Annual Report 2006

Annual Report 2006

Metropolitano de Lisboa

Table of contents

Chairman's Statement

In office from November 3rd, 2006, this ML Management Board has endeavoured in the consolidation of processes focused on a tighter cost control, favouring economical and financial efficiency along with quality service supply, essential condition to reach higher insertion levels of the public underground transport services.

The results achieved in 2006 are the consequence of a rigorous operation follow-up and monitoring, and of a friendly business cycle in public transports due to the rise of fuel prices.

In 2006, the improvement on Operating and Net Profit essentially results from the reduction on Provisions for Pensions and on debt interests, from an increase on interest rates and continuing raise on interest bearing bank liabilities, and also from the reinforcement on operating subsidies provided by the State, the only shareholder.

Being a fundamental and important operator in Lisbon Metropolitan Area, Metropolitano de Lisboa has major responsibility on the support to the region's mobility. Operating sustainability, high safety and quality standards are constant goals of Metropolitano de Lisboa.

Despite the operating deficit, it was possible to grant the offer, the expected network growth, and restrain the more relevant operational costs, particularly those concerning energy and human resources, improve revenues (+9.2%) and stabilize the number of ticket holder passengers, against the sector global trend.

The structural factors in the origin of the operating deficit keep unchanged. The low return obtained from tariffs, the onerous contractual structure assumed in the past, and the inexistence of a public service contract are vectors strongly bending the economical and financial curves.

Network extension investments made by the Metro during the last decade are one of the reasons for its liabilities. Despite the fund investments from the European Community, and the Portuguese State financial contribution, Metro share in its own financing was significant.

In a near future, it's worth mentioning, Metropolitano de Lisboa will cease benefiting from the Community funding, since Lisbon is no longer a Community Support Framework target area. Thereafter, the whole network enlargement funding will be internal, either by means of bank loans or State financing.

Although the reasons for the existence of a cost cover/direct revenue ratio of only 33%, or 47% with Operational Subsidy are public, it's also true that the transport system provided by the Metro imposes the construction/maintenance of infrastructures located in dense urban areas, which require specific care and demands with obvious impact over construction and maintenance costs.

Such are the difficulties of having an underground public service operation.

But the Metro operating system is also a guaranty of speed, comfort, capacity, low carbon emissions and environmental sustainability.

The reasons underlying the establishment of Metropolitano de Lisboa 59 years ago are all the more present. The motives leading to the operational deficit shall, in time, be corrected – by means of cost reduction, operational revenues, and most of all by means of a consolidated operating, management, and financing model of infrastructures more fit to reality.

Portuguese State financial restraints, the new Community demands on public passenger transports, and the need to keep a quality service to support Lisbon Area mobility, are structuring elements for a serious reflection on a future management model.

One word of gratitude is addressed to the always attentive and open collaboration of the Audit Committee, the external auditors and the Statutory Auditor (ROC).

Finally, after years of a programmed widening of the network, it is necessary to grant the continuity of Metro operation. The Public Company, Metropolitano de Lisboa, E.P. has an obligation towards its customers.

Considering its Public Sector statutes, the Company is also bound to taxpayers.

We expect that this bias is well understood by all active players in Metropolitano de Lisboa. Our customers and the city deserve it.

Joaquim Reis


metro

Corporate Governance

This chapter presents a brief description of the main features for a Proper Public Sector Corporate Governance, in accordance with the guidelines stated by the Ministry of Finance and the Public Administration – Treasury Department, as well as the provisions of Cabinet Decisions no. 121/2005 of August 1st and no. 155/2005, September 9th, which establish the inclusion of the "Corporate Governance" issue in the Management Report.

2.1 Mission, Goals and Company Politics

Mission

ML's Mission is to provide a public underground transport services in the Great Lisbon Area.

Goals and Company Politics

Timely anticipate and respond to the market needs and the customer expectations, by means of:
a) Capacity, quality and reliability improvement in the provided service;
b) Network accomplishment and development, in due time, and in terms of a principle of economical and financial rationality.

Provide the service granting social, economical, financial and environmental sustainability, by means of:
a) Rationalisation of operating costs;
b) Improvement of energy efficiency and environmental sustainability;
c) Management focused on the customer and mobility promotion.

Contribute for the transport system sustainable development in Lisbon Metropolitan Area:
a) Promoting solutions for the public transport system efficient management;
b) Promoting an adequate articulation with other public transport systems for:
- a better operational planning;
- a better tariff articulation;
- the definition of policies for an articulated management of Resources and Methods;
- the joint promotion of the Public Transport.

2.2 Internal and external regulations specifically binding the company

ML's activity is regulated by a set of internal and/or external acts, among which the following stand out:

Internal acts:

- Company Agreement I (AE I), applicable to the majority of the Employees;
- Company Agreement II (AE II), applicable to Graduated Employees.
  The Collective Company Agreement (AE) is an instrument that regulates the labour relationships (rights and duties) between ML and its Employees, regarding issues, which are not covered by the law.
- The Metropolitano de Lisboa, E.P. Code of Behaviour and Ethics (in force from July 2006) was created with the purpose of "... framing the Company's structuring principles and core values into a set of ethical and deontological rules inspiring the collective consciousness as a behaviour model to be observed in daily performance". All ML Collaborators should, within the scope of their functions and skills, observe its principles, rules of conduct and values.

Besides the above mentioned principles, there is, additionally, a significant number of compulsory internal standards, namely: Safety regulation, Train circulation regulation, Blood alcohol level control regulation, Work clothing regulation, Signalling regulation, Telecommunication network use regulation, Internal rules on conditions and procedures of access to electrified tracks, Internal rules on the establishment of voltage free zones, and service transit areas for night works.

External acts:
Among other general acts, the following stand out:

- Decree-law no. 439/78, December 30th, published in D.R. no. 299 (series 1 – supplement 2), December 30th, approving ML Statutes;
- Regulation 1164/94, May 16th, on investment subsidised by Cohesion Fund;
- Regulation 1260/99, June 21st, on investment subsidised by FEDER;
- Decree-law no. 558/99, December 17th, establishing the judicial system for the Public Sector Enterprises and Public Companies;
- Decree-law no. 223/01, August 9th, establishing the procedures for the contracting of works, supplies and service provision in the water, energy, transport and telecommunication sectors (stands for Directive 93/38/ECE of June 14th);
- Decree-law no. 148/2003, July 11th, which imports to the national judicial system Directive 2000/52/EC, July 26th, of the Commission, concerning transparency of the financial relationship between Member State Public Bodies and Public Companies, as well as financial transparency of some companies;
- Directive 2004/17/EC of the European Parliament and Council of March 31st, 2004 coordinating the procurement procedures of entities operating in water, energy, transport and postal service sectors;
- Directive 2004/18/EC of the European Parliament and Council of March 31st, 2004 on the coordination of procedures for the award of public work contracts, public supply contracts and public service contracts;
- Decree-law no. 71/2007, March 27th, adopting the Statute for the Public Manager;
- Decree-law no. 69/2007, March 26th, which imports to national judicial system Directive 2005/81/EC of the Commission, November 28th, concerning transparency in the relationship between Member State Public Agencies and Public Companies, as well as financial transparency of some companies.

2.3 Relevant Transactions with Related Entities

Based on the financial volume of Contract and/or Order Forms with Contractors and Suppliers, these are some of the transactions occurred in 2006:

Contractors (Works):

- SOMAGUE, BPC, ENGIL, SPIE, BES – Alameda/S. Sebastião extension – Ad. no. 4 to ML 053/03 and Ad. no. 5 to ML 053/03;
- ZAGOPE/EFACEC – Alvalade Station: finishing and low voltage electricity - ML 008/06;
- METROPAÇO - Construction works of TP, S.A. - Internal Structures of TP: ML 139/03-05;
- LINHA METRO – Metropolitano de Lisboa works – Alfornelos/Falagueira Gallery rough works: Ad. no. 3 to ML 084/01;
- SOTÉCNICA – Electronic Society, S.A. – BT/Telecommunication sections 61 and 65 (BX/SP): ML 053/06.

Suppliers (Products, Equipment or Services):

- EDP – Energy Distribution, S.A.;
- 2045 Security Company, S.A.;
- IBERLIM – Cleaning Tec. Comp., S.A.;
- CORUS RAIL FRANCE, S.A.;
- INDRA SISTEMAS, S.A..

2.4 Information about Other Transactions

As concerns goods and services acquired, the system adopted was the one specified in Decree-law no. 223/01, August 9th.

Awarding of projects consisting in additional deliveries by initial Suppliers for the partial enlargement/replacement of already existing equipment or installations (justified by the need of technical match with the technical material already existing in the Company) were accomplished under the dispositions of subparagraphs c) and g), of no. 1 of Decree-law 223/2001, August 9th.

Among these stand out:

• INDRA SISTEMAS, S.A. – Ticketing system	M€ 1.6

Rolling Stock Spare Parts:

• SIEMENS, S.A.	M€ 1.3
• KNORR BREMSE AG	m€ 463
• DELLNER COUPLERS AB	m€ 13

As for EDP and EPAL suppliers, the invoiced values in 2006 were, respectively, M€ 5.3 and m€ 333.

In 2006, 53 projects in a total value of m€ 234 were directly awarded (in accordance with subparagraphs d) and e) of no. 2 of article 48th of Decree-law 59/99, March 2nd).

2.5 Governance Model and Members of the Governing Bodies

Metropolitano de Lisboa, E.P., ("the Company") was established in 1975 following the nationalisation of Sociedade Metropolitano de Lisboa, S.A.R.L., in the terms of Decree-law 280-A/75 of June 5th. The company's current name and public sector statutes were established by Decree-law 439/78 of December 30th.

The Company's main objective is to provide public underground transport services in the Great Lisbon Area.

The Company's operations are governed by general laws concerning public sector company activities, and by specific laws and government regulations concerning the transport sector and the Company.

Travel tariffs are fixed by the relevant Ministry, and the Company benefits from official Government subsidies, including statutory capital funds, funds for investments, Operational Subsidy and other subsidies.

2.5.1 Members of the Governing Bodies

Management Board

Chairman	Mr. Joaquim José Oliveira Reis
Member	Mr. Luís Filipe Salgado Zenha de Morais Correia
Member	Mr. Jorge Manuel Quintela de Brito Jacob
Member	Mr. Pedro Gonçalo de Brito Aleixo Bogas
Member	Mr. Miguel Teixeira Ferreira Roquette

Note: The Management Board was appointed by RCM 101/2006, of November 2nd, and took office on November 3rd.

Audit Committee

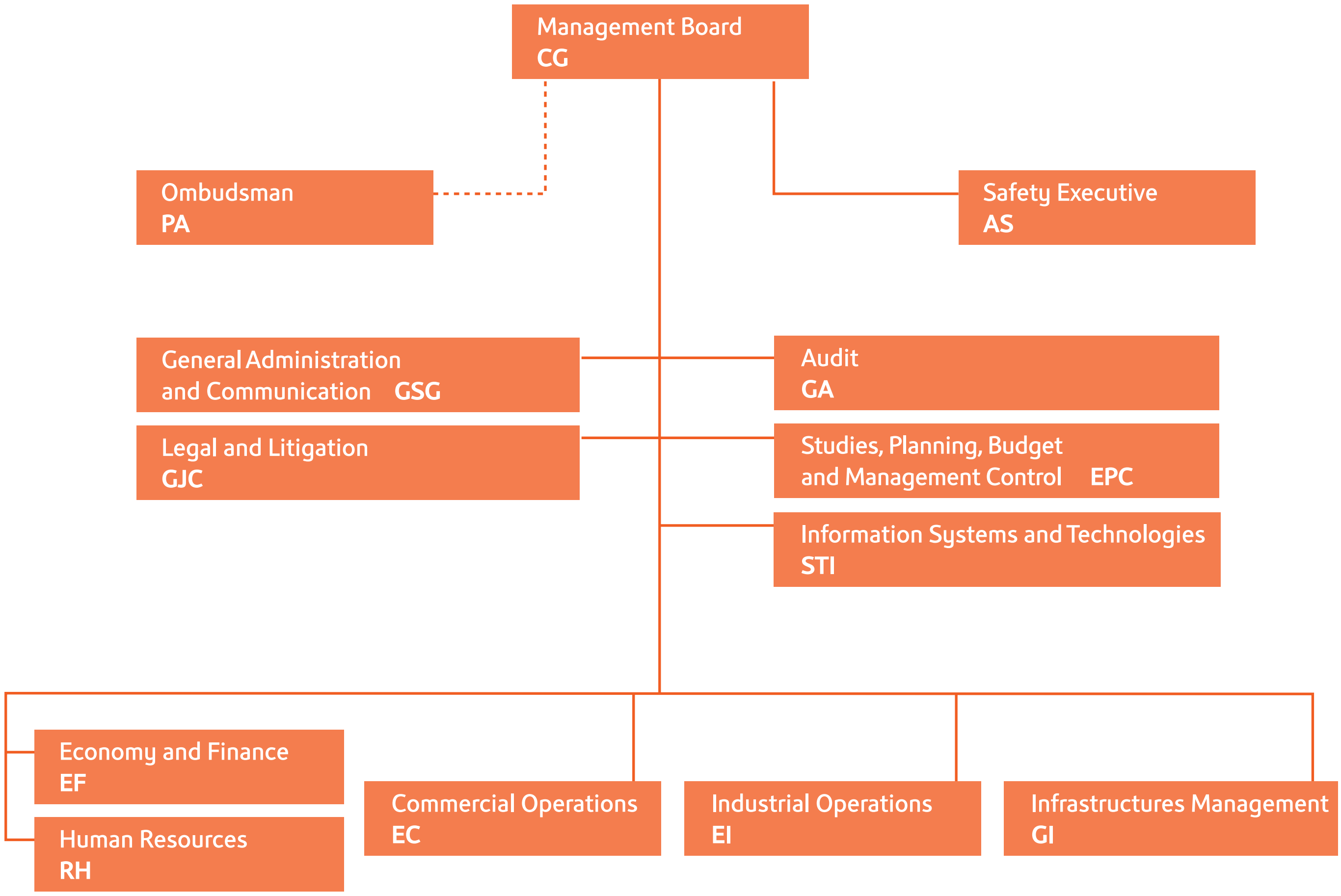
Chairman	Mr. Renato Augusto Vieira Campos
Members	Caiano Pereira, António e José Reimão, SROC, represented by:
	Mr. José Jorge da Costa Martins Reimão
	Mr. Evaristo da Cruz Branquinho

Note: Appointed by Joint Order from the Secretary of State for the Treasury and Finance and the Secretary of State for the Transports on October 26th, 1998.

Responsibilities of the Management Board Members

Following the resolutions made regarding the structure of the Company, and while clearly confirming its position as a Company's Management Team, the board has assigned each member with a specific responsibility for ongoing management in the following operational areas of Metropolitano de Lisboa:

Global flowchart



Functions and Responsibilities

Mr. Joaquim Reis, Chairman (PMB):
- Institutional Representation
- Safety Executive
- General Administration and Communication
- Economy and Finance
- Studies, Planning, Budget and Management Control (budget and management control areas)
- Information Systems and Technologies
- Audit
- **Subsidiaries:**
  - Chairman of the BD of Ferconsult, S.A.
  - Chairman of the BD of Metrocom, S.A.
  - Chairman of the GM of Ensitrans, A.E.I.E.
  - Member of the Board of Trem, A.C.E.
  - Member of the Board of Trem II, A.C.E.

Mr. Luís Morais Correia (Member standing in for Chairman):
- Infrastructure management
- Management projects and Network Expansion and Modernization Works
- Studies, Planning, Budget and Management Control (work management and project area)
- **Subsidiaries:**
  - Member of the Board of Ferconsult, S.A.
  - Member of the Board of Ensitrans, A.E.I.E.
  - Member of the Board of SOTRANS, S.A.

Mr. Jorge Jacob (Member of the Board):
- Commercial Operations
- Industrial Operations
- Studies, Planning, Budget and Management Control (on the expansion and commercial site)
- Development of the Strategic and Operational Marketing;
- Artistic and Historical Heritage, jointly with the MB/Mr. Pedro Bogas;
- **Subsidiaries:**
  - Member of the Board of Publimetro, S.A.
  - Chairman of the GM of Metrocom, S.A.

Mr. Pedro Bogas (Member of the Board):
- Human Resources
- Legal and Litigation
- Artistic and Historical Heritage, jointly with the MB/Mr. Jorge Jacob
- **Subsidiaries:**
  - Member of the Board of Publimetro, S.A.
  - Chairman of the GM of Ferconsult, S.A.
  - Chairman of the GM of Sotrans, S.A.

Mr. Miguel Roquette (Member of the Board):
- Ombudsman
- Assistant to the PMB's institutional function regarding the relations with Lisbon municipality.
- **Subsidiaries:**
  - Chairman of the GM of Publimetro, S.A.
  - Chairman of the GM of Gil, S.A.

Audit

As to the existence of external auditors, it's worth mentioning that the Company's accounts are annually audited by independent agents. Additionally, by imposition of the Government, of the European Commission and of the State Department for Regional Development, the Audit Court, the Financial State Department and the European Commission Control Agents (IOT) make several audits to the ongoing projects, particularly those co-financed by the EU.

2.6 Remuneration paid to the Members of Management Board

The following tables present the gross remuneration paid in 2006 to the present members of the Management Board of ML, to the Audit Committee, as well as to the former Management Board.

2.6.1 Management Board appointed on 3.11.2006

Management Board Remuneration Plan – 2006

Calculation Basis => Group A – Complexity Level 1

	Joaquim Reis **Chairman**	Jorge Jacob **Executive Member**	Luis Morais Correia **Executive Member**	Pedro Bogas **Executive Member**	Miguel Roquette * **Executive Member**
1. Remuneration	Unit: €	Unit: €	Unit: €	Unit:€	Unit: €
Basic salary	9,188.26	8,128.08	8,128.08	8,128.08	42,041.80
Business expenses [a]	3,215.89	2,438.42	2,438.42	2,438.42	12,612.50
Additional remuneration [b]	1,631.06	1,631.06	1,631.06	1,631.06	1,631.06
Holiday/Christmas subsidy	466.35	420.65	420.65	420.65	7,709.96
Other remunerations [c]	--	--	--	--	
2. Other fringe benefits					
Maximum plafond for mobile telephone use	135 €/ month	135 €/ month	135 €/ month	135 €/ month	135 €/ month
Renting – Company vehicle [e]	2,016.00	--	--	--	--
Official vehicle purchased by the company [f]	--	44,213.00	41,782.00	41,782.00	40,323.00
Fuel costs – company vehicle	347.30	564.03	211.86	132.03	1,364.72
Business travel allowance (year 2006)	--	--	--	--	--
Meal subsidy	n.a.	n.a.	n.a.	n.a.	n.a.
3. Charges with social benefits					
Social Security – compulsive	2,398.20	--	2,163.20	2,163.20	10,918.87
Retirement complementary plans	no	no	no	no	no
Life insurance	no	no	no	no	no
Health insurance [d]	ML	ML	ML	ML	ML
Additional information					
Option for source salary	no	no	no	no	no
Social Security regime	Social Sec.	CGA	Social Sec.	Social Sec.	Social Sec.
Observance of no. 7 of RCM 155/2005	n.a.	n.a.	n.a.	n.a.	n.a.
Year of vehicle acquisition by the company	2005	2000	2000	2000	2000
Option for company vehicle acquisition	no	no	no	no	no
Beneficial right to official house	no	no	no	no	no
Exerc. remun. functions outside the group					
	Company vehicle previously used by Mr. Mineiro Aires.	Company vehicle previously used by Mr. José O'Neill.	Company vehicle previously used by Mr. Gama Prazeres.	Company vehicle previously used by Mr. Arnaldo Pimentel.	

* Appointed on March 1st, 2006 and re-appointed in November 3rd, 2006

	Renato Campos **Chairman**	Evaristo Branquinho **Member**
Remuneration	Unit: €	Unit: €
Basic salary	14,257.68	11,406.12
Holiday/Christmas subsidy	2,376.28	1,901.02
Social Security regime	--	Social Sec.
Social Security – compulsive	--	3,160.48

2.6.2 Management Board Members who ceased functions on 3.11.2006

The following are the former members of the Management Board, appointed by Cabinet Resolution no. 71/2003 as at April 22nd: Mr. Carlos Alberto Mineiro Aires (Chairman) and Members Mr. Arnaldo José Pinto de Oliveira Pimentel, Mr. Luís Manuel de Oliveira Gama Prazeres and Mr. José Maria Franco O' Neill. These ceased functions on November 3rd, 2006. Mr. Miguel Teixeira Ferreira Roquette has been re-appointed by proposal of Lisbon Local Authority.

Management Board Remuneration Plan - 2006

Calculation Basis => Group A - Complexity Level 1

	Mineiro Aires	Arnaldo Pimentel	José O'Neill	Gama Prazeres
	Presidente	**Executive Member**	**Executive Member**	**Executive Member**
1. Remuneration	Unit: €	Unit: €	Unit: €	Unit: €
Basic salary	48,000.76	42,462.22	42,462.22	42,462.22
Business expenses [a]	16,800.24	12,738.63	12,738.63	12,738.62
Additional remuneration [b]	8,520.87	8,520.87	8,520.87	8,520.87
Holiday/Christmas subsidy	5,596.20	5,047.83	5,047.83	--
Other remunerations [c]	26,242.63	23,052.04	22,731.12	14,321.84
2. Other fringe benefits				
Maximum plafond for mobile telephone use	135 €/ month	135 €/ month	135 €/ month	135 €/ month
Renting - Company vehicle [e]	10,082.00	-	-	-
Official vehicle purchased by the company [f]	-	41,782.00	44,213.00	41,782.00
Fuel costs - company vehicle	2,350.25	1,169.82	2,008.49	1,646.36
Business travel allowance (year 2006)	99.76	249.40	498.80	448.92
Meal subsidy	n.a.	n.a.	n.a.	n.a.
3. Charges with social benefits				
Social Security - compulsive	--	16,581.77	16,492.37	17,258.29
Retirement complementary plans	no	no	no	no
Life insurance	no	no	no	no
Health insurance [d]	ML	ML	ML	ML
Additional information				
Option for source salary	no	no	no	no
Social Security regime	CGA	Social Sec.	Social Sec.	Social Sec.
Observance of no. 7 of RCM 155/2005	n.a.	n.a.	n.a.	n.a.
Year of vehicle acquisition by the company	2005	2000	2000	2000
Option for company vehicle acquisition	no	no	no	no
Beneficial right to official house	no	no	no	no
Exerc. remu. functions outside the group	--	--	--	--

(a) the subsidy for business expenses established by Ministry Dispatch corresponds to 1,663.39 and 1,261.25 € month, respectively for the Chairman and for the Management Board Members.
(b) 30% of the standard value established by dispatch no. 8035/2002 of March 26 th (presently fixed in 2,812.16 €), which from that date on results in 843.65 € month, arising from the fact that they also can hold management functions in the companies or bodies in which ML has social interests.
(c) accounts arising from resignation.
(d) General Company Health Insurance - if they so desire, each MB member can, at their own cost, extend monthly cover to the family unit (45.12 € for the partner, and 27.97€ per child under age, and 44.67 € per child over 18), similarly to all the staff.
(e) renting value includes the rent (+VAT at 21%) and annual insurance.
(f) the company vehicle acquisition includes VAT at 17%.

2.7 Economical, Social and Environmental Sustainability

Like in the two previous years, the Company will release in 2007 the Sustainability Report for 2006 where its performance on these matters, characterised by continuous social, environmental and sustainability concerns, as well as by an important effort in energy saving, shall be extensively assessed.

Since the release of the Sustainability Report is to be expected in a near future, this chapter will only present a brief review of ML's strategy for each of the three aspects of Sustainability: Environment, Economy and Society.

Environmental Plan

Carry on the deployment and the improvement on environmental procedures, as well as the promotion of the following actions:

- follow up of the Environmental Impact Studies for the new extensions and, when legally required, of the related Environmental Impact Assessment;
- environmental follow up of the ongoing works or those about to start;
- integration of the Kyoto Protocol objectives into the Company's own environmental goals;
- planning and deployment of actions to diminish the environmental impact of the existing facilities, particularly noise and vibrations mitigation and improving the air quality in ML stations, as well as full deployment of the Residue Management Integrated Plan;
- Environmental Management System deployment, according to NP EN ISO 14001:2004, in the short/medium-term, for certain areas of the Company;
- start of the environmental accountancy project.

Economical Plan

- improvement of the procedures and their leading, focused on the Client, and based on a competitive market management;
- income maximisation and current cost reduction based on the promotion of demand increase and productivity improvement;
- definition of the operation public funding and public transport investment models, in order to provide the stability to carry on the investments required for network expansion and cover of the operating expenses;
- higher technological innovation inducing better productivity;
- bigger and better multimodal integration, in order to improve service quality and Customer perception of quality, generating demand growing effects and higher tariff sustainability.

Social Plan

Internally, the guidelines will still be as follows:

- Productivity improvement by developing individual skills;
- Work rationalisation, matching the skills to the Company's needs;
- Motivation through the sustained sponsorship of high performance practices and performance assessment;
- Development of a sustained social peace inducing practice.

Externally, the following actions will be carried out:

- Development of multimodality projects;
- Ticketing systems evolution;
- Growing train punctuality;
- Social or cultural spaces upgrading;
- Ease reduced mobility Customer access;
- Signalling and information system improvement;
- Promotion of Customers safety conditions and public service quality.

2.8 Assessment of Good Governance Principles

Mission, Objectives and Activity General Principles

Yearly, the company elaborates three documents, among others, which define the mission, targets, and its activity general principles:

- a prospective one, called the Company Plan, where the mission, targets, and activity general principles are defined, together with goals and results to be expected for the three year period, and Predictable Management Indicators;
- a second document concerning the accounts and activity developed during the previous year;
- and a third one concerning Sustainability.

These documents are, after approved by the governmental authority, released both internally and externally in specifically printed brochures, as well as in ML website and Portal.

Management and Auditing Structures

In terms of no. 1 of article 11th of the Metropolitano de Lisboa, E.P. Statutes, approved by Decree-law no. 439/78 of December 30th, jointly with no. 4 of article 27th of Decree-law no. 558/99 of December 17th, the members of the Management Board are appointed and discharged by the Cabinet, by proposal of the Minister for Public Works, Transport and Communications.

Under the no. 2 of the above mentioned article 11th of Metropolitano de Lisboa, E.P. Statutes, one of the proposed and appointed Members is designated by Lisbon Mayor.

The Audit Committee, consisting of a Chairman, a Member representing SROC and a Member representing the Labour Community was appointed by joint order of the Secretary of State for the Treasury and Finance and the Secretary of State for Transport.

Remuneration and Other Rights

ML discloses publicly, under the legislation in force, the total, variable and fixed remunerations earned by each member of the Management Board, the remunerations earned by each of the members of the Audit Committee, as well as all other fringe benefits and privileges, regarding health insurance, the use of company vehicle, and other benefits granted by the company.

Relevant Information Disclosure

Since April 2005, the ML Portal has been online and permanently updated, with the main goal of improving internal communication within the Company, promoting access to information (mostly documental) and to the Company's systems for all of its collaborators.

The Portal is designed to host the contents that build the Company knowledge base, among which the following stand out:

- Corporate and institutional information of the Company;
- Technical information about each of ML bodies;
- Social information;
- Internal and other relevant news concerning ML;
- Documents requiring subscription and/or disclosure functionalities by a large number of Metro employees.

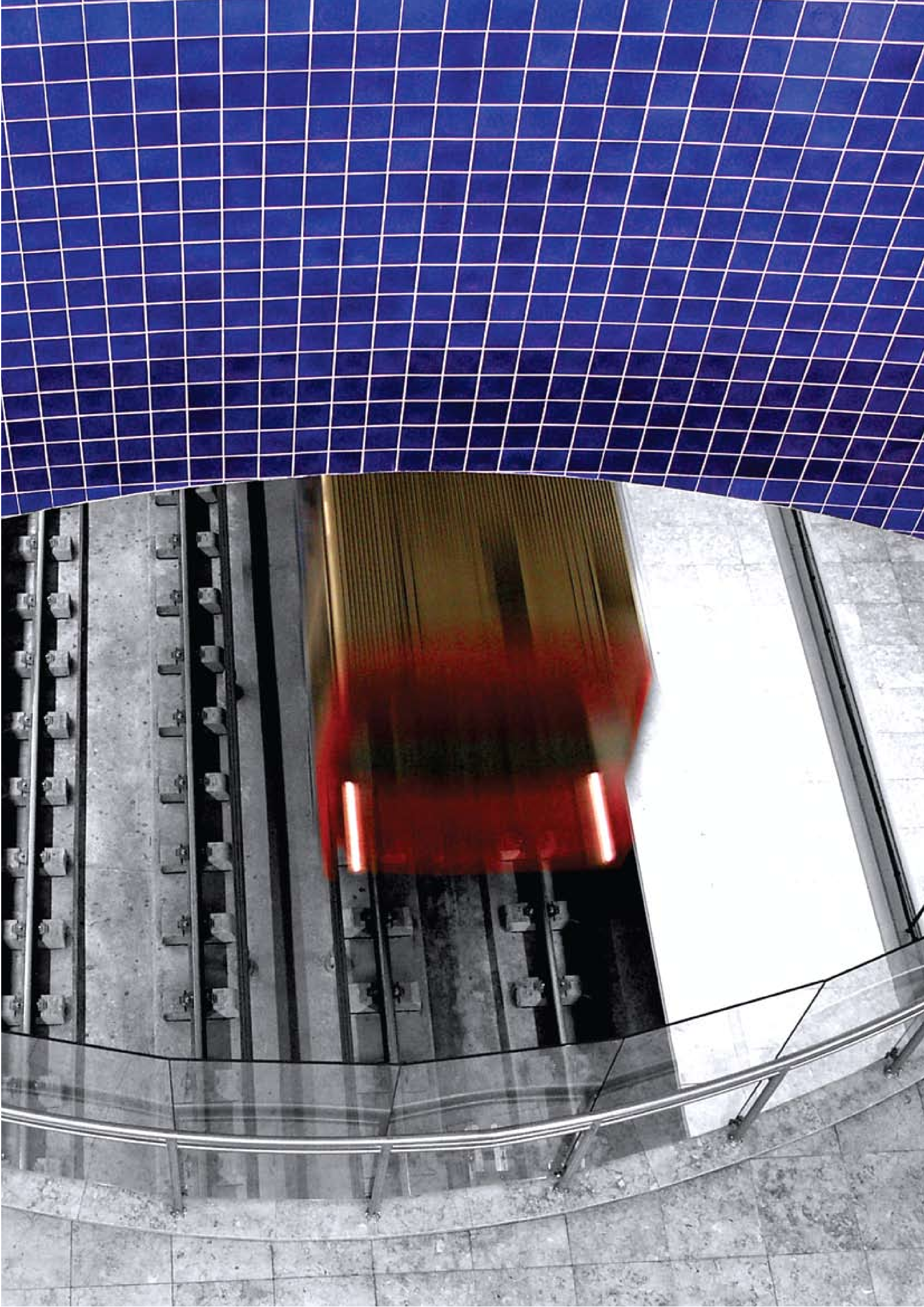
In August 2006, a new version of ML Official Website was released, being the first major restyling of the Site (launched in May 1998), whether relative to available functionalities or to the content production structure and used technology.

2.9 Code of Ethics

On July 1st, 2006, the first "Code of Ethics and Behaviour of Metropolitano de Lisboa, E.P." was released, putting the Company one step ahead in its sector, revealing a pioneer attitude and image, modern and transparent in its values, skills and responsibilities.

The Code of behaviour main goal is to framework the structuring principles and the core values of the Company into a set of ethical and deontological rules, which will impose in the collective conscience as a behaviour model to be observed in daily action.

This document is available for external consultation in the Company website. It was also delivered in paper to each co-worker and disclosed internally in ML Portal.



Report On Annual Trading

3.1 Highlights

The following events occurring in 2006 should be highlighted :

- Since June 9th, full cell phone network coverage on all ML lines, allowing all ML Customers the use of the mobile phone, under any operator, in all ML lines, accesses, atriums, platforms and tunnels.
- Entry into force, on July 1st, of the first "Code of Ethics and Conduct of Metropolitano de Lisboa, E.P.".
- Take up of duties of the new Management Board, on November 3rd, appointed by the Cabinet Resolution no. 101/2006 of November 30th, for a 3 years mandate.
- Climb to 1st position in the "2005 Customers Satisfaction Index" ranking, among a group of other AML public transport operators.

New projects:

- Opening of South and North Atriums in Roma station, respectively in April and October 2006, and of Alvalade station South Atrium in August 2006, under the ongoing project of Green line station remodelling;
- On May 26th, launch of the International Competitive Bidding for the rough works between Oriente station and Aeroporto station, a standby project between November 2006 and February 2007 due to a Decision of Lisbon Administrative and Fiscal Court resulting from a Protective Order lodged by one of the competing consortiums.

Environment:

- In November, the results of the assessment on electromagnetic radiation levels emitted by the different communication systems existing inside ML facilities were produced. This study was carried out by the Institute of Telecommunications and concluded that ML co-workers and customers are safe and not over-exposed to radiation;
- In December, the procedure for Environmental Impact Assessment of Blue line extension Amadora Este/Reboleira was started.

Human Resources:

- 8 half days of strike were registered due to non-agreement between the Union Associations and ML Management Board as to the postponing of the Company Agreements validity.
- The lowest absenteeism rate for the last 6 years (7.72%), reversing the slight increase trend recorded in 2005.

Economy and Finance:

- Reduction of the Net Loss for the year from m€ 162,035 to m€ 146,944, essentially justified by the 10.2% improvement on the Operating Income as well as on the Financial Income (+9.3%).

3.2 Commercial Operations

In an attempt to be a step ahead and proactively provide the proper response to the market demands and the Customer expectations, the Commercial Operations area has focused its activity on the increase of its operational efficiency, by means of a better capacity, quality and reliability of the provided service, always with the required concern on production cost rationalisation.

During 2006, the following events should be pointed out on account of their impact on the deployed commercial policies, namely the offer and demand and consequent revenue:

- Rossio railway tunnel remained closed, compelling to the opening of part of ML network;
- Rock in Rio event;
- As concerns the non-contact ticketing system:
  - Roll out of the 10 unit simple tickets sale on the 7 Colinas card, besides the combined tickets with Carris available in ticket vending machines;
  - And access to the already dematerialised combined passes recharge in the ATM network, such as Carris and Metro own season tickets, as well as the Carris/Metro combined passes.
- Two tariff updates occurred in 2006.

3.2.1 – Trends of Passengers Transported by Metro

Between 2002 and 2006, the number of transported passengers has stabilised. The slight drop recorded in 2006 is justified by the decrease on paying ticket transported passengers, as it was necessary to keep open part of the access channels to provide an alternative service to CP, following the Rossio Tunnel closure.

This situation was kept until February 2007, and forced ML, throughout 2006, to keep open the access channels in three stations of the Blue Line and in the Yellow line, between Campo Grande and Marquês de Pombal. This made possible for the passengers with a CP valid ticket to travel in the Metro free of charge, but also led to an increase in the fraud levels, namely in the Yellow line.

The "passengers x km carried" rate has recorded an identical evolution to the transported passenger rate, since there weren't any changes on the average trip per passenger.

Unit: 10^3

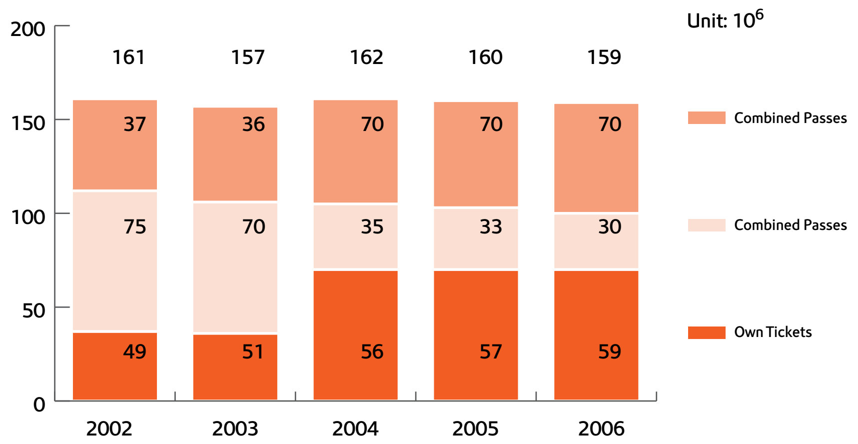
	2002	2003	2004	2005	2006	Chg. % 2006/2005	Chg. % 2006/2002
Own Tickets	48,717	50,863	56,175	57,132	58,528	2.44	20.14
Multimodal Passes	74,996	70,086	35,288	32,589	30,384	-6.76	-59.49
Combined Passes	36,778	35,577	70,123	70,414	69,904	-0.73	90.07
Total Paid Tickets	160,491	156,526	161,586	160,135	158,816	-0.82	-1.04
Fraud and Complementary Tickets	19,861	19,603	18,064	25,309	25,159	-0.59	26.68
Total	180,352	176,128	179,650	185,444	183,975	-0.79	2.01
Average trip per passenger (km)	4.20	4.20	4.46	4.65	4.65	0.00	10.71
Passengers x km carried	757,478	739,739	801,210	862,313	855,484	-0.79	12.94

3.2.2 – Passengers by Type of Ticket Used [1]

The number of transported passengers by the Metropolitano de Lisboa does not show a homogenous distribution throughout the different types of tickets.

In 2006, as shown in the following graph, ML own ticket passenger growth trend observed in the last years was kept against the loss of the Multimodal Passes, generating a positive impact on revenue, given the wide difference in the unit cost of each ticket type.

Trends in the Number of Carried Passengers with Paid Tickets



3.2.3 Trends in Traffic Revenues

Throughout 2006, there were two tariff rises: the first in January, the annual increase, and the second in July, to offset the rising price of oil.

Unit: €

Tickets	2005		2006	
	01-May	1-Nov	1-Jan	1-Jul
Metro Tickets				
Ordinary - 1 zone	0.70	0.70	0.70	0.70
Ordinary - 2 zones	1.00	1.00	1.00	1.00
Urban Return	1.20	1.20	1.30	1.30
Ordinary 10 units - 1 zone	6.15	6.35	6.50	6.65
Ordinary 10 units - 2 zones	9.25	9.60	9.60	9.85
Metro Season Ticket				
30 days Urban	16.00	16.60	17.00	17.45
30 days Network	24.00	24.95	25.50	26.15
Combined Passes with Carris				
Carris/Metro urban - 30 days	24.35	25.30	25.85	26.50
Carris/Metro network - 30 days	26.65	27.70	28.35	29.10
Multimodal Passes				
L1	33.10	34.40	35.20	36.10
L12	39.85	41.40	42.35	43.45
L123	45.30	47.10	48.20	49.45

1 Since 2004, the L season ticket, in its different types, has been called Carris/Metro Urban Pass (L) – 30 days, and ceased being a Multimodal Pass to become a Combined Pass.

Although noticing a 0.82% decline on passengers carrying paid tickets, there was a significant increase in revenue from transport services (+9.2%) as well as a consequent increase in the return per transported passenger (+10.1%).

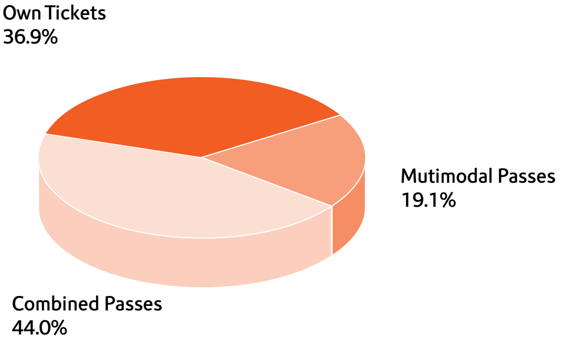
Unit: €

	Passengers			Revenue			Revenue/Passeng.		
	2005	2006	Chg. %	2005	2006	Chg. %	2005	2006	Chg. %
Own tickets	57,131,894	58,528,193	2.44	28,254,416	30,677,313	8.58	0.495	0.524	5.99
Multimodal Passes	32,588,507	30,383,911	-6.76	4,550,578	4,301,449	-5.47	0.140	0.142	1.38
Combined Passes	70,414,357	69,903,852	-0.73	13,059,835	15,104,337	15.65	0.185	0.216	16.50
Total with Tickets	160,134,758	158,815,956	-0.82	45,864,829	50,083,099	9.20	0.286	0.315	10.10

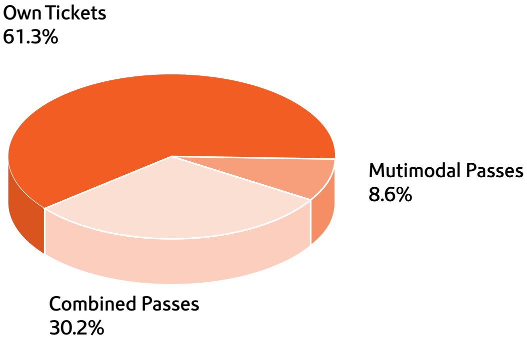
Note: There was a rectification in the partition between no. of Carried Passengers with Multimodal and Combined tickets referring to 2005.

The following graphs restate this, showing that 36.9% of the total passengers using ML own tickets contributed to 61.3% of the revenue.

Percentage Share of Passengers by Ticket Type Used



Revenue Shared by Ticket Type



Despite a slight improvement in Carris combined ticket revenue in 2004, ML's shared revenue access on most combined and multimodal tickets, remains heavily imbalanced and fails to reflect the impact of the increased size of ML network.

After the results from the survey on Season Tickets to be carried out in May 2007, this situation should be confirmed and corrected throughout 2007.

3.2.4 Trends in Supply and Adjustment to Demand

Considering the demand levels recorded and the work stoppages occurred from June onward, there was in 2006 a 1% cut down in the number of supplied carriages x km against 2005.

Supply Trends	2005	2006	Change %
Carriages x km (public service)			
Blue Line	7,771,445	7,752,041	-0.25
Yellow Line	7,588,086	7,576,799	-0.15
Green Line	5,721,062	5,529,770	-3.34
Red Line	2,023,253	2,006,575	-0.82
Total	23,103,845	22,865,186	-1.03
Seats x km (10^3)			
Blue Line	1,313,374	1,310,110	-0.25
Yellow Line	1,282,386	1,280,479	-0.15
Green Line	966,860	934,531	-3.34
Red Line	341,930	339,111	-0.82
Total	3,904,550	3,864,231	-1.03

Operating Efficiency	2005	2006	Change %
Trips (public service)			
Blue Line	131,518	129,324	-1.67
Yellow Line	123,125	123,374	0.20
Green Line	160,704	156,395	-2.68
Red Line	132,744	130,705	-1.54
Network (total)	548,091	539,798	-1.51
Carriages x km Performance Rate (%)			
Blue Line	99.5	98.2	-1.30
Yellow Line	99.6	98.7	-0.95
Green Line	99.3	97.6	-1.75
Red Line	100.4	98.9	-1.47
In the Network	99.5	98.3	-1.24
Trips Performance Rate (%)			
Blue Line	99.5	98.2	-1.32
Yellow Line	99.6	98.7	-0.86
Green Line	99.3	98.2	-1.10
Red Line	99.8	98.9	-0.86
In the Network	99.5	98.5	-1.01

3.2.5 Customer Designed Projects

In 2006, having in mind the market demands and consequent service quality improvement, a range of projects have been developed regarding passengers safety, provided services quality, and customer support. Among these, and besides non-contact ticket system, the following stand out:

- deployment of the video surveillance system in all stations, terminals and emergency exits and centralised in the Central Command Post;
- regular assessment of Customer Satisfaction Index and implementation of the Mystery Customer, thus identifying the improvement priority factors;
- opening of the 2nd Customer Cabinet at Alameda station.

Complementarily, under the National Plan for Accessibility Promotion (PNPA) scope, the ML in cooperation with the National Secretariat for the Rehabilitation and Integration of Disabled People, with REFER (National Net Railway) and with ACAPO (Blind and Disable Association of Portugal) have developed a set of actions aiming at the reduction/removal of the architectonical barriers and the improvement of the accessibilities for people with reduced mobility, as follows:

- definition and experimental installation of signalling and guiding systems for blind and amblyopic people;
- development of prototypes for fixing wheelchairs onto the rolling stock and warning systems for blind people;
- elaboration of architectural studies for adaptation to the PNPA of Colégio Militar/Luz, Baixa-Chiado, Entre Campos and Cidade Universitária stations.

3.2.6 External Relations, Communication and Image

The company is a catalyst of social cohesion and sustained development. In 2006, this social responsibility and the strategic objective to improve existing customer loyalty and attract new customers have driven ML to support and sponsor several events organised by different agents. This support was mostly provided by granting spaces for the events or by advertising them (in the stations or inside the carriages), and also by granting free transportation to specific segments of the customers, such as, for example, athletes taking part in some sponsored event.

Events supported/sponsored by ML in 2006:

- Portuguese Army Recruitment (February and June);
- Lisbon's 16th Marathon (March);
- 2006 Lisbon's Cow-parade (March, May and September);
- 2006 Lisbon's Gold Marathon (April);
- "Fight hunger, walk the World" (May);
- World Anti-Smoking Day – pulmonary tracing (May and November);
- World Children's Day (June);
- 2006 PlayGym (June);
- Fund raising campaign of the Portuguese Association for the Support of Women Affected by Breast Cancer (June);
- "Lisboa Bike Tour" (September);
- Chapitô Exhibition "25 anos, 25 fotos, 25 estações" (November 06th – January 07th);
- Disabled People Sports Federation (December).

Organisation and follow up of events

Additionally, ML has organised a series of events, sometimes in partnership with other AML public transport operators, to reinforce inter-modality and encourage the use of public transport, such as:

- in April, public presentation at Carnide station, of a guiding prototype for visually handicapped people, which consisted on a routing system from the access channels to the boarding areas;
- on May 16th, public presentation of improvements achieved in ML Central Command Post (PCC), for centralised control safety and operation of trains circulation, and video surveillance all over the network;
- and on November 9th and 21st, respectively, at ML Auditorium in Alto dos Moinhos station, the presentation of the Government project for Transport Metropolitan Authorities, and the public presentation of the new website TRANSPORLIS – Multimodal Information System for Lisbon Metropolitan Area (AML).

In 2006, stations were also spurred by activities such as hosting of visits from teaching, social and cultural institutions and other cultural programs.

International Relations

In 2006, regarding promotion and coordination of International Relations, ML took part in numerous meetings, within the scope of UITP, ALAMYS, Grupo Nova, and ModURBAN as well as in Seminars, Conferences and Congresses, among which the following stand out:

UITP – International Union of Public Transport:

- integration of the Management Board Chairman into UITP Management Board, representing Portugal;
- appointment of ML Mr. Silva Neves for the new UITP Safety Commission;
- in Lisbon, in February, hosting of the meeting of the Sub-Committee Task Force on Rolling Stock;
- in September, in Lisbon, hosting of the Marketing and Product Development Commissions and of the Human Resources Commission;
- in October, in Funchal, joint-hosting of the European Union Committee together with the local operator, "Horários do Funchal" .

As part of ALAMYS – Latin-American Metro Association: confirmation of ML as 2nd Member of the Management Committee during the Assembly held in November, in Buenos Aires, where the Chairman of ML Management Board represented Portugal.

In Nova and ModURBAN international projects, ML has had an active participation, fulfilling the forecasted programs, and attending the scheduled meetings.

We point out the adoption by Grupo Nova of the new Logo proposed by ML, whose author was Mr. Filipe Trigo.

In 2006, ML continued its traditional policy of hosting foreigner delegations, among which stand out the Tunisian Transport Minister visit, the London and Algier Metro Technical Delegations, the Budapest and Copenhagen Transport Delegations and the Delegations of the Birmingham and Connecticut Universities.

3.3 – Infrastructure and Rolling Stock Management

In 2006, in order to ensure the network and the rolling stock operation, as well as the fulfilment of all the necessary functionality and availability levels, within high quality standards, several preventive and corrective maintenance actions where carried out, regarding infrastructures, equipments and rolling stock.

3.3.1 Infrastructure and Equipment Management

When compared to 2005, there was in 2006 an increase of 9.3% on the global rate for programmed maintenance accomplishment, involving an increase in productivity, as well as a 10% reduction of the total number of operation fail events (from 100 events in 2005 to 90 in 2006).

Programmed maintenance	No. of accomplished actions			Performance level (%)			Change
	2004	2005	2006	2004	2005	2006	2006/2005
Energy	925	693	938	69.7	48.6	51.9	6.8%
Electromechanical installations	3,594	3,948	4,041	91.0	107.5	87.9	-18.2%
Signalling	11,134	8,263	9,709	95.0	70.4	81.7	16.1%
Telecommunications	718	1,656	1,015	71.1	137.5	73.4	-46.6%
Track	134,866	150,349	195,053	65.1	67.9	74.8	10.2
Average performance rate				78.4	68.8	75.2	9,3%

In terms of Engineering and Development, as regards third party activities susceptible to affect ML infrastructures, Metro has followed up the construction/planning of three important ongoing projects: the road Tunnel at Marquês de Pombal, the High Speed project in Vale de Chelas, and the project and works for the restructuring of ML Equipment and Workshops I in Sete Rios.

As concerns constructions and track, an acoustic treatment study was carried out in Campo Grande viaduct as well as the scheduled program for tunnel and viaduct inspections.

3.3.2 Rolling Stock

In terms of Rolling Stock, 2006 was a year of recovery of delays on the outlined Maintenance Plan, and of accomplishment of the Annual Plan of Internal Quality Audits.

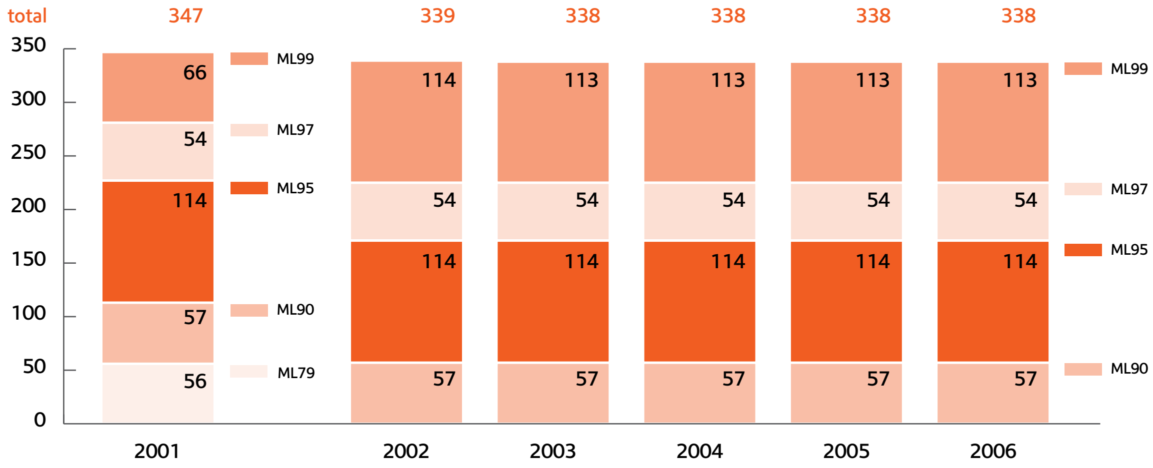
In 2006, and considering the accomplished development, stand out:

- the "Reliability Centred Maintenance/Root Cause Failure Analysis (RCM/RCFA)" project, a fundamental tool for the promotion of the necessary cultural change for the constant procedure improvement, as well as for the update of the Rolling Stock Fleet Maintenance Plan;
- the elaboration of the Maintenance Engineering procedure, identifying Improvement Actions and Technical Audits, as well as the reviewing of the procedures, with the inclusion of the "Sub-standard Product" concept.

Rolling Stock Performance

In line with the stability of the Rolling Stock in the last years, the new maintenance methodology led to achieving, in 2006, the consolidation of the Fleet Availability Rate in levels close to the maximum accomplished in 2005, about 93%.

Trends in Rolling Stock



In terms of reliability, a slight drop in the average kilometric between breakdowns (MKBF)[2] was recorded in 2006, resulting from fleet ageing.

Indicator	2004	2005	Change 2004/2005	2006	Change 2005/2006
Rolling Stock Availability (%)	85.4	92.9	8.8	92.8	-0.1
MKBF	14,533	12,644	-13.0%	12,270	-3.0%

3.3.3 Energy Consumption

The energy consumption global balance has been positive when compared to 2005, as a result of the slight drop on consumption under Complementary and Support Services, since Traction and other consumptions are levelled.

Specific consumptions, namely traction energy, maintain fairly optimised values as consequence of the good energy performance of the rolling stock fleet.

Unit: thousand kWh

Energy Consumption	2005	2006	Chg. %
Traction	47,524	47,604	0.17
Complementary and Support Services	43,904	42,868	-2.36
Other Consumptions	7,324	7,432	1.47
Total	98,751	97,903	-0.86

Energy Consumption Indicators	2005	2006	Chg. %
Traction/Seat x km	0.012	0.012	1.21
Traction/Passenger x km	0.055	0.056	0.97
Total/Seat x km	0.025	0.025	0.18
Total/Passenger x km	0.115	0.114	-0.07

2 The average kilometre between breakdown value was calculated based on the breakdowns occurred while in operation.

3.4 Network Expansion

With the accomplishment of the Network Expansion Plan presently under way, as well as the new undertakings about to launch (Blue line extension between Amadora Este and Reboleira and Red line extension between S. Sebastião and Campolide), 9 new stations and 9.6 km more are expected to be added to the network until 2011, distributed as follows:

Lines	Present Stations No.	Present Network km	Extensions	In progress Stations no.	In progress Network km	Opening date	Future Stations no.	Future Network km
Yellow	13	11.0	–	–	–		13	11.0
Blue	15	10.7	Baixa-Chiado/Sta. Apolónia Amadora Este/Reboleira	2 1	2.2 1.0	2007 2010	18	13.3
Green	13	8.9	–	–	–	–	13	8.9
Red	7	5.0	Alameda II/S. Sebastião II S. Sebastião II/Campolide Oriente/Aeroporto	2 1 3	1.8 1.0 3.6	2009 2011 2010	13	11.4
Network	48	35.6		9	9.6		57	45.2

Additionally, though with no direct impact on the network area, but relevant to the improvement of its operation conditions and to the consolidation of the Multimodal System of Public Transports in Lisbon Metropolitan Area, the following should be highlighted:

- remodelling extension of Areeiro, Arroios, Anjos and Intendente stations in the Green line, following the actions in Roma and Alvalade stations, almost concluded;
- and the conclusion of Cais do Sodré and Terreiro do Paço Interfaces, to be executed by ML on behalf of third party agents – Transtejo, S.A. and Refer, E.P..

3.4.1 Works in Progress

Blue line

Baixa-Chiado/Sta. Apolónia Extension

- During 2006, strengthening works of the tunnel between Poço da Marinha and Terreiro do Paço station were accomplished, only the section connecting to Poço da Marinha is to be accomplished.
- Low voltage electricity and tunnel pumping works, as well as track installation between Sta. Apolónia and Terreiro do Paço stations are now mostly concluded.
- Finishing and low voltage electricity works were concluded in Sta. Apolónia station on August 25th, and on December 7th the temporary accomplishment of the same works was declared for Terreiro do Paço station.
- Escalator and lift installations have started.
- By the end of 2006, biddings were received for the undertaking of soil treatment around the tunnel. The contract was signed in March 2007.
- As soon as this undertaking is in operation, scheduled for December 2007, Cais das Colunas shall be reconstructed and the embankment over the tunnel shall be removed.

Terreiro do Paço Interface

- In order to reduce risks and costs, during 2006, the project for the wave attenuation system has been modified.
- After obtaining IPPAR[3] opinion on the Interface building project, this was concluded and then submitted to LNEC[4] for assessment.
- The project for exterior fitting out was also accomplished in 2006, observing IPPAR opinions.

3 Portuguese Institute of Architectural Heritage.
4 National Civil Engineering Laboratory.

Green Line

Remodelling of Six Stations

- Development of rough works (2nd phase), finishing and speciality works in Alvalade station, and opening of South Atrium in August 2006.
- Opening of Roma station South atrium in April 2006 and North atrium in October 2006.
- As for the remaining stations (Areeiro, Intendente, Arroios and Anjos), project development is being carried out – finishing, low voltage electricity, telecommunication and specialty works. Additionally, some structure projects are being reviewed.
- In May, LNEC issued a positive opinion on the construction method for Arroios station. CML (Lisbon Local Authority) opinion about traffic diversion project is still on hold.

Cais do Sodré Interface

- In October 2006, completion of the rough works for CP/REFER central core building and, during January 2007, the undertaking for the finishing of this building is handed over.
- The contract for fitting out is to be awarded in May 2007.

Red Line

Alameda II/ S. Sebastião II Extension

- In March 2006, the tunnelling mole was retrieved by the eastern well of S. Sebastião station, at the junction Av. Duque de Ávila / Av. Sá da Bandeira, after having concluded 1,480 meters of tunnel in October 2005.
- During 2006, regarding the 1st phase of traffic deviations in S. Sebastião I zone, ML submitted a request for approval to CML (Lisbon Local Authority). Approval was obtained in February 2007, allowing the start up of infrastructure shifting works in order to clear the area for completion of the new accesses to the existing station.
- In terms of the new S. Sebastião II and Saldanha II stations, the building works are making progress and the concrete slab roofing is about to be concluded in Saldanha II.
- In August 2006, the 2nd phase of the traffic deviations in Saldanha I station was concluded, making their way to the support and excavation works for the partial demolition and rebuilt of the existing station.

Oriente/Aeroporto Extension

- On May 26th, the International Public Tender for the rough works between Oriente and Aeroporto stations was released, and on August 17th bidding disclosure Public Act took place.
- Subsequently, by decision of the Administrative and Fiscal Court of Lisbon, the contract awarding process for the above mentioned bidding was suspended, following the protective order lodged by one of the competing consortiums, which led to the postponing the signature of the contract with AEROMETRO, A.C.E. to February 2007.
- In terms of the Environmental Impact Assessment procedure, the post-assessment phase for this extension was started in 2006, following the release of the respective 2005 Environmental Impact Declaration, approving the execution of this project, provided that some mitigating measures are adopted and some adjustments are introduced in the project.

3.4.2 Extensions under Study

Blue Line

Amadora Este/Reboleira Extension

- Having set the 1st semester of 2007 as the time to launch the International Public Tender for the design/construction of the rough works for this extension, the procurement study was concluded in May 2006, including social and environmental benefits, and the Environmental Impact Study was concluded in October, turning possible the Environmental Impact Assessment procedure start in 2006.

Red Line

S. Sebastião II/Campolide Extension

- Tunnel and station preliminary architectural studies as well as the Environmental Impact Assessment were accomplished, making way for the rough works public tender during the 2nd semester of 2007.

Yellow Line

Rato/Estrela and Estrela/Alcântara

- The procurement study for Rato/Estrela and Rato/Alcântara extensions was concluded in March 2006.
- The final layout and the planning of this undertaking are dependent on the definition of a solution for Alcântara Interface.

3.5 Investment

Having in mind the accomplishment of ongoing Expansion Plan as well as the needs for current investment and equipment, ML has invested in 2006, under technical costs, m€ 54,216, 92% of which were in Durable Infrastructure Investment (m€ 49,756) and 8% in ML investment (m€ 4,459).

Among the DIF´s[5] , the execution of the following projects in progress stand out: Baixa-Chiado/Sta. Apolónia, Alameda/S. Sebastião, Oriente/Aeroporto and remodelling of the Green line stations (Roma and Alvalade) as well as the already concluded projects of Campo Grande/Odivelas and Pontinha/Amadora Este, both on the stage of account closing.

Unit: €

	Gross Fixed Capital Formation (GFCF)	Investment /Technical Costs	Investment Expenses
A - ILD's	47,185,704	49,756,049	58,335,309
In progress	29,859,685	29,859,685	37,773,544
Cais do Sodré Interface	86,407	86,407	337,559
Baixa-Chiado / Sta. Apolónia Extension	14,676,182	14,676,182	19,416,079
Alameda / S. Sebastião Extension	12,766,049	12,766,049	15,586,429
Oriente / Aeroporto Extension	2,331,047	2,331,047	2,433,477
New	738,139	738,139	762,059
Rato / Alcântara Extension	645,729	645,729	668,215
S. Sebastião / Campolide Extension	14,548	14,548	14,687
Amadora Este / Reboleira Extension	77,862	77,862	79,157
Other	16,587,880	16,805,586	17,447,067
Campo Grande / Odivelas Extension	3,752,206	3,752,206	3,752,206
Pontinha / Amadora Este Extension	3,687,075	3,687,075	3,687,075
Blue Line Azul remodelling	549,183	549,183	549,954
Yellow Line remodelling	6,794	6,794	6,794
Green Line remodelling	7,718,798	7,718,798	8,287,524
Red Line remodelling	0	0	0
Network - Other remodellings	237,381	237,381	261,304
Projects and studies	0	217,706	248,133
ATP/ATO	619,474	619,474	623,367
Light Metropolitan Railway	16,969	16,969	30,710
Self Investment	0	2,352,639	2,352,639
B - ML	4,072,148	4,459,491	4,628,957
Equipment and Workshops	104,249	104,249	105,944
Rolling Stock	360,269	360,269	360,269
Equipment and other	2,193,584	2,193,584	2,237,159
Current investments	1,414,046	1,680,893	1,805,089
Self Investment	0	120,496	120,496
Total investment	51,257,852	54,215,540	62,964,266

5 Durable Infrastructures Investment.

Unit: €

Investments	2005	2006	Chg. %
Investments / GFCF	98,660,732	51,257,852	-48.05
Investment / Technical Costs	104,855,964	54,215,540	-48.30
Investment Expenses (including financial costs)	115,774,054	62,964,266	-45.61

In line with previous year practice, in 2006, ML allocated financing charges related to the item Fixed Assets in Progress. During the year under review, the Company capitalised m€ 8,749 increasing total investment expenditure to m€ 62,964.

In terms of financing, there is the allocation of Community funds, in the last years – Cohesion Fund to Baixa-Chiado/ Sta. Apolónia, Alameda II/S. Sebastião II projects and, more recently, to Oriente/Aeroporto project, up to the maxima limits of, respectively, € 107,425,890, € 98,019,684 and € 148,935,960, statutory capital contributions – PIDDAC (Government Investment Subsidies) Cap. 50 (cf. Page 42).

3.6 Resource Management

3.6.1 – Human Resources

The Human Resource Management strategy pursued in 2006 involved a stricter social responsibilities and behaviour ethics, based on the adjustment of the existing professional competences to the requirements of the current development cycle of the Company.

In 2006, the main action areas were staff number contention, investment in training, analysis and promotion of new work organisation methods, and the consequent productivity level increase.

Cost of Labour Factor [6]

Labour force rationalisation and reorganisation enabled workforce restraint and improved productivity.

The trend in labour costs booked and stated from 2003 reflects more than the trend of staff costs to the company. In fact, cost of labour factor increased nominally by 1.5% against 2005 and as a factor of operating costs it rose from 44.4% to 44.2%, while as a function of total overall corporate expenditure cost it fell from 26.3% to 27.9%.

The raise of 4 in average staff number contributed to the moderate growth of these costs. The annual average cost member of staff rose from m€ 38 to m€ 39 (+1.3%).

		2003	2004	2005	2006	Chg. 2006/ 2005
Cost of labour factor	(€ 10^3)	62,441	63,457	65,366	66,363	1.5%
Cost of labour factor / Operating costs	(%)	44.8%	43.6%	44.4%	44.2%	-0.5%
Cost of labour factor / Total costs	(%)	25.4%	26.6%	26.3%	27.9%	1.6%
Cost of labour factor / Average staff	(€ 10^3)	35.458	36.958	38.496	38.991	1.3%

Note: In 2005, the cost of labour factor was rectified.

6 On the evolution of this factor and on the operational costs displayed on the table, the costs concerning the supplementary retirement benefits, pre-retirements, retirement incentives, pension fund and actuarial study were not accounted.

In 2006, in terms of the Collective Bargaining contract, it was not possible to reach an agreement with Union Associations about wages update, and consequently a managerial wage increase was made, which consisted of a unique value for the whole staff.

The disagreement with the Union Associations fell on the period of validity of the two Company Agreements (AE's), as the Union Associations intended to postpone the present date of validity, whereas the Company's intention is to globally review the Company Agreement, in order to adapt it to the present management cycle.

As the settlement requested by the Union Associations to the AE I was off, the conflict was maintained and justified 8 half days of strike called by AE I Union Associations.

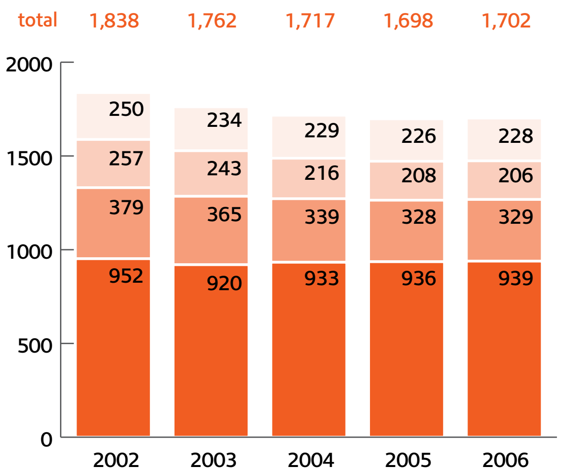
By the end of December 2006, it was possible to begin negotiations with the AE I Union Associations to review the Company Agreement I.

Staff

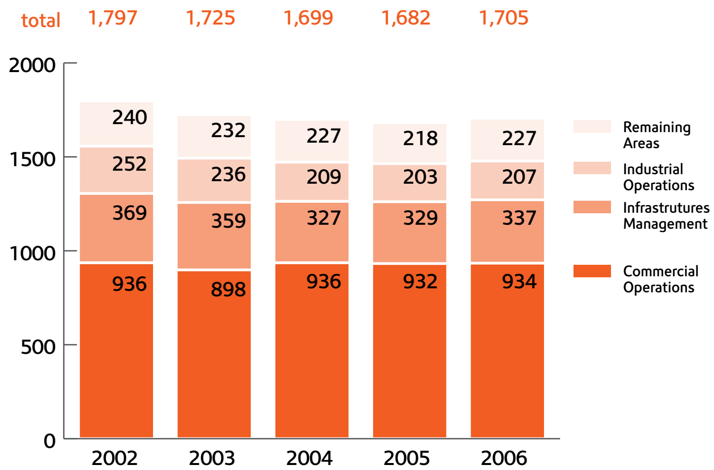
In 2006 recorded 64 new entries and 41 exits of staff, 23 of which left for pre-retirement. Therefore average staff increased only by 4 units.

These changes allowed carrying on the process of staff rank rejuvenation and the consolidation of the productivity improvements recorded during the last four years, when, despite the increase in network size, the cut back of 136 staff members was possible.

Average Staff



Staff on December 31st [7]



Retirement and Social Responsibility

The historical social responsibilities arising from the Company Agreements, namely the payment by the Company of the supplementary contributions for retirement and survival pensions, now represent a significant and upsetting liability cost, nevertheless the changes introduced in 2004.

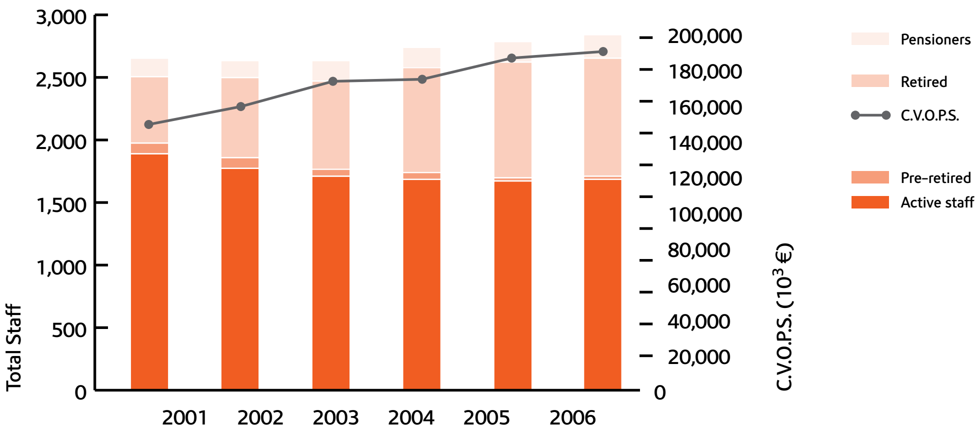
By the end of 2006, Metropolitano de Lisboa comprised a total of 2,884 staff members (1.5% more than in 2005), 1,705 active and 1,179 inactive, of which 26 were on a pre-retirement situation, 967 on retirement (71 due to disability, 418 old-age and 478 early retirement) and 186 pensioners.

7 Of the 1,705 members of staff working for ML on December 31st, 2006, 3% were on a part-time basis.

With the suspension of early retirement scheme, it was possible to slow down the degradation of the active/inactive ratio, which changed 2.65 in 2000 to 1.45 in 2006, whereas the number of retired people only increased by 1.8% (17), a lot less than in 2005 (84 new retired).

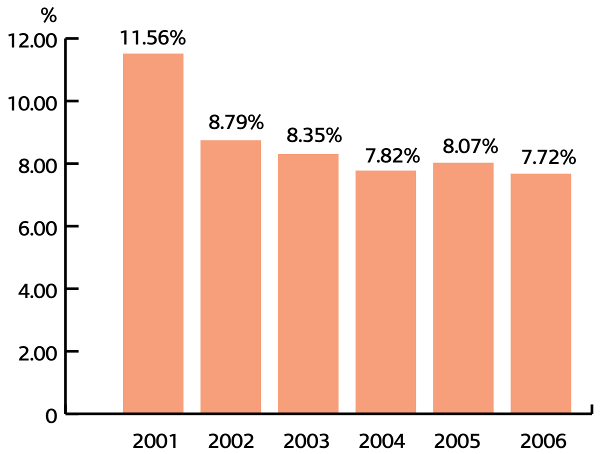
The Current Value of Obligations for Past Services (C.V.O.P.S.) had risen, by the end of 2006, to m€ 183,336, reflecting an increase of 2.1% when compared to the previous year (m€ 179,527). Consequently, the C.V.O.P.S. per capita for total staff rose to m€ 63.6, whereas in 2005 it was m€ 63.2.

		2004	2005	2006	Chg. 2006/2005 Abs. Value	%
Staff Total	Personne	2,782	2,841	2,884	43	1.5%
Inactive	Personne	1,083	1,159	1,179	20	1.7%
Pre-retired	Personne	48	35	26	-9	-25.7%
Retired	Personne	866	950	967	17	1.8%
Pensioners	Personne	169	174	186	12	6.9%



Absenteeism

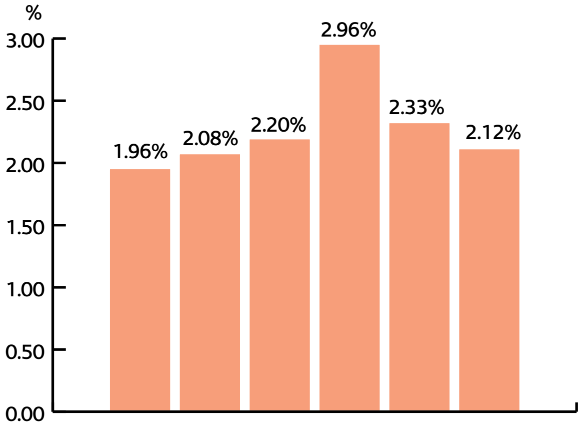
In 2006 absenteeism rates attained the lowest value of the last years (7.72%), maintaining the decreasing trend recorded since 2000, and only slightly reversed in 2005.



Overtime

In 2006, with the slow down of expansion dynamics (opening of new stations) and staging of major events in Lisbon, there was a new decline in overtime work rate, levelling by the end of 2006 at 2.12%.

This rate corresponds to 60,881 registered hours of overtime work, i.e., less 9.4% than in 2005 (67,178 hours). It is the equivalent to an overtime work rate of 35.8 hours by staff member, against 39.6 hours in 2005.



Training

The training volume in 2006 maintains the average level of previous years (except for 2004, due to Euro 2004 and Rock in Rio events). The following actions should be referred to:

- training for quality;
- rolling stock training (electro-mechanical);
- training for function swapping (Traffic Agent, Train Drivers, Line Operator, Traffic Operator, Traffic Inspector);
- video surveillance;
- information technology training.

	2004	2005	2006	Chg. % 2006/2005	Chg. % 2006/2004
Training activities	520	272	287	5.5%	-44.8%
Participants	3,034	1,302	1,320	1.4%	-56.5%
Hours	57,571	20,903	23,297	11.5%	-59.5%
Cost (€ 10^3)	488	229	342	49.3%	-29.9%
Hours / Average Staff	33.5	12.3	13.7	11.4%	-59.1%

3.6.2 ICT Systems

In terms of ICT Systems, in line with ongoing permanent preventive and corrective maintenance of existing systems, a set of important projects has been concluded, focused not only on a greater improvement of business processes, but also increasing data reliability and reducing administrative work.

Highlights on "BackOffice" information systems maintenance/evolution include:

- migration of base platforms (operating system and database) of the SAP R/3, SAP BW, and Teleponto systems, essential for the update process of the SAP technology based systems.
- conclusion of SAP R/3 and SAP BW systems upgrade will allow ML, in the short/medium-term, to implement new functionalities, thus adding value to the mentioned processes.
- start of the "Technological Recovery Plan", focused on maintaining operational, under disaster situations (vandalism actions, fire, flooding, etc.), the critical key information systems, according to the company assessment.

Highlights in rolling out information access:

- development of the "Corporative Portal" project, turning available additional functionalities and widening of its access, through ML stations, to broader staff numbers.
- conclusion, in August, of "ML institutional website remodelling" project focused on the decentralization of content management, as well as its technological update and refreshing of ML institutional website global image.

3.7 Economy and Finance

The Financial Statements for 2006 reflect a net loss for the year of m€ 146,944, about 9.3% lower than the previous year, which is equivalent to less m€ 15,091.

This variation is essentially explained by the improvement in 10.2% (the equivalent to m€ 8,773) of the Operating Income, which recorded a negative value of m€ 77,482 and also to the improvement in 9.3% of the Financial Income (equivalent to m€ 7,020), reaching a negative figure of m€ 68,252.

Unit: €

	2005	%	2006	%	Chg. % 2006/2005
Costs for the Year					
Operating Costs	171,033,657	68.8%	166,616,575	70.1%	-2.6%
Cost of Goods Sold and Materials Consumed	1,440,767	0.6%	2,276,644	1.0%	58.0%
Supplies and external services	28,282,897	11.4%	30,466,439	12.8%	7.7%
S.E.S. - Operational leasing	11,526,278	4.6%	12,541,660	5.3%	8.8%
Staff Costs	75,058,726	30.2%	76,558,886	32.2%	2.0%
Pension plan	14,125,219	5.7%	6,137,287	2.6%	-56.6%
Depreciation	39,369,264	15.8%	38,204,819	16.1%	-3.0%
Provisions	103,966	0.0%	0	0.0%	-100.0%
Taxes	832,154	0.3%	242,431	0.1%	-70.9%
Other costs and losses	294,385	0.1%	188,409	0.1%	-36.0%
Financial costs and losses	**76,367,709**	**30.7%**	**69,495,735**	**29.2%**	**-9.0%**
Exceptional costs and losses	**1,291,415**	**0.5%**	**1,715,583**	**0.7%**	**32.8%**
Total Costs for the Year	248,692,781	100.0%	237,827,893	100.0%	-4.4%
Revenue for the Year					
Operating revenue	**84,778,828**	**97.8%**	**89,134,612**	**98.0%**	**5.1%**
Sales + services rendered	51,284,149	59.2%	56,290,079	61.9%	9.8%
- Tickets and Passes	45,945,622	53.0%	50,231,260	55.2%	9.3%
- Other	5,338,527	6.2%	6,058,819	6.7%	13.5%
Own work capitalised	4,631,041	5.3%	2,781,777	3.1%	-39.9%
Supplementary revenue	1,180,306	1.4%	902,763	1.0%	-23.5%
Operating subsidies	20,346,129	23.5%	21,641,174	23.8%	6.4%
Other Revenue and Profits	7,287,203	8.4%	7,281,479	8.0%	-0.1%
Reversals of Adjustments	50,000	0.1%	237,340	0.3%	374.7%
Financial revenue and profits	**1,095,988**	**1.3%**	**1,243,637**	**1.4%**	**13.5%**
Exceptional revenue and profits	**816,439**	**0.9%**	**538,356**	**0.6%**	**-34.1%**
Total Revenue for the Year	86,691,254	100.0%	90,916,605	100.0%	4.9%
Income tax	33,423		32,391		-3.1%
Net Profit/Loss for the Year	-162,034,950		-146,943,679		9.3%
Operating income	-86,254,829		-77,481,963		10.2%
Operating revenue / Operating costs	49.6%		53.50%		7.9%
Financial income	-75,271,722		-68,252,099		9.3%
Exceptional earnings	-474,976		-1,177,226		-147.8%
Revenue / Costs	34.9%		38.2%		9.7%
EBITDA including subsidies	-46,781,598		-39,277,143		16.0%
Cash In-Cash Out	-40,418,524		-40,642,712		-0.6%

The Total Costs incurred was m€ 237,828 and the Total Revenue obtained was some m€ 90,917.

The following have contributed to this positive evolution of Operating Income:

- decrease in 2.6% of the "Operating Costs" (less m€ 4,417);
- increase in 5.1% of the "Operating Revenue" (more m€ 4,356).

Exception for "Cost of Goods Sold and Materials Consumed" and "Supplies and External Services" which have increased significantly when compared to the previous year, respectively 58% and 7.7%. The former for reasons related with the purchase of raw material for ticket production (cardboard), the latter for issues regarding not only the awarding of outsourcing contracts but also the increase of rents relative to rolling stock leasing contracts due to interest rate increase.

Not to forget the important call to exceptional alternative transport services so that the Company can face the social responsibilities which impose a minimum service level, which in the year under review totalised m€ 766.

Other Operating Cost items registered significant decreases.

"Staff Costs", "Depreciation of Tangible and Intangible Assets", "Provisions", "Taxes", and "Other Costs and Losses" have decreased in nominal terms, respectively, 7.3%, 3%, 100%, 70.9% and 36%.

For comparative purposes in terms of "Staff Costs", after deducting amounts regarding pension plan commitments, the increase was just 2%, corresponding to a total wage bill increase of only 1.2% and a per capita increase of 1.6%, for an average staff growth of 0.24%.

According to an actuarial study reported to the position as at December 31st, the increase on current value of Obligations for Past Services was m€ 6,137, a reduction of 56.6% against 2005, explaining, per se, the already mentioned performance of these cost items.

"Financial Costs", totalising m€ 69,496, and representing 29% of "Total Costs", were significantly down (some 9%, equivalent to m€ 6,872), although Remunerated Liabilities increased 6.2%, equivalent to m€ 174,535.

This decrease is obtained in an unfriendly environment of clear interest rate increase and is due to an interest rate hedging policy deployed during the last 3 years and specially strengthened during the year under review.

The "Operating Revenue and Profits" increased 5.1% to m€ 89,135.

The following revenue by nature contributed to this trend:

- The 9.8% increase in "Sales and Services Rendered", more than three times the inflation, was due to the 9.3% rise in revenue from "tickets" and "Passes", and also to the significant contribution from concession contracts for advertising and commercial areas, and also to the revenues generated from ML network coverage contract for electronic communications service;
- The 6.4% increase of the "Operating Subsidies", exclusively related to the amount of the operational subsidy awarded to the Company;
- On the other hand, the "Own Work Capitalised" has recorded a drop of 39.9% exclusively due to issues intrinsically related to the ongoing investment expansion stage regarding the network. In 2006, investment on network expansion was significantly lower than in previous years;
- "Supplementary Income" has undergone a decline of 23.5%, which is of little relevance when compared with the total amounts concerned.

“Financial Revenue and Profits” and “Exceptional Revenue and Profits” recorded opposite evolution, respectively 13.5% increase and 34.1% decrease, which is of little relevance when compared with the total amounts concerned.

In conclusion, “Revenues” financed 38.2% of “Costs” (9.7% more than in 2005), and “Operational Revenues” covered about 53.5% of “Operational Costs” (7.9% more than in the previous year).

Finally, EBITDA improved some 16%, as a result of the economic impact of the pension responsibilities, although Cash In – Cash Out has stabilized, no changes occurred.

Income Statement by Activity

In the year 2006, internal service supply value per unit was generally unchanged, except for the Usage Rate:

- Usage Rate: € 0.45 x (carriage x km)
- Station Management Rate: € 0.06 x (passenger)
- Maintenance Rate: € 0.52 x (carriage x km)

For the use of Equipment and Workshops, a rent in terms of occupation (m^2) amounting to m€ 6.766 was established.

As concerns Corporative Service (ODDCG – Bodies Directly Dependent on the Management Board), operating income, excluding the cost regarding supplementary Retirement and Survival Pensions (Pension Plan), 83% were shared among the various activity areas, as follows:

- 19% for Industrial Operations;
- 48% for Commercial Operations;
- 33% for Infrastructure Management.

“Other Financial Costs” item was shared on a cash in – cash out basis.

Income Statement by Activity

Unit: €

	Industrial Operations	Commercial operations	Infrastructure Management	Bodies Directly Dependent on the Management Board	Total
Operating Revenue					
Sales and services rendered	22	52,617,549	3,596,493	76,016	56,290,079
Own work capitalised	323,499	423	1,860,342	597,514	2,781,777
Supplementary revenue	121,289	227,500	268,931	285,043	902,763
Operating subsidies	0	21,641,174	0	0	21,641,174
Other Revenue and Profits	2,824	5,615,524	1,663,130	0	7,281,479
Reversal of adjustments	–	–	–	237,340	237,340
Total Operating Revenue	447,634	80,102,170	7,388,896	1,195,913	89,134,612
Operating Costs					
Cost of Goods Sold and Materials Consumed	759,560	1,282,410	228,209	6,466	2,276,644
Supplies and external services	1,544,146	9,269,283	13,661,771	5,991,239	30,466,439
S.E.S. – leasing	–	12,541,660	–	–	12,541,660
Staff Costs	7,639,563	33,202,701	13,707,253	22,009,369	76,558,886
Pension fund	1,057,611	2,353,396	3,258,902	-532,622	6,137,287
Depreciation	1,242,370	13,186,798	21,238,621	2,537,029	38,204,819
Provisions	–	–	–	–	–
Taxes	428	345	170,839	70,819	242,431
Other costs and losses	1,173	7,875	1,456	177,904	188,409
Total Operating Costs	12,244,851	71,844,468	52,267,050	30,260,205	166,616,575
Operating Income	-11,797,217	8,257,701	-44,878,155	-29,064,292	-77,481,963
Usage rate	–	-10,355,507	10,355,507	–	–
Station management rate	–	-11,227,912	11,227,912	–	–
Maintenance rate	12,230,743	-12,230,743	–	–	–
Rents	-3,080,087	-1,982,709	6,766,041	-1,703,245	–
Traction energy	–	-3,027,692	3,027,692	–	–
Lighting and motor power energy	–	-2,307,211	2,307,211	–	–
Corporate service rate[8]	-5,007,647	-12,519,117	-8,450,404	25,977,168	–
Total internal services	4,143,009	-53,650,891	25,233,959	24,273,923	–
Operating Income with Services	-7,654,207	-45,393,190	-19,644,196	-4,790,369	-77,481,963
Financial revenue	–	515,000	350,179	378,457	1,243,637
Financial costs with DIF's	–	–	38,393,883	–	38,393,883
Financial costs with rolling stock	–	4,884,641	–	–	4,884,641
Direct financial expenses	1,490,540	9,542,625	8,746,718	6,437,328	26,217,211
Assigned financial expenses	–	–	–	–	–
Financial Income	-1,490,540	-13,912,266	-46,790,422	-6,058,870	-68,252,098
Net Operating Income	-9,144,747	-59,305,456	-66,434,618	-10,849,239	-145,734,061
Exceptional revenue and profits	691	107,330	32,035	398,300	538,356
Exceptional costs and losses	5,967	9,633	7,387	1,692,596	1,715,583
Exceptional earnings	-5,276	97,697	24,648	-1,294,295	-1,177,227
Income tax				32,391	32,391
Net Profit/loss for the year	-9,150,023	-59,207,759	-66,409,970	-12,175,925	-146,943,679

8 Excluding Pension Fund.

State Financial Contribution reached the global amount of m€ 26,948, 44.3% less than the previous year.

Unit: €

State Financial Contribution	2005	2006	Chg. % 2006/2005
Operational subsidy	20,346,129	21,641,174	6.4%
PIDDAC – Government investment subsidies	28,033,259	5,306,725	-81.1%
Total	48,379,387	26,947,899	-44.3%

There was a 6.4% increase in "Operational Subsidy" and an 81% drop in "PIDDAC".

Sinking fund investment from the European Community amounted to only m€ 9,025, recording a drop of 68.5%.

Unit: €

European Community Funding	2005	2006	Chg. % 2006/2005
ERDF (European Regional Development Fund)	15,293,024	–	–
Cohesion Funds	28,653,246	9,024,753	-68.5%
Total	43,946,270	9,024,753	-79.5%

Decline in items regarding support and allowances to infrastructure investment is related to the programmed pace for Metro network in 2006 and pace of investment.

Having in mind the Company core mission – production of transport, maintenance and infrastructure development – responsibilities related to debt servicing funding requirements have risen to m€ 405,355.

Unit: €

Cash Flow	2005	2006
Operating activities	-4,210,351	-6,406,741
Investment activities	-136,251,240	-76,964,647
Depreciation:		
Bank loans	-46,833,137	-205,562,752
Bond loans	–	–
Leasing	-34,701,770	-35,756,109
Interest and similar charges	-83,802,907	-80,664,623
Total Financing Requirements	-305,799,405	-405,354,872
Capital increases	–	–
Financial disinvestment	–	96,137
Investment subsidies	42,934,601	5,306,725
New loans:	–	–
Bank loans	262,892,667	
Bond loans	–	400,000,000
Leasing	–	–
Interest and similar income	4,361	6,997
Total Financings	305,831,629	405,409,859

Financial coverage for these requirements was accomplished through the following policies:
- Recourse to Government investment subsidies (PIDDAC), about m€ 5,307;
- Recourse to financial markets, exclusively to the capital market, through long-term bond issue in the amount of m€ 400,000.

In a monetary market framework of sustained rise of interest rates along the year, the financial policy of permanent debt restructuring, namely in Derivative market, the Company managed to globally report a decrease of 10.6% equal to m€ 9,275 (table below) in the financial performance.

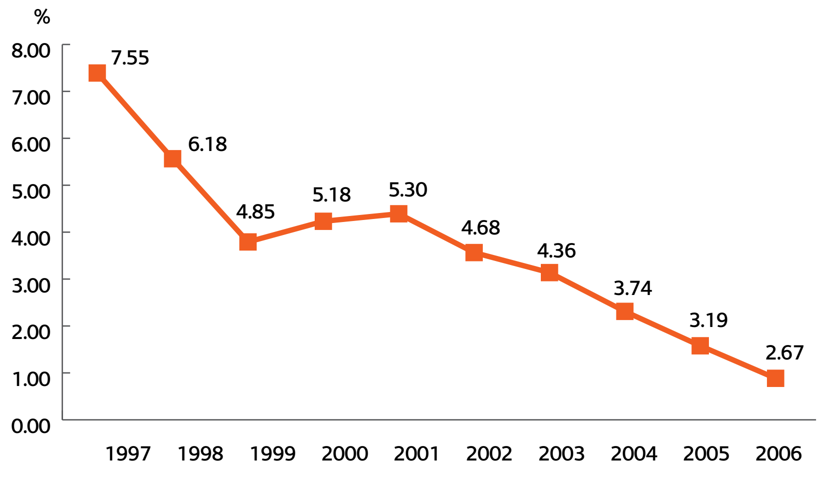
Unit: €

Corporate Financial Performance	2005	2006	Chg. % 2006/2005
Operations	21,866,080	31,147,846	42.4%
Financial costs with DIF's	54,363,943	37,976,373	-30.1%
Investment - ML	455,991	169,466	-62.8%
Investment - DIF's	10,462,099	8,579,259	-18.0%
Total	87,148,114	77,872,945	-10.6%

Total financing costs were m€ 77,873, of which m€ 8,749 capitalised as a result of the execution of the investment plan in hand.

As a means to finance its activities, policies measures relating to funding and derivative market involvement were significantly efficient, clearly reducing by 0.52% the underlying interest rate on the debt, i.e., from 3.19% to 2.67% per year – a reduction of 16.3% on the underlying interest rate.

Debt Interest Rate



Assets Structure / Balance Sheet

Unit: €

	2005	%	2006	%	Chg. % 2006/2005
Assets	3,399,883,485	100.0%	3,420,988,726	100.0%	0.6%
ML Fixed Assets	502,886,361	14.8%	469,596,627	13.7%	-6.6%
Intangible fixed assets	6,029,053		5,694,999		-5.5%
Tangible fixed assets	488,530,075		455,444,292		-6.8%
Financial investments	8,327,233		8,457,336		1.6%
Fixed Assets Financed by the State	2,711,595,891	79.8%	2,769,927,535	81.0%	2.2%
Intangible fixed assets	9,492,358		6,649,645		-29.9%
Tangible fixed assets	2,702,103,533		2,763,277,890		2.3%
Third party receivables (medium and long-term)	3,789,804	0.1%	423,105	0.0%	-88.8%
Current Assets	101,491,044	3.0%	101,460,179	3.0%	0.0%
Stocks	2,554,401		2,738,949		7.2%
Third party receivables (short-term)	98,686,796		98,416,397		-0.3%
Liquid assets	249,847		304,833		22.0%
Accruals and deferrals	80,120,385	2.4%	79,581,280	2.3%	-0.7%
Shareholder Equity	197,230,671	5.8%	64,742,936	1.9%	-67.2%
Statutory capital	603,750,000		603,750,000		0.0%
Adjustments	134,577		134,577		0.0%
Revaluation reserves	236,296,083		236,296,083		0.0%
ML fixed assets	37,234,075		37,234,075		0.0%
Fixed assets financed by the State	199,062,008		199,062,008		0.0%
Reserves	703,658,767		718,114,711		2.1%
Retained earnings	-1,184,573,806		-1,346,608,756		-13.7%
Net Profit/Loss for the Year	-162,034,950		-146,943,679		9.3%
Liabilitie	3,202,652,814	94.2%	3,356,245,790	98.1%	4.8%
Provisions for other risks and charges	183,502,459	5.4%	183,806,973	5.4%	0.2%
Third party payables (medium and long-term)	2,402,949,966	70.7%	2,642,921,875	77.3%	10.0%
Credit institutions	2,196,259,439		2,457,051,818		11.9%
Leasing suppliers	206,192,740		185,372,270		-10.1%
Other creditors	497,787		497,787		0.0%
Third party payables (short-term)	471,040,031	13.9%	397,475,795	11.6%	-15.6%
Credit Institutions	394,883,906		328,528,776		-16.8%
Leasing suppliers	19,940,226		20,858,423		4.6%
Suppliers	6,871,876		7,070,262		2.9%
Fixed asset suppliers	33,241,859		24,448,070		-26.5%
Other creditors	16,102,164		16,570,264		2.9%
Accruals and deferrals	145,160,358	4.3%	132,041,147	3.9%	-9.0%
Total Shareholders' Equity and Liabilities	3,399,883,485	100.0%	3,420,988,726	100.0%	0.6%

The Company growth rate, measured by the increase in Net Assets, was only of 0.6% increasing the amount to m€ 3,420,989.

This growth is essentially explained by the increase of 2.2% on "Fixed Assets Financed by the State", as result of the accomplishment of network expansion plan.

Shareholder equity had another significant reduction, 67.2% against last year, to m€ 64,743, about 10.7% of the Statutory Capital.

Total "Liabilities" increased 4.8% to m€ 3,356,246. This growth is influenced by the 10% rise in medium and long-term banking debt.

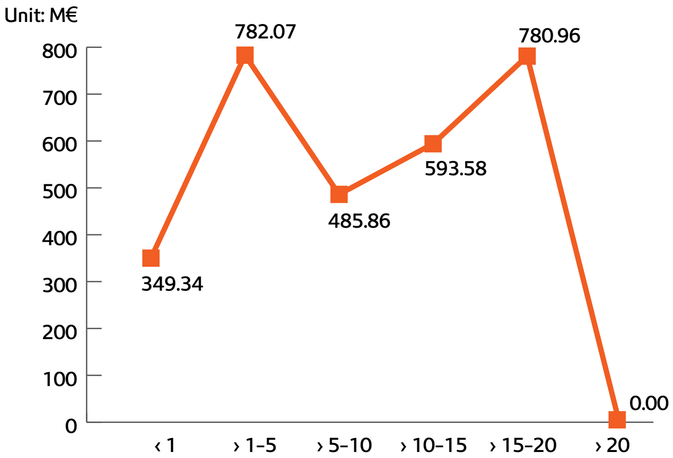
The trend in Remunerated Liabilities is shown below:

Unit: €

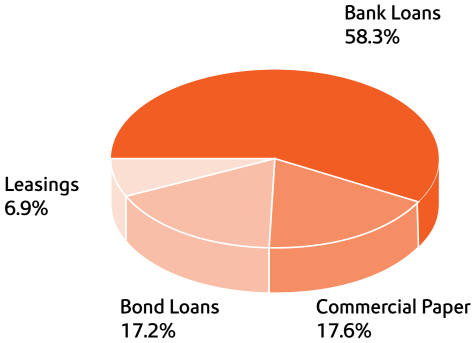
Remunerated Liabilities	2005	2006	Chg. % 2006/2005
Long-Term	2,402,452,179	2,642,424,088	10.0%
Bond loans	115,246,007	469,582,307	307.5%
Bank loans:	2,081,013,432	1,987,469,511	-4.5%
BEI	1,231,043,485	1,199,969,511	-2.5%
Commercial paper	500,000,000	487,500,000	-2.5%
Others	349,969,947	300,000,000	-14.3%
Finance leasing	206,192,740	185,372,270	-10.1%
Short-Term	414,824,132	349,387,199	-15.8%
Bond loans		45,663,701	
Bank loans:	394,883,906	282,865,075	-28.4%
BEI	42,842,754	37,872,827	-11.6%
Commercial paper	25,000,000	50,000,000	100.0%
Others	327,041,152	194,992,248	-40.4%
Finance leasing	19,940,226	20,858,423	4.6%
Total Remunerated Liabilities	2,817,276,311	2,991,811,286	6.2%
Bond loans	115,246,007	515,246,007	347.1%
Bank loans:	2,475,897,338	2,270,334,586	-8.3%
BEI	1,273,886,239	1,237,842,338	-2.8%
Commercial paper	525,000,000	537,500,000	2.4%
Others	677,011,099	494,992,248	-26.9%
Finance leasing	226,132,966	206,230,692	-8.8%

Average debt maturity rose to 10 years, distributed as follows:

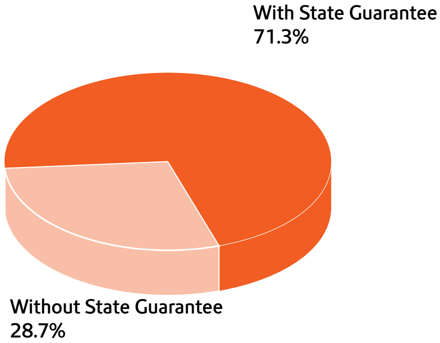
Average Debt Term



Debt Distribution by Type of Instrument



Financing Structure by Type of Guarantee



71.3% of the total debt amount, some m€ 2,132,985, has been underwritten by the State. Thus more than 80% of the Long-Term Remunerated Liabilities is granted by the State.

“Net Fixed Assets” is mostly financed by stable capital, about 83.5%, although the percentage of shareholders’ equity is declining. Late 2006, it was 2.5% against 7.5% in 2005.

Shareholder Equity is about m€ 64,743, losing weight in overall capital structure (1.9% against 5.8% in 2005).

The growing weight in Total Liabilities in the capital structure, some 98.1%, is explained by the growth in Remunerated Liabilities to m€ 2,991,811, after the annual increase of 6.2%.

Consequently, a negative financial indicator performance is stated, reflecting, for example, in the lower equity to assets and solvency levels.

Indicators	2005	2006
Total solvency	6.16%	1.93%
Equity to assets ratio	5.80%	1.89%

Proposed application of results

In the terms of paragraph a), no. 1, article 31st of Metropolitano de Lisboa, E.P. Statutes, we propose that the incurred net loss of the year, in the amount of € 146,943,679, is totally transferred to Retained Earnings.

The Management Board

Mr. Joaquim José Oliveira Reis

Mr. Luís Filipe Salgado Zenha de Morais Correia

Mr. Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette


SOS

Financial statements

5

Balance Sheets as at December 31st, 2006 and 2005

Unit:€

PoA Account Code	Assets	Notes	2006 Gross Assets	2006 Depreciation and Adjustments	2006 Net Assets	2005 Net Assets
	Fixed Assets Financed by the Company:					
	Intangible Fixed Assets:					
431	Installation costs		3,397,901	1,178,604	2,219,297	858,025
432	Research and development costs		2,974,948	655,878	2,319,070	581,451
433	Industrial property and other rights		53,909	53,909	–	16,468
444	Fixed assets in progress		1,156,632	–	1,156,632	4,573,109
		8 - 10	7,583,390	1,888,391	5,694,999	6,029,053
	Tangible Fixed Assets:					
421	Land and natural resources		24,281,087	–	24,281,087	24,279,477
422	Buildings and other constructions		250,971,356	105,057,603	145,913,753	156,936,478
423	Basic equipment	15	501,239,096	221,320,246	279,918,850	300,952,048
424	Transport equipment		1,155,944	1,141,163	14,781	58,476
425	Tools and utensils		2,166,140	1,841,365	324,775	308,747
426	Office equipment		23,512,215	21,361,856	2,150,359	2,894,383
428/429	Other tangible fixed assets		1,033,863	320,233	713,630	715,183
441/6	Fixed assets in progress		1,850,917	–	1,850,917	2,325,787
448	Advance payments for tangible fixed assets		276,140	–	276,140	59,496
		10 - 13	806,486,758	351,042,466	455,444,292	488,530,075
	Financial Investments:					
4111	Investments in group companies		5,581,606	–	5,581,606	5,619,040
4112	Investments in associated companies		162,430	–	162,430	223,797
4113+414	Securities and other financial investments		3,881,577	1,168,277	2,713,300	2,484,396
		10 - 16	9,625,613	1,168,277	8,457,336	8,327,233
	Fixed Assets Financed by the State:					
	Intangible Fixed Assets:					
431	Installation costs		2,019,827	–	2,019,827	2,019,827
432	Research and development costs		1,407,904	–	1,407,904	5,160
444	Fixed assets in progress		3,221,914	–	3,221,914	7,467,371
		8 - 10	6,649,645	–	6,649,645	9,492,358
	Tangible Fixed Assets:					
421	Land and natural resources		15,304,290	–	15,304,290	15,329,088
422	Buildings and other constructions		1,955,420,934	–	1,955,420,934	1,938,954,876
423	Basic equipment		348,460,034	–	348,460,034	345,303,133
441/6	Fixed assets in progress		438,094,334	–	438,094,334	395,543,898
448	Advance payments for intangible fixed assets		5,998,298	–	5,998,298	6,972,538
		10 - 13	2,763,277,890	–	2,763,277,890	2,702,103,533
	Third Party Receivables - Medium and Long-Term:					
253	Subsidiary and participating companiess		–	–	–	3,366,699
268	Other debtors	49	423,105	–	423,105	423,105
			423,105	–	423,105	3,789,804
	Current assets					
	Stocks:					
36	Raw materials, subsidiaries and consumables	21-22-41	3,215,616	476,667	2,738,949	2,554,401
			3,215,616	476,667	2,738,949	2,554,401
	Third Party Receivables - Short-Term:					
211	Clients, current account		2,079,604	–	2,079,604	2,037,697
218	Doubtful receivables	21 - 23	87,356	87,356	–	–
252	Group companies	16	250,000	–	250,000	150,000
229	Advances to suppliers		78,008	–	78,008	4,182
2619	Advances to fixed asset suppliers		56,154	–	56,154	56,154
24	State and other public bodies	28	9,913,599	–	9,913,599	15,457,693
262+267+268	Other debtors	21 - 23 - 49	59,461,598	3,542,963	55,918,635	50,860,673
264	Capital subscribers	37	30,120,397	–	30,120,397	30,120,397
			102,046,716	3,630,319	98,416,397	98,686,796
	Bank Deposits and Cash:					
12+13	Bank deposits		231,352	–	231,352	228,566
11	Cash		73,481	–	73,481	21,281
		55	304,833	–	304,833	249,847
	Accruals and Deferrals:					
271	Accrued revenue		1,688,818	–	1,688,818	1,269,029
272	Deferred costss		77,892,462	–	77,892,462	78,851,356
		50	79,581,280	–	79,581,280	80,120,385
	Total Depreciation			353,786,788		
	Total Adjustments			4,419,332		
	Total Assets		3,779,194,846	358,206,120	3,420,988,726	3,399,883,485

The Chief Accountant

Mr. Carlos Alberto Meira Rodrigues

Balance Sheets as at December 31st, 2006 and 2005

PoA Account Code	Stockholder Equity and Liabilities	Notes	Years 2006	2005
	Stockholder Equity:			
51	Capital	37	603,750,000	603,750,000
55	Ajustment to investments in subsidiaries and associates		134,577	134,577
56	Revaluation reserves			
	Fixed assets not financed by the State		37,234,075	37,234,075
	Fixed Assets Financed by the State		199,062,008	199,062,008
	Reserves:			
571	Legal reserves			
5711	General reserve		14,398	14,398
5712	Reserves for returns on investments		7,199	7,199
5713	Investment reserves		622,577,030	608,121,086
574+575+576	Other reserves		95,516,084	95,516,084
59	Retained earnings		-1,346,608,756	-1,184,573,806
	Subtotal		211,686,615	359,265,621
88	Net profit/loss for the year		-146,943,679	-162,034,950
	Total Shareholder Equity	40	64,742,936	197,230,671
	Liabilities:			
	Provisions:			
291	Provisions for pensions	34	183,335,579	179,527,136
293/8	Other provisions	34	471,394	3,975,323
			183,806,973	183,502,459
	Third Party Payables - Medium and Long-Term:			
	Bond loans:			
2322	Non-convertible	48	469,582,307	115,246,007
231	Bank loans	48	1,987,469,511	2,081,013,432
2611	Fixed assets suppliers, current accounts	15	185,372,270	206,192,740
268	Other creditors	49	497,787	497,787
			2,642,921,875	2,402,949,966
	Third Party Payables - Short-Term:			
	Bond loans:			
2322	Non-convertible	48	45,663,701	-
231	Bank loans	48	282,865,075	394,883,906
221	Suppliers, current accounts		6,936,239	6,826,255
228	Suppliers - Invoices under review		134,023	37,561
254	Subsidiary and participating companies		-	8,060
2611	Fixed assets suppliers, current accounts	15 - 16 - 53	45,306,493	53,182,085
24	State and other public bodies	28	2,201,410	2,181,429
262+263+265+266 +267+268	Other creditors	49	14,368,854	13,920,735
			397,475,795	471,040,031
	Accruals and Deferrals:			
273	Accrued costs		21,486,418	26,679,249
274	Deferred revenue		110,554,729	118,481,109
		50	132,041,147	145,160,358
	Total Liabilities		3,356,245,790	3,202,652,814
	Total Shareholders' Funds and Liabilities		3,420,988,726	3,399,883,485

Unit:€

The appended notes are integral part of the balance sheet as at December 31st, 2006.

The Management Board

Mr. Joaquim José Oliveira Reis

Mr. Luís Filipe Salgado Zenha de Morais Correia

Mr. Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette

Income Statement by Nature for the years ended December 31st, 2005 and 2006

Unit:€

PoA Account Code	Costs and Losses	Notes	Years 2006		2005	
61	Cost of goods sold and materials consumed:					
	Raw material, subsidiaris and consumables	41		2,276,644		1,440,767
62	Supplies and external services			43,008,099		39,809,175
	Staff Costs:	52				
641+642	Remuneration		52,147,142		51,641,898	
	Social charges:					
643	Pensions	51	15,545,533		22,573,293	
645/8	Other		15,003,498	82,696,173	14,968,754	89,183,945
662+663	Depreciation of tangible and intangible fixed assets	10	38,016,766		39,283,169	
666+667	Adjustments	21	188,053		162,869	
67	Provisions	34	-	38,204,819	27,193	39,473,231
63	Taxes			242,431		832,154
65	Other operating costs and losses			188,409		294,385
	(A)			166,616,575		171,033,657
682	Losses in group companies and associates	45	300,382		66,552	
683+684	Depreciation and adjustments of financial investments	45	71,134		71,134	
681+685+686+688	Interest and similar costs:					
	Other	45	69,124,219	69,495,735	76,230,024	76,367,710
	(C)			236,112,310		247,401,367
69	Exceptional costs and losses	46		1,715,583		1,291,415
	(E)			237,827,893		248,692,782
86	Income tax			32,391		33,423
	(G)			237,860,284		248,726,205
88	Net profit/loss for the year			-146,943,679		-162,034,950
				90,916,605		86,691,255
	Revenue and Profits					
71	Sales:					
	Goods	44	11,929		30,769	
72	Services provided	44	56,278,150	56,290,079	51,253,380	51,284,149
75	Own work capitalised			2,781,777		4,631,041
73	Supplementary revenue	16	902,763		1,180,306	
74	Operating subsidies	3. i)	21,641,174		20,346,129	
76	Other operating revenue and profits	53	7,281,479		7,287,203	
77	Reversals of adjustments	21	237,340	30,062,756	50,000	28,863,638
	(B)			89,134,612		84,778,828
782	Gains in group companies and associates	45	397,718		536,604	
7815+783	Yields on securities and other financial investments:					
	Other	45	23,777		23,756	
7811+7818+ 785+786+788	Other interest and similar profits:					
	Other	45	822,142	1,243,637	535,628	1,095,988
	(D)			90,378,249		85,874,816
79	Exceptional Revenue and Profits	46		538,356		816,439
	(F)			90,916,605		86,691,255

The appended notes are integral part of the financial statement by nature as at December 31st, 2006.

Summary:

	2006	2005
Operating income: (B)-(A)	-77,481,963	-86,254,829
Financial income: [(D)-(B)]-[(C)-(A)]	-68,252,098	-75,271,722
Net operating income: (D)-(C)	-145,734,061	-161,526,551
Income before taxes: (F)-(E)	-146,911,288	-162,001,527
Net profit/loss for the year: (F)-(G)	-146,943,679	-162,034,950

The Chief Accountant

Mr. Carlos Alberto Meira Rodrigues

The Management Board

Mr. Joaquim José Oliveira Reis

Mr. Luís Filipe Salgado Zenha de Morais Correia

Mr. Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette

Income Statement by Function for the years ended December 31st, 2006 and 2005

Unit:€

	Notes	Years 2006	2005
Sales and services rendered	44	56,290,079	51,284,149
Operating subsidies	3.i)	21,641,174	20,346,129
Cost of sales and services rendered		-79,153,007	-77,212,305
Gross Income		-1,221,754	-5,582,027
Other operating revenue and profits		11,741,715	8,467,507
Distribuition costs		-57,192,859	-53,099,176
Administrative expenses		-30,082,300	-36,221,726
Other operating costs and losses		-1,903,992	-294,384
Operating Income		-78,659,190	-86,729,806
Net financing cost	45	-68,302,077	-75,694,395
Gains / (Losses) from subsidiaries and associates	45	97,336	470,052
Losses on other investments	45	-47,357	-47,378
Net Operating Income		-146,911,288	-162,001,527
Taxes on net operating income		-32,391	-33,423
Net profit/loss for the year		-146,943,679	-162,034,950

The appended notes are integral part of the financial statement by function as at December 31st, 2006.

The Chief Accountant

Mr. Carlos Alberto Meira Rodrigues

The Management Board

Mr. Joaquim José Oliveira Reis

Mr. Luís Filipe Salgado Zenha de Morais Correia

Mr. Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette

Cash Flow Statements for the financial years ended December 31st, 2006 and 2005

Unit:€

	Notes	Years 2006	2005
Operating Activities:			
Sales of tickets and passes		61,936,297	59,687,963
Operational subsidy		22,524,317	20,291,514
Receipts from other operator tickets and passes		2,113,042	3,961,500
Payments to suppliers		-42,952,266	-40,796,982
Payments to staff		-62,519,421	-61,214,014
Flow Generated by Operations		-18,898,031	-18,070,019
Payments to and receipts from taxes		7,639,203	7,916,687
Other receipts from operating activities		4,860,555	5,843,274
Flow Generated before Exceptional Items		-6,398,273	-4,310,058
Receipts from exceptional items		4,251	112,425
Payments of exceptional items		-12,719	-12,718
Flow Generated from Operating Activities (1)		-6,406,741	-4,210,351
Investment Activities:			
Receipts derived from:			
Financial investments		96,137	-
Investiment subsidies		5,306,725	42,934,601
Interest and similar profits		6,997	4,361
Total Receipts		5,409,859	42,938,962
Payments relating to:			
Financial Investments		-38	-170,038
Tangible fixed assets		-76,964,609	-136,081,202
Total Payments		-76,964,647	-136,251,240
Flow used in Investment Activities (2)		-71,554,788	-93,312,278
Financing Activities:			
Receipts derived from:			
Bank loans		-	262,892,667
Bond loans	48	400,000,000	-
Total Receipts		400,000,000	262,892,667
Payments relating to:			
Bank loans		-205,562,753	-46,833,137
Leasing/hire operations		-35,756,109	-34,701,770
Interest and similar costs		-80,664,623	-83,802,907
Total Payments		-321,983,485	-165,337,814
Flow of Financing Activities (3)		78,016,515	97,554,853
Cash and Cash Equivalent Variation (4)=(1)+(2)+(3)		54,986	32,224
Cash and Cash Equivalents at Beginning of Period		249,847	217,623
Cash and Cash Equivalents at End of Period		304,833	249,847
Cash	55	73,481	21,281
Bank Deposits	55	231,352	228,566
Cash and Cash Equivalents at End of Period		304,833	249,847

The appended notes are integral part of the cash flow statements for the financial year ended as at December 31st, 2006.

The Chief Accountant

Mr. Carlos Alberto Meira Rodrigues

The Management Board

Mr. Joaquim José Oliveira Reis

Mr. Luís Filipe Salgado Zenha de Morais Correia

Mr. Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette

Notes to the Financial Statements

At December, 2006
(amounts shown in €)

1. Introduction

Metropolitano de Lisboa, E.P. ("the Company") was established in 1975 following the nationalisation of Sociedade Metropolitano de Lisboa, S.A.R.L., in the terms of the Decree-Law no. 280-A/75, of June 5. The company's current name and public sector statutes were established by Decree-Law no. 439/78, December 30th.

The Company's main object is to provide public underground transport services in the Great Lisbon Area.

The Company's operations are governed by general laws concerning the public sector company activities, and by specific laws and government regulations relating to the transport sector, and the Company itself.

Travel tariffs are fixed by the relevant Ministry and the Company benefits from official government subsidies including statutory capital funds, and funds for investments, operational subsidy and other subsidies.

The Company shall present consolidated financial statements in terms of consolidation requirements set under Decree-Law 238/91 of 2 July. As the Company already uses the equity method in the statement of its investment values, the impact of consolidation on shareholder's equity and earnings are already reflected in the individual financial statements. The impact of consolidation on assets, liabilities, costs and revenues of subsidiaries will only be reflected on the consolidated accounts.

The notes below are presented in accordance with the Official Plan of Accounts. Notes not included in this appendix do not apply or are not relevant to the understanding of the financial statements presented.

3. Preparation and Main Accounting Policies

The financial statements presented below were prepared on the going concern principle from the Company accounting records, kept in accordance with the accounting principles generally accepted in Portugal.

The main valuation criteria used in preparing these financial statements comprise:

a) Intangible Fixed Assets

i) Financed by the Company

Intangible fixed assets financed by the Company refer to internal costs related to commercial project studies, Company reorganisation studies, the introduction of a new management information system, and Company image (Note 8). These fixed assets are depreciated over periods of 3 and 6 years on a straight-line basis.

ii) Financed by the State

Intangible fixed assets financed by the State essentially include network expansion studies, considered as durable infrastructure investment ("DIF"). These fixed assets are not being depreciated.

b) Tangible Fixed Assets

i) Financed by the Company

Tangible fixed assets financed by the Company, acquired up to December 31st, 1997, are stated at acquisition cost, which includes financial costs incurred during construction and revaluation in terms of the relevant legislation (Note 12). Tangible fixed assets acquired after that date are stated at acquisition cost.

Depreciation is stated on a straight-line basis starting with the year in which goods come into use. It is calculated on the basis of the following estimated useful life of the asset:

	Years
Buildings and other constructions	10-50
Basic equipment:	
Operating rolling stock	14-28
Rolling stock in service	10-30
Control and telecommunication systems	12-16
Transport equipment	4-5
Tools and utensils	4-10
Office equipment	7-10
Other tangible fixed assets	4-10

Current repair and maintenance costs are stated in cost accounts for the year. Major repair work is stated under the item "Accruals and Deferrals" and is depreciated over a three years period.

ii) Financed by the State

Tangible fixed assets acquired up to December 31st, 1997, financed by the State are stated at acquisition cost, which includes financial costs during their construction, re-evaluated in terms of relevant legislation (Note 12). Fixed assets acquired after that date are stated at acquisition cost.

The accumulated depreciation related to these fixed assets was taken into consideration and carried out on the basis of the above mentioned criteria for tangible fixed assets financed by the Company, but only up to December 31st, 1997. Depreciations calculated and stated until this date were directly credited at cost or the re-evaluated amount of tangible fixed assets adjusted by deducted revaluation reserves. After January 1st, 1998, these assets are not depreciated.

c) Financial Investments

Financial investments in associated and group companies are stated by the equity accounting method. Initially, this is at acquisition cost to which is then added or deducted the amount proportional to the Company's holdings in the respective shareholder's equity stated at acquisition date or after first use of the equity method.

According with the equity accounting method, financial investments are adjusted annually in the amount corresponding to the proportion of net profit/loss of the investee companies and recognised under gains or losses for the year. In addition, dividends received from these companies are stated as a depreciation of the financial investment value.

Provisions are established for financial investments whenever there is a reasonable expectation that the amounts invested will not be recovered.

The remaining financial investments are stated under acquisition cost – below market value.

d) Stocks

Raw materials, subsidiaries and consumables are stated at acquisition cost, which does not exceed the respective market value, using the average price as the costing method.

Where estimated consumption value is below acquisition cost, the difference is stated under provisions for stock depreciation.

e) Accruals Basis of Accounting

The Company follows the accruals basis of accounting when referring to revenue and costs, recognised when generated, irrespective of when paid or collected. The difference between the amounts collected and the amounts paid, and the corresponding revenue and costs are stated under the item "Accruals and Deferrals" (Note 50).

f) Retirement Pension Supplementary Contributions

As described in detail under Note 51, the Company meets pension fund obligations in terms of supplementary retirement pension contributions (old-age, disability and survival pensions) over and above the levels paid by the Social Security system. In the year ended December 31st, 2001, the Company adopted the requirements of the Accounting Directive no. 19 of May 21st, 1997 from the Accounting Standards Committee in respect to the stating of its obligations on the balance sheet. These obligations are quantified by means of an actuarial study performed in terms of internationally accepted actuarial assumptions and methods, so as to establish the amount of total obligations at balance sheet date, and the pension cost to be stated in the period under review. These obligations are compared to the accounting records of the company so as to ascertain the differences to be stated. Pension fund profits and losses are stated under "Staff Costs" item, and based on amounts determined by the actuarial study already mentioned.

g) Health Care

The Company has assumed responsibilities in paying benefits to the personnel, both still active and in early retirement, in respect of health care. These are not recorded in balance sheet as at December 31st, 2006. To meet these undertakings, the Company has provided a collective health insurance scheme for its active and pre-retired staff, which provides for access to medical services subsidised by the Company. These charges are recorded in the financial statements in respect of the year in which they were paid. Company obligations to pre-retired staff are not reflected in the balance sheet, given that these amounts are not material in actuarial terms.

h) Revenue from Services Rendered and Statement of Revenue

Revenue from transport services rendered comprises receipts from sales of metro tickets, and a share o receipts from sales of Multimodal monthly tickets, valid for the underground and other urban and suburban transport services provided by other operators. The government fixes their prices.

The Company recognises revenue for services rendered, as follows:

- Multimodal passes – revenues from Multimodal passes sold by the Company and other transport operators are divided among each of the operators according to a monthly distribution guideline determined by the Department of Land Transport (D.G.T.T. in its Portuguese acronym). Distribution is calculated according to statistical indexes of service use of the Company and of other operators.
- Tickets and pre-paid tickets – The Company recognises these revenues at the moment of sale.

i) Operating subsidies

Operating subsidies, provided by the State in compensation for the application of government-capped prices, are recorded in the P&L account. In 2006, these amounted to € 21,641,174, allocated in the terms of a cabinet decision taken in November 9th, 2006.

j) Departmental costs

Internal running costs of various management departments not exclusively responsible for the investment are recognised as a percentage of 2% of the investment in progress.

These costs are recognised in respect of durable infrastructure investment – DIF's (fixed assets financed by the State)– operating rolling stock and depot/workshops (fixed assets financed by the Company) (Note 10), since these are the most long-term, technically complex and consequently most manpower intensive investments.

l) Leasing

Leased fixed assets, along with the corresponding obligations, are stated by the financial method. In accordance with this method, costs are stated under tangible assets, and the corresponding obligation is recognised under liabilities Interest, calculated in terms of the method referred to in Note 3.b) is included in the value of rents and asset depreciation and recognised as costs in the financial statements of the year to which they refer.

m) Operational Lease

Charges relative to operational lease contracts are recognised as costs in that year.

n) Subsidies granted for financing fixed assets

Sinking fund subsidies granted to the Company for financing the acquisition of tangible fixed assets are stated as deferred revenue under the item "Accruals and Deferrals", and recognised in the financial statements proportionate to the depreciation on the subsidised tangible fixed assets.

The subsidies granted on a sinking-fund basis for financing DIF's, are stated directly as shareholder's equity under the item "Investment reserves". In the year under review, these subsidies accounted for some 25% of the investment made in DIF's, 63% of which remain outstanding.

o) Assets, liabilities and transactions in foreign currency

All assets and liabilities denominated foreign currency were converted into euros using exchange rates in effect at balance sheet dates.

Foreign exchange gains and losses resulting from exchange rate differences in effect at the date of transaction and the date of settlement, or close of accounts, were stated as revenue or costs in the P&L account, except for unfavourable exchange losses in the amount of € 119,320.00, arising from bank loans obtained for financing fixed assets in progress, and which are stated in the attached balance sheet under the item "Deferred Costs" (Note 50).

p) Deferred Taxes

Deferred taxes refer to time differences between assets and liabilities recorded for accounting carryover and the respective amounts for taxation purposes.

On the January 1st, 2002 requirements under Accounting Directive no. 28th, of June 29th, 2001, became effective with regard to the stating of deferred taxes. The Company decided to make use of the transitory regime allowed under Accounting Directive no. 28 permitting not to state – for a period not exceeding five years – assets and liabilities for deferred taxes with respect to years prior to the date on which the directive came into force, or its first application, that is, prior to the January 1st, 2002. Consequently, such deferred taxes are not stated in the attached financial statements nor is it entirely quantified as at this date. Assets for deferred taxes are relative to estimated tax losses and provisions not fiscally accepted, while liabilities for deferred taxes are relative to depreciation of revalued assets not fiscally accepted, and taxable capital gains subject to deferred taxation.

In the years ended December 31st, 2002, 2003, 2004, 2005 and 2006, situations occurred which led to the stating of assets for deferred taxes in an amount approximately € 200,000,000, with respect to tax losses carried forward and provisions not fiscally accepted, which were not stated. This was because the stating of assets for deferred taxes was not required in terms of Accounting Directive no. 28 where liabilities for such deferred taxes were the result of situations prior to the 1st of January, 2002, and also because there was no reasonable assurance that such deferred taxes could be realised in the period of the tax loss brought forward.

6. Taxes

The Company is subject to Corporate Tax on Profits at a rate of 25% in 2006, in addition to a 10% municipal surcharge.

In terms of current legislation, tax declarations are subject to revision and correction by tax authorities over a four year period (five years for the Social Security), except in the case of tax losses, or when tax benefits have been conceded, an inspection is under way, complaints or contests have been lodged, in which cases, depending on the circumstances, the limitations are extended or suspended. Accordingly, the Company's tax declarations for the fiscal years 2003 to 2006 may be subject to revision or adjustment.

The Management Board believes that any further revision/inspection of tax declarations by the tax authorities would not materially affect the financial statements as at December 31st, 2006.

In terms of the current legislation, tax losses can be deducted from future profits up to six years after losses were incurred, and subject to deduction of taxable profits reported during this period. On December 31st, 2006, in terms of tax returns filed, such tax losses totalised some € 920,000,000.

7. Average Staff Number

During the financial years of 2006 and 2005, Lisbon Metro average staff number was 1,702 and 1,698, respectively.

8. Installation, Research and Development Costs, and Industrial Patents, and Other Rights

The items stated in these accounts and their respective balances at December 31st, 2006 and 2005, are as follows:

Fixed Assets Financed by the Company	2006	2005
Installation Costs:		
AMMOS Project	-	70,873
Company Corporative	222,000	222,000
RCM methodology for rolling stock maintenance	741,394	611,859
Organisational development of infra structure area	262,500	472,500
Reorganisation of administration services	291,000	291,000
ML reorganisation studies	1,687,600	-
Financial cost (Note 10)	193,407	35,259
	3,397,901	1,703,491
Accumulated depreciation	-1,178,604	-845,466
	2,219,297	858,025
Research and Development Costs:		
Implementation of the management and quality system	658,125	657,782
Doctrinal and financial framework for monthly passes	-	138,167
Profitability study of installed capacity	75,000	75,000
AMTL integration studies	1,722,163	-
Increasing use of ML parking lots	197,887	-
Study relating to sharing of monthly pass revenue	14,306	-
Other	76,009	-
Financial cost (Note 10)	231,458	11,799
	2,974,948	882,748
Accumulated depreciation	-655,878	-301,297
	2,319,070	581,451
Industrial Patent Elements:		
Image and identity of the multimodal pass	50,396	50,396
Financial cost (Note 10)	3,513	3,513
	53,909	53,909
Accumulated depreciation	-53,909	-37,441
	-	16,468
Fixed Assets in Progress:		
Installation Costs:		
SAP Project	626,481	227,088
ML restructuring studies	-	1,687,600
Financial costs	17,310	91,768
	643,791	2,006,456
Research and Development Costs:		
Study relating to sharing of monthly pass revenue	-	14,306
AMTL integration studies	-	1,722,163
Increasing use of ML parking lots	-	197,887
Study of Depots/Workshops I profitability	490,818	338,605
Other	-	76,009
Financial Costs	22,023	217,683
	512,841	2,566,653
	1,156,632	4,573,109
	5,694,999	6,029,053

Fixed Assets Financed by the State:	2006	2005
Installation Costs:		
Network studies and development	1,988,425	1,988,425
Other	86	86
Financial cost (Note 10)	31,316	31,316
	2,019,827	2,019,827
Research and Development Costs:		
Study for the development of a standardised station	5,092	5,092
Impact study for possible new extensions	326,134	-
Impact study for the Road Tunnel	108,989	-
Tender for artists to decorate stations	40,721	-
Study for Light Metropolitam Railway project	674,703	-
Feasibility study for the Colinas Line	48,938	-
Analysis of electromagnetic compatibility	90,599	-
Other	4,977	-
Financial costs (Note 10)	107,751	68
	1,407,904	5,160
Fixed Assets in Progress:		
Research and Development Costs:		
Impact study for possible new extensions	870,916	1,059,702
Impact study for the Road Tunnel	-	108,989
Study of environmental impact for new extensions	-	4,977
Electrical power plant project	24,694	24,694
Tender for artists to decorate stations	-	40,721
Study for Light Metropolitam Railway project	-	644,757
Study for Oriente/Aeroporto extension	1,712,879	5,152,772
Study for Amadora Este/Reboleira extension	77,961	33,324
Study for Rato/Alcântara extension	374,725	72,582
Study for S. Sebastião/Campolide extension	19,611	19,611
Feasibility study for Colinas Line	-	48,938
Analysis of electromagnetic compatibility	-	90,599
Other	49,118	19,210
Financial costs	92,010	146,495
	3,221,914	7,467,371
	6,649,645	9,492,358

10. Changes in Fixed Assets

During the financial year ending December 31st, 2006 changes in the value of intangible, tangible and financial assets, financed by the Company and respective accumulated depreciation was as follows:

			Gross Assets		
Accounts	Opening Balance	Increases	Disposals	Write-Offs and Transfers	Closing Balance
Intangible Fixed Assets:					
Installation costs	1,703,491	99,177	–	1,595,233	3,397,901
Research and development costs	882,748	344	–	2,091,856	2,974,948
Industrial property and other rights	53,909	–	–	–	53,909
	2,640,148	99,521	–	3,687,089	6,426,758
In progress:					
Installation costs	2,006,456	517,494	–	-1,880,160	643,790
Research and development costs	2,566,653	182,926	–	-2,236,737	512,842
	4,573,109	700,420	–	-4,116,897	1,156,632
	7,213,257	799,941	–	-429,808	7,583,390
Tangible Fixed Assets:					
Land and natural resources	24,279,477	1,610	–	–	24,281,087
Buildings and other constructions	250,963,548	7,808	–	–	250,971,356
Basic equipment	498,112,369	1,502,529	-10	1,624,208	501,239,096
Transport equipment	1,342,317	–	-186,373	–	1,155,944
Tools and utensils	2,037,927	132,889	–	-4,676	2,166,140
Office equipment	23,389,550	760,296	-583,404	-54,227	23,512,215
Other tangible fixed assets	1,033,652	211	–	–	1,033,863
	801,158,840	2,405,343	-769,787	1,565,305	804,359,701
In progress:					
Buildings and other constructions	212,856	–	–	–	212,856
Basic equipment	1,972,626	974,777	–	-1,688,885	1,258,518
Office equipment	140,305	277,318	–	-38,080	379,543
	2,325,787	1,252,095	–	-1,726,965	1,850,917
Advance payments for tangible fixed asset accounts	59,496	240,415	–	– -23,771	276,140
	803,544,123	3,897,853	-769,787	-185,431	806,486,758
Financial Investments:					
Investments in group companies	5,619,040	-37,434	–	–	5,581,606
Investments in associated companies	223,797	-61,367	–	–	162,430
Securities and other financial investments	3,881,539	38	–	–	3,881,577
	9,724,376	-98,763	–	–	9,625,613

Accounts	Opening Balance	Depreciation and Adjustments Increase	Disposals/Write-offs	Closing Balance
Intangible Fixed Assets:				
Installation costs	845,466	618,065	-284,927	1,178,604
Research and development costs	301,297	500,427	-145,846	655,878
Industrial property and other rights	37,441	16,468	-	53,909
	1,184,204	1,134,960	-430,773	1,888,391
Tangible Fixed Assets:				
Buildings and other constructions	94,027,070	11,030,533	-	105,057,603
Basic equipment	197,160,321	24,160,805	-880	221,320,246
Transport equipment	1,283,841	41,301	-183,979	1,141,163
Tools and utensils	1,729,180	116,585	-4,400	1,841,365
Office equipment	20,495,167	1,530,818	-664,129	21,361,856
Other tangible fixed assets	318,469	1,764	-	320,233
	315,014,048	36,881,805	-853,388	351,042,466
Financial Investments:				
Securities and other financial investments	1,397,143	71,134	-300,000	1,168,277
	1,397,143	71,134	-300,000	1,168,277
	317,595,395	38,087,900	-1,584,161	354,099,134

The additions in the year ended December 31st, 2006 to the item “Tangible Fixed Assets – Basic equipment”, in the amount of € 1,502,529, relate essentially to adjustments to the ticketing to process the new ticket formats.

The additions in the fiscal year of 2006 to the item “Fixed Assets in Progress – Basic equipment”, in the amount of € 974,777, relate essentially to costs of Lisbon Metro stations video surveillance centralisation.

The write-offs and transfers in the fiscal year of 2006 in “Fixed Assets in Progress – Basic equipment” item relate essentially to the transfer to “Tangible Fixed Assets” item of the gigabit network and the sound system, both for Lisbon Metro stations.

The moves in “Investments in Group Companies”, “Investments in Associated Companies” and “Securities and other financial investments” items, totalising (€ 98,763), include, essentially the amounts of € 397,718 and € 300,382, representing income and gains arising from appropriation by the equity accounting method (Note 45), respectively; € 100,000 in dividend distribution, and € 96,137 for the payment of ASSER, A.C.E. (Note 16).

Increased depreciation and adjustments under the item “Securities and other financial investments” includes € 71,134 (Note 45) in respect of depreciation of investments in real estate acquired for investment income. In this fiscal year the adjustment with respect to the financial investment in Fernave, S.A. capital in the amount of € 300,000 was cancelled as a result of a company General Meeting decision, which converted loans made into capital. The balance of this item for the year December 31st, 2006, includes the financial investment adjustment with respect to the investment in GIL, S.A. capital in the amount of € 312,346 (Note 16).

In terms of Decree-Law no. 196/80 of June 20th, the Government committed the State to finance durable infrastructure investment of the Metro. Such investment was defined as follows:

- Network development studies;
- Subways, stations and other auxiliary and complementary constructions;
- Track;
- High and low voltage network;
- Remote control and telecommunication systems;
- Ventilation and hydraulic equipment;
- Escalators and other mechanical ancillary people movers.

This commitment was reflected in the practice by Portuguese Government sinking-fund grants to cover investments made up to December 31st, 1980 along with associated financing costs. At that date, investments made and the values of grants attributed were equal. They were stated under fixed assets financed by the State and investment reserves, respectively.

The above-mentioned Decree-Law contained a clause calling for its revision before expiry in December 31st, 1980. However, this did not happen. And, as a result, funds were from then on allocated in accordance with an ad hoc legislation included in the Investment Plans for Public Sector Enterprises. Grants came to take the form of statutory capital contributions and other general subsidies for investment and financial restructuring. As a result, the value of investments and subsidies attributed, stated under investment reserves, ceased to be equal. Accordingly, State financing is accounted in the financial statements in December 31st, 2006 and 2005:

Fixed Assets Financed by the State	2006	2005
Intangible:		
Cost value	3,427,731	2,024,987
In progress	3,221,914	7,467,371
	6,649,645	9,492,358
Tangible:		
Cost value	2,120,123,250	2,100,525,089
Revaluations (Note 13)	199,062,008	199,062,008
In progress and advances	444,092,632	402,516,436
	2,763,277,890	2,702,103,533
	2,769,927,535	2,711,595,891
Revaluation reserves (Note 40)	199,062,008	199,062,008
Investment reserves (Note 40)	622,577,030	608,121,086
Other reserves (Note 40)	93,999,764	93,999,764
	915,638,802	901,182,858

Fixed Assets Financed by the Company	2006	2005
Intangible:		
Cost value	6,426,758	2,640,148
In progress	1,156,632	4,573,109
	7,583,390	7,213,257
Accumulated depreciation	-1,888,391	-1,184,204
	5,694,999	6,029,053
Tangible:		
Cost value	776,267,264	773,063,595
Re-evaluation (Note 13)	28,092,437	28,095,245
In progress	2,127,057	2,385,283
	806,486,758	803,544,123
Accumulated depreciation	-351,042,466	-315,014,048
	455,444,292	488,530,075
	461,139,291	494,559,128

The following supplementary costs are included in the cost value of fixed assets – intangible, tangible, and in progress – in December 31st, 2006 and 2005:

Fixed Assets Financed by the Company	2006 Intangible	2006 Tangible	2006 In progress	2006 Total	2005 Intangible	2005 Tangible	2005 In progress	2005 Total
Financial costs (Note 14)	428,378	66,984,475	110,503	67,523,356	50,570	66,836,431	478,623	67,365,624
Departmental costs (Note 3.j))	967,341	8,003,050	16,324	8,986,715	895,809	7,950,814	20,759	8,867,382
Total	1,395,719	74,987,525	126,827	76,510,071	946,379	74,787,245	499,382	76,233,006

Fixed Assets Financed by the State	2006 Intangible	2006 Tangible	2006 In progress	2006 Total	2005 Intangible	2005 Tangible	2005 In progress	2005 Total
Financial costs (Note 14)	139,068	223,376,060	57,594,272	281,109,400	31,384	222,418,367	50,080,390	272,530,141
Departmental costs (Note 3.j))	37,169	40,527,570	9,987,872	50,552,611	143	39,930,970	8,268,928	48,200,041
Total	176,237	263,903,630	67,582,144	331,662,011	31,527	262,349,337	58,349,318	320,730,182

The following changes occurred in the year ended in December 31st, 2006, in the value of intangible and tangible fixed asset costs financed by the State:

Accounts	Opening Balance	Increases	Gross Assets Disposals	Write-offs and Transfers	Closing Balance
Intangible Fixed Assets:					
Installation costs	2,019,827		-	-	2,019,827
Research and development costs	5,160	199,376	-	1,203,368	1,407,904
In progress:					
Research and development costs	7,467,371	1,215,581	-	-5,461,038	3,221,914
	9,492,358	1,414,957	-	-4,257,670	6,649,645
Tangible Fixed Assets:					
Land and natural resources	15,329,088	-24,798	-	-	15,304,290
Buildings and other constructions	1,938,954,876	5,427,415	-	11,038,643	1,955,420,934
Basic equipment	345,303,133	1,882,577	-	1,274,324	348,460,034
	2,299,587,097	7,285,194	-	12,312,967	2,319,185,258
Fixed Assets In Progress:					
Buildings and other constructions	389,066,003	40,331,553	-34,886	-6,781,938	422,580,732
Basic equipment	6,477,895	10,249,449	-	-1,213,742	15,513,602
	395,543,898	50,581,002	-34,886	-7,995,680	438,094,334
Advance payments for tangible fixed asset accounts	6,972,538	117,629	-	-1,091,869	5,998,298
	2,702,103,533	57,983,825	-34,886	3,225,418	2,763,277,890

The additions occurred in the year ended December 31st, 2006 under the item "Fixed assets in progress - Buildings and other constructions", in the amount of € 40,331,553 relate essentially to works in Alameda/S. Sebastião e Baixa-Chiado/Sta. Apolónia, amounting respectively to € 17,036,141 and € 15,672,115.

The additions occurred in the year ended December 31st, 2006 under the item "Fixed Assets in Progress - Basic equipment", in the amount of € 10,249,449 relate essentially to the remodelling of Green Line and to the works in Alameda/S. Sebastião, with € 4,785,817 and € 4,585,627, respectively.

The write-offs and transfers occurred during the fiscal year of 2006 under the item "Fixed Assets in Progress – Intangible Fixed Assets", in the amount of € 5,461,038, relate essentially to the reclassification change to "Fixed Assets in Progress - Buildings and other constructions" of costs relating to the works Oriente/Aeroporto.

The write-offs and transfers occurred during the fiscal year of 2006 under the item "Tangible Fixed Assets - Buildings and other constructions" in the amount of € 11,038,643 relate essentially to the transfer of Roma station remodelling, whose cost ascended to € 10,659,022, to "Tangible Fixed Assets.

On December 31st, 2006 “Fixed assets in progress– Buildings and other constructions” and “Fixed assets in progress – Basic equipment”, in the amounts of € 422,580,732 and € 15,513,602, respectively, include the following:

	Buildings and Other Constructions	Basic Equipment
Network Remodelling	11,415,502	5,295,441
Terreiro do Paço station	112,437,054	1,771,731
Alameda/S. Sebastião extension	86,943,971	122,457
Terreiro do Paço interface	8,051,796	-
Baixa-Chiado/Terreiro do Paço extension	74,604,321	674,372
Cais do Sodré interface	11,906,966	1,264,810
Terreiro do Paço/Sta. Apolónia extension	108,560,329	5,685,388
Oriente/Aeroprto extension	6,059,756	808
Other	2,601,037	698,595
	422,580,732	15,513,602

11. Capitalised Financial Costs

During the financial years of 2006 and 2005, the Company has capitalised the following financial costs in respect of loans obtained to finance fixed assets in progress and departmental costs:

Tangible Fixed Assets In Progress	2006	2005
Financial charges:		
Financed by the Company (Note 14)	169,466	455,991
Financed by the State (Note 14)	8,579,259	10,462,100
	8,748,725	10,918,091
Departmental costs:		
Financed by the Company	120,496	896,377
Financed by the State	2,352,639	3,533,656
	2,473,135	4,430,033

12. Revaluations of Tangible Fixed Assets (Legislation)

The Company has revalued tangible fixed assets in prior years, in accordance with the following legislation:

- Decree-Law no. 219/82, 2nd June;
- Decree-Law no. 399 – G/84, 28th December;
- Decree-Law no. 118-B/86, 27th May;
- Decree-Law no. 111/88, 2nd April;
- Decree-Law no. 49/91, 25th January;
- Decree-Law no. 264/92, 24th November;
- Decree-Law no. 31/98, 11th February.

As a result of the revaluations made, depreciation in the year ending December 31st, 2006, was increased by € 394,306. Of this, 40% is not accepted as a cost for the calculation of tax income under Corporate Taxation regulations.

13. Revaluations of Tangible Fixed Assets

The historic acquisition cost of tangible fixed assets financed by the Company and by the State together with corresponding revaluations as at December 31st, 2006 and 2005 was as follows:

i) Financed by the Company

Accounts	Historic Costs	December 31st, 2006 Revaluations (Note 10)	Revalued Balances	December 31st, 2005 Revalued Balances
Tangible Fixed Assets:				
Land and natural resources	23,836,574	444,513	24,281,087	24,279,477
Buildings and other constructions	236,850,049	14,121,307	250,971,356	250,963,548
Basic equipment	489,186,669	12,052,427	501,239,096	498,112,369
Transport equipment	1,155,944	–	1,155,944	1,342,317
Tools and utensils	1,957,354	208,786	2,166,140	2,037,927
Office equipment	22,346,248	1,165,967	23,512,215	23,389,550
Other tangible fixed assets	934,426	99,437	1,033,863	1,033,652
	776,267,264	28,092,437	804,359,701	801,158,840
Fixed assets in progress	1,850,917	–	1,850,917	2,325,787
Advance payments for tangible fixed assets	276,140	–	276,140	59,496
	778,394,321	28,092,437	806,486,758	803,544,123

ii) Financed by the State

Accounts	Historic Costs	December 31st, 2006 Revaluations (Note 10)	Revalued Balances	December 31st, 2005 Revalued Balances
Tangible Fixed Assets:				
Land and natural resources	12,915,848	2,388,442	15,304,290	15,329,088
Buildings and other constructions	1,779,110,905	176,310,029	1,955,420,934	1,938,954,876
Basic equipment	328,096,497	20,363,537	348,460,034	345,303,133
	2,120,123,250	199,062,008	2,319,185,258	2,299,587,097
Fixed assets in progress	438,094,334	–	438,094,334	395,543,898
Advance payments for tangible fixed assets	5,998,298	–	5,998,298	6,972,538
	2,564,215,882	199,062,008	2,763,277,890	2,702,103,533

14. Tangible Assets and Assets In Progress (Additional Information)

Included in the Company's fixed assets are investments in the Museum of the Music and the Road Tunnel, amounting to € 172,124 and € 300,144, respectively. The remaining fixed assets of the Company are allocated to passenger transport services.

On December 31st, 2006, the fixed tangible assets in the possession of third parties and sited on property, above or below the ground, not owned by the Company totalised € 571,854 and € 2,828,332,476, respectively.

Financial costs capitalised in fixed assets up to December 31st, 2006 amount to € 348,632,756 (Note 10), € 8,748,725 of which were capitalised in the year 2006 (Note 11).

In addition, as at December 31st, 2006 and 2005, the following should be mentioned:

a) Sited on property, above or below the ground, not owned by the Company	2006	2005
Fixed Assets Financed by the Company:		
Tangible fixed assets:		
Buildings and other constructions	5,619,792	5,619,792
Basic equipment	58,092,980	55,558,339
Fixed assets in progress:		
Basic equipment	1,183,760	1,944,545
	64,896,532	63,122,676
Advance payments for tangible fixed assets	158,054	21,301
	65,054,586	63,143,977
Fixed Assets Financed by the State::		
Tangible fixed assets:		
Land and natural resources	15,304,290	15,329,088
Buildings and other constructions	1,955,420,934	1,938,954,876
Basic equipment	348,460,034	345,303,133
Fixed assets in progress:		
Buildings and other constructions	422,580,732	389,066,003
Basic equipment	15,513,602	6,477,895
	2,757,279,592	2,695,130,995
Advance payments for tangible fixed assets	5,998,298	6,972,538
	2,763,277,890	2,702,103,533
	2,828,332,476	2,765,247,510

b) Financial Charges		
Total financial costs	348,632,756	339,895,765
Imputed financial costs (Note 11)	8,748,725	10,918,091

15. Goods Held Under Leasing

As referred to in note 3.l), the Lisbon Metro states leased assets under the Company's tangible fixed assets (Note 10). As at December 31st, 2006, the Company leases 55 triple traction units and the integrated closed network equipment, stated under the item basic equipment, and valued as follows:

Account	Book Value	Accumulated Depreciation	Net Value
423	305,858,686	-102,060,732	203,797,954
423	29,516,500	-11,376,201	18,140,299
	335,375,186	-113,436,933	221,938,253

As at December 31st, 2006, the Company's undertakings on payments related to leasing contracts comprised:

Description	Short-Term	Medium and Long-Term	Total
55 Traction units (Note 53)	14,896,174	180,246,681	195,142,855
Integrated Closing Network Equipment (Note 53)	5,962,248	5,125,589	11,087,837
	20,858,422	185,372,270	206,230,692

Medium and long-term leases mature as follows:

Year	Amount
2008	20,801,938
2009	16,502,763
2010	17,378,364
2011	18,306,283
2012 and subsequent years (Note 29)	112,382,922
	185,372,270

Leasing payments on triple traction units include interest rates, which vary between 1.4400% and 2.5789%.

Additionally, the Company has ten operating leasing contract obligations with TREM, A.C.E. and TREM II, A.C.E. (Note 16) and Hewlett-Packard International Bank, not recognised in the appended balance sheet (Note 3. m)), in the amount of € 279,228,124 (Note 31).

Schedule for payments falling due and related to operation leasing contracts is as follows:

Year	Amount
Short-Term	
2007	13,582,893
Medium and Long-Term	
2008	14,816,478
2009	14,816,478
2010	14,816,478
2011	14,816,478
2012 and subsequent years	206,379,319
	279,228,124

16. Group Companies, Associates, and Subsidiaries

On December 31st, 2006 an 2005, group companies, associates, and subsidiaries comprised:

Investments in Group Companies	Head Office	Capital	Shareholder Equity as at 31.12.06	Net profit/loss in 2006	Holdings in 2006	%	Holdings in 2005	%	
Ferconsult, S.A.	Lisboa	1,000,000	5,234,281	326,402	5,234,281	100	5,007,879	100	a) b)
Metrocom, S.A.	Lisboa	750,000	434,156	-329,795	347,325	80	611,161	80	a) b)
					5,581,606		5,619,040		
Investments in Associated Companies									
Publimetro – Publicidade em Meios de Transporte e Outros, S.A.	Lisboa	150,000	170,458	-46,454	68,183	40	86,765	40	a)
Fernave, S.A.	Lisboa	1,500,000	356,579	-1,643,423	71,316	20	–	20	a)
Ensitrans Engenharia e Sist. de Transporte, A.E.I.E.	Lisboa	49,880	1,323	-187,005	66	5	9,416	5	a)
SOTRANS Operadora de transportes, S.A.	Madrid	60,200	60,200	–	18,060	30	18,060	30	
ASSER Serviços para Emp. de Transporte , A.C.E.	Lisboa	–	–	–	4,805		109,556	–	d)
					162,430		223,797		
Securities and other Financial Investments									
Edel – Emp. Editoria, Lda.	Lisboa	c)	c)	c)	20	–	20	–	a)
GIL – Gare Intermodal de Lisboa, S.A.	Lisboa	1,952,160	-26,315	-2,738,065	312,346	16	312,346	16	a)
Otlis, A.C.E.	Lisboa	69,832	69,832	–	9,976	14	9,976	14	a)
TREM, A.C.E.	Lisboa	11,823,188	-53,378,144	-3,843,295	1,064	–	1,064	–	a) b)
TREM II, A.C.E.	Lisboa	28,200,000	-100,732,248	-12,424,066	2,576	–	2,538	–	a) b)
					325,982		325,944		
Real estate rental (Note 10)					3,555,595		3,555,595		
					3,881,577		3,881,539		
					9,625,613		9,724,376		

a) Unaudited financial information reported as at December 31st, 2006.
b) Entities consolidated in terms of the purchase method in the company's consolidated financial statements (Note 31).
c) Information not available.
d) A.C.E. paid in the year 2006. Not yet paid the amount of € 4,805.

As at December 31st, 2006 and 2005, the following balances relating group companies and associates were outstanding:

Debit Balances 2006	Clients, Current Account	Other Debtors (Note 49)	Group Companies and Associated Short -Term	Accrued Revenue (note 50)	IRC - Retained Corporate Income Tax (Note 28)	Advance Payments for Fixed Tang. Assets	Total
Ferconsult S.A.	–	1,329,532	250,000	860,006	753,516	414,838	3,607,892
Metrocom S.A.	–	596,289	–	–	262,801	–	859,090
Publimetro S.A.	–	501,799	–	–	–	–	501,799
Fernave, S.A.	–	–	–	–	184	–	184
Ensitrans A.E.I.E.	–	85,450	–	–	–	–	85,450
Otlis, A.C.E.	209,238	–	–	–	–	–	209,238
Total	209,238	2,513,069	250,000	860,006	1,016,501	414,838	5,263,652

Debit Balances 2005	Clients, Current Account	Other Debtors	Group Companies, and Associated Short and Med. Long-Term	Accrued Revenue (Note 50)	IRC – Retained Corporate Income Tax (Note 28)	Advance Payments for Fixed Tang. Assets	Total
Ferconsult S.A.	–	3,634,083	150,000	1,084,111	593,562	343,043	5,804,799
Metrocom S.A.	–	534,862	–	–	226,079	–	760,941
Publimetro S.A.	–	665,135	–	–	–	–	665,135
Fernave, S.A.	419	–	3,366,699	–	–	–	3,367,118
Ensitrans A.E.I.E.	–	82,039	–	–	–	–	82,039
Asser, A.C.E.	760	–	–	–	–	–	760
Otlis, A.C.E.	–	–	–	–	–	–	–
Total	1,179	4,916,119	3,516,699	1,084,111	819,641	343,043	10,680,792

Credit Balances 2006	Suppliers, Current Account	Fixed Asset Suppliers, Current Account	IRC – Retained Corporate Income Tax	Total
Ferconsult, S.A.	–	3,954,461	–	3,954,461
Fernave, S.A.	7,136	–	–	7,136
Ensitrans A.E.I.E.	–	105,666	27	105,693
GIL, S.A.	226,138	–	–	226,138
Otlis, A.C.E.	247,230	–	2	247,232
Trem , A.C.E	–	–	41	0,041
Total	480,504	4,060,127	70	4,540,701

Credit Balances 2005	Suppliers, Current Account	Fixed Asset Suppliers, Current Account ,	IRC – Retained Corporate Income Tax	Participating Companies	Total
Ferconsult, S.A.	–	8,896,523	–	–	8,896,523
Metrocom, S.A.	4,235	–	–	–	4,235
Fernave, S.A.	5,193	–	–	–	5,193
Ensitrans A.E.I.E.	–	105,666	–	–	105,666
Asser, A.C.E.	536	–	–	–	536
GIL, S.A.	222,215	–	–	–	222,215
Otlis, A.C.E.	–	–	2	8,060	8,062
Trem, A.C.E.	–	–	41	–	41
Total	232,179	9,002,189	43	8,060	9,242,471

Transactions 2006	Services Provided	Suplementary Revenue	Accrued Revenue	Other Debtors and Creditors	Exceptional Income (Note 46)	Financial Revenue
Ferconsult, S.A.	82,448	154,282	903,983	62,536	–	–
Metrocom, S.A.	–	19,902	1,751,460	29,970	–	–
Publimetro, S.A.	1,580,544	67,278	–	–	–	–
Fernave, S.A.	–	–	–	1,250	4,000	666
Asser, A.C.E.	–	–	–	628	–	–
Otlis, A.C.E.	417,506	–	43,505	2,255	–	–
Ensitrans, A.E.I.E.	–	–	–	2,819	–	–
Total	2,080, 498	241,462	2,698,948	99,458	4,000	666

Transactions 2005	Services Provided	Suplementary Revenue	Accrued Revenue	Other Debtors and Creditors	Exceptional Income (Note 46)	Other Revenue and Operating Income	Financial Revenue
Ferconsult, S.A.	26,161	203,596	789,667	74,761	531,377	–	–
Metrocom, S.A.	–	32,132	1,527,531	21,631	–	–	–
Publimetro, S.A.	1,536,000	85,308	71,341	–	–	–	–
Fernave, S.A.	–	–	–	–	–	–	419
Asser, A.C.E.	–	54	–	61	–	1,426	–
Ensitrans, A.E.I.E.	–	68,285	75,582	2,251	25,654	–	–
Total	1,562,161	389,375	2,464,121	98,704	557,031	1,426	419

Transactions 2006	Fixed Assets in Progress	Supplies and External Services	Deferred Costs	IRC – Retained Corporate Income Tax	Tangible Fixed Assets	Associated Companies	Other Debtors and Creditors
Ferconsult, S.A.	7,474,742	150,657	162,683	174,984	736,890	–	–
Metrocom, S.A.	–	4,500	–	–	–	–	–
Fernave, S.A.	1,620	111,170	–	184	–	–	–
GIL, S.A.	–	373,781	–	–	–	–	–
Otlis, A.C.E.	–	10,117	–	–	–	8,060	334,299
Total	7,476,362	650,225	162,683	175,168	736,890	8,060	334,299

Transactions 2005	Fixed Assets in Progress	Supplies and External Services	Extraordinary Costs	IRC – Retained Corporate Income Tax	Tangible Fixed Assets	Group Companies	Staff Costs
Ferconsult, S.A.	12,972,682	294,954	–	730,054	–	–	–
Metrocom, S.A.		6,000	–	–	–	–	–
Fernave, S.A.	9,901	120,864	–	–	–	22,879	3,897
Ensitrans, A.E.I.E.	–	–	–	–	88,659	–	–
Asser, A.C.E.	–	97,159	29	–	–	–	–
GIL, S.A.	–	368,994	–	–	–	–	–
Total	12,982,583	887,971	29	730,054	88,659	22,879	3,897

21. Changes in Values of Current Assets

For the year ending December 31st, 2006, changes to adjustments comprised:

	Opening Balance	Increases	Reversal	Closing Balance
Adjustments for stock depreciation (Note 22)	356,985	119,682	–	476,667
	356,985	119,682	–	476,667
Adjustments for doubtful receivables:				
For doubtful debts (Note 23)	324,602	–	-237,246	87,356
For other debtors (Note 23)	3,241,037	68,371	-94	3,309,314
Carris/DGTT revenue (Note 23)	233,649	–	–	233,649
	3,799,288	68,371	-237,340	3,630,319
	4,156,273	188,053	-237,340	4,106,986

22. Stocks

As at December 31st, 2006 and 2005, this item comprised:

	2006	2005
Raw materials, Subsidiaries and Consumables:		
Materials	3,046,532	2,568,814
Tools	25,579	26,886
Cleaning products	12,429	15,430
Office material	3,144	13,811
Fuels	22,042	25,153
Other materials	105,890	261,292
	3,215,616	2,911,386
Provision for stock depreciation (Note 21)	-476,667	-356,985
	2,738,949	2,554,401

As at December 31st, 2006 and 2005, the Company had no stock in the custody of third parties. At the close of accounts, no stock was in transit or under consignment.

23. Doubtful Receivables

As at December 31st, 2006 and 2005, doubtful receivables totalised € 3,630,319 and € 3,799,288, respectively, which are stated in the balance sheet under doubtful receivables and other debtors in the amount of € 87,356 and € 3,542,963 as at December 31st, 2006, respectively, and € 324,602 and € 3,474,686 as at December 31st, 2005, respectively, and are fully provisioned (Note 21).

25. Staff Accounts – Receivables and Payables

As at December 31st, 2006 and 2005, the following staff account balances were outstanding:

	2006	2005
Receivables (Note 49)	700,858	634,267
Payables (Note 49)	468,929	453,045

28. State and Other Public Bodies

As at December 31st, 2006 and 2005, no overdue debts to the State and other public sector entities were outstanding. Balances comprised:

	2006		2005	
	Debt Balance	Credit Balance	Debt Balance	Credit Balance
Value Added Tax	8,440,754	–	14,510,856	–
Corporate taxes	1,472,845	32,391	946,837	33,423
Social Security Payments	–	1,257,021	–	1,218,238
Personal tax	–	723,423	–	737,680
Other	–	188,575	–	192,088
	9,913,599	2,201,410	15,457,693	2,181,429

29. Third Party Liabilities at more than Five Years

As at December 31st, 2006 and 2005, the following third party liabilities with maturities over five years were outstanding:

	2006	2005
Fixed assets suppliers (Note 15)	112,382,922	130,688,682
Loans from credit institutions (Note 48)	1,309,361,679	1,387,240,612
Other loans obtained (Note 48)	438,656,839	46,388,206
	1,860,401,440	1,564,317,500

31. Financial Commitments not Included in the Consolidated Balance Sheet

a) Health benefits

The Company has been providing health benefits for active and early-retired staff until Social Security retirement age. These benefits provide access to medical services subsidised by the Company. These charges are recorded in the financial statements corresponding to the year in which they were paid. During the year ended in December 31st, 2006, health charges were stated in the amount of € 1,153,588 (Notes 3.g) and 52) for the whole Company staff, related to costs of health insurance paid in that period.

b) Obligations to fixed asset suppliers

On December 31st, 2006 and 2005 the Company had obligations to fixed asset suppliers totalising the amounts of € 206,230,692 (Note 15) and € 226,132,966, respectively. These obligations basically respect to network expansion. In addition, the Company has operating lease contract obligations in the amount of € 279,228,124 (Note 15).

As referred to in Note 15, the Company is responsible for operating lease contracts celebrated with Trem, A.C.E. and Trem II, A.C.E., resulting from the alienation by the Company of some traction triple units to the A.C.E.'s, within the scope of a titular operation of those assets. Since these A.C.E.'s are set up exclusively for this operation, and considering the accounting dispositions relative to these operations, the assets and liabilities of the A.C.E.'s are consolidated in the group financial statements (Note 16).

32. Guarantees Furnished

On December 31st, 2006 and 2005, guarantees furnished by the Company totalised € 261,331,096 and € 432,377,652 respectively, and are basically related to current financial contracts and legal proceeding.

34. Changes on Provisions

For the year ending December 31st, 2006 changes in provisions comprised:

	Opening Balance	Increases	Decreases (Note 46)	Use	Closing Balance
Provisions for pensions (Note 51)	179,527,136	3,808,443	–	–	183,335,579
	179,527,136	3,808,443	–	–	183,335,579
Provisions for risks and charges:					
Legal proceedings in progress	226,651	–	-160,109	–	66,542
Interest payable	261,881	–	–	–	261,881
Loans to Fernave	3,343,820	–	–	-3,343,820	–
Staff costs	142,971	–	–	–	142,971
	3,975,323	–	-160,109	-3,343,820	471,394
	183,502,459	3,808,443	-160,109	-3,343,820	183,806,973

During the year ending December 31st, 2006, the Company made direct use of the adjustment for loans made to Fernave in previous years in the amount of € 3,343,820, as consequence of the decision taken in the General Assembly of this company, on December 20th, 2006. There, it was decided to use these loans for the partial cover of that company accumulated losses.

37. Capital Holder

On December 31st, 2006 the Company's statutory capital, which is not represented by a fixed amount, totalised € 603,750,000, totally held by the Portuguese State. As at December 31st, 2006 an amount of € 30,120,397, arising from the capital increase carried out on December 27th, 2001 remains to be paid up.

40. Changes to Shareholder Equity Accounts

Changes to shareholder equity accounts in the year ended December 31st, 2006 included:

	Opening Balance	Increases	Transfers	Closing Balance
Capital	603,750,000	–	–	603,750,000
	603,750,000	–	–	603,750,000
Adjustments to investments in group and associate companies:				
Transition adjustments	21,306	–	–	21,306
Other changes in shareholders' equity	113,271	–	–	113,271
	134,577	–	–	134,577
Re-evaluation reserves:				
Fixed assets not financed by the State	37,234,075	–	–	37,234,075
Fixed assets financed by the State (Notes 10 and 13)	199,062,008	–	–	199,062,008
	236,296,083	–	–	236,296,083
Legal reserves:				
General reserve	14,398	–	–	14,398
Reserves for returns on investments	7,199	–	–	7,199
Reserves for investments (Note 10)	608,121,086	14,455,944	–	622,577,030
	608,142,683	14,455,944	–	622,598,627
Other free reserves	95,516,084	–	–	95,516,084
Retained Earnings	-1,184,573,806	–	-162,034,950	-1,346,608,756
Net Profit/Loss for the year	-162,034,950	-146,943,679	162,034,950	-146,943,679
	-1,251,092,672	-146,943,679	–	-1,398,036,351
Total	197,230,671	-132,487,735	–	64,742,936

The increase stated in the year ending December 31st, 2006, in investment reserve accounts, corresponds to a subsidy allocated under PIDDAC, in the amount of € 5,306,726, to a subsidy by the Cohesion Fund in the amount of € 9,024,753, and to the subsidy by FEDER for the Light Metropolitan Railway in the amount of € 124,465, booked during the year for financing DIF's (Note 3.n)).

The item "Other free reserves" includes an amount of € 93,999,764 arising from the assumption by the State, in previous years, of Company's liabilities related to fixed assets financed by the State (Note 10).

41. Cost of Goods Sold and Materials Consumed

During the financial years of 2006 and 2005, the costs of goods sold and materials consumed were assigned as follows:

	2006 Raw material, Subsidiaries and Consumables	2005 Raw material, Subsidiaries and Consumables
Opening stocks	2,911,386	2,880,564
Purchases	2,458,626	1,421,602
Stock adjustments	122,248	49,987
Closing stocks	-3,215,616	-2,911,386
Costs for the year	2,276,644	1,440,767

43. Remuneration to Members of the Governing Bodies

Remuneration of members of the Management Board and Audit Committee totalised in the year of 2006 the amount of € 464,290 and € 46,575, respectively (€ 397,684 and € 44,199 in December 31st, 2005). These amounts are stated in the income statements under the item “Staff Costs” (Note 52).

44. Sales and Services Rendered

During the years ending December 31st, 2006 and 2005, sales and services rendered were exclusively related to the domestic market, and distributed as follows:

	2006	2005
Sales:		
Scrap	11,929	30,769
	11,929	30,769
Services rendered:		
Traffic revenue	51,025,601	46,435,901
Supplementary services	5,251,750	4,817,183
Other	799	296
	56,278,150	51,253,380
	56,290,079	51,284,149

45. Statement of Financial Income

Financial income in 2006 and 2005 was distributed as follows:

	2006	2005
Costs and Losses		
Interest paid	65,538,096	72,713,514
Losses in group companies and associates (Note 10)	300,382	66,552
Depreciation of investments in buildings (Note 10)	71,134	71,134
Exchange rate losses	11,316	16,423
Other financial costs and losses	3,574,807	3,500,087
	69,495,735	76,367,710
Financial Income	-68,252,098	-75,271,722
	1,243,637	1,095,988
Revenue and Profits		
Interest received	2,570	1,219
Gains in group companies and associates (Note 10)	397,718	536,604
Revenue from buildings	23,777	23,756
Exchange rate gains	3,599	111
Cash payment discounts obtained	41	155
Other financial revenue and profits	815,932	534,143
	1,243,637	1,095,988

In the year ending December 31st, 2006, the item "Interest paid" includes financial charges totalising € 4,886,290 related to leasing contracts signed by the Company (Note 53). It also includes financial charges (DIF operation) for the year in the amount of € 37,976,373. During the financial year of 2006, the Company has renegotiated the interest rate of some loans. Consequently, interest charges decreased in the amount of € 7,175,418 in the current year, although banking debt has increased relatively to the previous year.

In the year under review "Other financial costs and losses" item includes charges totalising € 3,381,618, related to guarantees on various financings obtained.

The item "Other financial revenue and profits" includes the amount of € 446,629 related to depreciation of capital gains on 14 TEU's (Triple Traction Units of the rolling stock) and 24 TEU's, amounting at financial year end to € 250,922 (Note 53) and € 195,707 (Note 53), respectively.

46. Statement of Exceptional Income

Exceptional income 2006 and 2005 include:

	2006	2005
Costs and Losses		
Donations	909,033	900,194
Stock losses	59,713	7,289
Fixed asset losses	3,689	2,258
Fines and levies	430	334
Other adjustments to previous years	195,968	249,276
Other exceptional costs and losses	546,750	132,064
	1,715,583	1,291,415
Exceptional Income	-1,177,227	-474,976
	538,356	816,439
Profits and Gains		
Stock gains	110,047	21,415
Fixed asset gains	90,857	62,371
Benefits from contractual levies	20,749	1,428
Provisions decrease (Note 34)	160,109	-
Adjustments to previous years	153,337	730,687
Other exceptional revenue and profits	3,257	538
	538,356	816,439

48. Loans from Credit Institutions

On December 31st, 2006 loans from credit institutions included:

	Interest Rate %	Short-Term	Medium and Long-Term
Bank financings:			
Banco Português de Investimento	3.7730	54,150,799	–
Banco Português de Investimento	3.6640	–	50,000,000
Millenium BCP	3.9440	3,371,502	–
Millenium BCP	4.2500	12,469,947	–
BNP Paribas	3.7200	100,000,000	–
BNP Paribas	2.3351	–	50,000,000
Caixa Banco de Investimento	3.5380	50,000,000	–
BES Investimento	3.8530	–	50,000,000
Caixa Banco de Investimento	3.6520	–	100,000,000
BES I + BCP I + BPI	3.6661	–	100,000,000
Barclays Bank	3.9440	–	125,000,000
Caja Madrid	4.2150	25,000,000	12,500,000
ABN AMRO Bank N.V.	1.2000	–	300,000,000
Banco Europeu de Investimento	1.6193	3,000,000	30,822,150
Banco Europeu de Investimento	0.5824	8,950,000	44,599,737
Banco Europeu de Investimento	2.4362	12,455,283	193,045,444
Banco Europeu de Investimento	2.6774	4,987,979	59,855,748
Banco Europeu de Investimento	1.9170	–	53,038,843
Banco Europeu de Investimento	2.4900	6,650,639	86,458,302
Banco Europeu de Investimento	2.2320	–	124,699,474
Banco Europeu de Investimento	2.0053	–	74,819,685
Banco Europeu de Investimento	2.8700	1,828,926	53,038,843
Banco Europeu de Investimento	2.9440	–	169,591,285
Banco Europeu de Investimento	1.1440	–	150,000,000
Banco Europeu de Investimento	-0.5435	–	80,000,000
Banco Europeu de Investimento	2.8600	–	80,000,000
		282,865,075	1,987,469,511

Repayment schedule for medium and long-term bank loans is as follows:

Year	Amount
2008	102,201,752
2009	89,701,752
2010	189,701,752
2011	296,502,576
2012 and subsequent years (Note 29)	1,309,361,679
	1,987,469,511

On December 31st, 2006 bond loans included:

Bond Loans	Interest Rate %	Short-Term	Medium and Long-Term
Issue Metro/95	3.6398	37,932,333	-
Issue "Private Placement"	3.4121	7,731,368	69,582,307
Issue Metro - 2026	1.3917	-	400,000,000
		45,663,701	469,582,307

The 1995 bond loans runs for a 12-year period, and is reimbursed, at par, in one fractionally (or only time), in 2007.

The interest rate will equal the arithmetic average of Euribor rate over a 6 month period for the 5 work days prior to the antepenultimate work day of the half-yearly interest period in the previous year, added by 0.3 percentage points.

The bond loans "Private Placement" on the US market in USD denominated Notes, is for a 20 year period starting October 7th, 1996, with a USD/PTE Swap arranged for the total amount at the end of the issue, and backed by an entity with an "Aaa/AAA Rating". Repayment is made in 20 equal instalments from the tenth year of life of the bond, and the interest rate is fixed. As at December 31st, 2006 part of this bank credit, in the amount of € 7,731,368 shall be due in 2007, and the remaining repayment schedule for the medium and long-term shall be as follows:

Year	Amount
2008	7,731,367
2009	7,731,367
2010	7,731,367
2011	7,731,367
2012 and subsequent years (Note 29)	38,656,839
	69,582,307

The bond loans "Metro-2026", took place as at December 4th, 2006 and shall run for a period of 20 years, "bullet", fixed rate, with the personal guarantee of the Portuguese Republic (Note 29). The governing law is the Portuguese law, except for the "subscription agreement" which is governed by the British law. The issue admitted to quotation in Euronext Lisbon.

49. Other Debtors and Creditors

As at December 31st, 2006, this item included:

	Short-Term		Medium and Long-Term	
	Debit Balances	Credit Balance	Debit Balances	Credit Balance
Parque Expo'98	7,980,766	7,082,930	-	-
C.P. - Caminhos de Ferro Portugueses E.P.	1,320,098	-	-	-
Staff (Note 25)	700,858	468,929	-	-
Câmara Municipal Barreiro – Interest Penalties	1,589,803	-	-	-
Câmara Municipal Barreiro - Municipal undertakings	717,409	-	-	-
Rodoviária de Lisboa S.A.	3,016,989	36,674	-	-
Câmara Municipal de Lisboa	31,277	-	423,105	-
Companhia Carris de Ferro de Lisboa S.A.	1,542,558	6,117,162	-	-
REFER - Rede Ferroviária Nacional	280,368	-	-	-
FERTAGUS - Travessia do Tejo Transportes S.A.	318,316	-	-	-
Transtejo	84,148	-	-	-
Other State creditors	-	-	-	497,787
Goup companies, associates and subsidiaries (Note 16)	2,513,069	-	-	-
Subsidies receivable	38,069,682	663,159	-	-
Other	1,296,257	-	-	-
	59,461,598	14,368,854	423,105	497,787

On August 17th, 1994, the Company signed an agreement with Parque Expo'98, S.A. ("Parque Expo'98") in respect of an offset payment to be received by the Company for starting construction and operation of Alameda – Expo line and respective stations ahead of time. Offset, in the total amount of € 9,975,958, was to be paid by Parque Expo'98 during the years 1995 to 1998, in the amounts of € 1,995,192, € 2,493,989, € 2,493,989, and € 2,992,788, respectively. As a result of this protocol, the Company stated a receivable and a deferred revenue account in the amount of € 9,975,958. Up to December 31st, 2006, of the total offset agreed, the Company had received an amount of € 1,995,192 concerning the instalment of 1995. At that date, it stated an amount of € 7,980,766 under the item "Other debtors".

In 1998, following the conclusion of construction work and start of line exploration and respective stations, the Company decided to record revenue from offset payments received between May 1998 (date on which the line became operational) and 2003 (date on which the Company would conclude construction and this line would become operational).

On September 29th, 1995 the Company signed an Agreement Protocol with Parque Expo'98 and Lisbon City Council. This protocol stipulated that the Company would pay Parque Expo'98 the amount of € 7,082,930 for the expropriation of the land area required for the implementation and construction of "Gare do Oriente" station. No payment term or plan was established. As a result of this protocol, the Company capitalised the charges associate with the construction of Oriente Line and respective stations, in the amount of € 7,082,930 and recorded this amount under the item "Other creditors".

The amount of € 38,069,682 refers to subsidies to be obtained from ERDF (European Regional Development Fund) and from the Cohesion Fund, in the amounts of € 7,622,305 and € 30,447,377, respectively, referring to investments by the Company in the years 2005 and 2006, and whose applications were made in those years. This amount was recognised under the item "Investment Reserve" (Note 40).

50. Accruals and Deferrals

On December 31st, 2006 and 2005, the balances on these accounts included:

	2006	2005
Accrued Revenue:		
Accrued interest	447	11
Group companies (Note 16)	860,006	1,084,111
Traffic revenue	627,199	–
Other	201,166	184,907
	1,688,818	1,269,029
Deferred Costs:		
Insurance	88,345	122,697
Financial expenses	1,488,561	1,241,187
Charges on leasing contracts (Note 53)	3,196,516	3,396,631
Financial charges	6,959,424	6,306,675
Discounts on bond issues	1,141,349	335,440
Work carried out by third parties	23,861,563	23,684,931
Pluriannual maintenance	1,164,825	1,359,015
Exchange rate losses (Note 3.o))	119,320	130,168
Technical support contracts	20,893	4,851
Charges with pensions (Note 51)	39,590,363	41,919,208
Other	261,303	350,553
	77,892,462	78,851,356

	2006	2005
Accrued Costs:		
Holidays, holiday allowances and related charges	8,567,551	8,243,049
Interest due and not paid	7,983,279	13,086,747
Income from operational lease (Note 53)	3,759,140	2,994,634
Other	1,176,448	2,354,819
	21,486,418	26,679,249
Deferred Revenue:		
Investment subsidies	40,486,544	43,875,634
Leasing contracts – deferred capital gains (Note 53)	69,662,945	74,543,602
Others	405,240	61,873
	110,554,729	118,481,109

The item "Deferred Costs – Financial expenses" in the amount of € 1,488,561 refers to financial costs incurred in contracting bank loans. These are deferred over the life of the loan.

The item "Deferred Costs – Charges on leasing contracts", in the amount of € 3,196,516 relates to charges incurred on leasing and operating contracts signed in 1995, 1997, 1999, 2000, 2001 and 2002, which are stated in the respective financial years.

The item "Deferred Costs – Financial charges" includes essentially the amount of € 5,828,719 related to the amount paid upfront on the total spread of the ABN bank loan totalising € 300,000,000 (Note 48), which is deferred over the life time of this loan.

The item "Deferred Costs – Work carried out for third parties" includes essentially the amounts of € 11,392,773 and € 9,334,508 in respect of works performed by the Company on account of Transtejo and Lisbon Local Authority, respectively.

The item "Deferred Revenue – Investment subsidies", in the amount of € 40,486,544, includes amounts from ERDF grants through PRODAC in 1993 (Operational Program of Accessibility Developments) and QCA in 1994 (Community Support Framework), used to finance Company investment in network expansion. These subsidies are recorded in the financial statements, under the item "Other operational revenue and profits", proportionally to the depreciation of the subsidised tangible fixed assets (Note 3.n)).

51. Pensions

As mentioned in Note 3.f), the Company assumed obligations with supplementary retirement contributions, covering old age, survivor, disability and pre-retirement pensions. As at December 31st, 2006, the number of active staff, pre-retired, retired and pensioned totalised 1,501, 26 and 1,152, respectively (1,536, 35 and 1,124 on December 31st, 2005).

Such contributions are a complement to those granted by the Social Security, and are calculated taking into account the number of years of Company service, amount of Social Security contributions, and final salary on retirement.

In the year of 2005, the Company has come to an agreement with the Trade Unions, which was included in the Company Agreement, according to which every worker admitted after December 31st, 2003 is no longer covered by this pension plan.

According with the actuarial studies elaborated by an independent entity, the value of the Company current obligations for past services of active staff, pre-retired and retired was computed as follows:

	2006	2005
Active staff	43,347,791	41,298,635
Pre-retired	4,868,802	7,027,659
Retired	135,118,986	131,200,842
	183,335,579	179,527,136

The actuarial study that refers to December 31st, 2006 was conducted using the "Projected Unit Credit". It took into account the following assumed technical and actuarial principles:

Mortality table	TV 73/77 – France
Disability table	EVK 80 - Switzerland
Average salary growth rate	2.5%
Average annual fund yield rate	6%
Average annual growth rate of pensions	2%
Average annual rate for updating of pre-retirement payments up to normal retirement date	5%

Pension fund payment obligations as at December 31st, 2006, in the amount of € 183,335,579, are stated as liabilities under the item "Pension fund provisions" (Note 34). Obligations as at December 31st, 2006 relative to current employees, and to be depreciated, in the amount of € 39,590,363, are stated under the item "Deferred Costs – Pension fund charges" (Note 50). These are being depreciated over a 23 years period, corresponding to the estimated average remaining working life of the staff.

On December 31st, 2006 and 2005, the item "Staff Costs – Pension fund" (Note 52) includes the following pension fund costs:

	2006	2005
Increase in pension fund costs in the financial year (Note 34)	3,808,443	11,796,374
Pension payment in the financial year, without using provision	9,408,245	8,448,074
Depreciation of obligations under active staff	2,328,845	2,328,845
Pension Fund Costs in the Financial Year	15,545,533	22,573,293

The increase in pension fund obligations in 2005 is basically because 94 staff members retired at year-end all aged around 55 years old and with more than 30 years service each.

On December 31st, 2006, the Company has not provisioned pension fund obligations. These are stated in the balance sheet.

52. Staff Costs

In the financial years ending December 31st, 2006 and 2005, this item includes:

	2006	2005
Governing bodies remuneration (Note 43)	510,865	441,883
Salaries	51,636,277	51,200,015
Pensions (Note 51)	15,545,533	22,573,293
Social charges	12,099,813	11,322,227
Health insurance premium (Note 31)	1,153,588	1,122,673
Other staff costs	1,750,097	2,523,854
	82,696,173	89,183,945

53. Fixed Asset Suppliers

On December 31st, 2006, the item fixed asset suppliers, current account, relates essentially to lease payments on leasing contracts, in the amount of € 206,230,692 (Note 15), and accounts payable on network expansion works.

On December 29th, 1995 and December 30th, 1997, the Company signed two leasing contracts with DB EXPORT Leasing Gmbh involving 17 and 14 triple traction units (TEU's), respectively. On December 31st, 2006, the amounts owed to that institution totalised € 108,144,935 (Note 15) (€ 98,905,344 stated as medium and long-term, and € 9,239,591 as short-term).

On December 31st, 1998, the Company signed a leasing contract for the acquisition of 24 ML95 TEU's at the cost of € 124,699,474 and with a residual value of 3% of the equipment price. This was allocated as partial financing of the Network Expansion and Modernisation Plan over 20 years and indexed to EURIBOR 6 months less 0.71%, where the Portuguese State, owner of 100% of the Company capital, furnished the guarantee. The contract was signed on January 6th, 1999. On December 31st, 2006, the outstanding amount under this leasing contract was € 86,997,920 (Note 15).

The operation was organised and structured by Banco Santander de Negócios Portugal and D'Accord Financial Service, Inc., and financed by Caixa Geral de Depósitos. It was authorised by Joint Resolution no. 911-A/98, of December 22nd, 1998, of the Ministry of Finance and Ministry of Public Works, Planning, and Territory Administration.

On December 15th, 2003, the Company signed a leasing contract with TOTTA - Crédito Especializado, S.A., related to the integrated closed network, at the cost of € 29,516,500, for the partial financing of the Network Expansion and Modernisation Plan over 5 years, and indexed to EURIBOR for 3 months, increased by 0.30%. On December 31st, 2006, the outstanding amount under this leasing contract was € 11,087,837 (Note 15).

In the year under review, and related to the operations mentioned, including operational lease contracts, the following balances refer to transactions conducted in the terms of these contracts, as at balance sheet date:

Deferred costs on commissions and fees for entities involved in operations (Note 50)	3,196,516
Deferred revenue from capital gains on the 14 TEU's contract (Note 50)	2,258,299
Deferred revenue from capital gains on the 24 TEU's contract (Note 50)	2,446,335
Accrued costs from deferred financial charges for the year ending December 31st, 2006, payable in 2007	771,873
Depreciation of capital gains from the 14 TEU's contract (Note 45)	250,922
Depreciation of capital gains from the 24 TEU's contract (Note 45)	195,707
Interest and other financial costs incurred (Note 45)	4,886,290
Costs incurred on guarantee supplied	465,902
Deferred revenue from capital gains on the US CROSS BORDER LEASE 2000 operation arising from the operational lease contract signed concerning the 18 triple traction units of the ML97 series (Note 50)	18,950,188
Deferred revenue from capital gains on the US CROSS BORDER LEASE 2000 operation arising from the operational lease contract signed concerning the 19 triple traction units of the ML97 series (Note 50)	29,657,386
Deferred revenue from capital gains on the US CROSS BORDER LEASE 2000 operation arising from the operational lease contract signed concerning the 18 triple traction units of the ML99 series (Note 50)	16,350,737
Accrued costs from deferred financial charges on payments concerning operational lease contracts for 18 and 19 triple traction units of the ML97 series (Note 50)	3,759,140
Accrued costs from deferred financial charges on payments concerning operational leasecontracts for 18 triple traction units of the ML97 series	1,372,286
Accrued costs from deferred financial charges on payments concerning operational lease contracts for 19 triple traction units of the ML97 series	1,977,162
Accrued costs from deferred financial charges on payments concerning operational lease for 19 triple traction units of the ML99 series	1,009,837
Charges stated under supplies and external services – rents and leasing arising from operational lease contract	12,881,396

In the year ended December 31st, 2006, income related to US Cross Border Lease (NPV) operations is stated under the item "Other revenue and operational gains", as it is related to operational leasing, and amounts to € 609,135. Additionally, the statement in 2006 of depreciation of capital gains from operational lease contracts referring 18 and 19 triple traction units of the ML97 series, and 19 triple traction units of the ML99 series, in the amounts of € 1,372,286, € 1,977,162 and € 1,009,837, were stated under the item "Other operational revenue and profits".

54. Obligations in Litigation

On December 31st, 2006, compensation demands totalising € 134,478,285 from the Company refer essentially to expropriations and damages caused by works connected with the network expansion plan. On December 31st, 2006, the Company is assessing the total value of expropriations, and no provision has been to set aside for these. Should such compensations eventually be paid, they will be stated in the balance sheet as expropriation charges under the item "DIF's Tangible Fixed assets". In 2006, the Company paid compensation, in cash and kind (repair works), for damages caused by work connected to the network expansion, in the amounts of € 1,301,578 and € 617,777, respectively. These amounts were stated in the balance sheet under the item "Tangible Fixed Assets Financed by the State".

55. Notes to the Cash Flow Statement

The breakdown of cash and similar, and reconciliation of the cash flow statement for the year ending December 31st, 2006 with balance sheet items include:

Cash	73,481
Near money bank deposits	231,352
Cash on hand and Similar	304,833
Cash and Similar Funds on Balance Sheet	304,833

The Chief Accountant

Mr. Carlos Alberto Meira Rodrigues

The Management Board

Mr. Joaquim José de Oliveira Reis

Eng.° Luís Filipe Salgado Zenha de Morais Correia

Eng.° Jorge Manuel Quintela de Brito Jacob

Mr. Pedro Gonçalo de Brito Aleixo Bogas

Mr. Miguel Teixeira Ferreira Roquette

Report of the Audit Committee

In the terms of the Company's legal and statutory requirements, namely article 21st, it is the responsibility of the Audit Committee of the Metropolitano de Lisboa, E.P. to produce its Opinion on the previously submitted Financial Statements and Management Report for the financial year of 2006.

In the achievement of this act, the Audit Committee believes that, apart from the opinion, it is required to produce, as usual, a brief highlight on the most relevant aspects, regarded as fundamental for the understanding of this Opinion.

1 Developed Activity

1.1 By The Audit Committee

During the year under review, in the accomplishment of its functions and in the dynamic follow-up of the Company management and activity, the Audit Committee action did not limit to the formal opinion about account strictness and variation. The committee watched the most important acts of Metro management and produced quantitative and qualitative opinions on them, which were expressed in the Quarterly Reports elaborated and delivered to relevant governmental departments.

Accordingly, the Audit Committee established as work methodology a close and regular follow-up of the whole activity of the Company, reviewing systematically the report contents, the Board drafts, and other periodic documents issued by the operating services, and addressed to this committee. This methodology has been re-enforced as a consequence not only of the requirements of the ever growing ML operating activity, but also of the important number of undertakings and published works accomplished by the Company.

In conclusion, being Metropolitano de Lisboa, a Public Company dealing with important public resources, its management should be ruled by strictness and restraint in its expenses, always granting to the clients a public service quality excellence. These principles have always been present in the mind of this Committee in the ongoing evaluation of ML management criteria.

1.2 By The Metropolitano de Lisboa

Although the Management Board's Annual Report refers with the required clarity to the way in which Metropolitano de Lisboa activity was carried out in the year of 2006, the Audit Committee is of the view that for an objective framework of its Opinion, and above all for their importance and pertinence to the overall Company performance and to the year results, we believe the following matters should be highlighted:

- During 2006, there were no significant changes in the Metropolitano de Lisboa network, comprising with four lines, 48 stations, and covering around 36 km. Investments under way will in the short term provide 57 stations and 45 km of routes;
- Due to circumstances beyond the Company's control – closure of the Rossio railway tunnel – the ML has not yet been able to conclude the Integrated Closed Network project, which is fundamental to the elimination of fraud and to efforts to accurately ascertain passenger traffic levels. These circumstances have brought high losses to the ML;
- Although some studies on the matter have been carried out, the question of the unbalanced revenue sharing among the various operators on amounts generated by monthly passes and multimodal tickets is still of ongoing importance;
- Required efforts for the Certification of the Quality Management System for the ML Commercial Operations, under the terms of ISO 9000 – 2001, were carried out. This is an important qualitative measure on the resources provided to the customers;
- The elaboration of the ML Sustainability Report was carried on. This is an important document for the definition of its strategic options in terms of sustained development;
- Transport supply provided by ML in 2006, measured in number of seats per km decreased 1.03%, corresponding to a decrease of around 1.5 million passengers (- 0.8% below the previous year);
- There was a 0.8% real decrease in demand. The number of transported passengers x km, however the average trip per passenger is still 4.65 km, the same of last year;
- In terms of new investments, the Company achieved only around € 54.2 million, representing only 28.4% of the programmed investment, around € 49.7 million of which were spent in the construction of Durable Infrastructures Investment (DIF). It should be mentioned that these amounts exclude "third party investments", which have been increasing in number and amount and, in some cases, the company has not been reimbursed for expenses involved in due time, as referred to in the auditor reports;
- Along the period, ML average staff number was 1,702 active staff, plus 4 workers relatively to the same indicator in the previous year. Absenteeism level, although important, decreased in 2006 to 7.7%, retrieving a trend seen since 2000;
- Notwithstanding the efforts made, definitive solutions on the future use of PMO I (depot/workshop) installations in Sete Rios (ML has already made there a considerable investment in the temporary installation of the Central Bus Terminal under a protocol with Lisbon Local Authority), and on the property of Alameda das Linhas de Torres and of land surrounding Campos Grande station, remain unsolved.

2 Economic and Financial Situation

The Statutory Auditor (ROC), a Member of this Committee, produced the a Legal Certification of Accounts as well as the Report for the year of 2006, having expressed the appropriate "opinion", "reservations" and "emphasis" for that matter. These documents have been fully approved by the Audit Committee.

According with the Income Statement, in 2006 the Company reported a net loss of € 147 million, some 9.2% less than the previous year. This was due to the joint effect of the increase of revenue and decrease of costs, particularly the growth in traffic revenue (+10%), and the reduction in "Pensions" and "interest" of the financings.

However, the Audit Committee stresses that the ongoing high level of losses together with the rising commitments to funding authorities can, over a period of time, create an unfavourable situation for the Company, since its continuity, under the present conditions, is highly dependent from Portuguese Government funding.

3 Opinion

In accordance with the above views on the business of Metropolitano de Lisboa, E.P. and the considerations referred to in the mentioned documents, the Audit Committee is of the opinion that:

1. The Report of the Management Board is correctly prepared, complies with the legal and statutory requirements, and fairly and rigorously shows the most important aspects of the Company management in 2006.

2. The Balance Sheet, Net Income Statement and Notes to the Accounts, as well as the reservations and emphasis of matter expressed in the Legal Certification of Accounts reflect in a true and appropriate manner the economic and financial position of the ML as at December 31st, 2006.

Accordingly, and taking into account the above mentioned facts, the Audit Committee of the Metropolitano de Lisboa, E.P. hereby confirms its FAVOURABLE OPINION that the Report of the Management Board, the Accounts, Financial Statements and respective Notes to the Accounts for the year 2006 is approved, and further agrees with the Application of Results proposed by the Management Board.

The Audit Committee wishes to express its thanks for the collaboration and availability shown by the Management Board of the Metropolitano de Lisboa, E.P., as well as co-operation provided at all levels by the different departments and services with which, in the performance of its duties, this committee has been in contact.

Lisbon, May 31st, 2007

The Audit Committee

Renato Vieira Campos
Chairman

José Martins Reimão
Statutory Auditor Member

Evaristo Branquinho
Member

Statutory certification of Accounts

Introducton

1- We have examined the appended financial statements of the METROPOLITANO DE LISBOA, E.P., comprising the Balance Sheet as at December 31st, 2006 (which reflect a total Balance sheet of m€ 3,420,989 and a total Shareholder Equity of m€ 64,743, including a Net Loss of m€ 146,944), the Income Statements by Nature and by Function, and the Cash Flow Statement for that year and respective Notes.

Obligations

2 - It is the Management Board responsibility the preparation of the financial statements that reflect in a true and appropriate manner the financial position of the Company and the results of its operations together with the implementation and use of consistent accounting policies and criteria and an appropriate system of internal control.

3 - Our responsibility is to express a professional and independent opinion, based on our audit on those financial statements.

Scope

4 - Our examination was conducted in accordance with the Auditing Standards and Technical Recommendations of the Chamber of Statutory Auditors. These standards and recommendations require that such examination is planned and executed so as to obtain a reasonable assurance as to whether or not the financial statements contain any relevant material misstatements. For this purpose, this examination included:

- verification, on a test basis, of the evidence supporting the amounts disclosed in the financial statements, and an assessment of the estimates based on judgements and criteria defined by the Management Board and used in the preparation of the financial statements;
- verification that the adopted accounting policies are adequate and sufficiently disclosed, taking into account the circumstances;
- verification of the Ongoing Principle applicability; and
- verification that the overall presentation of the financial statements is adequate.

5 - We believe that this audit provides and acceptable basis for the expression of our opinion.

Reservations

6 - As stated in the Notes 3-a)-ii, 3-b)-ii, 3-n), 8, 10, 11 and 14 appended to the Balance Sheet and Income Statement, highly significant amounts related to “Durable Infrastructure Investment” (DIF’s) and their financing continue to be shown in the financial statements, without their respective ownership rights and accounting criteria are defined.
The amounts shown under DIF Fixed Assets totalise M€ 2,770.
Thus, the clarification of this situation will, certainly, affect significantly the Company’s financial statements, an impact that cannot be quantified at this moment.

7- As referred to in Note 50 of ABDR, the item "Work carried out for third parties" totalises m€ 23,862, representing an increase over the previous year figure of m€ 177. The most significant amounts contained in this account are (amounts in € '000):

Debit from	Description	2006	2005
	Tunnel preliminary project	1,186	1,186
APL	Cais de Sodré	1,188	1,151
CML	Rossio	8,149	8,149
Refer-CS	Cais do Sodré Interface Building	1,497	2,458
Transtejo-CS	New Cais do Sodré quay	11,337	10,367

In September 2004 a protocol signed with Refer settled this matter.

Face to this poorly defined situation and the age of some of these debts, we are of the opinion that there is a very high probability that Metro will be unable to collect some of these amounts, either partially or in full.

Opinion

8 - In our opinion, the mentioned Financial Statements, except for the impact of aspects referred to in subparagraphs 6 and 7, present, in all relevant material aspects, a true and fair view of the financial position of METROPOLITANO DE LISBOA, E.P., as at December 31st, 2006, together with the results of its operations and cash flows for the year ended on that date, in conformity with the Generally Accepted Accounting Principles.

Emphasis Of Matters

9 - Without affecting the opinion expressed in the previous paragraph, we call your attention for the following matters:

- In 2006, net loss remained negative (M€ 147), although inferior to 2005 losses (- 9.3%).
- As a consequence, and despite booking under "Reserves for Investment" of subsidies for DIF's financing, which in 2006 attained m€ 14,456, as referred to under Note 40 on the Notes to the Financial Statements, shareholder's equity fell to m€ 64,743, representing just 10.7% of the statutory capital.
- On the other hand, a network expansion plan that will cost several hundreds of millions of euro continues underway, partially financed by European Community funds.
- The Portuguese State has annually financed the company through the use of operational subsidy, fresh capital increases and other forms. However, considering the raising level of losses and the volume of investment, the Company has systematically increased the value of remunerated funding. Thus, if the present system is to be maintained, the ongoing nature of the Company depends on State financing.

10 - As stated under Note 16 of the ABDR certain associated and subsidiary companies are reporting circumstances in which half the amount of shareholder capital has been lost, and net position is negative.

As in some cases the operation of these companies is fundamental for the partners, we think that the Management Board of these companies should propose restructuring solutions, in compliance with article 35th of the Company's Act.
Probably, as a result of such restructuring, Metro will have to absorb losses, which at this stage are impossible to quantify.

Also, the liquidation of the company ASSER, A.C.E. and the financial restructuring of Fernave, S.A. occurred in the year under review, being suppressed loans and debit balances totalising m€ 3,343 in exchange of cancellation of provisions made in 2005, and extraordinary costs in the amount of m€ 540.

Lisbon, May 31st, 2007

Caiano Pereira, António and José Reimão, SROC no. 38

Represented by
José Jorge da Costa Martins Reimão, ROC no. 309

Edition

Metropolitano de Lisboa, E.P.
Studies, Planning, Budget and Management Control
Sandra Tavares
Ricardo Antunes

Coordination

Studies, Planning, Budget and Management Control
Mafalda Veiga Alves

Production

Commercial Operations
Image and Comunication Departemant

Grafic criaton

Image and Comunication Departemant
Maria João Rodrigues

Photografy

Commercial Operations
A and B network operating Departement
Francisco Fiães
Ricardo Almeida
Image and Comunication Departemant
Pedro Lopes