

# Annual Report 2005





# Index

4	<b>CHAIRMAN'S MESSAGE</b>
7	<b>MANAGEMENT REPORT</b>
9	<b>1 Events in 2005</b>
13	<b>2 Metro do Porto in Numbers</b>
17	<b>3 MP and the Community</b>
17	3.1 Environment
20	3.2 Built up and Archaeological Heritage
21	3.3 Accessability to the System
23	3.4 Community Relations
25	<b>4 MP and its Clients</b>
31	<b>5 MP'S Service</b>
31	5.1 Commercial Operation
34	5.2 The Network Under Construction
39	<b>6 MP's Communication and Image</b>
39	6.1 Institutional Events
39	6.2 Communication
40	6.3 Cultural and Educative Initiatives
41	6.4 Partnerships
41	6.5 Press Relations
43	<b>7 MP's staff</b>
43	7.1 Organizational Structure
44	7.2 Governing Bodies
46	7.3 Staff
49	<b>8 MP's Shareholders</b>
51	<b>9 MP's Economic and Financial Activity</b>
51	9.1 Macroeconomic Framework
52	9.2 Investment
52	9.3 Funding
61	9.4 Balance Sheet
62	9.5 Results
67	<b>10 2006 Outlook</b>
69	<b>11 Allocation of Results Proposal</b>
71	<b>2005 FINANCIAL STATEMENTS</b>
99	<b>LEGAL CERTIFICATION OF ACCOUNTS</b>
103	<b>STATUTORY AUDITOR'S REPORT</b>
107	<b>AUDIT REPORT</b>

# Chairman's Message




The year 2005 has shown a strong impulse in Metro do Porto, S.A.'s activity. First of all, for the social and economic significance of the opening of three lines of our network. Thanks to this geographic expansion, the light rail became even more notoriously than before a part of everyday life for thousands of citizens in this Region. This has also strengthened the System's operational earnings. 2005 is undoubtedly a milestone in the project's history.

On March the 13<sup>th</sup>, we inaugurated the first segment of the Red Line **B**, up to the Pedras Rubras station, serving Matosinhos and Maia. It was the first step to reach the north of the Great Metropolitan Area, specifically to reach Vila do Conde and Póvoa de Varzim.

On July the 30<sup>th</sup>, in the presence of the Minister for Public Works, Transports and Communications, Mr. Mário Lino, we inaugurated the initial stretch of the Green Line **C**, up to the Fórum Maia station – another important implementation milestone, to be remembered for the technical difficulties Metro do Porto's engineering had to overcome in this specific assignment.

Later, on September the 30<sup>th</sup>, we inaugurated the so called Line of the Lines: the Yellow Line **D**, connecting Porto to Vila Nova de Gaia. Again with the presence of Mr. Mário Lino, we travelled through the several kilometres long tunnel built under the centre of the city of Porto and along the renewed and modernised Luís I bridge, again offering one of the most privileged and impressive views over the Douro.

So we arrived at the end of this year with four lines and over 35 kilometres of network built and at the citizens' service. As a result of these inaugurations, the demand by our clients increased significantly. The year was closed with a 87.8% growth in the number of validations as compared to 2004, a total of 18.4 million. We finally served a part of the Great Metropolitan Area's population close to what was our initial target. And we continued to exhibit our ability to provide a very effective, comfortable, fast and safe transportation service.

In 2005 there was still an important construction activity, essentially the conclusion of the lines inaugurated during the year as well as the extension of the network northwards. The construction of the Red Line, between Pedras Rubras and Póvoa de Varzim, continued in an intense and committed manner, as did those of the Green Line, between, Fórum Maia and ISMAI, and of the Violet Line , to the Francisco Sá Carneiro International Airport.

The total volume of investment in 2005 reached 364 million euros, a growth of 2.3% on 2004. In accumulated terms, the investment already realised exceeds 1.7 thousand million euros.

Considering the overall realised investment amount, one recognises that the conclusion of the First Phase of the Light Rail System is approaching. Indeed, all the lines in the initial project – to which the Airport line was added in 2004 – will be ready and in service during 2006.

It is therefore time to increase the preparation of the launch of the Second Phase lines. In technical, legal and environmental terms, everything is ready for the construction of the Gondomar Line to begin. And the development of the lines or extensions Casa da Música-Laborim, Hospital São João-Maia, Matosinhos-Leça and Matosinhos-Boavista is well advanced, already in an anteproject phase. All of this in total and productive articulation between Metro do Porto, S.A. and the local government institutions involved.

During 2005, the Board I am honoured to chair had on several occasions the opportunity to , articulate with the Central Government, at the highest level, i.e. with the Prime Minister, Mr. José Sócrates, the model for the future development of the various expansion projects we have prepared. This model implies, unequivocally, a policy of growth of the reality of the light rail in Porto, as well as an attitude of permanent rigour, exigence and transparency, which has always characterised our performance. This means that, even considering the economic difficulties the country is going through, 2006 offers Metro do Porto, S.A. a good outlook: a year of enlargement and of balanced and sustained growth.

Valentim Loureiro







# Management Report









## INAUGURATIONS

By the end of 2005 all the lines foreseen in the original First Phase of the system were in operation, albeit partially so in some cases. Besides representing an addition of 18.9 kms and of 24 new stations to the network in service, the four openings occurred in 2005 introduce a new period in the history of the Light Rail System project. With the Póvoa Line in service (up to Pedras Rubras), together with the Trofa Line (up to Fórum Maia) and particularly with the Gaia line, a true light rail network has become available in the Metropolitan Area of Porto.

Opening	Line	Stretch	Extension	Stations
1-Jan-03	Blue	Trindade – Senhor de Matosinhos	11 826	18
5-Jun-04	Blue	Estádio do Dragão – Trindade	3 823	5
13-Mar-05	Red	Estádio do Dragão – Pedras Rubras <sup>1</sup>	6 744	5
30-Jul-05	Green	Estádio do Dragão – Fórum da Maia <sup>2</sup>	5 984	7
17-Sep-05	Yellow	Câmara Gaia – Pólo Universitário <sup>3</sup>	5 723	11
10-Dec-05	Yellow	João de Deus – Câmara Gaia	405	1
<b>In operation</b>			<b>34 505</b>	<b>47</b>

<sup>1</sup> Not including common stretch with Blue Line Estádio do Dragão-Senhora da Hora (9.6 kms, 13 stations)

<sup>2</sup> Not including, besides the common stretch as in 1, another common stretch with Red line: Senhora da Hora-Fonte do Cuco (0.7 kms, 2 stations)

<sup>3</sup> Includes two storey Trindade station – underground for Yellow Line and a surface for the remaining

Of particular symbolic value was the opening to service of the Yellow Line, connecting the largest cities in the Metropolitan Areas. This line prompted the renovation of the centuries old Luís I bridge, whose upper platform is now reserved for the light rail and for pedestrian traffic. The Infante bridge, built by Metro do Porto and open to traffic since March 2003, enables the continuation of road traffic between the two cities.

In a first phase, between September and December, commercial service in the Yellow Line was limited to the Câmara de Gaia-Pólo Universitário stretch. On December the 10<sup>th</sup> its operation was extended to the João de Deus station, in Vila Nova de Gaia.

## PROGRESS OF INTERMODALITY

The Metropolitan Area of Porto's intermodal project continued in 2005 through the expansion of the network included in the Andante system. On top of the stretches inaugurated by Metro do Porto, the following were also included:

- 26 new lines of the main bus operator STCP (a total of 33 of which 2 tramway lines);
- one new private bus operator line (a total of 6 lines);
- the Coimbrões-Espinho stretch of the Greater Porto Suburban Unit of the railway operator CP (to which the Coimbrões-Valongo stretch, included in the Andante system in June 2004, must be added).

In the Guindais Funicular as well as in the STCP tramway lines, as in all the light rail network, only the multimodal Andante tickets are used.

## VALIDATIONS RECORD

The system's success best measure is the level of its use by the population. The 87.8% growth in the annual number of ticket validations stands out, whereas the passenger miles more than doubled in the same period (a growth of 107.9%, reflecting the 10.7% increase in the average trip length). In December, the month with the absolute record in the number of validations since the start of commercial operation, an overall daily average of 81,817 validations was recorded, corresponding to an average of 101,345 in week days. The trust in the public transportation service these figures portray enables us to face this project's future with strengthened optimism.

## RENEGOTIATION OF THE OPERATION CONTRACT

The Light Rail System's project and construction contract also contemplates its operation during an initial period. The various project alterations had not been accompanied by alterations in the maintenance and operation aspects of that contract (except in 2001, in what concerns the first contract amendment).

The addition of the extensions to the Dragão Stadium and to the Francisco Sá Carneiro Airport to the original configuration of the system, as well as the duplication of the Póvoa and Trofa Lines, together with the need to provide a more frequent service, dictated the need to negotiate a new agreement for the maintenance and operation side of the contract. In May 2004 Metro do Porto has explained to the Government the motives and objectives for such a negotiation.

In September 2005 an agreement between the Company and the Normetro consortium was reached which, while safeguarding the contract guarantees and respecting the fixed price principle, introduced an increased level of flexibility in the management of the offer provided within the network. This contract revision accommodates with immediate effect the possible inclusion of the service with new vehicles (whose international public tender is under way) as well as of the operation of new lines which may be approved by the Government.

This agreement would become a 7<sup>th</sup> Amendment to the initial contract, whose approval by the Government Metro do Porto requested in October 2005.

## “DESPACHO CONJUNTO” (JOINT DECISION)

Through the “Diário da República” (the Republic's official journal) of November the 14<sup>th</sup>, the Company was informed about the “despacho conjunto” (joint decision) of October the 20<sup>th</sup> by the Finance Minister and the Transportation Minister, determining the following:

“The approval of the technical-financial audit of Metro do Porto, S.A., relative to the 2000-2003 period, made by Inspecção-Geral das Finanças and by Inspecção-Geral de Obras Públicas, and of the recommendations formulated at pages 63 and 64 of the said document;



Until the conclusion of the analysis of the report to be prepared by the Company, in the terms set

Pedras Rubras





Network (31/12)	2003	2004	2005	05/04
Extention (metres)	11 826	15 649	34 505	120.5%
Stations	18	23	47	104.3%

Human Resources	2003	2004	2005	05/04
Total Staff 31/12	150	133	137	3.0%
Average Total Staff	206	141	137	-3.0%

Values in thousands

Demand	2003	2004	2005	05/04
Metro System				
Passengers	5 960	9 843	18 481	87.8%
Passengers kms	26 476	46 506	96 674	107.9%
Average Trip Length (metres)	4 443	4 725	5 231	10.7%
Guindais Funicular				
Passengers	–	224	244	8.9%
Passengers kms	–	63	68	8.9%





Values in thousands

Operation	2003	2004	2005	05/04
<b>Metro System</b>				
Vehicle kms	1 343	1 941	3 398	75.0%
Seat kms	290 076	419 285	733 945	75.0%
Load Factor	9.1%	11.1%	13.2%	2.1 pp
<b>Guindais Funicular</b>				
Trips	–	28	35	26.5%
Seat kms	–	392	496	26.5%
Load Factor	–	16.0%	13.8%	-2.2 pp

Income	2003	2004	2005	05/04
<b>Metro System</b>				
Income (m €)	2 752	5 235	10 212	95.1%
Income / Passenger kms (cent €)	10.39	11.26	10.56	-6.2%
Income / Seat kms (cent €)	0.95	1.25	1.39	11.4%
<b>Guindais Funicular</b>				
Income (m €)	–	122	138	13.2%
Income / Passenger kms (€)	–	1.94	2.02	3.9%
Income / Seat kms (€)	–	0.31	0.28	-10.5%

Values in thousands Euros

Results	2003	2004	2005	05/04
<b>Operating Results</b>	-9 674	-20 680	-46 234	-123.6%
Before Operating Subsidies	-9 674	-25 411	-48 479	-90.8%
<b>Financial Results</b>	-16 192	-18 421	-25 696	-39.5%
<b>Extraordinary Results</b>	-110	1 186	636	-46.4%
<b>Net Income</b>	-26 032	-37 949	-71 335	-88.0%





The objective of progress safeguarding the environment, economic values and social concerns is very evident in all phases of the Metropolitan Area of Porto's Light Rail System implementation process (tender, project, construction and operation), as well as in the Company itself.

In this perspective, the environmental management, the management of the archaeological and built up heritage surrounding the infrastructure and the accessibility to the system by persons whose mobility is impaired are of crucial importance. The closest attention is paid to Community relations, particularly when it comes to overcoming the constraints to the population (residents and shopkeepers) posed by the construction of the light rail system, or to the promotion of cultural and educational initiatives.

### 3.1 Environment

#### TENDER AND PROJECT

Environmental concerns and the best satisfaction of the public interest are ever present factors since the idealisation of the light rail system.

Already in 1997, in the process of analysing and selecting the proposals competing in the master tender, several environmental impacts related factors were taken into account.

The winning proposal was considered the most advanced one from an environmental point of view, insofar as, besides evaluating the impacts, it proposed specific minimisation measures, as well as a wider range of environmental monitoring measures.

The construction method proposed, as well as the spatial planning of the construction yards, reflected an option which, by itself, contemplated the minimisation of the impacts in the saturated urban centre of Porto as well as of Maia and Vila Nova de Gaia.

The way the construction works unfolded has demonstrated that the choice of a TBM-EPB (Tunnelling Boring Machine – Earth Pressure Balanced) as a solution was most adequate. During construction, the option to use this tunnelling machine reduced the impact of the excavation, namely as far as settlements are concerned, enabling continuous work to proceed almost unnoticed at surface level.

The alternative to the chosen proposal, the use of mechanical means for a punctual type of attack together with the use of explosives, was based on the open sky construction of the tunnels in spite of the urban environment – greatly disturbing the resident population and, quite probably, causing serious repercussions at surface level.

In 2001, the project was subject to alterations which represented a substantive improvement in environmental terms. Most of the alterations did flow from the application of mitigating measures proposed either in the Environmental Impact Study (EIA) or in the process of Environmental Impact Evaluation (AIA). Generally speaking positive impacts were identified relative to the original contract solution, both in the exploration and in the construction phases.

The alterations were designed to reach the following objectives:

- To achieve compatibility between the light rail interventions and the urban rehabilitation works in Porto, resulting from the release of the former transportation infra-structures; and to link those interventions with the “Porto 2001 – Capital Europeia da Cultura” actions;
- To achieve compatibility between the transportation infrastructure and the urban rehabilitation projects undertaken by the local government bodies (for example, in Matosinhos, the urban integration of the streets surrounding the Senhora da Hora-Matosinhos stretch, particularly in the Sete Bicas-Fonte do Cuco stretch, defining a new centrality in Senhora da Hora);
- To recover elements of the architectural or archaeological heritage detected in the course of the construction, for example at the Campo 24 de Agosto station;
- To apply the measure proposed in the environmental impact study concerning the minimisation of the most negative impact during the construction phase, the one that would be associated to the interruption of all traffic in the Ring Road (VCI) in the Salgueiros-Pólo Universitário stretch;
- To apply the measure proposed in the environmental impact study concerning the interruption of the railway service provided by CP, to be replaced by an alternative bus service.

Regarding the public tenders after the initial public tender, environmental standards and criteria were defined, to be adhered to in the preparation of projects. This was aimed at minimising impacts by anticipation, rather than during the implementation of the system. To these standards other measures recommended for the project were added, namely those issued by the Environment Ministry in the Environmental Impact Declaration (EID).

Environmental standards are also defined in the construction tenders, so that an environmental management system is created and implemented to ensure that contracts abide by the standards and generally by the environment law in force.

In all Metro do Porto's projects the concern with the evolution of the spaces is very proeminent. It is not limited to the urban insertion of the system in the canal space it occupies. The landscape integration projects are prepared in a perspective of requalifying the surrounding space, looking for an increase of pedestrian spaces and of pedestrian mobility. Also proeminent are the concerns with the heritage, biodiversity (protection of arboreous elements), noise and vibrations.

All the design/build projects of the various metro lines are subject to environmental impact studies even when that is not a requirement under existing law, given the characteristics of the project.

## CONSTRUCTION

The Environmental Monitoring System (EMS), developed by the contractor with the consignment of the works in the initial phase, was based in a detailed knowledge of all the process, studies and environmental commitments. It is subject to the ISO 14001 methodologies. Initiated in 2000, it was a pioneer amongst transportation infrastructure projects in Portugal.

The EMS's effective implementation requires a number of monitoring actions (including some quantitative ones) of:

- **Water quality:** more active in underground stations, aiming to characterise the tunnel's emerging waters present in decanters;
- **Noise:** characterisation of noise levels in the reference situation and during the construction works;
- **Soil analysis:** when the possibility of contamination may be suspected;
- **Residual matter:** besides its quantification, the system requires the correct selection and processing of the various types of residual elements;



- **Street cleaning:** thanks to the correct operation of the wheels washing system, amongst other measures, to minimise dust suspension.

This system makes it possible to minimise the adverse environmental impacts, inevitably quite significant in such a vast and complex contract: in the years 2001 to 2004, on annual average 22 to 24 work fronts were active, involving more than two hundred direct subcontractors. The difficulties were increased due to the limited availability of locations to deposit certain types of residual elements, namely gravel.

## ENVIRONMENTAL AND SOCIAL BENEFITS



The light rail service generates very diverse environmental and social benefits. With the start of its commercial operation a new phase begins, with a more positive environmental balance and more evident advantages: greater mobility, improvement of local air quality, urban renewal, among others.

Starting with the most obvious and intuitive advantages, it must be said that the system's clients obtain very significant time savings. An independent specialised study made in estimated such savings at around 10 million hours per year when the system would reach its cruise state, worth a then estimated amount of 27 million euros per year. Translating those figures to 2005, one would arrive at total savings of almost 2 million hours worth over 5 million euros.



The introduction of the light rail service increases the share of collective transportation in the Metropolitan Area of Porto, through the transfer of traffic from individual transportation (IT) to the metro system – the objective with the greatest environmental benefits. Attracting passengers from other means of collective transportation (CT) enables the offer of urban collective transportation to be reorganised. The capture of traffic from both IT and the remaining CT reduce urban and suburban traffic congestion and road accidents, noise levels and finally the emission of polluting gases.

The above referred study estimated that by 2012 over 12 thousand vehicles would have ceased to park in the centre of Porto. Thus, comparing actual present demand with the 2012 estimate, one may conclude that around 2,500 vehicles a day may no longer have parked in this critical area.



In the Póvoa and Trofa lines (previously explored by CP, the national railway operator), which represent a significant part of the surface level network of the System, the light rail vehicle replaces diesel trains. Electrically powered and energetically efficient, this vehicle does not emit gases such as CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>x</sub>, CO, COV's or particles (PM<sub>10</sub>), which pollute the air locally. In the remaining lines, the Eurotram replaces buses and private cars, even more polluting than diesel trains.

Although power generation at power plants is not free from contributing to the deterioration of air quality, the decrease of polluting emissions (kg) and of power consumption (Tep) through the modal transfer to Metro do Porto is notorious. Given the importance of that decrease, Metro do Porto was asked in 2005 to contribute to the revision of the PNAC ("Programa Nacional para as Alterações Climáticas" – National Program for Climatic Change) targets.

The above referred study estimated that in 2004 each passenger kms transported by light rail rather than by bus would result in an average decrease of 338 mg of carbon monoxide emissions. Equivalent values for the emission of other gases are 135 mg for hydrocarbons and 1,650 mg for nitrogen oxides. In the case of passengers formerly transported by private car those figures would be even more expressive. Therefore, the light rail is estimated to have prevented in 2005 the emission of at least 33 tons of carbon monoxide, 13 tons of hydrocarbons and 160 tons of nitrogen oxides. The pollution of the air by over 11 thousand million particles is also estimated to have been prevented, as well as energy savings equivalent to over 3,600 PET (petroleum equivalent tons).

Another relevant positive impact of the introduction of this vehicle, for the areas surrounding the former CP lines as well as for the other areas in the Metropolitan Area (although in a less pronounced way), is the decrease in noise levels. The Eurotram can reach a maximum speed of 80 km/h remaining extremely silent, contrarily to vehicles powered by combustion engines.

The Andante intermodal tickets used in the metro system are available as paper cards, used as occasional tickets, and as PVC cards, personalised with client data and used as monthly tickets. Both the paper and the PVC cards are rechargeable, an important step towards the end of disposable tickets, which have been dominant for decades. These Andante tickets clearly fall within the universe of products conceived following the ECODESIGN logic, since the environmental dimension (prevention of the production of waste) was included in its conception and design.

TRANSDEV, the operator within the Normetro consortium, is certified under norms ISO 14001 e ISO 9001, a contractual obligation. Metro do Porto thus ensures the management of the environmental impact resulting from the operation of the system as well as the improvement in its environmental performance.

Adding everything up, the value of the environmental and social benefits achieved in the first three years of operation may be estimated at between 48 and 57 million euros.

## ACTIVITIES IN 2005

Within the realm of the environmental monitoring procedure defined in the Environmental Impact Evaluation, the Comissão de Coordenação do Desenvolvimento Regional Norte (CCDRN) has made three visits to the work fronts in the Yellow Line.

As defined in the Environmental Impact Evaluation process for the Póvoa and Trofa lines duplication / Francisco Sá Carneiro Airport link project, construction phase noise monitoring reports were prepared and sent to the Instituto do Ambiente.

Within the scope of the collaboration with the Environmental Audit department of the Transportation Ministry, appreciations were made about the draft regulations in respect of the construction waste materials management and of the revision of the legal framework for sound pollution as well as about the draft law on the evaluation and management of noise.

## 3.2 Built up and Archaeological Heritage

The Environmental Impact Study (EIA) of the project, in 1997, did foresee generally positive impacts for the light rail system's operation phase, based on "slower degradation of heritage buildings and spaces" and on the "improved knowledge of the evolution of the historical and archaeological conditions within the area through the detection, study and dissemination of information about possible elements in the course of the construction of the present undertaking".

That study considered those effects would be generally positive, as long as mitigating measures were implemented in the construction phase, integrated in a "Heritage Safeguard Program" to be prepared. This program's objectives were to monitor, manage and solve any situations that might emerge, through the cooperation between the technical teams and the public entities, particularly the Instituto Português de Arqueologia (IPA), the Instituto Português do Património Arquitectónico (IPPAR) and the local government bodies.

Over three dozen archaeological campaigns were developed, with excavation actions (through sampling or in an area). The results of the campaigns in the following stretches deserve highlight:

- at Campo 24 de Agosto, whose standing (Arca d'Água, XVI<sup>th</sup> century) and mobile (XVII<sup>th</sup> century materials deposit) archaeological richness triggered a museum project for the station body;
- at Avenida Vímara Peres and Praça Almeida Garrett, with relevant data for the comprehension of the roman occupation of Porto as well as of the urban development of Porto in the XVI<sup>th</sup> century;

Mobility for all



- at Praça Marquês de Pombal, for the enrichment of the knowledge about the urban expansion in the XIX<sup>th</sup> century;
- at the Trofa Line, between Mandim and Castelo da Maia, for the discovery of a pre-historic Copper Age site;
- at the Póvoa Line, between Árvore and Azurara, for the discovery of a roman site at Quintã and of a pre-historic Bronze Age site at Corgo.

A monography about Campo 24 de Agosto is in its final stages of preparation. Its publication on an extraordinary basis is justified by the exceptional nature of the site. The publication of the remaining results is expected to be made on a grouped basis.

## ACTIVITIES IN 2005

Regarding built up heritage, the removal of the film screen protecting the tile cover of the Capela das Almas was completed. This was accompanied by consolidation and restauration of some tiles which were in a dislodgement process.

On the archaeological front, the ground levelling works at the Póvoa and Trofa lines were monitored. Emergency excavation actions were required due to the discovery of three archaeological sites in the stretches between Varziela, Árvore and Azurara. Monitoring reports were sent to and approved by the Instituto Português de Arqueologia.

The Airport Line works were also monitored.

## 3.3 Accessibility to the System

Confirming the permanent concern to safeguard the conditions of accessibility to the system, the Company cooperated with all local government bodies so that all the urban environment works for which it is responsible prove to abide by the specific legal framework, namely Decree-Law Nr. 123/97. Other measures as yet not prescribed by the law, but identified through the experience acquired in the regular contact maintained with various associations of handicapped persons, are also adopted.

Beyond guaranteeing total accessibility to its fixed infrastructure through basic measures such as:

- the leveling of the stations' platforms and the vehicle floor;
- the creation of access pads to the surface stations' platforms;



- the use of lifts to the underground stations' platforms;
- visual and sound information in all vehicles and stations;

the Company has further developed some innovative solutions such as:

- tactile flooring just before staircases and the edge of the platforms;
- colour differences in the materials to identify the safety areas and highlight the first steps of staircases.

Architectural barriers commonly found in other projects have been avoided, namely:

- by embedding all technical cabinets and information devices in the walls;
- suspending all sinalectic at least 2.20 m high;
- placing all urban information and publicity equipment in the platforms longitudinally ;
- carefully placing all furniture (stools, dustbins, ticket selling machines) where they do not stand in the way.

The vehicle in use, the Eurotram, was designed to facilitate the transport of impaired mobility persons:

- its floor is integrally lowered to the platform's level;
- the colour choices for the interior equipment are designed to increase the perception of seat handles, columns and ceiling bars, fundamental elements for safe travelling, improving its identification by amblyopic people;
- some places, fitted with door opening command buttons, are reserved for wheel chairs;
- the vehicle has six doors on each side along its 35 m length, each one 1.35 m wide, facilitating entry and exit and reducing the length to be covered inside the vehicle and on the platform to reach the doors;
- there is visual and sound information to provide the widest possible communication.

Metro do Porto prepared a signaletic handbook stipulating communication rules, particularly the allocation of colours for each type of message according to international principles and norms, namely:

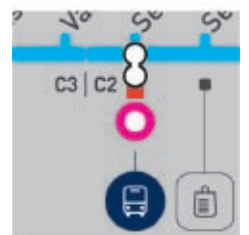
- way out (green);
- transfer to other operators (blue);
- danger (yellow);
- interdiction and prohibition (red).

This increases the intelligibility of messages and consequently the mobility within the system.

The Company seeks to maintain a permanent self critical posture, resulting in the discovery of a large variety of aspects to be improved regarding accessibility conditions.

Other relevante projects are:

- “Light Rail System’s Basic elements standards for surface stations”, a handbook containing all the rules for the correct design and construction of fixed infrastructures;
- “Projecto Infometro”, submitted to the POS-Conhecimento program, a project whose objective is to transmit to the client’s mobile phone the operational or promotional information usually provided through printed media;
- “Projecto Navmetro”, submitted to the same program. This project also aims to use the visually impaired client’s mobile phone to facilitate the access to the stations in an urban environment, and the access to the platforms and other spaces within the stations.



### 3.4. Community Relations

#### CARING FOR SHOPKEEPERS AND RESIDENTS

Metro do Porto has sought to minimise the adverse effects the construction of the network causes to shopkeepers and the resident population.

For this purpose, it created a program to compensate shopkeepers whose activity was proven to have been affected by the construction works. With the support of traders associations, 26 streets were analysed in the years 2002 to 2005 and 209 traders were already compensated for the loss of activity induced by the works.

Nine families residing in the Paraíso, Faria Guimarães and Fonseca Cardoso streets needed temporary accommodation due to the Yellow Line construction works, as did two other families in Póvoa de Varzim, affected by the Red Line construction. In all the eleven cases the situation has been overcome in the course of 2005, when these families returned to their homes.

By the end of the year, five other families (from Campanhã and Trindade) remained in temporary accommodation.

#### INSTITUTIONAL, EDUCATIVE AND CULTURAL INITIATIVES

The main actions in 2005 were:

- Edition of “Infometro”, the Metro do Porto magazine, and of the digital newsletter Vaivém;
- Reformulation of the [www.metrodoporto.pt](http://www.metrodoporto.pt) website;
- Creation of the Metro do Porto SMS service;
- Documentary on the Metro do Porto project intitulated “Passage to the Metro”, in partnership with SIC, the television company;
- Preparation of the Metro do Porto TV project, a corporate television channel, to be launched in 2006.
- Organization of the de Impaired Citizen World Day publicity campaign;
- Animation actions in several stations: rehearsal for the UBUS play to be performed at Casa da Música, “Máquinas em Cena” exhibition at Campo 24 de Agosto, various concerts, theatre plays and poetry recitals;
- Concerts by “Coro Anima Mea”, at the Trindade, Bolhão, Campo 24 Agosto and Casa da Música stations;
- Jam session at the Trindade station with several well-known musicians.







### LIGHT RAIL SYSTEM

The last four months of 2005 recorded a succession of validations maxima since the start of commercial operation, the monthly absolute record having been reached in December with 2,536,339 validations.

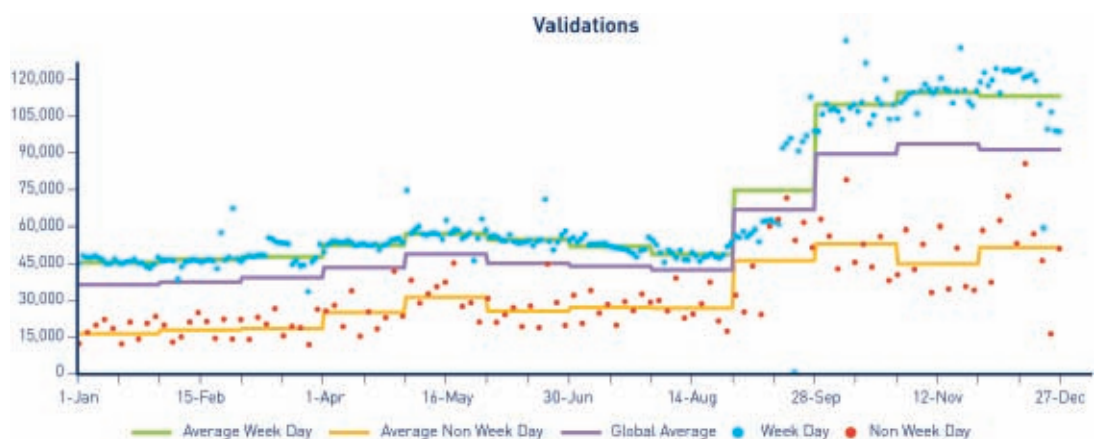
This evolution confirmed the importance of the Yellow Line. After it was opened on September the 17<sup>th</sup>, a daily average of 81,384 validations was recorded (98,974 on average on week days), representing increases of 112.2% and 115.6%, respectively, on the averages from January the 1<sup>st</sup> to September the 16<sup>th</sup>. On non-week days, the average daily number of validations was 46,204 (112.4% growth).

This effect is expected to become even more significant when this line's final stretch opens, connecting the University area of Asprela to Hospital de São João where, on top of the daily movement generated by the hospital, it will be reinforced by the transfer of passengers from dozens of STCP and private operators' bus lines.

In accumulated terms, an 87.8% growth in the annual validations total was recorded, to reach a total of 18,480,539 validations in the Light Rail System in 2005.

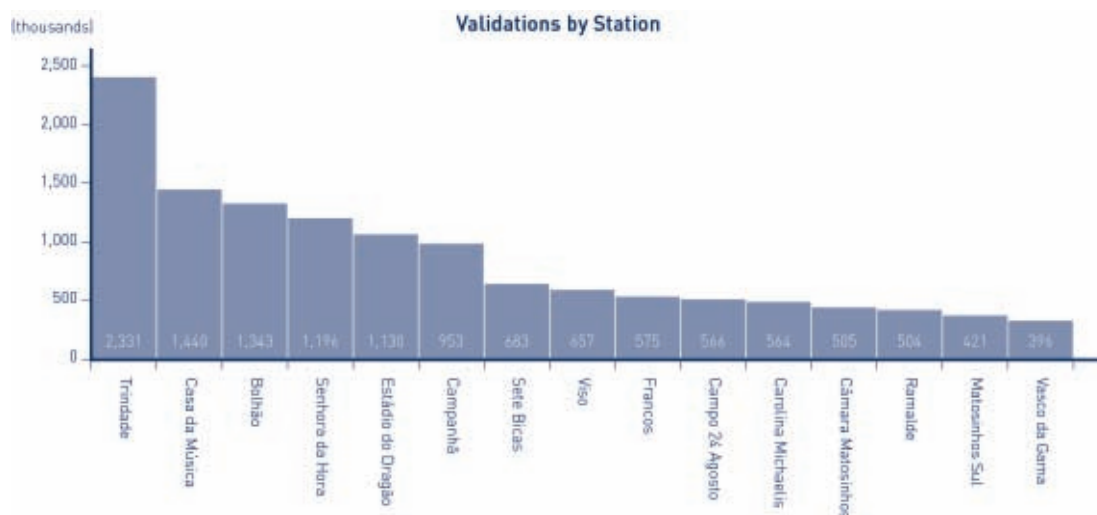
These figures do not include the use of the system on September the 22<sup>nd</sup>, the European Car Free Day, to which Metro do Porto contributed through the free use of the system. Some 130 trips are estimated to have occurred on that day.

In the first of 2005 there was a slight growing tendency in the number of validations, peaking in May. After the seasonal contraction of demand in the months from July to September, a sustained growth in that number was observed from the moment when the Yellow Line was opened.



On daily terms, the record was on October the 12<sup>th</sup>, with a total of 121,192 validations. October the 19<sup>th</sup>, with a total of 112,973 validations and November the 23<sup>rd</sup>, with 118,517 validations, complete the podium of demand.

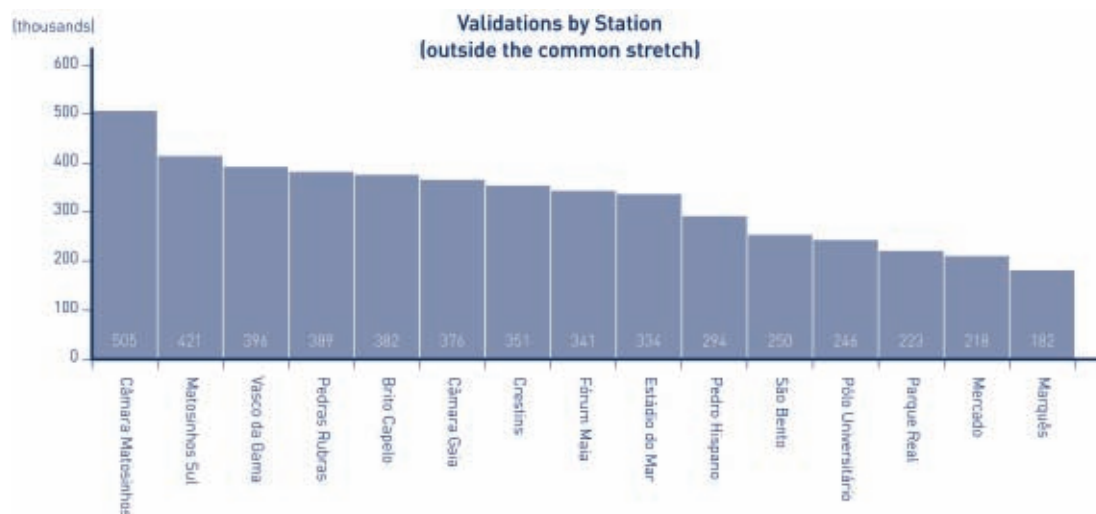
The Trindade station continues to be the preferential entry to the system, with 12.6% of the total number of validations. The other stations with more validations are Casa da Música (7.8%), Bolhão (7.3%), Senhora da Hora (6.5%) and Estádio do Dragão (6.1%).



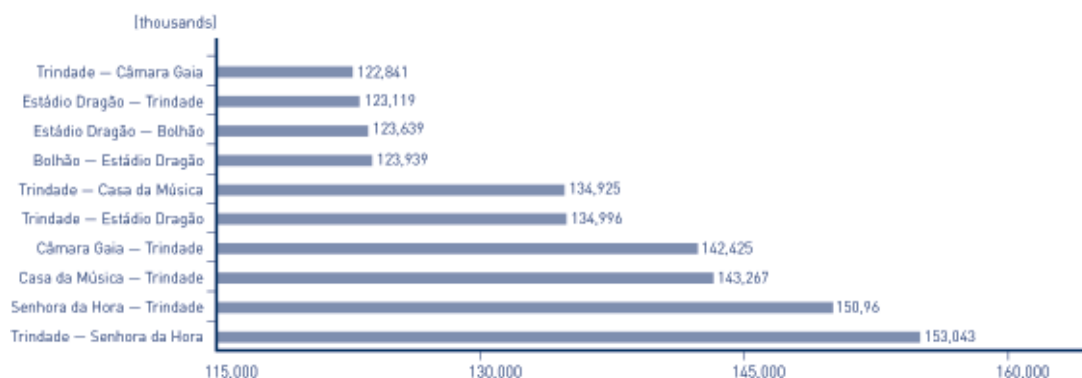
The main system entry points are stations located in the network's common stretch – between Estádio do Dragão and Fonte do Cuco. Excluding the validations in this common stretch, we have a total of 5.9 million. Câmara de Matosinhos comes out as the main entry point in the Blue Line (8.6% of the 5.9 million validations), whereas in the Yellow Line the Câmara de Gaia station is the preferential entry point (6.4% of the total). In the Red and Green Lines and thanks to the transfer of the alternative transportation service at the terminal stations, the main entry points are Pedras Rubras (6.6%) and Fórum Maia (5.8%), respectively.







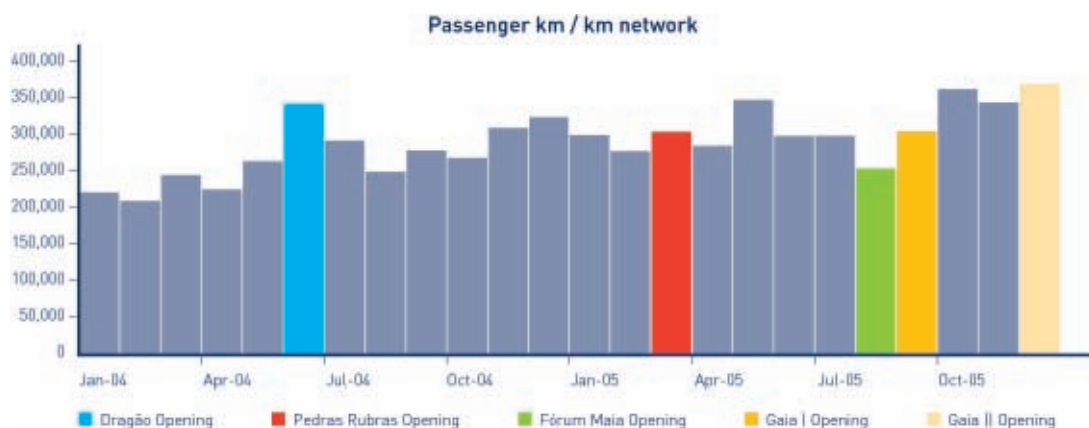
The Trindade-Senhora da Hora link stands out amongst the ten origin-destination pairs with the greatest number of trips, as it takes the first two places:



Indeed the Trindade station is in seven of the ten pairs. The Câmara de Gaia-Trindade link, in operation for less than four months, takes the fourth and tenth positions.

In 2005 the passenger kms total reached 96.7 million (107.9% more than the year before). The average trip length was of 5,231 metres (an increase of 10.7% on 2004). In monthly terms one notices the oscillation of the average trip length as a result of the evolution of the network's configuration. In March and in August, after the inauguration of the Green and Red Lines, it decreased. The opening of the Yellow Line in September had the opposite effect.

The graph below illustrates the evolution of the number of passenger kms per kms of network length. Considering the different openings, there is a sustained growth of that ratio. There is a peak in June 2004, to which the opening of the Estádio do Dragão-Trindade stretch and the Euro 2004 football championship undoubtedly contributed. The fall of this indicator between July and September 2005 is directly linked to the seasonal nature of the demand.



The average trip length in Metro do Porto was of 1.95 zones (2.9% more than in 2004), corresponding to a total of 36.1 million passenger zones.

## GUINDAIS FUNICULAR – HISTORIC FRAMEWORK

The Funicular's path is laid out along the Muralha Fernandina, between the two terminal stations, Ribeira (at the lower level) and Batalha (higher up). They are 280 m apart, 90 m of which in a tunnel. The Batalha station is 61 m above the Ribeira station. The civil engineering and architecture project's author is Architect Adalberto Dias, who is also responsible for the vehicles' design.

The Funicular reinstates the layout of the original lift which operated at Escarpa dos Guindais between 1891 and 1893, and whose activity was suspended after an accident.

The Guindais Funicular was built within the scope of Porto 2001 – European Capital of Culture. The transfer of the Guindais Funicular to Metro do Porto for operation was realised through an agreement signed on July the 24<sup>th</sup> 2003 by the Company, Sociedade de Transportes Colectivos do Porto and Porto 2001.



## GUINDAIS FUNICULAR

The comparison of this year's figures to those for 2004 must be done bearing in mind that the Funicular opened on February the 20<sup>th</sup> 2004.

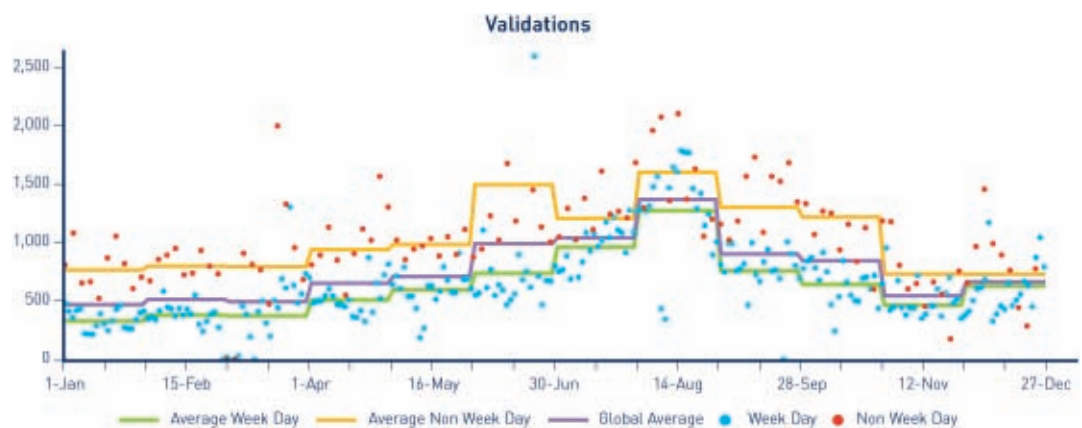
During 2005, 243,694 validations were recorded – 8.9% more than in 2004. At 280 metres per trip, this corresponds to a total of 68,234 passenger kms.

The pattern of the validations shows that the infrastructure is used more on weekends and holidays, peaking in June, July and August, the main tourism months in Porto.

42.7% of the Funicular validations occurred on non-week days (daily average of 904 validations, to compare with 1.062 validations in 2004). On week days, the average number of validations comes down to 559 (544 in 2004).

The maximum monthly number of validations occurred in August, with a 36,663 total. The validations between June and August represented 37.1% of the total anual number.

The 3,330 validations recorded during the special S. João operation (between 7 pm of June the 23<sup>rd</sup> and 6 am of June the 24<sup>th</sup>, the local holiday) deserve to be highlighted.







## 5.1. Commercial Operation

### LIGHT RAIL SYSTEM

The system in commercial operation evolved during 2005 from a 15.7 kms long line with 23 stations to a network of four lines, with a total length of 34.5 kms comprising 47 stations. This expansion integrated Maia and Vila Nova de Gaia in the system.

During the year 3,398 thousand (single-unit equivalent) vehicle kms were offered. At 216 passengers per unit (including 80 sitting places), that represents 733.9 million seat kms. The production since September the 17<sup>th</sup>, when the Câmara de Gaia-Pólo Universitário link opened, amounts to 40.7% of the total annual production.

The overall numbers reflect an increase of 75.0% relatively to the previous year, to which the evolution of the network in commercial operation contributed.

Of the 411.8 mil vehicle kms in December, 22.5% were offered in the Yellow Line, 25.5% in the Red Line, and 26.0% in each of the Blue and Green Lines.

From the 96.7 million passenger kms recorded in 2005 an overall load factor of 13.2% follows – an increase of 2.1 pp on 2004. The highest load factor was reached in October, with 14.5%, the lowest having occurred in January (11.7%).

With the exception of June, which in 2004 has shown a load peak as a result of the Euro 2004 Football Championship, a seasonal pattern is observed with higher loads at the end of the year and large falls during the Summer holidays.









Bearing in mind the increased offer, there was a marginal increase in the total number of accidents (23). The rate of accidents per 10,000 kms was reduced by 30.8% from 0.10 accidents to 0.07 accidents.

Relatively to previous years, there was a very positive evolution in rolling stock reliability, demonstrating the correction of some youth problems and improvements on the initial project.

## GUINDAIS FUNICULAR

The two Guindais Funicular are linked by a single track, the two vehicles moving simultaneously and in opposite directions. The two vehicles cross in an intermediate double track stretch. The inclination varies along the layout, from a minimum of 3° to a maximum of 32°.

The system operates automatically, controlled from a command post at the Batalha station.

The normal transport capacity is 1,500 persons per day and direction. Frequency is one vehicle every 10 minutes throughout the day. The trip takes about two minutes.

During 2005 35,425 trips were made, corresponding to an offer of 495,950 seat kms. This is 2.6% more than the offer between February and December 2004.

This level of production corresponds to a 13.8% overall load factor, 2.2 pp below 2004. The different load factors on week days (11.9%), Saturdays (15.6%) and Sundays and holidays (19.2%) stand out.



The Guindais Funicular proved highly reliable, in 2005 as in 2004. Considering the total programmed working hours, the total stoppage time reached 2.1% (2.5% in 2004).

## 5.2. The Network Under Construction

### WORKS EVOLUTION

#### Line **B** – Estádio do Dragão – Póvoa de Varzim

On March the 13<sup>th</sup> the 6.7 kms long stretch between Senhora da Hora and Pedras Rubras, comprising 5 stations, was inaugurated.

A significant part of the urban insertion works around the stations in the Esposade-Pedras Rubras stretch is concluded, as are the adjacent interfaces.

In the next stretch, up to Mindelo (Vila do Conde), the rail canal reached a high degree of conclusion. In May the urban insertion and interfaces works have started and are presently in a final phase.

The works for the construction of underpaths, the diversion of utilities, the construction of platforms, draining systems, track, catenary and station platforms and shelters between Rio Ave and Póvoa de Varzim are almost complete. This was a very difficult stretch requiring a number of expropriations.

#### Line **C** – Estádio do Dragão – Trofa

The 6.0 kms long Fonte do Cuco-Fórum Maia, served by 7 stations, stretch was inaugurated on July the 30<sup>th</sup>. Also concluded were the first urban insertion works in the centre of Maia.

The urban insertion and interfaces works for the intermediate stations located in Matosinhos, started at the end of June, are about to be finished.

Between the Fórum and ISMAI stations, the ground levelling, platform, draining, track and catenary have reached a high degree of progress, as has the construction of the Rotunda dos Brandinhais, which articulates the Metro's passage over the EN14 road with the Maia-Norte viaduct (leading to IC24) ending up in the Zona Industrial station.

#### Line **D** – St.º Ovídio – Hospital São João

The Yellow Line was inaugurated on September the 17<sup>th</sup>. It connected the Pólo Universitário and Câmara Gaia stations. On December the 10<sup>th</sup> the operation was expanded south, to the João de Deus station. These two openings total 6.1kms and 12 stations, of which 8 are underground.

When the João de Deus station was opened, the work in the final stretch of the line at the Porto end, connecting the Pólo Universitário and Hospital São João stations, was already concluded.

In the initial scenario, the Hospital de São João station would operate as the terminal station for Line **D** and an underground park with four slots for double vehicles for use off-peak and at night would be built.

Following alterations imposed on Metro do Porto, the Hospital São João station was displaced, an end of line bumper having been placed after the north end of the station. The possibility to implement any of the four parking places for double vehicles was therefore eliminated.

In the underground stations, of special significance were:

- the construction of vertical pits integrated in the station's architecture and as a means of access for the horizontal construction of mining galleries;
- the construction of large diameter pits as in the case of Salgueiros, which has two secant ellipses with 42 metres maximum diameter;
- jet-grouting and fore-polling based mining excavation technologies;
- the definition of various construction options with decision-making "on the spot" as a function of the results of real time monitoring and of the stability of the surrounding buildings.



Maia-Norte Viaduct

Various urban insertion works in Vila Nova de Gaia, between the Jardim do Morro and the Câmara Municipal de Gaia stations and south of João de Deus station were also concluded; in Porto, that was also the case for the works at the Pólo Universitário station and in the stretch up to Hospital São João.

In this regard, the urban insertion works at Avenida da República, in Vila Nova de Gaia, are particularly relevant. Following the rigorous studies developed by Metro do Porto and Câmara Municipal de Vila Nova de Gaia, important changes to road traffic organisation were introduced to improve mobility. The operation of the light rail service was thus made totally compatible with the various existing pedestrian paths.

### **Airport Line**

The construction of the Airport Line started on March the 1<sup>st</sup> 2005, when the civil engineering contract was awarded.

The connection of this 1.2 km line to the Red Line is at the “Os Verdes” station. There is one intermediate station (Botica). The terminal station is architecturally integrated in the new Francisco Sá Carneiro Airport’s project. The urban insertion project includes the transformation of the present Estrada Nacional EN 107 to become the Avenida do Aeroporto, with a distinctly urban character, wide sidewalks and trees alongside the road lanes.

The tenders for the low tension, power and illumination equipment and the tender for operation support systems were launched in the fourth quarter.

Due to some difficulties associated with expropriations and in the course of the works, namely in the coordination with the new airport’s works, it was not possible to complete this line in 2005.

### **Campanhã – Antas Line**

The works to connect the rain water pipe under the Metro platform to the existing network was launched. It was concluded in November 2005.

### **Casa da Música Station Interface**

The construction of a new street between Rua 5 de Outubro and the da Casa da Música station interface was concluded in December.

Besides offering private cars direct access to the metro station, this new street allows the transfer of passengers from STCP lines and, eventually, private bus operators at the Casa da Música station. It provides a fast and comfortable interface for passengers.



Casa da Música

## **PLANNING OF OPENINGS**

The Concession Bases stipulates that the whole network must be in service until March 2006. The following table shows actual or forecast dates for the start of operation of the various stretches:

### **Line A – Matosinhos – Estádio do Dragão**

Matosinhos-Trindade: in operation since December the 7<sup>th</sup> 2002

Trindade-Estádio do Dragão: in operation since June the 5<sup>th</sup> 2004

### **Line B – Estádio do Dragão – Póvoa de Varzim**

Senhora da Hora-Pedras Rubras: in operation since March the 13<sup>th</sup> 2005

Pedras Rubras-Póvoa de Varzim: 1<sup>st</sup> quarter 2006



### Line **C** – Estádio do Dragão – Trofa

Senhora da Hora-Fórum Maia: in operation since July the 30<sup>th</sup> 2005

Fórum Maia-ISMAI (Maia): 1<sup>st</sup> quarter 2006

The date for opening the ISMAI (Maia)-Trofa stretch depends on when the Government will decide about the project to duplicate this stretch

### Line **D** – St.º Ovídio – Hospital São João

Câmara Gaia-Pólo Universitário: in operation since September the 17<sup>th</sup> 2005

João de Deus-Câmara Gaia: in operation since December the 10<sup>th</sup> 2005

The date for opening the Pólo Universitário-Hospital São João stretch, whose work is already completed, depends on the removal of obstacles and difficulties raised by entities located in the neighbourhood of the network, about to be achieved

**Airport Line:** 1<sup>st</sup> quarter 2006

## PROJECTS IN PREPARATION

### Boavista Line

From the feasibility studies in earlier years and in possession of the mobility and demand studies, this line's project was developed in close collaboration with the local governments of Porto and Matosinhos.

In a first phase, the area surrounding Praça Mouzinho de Albuquerque and Casa da Música was given priority. Part of the pedestrian's passage under Praça Mouzinho de Albuquerque was built and both the Praça and the area surrounding Casa da Música were requalified, still in 2004.

In a second phase, priority move to the project between Parque da Cidade and Rotunda Cidade S. Salvador, so that draining and reprofiling works were carried out according to Metro do Porto's project and in conjunction with Câmara Municipal do Porto.

This line's Environmental Impact Study was sent to the Government in June 2005.

### Gondomar Line

The following execution projects have been completed: Platform and Track, Urban Insertion, Rio Tinto tunnel, Taralhão Viaduct, Traction Network, Medium and Low Tension Power Network and Operation Support Systems.

These projects had been presented to the Government in March 2004, at the anteproject stage.

In the mean time all the parcels of land needing to be occupied were identified, so that their expropriation procedures could be prepared.

### Line **D** extension to Laborim

From the studies in earlier years, this extension's project has been developed, particular attention being paid to the crossing of the motorway at the St.º Ovídio junction area.

The rail infrastructure will occupy a part of the present Avenida da República, between the crossroad with EN 222 and the St.º Ovídio junction. A tunnel under the present traffic lane has been projected, intended for the traffic now circulating between the motorway and EN 222.

### Casa da Música – Quinta do Cedro Line

This project's complexity required that several alternative solutions be studied to optimise this line's demand, its urban insertion and the definition of the construction methods. This phase of the project will continue in 2006.



### Line **A**'s Extension to Leça da Palmeira

In close cooperation with Câmara Municipal de Matosinhos, this line's route was stabilised and a preliminary urban insertion study was developed. From Line **A**'s terminal station at Senhor de Matosinhos, this link proceeds to the Belchior Robles station, at Rua do Sol Poente in Leça da Palmeira, serving Exponor (the Exhibition Centre).

### St.º Ovídio (EN 222) Interface

This interface's preliminary study has been completed. The interface is to be built at the junction of Avenida da República, in Vila Nova de Gaia with EN 222.

### Laborim Depot

The Laborim depot's project has been developed. An infrastructure to park 56 vehicles where some small scale maintenance may also be performed is planned.

This depot's urban insertion seeks to create an urban front of the future diagonal avenue between Vilar do Paraíso and the St.º Ovídio junction.

Café na Baixa: 9h45  
Sueca no Jardim do Morro: 10h00



São Bento – Jardim do Morro: 1 minuto e 22 segundos.

Nova Linha **D** A linha das linhas.

Experimente a nova Linha Amarela do Metro do Porto e descubra como nunca foi tão fácil viajar entre o Porto e Gaia.



Metro do Porto. A vida em Movimento.



Ajude a eliminar a falta de civismo.

Defender o Metro de actos de vandalismo também está nas suas mãos

O que lhe pedimos é mais simples do que parece: caso assista a actos de vandalismo, denuncie de imediato a situação! O Metro é sério, e por isso os danos e os prejuízos do que ele é, também existem para o penalizar a si. Ajude-nos a manter o Metro e os seus equipamentos nas condições que você merece. Todos queremos a ganhar!

Chamada Metro (número azul)  
808 20 50 60

[www.metroportoporto.pt](http://www.metroportoporto.pt)



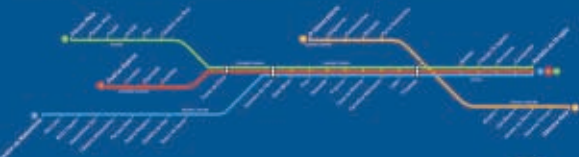
Metro do Porto. A vida em movimento.



Espinho: 7h45  
Reunião na Baixa: 8h10  
Mais e melhor intermodalidade.

Ligação em General Torres  
Entre na Rede.

É agora ficou tudo mais fácil. Com a nova ligação na Estação General Torres da Linha D, Espinho está mais perto do Porto. Ou seja, está mais perto da estação de comboio e sai na estação do Metro do Porto que mais lhe interessa. Basta usar o Andante e validá-lo sempre que entrar no Metro. Não perca tempo e entre na rede a partir de 1 de Outubro.



Metro do Porto. A vida em Movimento.



O S. João já não lhe sai da cabeça?



Serviço comercial toda a noite de S. João

Metro do Porto. Patrocinador oficial das Festas de S. João  
De 23 para 26 de Junho, não é só a animação que é imparável. O Metro também funciona toda a noite para o levar aos pontos mais animados das festas de S. João!

Apelá há festa... a Metro!

23 de Junho

22h00 | Avenida dos Aliados | Antena Múica + Grupo do Bolo | Estações da Trindade e Bulhão

22h00 | Praça Francisco Sá Carneiro | Santa Maria + Grupo do Bolo | Estação Estádio do Dragão

22h00 | Castelo do Gueijo | GNR | Estação Matosinhos Sul

25 de Junho

00h00 | Castelo do Gueijo | The GNR | Estação Matosinhos Sul



Para mais informações (06 Metro) 808 20 50 60

[www.metroportoporto.pt](http://www.metroportoporto.pt)

Metro do Porto. A vida em movimento



Com o Metro, chegar ao centro da cidade é mais rápido, é mais cómodo.



## 6.1. Institutional Events

The various inauguration ceremonies marked the year 2005.

Several visits to the system and the construction works were organised. Particularly relevant was the visit of his Excellency the Prime Minister, Mr. José Sócrates, on October the 18<sup>th</sup> 2005.

On June the 3<sup>rd</sup> and 4<sup>th</sup> the IRSE – Institution of Railway Signal Engineers conference, organised by Metro do Porto, took place. The conference's theme was "Interoperability, Signalling and System Solutions – Urban and Interurban Transport". It comprehended various technical seminars and visits to Porto's metro system. 130 persons from 10 european countries participated in the IRSE conference.

Metro do Porto participated in the "Feira de Artesanato de Vila do Conde" with its own stand, illustrating the system's urban insertion in the area. This exhibition was inaugurated on July the 23<sup>rd</sup> and was open until September the 10<sup>th</sup>.

## 6.2. Communication

During 2005, the highlight goes to the various communication actions in connection with the commercial openings.

Eighteen publicity campaigns were launched, with noticeable results in increasing the demand for the service, particularly the special operation campaigns during the local holidays in Matosinhos and Porto (Senhor de Matosinhos and S. João). These campaigns have again produced the greatest return, expressed in a considerable increase in the number of validations.

Nine communication actions were due to interruptions of the commercial service required to enable construction works to advance.

Besides the commercial communication, the communication about work fronts and the project was particularly relevant in 2005, representing 41 communication actions. In this year there was also the start of communication about the Airport Line.

At the opening of the Gaia line, on September the 17<sup>th</sup>, the second DVD on the Metro do Porto project was presented. This DVD, the product of a partnership with SIC Notícias, illustrates the complex process to reconvert the centenary Luís I bridge, to integrate it in the Metro system. This high quality document represents an important document to remember the deep technical intervention performed.

The SMS Metro service, launched in 2005, became a relevant medium of direct communication with the service's clients. About two thousand users are registered in its database. Whenever justified they are sent useful information regarding Metro do Porto's operational conditions. In the period of this report this type of contact was made on twelve occasions. Equally relevant is the use of SMS Metro as an instrument for real time contact with the media.

Four new editions of the Metro do Porto magazine – "Infometro" – were published. Amongst these publications, those approaching in detail the start of commercial operation of lines **B**, **C** e **D** stand out. In global terms, Infometro printed over 450 thousand copies.

The digital newsletter "Vaivém" had 53 editions.

### 6.3 Cultural and Educative Initiatives


The year was also marked by the preparation of a new project – the corporate television channel Metro do Porto TV – which is expected to start in 2006. In this connection, the tender documents were prepared, its structure and contents were defined, and the specific partners were selected through proposals requested from this market.



Line **B**  
"Metro e Vila do Conde"  
Exhibition

In July 2005, the Company's website was reformulated, a significant progress in terms of increased interactivity and in the quality of the information provided to the citizens. Focused on the client and on the information about the service's performance, the website provides the following content:

- service information;
- tools for trip planning;
- validations and performance indicators.

During the year, Metro do Porto's website was visited by more than 390 thousand distinct users, a total of about 4.4 million visits. The month of September, when the operation of Line  started, recorded a peak demand of 47 thousand different users.

The Week of Mobility was realised in September. Metro do Porto promoted the use by motorists of the free parking lots adjacent to the Senhora da Hora, Estádio do Mar and Pedro Hispano stations. Parking in these lots and travelling by metro to the centre of Porto is one of the most convenient alternatives to by pass the congestion at the Francos junction of VCI (the Ring Road).

For the second consecutive year Metro do Porto commemorated the World Handicapped Citizen Day through a campaign reminding that the system is prepared for those citizens.

Nine animation actions were carried out in stations, including the rehearsals for the UBUS play at Casa da Música, the "Máquinas em Cena" exhibition at Campo 24 de Agosto and, at the time of the FITEI (International Festival of Theatre of Iberian Expression), various concerts, plays and poetry recitals. The "Anima Mea Choir" concerts took place in July and December at the Trindade, Bolhão, Campo 24 de Agosto and Casa da Música stations. Still in December, a "jam session" with several well known musicians was realised at Trindade station, followed by jazz performances.

## 6.4 Partnerships

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A cooperation agreement was negotiated and formalised with Ordem Terceira da Santíssima Trindade, conceding discounts to Andante clients in respect of services provided by Hospital da Trindade.

Contacts and negotiations were held towards a similar partnership with Casa da Música, also providing discounts to Andante ticket holders. This partnership should be in place by early 2006.

## 6.5. Press Relations

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In this regard, one should mention the continued realisation of monthly meetings with journalists to brief them on the project's advance and the operation's development.

The preparation of the opening of Lines ,  and  was anticipated through the publication and transmission of reports in the most important newspapers and television channels.

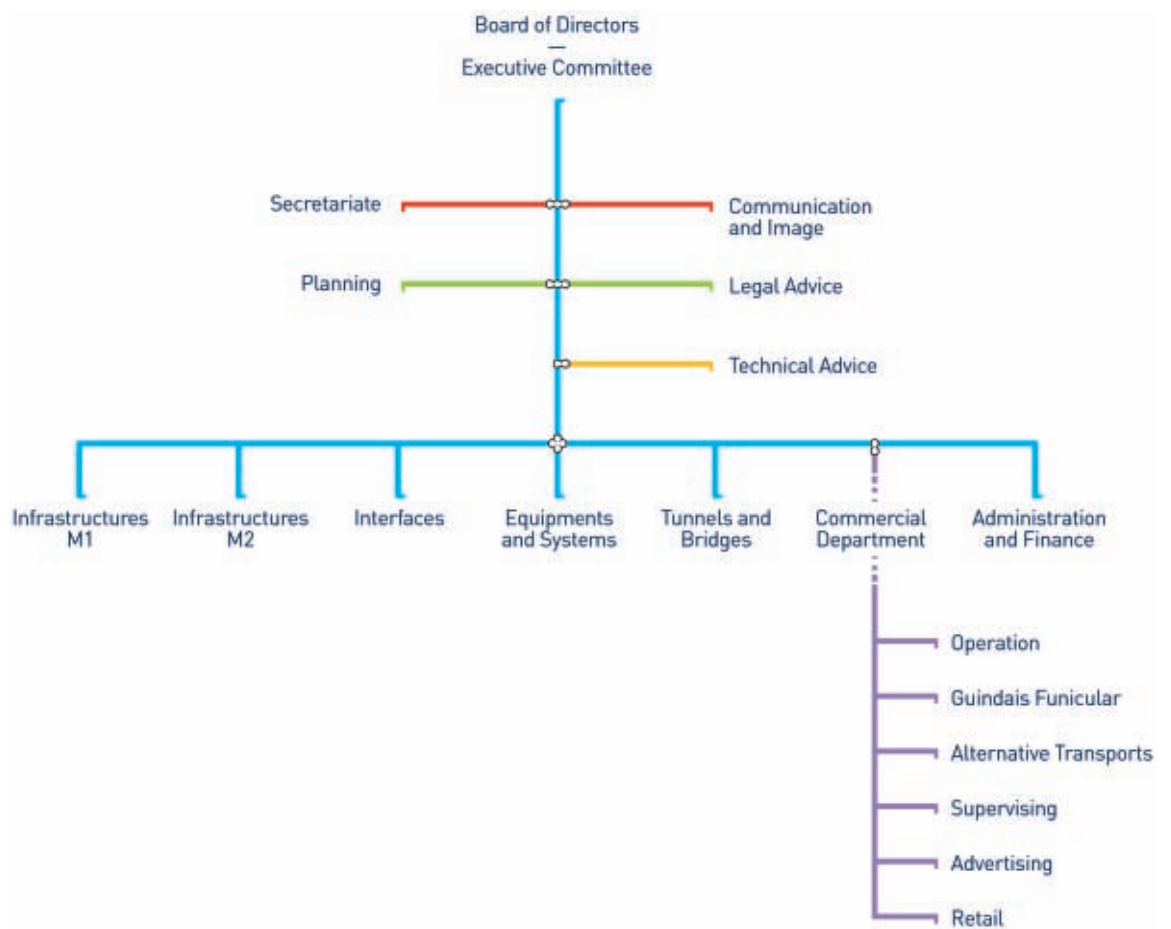
The urban insertion works initiated in the second half of the year were the subject of extended coverage in the main newspapers, explaining in detail the works and the advantages resulting from them.





### 7.1. Organizational Structure

There was no alteration in this respect during the year.



## 7.2. Governing Bodies

During 2005 there was no change in the composition of the Company's governing bodies, whose current composition results from the Shareholders General Meeting held on March the 10<sup>th</sup> 2004

### GENERAL SHAREHOLDERS MEETING

**Chairman:** António Bragança Fernandes

**Vice-Chairman:** José Macedo de Vieira

**Secretary:** José Barbosa Mota

### BOARD

**Chairman:** Valentim dos Santos de Loureiro

**Members:** Rui Fernando da Silva Rio  
Mário Hermenegildo Moreira de Almeida  
José Narciso Rodrigues de Miranda  
Prof. Manuel de Oliveira Marques (Executive Committee Chairman)  
José Manuel Duarte Vieira (Executive Committee)  
Juvenal Silva Peneda (Executive Committee)

### AUDITOR

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

**Substitute:** José Rodrigues de Jesus – R.O.C.

The initial company government model for the concessionaire (a Board with three non-executive members and one Managing Director) was not appropriate considering the scale and the complexity of the project to be executed.

That model was converted in 2000 to a new one with a seven member Board, three of the members being executive members forming an Executive Committee to whom the Board delegated managing powers and the remaining four being non-executive members. Later the State imposed by law the need for its favorable vote for the existence of an Executive Committee, as well as for the appointment and dismissal of its members.

The initiative of this alteration in corporate governance, as indeed of several other alterations, belonged to the local government entities which are shareholders of the Company, namely those where the Metro System is implanted. This gave expression to the spirit of the the Law which set up the undertaking, Decree Law Nr. 394-A/98, of December the 15<sup>th</sup>, in whose introduction it may be read that "the participation of the local governments in the project, both institutionally and within the Company, was considered unavoidable and was regulated in the Articles of Association and in a para-social agreement".





Mário Hermenegildo Moreira de Almeida

Valentim dos Santos de Loureiro

Juvenal Peneda

Prof. Manuel de Oliveira Marques

Rui Fernando da Silva Rio

José Narciso Rodrigues de Miranda

José Manuel Duarte Vieira

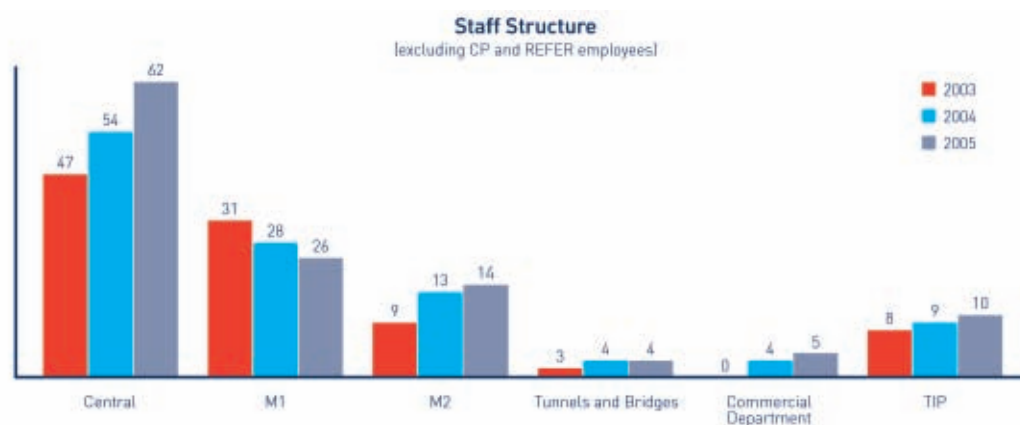
## 7.3. Staff

At the end of 2005 Metro do Porto's staff numbered 137 persons, also the average staff number. There was a 3.0% reduction of the average number of employees relative to the year ended in December 2004.

	2003	2004	2005	05/04
<b>Total Staff (31.12)</b>	150	133	137	3.0%
Excluding CP / REFER	98	112	121	8.04%
<b>Average Total Staff</b>	206	141	137	-3.0%
Technical Staff	34%	61%	61%	0 pp

The December the 31<sup>st</sup> 2005 figure includes 16 pending cases of CP and REFER employees transferred to Metro do Porto, in the framework of the agreement signed in September 1998 with the Portuguese State, the Porto Metropolitan Area, CP and REFER. Pursuant to this agreement, Metro do Porto's costs up to December the 31<sup>st</sup> 2005 total 13.7 million euros (as wages and compensation for contract termination). This agreement contemplates the financial support of the State "to cover the cost of the actions under this agreement".

The evolution of the personnel structure shows the reinforcement of the Company's structure in areas like Maintenance management and Administration. The same happens in the Operations area. The number of staff in the M1 Project area was reduced.



The Company continues to seek a high level of qualification. 68.3% of the employees have University degrees (79.3% excluding former CP / REFER employees).

Another feature of Metro do Porto's staff is their youth. The average age in 2005 was 35.5 years (34.6 years excluding CP / REFER staff). Not considering CP / REFER staff, 75.8% of the employees are less than 40 years old.

Age Structure 31.12 <sup>1</sup>	2003	2004	2005	05/04	05 (%)
20 a 29	37	37	48	29.7%	40.0%
30 a 39	34	43	43	0.0%	35.8%
40 a 49	15	20	20	0.0%	16.7%
Above 50	12	12	9	-25.0%	7.5%
<b>Total</b>	<b>98</b>	<b>112</b>	<b>120</b>	<b>7.1%</b>	<b>100%</b>
<b>Average Age</b>	<b>35.4</b>	<b>35.8</b>	<b>33.9</b>	<b>-5.5%</b>	<b>-</b>

<sup>1</sup> Excluding CP / REFER employees



Almeida Teixeira  
 João Manuel Rebelo  
 Prof. Joaquim Carmona  
 Fernanda Meneses  
 Luís Bianchi de Aguiar  
 Luís Meireles  
 Nuno Ortigão de Oliveira  
 João Nuno Aleluia  
 Vitor Farinha da Silva  
 Prof. Mário Coutinho dos Santos

## PARTNERSHIPS

In 2005, Metro do Porto was involved in a variety of initiatives in this area, having recruited fourteen trainees.

An agreement was signed with the Engineering Department of the University of Porto through which Industrial Engineering Management trainees were integrated. The purpose of these traineeships is to give final year students the opportunity to complete the compulsory curricular traineeship, which represents a fundamental path of transition to professional life.

The Company participated in the "Competir no Futuro" program, promoted by the Transportation Ministry, integrating six trainees in various technical areas, engineering, management and law.

Since 2003, through a partnership with AIESEC, Metro do Porto received four foreign trainees from countries like Turkey, Romania and Russia, enabling an important cultural exchange, valued by the Company.





The Junta Metropolitana do Porto, an institution formed by all the local governments in the Porto Metropolitan Area, is the Company's majority shareholder. The local governments of the areas covered by the Light Rail System – Gondomar, Maia, Matosinhos, Porto, Póvoa do Varzim, Vila do Conde and Vila Nova de Gaia – participate symbolically in the Company's capital.

The Portuguese State is the third largest direct shareholder, with a 10% share. Sociedade de Transportes Colectivos do Porto and Caminhos de Ferro Portugueses, State held companies and Metro do Porto's strategic partners in the ongoing Metropolitan Area of Porto intermodal project, hold respectively 25% and 5% shares.

There were no changes in the Company's shareholdings during the year. Its share is still represented by 1,000,000 shares with a nominal value of 5 euros and is held by the following entities:

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







## 9.1. Macroeconomic Framework

According to IMF's forecasts, published in the World Economic Outlook of September 2005, the American economy has grown 3.5% in 2005. OECD, in its Economic Outlook of December 2005, foresees a growth of just 1.4% in the euro zone. Forecasts for 2006 point to the growth rate of the world economy to remain stable (with an estimate of 4% for 2005). USA growth will be in the 3.3% to 3.5% range, whereas in the EMU it will be between 1.8% and 2.1%.

In 2005 a three year long cycle of euro's appreciation versus the dollar was broken, a 17% depreciation of the European currency having been recorded.

In December 2005, the ECB increased the refi-rate by 25 basis points to 2.25%, stating its wish to pursue a policy of gradual removal of the monetary's policy accommodating character, an increase which by then had already been anticipated by the market. This feature of the European monetary policy is of great relevance to the management of the long term funding of Metro do Porto's project.

Should an increase of interest rates in the order of 50 basis points or more be confirmed, there may be a contraction in private expenditure, and in internal demand, preventing the European economy's still fragile recovery. However, the ECB believes that economy has shown signs of recovery and stresses that the possible increase movement of the reference rate will be gradual.

The central scenario of the current projections by the Bank of Portugal points to a slowing down of the growth rate of portuguese GDP to 0.3% in 2005, against 1.3% in 2004. In 2006, according to IMF's and OECD's forecasts, Portugal's GDP growth rate will be between 1.2% and 1.8%.

2005 was marked by the anticipated parliamentary elections held on March the 17<sup>th</sup>, after the dissolution of the parliament by the President in 2004, and by the new government's announcement of the implementation of a set of measures included in the 2005-2009 Stability and Growth Pact (PEC). This Plan was presented in June 2005 and is aimed at a gradual reduction of the deficit which, according to the Constâncio Committee, will be around 6.8% in 2006. The budget execution in 2005 has shown a deficit of 5.5% of GDP, below the 6.2% estimated in the Rectification to the 2005 Budget.

According to the Bank of Portugal, the disacceleration of the portuguese economy in 2005 was the result of two main factors: (1) a fall in investment of 3.1%; (2) the slowdown in Government expenditure.

The Bank of Portugal's current projection points to an increase of the average annual growth rate of IHPC (the consumer price index) from 2.1% in 2005 to 2.5% in 2006, which would correspond to an increase of the inflation differential versus the Euro zone of about -0.1 p.p. in 2005 and 0.5 p.p. in 2006.

During 2005, the Portuguese economy's external borrowing needs increased sharply, from 5.9% of GDP in 2004 to an estimated 8.2% in 2005.

The labour market in Portugal followed the poor performance of the overall economic activity. According to OECD, the unemployment rate in 2005 was close to 7.5%, above the 2004 figure (6.7%). OECD's forecast for that rate in 2006 is of 7.8%.

According to data published by INE (the national statistical office), December 2005 was marked by the decrease in the confidence levels in the manufacturing industry, thus interrupting the recovery notice since August, and in the construction industry, prolonging the last four months' tendency. The consumer confidence indicator stabilised in December, after a slight increase in previous months.

After Standard & Poor's (S&P) revision in 2004 of the outlook of the long term rating of the Portuguese Republic, from AA stable to AA negative, this agency reduced in June 2005 the rating for the Portuguese State's long term credit to stable AA-, which will be reflected in the rating of all portuguese companies, including Metro do Porto, S.A.

## 9.2. Investment

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Metro do Porto's investment level has raised in 2005 to 364.1 million euros, 2.3% above the previous year.

This includes a 14.0 million euros payment part of the Arbitration Court's award to the Normetro consortium (in cash terms, to which must be added the 18.0 million euros provision set up in 2004 and paid to Normetro in 2005). In 2003 and 2004 advance payments had already been made, so that the amount awarded by the Arbitration Court (94.0 million euros) is now fully settled.

In accumulated terms, the Light Rail System's investment reaches 1.7 thousand million euros, including rolling stock.

## 9.3. Funding

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The year 2005 has shown no evolution in the funding structure of the project. The European Investment Bank loans contribute significantly to the current model, as the two already approved lines of credit represent about 33.9% of the funding of the approved investments.

Given the evolution of the approved investments, the rigidity of grant funding (ERDF – European Regional Development Fund and chapter 50 of the State Budget, inscribed in PIDDAC – Central Administration Investment and Development Program) lead to the fall in the share of grant funding to 23.6%. This contribution is clearly below the 43.9% initially envisaged, a share itself already scarce bearing in mind the existing references for this type of projects.

To guarantee the future sustainability of the project, the increase in grant funding has thus becomes a pressing need. Metro do Porto has defended the pertinence of a reprogramming of the ERDF's application within QCA III.

### ERDF –EUROPEAN REGIONAL DEVELOPMENT FUND

During 2005 two payment requests were presented within the scope of the Third Community Support Framework, for a total co-funding amount of 50.0 million euros.



Trindade Station



Maia-Norte Viaduct

The amount of the first of these payment requests (18.5 million euros) was transferred to Metro do Porto in June. The co-funding amounting outstanding at the end of 2004 was also received. It referred to the 12th payment request presented in December 2004, amounting to 28.4 million euros.

Given the set maximum co-funding amount of 315.7 million euros (co-funding rate of 38.5%), the project shows at the end of 2005 a financial execution level of 91.3%.

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

Values in thousand euros

Payment Requests	Investment Period	Eligible Investment	Co-Participation	Disbursement	Outstanding
Situation in 31.12.2004	Oct00-Aug04	619 872	238 341	209 968	28 373
13 <sup>th</sup> Request	Sep04-Dec04	48 185	18 527	18 527	0
14 <sup>th</sup> Request	Jan05-Apr05	81 951	31 510	0	31 510
		<b>750 008</b>	<b>288 378</b>	<b>228 495</b>	<b>31 510</b>

In January 2006, the 15th payment request was presented, comprising the investment from May to August 2005, for a co-funding amount of 16.7 million euros. Considering this, the financial execution becomes 96.7%.

## PIDDAC – CENTRAL ADMINISTRATION INVESTMENT AND DEVELOPMENT PROGRAM

Chapter 50 of the 2005 State Budget allocated 25 million euros to the project “Sistema de Metro Ligeiro da AMP e Obras Complementares”. On February the 16<sup>th</sup> 2005 Metro do Porto was informed that 21.4% had been blocked, i.e. an amount of 5.4 million euros. On June the 27<sup>th</sup> 2005 Metro do Porto requested the amount then allocated, i.e. 19.7 million euros. On August the 12<sup>th</sup> 2005 Metro do Porto was informed that an additional 12 million euros had been blocked, so that the final allocation amounted to 7.65 million euros. This sum was received in September.

Given delays in the execution of other projects inscribed in chapter 50 of the State Budget, the Government blocked 6.6 million euros in respect of those projects. That amount would be allocated to projects which might be able to absorb that sum, given their degree of completion. One was the Metro do Porto project, to which 4.6 million euros were allocated, and then transferred in December 2005



Values in thousand euros

Project	1996/03	2004	2005	Total
Light Rail	53 389	12 750	12 252	78 391
Infante Bridge	33 760	0	0	33 760
<b>Total</b>	<b>87 148</b>	<b>12 750</b>	<b>12 252</b>	<b>112 150</b>

On August the 17<sup>th</sup>, Metro do Porto was advised it had been allocated an amount of 67 million euros within the scope of PIDDAC 2006. According to Ministry of Transportation guidance, 60 million euros were in respect of the system's Phase I and 7 million euros of the Airport Line. On September the 14<sup>th</sup>, that allocation was corrected to a total value of 10 million Euros for Phase I. On January the 13<sup>th</sup> 2006 Metro do Porto was informed that 7.5% of the Chapter 50 allocation had been blocked.

## EIB –EUROPEAN INVESTMENT BANK

With the disbursement of tranche B of the second EIB loan contract, in July 2005, the amounts contracted with this institution stand integrally mobilised.

Values in thousand euros

Contract	Contract Date	Contract	Used in 2005	Available
<b>EIB I</b>				
Tranche A	16-Nov-98	99 760	0	0
Tranche B	26-Mar-01	100 000	0	0
Tranche C	05-Nov-01	100 000	0	0
Tranche D	15-May-02	243 930	0	0
<b>Sub-Total</b>		<b>543 690</b>	<b>0</b>	<b>0</b>
<b>EIB II</b>				
Tranche A	29-Nov-04	120 000	0	0
Tranche B	16-Dec-04	80 000	80 000	0
<b>Sub-Total</b>		<b>200 000</b>	<b>80 000</b>	<b>0</b>
<b>Total</b>		<b>743 690</b>	<b>80 000</b>	<b>0</b>

Given that the clauses in the EIB loan contracts did not allow interest rates to be fixed for periods above 10 years, this institution was asked to render those contracts more flexible so that it would become possible to fix the rates until the contracts' maturity. This would enable the Company to take advantage of the growing possibilities in the management of interest rate risk, namely the reduction of the risk premium associated to longer terms.

The EIB agreed to the request, approving it in respect of tranches B, C and D of the first line of credit and of tranches A 1/2 and B 1/2 of the second one. Approval by the Government is now awaited as well as the signing of the clause alterations, presented to Direcção Geral do Tesouro on October the 28<sup>th</sup> 2005.

The Concession Bases of the Light Rail System stipulate in number 5 of Basis XIII a 1,000 million euros limit for State guarantees. Assuming that this limit applies to the EIB loans and the rolling stock structure leasing operations (which amount to 250 million euros), any further debt requiring a State guarantee depends on the alteration of the Concession Bases.

One should note that, in the terms of number 5 of Basis XIII, that limit to State guarantees applies to loans beyond those referred to in the number 1 of the same Basis. The State guarantees already issued were in respect of loans referred to in number 1 of Basis XIII.

Nevertheless, Metro do Porto requested, on June the 21<sup>st</sup> 2005, the alteration of the above referred limit so that it would become possible to use the remaining amount already approved by the EIB (60 million euros) and to contract additional amounts as required for the funding of the projects already approved.

A new loan was applied for to fund already approved projects as yet not funded by the EIB, namely the extension between Campanhã and Estádio do Dragão and the Airport link, as well as the Estádio do Dragão and Campanhã interfaces.

To enable EIB's internal approval procedure to proceed in respect of this application, the Treasury and Finance Secretariate of State was asked, on June the 23<sup>rd</sup> 2005, to produce the "No Objection Declaration" by the Portuguese State, which has not yet been obtained.

## COHESION FUND

In 2005 five payment requests were prepared under the Airport to duplicated Póvoa Line link project, co-financed by the Cohesion Fund. The total co-funded amount of these requests was 20.6 million euros.

The amounts in respect of the first four payment requests, covering investment realised between October 2003 and June 2004, for an overall amount of 11.6 million euros, were already received. This amount allows for the deduction of 1.2 million euros related to the advanced payment received in 2004, deduction which was applied against the transfer of the first two payment requests' amounts.

Given the set maximum co-funding amount of 74.0 million euros (co-funding rate of 75.0%), the project shows a financial execution of 34.64% at the end of 2005.

The following table shows the evolution of the Cohesion Fund amounts:

Values in thousand euros

Requests	Investment Period	Eligible Investment	Co-Participation	Disbursement	Outstanding
Situation in 31.12.2004	Oct03-Jun04	6 749	5 062	3 829	-6 167
3 <sup>rd</sup> Request	Jul04-Oct04	7 670	5 753	5 753	0
4 <sup>th</sup> Request	Jul04-Oct04	2 696	2 022	2 022	0
5 <sup>th</sup> Request	Nov04-Feb05	4 179	3 134	0	3 134
6 <sup>th</sup> Request	Nov04-Mar05	10 315	7 736	0	7 736
7 <sup>th</sup> Request	Nov04-Mar05	2 576	1 932	0	1 932
		<b>34 184</b>	<b>25 638</b>	<b>11 603</b>	<b>6 634</b>



Future Airport Station



Póvoa Line

## SUPPLEMENTARY SHARE CAPITAL

To fund the alterations to the project approved by the Government in 2001, the shareholder State, through the June the 28<sup>th</sup> 2001 Joint Decision by the Finance Minister and the Social Equipment Minister, committed to “provide supplementary share capital in the amount of 49.88 million euros until 1994, with the following indicative planning”:

Values in thousand euros				
2001	2002	2003	2004	Total
7 482	12 470	14 964	14 694	49 880

Taking into account this Joint Decision, the Company’s accounts recognised in 2001 the supplementary share capital contribution indicated for that year. Given the non payment of that amount and of the amounts indicated for the subsequent years, that recognition was cancelled in 2002.

## MEZZANINE FUNDING

Given the overall 364.1 million euros investment during 2005 and the availability of 162.3 million euros in long term and grant funding, Metro do Porto had to renegotiate and reinforce its short term credit facilities.

On December the 31<sup>st</sup> 2005, the Company had short term facilities available amounting to 285.8 million euros, including the anticipation of european funds, of which 285.0 million euros had been drawn (to compare with 17.4 million euros drawn at December the 31<sup>st</sup> 2004).

This gap in the funding of investment is compounded by the insufficient compensation allocated to the Company in respect of its transportation public service obligations. It is additionally compounded by the non-compensation by the State for the availability of the infrastructure, considering namely that the financial cost of the EIB loans amounted to 19.9 million euros in 2005.

## PUBLIC SERVICE CONTRACT

The Light Rail System Concession Bases, approved by Decree-Law Nr. 394-A/98, stipulated in number 1 of Basis XV the allocation by the State of “such compensation amounts, additional to the income from an exploration following criteria of efficiency, effectiveness and economicity, as are needed for the operation of the transportation system as a public service”. These compensation amounts, according to number 2 of Basis XV, “will be the object of the following contracts to be signed by the State and the concessionaire: a) a first contract to be signed within 18 months of the publication of this Decree-Law, in respect of the initial period of the system’s operation”.

Under Metro do Porto’s initiative, and following its informal presentation in July 2002, a first formal contract proposal was presented in September 2002. This proposal was reformulated before the end of 2002. So far the Company is not aware of any comments about that reformulation.

In 2003, the first year of commercial operation of the System, no compensation amounts were received. The 2005 allocation was little more than symbolic. How both these amounts and those allocated in 2004 were calculated remains objectively difficult to explain.

In this context, and to follow the recommendation in the Audit Report prepared by Inspeção-Geral de Finanças, according to which Metro do Porto “should present in 2005 to the Government and to the Porto



Metropolitan Transport Authority a proposal about the public service obligations and the corresponding funding”, Metro do Porto has sent in December 2005 a new contract proposal.

## INTERNATIONAL RATING

Aiming to overcome the constraints on the Company’s funding, particularly the interpretation of the State guarantees limit, Metro do Porto initiated in 2004 the rating process by two well known international rating agencies. The option for funding based on the Company’s rating would also provide important benefits given the present level of public sector debt.

This process conclusion has been pending, since August 2004, on the consultation of the shareholder State by the agencies, which has been repeatedly sought.

## FUNDING OF THE ANTAS-GONDOMAR LINE

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

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

## INTEREST RATE MANAGEMENT POLICY

During 2005, the Company continued to monitor the evolution of international financial markets, to optimise its hedging policy. Particular attention was paid to the performance of the covers which had already been taken.

The interest rate management policy implemented by the Company results in fixing the rate in respect of 39.9% of its structured debt.

All the loan contracts have been on a variable interest rate basis, the following operations having been performed:

- On March the 27<sup>th</sup> 2003 an interest rate swap in respect of the 2002 operational leasing contract was realised, up to the maturity of the underlying operation;
- Conversion of the B and C tranches of the first EIB contract, with effect from March 2003, to the fixed revisable rate regimen, up to March 2009 and September 2009, respectively;
- Disbursement, in April 2003, under the fixed revisable rate regimen, of a part of the D tranche of the first EIB loan, up to March 2010.



Estádio do Dragão  
Station

The Company has been the object of various audits, some of them simultaneous, within the scope of the various projects supported by the Community Funds.

Within the scope of the Community Funds supported projects the following audits have been realised to date:

**1. Audit of the “Quadro Comunitário de Apoio II – Sistema de Metro Ligeiro da Área Metropolitana do Porto – 1.ª Fase” project, by Inspecção-Geral de Finanças, 2001**

In this audit's report it may be read “From what is presented in this report we conclude that the organisation and operation of the implemented management and control system ensures the good management of public funds, according to national and community standards”. The report formulates a number of recommendations, which were immediately implemented by the Company. There were some accounting alterations regarding eligible expenses, the total of that expense moving from 140 to 110 million euros).

**2. Audit of the “Sistema de Metro Ligeiro da Área Metropolitana do Porto – 2ª Fase” project, 1<sup>st</sup> level control, by Agrupamento de Sociedades de Revisores Oficiais de Contas Carlos José, Victor José e Valente, SROC e Santos Vaz & Trigo de Moraes, SROC, 2003**

The audit team refers that “the technical and administrative files were well organised, although its consultation becomes somewhat complex due to the project's scale”. No financial correction is suggested in the report.

**3. Audit of the “Sistema de Metro Ligeiro da Área Metropolitana do Porto – 2ª Fase – QCA III” project, by the European Court of Auditors, 2004**

The European Court of Auditors team analysed a set of documents supporting the eligible expense contained in the nine first payment requests, as well as the technical and administrative files. No type of report, recommendation or financial correction has been transmitted to the Company so far.

**4. Monitoring Audit “POAT – Cohesion Fund– Project: Ligação Aeroporto Francisco Sá Carneiro”, by Júlio Alves Batista, SROC, 2004**

The expense justification documents were analysed, as well as whether the rules about publicity, competition and environmental impact had been followed. The realisation of the investment was subject to physical verification. The audit report concludes for the full respect of those rules. Some expense related to expropriations was corrected, in the amount of the differences between land acquisition values and those referred to in expert's evaluation reports, as those differences were considered non-eligible expense, independently of their absolute and/or relative amount as well as independently of the impact in the overall project that would result from the non implementation of the agreement negotiated in each specific case. This correction was made in the 5<sup>th</sup> payment request.

**5. Cohesion Fund audit mission, Direcção-Geral de Política Regional, 2005**

This mission had the main objective of verifying whether the rules about publicity and competition had been respected in the “Ligação do Aeroporto Francisco Sá Carneiro à Linha da Póvoa Duplicada” project, co-funded by the Cohesion Fund.

Regarding the information and publicity measures it was verified that there was full respect of the rules in the EC Regulations 621/2004, of April 1<sup>st</sup> 2004.

Regarding the competition rules, it was verified they had been followed in the two procedures: International Tender to Design, Build and Operate the Porto Metropolitan Area Light Rail System and Amendment to the corresponding contract (relative to the duplication of the Póvoa Line); and International Tender for the Construction of the link to the Francisco Sá Carneiro Airport. Additional clarification was sought and supplied about the unforeseen nature of the circumstances which made the Póvoa Line duplication works necessary, a subject indeed already fully clarified before the approval of the funding application. No type of report, recommendation or financial correction has been transmitted to the Company so far.

## **6. Audit of the tendering procedures applied to the realisation of expense in the “Sistema de Metro Ligeiro da Área Metropolitana do Porto – 2.ª Fase” project, by BDO e Associados (on behalf of Direcção Geral de Desenvolvimento Regional), 2005**

In this mission, the audit team verified the tendering procedures in respect of the first thirteen payment requests under the QCA III supported project. Clarification was sought and supplied about the non-separability and the unforeseen nature of the works in the 1<sup>st</sup> Amendment to the Contract to Design, Build and Operate the Porto Metropolitan Area Light Rail System. These works had explicitly integrated the QCAIII application (submitted through Plano Operacional de Acessibilidades e Transportes) in June 2001, approved in June 2002. No type of report, recommendation or financial correction has been transmitted to the Company so far.

Besides the audits related to the Community's funding of the project, the following have also occurred:

### **1. Techno-financial audit by Inspecção-Geral de Finanças and Inspecção-Geral de Obras Públicas Transportes e Comunicações, 2004**

In execution of the Joint Decision 432/2004 of the Finance and Transportation Ministers on June the 30<sup>th</sup> 2004, the Company was the object of a techno-financial audit by Inspecção-Geral de Finanças and Inspecção-Geral de Obras Públicas Transportes e Comunicações in 2004. This action covered the years 2003-2004, with updates of the available information in 2004.

The preliminary report, dated March the 21<sup>st</sup> 2004, was commented by the Company on April the 5<sup>th</sup>. The final report, dated June the 14<sup>th</sup>, was sent to the Company on September the 28<sup>th</sup>. All the specific recommendations contained in this report have already been implemented by Metro do Porto, S.A.

Already in the preliminary report several convergence points were found, namely:

- IGF highlights the need for a service contract to be signed as stipulated in the Concession Bases;
- IGF defends the reinforcement of the grant funding of the project;
- IGF proposes specific financial support for the urban insertion works;
- IGF associates some delays in the operation of several stretches to delays in decisions external to Metro do Porto;
- IGF reminds that 11 million euros in costs incurred in by the Company between 2001 and 2003 in connection with ex-CP and REFER employees remain to be transferred to the State;
- IGF highlights the Company's great collaboration in the work realised within this audit's scope.

The relevant divergence points are the following:

#### **a. Quantification of the “financial overrun”**

IGF considers that from an amount of 1,070 million euros there was an increase to 2,450 million euros (or 2,570 million euros with the Arbitration Court's award impact), which represents an increase of 129% (142%).

The fact is that the base project evolved from 1,070 million euros to 1,536 million euros (+44%); the 2001 alterations from 285 million euros to 193 million euros (-27%). (These alterations enabled the project to be executed, as it had not been possible to start it until then). These two items together have therefore grown 28% (to 1729 million euros), due both to the increased cost of tunnel excavation (itself due to the volatile nature of Porto's subsoil, as opposed to project errors) and to additional works related to the system's urban insertion, which were imposed by the need to fit the network and its access paths into the city's degraded panorama.

The difference between the 1,729 million euros already explained and the 2,450 million euros results directly from the decisions taken by various Governments which represent changes of options concerning the extension, the quality or the level of service of the System.

Is there a stop in this kind of reasoning? Will the full cost of the Porto Metropolitan Area Light Rail System be counted as an overrun of the 3,500 “contos de reis” estimated in 1853 for Portugal's first rail line? Will the romans, the promoters of the first road network in our country, be held responsible for any problems with today's PPPs?

#### **b. Quantification of the funding deficit**

The divergence between the value put forward by IGF (812 million euros) and that contained in the Company's 2004 budget (the one available at the time of the audit, 523 million euros) results almost entirely from the following:

- Arbitration Court award, unknown at the time the budget was prepared;
- Certainly by mistake, IGF admitted that Metro do Porto would leaseback for 105 M euros new rolling stock bought for 200 M;
- IGF considers private investment in an interface ignoring its funding by the same private entities, in both cases for an amount of 70 million euros.

### **2. Tribunal de Contas (National Audit Office), 2005**

Within the scope of Tribunal de Contas' mission, the 2005 audit program of its "Departamento de Auditoria VIII / Unidade de Apoio Técnico 2" group, approved in Plenary Session of its 2<sup>nd</sup> Section held on December the 16<sup>th</sup> 2004, included an audit to the Company to refer essentially to the years 2003 and 2004. Field work took place between March and May 2005. The Action report was concluded on December the 21<sup>st</sup> 2005. The Company commented it on February the 1<sup>st</sup> 2006.

In its comments the Company states the fact that the Report does not approach two of the nine objectives set out for the Action, one of them the evaluation of the results achieved. The appreciation of two of the other objectives is positive, particularly the one concerning the monitoring of the Company by the Auditor.

The Company objected to the Tribunal exceeding its competence and not fulfilling its duty to substantiate its decisions as stipulated in the Republic's Constitution (articles 205 and 268, number 3), which was neglected in favour of countless subjective references, usually based in false assumptions.

### **3. Audits of the Fixed Assets inventory, PriceWaterhouseCoopers, 2000, 2002 and 2004**

Within the scope of Decree-Law Nr. 394-A/98, of December the 15<sup>th</sup> (Basis VII, number 3), the Company biannually employs an external audit firm to audit its Fixed Assets inventory.

Their reports contain the following: "In our opinion, the asset lists mentioned in the first paragraph of this report appropriately reflect in all materially relevant aspects the Fixed, Intangible and In Progress Assets..."

In this connection it must be disclosed that Metro do Porto made available on November the 23<sup>rd</sup> a tool which allows on line remote access of a vast array of documents and of all accounting records to the following entities:

- Gabinete do Ministro das Obras Públicas, Transportes e Comunicações e do Ministro de Estado e das Finanças;
- Gabinete da Secretária de Estado dos Transportes e do Tesouro e das Finanças;
- Direcção-Geral do Tesouro;
- Inspeção-Geral de Finanças;
- Tribunal de Contas;
- Inspeção-Geral das Obras Públicas.

To the present date, none of those entities had shown any interest in using that tool, except for IGOP on February the 6<sup>th</sup> 2006.



## 9.4 Balance Sheet

Metro do Porto's accounts integrate, through the proportional consolidation method, the accounts of TIP, ACE. This ACE is held equally by Metro do Porto, Sociedade de Transportes Colectivos do Porto, S.A. and Caminhos de Ferro Portugueses, EP.

The evolution of the main balance sheet items of Metro do Porto results from the level of investment undertaken by the Company and from the adopted funding structure.

Values in thousand euros

Balance Sheet	2003	2004	2005	05/04
Fixed Assets (net)	780 117	1 104 047	1 434 112	29.9%
Stocks	188	147	162	9.9%
Short-Term Debtors	67 628	61 293	63 890	4.2%
Cash & Banks	34 116	17 547	5 061	-71.2%
Accruals and Deferrals	268 030	299 328	286 698	-4.2%
<b>Assets</b>	<b>1 150 079</b>	<b>1 482 362</b>	<b>1 789 923</b>	<b>20.7%</b>
Share Capital	5 000	5 000	5 000	0.0%
Called-Up Share Capital	179	179	179	0.0%
Concedent Instalments	273 025	332 128	402 883	21.3%
Retained Earnings	-3 600	-29 632	-67 581	-128.1%
Net Income	-26 032	-37 949	-71 335	-88.0%
<b>Net Capital Value</b>	<b>248 573</b>	<b>269 726</b>	<b>269 146</b>	<b>-0.2%</b>
Provisions	0	18 000	10 766	-40.2%
Medium and Long Term Debt	682 283	898 875	970 948	8.0%
Short Term Debt	113 705	179 672	423 396	135.6%
Accruals and Deferrals	105 518	116 089	115 667	-0.4%
<b>Liabilities</b>	<b>901 506</b>	<b>1 212 636</b>	<b>1 520 777</b>	<b>25.4%</b>
<b>Net Capital Value &amp; Liabilities</b>	<b>1 150 079</b>	<b>1 482 362</b>	<b>1 789 923</b>	<b>20.7%</b>

In the Assets side, the main evolution was in Fixed Assets, as a consequence of the high level of investment. In gross terms there is a 29.9% growth on December de 2004 (31.2% in net terms).

Regarding short term debtors, an increase of 9.3 million euros in the State's debts stands out (related to VAT reimbursements), as does a decrease of 6.4 million euros in other debtors.

Under Net Worth, and as a result of the funding from PIDDAC, ERDF and the Cohesion Fund, there is a 21.3% growth of Concessor Installments.

Given the full payment by Metro do Porto of the Arbitration Court award, the provision set up last December 31<sup>st</sup> 2004 amounting to 18 million euros was cancelled. Another provision of 10.8 million euros was set up in December 2005 as a result of Normetro's claim to accrue price revisions to the Court award amount, a claim (presently under legal analysis) which has been contested by Metro do Porto.

The evolution of long term debt reflects the utilisation of tranche B of the second EIB loan.

The 135.6% growth of short term creditors results from the need to resort to mezzanine funding solutions.

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

## 9.5 Results

The reinforcement of the operational component of the Company's activity, associated with the growth of the network in commercial operation, as well as the maintenance of a significant level of investment, underlie the evolutions seen in the Profit and Loss account.

Values in thousand euros

Profits & Loss Account	2003	2004	2005	05/04
Third Party Supplies & Services	29 458	43 100	58 098	34.8%
Staff Costs	8 308	6 168	5 965	-3.3%
Depreciation	9 388	16 600	22 659	36.5%
Financial Costs	17 380	19 291	26 532	37.5%
Taxes	202	488	1 216	149.0%
Other Costs	291	361	467	29.6%
<b>Costs</b>	<b>65 028</b>	<b>86 008</b>	<b>114 936</b>	<b>33.6%</b>
Revenue	4 760	8 822	14 435	63.6%
Operation Subsidies	0	4 730	2 246	-52.5%
Metro Operation	0	4 730	2 246	-52.5%
Infrastructure Rent	0	0	0	-
Own Work Capitalised	32 869	31 950	24 920	-22.0%
Financial Income	1 189	870	836	-3.9%
Additional Revenue	41	93	59	-36.3%
Other Income	138	1 592	1 105	-30.6%
<b>Income</b>	<b>38 996</b>	<b>48 058</b>	<b>43 601</b>	<b>-9.3%</b>
<b>Net Income</b>	<b>-26 032</b>	<b>-37 949</b>	<b>-71 335</b>	<b>88.0%</b>

The transportation income (excluding publicity) amounted to 10.2 million euros in 2005 (95.1% more than in 2004). This corresponds to an average income of 55.26 cents per validation (an increase of 3.9%) and 10.56 cents per passenger kms (a fall of 6.2%). The income per seat km was 1.39 cents (11.0% more).

Metro do Porto's 2005 budget, sent to the Government in December 2004, assumed compensation amounts of 54.4 million euros, in two components:

1. in respect of the transportation service, an amount of 13.6 million euros (of which 3.5 million referred to 2003);
2. in respect of the availability of the infrastructure, an amount of 40.8 million euros.

The Council of Ministers Resolution 174/2005, of October the 20<sup>th</sup>, allocated 2.2 million euros to Metro do Porto in respect of the transportation service. No amounts were allocated in respect of the availability of the infrastructure.

Metro do Porto's budget proposal for 2006, in accordance with the reformulated contract proposal sent in December 2005, assumes for 2006 compensation in respect of the transportation service amounting to 41.3 million euros. Of this amount, 7.3 million refer to the adjustment of the historical amounts in the period 2003/05 to what results from the new contract proposal.

The income from the Guindais Funicular transportation service amounts to 137.9 thousand euros. This corresponds to an income of 81 cents per seat km and 2.02 euros per passenger kms. These values reflect a negative evolution of 10.5% concerning the per seat kms income and a positive 3.9% one concerning the passenger km income.

Also booked under income are 3.6 million euros from maintenance services provided according to the operational leasing contracts (an amount which is added to the rent paid and booked under Supplies, for which reason the net value is always null). It further includes 182.7 thousand euros from publicity in commercial spaces, 177.6 thousand euros from the proportional consolidation with TIP, ACE and 116.3 thousand euros from other services.

There was a 3.3% reduction in staff costs relative to 2004.

The Light Rail System gross margin was negative in the amount of 11.5 million euros and of 41.1 million euros in net terms (a negative evolution of 19.2% and 47.6%, respectively). As a result of the 7<sup>th</sup> amendment to the Normetro contract, a 7.0 million correction to the amounts since 2002 was invoiced. In the operation accounts below this adjustment is allocated by operation year.



Andante Shop  
Casa da Música Station

Values in thousand euros			
Metro Profit & Loss Account	2004	2005	05/04
Sales	5 271	10 326	95.9%
Costs of Sales	14 878	21 774	46.3%
Gross Margin	-9 608	-11 448	-19.2%
Net Margin	-27 866	-41 125	-47.6%
Operating Result	-28 390	-58 440	-105.8%

In spite of the near doubling of the operational income (10.3 million euros in 2005 versus 5.2 million in 2004), the increase in the associated costs of 54.1% more than compensated that evolution (particularly so in the case of the 53.3% increase in the commercial operation's costs).

The reduction of 52.5% in the public transportation service compensation amounts (2.2 million euros in 2005 versus 4.7 million euros in 2004) contributed to the net margin's deterioration, as did the increase in operational leasing rents (47.8%) and of other operational costs (35.2%, relating to other operational costs such as operation surveillance and security, communication and marketing and depreciation of fixed assets).

The cost of sales and services amounts to 21.8 million euros, of which 97.9% are related to the Normetro operation contract (21.3 million euros). The remaining amounts refer to TIP, ACE costs, namely the per validation fee and sales network commissions.

The ventilation of the operation account shows negative net margins of 17.2 million euros (Blue Line), 15.1 million euros (Red Line), 5.7 million euros (Green Line) and 3.2 million euros (Yellow Line).

Values in thousand euros

<b>Net Margin</b>	<b>2005</b>	<b>%</b>
Blue Line	-17 176	41.8%
Red Line	-15 068	36.6%
Green Line	-5 732	13.9%
Yellow Line	-3 150	7.7%

The Light Rail System had an operational cost of 2.97 cents per seat kms offered (an improvement of 16.4% on 2004) and of 22.52 cents per passenger kms (29.6% below 2004).

The Guindais Funicular operation account shows a negative gross margin of 218.1 thousand euros and a negative net margin of 410.2 thousand euros. The operator, Transmontagne, originates 98.4% of the cost of sales and services, a total of 350.3 thousand euros. Relative to 2004, the gross and net margins show improvements of 42.7% and 31.9%, respectively.

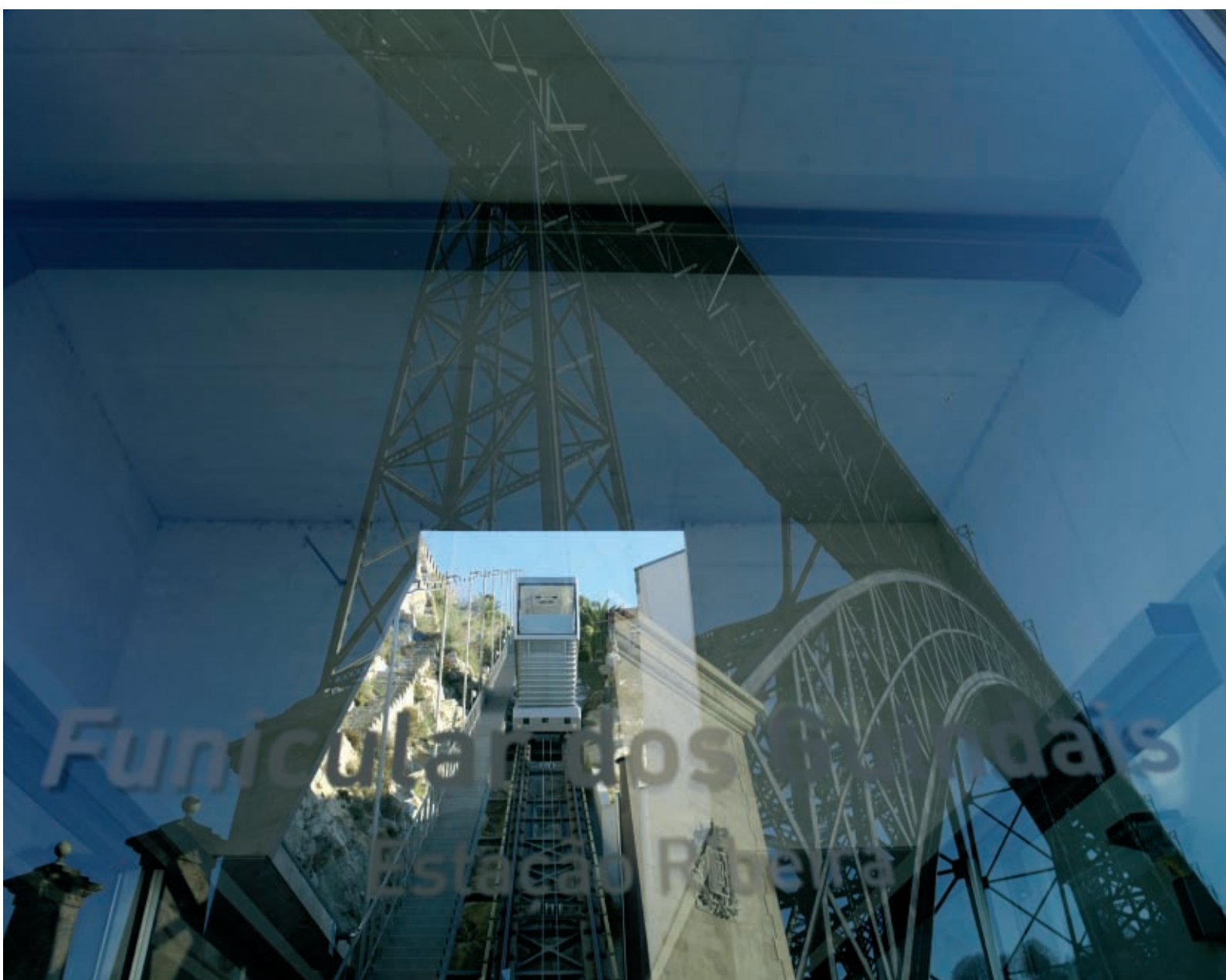
Values in thousand euros

<b>Funicular Profit &amp; Loss Account</b>	<b>2004</b>	<b>2005</b>	<b>05/04</b>
Sales	122	138	13.2%
Cost of Sales	503	356	-29.2%
Gross Margin	-381	-218	42.7%
Net Margin	-603	-410	31.9%
<b>Operating Result</b>	<b>-824</b>	<b>-659</b>	<b>20.0%</b>

Guindais Funicular



The Guindais Funicular shows an operational cost of 71.78 cents per seat km offered and of 5.22 euros per passenger kms (44.0% and 35.0% above the 2004 figures, respectively).







The year 2006 will be remembered for the conclusion of the Light Rail System's Phase I implementation. During the first half of the year, Vila do Conde and Póvoa de Varzim will be integrated in the system. The conclusion of the Francisco Sá Carneiro International Airport link will ensure its connection to the transeuropean transport network.

The deadline defined in the Concession Bases, as altered by Decree Law 261/2001, of September the 26<sup>th</sup>, which stipulates in its number 1, paragraph c) of basis V "the whole system will be in service until March 2006" will therefore be met. Let it be reminded that at the time this deadline was defined the extensions to Antas and to the Airport had not been decided, nor had the duplication of the Póvoa and Trofa Lines.

The exception will be the ISMAI-Trofa link. The construction of this stretch is suspended on a decision by the Government about its duplication. The duplication of the Fonte do Cuco-ISMAI link having been approved by a Joint Decision of the Transportation and Finance Ministers on July the 31<sup>st</sup> 2003, Metro do Porto is awaiting for a decision on the project presented in August 2003 to duplicate the remaining stretch.

The start of full operation in the Yellow Line, between the João de Deus and Hospital São João stations, may also be at risk due to various lately implemented changes to the initial project, determined directly by the Government following the pressure of some local groups and institutions.

The Government's authorisation to sign the various amendments already negotiated with the Normetro consortium is also awaited. Those Amendments relate to the Trofa Line duplication between Fonte do Cuco and ISMAI, to the withdrawal from the contract of the single track works in the ISMAI-Trofa stretch and to the renegotiation of the operation contract.

It is possible that in 2006 the working group set out in the Joint Decision 925/2005, of October the 20<sup>th</sup>, by the Finance and Transport Ministers, will be appointed.

A new service contract proposal having been presented at the end of 2005, one expects that in 2006 the obligation, set out in number 2 of the Basis XV, to sign that contract will be met.

The clarification of the interpretation of the limit for State guarantees set out in the Concession Bases is also expected, which would enable the release of the third tranche of the second EIB loan and the signing of a third loan contract.

To satisfy the funding needs resulting from the alterations to the initial project, the Government's authorisation to proceed with the issue of long term structured debt is also expected.

With the purpose of reinforcing the grant share in the system's funding structure, preparation for an application to a future QCA IV will be started.







The Board of Directors proposes that the net loss calculated for the financial year, of a total amount of 71,335,191.18 euros, be fully transferred to the Retained Earnings Account.

Oporto, February the 15<sup>th</sup> 2006

## **The Board of Director**

### **Chairman:**

Valentim dos Santos Loureiro

### **Members:**

Rui Fernando da Silva Rio

José Narciso Rodrigues de Miranda

Mário Hermenegildo Moreira de Almeida

Prof. Manuel de Oliveira Marques

José Manuel Duarte Vieira

Juvenal Silva Peneda





# 2005 Financial Statements



## Balance Sheet at December 31<sup>st</sup> 2005

Euros

Account code		Notes	Year			
			2005		2004	
			Gross Assets	Depreciation	Net Assets	Net Assets
POC						
	<b>Assets</b>					
	<b>Fixed Assets:</b>					
	Intangible Fixed Assets:					
431	Set-Up Costs		49 461 606	2 424 036	47 037 570	36 180 086
441	Fixed Assets in Progress		147 571 863		147 571 863	156 245 629
		10	<b>197 033 469</b>	<b>2 424 036</b>	<b>194 609 433</b>	<b>192 425 715</b>
	Tangible Fixed Assets:					
421	Land and Natural Resources		49 701 892		49 701 892	25 233 755
422	Buildings		836 727 455	39 200 287	797 527 167	373 320 774
423	Basic Equipment		95 468 222	5 629 933	89 838 289	30 525 582
424	Transport Equipment		885 576	472 029	413 547	367 065
425	Tools and Utensiles		257 659	167 520	90 139	178 835
426	Office Equipment		1 963 864	1 566 567	397 297	496 332
429	Other Tangible Fixed Assets		6 063 305		6 063 305	6 063 305
442/6	Fixed Assets in Progress		287 805 972		287 805 972	381 078 511
448	Advances on Account of Fixed Assets		7 486 015		7 486 015	94 185 652
		10	<b>1 286 359 958</b>	<b>47 036 337</b>	<b>1 239 323 622</b>	<b>911 449 811</b>
	Financial Assets:					
4111	Holdings in Group's Companies		2 303		2 303	3 210
4112	Holdings in Associated Companies		176 984		176 984	167 851
		16	<b>179 287</b>		<b>179 287</b>	<b>171 061</b>
	<b>Current Assets:</b>					
	Stocks:					
32	Raw & Subsidiary Materials and Consumables		161 839		161 839	147 209
			<b>161 839</b>		<b>161 839</b>	<b>147 209</b>
	Short-Term Debtors:					
211	Customers		5 518 784		5 518 784	11 872 135
229	Advances to Suppliers		6 437 048		6 437 048	6 621 784
24	State and Other Public Entities	49	51 652 884		51 652 884	42 323 805
25	Shareholders		1 784		1 784	1 784
264	Subscribers to Equity		177 250		177 250	177 250
261/2/6/7/8	Other Debtors		102 072		102 072	296 320
			<b>63 889 821</b>		<b>63 889 821</b>	<b>61 293 078</b>
	Cash & Banks:					
12/3/4	Bank Deposits		5 005 022		5 005 022	17 505 908
11	Cash		56 431		56 431	41 559
			<b>5 061 452</b>		<b>5 061 452</b>	<b>17 547 467</b>
	Accruals and Deferrals:					
271	Accrued Income		1 014		1 014	47 488
272	Deferred Costs	51	286 696 547		286 696 547	299 280 304
			<b>286 697 560</b>		<b>286 697 560</b>	<b>299 327 792</b>
	<b>Total Depreciations</b>			<b>49 460 373</b>		
	<b>Total Provisions</b>					
	<b>Total Assets</b>		<b>1 839 383 388</b>	<b>49 460 373</b>	<b>1 789 923 015</b>	<b>1 482 362 133</b>



Account Code		Notes	Year	
POC			2005	2004
	<b>Net capital value &amp; liabilities</b>			
	<b>Shareholders' Equity:</b>			
51	Share Capital		5 000 000	5 000 000
53	Called-Up Share Capital		179 033	179 033
59	Retained Earnings		-67 581 091	-29 631 703
	<b>Subtotal</b>		<b>-62 402 058</b>	<b>-24 452 670</b>
88	Net Income / Loss		-71 335 191	-37 949 388
	<b>Subtotal</b>		<b>-133 737 249</b>	<b>-62 402 058</b>
581	Concedent Instalments (Nr. 4 of Basis XXVII)		402 883 442	332 127 866
	<b>Net Capital Value</b>	40	<b>269 146 193</b>	<b>269 725 808</b>
	<b>Liabilities:</b>			
	<b>Provisions for Contingencies &amp; Liabilities</b>			
298	Other Provisions for Risks and Charges	34	10 765 525	18 000 000
			<b>10 765 525</b>	<b>18 000 000</b>
	<b>Medium and Long Term Debt:</b>			
231	Amounts Owed to Credit Institutions	52	743 689 708	663 689 708
262/3/4/5/7/8	Other Creditors	53	227 258 709	235 185 061
			<b>970 948 417</b>	<b>898 874 769</b>
	<b>Short Term Debt:</b>			
231	Amounts Owed to Credit Institutions	52	284 988 430	17 432 000
221	Suppliers		10 573 189	16 517 027
261	Fixed Assets Suppliers	53	115 113 435	130 882 624
24	State and Other Public Entities		266 584	176 896
262/3/4/5/7/8	State and Other Public Entities	53	12 454 010	14 663 866
			<b>423 395 648</b>	<b>179 672 413</b>
	<b>Accruals and Deferrals:</b>			
273	Accrued Costs	54	20 785 255	16 340 024
274	Deferred Income	55	94 881 978	99 749 119
			<b>115 667 233</b>	<b>116 089 143</b>
	<b>Total Liabilities</b>		<b>1 520 776 823</b>	<b>1 212 636 325</b>
	<b>Net Capital Value &amp; Liabilities</b>		<b>1 789 923 015</b>	<b>1 482 362 133</b>

**Chartered Account & Registered Auditor**

Vitor Manuel Gomes de Carvalho

**Board of Directors**

Chairman:

Valentim dos Santos Loureiro

Members:

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

## Profit & Loss Account by Nature at December 31<sup>st</sup> 2005

Euros

Account Code		Year			
POC		2005		2004	
	<b>Cost and Losses</b>				
61	Cost of Goods Sold & Materials Consumed				
	Goods		315 330		172 283
62	Third Party Supplies & Services		58 097 614		43 100 227
	Staff Costs:				
641 + 642	Remunerations	4 198 305		3 882 056	
	Social Security:				
643 + 644	Pensions	0		0	
645/6/7/8/9	Other	1 766 214	5 964 519	2 285 933	6 167 989
662 + 663	Intangible and Tangible Fixed Assets Depreciation	22 659 126		16 599 560	
67	Provisions	0	22 659 126	0	16 599 560
63	Taxes	1 215 943		488 276	
65	Other Operating Costs & Losses	8 006	1 223 949	8 714	496 990
	<b>[A]</b>		<b>88 260 539</b>		<b>66 537 049</b>
682	Losses on Group & Associated Companies	963		878	
681/5/6/7/8	Financial Costs & Losses:				
	Others	26 530 966	26 531 929	19 290 125	19 291 003
	<b>[C]</b>		<b>114 792 468</b>		<b>85 828 052</b>
69	Extraordinary Costs & Losses		102 511		145 053
	<b>[E]</b>		<b>114 894 979</b>		<b>85 973 105</b>
86	Corporation Tax for the Year		41 433		34 466
	<b>[G]</b>		<b>114 936 412</b>		<b>86 007 571</b>
88	Net Income		-71 335 191		-37 949 388
			<b>43 601 221</b>		<b>48 058 183</b>
	<b>Profits and Gains</b>				
71	Sales:				
	Goods	355 133		245 934	
72	Income	14 435 112	14 790 245	8 822 304	9 068 238
75	Own Work Capitalised		24 919 569		31 949 514
74	Operating Subsidies	2 245 613		4 730 497	
73	Additional Revenue	59 420		93 330	
76	Other Operating Income & Gains	11 900	2 316 934	15 000	4 838 827
	<b>[B]</b>		<b>42 026 747</b>		<b>45 856 579</b>
782	Gains on Group & Associated Companies	9 132		69 956	
7811/3/4/6/8	Other Interest and Similar Gains:				
	Others	827 081	836 213	800 304	870 260
	<b>[D]</b>		<b>42 862 961</b>		<b>46 726 839</b>
79	Extraordinary Income and Gains		738 260		1 331 344
	<b>[F]</b>		<b>43 601 221</b>		<b>48 058 183</b>
<b>Summary:</b>					
Operating Results: [B] - [A] =			-46 233 791		-20 680 470
Financial Results: [D-B] - [C-A] =			-25 695 716		-18 420 743
Current Results: [D] - [C] =			-71 929 507		-39 101 213
Pre-Tax Profit/Loss: [F] - [E] =			-71 293 758		-37 914 922
Net Income for the Year: [F] - [G] =			-71 335 191		-37 949 388

### Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

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## Profit & Loss Account by Function of Expense at December 31<sup>st</sup> 2005

Euros

	Year	
	2005	2004
Income	14 790 245	9 068 239
Cost of Service Loss	-64 185 638	-23 436 825
<b>Gross Results</b>	<b>-49 395 393</b>	<b>-14 368 586</b>
Other Operating Income & Gains	2 316 934	4 838 827
Distribution Costs	-1 154 929	-172 246
Administrative Costs	-4 459 988	-8 091 541
Other Operating Costs & Losses	-1 868 792	-13 736 414
<b>Operational Results</b>	<b>-54 562 169</b>	<b>-31 529 961</b>
Net Financing Cost	-16 739 759	-6 454 039
Gains (Losses) in Branches and Associated Undertakings	8 169	69 078
Gains (Losses) in Other Investments	0	0
<b>Current Results</b>	<b>-71 293 758</b>	<b>-37 914 922</b>
Taxes on Current Profits	-41 433	-34 466
<b>Current Results After Taxes</b>	<b>-71 335 191</b>	<b>-37 949 388</b>
Exceptional Profit / Loss	0	0
Taxes on Exceptional Profits	0	0
<b>Net Income</b>	<b>-71 335 191</b>	<b>-37 949 388</b>
<b>Results Per Share</b>	<b>-71.34</b>	<b>-37.95</b>

### Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

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 José Manuel Duarte Vieira  
 Juvenal Silva Peneda

## Cash Flow Statement at December 31<sup>st</sup> 2005

Euros

	2005	2004
<b>Operating Activities:</b>		
Received from Customers	10 099 251	4 045 047
Payments to Suppliers	-47 600 449	-2 230 485
Payments to Employees	-6 036 279	-6 060 026
<b>Inflow/Outflow from Operating Activities</b>	<b>-43 537 478</b>	<b>-4 245 465</b>
Payment / Receipt of Corporation Tax	-35 524	27 816
Other Receipts in Respect of Operating Activity	-10 760 069	13 576 546
<b>Inflow/Outflow Before Exceptional Items</b>	<b>-54 333 070</b>	<b>9 358 897</b>
Receipts Related to Exceptional Items	0	-23 761
Payments Related to Exceptional Items	-80 565	-144 571
	<b>-80 565</b>	<b>-168 331</b>
<b>Net Cash Inflow/Outflow from Operating Activities</b>	<b>-54 413 636</b>	<b>9 190 566</b>
<b>Investment Activities:</b>		
Receipts from:		
Tangible Fixed Assets	0	0
Intangible Fixed Assets	464 415	31 289 320
Investment Subsidies	70 755 576	72 717 915
Dividends	61 277	28 000
	<b>71 281 267</b>	<b>104 035 235</b>
Payment in respect of:		
Financial Assets	56	94
Tangible Fixed Assets	329 121 030	312 331 299
Intangible Fixed Assets	21 880 984	9 784 166
Leasing Rentals	0	239 029
	<b>351 002 070</b>	<b>322 354 588</b>
<b>Net Cash Inflow/Outflow from Investment Activities</b>	<b>-279 720 803</b>	<b>-218 319 354</b>
<b>Financing Activities:</b>		
Receipts from:		
Loans	347 556 430	211 362 128
	<b>347 556 430</b>	<b>211 362 128</b>
Payment in respect of:		
Loans	0	0
Interest and Similar Losses	25 908 005	18 801 962
	<b>25 908 005</b>	<b>18 801 962</b>
<b>Net Cash Inflow/Outflow from Financing Activities</b>	<b>321 648 424</b>	<b>192 560 166</b>
<b>Increase/Decrease in Cash &amp; Cash Equivalents</b>	<b>-12 486 015</b>	<b>-16 568 621</b>
Cash & Equivalents at the Beginning of the Period	17 547 467	34 116 088
<b>Cash &amp; Equivalents at the End of the Period</b>	<b>5 061 452</b>	<b>17 547 467</b>

### Chartered Account & Registered Auditor

Vitor Manuel Gomes de Carvalho

### Board of Directors

Chairman:

Valentim dos Santos Loureiro

Members:

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



## NOTES TO THE CASH FLOW STATEMENT

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

### 2 – Breakdown of cash components and equivalents.

Values in thousand euros		
	2005	2004
Cash	56 431	41 559
Cash deposits	5 005 022	17 505 908
<b>Cash Equivalents: Cash and Equivalents</b>	<b>5 061 453</b>	<b>17 547 467</b>
Other	0	0
<b>Cash and Banks in the Balance Sheet</b>	<b>5 061 453</b>	<b>17 547 467</b>

### 3 – Information on Non-Monetary Financial activities:

In 2005 a disbursement of 80 million euros occurred, corresponding to Tranche B of the 200 million euros EIB loan contract.

Still within the scope of the second EIB line of credit, an amount of 60 million euros is available. However the corresponding contract was not signed for lack of the State guarantee. The constraints to the issue of that guarantee result from the stipulations in number 5 of Basis XIII of the Light Rail System concession.

Equally available for future drawing is a 8.4 million euros amount referring to short term credit lines from national banking institutions.

## Notes to the Balance Sheet and Profit & Loss Accounts

### 0 – INTRODUCTION

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

Metro do Porto, S.A. – initially named “Metro da Área Metropolitana do Porto, S.A.” – was established on August the 6<sup>th</sup> 1993, with the objective of operating a Light Rail System in the AMP.

The Decree-Law Nr. 394-A/98, of December the 15<sup>th</sup>, revoking the Decree-Law Nr. 71/93, of March the 10<sup>th</sup>, appointed the Metro do Porto, S.A. company to be the concessionaire for a period of 50 years, besides regulating the Concession Bases (annex I), establishing rules for the shareholders (annex II – Shareholders Para-social Agreement for Metro do Porto, S.A.) and defining the Company’s new Articles of Association (annex III). The concession’s legal system was revised by Act 161/99, of September the 14<sup>th</sup>, which approved the Concession Bases, and by Decree-Law Nr. 261/2001, of September the 16<sup>th</sup>. Recently it was further revised by Decree/Law Nr. 249/02, of November the 19<sup>th</sup>, in order to allow the Company to use operating leases.

To fulfil its object, the Company was to conduct studies, design, plan, project and build the required infra-structures, as well as to purchase equipment and rolling stock. These tasks have so far represented the Company’s main activities. Light Rail System commercial operation started in 2003 with the Blue Line. Since then, commercial operation has been growing in a significant way. The opening of Trindade-Estádio do Dragão stretch in 2004 and of the Senhora da Hora-Pedras Rubras and Fonte do Cuco-Fórum Maia stretches and of the Yellow Line this year have originated a consistent monthly increase in demand.

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

In the terms of Basis XV of the Decree-Law Nr. 394-A/98, the system operation’s financial balance will be ensured by the State through the allocation of a financial compensation to the Company for providing a public service, which will be the object of a service contract to be signed between the State and the concessionaire.

At the end of 2005 the Company has the following participations:

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

The following notes follow the numbering defined in the National Plan of Accounts. All the issues contained there which are not applicable to the Company, or whose content is not relevant for fully understanding the relevant financial statements, are not included. If IAS recommendations are more complete and important to clarify the company financial statements, each note’s content is treated according to this normative. The final points, 49 to 58, were introduced to provide greater clarity in the financial statements presented.

## 2 – COMPARATIVE VALUES

During the financial year, the stretches Estádio do Dragão-Pedras Rubras (Red Line), Estádio do Dragão-Fórum da Maia (Green Line), Câmara Gaia-Pólo Universitário (Yellow Line) and João de Deus-Câmara Gaia (Yellow Line) started to be operated. They represent 18.856 kms of a total of 34.505 kms of the Light Rail System network. The commercial operation accounts in 2005 are therefore not comparable with the previous financial year.

In 2005, the Administrative costs were reclassified as Sales Costs, which means that the Profit and Loss Account by Function in 2004 and 2005 are not directly comparable

## 3 – ACCOUNTING METHODS

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

### 3.1 PRESENTATION BASES

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

### 3.2 INCOME RECOGNITION

#### a) Services provided

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

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

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

#### b) Operating subsidies

In 2005 an amount of 2,245,613 euros received as defined in the Concession Bases as compensation for the social transportation service provided as well as for the loss of income due to the use of social ticket prices was booked in the Operating Subsidies account.

Until the publication each year of the Council of Ministers Resolution defining the compensation amounts allocated to the Companies in the State sector, 1/12<sup>th</sup> of the amount received in the previous year is monthly booked. After the publication of that Resolution the amounts already booked are adjusted and the actual value is thereafter monthly recognised.

### 3.3 FINANCIAL RISK MANAGEMENT

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

#### i. Exchange rate risk

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

#### ii. Interest rate risk

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

#### iii. Credit risk

The Company presents a high credit concentration due to the fact that the tickets sales are realised by TIP – Transportes Intermodais do Porto, ACE. The credit risks of this ACE and its clients can rebound to the Company, although this is expected to occur with a low probability.

#### iv. Liquidity risk

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

Only one interest rate swap is used by the company.

### 3.4 TANGIBLE FIXED ASSETS

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

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

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

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

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

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



- Buildings and other constructions:
  - Buildings: 30 years
  - Underpasses: 50 years
  - Tunnels: 50 years
  - Track: 25 years
- Basic equipment: 20 years

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

### 3.5 INTANGIBLE FIXED ASSETS

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

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

### 3.6 FINANCIAL ASSETS

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

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

### 3.7 IMPAIRMENT OF THE ASSETS

The assets of the company are analysed as at the date of each Balance Sheet, so as to evaluate indications of eventual impairment losses. As December the 31<sup>st</sup> 2005 no impairment situations exist.

### 3.8 PROVISIONS

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

In December the 31<sup>st</sup> 2005 the existence of contingent liabilities which may represent future losses was considered, and a total provision amount of 10.8 million euros was set up.

### 3.9 SPECIALIZATION

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

### 3.10 CORPORATE TAXES

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 recognized when a reasonable certainty exists that future profits will be generated against which they could be used.

### 3.11 OPERATIONAL LEASINGS

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

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

### 3.12 FIXED ASSETS FINANCING

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

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

## 6 – TAXES

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

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

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

The available tax losses for future use are as follows:

Year of the Loss	Value	Usable until
2000	510 045	2006
2001	870 512	2007
2002	991 013	2008
2003	26 210 687	2009
2004	36 339 197	2010
2005	69 702 375	2011
	<b>134 623 829</b>	

## 7 – AVERAGE STAFF

The Company's average staff number during the financial year was 137 (141 as at December 2004), being 137 at the end of the year, 16 of which were transferred from CP and from REFER.

	2005	2004
Total Staff	137	133
Excluding CP/REFER	121	112
<b>Average Total Staff</b>	<b>137</b>	<b>141</b>

## 8 – MOVEMENTS UNDER INSTALLATION COSTS AND RESEARCH & DEVELOPMENT COSTS

Account "Set up Expenses" reports the values of the studies, projects and project management costs, corresponding to the investments in 2005 in the lines in operation (Blue, Red, Green and Yellow 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 ITEMS

Values in euros

GROSS ASSETS					
Items	Initial Balance	Increase	Decrease	Transferred	Final Balance
Intangible Fixed Assets:					
Formation Costs	37 571 111	0	0	11 890 495	49 461 606
Fixed Assets in Progress	156 245 629	46 800 553	0	-55 474 319	147 571 863
<b>Total</b>	<b>193 816 740</b>	<b>46 800 553</b>	<b>0</b>	<b>-43 583 824</b>	<b>197 033 469</b>
Tangible Fixed Assets:					
Land and Natural Resources	25 233 755	220 625	0	24 247 512	49 701 892
Buildings	394 258 679	3 738 156	0	438 730 620	836 727 454
Basic Equipment	33 417 210	192 728	15 779	61 874 063	95 468 222
Transport Equipment	790 170	245 999	150 593	0	885 576
Tools and Utensils	256 999	660	0	0	257 659
Office Equipment	1 705 353	258 511	0	0	1 963 864
Other Tangible Fixed Assets	6 063 305	0	0	0	6 063 305
Fixed Assets in Progress	381 078 511	394 403 415	6 407 583	-481 268 371	287 805 972
Advances on Account of Fixed Assets	94 185 652	10 366 688	97 066 325	0	7 486 015
<b>Total</b>	<b>936 989 634</b>	<b>409 426 782</b>	<b>103 640 280</b>	<b>43 583 824</b>	<b>1 286 359 958</b>
Financial Assets:					
Holdings in Group's Companies	3 210	0	907	0	2 303
Holdings in Associated Companies	167 851	9 132	0	0	176 983
Other Companies	0	56	56	0	0
<b>Total</b>	<b>171 061</b>	<b>9 188</b>	<b>963</b>	<b>0</b>	<b>179 286</b>



DEPRECIATION AND PROVISIONS				
Items	Initial Balance	Addition	Revising	Final Balance
<b>Intangible Fixed Assets:</b>				
Formation Costs	1 391 025	1 018 860	-14 150	2 424 036
<b>Total</b>	<b>1 391 025</b>	<b>1 018 860</b>	<b>-14 150</b>	<b>2 424 036</b>
<b>Tangible Fixed Assets:</b>				
Buildings	20 937 905	18 262 382	0	39 200 287
Basic Equipment	2 891 629	2 738 304	0	5 629 933
Transport Equipment	423 104	189 223	-140 298	472 029
Tools and Utensils	78 164	59 418	29 938	167 520
Office Equipment	1 209 021	390 938	-33 391	1 566 567
<b>Total</b>	<b>25 539 823</b>	<b>21 640 265</b>	<b>-143 751</b>	<b>47 036 337</b>

The direct investments amounts related to the stretches in commercial operation (Senhora da Hora-Fórum Maia in Line C; Pólo Universitário-Câmara Gaia, J Tunnel and João de Deus in Line D; T4, T5, T6, T13, T17, T20 and Antas Interface in Line A; and Senhora da Hora-Pedras Rubras in Line B) were booked as Fixed Assets under Land and Natural Resources, Buildings and Other Constructions and Basic Equipment. Similarly to 2004, the financial costs, fiscalisation costs and other indirect costs of the corresponding works were also transferred to this account. As a result in 2005 the investment relative to the stretches of the Blue, Red, Green and Yellow Lines which are completed and in operation has been transferred to Fixed Assets.

## 11 – CAPITALIZATION OF FINANCIAL COSTS INCURRED IN THE PERIOD

9,419,658 euros were capitalized in the Fixed Assets in Progress account, consisting of 7,170,749 euros in financial charges from long-term loans by the EIB and 2,248,909 euros in interest from bridge loans (taxes included on booth values).

## 14– TANGIBLE FIXED ASSETS AND FIXED ASSETS IN PROGRESS

- All the fixed assets are associated with the Company's activities and available for the exploration. There are no fixed assets located abroad.
- In accordance with Decree Law Nr. 394-A/98, all the assets of Metro do Porto, S.A. and those associated with the System are reversible to the State, at the end of the Concession period, which is 50 years. The financed values that satisfy the requirements of Nr. IV of Basis XXVII are considered as affected to the interests of the conessor.
- In the financial year, financial profits obtained from financial investments were capitalized. Therefore, the amount of financial costs capitalized in the financial year decreased by 471,870 euros. As a consequence, the final income balance, on December 31<sup>st</sup> 2005, totaled 10,345,998 euros.

Interest was capitalized is as follows:

Previous Years	34 654 862 euros
Current Year	9 419 658 euros

## 15 – ASSETS USED UNDER FINANCIAL LEASING

Assets used by the Company under financial leasing are cars and computer equipment, which were booked in Fixed Assets for 830,576 euros and for 148,344 euros respectively.

## 16 – GROUP COMPANIES, ASSOCIATED COMPANIES AND OTHER PARTICIPATING INTERESTS

Social Name	Headquarters	%	Shareholder's Capital (2005)	Net Income (2005)	Values of Financial Participation in 31.12.2005
Metro Consultoria, Lda.	Av. Fernão Magalhães, 1862, 7.º Porto	100.00%	1 906	907	2 303
Transpublicidade, S.A.	Av. Fernão Magalhães, 1862, 13.º Porto	40.00%	287 236	22 830	176 984
Nortrem, ACE	R. Gen. Firmino Miguel, n.º 3 Lisboa	0.01%	a)	a)	0
TIP, ACE	Av. Fernão Magalhães, 1862, 9.º Porto	33.33%	b)	b)	0
<b>Total</b>					<b>179 287</b>

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

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

## 28 – OVERDUE DEBTS TO THE STATE AND OTHER PUBLIC ENTITIES

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

## 29 – DEBTS TO THIRD PARTIES DUE IN MORE THAN FIVE YEARS

The Company debt whose maturity exceeds 5 years is as follows:

### a) European Investment Bank

In the year, the Company used resources from the operation B of the second loan contract.

Contract	Contract Value	Used in 2005	Amount Due
<b>EIB I</b>			
Tranche A	99 759 579	0	99 759 579
Tranche B	100 000 000	0	100 000 000
Tranche C	100 000 000	0	100 000 000
Tranche D	243 930 128	0	243 930 128
<b>EIB II</b>			
Tranche A	120 000 000	0	120 000 000
Tranche B	80 000 000	80 000 000	80 000 000
<b>Total</b>	<b>743 689 708</b>	<b>80 000 000</b>	<b>743 689 708</b>

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

The loan contracts signed with the EIB benefit from a personal guarantee of the Republic Government, for a period of 20 and 17 years after the contract's signature date, respectively to the first and second EIB contracts.

In 2003 an option with a revisable fixed rate was chosen for the tranches B and C. tranche B's rate was fixed until March the 15<sup>th</sup> 2009 and tranche C's until September the 15<sup>th</sup> 2009.

From the entire amount of operation D, 100 million Euros were contracted under the revisable fixed rate regime until March the 15<sup>th</sup> 2010.

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

#### Contract EIB I

- Tranche A: 10 consecutive annual instalments beginning in 2009
- Tranche B and C: 10 consecutive annual instalments beginning in 2012
- Tranche D: 10 consecutive annual instalments beginning in 2013

#### Contract EIB II

- Tranche A: 13 consecutive annual instalments beginning in 2012
- Tranche B: 13 consecutive annual instalments beginning in 2012

## b) Operational Leasing Nortrem, ACE

During the year the rents due in respect of the operational leasing contracts for 72 light rail vehicles were settled. The outstanding amounts at year end were as follows:

Values in euros

Contract	Initial Value	Amount Due
LEP 2002	97 222 222	84 782 252
LEP 2003	121 527 778	112 253 327
LEP 2004	31 250 000	30 223 130
<b>Total</b>	<b>250 000 000</b>	<b>227 258 709</b>

## 31 – FINANCIAL LIABILITIES

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

Entity	Contract Value	Paid-Up Amount	%
Normetro –Base Contract	845 997 409	674 964 958	80
Normetro – Additional	175 679 130	155 188 495	88
CFS	24 941 730	6 796 979	27

## 32 – GUARANTEES

As a surety bond for payment of the likely compensation amount to be paid by the Company, for the expropriation of urban property for the Light Railway network construction, bank guarantees were issued. At the end of the year, there are 33,407,762 euros in bank guarantees of which 10,197,232 were issued in 2005 (in 510 lawsuits).

During the year bank guarantees were also issued in the amount of 15,280,873 euros, due to an audit of the VAT reimbursement requests undertaken by the VAT Inspection services.



### 34 – PROVISIONS

The provisions present the following configuration:

Values in euros				
Items	Initial Balance	Increase	Decrease	Final Balance
Legal Actions in Progress	18 000 000	0	18 000 000	0
Other Provisions	0	10 765 525	0	10 765 525
<b>Total</b>	<b>18 000 000</b>	<b>10 765 525</b>	<b>18 000 000</b>	<b>10 765 525</b>

The heading “Other provisions” contemplates the amount whose loss was considered probable, an estimate by the legal consultants having obtained for this purpose. The provision is added to the Fixed Assets in Progress.

Following the end of the legal proceedings that were under way during the year, the previously set up provision was reduced.

### 35 – PAID UP CAPITAL

The equity is fully subscribed and paid-up.

### 36 – NUMBER OF SHARES AND NOMINAL VALUE

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

### 37 – EQUITY HOLDINGS

On December 31<sup>st</sup> 2005, the composition of the paid-up capital was the following:

Shareholder	2005	2004
Área Metropolitana do Porto	59.9993%	59.9993%
STCP	25%	25%
Estado Português	10%	10%
CP – Caminhos de Ferro Portugueses	5%	5%
Câmaras Municipais de Gondomar, Maia, Matosinhos, Porto, Póvoa de Varzim, Vila do Conde e Vila Nova de Gaia	0.0007%	0.0007%

## 40 – CHANGES IN EQUITY

Values in euros

	Initial Balance	Increase	Decrease	Final Balance
Share Capital	5 000 000	0	0	5 000 000
Called-Up Share Capital	179 033	0	0	179 033
Retained Earnings	-29 631 703	-37 949 388	0	-67 581 091
Net Income / Loss	-37 949 388	-71 335 191	-37 949 388	-71 335 191
<b>Sub-Total</b>	<b>-62 402 058</b>	<b>-109 284 579</b>	<b>-37 949 388</b>	<b>-133 737 249</b>
Concedent Instalments	332 127 866	70 755 576	0	402 883 442
<b>Total</b>	<b>269 725 808</b>	<b>-38 529 003</b>	<b>-37 949 388</b>	<b>269 146 193</b>

In 2005, the company received 70,755,576 euros from the Government Budget and European Funds, reported in the "Concedement Instalments" account.

## 41 – COST OF GOODS SOLD

Values in euros

Movements	Values
Initial Stocks	147 209
Purchases	330 160
Stock Adjustments	0
Final Stocks	161 839
<b>Costs in the Financial Year</b>	<b>315 530</b>

The movements under this heading result from the Proportional Consolidation of the ACE TIP and reflect the transactions occurred in respect of the physical stocks of Andante Tickets, during the financial year.

## 43 – REMUNERATION OF MEMBERS OF GOVERNING BODIES

The remuneration of the Company's Governing Bodies in 2005 was the following:

Board of Directors	639 888 euros
Single Auditor	19 344 euros

## 45 – FINANCIAL RESULTS

Values in euros

		2005	2004
	<b>Costs and Losses</b>		
681	Interest Borne	24 580 198	17 619 602
682	Losses in Group Companies	963	878
688	Other Financial Expenses	1 950 769	1 670 523
	Financial Income	-25 695 716	-18 420 743
	<b>Total</b>	<b>836 213</b>	<b>870 260</b>
	<b>Income and Gains</b>		
781	Interest Incomes	136 320	162 902
782	Profits in Group Companies	9 132	69 956
784	Profits on Capital Parts	61 277	28 000
785	Exchange Gains	0	1 154
788	Reversions and Other Financial Income	629 485	608 248
	<b>Total</b>	<b>836 213</b>	<b>870 260</b>

It includes 9,006,878 euros of capitalized interests (11,990,737 euros in 2004) under the heading "Own Works Capitalised".

## 46 – EXTRAORDINARY RESULTS

Values in euros

		2005	2004
	<b>Costs and Losses</b>		
691	Donations	62 813	125 926
694	Losses in Fixed Assets	25 028	0
695	Penalties	1 106	3 197
697	Corrections to Previous Years	2 086	5 410
698	Other Extraordinary Expenditures	11 476	10 520
	Extraordinary Costs	635 750	1 186 291
	<b>Total</b>	<b>738 260</b>	<b>1 331 344</b>
	<b>Income and Gains</b>		
794	Fixed Assets Gains	4 713	21 124
797	Corrections Brought Forward	61 089	0
798	Other Extraordinary Income	672 458	1 310 220
	<b>Total</b>	<b>738 260</b>	<b>1 331 344</b>

The amount under the heading “Other Extraordinary Income” corresponds essentially to the annually recognised amount in respect of grants received from the State for the construction of the Infante D. Henrique bridge, credited against a debit under deferred income, in the same amount as that investment’s depreciation.

## 48 – THE COMPANY RECEIVED THE FOLLOWING BANK GUARANTEES FROM ITS SUPPLIERS

Normetro – Agrupamento do Metropolitano do Porto, ACE, the company awarded the Contract to Project and Build the Oporto Light Rail System, pledged, in the contractual terms, the precise and punctual fulfilment of their obligations in favour of Metro do Porto, in the amount of a 197,031,936 euros bank guarantee.

CFS – Consulgal, Ferconsult and Sener, the company awarded the service contract to inspect and control the construction of the light rail system (conclusion of phase I and implementation of phase II), pledged, in the contractual terms, the precise and punctual fulfilment of their obligations in favour of Metro do Porto, in the form of bank guarantees with the total value of 4,541,862 euros.

Other suppliers of fixed assets pledged, in contractual terms, the precise and punctual fulfilment of their obligations, in favour of Metro do Porto, in the form of bank guarantees with the total value of 18,477,075 euros.



## 49 – STATE AND OTHER PUBLIC ENTITIES

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

Values in euros		
	2005	2004
VAT Receivable	51 517 476	42 268 164
Corporate Tax	122 526	43 386
Personal Income Tax	7 681	7 681
Social Securities Receivable	5 201	5 201
<b>Total</b>	<b>51 652 884</b>	<b>42 324 432</b>

## 51 – DEFERRED COSTS

The deferred costs are as follows:

Values in euros		
	2005	2004
Operational Leasing of Vehicles – 1 <sup>st</sup> Contract	107 184 786	111 863 339
Operational Leasing of Vehicles – 2 <sup>nd</sup> Contract	80 295 410	83 892 113
Operational Leasing of Vehicles – 3 <sup>rd</sup> Contract	59 807 484	62 504 796
Operational Leasing of Vehicles – 4 <sup>th</sup> Contract	39 367 276	40 969 049
Other Deferred Costs	41 590	51 007
<b>Total</b>	<b>286 696 547</b>	<b>299 280 304</b>

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

## 52 – BANKING DEBTS

The Bank Loans are demandable as follows:

Values in euros		
	2005	2004
Short Term	284 988 430	17 432 000
Medium and Long Term	743 689 708	663 689 708
<b>Total</b>	<b>1 028 678 138</b>	<b>681 121 708</b>

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

## 53 – OTHER CREDITORS

The most important balances are the following:

By Balance sheet heading:

Values in euros		
	2005	2004
Other Creditors – Medium and Long Term	227 258 709	235 185 061
Fixed Assets Suppliers – Short Term	115 113 435	130 882 624
Other Creditors – Short Term	12 454 010	14 663 866
<b>Total</b>	<b>354 826 154</b>	<b>380 731 551</b>

By entity:

Values in euros		
Most Representative Balances	2005	2004
NORTREM – Aluguer Material Ferroviário, ACE	236 497 427	245 341 815
Normetro, ACE	56 528 060	5 809 081
ENSITRANS	155 199	2 134 611
CINCLUS – Fornecimentos	2 023 766	1 860 957
ACA CONSTRUÇÕES – Alberto Couto Alves, S.A.	3 357 512	1 476 770
Other creditors	56 264 190	124 108 317
<b>Total</b>	<b>354 826 154</b>	<b>380 731 551</b>

The Nortrem, ACE debt corresponds to the four Operational Leasing contracts falling due in 40 halfyearly installments. The rents falling due during year 2006 were reflected in the short term debts.

#### 54 – ACCRUED COSTS

Values in euros		
	2005	2004
Wages to be Paid	688 959	639 983
Financial Costs	8 193 823	7 654 891
Others	11 902 473	8 045 150
<b>Total</b>	<b>20 785 255</b>	<b>16 340 024</b>

The heading “Others” contemplates essentially as yet un-invoiced costs with the metro system’s operation (6.9 million euros) and compensation to third parties for losses resulting from the light rail construction works (4.1 million euros).

#### 55 – DEFERRED INCOME

Values in euros		
	2005	2004
Investment Subsidies	31 949 564	32 578 423
Maintenance of Light Rail Vehicles	52 265 315	55 874 112
Interest Rebates	4 990 668	5 383 377
NPV US CBL	5 676 430	5 913 207
<b>Total</b>	<b>94 881 977</b>	<b>99 749 119</b>

The Investment Subsidies are mainly related with funding received for the construction of Infante D. Henrique Bridge (31,895,523 euros).

## 56 – SERVICES PROVIDED

The heading “Services Provided” has the following configuration:

Values in euros

	2005	2004
Transportation Ticket Income	10 349 728	5 357 313
Maintenance of Light Rail Vehicles	3 608 796	2 965 123
Others	476 588	499 868
<b>Total</b>	<b>14 435 112</b>	<b>8 822 304</b>

## 57 – LIGHT RAIL VEHICLES OPERATIONAL LEASING

In the years 2002, 2003 e 2004 LEP operation leasing contracts (Leasing Estruturado Português) were signed in respect of 72 light rail vehicles. The anticipated invoicing of its rents while not recognised as costs is recorded in the Balance Sheet as deferred costs to the amount of 286,654,956 euros.

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

In March the 27<sup>th</sup> 2003, an Interest Rate Swap with Banco Comercial Português, concerning the 2002 Operational Lease Contract, was contracted.



## 58 – LAWSUITS

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

Actions taken by:		Total value of lawsuits
Clients		(a)
Tax Authority		(a)
Employees		(b)
Merchants		(a)
Normetro		(a)
Third Parties		543 403 (c)
Expropriations		3 276 173 (d)

(a) Non-existent.

(b) Legal actions filed by the workers transferred from CP and REFER, claiming benefits' from the previous collective working agreement.

(c) Civil lawsuits about the damages caused by the works.

(d) Regarding the expropriation proceedings launched by the Company, there are 31 cases under legal arbitration to define the compensation amount.

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

Eventual future contingencies unfavorable to the Company will not turn into negative results as they are related to the works and will be incorporated in the investment values. No motive is therefore found to set up any provisions.



# Legal Certification of Accounts



## Legal Certification of Accounts

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### INTRODUCTION

1. We examined the financial information of "METRO DO PORTO, S.A.", comprehending: the Balance Sheet as at December 31<sup>st</sup> 2005 (which shows a total of 1,789,923,015 euros and net worth of 269,146,193 euros, including a net loss of 71,335,191 euros), the Profit & Loss Accounts by nature and by function of expense, the Cash Flow Statements in the financial year ended at that date and the corresponding Notes.

### RESPONSIBILITIES

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

### SCOPE

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

### OPINION

7. In our opinion, the financial statements give a true and fair view in all materially relevant aspects of the state of affairs of "METRO DO PORTO, S.A." on December 31<sup>st</sup> 2005, and of the profit/loss and cash flows of the year ended at that date, in accordance with generally accepted accounting standards.

## EMPHASIS

8. Without affecting the aforementioned opinion, attention is drawn to the following situation:

8.1. Until 2002 the company recognized the non-reimbursable subsidies received, foreseen in Decree Law Nr. 394-A/98 and in its later alterations, to finance the Light Rail System's fixed assets as Deferred Gains. In 2003, it changed this, recognizing them as Concessor Installments, in accordance with notes 3.12 and 40 in the Annex.

8.2. The company contracted in 2003 an interest rate swap, related to the operational leasing contract signed in 2002, as described in the notes no 3.3 and 57 in the Annex.

8.3. Although the principle of continuity cannot be subject to question in a State investment of such scale, widely adhered to by the population, the lack of sufficient funding for the approved phase of the construction of the light rail system may originate treasury bottlenecks questioning the financial situation of the Company.

On the other hand, the Company will have to provide the transportation service as a public service, it being the State's commitment to provide compensation to the Company to financially balance its operation, according to Basis XV of the Concession. However, that has not exactly happened, as the allocated compensation amounts have not achieved such a balance. Also for this reason, an early decision by the Government is required, to avoid an unfavourable image of the Company's situation to appear.

Oporto, February 24<sup>th</sup> 2006

António Magalhães & Carlos SantosSROC,  
represented by Carlos Alberto Freitas dos Santos  
Registered Auditor Nr. 177





# Statutory Auditor's Report



## Statutory Auditor's Report

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### To the Shareholders:

In accordance with the law and statutory dispositions, we hereby submit the report on our fiscalisation activities and our opinion on financial reporting documents of the Company "METRO DO PORTO, S.A., ended on December 31<sup>st</sup> 2005.

We highlight as main facts last year the beginning of commercial service in the Red Line stretches up to Pedras Rubras, in March 2005; in the Green Line up to Fórum Maia, in July 2005; in the Yellow Line up to Câmara Municipal de Vila Nova de Gaia-Pólo Universitário, in September 2005 and still in December 2005, in the João de Deus-Câmara Municipal de Vila Nova de Gaia stretch.

We have monitored the evolution of the Company's activity and the regularity of its accounting records and their respective supporting documents, with the frequency and extension we deemed appropriate. We have observed the fulfilment of the statutory and legal norms in force and have obtained all the clarifications we sought from the Board of Directors, the Executive Committee which is a part of the Board as well as from the Company's departments, for which it is our pleasure to present our thanks.

Within the scope of our function, we have examined the Financial Statements composed of the Balance Sheet, the Profit and Loss account by nature and by function, the Cash-Flow Statement and the respective Annexes, prepared in accordance with the accounting principles generally accepted in Portugal, which enable an appropriate vision of its financial situation, of its results and of the Company's cash flows.

The Management Report describes clearly the financial situation and the business evolution, contains all the information required by law and presents a proposal in respect of the allocation of results.

We wish to state that early decisions by the Government are needed to avoid a less favourable image of the Company's financial situation.

After our work, we have issued the Legal Certification of Accounts and have sent to the Board of Directors our Annual Report on the monitoring activities we have undertaken.

Consequently, in our opinion:

- a) The Management Report and Accounts should be approved;
- b) The proposal for the application of results should be approved.

Oporto, February 27<sup>th</sup> 2006

António Magalhães & Carlos Santos SROC,  
represented by Carlos Alberto Freitas dos Santos  
Registered Auditor Nr. 177







# Audit Report





### To the Shareholders of: **Metro do Porto, S.A.**

#### Introduction

1. We examined the financial information of "METRO DO PORTO, S.A.", comprehending: the Balance Sheet as at December 31<sup>st</sup> 2005 (which shows a total of 1,789,923 thousand euros and net worth of 269,146 thousand euros, including a net loss of 71,335 thousand euros), the Profit & Loss Accounts by nature and by function of expense, the Cash Flow Statements in the financial year ended at that date and the corresponding Notes.

#### Responsibilities

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

#### Scope

4. The examination was conducted following the Technical Rules and Auditing Directives issued by the Auditing Practices Board and the international audit standards issued by IFAC, which require it to be planned and performed to give reasonable assurance that the financial statements are free of material misstatement. Therefore, the audits comprehend the following actions: (i) examining, on a sampling basis, the support for the amounts and disclosure of financial statements and evaluating the estimates used in their preparation based upon criteria and judgments as defined by the Board of Directors; (ii) appreciating the adequacy, considering the circumstances, of the accounting policies and of the information made available on those policies; (iii) verification of applicability of the going concern basis; and (iv) appreciation of the global adequacy of the financial statements presentation.
5. Our examination has also included the verification of the agreement of the financial information contained in the management report with the financial statements.
6. We believe that our audits provide a reasonable basis for expressing our opinion.

#### Reserve

7. The company records the grants and subsidies received from the State and European Union related to assets in the Concessor Instalments account (number 4 of Base XXVII), a part of the net worth accounts. In our opinion, these subsidies should be recorded as Deferred Income and recognized as income as a function of the subsidized assets' depreciation. The amount booked in the Concessor Instalments account as at December 31<sup>st</sup> 2005 is 402,883 thousand euros (332,128 thousand euros as at December 31<sup>st</sup> 2004). We were unable the effect this had on (passive) Deferred Assets and on results.

## Opinion

8. In our opinion, except for the effects of point 7 mentioned above, the financial statements give a true and fair view in all materially relevant aspects of the state of affairs of "Metro do Porto, S.A." on December 31<sup>st</sup> 2005, and of the profit/loss and cash flows of the year ended at that date, in accordance with generally accepted accounting standards.

## Emphasis

9. Without affecting the opinion expressed in the previous paragraph, attention is drawn to the fact that, as mentioned on the Introduction of the Annex to the Balance Sheet and the Profit and Loss account, the funding of the investment and of the Company's activity is provided by the State, for which reason the continuity of operations is subject to the timely provision of the referred means.

Oporto, February 16<sup>th</sup> 2006

PriceWaterHouseCoopers & Associados, S.R.O.C.,  
represented by Hermínio António Paulo Afonso, R.O.C.

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