2017

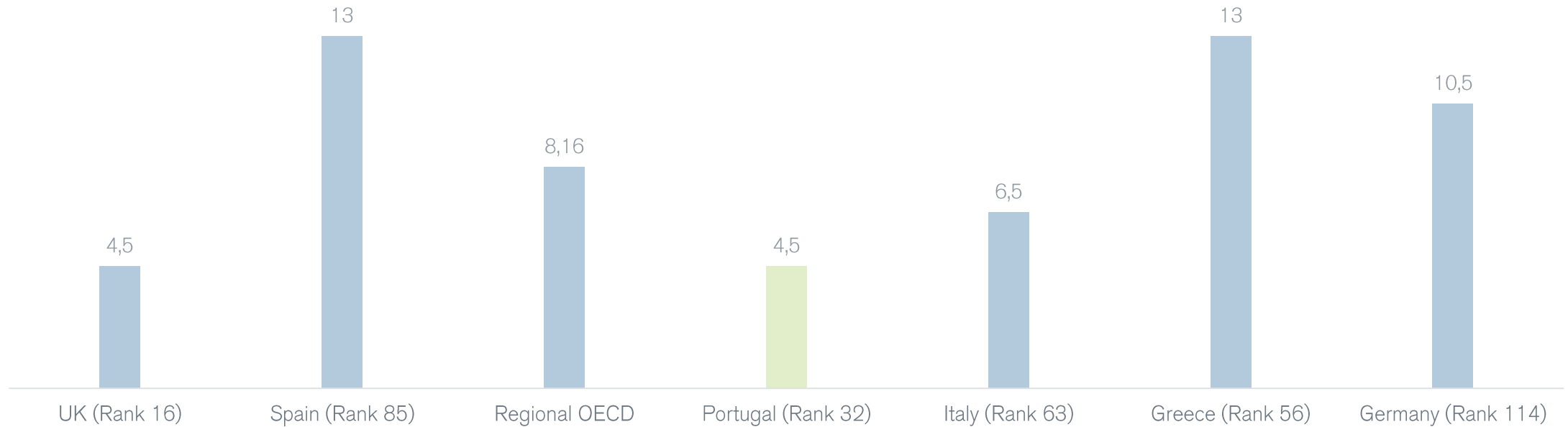


World Bank | Doing Business 2017

It's easy

to start a business in Portugal

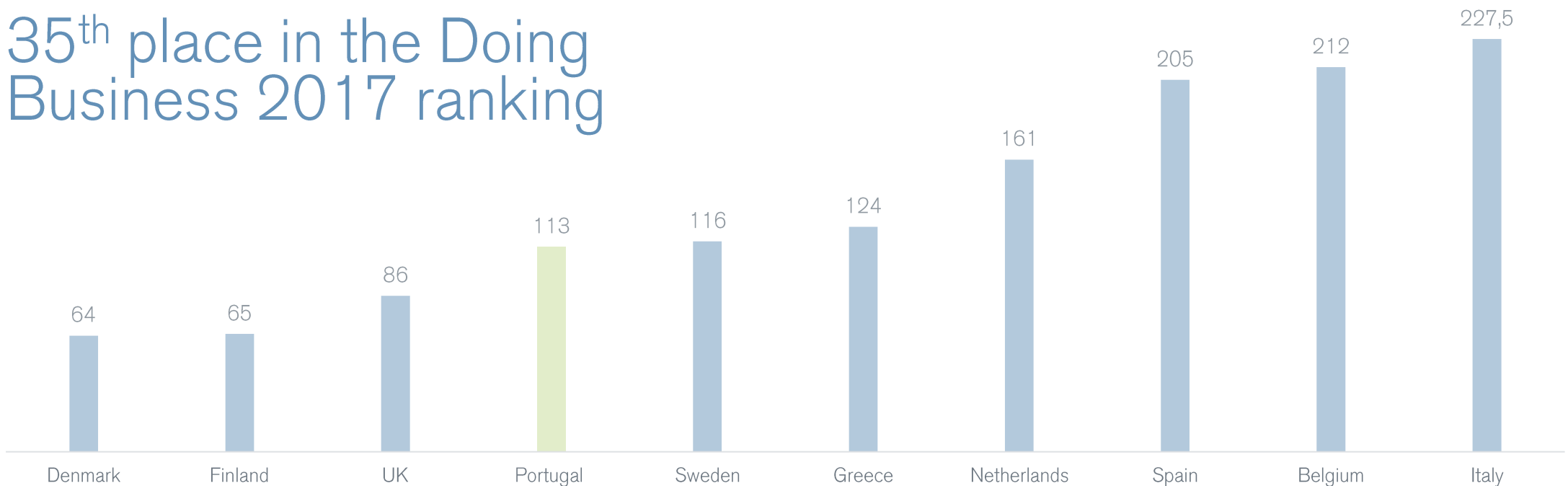
It takes 4.5 days



World Bank | Doing Business 2017

It takes 113 days to obtain a construction permit in Portugal

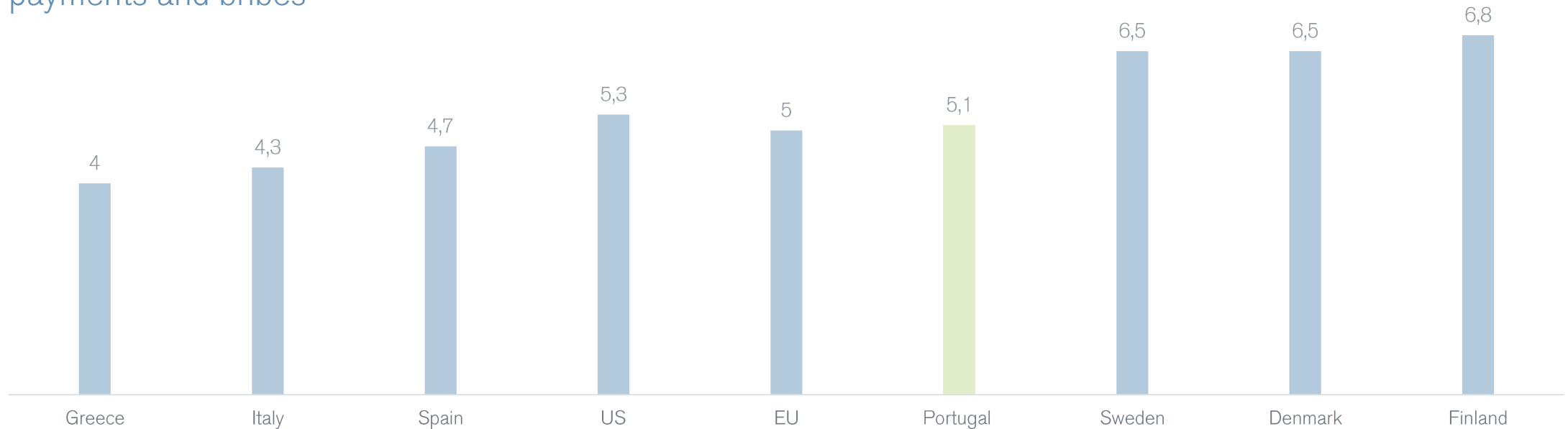
35th place in the Doing Business 2017 ranking



World Bank | Doing Business 2017

Portugal is ahead of the EU

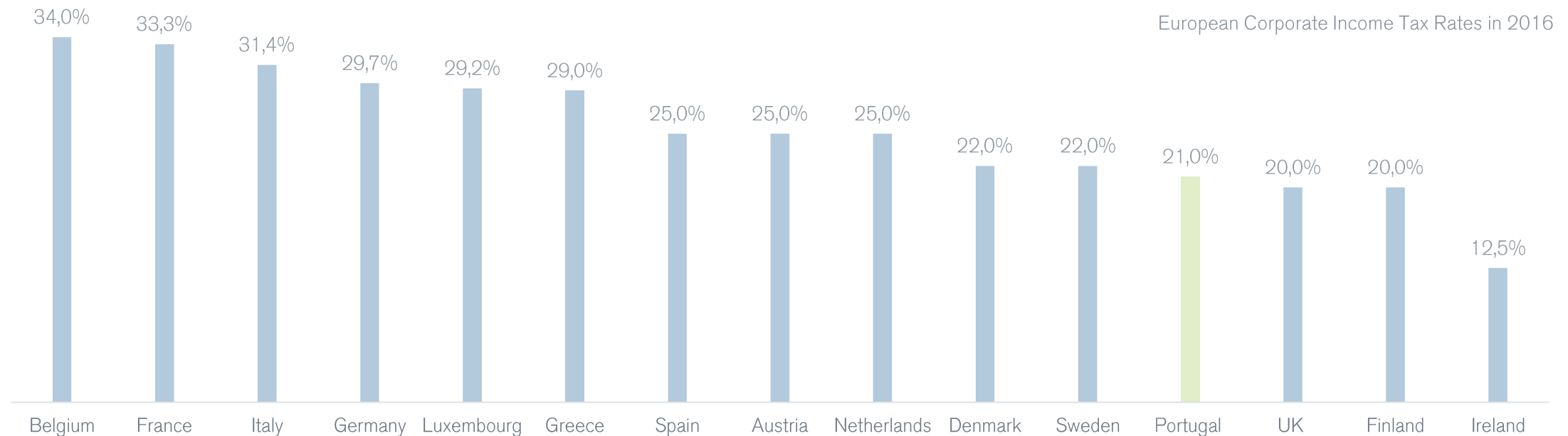
in the World Economic Forum's index on irregular payments and bribes



World Economic Forum | Global Competitiveness Report 2016-2017

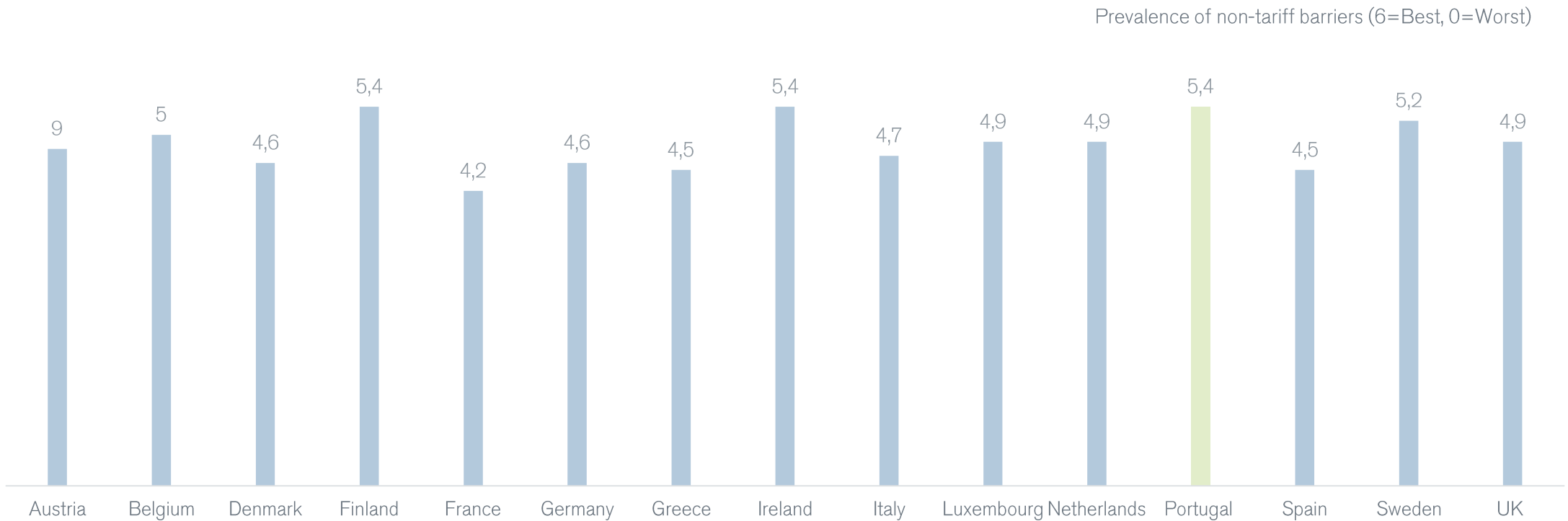
21%

Portugal's corporate income tax rate in 2016



KPMG Global

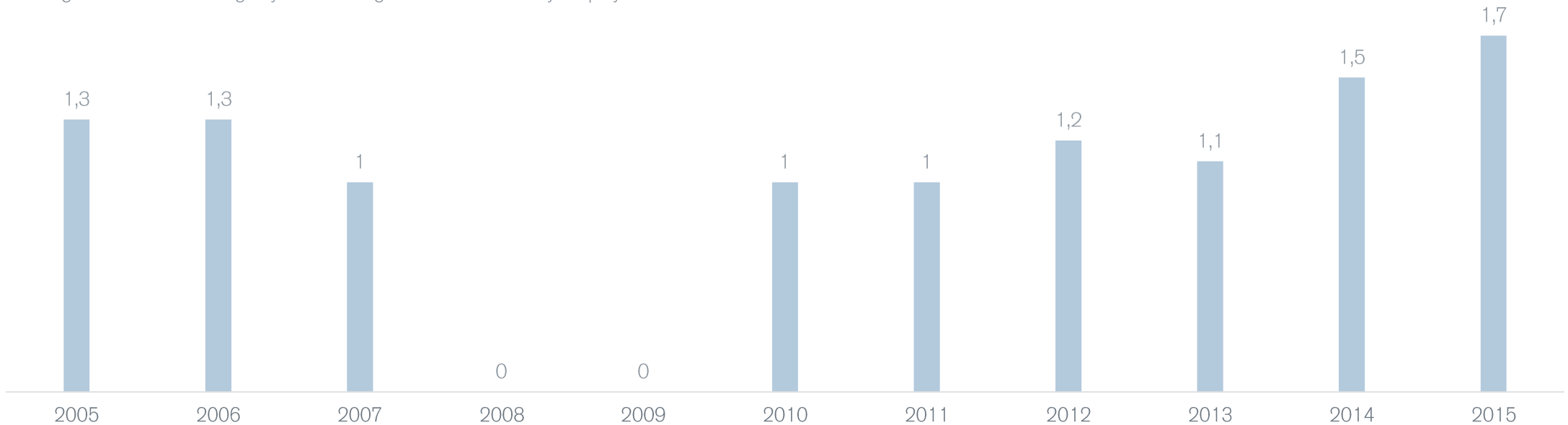
Trading in Europe and across Portugal's borders is easy



World Economic Forum | Global Competitiveness Report 2016-2017

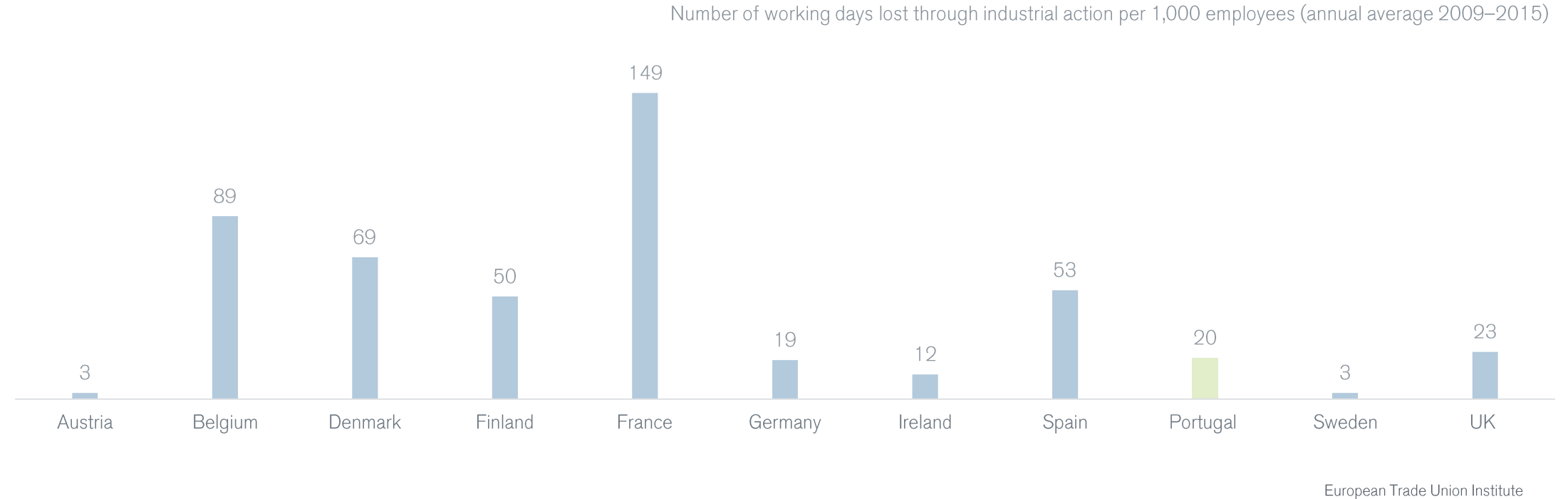
Only 1.7 days of work were lost in employment disputes in 2015

Average number of working days lost through industrial action by employee

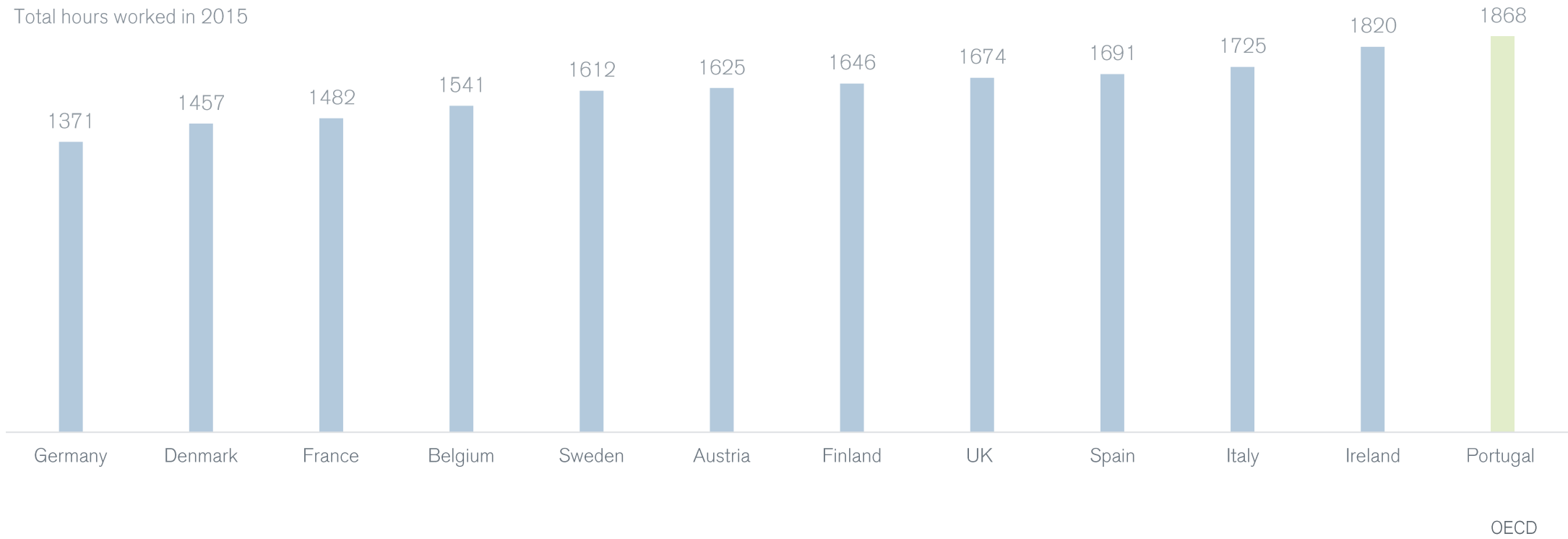


PORDATA

Portugal has a low level of employment disputes when compared to other EU countries

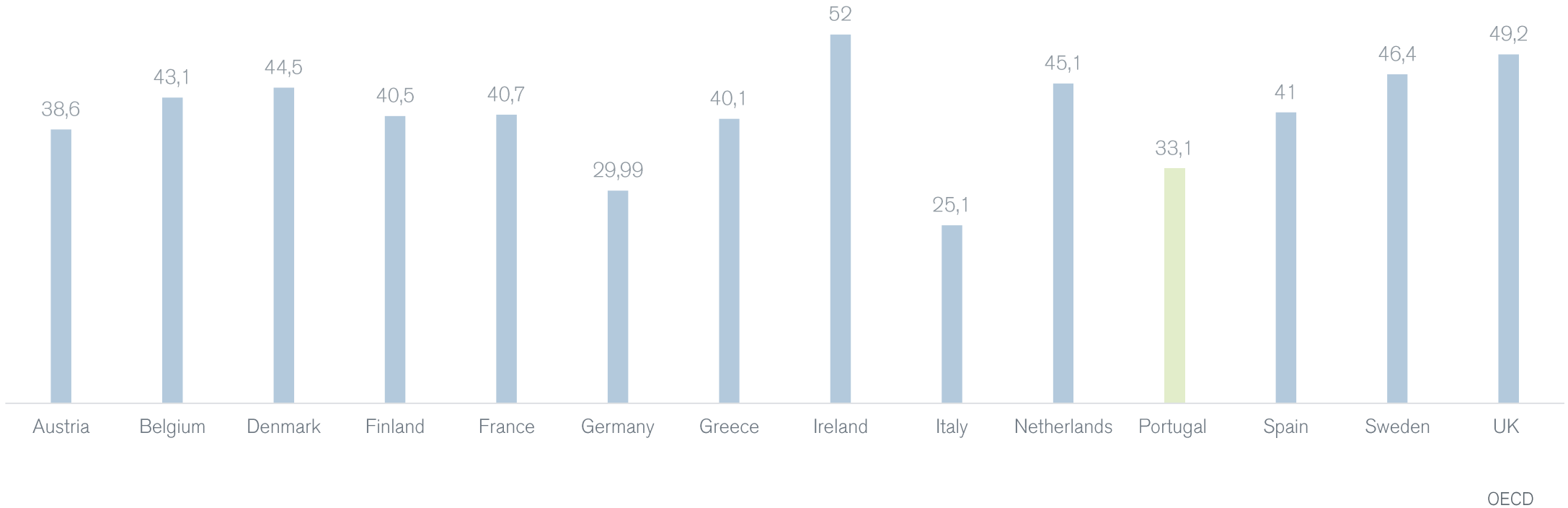


More hours worked in Portugal than in most European countries



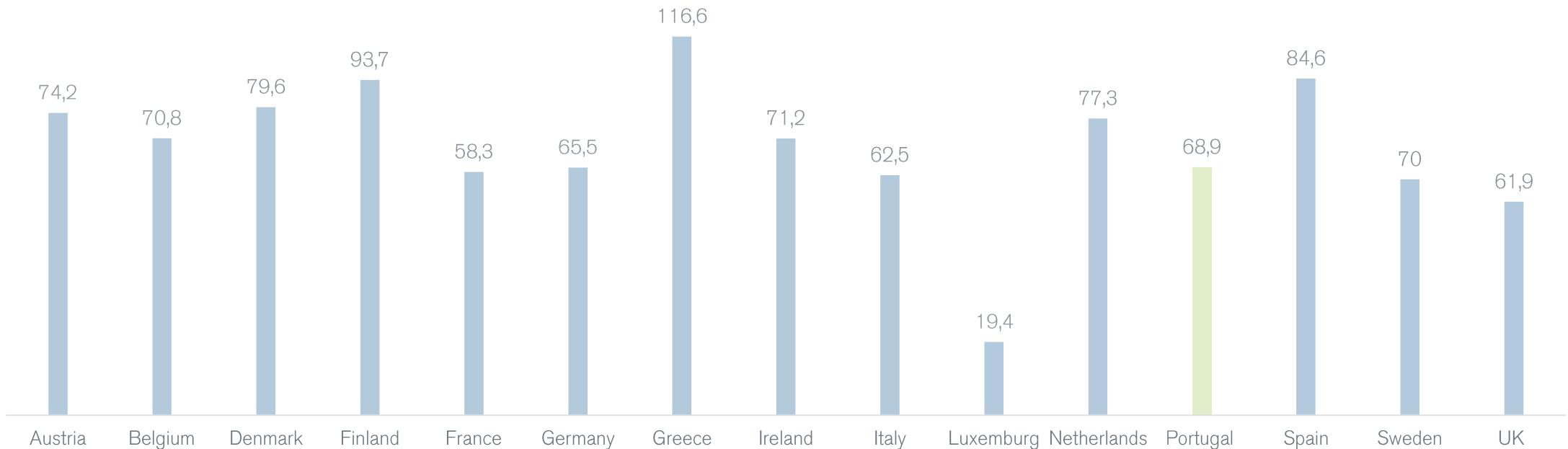
Increasing percentage of adults with higher education

Percentage of adults aged 25-34 with a tertiary degree



World's 29th place on tertiary education enrollment

Percentage of Tertiary Education Enrollment

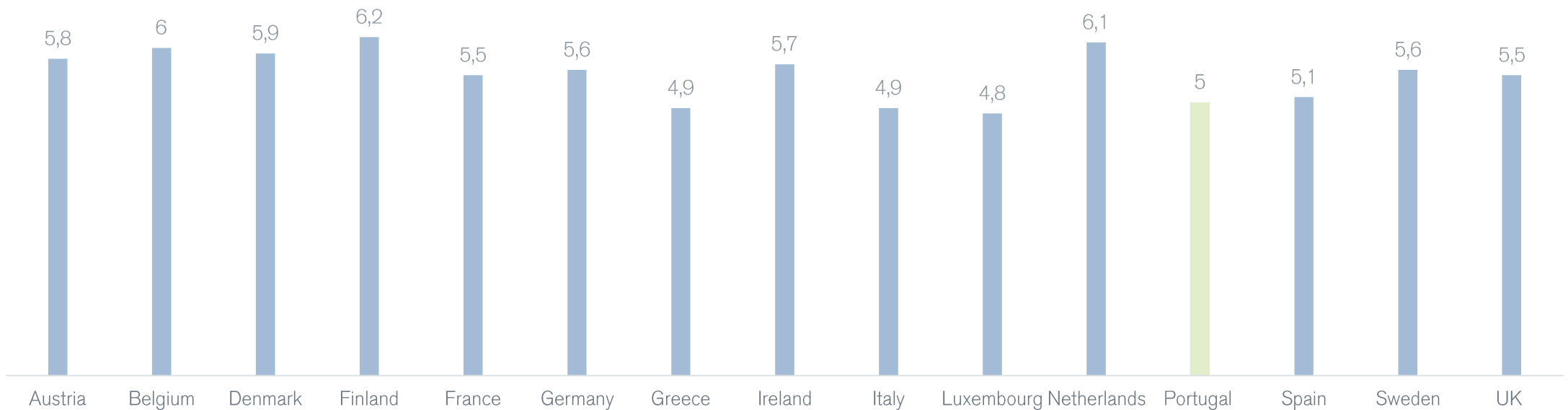


World Economic Forum | Global Competitiveness Report 2016-2017

36th in the World Economic Forum's higher education index

15th in the European Union

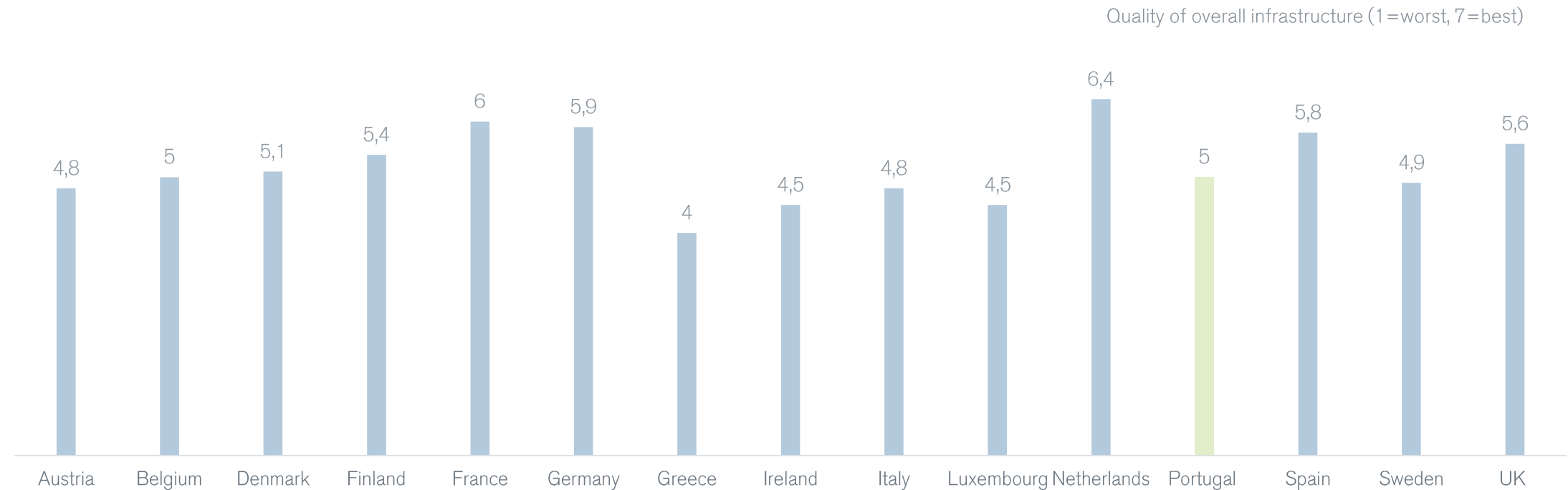
Higher Education and Training



World Economic Forum | Global Competitiveness Report 2016-2017

21st best transport infrastructure in the World

8th in the European Union

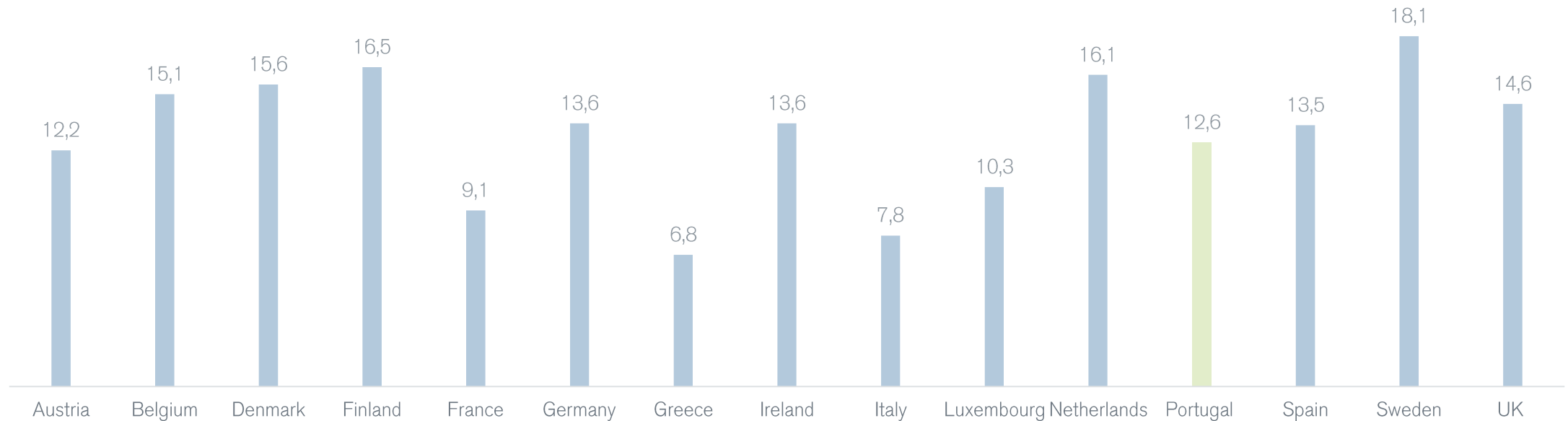


World Economic Forum | Global Competitiveness Report 2016-2017

31st fastest broadband speed in the World

19th in the European Union

Average connection speed (mbps)

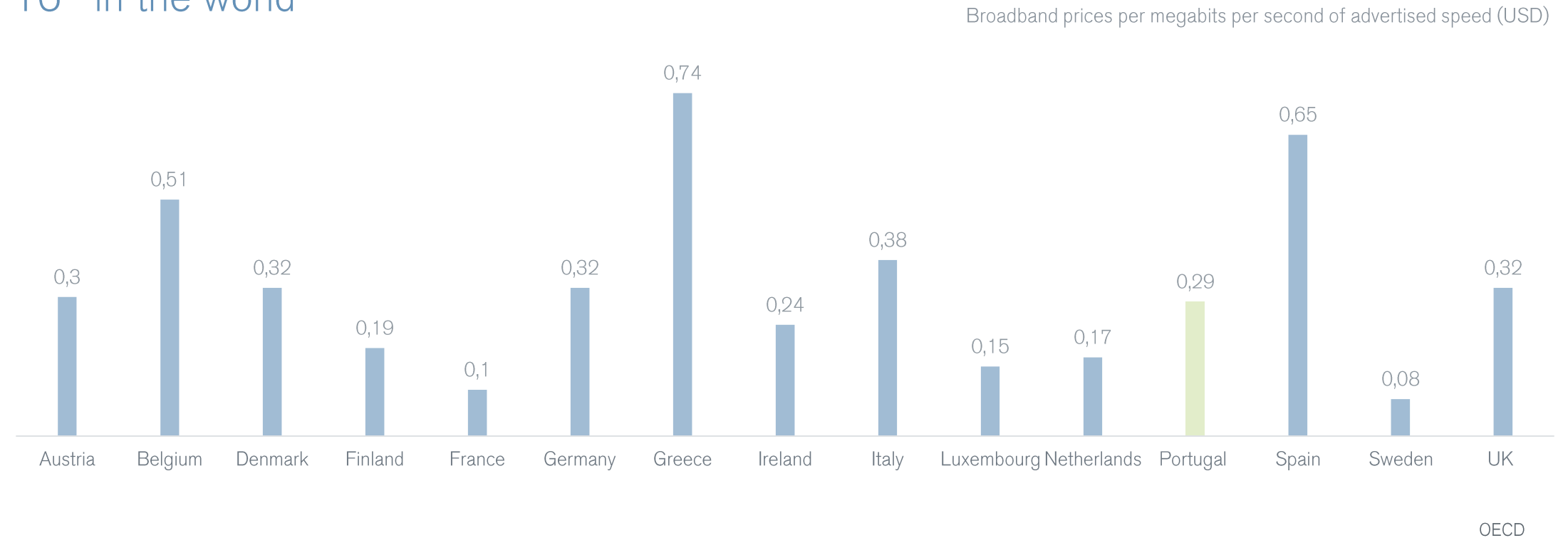


State of Internet Report 2016 - Akamai

Most competitive

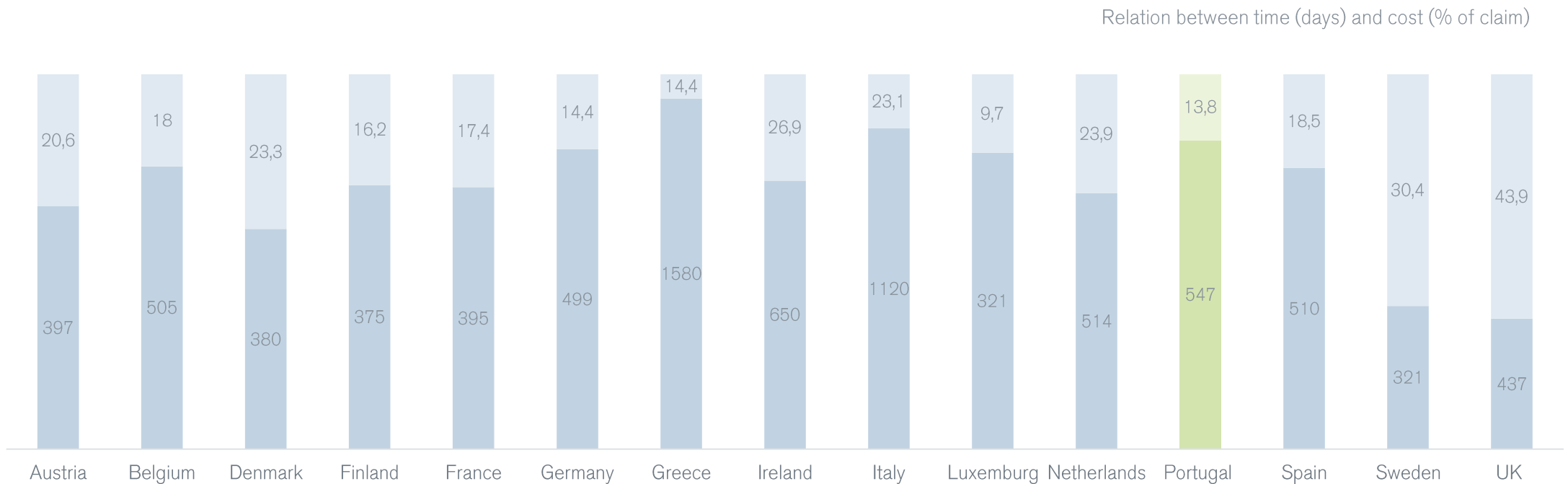
broadband prices in the European Union

16th in the world



9th in the European Union

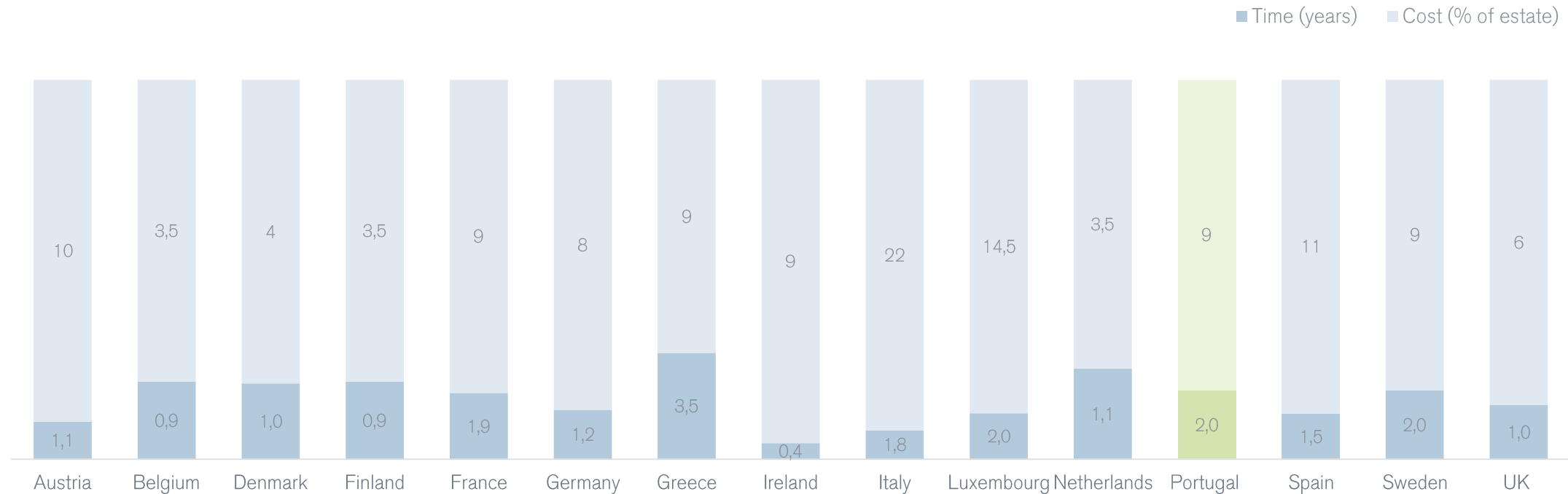
It takes 547 days to enforce a contract in Portugal



World Bank | Doing Business 2017

3rd in the European Union on ease of resolving insolvency

8th in the world



World Bank | Doing Business 2017



PART TWO

Investing in Portugal

A low-angle, close-up shot of a person's legs in motion, running on a dark, textured surface. The person is wearing dark shorts and bright yellow sneakers with black accents. The background is a wall made of large, dark, rectangular panels, with a large, stylized, light-colored 'M' logo prominently displayed on the left side. The lighting is dramatic, with strong highlights and shadows, suggesting an indoor or nighttime setting.

M

STARTING
A BUSINESS

Starting a business

Portugal has one of the most favourable business environments in the world. The DB2016 Report ranks Portugal in the top 25 of the world's most attractive locations to do business and in 11th place out of EU28 countries.

According to the World Bank's Doing Business 2017 Report Portugal is in the first place of ranks in the top 5 EU countries where it is easier to set up a business and in the 32nd position worldwide.

Over time Portugal has been able to reduce the average time for incorporating a company from several months to 4.5 days while the EU average is 10,35 days. The process can take just one day by using shell companies. Portugal is also pioneering in the use of online platforms for the incorporation of companies and making available company records and accounts.

According to the Europe – eGovernment Benchmark 2012, the Portuguese business portal is an example of good practice because it provides «an excellent example of how to enable full online service provision».

The same report also states that «the Portuguese approach to the process of business creation combines integration of key enablers that allow for full online service provision with focus on the requirements and demands of entrepreneurs. The process of business creation is totally integrated and dematerialized. It allows the entrepreneur to create a new company, register the trademark and name through a centralized monitoring of the entire process».

Portugal has state-of-the-art telecommunications networks and transport infrastructure. The WEF Report ranks Portugal's infrastructure in 12th place in the world. According to the OECD statistics, Portugal has the seventh fastest broadband speed in the world and offers the 16th most competitive prices. Broadband Internet using fibre optic networks is spreading rapidly across the country. Portugal ranks in the top 20 countries in the world with more use of fibre optic technologies.

Investment vehicles

Types of vehicles

Opening a branch office and incorporating a subsidiary company are the investment structures commonly chosen by national and foreign investors.

Other business forms can be used as investment vehicles in Portugal such as representative offices or unincorporated joint ventures.

Branches vs. companies

The main differences between opening a branch and incorporating a company are:

- A branch has no separate legal personality and operates as an extension of the parent company; companies have legal personality of their own;
- A branch has no equity requirement, although the parent company may allocate a capital amount to the branch for operational purposes; for some companies the law requires a minimum equity; and
- The branch's appointed legal representative is empowered to manage the business, no corporate bodies are required; companies are required to have a management body and a supervisory officer.

Types of companies

Most national and foreign investors choose the following type of companies, as they suit the purpose of limiting the parent company's liability:

- Public limited liability companies (*Sociedade Anónima* – “S.A.”); or
- Private limited liability companies (*Sociedade por Quotas* – “Lda.”).

S.A. vs. Lda.

The main differences between private limited liability companies and public limited liability companies are:

- Private limited liability companies with a business volume of less than €100,000 only require a Managing Director; public limited liability companies generally require a Board of Directors and a supervisory body;
- The minimum initial investment for public limited companies is €50,000, while private limited liability companies do not require a minimum share capital, although the share nominal value cannot be less than €1; and
- The shareholders of private limited liability companies retain the power to intervene on management issues, unlike the shareholders of public limited liability companies.

Incorporating a company

“On-the-spot” companies (*Empresa na Hora*)

This method allows founders incorporate a company in a single act at one of the official registration offices in the country (there is at least one registration office in each main city of Portugal), using a pre-approved corporate name and a standard form articles of association.

Online incorporation

It may be possible incorporate a company online through the website www.empresonline.pt by providing the following information:

- The company's name, chosen from the list of pre-approved names available at www.empresonline.pt or previously obtained from the National Registry of Legal Entities (*Registo Nacional de Pessoas Colectivas*, RNPC);
- The articles of association, using one of the forms available online or submitting a draft articles of association for approval; and
- The data specified in the form to register the business with the employment, social security and tax authorities.

Traditional method

The traditional method comprises the following steps:

- Requesting the company's name certificate with the RNPC;
- Depositing the minimum initial share capital in a bank institution (in the case of public liability companies);
- Executing the articles of association by way of public deed or private document;
- Registering within the Commercial Registry Office;
- Publishing the articles of association and the list of the members of the company corporate bodies at the website at <http://www.mj.gov.pt/publicacoes>; and
- Registering the company with the tax authorities, the social security and the authority for working conditions (ACT).



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TAXATION

General aspects

In 2016, Portugal maintained its corporate income tax (CIT) rate at 21%. Portugal's CIT rate is below the EU average of 22,25% and the global average of 23,87%.

For many investors the effective tax rate, which measures the average tax paid by corporations to local tax authorities discounting exemptions and tax benefits, is a more reliable way of determining the level of taxation.

In this regard, according to the European Commission (EC) report "Effective Corporate Taxation, Tax Incidence and Tax Reforms: Evidence from OECD Countries", the Portuguese effective marginal capital tax rate was of 13.8% in 2014. Portugal's marginal tax rate was lower than the average rate of 18.4% of a basket of 17 OECD countries (including the EU-15 but excluding for Luxembourg and Greece).

Considering that Portugal reduced the CIT rate from 23% to 21% in 2015, Portugal should remain as competitive as most of its competitors in the region, if not more competitive.

On the other hand, according to the World Bank's "Doing Business 2017" Report, considering 90 countries Portugal was ranked 38th in the "paying taxes" topic, which represents an upgrade of 8 positions when compared with World Bank's 2016 Report.

On this topic, Portugal ranks above the OECD high income average in 3 of the 4 indicators, including:

- **Total tax rate (% of profit).** The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. Portugal was assigned 39.8 points against 40.9 of the OECD average.
- **Tax payments (number per year).** This indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment and of filing and the number of agencies involved during the second year of operation. Portugal was assigned 8 points below 9 of the OECD average.
- **Post-filing index.** The post-filing index is based on time to comply with VAT refund, to obtain VAT refund, to comply with CIT audit and to complete a CIT audit. Portugal ranks in 30th place worldwide and in the top 10 EU countries in this indicator.

Portugal is also becoming one of the preferred destinations of many high net worth individuals in the world due to the non-permanent resident tax regime.

Corporate taxes

Corporate income tax

Any company whose head office or effective place of management is located in Portugal will be deemed to be resident in Portugal and subject to CIT. Foreign companies may also be subject to CIT if they have a permanent establishment in Portugal or earn income that is deemed to be obtained in Portugal.

A permanent establishment may exist if the foreign company carries out its activity in Portugal through a fixed place of business as well as if a person is acting in Portuguese territory for the account of such company and has and exercises an authority to intermediate and conclude contracts on behalf of the company.

Tax rates

In 2016, the general CIT rate remained at 21% which is levied over the worldwide income or, in case of a foreign company with a permanent establishment in Portugal, over the income attributable to such establishment.

Municipal and State surcharges

The municipal surcharge (*derrama municipal*) will be levied on the taxable income subject to and not exempt of CIT at a rate to be approved every year by each municipality or municipalities where the income is obtained (up to 1.5%). The State surcharge (*derrama estadual*) will be levied on the taxable income subject to and not exempt of CIT in excess of €1.5 million at the following rates:

- 3% when the taxable income ranges between €1,5 and €7,5 million;
- 5% when the taxable income ranges between €7,5 and €35 million; and
- 7% when the taxable income exceeds €35 million.

Carry forward tax losses

Carry forward tax losses may be set-off against taxable income for CIT purposes up to 70% of such taxable income. As of 1 January 2016, the period for deducting the carry forward tax losses is of five years.

Taxation of foreign companies

Repatriation of income

Non-resident companies that do not have a permanent establishment in Portugal may also be subject to CIT if they earn income that is deemed to be obtained in Portugal and that may be taxed in Portugal under the applicable double taxation treaty (e.g. dividends, capital gains, interest and royalties).

In general, income (other than capital gains) that is deemed to be obtained in Portugal will be subject to withholding tax at a rate up to 25%, although this rate could be reduced under the applicable double taxation treaties to 15% or 10%.

Dividends, interest and royalties

The payment of dividends to companies resident in another Member State of the European Union which hold a shareholding representing not less than 10% of the share capital of the Portuguese resident company, for an uninterrupted period of one year, will be exempt provided e.g. the companies are eligible under the Parent Subsidiary Directive.

Interest and royalties are exempt from withholding tax if payment is made to an affiliated company resident in another Member State of the European Union subject to the fulfilment of the relevant holding requirements.

Capital gains

The capital gains obtained by non-resident companies without a permanent establishment in Portugal from the sale of real estate property located in Portuguese territory will be subject to corporate tax.

Unless otherwise provided in double taxation treaties, capital gains from the sale of shares and other securities issued by Portuguese resident companies may benefit from an exemption of corporate tax, except if:

- The seller is domiciled in a jurisdiction subject to a clearly more favourable tax regime;
- The shareholder is, directly or indirectly, owned in more than 25% by resident companies or persons, save if the shareholder is resident in a EU Member State, a EEA country or a country that entered into a DTT with Portugal and the stake fulfils the participation exemption requirements (e.g. minimum stake of 10% and minimum holding period of 1 year); or
- More than 50% of the target company's assets are composed by real estate property located in the Portuguese territory or, if the target is a holding company, more than 50% of any controlled company's assets include real estate property located in the Portuguese territory.

Taxation of expatriates

The non-permanent resident tax regime

The non-permanent resident tax regime (NPR) offers non-residents the opportunity to become tax residents in Portugal and benefit from a more favorable tax regime over certain Portuguese and foreign source income without the need of making any investments.

The main advantages of the NPR tax regime are:

Employment and self-employment income obtained in Portugal will be subject to a 20% flat rate, with an additional surcharge of up to 3.5%;

Pensions obtained outside of Portugal will be tax exempt; and

Other foreign source income will be tax exempt, provided it may be taxed outside of Portugal under the applicable tax conventions or the OECD model (if not a tax heaven) or, in case of employment income, it is effectively taxed in the source country.

These advantages will extend for a period of 10 consecutive years as from and including the year of registration as a tax resident in Portugal.

Requirements

To obtain the NPR status the following requirements must be met:

Not having been a Portuguese tax resident in the 5 preceding years;

Registering as a tax resident and requesting the NPR status upon such registration or by the 31st of March of the following year; and

In case of employment income obtained in Portugal and self-employment income obtained both in or outside of Portugal, having a “high value-added” activity.

High value-added activities include, among others, architects, engineers, plastic artists, actors and musicians, auditors, doctors and dentists, teachers and psychologists, liberal professions, technicians and similar and investors, directors and managers

Other benefits

Other benefits for who take residency in Portugal include, among others, a tax exemption on gifts or inheritances to spouse, descendants or ascendants and a flat 10% stamp tax rate on gifts to other individuals and family members. However, this may change in the future considering the Government has promised to introduce a special inheritance tax.

Other taxes

Social security contributions

As a rule, companies which hire employees will have to pay social security contributions at a general rate of 34.75%, of which 23.75% (or 23% for workers hired before 1 January 2016 with the minimum wage) will be borne by the employer and 11% by the employee.

Expats may be exempt from social security if they meet certain conditions (e.g. if they continue to make contributions in other countries).

Value added tax (VAT)

VAT is levied on any transfer of goods and the rendering of services. The VAT rate applicable in mainland Portugal is 23%. However, certain goods and services may be subject to an intermediate VAT rate of 13% or a reduced VAT rate of 6%.

In the Azores the general VAT rate is 18%. The intermediate rate is 9% and the reduced rate is 4%. In Madeira the VAT rates are 22%, 12% and 5%, respectively.

Stamp duty

Stamp duty is levied on certain transactions that are exempted from VAT, such as loans (up to 0.6%), consumer credit (up to 1.5%), insurance (5%) and real estate transfers (0.8%).

Municipal property transfer tax

Property transfer tax will be levied (in addition to stamp duty) over the property tax value or the purchase price, if higher, at the following rates: from 1% up to 6% in respect of urban property allocated to housing purposes, 6,5% in respect of other urban property and 5% in respect of land property.

Municipal property tax

Property tax is levied on an annual basis on the tax value of the property at the rate of 0.8% in respect of land and attached facilities (*prédios rústicos*) and between 0.3% and 0.5% on the urban property evaluated in accordance with the MPT Code. As of 1 January 2017, an additional property tax will be levied on real estate assets (excluding assets allocated to commercial, industrial, services or “other” purposes) as follows:

- Natural persons: 0.7% and 1% on the tax value exceeding €600.000 and €1 million, respectively
- Legal persons: 0.4%, save for assets used by a shareholder, director, manager, member of other corporate body or any spouse, ascendant and descendant, which will be subject to the rates applicable to natural persons
- Inheritances: 0.7% on the tax value exceeding €600.000
- Entities subject to a more favourable tax regime: 7.5%.

A nighttime photograph of a cityscape. In the foreground, there are silhouettes of trees and some streetlights. In the background, a large industrial facility with a tall smokestack is visible, emitting a plume of smoke. To the left of the industrial facility, a church spire is visible. The sky is dark, and the city lights are visible in the distance.

IVL

EMPLOYMENT

General aspects

According to the World Economic Forum's Report 2016-2017 the Portuguese employment legislation alongside that of many continental Europe countries is less rigid than many European countries, although still more rigid than that of the benchmark countries.

Despite the controversy regarding the criteria used by the WEF for evaluating the level of rigidity of legislation in the preparation of its report, one cannot but note that there is a marked gap in Portugal between the rights of the more recently employed workers and those benefitting from longer tenures. For instance, Portuguese legislation reduced the severance pay from 30 days to 12 days but leaving several safeguards for older contracts.

Other aspects of the legislation have been revised since the adoption of a new Labour Code in 2009, which adopted more employer-friendly legislation as regards the organisation of its workforce. For instance, working schedules may now be managed in a more flexible way without increasing labour costs. The Labour Code also contains flexible rules that allow the employer to unilaterally change the place of employment and the employee's functions.

The changes in the labour regime has put Portugal only 0.3 points behind the EU average and ahead of larger European countries such as Spain and France.

According to European Industrial Relations Observatory (EIRO) and Eurostat the number of working days lost through industrial action per 1,000 employees (annual average 2005–2009) was 11.3 days in Portugal against an estimated 43.6 days in the EU15 countries.

More recently, according to Pordata, a national database of socioeconomic data, the average number of working days lost through industrial action by employee in 2014 was 1.7 against 1.1 in 2013, despite the harsh austerity measures imposed in Portugal in the last years.

According to the OECD, in 2015, the annual average hours worked on the main job by Portuguese employees was 1868 hours, against 1371 in Germany and 1674 in the United Kingdom.

The education levels of Portugal's working force has been improving over time with about 68.9% of tertiary education enrolment.

According to WEF's higher education and training index Portugal now has a 5 mark which is broadly in line with its European partners, though still distant from the top three countries.

Hiring employees

Employment rules

Hiring in Portugal is subject to the mandatory rules and statutory limits set out in Portuguese law on several matters, such as remuneration, working hours, vacation rights or duration of contracts.

In general, employment contracts do not need to be in writing. Only for some specific types of contracts the law requires a written document, such as fixed-term contracts, part-time contracts, secondment contracts and contracts with foreign employees.

Remuneration

Employees are entitled to a minimum monthly remuneration of €557.

Salaries must be paid on a regular and permanent basis and may be fixed, variable or mixed (comprising fixed and variable components).

In addition to the monthly salary, employees are entitled to receive:

- A Christmas bonus: equal to one month remuneration payable until 15 December of each year; and
- A holiday bonus: equal to one month remuneration payable before the holiday period.

Working hours

The maximum regular working period is of forty hours per week, eight hours per day. Employees are entitled to a minimum rest period of eleven consecutive hours between two successive daily work periods, as well as to one day of rest per week. An additional half or full day of rest (in all or in certain weeks of the year) may be also given other than the rest day required by law. Employers and trade unions may agree to increase the work schedule up to 12 hours per day and 60 per week, provided the work schedule is reduced in other periods so that at the end of a reference period of 12 months the average working hours is equal to 8h per day and 40h per week.

Vacation rights

Employees are entitled to twenty two business days of paid holiday per year. Employees are also entitled to thirteen national public holidays. Under the collective bargaining agreements employers may be obliged to grant two optional public holidays.

Time off for illness or injury

Employees are entitled to time off from work due to illness or injury. In cases of illness or injury, employees are entitled to receive sick pay from the Social Security. Sick leave is calculated based on the employee's reference remuneration and ranges between 55% and 75% of the employee's remuneration depending on the length of the illness or injury.

Employment contracts

Types of employment contracts

Open-ended contracts. In case the parties do not agree a term (fixed or unfixed), the employment contract is deemed to be entered into for a permanent period of time, which means that the contract could only cease upon termination by one of or both parties under the law, i.e. in case of just cause.

Fixed-term contracts. Contracts that are in force for a pre-established period set according to employer's temporary needs, which must be specified in the contract, and expire at the end of the agreed term, unless they are renewed; fixed-term contracts cannot be renewed for more than 3 times and have a maximum duration of three years; these contracts can also be used to hire long term unemployed people or young employees for its first employment contract.

Unfixed-term contracts. Contracts that are not subject to a pre-established period, but expire after the completion of the employer's project or when the reason for which the employee was hired ceases to exist; unfixed-term contracts have a maximum duration of six years.

Temporary employment contracts. Contracts with temporary work agencies which hire the employee to subsequently second him/her to the company with temporary needs. Temporary employment contracts can be renewed up to a maximum of 2 years.

Probation period

The probation period, during which either party may unilaterally terminate the contract without prior notice and without cause, varies depending on the type of contracts.

The maximum probation period is:

- For open-ended contracts: (i) 240 days for employees with management or senior positions, (ii) 180 days for employees with job positions of technical complexity, high degree of responsibility or which require special qualifications, and for employees who perform duties of confidence and (iii) 90 days for other employees;
- For fixed and unfixed-term contracts: (i) 30 days for contracts with a duration equal or higher than six months and (ii) 15 days for contracts with a duration of less than six months.

In case of termination of the employment contract during the probation period, employees are not entitled to any compensation unless otherwise agreed in writing by the parties.

Dismissing employees

Expiration of term contracts

Term employment contracts expire at the end of their initial or renewal term, provided that serves a termination notice to the employee as follows:

- In fixed-term contracts, 15 days prior to the term of the contract; and
- In unfixed-term contracts, 7, 30 or 60 days prior to the relevant date if the employment contract has lasted for less than 6 months, from 6 months to 2 years, or more than 2 years, respectively.

In case of termination of the term contract due to the employees initiative or by revocation the employer are not obliged to pay any compensation.

Collective dismissal

A collective dismissal is possible if the employer intends to dismiss a minimum of 2 employees (in companies with less than 50 employees) or 5 (in companies with 50 or more employees) within a 3 month's period, it may carry out a collective dismissal. Collective dismissal must have one of the following grounds:

- Market structure reasons;
- Organization-related and economic reasons; and/or
- Technological reasons.

Redundancy

In case the number of employees involved does not allow a collective dismissal, termination on the ground of redundancy could be an alternative. Redundancy must be justified on the same grounds as collective dismissal and meet the following requirements:

- The reasons for the termination do not relate to an intentional behaviour of the parties; and
- The same tasks are not being executed by employees hired under a term employment agreement.

Dismissal for ineptitude

The employer may terminate the employment contract when the employee demonstrates ineptitude or inability to perform the assigned tasks, provided that such ineptitude occurs in the course of the performance of the functions.

Dismissal for breach

In case of the breach of the employees duties the employer may terminate the employment with just cause following a disciplinary action without the need of pay any compensation.

Severance compensation

Open-ended contracts entered into before 1.1.1.2011

The severance compensation is calculated as follows:

- Until 31 October 2012: 1 monthly base salary and seniority per each year of employment;
- Between 31 October 2012 and 30 September 2013: 20 days of monthly base salary and seniority per each year of employment; the amount of the monthly base salary and seniority may not be higher than 20 times the minimum monthly salary (currently, €10,600);
- After 1 October 2013: 18 days of monthly base salary and seniority per each year of employment in the first 3 years of the contract, and 12 days of monthly base salary and seniority per each year of employment in the following years (the New Rules).

If the compensation calculated for the period until 31 October 2012 is equal or higher than 12 monthly base salaries and seniority or 240 of minimum monthly wage (currently, €127,200) (Relevant Threshold), the period after 31 October 2012 will not be taken into account; if that compensation is less than the Relevant Threshold, the total compensation may not exceed the Relevant Threshold. The minimum compensation is 3 monthly base salaries and seniority.

Term contracts entered into before 1.1.1.2011

The severance compensation will be as follows:

- Until 31 October 2012: 3 or 2 days of base salary and seniority per each month of employment, if the term of the employment is lesser or higher than 6 months, respectively, with a minimum of 3 monthly base salaries;
- After 31 October 2012 and until 30 September 2013: 20 days of monthly base salary and seniority per each year of employment; the amount of the monthly base salary and seniority may not be higher than 20 times the minimum monthly salary (currently, €10,100);
- After 1 October 2013: it is applicable the New Rules; and
- Minimum compensation is 3 monthly base salaries and seniority.

Contracts entered into on or after 1.1.1.2011

The severance compensation is calculated in accordance with the New Rules and the severance compensation may not exceed the Relevant Threshold. No minimum severance compensation amount is imposed by law.



GOVERNMENT INCENTIVES



Investment incentives

Contractual Incentives

The Portuguese Government grants contractual incentives to large investment projects and, in general, to other productive investments.

Projects are considered large investments when:

- They have a positive impact in the Portuguese economy regardless of the sector or nationality of the investor and represent an investment of in excess of €25 million, within a maximum period of 3 years; or
- They are promoted (i) by companies whose consolidated annual turnover exceeds €75 million or (ii) by other entities whose annual budget exceeds €40 million.

The contractual incentives may consist of:

- Financial incentives (refundable or non-refundable);
- Tax benefits; and
- Co-financing
- Exceptionally, it may also include co-funding of vocational/professional training costs, among others.

Portugal 2020

The European Commission and Portugal entered into a partnership for the period from 2014 to 2020: the “Portugal 2020” programme.

The Portugal 2020 programme will be financed through with funds from the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD), the European Fund of Maritime Affairs and Fisheries Fund (EMFF) and other relevant operational programmes and rural development programs.

Until 2020, the European Union will allocate to Portugal approximately 25,240 million euros of its structural funds, which will be used to fund:

- The operational agenda for competitiveness factors, which focuses on the qualification of production, on innovation, technological and entrepreneurship development;
- The operational agenda for human potential, for the promotion of academic and professional qualifications and the promotion of employment and social inclusion;
- The sustainability and efficiency in the use of resources; and
- The operational agenda for territory enhancement, aiming at providing the country with attractive conditions for productive investment and improve living conditions.

Other incentives

Financing schemes for SMEs

Small and medium enterprises (SMEs) may benefit from a range of financing support, promoted by several programs, including without limitation:

- €2,000 million SME credit line Linha de Crédito PME Crescimento 2014, whose purpose is to facilitate the access of SMEs to bank financing;
- Finicia programme, which facilitates the access to financing solutions and technical assistance on enterprise creation, or companies at an early stage, which present differentiated business ideas;
- Fincresce programme, which was designed to optimize the financing conditions of firms with certain risk profile and which pursue growth strategies of companies that obtain the status of SMEs leader; and
- PME Consolida, which consists of a special support to economic activity and employment, comprising three support instruments to corporate financing: (i) the autonomous fund to support the concentration and consolidation of companies, (ii) the special real estate fund business support and (iii) venture capital support.

PIN projects

Projects of National Interest (PIN) will benefit from a system to simplify and speed up investment projects, remove any administrative blockages and facilitate the granting of incentives. For a project to be recognised as a PIN project it must:

- Ensure the project's environmental and territorial sustainability;
- Involve a total investment worth more than € 25 million or which has a strong R&D, innovation or environmental interest; and
- Have a positive impact in several areas, fostering the development of other activities, job creation and insertion into regional development strategies.

Ad hoc incentives

Portugal also grants ad hoc autonomous when specific situations so require, i.e. for job creation, such as:

- Temporary exemption from the payment of social security contributions due by the employer; and
- Financial support for hiring young people, unemployed, trainees etc.



PART THREE

Answering Investors' Questions

Answering investors' questions

How long does it take to start a business and obtaining the permits I need to carry out a business activity? Is the process for obtaining licenses and permits transparent?

Opening a branch office or incorporating a company in Portugal can take only one day. According to the Doing Business Report new business rankings, the number of working days needed to start a business is 4.5 days in Portugal against an average of 8.16 days in the OECD countries.

Most administrative permits that are required to start a business activity can be submitted online. Procedures vary according to the activity that will be carried out but, generally, the process is transparent and can be achieved in a reasonable timeframe.

The OECD also gives Portugal the best mark on its regulatory and administrative opacity index, which ranks how clearly and transparently are regulations and administrative procedures.

The World Economic Forum gives Portugal a mark of 5.1 in its Irregular Payments and Bribes index, above the 5,3 USA average and ahead of the EU with 5.0.

Will I be allowed to compete in the domestic market with the local players?

Traditionally the Portuguese economy welcomes foreign investors and is open to foreign competition across all sectors. Portugal has no restrictions to foreign ownership of banks and companies in regulated sectors such as telecommunications and energy.

The World Economic Forum ranks Portugal in 5th place in the world with fewer non-tariff barriers to competition. However, practice shows that it is hard to break monopolies and oligopolies in many sectors, hence Portugal's poor ranking in the World Economic Forum market dominance index with a 4.1 mark, clearly below European standards. There are examples of successful investments directed to the domestic market alone, such as Vodafone, which was able to compete head-to-head with incumbent player Portugal Telecom for the leadership in the mobile market and Banco Santander, which now owns the fourth largest local bank. In open sectors with fewer barriers to entry, such as retail and consumer products, many international companies have a strong foothold in Portugal and took a fair share of the market in direct competition with local players.

Answering investors' questions

Will my Portuguese operations match the efficiency and productivity levels of other locations?

International statistics show low efficiency and productivity levels in Portugal when compared with the best international standards.

The World Economic Forum's 2017 Report ranks the Portuguese economy's competitiveness in 46th place out of 138 countries in the Global Competitiveness Index (GCI) which puts Portugal in the 19th place within the EU countries, below the EU GCI average. Portugal ranks in 65th place out of 138 countries in the world in the Pay and Productivity which is a poor result when compared with the European benchmark countries.

These rankings are explained by the poor management of public and some private sector companies which drag the overall figures down. In contrast, the productivity levels of foreign multinationals operating in Portugal are considerably higher.

Volkswagen, Nokia-Siemens, Cisco, Microsoft and Ikea are some well-known companies which have highly productive subsidiaries in Portugal.

Will I be able to enforce contracts?

The World Bank ranks Portugal in 19th place worldwide and in the top 9 EU countries in enforcing contracts. Time to enforce a contract is estimated to be around 547 days, which puts Portugal in 17th place in the EU countries according to the World Bank's "Doing Business 2017" Report.

Clearly there is a long way to go reach the benchmark countries, where it takes of less than one year to enforce a contract. However, Portugal ranks better than many when compared to other European countries.

Is it easy to hire and dismiss employees in Portugal?

Portuguese employment regulations are generally perceived as rigid, although Portugal has gone a long way and has adopted legislation that is broadly in line with other continental European countries.



ABOUT US

who we are
and what we do

About us

Macedo Vitorino & Associados was established in 1996, focusing its activity on advising domestic and foreign clients in specific activity sectors, including banking, telecommunications, energy and infrastructures.

Since the incorporation of the firm we have been involved in several high profile transactions in all of the firm's fields of practice, including banking and finance, capital markets, corporate and M&A, etc.. We have also acted on many complex disputes and corporate restructurings.

We are mentioned by The European Legal 500 in twelve of fifteen practice areas, including Banking and Finance, Capital Markets, Project Finance, Corporate and M&A, Tax, Telecoms and Litigation.

Our firm is also mentioned by IFLR 1000 in Project Finance, Corporate Finance and Mergers and Acquisitions and by Chambers and Partners in Banking and Finance, Corporate and M&A, TMT, Dispute Resolution and Restructuring and Insolvency.

Macedo Vitorino & Associados has strong relationships with many of the leading international firms in Europe, in the United States and in Brazil, which enable us to handle cross-border transactions effectively.

Macedo Vitorino & Associados has a truly international practice. We act in several domestic and cross-border transactions, including mergers and acquisitions, financings and foreign investments.

The multidisciplinary and integrated character of our corporate and commercial group allows us to efficiently solve the legal issues of our clients, in particular:

- Commercial contracts, distribution agreements and franchising
- Commercial litigation
- Competition and European law
- Copyright, intellectual property, IT, patents and trade marks
- Corporate and acquisition finance
- Employment
- Foreign investment
- Mergers, acquisitions and privatisations
- Tax

If you want to find out more about Macedo Vitorino & Associados please visit our website at www.macedovitorino.com



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