

Annual Report

2007




Metro do Porto. Life in motion.

Annual Report

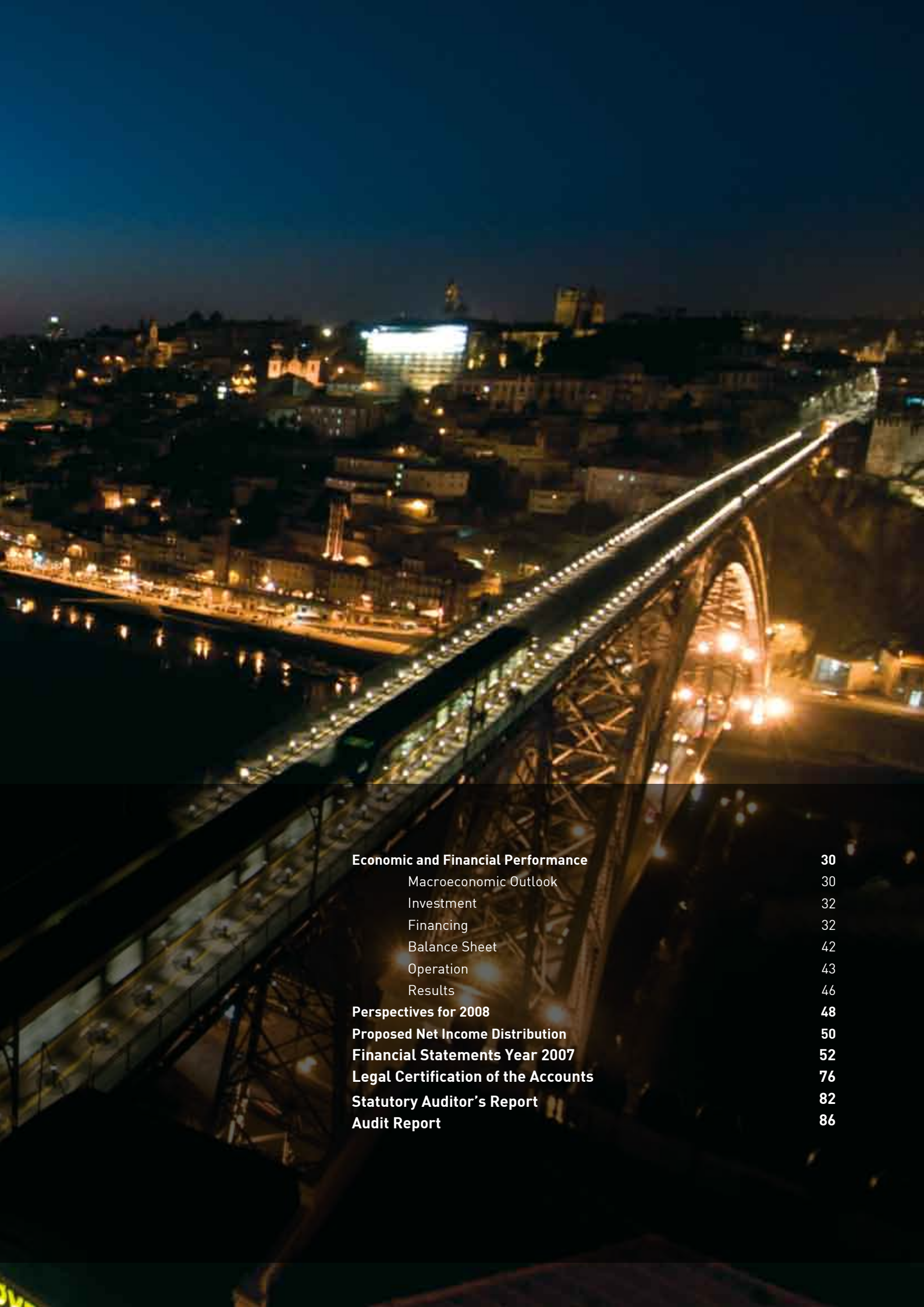
2007





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ANNUAL REPORT 2007 CHAIRMAN'S MESSAGE

A year of growth.

The activity of Metro do Porto, SA throughout the financial year of 2007 can be defined as one of operational growth, sustained by a notable increase in demand. And structural growth given the decisions taken in regard to the second Phase of the network which opens excellent future perspectives of the future of the Porto Metro Light Rail System.

In 2007, Metro do Porto transported more than 48 million clients – 10 million more than in 2006, in other words, a further 24.7%. In a period in which the system has been stable, in which no new lines or stations were opened, this rate of growth of demand can be highlighted as remarkable. And this means that the citizens of the Metropolitan Area continue, year after year, to use the Metro, this new, modern and safe form of public transport.

The increase in the number of passengers transported and the rationalisation of the supply led to a considerable improvement in the operational results with incomes increasing three times more than expenses. Thus, the cover ratio of operational costs by fare income was 54.6% (7.2 percent more than the previous year). This is a highly positive result, which stands out from most of the companies in the public transport sector, both within the country and in Europe.

If in this Report, the operational and commercial success recorded is notable, some of the more relevant decisions taken in 2007 will only have a concrete impact, and repercussion on the ground, in coming years and will be of the greatest importance in the activity of this business.

In the Annual Report for 2006, we stated that:

"We are, and continue to be, prepared for new challenges we have in front of us. The Second Phase of Porto Metro is already studied, planned and projected. What we hope for in 2007 is the concrete definition of the objectives, means and schedules."

We further said that:

"The shareholders are responsible for a clarification of the targets which this company is to pursue in the future. Familiar with the studies and projects for development of the Network on the one hand, and sure in the knowledge of awareness of the natural expectations that the citizens of the Porto Metropolitan Area have in its realisation, on the other side, the shareholders will know how to take the best decisions and to work in the common interest of the population."

And thus it was. The shareholders in Metro do Porto, SA took decisions and defined the strategic lines of the company, especially in regard to the expansion of the Network.

In May 2007, following the negotiations in which we also took an active part, the shareholders, Porto Metropolitan Area and the State, formalised the signing of the Memorandum of Understanding relating to the development of the Porto Metropolitan Area Metro Light Rail System. This document, besides pointing the way to a new business structure and to a new model of governance of the company, defines the schedule of the Second Phase of the Network.

The shareholders determined on the advance of the link to Trofa on the Green Line, the construction of the Gondomar Line, the extension of the Yellow Line in Vila Nova de Gaia, and reinforcement of the connections between Porto and Matosinhos. The agreement reached between the "Junta Metropolitana" and the Government similarly results in a very clear schedule which the Board has to fulfil.

It was in the light of guidance received from the shareholders that in October we launched the public tender process for construction of the Gondomar Yellow Line, between Dragão stadium and Venda Nova/Cabanas, which we believe will be awarded during the first half of 2008. The works of this new and important line may start very soon.

We have also been working on the development of projects necessary to build the other lines and extensions in the terms already referred to. In collaboration with the "Faculdade de Engenharia da Universidade do Porto", studies have been carried out of how the Second Phase of the Network will progress so that the shareholders can now approve the investment and give Metro do Porto a new impulse of growth. Starting with the programmed public tender process for the sub-concession of the operation and maintenance of the system. This tender will also include the construction of some new lines.

The Second Phase of the Metro do Porto Network is therefore underway. We are sure that this new phase will continue to be marked by the success which has characterised this project. In 2007, we completed five years since the date of the inauguration of the system (December 2002). Its reliability and efficacy, the increasingly positive operational results and the loyalty of the population are certainly a solid guarantee of the return on the investment made.

With the presentation of this Annual Report for 2007 to the shareholders, the mandate of this Board, to which I have had the honour of presiding, comes to an end. It is fair at this time when one cycle of the life of this company ends – a cycle which was begun in the previous mandate – to leave here a few words of gratitude.

Firstly, a word to the shareholders, to all shareholders – the “Junta Metropolitana do Porto”, STCP, the Government of Portugal, CP and the Municipal Chambers of Porto, Vila Nova de Gaia, Matosinhos, Maia, Vila do Conde, Póvoa de Varzim and Gondomar. Without their trust, incentive and support it would not have been possible to project, construct and put into operation in the short space of six years, a public transport system of the size and quality which are manifest and recognised in Porto Metro. The excellent and profitable cooperation that arose between shareholders, all of them, and the Board of Management, was and is without a doubt, a decisive factor in the success of this project.

Secondly, a word of recognition of the governments is fair, whether in regard to previous governments or the current one. Not as representatives of the State Shareholder, but as the guide and decision maker. On the part of successive Governments, we always had full and open availability, effort and goodwill for this project to advance. To the governments of Durão Barroso, Santana Lopes and José Sócrates, a word of sincere thanks is fair and is due.

Gratitude is also due to the construction consortium, Normetro, and to all the partners, suppliers and staff of Metro do Porto, SA. A large project, such as the one we have been undertaking is only possible with people, people of quality, and with great teamwork. The dedication of all those who were or are involved in this undertaking was always there, and similarly justifies this reference.

Lastly, I would like to leave a word of gratitude and appreciation to the members of the governing bodies of this company, notably and as is only fair and justly deserved, to my colleagues on the Board of Management and on the Executive Board. The last six years have been of hard and intense work. The work is now visible, it is admired and recognised. And it has been worth it!

My thanks go to all the colleagues on the Board of Management to which I have had the honour of presiding.



Valentim Loureiro

METRO DO PORTO IN NUMBERS



Network (31/12)	2003	2004	2005	2006	2007	07/06
Extension	11,826	15,649	34,505	58,877	58,877	0.0%
Stations	18	23	45	69	69	0.0%

Human Resources	2003	2004	2005	2006	2007	07/06
Total Staff (end of FY)	150	133	137	118	125	5.9%
Total Average Staff	206	141	137	123	123	-0.1%

values in thousands

Demand	2003	2004	2005	2006	2007	07/06
<i>Metro System</i>						
Passengers	5,960	9,843	18,481	38,637	48,167	24.7%
Passenger km	26,476	46,506	95,978	202,473	245,921	21.5%
Average journey (m)	4,443	4,725	5,193	5,240	5,106	-2.6%

values in thousands

Supply	2003	2004	2005	2006	2007	07/06
<i>Metro System</i>						
Vehicle kms	1,343	1,941	3,398	6,562	6,974	6.3%
Seat kms	290,076	419,285	733,945	1,417,434	1,506,327	6.3%
Commercial Speed (km/h)	-	-	-	26.70	27.22	1.9%
Load factor	9.1%	11.1%	13.1%	14.3%	16.3%	2.0pp

Income and Operational Cost	2003	2004	2005	2006	2007	07/06
<i>Metro System</i>						
Income (thou€)	2,766	5,271	10,326	21,263	26,678	25.5%
Income/Passenger km (cent€)	10.45	11.33	10.76	10.50	10.85	3.3%
Income/Seat km (cent€)	0.95	1.26	1.41	1.50	1.77	18.1%
Operational Cost (thou€)	9,236	11,890	23,792	44,861	48,823	8.8%
Cost/Passenger km (cent€)	34.88	25.57	24.79	22.16	19.85	-10.4%
Cost/Seat km (cent€)	3.18	2.84	3.24	3.16	3.24	2.4%
Cover Ratio	30.0%	44.3%	43.4%	47.4%	54.6%	7.2pp

values in thousands of euros

Results	2003	2004	2005	2006	2007	07/06
Operational Results	-9,674	-20,680	-46,234	-81,434	-85,418	-4.9%
<i>Before Depreciation</i>	6,926	-4,081	-23,575	-40,619	-34,944	14.0%
<i>Before Operating Subsidies</i>	-9,674	-25,411	-48,479	-83,837	-95,777	-14.2%
Financial Results	-16,192	-18,421	-25,696	-41,457	-60,692	-46.4%
Extraordinary Results	-110	1,186	636	759	960	26.4%
Net Income	-26,032	-37,949	-71,335	-122,155	-145,189	-18.9%

A TIME TO TAKE STOCK



The year 2007 was the first full year of operation of the complete network configured four years before, at the meeting of the Council of Ministers held in July 2003 in the city of Porto.

Opening	Line	Stretch	Extension	Stations
1 Jan 03	Blue	Trindade - Sr. Matosinhos	11,826	18
5 Jun 04	Blue	Dragão Stadium - Trindade	3,823	5
13 Mar 05	Red	Senhora da Hora - Pedras Rubras	6,744	5
30 Jul 05	Green	Fonte do Cuco - Fórum da Maia	5,984	6
17 Sep 05	Yellow	Câmara de Gaia - Pólo Universitário	5,723	10
10 Dec 05	Yellow	João de Deus - Câmara de Gaia	405	1
2005 Openings			18,856	22
18 Mar 06	Red	Pedras Rubras - Póvoa de Varzim	17,228	15
31 Mar 06	Green	Fórum da Maia - ISMAI	4,484	4
31 Mar 06	Yellow	Pólo Universitário - Hospital S. João	1,180	2
27 May 06	Violet	Airport Branch	1,480	3
2006 Openings			24,372	24
Network in Operation			58,877	69

This configuration of the system was budgeted for the first time in the company budget for the year of 2004. The evolution of its total cost (as estimated in the successive annual budgets prepared since) is presented in the following table, alongside the evolution of the respective execution. A variation of less than 2% between the multiannual budgets for 2004 and 2008 can be observed.

The table also presents the evolution of the extension of the system in commercial operation and of the demand it has attracted. Thus it provides a summary of the progress of the various fronts of activity of the company:

The average cost per km on the surface in double track, excluding special stations, amounted to 16.9 million Euros; the average cost per km underground rose to 24.4 million Euros without special stations (29.3 million Euros per station and 74.8 million Euros per km including special stations). These unit costs re-constitute 1.531 of the 2.409¹ million Euros of the total multi-year budget for 2008. The remaining amount corresponds to items which do not vary obviously with the extension of the network².

The rate of coverage of the direct operation costs by the fare income has been improving continuously and reached the record value of 66.50% in December, with the average annual rate being 54.64% in 2007.

	2002	2003	2004	2005	2006	2007	2008	
Multi-annual budget total based on current perimeter ^A			2,226	2,155	2,310	2,277	2,264	millions euros
Accumulated execution at year end ^A	703	1,002	1,348	1,690	2,001	2,105	2,249	millions euros
Double track in service at year end ^A	11.8	11.8	15.6	34.5	58.9	58.9	58.9	kms
Demand in year	-	26	47	96	202	246	270	millions Pkm

^A - Does not include the estimate of the cost of infra-structures whose construction, on 30th June 2007 has not been begun: the stretches in João de Deus-Sto.Óviedo, ISMAI-Trofa in single track with possibility of duplication, Dragão-Venda Nova, the EN222 interface in the stretch João de Deus- Sto.Óviedo with the EN222 and the construction work adapting the PMO Guifões.

The 246 million kilometres travelled by the 48 million passengers transported in 2007 illustrate the indispensable role this infra-structure has in the daily life of the people of Porto, just six years after its construction started.

1 - 2,264 million Euros related with projects whose construction was already in course on 30th June 2007 and 164 thousand Euros concerning other projects.

2 - Amongst the items which do not vary obviously with the extension of the network, the rolling stock, the Guifões depot (PMO), the Infante D. Henrique Bridge, the Parquemetro park at Dragão Stadium station and overhead costs stand out.

MEMORANDUM OF UNDERSTANDING

The Memorandum of Understanding between the "Junta Metropolitana do Porto" and the "Ministério das Obras Públicas, Transportes e Comunicações" for the development of the Metro Porto Metropolitan Area Light Rail System was signed on 21st May 2007. This document, not only advanced the basis of understanding established with the Ministry in respect of the governance of Metro do Porto, S.A., but also defined the schedule of the expansion of the network in the near future:

- a) Link to Trofa;
- b) Link to Gondomar;
- c) Extension of the link to Gaia;
- d) Reinforcement of the circular links in Matosinhos and Porto.

This Memorandum sets out the alteration of the shareholder structure of Metro do Porto, until the end of 2007, with the increase in the joint stock from 5,000,000 Euros to 7,500,000 Euros, to be wholly subscribed by the State. As a consequence, this shareholder will have its direct and indirect stake strengthened to 60% of the capital.

STRATEGY STUDIES

With the first phase of the network having been completed, strategic and development studies of the network were carried out in 2006 and 2007. Its opportunity was highlighted by the content of the Memorandum of Understanding, and should culminate in 2008 with the sending of the dossier to the government for appraisal and decision relating to the large public tender for the programme of construction of the second phase and operation of the whole system after March 2009, stipulated in this Memorandum.

AWARDING OF STRETCH JOÃO DE DEUS – D. JOÃO II

On 9th April 2007, the contract with the OFM Consortium – Obras Públicas, Ferroviárias e Marítimas, S.A. / ACA – Aberto Couto Alves, S.A. / Somafel, Engenharia e Obras Ferroviárias, S.A., was signed for the construction of the extension of the Yellow line between the stations João de Deus and D. João II (which will be situated next to the EN222), with an extension of 500 metres and the construction of a new station.

VALIDATION RECORDS

Throughout 2007, the Metro system beat successive journey records, having reached the absolute maximum of 4,742,000 validations in October and in November the highest monthly average number of validations, with 154,591 daily validations and an average of 188,051 on working days.

PROGRESS IN INTER-MODALITY (STCP NETWORK AND TARIFF INTEGRATION)

On the 1st January 2007, the implementation of the new network of the bus transport operator, "Sociedade de Transportes Colectivos do Porto", was concluded. This network responds to the new reality of mobility in the Porto Metropolitan Area, in particular to the emergence of the Metro system.

With the implementation of this new network, the Andante tariff became valid throughout the whole STCP network, a decisive factor in the spread and success of the intermodal project of the Porto Metropolitan Area (AMP). The single-mode tariff of this operator however remains valid.

COMMERCIAL CAMPAIGNS

In 2007, Metro do Porto made a total of 35 Special Operations to respond to peak demand generated by diverse initiatives arising in the Metropolitan Area. There were 23 special operations for football games in Dragão stadium and 6 operations for one-off events, such as games at Leixões Sport Club, concerts or the Boavista circuit. Other operations which stand out were Queima das Fitas, Senhor de Matosinhos, São João, Air Race, Christmas and the New Year.

STRATEGIC STUDY

Following the approval in July 2006 by the Board of the document titled "Metro do Porto, S.A. Integrated Company Strategy", a FEUP team led by Prof. Paulo Pinho was set up in November 2006 to carry out a strategic study. After much hard work, the final report entitled "Metro do Porto Strategic Development Programme" was delivered in July 2007 and sent to the Government in December.

In the wake of this report, the consequent research studies were commissioned and are already well advanced at the end of the year. In the last quarter, the legal and financial consultants charged with the structuring the PPP were selected, through which PPP the construction of the second phase of the system and its operation is to be implemented after March 2009 (all for a long term), as well as the refinancing of the first phase – if the government accepts guidance in this sense, expressed in the above referred to document "Metro do Porto, S.A. Integrated Company Strategy". Thanks to the collaboration of these various bodies, it will be possible to propose to the government a complete, implementable dossier of the large public tender process that the company was called to prepare up to the end of 2007 through the Memorandum of Understanding.

The "Metro do Porto, S.A. Integrated Company Strategy" defined as areas susceptible to being served by the metro those within a ring of around 12 km in radius from the centre of Porto city. The population and the jobs existent in this area correspond to 940,905 inhabitants and 441,708 jobs. The document identifies which areas are fundamental but not yet served by the present rail system (metro and train):

- *in Porto:*
 - in the western area of city of Porto (namely Antunes Guimarães);
 - to the west of the industrial Zone of Ramalde and to the east of Parque da Cidade;
 - south of Campo Alegre;
 - the area of Carvalhido / Constituição;
 - a strip next to Avenida Fernão Magalhães (crossing Areosa and ending outside the municipality);
 - the comercial zone of Cedofeita; and
 - in the proximity of the São Roque, Amial and Montes Burgos areas.

- *in Gondomar:* in areas of Rio Tinto; the centres of Fânzeres and S. Cosme; and to a lesser extent the parish of Valbom;
- *in Matosinhos:* in the area of S. Mamede de Infesta/ Padrão de Légua; and in the parish of Leça da Palmeira;
- *in Vila Nova de Gaia:* in the strip from Avenida da República to Vila d'Este; in the western area next to Ponte da Arrábida also including the parish of Canidelo; and (with lesser importance) in Oliveira do Douro (close to Ponte do Freixo).

The "Programme" proposes a network of lines which is to add about 41 kms to the existing network at an additional cost of about 1,500 million Euros. As a result the number of intersections and interfaces would increase considerably. The population served would increase from 240,000 to 437,000 people. The proposed lines are:

- the extension of the blue line to Gondomar;
- circular line;
- Senhor de Matosinhos - (Boavista) - S. Bento line;
- extension of the yellow line to the North, to the Senhora da Hora station;
- the extension of the yellow line to the south to Vila d'Este;
- Oliveira do Douro - (Arrábida) - Senhor de Matosinhos line.

METRO AND THE ENVIRONMENT



In September Metro do Porto presented its first Sustainability Report relating to the year 2006, which reflects the work carried out over the last years showing that in the implementation of the Metropolitan Area Metro Light Rail System, alongside the economic performance, environmental and social concerns have always been present.

Concerned as we are with letting the clients, the community, investors and other strategic partners learn of the Company's efforts in the environmental, social and economic areas, together with this Management Report, we also publish the Sustainability Report for the year 2007.

The social and environmental impact of the Metro Light System was felt positively in various domains, the improvement in the conditions of mobility in the Porto Metropolitan Area not being the least of them, in reducing travelling times and in the improvement of air quality, and also being visible in the urban refurbishment of the areas around the Metro canal.

It was calculated that throughout 2007, the Metro system has caused reductions in emissions which, in a very conservative view (i.e. assuming that all its demand derives from bus transport), rose to:

- 39 Tonnes of carbon monoxide (CO);
- 26 Tonnes of hydrocarbons (HC);
- 332 Tonnes of oxides of nitrate (NOx);
- 15 Tonnes of particles.

The contribution of the Metro system in energy savings was of around 9,200 Tep (tonnes equivalent to petroleum). The gains in time are greater than 4 million hours.

At the level of construction, Metro do Porto applies an Environmental Monitoring System to the works, based on the requirements of Norm NP EN ISO 14001:2004, using whenever possible companies which are certified environmentally.

Within the scope of the Environmental Impact Assessment process of the project of Duplication of the Póvoa and

Trofa lines and of the extension of the Metro line to the Francisco Sá Carneiro Airport a Noise Monitoring Plan was implemented to do the first monitoring study of the noise arising from circulation of the Metro. Noise level measurements in accordance with that established in DL.9/2007 of 17th January were already carried out. Their monitoring report will be concluded in 2008.

After the launch of the public tender for the construction of the Gondomar line, Dragão Stadium – Venda Nova stretch, and within the scope of the Environmental Impact Assessment process underway, the Environmental Compliance Report of the Execution Project – RECAPE, was prepared.

The tender is underway to prepare the Environmental Impact Study – EIA of the Boavista – Laborim line.

During the year 2007, in the construction of the line at Corgo in Azurara to Vila do Conde, excavation work was carried out at the pre-historic Bronze Age site in an area of 2,000m². Further excavations were made at this site in an area of 3,500m² which allowed documentation of a late Roman site. Final reports were published of the work carried out at Corgo (Azurara) in 2005, and in the final phase of the intervention in S. Bento, also done in 2005.

METRO AND ITS CLIENTS

CLIENTS

LIGHT RAIL SYSTEM

The year 2007 was the first one since coming into operation in which demand on the System was not influenced by alterations to the network. The current configuration of the network, in full operation since 27th May 2006, was defined at the meeting of the Council of Ministers held in July 2003 in the city of Porto and has 69 stations along 58.9 Km.

For 2007, a new criterion was adopted in the statistical treatment of validations, excluding those by the same card at the same card validator when separated by less than ten minutes. In spite of this new criterion, accentuated growth in demand was maintained in 2007, as in all previous years, recording a total of 245.9 million passenger kms, 21.5% more than in the previous year. Given the average journey recorded of 5,106 metres per passenger (a reduction of 2.6% from the average in 2006), the above number corresponds to a total of 48,1 million validations, up by 24.7% on that recorded for 2006.

This level of growth of demand generated a big challenge, above all at peak times: to provide a response with the existing rolling stock.

The implementation of the new STCP network in January 2007, and its integration in the intermodal Andante system led to the growth in demand for the Metro. The number of validations in the first quarter of the year showed an average growth of 15% in relation to the preceding quarter at the main stations with a bus interface, namely 24 de Agosto, Casa da Música, Hospital de S. João, João de Deus, Marquês and Trindade.

The absolute records of demand in the last quarter of 2007, as well as the growth of 16.8% in passenger kms between the second halves of 2006 and 2007 – periods with the same network in commercial operation – are clear signs of the growing loyalty of the population to the Metro System.

The following table shows the evolution in the average daily number of validations between 2006 and 2007, as well as the evolution throughout 2007. The third quarter numbers are a result of the seasonal drop in the number of validations due to the traditional holiday period.

Average number of validations	2006	2007	1st Quarter 2007	2nd Quarter 2007	3rd Quarter 2007	4th Quarter 2007
Working Days	128,547	160,085	154,927	160,983	133,651	177,354
Weekends and Holidays	57,150	70,046	61,458	74,922	60,816	76,500
Monthly	105,856	131,963	126,886	132,611	112,505	145,114

Trindade station, at the crossing of five Light Rail System lines, is the central point of the System. Considering the two platforms of this station, the access to the Yellow line and to the common stretches of the rest of the lines of the System, it accounted for a total of 9.6 million validations in 2007, 19.9% of the yearly total, of which about 77% are transfers. Taking out the transfers, the three main stations of the network are, besides Trindade, the Casa da Música and João de Deus stations with very similar usage (about 2 million passengers per year).

Assuming that a trip begun more than 70 minutes after the start of the previous trip represents the start of a journey, it is possible to split the validations at the different stations of the Light Rail System between those which start a journey within the Andante system and those corresponding to a transfer (between operators or between vehicles of the same operator) within a journey. The table below presents the top ten stations with the greatest number of journey starting validations, as well as the share of that type of validation in the total number of validations at that station.

Station	Entries to System	Entries/ Validations
Trindade	2,241,923	23.41 %
Casa da Música	2,021,639	69.05 %
João de Deus	1,970,704	83.14 %
Bolhão	1,703,674	76.70 %
São Bento	1,453,287	72.47 %
Dragão Stadium	1,342,334	79.53 %
Campanhã	1,182,292	65.30 %
Sra. da Hora	1,078,518	56.07 %
Marquês	1,004,349	80.28 %
Sete Bicas	986,208	81.60 %
Carolina Michaelis	881,203	82.02 %
24 de Agosto	849,404	73.63 %
Aliados	837,290	77.96 %
Francos	825,956	87.52 %
IPO	739,288	89.68 %

USER PROFILE AND LEVEL OF SATISFACTION 2007

As a result of holding 1,492 interviews between the 23rd and 29th of November 2007, the study "User Profile and Level of Satisfaction 2007" carried out by DOMP identifies the speed, comfort/convenience, punctuality, economy and the frequency of trains as the strong points of the Metro do Porto service. The results of this study indicate a global satisfaction rate of 75.6%.

According to the results of this study, the "typical client" of the Metro System is a woman aged under 24, single, middle class and resident in Porto. Females represent 51.8% of all clients, against 48.2% males. The weight of young people among users is also very significant: 40.3% are between 15 and 24 years old, 21.8% are between 25 and 34 years old and 12.8% are between 35 and 44 years old.

In regard to the municipality of residence, 31.0% of Metro clients live in Porto, 15.9% in Vila Nova de Gaia, 15.2% in Matosinhos, 9.2% in Maia, 6.8% in Gondomar and 5.4% in Póvoa de Varzim.

Metro has been a revolution in the life habits of Porto Metropolitan Area citizens where 36.9% say they use the car less. Metro is the preferred method for journeys to and from work (51.9%), to go shopping (33.9%), to take a trip (32.3%) and to go to school (28.4%).



PARK & RIDE

The Porto Metro Park & Ride system proved to be a pioneer in Portugal offering since 2006 full integration between transport and parking on the same contactless Andante card.

The Porto Metropolitan Area Light Rail System now has a total of 21 car parks throughout the network and a global capacity of 2,322 spaces.

The opening of the car park at ParqueMaia station was the first in 2007 through an agreement with the Maia Metropolitan Parking company and with direct benefits for frequent Porto Metro clients using the intermodal Andante system.

The control of accesses at the Dragão Stadium station ParqueMetro interface has been active since 15th August 2006, having recorded a total of 109,045 entrances in 2007 which, given the park's capacity of 850 spaces, corresponds to an average daily occupation of 403 vehicles. Also noteworthy at this car park interface is the rate of paid occupation which varied in 2007 between 24% in August and 55% in November.

As far as the remaining free Park & Ride interfaces of the Porto Metro network are concerned, the load factor is differentiated according to the location and the season: full load factors at the Senhora da Hora station car park are common; rates of over 85% at ParqueMaia station; over 70% at Botica and Pedro Hispano; and above or very close to 50% at Araújo, Crestins, Custóias and Parque de Real stations.

GUINDAIS FUNICULAR

During the year, 386,600 trips were made on the Guindais funicular, which corresponds to 108,200 passenger kms. These values represent a growth of 22.6% over the same period of 2006.

The same pattern of use of the Guindais funicular occurred, with 39.4% of the validations taking place on non-working days. In daily terms, there was an average number of 1,331 validations on non-working days, for a global average of 1,057 validations. The average number of validations on working days was 931, 69.9% of the amount recorded on non-working days.

In monthly terms, the peak usage occurred in August, with 61,900 validations, 16% of annual usage of the funicular.

The daily peaks took place on the 24th and 23rd of June with the special operation of S. João, and between 30th of August and the 1st of September when the Red Bull Air Race was held between Porto and Vila Nova de Gaia.





SERVICE LIGHT RAIL SYSTEM

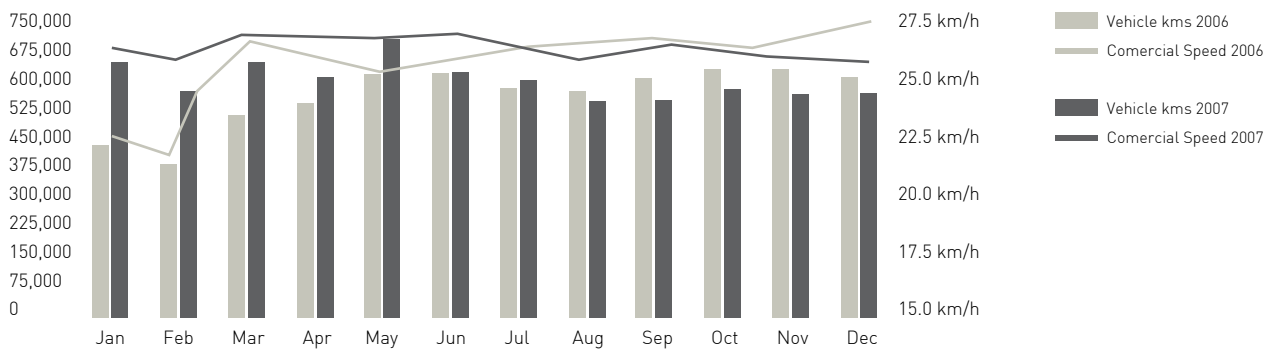
In 2007, 6,974,000 vehicle kms were offered (equivalent to simple). With a transport capacity of 216 passengers per car (80 of which are seated), this corresponds to 1,506 million seat kms. Given the supply in 2006, a growth of 6.3% of kms journeyed was recorded. This indicator is naturally conditioned by the schedule of openings in 2006, the last of which occurred in May 2006.

The coming into effect of the new winter timetable in September also represented the introduction of a new, more flexible operation model, optimising the distribution of rolling stock, allocating the use of double cars as a

function of actual demand of the services rather than using a fixed allocation to the lines. This resulted in an innovative operation scheme offering a non-symmetric offer which is better adjusted to the dynamics of the demand, allowing the meeting of the needs and wishes of the clients, an example of which is the adoption of double cars on the Blue line at peak times.

This new model, made possible by the revision of the operation contract, contributed to the improvement shown in 2007 in the average load factor and in the cover ratio of the operational costs by the fare income.

Light Rail System Operation



The average global commercial speed taken from the sensors increased in 2007 to 27.22 km/h. The average passenger speed (commercial speed weighted by the occupation per stretch) went up in 2007 to 28.53 km/h.

The following table presents the evolution of these values for each of the connections offered by Porto Metro:

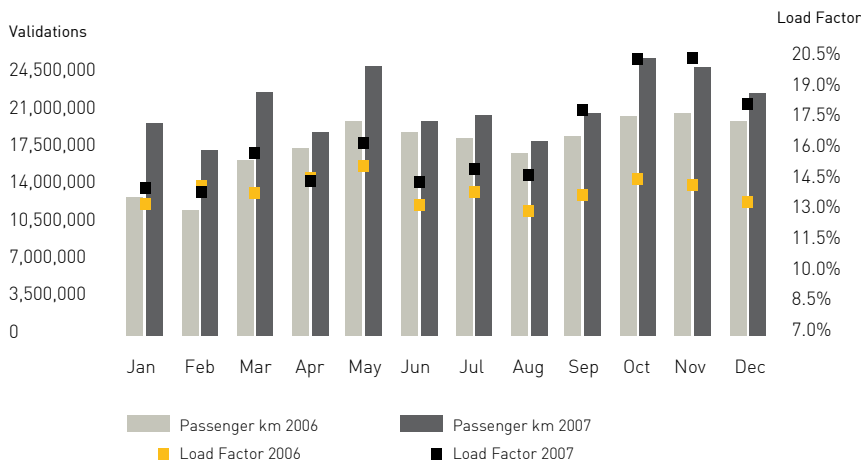
Comercial Speed	2006	2007
Blue Line	23.54 km/h	23.18 km/h
Red Line	31.16 km/h	32.17 km/h
Green Line	27.48 km/h	27.28 km/h
Yellow Line	21.58 km/h	21.47 km/h
Violet Line	27.02 km/h	27.31 km/h
Global	26.70 km/h	27.22 km/h
Passengers	28.03 km/h	28.53 km/h

The calculation of this speed indicator takes into account the time taken to travel between stations and stoppage times at stations (except for stoppage time at the terminus stations).

Of the vehicle kms journeyed throughout the year, 18.4% were made on services of the link to Matosinhos, 33.1% of the link to Póvoa, 20.7% of the link to Maia, 18.2% of the link to Gaia and 9.6% of the link to the airport.

The global load factor went up to 16.3%, a growth of 2.0 pp over the same period of 2006.

Light Rail System Load Factor



The monthly peak was seen in November, with a load factor of 19.71%. The monthly average peak hourly occupation was reached also in November, 30.85% between 08.00 and 09.00 hours. The monthly average peak hourly occupation oscillated throughout 2007 between the 08.00-09.00 hours and 17.00 – 19.00 hours bands. The values oscillate between 23.32% recorded in August and the peak already referred to in November.

Month	Peak Occupation	Time
January	24.83 %	8h-9h
February	24.27 %	8h-9h
March	27.27 %	8h-9h
April	23.84 %	18h-19h
May	27.22 %	8h-9h
June	24.12 %	8h-9h
July	24.23 %	18h-19h
August	23.32 %	18h-19h
September	27.62 %	18h-19h
October	30.75 %	8h-9h
November	30.85 %	8h-9h
December	28.14 %	17h-18h

The values indicated above correspond to the average occupation in the System, considering all the days of the week, the whole network and both directions. Analysing the peaks in occupation by hour/stretch/direction, load factors consistently over 55% are achieved (over the seven days of the week, not just working days).

Throughout the year there were eighty-nine traffic accidents. Taking into account the level of supply, a rate of 0.13 accidents per 10,000 vehicle kms, 35.1% more than for the year 2006.

GUINDAIS FUNICULAR

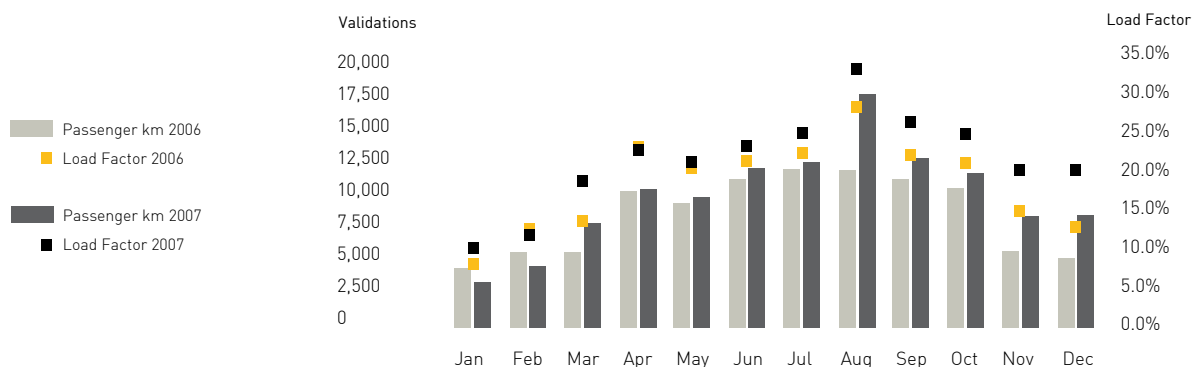
The Funicular's installed transport capacity is, on a normal duty basis, one thousand five hundred passengers per day and per direction of travel. Train frequency works out at every 10 minutes, throughout the entire operating hours schedule, and travelling time is approximately two minutes.

During 2007, 37,135 journeys were offered which corresponds to a supply of 519,890 seat kms, marginally more than that for 2006 (growth of 0.8% of volume of supply).

The Funicular's average load factor was 20.8% during 2007. In comparison with 2006, and following the strong growth in demand for this service, there was an increase of 3.71 pp in the annual load factor.

Reflecting the pattern of use of the Guindais funicular, the load factors were found to be highest on non-working days, with an annual average of 25.2%, 18.7% on working days.

Guindais Funicular Load Factor





METRO DO PORTO'S COMMUNICATION AND IMAGE

The communication activities during 2007 involved the holding of events in public spaces of the network, contributing to the appreciation of the service provided. The partnerships established with various cultural and social institutions resulted in more regular cultural happenings at the stations, more than fifty during the year, affording clients of the System habitual contact with different forms of artistic and cultural expression.

Projects in partnership with entities such as the "Teatro Nacional S. João", "Fundação Calouste Gulbenkian", "Universidade Católica do Porto", "Ministério da Justiça", "Federação Académica do Porto", "Coliseu do Porto", "Teatro Municipal Rivoli", the "Feira do Livro do Porto", "Fundação de Serralves", "Casa da Música", "Festival Porto Cartoon", "Festival de Curtas-Metragens de Vila do Conde", "Instituto Politécnico do Porto", "Associação Espaço T", the "Ministério da Educação" and "Banco Alimentar contra a fome". A cooperation agreement was signed with the "Ministério da Cultura" to publicise cultural events of national scope on the Porto Metro network.

In the year of the fifth anniversary of the first commercial line of the Light Rail System, a book "The History of the Porto Metro" was published as a record of the moments and facts of the life of the project, from the time when it was first conceived of up to the present. It was launched in December and is available at main bookshops throughout the country. A new Metro do Porto institutional video was made with versions in Portuguese and in English, showing the state of development of the project. The fifth anniversary of the inauguration of the System on 7th December was marked by events throughout the network. There was music, dance, theatre, performance art, installations and exhibitions offering our clients a diversified artistic programme and making this a festive day on the Metro. In parallel, the moment was also marked by a concert of the Porto National Orchestra at the Casa da Música where, alongside the institutional representation, there were also guests and the 50 clients who first signed on to the Andante monthly card.

On December 12th, Porto Metro and the "Faculdade de Engenharia da Universidade do Porto" jointly organised the Conference "The Challenge of the Expansion of Porto Metro", an event which gathered some of the leading specialists in transport and planning in the country, as well as the presidents of the Board of Management and of the Executive Board of the Company and the president of the "Comissão de Coordenação e Desenvolvimento Regional do Norte". In this conference, attended by more than 400 people, options and strategic models for the development of the Metro were presented and debated. Besides the organisational questions, this event involved a vast amount of public relations work which resulted in high media coverage.

In 2007 Porto Metro received numerous visits from foreign delegations in order to find out about the project and appreciated the accumulated experience.

As far as the public relations area was concerned, it's worth mentioning the events around the start of works on the extension of the Yellow line to the new D. João II station in Vila Nova de Gaia, informing the interested parties on the various phases of the works, alterations to road traffic and actions to minimise the impacts. Similar work was done for the conclusion of the work of urbanisation of the Yellow line at the north terminus in Asprela.

The editorial and informative component was a regular activity through the Informetro newsletter, the digital newsletter Vaivém, the Metro SMS service, the www.metrodoporto.pt web site and the Metro TV channel. Furthermore, the PR work was involved in promoting the more than thirty special operations held throughout the year.

Finally the new Andante card products were presented in May – One-day Tour and Three-day Tour. This type of the intermodal card is also valid on the operators adhering to the Andante system. With no limit to the zones, trips or number of trips, the Andantev Tour is available in two versions: 1 day (24 hours after the first validation) and 3 days (72 hours).

EVOLUTION OF THE NETWORK

EVOLUTION OF CONSTRUCTION

Line **B** – Dragão Stadium – Póvoa de Varzim

Urbanisation work was concluded of the System between the stations of Santa Clara and S. Brás.

The definitive access to the west car park at Varziela station was carried out.

Line **C** – Dragão Stadium – ISMAI

Works were concluded on the new ISMAI terminus station, adding parking spaces as well as technical installations in operations support.

The more significant works were concluded on urbanisation around the station of the Industrial Park and to the south of Parque Maia station.

Line **D** – D. João II – Hospital de S. João

The third quarter of 2007 saw the beginning of construction of the Yellow line extension between João de Deus station and that of D. João II (EN222), comprising an extra 500 metres and the building of a new station.

Urbanisation work was concluded in the municipalities of Porto and Matosinhos, namely the new accesses to the Pólo Universitário station.

Urbanisation work was also concluded adjacent to the IPO and Hospital de S. João stations. Covering of the Hospital de São João trench was contracted and assigned.

Guifões PM0

Public tenders were launched for the construction of the upper platform and accesses to the Guifões Depot and the expansion of the large repair workshops to enable refurbishment of the new Tram Trains fleet.

Works for retention and consolidation of the embankments were also carried out.

Improved Network Safety Conditions

Public tender processes were launched for the elimination of the level crossings at Rua do Corgo in Azurara, and at the EN 104 in Árvore, both on the Red line.

Project design and construction of the branch to Rua da Mota in Vilar do Pinheiro and forest trails for access to the west entrance of the Espaço Natureza station, both on the Red line, were also carried out.





THE URBAN COMPATIBILITY WORKS OF THE LIGHT RAIL SYSTEM

The reinstatement of the functionality of the urban space affected by the construction of the Metro system is indispensable. However the evidence of the principle does not always correspond to its application in practice. Lorenz gave the title "Does the flap of a butterfly's wings in Brazil set off a tornado in Texas?" to his paper to the Congress of the American Association for the Advancement of Science in 1972. The meteorological systems which concerned this mathematician, a pioneer of chaos theory, are similar in this aspect to urban systems – the effects on these of the building of a light rail system on the surface are not always direct and local. Certainly the untimely resolution of the questions or dilemmas of this nature have impacts which are potentially catastrophic in the approval of projects, consigning of land etc., in short in the pace of building work, in the possibilities of making the contractors bear responsibility, in the effective putting into operation of the metro service for the population.

Metro do Porto has taken care and has been effective in the management of this type of works project (which represents less than 12.5% of the total investment), harmonising fulfilment of the deadlines established in the Concession rules with the regular and detailed accounting to the State shareholder. Whatever the case, works of this kind proved controversial, for example when an "Tribunal de Contas" audit expressed the opinion that they were beyond the scope of the company business.

Surprised on the one hand by this controversy and attending on the other both to what is set forth in Dispatch no. 925/2005 of 20th October from the "Ministérios das Finanças e da Administração Pública e das Obras Públicas, Transportes e Comunicações", and to the more marginal and less undisputable nature of some of the projects of this type about which it became necessary to take a decision in 2007, the Board decided to submit to the Government for appreciation a group of projects:

- 2nd phase of Urban compatibility works in the stretch Vila do Conde – Póvoa de Varzim
- Urban compatibility works Phase in the stretch Vila do Conde – Póvoa de Varzim;
- Interface at Vila do Conde
- Modivas Norte Station and respective accesses;
- Expropriation of workshops, administrative services and kennel from the Municipal Council of Vila do Conde;
- Parallel roads to the Maia Norte Viaduct;
- Provisional covering of the Terminus de S. João trench;
- Construction of the new Modivas Norte - Vila do Conde station.

All these projects, except the last one, which is still awaiting a decision, received a favourable decision by the Government, in further confirmation that the policy followed previously was not excessively generous (much to the contrary).

PROJECTS IN PREPARATION

Continuing the work carried out in 2007 in the area of studies and projects for expansion and improvement of the network, Metro do Porto expects to be authorised to begin construction of the first network extension in 2008, particularly for the Gondomar line which is to be built in this phase up to Venda Nova.

Alongside construction of this line, Metro do Porto will continue the development of projects and works responding to the needs for optimisation of its service, as well as the commitments arising from the Memorandum of Understanding signed on 21st May 2007 between the "Junta Metropolitana do Porto" and the "Ministério das Obras Públicas, Transportes e Comunicações".

Notable amongst these studies and projects were the following:

Maia – Trofa Line (Extension of the Green Line) **10.8 km – 7 Stations**

For the elaboration of the project, a public tender process was launched considering single track (with provision for future duplication) and double track solutions.

This is to be a line designed for the new "tram-trains" both in what concerns the route and the infra-structure to be projected, to enable significant gains in journey times between stations, whilst always looking for a friendly integration into the urban landscape.

Once the project is finished, Porto Metro will be able to launch this undertaking and in accordance with the referred to Memorandum of Understanding, it will be inserted in the international public tender process for the second phase of the System.

Porto – Gaia Line (Extension of the Yellow Line to the south, between D. João II and Santo Ovídeo) **610m – 1 Station**

The extension of the Yellow line (D) is part of the projects considered in the Memorandum of Understanding for the second phase of expansion and the tender for its construction is to proceed independently from the rest of the projects considered there.

In the year 2008, the Yellow line will gain one further station at the southern end, D. João II station, there being a projected extension from this station to Santo Ovídeo. After studying the various requirements for the expansion of the metro and taking into account the pedestrian traffic and road circulation, a solution was arrived at which considers the creation of three distinct levels. The metro canal is to be implemented under the already existing work of art, the road traffic linking to the IC2 will flow under the metro station and the lateral access roads to the Santo Ovídeo roundabout will be maintained, the roundabout being reprofiled to take advantage of the widening of the slab of the existing work of art to cover the station and implement the mechanised accesses to it.

Thus the construction of a station at Santo Ovídeo is provided for, with lateral platforms wider than normal, adjusted to its function of a terminus station, and with easy accessibility from the roads around. This liberation of the profile of the work of art to the Metro also allows better landscaping of the metro route by setting up green areas surrounding it.

The metro track will be extended to the south by around 220m so as to allow the vehicles to invert direction.

Porto – Maia Line (Extension of the Yellow Line to the North) **9km – 12 Stations**

A line has been projected which manage to overcome the barrier posed by some large-scale roads, namely the N12 (Ring road), the A3 and A4, without losing quality of service to the main population centres and areas of high population growth such as Milheiros, Gueifães, Lavrador, Chantre and Parque da Maia, the latter being the terminus and with the possibility of transfer to the Green line.

This line is also thought to allow future expansion to the airport, connecting the current line with the Violet line.

Gaia – Porto Line (Orange Line) **7,5 km – 9 Stations**

Metro do Porto began, during the construction of the first phase, developing studies for a new Gaia-Porto line to serve the strip situated west of the Yellow line.

Although the Memorandum of Understanding does not refer specifically to this line, Porto Metro intends to prepare the solutions drawn up in this study, enabling their future development or use.

Feasibility Study of New Corridors in support of Circular Connections in Porto and Matosinhos

Within the scope of the preparatory studies for the international public bidding process for the new sub-concession of the Porto Metropolitan Area Light Rail System, the company sought to carry out analyses of new expansion routes of the network. These studies drew the conclusion of the imperative of reinforcing transversal and circular routes of the network and also its densification in the urban areas of Porto. This orientation also ended up similarly expressed in the text of the Memorandum of Understanding.

A deeper analysis is planned in 2008 of the feasibility of the new corridors for later comparison with the project already developed, to allow opting for the scenario which best responds to the needs both of the network itself in operational terms, and of the population in terms of the demand of the service.

Comparative Study between the “Venda Nova B – Gondomar” and “Campanhã – Gondomar via Valbom” Connections

According to the Memorandum of Understanding the Company must study alternative access routes for the network to reach the centre of Gondomar. To this effect, a comparative study of the alternative connections to the centre of the municipality was carried out, considering both the extension of the line already under tender and which terminates at Venda Nova – B station and a new link from Campanhã passing through Valbom.

Improvement of the conditions of the Interface at Senhora da Hora station

This project is intended to respond to the pre-eminent need to provide better conditions of comfort to clients using the Metro and in its interlink with private and public transport, namely with buses.

Thus, the project to be developed is to consider principally the increase of capacity of the platforms, the use for commercial purposes of the third track already built, and the complete covering of all embarkation and pedestrian path areas. In parallel, the steps necessary to the maintenance and improvement of conditions of comfort and additional services provided to clients given the successive rise in demand, such as increasing the number of benches, dustbins, automatic selling machines and card validators, client information panels, the possibility of installing ticket selling machines with ATMs, as well as other equipment to respond more effectively to new needs arising at this interface.

Improvement of connections between metro and trains at the General Torres stations in Gaia and at Lourinha station in Gondomar

At some points of the network, Metro track is close to the train service, creating natural points of transfer between the two modes of transport. Campanhã station on the Blue line, General Torres station on the Yellow line, and Lourinha station on the Blue line extension at Gondomar are part of this group. At General Torres station it has not yet been possible to set up the conditions desirable for comfortable transfer between railway station and the Metro station. Although various studies have been carried out by Metro do Porto to establish a direct link between the two, it is now aimed to make them compatible with the REFER plans for this infra-structure.

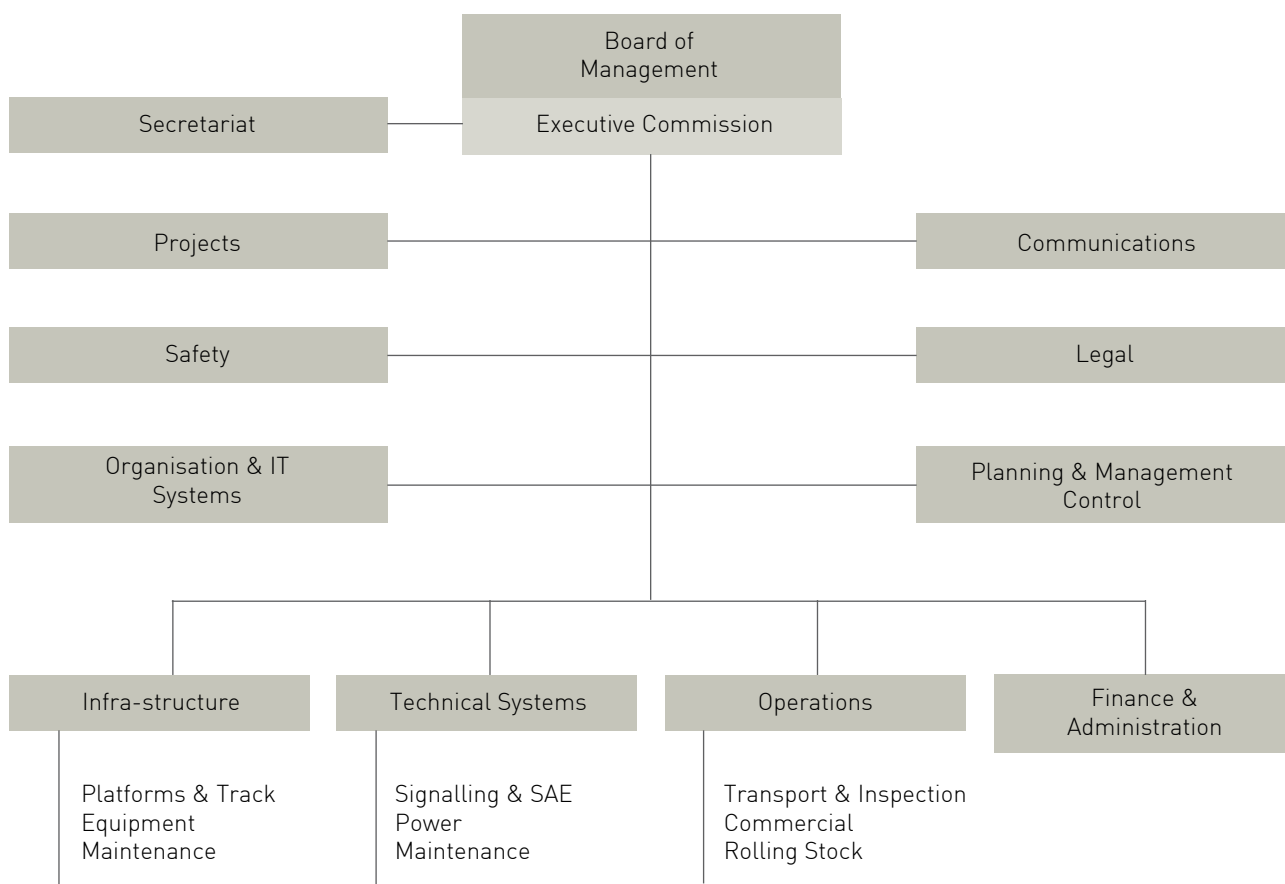
As far as Lourinha station is concerned, the proximity with the REFER Rio Tinto station is quite attractive. It is therefore intended to carry out a study of a pedestrian link which is as direct as possible between stations whilst also considering integration with bus services.



METRO AND ITS STAFF

ORGANISATIONAL STRUCTURE

No alteration to the organisational structure of the company was made during the financial year.



Luis Meireles / Luis Bianchi de Aguiar / Nuno Ortigão
Jorge Morgado / Raúl Bonito / Victor Silva / António Brandão



João Rebelo / Nuno Atelúia / Manuel Paulo Teixeira / Paulo Braga Lino /
Manuel Alegre / Joaquim Carmona / Almeida Teixeira / Coutinho dos Santos

HUMAN RESOURCES

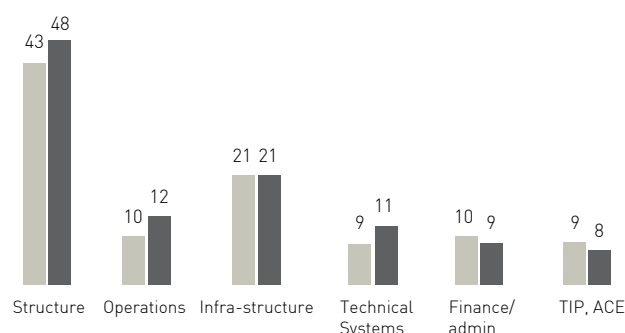
At the end of 2007, Porto Metro had 125 members of staff (of which just 101 work in the company), with an average number throughout the year of 123 members of staff, exactly the same as at December 2006.

	2004	2005	2006	2007	07/06
Total Staff (31/12)	133	137	118	125	5.93%
Excluding CP/REFER	112	121	102	109	-6.86%
Excluding CP/REFER & on detachment at TIP, ACE	103	111	93	101	8.60%
Average Total Staff	141	137	123	123	-0.07%
Technical Staff	60.6%	60.6%	71.2%	70.4%	-0.8pp

Within the staff total at 31st December 2007 are included eight members of staff working at TIP, ACE; and also included are 16 cases pending of CP and REFER staff transferred to Metro do Porto under an agreement signed in September 1998 between the State, Porto Metropolitan Area, CP and REFER. Under this agreement Porto Metro had to bear the costs of a total of 14,574,000 million Euros (in wages and redundancy costs). This agreement stipulates the coverage of the costs by the State "for the actions under this agreement".

Considering the alteration of the organisational structure of the company, the distribution of staff between departments as at 31st December 2006 and 2007, is the following:

Staff Structure at 31st December
(excluding CP and REFER staff)



AGREEMENTS

In continuity of the agreement signed with the "Centro de Reabilitação Profissional de Gaia", complementary training in the area of technical design and measurement was implemented.

Also a cooperation agreement was signed with AIESEC Porto, of the "Faculdade de Economia do Porto" for two curricular internships.

During the year, professional traineeships in association with IEFP - "Instituto de Emprego e Formação Profissional" were set up with the objective of completing the training of qualified young people, by attending traineeships in real world work situations.

The Metro do Porto staff are highly qualified, and as of 31st December 2007, 66.4% of its staff are secondary or university level graduates (76.1%, excluding CP/REFER staff).

Another of the characteristics of the Metro do Porto staff is its youth. The average age in 2007 was of 37.9 years (excluding CP / REFER staff). Not considering CP/REFER personnel, 67.0% of staff are below 40 years of age.

METRO AND ITS SHAREHOLDERS



Narciso Miranda / Rui Rio / Mário de Almeida / Valentim Loureiro / Duarte Vieira / Juvenal Peneda / Oliveira Marques

SHAREHOLDER STRUCTURE

The “Junta Metropolitana do Porto”, a body which includes all the municipalities in the Porto Metropolitan Area, is the majority shareholder of the company. The municipalities included in the Metro System - Gondomar, Maia, Matosinhos, Porto, Póvoa do Varzim, Vila do Conde and Vila Nova de Gaia - have symbolic participation in the capital of the company.

The State of Portugal is the third largest direct shareholder, with a participation of 10%. “Sociedade de Transportes Colectivos do Porto” and “Caminhos de Ferro Portugueses”, companies owned by the State and strategic partners of Metro do Porto in the intermodal project underway in the Porto Metropolitan Area, hold stakes of 25% and 5% of the capital, respectively.

During the financial year, no alterations were made to the shareholding structure of the company, in spite of what is established in the Memorandum of Understanding. The capital remained represented by 1,000,000 shares of nominal value of 5 Euros and distributed as follows:

Shareholder	%
Junta Metropolitana do Porto	59.9993
STCP	25.0000
Portuguese State	10.0000
CP	5.0000
Municipal Council of Gondomar	0.0001
Municipal Council of Maia	0.0001
Municipal Council of Matosinhos	0.0001
Municipal Council of Porto	0.0001
Municipal Council of Póvoa de Varzim	0.0001
Municipal Council of Vila do Conde	0.0001
Municipal Council of Vila Nova de Gaia	0.0001

COMPOSITION OF GOVERNING BODIES

No alterations were made to the composition of the governing bodies of the company, whose present composition was the result of the General Meeting held on 10th March 2004. The company's governing bodies complete their statutory mandate at the end of the financial year 2007.

GENERAL MEETING BOARD

President:

António Gonçalves Bragança Fernandes

Vice-President:

José Macedo de Vieira

Secretary:

José Barbosa Mota

BOARD OF MANAGEMENT

Chairman:

Valentim dos Santos de Loureiro

Members:

Rui Fernando da Silva Rio

Mário Hermenegildo Moreira de Almeida

José Narciso Rodrigues de Miranda

Manuel de Oliveira Marques (President of the Executive Commission)

José Manuel Duarte Vieira (Executive Commission)

Juvenal Silva Peneda (Executive Commission)

ACCOUNTANTS

Effective:

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

Deputy:

José Rodrigues de Jesus – R.O.C.

ECONOMIC AND FINANCIAL PERFORMANCE

MACROECONOMIC OUTLOOK

The year 2007 was marked by the interruption of the robust growth rate of worldwide economic and trading activity (with strong dynamics of the emerging and developing economies, in particular China, India, Russia, the Middle East and of some countries on the African continent). The slowing down of the world economy's growth occurred in the second half of 2007, as a result of the abrupt change in risk perception by economic agents in general, and by investors in the financial markets in particular.

This phenomena of sharply increased uncertainty about the economic outlook of the future, caused by the continued deterioration in the high risk mortgage market of the United States of America, whose implications for the world economy are not yet evident, prompted intervention by various Central Banks of the United States of America, Europe, United Kingdom, Switzerland and Canada.

Increased uncertainty at the geo-political level was seen which, in conjunction with the accentuated devaluation of the US dollar and the drop in north American reserves of crude oil and distillate products, led to repercussions in the price of raw materials and energy on the international markets, notably in the price of oil, foods and precious metals.

According to forecasts published in the World Economic Outlook of October 2007 by the International Monetary Fund, the world GDP is estimated to grow by about 5.2% in 2007 and by 4.8% in 2008, against the 5.4% recorded in 2006, reflecting the softening of world economic and trading activity, with most impact on the more advanced economies. According to the same source, estimated inflation remains under control on the global level, remaining at around 2.1% in the advanced economies. As far as world trade is concerned, the International Monetary Fund also estimates considerable weakening of imports and exports in 2007, with this outlook continuing in 2008 with most impact on the advanced economies.

At the level of the world economy, the developed economies of the USA, Japan and the euro system, and the emerging economy in China are noteworthy. In the USA, the adverse effects of the crisis in high risk mortgage credit caused a cooling of economic activity, in spite of strong acceleration in exports due to depreciation of the dollar, and of the maintenance of levels of internal consumption, supported by the dynamism in jobs and wages. The forecasts published in the World Economic Outlook referred to estimated growth in north American GDP of the order of 1.9% in 2007 and 2008. In Japan, the cooling of the economy resulted largely from the difficulty in eradicating the deflationary spiral and of anaemic internal demand. In contrast, the performance of the Chinese economy in 2007 was noteworthy for its strong dynamism.

In the euro zone, and in accordance with the forecasts published in the December 2007 Monthly Bulletin by the European Central Bank, GDP growth of the economies in the euro zone will have been between 2.4% and 2.8%, growth in GDP being estimated at between 1.5% and 2.5% for the year 2008. Towards the cooling of the euro zone economies, concur the adverse effects of the appreciation of the euro and greater worldwide competition, pressuring exports downwardly, and of the deceleration of internal demand, aggravated by the increased cost of financing for companies and individuals.

The Portuguese economy showed modest growth although it was above that of last year. According to the Winter Bulletin 2007 from the Bank of Portugal, a growth of 1.9% in Portuguese GDP is estimated for 2007 and of 2.0% for 2008. The recovery of the Portuguese economy was characterised by the favourable performance of internal demand which reflects the acceleration in business investment, the consistency of private consumption and lower inflation to values of 2.4% in 2007 and 2% for 2008, according to the same Bank of Portugal study. According to OECD forecasts for autumn 2007, in 2007 the lower public deficit to 3% of GDP stands out, a result brought about by continued policies of budget consolidation of public finances pursued by the government and, on the downside, the persistently high unemployment levels, estimated at 7.9%, also stand out.

Accentuated disturbance was seen in the money markets caused by the crisis felt in the high risk mortgage market in the United States of America in the second half of 2007, giving rise to considerable losses in various financial institutions and liquidity problems. During the first half of the year, the medium and long term interest rates rose. However, during the second half of the year, active intervention by the leading central banks was seen with strong injections of capital by the United States of America, Europe and the United Kingdom. The American Federal Reserve announced a cut in the benchmark interest rate of 50bps in September 2007. In spite of this measure, the continued deterioration of the financial markets led to the announcing of further cuts, and the Fed-funds rates closed the year at 4.25% (5.25% in January 2007). The European Central Bank interrupted the policy of gradually raising interest rates after having increased its benchmark rate by 50 bps to 4% (3.5% in January 2007).

Accompanying the consequences of the financial crisis and the consequent change in risk perception by economic agents, demand on the public debt bonds markets by investors increased. The change in interest rates of public debt bonds in the United States of America and Germany showed signs of turning downwards from their upward trend, especially after the second half-year.

The accentuated rise in uncertainty about the economic outlook also caused a widening of the spreads in all credit segments, with this especially occurring in high-risk credit.

In the raw materials markets, the year was characterised by the rising price of oil, agricultural products and of precious metals. The rise in the price of oil reflected the context of current geo-political uncertainty, the low levels in world oil reserves and the unwillingness of OPEC to raise production levels. This factor took on increasing relevance in 2007 for the passenger transport sector, and this trend could increase with its continued cumulative effect.

A blue-tinted photograph of an airport terminal. In the foreground, a person's silhouette is visible. In the background, a large sign with the word 'dante' in a stylized font is mounted on a wall. The scene is dimly lit, with light coming from windows or other sources, creating a moody atmosphere.

dante

INVESTMENT

The level of investment by Metro do Porto grew in 2007 to 81.7 million Euros. In accumulated terms, investment made in the project reached 2,113 million Euros.

FINANCING

The project for the Metro System has been confronted in recent years with strong difficulties in its financing. With the conclusion during 2006 of almost all the construction work underway, these restrictions took on an even greater role.

Diligences with the government proceeded and were intensified in 2007 towards the adoption of structured financing solutions better adjusted to the reality of the project in terms of conditions and maturities. These diligences did not attract a response. In particular, no position was taken as to the operation of structured leasing on new rolling stock (on which the company timely presented a firm proposal obtained through market consultation).

The company has made efforts to increase grant financing (from PIDDAC – Programme of Development Investments and Expenses from the central government and the Community Funds), whose weight was reduced from the 43.9% initially planned to 25.6%.

The obstacles and impediments over Metro do Porto relating to the definition of a structural financing basis have led to reinforcement of the lines of bridge financing.



ERDF – EUROPEAN REGIONAL DEVELOPMENT FUND

A request for payment was made in June of this year under the third Community Support Fund for a total co-founding amount of 2.4 million Euros.

The payments of all the 15th and 16th payment requests (presented in 2006) and part of the 14th request (reported in 2005) are in arrears. In total, the co-founding amounts yet to be reimbursed grew by the end of 2007 to 31.2 million Euros.

At the end of the first half-year 2007 the project showed financial execution of 100%, given the approved overall co-financing amount of 315.7 million Euros (stake holding rate of 38.45%).

The following table represents the evolution of financing obtained from ERDF – CSF III:

On the 19th October 2007, a new version of the reprogramming proposal was submitted to ERDF, whose initial version had already been sent on the 18th of October 2006. The final version provides for an increase in the eligible investment from 821.1 million Euros to 832.8 million Euros, the co-financing rate remaining at 38.45%, resulting in an increased stake of 4.5 million Euros. No communication has been received concerning acceptance of this reprogramming proposal.

The final version of the reprogramming proposal was presented at a meeting held at CCDRN on the 5th of November with the presence of the Steering Committee of the Porto Light Rail System Concession, which was in agreement with the principles of the reprogramming proposal and recommended that the relevant Government departments proceed actively in the analysis of the process in order to submit it timely to the European Commission.

In August 2007, the draft ruling of the European Commission relating to the audit of the ERDF project: "Porto Metropolitan Area Light Rail System – 2nd Phase" was issued. This document communicated the intention of proceeding with a financial correction of 125.9 million Euros. Of this amount, Metro do Porto agrees with the correction of 6.0 million Euros, and has already proceeded with this correction, but cannot agree with the correction intended by the European Commission in the amount of 119.9 million Euros. Metro do Porto exercised its right to counter-argue on the 19th of October 2007, within the deadline set for this purpose, by sending its observations on this draft ruling, reiterating its position of considering the financial corrections proposed by the Commission as unjustified. The final ruling by the European Commission is not yet known.

(values in thousands of euros)

Requests	Period of Investment	Elegible Investment	Co-financing	Payment	Amount Outstanding (1)
Situation at 31/12/2006	Oct/00 - Apr/06	814,971	313,356	284,482	28,875
17 th Request	Apr/06 - Sep/06	6,985	2,352	0	2,352
		821,957	315,708	284,482	31,227

(1) Debt at the end of 2006 referring to the 16th, 15th and part of the 14th payment requests.

AUDIT TO THE LIGHT RAIL SYSTEM OF THE PORTO METROPOLITAN AREA – 2nd PHASE

The auditing of the public tender process procedures applied to the contracting of expenses of the project submitted to ERDF: "Light Rail System of Porto Metropolitan Area – 2nd Phase" has been underway since October 2005. In the first phase, the BDO Company, designated by the "Direcção Geral do Desenvolvimento Regional", undertook the audit, which was later (then at the request of "Inspecção-Geral de Finanças") repeated and extended to payment requests meanwhile submitted by the Metro do Porto,.

The audit carried out culminated in the project of the final decision of the European Commission issued in August 2007 questioning 125.9 million Euros of expenses presented. Of this amount, Metro do Porto S.A. agrees with the objection concerning 6 million Euros and has proceeded with the corresponding correction. As for the remaining 119.9 million Euros, the company has not conceded its defence of the eligibility of the corresponding expenses it presented, making observations on the 19th October 2007 based on the draft final decision of the European Commission and is awaiting on the unfolding of the process which will lead to the outcome of the procedure.



THE PROCESS

The draft final decision of the European Commission was sent to the Portugal's Permanent Representative at the EU through a letter dated 10th August 2007 indicating that this could lead to suspension of the community assistance to the referred project and that the Portuguese authorities had been invited to make observations and to carry out corrections and improvements, informing the Commission of the steps taken within two months of Portugal's Permanent Representative to the EU having received the letter. The notification concluded with the request to advise Metro do Porto S.A. of such correspondence in such a way as to transmit their observations, given that, as final beneficiary, they might be affected in a negative manner. In spite of this, Metro do Porto was not notified of such correspondence or of the report in question although it became aware of it informally on the 25th September 2007, a month and a half after the Portuguese authorities received it, which constrained the Company's exercise of its defence rights, nevertheless exercised in due time.

The BDO final report of December 2006 on which the Commission based the referred draft ruling is not known by Metro do Porto and therefore the latter ignores the reasons behind some of the positions of the European Commission, apart from the brief considerations in the draft decision. For this reason the presentation of as full a defence as possible has not been feasible in respect of the questions under discussion.

In the summaries of the arguments of Metro do Porto presented by the Commission in its draft ruling, it refers to the beneficiary's response sent on the 25th September 2006. The explanations or arguments later presented by Metro do Porto in the counter-argument (dated 17th November 2006) to the final BDO report are not referred to by the Commission. Therefore, it can be concluded that the Commission was not aware of these counter-arguments at the time it drafted its ruling.

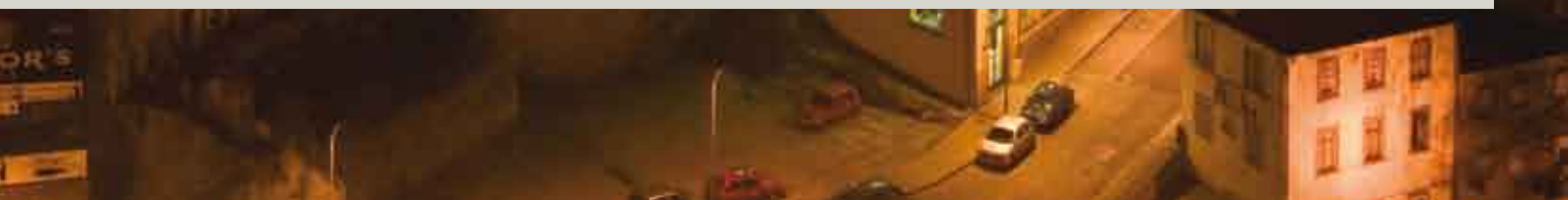
Three technical opinions were sent by Metro do Porto to "Inspecção-Geral de Finanças" on the 27th March 2007 relating to the questions brought up in the audit which had been disputed by Metro do Porto in their second counter-arguments of the 17th November 2006. The European Commission draft ruling never referred to these documents, from which the conclusion is drawn that the Commission was not aware of them.

CONTENT

The most significant disputed funds refer to the expenses incurred with the First Amendment to the Normetro Consortium contract signed on the 6th September 2001. These expenses and this Amendment are provided for in the application presented in June 2001 to the ERDF co-financing of the "Light Rail System of the Porto Metropolitan Area – 2nd Phase", approved by the European Commission in June 2002. Their dispute therefore could not be reasonably expected. In this regard the European Commission states it is up to the "Member State to ensure compliance of co-financed operations with the legislation and policies of the EC".

The European Commission always regularly received precise and reliable information about the first Amendment, which is why, the funding having been approved and five years having passed since such approval with no questions ever having been risen concerning the Amendment's legality, this funding was consolidated in the expectation of the recipient as a truly granted right.

The main argument invoked in the Commission's draft ruling is, and we can cite: "The Metro do Porto S.A. neglected the planning of the works in that it did not ensure, as seems evident from the documents made available, the agreement of all third parties affected by the metro works (...) who should agree with the proposed works in the tender documents...". This argument is based on the assumptions which are both unjustified and which were never presented before in the audit reports presented for counter-argument. The observations presented by Metro do Porto demonstrated comprehensively with documentation that the company always acted diligently having established numerous, successive and systematic contacts with all the local Municipalities in the Porto Metropolitan Area and with other bodies (namely REFER and the "Junta Autónoma de Estradas") affected by the network prior to the launch of the bid to design and build the system and to the subsequent signing of the contract, also having provided copies of the tender dossier to each one. It is also noted that Metro do Porto also carried out a public consultation process within the Environmental Impact Study where the Municipalities were called to take part in the elaboration process and had the opportunity to manifest their concerns in regard to the project.



PIDDAC – PROGRAMME OF DEVELOPMENT INVESTMENTS AND EXPENSES OF THE CENTRAL GOVERNMENT

As of 31st December 2007, the accumulated total attributed to the Light Rail System since 1996 within PIDDAC amounted to 87.6 million Euros.

On the 21st September 2006, Metro do Porto was advised that 8 million Euros had been allocated to the Tram Train project within PIDDAC 2007. On the 5th of December 2007, requisition of funds was made, following which the funds were actually transferred before the end of 2007.

On the 31st August 2007 Metro do Porto was advised that 8 million Euros had been allocated to the Tram Train project within PIDDAC 2008.

(values in thousands of euros)

Project	1996/03	2004	2005	2006	2007	Total
Metro Light Rail System	53,389	12,750	12,252	9,250	0	87,641
Infante Bridge	33,760	0	0	0	0	33,760
Tram Train	0	0	0	0	8,000	8,000
Total	87,148	12,750	12,252	9,250	8,000	129,400

EIB – EUROPEAN INVESTMENT BANK

All the funds agreed with the European Investment Bank have been used, representing a total amount of 743.7 million Euros.

The Bases of Concession of the Porto Metropolitan Area Light Rail System, on number 5 of Base XIII, set a limit of 200 million contos (1,000 million Euros) for the amount of credit guarantees to be provided by the State. If we assume the interpretation that the EIB loans and the structured leasing operations on the rolling stock (to the amount of 250 million Euros) are included in that limit, any debt requiring a State guarantee depends on the alteration of the Concession Bases.

Note that, under the terms of number 5 of Base XIII, the limit to the guarantees and bonds to be provided by the State is applicable to loans above and beyond financing referred to in no. 1 of the same Base. The bonds and guarantees already provided are designated to financing provided for in number 1 of Base XIII.

Nevertheless, Metro do Porto has already requested on the 21st of June 2005, a position reiterated on the 26th of October 2006 and the 16th of February 2007, the alteration of the above referred to limit so as to enable the use of the funds approved by the EIB still remaining (60 million Euros) and the of additional funds necessary to finance the approved projects.

The as yet undisbursed 60 million Euros line of credit was approved on the 29th of October 2002. According to the internal EIB regulations, the lines of credit lapse four years after the date of approval, in other words on 29th of October 2006.

On the 19th of January 2007 approval by the Board of the European Investment Bank was communicated to Metro do Porto of the extension of this deadline for an additional period of two years, that is, until 29th October 2008.

(values in thousands of euros)

Contract - BEI I	Date of Contract	Value
Tranche A	16/Nov/98	99,760
Tranche B	26/Mar/01	100,000
Tranche C	05/Nov/01	100,000
Tranche D	15/May/02	243,930
Sub Total		543,690
Contract - BEI II	Date of Contract	Value
Tranche A	29/Nov/04	120,000
Tranche B	16/Dec/04	80,000
Sub Total		200,000
Total		743,690

COHESION FUND

Six payment requests were made during the year under the Francisco Sá Carneiro Airport Link to the duplicated Póvoa Line project, co-financed by the Cohesion Fund, with a total stake of 19.5 million Euros. The amounts of the 10th to 13th Requests – which are at the “Direcção-Geral de Política Regional” and involve a co-funding amount of 11 million Euros – is dependent on the result of the audit of the project carried out by KPMG, indicated by DGDR and begun in 2006. The 14th and 15th Requests were sent in the second half of the same year and are under analysis by “Intervenção Operacional de Acessibilidades e Transportes” (IOAT).

Given the maximum stake of 67.7 million Euros, the project has a financial execution of 83% at the end of the year.

The following table represents the evolution of financing obtained from the Cohesion Fund:

(values in thousands of euros)

Requests	Period of Investment	Elegible Investment	Co-financing	Payment	Amount Outstanding (1)
Situation at 31/12/2006	Mar/05-Oct/05	48,868	36,651	35,417	-6,167
10 th Request	Mar/05-Oct/05	4,493	3,370	0	3,370
11 th Request	Nov/05-Dec/05	3,753	2,815	0	2,815
12 th Request	Nov/05-Feb/05	1,476	1,107	0	1,107
13 th Request	Mar/05-Jun/06	4,938	3,703	0	3,703
14 th Request	Mar/06-Feb/07	7,055	5,291	0	5,291
15 th Request	Jul/06-Sep/07	4,297	3,223	0	3,223
		74,879	56,159	35,417	13,341

(1) The negative value at 30th December 2006 is a result of the advance payment in September 2004.

In August 2007, the second project reprogramming proposal was sent to IOAT. The eligible investment was reduced from 90.2 million Euros to 79.6 million Euros, keeping the value of the co-funding amount unchanged at 67.7 million Euros, as a result of an increase of 10% in the co-funding rate. This reprogramming proposal is under analysis by the European Commission and awaiting a decision for approval.

Like the project submitted to ERDF, it was found out in August that there was a draft ruling of the European Commission, relating to the audit of the “Francisco Sá Carneiro Airport Link to the duplicated Póvoa Line” project submitted to the Cohesion Fund. The financial correction defined in this document is of 42.1 million Euros. (corresponding to a co-funding amount of 31.6 million Euros). Metro do Porto manifested its disagreement with the draft ruling in a letter dated 4th October 2007. The final decision of the European Commission is not yet known.

AUDIT OF THE FRANCISCO SÁ CARNEIRO AIRPORT LINK TO THE DUPLICATED PÓVOA LINE PROJECT

The audit of the project submitted to the Cohesion Fund: "Francisco Sá Carneiro Airport Link to the duplicated Póvoa Line" was begun in 2006 and was conducted by the KPMG company, designated by the then DGDR – "Direcção Geral do Desenvolvimento Regional").

In August the draft final ruling of the European Commission regarding this project was issued in which the intention to proceed with a financial correction of 42.1 million Euros (corresponding to a co-founding amount of 31.6 million Euros) was made known, of which 41.9 million Euros refer to the expenses of the 3rd Amendment to the contract with the Normetro Consortium, ACE.

The dispute over this Supplement places in question the expectation legitimately held by Metro do Porto that it had the right to the corresponding funding, as the Amendment was provided for in its application which has been approved for funding of the "Francisco Sá Carneiro Airport Link to the duplicated Póvoa Line" project. The European Commission states (in the draft final ruling) that the "Member State is to ensure compliance of co-financed operations with the legislation and policies of the EC". Metro do Porto, in the observations in regard to the draft ruling, said the European Commission always received precise and reliable information regularly about the third Amendment, which is why, the funding having been approved and five years having passed since such approval with no questions ever having been risen concerning the Amendment's legality, this funding was consolidated in the expectation of the recipient as a truly granted right.

The draft final decision of the European Commission was sent to the Portugal's Permanent Representative at the EU in a letter dated 2nd August 2007 indicating that this could lead to suspension of the community assistance to the referred to project and that the Portuguese authorities had been invited to make observations and to carry out corrections and improvements, informing the Commission of the steps taken within two months of Portugal's Permanent Representative to the EU having received the letter. The notification concluded with the request to advise Metro do Porto S.A. of such correspondence in such a way as to transmit their observations, given that, as final beneficiary, they might be affected in a negative manner. In spite of this, Metro do Porto was only notified by "Instituto Financeiro para o Desenvolvimento Regional" of the referred to correspondence and of the report in question by letter dated 27th August 2007, which conditioned the exercise of the right to defence, nevertheless exercised in due time.



SUPPLEMENTARY FUNDS

Taking into consideration the financing of alterations to the project approved by the government in 2001, the State shareholder provided commitment, by way of the Joint Dispatch by the "Ministros das Finanças e do Equipamento Social" of 28th of June 2001, to the "provide supplementary funds in the amount of 10 (ten) million contos, by 2004, with the following indicative shedule":

(values in thousands of euros)

2001	2002	2003	2004	Total
7,482	12,470	14,964	14,964	49,880

Taking into account this Dispatch, the company booked in 2001 the amount indicated for that year. Given that it was not received, nor were the amounts indicated for subsequent periods, this transaction was annulled in the financial year 2002.

CONCEDENT INSTALMENTS

On 16th November the new plans of accounts approved in Spain were published, one general (royal decree 1514/2007, of 16th November), and another for small and mid sized companies (royal decree 1515/2007, of 16th November), and these plans were declared to be in accordance with Community Directives. These plans expressly clarify the understanding of the Spanish Legislature that, similarly to what was already instituted in France, investment subsidies are to be considered as company capital funds.

This practice, written into the French and Spanish legislation, has been followed by Metro do Porto, S.A., and was the reason for a reservation in the audit report of the company accounts by the independent auditor.

Metro do Porto, S.A. requested the "Tribunal de Contas" on 21st December 2007 to look into the matter once again and the diligence necessary so that the Portuguese regulations still under study take into consideration the understanding of the idoneous bodies, namely the French and Spanish Legislatures.

BRIDGE FINANCING

Given the restrictions on the use of structured financing for the approved investments, added to the insignificant compensation for the public service provided, Metro do Porto has felt the growing need to resort to bank bridge financing.

These restrictions were aggravated in 2007 as a result of the audit processes of the European community funds which (in spite of not having produced any conclusive results) have blocked access to the grants approved but not yet disbursed.

Thus, the total investment in 2007 of 81.7 million Euros was financed by bridge loans, with the exception of the stake of 8 million Euros under PIDDAC 2007 for acquisition of 30 Tram Trains.

Added to this is the non-compensation by the State for the provision of infra-structure, namely for the financial charges of the EIB contracts and of the rolling stock leases, net of maintenance revenue, which rose in 2007 to 30.1 million Euros and 11.5 million Euros respectively.

After having signed medium and long term loan contracts in 2006 for a total amount of 380 million Euros, three operations to refinance existing debt were signed in 2007 for 200 million Euros, for terms from five to twenty years.

At the end of the financial year the company has 339.3 million Euros available in short term finance, including advance payments on account of community grants, of which 231.7 million Euros were used (compared with the 265.4 million Euros used on 31st December 2006).



PROGRAMME CONTRACT

The Bases of Concession of the Light Rail System approved in Decree no. 394-A/98, namely in no. 1 of Base XV, provide for the attribution by the State of "compensatory indemnifications in the measure that these, added to the revenues earned in accordance with the criteria of efficiency, efficacy and economy, are seen to be necessary to the functioning of the public service transport system". These indemnifications, and in accordance with no. 2 of Base XV, "are to be the object of the following programme contracts to be signed between the State and the concessionaire: a) The first, to be signed within the period of 18 months as of the publication of the diploma approving these bases, in respect of the initial period of operation of the System".

At the initiative of Metro do Porto, and following an informal presentation in July 2002, a first formal proposal of programme contract was presented in September 2002. This proposal was reformulated still in 2002, with the company not being aware yet of any technical opinions on this reformulation.

In 2003 during the first year of commercial operation of the System, no amounts were received under compensatory indemnifications. The amounts meanwhile attributed for the financial years of 2004 to 2007 were little more than symbolic, the manner of their calculation remaining objectively hard to explain.

In this context, and by way of fulfilling the recommendation contained in the Financial Audit report to Metro do Porto prepared by the "Inspecção - Geral de Finanças", according to which Metro do Porto ought to "present in 2005 to the government and the Porto Metropolitan Transport Authority a proposal on the obligations of public service and the respective financing", Metro do Porto sent a new programme contract proposal in December 2005. This new proposal had the same reception as that of the previous ones.

The following table summarises the amounts of compensatory indemnifications attributed to Metro do Porto.

Compensatory Indemnifications

(values in thousands of euros)

2004	2005	2006	2007	Total
4,730	2,246	4,403	10,359	19,738

FINANCING OF THE ANTAS-GONDOMAR LINE

The public tender process was launched in 2007 for construction of the Gondomar line between Dragão Stadium and Venda Nova, fulfilling a stipulation in the Memorandum of Understanding and the dispatch by "Ministérios das Finanças e da Administração Pública e das Obras Públicas, Transportes e Comunicações", of 28th September 2007, which stipulates that:

"The launch of the public tender process for construction of the Dragão Stadium – Venda Nova stretch of the Gondomar Line, as well as incurring of expenses inherent to that launch, is hereby authorised"

MANAGEMENT POLICY ON EXPOSURE TO INTEREST RATES RISK

Within the scope of an active management strategy of exposure to interest rate risk, and given the highly volatile financial markets throughout 2007, the activities of monitoring the evolution of the financial markets were carried out in order to seek to optimise the hedging policy followed.

In particular, the performance of existing risk coverage structures was accompanied, their evolution was monitored and optimisation solutions were sought in a period of high interest rates volatility whose beginning dates back to the previous year.

In this scenario, in January 2007 a re-structuring operation of the first instrument signed in March 2003 (a plain vanilla swap of the first tranche of the operational lease) was contracted.

In August 2007, a further cover operation was contracted, consubstantiated in two complementary contracts, associated with the long term financing operation made on the same date and for a period of twenty years.

Together, the operations contracted to manage the interest rate risk enabled a 7.7 million Euros reduction in 2007 of the interest costs.

BALANCE SHEET

As a result of the conclusion in 2006 of the main works to build the Light Rail System, 2007 showed a significant reduction in the investment effort of the company. The main alteration to the balance sheet of the company is the result of the restrictions in structured financing, namely the non-reinforcement of non-loan financing, for which reason a continuous growth in Metro do Porto's debt is observed.

(values in thousands of euros)

Balance Sheet	2005	2006	2007	07/06
Fixed Assets (net)	1,434,112	1,690,847	1,722,600	1.9%
Stock	162	272	0	-100.0%
Debt from Third Parties - Short Term	63,890	52,329	28,139	-46.2%
Cash	5,061	2,565	3,294	28.4%
Accruals and Deferrals	286,698	272,674	258,186	-5.3%
Assets	1,789,923	2,018,688	2,012,220	-0.3%
Share Capital	5,000	5,000	5,000	0.0%
Called-up Share Capital	179	179	179	0.0%
Capital Adjustments in Affiliates and Associates	0	0	55	-
Concedent Instalments	402,883	463,561	471,561	1.7%
Retained Earnings	-67,581	-138,916	-261,188	-88.0%
Net Income	-71,335	-122,155	-145,189	-18.9%
Net Capital Value	269,146	207,669	70,418	-66.1%
Provisions	10,766	10,766	12,556	16.6%
Debt to Third Parties - Medium and Long Term	970,948	1,341,246	1,453,090	8.3%
Debt to Third Parties - Short Term	423,396	343,213	371,925	8.4%
Accruals and Deferrals	115,667	115,794	104,230	-10.0%
Liabilities	1,520,777	1,811,019	1,941,802	7.2%
Net Capital Value and Liabilities	1,789,923	2,018,688	2,012,220	-0.3%

On the asset side, there was growth of 4.6% in gross assets in comparison with December 2006. In short term debts from third parties, there was an increase of 6.0 million Euros of client debts (constituted almost wholly by ticket revenue owed by TIP, ACE), as well as the reduction of 30.8 million in debts of the State and other public entities as a consequence of the more frequent reimbursement of VAT.

On the net worth side, growth of 1.7% of the item Concedent Instalments. This variation is the result of the grant of 8 million Euros from the PIDDAC 2007 under the Tram Train project.

The evolution of long term debt reflects the bridge financing operations of 200 million Euros already referred to, net of transfer to short term of the loans to be reimbursed in 2008.

In aggregate terms, and excluding the debt to the European Investment Bank, bank debt by Metro do Porto grew 166.3 million Euros to a total of 811.7 million Euros (including 44.4 million Euros of advance payments on account of community grants).

There are no late debts owed to the State or other public bodies, including Social Security.

OPERATION

The profit & loss account for 2007 of the Light Rail System in comparison with 2006 shows an gross margin improvement of 6.2%, as a result of the increased system load factor and of the alterations introduced in supply management. In absolute terms, the System showed in 2007 a negative gross margin of 22.1 million euros, and a negative net margin of 80.6 million euros (2.3% worse).

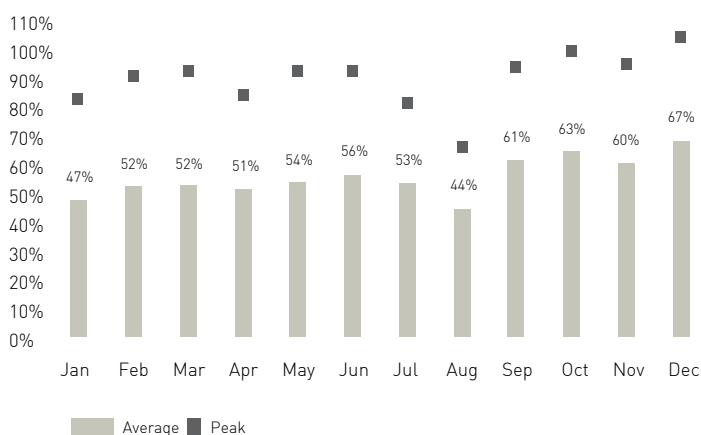
(values in thousands of euros)

Profit & Loss Account	2005	2006	2007	07/06
Sales and Service Provision	10,326	21,263	26,678	25.5%
Cost of Sales and Service Provision	23,792	44,861	48,823	8.8%
Gross Margin	-13,466	-23,598	-22,145	6.2%
Sales to Cost of Sales Ratio	43.4%	47.4%	54.6%	7.2 pp
Net Margin	-43,143	-78,811	-80,645	-2.3%
Operating Result	-60,458	-121,357	-141,348	-16.5%

For the reasons given above, a significant improvement in the cover ratio of operation costs, at 54.6% for the full year. This ratio compares the tariff income with direct operation costs.

The above cover ratio is an annual average of the System. Analysing this rate by hour band, we find average monthly cover ratios at peak times which are consistently over 80%.

Cover Ratio





In the analysis of the cover ratios by stretch in average monthly terms, we conclude there are cover ratios below 30% on the Francisco Sá Carneiro airport branch and at the ends of the lines, with the exception of the southern end of the Yellow line. The highest cover ratios, in excess of 70%, are reached on the more central stretches of the network, namely in large part of the common stretch.

The revenue from the public transport service of the Light Rail System (excluding advertising) grew in 2007 to 26.7 million euros, (25.5% more than the previous year). These values correspond to revenues of 55.39 cents per trip (marginal rise of 0.6% in comparing the same period last year), 10.85 cents per passenger km (rise of 3.3%) and 1.77 cents per seat km (significant rise of 18.1%).

The operational costs grew by 48.8 million euros, of which 91.8% relate to the Normetro operation contract, 5.5% relate to the operation inspection contract and the rest relate to the commissions paid to TIP, ACE. In comparison with 2006, an increase of 8.8% of the operational costs (split between growths of 4.6% in the Normetro costs, 140.3% operation inspection contract – this contract was initiated in June 2006 – and 48.8% on the fees paid to TIP, ACE – as a result of the strong growth in demand and the revenue managed by this entity).

The Light Rail System showed in 2007 an operational cost per seat km of 3.24 cents (2.4% up on the same period of 2006) and of 19.85 cents per passenger km (reduction of –10.4%).

Splitting per line of the profit & loss account of the system shows net margins as in the table to the right :

Net Margin	2007	%
Blue Line	-14,820	18.4%
Red Line	-27,132	33.6%
Green Line	-16,561	20.5%
Yellow Line	-13,275	16.5%
Violet Line	-8,856	11.0%

(values in thousands of euros)

The Guindais funicular operational account showed a negative gross margin in 2007 of 415,600 euros and a negative net margin of 437,600 euros (down in comparison with 2006 by 0.7% and 2.3%, respectively).

(values in thousands of euros)

Funicular Profit & Loss Account	2005	2006	2007	07/06
Sales and Service Provision	13.9	175.7	212.2	20.7%
Cost of Sales and Service Provision	356.0	588.6	627.8	6.7%
Gross Margin	-218.1	-412.8	-415.6	-0.7%
<i>Sales to Cost of Sales Ratio</i>	38.7%	29.9%	33.8%	3.9 pp
Net Margin	-410.2	-427.6	-437.6	-2.3%
Operating Result	-659.3	-792.0	-1,004.2	-26.8%

The revenue from the Guindais funicular service grew to 212,200 Euros, which corresponds to 40.82 cents per seat km and 1.96 Euros per passenger km (variations in comparison with the same period last year of 19.8% and -1.5%, respectively).

The Guindais funicular showed an operational cost of 1.21 euros per seat km and of 5.80 euros per passenger km transported, in accumulated terms (variations in comparison with the same period of 5.9% and -13.0%, respectively).

Parque Metro at Dragão Stadium station showed in 2007 a slightly positive gross margin and a negative net margin of 402,000 Euros.

(values in thousands of euros)

Parque Metro Profit & Loss Account	2006	2007	07/06
Sales and Service Provision	25.0	71.0	184.5%
Cost of Sales and Service Provision	17.9	42.9	140.0%
Gross Margin	7.1	28.1	297.1%
<i>Sales to Cost of Sales Ratio</i>	139.6%	165.5%	25.9 pp
Net Margin	-154.3	-402.0	-160.6%
Operating Result	-218.3	-562.5	-157.7%

RESULTS

Despite the plainly positive progress in the cover ratio of the operation of the Light Rail System, sustained by accentuated growths in revenue from transport service and the load factor, the inadequate financial structure of the company, together with excessive use of bridge financing solutions, conditions the financial performance of the company.

(values in thousands of euros)

Results	2005	2006	2007	07/06	IPG's 2007	IPG's %
Supplies and External Services	58,098	75,130	79,240	5.5%	87,023	91.1%
Staff Costs	5,965	5,708	6,301	10.4%	6,137	102.7%
Depreciation	22,659	40,815	50,475	23.7%	63,736	79.2%
Financial Costs	26,532	42,334	61,561	45.4%	55,511	110.9%
Taxes	1,216	4,048	3,037	-25.0%	0	-
Other Costs	467	304	110	-63.8%	11	1004.1%
Costs	114,936	168,339	200,724	19.2%	212,418	94.5%
Income	14,435	25,854	30,995	19.9%	30,723	100.9%
<i>Passenger Public Transport</i>	<i>10,350</i>	<i>21,272</i>	<i>26,555</i>	<i>24.8%</i>	<i>25,707</i>	<i>103.3%</i>
<i>LEP Vehicle Maintenance</i>	<i>3,609</i>	<i>3,728</i>	<i>3,801</i>	<i>1.9%</i>	<i>4,000</i>	<i>95.0%</i>
<i>Commercial Space Advertising</i>	<i>183</i>	<i>269</i>	<i>366</i>	<i>36.4%</i>	<i>384</i>	<i>95.4%</i>
<i>Others</i>	<i>294</i>	<i>585</i>	<i>273</i>	<i>-53.3%</i>	<i>633</i>	<i>43.1%</i>
Operating Subsidies	2,246	2,403	10,359	331.1%	162,541	6.4%
<i>Metro Light System Operation</i>	<i>2,246</i>	<i>2,403</i>	<i>10,359</i>	<i>331.1%</i>	<i>89,051</i>	<i>11.6%</i>
<i>Infra-structure Income</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-</i>	<i>73,490</i>	<i>0.0%</i>
Own Work Capitalised	24,920	15,789	12,128	-23.2%	13,469	90.0%
Financial income	836	877	870	-0.9%	629	138.1%
Additional Revenue	59	47	163	246.9%	132	123.6%
Other Income	1,105	1,214	1,021	-15.9%	0	-
Income	43,601	46,184	55,536	20.2%	207,495	26.8%
Net Income	-71,335	-122,155	-145,189	-18.9%	-4,923	2949.0%



The income obtained in 2007 by the public transport of passengers showed a growth of 24.8% over the previous year.

The Metro do Porto budget for 2007, sent to the government in December 2006, assumed the attribution of compensatory indemnifications to the amount of 162.5 million Euros, split into two components:

1. Compensatory indemnifications for the transport service, of 89.1 million Euros (of which 47.0 million refer to adjustments from the actual amounts in the period 2003/06 to what is set in the new proposal of programme contract submitted in December 2005);
2. Compensation for making the infra-structure available, of 73.5 million Euros.

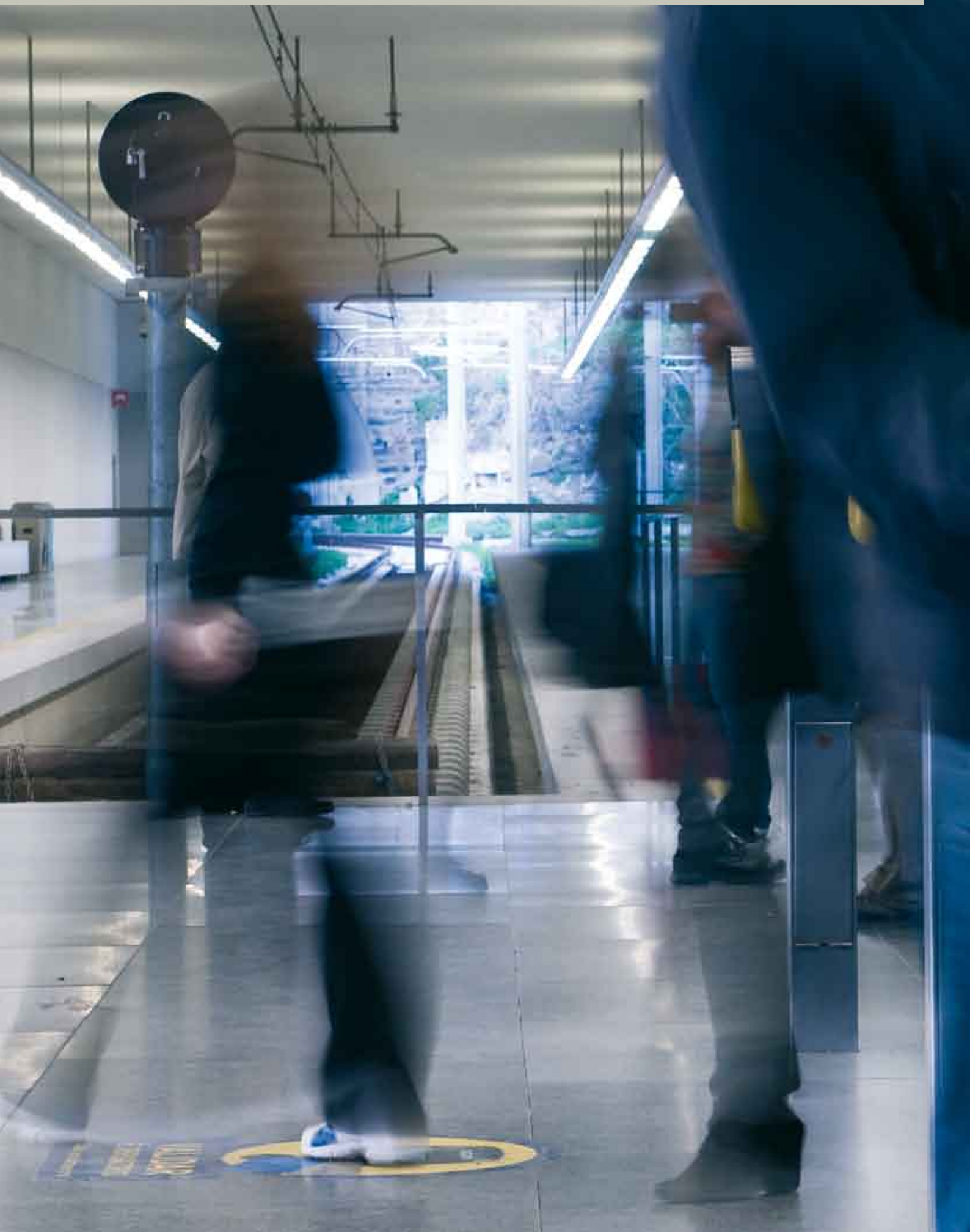
The Council of Ministers Resolution no. 149/07, of 6th of September, approved the distribution for the year 2007 of compensatory indemnifications to the various public service companies, with Metro do Porto liable to receive compensatory indemnifications for the transport service of 10,876,940 Euros. The amount attributed to Metro do Porto corresponds to an average contribution of 4.4 cents per passenger km.

The evolution in financial costs is due to the mode of financing of the company, both for construction of the System as well as its operation, and was aggravated by the context of rising interest rates (average annual Euribor 3 month rates of 3.1% in the year 2006 to 4.3% throughout 2007) and by the restrictions to the use structured financing available to Metro do Porto, as already described in previous points of this report. These restrictions have obliged the company to resort to less efficient financing solutions, with the corresponding increased costs to be borne. In spite of the positive results achieved through the interest rate risk management policy, there were total financial costs for 2007 of 61.6 million euros, 45.4% over that recorded for the same period of the previous year.

Equally significant is the change to the Depreciation account, 23.7% above what was booked in 2006.

The deterioration of the company's results is therefore largely a result of the changes in these items. The net operational result of the Metro do Porto in 2007 is 4.9% worse than in 2006. However, the operational result before depreciation shows an improvement of 14.0%. Excluding Financial costs and Depreciation, the Metro do Porto deficit was reduced by 5.9 million euros (decrease of 15.0%).

PERSPECTIVES FOR **2008**



The construction works underway to be concluded in 2008 are the extension of the Yellow line to the south from João de Deus station (already in use) to the new D. João II station, and the urban compatibility works adjacent to the Metro System.

The elimination of various level crossings on the Red and Green lines is planned to the benefit of the safety of Metro operations, and the conclusion of the Guifões Depot adaptation works to receive the new rolling stock whose delivery will begin in 2008.

Also taking place in 2008 will be the tender process to be launched following the Dispatch issued by the "Ministério das Finanças e da Administração Pública e das Obras Públicas, Transportes e Comunicações" on the 28th September 2007, for construction of the Gondomar line between Dragão Stadium and Venda Nova.

Also expected is the appraisal by the government of the "Metro do Porto Strategic Development Programme" and "Supplementary Analyses on the Second Phase of Metro do Porto" studies concluded in December 2007 and sent to the "Ministério das Obras Públicas, Transportes e Comunicações" and to the "Junta Metropolitana do Porto" to establish the Investment Plan of the future sub-concession of the Metro System.

A dossier is to be sent to the government containing the various alternatives relating to the launch of the international tender process for the sub-concession for construction of the second phase of the Porto Light Rail System and for the operation and maintenance of the whole network, as provided for in the Memorandum of Understanding between the "Ministério das Obras Públicas, Transportes e Comunicações" and the "Junta Metropolitana do Porto" signed on the 21st May 2007.

Also expected to take place is the realisation of the alteration to the shareholder structure as set forth in the Memorandum of Understanding between the "Ministério das Obras Públicas, Transportes e Comunicações" and the "Junta Metropolitana do Porto" signed on the 21st May 2007, which stipulates the capital increase from 5 to 7.5 million Euros, planned to take place by the end of 2007, with the increase in capital being wholly subscribed by the State shareholder which will come to hold directly and indirectly 60% of the business capital.

Authorisation is awaited from the government to formalise the three contract Amendments already negotiated with the System construction consortium, which are:

- Fifth Supplement: Duplication of the Trofa line between Fonte do Cuco and ISMAI, whose inauguration ceremony of the Fonte do Cuco – Fórum da Maia stretch was held in July 2005, where the "Ministro das Obras Públicas, Transportes e Comunicações" was present;
- Sixth Supplement: withdrawal of the works referring to the ISMAI – Trofa single track stretch;
- Seventh Supplement: The renegotiation of the operation contract, which became necessary as it did not include the network alterations later approved by the Government.

The proposal of the programme contract having been presented in December of 2005, following the recommendation made by the "Inspeção Geral de Finanças" in their Audit Report of 14th June 2005, the contracting with the State is expected in 2008 of the requirement set forth in no 2 of base XV, where the time periods are stipulated for signing of these contracts between the State and the concession:

- a) The first, to be signed within 18 months of publication approving these bases, in regard to the initial period of operation of the System;*
- b) The second, to be signed within 18 months after the whole System comes into operation, in regard to the following 5 years to the term of the initial period of operation of the System.*

The Company is waiting for the period of submission of projects under the Strategic National Reference Plan (QREN) to open, to reinforce the grant funding component in the structure of financing of Metro do Porto.

PROPOSED NET INCOME DISTRIBUTION



The Board of Management proposes the net loss calculated for the financial year, in the amount of -145,188,566.08 Euros, be fully transferred to the Retained Earnings Account.

Porto, 23rd January 2008

The Board of Management

Chairman:

Valentim dos Santos Loureiro

Members:

Rui Fernando da Silva Rio

José Narciso Rodrigues de Miranda

Mário Hermenegildo Moreira de Almeida

Manuel de Oliveira Marques

José Manuel Duarte Vieira

Juvenal Silva Peneda



FINANCIAL STATEMENTS YEAR 2007

BALANCE SHEET AT 31ST DECEMBER 2007

Units: Euros

Account Code		Notes	Years			
POC			2007			2006
				AB	AA	AL
	Assets					
	Fixed assets:					
	Intangible fixed assets:					
431	Set-up costs		81,512,293	5,793,664	75,718,629	70,518,182
441	Fixed assets in progress		85,245,409		85,245,409	87,000,363
		10	166,757,702	5,793,664	160,964,038	157,518,545
	Tangible fixed assets:					
421	Land and natural resources		122,692,696		122,692,696	109,973,103
422	Buildings and other structures		1,249,786,235	110,514,652	1,139,271,583	1,056,863,185
423	Basic equipment		210,473,791	20,705,523	189,768,267	168,817,001
424	Transport equipment		1,112,406	586,783	525,623	527,677
425	Tools and utensils		281,642	247,368	34,274	42,752
426	Office equipment		2,385,466	2,154,733	230,733	358,447
429	Other tangible fixed assets		6,063,305		6,063,305	6,063,305
442/6	Fixed assets in progress		101,321,308		101,321,308	186,526,908
448	Advances on account of fixed assets		1,557,234		1,557,234	3,940,764
		10	1,695,674,083	134,209,060	1,561,465,023	1,533,113,142
	Financial assets:					
4111	Holdings in Group's companies		2,189		2,189	2,250
4112	Holdings in associated companies		168,551		168,551	213,263
		16	170,740		170,740	215,513
	Current assets:					
32	Stocks:					272,077
	Raw & subsidiary materials and consumables					
						272,007
	Short-term debtors					
211	Costumers		15,992,485		15,992,485	10,037,242
229	Advances to suppliers		601,071		601,071	356,687
24	State and other public entities		10,455,336		10,455,336	41,285,772
25	Shareholders		30,459		30,459	1,784
264	Subscribers to equity		177,250		177,250	177,250
261/2/6/7/8	Other debtors	49	882,385		882,385	470,042
			28,138,986		28,138,986	52,328,776
12/3/4	Cash and banks:		3,292,822		3,292,822	2,450,584
11	Bank deposits		1,526		1,526	114,864
	Cash					
			3,294,349		3,294,349	2,565,448
	Accruals and deferrals:					
271	Accrued income		2,935,787		2,935,787	13,889
272	Deferred costs	51	255,250,638		255,250,638	272,660,184
			258,186,425		258,186,425	272,674,073

CHARTERED ACCOUNT & REGISTERED AUDITOR

VITOR MANUEL GOMES CASTELO DE CARVALHO

Units: Euros

Account Code		Notes	Year	
POC			2007	2006
	Net capital value and liabilities			
51	Shareholders equity:			
	Share Capital		5,000,000	5,000,000
53	Called-up share capital		179,033	179,033
55	Capital adjustments in affiliates and associates		54,687	
59	Retained earnings		-261,188,494	-138,916,283
	<i>Subtotal</i>		-255,954,773	-133,737,249
88	Net income/loss		-145,188,566	-122,155,435
	<i>Subtotal</i>		-401,143,340	-255,892,684
581	Concedent Instalments (Al No.4 of Basis XXVII)		471,561,360	463,561,360
	<i>Net capital value</i>	40	70,418,021	207,668,676
298	Liabilities:			
	Provisions for contingencies & liabilities			
	Other provisions for risks and charges	34	12,556,296	10,765,525
			12,556,296	10,765,525
	Medium and long term debt:			
231	Amounts owned to credit institutions	52	1,243,689,708	1,123,689,708
262/3/4/5/7/8	Other creditors	53	209,400,379	217,556,186
			1,453,090,086	1,341,245,894
	Short term debt:			
231	Amounts owned to credit institutions	52	311,652,576	265,372,082
221	Suppliers		19,041,375	5,385,158
219	Advances from Clients		14,640	
261	Fixed assets suppliers	53	34,937,457	57,529,095
24	State and other public entities		386,071	284,005
262/3/4/5/7/8	Other creditors	53	5,893,255	14,643,073
			371,925,373	343,213,413
	Accruals and deferrals			
273	Accrued costs	54	19,483,701	25,915,101
274	Deferred income	55	84,746,084	89,878,965
			104,229,784	115,794,066
	<i>Total Liabilities</i>		1,941,801,540	1,811,018,897
	<i>Net Capital Value & Liabilities</i>		2,012,219,560	2,018,687,573

BOARD OF DIRECTORS

CHAIRMAN

VALENTIM DOS SANTOS LOUREIRO

MEMBERS

RUI FERNANDO DA SILVA RIO

JOSÉ NARCISO RODRIGUES DE MIRANDA

MÁRIO HERMENEGILDO MOREIRA DE ALMEIDA

MANUEL DE OLIVEIRA MARQUES

JOSÉ MANUEL DUARTE VIEIRA

JUVENAL DA SILVA PENEDA

PROFIT & LOSS ACCOUNT BY NATURE AT 31ST DECEMBER 2007

Units: Euros

Account Code		Exercícios			
POC		2007		2006	
Costs and Losses					
61	Cost of goods sold & materials consumed:				
	Goods	0	0	200,645	200,645
62	Third-party supplies & services		79,239,946		75,130,461
Staff costs:					
641 + 642	Remunerations	4,879,916		4,418,458	
Social security:					
643 + 644	Pensions	0		0	
645/6/7/8/9	Other	1,420,764	6,300,680	1,289,395	5,707,853
662 + 663	Intangible and tangible fixed assets depreciation	50,474,559		40,814,606	
67	Provisions	0	50,474,559	0	40,814,606
63	Taxes	3,037,398		4,047,515	
65	Other operating costs & losses	11,340	3,048,738	22,590	4,070,104
	(A)		139,063,923		125,923,670
682	Losses on group & associated companies		108,350		88
Financial costs & losses:					
681/5/6/7/8	Others	61,453,001	61,561,351	42,334,285	42,334,373
	(C)		200,625,274		168,258,043
69	Extraordinary costs & losses		60,312		57,262
	(E)		200,685,585		168,315,305
86	Corporation tax for the year		38,636		23,953
	(G)		200,724,221		168,339,258
88	Net income		-145,188,566		-122,155,435
			55,535,655		46,183,823
Profits and Gains					
71	Sales:				
	Goods	0		396,912	
72	Income	30,995,470	30,995,470	25,854,038	26,250,950
75	Own work capitalised		12,127,902		15,788,971
74	Operating subsidies	10,358,990		2,402,806	
73	Adicional revenue	163,183		47,034	
76	Other operating income & gains	0	10,522,173	0	2,449,840
	(B)		53,645,546		44,489,762
782	Gains on group & associated companies		46,053		36,279
Other interest and similar gains:					
7811/3/4/6/8	Others	823,451	869,503	841,079	877,358
	(D)		54,515,049		45,367,119
79	Extraordinary income & gains		1,020,606		816,704
	(F)		55,535,655		46,183,823
Summary:					
Operating Results (B) - (A) =			-85,418,377		-81,433,908
Financial Results (D-B) - (C-A) =			-60,691,847		-41,457,015
Current Results (D) - (C) =			-146,110,225		-122,890,923
Pre-tax profit/Loss (F) - (E) =			-145,149,930		-122,131,482
Net income for the year (F) - (G) =			-145,188,566		-122,155,435

CHARTERED ACCOUNT & REGISTERED AUDITOR

VITOR MANUEL GOMES CASTELO DE CARVALHO

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VALENTIM DOS SANTOS LOUREIRO

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JUVENAL DA SILVA PENEDA

PROFIT & LOSS ACCOUNT BY FUNCTION AT 31ST DECEMBER 2007

Units: Euros

	Year	
	2007	2006
Income	30,995,470	26,250,950
Cost of service loss	-113,588,596	-95,769,474
Gross Results	-82,593,126	-69,518,524
Other operating income & gains	11,017,885	2,449,840
Distribution costs	-2,554,172	-2,807,315
Administrative costs	-7,538,489	-5,099,823
Other operating costs & losses	-4,644,300	-5,273,626
Operating Results	-86,312,201	-80,249,447
Net financing costs	-58,883,610	-41,918,226
Gains (losses) in branches and associated undertakings	45,880	36,191
Gains (losses) in other investments	0	0
Current Results	-145,149,930	-122,131,482
Taxes on current profits	-38,636	-23,953
Current Results after taxes	-145,188,566	-122,155,435
Exceptional profit/loss	0	0
Taxes on exceptional profits	0	0
Net income	-145,188,566	-122,155,435
Results per share	-145.19	-122.16

CHARTERED ACCOUNT & REGISTERED AUDITOR

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JUVENAL DA SILVA PENEDA

CASH FLOW STATEMENT AT 31ST DECEMBER 2007

	2007	2006
Operating Activities:		
Received from customers	19,706,857	19,814,581
Payments to suppliers	-86,012,277	-70,785,347
Payments to employees	-6,342,056	-5,693,402
<i>Inflow/outflow from operating activities</i>	-72,647,475	-56,664,168
Payment/receipt of corporation tax	-714,339	-46,996
Other receipts in respect of operating activity	-2,415,199	-15,106,836
<i>Inflow/outflow before exceptional items</i>	-75,777,013	-71,818,000
Receipts related to exceptional items	-645,498	0
Payments related to exceptional items	-55,582	-56,690
	-701,080	-56,690
<i>Net cash Inflow/outflow from operating activities</i>	-76,478,094	-71,874,690
Investment activities:		
Receipts from:		
Financial assets	0	0
Tangible and intangible fixed assets	2,860,138	6,230,147
Investment subsidies	8,000,000	60,677,918
Dividends	0	0
	10,860,138	66,908,065
Payments in respect of:		
Financial assets	111	87
Tangible fixed assets	35,993,975	309,604,363
Intangible fixed assets	7,432,195	11,497,494
Leasing rentals	0	0
	43,426,281	321,101,944
<i>Net cash inflow/outflow from investment activities</i>	-32,566,143	-254,193,878
Financing activities:		
Receipts from:		
Loans	166,280,494	360,383,652
	166,280,494	360,383,652
Payments in respect of:		
Loan	0	0
Interest similar losses	56,507,357	36,811,088
	56,507,357	36,811,088
<i>Net cash inflow/outflow from financing activities</i>	109,773,137	323,572,654
Increase/decrease in cash & cash equivalents	728,901	-2,496,004
Cash & equivalents at the beginning of the period	2,565,448	5,061,452
Cash & equivalent at the end of the period	3,294,349	2,565,448

CHARTERED ACCOUNT & REGISTERED AUDITOR

VITOR MANUEL GOMES CASTELO DE CARVALHO

BOARD OF DIRECTORS

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JUVENAL DA SILVA PENEDA

ANNEX TO THE CASH FLOW STATEMENT

The following notes refer to the numbering defined in the Accounting Directive no. 14/93. All the points therein defined which are not applicable to the company, or whose content is not relevant to the complete understanding of the statement presented, are not included.

2 – Breakdown of the cash components and its equivalents:

(values in euros)

	2007	2006
Cash	1,526	114,864
Bank Deposits immediately available	3,292,822	2,450,584
Equivalent to cash:		
Cash and its equivalents	3,294,349	2,565,448
Cash and banks in the balance sheet	3,294,349	2,565,448

3 – Information regarding the non-monetary financial activities.

Within the second line of credit approved by the EIB, an amount of 60 million Euros was available. up to the 31st October 2006. Due to the unavailability of a State guarantee, these funds were not contracted. Even so, following the decision of the EIB Board, communicated in December 2006, and formally confirmed in January 2007, the term for such contracting was extended by two years. The amount of 107.7 million Euros is available for future use, consisting of the of short term credit lines from national banking institutions .

ANNEX TO THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT



0 - INTRODUCTION

Metro do Porto, S.A. was set up by Decree no. 71/93, of 10th March, which instituted the first legal framework for operation of the Light Rail System in the Porto Metropolitan Area (AMP), attributing the exclusive right to exploit the system to be set up to a company to be created and to be owned by the State, Municipalities and other public entities.

The Metro do Porto, S.A. company, initially named as "Metro da Área Metropolitana do Porto, S.A.", was constituted on the 6th of August 1993, with the objective of running the Light Rail System in AMP.

Decree no. 394-A/98, of 15th December, revoked decree no. 71/93, of 10th March and conferred Metro do Porto, S.A., with the statute of concession for a period of 50 years, regulated the Bases of the Concession (in its annex I), defined rules for the shareholders (annex II - Metro do Porto, S.A. Shareholders Agreement) and defined new Company Articles of Association (annex III). The legal framework of the concession is altered by Law 161/99, of 14th September, which approves the bases of the concession, by Decree no. 261/2001, of 16th September 2001, by Decree no. 249/2002, of 19th November, so as to allow rolling stock leasing operations, by Decree no. 33/2003, of 24th February, by Decree no. 166/2003, of 24th July, and by Decree no. 233/2003 of 27th September.

In fulfilment of its objective, the Company has to carry out studies, design, planning, projects and the construction of the infra-structure necessary to realise the undertaking, as well as to purchase the equipment and the rolling stock. These tasks have constituted the main activity of the company, to which was added in 2003 the commercial operation of the Light Rail System, with the start of operation of the Blue Line. Since then, commercial operation has undergone significant expansion with the opening of the Trindade – Dragão Stadium stretch in 2004, Senhora da Hora – Pedras Rubras (on the Póvoa line) Fonte do Cuco – Fórum da Maia (of the Trofa line) and of the Yellow line in 2005 and of the opening in 2006 of the Pedras Rubras – Póvoa of Varzim, Pólo Universitário – Hospital São João, Fórum da Maia – ISMAI and Os Verdes – Francisco Sá Carneiro airport stretches, resulting in a consistent monthly rise in demand, which has been maintained in this financial year.

The financing of the investment and of the business activity, under the terms of Base XIII of Decree no. 394-A/98, is to be ensured by the State by allocations of the State Budget, European funds and by loan guarantees contracted by the concession.

Under the terms of Base XV of Decree no. 394-A/98, the financial balance of the Light Rail System is to be ensured by the State through attribution of compensatory indemnifications to compensate the company for provision of public transport service, to be signed under contract between the State and the concessionaire.

At the end of the financial year of 2007 the business had the following shareholding:

TIP – Transportes Intermodais do Porto, A.C.E	33.33%
Metro do Porto, Consultoria Unipessoal, Lda.	100.00%
Nortrem, ACE	0.009%
Transpublicidade, S.A.	40.00%

The following notes refer to the numbering defined in the Official Accounting Plan, all the points therein defined which are not applicable to the company, or whose content is not relevant having been omitted. The content of each note was dealt with in accordance with IAS recommendations, whenever these rules are more complete and clearer for the correct understanding of the financial statements. The final points, nos. 49 to 58, were created to respond to greater clarity in the presentation of accounts as can be obtained.

2 - COMPARATIVE VALUES

During the financial year, the company began to integrate TIP – Transportes Intermodais do Porto, ACE, by the Asset Equivalence Method, rather than the Proportional Consolidation Method.

3 - ACCOUNTING POLICIES

The most significant accounting policies used in determining the result of the financial year and in the presentation of the financial situation are the following:

3.1 - BASES OF PRESENTATION

The financial statements of Metro do Porto were prepared in accordance with the generally accepted accounting principles in Portugal, following the historic cost principle, supplemented by announcements required by the International Financial Reporting Standards (IAS/IFRS).

3.2 - PROFIT

a) Services rendered

The profits generated from the transport ticketing system, the “Andante”, are recorded monthly, in accordance with the validations recorded. This information is provided by TIP ACE, which is responsible for handling all the information from the sales network and for the corresponding sharing of revenues, in accordance with the criteria defined by the members of ACE.

The income generated from car parking at Dragão Stadium metro station and from Parque Central da Maia, is obtained monthly in accordance with the records from the system of control of access/ticketing system and from information provided by the park management, respectively. The tariff, including those from Park & Ride, was defined so as to promote combined use with the metro.

The income generated from maintenance of the rail transport vehicles under contracts of operational leasing are monthly recorded as one twelfth of the annual income.

Income arising from the use of alternative transports was recorded in the financial year, by the corresponding decrease of their cost.

b) Compensatory indemnifications

During the financial year, the Operating Subsidies account recorded the amount of 10,358,990 Euros of compensatory indemnifications to compensate the additional operational costs for provision of transport service and the loss of revenue by subsidy of tariffs for transport, as provided for in the Bases of Concession.

Until the publication of the Council of Ministers Resolution which defines the amounts to be attributed in the year to the companies in the State sector, the monthly amount of 1/12 of the amount received in the previous year is recorded, and after the referred to publication the real monthly value is attributed and the amounts already accounted are adjusted.

Similarly, 384,738 Euros were recorded corresponding to the compensatory indemnifications relating to the company stake holding in the Social Tariff agreement signed on the 29th June 2006, between the transport operators belonging to the Andante intermodal system.

This amount is already set by the Council of Ministers Resolution 149/2007, of 6th September 2007, and is to be regularised during the financial year of 2008.

3.3 - FINANCIAL RISK MANAGEMENT

The exposure of the business to financial risk includes principally variations of interest rates.

i. Exchange rate risk

The exchange rate risk is very much reduced, as all loans are denominated in Euros, and the value of purchases in currencies other than the euro is not at all significant.

ii. Interest rate risk

The loans contracted with the European Investment Bank earn interest at variable rates and revisable rates, as explained in note 29.

The remaining medium and long term finances earn variable interest rates.

The Company holds five interest rate swaps, and the contracting of this type of financial instruments is made after careful analysis of the risks and benefits inherent in this type of operations and after consulting various institutions active in the market.

iii. Credit risk

The company has a high concentration of credit due to the ticket sales being made by TIP-Transportes Intermodais do Porto, ACE. This ACE's and this ACE's clients' credit risks may therefore have repercussions on the company, a low probability of occurrence being expected.

iv. Liquidity risk

The financing model of the Company is based on public funds from the State and the European Union, long term financing with resources from the European Investment Bank, structured leasing operations and one financing operation with a maturity of 20 years.

3.4 - TANGIBLE FIXED ASSETS

The tangible fixed assets are valued at the cost of acquisition and/or construction, net of accumulated depreciation and of losses from impairment. The financial charges during the period of construction are capitalised.

The leasing contracts on which the Company substantially takes on all the inherent risk and advantages in possessing the leased assets are classified as financial leases.

The financial lease contracts are recorded on their initial date as assets and liabilities by the least of fair value of the goods and the current value of the matured lease payments. Assets acquired through financial leases are depreciated in accordance with the fixed assets policy established by the Company.

Lease payments are constituted by the financial cost and by the depreciation of the capital. The financial costs are imputed to the respective periods during the lease period, according to a constant periodic interest rate on the remaining net investment of the lessor.

The maintenance and repair costs which do not increase the working life of the assets are recorded as costs of the financial year in which they occur.

Depreciation is calculated on the values of acquisition or construction, by the method of constant shares. The annual rates applied reflect the smaller period between the concession period (50 years) and the useful economic life of the goods and are summarised as follows:

- Buildings and other constructions:

Buildings: 30 years

Underground routes: 50 years

Tunnels: 50 years

Track: 25 years

- Basic equipment: 20 years

Current assets includes all the supplies relating to the construction of the Metro Light Rail infra-structure, the specialised services, third parties' services related to the development of projects and internal works capitalized by the company.

3.5 - INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded at the cost of acquisition, less accumulated depreciation and losses for impairment.

Depreciation is calculated on the values of acquisition or construction, by the method of constant shares. The annual rates applied reflect the period between the start of their use and the term of the concession of 50 years.

3.6 - FINANCIAL INVESTMENTS

The financial investments in companies of the group and associates are valued by the asset equivalence method. It is noted that in previous years and in relation to TIP, ACE, the proportional consolidation method was used. 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.

3.7 - IMPAIRY OF ASSETS

The company assets are analysed as at the date of each balance sheet, so as to evaluate indications of any losses for imparity. On 31st December 2007 there were no situations of imparity of assets.

3.8 - PROVISIONS

Provisions are constituted whenever the Company has a present obligation (legal or implicit) resulting from a past event and when it is probable that a decrease, reasonably estimated, of resources incorporating economic benefits will be required to liquidate the obligation. The analysis of the contingent losses is made at the end of each financial year.

On this date, the possibility of the existence of contingent liabilities which may represent future losses remains, giving rise to the maintenance of the provision previously constituted, in the amount of 10.8 million Euros. Further, as a result of the alteration to the accounting of the stake holding in TIP, ACE, mentioned in Note 3.6 of this Annex, provision was set aside for 1.8 million Euros, arising from the devaluation in the share in Capital in TIP – Transportes Intermodais do Porto, ACE.

3.9 - SPECIALISATION OF FINANCIAL YEARS

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.

3.10 - CORPORATE TAX

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

Deferred 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 deferred taxes are only recognised when a reasonable certainty exists that future profits will be generated against which they could be used.

3.11 - OPERATIONAL LEASING

Leasing contracts relative to which the Company does not substantially take on all the risk and advantages inherent to possession of the good are classified as operational leases.

Rental costs associated with operational leasing contracts are recognised as a financial cost in the year to which they refer.

3.12 - FIXED ASSET 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 "Concedent 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 deferred income 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:

(values in euros)

<i>Year of Loss</i>	<i>Value</i>	<i>Usable up to</i>
2002	991,013	2008
2003	26,210,687	2009
2004	36,339,197	2010
2005	69,702,375	2011
2006	118,251,857	2012
2007	141,183,083	2013

7 - AVERAGE STAFF

The Company's average staff during the financial year was 123 (123 for 2006), being 125 at the end of the year, 16 of which were employees transferred from CP and REFER.

	<i>2007</i>	<i>2006</i>
Total Staff	125	118
Excluding CP/REFER	109	102
Total Average Staff	123	123

8 - MOVEMENTS UNDER INSTALATION COSTS AND RESEARCH & DEVELOPMENT COSTS

Account Set-up costs reports the values of the studies, projects and project management costs, corresponding to the investments in 2007 in the lines in operation (Blue, Red, Green, Yellow and Violet Lines). 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

GROSS ASSETS

(values in euros)

Items	Initial Balance	Increases	Decreases	Transfers and Rebates	Final Balance
<i>Intangible assets:</i>					
Set-up costs	74,572,204	0	0	6,940,089	81,512,293
Fixed assets in progress	87,000,363	18,146,617	0	-19,901,571	85,245,409
Total	161,572,567	18,146,617	0	-12,961,482	166,757,702
<i>Tangible fixed assets:</i>					
Land and natural resources	109,973,103	0	0	12,719,593	122,692,696
Buildings	1,128,302,746	562,607	-583,024	121,503,906	1,249,786,235
Basic equipment	180,809,781	337,817	-30,211	29,356,404	210,473,791
Transport equipment	1,033,869	245,668	-167,131	0	1,112,406
Tools and utensils	257,659	23,983	0	0	281,642
Administrative equipment	2,251,516	192,317	-58,367	0	2,385,466
Others	6,063,305	0	0	0	6,063,305
Fixed assets in progress	186,526,908	62,891,531	0	-148,097,131	101,321,308
Advances on fixed assets	3,940,765	137,760	0	-2,521,290	1,557,234
Total	1,619,159,652	64,391,683	-838,733	12,961,482	1,695,674,083
<i>Securities and holdings:</i>					
Holdings in group's companies	2,250	0	-61	0	2,189
Holdings in associated companies	213,262	108,258	-152,969	0	168,551
Other companies	0	111	-111	0	0
Total	215,512	108,369	-153,142	0	170,740

DEPRECIATION AND ADJUSTMENTS

(values in euros)

Items	Initial Balance	Addition	Revising	Final Balance
<i>Intangible assets:</i>				
Set-up costs	4,054,022	1,927,788	-188,146	5,793,664
Total	4,054,022	1,927,788	-188,146	5,793,664
<i>Tangible fixed assets:</i>				
Buildings	71,439,068	39,076,323	-739	110,514,652
Basic equipment	11,919,190	8,896,718	-110,385	20,705,523
Transport equipment	506,191	247,723	-167,131	586,783
Tools and utensils	214,907	36,200	-3,739	247,368
Administrative equipment	1,967,153	423,102	-235,522	2,154,733
Total	86,046,509	48,680,066	-517,516	134,209,060

During the financial year the values of the investment realised on the Blue, Red, Green, Yellow and Violet lines, already concluded and in operation, were transferred to firm assets, as follows:

(values in euros)

Line	Amount Transferred
Blue	1,903,345
Red	9,595,882
Green	5,834,379
Yellow	6,844,092
Violet	477,969

11 - CAPITALISATION OF FINANCIAL COSTS INCURRED IN THE FINANCIAL YEAR

An amount of 4,827,849 euros was capitalized in the Fixed Assets in Progress account, consisting of 2,872,019 euros in financial charges from long-term loans by the EIB and 1,044,170 euros in interest from bridge loans (taxes included on booth values).

14 - TANGIBLE FIXED ASSETS AND ON COURSE OF AQUISITION/CONSTRUCTION

a) All fixed assets are allocated to the Company's business and available for operation. No fixed assets are held abroad.

b) According to Decree-Law no. 394-A/98, all assets integrating the implementation of Metro do Porto, S.A. and allocated to its System, shall revert to the State at the end of the concessionary term, which is for a term of 50 years. All assets financed by the Ceding Entity in conformance to the requirements of Paragraph IV of Condition XXVII are considered as being ascribed to the interests of the Ceding Entity.

During the financial year, interest income derived on securities investments was capitalised. Therefore, the value of interest costs capitalised during the financial year was reduced by 45,453 euros on this account, and consequently, a closing cumulative balance of 4,782,396 euros in interest expense was recorded as at 31st December 2007.

The value of capitalised financial costs and respective taxation thereon is as follows:

<i>Previous years</i>	<i>48,902,369 euros</i>
<i>In financial year</i>	<i>4,782,396 euros</i>

15 - ASSETS BEING UTILISED ON A FINANCIAL LEASE BASIS

Assets utilised by the Company on a financial lease basis are light vehicles and facilities, 1,008,644 euros and 661,875 euros, respectively.

On 31st December 2007 the debt value associated with these contracts was of 536,495 Euros and 184,071 Euros, respectively.

16 - FIRM AND HEADQUARTERS OF THE COMPANIES OF THE GROUP, ASSOCIATES AND OTHER STATE HOLDINGS

(values in euros)

Company Name	Headquarters	%	Shareholder's Capital 2007	Net Income 2007	Value of Shareholdings 31.12.2007
<i>Metro Consultoria, Lda</i>	Av. Fernão Magalhães, 1862, 7º, Porto	100.00%	1,786	-61	2,189
<i>Transpublicidade, S.A.</i>	Av. Fernão Magalhães, 1862, 13º, Porto	40.00%	576,914	115,131	168,551
<i>TIP, ACE</i>	Av. Fernão Magalhães, 1862, 9º, Porto	33.33%	-5,366,707	-324,534	0
<i>Nortrem, ACE</i>	R. Gen. Firmino Miguel, nº3, Lisboa	0.01%	a)	a)	0

a) The negative result of the financial year annulled the value of the stake holding

As referred to in Note 2. of this Annex, the stake holding in TIP – Transportes Intermodais do Porto, ACE, was integrated into the accounts of the Company by the Asset Equivalence Method.

During the financial year the transactions between companies of the group, associates and others are given as follows:

(values in euros)

Company Name	Sales and/or Provisions of Services	Purchases and/or Acquisition of Services	Balance at 31.12.2007
<i>Nortrem, ACE</i>	3,759,707	16,661,629	213,548,983
<i>Transpublicidade, S.A.</i>	476,079	0	153,606
<i>TIP, ACE</i>	0	913,138	12,373,385

28 - OVERDUE DEBTS TO THE STATE AND OTHER PUBLIC BODIES

There are no overdue debts with the State or other Public bodies.

29 - LIABILITIES TO THIRD PARTIES WITH A MATURITY OF OVER FIVE YEARS

Company liabilities of a maturity of over 5 years are as follows:

a) European Investment Bank

None of the E.I. B.'s facilities were utilised during the year.

(values in euros)

Contract	Value Contracted	Total value in debt
BEI I		
Tranche A	99,759,579	99,759,579
Tranche B	100,000,000	100,000,000
Tranche C	100,000,000	100,000,000
Tranche D	243,93,128	243,930,128
BEI II		
Tranche A	120,000,000	120,000,000
Tranche B	80,000,000	80,000,000
Total	743,689,708	743,689,708

EIB loans are denominated in Euro, at a variable EIB rate (which is consistently lower than the Euribor rate applicable for an identical period) and at fixed interest rates subject to reset.

EIB loans are secured against a Sovereign Guarantee from the Portuguese Republic for periods of 20 and 17 years counting from the date of those guarantees, respectively, as applicable to the EIB I and EIB II loans.

In 2003, a decision was taken to opt for a fixed-rate subject to reset basis in respect of tranches B and C of the loans (EIB I). The interest rate on Tranche A was fixed until 15th March 2009 and Tranche C was fixed until 15th September 2009.

Also in 2003, a decision was taken to opt for a fixed-rate subject to reset basis up to March the 15th 2010 in respect of a portion of Tranche D, in the amount of 100 million Euros.

During 2006, an interest rate swap was entered into with respect to the total of Tranche D of the EIB loan, in an amount of 243.9 million Euros. The swap fixed the interest rate on that Tranche until maturity, thereby enhancing the fixed EIB rate subject to reset that had been contracted in 2003 over an amount of 100.0 million Euros of that Tranche, up to March 2010.

The repayment schedule on the EIB loans which are classified as medium and long-term loans is as follows:

BEI I Loan

- Tranche A: repayable in 10 consecutive annual instalments starting in 2009
- Tranche B e C: repayable in 10 consecutive annual instalments starting in 2012
- Tranche D: repayable in 10 consecutive annual instalments starting in 2013

BEI II Loan

- Tranche A: repayable in 13 consecutive annual instalments starting in 2012
- Tranche B: repayable in 13 consecutive annual instalments starting in 2012

b) Operational leasing Nortren, ACE

Rentals due with respect to the operational lease contracts on 72 Light Rail vehicles were paid during the financial year, and the debt outstanding as at financial year-end was as follows:

(values in euros)

Contract	Initial value	Total value in debt
LEP 2002	97,222,222	77,323,638
LEP 2003	121,527,778	107,489,959
LEP 2004	31,250,000	28,735,386
Total	250,000,000	213,548,983

An interest rate swap was contracted in 2003 with the "Banco Comercial Português" for a period of 20 years in regard to the operational leasing contract signed in 2002. In January 2007 the re-structuring of this swap was effected in an operation signed with Santander Bank.

c) Loan credit Contract

A loan for a period of 5 years, extendable for another 2 years, for the amount of 200 million Euros, with full payback in 2013, was contracted in 2006.

A 100 million Euros, 20 year loan was contracted during the financial year. This loan is to be reimbursed partly in six-monthly capital instalments, the remaining amount to be reimbursed through a bullet payment at the end of the contract.

This loan has an associated interest rate cover structure, consisting of two interest rate swaps on the whole of the amount and for the term of the loan.

31 - FINANCIAL UNDERTAKINGS

The most relevant financial undertakings assumed by the Company concern the building and operation contracts of the Light Rail System, as well as the provision of inspection services contracts. At the end of the financial year those undertakings have the following configuration:

(values in euros)

Entity	Value of the contract	Value realised	%
<i>Normetro - Base Contract</i>	845,997,409	841,066,717	99%
<i>Normetro - Supplements</i>	231,991,030	218,814,921	94%
<i>CFS</i>	35,978,930	27,493,153	76%

32 - GUARANTEES ISSUED

Bank guarantees were issued in order to guarantee the payment of compensation payable by the Company for expropriated land and buildings destined for construction of the Light Rail network. As the end of the financial year, such contingent liabilities amounted to 7,385,368.12 euros in the form of bank guarantees issued, with respect to 116 expropriation processes.

As a result of audits carried out by the VAT Inspection Services to the reimbursement requests made, during the financial year, bank guarantees were also issued, with validity of one year, to the amount of 24,519,771.08 Euros, described in the following table:

(values in euros)

Issuing entity	Value	Validity
<i>BPI</i>	15,327,453.90	08-01-2008
<i>BPI</i>	5,584,902.53	08-01-2008
<i>Millennium BCP</i>	3,607,414.65	14-02-2008

The processes to which these bank guarantees relate have already been concluded, so that these bank guarantees have already terminated or will terminate their validity and efficacy in February 2008.

34 - PROVISIONS

Provisions have the following configuration:

(values in euros)

	Initial balance	Increase	Decrease	Final balance
Other provisions	10,765,525	1,790,771	0	12,556,296
Total	10,765,525	1,790,771	0	12,556,296

The item "Other provisions" covers amounts considered as probable losses arising, and estimates from legal consultants were obtained for the effect. The provision accrues to Fixed assets. During the financial year, and as a result of the application of the asset equivalence method to the stake holding in TIP – Transportes Intermodais do Porto, ACE described in Note 3.6 of this Annex, provision was made for 1,790,771 Euros, as a reflection of the accounting reclassification made.

35 - REALISED SHARE CAPITAL

Share capital has been fully subscribed and realised..

36 - NUMBER OF SHARES AND NOMINAL VALUE

The capital of the Company is divided into 1,000,000 shares subject as nominative shares, in the nominal unit value of 5 Euros.

37 - SHARE CAPITAL COMPOSITION

On 31st December 2007, the composition of the business capital of the Company was as follows:

SHAREHOLDER	2007	2006
Porto Metropolitan Area	59.9993%	59.9993%
STCP	25%	25%
Portuguese State	10%	10%
CP - Caminhos de Ferro Portugueses	5%	5%
Municipal Councils of Gondomar, Maia, Matosinhos, Porto, Póvoa de Varzim, Vila do Conde and Vila Nova de Gaia	0.0007%	0.0007%

40 - MOVEMENTS IN SHAREHOLDER FUNDS

	Initial balance	Increases	Decreases	(values in euros) Final balance
Capital	5,000,000	0	0	5,000,000
Called-up share capital	179,033	0	0	179,033
Ajust. Parts Capital Assoc.	0	54,687	0	54,687
Retained earnings	-138,916,283	-122,155,435	116,776	-261,188,494
Net income	-122,155,435	-145,188,566	-122,155,435	-145,188,566
SubTotal	-255,892,684	-267,289,314	-122,038,659	-401,143,340
Concedent Instalments	463,561,360	8,000,000	0	471,561,360
Total	207,668,676	-259,289,314	-122,038,659	70,418,021

During 2007 the company received 8,000,000 euros, from the State Budget, reported in the "Concedent Instalments" account.

43 - REMUNERATIONS ATTRIBUTED TO MEMBERS OF THE STATUTORY BODIES

Remuneration attributed to the Company's Statutory Bodies in 2007, was as follows:

<i>Board of Management</i>	<i>596,090 euros</i>
<i>Single Auditor</i>	<i>19,344 euros</i>

45 - NET FINANCIAL INCOME (LOSS)

		(values in euros) Financial year of 2007	Financial year of 2006
	EXPENSES AND LOSSES		
681	Interest paid	58,778,929	40,246,103
682	Losses in group associates	108,350	88
685	Unfavourable exchange rate losses	52	0
688	Other costs and financial losses	2,674,020	2,088,182
	Financial income	-60,691,847	-41,457,015
	Total	869,503	877,358
	INCOME AND EARNINGS		
781	Interest obtained	103,572	193,039
782	Earnings in group associates	46,053	36,279
788	Investments and other profits and financial earnings	719,878	648,040
	Total	869,503	877,358

Figures include 4,827,849 euros of capitalised interest (3,580,835 Euros in 2006) recorded under Work for own account.

46 - NET EXTRAORDINARY INCOME (LOSS)

		(values in euros)	
		Financial year of 2007	Financial year of 2006
EXPENSES AND LOSSES			
691	Donations	44,550	54,525
694	Fixed asset losses	811	0
695	Fines and penalties	598	1,335
698	Other costs or losses	14,352	1,402
	Extraordinary income (loss)	960,295	759,442
	Total	1,020,606	816,704
INCOME AND EARNINGS			
793	Earnings on stock	99	0
794	Earnings on fixed assets	18,442	17,578
795	Benefits from contractual penalties	8	0
798	Other income or Earnings	1,002,057	799,126
	Total	1,020,606	816,704

The "Other income or earnings" item essentially includes the amounts of 620,986 Euros and 332,529 Euros, relating to the annual recognition of the subsidies received from the State for construction of the Infante D. Henrique Bridge and the product of fines applied to passengers, respectively.

48 - THE COMPANY IS A BENEFICIARY OF THE FOLLOWING BANK GUARANTEES ISSUED BY ITS SUPPLIERS

Normetro – Agrupamento do Metropolitano do Porto, ACE, winner of the Project contract, Construction of the Porto Light Rail System under the contractual terms provided guarantees for the exact and punctual fulfilment of the obligations taken on, in favour of Metro do Porto, in the form of bank guarantee for the accumulated value of 81,649,271.68 Euros.

CFS – Consugal, Ferconsult and Sener, the winning consortium of the contract for provision of technical management support services, control and inspection of construction of the Porto Light Rail System under the contractual terms provided guarantees for the exact and punctual fulfilment of the obligations taken on, in favour of Metro do Porto, in the form of bank guarantee for the accumulated value of 7,640,838.65 Euros.

Other fixed asset suppliers to Metro do Porto under the contractual terms provided guarantees for the exact and punctual fulfilment of the obligations taken on, in favour of Metro do Porto, in the form of bank guarantee for the accumulated value of 40,061,637.06 Euros.

49 - STATE AND OTHER PUBLIC BODIES

The balance of receivables from the State had the following composition:

	(values in euros)	
	Financial year of 2007	Financial year of 2006
Value Added Tax (VAT) claimable	9,607,293	41,032,098
Taxes and Company income Tax - IRC	805,787	205,565
Individual income Tax - IRS	37,055	42,907
Social Security Contributions claimable	5,201	5,201
Total	10,455,336	41,285,772

51 - DEFERRED EXPENSES

Deferred Expenses showed the following composition:

	(values in euros)	
	Financial year of 2007	Financial year of 2006
Operational vehicle leasing - 1 st contract	94,906,003	101,663,677
Operational vehicle leasing - 2 nd contract	71,553,590	76,444,410
Operational vehicle leasing - 3 rd contract	53,356,399	56,919,233
Operational vehicle leasing - 4 th contract	35,347,874	37,570,907
Other deferred costs	86,772	61,957
	255,250,638	272,660,184

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 charged for is accounted for as Deferred Expenses with a contra in Other Creditors. The rentals are recognised as expenses for the respective period.

52 - BANK LOANS

The bank loans are due as follows:

	(values in euros)	
	Financial year of 2007	Financial year of 2006
Short term	311,652,576	265,372,082
Medium and long term	1,243,689,708	1,123,689,708
	1,555,342,284	1,389,061,789

Medium and long-term liabilities consist of loans from the European Investment Banks and other bank loans, as per conditions disclosed under note 29.

For about 252 million Euros of the total indicated as Short Term, proposals have already been obtained for re-structuring the debt for maturities of 20 years.

53 - OTHER CREDITORS

The most representative balances under this item are as follows:

	(values in euros)	
By Balance sheet item	Financial year of 2007	Financial year of 2006
Other creditors - medium and long term	209,400,379	217,556,186
Fixed asset suppliers - short term	34,937,457	57,529,095
Other creditors - short term	5,893,255	14,643,073
Total	250,231,091	289,728,354

	(values in euros)	
By entity	Financial year of 2007	Financial year of 2006
NORTREM - Aluguer Material Ferroviário, ACE	213,548,983	226,450,905
Bombardier Transportation Portugal, S.A.	15,536,416	15,006,587
Normetro, ACE	9,985,607	17,995,053
Consulgal - Cons. de Engenharia e Gestão, S.A.	2,464,880	1,296,000
OFM - Obras Públicas, S.A.	1,567,656	1,585,090
Other creditors	7,127,549	27,394,719
Total	250,231,091	289,728,354

Amounts due to Nortrem, ACE respect to rentals outstanding on four operational lease contracts, and such rentals are payable on 40 six-monthly instalments. Rentals due for 2008 were reported under short-term creditors.

54 - ACCRUED EXPENSES

	Financial year of 2007	(values in euros) Exercício de 2006
Remunerations payable	750,290	723,227
Specialisation of interest	17,493,285	12,904,143
Others	1,240,126	12,287,730
	19,483,701	25,915,101

55 - DEFERRED INCOME

	Financial year of 2007	(values in euros) Financial year of 2006
Maintenance of metro light vehicles	44,735,894	48,536,885
Investment Subsidies	30,711,010	31,323,022
NPV US CBL	5,093,927	5,421,097
Interest rebates	4,205,253	4,597,961
Total	84,746,084	89,878,965

The investment subsidies refer essentially to the grants received for construction of the Infante D. Henrique Bridge (30,711,010 Euros).

56 - SERVICES RENDERED

The Services rendered item has the following composition:

	Financial year of 2007	(values in euros) Financial year of 2006
Transport of Passengers	26,555,012	21,271,975
Maintenance of metro light vehicles	3,800,991	3,728,431
Others	639,467	853,632
Total	30,995,470	25,854,038

57 - OPERATIONAL LEASING OF ROLLING STOCK

Operational lease contracts – LEP (Portuguese Structured Leasing) were entered into with respect to 72 Light Rail vehicles during the financial years 2002, 2003 and 2004. Anticipated invoicing for their respective rentals, not yet being accounted for as expenses, is stated on balance sheet, under deferred expenses, in an amount of 255,163,866 Euros.

On the operation realised in 2002, two swap operations were contracted, described in Note 29 of this Annex.

58 - CONTINGENT LIABILITIES

Instances where the Company is involved in litigation, as at 31st December 2007, are broken down as follows:

(values in euros)

Actions brought by:	Total Value of Contingency
Clients	(a)
Tax Administration	(a)
Staff	(b)
Third parties	92,036,517 (c)
Expropriations	24,068,634 (d)

(a) Nil.

(b) Court actions moved by employees seconded from CP and Refer, claiming maintenance of privileges acquired under their prior employment contracts.

(c) Instances of civil action moved by shop owners for compensation on damages caused by metro construction work, fines applied by court decision and processes in administrative evaluation phase.

(d) Processes involving expropriations of land and buildings conducted by the Company under legal arbitrage, involving the definition of the amount of compensation payable.

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. Therefore, such events are not deemed to represent sufficient cause for the creation of provisions against them.





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Registada na CMVM com o nº 1975
Contribuinte nº 502138394

LEGAL CERTIFICATION OF ACCOUNTS

INTRODUCTION

1. We have examined the financial statements of “METRO DO PORTO, S.A.”, which include the balance sheet as at 31 December 2007 (showing a total of 2,012,219,560 Euros and a total shareholder funds of 70,418,021 Euros, including a net loss of 145,188, 566 Euros), the Cash Flow Statements for the business year ending on that date, and the corresponding Appendices.

RESPONSIBILITY

2. It shall be the responsibility of the Administration Board to prepare financial statements that reflect, in true and appropriate fashion, the financial position of the Company, the results of Company operations and the cash flow, as also the adoption of accounting policies and criteria that are appropriate, together with the maintenance of an appropriate internal control system.

3. Our responsibility is to issue a professional and independent opinion, based on our examination of those financial statements.

SCOPE

4. The examination we carried out was performed as according to the Technical Standards and Reviewing/Auditing Guidelines of the “Ordem dos Revisores Oficiais de Contas”, which requires that the process be planned and executed with the aim of obtaining an acceptable degree of security about whether the financial statements are indeed free from relevant distortions. For this, the aforementioned examination included:

- The checking, using a sample base, of support for the quantities and disclosures made of the financial statements and assessment of estimates, based on opinion statements and criteria set by the Administration Board, used in the preparation thereof;
- A statement of opinion as to whether the accounting policies adopted and the disclosure thereof are suitable and appropriate, in the light of the circumstances;
- A check of the applicability of the continuity principle; and
- An appraisal as to whether the presentation of the financial statements is appropriate, in global terms.

5. Our examination also included a check on the agreement between the financial information mentioned on the management report with the financial statements.

6. We are of the opinion that the exam as performed is an acceptable base for the statement of our opinion in this regard.

RESERVATIONS

7. Following a more thorough analysis, carried out in 2003, of the accounting qualification of those subsidies, and on the basis of technical opinion statements issued by specialists, including distinguished University professors, the Company, which until 2002 had recognised the subsidies set out in Decree-Law n.º 394-A/98, of 15 December, which included the Concession Bases, the Para social Agreement and the Statutes of Society, as subsidies to investment, started to account for this item under the heading “Concedent Instalments”, including them under Net Worth. The External Auditor, not being in agreement with this accounting alteration made by the Company, made a reservation to the Accounts through Non-Agreement.

In the quality of Single Auditor of the Company, our firm, having thoroughly looked at the provisions of the Concession Bases, the Para social Agreement and also the Statutes, felt that these subsidies were hybrid in nature, but that their inclusion in the Net Worth would be better adapted to the aforementioned provisions and, in this regard, disclosed its position through an emphasis, a situation which amounted to a difference of opinion between the Single Auditor and the External Auditors.

The situation was analysed by the “Inspeção-Geral de Finanças”, which requested a statement of opinion from the Accounting Normalisation Committee, the content of whose question we do not know.

This Commission made a statement recommending that these subsidies should be considered as subsidies to the investment, a position also defended by the “Inspeção-Geral de Finanças”, which recommended this accounting alteration to the Company, even though such a correction should be made within the scope of the reinforcement of the Company’s own capital.

The “Tribunal de Contas” meanwhile adopted the position of the “Inspeção-Geral de Finanças”, recommending to the company the recognition of such subsidies as subsidies to Investment.

In the light of these positions, the Company presented some arguments in opposition to these recommendations, which do not deserve any acceptance on the part of the Official Institutions.

Feeling sure that their stances were correct, both the External Auditor and the Single Auditor stood by their positions.

The accounts for the period between 2003 and 2005 were always approved, with the favourable votes from the Representative of the State.

Finally, the “Tribunal de Contas”, in their Audit Report nº33/06 – 2nd Section - Process nº15/05 - Audit, recommends that the Administration Board proceed with the correction of the accounts of investment financing – Concedent Instalments, to the account 2745 – Subsidies to Investment and that, due to the fact that after this operation the company is in non-compliance with Article 35 of

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the Commercial Society Code, the Administration Board should call a meeting to implement the aforementioned legal provision.

However, at the Annual General Meeting of Metro do Porto, held on 7 March 2007, which laid down rules for the accounts for the business year of 2006, item 4 on the Agenda had the following wording: “4. Discuss and deliberate about the proposal of the Administration Board, in relation to the recommendation made by the ”Tribunal de Contas” for the correction of the accounting of the financing of investments (co-participations for investments made in Metro do Porto by the State and the European Union), transferring them from account 58 – ”Concedent Instalments”, to include them in account 2745 – Subsidies for Investments; given that, as a result of the recommended operation, it will be evident that there will have been a loss of half the equity of the Society, deliberate, if necessary, about the measures to be taken and also for the purposes of Article 35., no. 1 and 3, of the Commercial Code;”

In the discussion of this point 4, the Administration Board proposes that the Shareholders take a decision to keep the accounting of the funds received from the State and equivalent funds (co-participations of PIDDAC, ERDF and Cohesion Fund) in account 58 – ”Concedent Instalments”, considering the points mentioned in the proposal.

This proposal was approved unanimously. The representative of the State, as shareholder, made the following declaration of vote: “The State, in acknowledgement of the technical merit and the relevance of the recommendation made by the ”Tribunal de Contas”, considers that this should be analysed within the scope of the definition of the future strategic qualification of the company and of a possible reinforcement of equity capital for a reasonable amount.

We maintain the conviction that our position was reasonable.

However, the recommendation made by the ”Tribunal de Contas” forces us to rethink our position, eliminating the emphasis and issuing a reserve in the terms and conditions that follow:

The Company does recognise the support and subsidies received from the State and the European Union with regard to assets in the ”Concedent Instalments” account (Item 4 of Base XXVII), included in the Net Situation Statement. In our opinion, these subsidies should be considered as subsidies to investment and have the accounting treatment which is normal for these qualifications. The accumulated sum in the ”Concedent Instalments” on 31 December 2007 stands at 471,561,360 Euros.

OPINION

8. In our opinion, except with regard to the effects of the situation described in Paragraph 7 above, the financial statements as mentioned above reflect the truth in appropriate form, in all aspects of material relevance, regarding the financial position of “METRO DO PORTO, SA.” on 31 December 2007, the results of their operations and cash flow on the year to this date, in conformity with the accounting procedures normally accepted in Portugal.

EMPHASIS

9. Without affecting the opinion statement made in the previous paragraph, we would like to draw your attention to the following:

9.1 – The Company, making the due adjustments as mentioned in the Reservation shown above, is in a situation of non-compliance with Article 35 of the Commercial Society Code, and for this reason the Board must call a General Meeting immediately, to inform the partners about this situation and so that these may take the steps considered convenient.

9.2 – The Company has five swaps to cover interest rate risk, for a total sum of 536.4 million Euros, as seen in notes nº. 3.3,29 and 57 of the Appendix.

9.3 – Base XV, which is part of the Concession Bases, plans for the attribution, by the State, of compensation that enables the attainment of financial balance in the exploitation of the system through the celebration of programme contracts between the State and Metro do Porto. Well, no contract has as yet been made based on this Base, in spite of proposals which are timely sent by the Company to the Grantor. We would also like to remember that should the current situation of annual deficits, at a value similar to that of last year, re-occur in the business year of 2008, then the Company shall have to face the incompliance with Article 35 of the Commercial Code.

9.4 – Even though this does not impair the continuity of the operations, due to several factors, from which the guarantee of State financing stands out, we once again call attention to the present indecision as to the financing system, which includes not only the cost of infrastructure as also the annual exploitation deficits.

9.5 – We hope that the approval of the Memorandum of Understanding, signed on 21 May 2007, between the "Ministério das Obras Públicas, Transportes e Comunicações" and the "Junta Metropolitana do Porto" has created conditions for the financial situation of Metro do Porto to stabilise, even though, on the present date, the mentioned Memorandum is not being complied with.

Porto, 22 January 2008

António Magalhães & Carlos Santos - SROC, represented
by Dr. Carlos Alberto Freitas dos Santos - R.O.C. nº 177





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STATUTORY AUDITOR'S REPORT

To the shareholders of METRO DO PORTO, S.A.

According to the legislation currently in force and the mandate granted to us, we have come to submit, for your perusal, the report on our activities, and also to state an opinion about the financial statements of “METRO DO PORTO, S.A.”, for the year ending on 31 December 2007, with the issue thereof being the responsibility of the Administration Board.

We feel we should mention, as the most important aspects of the business year, the steady increase in passenger flow in the Light Rail System of the Porto Metropolitan Area, which figures clearly show, and the approval of the Memorandum of Understanding, signed on 21 May 2007 between the “Ministério das Obras Públicas, Transportes e Comunicações”, on the one hand, and the “Junta Metropolitana do Porto”, on the other, setting out the plans for the development of this system.

We have observed, with the periodicity and extension we deem adequate, the evolution of Company activity, the regularity of their accounting records and the compliance with the legal and statutory regulations in force, having received from the Administration Board and the different services of the Company all information and clarification as required, for which we are most grateful. We have also attended several meetings of the Administration Board.

Within the requirements of our posts, we have examined the Balance Sheet of 31 December 2007, as also the Profit & Loss account by nature and by function and the Cash Flow Statements for the Business Year ending on that date and the corresponding attachments. We have also analysed the Management Report for the business year of 2007, prepared by the Administration Board and the proposal for net income distribution, contained therein. As a result of the legal review work that has been carried out, we have prepared the Legal Certification of Accounts, which contains five highlighted points in Paragraph Eight.

The financial situation of the company continues to get visibly worse, and for this reason that State needs to establish a brief definition of the financing system, covering the phase of construction of infrastructure and the annual exploitation deficits.

ANTÓNIO MAGALHÃES & CARLOS SANTOS

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Based on the report as presented, we are of the opinion that:

- a) The Management Report and the Financial Statements for the business year of 2007 can be approved;
- b) The net income distribution,, as proposed by the Administration Board, shall similarly be approved.

Porto, 23 January 2008

António Magalhães & Carlos Santos - SROC, represented
by Dr. Carlos Alberto Freitas dos Santos - R.O.C. nº 177

AUDIT REPORT





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AUDIT REPORT

INTRODUCTION

1. We have examined the financial statements attached, referring to METRO DO PORTO, S.A., which include the Balance Sheet as at 31 December 2007 (making evident a total of 2,012,219,560 Euros) and total shareholder funds of 70,418,021 Euros, including a net loss of 145,188,566 Euros), the Profit & Loss Account by nature and by function, and Cash Flow Statements for the business year ending on the said date, together with the Appendices thereto.

RESPONSIBILITIES

2. It is the responsibility of the Administration Board to prepare financial statements that adequately and truthfully represent the financial situation of the Company, the results of its operations and the cash flow picture, as also the adoption of accounting policies and criteria together with the maintenance of an appropriate control system.
3. Our responsibility includes stating a professional and independent opinion, based on our examination of those financial statements.

SCOPE

4. Except in relation to the limitations set forth in paragraphs 7 and 8 below, the examination we carried out was performed as according to the Technical Standards and Reviewing/Auditing Guidelines of the "Ordem dos Revisores Oficiais de Contas", which requires that the process should be planned and executed in order to obtain an acceptable degree of security about whether the final statements are indeed free from relevant distortions. For this, the aforementioned examination included the following:

- The checking, using a sample base, of the support for the quantities and disclosures made in the financial statements and assessment of estimates, based on judgement and criteria set by the Administration Board, used in the preparation thereof;
- A statement of opinion about whether or not the accounting policies adopted and the disclosure thereof are appropriate, depending on the circumstances;
- A check on the applicability of the continuity principle; and
- An appraisal as to whether the presentation of financial statements is appropriate, in global terms.

5. Our examination also included a check on the agreement between the financial information mentioned on the management report and the financial statements.

6. We are of the opinion that the examination as performed provides an acceptable grounding for the expression of our opinion.

RESERVATIONS

7. As mentioned in notes 16, 29 b), 51 and 53, Metro do Porto, S.A. celebrated contracts of structured leasing (of the sale and leaseback variety) with Nortrem – "Aluguer de Material Ferroviário, A.C.E." (Nortrem), in which they have a stake of 0.01%, with regard to 72 light rail vehicles. In the light of the information provided by Metro do Porto, S.A., this organisation may constitute an Entity with Special Purpose, as defined in SIC 12 (Consolidation – Entities with Special Purposes), within the terms of items f) or g) of Article 2 of Decree-Law n° 238/91 (updated by Decree-Law n° 35/2005) with regard to the regulations for account consolidation and, consequently, liable for consolidation.

Nevertheless, the information made available is not, in itself, enough to confirm in unmistakable fashion that there has indeed been this agreement, and for this reason we are unable to judge the possible effects on the financial statements of Metro do Porto, S.A. in the event of consolidation. The above mentioned contracts, including the light rail vehicle maintenance contracts signed with Nortrem, have been recorded in the accounts, on 31 December 2007, under the balance sheet item of Deferred Costs (balance of 255,163,866 Euros), Other Creditors (balance of 213,548,983 Euros) and Deferred Income (balance of 44,735,894 Euros).

8. As mentioned in Notes 3.3, 29 and 57 of the Appendix to the Balance Sheet and Profit & Loss Account, Metro do Porto, S.A. has hired financial instruments (two “swaps” of interest rates linked to the contract mentioned in paragraph 7 above and three “swaps” of interest rates linked with financing contracts, some of which having inbuilt options) which have been registered in the accounts, based on the principle of specialisation or addition of respective interest rate changes. We feel that these financial instruments should be treated, from the accounting standpoint, according to the provisions laid down in International Accounting Regulation n° 39 (Financial Instruments: Acknowledgement and Mensuration), additionally applied by remission of the Accounting Guideline n° 18 (Goals of financial statements and generally accepted accounting practices). Bearing in mind that we have not been supplied with sufficient documentation to establish the correct classification of the financial instruments mentioned above, we are not able to quantify the effects on the owned capital of the Company and on the results for the business year, arising from the non-application of the aforementioned regulation.

9. Metro do Porto, S.A. duly registers under the classification of “Concedent Instalments” (item 4 of Base XXVII), included in its Shareholder Funds, the funds received from the State and the European Union, with regard to investment in assets. According to the Official Accountancy Plan, the sums received, being linked to company assets, should be recognised as subsidies to investment, and registered under Deferred Income (Liabilities), and recognised as income arising from the business year, according to the speed of depreciation of the assets they refer to. The value

of the “Concedent Instalments” category (item 4 of Base XXVII) on 31 December 2007 rises to 471,560,360 Euros, having been boosted with a further 8,000,000 Euros during 2007.

OPINION

10. In our opinion, except in relation to the effects of any adjustments which could prove to be necessary should the limitations described in paragraphs 7 and 8 not exist, and except for the effects of the situation described in paragraph 9 above, the aforementioned financial statements do, indeed, truthfully and appropriately present, under all relevant aspects, the financial position of METRO DO PORTO, S.A. on 31 December 2007, the results of company operations and the cash flow for the business year terminating on this date, in conformity with the accounting principles normally accepted in Portugal.

EMPHASIS

11. Regardless of the opinion expressed in the previous paragraph, we would like to stress that, as mentioned in the Introduction to the Balance Sheet Appendix and Profit & Loss Account, the financing of the investment and the business activities of Metro do Porto, S.A., should be guaranteed by the State. This way, the continuity of operations is dependent on the opportune support by the State.

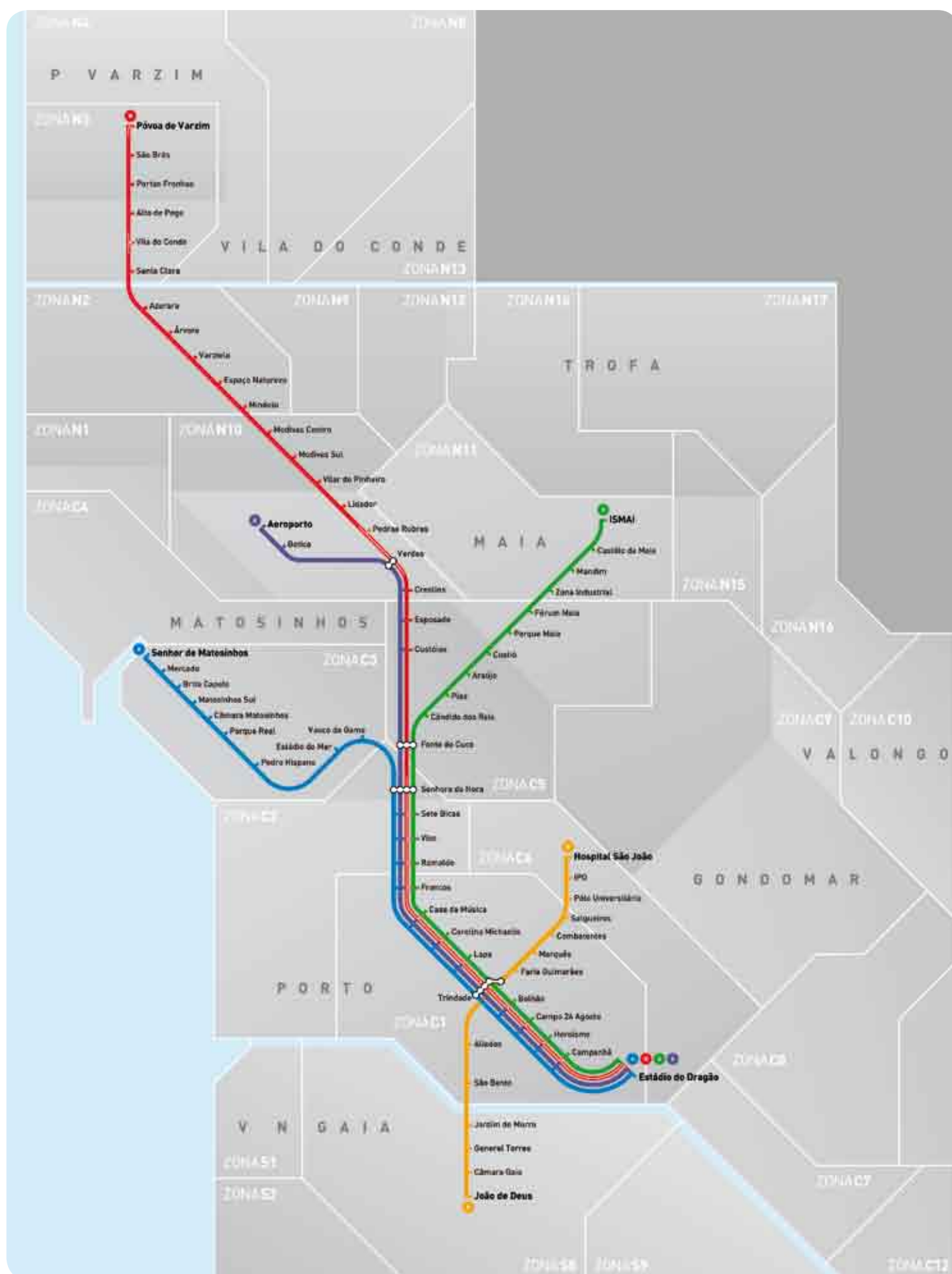
Porto, 1 February 2008

ERNST & YOUNG AUDITORIA & ASSOCIADOS - SROC, S.A.
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