2004 Annual Report





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Mário Hermenegildo Moreira de Almeida

Rui Fernando da Silva Rio

Juvenal Silva Peneda

José Manuel Duarte Vieira

José Narciso Rodrigues de Miranda

Prof. Manuel de Oliveira Marques

Governing Bodies

The current composition of the Company's governing bodies is the result of the General Shareholders Meeting on March the 10^{th} 2004. All the newly elected members already belonged to the governing bodies, with the sole exception of Juvenal Silva Peneda.

GENERAL SHAREHOLDERS MEETING

Chairman • António Bragança Fernandes Vice-Chairman • José Macedo de Vieira Secretary • José Barbosa Mota

BOARD

Chairman • Valentim dos Santos de Loureiro

Members • Rui Fernando da Silva Rio (acting Chairman)

Mário Hermenegildo Moreira de Almeida

José Narciso Rodrigues de Miranda

Prof. Manuel de Oliveira Marques (Executive Committee Chairman)

José Manuel Duarte Vieira (Executive Committee)

Juvenal Silva Peneda (Executive Committee)

AUDITOR

Effective • Sociedade de Revisores Oficiais de Contas: António Magalhães & Carlos Santos, SROC, represented by Carlos Alberto Freitas dos Santos

Substitute • José Rodrigues de Jesus - R.O.C.

Organisation

During 2004 the Share Capital of the Company remained represented by 1.000.000 shares with a face value of 5 euros. At the end of 2004 the Share Capital had the following breakdown:

Shareholder	%
Área Metropolitana do Porto	59.9993
STCP	25.0000
Estado Português	10.0000
CP	5.0000
Câmara Municipal de Gondomar	0.0001
Câmara Municipal da Maia	0.0001
Câmara Municipal de Matosinhos	0.0001
Câmara Municipal do Porto	0.0001
Câmara Municipal da Póvoa de Varzim	0.0001
Câmara Municipal de Vila do Conde	0.0001
Câmara Municipal de Vila Nova de Gaia	0.0001

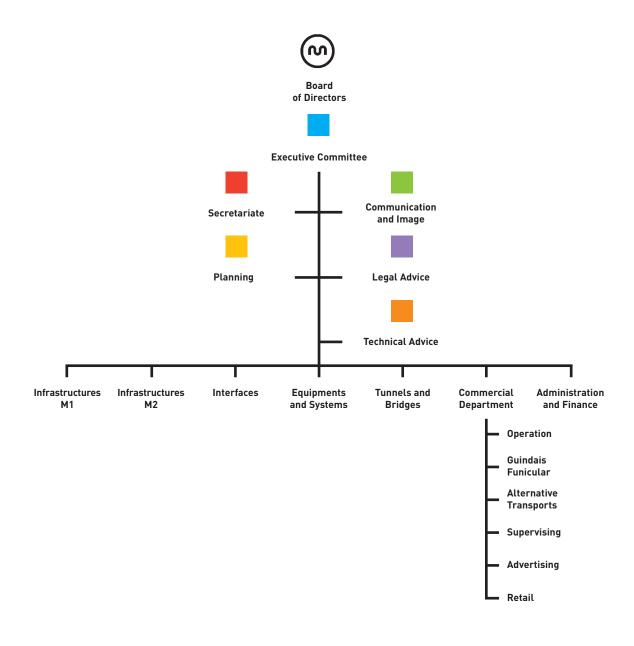
Line ©. St.º Ovídeo – Hospital de S. João. Av. da República 2005



Organisational Structure

The start of commercial operation on the system's first line, on December the 7th 2002, and, later, the Government's approval of the first second phase projects led to new activities being embraced and therefore to the creation of new units within the Company. As a consequence, staff numbers increased and so did the functional range of internal activities.

It became necessary to adapt the Company's organizational structure to the new realities and to prepare it for future developments, including the widening of the operation (requiring adequate management and control capabilities), the implementation of new system expansion projects and the construction of the main interfaces. The Company's organizational structure is the following:











Maia ↔ Estádio do Dragão

Hospital S. João ↔ St. Ovidio

E Aeroporto ↔ Estádio do Dragão

Chairman's Message

On April 2004, for reasons unrelated to Metro do Porto's shareholder structure, the Board's Chairman found himself temporarily unable to fulfill this function, a situation we hope will be resolved as soon as possible.

The inauguration on the June the 5th of the Blue Line stretch between Trindade and the Dragão Stadium stations was the most significant public milestone during 2004, being the first underground stretch of the Metro system and enabling its connection to other rail networks of a national scope, through the Campanhã station. The success of the Euro 2004 operation and the approval of the project to link the Póvoa line to the Francisco Sá Carneiro Airport are also relevant events occurred this year.

This Report provides abundant and qualified information on all aspects of the Company's economic life, with a particular emphasis on the development of each of the ongoing projects and on the new stretches either in a tender phase or whose engineering projects are being developed. It highlights in equal depth the financial aspects, including the financing sources, the commercial operation and the net asset.

In this second year of operation of the Blue Line, enlarged from June 2004 with 5 additional stations, the strong growth of the demand stands out, with over 9.8 million passengers (9,843,039), a 65.2% growth on the previous year.

Within an unfavourable global economic framework, the Company maintained a high level of investment, reaching 372 million euros, a 23.1% growth on 2003, whereas in accumulated terms the total investment reaches 1.4 thousand million euros, out of an overall investment estimated to eventually reach 2.2 thousand million euros.

The figures just presented show the strength of this project and more than justify why the Oporto Metropolitan Area Light Rail System is the largest publicly funded in te transportation sector, which will definitely make a contribution to raise the public's mobility in this Area and create better conditions for economic development and for the quality of life of our populations.

A small but important note to stress the significant involvement of the Company in the safeguard and defence of the built up heritage, of the archaeology (Mamoa de Vilar – Póvoa; Quinta de Cónegos and Necrópole da Forca – Maia; Trincheira de S. Bento and the Mãe d'Água de Mijavelhas – Porto) and in the scrupulous observance of the environmental norms, namely in what concerns the waste arising from the works carried out. This option to safeguard and promote our heritage contributes to reinforce Metro do Porto's image and to raise the population's adhesion to the project, a necessary condition for its success.

The success in 2004, reinforced with the high levels of support from the population, the conclusion forecasted of several stretches in 2005 (Senhora da Hora – Maia: 1st half-year; Trindade – Santo Ovídeo: 1st half-year; Trindade – Hospital de S. João: 2nd half-year; Airport Line: 2nd half-year) encourage us to face the year of 2005 as the one in which a light rail network can truly be said to

Metro do Porto network 2005

exist in the Oporto Metropolitan Area, so that over 1.3 million people can benefit from this transportation mode, linking the Municipalities of Oporto, Vila Nova de Gaia, Matosinhos, Maia, Vila do Conde, Póvoa de Varzim and Trofa.

The year of 2005 will also be marked be marked by the launch of new work fronts, in the scope of the project's second phase, such as the important extension of the Blue Line to Gondomar and the Matosinhos – Boavista line, whose feasibility study began in 2002 and whose first works have already been completed in the area surrounding Praça Mouzinho de Albuquerque and Casa da Música.

Other projects are being studied, in collaboration with the Municipalities, such as the link between Casa da Música and Quinta do Cedro, the extension to Maia of the S. João Hospital line and of the Matosinhos line to Leça, serving Exponor.

It will be through the implementation of all these projects that Metro do Porto will become a structuring element of the Oporto Metropolitan Area. The works currently on the ground and those being projected affirm and guarantee the continuous and progressive revolution in the mobility conditions of the metropolitan populations. They are furthermore an empowering factor for the economic development of this region and for its affirmation in the wider context of the Peninsular northwest and of the country.

Last, a word of appreciation for the Company's staff. The work they realised is the best guarantee that the Metro do Porto team will continue to dedicate its best effort and knowledge to the achievement of the goals that have been set and to the success of the project.

Line ©. St.º Ovídeo – Hospital de S. João. Luís I Bridge

Rui Fernando da Silva Rio







1. Highlights of the Year

The inauguration of the stretch between the Trindade and Dragão Stadium stations, on June the 5th 2004, marked the Company's activity last year. The inauguration ceremony was presided by the Prime Minister.

Besides including the first tunnel built with a tunnelling machine, this stretch comprised the construction of two "mining" underground stations (Bolhão and Heroísmo), one "open sky" underground station, one station integrated with the railway operator CP (Campanhã) and one new station in the new stadium at Antas. The Campanhã – Antas stretch was built in a record time of 9 months including the expropriation of a large area.

In the same inauguration, Metro do Porto put to service the first stretch with the upgraded rail signalling system, guaranteeing a significant safety improvement.

On top of increasing the operational system's extension to 15.6 km, this event stands out for its symbolism: the opening of the first underground stretch.

This period was also marked by the start of the Guindais Funicular commercial operation on February the 20^{th} 2004.

The application for a Cohesion Fund grant for the project to link the Francisco Sá Carneiro Airport to the (double track) Póvoa line was approved in March the 24th. This project links the light rail system to the transeuropean transport network. The Community's co-participation amounts to about 74 million euros.

Metro do Porto received the visits of the Prime Minister (March the 13th and June the 5th), the Secretary of State for Transport (February the 6th) and of the Public Works, Transport and Communications Minister (November the 15th).

Metro do Porto prepared a special operation for the period of the Euro 2004 football Championship, providing high frequencies before and after the matches as well as a safety set-up and a client support team. The success of this operation was reflected on the total number of ticket validations, especially at the Dragão Stadium station where 131,534 validações were recorded on the match days. From the perspective of the operation and of the client support, the fluidity provided after all events led to adequate waiting times.

Line ©. Future Parque Maia station

2. Commercial Activity

Metro do Porto commercial activity aimed to provide a quality transportation service integrated in an ever more developed intermodal system. For that purpose it was sought to conclude the implementation of phase I of the intermodal project started in 2003 as well as to create the necessary conditions for its extension to all public transportation operators in the Oporto Metropolitan Area.

2.1 Intermodality

On October the 6th, through the Normative Dispatch no 39-A/2004, the intermodal tariff applying to the monthly tickets was updated.

Fololowing studies developed jointly with ANTROP, the Andante zoning was refined to define 46 zones, so as to make the adhesion of private road public transportation operators feasible.

Thanks to this enlargement of the network, the intermodal Campanhã station assumed a more relevant role in the Oporto Metropolitan Area transportation system, as an interchange platform for four transportation modes (five in the future): Metro, urban and suburban bus, train, taxi and, in the future, private cars, through the parking facilities presently under construction.

On its inauguration on February the 20th, the Guindais Funicular was integrated on an exclusive basis in the Andante system.

2.2 Products

The campaign to replace the personalised CTS card (initially the support of the mothly tickets) by the Andante Gold card was finished on March the 31st.

The Company undertook a number of actions associated to the Euro 2004 football Championship during the period when there were matches at the Dragão and Bessa XXI stadiums. Beyond these a new ticket was introduced – the Euro – allowing its holders to travel throughout the whole intermodal Andante network up to midnight on the day of the 1st validation (one day Euro) or on the 3rd day following that validation (three days Euro).



In 2004 the *Andante* pro product was launched by TIP, which runs the Andante system. It is aimed at companies, the first clients having been Metro do Porto and Transdev.

2.3 Perspective for 2005

In 2005 the first phase of implementation of the intermodal system is expected to be completed. With it, a new revenue sharing model will be implemented. To prepare a strong campaign communicating the enlargement of the intermodal network, a study of the Andante system clients' perceptions will be developed.

Also in 2005 the implementation of the *Park&Ride* concept is anticipated, initially at the ParqueMetro in the Dragão Stadium station, possibly later at other parking facilities. This concept aims to motivate private car users to park their vehicles at the adhering parking facilities, to benefit from a lower parking charge.

2.4 Operation



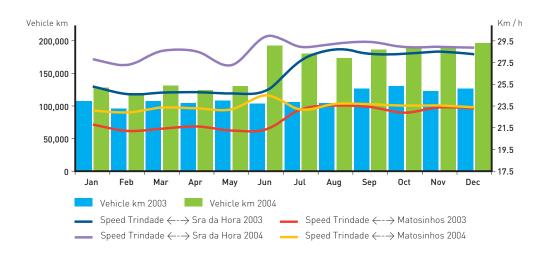
Prof. Mário Coutinho dos Santos Commercial Department

Blue Line

On June the 6th, following the start of the commercial operation between the Trindade and the Dragão Stadium stations, the transportation service provided by Metro do Porto extended to a length of 15,649 metres (3,823 metres more), comprising a total of 22 stations (five more).

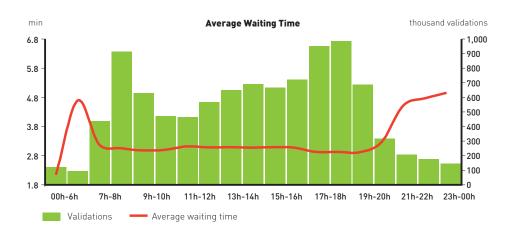
During 2004 1,941 thousand (single vehicle equivalent) vehicle kilometres were offered, which corresponds to 417.8 million seat kilometres. These figures represent an increase of the offer of 44.5% in relation to the first year of commercial operation. The increase of the network in service contributed to this growth.

The average time between Trindade and Matosinhos was 30.3 minutes, corresponding to an average speed of 23.4 km/h (22.4 km/h in 2003) and, between Trindade and Sr.^a da Hora, it was of 12.1 minutes, equivalent to an average speed of 28.9 km/h (26.6 km/h in 2003). Since the opening of the Dragão Stadium – Trindade stretch, the average times from the Dragão Stadium to Matosinhos and to Sr.^a da Hora were, respectively, 38.6 and 20.8 minutes.





The general average waiting times were 3.1 minutes between 7am and 11am, and 3.0 minutes between 5pm and 9pm.



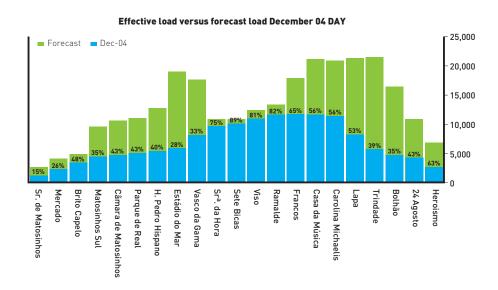
A total of 19 accidents were recorded, 9.5% below the 2003 figure. This reduction, in parallel to the growth in the offer, led to a reduction in the accidents rate to 0.10 per 10,000 kms (versus 0.15 in 2003).

The theoretical frequencies were respected, up to a tolerance of 1 minute, in about 94.3% of the cases, and in 96.2% of the cases with a tolerance of 3 minutes.

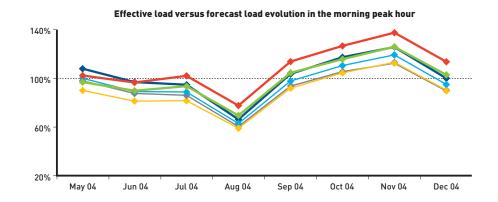
The year 2004 closed with a record monthly number of ticket validations since the start of commercial operation of the system (1,084,817 in December), raising to 9,843,039 the overall yearly accumulated number of validations (a 65.2% growth). The average daily number of validations was 26,894, being 32,045 on week days and 15,359 on other days.

The last demand study does not contain estimates for a situation such as the present one, where only a small part of the system is open (and since a short time ago), and where the assumed reconfiguration of the road public transportation offer (to feed the metro) has not yet occurred. Therefore any comparisons between actual traffic figures and that study's forecast must be made under that light.

The December demand represents 49% of the estimated (in that study) cruise state demand for the stretches currently in operation. The following graph compares actual and reference loads by stretch (average week day, direction Matosinhos - Dragão).



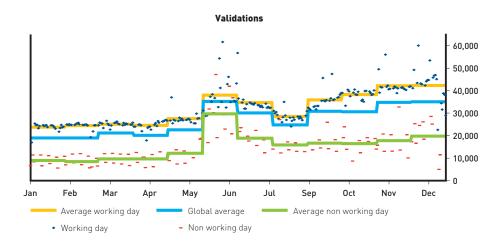
In the morning peak hour, the reference loads are already being reached since September 2004 in the central stretch of the line, between Sete Bicas and Trindade. For example, in November, average ratios in excess of 110% were observed from Ramalde up to Trindade:



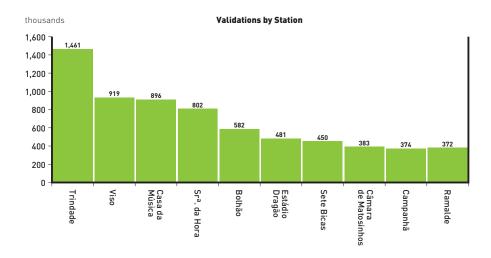
The following graph shows the stability of the number of validations in the first 5 months of 2004, with a first demand peak in the month of June. For that three events have contributed: the opening of the stretch bewteen the Dragão Stadium and Trindade stations, the Euro 2004 (320 thousand validations in 7 days with matches in Oporto) and the special S. João operation (35 thousand validations between 8pm on June the 23rd and 6 am on June the 24th).

August naturally shows a reduction in demand associated to the holiday period, sustained growth in passenger numbers having resumed in September.

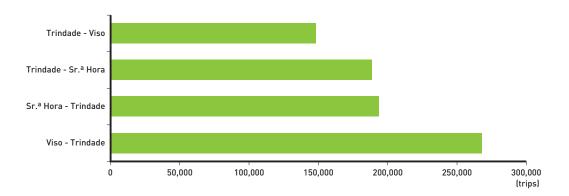
This is visible in the successive maxima attained in the last two months of the year.



Preferential entry points to the system were Trindade (14.8% of the validations), Viso (9.3%) and Casa da Música (9.1%). These percentages are generally below the 2003 equivalent (23.7%, 12.5% e 9.8%, respectively) due to the new stretch that was opened and to the importance of the Bolhão and Dragão Stadium stations.



The annual number of trips for the origin-destination pairs with highest demand are represented in the following graph:

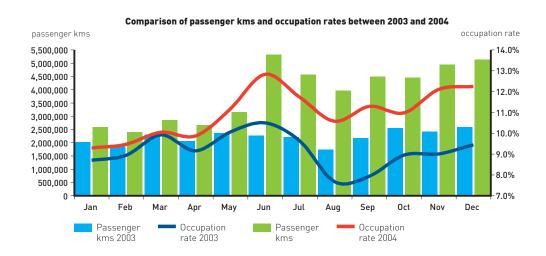


Line ®. Pedras Rubras



The average trip length is estimated to be 4,725 metres, as 6.4% growth relative to 2003. The enlargement of the network will no doubt have played a role (until May 2004, the average length was 4,418 metres, and it was 4,443 metres in 2003).

From the 46.5 million passenger kms recorded in 2004 (75.7% more than on 2003) an average occupation rate of 11.1% results (2 pp more), the ascending trend of this rate deserving to be highlighted. The peak occupation rate occurred in June 2004 (12.8%).



In the morning and afternoon peak hours (8am – 9am and 5pm – 7pm), the occupation rate reaches the highest values (17.9% and 18.0%, respectively). In the morning peak hour it is highest in the Matosinhos – Dragão direction and in the afternoon peak hour in the opposite direction.

The stretches that, on daily average basis, show higher occupation levels are Senhora da Hora – Vasco da Gama (15.4%), Vasco da Gama – Estádio do Mar (14.5%) and Estádio do Mar – Hospital Pedro Hispano (13.5%), in the Dragão – Matosinhos direction, and Francos – Casa da Música (12.5%), Ramalde – Francos (12.2%) and Casa da Música – Carolina Michaelis (11.7%) in the opposite direction.

The average number of zones was on average of 1.9 zones per trip, corresponding to an overall total of 18.7 million passenger zones.

Guindais Funicular

The Guindais Funicular links directly Batalha to Ribeira, a distance of 280 metres. Its commercial operation started on February the 20th 2004.

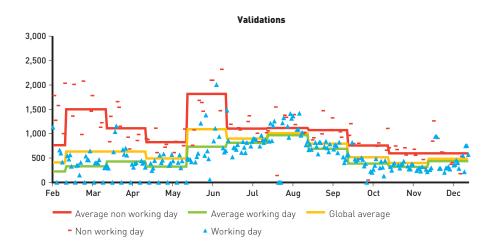
The funicular made a total of 28,004, equivalent to 7,841 kms. At a maximum capacity of 25 passengers per trip, this offer consists of 392,056 seat kms in total.

A total of 223,743 ticket validations were recorded since the inauguration, 53.5% of which on non-week days. Contrarily to the Light Rail System, this service is preferentially used on those days. The overall daily average number of passengers is 611. On week days there are on average 473 passengers,



Guindais Funicular

whereas on non-week days the average is 94.6% more (921). Peak demand was recorded in June, with a total of 32,733 passengers.



The total demand for the service in 2004 can be expressed as 62,648 passenger kms. This corresponds to an occupation rate of 16%, with a 23.1% peak in August.



In 2004 there was a 26.1% reduction in the monthly average number of validations (all operators combined) of the Andante multi-trip cards. At the same time there was a 37.9% growth in the monthly average number of validations of the Andante monthly tickets. This suggests a generally stronger commitment of clients to the system. Throughout 2004 those average numbers were 3.75 and 44.70, respectively for multi-trip and for monthly tickets.



3. Construction and Equipment of the System

3.1 Service Openings Planned

The following dates are planned for service openings:



Luís Meireles Infrastructures M1

Line 🕒 - Matosinhos - Estádio do Dragão

Stretch Matosinhos – Trindade: in operation since December the 7th 2002 Stretch Trindade – Dragão Stadium: in operation since June the 5th 2004

Line B - Estádio do Dragão - Póvoa de Varzim

Stretch Senhora da Hora – Pedras Rubras: March 2005 Stretch Pedras Rubras – Azurara: 1st half-year 2005 Stretch Azurara – Póvoa de Varzim: 2nd half-year 2005

Line $\mathbb O$ - Estádio de Dragão - Trofa

Stretch Senhora da Hora – Maia (Fórum): 1st half-year 2005 Stretch Maia (Fórum) – Maia (ISMAI): 2nd half-year 2005

The opening date for the stretch Maia (ISMAI) – Trofa depends on the government's decicion regarding the project to duplicate this stretch's track.

Line - St.º Ovídeo - Hospital de S. João

Stretch St.º Ovídeo – Trindade: 1st half-year 2005

Stretch Trindade – Hospital de S. João: 2nd half-year 2005

Airport Line: 2nd half-year 2005

3.2 Works Evolution

3.2.1 Lines

Linha 🖱 – Matosinhos – Dragão Stadium

Stretch Trindade - Campanhã

This stretch, comprising three underground stations (one of which open-sky built – 24 de Agosto – the remaining being mining-built stations – Bolhão and Heroísmo) opened to commercial operation on June the 6^{th} 2004. The surface level, urban insertion works were also made, considerably improving both mobility and urbanism.

In this opening the following facts are to be highlighted:

- construction of two mining stations, the first to be built in Oporto's subsoil, with an excavation volume of 51,300 m³ in the case of Heroísmo, and of 39,800 m³ in the case of Bolhão, integrated in a cmplex urban environment.
- construction of the first tunnel with a EPB tunnelling machine, with the introduction of new construction processes, which represent an innovative solution with this equipment.
- reconstruction of the archaeologic findings of Arca d'Água, in the Campo 24 de Agosto station, and its integration in a dedicated level, a gain to Oporto's heritage.
- construction, within an agreement between Metro do Porto/municioality of Oporto/REFER, of the intermodl Campanhã station. For the first time in Portugal there is an intermodal station with no separtion of the two railway modes—the light rail metro and the heavy rail train.

Line ©. Maia Sul viaduct

Stretch Campanhã - Dragão Stadium

The works to build the stretch between the Campanhã and Dragão stations (a total of 1.4 kms) started in September 2003 and were concluded in May, their inauguration having occurred on June the 5th 2004. The line is inserted under the city's ring road (Via de Cintura Interna) and over the REFER rail line to Leixões, up to the Dragão Stadium station. This station was built with three tracks, so that it could be used at the time of sport events as a partial terminus and park. Provisionally, the terminus will be at this station, pending the line's extension to Gondomar. A mobile substation was set up at this station, to be withdrawn when that extension is built. It will then be used as a reserve for emergencies or in provisional terminals.

Stretch Trindade - Senhor de Matosinhos

In 2004 the complementary urban insertion works were continued on this line, which is in operation since December 2002. At Ramalde, two roads and three pedestrians under paths were concluded. Complementary urban insertion works were also started in the centre of Matosinhos.

Line B - Dragão Stadium - Póvoa de Varzim

The works on this line started in June 2003, with the execution of the foundations and pillars for the new Leça river bridge, concluded in 2004. The duplication of the track on this line led to the replacement of the existing works of art. In 2004 the rail track laying works were completed up to Pedras Rubras.

Regarding the line platform, the ground levelling, draining and wall building works stretched up to Mindelo. These works are still on-going, several small sized works of art having been realised along the route.

The complex and voluminous expropriation work suffered some delays, which had a knock-on effect on the pace of land consignation and at some points on the progression fo the works.

At the end of 2004 the complementary urban insertion works in the area surrounding the Esposade, Crestins, Pedras Rubras and Lidador stations were started.

Luís Bianchi de Aguiar Legal Advice

Line © - Dragão Stadium - Trofa

The works on this line started on March the 31st 2004, a very significant set of works of art having been realised, among which the works on the Leça river bridge and the Maia viaduct stand out. Six other less expressive works of art were built. Of special significance is the Maia South viaduct with a length of 497.2 metres, curved and with a mixed concrete/metal structure and with demanding urban insertion and landscaping requirements.

Between the stations of Fonte do Cuco and Fórum da Maia, significant ground moving, rail platform, wall and traction substation works were realised.

In 2004 the Maia city centre works were resumed, with the installation of double track north of the Fórum and the construction of the station and of the traction substation of Fórum da Maia.

The works between Fórum da Maia and ISMAI started, with the set-up of a construction yard at Mandim and ground preparation.



Vitor Farinha da Silva Tunnels and Bridges

Line 🛈 - St.º Ovídeo - Hospital de S. João

The simultaneous construction of eight underground stations continued in 2004, a total excavation volume of 450 thousand m³. By the end of 2004 some of the eight stations were already in a final finishing phase.

The urban insertion works between the Luís I bridge and the Gaia City Hall were completed, as well as those on the western side between the City Hall and Rua dos Combatentes.

The complex reformulation works on the Luís I bridge stand out in 2004, with the reinforcement of the upper platform, reparation work and new pedestrian links.

Rail track began to be laid in the central area of Avenida da República, between the Luís I bridge and the Gaia City Hall.

All the works in this line were decisively accelerated in 2004. Accordingly it is possible to envisage its opening in mid 2005.

Airport line

The execution project for this line completed, the tender was launched in the first quarter of 2004. The public proposal opening session took place on June the 15th.

During the second half-year the proposals received were evaluated and the awarding process was completed. The construction of the line is expected to take eight months.

Gondomar line

The projects for the Dragão Stadium- Gondomar stretch were developed, the ante-project phase having been concluded in March 2003.

The platform and track and the urban insertion execution projects were also completed. The traction energy, the mid and low tension power projects and the operation support systems projects are being concluded. A 900 m tunnel is to be constructed as part of this line, preparations being under way for a separate tender.

The process to identify all the land to occupy is practically concluded, so as to enable the expropriation files to be completed.

Boavista line

On the basis of the feasibility studies developed in 2002 and 2003, of the mobility and demand studies for the Boavista canal and the Matosinhos link, and of the collaboration of the Oporto and Matosinhos Municipalities, the base program for this line was stabilised. After the agreement of the municipalities, the project was initiated, with a priority for the area surrounding Praça Mouzinho de Albuquerque and Casa da Música.

Particular attention was paid to the link between the existing Casa da Música station (part of Line (a)) and the future terminal station of the Boavista line, so as to offer comfort and speed in the transfer between these lines. The future station of the Boavista – Laborim line, which will be located between the other two stations, was taken into account.

Bearing in mind the integration of the different projects, the studies developed had the collaboration of Porto 2001 – Casa da Música.



Following the Government's and Metro do Porto Board's decision, the first stage of the urban insertion works in the area surrounding Praça Mouzinho de Albuquerque and Casa da Música was the object of a tender launched in December 2003. The first two phases were awarded in February and April 2004.

Line ©. Boavista
The proposal

The structure of the future pedestrian tunnel at Rotunda da Boavista is now built, as well as the urban re-qualification of this area.

The Boavista line architecture project, by Álvaro Siza Vieira and Eduardo Souto Moura, has been developed up to the phase of preliminary study. The preliminary engineering study is also in an advanced state of development.

The formal proposal for the construction of the Boavista line, prepared in accordance with the Council of Ministers Resolution $n.^{o}$ 129/03, of July the 31^{st} , was sent to the Government on December the 30^{th} 2004.

Line extension to Laborim

The studies realised in 2002 and 2003 were further developed, with particular attention being paid to the functionality of this extension and to future expansion of the network in this area.

The link from this extension to the future depot at Laborim was also studied. At Laborim an infrastructure for amintenance and parking is envisaged, with a capacity for 56 vehicles.

The construction of a road tunnel between the present IC2 node and EN222 is foreseen as part of this link. The project is about to be concluded.

João Manuel Rebelo Infrastructures M2 and Interfaces

Boavista - Laborim line

After the consolidation of this line's corridor, in straight collaboration with the Gaia Municipality, and the award of the project for the stretch between Laborim and Gaia Shopping, the project between Gaia Shopping and the new bridge over the river Douro was also awarded.

Given this line's complexity, the project phase should continue all along 2005.

Line Hospital de S. João - Maia

In straight cooperation with the Municipality of Maia, the studies leading to the definition of this line's corridor were developed. This line aims to respond to the present and future demand, making it feasible to develop other lines in the eastern part of the Maia council area in the future.

Extension of Line (A) to Leca da Palmeira

In straight cooperation with the Municipality of Matosinhos, the route for this line was stabilized and a preliminary study for its urban insertion was developed by José Bernardo Távora. This is an extension of the present line (a) from its terminus at Senhor de Matosinhos up to the Belchior Robles station, at rua do Sol Poente in Leça da Palmeira. It will serve Exponor.

3.2.2 Stations under construction

The stretch Pólo Universitário – Ponte Luís I, a tunnel, contemplates eight underground stations, five of which are open-sky built – Pólo Universitário, Salgueiros, Trindade, Aliados and S. Bento – and three mining built – Lima, Marquês e Faria Guimarães. Two trenches are also to be constructed, at the tunnel's extremities – Salgueiros and Av. Vímara Peres

Salgueiros trench

After the construction of the tunnel, concluded in October 2003, the supporting construction yard was demobilised.

Pólo Universitário station

This single level station is located in open space at the Pólo Universitário. Its construction started in June 2003, the execution of its concrete structures was concluded in 2004. By the end of the year the finishing works of this station were started.

Salgueiros station

Located in open space at the ground of the former Vidal Pinheiro stadium, this station's attack pits develop in the shape of an eight, through the junction of two pits. In 2004 the concrete works were concluded and the masonry, tiles and painting works of this station were started.

Combatentes station

All of this station's main body is underground and there are three pits as attack fronts. At the end of 2004 the internal structure works were practically concluded.

Marquês station

Located in the garden at the Praça do Marquês de Pombal, this is a mixed underground station, since its main body is inserted in an elyptical space, to which two underground galleries with 17m each are associated. The concrete structures works were concluded and the finishing works started. The electromechanical installation works are already significantly advanced.

Faria Guimarães station

This station is plain Oporto urban tissue, developed along the tunnel at Rua Faria Guimarães. Its centre is located at the crossing between Rua Fonseca Cardoso, Rua Faria Guimarães and Rua do Paraíso.

Of all the stations in execution in this first phase of the system, this is the one with the largest underground excavation volume, since the whole station is built in the subsoil, three pits providing access to it: one at Rua Fonseca Cardoso, another at Rua Faria Guimarães and another at Rua do Paraíso.



After the works to divert utilities networks, initiated in 2002, the excavation of the pit at Rua do Paraíso was initiated in March 2003. During 2004 the subsoil was excavated and the internal structures were executed. These works are expected to be completed in the first months of 2005, so that finishing works can be started.

Trindade station

This station is located in open space at the grounds of the former Trindade railway station, which was the terminus of the CP Póvoa and Trofa lines.

Since the entry portal for the tunnelling machine that excavated towards the Luís I bridge was located here, the works had to be suspended during 2003, and were concluded in 2004. The station's internal structures works were concluded too and the finishing works started.

Aliados station

Open sky built, this station is situated at the central part of Avenida dos Aliados.

The internal structure works were realised and the finishing works started. The electromechanical installation works were also the object of significant interventions.

S. Bento station

This open sky built station is situated at Praça Almeida Garrett and Avenida Afonso Henriques.

The internal structure works were realised and the finishing works were started, as well as the station access works, which are being concluded.

By the end of 2004 a traffic diversion was necessary to remove the provisional metal bridge that had been set up over the station area.

3.2.3 Tunnels

Blue (A) Line tunnel

In the first quarter the catenary posts and track laying works were completed in the stretches Heroísmo – Campanhã and Bolhão – Trindade of the Campanhã – Trindade tunnel. The works to set up the cabling paths, the fire system, the pumping system, the catenary and the illumination system were complete in April 2004. This tunnel has been in operation since June the 5th 2004.

$\mathbf{Yellow}\: [\mathbb{O}] \: \mathbf{Line} \: \mathbf{tunnel}$

The filling works, prior to the laying of the platform, of the Pólo Universitário – Luís I bridge tunnel were concluded in the first quarter of 2004 in the Pólo Universitário – Lima, Marquês – Aliados e S. Bento – Luís I bridge (Trench) stretches. In March the tunnel filling was executed at the stretch Aliados – S. Bento. In December the same was done between the Lima and Marquês stations.

In the fourth quarter 2004 the laying of catenary posts and of track was initiated.

At the J tunnel – the single track tunnel connecting the lines (Matosinhos – Estádio do Dragão) and (St.º Ovídeo – Hospital de S. João) – the laying of track was completed in the last quarter of 2004.

Line

Pólo Universitário

3.2.4 Electromechanics

Ventilation

The de-smoking essays of the Trindade – Campanhã tunnel and of its underground stations were concluded. As a consequence the tunnel or underground station evacuation strategies were validated. These technical solutions to safeguard the system's safety were observed and validated by LNEC – Laboratório Nacional de Engenharia Civil.

Signaling

The electronic land locks system to control the Trindade – Campanhã stretch, 'interlinked with the existing "relais" system of the Trindade – Sr.ª da Hora stretch, was installed, tested and put to service.

Regarding the other electromechanics disciplines, such as telecommunications, ticketing, illumination and traction power, rolling staircases and lifts, substation power and catenary, the corresponding projects for the Trindade – Estádio do Dragão stations and tunnel stretches were executed.

Almeida Teixeira Equipments and Systems

Emergency power

An emergency power generator was provisionally installed at the Trindade station, so that it would be possible to remove any vehicles that might be immobilized in the tunnel or to power de-smoking, should there be a total interruption of the power supply to the medium tension network.

3.2.5 Rolling Stock

The manufacturing of the 72 Eurotram vehicles provided for in the initial contract was concluded in 2004.

The Board decided to cancel the tender (which had been launched in August 2003) to supply, maintain and finance additional rolling stock for the \mathbb{B} (Póvoa) and \mathbb{C} (Trofa) lines.

This decision resulted from the consideration of the Company's and the State's budgetary situation and from the fact that the would be award-winning offer significantly exceeded the Company's budgeted amount for this purpose.

Following this a reformulated tender was launched on January the 14th 2005 to purchase a single lot of 30 vehicles, with a reference price agreeing with the Company's budget.

3.2.6 Depots

Guifões Depot

During 2004 some works accomplished produced significant functional improvements at the Guifões complex, namely in the workshops structure.

Bonjoia vehicle park

At Bonjoia (Campanhã-Dragão stretch) a parking facility for four double vehicles was built, to support the operation off the peak hours. On the other hand the structural conditions for the future construction of a station were created.

3.2.7 Heritage and Archaeology

Built Heritage

The removal of the screen protecting the tiles covering the Capela das Almas at the Bolhão station began in 2004.

The tile heritage of the city was enriched at the completion of this work front, thanks to the tile panel by Júlio Resende placed at this station, about the activities carried out at the Bolhão market.

Archaeology

At the Póvoa line, the support work to the evaluation of the surroundings of the so called Mamoa de Vilar was launched. At the Trofa line, in the Viaduct Maia Sul – Quinta dos Cónegos area, a landscaping intervention of the romantic era was surveyed. Some work was also done. Work was carried out in the Castelo da Maia area.

In this last stretch, at the site called Necrópole da Forca, a 5000 years old pre-historic village was found 20 metres away from the work site, as an investigation into the existence of a Roman incineration graveyard, identified in the forties, was carried out (from which came a considerable set of vases exhibited at Maia Museum).

At the S. Bento trench, in the historic centre of Oporto, the demand by IPPAR and IPA to carry out some additional work to clarify the results of the 2003 campaign at the northern end of Avenida Vímara Peres was complied with.

At Avenida dos Aliados, in Oporto, the recording of Bairro do Laranjal was concluded in parallel to the excavation of the access to the station.

In the area surrounding the S. Bento station and once the utilities diversion work resumed, the subsoil advance study was completed.

Finally, simultaneously with the finishing works of the Campo 24 de Agosto station, between February the 4th and March the 13th 2004, the Mãe d'Água de Mijavelhas was reassembled and a multimedia show set up around it. Diaporamas are exhibited reporting on the excavation and reassembly as well as a virtual show of the site between the XIVth and XXIst centuries, including therefore the alteration caused by the construction of the light rail system.

3.2.8 Environment

A number of studies to support the approval of the Póvoa and Trofa lines Environment Conformity Reports were realized last year.

The Environment Department's evaluation Commission approved the Environment Conformity Report of the project to duplicate the Póvoa line's track, regarding its urban insertion, parking facilities, interfaces and landscaping.

In accordance with a requirement from the Instituto de Resíduos, this institution was provided with a list of all types of construction and demolition waste materials resulting from the light rail system's construction works, as well as their quantities and final destinations for the years 2001 to 2004.

The Comissão de Coordenação do Desenvolvimento Regional Norte (The Commission of Coordination of Development in North Region) periodically visited the different work fronts.

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4. Interfaces

ParqueMetro

The Dragão Stadium interface (ParqueMetro), projected by Manuel Salgado, was concluded with basic functionalities at the beginning of June 2004, in time to be used during Euro 2004.

Line ©. Fórum (Maia)

At the end of the year, the tender for access control equipment was prepared so that it could be launched early in 2005. The aim is to equip Parque Metro with an access control system integrated with the Andante system.

Campanhã

Metro do Porto collaborated with INVESFER in the definition and construction of the Campanhã interface, authored by Carlos Calapez. The first phase of this interface (eastern end) is concluded, offering to passengers intermodality between the light rail CP and STCP networks and private cars.

Quinta do Cedro

The light rail crossing under IC2 has mobilized a lot of attention to make the future Quinta do Cedro interface feasible. This project, by Eduardo Leira, has been enriched with contributions from the Municipality of Gaia and by Instituto de Estradas de Portugal.

Santo Ovidio (EN 222)

This interface, to be built at the confluence of a Avenida da República and EN 222, in Vila Nova de Gaia, authored by Rogério Cavaca, is concluded as far as the definition of the works program, including the Municipality's comments.

5. Communication and Image

Social Responsibility

Metro do Porto takes a special care about the shop owners and other residents affected by the works in any front of the extensive network under construction. The same applies to the residents of the areas near the underground stations, a number of relocations having taken place during the works phase.

A pre-inauguration ride in the Blue Line extension was offered to the shop-keepers and residents of the areas affected by that line's construction. A 120 trip ticket was also offered.

In collaboration with APOR (Agência para a Modernização do Porto), Metro do Porto contributed to recover the facade of the Ateneu Comercial do Porto building (an emblematic city institution), as well as the Henrique Moreira statues "A Menina Nua / Juventude" and "Os Meninos / Abundância", at Avenida dos Aliados.



The corporate identity of Metro do Porto was officially registered as a brand in 2004. The aim was allow the future generation of additional income from an eventual merchandising business area.



Nuno Ortigão de Oliveira Communication and Image



The Client Information project (signaletic) was developed to widen the brand's concept to a new language to communicate with the metro users. From the colour of the system's seven lines to the schematic representation of the network and of each of the different lines, as well as to all the signalectic supports existing in the stations, our clients enter a new and more coherent Metro do Porto visual universe. As a result of this project and coinciding with line @'s extension opening, over 400 client information support devices were altered.

This project received national recognition in the last quarter of 2004, when it was included in the 1990/2004 Portuguese Architecture and Design Exhibition in Milan, inaugurated in the presence of the President of the Republic. The project was presented together with the architecture and design projects deemed more relevant in the last fourteen years.

Commercial Communication

Several communication actions related to the opening of line (a) extension were promoted. These actions started with the launch of a new advert for movie theatres, encompassing also the publication of an exclusive supplement in the largest national daily newspaper and the Euro 2004 opening match campaign.

In the same scope, and aiming to test the capacity of the Dragão Stadium station, a free entry rock music concert was promoted on June the 6^{th} .

All along 2004, ten publicity campaigns were launched, generally associating line @ service to events with the potential to increase the demand of the system. As in 2003, the special operation on the city's holiday proved a success, evidence of which is the record number of validations in a 24 hour period since the line's opening.

For the first time, Metro do Porto associated itself to the World Impaired Citizen Day through a campaign which demonstrated that the whole metro system is prepared to receive impaired people.

A Oporto and Matosinhos city guide was launched in collaboration with Transdev, showing the location of metro stations, of the Guindais Funicular and of parking facilities. This guide was aimed at the tourists visiting us during Euro 2004. A second edition of line @ guide was launched, as well as a first English version.

The interruption of commercial service in Line (a) and the introduction of an experimental service at the ParqueMetro, by the Dragão Stadium station, prompted the realization of two important communication actions.

In the last quarter a second enquiry into the profile of the Metro do Porto client was launched. Its results will be made public during the 1st quarter of 2005 This enquiry will be very important to deepen our knowledge about our clients.

Work Front Communication

The presentation on June the 2nd at Teatro Rivoli of the SIC – Noticias film "Metro a Metro", on the excavation of the Metro tunnels in the city of Porto, turned out to be a great success, both regarding its

content and as a vehicle for the promotion of the Portuguese engineering, showing a positive vision associated to the works.

During the year several regular communication actions were carried out, amongst which those about the 0 line (Yellow – St° Ovídio / Hospital S. João) and about the future line 0 (Matosinhos – Boavista) stand out. Communication actions about lines 0 (Red – Póvoa) and 0 (Green – Trofa) were also initiated. To these actions one must add the four editions of Infometro, a publication informeng about the progress of the works as well as about the features of the service in some lines.

Public Relations

The inauguration ceremony for line @'s extension, between the Trindade and Dragão Stadium stations, with the presence of the Prime-Minister, proved to be the most relevant fact of the year.

The «Schools Project» was continued in partnership with STCP and Transdev, offering the students of the Oporto Metropolitan Area a pedagogic contact with the reality of public transportation services. This action was carried out between January the 12th and May the 22nd, involving 272 trips, 185 public and private schools, 18,586 young students and 1,655 teachers.

As part of the «Schools Project», the students received basic information on Metro do Porto, regarding system functionalities, safety behavior, the environment and citizenship. In parallel there were about 20 schools and some guided visits to the Central Command Post were organized.

Still in this scope, one should mention the "Pinta o Muro" project, promoted by Escola Secundária de Paranhos and supported by Metro do Porto. As a result of this action the panels around the Salqueiros station works were decorated with paintings by this school's students.

The www.metrodoporto.pt site recorded a 90% growth in its traffic in 2004. It had more than 215 thousand visitors and recorded 19.3 million *hits*. Beyond the new functionalities it incorporated, two events contributed to this growth: the opening of the new Blue Line stretch and Euro 2004. The «Vaivém» digital *newsletter* had more than 2,300 registered users by the end of 2004.

To animate the stations, we promoted an important exhibition of the Greek choreographer Dionisius Fotopoulos at the 24 de Agosto station, in conjunction with Teatro Nacional São João. The Casa da Música station hosted two exhibitions, one of "Espaço T" and the other of Escola Superior de Educação de Santa Maria da Feira. Theatre performances were held at the Dragão Stadium and Heroísmo stations, an expression of Metro do Porto's support to the Festival de Teatro Cómico da Maia. Still in this domain, there were live performances at our stations during the Festival Intercéltico, as well as within the scope of "Matosinhos em Jazz" and the Christmas concert by Coro Anima Mea, on December the 22^{nd} .

The Company supported the 9th Geotechnic Congress in Aveiro as well as "10 2004", organized by Faculdade de Engenharia da Universidade do Porto, the seminar "Cumprir Quioto: Desafios e Obstáculos" and the FEUP "workshop" "Bridges for High Speed Railways".

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Guindais Funicular

The Guindais Funicular was inaugurated on February the 20th, so this new product's identity was launched. In addition all the operation support and client information signaletic were also implemented and the launch campaign was organised.

6. Human Resources

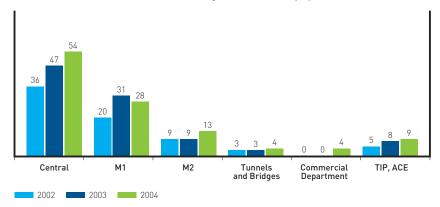
Fulfilling the Concession Bases of the Light Rail System of the Metropolitan Area of Oporto and or a result of the shareholders agreement signed in September 1998 with the Portuguese State, the Oporto Metropolitana Area, CP and REFER, Metro do Porto integrated 255 employees formerly allocated to the railway operation of the Póvoa and Trofa lines.

At the end of 2003, 52 of those were still within Metro do Porto. During the year 31 left the Company (11 by negotiated termination of the employment contract, 11 through readmission by the original employer (CP) and 9 whose contract was revoked).

	2004			Accumulated		
	CP	REFER	TOTAL	CP	REFER	TOTAL
Termination	1	10	11	19	38	57
MP	0	0	0	2	2	4
Normetro	1	10	11	17	36	53
Revoked	2	7	9	60	84	144
CP Readmissions	11	0	11	33	0	33
Pending	-	-	-	4	17	21
Total	14	17	31	116	139	255

The staff structure (excluding CP and REFER employees) shows the growth of the M2 departament. The Exploitation Departament was formed to manage the operation of the Light Rail System and of the Guindais Funicular.

Staff Structure (excluding CP and REFER employees)



Line ®. Pedras Rubras -Dragão Stadium



Metro do Porto is still characterised by the youth of its staff (36.2 years old on average excluding CP and REFER ex-employees) and by their high level of education (58.4% with University degrees, 76.9% excluding CP and REFER ex-employees).

The table below shows the increase in staff numbers (15.3% growth) and the resolution of the CP/REFER pending cases. The increased weight of technical staff results from these two facts.

	2002	2003	2004	04/03
Total staff (year end)	231	150	133	-11.3%
Excluding CP / REFER	80	98	112	14.3%
Average Total staff	243	206	141	-31.6%
Technical staff	24%	34%	61%	27 p.

7. Economic and Financial Activity

7.1 Macroeconomic Framework

The year 2004 was marked by a gradual economic recovery trend, more intense in the Euro zone and in the first half or the year. The weakening growth in the second half of the year may be explained by the continuing high price of the crude oil (reaching consecutive historic records in December) and by the continuing appreciation of Euro against US dollar.

The economic outlook for 2005 proves therefore less optimistic, with a growth forecast of around 2.0% for the Euro Zone (OECD October forecasts and European Commission Autumn forecasts) and of 2.3% for the European Union (European Commission).



João Nuno Aleluia Administration and Finance

The Euro zone 2004 estimated growth varies between 1.8% and 2.1% (OECD and European Commission, respectively). For the European Union, the European Commission forecasts point to a 2.5% growth.

At a political level, 2004 represented a new phase in the European project, with the adhesion, in May, of a block of ten new members. These countries, with a total population of 75 million inhabitants (20% of the enlarged European Union population), represented 6% only of the European GDP in 2003.

This enlargement stimulates a more intense competition, not only in the markets but also for the European Union's structural funds. It also raises new challenges in the labour markets given the increased availability of qualified, low cost workers.

The Portuguese economy showed in 2004 some slight signs that it was coming out of the recession, propelled by increased exports and by private internal demand. In the first half of the year the recovery was stronger, reflecting mainly the influence of factors such as the Euro 2004 and the dynamics of the export sector. GDP growth is ferecasted to be between 1.3% a 1.5% (European Commission and OECD). Both institutions point to a 2.2% growth in 2005. For 2006, OECD's November forecasts are for a real GDP growth of 2.6% (2.4% according to the European Commission).

After having followed a growing tendency since 2000, the unemployment rate became stable in 2004 (around 6.4%), a slight reduction being forecasted for 2006 (6.1% according to the already quoted sources). For 2005, forecasts diverge. OECD's November forecasts anticipate the unemployment rate to increase to 6.6%, whereas the European Commission points to a reduction to 6.2%.

As in 2003, confidence measures fell at the end of the year, peeling away from their 2004 maximum in August. The unstable political and economic situation resulting from the dissention of Parliament and subsequent convocation of early elections together with the evolution of the oil price and of the Euro, represent the main risk factors for national economic growth.

Regarding public finance, and in spite of the growth of tax income above expectations, the evolution of public expenditure in the same direction prevented the desired budget consolidation. To comply with the target set by the Growth and Stability Pact, the Government again looked for extraordinary income. After Eurostat's veto to a *sale and lease-back* operation on Government buildings, the solution it found involved reinforcing the transfer to the State's Social Security of a part of the assets and responsibilities of Caixa Geral de Depósitos' pension fund, to which added the 600 million euros from similar operations with ANA, Nave and Imprensa Nacional Casa da Moeda. The total amount of extraordinary income will reach 3000 million euros in 2004.

From the missed budget targets and from the lack of progress in tax reform resulted Standard & Poors rating outlook revision, from stable to negative.

7.2 Investment

The Company maintained a high level of investment in 2004, reaching 372 million euros.

The year 2004 proved therefore to be the one with the highest investment by Metro do Porto. Relatively to the previous year, it increased by 23.1%. In accumulated terms, investment in the Light Rail System reached the 1.4 thousand million euros.

In the above quoted investment figures the value of the light rail vehicles is included. These vehicles were the object of sale and lease back operations, up to an amount of 250 million euros in already closed operations, of which 31.25 million euros were realized in 2004.



Prof. Joaquim Carmona Planning

7.3 Financing

ERDF - European Regional Development Fund

The closing balance of Quadro Comunitário de Apoio II – QCA II (whose settlement was suspended since March 2001), amounting to 13.7 million euros, was received in December.

This value is 1.3 million below the amount which was expected. The difference results from a global 8.4% reduction in the closing amount of the "Transports" subprogram, itself resulting both from differences between the effective and foreseen average rates of a co-participation and from exchange rate variations during the period 1994 to 1999.

During the year three payment requests were made under QCA III, with a total co-participation amount of 60.8 million euros. A total of 38.8 million euros were received from this program, of which 6.4 million refer to the ninth payment request, presented in 2003.

The following table shows the evolution of ERDF – QCA III funding:

				(values	in thousand euros)
Requests	Investment Period	Elligible Investment	Co- participation	Disbursement	Outstanding
Situation on 31.12.2003	Oct00 – Jul03	461,680	177,516	171,126	6,390¹
10th Request	Aug03 – Dec03	54,767	21,058	21,058	0
11th Request	Jan04 - Apr04	29,633	11,394	11,394	0
12 th Request	Apr04 – Aug04	73,792	28,373	0	28,373
		619.872	238.341	209.968	28.373

¹ This amount was received on January the 5th 2004

PIDDAC - Central Administration Investment and Development Program

Chapter 50 of the 2004 State budget allocates 15 million euros to the project "Sistema de Metro Ligeiro da AMP e Obras Complementares". During the year 12,750 thousand euros were transferred. The difference is a frozen amount.

						(value	s in thousand euros)
	1996/99	2000	2001	2002	2003	2004	Total
PIDDAC	30,338	11,192	15,488	17,740	12,392	12,750	99,900
Light Rail	23,928	5,914	6,066	7,052	9,060	12,750	64,770
Infante Bridge	6,410	5,277	9,421	10,688	3,332	0	35,128

EIB - European Investment Bank

With a final disbursement of 73.9 million euros in April 2004, the initial contract was integrally disbursed.

	Contract date	Contract	Used in 2004	Available	
BEI I					
Operation A	16 th December 98	99,760	0	0	
Operation B	26 th March 01	100,000	0	0	
Operation C	5 th November 01	100,000	0	0	
Operation D	15 th May 02	243,930	73,930	0	
Sub-Total		543,690	73,930	0	
BEI II					
Operation A	29 th November 04	120,000	120,000	0	
Operation B	16 th December 04	80,000	0	80,000	
Sub-Total		200,000	120,000	80,000	
Total		743,690	193,930	80,000	

Line ©. Avenida da República (V. N. Gaia)



A new loan for a global amount or 260 million euros was formalized with the European Investment Bank to finance the projects to duplicate the track of the Póvoa and Trofa lines. Of these, 200 million euros were already the object of signed contracts in 2004.

Cohesion Fund

The application for a Cohesion Fund grant to finance the project to link the Francisco Sá Carneiro Airport to the duplicated track Póvoa line was approved in March. This project will have a maximum co-participation rate of 75% for a maximum amount of 74 million euros.

Half (7.4 million euros) of the advance payment foreseen in the European Commission Decision approving the co-participation was received in September.

In December the first payment request was put forward, covering the period October 2003 to June 2004. This request is for a total co-participation of 5.1 million euros.

An audit of the Programa Operacional de Acessibilidades e Transportes (POAT) began in September and is still on-going.

Bridge Finance

Short term credit lines from several financial institutions were renegociated. At the end of the year, the company had short term facilities amounting to 150 million euros, of which 17.4 million were used.

Project Finance and the Financing of Phase II

The Council of Ministers Resolution 126/2003, of August the 28th, charged Metro do Porto to present a PPP type of financing for the Antas – Gondomar line. The steering Committee stipulated in Decree-Law 86/2003, of April the 26th by a joint Dispatch of the Finance and of the Public Works, Transport and Communications number 49/2004, of January the 30th.

Metro do Porto carried out the notification set out in number 6 of Article 8 of that Decree-Law on March the 31st. To that effect, Metro do Porto sent to that Steering Committee the full Antas – Gondomar PPP, containing namely the tender documents. This Committee's report and the Government's decision are awaited.

International Rating

The process leading to Metro do Porto's international rating was initiated.

7.4 Net Asset Situation

As in 2003, in 2004 TIP, ACE's accounts were integrated through the proportional consolidation method. This ACE is held equally by Metro do Porto, Sociedade de Transportes Colectivos do Porto, SA and Caminhos de Ferro Portugueses, EP.

The evolution of the main balance sheet items results from the level of investment realized as well as from the financing structure applied.

		(values in thousand euros		
Balance Sheet	2003	2004	Var 04/03	
Fixed Assets	780,117	1,104,047	41.5%	
Stocks	188	147	-21.7%	
Short-Term Debtors	67,628	61,293	-9.4%	
Cash & Banks	34,116	17,547	-48.6%	
Accruals and Deferrals	268,030	299,328	11.7%	
Assets	1,150,079	1,482,362	28.9%	
Share Capital	5,000	5,000	0.0%	
Called-Up Share Capital	179	179	0.0%	
Concedent instalments	273,025	332,128	21.6%	
Retained Earnings	-3,600	-29,632	723.1%	
Net Income	-26,032	-37,949	45.8%	
Net capital value	248,573	269,726	8.5%	
Provisions	0	18,000	100.0%	
Medium and Long Term Debt	682,283	898,875	31.7%	
Short Term Debt	113,705	179,672	58.0%	
Accruals and Deferrals	105,518	116,089	10.0%	
Liabilities	901,506	1,212,636	34.5%	
Net capital value & liabilities	1,150,079	1,482,362	28.9%	

On the asset side, the main evolution is related with Metro do Porto's investment level. Fixed Assets increased 41.5% on the previous year end.

The evolution of Deferred Costs reflects the operational leasing operation contracted in November 2004, namely the advanced invoicing of rents debited in this account and credited in Other Creditors.

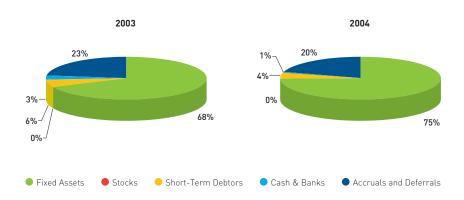
The evolution of Concessor Instalments reflects the PIDDAC, FEDER and Cohesion Fund co-participations received in 2004.

The evolution of medium and long term debt reflects the European Investment Bank loan disbursements and the above referred leaning operation.

An advance payment to Normetro of 2 euros per vehicle km is included in short term debt. It was made to compensate the effects of changes in the metro's operation program on the cash-flow of the company (Transdev) responsible, within the Normetro's Act, for the operation of the system. This advance payment encompassed the whole operation period and amounting to 6,6 million euros.

The evolution of the asset structure relative to 2003 year end is determined by the volume of investment and by the operational leasing operation of November 2004.

Asset Structure



The supplementary share capital stipulated in the Joint Decision of June the 28th 2001 of the Finance and Transport Ministries is still not paid up by the shareholder State. That Decision determines the payment in instalments of the total amount of 49.9 million euros as follows:

				(values in thousand euros)
2001	2002	2003	2004	Total
7,481,968	12,469,947	14,963,937	14,963,937	49,879,790

The medium and long term liabilities result from the financing structure applied to the project. It is composed of the loan contracts with the European Investment Bank and the future rents from the operational leasing contracts.

There are no overdue debts to the State or to any other public entities, including to Social Security.



7.5 Results

The reinforcement of the operational component of the Company's activity, together with the continuing high level of investment, underpins the evolutions observed in the Profit and Loss account.

(values in thousand euros)

Profit & Loss Account	2003	2004	Var 04/03
Revenue	4,760	8,822	85.3%
Operating Subsidies	0	4,730	-
Own Work Capitalised	32,869	31,950	-2.8%
Financial Income	1,189	870	-26.8%
Additional Revenue	41	93	125.2%
Other Income	138	1,592	1056.4%
Income	38,996	48,058	23.2%
Third Party Supplies & Services	29,458	43,100	46.3%
Staff Costs	8,308	6,168	-25.8%
Depreciation	9,388	16,600	76.8%
Financial Costs	17,380	19,291	11.0%
Extraordinary Costs	145	145	-0.1%
Other Costs	348	704	102.1%
Costs	65,028	86,008	32.3%
Net Income	-26,032	-37,949	45.8%

The income from the public transportation service in the Blue line (excluding publicity) reached 5.3M euros in 2004, (90.3% more than in 2003). This corresponds to an income of 53.19 cents per validation (14.6% increase) and of 11.26 cents by passenger km (7.7% more). It also corresponds to 1.25 cents per seat km (31,4% more), and to 28.06 cents by passenger zone (increase of 5.7%).

The Resolution of the Council of Ministers n.º 87/2004, of June the 3rd 2004, approved the distribution of the 2004 State Budget funds for operating subsidies, including 4,967,022 euros for Metro do Porto. Metro do Porto's 2004 budget, sent to the Government in January 2004, assumed an allocation of 9,910,000 euros (including 3,532,000 euros in respect of 2003).

Regarding the Guindais Funicular, in service since February the 20th, the ticket income was 121.8 mil euros. This corresponds to 31.07 cents per seat km, 1.94 euros per passenger km and 54.45 cents per validation.

Mobility for all To eliminate barriers To facilitate access

Included in income are a further 2,965 thousand euros for maintenance services under rolling stock operational leasing contracts.



The Blue Line's profit and loss account shows a negative gross margin of 6.6 million euros and a negative net margin of 33.9 million euros. The cost of sales reaches 11.9 million euros, of which 98.2% related to the Normetro operation contract (11.7 million euros). Relative to 2003, the gross and net margins deteriorated 2.3% and 30.4%, respectively.

The operating subsidies, attributed only for 2004, disturb the comparisons with 2003. If their impact is eliminated, the net margin would deteriorate 13.9% (to 48.5% relatively to 2003).

The Light Rail System shows an operational cost of 2.85 cents per seat km (10.6% more than in 2003) and 25.57 cents per passenger km (25.6% less than in 2003).

The Guindais Funicular Profit and Loss account shows a negative gross margin of 380.8 thousand euros and a negative net margin of 602.5 thousand euros. The operation by Transmontagne is responsible for almost all of the cost of sales, with a total of 497.5 thousand euros.

The Guindais Funicular presents an operational cost of 1.28 euros per seat km and of 8.02 euros per passenger km.

Compared to 2003, Staff Costs decreased 25.8% (2.1 million euros less). This evolution is explained almost in full by a reduction in the compensation amount paid in exchange for employment contract terminations (883 thousand euros versus 2.895 thousand euros).

8. 2005 Outlook

The light rail system's growing capacity to attract passengers will be reinforced with the network effect stemming from the 2005 service opening timetable.

The approval of the construction of the Trofa line stretch between Maia (ISMAI) and Pateiras (Trofa) as a double track stretch will continue to be expected.

Also expected is the launch of the international tenders of the Antas-Gondomar Public-Private Partnership as well as the approval of the construction of the Matosinhos – Boavista line, providing definitive momentum for the Phase II works.

On the financing side, the contract for the third tranche of the new European Investment Bank loan (EIB II) is expected to be signed in the first quarter.

In the first half of the year an issue of structured-medium and long term debt should take place to meet funding needs arising from alterations to the original project.

The agreement of the "contrato programa" stipulated in the Concession Bases is also awaited.

The preparation of an application under a future "QCA IV" will be carried out aiming to restore the grant financing to a level agreeing with the initial projections.

9. Allocation of Results Proposal

The Board of Directors proposes that the net loss calculated for the financial year, of a total amount of 37,949,388 euros, be fully transferred to the Retained Earnings Account.

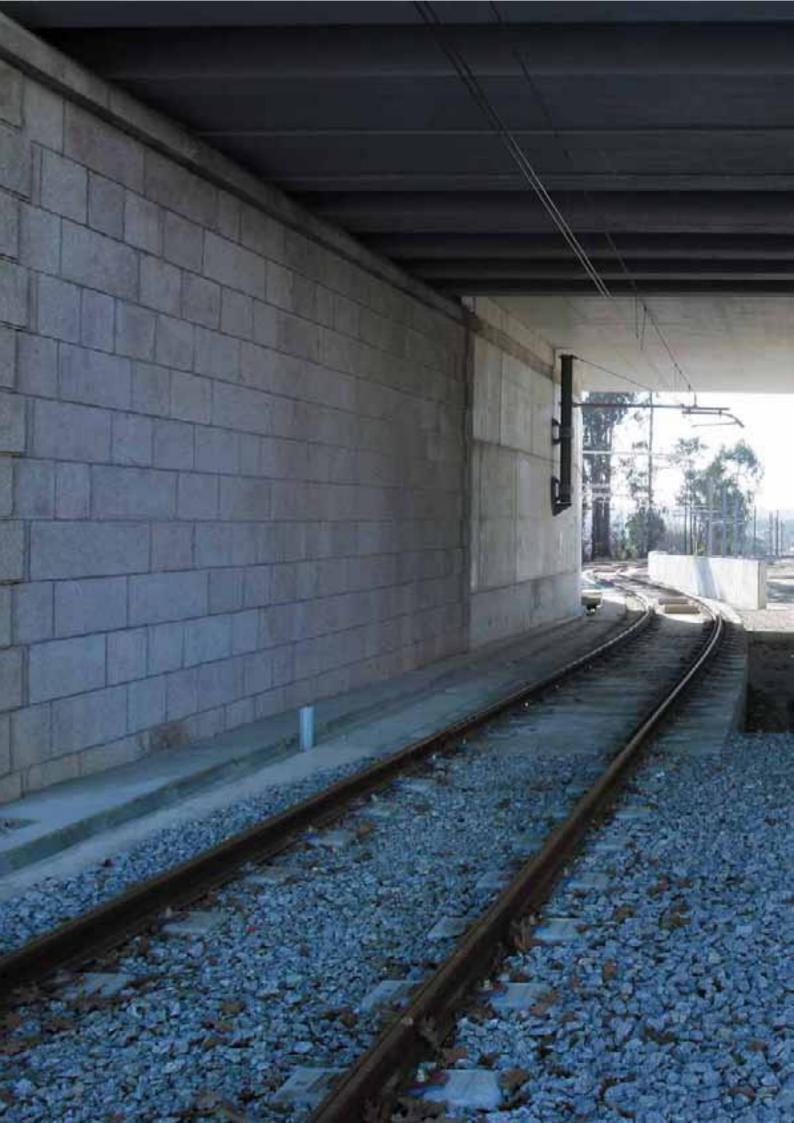
Oporto, February the 9th 2005

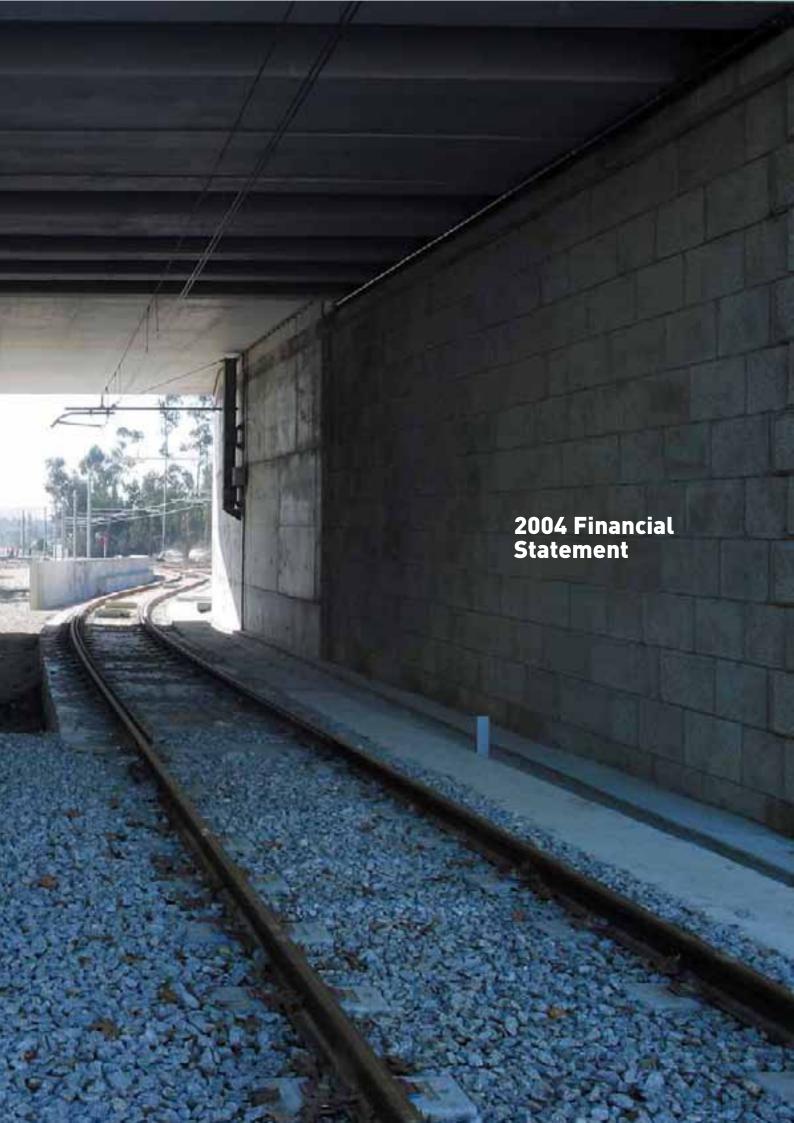
The Board of Directors

Acting Chairman Rui Fernando da Silva Rio

Members

José Narciso Rodrigues de Miranda Mário Hermenegildo Moreira de Almeida Prof. Manuel de Oliveira Marques José Manuel Duarte Vieira Juvenal Silva Peneda





Balance Sheet at December 31st 2004

	eurns	

ASSETS			Ye	ar	
	=		2004		2003
	Notes	Gross Assets	Depreciation	Net Assets	Net Assets
FIXED ASSETS:	-				
Intangible Fixed Assets					
Formation Costs		37,571,111	1,391,025	36,180,086	21,957,798
Fixed Assets in Progress		156,245,629		156,245,629	137,657,008
	10	193,816,740	1,391,025	192,425,715	159,614,806
Tangible Fixed Assets					
Land and Natural Resources	_	25,233,755		25,233,755	6,767,158
Buildings		394,258,679	20,937,905	373,320,774	199,491,510
Basic Equipment		33,417,210	2,891,629	30,525,582	21,675,474
Transport Equipment	_	790,170	423,104	367,065	348,453
Tools and Utensiles		256,999	78,164	178,835	64,344
Office Equipment		1,705,353	1,209,021	496,332	707,401
Other Tangible Fixed Assets	_	6,063,305		6,063,305	5,549,402
Fixed Assets in Progress		381,078,511		381,078,511	337,628,663
Advances on Account of Fixed Assets		94,185,652		94,185,652	48,167,916
	10	936,989,634	25,539,823	911,449,811	620,400,320
Financial Assets	-				
Holdings in Group's Companies		3,210		3,210	3,994
Holdings in Associated Companies		167,851		167,851	97,896
	16	171,062		171,062	101,890
CURRENT ASSETS:	-	-			
Stocks					
Raw & Subsidiary Materials and Consumables		147,209		147,209	188,037
		147,209		147,209	188,037
Short-Term Debtors					
Customers		11,872,135		11,872,135	3,811,502
Advances to suppliers		6,621,784		6,621,784	
State and Other Public Entities	49	42,323,805		42,323,805	48,447,971
Shareholders		1,784		1,784	1,784
Subscribers to Equity		177,250		177,250	180,583
Other Debtors		296,320		296,320	15,185,963
		61,293,078		61,293,078	67,627,803
Cash & Banks		'			
Bank Deposits		17,505,908		17,505,908	34,071,888
Cash		41,559		41,559	44,200
		17,547,467		17,547,467	34,116,088
ACCRUALS AND DEFERRALS	-				
Accrued income	_	47,488		47,488	
Deferred Costs	51	299,280,304		299,280,304	268,029,758
	-	299,327,792	,	299,327,792	268,029,758
TOTAL DEPRECIATIONS	-	,	26,930,848	1	
TOTAL PROVISIONS					
TOTAL ASSETS	_	1,509,292,981	26.930.848	1,482,362,133	1.150.078.70

(values in euros)

NET CAPITAL VALUE & LIABILITIES		Ye	ar
	Notes	2004	2003
SHAREHOLDERS' EQUITY:	-		
Share Capital	-	5,000,000	5,000,000
Called-Up Share Capital	-	179,033	179,033
Retained Earnings	-	-29,631,703	-3,600,089
Subtotal	-	-24,452,670	1,578,944
Net Income / Loss	-	-37,949,388	-26,031,614
Subtotal	-	-62,402,058	-24,452,670
Concedent instalments (Al.4 da Base XXVII)		332,127,866	273,025,428
Net capital value	40	269,725,808	248,572,758
LIABILITIES	-		
Provisions for contingencies & liabilities			
Other provisions for risks and charges		18,000,000	
	34	18,000,000	
Medium and Long Term Debt			
Amounts Owed to Credit Institutions	52	663,689,708	469,759,579
Other Creditors	53	235,185,061	212,523,795
	-	898,874,769	682,283,374
Short Term Debt	-		
Amounts Owed to Credit Institutions	52	17,432,000	
Suppliers	53	16,517,027	4,670,882
Fixed Assets Suppliers	53	130,882,624	97,129,685
State and Other Public Entities	-	176,896	219,000
Other Creditors	53	14,663,866	11,685,120
	-	179,672,413	113,704,687
Accruals and Deferrals	-		
Accrued Costs	54	16,340,024	8,527,813
Deferred Income	55	99,749,119	96,990,068
	-	116,089,143	105,517,881
Total Liabilities	-	1,212,636,325	901,505,942
NET CAPITAL VALUE & LIABILITIES		1,482,362,133	1,150,078.701

Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

Board of Directors

Acting Chairman Rui Fernando da Silva Rio

Directors

José Narciso Rodrigues de Miranda Mário Hermenegildo Moreira de Almeida Prof. Manuel de Oliveira Marques José Manuel Duarte Vieira Juvenal Silva Peneda

Profit & Loss Account by Nature at December 31st 2004

	20	04	2003	
COST AND LOSSES				
Cost of goods sold & materials consumed				
Goods	172,283	172,283	81,980	81,980
Third Party Supplies & Services	•	43,100,227		29,457,578
Staff Costs				
Remunerations	3,882,056		4,004,958	
Social Security				
Pensions	0		0	
Other	2,285,933	6,167,989	4,303,308	8,308,265
Intangible and Tangible Fixed Assets Depreciation	16,599,560		9,388,395	
Provisions	0	16,599,560	0	9,388,395
Taxes	488,276		202,341	
Other Operating Costs & Losses	8,714	496,990	7,784	210,125
(A)		66,537,050		47,446,344
Losses on Group & Associated Companies	878		1,780	
Financial Costs & Losses		-		
Others	19,290,125	19,291,002	17,378,524	17,380,304
(C)		85,828,052		64,826,648
Extraordinary Costs & Losses		145,053		145,164
(E)		85,973,105		64,971,812
Corporation Tax for the Year	-	34,466		56,183
(G)		86,007,571	•	65,027,995
Net Income		-37,949,388		-26,031,614
		48,058,182		38,996,382
PROFITS AND GAINS				
Sales				
Goods	245,934		102,232	
Revenue	8,822,304	9,068,238	4,759,930	4,862,162
Own Work Capitalised		31,949,514		32,868,799
Operating subsidies	4,730,497		0	
Additional Revenue	93,330		41,450	

15,000

69,956

800,304

4,838,827

45,856,579

870,259

46,726,838

1,331,344

48,058,182

-20,680,471

-18,420,743

-39,101,214

-37,914,923

-37,949,388

Chartered Account & Registered Auditor

Other Operating Income & Gains

Gains on Group & Associated Companies

(D)

(F)

Other Interest and Similar Gains

Extraordinary Income and Gains

Operating Results: (B) - (A)

Current Results: (D) - (C)

Pre- Tax Profit/Loss: (F) - (E)

Net Income for the Year: (F) - (G)

Financial Results: (D-B) - (C-A)

Others

Summary:

Vitor Manuel Gomes de Carvalho

Board of Directors

(values in euros)

Year

Acting Chairman Rui Fernando da Silva Rio

Directors
José Narciso Rodrigues de Miranda
Mário Hermenegildo Moreira de Almeida
Prof. Manuel de Oliveira Margues

0

49,602

1,138,913

41,450

37,772,411

1,188,515

38,960,926

38,996,382

-9,673,932

-16,191,789

-25,865,721

-25,975,430

-26,031,614

35,455

Prof. Manuel de Oliveira Marques José Manuel Duarte Vieira Juvenal Silva Peneda

Profit & Loss Account by Function of Expense at December 31st 2004

(values in euros)

	Ye	ar
	2004	2003
Revenue	9,068,239	4,862,162
Cost of Service Loss	-23,436,825	-15,932,080
Gross Results	-14,368,586	-11,069,918
Other Operating Income & Gains	4,838,827	41,450
Distribution Costs	-172,246	0
Administrative Costs	-8,091,541	-9,759,881
Other Operating Costs & Losses	-13,736,414	-3,004,234
Operational Results	-31,529,961	-23,792,584
Net Financing Cost	-6,454,039	-2,230,669
Gains (Losses) in Branches and Associated Undertakings	69,078	47,822
Gains (Losses) in other investments	0	0
Current Results	-37,914,922	-25,975,431
Taxes on Current Profits	-34,466	-56,183
Current Results After Taxes	-37,949,388	-26,031,614
Exceptional profit/loss	0	0
Taxes on exceptional profits	0	0
Current Results After Taxes	-37,949,388	-26,031,614
Results Per Share	-37,95	-26,03

Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

Board of Directors

Acting Chairman Rui Fernando da Silva Rio

Directors

José Narciso Rodrigues de Miranda Mário Hermenegildo Moreira de Almeida Prof. Manuel de Oliveira Marques José Manuel Duarte Vieira Juvenal Silva Peneda

Cash Flow Statement at December 31st 2004

		rosì

	Ye	ear
	2004	2003
OPERATING ACTIVITIES		1
Received from Customers	8,769,804	3,438,918
Payments to Suppliers	-5,486,614	-7,257,412
Payments to Employees	-6,255,702	-8,374,674
INFLOW/OUTFLOW FROM OPERATING ACTIVITIES	-2,972,512	-12,193,169
Payment/Receipt of Corporation Tax	4,055	-157,046
Other Receipts in Respect of Operating Activity	5,256,288	10,196,903
INFLOW/OUTFLOW BEFORE EXCEPTIONAL ITEMS	5,260,343	10,039,857
Receipts Related to Exceptional Items	79,751	35,432
Payments Related to Exceptional Items	-145,053	-145,162
NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES (1)	2,222,529	-2,263,042
INVESTMENT ACTIVITIES		
Receipts from		
Tangible Fixed Assets	31,296,089	144,843,195
Intangible Fixed Assets	0	C
Investment Subsidies	60,382,608	109,018,431
Dividends	28,000	C
	91,706,697	253,861,626
Payment in respect of		
Financial Assets	94	10,954
Tangible Fixed Assets	296,373,489	348,186,107
Intangible Fixed Assets	9,025,395	14,089,209
Leasing Rentals	144,179	131,072
	305,543,156	362,417,342
NET CASH INFLOW/OUTFLOW FROM INVESTMENT ACTIVITIES (2)	-213,836,459	-108,555,716
FINANCING ACTIVITIES		
Receipts from		
Loans	211,362,129	100,000,000
	211,362,129	100,000,000
Payment in respect of		
Loans	0	10,000,000
Interest and Similar Losses	16,316,819	10,763,126
	16,316,819	20,763,126
NET CASH INFLOW/OUTFLOW FROM FINANCING ACTIVITIES (3)	195,045,310	79,236,874
INCREASE/DECREASE IN CASH & CASH EQUIVALENTS (4)=(1)+(2)+(3)	-16,568,621	-31,581,884
CASH & EQUIVALENTS AT THE BEGINNING OF THE PERIOD	34,116,088	65,697,972
	17,547,467	34,116,088

Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

Board of Directors

Acting Chairman Rui Fernando da Silva Rio

Directors

José Narciso Rodrigues de Miranda Mário Hermenegildo Moreira de Almeida Prof. Manuel de Oliveira Marques José Manuel Duarte Vieira Juvenal Silva Peneda

Notes To The Cash Flow Statement

The following notes follow the numbering defined in the Accounting Directive Nr. 14/93. All the items which are not applicable to the Company or whose content is not relevant for fully understanding the relevant statements are not included.

2 - Breakdown of cash components and equivalents:

	2004	2003
Cash	41,559	44,200
Cash Deposits	17,505,908	34,071,888
Cash Equivalents:		
Cash and Equivalents	17,547,467	34,116,088
Other	0	0
Cash and Banks Stated in the Balance Sheet	17,547,467	34,116,088

- 3 Information on Non-Monetary Financial Statements
- a) A 244 million euros loan, guaranteed by the Portuguese Republic, corresponding to operation D, is contracted with EIB. Of this loan, a disbursement in the amount of 73,930,128 euros, the available amount, was made.
- b) During the year the company contracted a new loan of 200 million euros with EIB, guaranteed by the Portuguese Republic, from which a first disbursement of 120 million euros was made.
- c) The company received 31.25 million euros in respect of the sale and lease back operation of nine vehicles.







Notes to the Balance Sheet and Profit & Loss Accounts

0. Introduction

Metro do Porto was established by Decree-Law Nr. 71/93, of March the 10th, which defined the first legal regimen for a Light Rail System in the Oporto Metropolitan Area (AMP). It stipulated that the future system would be given in concession to a Public Company with State Shareholders.

Metro do Porto, SA, - initially named "Metro da Área Metropolitana do Porto, SA" – was established on August the 6th 1993, with the objective of operating a Light Rail System in the AMP.

The Decree-Law Nr. 394-A/98, of December the 15th, revoking the Decree-Law Nr. 71/93, of March 10th, appointed the Metro do Porto, S.A. company to be the concessionaire for a period of 50 years, besides regulating the Concession Bases (annex II), establishing rules for the shareholders (annex II – Shareholders Para-social Agreement for Metro do Porto, S.A.) and defining the Company's new Articles of Association (annex III). The concession's legal system was revised by Act 161/99, of September the 14th, which approved the Concession Bases, and by Decree-Law no 261/2001, of September the 16th. Recently it was further revised by Decree/Law nr. 249/02, of November the 19th, in order to allow the Company to use operating leases.

To fulfil its object, the Company was to conduct studies, design, plan, project and build the required infra-structures, as well as to purchase equipment and rolling stock. These tasks have so far represented the Company's main activities. Light Rail System commercial operation started in 2003 with the Blue Line. 2004 saw a significant increase in the commercial operation, related to the inauguration of the Trindade – Estádio do Dragão stretch and to a consistent increase in demand.

Line ©. Salgueiros station and Pólo Universitário

In the terms of Decree-Law Nr. 394-A/98 – Base XIII – the financing for the company's investment and operation is provided by the Government through its Budget, European funds and loan guarantees.

METRO DO PORTO Annual Report 2004 59

This company has the following participations:

TIP – Transportes Intermodais do Porto, A.C.E	33.333%
Metro do Porto, Consultoria Unipessoal, Lda	100.000%
Nortrem, ACE	0.009%
Transpublicidade, SA	40.000%

The following notes follow the numbering defined in the National Plan of Accounts. All the issues contained there which are not applicable to the Company, or whose content is not relevant for fully understanding the relevant financial statements, are not included. If IAS recommendations are more complete and important to clarify the company financial statements, each note's content is treated according to this normative. The final points, 49 to 57, were introduced to provide greater clarity in the financial statements presented.

2. Comparative Values

Interest rate swap

In 2003, the losses on the contract swap signed in March the 27th 2003 with Banco Comercial Português were accounted for in Financial Costs and Losses. As this contract hedges an operational leasing contract, the accounting criteria was changed, the loss now being accounted for in Third Party Supplies & Services.

3. Accounting Methods

The main criteria and accounting methods used in the determination of the year's results and in the presentation of the financial situation are:

3.1 Presentation Bases

Metro do Porto's financial statements were based on accountancy principles generally accepted in Portugal and according to the historic cost principle. As a supplement International Financial Report Statements (IAS/IFRS) required statements are also provided.

3.2 Income Recognition

a) Services provided

The income generated by the use of light rail transport tickets, "Andante", is booked according to the ticketing system's monthly record of validations. This information is provided by TIP, ACE, which is responsible for the treatment of all the sales network information and the corresponding income sharing calculations, according to criteria defined by the member companies.

The income from the maintenance of rail transport vehicles, related to operating lease contracts, is booked in accordance with the rents associated to the leases and in the months when they fall due.

The income generated from the use of "Andante" in alternative transports was credited in the respective transport service account, to offset the corresponding costs.

b) Operating subsidies

In 2004, 4.7 million euros were accounted in Operating subsidies, in order to compensate the Company of the increased operating costs related with the social service provided as well the decreased revenue related with the social prices charged.

3.3 Financial Risk Management

The company's exposure to financial risks is not significant and it includes mainly interest rate risk.

i) Exchange rate risk

The exchange rate risk is very limited, due to the fact that the loans are in euros and purchases in other currencies are not significant.

ii) Interest rate risk

The loans contracted with the EIB are in euros, based on the EIB variable and on revisable fixed rate as detailed in note n° 29.

iii) Credit risk

Not applicable.

iv) Liquidity risk

Public funds with origin in the Government and the European Union, long term-loans contracted with the EIB and structured leasing operations are the main components of the company's financing model.

Only interest rate swaps are used by the company.

3.4 Transactions in Currencies Other than the Euro

The transactions made in other currencies than Euro are converted into Euros with the respective exchange rates in the date of the transaction. In the balance sheet, the active and passive account items expressed in currency other than the euro are converted into euros at the respective exchange rates on the relevant date and the differences resulting from this conversion are recognized as year-end results.

3.5 Tangible Fixed Assets

Tangible fixed assets are accounted for at their acquisition or construction costs, net of accumulated depreciation and imparity losses. During the period of construction financial charges are capitalized.

Financial leasing contracts in which the Company substantially assumes all the risks and advantages related to the leased assets are classified as financial leasing.

Financial leasing contracts are booked at their start date as assets or liabilities at the lower of the asset's fair value and the present value of future leasing rents. Depreciation of the assets purchased under financial leasing contracts is made according to the method defined by the company for tangible fixed assets.

Rents are constituted by the financial cost and the depreciation of the capital. Financial costs are allocated to their respective periods over the leasing period at a constant periodical interest rate levied on the remainder investment of the lessor.

The costs of maintenance and repairing that do not increase the useful life of fixed assets are recognized as cost in each financial year.

The depreciation of the values of acquisition and construction is calculated according to the linear method with duodecimal imputation (by the straight line method). The applied annual rates reflect the shorter of two periods: the concession period (50 years) and the asset's economic useful life and are summarized as follows:

• Buildings and other constructions:

Buildings: 30 yearsUnderpasses: 50 yearsTunnels: 50 yearsTrack: 25 years

• Basic equipment: 20 years

Fixed assets in progress comprise all supplies for the construction of the Light Railway infrastructures, specialized services, third party's services for project development, and internal works capitalized by the company.

3.6 Intangible Fixed Assets

Intangible fixed assets are accounted for at their acquisition cost, net of accumulated depreciation and imparity losses.

Depreciation of the acquisition values is calculated according to the linear method with duodecimal imputation (by the straight line method). The annual rates reflect the period between the beginning of utilization and the stated period of the concession (50 years).

3.7 Financial Assets

Investments in Group and Associated Companies are accounted for through the Asset Equivalence Method. The shares in Companies on whose activity no significant influence is exerted are accounted for at the lower of cost of acquisition and Residual Value.

Shares in complementary groupings of companies are integrated in the company accounts using the Proportional Consolidation Method.

3.8 Imparity of the Assets

The assets of the company are analysed as at the date of each Balance Sheet, so as to evaluate indications of eventual imparity losses. As at December the 31st 2004 no imparity situations exist.

3.9 Provisions

Provisions are set up whenever the Company has a present (legal or implicit) obligation resulting from an event in the past and it is probable that a reduction in resources incorporating economic benefits, that can reasonably be estimated, will be demanded to eliminate the obligation. The analysis of the contingent losses is done on the date of each Balance Sheet.

In December the 31st 2004 the existence of contingent liabilities which may represent future losses was considered, and a total provision amount of 18 million euros was set up.

3.10 Specialization

The accounting of costs and income is based on the specialisation principle, according to which they are recognised as accrued, independently of their payment or receipt.

3.11 Corporate Taxes

Corporate Tax is calculated on the basis of the taxable income and allows for deffered tax.

Deffered taxes are calculated on the basis of the Balance Sheet responsibility method, on the temporary differences between the accounting values of the assets and liabilities and the respective tax base.

Active deffered taxes are only recognized when a reasonable certainty exists that future profits will be generated against which they could be used.

3.12 Operational Leasings

The contracts of leasing relatively by which the company does not assume substantially all the risks and inherent advantages of the ownership of the good are classified as operational leasings.

Rental costs associated with the operational leasing contracts are recognized as costs at the end of each financial year.

3.13 Fixed Assets Financing

Non reimburseable resources attributed to the company to finance fixed assets used in the Light Rail System, stipulated in the Decree-law n°394-A/98 and in its posterior revisions, were accounted for as Deffered Income up to 2003. In 2003 these resources were reclassified to integrate the Company's permanent capital, having been accounted for as "Concessor instalments" as this was considered more correct.

Funds with origin in the Government budget attributed by the PIDDAC, to support the investment in the Infante Bridge, were accounted as deffered incomes and are being used for the reintegration of the investment

6. Taxes

The Company is subject to Corporate Tax plus local tax. There is also separate taxation arising from the costs with the motor vehicles and the representation expenses.

In accordance with current law, tax losses are carried forward for a period of six years and can be deducted from tax profits made in the relevant period.

Outstanding deferred tax credits for tax losses were not recorded, for prudence reasons.

The available tax losses for future use are as follows:

Year of the Loss	Value	Usable until
2000	510,045	2006
2001	870,512	2007
2002	991,013	2008
2003	26,210,687	2009
2004	37,641,483	2010
Total	66,223,740	

7. Average Staff

The Company's average staff number during the financial year was 141 (206 in 2003), being 133 at the end of the year, 21 of which were transferred from CP and from REFER.

8. Movements Under Installation Costs and Research & Development Costs

Account "431 – Set up Expenses" reports the values of the studies, projects and project management costs, corresponding to the investments in 2004 in the Blue Line, which is in operation. The migration of these costs from Fixed Assets in Progress to Fixed Assets was made on the basis of the budgeted weight of these intangible assets relative to the direct investment in the system.

10. Movements in Fixed Assets Items

GROSS ASSETS

					(values in euros)
Items	Initial Balance	Increase	Decrease	Transferred	Final Balance
Financial Assets:					
Holdings in Group's Companies	3,994	0	784	0	3,210
Holdings in Associated Companies	97,896	69,956	0	0	167,851
Other Companies	0	94	94	0	0
Total	101,890	70,050	878	0	171,061
Intangible Fixed Assets:					
Formation Costs	22,424,689	37,756	0	15,108,666	37,571,111
Fixed Assets in Progress	137,657,008	41,695,924	0	-23,107,303	156,245,629
Total	160,081,697	41,733,680	0	-7,998,637	193,816,740
Tangible Fixed Assets:					
Land and Natural Resources	6,767,158	0	0	18,466,598	25,233,755
Buildings	207,036,366	1,904,846	0	185,317,467	394,258,679
Basic Equipment	22,894,418	339,680	0	10,183,112	33,417,210
Transport Equipment	743,047	203,360	156,237	0	790,170
Tools and Utensiles	101,853	155,146	0	0	256,999
Office Equipment	1,514,525	194,453	3,625	0	1,705,353
Other Tangible Fixed Assets	5,549,402	0	0	513,903	6,063,305
Fixed Assets in Progress	337,628,663	265,524,684	15,592,392	-206,482,443	381,078,511
Advances on Account of Fixed Assets	48,167,916	115,478,529	69,460,793	0	94,185,652
Total	630,403,347	383,800,698	85,213,047	7,998,637	936,989,634

DEPRECIATION AND PROVISIONS

				(values in euros)
Items	Initial Balance	Addition	Revising	Final Balance
Intangible Fixed Assets:				
Formation Costs	466,891	924,134	0	1,391,025
Total	466,891	924,134	0	1,391,025
Tangible Fixed Assets:				
Buildings	7,544,857	13,393,048	0	20,937,905
Basic Equipment	1,218,945	1,672,684	0	2,891,629
Transport Equipment	394,594	166,603	138,093	423,104
Tools and Utensiles	37,508	40,656	0	78,164
Office Equipment	807,124	405,051	3,154	1,209,021
Total	10,003,028	15,678,042	141,247	25,539,823

In 2004 investment in the stretches of the Blue Line which were completed and the investment realized in the construction of the Infante Bridge were transferred to fixed assets.

9 light rail vehicles were sold and simultaneously rented under an operational lease. These vehicles were registered under Fixed Assets in Progress. This deal did not cause any profit or loss for the Company.

The direct investment values of the T4, T5, T6, T17, T20 stretches of the Blue Line and of the Depot were booked in Fixed Assets under Land and Natural Resources, Buildings and Other Constructions and Basic Equipment. The values of direct investments in the Infante Bridge were booked in Fixed Assets under Land and Natural Resources, Buildings and Other Constructions and Basic Equipment. The net transfer of 7,998,637 euros with origin in the intangible assets is composed of financial costs and works fiscalization costs which accrue to the value of the fixed assets.

11. Capitalization of Financial Costs Incurred in the Period

12,605,053 euros were capitalized in the Fixed Assets in Progress account, consisting of 10,610,369 euros in financial charges from long-term loans by the EIB and 1,994,684 euros in interest from bridge loans.

14. Tangible Fixed Assets and Fixed Assets in Progress

- a) All the fixed assets are associated with the Company's activities and available for the exploration. There are no fixed assets located abroad.
- b) In accordance with Decree Law 394-A/98, all the assets of Metro do Porto, SA and those associated with the system are reversible to the State, at the end of the Concession period, which is 50 years. The financed values that satisfy the requirements of no IV of Basis XXVII are considered as affected to the interests of the concessor.
- c) In the financial year, financial profits obtained from financial investments were capitalized. Therefore, the amount of financial costs capitalized in the financial year decreased by 707,428 euros.

As a consequence, the final income balance, on December the 31st 2004, totaled 9,874,128 euros.

Interest was capitalized is as follows:

Previous years 31,209,522 eurosCurrent year 3,445,340 euros

15. Assets Used Under Financial Leasing

Assets used by the Company under financial leasing are cars and computer equipment, which were booked in Fixed Assets for 790,170 euros and for 148,344 euros respectively.

16. Group Companies, Associated Companies And Other Participating Interests

		Shareholder			Values of
Social Name	Headquarters	%	Capital (2004)	Net Income (2004)	financial participation
					in 31.12.2004
Metro Consultoria, Lda	Av. Fernão Magalhães, 1862, 7º – Porto	100.00	3,999	-784	3,210
Transpublicidade, SA	Av. Fernão Magalhães, 1862, 13º – Porto	40.00	256,243	174,889	167,851
Nortrem, ACE	R. Gen. Firmino Miguel, nº 3 – Lisboa	0.009	a)	a)	0
TIP, ACE	Av. Fernão Magalhães, 1862, 9º – Porto	33.33	b)	b)	0

a) the loss of the financial year eliminated the full value of the participation

28. Overdue Debts to the State and Other Public Entities

There are no overdue debts in the item "State & Other Public Entities".

29. Third Parties Debts Due in More than Five Years

The only debts to third parties due in more than five years are to the European Investment Bank. In the year, the Company used resources from two loan contracts:

- operation D of the initial contract to finance the Light Railway System of AMP;
- a new financing contract to support the projects to duplicate the Póvoa and Trofa lines, of which two operations were contracted, only the one referred to as operation A having been disbursed.

b) the accounts of this ACE are integrated through applying proportional consolidation method.

			(values in euros)
Contract	Contract	Used in	Amount
	Value	2004	Due
BEII			
Operation A	99,759,579	0	99,759,579
Operation B	100,000,000	0	100,000,000
Operation C	100,000,000	0	100,000,000
Operation D	243,930,128	73,930,128	243,930,128
BEI II			
Operation A	120,000,000	120,000,000	120,000,000
Operation B	80,000,000	0	0
Total	743,689,708	193,930,128	663,689,708

The loans contracted with the EIB are in euros, based on the EIB variable rate (which has been consistently lower than the Euribor for the same interest period) and revisable fixed rate. All of the EIB disbursements in 2004 used the EIB variable rate.

The loan contracts signed with the EIB benefit from a personal guarantee of the Republic Government, for a period of 20 years after the contract's signature date.

In 2003 an option with a revisable fixed rate was chosen for the operations B and C. On January the 29th, 2003, operation B's rate was fixed until March the 15th, 2009 and operation C's until September the 15th, 2009.

From the entire amount of operation D, 100 million Euros were contracted under the revisable fixed rate regime until March the 15^{th} 2010.

The loans obtained from EIB classified as medium and long term present the following reimbursement plans:

Contract EIB I:

Operation A: 10 consecutive annual instalments beginning in 2009 Operation B e C: 10 consecutive annual instalments beginning in 2012 Operation D: 10 consecutive annual instalments beginning in 2013

Contract EIB II:

Operation A: 13 consecutive annual instalments beginning in 2013

31. Financial Liabilities

The most relevant financial liabilities taken on by the Company derive from the public work contracts to construct the Light Railway System as well as fiscalization services contracts and exhibit the following structure at the end of the financial year:

Entity	Contract	Paid-up
	Value	Amount
Normetro – Base Contract	845,997,409	615,783,860
Normetro - Additional	359,819,327	218,783,860

32. Guarantees

As a surety bond for payment of the likely compensation amount to be paid by the Company, for the expropriation of urban property for the Light Railway network construction, bank guarantees were issued. At the end of the year, there are 34,003,335 euros in bank guarantees of which 24,939,587 were issued in 2004 (in 852 lawsuits).

34. Provisions

The provisions present the following configuration:

Items	Initial Balance	Increase	Decrease	Final Balance
Provisions for contingencies & liabilities				
Legal actions in progress	0	18,000,000	0	18,000,000
Total	0	18,000,000	0	18,000,000

The provision for risks and charges refers to the estimate of costs with one legal action in progress, as considered probable according to an estimate by the legal consultants.

35. Paid-Up Capital

The equity is fully subscribed and paid-up.

36. Number of Shares and Nominal Value

The equity of Metro do Porto is divided into 1,000,000 registred nominal shares with a face value of 5 euros each.

37. Equity Holdings

On December the 31st 2004 and 2003, the composition of the paid-up capital was the following:

Shareholder	2004	2003
Área Metropolitana do Porto	59.9993%	59.9993%
STCP	25%	25%
Estado Português	10%	10%
CP – Caminhos de Ferro Portugueses	5%	5%
Câmaras Municipais de Gondomar, Maia, Matosinhos, Porto, Póvoa de Varzim, Vila do Conde e Vila Nova de Gaia	0.0007%	0.0007%

40. Changes in Equity

				(values in euros)
	Initial Balance	Increase	Decrease	Final Balance
Share Capital	5,000,000	0	0	5,000,000
Called-Up Share Capital	179,033	0	0	179,033
Retained Earnings	-3,600,089	-26,031,614	0	-29,631,703
Net Income / Loss	-26,031,614	-37,949,388	-26,031,614	-37,949,388
Total	-24,452,670	-63,981,002	-26,031,614	-62,402,058
Concedent Instalments	273,025,428	60,361,518	1,259,079	332,127,866
Total	248,572,758	-3,619,484	-24,772,535	269,725,809

43. Remuneration of Members of Governing Bodies

The remuneration of the Company's Governing Bodies in 2004 was the following:

Board of Directors 875,179 euros
Single Auditor 17,950 euros

45. Financial Results

		(values in euros)
	2004	2003
Costs and Losses		
Interest Borne	17,619,602	16,354,039
Losses in Group Companies	878	1,780
Foreign Exchange Losses	0	47
Other Financial Expenses	1,670,523	1,024,438
Financial Income	-18,420,743	-16,191,789
Total	870,259	1,188,515
Income and Gains	'	
Interest Incomes	162,902	560,276
Profits in Group Companies	69,956	49,602
Profits on capital parts	28,000	0
Exchange Gains	1,154	10
Cash Discounts	0	1,633
Other Financial Incomes	608,248	576,994
Total	870,259	1,188,515

46. Extraordinary Results

2004 2003 Costs and Losses **Donations** 125,926 144,335 378 Losses in Fixed Assets Ω 3.197 Penalties 367 5,410 0 Corrections to previous years 10,520 85 Other Extraordinary Expenditures Extraordinary Costs 1,186,291 -109,711 Total 1,331,344 35,454 Income and Gains Fixed Assets Gains 21,124 13,410 Corrections Brought Forward 1,945 Other Extraordinary Income 1,310,220 20,099 Total 1,331,344 35,454

(values in euros)

The heading "Other Incomes" corresponds to subsidies received in form of endowments from the State Budget for construction of Infant Bridge, and being transferred to results as a function of depreciations.

48. The Company Received the Following Bank Guarantees From its Suppliers

Normetro – Agrupamento do Metropolitano do Porto, ACE, the company awarded the contract to project and build the Porto Light Rail System, pledged, in the contractual terms, the precise and punctual fulfillment of their obligations in favour of Metro do Porto, in the amount of a 129,439,409 euros bank guarantee.

Cinclus – GIBB – Tyco, the company awarded the service contract to inspect and control the construction of the light rail system, pledged, in the contractual terms, the precise and punctual fulfillment of their obligations in favour of Metro do Porto, in the form of bank guarantees with the total value of 2,952,565 euros.

Other suppliers of fixed assets pledged, in contractual terms, the precise and punctual fulfillment of their obligations, in favour of Metro do Porto, in the form of bank guarantees with the total value of 8,163,360 euros.

49. State and Other Public Entities

The balance with State and Other Public Entities are the follows:

		(values in euros)
	2004	2003
VAT receivable	42,268,164	48,293,220
Corporate Tax	43,386	135,516
Personal Income Tax	7,681	7,681
Social Securities Receivable	5,201	5,201
	42,324,432	48,441,618

51. Deferred Costs

The deferred costs are as follows:

	2004	2003
Operational leasing of vehicles– 1st contract	111,863,339	116,590,163
Operational leasing of vehicles- 2 nd contract	83,892,113	87,263,841
Operational leasing of vehicles– 3 rd contract	62,504,796	64,148,155
Operational leasing of vehicles– 4 rd contract	40,969,049	0
Other deferred costs	51,007	27,599
Total	299,280,304	268,029,758

The company sold and then leased back Light Rail System vehicles. In 2002 the first operation was realized, involving 28 vehicles. In 2003, a new operation was realized in two parts of 20 and 15 vehicles. In 2004, a new operation concerning 9 vehicles was realized. The operational leasing was contracted for 20 years, rents being partly invoiced at the beginning of the contract. The total amount invoiced is booked as Deferred Costs against Other Creditors. The rents are recognized as charges of each respective period.

52. Banking Debts

The Bank Loans are demandable as follows:

	2004	2003
Short Term	17,432,000	0
Medium and Long Term	663,689,708	469,759,579
	681,121,708	469,759,579

The medium and long term debts is entirely made up of debts contracted with the European Investment Bank, under the conditions described in the note 29.

53. Other Creditors

The most important balances are the following:

Most Representative Balances	2004	2003
NORTREM – Aluguer Material Ferroviário, ACE	245,341,815	219,365,015
Normetro, ACE	5,809,081	73,708,439
ENSITRANS	2,134,611	2,413,676
CINCLUS – Fornecimentos	1,860,957	1,879,927
ACA CONSTRUÇÕES – Alberto Couto Alves, SA	1,476,770	0
Other creditors	124,108,317	23,971,543
	380,731,551	321,338,600

By Balance sheet heading:

	2004	2003
Other creditors – medium and long term	235,185,061	212,523,795
Fixed assets suppliers –short term	130,882,624	97,129,685
Other creditors – short term	14,663,866	11,685,120
Total	380,731,551	321,338,600

The Nortrem, ACE debt corresponds to the four Operational Leasing contracts falling due in 40 half-yearly installments. The rents falling due during year 2005 were reflected in the short term debts.

54. Acrrued Costs

	2004	2003
Wages to be paid	639,983	388,774
Financial costs	7,654,891	7,072,169
Others	8,045,150	1,066,870
	16,340,024	8,527,813

The item "Others" contemplates 6,060,000 euros of indemnification to compensate shop owners, whose commercial establishment was affected by the construction works.

55. Deferred Income

	2004	2003
Investment Subsidies	32,578,423	35,198,438
Maintenance of Light Rail Vehicles	55,874,112	49,886,798
Interest Rebates	5,383,377	5,776,085
NPV US CBL	5,913,207	6,128,747
Total	99,749,119	96,990,068

Yearly movements (less):

- Parts transferred to year-end results: 1,243,215 euros
- Transfer to net worth (concessor's instalments) 1,368,926 euros

The transfer of deferred incomes to net worth is due to a reclassification of the received subsidy.

56. 2004 - Light Rail Vehicles Operational Leasing

A new operational leasing - LEP (Portuguese Structured Leasing) contract related to 9 Light Rail System vehicles was realized in the financial year and was booked in account 2724 of the balance sheet, as a result of an anticipated accounting of future rents, in the amount of 40,969,049 euros.

The first operational leasing of Metro do Porto gained the prize of "Deal of The Year 2002" from the Asset Finance International due to its innovative characteristics.

This operation was sanctioned in the form of an Authorization Dispatch of MOPTH on December the 11th 2002 which approved the operational lease, the sale of the vehicles and the concession of the personal guarantee of the State. The State guarantee of the obligations to be assumed by Metro do Porto, SA was also authorized by the Finance and Treasury Secretary of State on December the 12th, through a dispatch.

On April the 23rd 2002, "DGCI – Direcção-Geral dos Impostos" (the tax authority) confirmed the operational leasing nature of the operation, through an official letter to the Company.

The operation is considered as operational leasing because the lease, which is the object of the rental contracts, will not be merely a function of the financial terms relating to the amount of acquisition of the vehicles, interest rate and maturity and because it is not qualified as financial leasing under current law, as it flows from its characteristics as described below.

In March the 27th 2003, an interest rate swap with Banco Comercial Português, concerning the 2002 operational lease contract, was contracted.

Beginning on June the 13th 2003, a fixed rate of 4.76% (half-yearly rates) was contracted under a swap for the full contract amount, which was of 96,242,430 euros on the signing day.

57. Lawsuits

The disputes in which the company is involved on December the 31st 2003 are the following:

Actions taken by	Total value of lav	Total value of lawsuits		
Clients	0	(a)		
Tax Authority	0	(a)		
Employees	0	(b)		
Merchants	0	(c)		
Normetro	178,838,324	(d)		
Expropriations	903,288	(e)		
Third parties	343,570	(f)		

Notes:

- al Non-existent
- b) Legal actions filed by the workers transferred from CP and Refer, claiming benefits' from the previous collective working agreements.
- c) There are four lawsuits actions regarding the shop owners. However it is not expected that any additional charge will be brought to the company.
- d) Normetro claimed increased costs due to the extension of deadlines, regarding the excavation of tunnels and underground stations, which was submitted to an arbitration process by means of an agreement signed in July. The amount is of 68,957,058 euros. Later on, an amendment following a new claim of increased costs of 109,881,226 euros with respect to construction of stations and deadline extensions to that agreement was signed in December 2003.
- e) There are 30 lawsuits regarding expropriations' process launched by the company involving the sum of indemnification mentioned above.
- f) Civil lawsuits about the damages caused by the works

Bearing in mind the company's record on past cases, we think that most lawsuits will not result in future responsibilities.

Eventual future contingencies unfavorable to the Company will not turn into negative results as they are related to the works and will be incorporated in the investment values.

Legal Certification of Accounts

Introduction

1. 1. We examined the financial information of "METRO DO PORTO, S.A.", comprehending: the Balance Sheet as at December the 31st 2004 (which shows a total of 1,482,362,133 euros and net worth of 269,725,808 euros, including a net loss of 37,949,388 euros), the Profit & Loss Accounts by nature and by function of expense, the Cash Flow Statements in the financial year ended at that date and the corresponding Notes.

Responsibilities

- 2. It is the responsibility of the Board of Directors to prepare the financial statements to present a true and fair view of the Company's financial state of affairs and of the profit/loss and cash flows for the year as well as the adoption of adequate policies and accounting criteria and the maintenance of an appropriate internal control system.
- 3. It is our responsibility to express a professional and independent opinion based on our audits of those financial statements.

Scope

- 4. The examination was conducted following the Technical Rules and Auditing Directives issued by the Auditing Practices Board, which require it to be planned and performed to give reasonable assurance that the financial statements are free of material misstatement. Therefore, the audits comprehend the following actions:
 - examining, on a sampling basis, the support for the amounts and disclosure of financial statements and evaluating the estimates used in their preparation based upon criteria and judgments as defined by the Board of Directors;
 - appreciating the adequacy, considering the circumstances, of the accounting policies and of the information made available on those policies;
 - Verification of applicability of the going concern basis; and
 - Appreciation of the global adequacy of the financial statements presentation.
- 5. We believe that our audits provide a reasonable basis for expressing our opinion.

Opinion

6. In our opinion, the financial statements give a true and fair view in all materially relevant aspects of the state of affairs of "METRO DO PORTO, S.A." on December the 31st 2004, and of the profit/loss and cash flows of the year ended at that date, in accordance with generally accepted accounting standards.

Emphasis

- 7. Without affecting the aforementioned opinion, attention is drawn to the following situation:
- 7.1 Until 2002 the company recognized the non-reimbursable subsidies received to finance the Light Rail System's fixed assets as Deferred Gains. In 2003, it changed this, recognizing them as Concessor Installments, in accordance with notes no. 1, 2 line a), 3.13 and 40 in the Annex.
- 7.2. The company contracted an € 96,242,430 interest rate swap, related to the operational leasing contract signed in 2002, as described in the notes no 3.3 and 56 in the Annex.
- 7.3. The transport public service offered by the Company, with tariffs administratively set with regard to social concerns, determines the negative results of the exploration. The received operating subsidies, in a total amount of 4,730 thousands of Euros, were well below the needed support to compensate those results.

Oporto, February the 16th 2005 António Magalhães & Carlos Santos – SROC, represented by Carlos Alberto Freitas dos Santos – Registered Auditor no. 177

Statutory Auditor's Report

To the Shareholders: METRO DO PORTO, S.A.

In accordance with the law and the mandate you trusted us with, we hereby submit the report on our fiscalization activities and our opinion on the Management Report and the Financial Statements of the financial year ended in December the 31st 2004, which were presented to us by the Board of Directors of "METRO DO PORTO, S.A.".

We highlight as the most significant event during last year the start of operation on June the 5th 2004 on the stretch between the Trindade and Estádio do Dragão stations, whose construction presented special characteristics.

During the year we followed the Company's activity, its compliance with the law and the articles of association as extensively and frequently as we deemed adequate and, on a test basis, the conformity of the accounting records with the corresponding original documents.

We received from the Board of Directors and staff all the relevant information and clarifications we required, which we thank them for and which enabled us to follow the Company's management effectively.

Within the scope of Statutory Auditor's function we verified that:

- the Management Report, containing all the legally required information, describes with adequate evidence the Company's activity in the past year, also anticipating its evolution and containing a proposal for the application of results.
- The financial demonstrations which include the Balance Sheet, the Profit and Loss Accounts by nature and by function, the Cash Flow Statement and the corresponding Annexes show clearly the net asset position of the Company and how the results were formed.

We issued as it was our responsibility the Accounts Legal Certification, which is an integral part of this document.

Consequently, in our opinion:

- 1.0 The 2004 Management Report and Accounts should be approved;
- 2.0 The proposal for the application of results should be approved;

Oporto, February the 25th 2005 António Magalhães & Carlos Santos – SROC, represented by Carlos Alberto Freitas dos Santos – Registered Accountant no. 177

Audit Report

To the Shareholders of:

Metro do Porto, S.A.

- 1. We examined the Balance Sheet of "METRO DO PORTO, S.A." as at December the 31st 2004, the Profit & Loss Accounts by nature and by function of expense and the Cash Flow Statement in the financial year ended at that date and the corresponding Notes. These financial statements are the responsibility of the Board of Directors and it is our responsibility to express an opinion based on our audits on those financial statements.
- 2. Our audit was conducted following the International Auditing Directives. These directives require us to plan and conduct the audit so as to obtain acceptable assurance on whether the financial statements contain or do not contain material distortions. An audit includes examining, on a sampling basis, the evidence supporting the amounts and disclosures of the financial statements. Additionally, an audit includes an appreciation of the adequacy of the accounting principles adopted and an evaluation of the significant estimates made by the Board as well as the appreciation of followed the accounting statements presentation. We believe that our audit provides a reasonable basis for expressing our opinion.
- 3. The company records the grants and subsidies received from the State and European Union related to assets in the Concessor Instalments account (number 4 of Base XXVII), a part of the net worth accounts. In our opinion, these subsidies should be recorded as Deferred Income and recognized as income as a function of the subsidized assets' depreciation. The amount booked in the Concessor Instalments account as at December the 31st 2004 is 333,387 thousand euros (273,025 thousand euros as at December the 31st 2003). We were unable the effect this had on (passive) Deferred Assets and on results.
- 4. In our opinion, except for the effects of point 3 mentioned above, the financial statements appropriately present **Metro do Porto, S.A.'s** financial situation as at December 31st 2004, as well as the results of its operations and the cash flows of the year ended at that date, in all relevant aspects, in accordance with generally accepted accounting principles in Portugal.

Oporto, February the 4th 2005 PriceWaterHouseCoopers

METRO DO PORTO, S.A.

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